

PROSPECTUS

MAY 1, 1998

**PRUCO LIFE FLEXIBLE PREMIUM VARIABLE ANNUITY ACCOUNT
VARIABLE ANNUITY CONTRACTS**

PRUCO LIFE MARKET-VALUE ADJUSTMENT ANNUITY CONTRACTS

DISCOVERY PREFERRED

This prospectus describes the **Discovery PreferredSM** Annuity Contract* (the "Contract"), an individual variable annuity contract offered by Pruco Life Insurance Company ("Pruco Life", "we" or "us"), a stock life insurance company that is a wholly-owned subsidiary of The Prudential Insurance Company of America ("Prudential").

The Contract is purchased by making an initial payment of \$10,000 or more. Additional payments of \$1,000 or more may also be made. Pruco Life expects that during the second quarter of 1998 it will end the offering of new Contracts. Owners of existing Contracts will continue to be able to make additional purchase payments. Following the deduction for any applicable taxes, the purchase payments may be allocated as you direct in one or more of the following ways.

- They may be allocated to one or more of twelve subaccounts, each of which invests in a corresponding portfolio of The Prudential Series Fund, Inc. (the "Series Fund").
- They may be allocated to a fixed-rate option which guarantees a stipulated rate of interest for a one year period.
- They may be allocated to a market-value adjustment option which guarantees a stipulated rate of interest if held for a seven year period. The market-value adjustment option is not available to residents of Maryland, Oregon and Washington.

The value allocated to the subaccounts will vary daily with the investment performance of those accounts. If amounts allocated to a market-value adjustment option are withdrawn or transferred prior to the expiration of the interest rate period, the contract value will be subject to a Market-Value Adjustment, which could result in receipt of more or less than the original amount allocated to that option. On the annuity date, the amount credited under the Contract will be applied to effect a fixed-dollar annuity. Upon annuitization, your participation in the investment options ceases. Prior to that annuity date, you may withdraw in whole or in part the cash value of the Contract.

This prospectus provides information a prospective investor should know before investing. Additional information about the Contract has been filed with the U.S. Securities and Exchange Commission in a Statement of Additional Information, dated May 1, 1998, which information is incorporated herein by reference, and is available without charge upon written request to Pruco Life Insurance Company, 213 Washington Street, Newark, New Jersey 07102-2992, or by telephoning (888) PRU-2888.

The attached prospectus for the Series Fund and its statement of additional information describe the investment objectives and risks of investing in the portfolios. Additional portfolios and subaccounts may be offered in the future.

The Contents of the Statement of Additional Information appear on page 22 of this prospectus.

PLEASE READ THIS PROSPECTUS AND KEEP IT FOR FUTURE REFERENCE. IT IS ATTACHED TO A CURRENT PROSPECTUS FOR THE PRUDENTIAL SERIES FUND, INC.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

Pruco Life Insurance Company
213 Washington Street
Newark, New Jersey 07102-2992
Telephone: (888) PRU-2888

Prudential Annuity Service Center
P.O. Box 14205
New Brunswick, NJ 08906-4205
Telephone: (888) PRU-2888

***Discovery Preferred** is a service mark of Prudential.

DISCOP-1 Ed 5-98
Cat. No. 64M630L

PROSPECTUS CONTENTS

	Page
DEFINITIONS OF SPECIAL TERMS USED IN THIS PROSPECTUS	1
FEE TABLE	2
GENERAL INFORMATION ABOUT PRUCO LIFE, THE PRUCO LIFE FLEXIBLE PREMIUM VARIABLE ANNUITY ACCOUNT, AND THE INVESTMENT OPTIONS AVAILABLE UNDER THE CONTRACT	5
Pruco Life Insurance Company	5
Pruco Life Flexible Premium Variable Annuity Account	5
The Prudential Series Fund, Inc	6
The Interest-Rate Investment Options and Investments by Pruco Life	7
DETAILED INFORMATION ABOUT THE CONTRACT	7
Requirements for Issuance of a Contract	7
Short-Term Cancellation Right or "Free Look"	7
Allocation of Purchase Payments	7
Cash Value	8
Guaranteed Interest Rate Periods	8
What Happens When an Interest Cell Reaches its Maturity Date?	8
Transfers	8
Dollar Cost Averaging	9
Auto-Rebalancing	9
Withdrawals	9
Automated Withdrawals	10
Market-Value Adjustment	10
Death Benefit	10
Valuation of a Contract Owner's Contract Fund	11
CHARGES, FEES AND DEDUCTIONS	11
Premium Taxes and Taxes Attributable to Purchase Payments	11
Administrative Charge	11
Charge for Assuming Mortality and Expense Risks	11
Expenses Incurred by the Series Funds	12
Withdrawal Charge	12
Transaction Charge	12
Critical Care Access	13
FEDERAL TAX STATUS	13
Diversification	13
Taxes Payable by Contract Owners	13
Withholding	14
Impact of Federal Income Taxes	15
Contracts Used in Connection with Tax Favored Plans	15
IRAs	15
SEPs	16
SIMPLE-IRAs	16
TDAs	16
Minimum Distribution Option	17
Taxes on Pruco Life	17

PAYOUT PROVISIONS	17
1. Annuity Payments for a Fixed Period	18
2. Life Annuity with 120 Payments Certain	18
3. Interest Payment Option	18
4. Other Annuity Options	18
Legal Considerations Relating to Sex-Distinct Annuity Purchase Rates	19
OTHER INFORMATION	19
Required Distributions on Death of Owner	19
Misstatement of Age or Sex	19
Sale of the Contract and Sales Commissions	19
Voting Rights	19
Substitution of Series Fund Shares	20
Ownership of the Contract	20
Performance Information	20
Reports to Contract Owners	21
State Regulation	21
Experts	21
Litigation	21
Year 2000 Compliance	22
Statement of Additional Information	22
Additional Information	22
Financial Statements	22
ACCUMULATION UNIT VALUE	23
MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	25
DIRECTORS AND OFFICERS	32
EXECUTIVE COMPENSATION	33
FINANCIAL STATEMENTS OF THE PRUCO LIFE FLEXIBLE PREMIUM VARIABLE ANNUITY ACCOUNT	A-1
CONSOLIDATED FINANCIAL STATEMENTS OF PRUCO LIFE INSURANCE COMPANY AND SUBSIDIARIES	B-1
MARKET-VALUE ADJUSTMENT FORMULA	C-1

DEFINITIONS OF SPECIAL TERMS USED IN THIS PROSPECTUS

Account—See the Pruco Life Flexible Premium Variable Annuity Account (the “Account”), below.

annuitant—The person or persons, designated by the Contract owner, upon whose life or lives monthly annuity payments are based after an annuity is effected.

annuity contract—A contract designed to provide an annuitant with an income, which may be a lifetime income, beginning on the annuity date.

annuity date—The date, specified in the Contract, when annuity payments begin.

cash value—The surrender value of the Contract, which equals the Contract Fund plus or minus any Market-Value Adjustments less any withdrawal charge and any administrative charge due upon surrender.

charge-free amount—The amount of your Contract Fund that is not subject to a withdrawal charge.

Contract anniversary—The same day and month as the Contract date in each later year.

Contract date—The date Pruco Life received the initial purchase payment and certain required documentation.

Contract Fund—The total value attributable to a specific Contract representing amounts invested in all the subaccounts and in the interest-rate investment options.

Contract owner—You. A person who purchases a **Discovery PreferredSM** Contract and makes the purchase payments. The Contract may be owned by joint owners, however, the joint owners must be spouses and joint ownership will only be allowed on non-qualified accounts. An owner will usually also be an annuitant, but need not be. An owner has all rights in the Contract before the annuity date. Subject to certain limitations and requirements described in this prospectus, these rights include the right to make withdrawals or surrender the Contract, to designate and change the beneficiaries who will receive the proceeds at the death of the annuitant before the annuity date, to transfer funds among the investment options, and to designate a mode of settlement for the annuitant on the annuity date.

Contract year—A year that starts on the Contract date or on a Contract anniversary.

fixed-rate option—An investment option under which Pruco Life credits interest to the amount

allocated at a guaranteed interest rate periodically declared in advance by Pruco Life but not less than 3%.

guaranteed interest rate—The effective annual interest rate credited during the interest rate period.

interest cell—A division of the interest-rate investment options which is established whenever you allocate or transfer money into an interest-rate investment option. The amount in the interest cell is credited with a guaranteed interest rate, declared in advance by Pruco Life and never less than 3%, if held for the duration of the cell’s interest rate period.

interest-rate investment options—The fixed-rate option and the market-value adjustment option.

interest rate period—The period for which the guaranteed interest rate is credited.

Market-Value Adjustment—If amounts are withdrawn or transferred from a market-value adjustment option before the end of the interest rate period, a Market-Value Adjustment will occur. A Market-Value Adjustment may result in an increase, decrease or no change in the value of the money that was in the interest cell. For the formula used to calculate the adjustment, see **MARKET-VALUE ADJUSTMENT FORMULA**, on page C1.

Market-Value Adjustment Option (“MVA Option”)—An interest-rate investment option subject to a Market-Value Adjustment.

The Pruco Life Flexible Premium Variable Annuity Account (the “Account”)—A separate account of Pruco Life registered as a unit investment trust under the Investment Company Act of 1940.

The Prudential Series Fund, Inc. (the “Series Fund”)—A series mutual fund with separate portfolios, one or more of which may be chosen as an underlying investment for the Contract.

subaccount—A division of the Account, the assets of which are invested in shares of the corresponding portfolio of the Series Fund.

valuation period—The period of time from one determination of the value of the amount invested in a subaccount to the next. Such determinations are made when the net asset values of the portfolios are calculated, which is generally at 4:15 p.m. New York City time on each day during which the New York Stock Exchange is open.

variable investment options—The subaccounts.

FEE TABLE

Contract Owner Transaction Expenses

Sales Charge Imposed on Purchase Payments None
 Maximum Withdrawal Charge:

For Withdrawals During the Contract Year Indicated	The Withdrawal Charge Will Be Equal To The Following Percentage Of The Amount Withdrawn*
First Contract Year	7%
Second Contract Year	6%
Third Contract Year	5%
Fourth Contract Year	4%
Fifth Contract Year	3%
Sixth Contract Year	2%
Seventh Contract Year	1%
Eighth and Subsequent Contract Years	No Charge

* The withdrawal charge is not imposed on any charge-free withdrawal amounts, withdrawals made under Critical Care Access, see page 12, or any amount used to provide income under the Life Annuity with 120 Payments Certain Option. There will be a reduction in such withdrawal charge in the case of contracts issued to Contract owners issue age 84 and older.

Annual Contract Fee and Fee upon Full Withdrawal None**

** We reserve the right to impose such a charge in the future, but not more than \$25. If made, it will be apportioned over all the accounts making up the Contract Fund as of the effective date of that deduction. Amounts apportioned to the two interest-rate investment options will reduce the interest cells on a FIFO (first in/first out) basis determined by the age of the cell. The charge will not be made upon withdrawals under Critical Care Access or if the Contract Fund is \$50,000 or more.

Transfer Charge \$25
 Imposed only for transfers in excess of twelve transfers in a Contract year,
 excluding transfers in connection with Dollar Cost Averging and Auto-Rebalancing

Separate Account Annual Expenses

(as a Percentage of average Contract Fund)

All Subaccounts

Mortality and Expense Risk Charge	1.25%
Administrative Fee	0.15%
Total Separate Account Annual Expenses	<u>1.40%</u>

The Prudential Series Fund, Inc. Annual Expenses

(as a percentage of portfolio average net assets)

	<i>Money Market</i>	<i>Diversified Bond</i>	<i>Conservative Balanced</i>	<i>Flexible Managed</i>	<i>High Yield Bond</i>	<i>Stock Index</i>
Investment Management Fee.....	.40%	.40%	.55%	.60%	.55%	.35%
Other Expenses .....	.03%	.03%	.01%	.02%	.02%	.02%
Total Series Fund Annual Expenses.....	<u>.43%</u>	<u>.43%</u>	<u>.56%</u>	<u>.62%</u>	<u>.57%</u>	<u>.37%</u>
	<i>Equity Income</i>	<i>Equity</i>	<i>Prudential Jennison</i>	<i>Small Capitalization Stock</i>	<i>Global</i>	<i>Natural Resources</i>
Investment Management Fee.....	.40%	.45%	.60%	.40%	.75%	.45%
Other Expenses .....	.01%	.01%	.04%	.10%	.10%	.09%
Total Series Fund Annual Expenses.....	<u>.41%</u>	<u>.46%</u>	<u>.64%</u>	<u>.50%</u>	<u>.85%</u>	<u>.54%</u>

The purpose of the foregoing tables is to assist Contract owners in understanding the expenses of the Pruco Life Flexible Premium Variable Annuity Account and The Prudential Series Fund, Inc. that they bear, directly or indirectly. See the sections on charges in this prospectus and the attached prospectus for the Series Fund. The above tables do not include any taxes attributable to purchase payments nor any premium taxes. Currently, there is no deduction for such taxes at the time purchase payments are made, but in some states, a deduction is made when an annuity is effected.

Except for the Global Portfolio, Prudential reimburses a portfolio when its ordinary operating expenses, excluding taxes, interest, and brokerage commissions exceed 0.75% of the portfolio's average daily net assets. The amounts listed for the portfolios under "Other Expenses" are based on amounts incurred in the last fiscal year.

Examples of Fees and Expenses

The following examples illustrate the cumulative dollar amount of all the above expenses that would be incurred on each \$1,000 of your investment.

- The examples assume a consistent 5% annual return on invested assets;
- The examples do not take into consideration any taxes attributable to purchase payments nor any premium taxes which may be payable at the time of annuitization or at the time of purchase payments;

For a term less than 10 years, the expenses shown in Table I describe applicable charges for the withdrawal of your entire Contract Fund or if you use your Contract Fund to effect an annuity assuming, in each case, that your Contract Fund is invested entirely in the designated portfolio. **The examples should not be considered to be a representation of past or future expenses; actual expenses incurred in any given year may be more or less than those shown in the examples.**

TABLE I

If you withdraw your entire Contract Fund just prior to the end of the applicable time period or if you use your Contract Fund to effect an annuity at the end of the applicable time period, you would pay the following cumulative expenses on each \$1,000 invested. (Note: The 1, 3 and 5 Year columns reflect the imposition of the withdrawal charge; however, if you choose certain annuity options after the first year this charge will not be made. Where this is the case, the expenses shown in Table II below would be applicable. See **Withdrawal Charge**, on page 12.)

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>
Money Market Portfolio	\$82	\$ 93	\$114	\$215
Diversified Bond Portfolio	\$82	\$ 93	\$114	\$215
Conservative Balanced Portfolio	\$83	\$ 97	\$121	\$229
Flexible Managed Portfolio	\$84	\$ 98	\$124	\$235
High Yield Bond Portfolio	\$83	\$ 97	\$121	\$230
Stock Index Portfolio	\$81	\$ 91	\$111	\$208
Equity Income Portfolio	\$81	\$ 92	\$113	\$213
Equity Portfolio	\$82	\$ 93	\$116	\$218
Prudential Jennison Portfolio	\$84	\$ 99	\$125	\$237
Small Capitalization Stock Portfolio	\$82	\$ 95	\$118	\$222
Global Portfolio	\$86	\$105	\$135	\$258
Natural Resources Portfolio	\$83	\$ 96	\$120	\$226

TABLE II

If you do not withdraw any portion of your Contract Fund as of the end of the applicable time period, you would pay the following cumulative expenses on each \$1,000 invested.

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>
Money Market Portfolio	\$19	\$58	\$ 99	\$215
Diversified Bond Portfolio	\$19	\$58	\$ 99	\$215
Conservative Balanced Portfolio	\$20	\$62	\$106	\$229
Flexible Managed Portfolio	\$21	\$63	\$109	\$235
High Yield Bond Portfolio	\$20	\$62	\$106	\$230
Stock Index Portfolio	\$18	\$56	\$ 96	\$208
Equity Income Portfolio	\$18	\$57	\$ 98	\$213
Equity Portfolio	\$19	\$58	\$101	\$218
Prudential Jennison Portfolio	\$21	\$64	\$110	\$237
Small Capitalization Stock Portfolio	\$19	\$60	\$103	\$222
Global Portfolio	\$23	\$70	\$120	\$258
Natural Resources Portfolio	\$20	\$61	\$105	\$226

Notice that in both of the above tables, the level of cumulative charges is identical for the 10 year column. This is because at that point there are no withdrawal charges taken by Pruco Life upon surrender or annuitization.

The required table of accumulation unit values, which sets out certain historical information about the value of interests in each subaccount, appears in the Appendix to this prospectus on page 23.

GENERAL INFORMATION ABOUT PRUCO LIFE, THE PRUCO LIFE FLEXIBLE PREMIUM VARIABLE ANNUITY ACCOUNT, AND THE INVESTMENT OPTIONS AVAILABLE UNDER THE CONTRACT

Pruco Life Insurance Company

Pruco Life Insurance Company is a stock life insurance company organized in 1971 under the laws of the State of Arizona. Pruco Life is licensed to sell life insurance and annuities in the District of Columbia, Guam, and in all states except New York.

Pruco Life is a wholly-owned subsidiary of Prudential, a mutual insurance company founded in 1875 under the laws of the State of New Jersey. Prudential is currently considering reorganizing itself into a stock company. This form of reorganization, known as demutualization, is a complex process that may take two or more years to complete. No plan of demutualization has been adopted yet by Prudential's Board of Directors. Adoption of a plan of demutualization would occur only after enactment of appropriate legislation in New Jersey and would have to be approved by Prudential's policyholders and appropriate state insurance regulators. Throughout the process, there will be a continuing evaluation by the Board of Directors and management of Prudential as to the desirability of demutualization. The Board of Directors, in its discretion, may choose not to demutualize or to delay demutualization for a time.

Should Prudential convert to a stock company, the allocation of stock, cash or other benefits to policyholders and contractowners would be made in accordance with procedures set forth in the plan of demutualization. In recent demutualizations, policyholders and contractowners of the converting mutual insurer have been eligible to receive consideration while policyholders and contractowners of the insurer's stock subsidiaries have not. It has not yet been determined whether any exceptions to that general approach will be made with respect to policyholders and Contract owners of Prudential's subsidiaries, including Pruco Life.

As of December 31, 1997, Prudential has invested over \$442 million in Pruco Life in connection with Pruco Life's organization and operation. Prudential may from time to time make additional capital contributions to Pruco Life as needed to enable it to meet its reserve requirements and expenses in connection with its business. Prudential is under no obligation to make such contributions and its assets do not back the benefits payable under the Contract. Pruco Life's consolidated financial statements appear on page B1 and should be considered only as bearing upon Pruco Life's ability to meet its obligations under the Contracts.

Pruco Life Flexible Premium Variable Annuity Account

The Pruco Life Flexible Premium Variable Annuity Account was established on June 16, 1995 under Arizona law as a separate investment account. The Account meets the definition of a "separate account" under federal securities laws. Pruco Life is the legal owner of the assets in the Account and is obligated to provide all benefits under the Contracts. Pruco Life will at all times maintain assets in the Account with a total market value at least equal to the reserve and other liabilities relating to the variable benefits attributable to the Account. These assets are segregated from all of Pruco Life's other assets and may not be charged with liabilities which arise from any other business Pruco Life conducts. In addition to these assets, the Account's assets may include funds contributed by Pruco Life to commence operation of the Account and may include accumulations of the charges Pruco Life makes against the Account. From time to time these additional assets will be transferred to Pruco Life's general account. Before making any such transfer, Pruco Life will consider any possible adverse impact the transfer might have on the Account.

The Account is registered with the U.S. Securities and Exchange Commission ("SEC") under the Investment Company Act of 1940 ("1940 Act") as a unit investment trust, which is a type of investment company. This does not involve any supervision by the SEC of the management or investment policies or practices of the Account. For state law purposes, the Account is treated as a part or division of Pruco Life. There are currently twelve subaccounts within the Account, each of which invests in corresponding portfolios of the Series Fund. Additional subaccounts may be added in the future. The Account's financial statements begin on page A-1.

The Prudential Series Fund, Inc.

The Prudential Series Fund, Inc. is registered under the 1940 Act as an open-end diversified management investment company. Its shares are currently sold only to separate accounts of Prudential and certain other subsidiary insurers that offer variable life insurance and variable annuity contracts. The Account will purchase and redeem shares from the Series Fund at net asset value. Shares will be redeemed to the extent necessary for Pruco Life to provide benefits under the Contract and to transfer assets from one subaccount to another, as requested by Contract owners. Any dividend or capital gain distribution received from a portfolio of the Series Fund will be reinvested immediately at net asset value in shares of that portfolio and retained as assets of the corresponding subaccount.

Prudential is the investment advisor for the assets of each of the portfolios of the Series Fund. Prudential's principal business address is 751 Broad Street, Newark, New Jersey 07102-3777. Prudential has a Service Agreement with its wholly-owned subsidiary The Prudential Investment Corporation ("PIC"), which provides that, subject to Prudential's supervision, PIC will furnish investment advisory services in connection with the management of the Series Fund. In addition, Prudential has entered into a Subadvisory Agreement with its wholly-owned subsidiary Jennison Associates Capital Corp. ("Jennison"), under which Jennison furnishes investment advisory services in connection with the management of the Prudential Jennison Portfolio. Further detail is provided in the prospectus and statement of additional information for the Series Fund. Prudential, PIC and Jennison are registered as investment advisors under the Investment Advisers Act of 1940.

As an investment advisor, Prudential charges the Series Fund a daily investment management fee as compensation for its services. The following table shows the investment management fee charged for each portfolio of the Series Fund available for investment by Contract owners.

Portfolio	Annual Investment Management Fee as a Percentage of Average Daily Net Assets
<i>Money Market Portfolio</i>	0.40%
<i>Diversified Bond Portfolio</i>	0.40%
<i>Conservative Balanced Portfolio</i>	0.55%
<i>Flexible Managed Portfolio</i>	0.60%
<i>High Yield Bond Portfolio</i>	0.55%
<i>Stock Index Portfolio</i>	0.35%
<i>Equity Income Portfolio</i>	0.40%
<i>Equity Portfolio</i>	0.45%
<i>Prudential Jennison Portfolio</i>	0.60%
<i>Small Capitalization Stock Portfolio</i>	0.40%
<i>Global Portfolio</i>	0.75%
<i>Natural Resources Portfolio</i>	0.45%

It is conceivable that in the future it may become disadvantageous for both variable life insurance and variable annuity contract separate accounts to invest in the same underlying mutual fund. Although neither the companies which invest in the Series Fund, nor the Series Fund currently foresees any such disadvantage, the Series Fund's Board of Directors intends to monitor events in order to identify any material conflict between variable life insurance and variable annuity contract owners and to determine what action, if any, should be taken in response thereto. Material conflicts could result from such things as: (1) changes in state insurance law; (2) changes in federal income tax law; (3) changes in the investment management of any portfolio of the Series Fund; or (4) differences between voting instructions given by variable life insurance and variable annuity contract owners.

A full description of the Series Fund, its investment objectives, management, policies, and restrictions, its expenses, the risks attendant to investment therein—including any risks associated with investment in the High Yield Bond Portfolio, and all other aspects of its operation is contained in the attached prospectus for the Series Fund and in its statement of additional information, which should be read in conjunction with this prospectus. There is no assurance that the investment objectives will be met.

The Interest-Rate Investment Options and Investments by Pruco Life

Purchase payments invested in the interest-rate investment options do not result in participation in the investment gains or losses of any designated portfolio of investments as is the case for payments invested in the variable investment options. The amounts invested in the interest-rate investment options are credited with interest at rates guaranteed by Pruco Life. All of Pruco Life's assets stand behind those guarantees.

Assets of Pruco Life must be invested in accordance with requirements established by applicable state laws regarding the nature and quality of investments that may be made by life insurance companies and the percentage of their assets that may be committed to any particular type of investment. In general, these laws permit investments, within specified limits and subject to certain qualifications, in federal, state, and municipal obligations, corporate bonds, preferred and common stocks, real estate mortgages, real estate and certain other investments.

DETAILED INFORMATION ABOUT THE CONTRACT

Requirements for Issuance of a Contract

The minimum initial purchase payment is \$10,000. Any purchase payments in excess of \$2 million require prior approval of Pruco Life. The Contract may generally be issued on proposed annuitants below the age of 86. Contracts purchased in connection with Individual Retirement Annuity plans (IRAs) will generally be issued to annuitants below the age of 70. However, IRA Contracts may be issued up to age 80 provided that the Minimum Distribution Option or other appropriate Internal Revenue Service ("IRS") election is made. Before issuing any Contract, we require submission of certain information. Following our review of the information and approval of issuance, a Contract will be issued that sets forth precisely your rights and Pruco Life's obligations. You may thereafter make additional payments of \$1,000 or more, but there is no obligation to do so.

The Contract date will be the date the initial purchase payment and required information in good order are received at the Prudential Annuity Service Center. The initial purchase payment is credited to the Contract Fund as of the Contract date. If the initial purchase payment that you submit is not accompanied by all the information we need to issue the Contract, we will contact you to get the needed information. If we cannot obtain all the needed information within five business days after receipt, we will either return your initial purchase payment or get your consent to retaining it until we have received all the necessary information. If the current underwriting requirements are not met and the issuance of the Contract is not approved, the purchase payment will promptly be returned. Pruco Life reserves the right to change these requirements on a non-discriminatory basis. Similarly, subsequent purchase payments will be credited to the Contract Fund on the date following the valuation period during which it was received in good order at the Prudential Annuity Service Center.

Short-Term Cancellation Right or "Free Look"

You can cancel the Contract within 10 days after receiving it (or whatever greater period is required in your state). A refund may be requested by mailing or delivering the Contract to the representative who sold it or to the Prudential Annuity Service Center. You will receive whatever your Contract is worth as of the day we receive your request, plus or minus the market-value adjustment with respect to any values in the MVA option. This may be more or less than your original payments. Some states require that we return your payments, less any previous withdrawals. If this Contract was purchased as an IRA, and you exercise this cancellation right, the purchase payments or the total value of the Contract Fund (whichever is greater) will be refunded to you.

Allocation of Purchase Payments

You determine how the initial purchase payment will be allocated among the subaccounts and interest-rate investment options by specifying the desired allocation on the application form for the Contract. You may choose to allocate nothing to a particular subaccount or interest-rate option. Unless you tell us otherwise, subsequent purchase payments will be allocated in the same proportions as the most recent purchase payment made (unless that was a purchase payment you directed us to allocate on a one time-only basis). Subsequent purchase payments are credited to the Contract Fund as of the end of the valuation period in which a proper request is received at the Prudential Annuity Service Center. You may change the way in which subsequent purchase payments are allocated by providing Pruco Life with proper written instruction or by telephoning the Prudential Annuity Service Center once you have provided the appropriate identification. See **Transfers**, page 8.

Cash Value

The cash value of the Contract is the amount you will receive if you withdraw all of your Contract Fund. It is equal to the value of the Contract Fund plus or minus any applicable Market-Value Adjustment of all amounts in MVA option interest cells and minus any applicable administrative or withdrawal charge. A withdrawal will generally have federal income tax consequences, which could include tax penalties. You should consult with a tax adviser before making a withdrawal. See **Withdrawals**, on page 9 and **Federal Tax Status**, on page 13.

Guaranteed Interest Rate Periods

Pruco Life determines the effective guaranteed annual interest rate (“guaranteed interest rate”) that is available at any given time for the one year fixed-rate option and for the MVA option. This is the rate that the portion of the Contract Fund allocated to that option will earn throughout each interest rate period. The rates change frequently and you may learn what rate[s] are available from your Pruco Life representative. When you select an interest-rate investment option, your payment will be allocated to an interest rate cell and the interest rate will then not change until the cell’s maturity date. Interest will be added to the amount in the cell daily at a rate that will provide the guaranteed effective yield over the period of one year. Although the guaranteed interest rates offered may change, the minimum guaranteed interest rate will never be less than an effective annual rate of 3%.

What Happens When an Interest Cell Reaches its Maturity Date?

On each maturity date, we will offer an election to transfer the amount maturing into either of the available interest-rate investment options or the subaccounts. A Market-Value Adjustment will not be made if this is done within the first 30 days after an interest cell within the MVA option matures. Any amount that you transfer into the same interest-rate investment option during the 30-day period will receive the appropriate rate for that option, effective as of the maturity date. Amounts that you withdraw or transfer into a variable investment option or into a different interest-rate investment option during the 30-day period will receive interest for the period between the maturity date and the date of withdrawal or transfer at the declared renewal rate for the matured cell (i.e. as if you had taken no action within the 30-day period) and will be effective on the date Pruco Life receives your request. If you do not make an election to transfer within the 30-day period following the maturity date, the amount maturing will ordinarily be transferred into a new interest cell of the same duration as the maturing cell at the prevailing interest rate. The transfer date will be the maturity date.

Transfers

You may transfer out of an investment option into any combination of other investment options available under the Contract. The transfer request may be in dollars, such as a request to transfer \$1,000 from one subaccount to another, or may be in terms of a percentage reallocation among subaccounts. You may make transfers by proper written notice to the Prudential Annuity Service Center, or by telephone. Transfers will take effect as of the end of the valuation period in which a proper transfer request is received at the Prudential Annuity Service Center.

You will automatically be enrolled to use the Telephone Transfer System unless you elect not to have this privilege. Pruco Life has adopted procedures designed to ensure that requests by telephone are genuine. We will not be held liable for following telephone instructions that we reasonably believe to be genuine. We cannot guarantee that you will be able to get through to complete a telephone transfer during peak periods such as periods of drastic economic or market change.

Transfers out of an interest cell in the fixed-rate option are permitted only during the 30-day period following its maturity date. Amounts transferred from a MVA Option interest cell may be subject to a Market-Value Adjustment if the transfer is not made in the 30-day period following the maturity date of the interest cell.

The Contract was not designed for professional market timing organizations or other organizations or individuals using programed, large or frequent transfers. A pattern of exchanges that coincides with a “market timing” strategy may be disruptive to the Funds and will be discouraged. If such a pattern were to be found, we may be required to modify the transfer procedures, including but not limited to, not accepting transfer requests of an agent acting under a power of attorney on behalf of more than one owner.

You may make up to 12 transfers a year without charge. Thereafter, Pruco Life will assess a charge of \$25 for each subsequent transfer during that Contract year. See **Transaction Charge**, page 12. Dollar Cost Averaging and Auto-Rebalancing are free transfers and do not count towards the 12 transfers per year that can be made without charge.

Dollar Cost Averaging

Additionally, an administrative feature called Dollar Cost Averaging (“DCA”) is available to Contract owners. This feature allows you to transfer amounts out of the fixed-rate option or one of the variable investment options (designated as the “DCA account”) and into one or more other variable investment options. Transfers may be in specific dollar amounts or percentages of the amount in the DCA account at the time of the transfer. If the DCA account balance drops below \$250, the entire remaining balance of the account will be transferred on the next transfer date. A subsequent purchase payment allocated to a depleted DCA account will “reactivate” the account. You may ask that transfers be made monthly, quarterly, semi-annually or annually. You can add to the DCA account at any time. Initial transfers must be at least 3% of the DCA account. These amounts are subject to change at Pruco Life’s discretion. Any transfers made pursuant to DCA are not counted in determining the number of transfers subject to the transfer charge.

Each automatic transfer will take effect as of the end of the valuation period in monthly, quarterly, semi-annual or annual intervals as designated by you based on the date the Dollar Cost Averaging account was established provided the New York Stock Exchange is open on that date. If the New York Stock Exchange is not open on a transfer date, the transfer will take effect as of the end of the valuation period which immediately follows that date. Automatic transfers will continue until the amount in the DCA account has been transferred, or until you notify us of a change in allocation or cancellation of the feature.

Auto-Rebalancing

This Contract offers another investment technique that you may find attractive. The Auto-Rebalancing feature allows you to automatically rebalance subaccount assets at specified intervals based on percentage allocations that you choose. For example, suppose your initial investment allocation of variable investment options A and B is split 40% and 60%, respectively. Then, due to investment results, that split changes. You may instruct that those assets be rebalanced to your original or different allocation percentages. Auto-Rebalancing can be performed on a one-time basis or periodically, as you choose. You may select that rebalancing occur on a monthly, quarterly, semi-annual or annual basis based on your Contract year. Rebalancing will take effect as of the end of the valuation period in the intervals you specify and will continue at those intervals until you notify us otherwise. If the New York Stock Exchange is not open on the rebalancing date, the transfer will take effect as of the end of the valuation period which immediately follows that date. Any transfers made pursuant to Auto-Rebalancing are not counted in determining the number of transfers subject to the transfer charge. The interest-rate investment options cannot participate in this administrative feature. In addition, you may not include the DCA account as one of the subaccounts to be rebalanced.

Withdrawals

You may at any time before the annuity date make a withdrawal from the Contract Fund of all or part of the cash value of the Contract. However, Pruco Life’s consent will be required for a partial withdrawal if the amount requested is less than \$500. For federal income tax purposes, withdrawals from Contracts other than individual retirement annuities are considered to have been made first from investment income. See **Taxes Payable by Contract Owners**, page 13.

You may specify from which investment options you would like the withdrawal processed. The withdrawal amount may be specified as a dollar amount or as a percentage of the Contract Fund. If you do not specify from where you would like the withdrawal processed, a partial withdrawal will be withdrawn proportionally from all investment options. Within the interest-rate investment options, we will take the withdrawal first from the oldest eligible interest cell or cells. A Market-Value Adjustment may apply. See **Market-Value Adjustment**, page 10.

Only amounts withdrawn from purchase payments are subject to a withdrawal charge. For purposes of determining withdrawal charges, withdrawals are considered as having been made first from purchase payments. See **Withdrawal Charge**, page 12. This differs from the treatment of withdrawals for federal income

taxes, as described above, where generally withdrawals are considered to have been made first from investment income. The withdrawal will be effected as of the end of the valuation period in which a proper withdrawal request is received at the Prudential Annuity Service Center.

Pruco Life will generally pay the amount of any withdrawal, less any required tax withholding, within 7 days after we receive a properly completed withdrawal request. We will adjust the Contract Fund to reflect any applicable sales and/or administrative charge and Market-Value Adjustment. We may delay payment of any withdrawal allocable to the subaccount[s] for a longer period if the disposal or valuation of the Account's assets is not reasonably practicable because the New York Stock Exchange is closed for other than a regular holiday or weekend, trading is restricted by the SEC or the SEC declares that an emergency exists. With respect to the amount of any withdrawal allocable to the interest-rate investment options, we expect to pay the withdrawal promptly upon request.

Automated Withdrawals

Pruco Life also offers an Automated Withdrawal feature which enables you to receive periodic withdrawals either monthly, quarterly, semi-annually or annually. Withdrawals may be made from a designated investment option or proportionally from all investment options. Withdrawals may be expressed as a specified dollar amount or as a percentage of the Contract Fund. Market-value adjustments may apply, and withdrawal charges may apply if the withdrawals in any Contract year exceed the charge-free amount. The minimum automated withdrawal amount is \$250.00. An automated withdrawal will generally have federal income tax consequences, which could include tax penalties. See **Taxes Payable by Contract Owners**, page 13.

Market-Value Adjustment

An amount transferred or withdrawn from an MVA option before its maturity date will be subject to a Market-Value Adjustment.

The amount of the Market-Value Adjustment depends upon the difference between the guaranteed interest rate for the interest cell from which the withdrawal or transfer is being made and the interest rate being declared on the date of the withdrawal or transfer by Pruco Life for interest rate periods approximately equal to one year longer than the time remaining until the maturity date of the interest cell. Pruco Life may not always offer MVA options at all durations. Rates for intermediate durations not currently offered will be declared as often as rates for durations which are offered. Such declared rates will be determined in a manner consistent with the offered rates, but reflecting the different investment horizon of the intermediate duration. If you specify your withdrawal or transfer as a dollar amount, the Market-Value Adjustment may increase or decrease the amount remaining in the MVA option. If you request the withdrawal or transfer as a percentage of the Contract Fund, the Market-Value Adjustment may increase or decrease the amount being withdrawn or transferred. If the current declared rate is higher than the guaranteed rate, there will be a decrease. If the current declared rate is lower than the guaranteed rate, there will be an increase. The adjustment—whether up or down—will never be greater than 40% of each amount subject to the adjustment. For a more precise description of how the Market-Value Adjustment is determined, and an example of how it affects the amount remaining after a partial withdrawal, see **MARKET-VALUE ADJUSTMENT FORMULA** on page C-1. With respect to residents of Pennsylvania only, see page C-4. The Market-Value Adjustment Option is not available to residents of Maryland, Oregon and Washington.

Death Benefit

If the last surviving or sole annuitant dies prior to the annuity date, Pruco Life will, upon receipt of all of the information necessary to make the payment (including due proof of death and election of a payment option), pay a death benefit to the beneficiary designated by the Contract owner. The death benefit will equal the greatest of: (1) the Contract Fund as of the date of due proof of death; (2) the sum of all invested purchase payments made less total withdrawals made (including withdrawal charges); and (3) the greatest of the Contract Fund values calculated on every third Contract anniversary reduced by all subsequent withdrawals and withdrawal charges. If the Contract owner dies, and is not the last surviving or sole annuitant, this death benefit is not applicable. For a discussion of the required distribution rules, See **Taxes Payable by Contract Owners**, page 13.

The beneficiary may receive this amount in one sum or under a payout option. Unless the beneficiary has been irrevocably designated, you may change the beneficiary at any time. If the annuitant dies after he or she has begun to receive annuity payments, the death benefit, if any, will be determined by the type(s) of payout provisions then in effect.

If the annuitant was the sole owner of the Contract, the annuitant's spouse was the sole beneficiary, and the spouse had an unrestricted right to receive the death benefit in one sum, then the spouse has the right to continue the Contract as annuitant and owner.

Valuation of a Contract Owner's Contract Fund

The value of your Contract Fund is the sum of your interests in the variable investment options and in the interest-rate investment options. The portion of the Contract Fund allocated to the Account is the sum of the interests in each subaccount. The values are measured in Units, for example, Money Market Units, Diversified Bond Units or Flexible Managed Units. Every purchase payment made by an owner is converted into Units of the subaccount or subaccounts selected by dividing the amount of the purchase payment by the Unit Value for the subaccount to which that amount has been allocated. The value of these Units changes each valuation period to reflect the investment results, expenses, and charges of the subaccount and the corresponding Series Fund portfolio. Further detail about Units is contained in the Statement of Additional Information.

There is, of course, no guarantee that your Contract Fund will increase or that it will not fall below the amount of your total purchase payments. However, Pruco Life guarantees a minimum interest rate of 3% a year on that portion of the Contract Fund allocated to the interest-rate investment options. Excess interest on payments allocated to the interest-rate investment options may be credited in addition to the guaranteed interest rate. A Market-Value Adjustment may apply to amounts held in the MVA option, which could reduce effective annual yields below the guaranteed interest rate levels.

CHARGES, FEES AND DEDUCTIONS

Premium Taxes and Taxes Attributable to Purchase Payments

A charge may be deducted for premium taxes and any taxes attributable to purchase payments. For these purposes, "premium taxes and taxes attributable to purchase payments" shall include any state or local premium taxes and any federal premium taxes and any federal, state or local income, excise, business or any other type of tax (or component thereof) measured by or based upon the amount of premium received by Pruco Life. If Pruco Life pays a state or local tax at the time purchase payments are made, the deduction will be made at the time based on the applicable rate. Currently, no such deduction is made from purchase payments in any state. In some states, however, Pruco Life pays a premium tax when an annuity is effected. In those states, the tax will be deducted at that time. The tax rates currently in effect in those states that impose a tax range from 0.5% to 5%, and may also vary depending on whether the Contract is issued in connection with an IRA. Pruco Life also reserves the right to deduct from each purchase payment a charge for taxes measured by premiums. Currently, no such charge is being made in any state.

Administrative Charge

There is an administrative charge to reimburse Pruco Life for the expenses incurred in administering the Contracts. This includes such things as issuing the Contract, establishing and maintaining records, and providing reports to Contract owners. This charge is deducted daily from the assets in each of the variable subaccounts and is equivalent to an effective annual rate of 0.15% (.00041065% daily). Although we do not do so now, we reserve the right to impose an additional charge of up to \$25 annually and upon surrender on Contracts with less than \$50,000 in the Contract Fund. This \$25 charge would be apportioned over all investment options making up the Contract Fund as of the effective date of that deduction.

Charge for Assuming Mortality and Expense Risks

A deduction is made daily from the assets of each of the variable investment options to reimburse Pruco Life for assuming the risk that our estimates of longevity and of the expenses we expect to incur over the lengthy periods

that the Contract may be in effect will turn out to be incorrect. The charge is made daily at an annual rate of 1.25% (.00340349% daily) of the assets held in the subaccounts. This charge is not assessed against amounts allocated to the interest-rate investment options.

Expenses Incurred by the Series Fund

The charges and expenses of the Series Fund are indirectly borne by the Contract owners. Investment management fees for the available Series Fund portfolios are briefly described under **The Prudential Series Fund, Inc.** on page 6. Further details about management fees and other underlying fund expenses are provided in the fee table and in the attached prospectus for the Series Fund and its statement of additional information.

Withdrawal Charge

A withdrawal charge may be made upon full or partial withdrawals. The charge compensates Pruco Life for paying all of the expenses of selling and distributing the Contracts, including sales commissions, printing of prospectuses, sales administration, preparation of sales literature, and other promotional activities. No withdrawal charge is imposed whenever earnings are withdrawn.

Withdrawals are deemed to be made first from purchase payments and then from earnings. A portion of the purchase payments to be withdrawn in any Contract year may be withdrawn without the imposition of any charge. That amount is referred to as the “charge-free amount”. It is equal to 10% of the total of all purchase payments plus any charge-free amount still available from the immediately preceding Contract year, calculated as of the Contract anniversary. Subsequent purchase payments made during a Contract year increase the charge-free amount by 10% of the payment amount. An example of how the charge-free amount and the withdrawal charge are determined is given on page C-1 as part of the example of how the Market-Value Adjustment works. With respect to residents of Pennsylvania only see page C-4.

If your withdrawal of purchase payments exceeds the charge-free amount and it is made within the first seven Contract years, a percentage charge will be applied. The withdrawal charge is based on Contract date and not deposit date. The following table sets forth the rates that apply:

For Withdrawals During The Contract Year Indicated	The Withdrawal Charge Will Be Equal To The Following Percentage Of The Amount Withdrawn*
First Contract Year	7%
Second Contract Year	6%
Third Contract Year	5%
Fourth Contract Year	4%
Fifth Contract Year	3%
Sixth Contract Year	2%
Seventh Contract Year	1%
Eighth and Subsequent Contract Years	No Charge
* Subject to charge-free amount described above.	

No withdrawal charge is made upon a withdrawal used to effect an annuity under the Life Annuity with 120 Payments Certain option. See **PAYOUT PROVISIONS**, page 17. Pruco Life may reduce or eliminate the amount of the withdrawal charge when the Contract is sold under circumstances which reduce its sales expenses. Some examples are: if there is a large group of individuals that will be purchasing the Contract or a prospective purchaser already has a relationship with Pruco Life or its affiliates.

Contracts issued to annuitants aged 84 or older are subject to a reduced withdrawal charge. The withdrawal charge will never be greater than permitted by applicable law or regulation.

Transaction Charge

There is a charge of \$25 for each transfer you make after the first 12 (excluding DCA and auto-rebalancing transfers) in a Contract year. The charge is taken pro-rata from the investment options from which the transfer is made. Any affected MVA option cells will not undergo a Market-Value Adjustment as a result of this processing.

Critical Care Access

All or part of any withdrawal and annual administrative charges associated with a full or partial withdrawal, or any withdrawal charge due on the annuity date, will be waived following the receipt of due proof that the annuitant or (if applicable) co-annuitant has been confined to an eligible nursing home or hospital for a period of at least 3 months or a physician has certified that the annuitant or co-annuitant is terminally ill (i.e., has 6 months or less to live).

FEDERAL TAX STATUS

The following discussion is based on current law and interpretations which may change. The discussion is general in nature. It is not intended as tax advice. Nor does it consider any applicable state or other tax laws. A qualified tax adviser should be consulted for complete information and advice. The following rules do not generally apply to annuity contracts held by or for non-natural persons (e.g. corporations) or to contracts held under tax-favored retirement plans (other than an IRA rollover). Where a Contract is held by a non-natural person, unless the Contract owner is a nominee or agent for a natural person (or in other limited circumstances), the Contract will generally not be treated as an annuity for tax purposes, and increases in the value of the Contract will be subject to current tax.

Diversification

Section 817(h) of the Internal Revenue Code (the "Code") provides that the underlying investments for a variable annuity must satisfy certain diversification requirements. For further detail on diversification requirements, see **DIVIDENDS, DISTRIBUTIONS, AND TAXES** in the attached prospectus for the Series Fund. Pruco Life believes the underlying variable investment options for the Contract meet these diversification requirements. IRS regulations issued to date, however, do not provide guidance concerning the extent to which Contract owners may direct their investments to particular divisions of a separate account. Such guidance will be included in regulations or revenue rulings under Section 817(d) relating to the definition of a variable contract. Because of this uncertainty, Pruco Life reserves the right to make such changes as it deems necessary to assure that the Contract continues to qualify as an annuity for tax purposes. Any such changes will apply uniformly to affected Contract owners and will be made with such notice to affected Contract owners as is feasible under the circumstances.

Taxes Payable by Contract Owners

Under current law, Pruco Life believes that the Contract will be treated as an annuity for Federal income tax purposes and that the issuing insurance company, Pruco Life, and not the Contract owner, will be treated as the owner of the underlying investments for the Contract. Accordingly, generally no tax should be payable by any Contract owner as a result of any increase in the value of the Contract until money is received by him or her. It is important, however, to consider how amounts that are received will be taxed.

The Code provides generally that amounts withdrawn by a Contract owner from his or her Contract, before annuity payments begin, will be treated for tax purposes as being first withdrawals of investment income, rather than withdrawals of purchase payments, until all investment income has been withdrawn.

To the extent assignment is authorized by the Contract, the assignment or pledge of (or agreement to assign or pledge) any portion of the value of the Contract for a loan will be treated as a withdrawal subject to these rules. Amounts withdrawn before annuity payments begin which represent a distribution of investment income will be taxable as ordinary income and may, under certain circumstances, be subject to a penalty tax. For non-qualified Contracts, amounts which represent a withdrawal of purchase payments will not be taxable as ordinary income or subject to a penalty tax. Moreover, all annuity contracts issued by the same company (and affiliates) to the same Contract owner during any calendar year shall be treated as one annuity contract for purposes of determining whether an amount is subject to tax under these rules.

Different tax rules apply to your receipt of annuity payments. For Contracts other than those used in connection with tax favored plans, a portion of each annuity payment you receive under a Contract will be treated as a partial return of your purchase payments and will not be taxable. The remaining portion of the annuity payment will be taxed as ordinary income. Exactly how an annuity payment is divided into taxable and non-taxable portions depends upon the period over which annuity payments are expected to be received, which in turn is governed by the form of annuity selected and, where a lifetime annuity is chosen, by the life expectancy of the annuitant.

Annuity payments which are received after the annuitant recovers the full amount of the purchase payments will be fully includible in income. Should annuity payments cease on account of the death of the annuitant before purchase payments have been fully recovered, the annuitant, on his or her last tax return, (or in certain cases the beneficiary) is allowed a deduction for the unrecovered amount.

The Code provides that any amount received under an annuity contract which is included in income may be subject to a penalty tax. The amount of the penalty is equal to 10% of the amount that is includible in income. Some withdrawals will be exempt from the penalty. They include withdrawals: (1) made on or after the Contract owner reaches age 59½; (2) made on or after the death of the Contract owner; (3) attributable to the Contract owner becoming disabled within the meaning of Code section 72(m)(7); (4) in the form of level annuity payments made not less frequently than annually under a lifetime annuity; (5) allocable to investment in the Contract before August 14, 1982; (6) under a qualified funding asset (defined by Code section 130(d)); or (7) under an immediate annuity contract (within the meaning of Code section 72(u)(4)).

If the 10% penalty tax does not apply to a withdrawal by reason of the exception for withdrawals in the form of a level annuity (clause (4) above), but the series of payments is modified (other than by reason of death or disability), either (a) before the end of the 5-year period beginning with the first payment and after the Contract owner reaches age 59½, or (b) before the Contract owner attains age 59½, the Contract owner's tax for the year of the modification will be increased by the penalty tax that would have been imposed without the exception, plus interest for the deferral period.

Where a Contract is issued in exchange for a Contract containing purchase payments made before August 14, 1982, favorable tax rules may apply to certain withdrawals from the Contract. Consult a tax advisor for information regarding these rules.

Election of the interest payment option is not considered an annuity payment for tax purposes. Accordingly, unless the Contract is held by an individual retirement annuity, such election will cause investment income under the Contract to be taxable.

Generally, the same tax rules apply to amounts received by the beneficiary as those set forth above with respect to the Contract owner. The election of an annuity payment option may defer taxes otherwise payable upon the receipt of a lump sum death benefit. Certain minimum distribution requirements apply in the case where the owner dies. See **Required Distributions on Death of Owner**, page 19.

Transfer of the Contract to a new owner or assignment of the Contract may have gift, estate and/or income tax consequences depending on the circumstances. In addition, a transfer of the Contract to or the designation of a beneficiary who is either 37½ years younger than the Contract owner or a grandchild of the Contract owner may have Generation Skipping Transfer tax consequences under section 2601 of the Code.

Certain transfers of a Contract for less than full consideration, such as a gift, will trigger tax on the investment income in the Contract. This rule does not apply to certain transfers between spouses or incident to divorce. See **Ownership of the Contract**, page 20.

Withholding

Generally, unless you elect to the contrary, the portion of any amounts you receive under your Contract that are attributable to investment income will be subject to withholding to meet federal income tax obligations. The rate of withholding on annuity payments made to you will be determined on the basis of the withholding certificate you may file with Pruco Life. If you do not file such a certificate, you will be treated, for purposes of determining your withholding rate, as a married person with three exemptions. The rate of withholding on all other payments made to you under your Contract, such as amounts you receive upon withdrawals, will be 10%. Thus, if you fail to elect that Pruco Life not do so, it will withhold from withdrawal by, or annuity payment to, you the appropriate percentage of the amount of the payment that constitutes investment income and hence is taxable. Pruco Life will provide you with forms and instructions concerning your right to elect that no amount be withheld from payments to you. If you elect not to have withholding made, you are liable for payment of federal income taxes on the taxable portion of the distribution. You may be subject to penalties under the estimated tax payment rules if your withholding and estimated tax payments are not sufficient. If you do not provide a social security number or other

taxpayer identification number, you will not be permitted to elect out of withholding. Special withholding rules apply for nonresident aliens. Generally, there will be no withholding for taxes until you actually receive payments under your Contract.

Impact of Federal Income Taxes

In general, if you expect to accumulate savings over a relatively long period of time without making significant withdrawals, there should be tax advantages, regardless of your tax bracket, in purchasing a Contract rather than, for example, a mutual fund with a similar investment policy and approximately the same level of expected investment results. This is because little or no income taxes are incurred by you or by Pruco Life while you hold the Contract and it is generally advantageous to defer the payment of income taxes, so that the investment return is compounded without any deduction for income taxes. The advantage may be considerably greater if you decide to liquidate your investment in the form of monthly annuity payments after your retirement, and even more so if your income, and your tax rate, are lower at that time than they were during your working years.

Contracts used in Connection with Tax Favored Plans

Currently, the Contract may be purchased for use in connection with individual retirement accounts and annuities ("IRAs") which are subject to Sections 408(a) and 408(b) of the Code. At some time in the future, we may allow the Contract to be purchased in connection with other retirement arrangements which are entitled to favorable federal income tax treatment ("tax favored plans"). These include: simplified employee pension plans ("SEPs") under Section 408(k) of the Code, saving incentive match plans for employees-IRA ("SIMPLE-IRAs") under Section 408(p) of the Code, and tax deferred annuities ("TDAs") under Section 403(b) of the Code. Such plans, accounts and annuities must satisfy certain requirements of the Code in order to be entitled to the federal income tax benefits accorded to these plans. A discussion of these requirements is beyond the scope of this prospectus, and it is assumed that such requirements are met with respect to a Contract purchased for use in connection with a tax favored plan.

In general, assuming the requirements and limitations of the Code provisions applicable to the particular type of tax favored plan involved are satisfied, purchase payments (other than after-tax employee payments) under the Contract will be deductible (or not includible in income) up to certain amounts each year and federal income tax will not be imposed on the investment income and realized gains of the subaccounts in which the purchase payments have been invested until a distribution is received. Persons contemplating the purchase of a Contract in connection with a tax favored plan should consult their tax advisor before purchasing a Contract for such purposes.

The comments which follow concerning specific tax favored plans are intended merely to call attention to certain of their features. No attempt has been made to discuss in full the tax ramifications involved or to offer tax advice. As suggested above, a qualified tax advisor should be consulted for advice and answers to any questions.

IRAs

Because the Contract's minimum initial payment of \$10,000 is greater than the maximum annual contribution permitted to be made to an IRA (generally, \$2,000), a Contract may be purchased as a Section 408(b) IRA only in connection with a "rollover" of the proceeds of a qualified plan, tax-deferred Section 403(b) annuity ("TDA") or IRA. The Code permits persons who are entitled to receive certain qualifying distributions from a qualified pension or profit-sharing plan described in Section 401(a) or 403(a), TDA, or an IRA, to directly rollover or make, within 60 days, a tax-free "rollover" of all or any part of the amount of such distribution to an IRA which they establish. Additionally, the spouse of a deceased employee may roll over to an IRA certain distributions received by the spouse from a qualified pension or profit-sharing plan, TDA or IRA on account of the employee's death. Once the Contract has been purchased, regular IRA contributions will be accepted to the extent permitted by law.

In order to qualify as an IRA under Section 408(b) of the Code, a Contract (or a rider made a part of the Contract) must contain certain additional provisions: (1) the owner of the Contract must be the annuitant, except when a transfer is made to a former spouse in accordance with a divorce decree as provided in Section 408(d)(6) of the Code; (2) the rights of the owner cannot be forfeitable; (3) the Contract may not be sold, assigned, discounted or pledged for any purpose to any person except Pruco Life; (4) except in the case of a "rollover" contribution, the annual premium may not exceed \$2,000; (5) generally, for traditional IRAs, the annuity date may be no later than

April 1 of the calendar year following the calendar year in which the annuitant attains age 70½; and (6) annuity and death benefit payments must satisfy certain minimum distribution requirements. Contracts issued as Section 408(b) IRAs will conform to such requirements.

In general, the full amount distributed from a traditional IRA (and not properly rolled over to another IRA) is subject to federal income tax and to the withholding rules described above. A 10% early distribution penalty applies to distributions made before the Contract owner reaches age 59½, subject to certain exceptions. If the owner borrows against the IRA or engages in certain prohibited transactions, the Contract ceases to qualify as an IRA and the full amount is deemed to be distributed. In addition, any amount pledged as security for a loan is deemed to be distributed. Payments generally must begin by April 1 of the calendar year following the calendar year in which the annuitant attains age 70½ and are subject to certain minimum distribution requirements.

SEPs

Under a SEP, annual employer contributions to an IRA established by an employee are not includible in income to the lesser of \$30,000 or 15% of the employee's earned income (excluding the employer's contribution to the SEP). In addition, a SEP must satisfy certain minimum participation requirements and contributions may not discriminate in favor of highly compensated employees. Contracts issued as Section 408(b) IRAs established under a SEP must satisfy the requirements described above for a Section 408(b) IRA.

Certain SEP arrangements are permitted to allow employees to elect to reduce their salaries by as much as \$10,000 (in 1998) and have their employer make contributions on their behalf to the SEP. These arrangements, called salary reduction SEPs, are available only if the employer maintaining the SEP has 25 or fewer employees and at least 50% of the eligible employees elect to make salary reduction contributions. Other limitations may reduce the permissible contribution level for highly compensated employees. New salary reduction SEPs may not be established after 1996.

In accordance with IRS regulations, persons who purchase a Contract used as an IRA, including one established under a SEP arrangement, are given disclosure material prepared by Pruco Life. The material includes this prospectus, a copy of the Contract, and a brochure containing information about eligibility, contribution limits, tax consequences, and other particulars concerning IRAs. The regulations require that such persons be given a free look after making an initial contribution in which to affirm or reverse their decision to participate. Therefore, within the free look a person may cancel his or her Contract by notifying Pruco Life in writing, and Pruco Life will refund all of the purchase payments under the Contract or, if greater, the amount credited under the Contract (less any bonus) computed as of the valuation period that Pruco Life receives the notice of cancellation. See **Short-Term Cancellation Right Or "Free Look"**, page 7.

SIMPLE-IRAs

Under a SIMPLE-IRA, an employee can elect to contribute up to \$6,000 (in 1998, as indexed) per year to an IRA. Employer contributions are also provided as either a match (up to 3% of compensation) or 2% nonelective contribution. These contributions are not taxable until withdrawn, and are fully vested. Distributions are generally taxed under the rules applicable to IRAs. SIMPLE-IRAs are not subject to the general nondiscrimination rules and simplified reporting rules apply.

To qualify for a SIMPLE-IRA, the employer may employ no more than 100 employees (on a controlled group basis) who received at least \$5,000 in compensation from the employer in the preceding year, and may not maintain any other employer-sponsored retirement plans to which contributions were made or benefits accrued.

TDA's

Section 403(b) of the Code permits employers and employees of Section 501(c)(3) tax-exempt organizations and public educational organizations to make, subject to certain limitations, contributions to an annuity in which the employee's rights are nonforfeitable (commonly referred to as a "tax deferred annuity" or "TDA"). The amounts contributed under a TDA and increments thereon are not taxable as income until distributed as annuity income or otherwise. Generally, contributions to a TDA may be made through a salary reduction arrangement up to a maximum of \$10,000 (in 1998, as indexed). However, under certain special rules, the limit could be increased as much as \$3,000. In addition, the Code permits certain total distributions from a TDA to be "rolled over" to another TDA or IRA. Certain partial distributions from a TDA may be "rolled over" to an IRA.

An annuity contract will not qualify as a TDA, unless under such contract distributions from salary reduction contributions and earnings thereon (other than distributions attributable to assets held as of December 31, 1988) may be paid only on account of attainment of age 59½, severance of employment, death, total and permanent disability and, in limited circumstances, hardship. (Such hardship withdrawals are permitted, however, only to the extent of salary reduction contributions and not earnings thereon.)

The Section 403(b)(11) withdrawal restrictions referred to above do not apply to the transfer of all or part of a Contract owner's interest in his or her Contract among the available investment options offered by Pruco Life or to the direct transfer of all or part of the Contract owner's interest in the Contract to a Section 403(b) tax-deferred annuity contract of another insurance company or to a mutual fund custodial account under Section 403(b)(7) of the Code.

In imposing the restrictions on withdrawals as described above, Pruco Life is relying upon a no-action letter dated November 28, 1988 from the Chief of the Office of Insurance Products and Legal Compliance of the SEC to the American Council of Life Insurance.

Employer contributions are subject generally to the same coverage, minimum participation and nondiscrimination rules applicable to qualified pension and profit-sharing plans. Distributions from a TDA generally must commence by April 1 of the calendar year following the later of the calendar year in which the employee: (1) attains age 70½; or (2) retires. Distributions must satisfy minimum distribution requirements similar to those that apply to qualified plans generally.

Minimum Distribution Option

A Minimum Distribution Option is available under traditional IRAs and certain other tax favored plans. This option enables the owner to satisfy IRS minimum distribution requirements without having to annuitize or cash surrender the Contract. Distributions from certain tax favored plans generally must begin by April 1 of the calendar year following the later of the calendar year in which the employee: (1) attains age 70½; or (2) retires (part 2 is not applicable to traditional IRAs). The owner can select either a "calculation" or "recalculation" method to determine the minimum distribution payout. Pruco Life will send the owner a check for the minimum distribution amount less any partial withdrawals made during the year. Pruco Life's calculations are based on the cash value of this Contract, the calculation method chosen and the owner's age as specified on the application. Other calculation methods may be available for an owner/spouse combination. If the owner has other IRA accounts, he or she will be responsible for taking the minimum distribution from each.

Taxes on Pruco Life

The earnings of the Account are taxed as part of the operations of Pruco Life. No charge is being made currently against the Account for company federal income taxes (excluding any charge for taxes attributable to premiums). Pruco Life will review the question of a charge to the Account for company federal income taxes periodically. Such a charge may be made in future years for any federal income taxes that would be attributable to the Contract.

Under current law, Pruco Life may incur state and local taxes (in addition to premium taxes) in several states. At present, these taxes are not significant and they are not charged against the Contract or the Account. If there is a material change in applicable state or local tax laws, the imposition of any such taxes upon Pruco Life that are attributable to the Account may result in a corresponding charge against the Account.

PAYOUT PROVISIONS

The Contract can be annuitized any time after the first Contract year. Upon the annuity date, the cash value of the Contract will be converted into a fixed-dollar annuity payable to the annuitant[s] named in the Contract. If two annuitants are named in the Contract, you may decide how much of the amount is to be applied for each annuitant and under which form[s] of annuity. If the Contract is not large enough to produce an initial monthly payment of \$50 (which may be less in some states), you will be paid the cash value in a single sum.

When you choose to annuitize, all amounts held in the investment options will be withdrawn. An amount equal to the premium tax, if any, imposed by the state in which the annuitant resides is then deducted (unless deducted

earlier). Many states do not impose a premium tax. In other states the tax ranges from 0% to 5% of the amount applied to effect an annuity. See **Premium Taxes**, page 11. Some local jurisdictions also impose a tax. The amount remaining is applied to effect an annuity. This amount becomes part of Pruco Life's general account.

The amount of the monthly payments will depend upon the amount applied and the table of rates set forth in the Contract which we guarantee will be used even if longevity has significantly improved since the Contract date. If Pruco Life is offering more favorable rates at that time, then those rates will be used.

The annuity will be in one of the forms listed below. All the annuity options under this Contract are fixed annuity options. Your participation in the variable investment options ceases when the annuity is effected. Unless we consent to a later date, an annuity must begin no later than the Contract anniversary coinciding with or next following the annuitant's 90th birthday (or the younger annuitant's if there are two annuitants named in the Contract). We will then make payments to the annuitant on the first day of each period determined by the form of annuity selected. Unless applicable law states otherwise, if you have not selected an annuity option to take effect by the annuity date, the Interest Payment Option (see below) will become effective then. Special rules apply in the case of a Contract issued in connection with an IRA.

1. Annuity Payments for a Fixed Period

Payments will be made to the annuitant during his or her lifetime for up to 25 years. Payments may be in monthly, quarterly, semi-annual, or annual installments. If the annuitant dies during the annuity certain period, unless you designate otherwise, the beneficiary will receive a lump sum payment. The amount of the lump sum payment is determined by discounting each remaining unpaid payment at the interest rate used to compute the actual payments. If the payments were based on the table of rates set forth in the Contract, the interest rate used is 3½% a year.

2. Life Annuity with 120 Payments Certain

Payments will be made to the annuitant monthly during his or her lifetime. If the annuitant dies before the 120th monthly payment is due, monthly annuity payments do not continue to the beneficiary designated by the annuitant unless he or she so selects. Instead, the present value of the remaining unpaid installments, up to and including the 120th monthly payment, is payable to the beneficiary in one sum. In calculating the present value of the unpaid future payments, we will discount each such payment at the interest rate used to compute the amount of the actual 120 payments. If the payments were based on the table of rates set forth in the Contract, an interest rate of 3½% a year is used. Once annuity payments have begun, an annuitant may withdraw the present value of any of the 120 payments certain that have not been paid. No surrender charge is applicable under this option.

3. Interest Payment Option

The annuitant may choose to have Pruco Life hold a designated amount to accumulate at interest. Unless applicable law states otherwise, if no option has been selected by the annuity date, this option will automatically become effective. Pruco Life will pay interest at an effective rate of at least 3% a year, and we may pay a higher rate of interest.

Special provisions may apply if the Contract is issued in connection with an IRA.

4. Other Annuity Options

Currently, you may choose to receive the proceeds of your Contract Fund in the form of payments like those of any annuity or life annuity then regularly offered by Prudential or by Pruco Life that (1) is based on United States currency; (2) is bought by a single sum; (3) does not provide for dividends; and (4) does not normally provide for deferral of the first payment. Prudential and Pruco Life currently offer a number of different annuity options, including joint and survivor annuities covering more than one person.

Under Option 4, unless a fixed period annuity of less than 10 years is selected, Pruco Life will waive withdrawal charges that might be applicable under other annuity options. Further, if you select Option 1 or 2 without a right of withdrawal, Pruco Life will effect that option under Option 4 if doing so provides greater monthly payments.

Legal Considerations Relating to Sex-Distinct Annuity Purchase Rates

Although the Contract generally provides for sex-distinct annuity purchase rates for life annuities, those rates are not applicable to Contracts offered in states that have adopted regulations prohibiting sex-distinct annuity purchase rates. Rather, blended unisex annuity purchase rates for life annuities will be provided under all Contracts issued in those states, whether the annuitant is male or female. Other things being equal, such unisex annuity purchase rates will result in the same monthly annuity payments for male and female annuitants.

OTHER INFORMATION

Required Distributions on Death of Owner

Federal tax law requires that if the Contract owner dies before the annuity date, the entire value of the Contract must generally be distributed within 5 years of the date of death. Special rules may apply to the spouse of the deceased owner. The rules regarding required distributions after the Contract owner's death are described in the Statement of Additional Information.

Misstatement of Age or Sex

If an annuitant's stated age or sex (except where unisex rates apply) or both are incorrect in the Contract, we will change each benefit and the amount of each annuity payment to that which the total purchase payment amounts would have bought for the correct age and sex. Also, we will adjust for the amount of any overpayments we have already made.

Sale of the Contract and Sales Commissions

Currently, Pruco Securities Corporation ("Prusec"), an indirect wholly-owned subsidiary of Prudential which was organized in 1971 under New Jersey law, acts as the principal underwriter of the Contract. Pruco Life expects that during the second quarter of 1998 Prusec's responsibilities as principal underwriter will be assigned to Prudential Investment Management Services LLC ("PIMS"). PIMS, also an indirect wholly-owned subsidiary of Prudential, is a limited liability corporation organized under Delaware law in 1996. PIMS will act as principal underwriter under substantially the same terms as Prusec does currently. Both Prusec and PIMS are registered as broker-dealers under the Securities Exchange Act of 1934 and are members of the National Association of Securities Dealers, Inc. The principal business address of both Prusec and PIMS is 751 Broad Street, Newark, New Jersey 07102-3777.

The Contract is currently sold by registered representatives of the principal underwriter and may also be sold through other broker-dealers authorized by the principal underwriter, including broker-dealers otherwise unaffiliated with Prudential. Registered representatives of such other unaffiliated broker-dealers may be paid on a different basis than registered representatives of the principal underwriter or broker-dealers affiliated with Prudential. The maximum commission that will be paid to the broker-dealer to cover both the individual representative's commission and other distribution expenses will not exceed 6% of the purchase payment. In addition, trail commissions based on the size of the contract Fund may be paid.

Voting Rights

As stated above, all of the assets held in the subaccounts of the Account are invested in shares of the corresponding portfolios of the Series Fund. Pruco Life is the legal owner of those shares and as such has the right to vote on any matter voted on at any Series Fund shareholders meetings. However, as required by law, Pruco Life votes the shares of the Series Fund at any regular and special shareholders meetings in accordance with voting instructions received from Contract owners. The Series Fund does not hold annual shareholders meetings when not required to do so under Maryland law or the 1940 Act. Fund shares for which no timely instructions from Contract owners are received, and any shares owned directly or indirectly by Pruco Life are voted in the same proportion as shares in the respective portfolios for which instructions are received. Should the applicable federal securities laws or regulations, or their current interpretation, change so as to permit Pruco Life to vote shares of the Series Fund in its own right, it may elect to do so.

Matters on which you may give voting instructions include the following: (1) election of the Board of Directors of the Series Fund; (2) ratification of the independent accountant of the Series Fund; (3) approval of the investment advisory agreement for a portfolio of the Series Fund corresponding to your selected subaccount[s]; (4) any

change in the fundamental investment policy of a portfolio corresponding to your selected subaccount[s]; and (5) any other matter requiring a vote of the shareholders of the Series Fund. With respect to approval of the investment advisory agreement or any change in a portfolio's fundamental investment policy, Contract owners participating in such portfolios will vote separately on the matter.

The number of Series Fund shares for which you may give instructions is determined by dividing the portion of the value of the Contract derived from participation in a subaccount, by the value of one share in the corresponding portfolio of the applicable Fund. The number of votes for which you may give Pruco Life instructions is determined as of the record date chosen by the Board of Directors of the Series Fund. We furnish you with proper forms and proxies to enable you to give these instructions. We reserve the right to modify the manner in which the weight to be given voting instructions is calculated where such a change is necessary to comply with current federal regulations or interpretations of those regulations.

Pruco Life may, if required by state insurance regulations, disregard voting instructions if such instructions would require shares to be voted so as to cause a change in the sub-classification or investment objectives of one or more of the Funds' portfolios, or to approve or disapprove an investment advisory contract for a Fund. In addition, Pruco Life itself may disregard voting instructions that would require changes in the investment policy or investment adviser of one or more of the Funds' portfolios, provided that we reasonably disapprove such changes in accordance with applicable federal regulations. If we do disregard voting instructions, we will advise you of that action and our reasons for such action in the next annual or semi-annual report to Contract owners.

Substitution of Series Fund Shares

Although Pruco Life believes it to be unlikely, it is possible that in the judgment of its management, one or more of the portfolios of the Series Fund may become unsuitable for investment by Contract owners because of investment policy changes, tax law changes, or the unavailability of shares for investment. In that event, we may seek to substitute the shares of another portfolio or of an entirely different mutual fund. Before this can be done, the approval of the SEC, and possibly one or more state insurance departments, will be required. You will be notified of such substitution.

Ownership of the Contract

The Contract owner is entitled to exercise all the rights under the Contract. The Contract owner is usually, but not always, the annuitant. Ownership of the Contract may, however, be transferred to another person who need not be the person who is to receive annuity payments. Transfer of the ownership of a Contract may involve federal income tax consequences, or may be prohibited under certain Contracts, and you should consult with a qualified tax adviser before attempting any such transfer. Generally, ownership of the Contract is not assignable to a tax-qualified retirement plan or program without Pruco Life's consent.

Performance Information

Performance information for the subaccounts may appear in advertising and reports to current and prospective Contract owners. Performance information is based on historical investment experience of the Series Fund, adjusted to take charges under the Contract into account, and does not indicate or represent future performance.

Total returns are based on the overall dollar or percentage change in value of a hypothetical investment over a stipulated period, and assume a surrender of the Contract at the end of the period. Total return quotations reflect changes in unit values and the deduction of applicable charges including any applicable withdrawal charges.

A cumulative total return reflects performance over a stated period of time. An average annual total return reflects the hypothetical annually compounded return that would have produced the same cumulative total return if the performance had been constant over the entire period.

The Money Market Subaccount may advertise its current and effective yield. Current yield reflects the income generated by an investment in the subaccount over a specified seven-day period. Effective yield is calculated in a similar manner except that income earned is assumed to be reinvested.

Reports or advertising may include comparative performance information, including, but not limited to: comparisons to market indices; comparisons to other investments; performance rankings; personalized illustrations of historical performance; and data presented by analysts or included in publications.

See **Performance Information** in the Statement of Additional Information for recent performance information.

Reports to Contract Owners

You will be sent quarterly statements that provide certain information pertinent to your Contract. These statements provide Contract data that apply only to each particular Contract, including Contract values and transactions during the period. You may request current Contract information at any time, however, we may limit the number of such requests or impose a reasonable charge if such requests are made too frequently.

You will also be sent annual and semi-annual reports for the Series Fund.

If a single individual or company invests in the Series Fund through more than one variable insurance contract, then the individual or company will receive only one copy of each annual and semi-annual report issued by the Series Fund. However, if such individual or company wishes to receive multiple copies of any such report, a request may be made by calling the toll-free telephone number listed on the cover page of this prospectus.

State Regulation

Pruco Life is subject to regulation and supervision by the Department of Insurance of the State of Arizona, which periodically examines its operations and financial condition. It is also subject to the insurance laws and regulations of all jurisdictions in which it is authorized to do business.

Pruco Life is required to submit annual statements of its operations, including financial statements, to the insurance departments of the various jurisdictions in which it does business to determine solvency and compliance with local insurance laws and regulations.

In addition to the annual statements referred to above, Pruco Life is required to file with Arizona and other jurisdictions a separate statement with respect to the operations of all its variable contract accounts, in a form promulgated by the National Association of Insurance Commissioners.

Experts

The financial statements included in this prospectus for the years ended December 31, 1997 and December 31, 1996 have been audited by Price Waterhouse LLP, independent accountants, as stated in their report appearing herein, and are included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing. Price Waterhouse LLP's principal business address is 1177 Avenue of the Americas, New York, New York 10036.

The financial statements included in this prospectus for the year ended December 31, 1995 have been audited by Deloitte & Touche LLP, independent auditors, as stated in their reports appearing herein, and are included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing. Deloitte & Touche LLP's principal business address is Two Hilton Court, Parsippany, New Jersey 07054-0319.

On March 12, 1996, Deloitte & Touche LLP was replaced as the independent accountants of Pruco Life. There have been no disagreements with Deloitte & Touche LLP on any matter of accounting principles or practices, financial statements disclosure or auditing scope or procedure which, if not resolved to the satisfaction of the accountant, would have caused them to make a reference to the matter in their reports.

Litigation

Several actions have been brought against Pruco Life alleging that Pruco Life and its agents engaged in improper life insurance sales practices. Prudential has agreed to indemnify Pruco Life for losses, if any, resulting from such litigation. No other significant litigation is being brought against Pruco Life that would have a material effect on its financial position.

Year 2000 Compliance

The services provided to the Contract owners by Pruco Life, Prusec and PIMS depend on the smooth functioning of their respective computer systems. The year 2000, however, holds the potential for a significant disruption in the operation of these systems. Many computer programs cannot distinguish the year 2000 from the year 1900 because of the way in which dates are encoded. Left uncorrected, the year "00" could cause systems to perform date comparisons and calculations incorrectly that in turn could compromise the integrity of business records and lead to serious interruption of business processes.

Prudential, as Pruco Life, Prusec's and PIMS's ultimate corporate parent, identified this issue as a critical priority in 1995 and has established quality assurance procedures including a certification process to monitor and evaluate enterprise-wide conversion and upgrading of systems for "Year 2000" compliance. Prudential has also initiated an analysis of potential exposure that could result from the failure of major service providers such as suppliers, custodians and brokers, to achieve Year 2000 compliance. Prudential expects to complete its adaptation, testing and certification of software for Year 2000 compliance by December 31, 1998. During 1999, Prudential plans to conduct additional internal testing, to participate in securities industry-wide test efforts and to complete major service provider analysis and contingency planning.

The expenses of Prudential's Year 2000 compliance are allocated across its various businesses, including those businesses not engaged in providing services to Contract owners. Accordingly, while the expense is substantial in the aggregate, it is not expected to have a material impact on Pruco Life's, Prusec's and PIMS's abilities to meet their commitments to contract owners.

Prudential believes that it is well positioned to achieve the necessary modifications and mitigate Year 2000 risks. However, if such efforts are not completed on a timely basis, the Year 2000 issue could have a material adverse impact on Prudential's operations, those of its subsidiary and affiliate companies and/or the Account. Moreover, there can be no assurance that the measures taken by Prudential's external service providers will be sufficient to avoid any material adverse impact on Prudential's operations or those of its subsidiary and affiliate companies.

Statement of Additional Information

The contents of the Statement of Additional Information include:

OTHER INFORMATION CONCERNING THE ACCOUNT

- Principal Underwriter**
- Determination of Subaccount Unit Values**
- IRS Required Distributions on Death of Owner**
- Performance Information**
- Comparative Performance Information**

Additional Information

A registration statement has been filed with the SEC, relating to the offering described in this prospectus. This prospectus does not include all of the information set forth in the registration statement. Certain portions have been omitted pursuant to the rules and regulations of the SEC. The omitted information may, however, be obtained from the SEC's principal office in Washington, D.C., upon payment of a prescribed fee.

Further information, including statutory statements filed with the state insurance departments, may also be obtained from Pruco Life's office. The address and telephone number of Pruco Life are set forth on the cover of this prospectus.

Financial Statements

The consolidated financial statements of Pruco Life and subsidiaries should be distinguished from the financial statements of the Account, and should be considered only as bearing upon the ability of Pruco Life to meet its obligations under the Contracts.

**ACCUMULATION UNIT VALUES
THE DISCOVERY PREFERRED VARIABLE ANNUITY SUBACCOUNTS OF THE
FLEXIBLE PREMIUM VARIABLE ANNUITY ACCOUNT**

	Prudential Money Market Portfolio			Prudential Diversified Bond Portfolio			Prudential High Yield Bond Portfolio		
	1/1/97 to 12/31/97	1/1/96 to 12/31/96	11/21/95* to 12/31/95	1/1/97 to 12/31/97	1/1/96 to 12/31/96	11/21/95* to 12/31/95	1/1/97 to 12/31/97	1/1/96 to 12/31/96	11/21/95* to 12/31/95
	1. Accumulation unit value at beginning of period	\$ 1.04505	\$ 1.00632	\$ 1.00015	\$ 1.06033	\$ 1.02919	\$ 0.99877	\$ 1.12263	\$ 1.02123	$ 0.99953
2. Accumulation unit value at end of period	\$ 1.08688	\$ 1.04505	\$ 1.00632	\$ 1.13525	\$ 1.06033	\$ 1.02919	\$ 1.25972	\$ 1.12263	\$ 1.02123
3. Number of accumulation units outstanding at end of period	15,611,316.006	18,724,231.329	143,501.519	23,100,623.341	16,579,588.790	8,846.456	20,140,820.165	12,180,746.727	9,000.202

	Prudential Conservative Balanced Portfolio			Prudential Stock Index Portfolio		Prudential Equity Income Portfolio		
	1/1/97 to 12/31/97	1/1/96 to 12/31/96	11/21/95* to 12/31/95	1/1/97 to 12/31/97	1/1/96 to 12/31/96	1/1/97 to 12/31/97	1/1/96 to 12/31/96	11/21/95* to 12/31/95
	1. Accumulation unit value at beginning of period	\$ 1.14380	\$ 1.02903	\$ 1.00076	\$ 1.13652	\$ 1.00077	\$ 1.23339	\$ 1.02662	$ 1.00221
2. Accumulation unit value at end of period	\$ 1.27970	\$ 1.14380	\$ 1.02903	\$ 1.48876	\$ 1.13652	\$ 1.66167	\$ 1.23339	\$ 1.02662
3. Number of accumulation units outstanding at end of period	100,006,482.765	64,865,522.269	88,446.877	32,430,921.902	12,874,426.991	33,449,894.551	19,788,860.548	64,057.253

	Prudential Equity Portfolio			Prudential Jennison Portfolio			Prudential Flexible Managed Portfolio		
	1/1/97 to 12/31/97	1/1/96 to 12/31/96	11/21/95* to 12/31/95	1/1/97 to 12/31/97	1/1/96 to 12/31/96	11/21/95* to 12/31/95	1/1/97 to 12/31/97	1/1/96 to 12/31/96	11/21/95* to 12/31/95
	1. Accumulation unit value at beginning of period	\$ 1.20807	\$ 1.03280	\$ 1.00189	\$ 1.13943	\$ 1.00919	\$ 0.99092	\$ 1.15341	\$ 1.02847	$ 1.00144
2. Accumulation unit value at end of period	\$ 1.48518	\$ 1.20807	\$ 1.03280	\$ 1.48006	\$ 1.13943	\$ 1.00919	\$ 1.34172	\$ 1.15341	\$ 1.02847
3. Number of accumulation units outstanding at end of period	85,666,590.098	57,622,650.499	246,072.311	32,664,271.245	23,134,855.147	70,476.153	58,333,424.223	36,321,618.068	85,757.949

	Prudential Small Capitalization Stock Portfolio			Prudential Global Portfolio			Prudential Natural Resources Portfolio		
	1/1/97 to 12/31/97	1/1/96 to 12/31/96	11/21/95* to 12/31/95	1/1/97 to 12/31/97	1/1/96 to 12/31/96	11/21/95* to 12/31/95	1/1/97 to 12/31/97	1/1/96 to 12/31/96	11/21/95* to 12/31/95
	1. Accumulation unit value at beginning of period	\$ 1.22662	\$ 1.03778	\$ 0.99701	\$ 1.19505	\$ 1.01165	\$ 1.00094	\$ 1.37239	\$ 1.06254	$ 1.00032
2. Accumulation unit value at end of period	\$ 1.51412	\$ 1.22662	\$ 1.03778	\$ 1.26079	\$ 1.19505	\$ 1.01165	\$ 1.19655	\$ 1.37239	\$ 1.06254
3. Number of accumulation units outstanding at end of period	17,448,278.819	10,592,779.335	72,074.222	14,368,133.962	10,486,229.266	19,338.842	7,969,661.019	4,717,583.475	0.000

* Commencement of Business

SELECTED FINANCIAL DATA

The following selected financial data for Pruco Life Insurance Company and Subsidiaries should be read in conjunction with the CONSOLIDATED FINANCIAL STATEMENTS OF PRUCO LIFE INSURANCE COMPANY AND SUBSIDIARIES and notes thereto included in this prospectus beginning on page B-1.

Pruco Life Insurance Company and Subsidiaries

For the Years Ended December 31,

	(In Thousands) GAAP Basis				Statutory Basis
	1997	1996	1995	1994	1993
Revenues:					
Premiums and other revenue	\$ 424,563	\$ 408,154	\$ 401,287	\$ 303,627	\$ 591,660
Net investment income	259,634	247,328	246,618	241,132	260,939
Total revenues	684,197	655,482	647,905	544,759	852,599
Benefits and expenses:					
Current and future benefits and claims ...	290,234	305,119	280,913	235,660	534,354
Other expenses	225,721	122,006	134,790	179,173	157,557
Total benefits and expenses.....	515,955	427,125	415,703	414,833	691,911
Income before income tax provision.....	168,242	228,357	232,202	129,926	160,688
Income tax provision	61,868	79,135	79,558	48,031	83,640
Net income	\$ 106,374	\$ 149,222	\$ 152,644	\$ 81,895	\$ 77,048
Assets	\$12,851,467	\$9,710,366	\$8,471,638	\$7,713,183	\$7,172,104

In 1996, the Company retroactively adopted, as of January 1, 1995, applicable accounting pronouncements to present its financial statements in conformity with generally accepted accounting principles ("GAAP"). Refer to footnote 1.B. of the Consolidated Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company markets individual life insurance, variable life insurance, variable annuities, and deferred annuities primarily through Prudential's sales force in the United States, and in Taiwan.

The Company markets its products in the life insurance and annuity sectors of the insurance industry. These markets are faced with an increased tightening of the regulatory environment with particular emphasis placed on company solvency and sales practices. The legal barriers which have historically segregated the markets of the financial services industry are being challenged through both legislative and judicial process. Regulatory changes which opened the insurance industry to other financial institutions, particularly banks and mutual funds, heightened competition in investment type products since those institutions were positioned to deliver the same products through large, stable distribution channels.

The Company held \$12.8 billion in assets at December 31, 1997 compared to \$9.7 billion at December 31, 1996, of which \$8.0 billion and \$5.3 billion were held in Separate Accounts in 1997 and 1996, respectively, under variable life insurance policies and variable annuity contracts. The remaining assets were held in the general account for investment primarily in bonds, short-term investments and policy loans.

1. Results of Operations

Net income for the year ended December 31, 1997 amounted to \$106.4 million, a decrease of \$42.8 million or 28.7% compared to the \$149.2 million earned in the year ended December 31, 1996. Net income for the year ended December 31, 1995 amounted to \$152.6 million.

(a) 1997 versus 1996

Total insurance revenues, consisting of premiums and policy charges and fee income increased \$3.3 million for the year ended December 31, 1997 to \$379.8 million from \$376.5 million for the year ended December 31, 1996. This increase in insurance revenues consists of an increase of \$5.3 million in policy charges and fee income offset by a decrease in premiums of \$2.0 million. These fluctuations are due to an increased emphasis in the domestic market place on investments in retirement type products, rather than in life insurance protection products. This was partially offset by an increase in premiums for traditional insurance products generated from our Taiwan branch, which has continued its growth throughout 1997.

The Company's consolidated net investment income increased \$12.3 million for the year ended December 31, 1997 to \$259.6 from \$247.3 million for the year ended December 31, 1996. Increase in cash flows from insurance operations and average assets as well as the asset allocation strategies, produced favorable investment results in 1997. Fixed maturity income increased in 1997 due to higher investment returns as a result of a shift to higher yielding securities. Income from short term investments increased because of higher fixed maturity assets available to lend to third parties as part of the Company's securities lending program. Offsetting these increases was a decline in income on the mortgage loan portfolio, a result of declining asset base due to loan prepayments and repayments exceeding origination levels.

Other income increased \$13.0 million for the year ended December 31, 1997 to \$33.8 million from \$20.8 million for the year ended December 31, 1996. This increase is due to an increase in advisory fees attributable to the Discovery Preferred and Discovery Select Separate Account products.

Policyholders' benefits decreased \$7.5 million for the year ended December 31, 1997 to \$179.4 million from \$186.9 million for the year ended December 31, 1996. This decrease is attributable to better mortality experience associated with the Company's products.

Interest credited to policyholders' account balances decreased by \$7.4 million for the year ended December 31, 1997 to \$110.8 million from \$118.2 million for the year ended December 31, 1996. This decrease is primarily attributable to a decrease in interest crediting rates, partially offset by increased fund values due to new sales of Separate Account products.

Other operating costs and expenses increased \$103.7 million for the year ended December 31, 1997 to \$225.7 million compared to \$122.0 million for the year ended December 31, 1996. The increase reflects factors

including the refinement of estimated gross profit margins used to amortize deferred policy acquisition costs (DAC). Favorable mortality experience and reduction in cost of insurance charges contributed to a change in net amortization. Favorable sales in 1997 were a partial offset. Also, increased operating costs resulted from higher sales activity of Discovery Select and Discovery Preferred annuity products, and technological advancements made in annuity processing, customer service, and product development.

Investment Results

The Company's investment portfolio supports its insurance and annuity liabilities and other obligations to customers for which it assumes investment related risks. The portfolio was comprised of total investments amounting to \$3.9 billion at December 31, 1997, versus \$3.5 billion at December 31, 1996. A diversified portfolio of publicly traded bonds, private placement securities, commercial mortgages and equities is managed under strategies intended to maintain optimal asset mix consistent with current and anticipated cash flow requirements of the related obligations. The risk tolerance reflects the Company's aggregate capital position, exposure to business risk, liquidity, and rating agency considerations.

The asset management strategy for the portfolio is set in accordance with an investment policy statement developed and coordinated within The Prudential by the Portfolio Management Group and agreed to by senior management and approved by the Board of Directors. In managing the investment portfolio, the long term objective is to generate favorable investment results through asset/liability management, strategic and tactical asset allocation and asset manager selection based on performance. Asset mix strategies are developed with criteria intended to match asset structure to product liabilities considering the underlying income and return characteristics of investment alternatives, seeking to closely approximate the interest rate sensitivity of the asset portfolio with the estimated interest rate sensitivity of the product liabilities. Other objectives include maintenance of broad diversification across asset classes, issuers and sectors; effective utilization of capital while maintaining liquidity funds believed to be adequate to satisfy cash flow requirements; and achievement of competitive performance. The major categories of invested assets, quality across the portfolio, recent activities to reduce risk and more carefully manage the portfolio are discussed below.

Fixed Maturities

The fixed maturity portfolio is diversified across maturities, sectors and issuers. The Company has classified all publicly traded securities and approximately 50% of privately traded securities as "available for sale" and the remainder of the privately placed fixed maturities as "held to maturity". "Available for sale" securities are carried in the Consolidated Statements of Financial Position at fair value, with unrealized gains and losses (after certain related adjustments) recognized by credits and charges to equity capital. Securities "held to maturity" are carried at amortized cost, and unrealized gains or losses on these securities are not recognized in the financial statements.

At December 31, 1997, the net unrealized capital gains on the "available for sale" fixed maturity portfolio totaled \$37 million compared to \$27 million at December 31, 1996. The increase in the net unrealized gain position is primarily attributable to declining interest rates. The following table details the amortized cost and estimated fair value of the fixed maturity portfolio as of December 31:

	1997			1996		
	Amortized Cost	Estimated Fair Value	Net Unrealized Gains	Amortized Cost	Estimated Fair Value	Net Unrealized Gains
(In Millions)						
Fixed maturities—available for sale						
Publicly traded	\$2,158	\$2,188	\$30	\$1,955	\$1,977	\$22
Privately traded.....	369	376	7	255	260	5
Total Fixed maturities—available for sale.	<u>\$2,527</u>	<u>\$2,564</u>	<u>\$37</u>	<u>\$2,210</u>	<u>\$2,237</u>	<u>\$27</u>
Fixed maturities—held to maturity						
Privately traded.....	339	350	11	406	416	10
Total	<u>\$2,866</u>	<u>\$2,914</u>	<u>\$48</u>	<u>\$2,616</u>	<u>\$2,653</u>	<u>\$37</u>

At December 31, 1997, the Company's holdings of private placement fixed maturities had an estimated fair value totaling \$726.1 million and constituted 25% of total carrying value of fixed maturities. These investments generally offer higher yields than comparable quality public market securities, increase the diversification of the portfolio, and contain more restrictive covenants than public securities. In particular, private placement securities offer greater call protection, a key feature for assets backing longer term guaranteed products.

The private placement fixed maturity portfolio decreased more than \$49 million from year ended December 31, 1996, primarily as a result of prepayment and sales activity relative to 1997 origination levels.

The public fixed maturity portfolio increased from \$2.0 billion at December 31, 1996 to \$2.2 billion at December 31, 1997. Investment grade fixed maturities comprised approximately 94% and 93% of total publicly traded fixed maturities at December 31, 1997 and 1996, respectively.

The Company reviews all fixed maturities quarterly and identifies potential problem assets which require additional monitoring. These assets, while not currently impaired, are believed to present default risk associated with future debt service obligations and are therefore managed more actively.

Mortgage Loans

As of December 31, 1997, the Company's mortgage loan portfolio totaled \$22.8 million, a decrease of \$24.1 million from \$46.9 million as of December 31, 1996. The portfolio is comprised of commercial mortgage loans. The overall decline in the portfolio was a result of maturities, sales and repayments.

The Company monitors the mortgage loan portfolio quarterly and through that process identifies loans which require additional monitoring. Loans with estimated collateral value less than the outstanding loan balances, loans demonstrating characteristics indicative of higher than normal credit risks, are reviewed by management. The underlying collateral values are based upon discounted property cash flow projections or external appraisals.

(b) 1996 versus 1995

Premiums increased by \$9.4 million in 1996 from \$42.1 million in 1995 to \$51.5 million for the same period in 1996. This change is primarily due to increased sales of \$6.2 million related to traditional life insurance products in our Taiwan branch which continued to expand its business throughout 1996.

Policy charges and fee income increased approximately \$5.9 million during the current year as compared to 1995. This is primarily attributable to the increased sales of new variable annuity products and fees earned on policyholder withdrawal and surrender activity.

Other income decreased \$6.2 million for the year ended December 31, 1996 from the year ended December 31, 1995. This decrease is due to a reduction in separate account net gains.

Policyholders' benefits increased \$32.9 million during the current year to \$186.9 million. Approximately \$10 million of this increase is attributable to the mortality costs associated with the Company's products. The additional \$22 million results from the increase in reserves associated with new and existing contracts at December 31, 1996.

Interest credited to policyholders' account balances decreased by \$8.7 million. This decrease is primarily attributable to the decrease in policyholders' account balances due to the Company experiencing increased policyholder withdrawals and slightly lower interest rates.

Other operating expenses decreased \$12.8 million for the year ended December 31, 1996 compared to the same period for 1995. This is attributable to a decrease in the amortization of deferred policy acquisition costs and a company wide initiative to reduce expenses.

2. Liquidity and Capital Resources

The Company's liquidity requirements include the payment of sales commissions and other underwriting expenses and the funding of its contractual obligations for the life insurance and annuity contracts it has in-force. The Company has developed and utilizes a cash flow projection system and regularly performs asset/liability duration matching in the management of its asset and liability portfolios. The Company anticipates funding all its

cash requirements utilizing cash from operations, normal investment maturities and anticipated calls and repayments, consistent with prior years. As of December 31, 1997, the Company's assets included \$2.4 billion of cash, short-term investments and investment grade publicly traded fixed maturity securities that could be liquidated if funds were required.

In order to continue to market life insurance and annuity products, the Company must meet or exceed the statutory capital and surplus requirements of the insurance departments of the states in which it conducts business. Statutory accounting practices differ from generally accepted accounting principles ("GAAP") in two major respects. First, under statutory accounting practices, the acquisition costs of new business are charged to expense, while under GAAP they are amortized over a period of time. Second, under statutory accounting practices, the required additions to statutory reserves for new business in some cases may initially exceed the statutory revenues attributable to such business. These practices result in a reduction of statutory income and surplus at the time of recording new business.

Insurance companies are subject to Risk-Based Capital (RBC) guidelines, monitored by insurance regulatory authorities, that measure the ratio of the Company's statutory equity with certain adjustments ("Adjusted Capital") to its required capital, based on the risk characteristics of its insurance liabilities and investments. Required capital is determined by statutory formulae that consider risks related to the type and quality of invested assets, insurance-related risks associated with the Company's products, interest rate risks, and general business risks. The RBC calculations are intended to assist regulators in measuring the adequacy of the Company's statutory capitalization.

The Company considers RBC implications in its asset/liability management strategies. Each year, the Company conducts a thorough review of the adequacy of statutory insurance reserves and other actuarial liabilities. The review is performed to ensure that the Company's statutory reserves are computed in accordance with accepted actuarial standards, reflect all contractual obligations, meet the requirements of state laws and regulations and include adequate provisions for any other actuarial liabilities that need to be established. All significant reserve changes are reviewed by the Board of Directors and are subject to approval by the Arizona Department of Banking and Insurance. The Company believes that its statutory capital is adequate for its currently anticipated levels of risk as measured by regulatory guidelines.

The National Association of Insurance Commissioners recently approved a series of codified statutory accounting standards for consideration by the various state regulators. Certain of the proposed standards, if adopted by insurance regulatory authorities, could have an impact on the measurement of statutory capital which, in turn, could affect RBC ratios of insurance companies. At the present time, the Company cannot estimate the potential impact of these proposed standards on its RBC position.

3. Risk Management

As a direct subsidiary of Prudential, the Company benefits from the risk management strategies implemented by its parent.

Risk management includes the identification and measurement of various forms of risk, establishment of acceptable risk thresholds, and processes intended to maintain risks within these thresholds while maximizing returns. Prudential considers risk management an integral part of its core businesses.

The risks inherent in the Company's operations include product risk, market risk, credit risk, liquidity risk, and operating risk. These risk categories, and Prudential's strategies relative to each, are discussed below.

Prudential's risk management is centrally controlled through a Corporate Risk Management Unit (CRMU) which sets standards for risk identification, policies and procedures, and limits, as well as standards for measurement and management reporting. CRMU interfaces with the Company's business groups through an enterprise level Financial Controls Council and Enterprise Financial Management Risk Management Committee, as well as through frequent informal meetings. Risk limits are set at multiple levels throughout the Company, with different limits at the desk, portfolio, subsidiary, and enterprise level. Risks are generally managed as close as possible to their origin, subject to review and oversight by CRMU to monitor compliance with established standards. Where appropriate, such as with respect to credit concentration risk and foreign exchange risk, exposures are aggregated and managed at the enterprise level.

Prudential's risk monitoring processes include preparation and review of risk reports on a regular basis, with frequency based on the purpose of the report. For example, desk-level reports are generally produced daily, while portfolio level reports are typically semi-monthly or monthly and high level reports may be quarterly or semi-annually.

Product Risk is the risk of adverse results due to deviation of experience from expected levels reflected in pricing. Prudential, in its insurance and annuity operations, sells traditional and interest sensitive individual insurance products, individual annuity products, a variety of group annuity products, and group life insurance products. Products are priced to reflect the expected levels of risk and to allow a margin for adverse deviation. The level of margins varies with product design and pricing strategy with respect to the targeted market. Prudential seeks to maintain underwriting standards so that premium charged is consistent with risk assumed on an overall basis. Additionally, most of Prudential's policies and contracts allow the Company to adjust credits (via crediting interest rates) and/or charges (in contracts where elements such as mortality and expense charges are not guaranteed), allowing the Company to respond to changes in experience. The competitive environment is an important element in determining pricing elements including premiums, crediting rates and non-guaranteed charges.

Mortality risks, generally inherent in most of the Company's life insurance and annuity products, are incorporated in pricing based on the Company's experience (if available and relevant) or industry experience. Mortality studies are performed periodically to compare the actual incidence of death claims in relation to business in force, to levels assumed in pricing and to industry experience. Expense risk relates to all products and is influenced by management practices as well as general price level changes. Persistency risk represents the risk that the pattern of policy surrenders will deviate from assumed levels so that policies do not remain in force for a sufficient period to allow the Company to recover its acquisition costs. Certain products are designed, by implementation of surrender charges and other features, to discourage early surrenders and thus mitigate this risk to the Company. Periodic studies are performed to compare actual surrender experience to pricing assumptions and industry experience.

Market Risk is the risk of change in value of financial instruments as a result of changes in interest rates, currency exchange rates, and securities market conditions. The Company's asset/liability management strategies provide for targeting of asset durations within specified ranges based on the estimated durations of the associated product liabilities. Portfolio managers are directed to maintain interest rate exposures within the established ranges, which are subject to adjustment based on market conditions and product design. Prudential uses statistical techniques such as duration and convexity analysis to measure price sensitivity to interest rate changes. The Company also performs portfolio stress testing annually as part of its cash flow testing in which various interest-sensitive assumptions (such as asset calls and prepayments and contract persistency) are evaluated under various severe interest rate environments. Any shortfalls revealed by cash flow testing are evaluated to determine whether there is a need to increase statutory reserves or change portfolio management strategies such as alteration of asset duration and/or composition. For fee-based (variable, separate account and mutual fund) products, equity risk is borne primarily by the contractholders rather than the Company (subject to any minimum guarantees). However, in the event of subpar performance, asset based fees will be reduced and competitive factors may impede the Company's ability to cultivate this business.

Credit Risk is the risk that counterparties may default or fail to fully honor contractual obligations and is inherent in investment portfolio asset positions including corporate bonds and mortgages, private placements and other lending-type products, and various investment operations functions. The Company attempts to manage risk associated with customer activities through proprietary credit analysis, establishment of credit limits and by requiring maintenance of margin and/or collateral in compliance with established internal control and regulatory standards.

Liquidity Risk is the risk that the Company will be unable to liquidate positions at a reasonable price in order to meet cash flow requirements under various scenarios. As indicated above, the Company's asset/liability management strategies seek to maintain asset positions that are consistent with the expected cash flow demands associated with its liabilities under various possible situations. Liquidity policies are formally managed at the enterprise level, using various comparisons of asset liquidity to potential liability outflows. Prudential believes that the comparison of its general account net liquidity to individual policy net cash surrender value is key to the periodic evaluation of its ability to meet policyholder claim requirements, and stress tests are utilized to measure the expected liquidity situation under assumed unusual events.

Operating Risk is the risk of potential loss from internal or external events such as mismanagement, fraud, systems breakdowns, business interruption, or failure to satisfy legal or fiduciary responsibilities. All financial institutions, including Prudential, are exposed to the risk of unauthorized activities by employees that are contrary to the internal controls designed to managed such risks. Legal risk may arise from inadequate control over contract documentation, marketing processes, or other operations. Internal controls responsive to regulatory, legal, credit, asset stewardship and other concerns are established at the business unit level for specific lines of business and at the enterprise level for company-wide processes. Controls are monitored by business unit management, internal and external auditors, and by an enterprise level Management Internal Control unit and in certain instances are subject to regulatory review.

Following revelations and negative publicity surrounding the issue of sales practices, Prudential has implemented a strategy to emphasize ethical conduct in the recruitment and training of agents and in the sales process. The Company has also strengthened controls including the establishment of a client acquisition program, in conjunction with the underwriting process, intended to ascertain the appropriateness of insurance coverages sold and mitigate the risk of inappropriate policy replacement activity.

Another aspect of operating risk relates to the Company's ability to conduct transactions electronically and to gather, process, and disseminate information and maintain data integrity and uninterrupted operations given the possibility of unexpected or unusual events. The Company is implementing a business continuation initiative to address these concerns. Considerations relative to the impact of the Year 2000 on computer operations are discussed below.

4. Regulatory Environment

The Company is subject to the laws of the State of Arizona as governing insurance companies and to the regulations of the Arizona Insurance Department (the "Insurance Department"). A detailed financial statement in the prescribed form (the "Annual Statement") is filed with the Insurance Department each year covering the Company's operations for the preceding year and its financial condition as of the end of that year. Regulation by the Insurance Department includes periodic examination to determine contract liabilities and reserves so that the Insurance Department may certify that these items are correct. The Company's books and accounts are subject to review by the Insurance Department at all times. A full examination of the Company's operations is conducted periodically by the Insurance Department and under the auspices of the NAIC.

A triennial financial examination, for the period January 1, 1994 through December 31, 1996, is in progress by the Insurance Department as of December 31, 1997. We have included the effects of items known to date in our Reconciliation of Statutory Surplus on page B-15.

The Company is subject to regulation under the insurance laws of all jurisdictions in which it operates. The laws of the various jurisdictions establish supervisory agencies with broad administrative powers with respect to various matters, including licensing to transact business, overseeing trade practices, licensing agents, approving contract forms, establishing reserve requirements, fixing maximum interest rates on life insurance contract loans and minimum rates for accumulation of surrender values, prescribing the form and content of required financial statements and regulating the type and amounts of investments permitted. The Company is required to file the Annual Statement with supervisory agencies in each of the jurisdictions in which it does business, and its operations and accounts are subject to examination by these agencies at regular intervals.

The NAIC has adopted several regulatory initiatives designed to improve the surveillance and financial analysis regarding the solvency of insurance companies in general. These initiatives include the development and implementation of a risk-based capital formula for determining adequate levels of capital and surplus. Insurance companies are required to calculate their risk-based capital in accordance with this formula and to include the results in their Annual Statement. It is anticipated that these standards will have no significant effect upon the Company.

Although the federal government generally does not directly regulate the business of insurance, federal initiatives often have an impact on the business in a variety of ways. Certain insurance products of the Company are subject to various federal securities laws and regulations. In addition, current and proposed federal measures which may significantly affect the insurance business include regulation of insurance company solvency, employee benefit regulation, removal of barriers preventing banks from engaging in the insurance business, tax law changes affecting the taxation of insurance companies and the tax treatment of insurance products and its impact on the relative desirability of various personal investment vehicles.

5. The Year 2000 Issue

The Company is a direct subsidiary of Prudential; therefore, is impacted by the enterprise focus on the Year 2000 Issue. The Year 2000 issue is best understood as a computer hardware and software problem involving the way dates are stored and processed in computers. Many computer systems are programmed to recognize only the last two digits in a date. As a result, any computer programs that have date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. If this anomaly is not corrected, the year "00" could cause systems to perform date comparisons and calculations incorrectly which could in turn affect the accuracy and compromise the integrity of business records. Business operations could be interrupted when companies are unable to process transactions, send invoices, or engage in similar normal business activities. The Year 2000 issue presents critical business risks for public and private sector entities across the globe .

Prudential identified the Year 2000 issue as a critical priority in 1995 and established a Company-wide Program Office (CPO) to develop and coordinate an operating framework for the Year 2000 compliance activities. The CPO assessed potential business impact, identified software and hardware components that will require upgrading, renovating, or replacing, and developed a strategy for renovation, replacement or retirement of all affected business applications. The initial assessment, completed in 1995, provided an estimate of the magnitude of the project and necessary resources.

Prudential's CPO has established quality assurance procedures including a certification process to monitor and evaluate enterprise-wide conversion and upgrading of systems for Year 2000 compliance. Prudential is utilizing both internal and external resources to reprogram or replace and test software. Prudential plans to complete its adaptation, testing and certification of software for Year 2000 compliance by December 31, 1998 and to conduct additional testing pertaining to the securities industry (in a scheduled industry-wide effort) as well as complete its "business partner" analysis and contingency planning during 1999. Prudential believes that it is well positioned to achieve the necessary modifications and mitigate the Year 2000 risks.

Prudential has commenced contacting and communicating formally with major suppliers and customers, including brokers, vendors, health care providers, and institutions that pass electronic information to Prudential, to determine the significance of the potential exposure that could result from their failure to achieve Year 2000 compliance on a timely basis.

While, as indicated above, Prudential believes that it is well positioned to mitigate its Year 2000 issue, this issue by its nature carries the risk of unforeseen problems of internal or external origin. There can be no assurance that the required systems modifications will be completed in accordance with current estimates of timing and cost, or that the systems of other companies with which some of Prudential's systems interface will be converted on a timely and compatible basis. In the event that the required adaptations to mitigate the Year 2000 issue are not completed on a timely basis, this issue could have a material adverse impact on the Company's operations. The discussion of the Year 2000 issue herein, and in particular the Company's plans to remediate this issue and estimated costs thereof, are forward-looking in nature. See cautionary statement below relating to forward-looking statements.

6. Information Concerning Forward-Looking Statements

Certain of the statements contained in Management's Discussion and Analysis may be considered forward-looking statements. Words such as "expects," "believes," "anticipates," "intends," "plans," or variations of such words are generally part of forward-looking statements. Forward-looking statements are made based upon management's current expectations and beliefs concerning future developments and their potential effects upon the Company. There can be no assurance that future developments affecting the Company will be those anticipated by management. There are certain important factors that could cause actual results to differ materially from estimates or expectations reflected in such forward-looking statements including without limitation, changes in general economic conditions, including the performance of financial markets and interest rates; market acceptance of new products and distribution channels; competitive, regulatory or tax changes that affect the cost or demand for the Company's products; and adverse litigation results. While the Company reassesses material trends and uncertainties affecting its financial condition and results of operations, it does not intend to review or revise any particular forward-looking statement referenced in this Management's Discussion and Analysis in light of future events. The information referred to above should be considered by readers when reviewing any forward-looking statements contained in this Management's Discussion and Analysis.

DIRECTORS AND OFFICERS

The directors and major officers of Pruco Life, listed with their principal occupations during the past 5 years, are shown below.

DIRECTORS OF PRUCO LIFE

JAMES J. AVERY, JR., *Chairman and Director* — Senior Vice President, Chief Actuary and CFO, Prudential Individual Insurance since 1997; 1995 to 1997: President, Prudential Select; 1993 to 1995: Chief Operating Officer, Prudential Select. Age 46.

WILLIAM M. BETHKE, *Director* — Chief Investment Officer since 1997; 1992 to 1997: President, Prudential Capital Markets Group. Age 51.

IRA J. KLEINMAN, *Director* — Executive Vice President, International Insurance Group since 1997; 1995 to 1997: Chief Marketing and Product Development Officer, Prudential Individual Insurance Group; 1993 to 1995: President, Prudential Select. Age 51.

MENDEL A. MELZER, *Director* — Chief Investment Officer, Mutual Funds and Annuities, Prudential Investments since 1996; 1995 to 1996: Chief Financial Officer of the Money Management Group of Prudential; 1993 to 1995: Senior Vice President and Chief Financial Officer of Prudential Preferred Financial Services. Age 37.

ESTHER H. MILNES, *President and Director* — Vice President and Actuary, Prudential Individual Insurance Group since 1996; 1993 to 1996: Senior Vice President and Chief Actuary, Prudential Insurance and Financial Services. Age 47.

I. EDWARD PRICE, *Vice Chairman and Director* — Senior Vice President and Actuary, Prudential Individual Insurance Group since 1995; 1994 to 1995: Chief Executive Officer, Prudential International Insurance; 1993 to 1994: President, Prudential International Insurance. Age 55.

KIYOFUMI SAKAGUCHI, *Director* — President, Prudential International Insurance Group since 1995; 1994 to 1995: Chairman and Chief Executive Officer, The Prudential Life Insurance Company., Ltd.; Prior to 1994: President and Chief Executive Officer, Asia Pacific Region — Prudential International Insurance and President, The Prudential Life Insurance Co., Ltd. Age 55.

OFFICERS WHO ARE NOT DIRECTORS

SUSAN L. BLOUNT, *Secretary* — Vice President and Secretary of Prudential since 1995; Prior to 1995: Assistant General Counsel for Prudential Residential Services Company. Age 40.

C. EDWARD CHAPLIN, *Treasurer* — Vice President and Treasurer of Prudential since 1995; 1993 to 1995: Managing Director and Assistant Treasurer of Prudential. Age 41.

JAMES C. DROZANOWSKI, *Senior Vice President* — Vice President and Operations Executive, Prudential Individual Insurance Group since 1996; 1995 to 1996: President, Credit Card Division, Chase Manhattan Bank; Prior to 1995: Chase Manhattan Bank. Age 55.

CLIFFORD E. KIRSCH, *Chief Legal Officer* — Chief Counsel, Variable Products, Law Department of Prudential since 1995; 1994 to 1995: Associate General Counsel with PaineWebber; Prior to 1994: Assistant Director in the Division of Investment Management with the Securities and Exchange Commission. Age 38.

FRANK P. MARINO, *Senior Vice President* — Vice President, Policyowner Relations Department, Prudential Individual Insurance Group since 1996; Prior to 1996: Senior Vice President, Prudential Mutual Fund Services. Age 53.

EDWARD A. MINOGUE, *Senior Vice President* — Vice President, Annuity Services, Prudential Investments since 1997; Prior to 1997: Director, Merrill Lynch. Age 55.

JAMES M. SCHLOMANN, *Vice President, Comptroller & Chief Accounting Officer* — Vice President & Associate Comptroller, Prudential, since 1997; Prior to 1997: Senior Executive Vice President & CFO, USLife Corp. Age 49.

SHIRLEY H. SHAO, *Senior Vice President and Chief Actuary* — Vice President and Associate Actuary, Prudential. Age 43.

JAMES A. TIGNANELLI, *Senior Vice President* — Vice President, Compliance, Prudential Individual Insurance since 1996; Prior to 1996: Vice President Field Operations. Age 45.

The business address of all directors and officers of Pruco Life is 213 Washington Street, Newark, New Jersey 07102-2992.

EXECUTIVE COMPENSATION

Executive Officers of Pruco Life may also serve one or more affiliated companies of Pruco Life. Allocations have been made as to each individual's time devoted to his duties as an executive officer of Pruco Life and its subsidiaries. The following table shows the compensation paid, based on these allocations, to the executive officers for services rendered in all capacities to Pruco Life and its subsidiaries during 1996. With the exception of the President, only officers receiving compensation in excess of \$100,000 per year are shown in the table below. Directors of Pruco Life who are also employees of Prudential do not receive compensation in addition to their compensation as employees of Prudential.

Name & Principal Position	Year	Salary	Bonus	Other Annual Compensation
Esther H. Milnes President	1996	\$18,660	\$21,398	\$0
	1995	\$18,058	\$12,136	\$0
	1994	\$17,158	\$ 8,384	\$0

**FINANCIAL STATEMENTS OF
THE DISCOVERY PREFERRED VARIABLE ANNUITY SUBACCOUNTS OF
THE PRUCO LIFE FLEXIBLE PREMIUM VARIABLE ANNUITY ACCOUNT**

STATEMENTS OF NET ASSETS

December 31, 1997

	SUBACCOUNTS				
	Money Market	Diversified Bond	High Yield Bond	Conservative Balanced	Stock Index
ASSETS					
Investment in shares of the Prudential Series Fund, Inc. Portfolios at net asset value [Note 3]	\$ 108,469,140	\$ 123,549,074	\$ 135,375,741	\$ 128,284,895	\$ 223,656,238
Receivable from Pruco Life Insurance Company [Note 2]	0	0	0	0	0
Net Assets	<u>\$ 108,469,140</u>	<u>\$ 123,549,074</u>	<u>\$ 135,375,741</u>	<u>\$ 128,284,895</u>	<u>\$ 223,656,238</u>
NET ASSETS, representing:					
Equity of Contract owners	\$ 104,823,850	\$ 121,274,610	\$ 132,388,354	\$ 127,978,296	\$ 220,483,373
Equity of Pruco Life Insurance Company	3,645,290	2,274,464	2,987,387	306,599	3,172,865
	<u>\$ 108,469,140</u>	<u>\$ 123,549,074</u>	<u>\$ 135,375,741</u>	<u>\$ 128,284,895</u>	<u>\$ 223,656,238</u>

STATEMENTS OF OPERATIONS

For the year ended December 31, 1997

	SUBACCOUNTS				
	Money Market	Diversified Bond	High Yield Bond	Conservative Balanced	Stock Index
INVESTMENT INCOME					
Dividend distributions received	\$ 3,793,893	\$ 5,091,552	\$ 7,551,413	\$ 5,207,459	\$ 1,851,761
EXPENSES					
Charges to Contract owners for assuming mortality risk and expense risk and for administration [Notes 5A and 5B]	988,032	789,342	908,728	1,463,435	1,404,070
NET INVESTMENT INCOME (LOSS)	<u>2,805,861</u>	<u>4,302,210</u>	<u>6,642,685</u>	<u>3,744,024</u>	<u>447,691</u>
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS					
Capital gains distributions received	0	990,026	0	13,469,999	5,729,265
Realized gain (loss) on shares redeemed [average cost basis]	0	10,366	1,679	20,447	167,995
Net change in unrealized gain (loss) on investments	0	(1,646,356)	725,780	(5,811,630)	16,247,474
NET GAIN (LOSS) ON INVESTMENTS	<u>0</u>	<u>(645,964)</u>	<u>727,459</u>	<u>7,678,816</u>	<u>22,144,734</u>
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	<u>\$ 2,805,861</u>	<u>\$ 3,656,246</u>	<u>\$ 7,370,144</u>	<u>\$ 11,422,840</u>	<u>\$ 22,592,425</u>

SEE NOTES TO FINANCIAL STATEMENTS ON PAGES A7 THROUGH A12

SUBACCOUNTS (Continued)

<u>Equity Income</u>	<u>Equity</u>	<u>Prudential Jennison</u>	<u>Flexible Managed</u>	<u>Small Capitalization Stock</u>	<u>Global</u>	<u>Natural Resources</u>
\$ 224,623,347	\$ 332,630,396	\$ 158,244,016	\$ 78,554,389	\$ 26,233,684	\$ 42,307,417	\$ 9,523,777
0	0	0	0	185,104	0	12,321
<u>\$ 224,623,347</u>	<u>\$ 332,630,396</u>	<u>\$ 158,244,016</u>	<u>\$ 78,554,389</u>	<u>\$ 26,418,788</u>	<u>\$ 42,307,417</u>	<u>\$ 9,536,098</u>
\$ 220,974,113	\$ 327,647,055	\$ 155,433,519	\$ 78,267,122	\$ 26,418,788	\$ 41,540,966	\$ 9,536,098
3,649,234	4,983,341	2,810,497	287,267	0	766,451	0
<u>\$ 224,623,347</u>	<u>\$ 332,630,396</u>	<u>\$ 158,244,016</u>	<u>\$ 78,554,389</u>	<u>\$ 26,418,788</u>	<u>\$ 42,307,417</u>	<u>\$ 9,536,098</u>

SUBACCOUNTS (Continued)

<u>Equity Income</u>	<u>Equity</u>	<u>Prudential Jennison</u>	<u>Flexible Managed</u>	<u>Small Capitalization Stock</u>	<u>Global</u>	<u>Natural Resources</u>
\$ 2,611,995	\$ 4,755,494	\$ 188,376	\$ 2,017,213	\$ 133,183	\$ 400,453	\$ 51,032
1,188,795	2,490,175	1,065,105	868,122	275,689	375,611	134,314
<u>1,423,200</u>	<u>2,265,319</u>	<u>(876,729)</u>	<u>1,149,091</u>	<u>(142,506)</u>	<u>24,842</u>	<u>(83,282)</u>
17,500,207	15,719,756	8,181,395	11,461,827	1,817,976	1,856,846	1,144,483
6,173	(636)	61,502	21,889	73,418	46,693	(42,912)
<u>3,805,126</u>	<u>13,608,394</u>	<u>9,311,718</u>	<u>(3,555,977)</u>	<u>2,438,918</u>	<u>(1,676,026)</u>	<u>(2,419,331)</u>
<u>21,311,506</u>	<u>29,327,514</u>	<u>17,554,615</u>	<u>7,927,739</u>	<u>4,330,312</u>	<u>227,513</u>	<u>(1,317,760)</u>
<u>\$ 22,734,706</u>	<u>\$ 31,592,833</u>	<u>\$ 16,677,886</u>	<u>\$ 9,076,830</u>	<u>\$ 4,187,806</u>	<u>\$ 252,355</u>	<u>\$ (1,401,042)</u>

SEE NOTES TO FINANCIAL STATEMENTS ON PAGES A7 THROUGH A12

**FINANCIAL STATEMENTS OF
THE DISCOVERY PREFERRED VARIABLE ANNUITY SUBACCOUNTS OF
THE PRUCO LIFE FLEXIBLE PREMIUM VARIABLE ANNUITY ACCOUNT**

STATEMENTS OF CHANGES IN NET ASSETS
For the years ended December 31, 1997 and 1996

	SUBACCOUNTS			
	Money Market		Diversified Bond	
	1997	1996	1997	1996
OPERATIONS:				
Net investment income (loss)	\$ 2,805,861	\$ 489,952	\$ 4,302,210	\$ 907,041
Capital gains distributions received	0	0	990,026	0
Realized gain (loss) on shares redeemed [average cost basis]	0	0	10,366	(25,544)
Net change in unrealized gain (loss) on investments	0	0	(1,646,356)	(230,889)
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	<u>2,805,861</u>	<u>489,952</u>	<u>3,656,246</u>	<u>650,608</u>
NET INCREASE IN NET ASSETS RESULTING FROM PREMIUM PAYMENTS AND OTHER OPERATING TRANSFERS [Note 7]	<u>65,086,593</u>	<u>36,320,424</u>	<u>93,630,245</u>	<u>23,222,899</u>
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM EQUITY TRANSFERS [Note 8]	<u>(380,562)</u>	<u>4,002,463</u>	<u>196,097</u>	<u>2,173,627</u>
TOTAL INCREASE IN NET ASSETS	67,511,892	40,812,839	97,482,588	26,047,134
NET ASSETS:				
Beginning of year	40,957,248	144,409	26,066,486	19,352
End of year	<u>\$108,469,140</u>	<u>\$ 40,957,248</u>	<u>\$123,549,074</u>	<u>\$ 26,066,486</u>

SEE NOTES TO FINANCIAL STATEMENTS ON PAGES A7 THROUGH A12

SUBACCOUNTS (Continued)

High Yield		Conservative Balanced		Stock Index		Equity Income	
1997	1996	1997	1996	1997	1996	1997	1996
\$ 6,642,685	\$ 1,210,786	\$ 3,744,024	\$ 1,788,937	\$ 447,691	\$ 144,890	\$ 1,423,200	\$ 507,514
0	0	13,469,999	4,297,251	5,729,265	199,451	17,500,207	751,896
1,679	1,894	20,447	0	167,995	0	6,173	0
<u>725,780</u>	<u>(588,812)</u>	<u>(5,811,630)</u>	<u>(1,627,153)</u>	<u>16,247,474</u>	<u>529,306</u>	<u>3,805,126</u>	<u>1,523,505</u>
<u>7,370,144</u>	<u>623,868</u>	<u>11,422,840</u>	<u>4,459,035</u>	<u>22,592,425</u>	<u>873,647</u>	<u>22,734,706</u>	<u>2,782,915</u>
<u>102,073,217</u>	<u>22,289,699</u>	<u>42,377,538</u>	<u>69,714,258</u>	<u>174,904,278</u>	<u>22,208,546</u>	<u>170,508,615</u>	<u>25,008,509</u>
<u>(95,489)</u>	<u>3,094,028</u>	<u>(1,435,104)</u>	<u>1,655,314</u>	<u>945,791</u>	<u>2,131,551</u>	<u>2,106,180</u>	<u>1,395,127</u>
<u>109,347,872</u>	<u>26,007,595</u>	<u>52,365,274</u>	<u>75,828,607</u>	<u>198,442,494</u>	<u>25,213,744</u>	<u>195,349,501</u>	<u>29,186,551</u>
<u>26,027,869</u>	<u>20,274</u>	<u>75,919,621</u>	<u>91,014</u>	<u>25,213,744</u>	<u>0</u>	<u>29,273,846</u>	<u>87,295</u>
<u>\$135,375,741</u>	<u>\$ 26,027,869</u>	<u>\$128,284,895</u>	<u>\$ 75,919,621</u>	<u>\$223,656,238</u>	<u>\$ 25,213,744</u>	<u>\$224,623,347</u>	<u>\$ 29,273,846</u>

SEE NOTES TO FINANCIAL STATEMENTS ON PAGES A7 THROUGH A12

**FINANCIAL STATEMENTS OF
THE DISCOVERY PREFERRED VARIABLE ANNUITY SUBACCOUNTS OF
THE PRUCO LIFE FLEXIBLE PREMIUM VARIABLE ANNUITY ACCOUNT**

STATEMENTS OF CHANGES IN NET ASSETS
For the years ended December 31, 1997 and 1996

	SUBACCOUNTS			
	Equity		Prudential Jennison	
	1997	1996	1997	1996
OPERATIONS:				
Net investment income (loss)	\$ 2,265,319	\$ 890,946	\$ (876,729)	\$ (126,843)
Capital gains distributions received	15,719,756	6,017,025	8,181,395	0
Realized gain (loss) on shares redeemed [average cost basis]	(636)	0	61,502	4,129
Net change in unrealized gain (loss) on investments	13,608,394	(1,007,503)	9,311,718	1,748,413
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	<u>31,592,833</u>	<u>5,900,468</u>	<u>16,677,886</u>	<u>1,625,699</u>
NET INCREASE IN NET ASSETS RESULTING FROM PREMIUM PAYMENTS AND OTHER OPERATING TRANSFERS [Note 7]	<u>216,685,608</u>	<u>73,501,350</u>	<u>106,948,114</u>	<u>30,279,548</u>
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM EQUITY TRANSFERS [Note 8]	<u>1,258,567</u>	<u>3,437,427</u>	<u>906,990</u>	<u>1,734,655</u>
TOTAL INCREASE IN NET ASSETS	249,537,008	82,839,245	124,532,990	33,639,902
NET ASSETS:				
Beginning of year	83,093,388	254,143	33,711,026	71,124
End of year	<u>\$332,630,396</u>	<u>\$ 83,093,388</u>	<u>\$158,244,016</u>	<u>\$ 33,711,026</u>

SEE NOTES TO FINANCIAL STATEMENTS ON PAGES A7 THROUGH A12

SUBACCOUNTS (Continued)

Flexible Managed		Small Capitalization Stock		Global		Natural Resources	
1997	1996	1997	1996	1997	1996	1997	1996
\$ 1,149,091	\$ 674,369	\$ (142,506)	\$ (14,414)	\$ 24,842	\$ 58,105	\$ (83,282)	\$ (5,672)
11,461,827	3,579,046	1,817,976	228,169	1,856,846	207,745	1,144,483	681,465
21,889	(13,304)	73,418	7,077	46,693	6,038	(42,912)	(499)
(3,555,977)	(1,657,410)	2,438,918	817,819	(1,676,026)	796,437	(2,419,331)	(266,531)
<u>9,076,830</u>	<u>2,582,701</u>	<u>4,187,806</u>	<u>1,038,651</u>	<u>252,355</u>	<u>1,068,325</u>	<u>(1,401,042)</u>	<u>408,763</u>
<u>27,340,059</u>	<u>39,209,425</u>	<u>9,227,237</u>	<u>11,896,686</u>	<u>27,107,692</u>	<u>13,112,774</u>	<u>4,462,849</u>	<u>6,069,080</u>
<u>(748,937)</u>	<u>1,006,111</u>	<u>(368,443)</u>	<u>362,054</u>	<u>96,919</u>	<u>646,280</u>	<u>(157,213)</u>	<u>143,039</u>
35,667,952	42,798,237	13,046,600	13,297,391	27,456,966	14,827,379	2,904,594	6,620,882
42,886,437	88,200	13,372,188	74,797	14,850,451	23,072	6,631,504	10,622
<u>\$ 78,554,389</u>	<u>\$ 42,886,437</u>	<u>\$ 26,418,788</u>	<u>\$ 13,372,188</u>	<u>\$ 42,307,417</u>	<u>\$ 14,850,451</u>	<u>\$ 9,536,098</u>	<u>\$ 6,631,504</u>

SEE NOTES TO FINANCIAL STATEMENTS ON PAGES A7 THROUGH A12

**NOTES TO FINANCIAL STATEMENTS OF
THE DISCOVERY PREFERRED VARIABLE ANNUITY SUBACCOUNTS OF
THE PRUCO LIFE FLEXIBLE PREMIUM VARIABLE ANNUITY ACCOUNT
For the Year Ended December 31, 1997**

Note 1: General

Pruco Life Flexible Premium Variable Annuity Account ("the Account") was established on June 16, 1995 under Arizona law as a separate investment account of Pruco Life Insurance Company ("Pruco Life") which is a wholly-owned subsidiary of The Prudential Insurance Company of America ("Prudential"). The assets of the Account are segregated from Pruco Life's other assets. Proceeds from purchases of Discovery Preferred Variable Annuity Contracts ("Discovery Preferred") and Discovery Select Variable Annuity Contracts ("Discovery Select") are invested in the Account.

The Account is registered under the Investment Company Act of 1940, as amended, as a unit investment trust. There are twenty-three subaccounts within the Account. Discovery Preferred Contracts offer the option to invest in twelve of these subaccounts, each a corresponding portfolio of the Prudential Series Fund, Inc. (the "Series Fund"). The Series Fund is a diversified open-end management investment company, and is managed by Prudential.

Note 2: Significant Accounting Policies

The financial statements are prepared in conformity with generally accepted accounting principles (GAAP). The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

Investments—The investments in shares of the Series Fund or non-Prudential administered funds are stated at the net asset value of the respective portfolio.

Security Transactions—Realized gains and losses on security transactions are reported on an average cost basis. Purchase and sale transactions are recorded as of the trade date of the security being purchased or sold.

Distributions Received—Dividend and capital gain distributions received are reinvested in additional shares of the Series Fund or non-Prudential administered funds and are recorded on the ex-dividend date.

Equity of Pruco Life Insurance Company—Pruco Life maintains a position in the Account for liquidity purposes including unit purchases and redemptions, fund share transactions, and expense processing. Pruco Life monitors the balance daily and transfers funds based upon anticipated activity. At times, Pruco Life may owe an amount to the Account, which is reflected in the Account's Statements of Net Assets as a receivable from Pruco Life. The receivable does not have an effect on the Contract owner's account or the related unit value.

Note 3: Investment Information for The Prudential Series Fund, Inc. Portfolios

The net asset value per share for each portfolio of the Series Fund, the number of shares of each portfolio held by the subaccounts of the Account and the aggregate cost of investments in such shares at December 31, 1997 were as follows:

	PORTFOLIOS				
	<u>Money Market</u>	<u>Diversified Bond</u>	<u>High Yield Bond</u>	<u>Stock Index</u>	<u>Equity Income</u>
Number of Shares:	10,846,914	11,209,468	16,621,677	7,401,043	10,033,485
Net asset value per share:	\$ 10.00000	\$ 11.02185	\$ 8.14453	\$ 30.21956	\$ 22.38737
Cost:	\$108,469,140	\$125,426,423	\$135,239,532	\$206,879,458	\$219,295,111

	PORTFOLIOS (Continued)				
	<u>Equity</u>	<u>Prudential Jennison</u>	<u>Global</u>	<u>Flexible Managed</u>	<u>Conservative Balanced</u>
Number of Shares:	10,706,152	8,924,453	2,360,447	4,545,895	8,569,339
Net asset value per share:	\$ 31.06909	\$ 17.73151	\$ 17.92348	\$ 17.28029	\$ 14.97022
Cost:	\$320,026,479	\$147,183,126	\$ 43,187,266	\$ 83,767,801	\$135,723,567

	PORTFOLIOS (Continued)	
	<u>Natural Resources</u>	<u>Small Capitalization Stock</u>
Number of Shares:	624,745	1,646,703
Net asset value per share:	\$ 15.24426	\$ 15.93104
Cost:	\$ 12,209,542	\$ 22,976,288

Note 4: Contract Owner Unit Information

Outstanding Contract owner units, unit values and total value of Contract owner equity at December 31, 1997 were as follows:

	SUBACCOUNTS				
	Money Market	Diversified Bond	High Yield Bond	Conservative Balanced	Stock Index
Contract Owner Units Outstanding (Discovery Preferred)	15,611,316.006	23,100,623.341	20,140,820.165	100,006,482.765	32,430,921.902
Unit Value (Discovery Preferred)	\$ 1.08688	\$ 1.13525	\$ 1.25972	\$ 1.27970	\$ 1.48876
Contract Owner Equity (Discovery Preferred)	\$ 16,967,627	\$ 26,224,983	\$ 25,371,794	\$ 127,978,296	\$ 48,281,859
Contract Owner Units Outstanding (Discovery Select)	80,833,415.276	83,725,722.943	84,952,656.068	N/A	115,667,745.942
Unit Value (Discovery Select)	\$ 1.08688	\$ 1.13525	\$ 1.25972	N/A	\$ 1.48876
Contract Owner Equity (Discovery Select)	\$ 87,856,223	\$ 95,049,627	\$ 107,016,560	N/A	\$ 172,201,514
Total Contract Owner Equity	\$ 104,823,850	\$ 121,274,610	\$ 132,388,354	\$ 127,978,296	\$ 220,483,373

	SUBACCOUNTS (Continued)				
	Equity Income	Equity	Prudential Jennison	Flexible Managed	Small Capitalization Stock
Contract Owner Units Outstanding (Discovery Preferred)	33,449,894.551	85,666,590.098	32,664,271.245	58,333,424.223	17,448,278.819
Unit Value (Discovery Preferred)	\$ 1.66167	\$ 1.48518	\$ 1.48006	\$ 1.34172	\$ 1.51412
Contract Owner Equity (Discovery Preferred)	\$ 55,582,686	\$ 127,230,306	\$ 48,345,081	\$ 78,267,122	\$ 26,418,788
Contract Owner Units Outstanding (Discovery Select)	99,533,256.833	134,944,416.513	72,354,119.265	N/A	N/A
Unit Value (Discovery Select)	\$ 1.66167	\$ 1.48518	\$ 1.48006	N/A	N/A
Contract Owner Equity (Discovery Select)	\$ 165,391,427	\$ 200,416,749	\$ 107,088,438	N/A	N/A
Total Contract Owner Equity	\$ 220,974,113	\$ 327,647,055	\$ 155,433,519	\$ 78,267,122	\$ 26,418,788

	SUBACCOUNTS (Continued)	
	Global	Natural Resources
Contract Owner Units Outstanding (Discovery Preferred)	14,368,133.962	7,969,661.019
Unit Value (Discovery Preferred)	\$ 1.26079	\$ 1.19655
Contract Owner Equity (Discovery Preferred)	\$ 18,115,200	\$ 9,536,098
Contract Owner Units Outstanding (Discovery Select)	18,580,228.224	N/A
Unit Value (Discovery Select)	\$ 1.26079	N/A
Contract Owner Equity (Discovery Select)	\$ 23,425,766	N/A
Total Contract Owner Equity	\$ 41,540,966	\$ 9,536,098

Note 5: Charges and Expenses**A. Mortality Risk and Expense Risk Charges**

The mortality risk and expense risk charges at an effective annual rate of 1.25% are applied daily against the net assets representing equity of Discovery Preferred and Discovery Select Contract owners held in each subaccount. Mortality risk is that Annuitants may live longer than estimated and expense risk is that the cost of issuing and administering the policies may exceed the estimated expenses. For 1997, the amount of these charges, pertaining to the twenty three subaccounts within the Account, paid to Pruco Life for Discovery Preferred was \$6,054,227 and for Discovery Select was \$8,354,029.

B. Administration Charges

The administration charge at an effective annual rate of .15% is applied daily against the net assets representing equity of Discovery Preferred and Discovery Select Contract owners held in each subaccount. Administration charges include costs associated with issuing the Contract, establishing and maintaining records, and providing reports to Contract owners. For 1997, the amount of these charges, pertaining to the twenty three subaccounts within the Account, paid to Pruco Life for Discovery Preferred was \$730,469 and for Discovery Select was \$1,007,951.

C. Withdrawal Charge

A withdrawal charge may be made upon full or partial Contract owner redemptions. The charge compensates Pruco Life for paying all of the expenses of selling and distributing the Contracts, including sales commissions, printing of prospectuses, sales administration, preparation of sales literature, and other promotional activities. No withdrawal charge is imposed whenever earnings are withdrawn. For 1997 the amount of these charges, pertaining to the twenty three subaccounts within the Account, paid to Pruco Life for Discovery Preferred was \$537,912 and for Discovery Select was \$341,614.

Note 6: Taxes

Pruco Life is taxed as a "life insurance company" as defined by the Internal Revenue Code and the results of operations of the Account form a part of Pruco Life's consolidated federal tax return. Under current federal law, no federal income taxes are payable by the Account. As such, no provision for tax liability has been recorded in these financial statements.

Note 7: Net Increase (Decrease) in Net Assets Resulting from Premium Payments and Other Operating Transfers

The following amounts represent components of Contract owner activity for the year ended December 31, 1997:

	<u>SUBACCOUNTS</u>				
	<u>Money Market</u>	<u>Diversified Bond</u>	<u>High Yield Bond</u>	<u>Conservative Balanced</u>	<u>Stock Index</u>
Contract Owner Net Payments	\$156,368,031	\$ 90,502,554	\$102,025,301	\$ 46,469,062	\$166,375,561
Surrenders, Withdrawals, and Death Benefits	\$ (3,412,599)	\$ (2,186,522)	\$ (3,019,258)	\$ (4,986,021)	\$ (2,434,104)
Net Transfers From (To) Other Subaccounts or					
Fixed Rate Options	\$ (87,867,187)	\$ 5,316,673	\$ 3,069,977	\$ 894,497	\$ 10,967,240
Administrative and Other Charges	\$ (1,652)	\$ (2,460)	\$ (2,803)	\$ 0	\$ (4,419)

	<u>SUBACCOUNTS (Continued)</u>				
	<u>Equity Income</u>	<u>Equity</u>	<u>Prudential Jennison</u>	<u>Flexible Managed</u>	<u>Small Capitalization Stock</u>
Contract Owner Net Payments	\$162,528,106	\$211,729,155	\$100,500,489	\$ 29,250,196	\$ 8,093,205
Surrenders, Withdrawals, and Death Benefits	\$ (3,079,806)	\$ (6,549,765)	\$ (2,888,488)	\$ (2,715,711)	\$ (837,394)
Net Transfers From (To) Other Subaccounts or					
Fixed Rate Options	\$ 11,062,157	\$ 11,511,987	\$ 9,339,671	\$ 805,624	\$ 1,971,426
Administrative and Other Charges	\$ (1,842)	\$ (5,769)	\$ (3,558)	\$ (50)	\$ 0

	<u>SUBACCOUNTS (Continued)</u>	
	<u>Global</u>	<u>Natural Resources</u>
Contract Owner Net Payments	\$ 25,739,457	\$ 4,893,527
Surrenders, Withdrawals, and Death Benefits	\$ (977,710)	\$ (270,519)
Net Transfers From (To) Other Subaccounts or		
Fixed Rate Options	\$ 2,346,713	\$ (160,159)
Administrative and Other Charges	\$ (768)	\$ 0

Note 8: Net Increase (Decrease) in Net Assets Resulting from Equity Transfers

The increase (decrease) in net assets resulting from equity transfers represents the net contributions (withdrawals) of Pruco Life to (from) the Account.

Note 9: Unit Activity

Transactions in units (including transfers among subaccounts) for the year ended December 31, 1997 were as follows:

	SUBACCOUNTS				
	Money Market	Diversified Bond	High Yield Bond	Conservative Balanced	Stock Index
Contract Owner Contributions:	65,831,878.542	86,785,364.670	87,620,835.950	39,570,760.720	130,289,809.730
Contract Owner Redemptions:	(4,748,605.740)	(2,529,033.040)	(2,939,880.110)	4,380,378.260	(2,545,104.000)

	SUBACCOUNTS (Continued)				
	Equity Income	Equity	Prudential Jennison	Flexible Managed	Small Capitalization Stock
Contract Owner Contributions:	113,122,809.290	160,533,737.490	79,878,499.050	24,378,892.020	7,528,116.020
Contract Owner Redemptions:	(2,711,089.770)	(5,825,559.670)	(2,874,850.950)	(2,340,760.840)	(669,602.740)

	SUBACCOUNTS (Continued)	
	Global	Natural Resources
Contract Owner Contributions:	22,201,104.720	3,502,032.260
Contract Owner Redemptions:	(1,082,051.220)	(245,665.210)

Note 10: Purchases and Sales of Investments

The aggregate costs of purchases and proceeds from sales of investments in the Series Fund were as follows:

	PORTFOLIOS				
	Money Market	Diversified Bond	High Yield Bond	Conservative Balanced	Stock Index
For the year ended December 31, 1997					
Purchases	\$ 78,132,000	\$ 93,601,000	\$101,169,000	\$ 39,890,000	\$175,788,000
Sales	\$ (14,414,000)	\$ (564,000)	\$ (100,000)	\$ (411,000)	\$ (1,342,000)

	PORTFOLIOS (Continued)				
	Equity Income	Equity	Prudential Jennison	Flexible Managed	Small Capitalization Stock
For the year ended December 31, 1997					
Purchases	\$171,458,000	\$215,677,000	\$107,353,000	\$ 26,033,000	\$ 9,096,000
Sales	\$ (32,000)	\$ (223,000)	\$ (563,000)	\$ (310,000)	\$ (698,000)

	PORTFOLIOS (Continued)	
	Global	Natural Resources
For the year ended December 31, 1997		
Purchases	\$ 27,278,000	\$ 4,844,000
Sales	\$ (449,000)	\$ (685,000)

Report of Independent Accountants

To the Contract Owners of the
Discovery Preferred Variable Annuity Subaccounts of
Pruco Life Flexible Premium Variable Annuity Account
and the Board of Directors of
Pruco Life Insurance Company

In our opinion, the accompanying statements of net assets and the related statements of operations and of changes in net assets present fairly, in all material respects, the financial position of the Money Market, Diversified Bond, High Yield Bond, Conservative Balanced, Stock Index, Equity Income, Equity, Prudential Jennison, Flexible Managed, Small Capitalization Stock, Global and Natural Resources Subaccounts of the Pruco Life Flexible Premium Variable Annuity Account at December 31, 1997, the results of each of their operations for the years then ended and the changes in each of their net assets for each of the two years in the period then ended, in conformity with generally accepted accounting principles. These financial statements are the responsibility of Pruco Life Insurance Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of shares owned in The Prudential Series Fund, Inc. at December 31, 1997, provide a reasonable basis for the opinion expressed above.

PRICE WATERHOUSE LLP
New York, New York
March 20, 1998

Pruco Life Insurance Company and Subsidiaries

Consolidated Statements of Financial Position December 31, 1997 and 1996 (In Thousands)

	1997	1996
ASSETS		
Fixed maturities		
Available for sale, at fair value (amortized cost, 1997: \$2,526,554; 1996: \$2,210,150)	\$ 2,563,852	\$ 2,236,817
Held to maturity, at amortized cost (fair value, 1997: \$350,056; 1996: \$416,102)	338,848	405,731
Equity securities - available for sale, at fair value (cost, 1997: \$1,289; 1996: \$3,626)	1,982	3,748
Mortgage loans on real estate	22,787	46,915
Policy loans	703,955	639,782
Short-term investments	316,355	169,830
Other long-term investments	1,317	4,528
Total investments	3,949,096	3,507,351
Cash	71,358	73,766
Deferred policy acquisition costs	655,242	633,159
Accrued investment income	67,000	62,110
Income taxes receivable	-	7,191
Reinsurance recoverable on unpaid losses	25,882	27,014
Other assets	60,810	62,924
Separate Account assets	8,022,079	5,336,851
TOTAL ASSETS	\$ 12,851,467	\$9,710,366
LIABILITIES AND STOCKHOLDER'S EQUITY		
Liabilities		
Policyholders' account balances	\$ 2,282,191	\$ 2,188,862
Future policy benefits and other policyholder liabilities	570,729	557,351
Cash collateral for loaned securities	143,421	-
Income taxes payable	71,703	-
Deferred income tax liability	138,483	148,960
Payable to affiliate	70,375	49,828
Other liabilities	120,260	88,930
Separate Account liabilities	7,948,788	5,277,454
Total liabilities	11,345,950	8,311,385
Contingencies - (See Note 10)		
Stockholder's Equity		
Common stock, \$10 par value:		
1,000,000 shares, authorized:		
250,000 shares, issued and outstanding at December 31, 1997 and 1996	2,500	2,500
Paid-in-capital	439,582	439,582
Retained earnings	1,050,871	944,497
Net unrealized investment gains	17,129	14,104
Foreign currency translation adjustments	(4,565)	(1,702)
Total stockholder's equity	1,505,517	1,398,981
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$12,851,467	\$9,710,366

See Notes to Consolidated Financial Statements

Pruco Life Insurance Company and Subsidiaries

Consolidated Statements of Operations
 Years Ended December 31, 1997, 1996, and 1995 (In Thousands)

	1997	1996	1995
REVENUES			
Premiums	\$ 49,496	\$ 51,525	\$ 42,089
Policy charges and fee income	330,292	324,976	319,012
Net investment income	259,634	247,328	246,618
Realized investment gains, net	10,974	10,835	13,200
Other income	33,801	20,818	26,986
Total revenues	684,197	655,482	647,905
BENEFITS AND EXPENSES			
Policyholders' benefits	179,419	186,873	153,987
Interest credited to policyholders' account balances	110,815	118,246	126,926
General, administrative and other expenses	225,721	122,006	134,790
Total benefits and expenses	515,955	427,125	415,703
Income from operations before income taxes	168,242	228,357	232,202
Income taxes			
Current	73,326	60,196	67,014
Deferred	(11,458)	18,939	12,544
Total income taxes	61,868	79,135	79,558
NET INCOME	\$ 106,374	\$ 149,222	\$ 152,644

See Notes to Consolidated Financial Statements

Pruco Life Insurance Company and Subsidiaries

Consolidated Statements of Changes in Stockholder's Equity Years Ended December 31, 1997, 1996, and 1995 (In Thousands)

	Common stock	Paid-in- capital	Retained earnings	Net unrealized investment gains	Foreign currency translation adjustments	Total stockholder's equity
Balance, January 1, 1995	\$2,500	\$439,582	\$642,631	\$(41,761)	\$ 650	\$1,043,602
Net income	-	-	152,644	-	-	152,644
Change in foreign currency translation adjustments	-	-	-	-	(1,870)	(1,870)
Change in net unrealized investment gains	-	-	-	73,817	-	73,817
Balance, December 31, 1995	2,500	439,582	795,275	32,056	(1,220)	1,268,193
Net income	-	-	149,222	-	-	149,222
Change in foreign currency translation adjustments	-	-	-	-	(482)	(482)
Change in net unrealized investment gains	-	-	-	(17,952)	-	(17,952)
Balance, December 31, 1996	2,500	439,582	944,497	14,104	(1,702)	1,398,981
Net income	-	-	106,374	-	-	106,374
Change in foreign currency translation adjustments	-	-	-	-	(2,863)	(2,863)
Change in net unrealized investment gains	-	-	-	3,025	-	3,025
Balance, December 31, 1997	\$ 2,500	\$ 439,582	\$1,050,871	\$ 17,129	\$ (4,565)	\$1,505,517

See Notes to Consolidated Financial Statements

Pruco Life Insurance Company and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31, 1997, 1996, and 1995 (In Thousands)

	1997	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 106,374	\$ 149,222	\$ 152,644
Adjustments to reconcile net income to net cash provided by operating activities:			
Policy charges and fee income	(40,783)	(50,286)	(56,637)
Interest credited to policyholders' account balances	110,815	118,246	126,926
Net increase in Separate Accounts	(13,894)	(38,025)	(3,520)
Realized investment gains, net	(10,974)	(10,835)	(13,200)
Amortization and other non-cash items	(5,525)	26,709	(8,106)
Change in:			
Future policy benefits and other policyholders' liabilities	13,378	56,151	22,877
Accrued investment income	(4,890)	(2,248)	(480)
Payable to affiliate	20,547	16,519	10,569
Policy loans	(64,173)	(70,509)	(75,411)
Deferred policy acquisition costs	(22,083)	(66,183)	31,318
Income taxes payable/receivable	78,894	(816)	12,031
Reinsurance recoverable on unpaid losses	1,132	900	750
Deferred income tax liability	(10,477)	7,912	30,779
Other, net	34,094	7,564	(76,702)
Cash Flows From Operating Activities	<u>192,435</u>	<u>144,321</u>	<u>153,838</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from the sale/maturity of:			
Fixed maturities:			
Available for sale	2,828,665	3,886,254	1,886,687
Held to maturity	138,626	138,127	144,898
Equity securities	6,939	7,527	5,557
Mortgage loans on real estate	24,925	19,226	7,395
Other long-term investments	3,276	288	1,559
Investment real estate	-	4,488	2,926
Payments for the purchase of:			
Fixed maturities:			
Available for sale	(3,141,785)	(4,008,810)	(1,741,139)
Held to maturity	(70,532)	(114,494)	(135,092)
Equity securities	(4,594)	(4,697)	(4,279)
Other long-term investments	(51)	(657)	(1,674)
Cash collateral for loaned securities, net	143,421	-	-
Short-term investments, net	(147,030)	58,186	(36,482)
Cash Flows (Used In) From Investing Activities	<u>(218,140)</u>	<u>(14,562)</u>	<u>130,356</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Policyholders' account balances:			
Deposits	2,099,600	536,370	95,039
Withdrawals	(2,076,303)	(633,798)	(365,578)
Cash Flows From (Used In) Financing Activities	<u>23,297</u>	<u>(97,428)</u>	<u>(270,539)</u>
Net (decrease) increase in Cash	(2,408)	32,331	13,655
Cash, beginning of year	73,766	41,435	27,780
CASH, END OF YEAR	<u>\$71,358</u>	<u>\$ 73,766</u>	<u>\$ 41,435</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Income taxes (received) paid	<u>\$ (7,904)</u>	<u>\$ 61,760</u>	<u>\$ 53,107</u>

See Notes to Consolidated Financial Statements

Pruco Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements

1. BUSINESS

Pruco Life Insurance Company (the Company) is a stock life insurance company, organized in 1971 under the laws of the state of Arizona. The Company markets individual life insurance, variable life insurance, variable annuities, and deferred annuities (the Contracts) in all states except New York, the District of Columbia and Guam. In addition, the Company markets individual life insurance through its branch office in Taiwan. The Company has two subsidiaries, Pruco Life Insurance Company of New Jersey (PLNJ) and The Prudential Life Insurance Company of Arizona (PLICA). PLNJ is a stock life insurance company organized in 1982 under the laws of the state of New Jersey. It is licensed to sell individual life insurance and deferred annuities only in the states of New Jersey and New York. PLICA is a stock life insurance company organized in 1988 under the laws of the state of Arizona. PLICA had no new business sales in 1997 and at this time will not be issuing new business.

The only reportable industry segment of the Company is "Life Insurance."

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of the Company, a stock life insurance company, and its subsidiaries. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP"). All significant intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Investments

Fixed maturities classified as "available for sale" are carried at estimated fair value. Fixed maturities that the Company has both the positive intent and ability to hold to maturity are stated at amortized cost and classified as "held to maturity". The amortized cost of fixed maturities are written down to estimated fair value when considered impaired and the decline in value is considered to be other than temporary. Unrealized gains and losses on fixed maturities "available for sale", net of income tax, the effect on deferred policy acquisition costs and participating annuity contracts that would result from the realization of unrealized gains and losses are included in a separate component of equity, "Net unrealized investment gains."

Equity securities, available for sale, comprised of common and non-redeemable preferred stock, are carried at estimated fair value. The associated unrealized gains and losses, net of income tax, the effect on deferred policy acquisition costs and participating annuity contracts that would result from the realization of unrealized gains and losses, are included in separate component of equity, "Net unrealized investment gains."

Mortgage loans on real estate are stated primarily at unpaid principal balances, net of unamortized discounts.

Policy loans are carried at unpaid principal balances.

Short-term investments, including highly liquid debt instruments purchased with an original maturity of twelve months or less, are carried at amortized cost, which approximates fair value.

Other long-term investments primarily represent the Company's investments in joint ventures and partnerships in which the Company does not have control. These investments are recorded using the equity method of accounting, reduced for other than temporary declines in value.

Pruco Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Realized investment gains, net are computed using the specific identification method. Costs of fixed maturity and equity securities are adjusted for impairments considered to be other than temporary.

Cash

Cash includes cash on hand, amounts due from banks, and money market instruments.

Deferred Policy Acquisition Costs

The costs which vary with and that are related primarily to the production of new insurance business are deferred to the extent such costs are deemed recoverable from future profits. Such costs include certain commissions, costs of policy issuance and underwriting, and certain variable field office expenses. Deferred policy acquisition costs are subject to recoverability testing at the time of policy issue and loss recognition testing at the end of each accounting period. Deferred policy acquisition costs are adjusted for the impact of unrealized gains or losses on investments as if these gains or losses had been realized, with corresponding credits or charges included in equity.

Acquisition costs related to interest-sensitive life products and investment-type contracts are deferred and amortized in proportion to total estimated gross profits arising principally from investment results, mortality and expense margins and surrender charges based on historical and anticipated future experience. Amortization periods range from 15 to 30 years. Amortization of deferred policy acquisition costs was \$149,851 thousand, \$9,309 thousand, and \$54,371 thousand for the years ended December 31, 1997, 1996, and 1995, respectively. Deferred policy acquisition costs are analyzed to determine if they are recoverable from future income, including investment income. If such costs are determined to be unrecoverable, they are expensed at the time of determination. The effect of revisions to estimated gross profits on unamortized deferred acquisition costs is reflected in earnings in the period such estimated gross profits are revised.

Future Policy Benefits and Policyholders' Account Balances

Future policy benefits includes reserves for annuities in payout status as well as reserves for riders and supplemental benefits. Reserves for annuities in payout status are generally calculated as the present value of estimated future benefit payments and related expenses, using interest rates ranging from 6.5% to 11.0%. The mortality assumption is generally the 1983 Individual Annuity Mortality Table. Reserves for riders and supplemental benefits are calculated using interest rates ranging from 2.5% to 7.25% and various mortality and morbidity tables derived from company or industry experience. Reserves for business in the Company's Taiwan branch are generally calculated using interest rates ranging from 6.25% to 7.5% and the 1989 Taiwan Standard Ordinary Experience Mortality table with modifications.

For the above categories, premium deficiency reserves are established, if necessary, when the liabilities for future policy benefits plus the present value of expected future gross premiums are insufficient to provide for expected future policy benefits and expenses.

Policyholders' account balances for interest-sensitive life and investment-type contracts are equal to the policy account values. The policy account values represent an accumulation of gross premium payments plus credited interest, less expense and mortality charges and withdrawals. Interest crediting rates on life insurance products range from 4.2% to 6.5% and on investment-type products range from 3.15% to 7.9%.

Securities loaned are recorded at the amount of cash received as collateral. The Company obtains collateral in an amount equal to 102% of the fair value of the domestic securities. The Company monitors the market value of securities loaned on a daily basis with additional collateral obtained as necessary. Non-cash collateral received is not reflected in the consolidated statements of financial position. Substantially, all of the Company's securities loaned are with large brokerage firms.

Pruco Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

These transactions are used to generate net investment income and facilitate trading activity. These instruments are short-term in nature (usually 30 days or less) and are collateralized principally by U.S. Government and mortgage-backed securities. The carrying amounts of these instruments approximate fair value because of the relatively short period of time between the origination of the instruments and their expected realization.

Separate Account Assets and Liabilities

Separate Account assets and liabilities are reported at estimated fair value and represent segregated funds which are invested for certain policyholders, pension funds and other customers. The assets consist of common stocks, fixed maturities, real estate related securities, and short-term investments. The assets of each account are legally segregated and are not subject to claims that arise out of any other business of the Company. Investment risks associated with market value changes are generally borne by the customers, except to the extent of minimum guarantees made by the Company with respect to certain accounts. The investment income and gains or losses for Separate Accounts generally accrue to the policyholders and are not included in the Consolidated Statement of Operations. Mortality, policy administration and surrender charges on the accounts are included in "Policy charges and fee income."

Separate Accounts represent funds for which investment income and investment gains and losses accrue directly to, and investment risk is borne by, the policyholders, with the exception of the Pruco Life Modified Guaranteed Annuity Account. The Pruco Life Modified Guaranteed Annuity Account is a non-unitized separate account, which funds the Modified Guaranteed Annuity Contract and the Market Value Adjustment Annuity Contract. Owners of the Pruco Life Modified Guaranteed Annuity and the Market Value Adjustment Annuity Contracts do not participate in the investment gain or loss from assets relating to such accounts. Such gain or loss is borne, in total, by the Company.

Insurance Revenue and Expense Recognition

Amounts received as payment for interest-sensitive life, investment contracts and deferred annuities are reported as deposits to "Policyholders' account balances." Revenues from these contracts are reflected as "Policy charges and fee income" and consist primarily of fees assessed during the period against the policyholders' account balances for mortality charges, policy administration charges, surrender charges, and interest earned from the investment of these account balances. Benefits and expenses for these products include claims in excess of related account balances, expenses of contract administration, interest credited and amortization of deferred policy acquisition costs.

Foreign Currency Translation Adjustments

Assets and liabilities of the Taiwan branch reported in other than U.S. dollars are translated at the exchange rate in effect at the end of the period. Revenues, benefits and other expenses are translated at the average rate prevailing during the period. Translation adjustments arising from the use of differing exchange rates from period to period are charged or credited directly to equity. The cumulative effect of changes in foreign exchange rates are included in "Foreign currency translation adjustments."

Derivative Financial Instruments

Derivatives include futures subject to market risk, all of which are used by the Company in other than trading activities. Income and expenses related to derivatives used to hedge are recorded on the accrual basis on the Statement of Financial Position. Gains and losses relating to derivatives used to hedge the risks associated with anticipated transactions are realized in "Realized investment gains, net." If it is determined that the transaction will not close, such gains and losses are included in "Realized investment gains, net."

Derivatives held for purposes other than trading are primarily used to hedge or reduce exposure to interest rate and foreign currency risks associated with assets held or expected to be purchased or sold, and liabilities incurred or expected to be incurred.

Pruco Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Additionally, other than trading derivatives are used to change the characteristics of the Company's asset/liability mix consistent with the Company's risk management activities.

Income Taxes

The Company and its subsidiaries are members of a group of affiliated companies which join in filing a consolidated federal income tax return in addition to separate company state and local tax returns. Pursuant to the tax allocation arrangement, total federal income tax expense is determined on a separate company basis. Members with losses record tax benefits to the extent such losses are recognized in the consolidated federal tax provision. Deferred income taxes are generally recognized, based on enacted rates, when assets and liabilities have different values for financial statement and tax reporting purposes. A valuation allowance is recorded to reduce a deferred tax asset to that portion which management believes is more likely than not to be realized.

New Accounting Pronouncements

In June 1996, the Financial Accounting Standards Board ("FASB") issued the Statement of Financial Accounting Standards ("SFAS") No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 125"). The statement provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities and provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. SFAS 125 became effective January 1, 1997 and is to be applied prospectively. Subsequent to June 1996, FASB issued SFAS No. 127 "Deferral of the Effective Date of Certain Provisions of SFAS 125" ("SFAS 127"). SFAS 127 delays the implementation of SFAS 125 for one year for certain provisions, including repurchase agreements, dollar rolls, securities lending and similar transactions. The Company will delay implementation with respect to those affected provisions. Adoption of SFAS 125 has not, and will not have a material impact on the Company's results of operations, financial condition and liquidity.

In June of 1997, FASB issued SFAS No. 130, "Reporting Comprehensive Income," which is effective for years beginning after December 15, 1997. This statement defines comprehensive income as "the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources, excluding investments by owners and distributions to owners" and establishes standards for reporting and displaying comprehensive income and its components in financial statements. The statement requires that the Company classify items of other comprehensive income by their nature and display the accumulated balance of other comprehensive income separately from retained earnings in the equity section of the Statement of Financial Position. In addition, reclassification of financial statements for earlier periods must be provided for comparative purposes.

Reclassifications

Certain amounts in the prior years have been reclassified to conform to current year presentation.

Pruco Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements

3. INVESTMENTS

Fixed Maturities and Equity Securities:

The following tables provide additional information relating to fixed maturities and equity securities as of December 31.:

	1997			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
	(In Thousands)			
Fixed maturities available for sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 177,691	\$ 1,231	\$ 20	\$ 178,902
Foreign government bonds	83,889	1,118	19	84,988
Corporate securities	2,263,898	36,857	2,017	2,298,738
Mortgage-backed securities	1,076	180	32	1,224
Total fixed maturities available for sale	<u>\$2,526,554</u>	<u>\$ 39,386</u>	<u>\$ 2,088</u>	<u>\$2,563,852</u>
Equity securities available for sale	<u>\$ 1,289</u>	<u>\$ 802</u>	<u>\$ 109</u>	<u>\$ 1,982</u>
Fixed maturities held to maturity				
Corporate securities	\$ 338,848	\$ 11,427	\$ 219	\$ 350,056
Total fixed maturities held to maturity	<u>\$ 338,848</u>	<u>\$ 11,427</u>	<u>\$ 219</u>	<u>\$ 350,056</u>
1996				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In Thousands)			
Fixed maturities available for sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 32,055	\$ 30	\$ 174	\$ 31,911
Foreign government bonds	90,447	857	205	91,099
Corporate securities	2,087,250	30,365	4,206	2,113,409
Mortgage-backed securities	398	-	-	398
Total fixed maturities available for sale	<u>\$2,210,150</u>	<u>\$ 31,252</u>	<u>\$ 4,585</u>	<u>\$2,236,817</u>
Equity securities available for sale	<u>\$ 3,626</u>	<u>\$ 819</u>	<u>\$ 697</u>	<u>\$ 3,748</u>
Fixed maturities held to maturity				
Corporate securities	\$ 405,731	\$ 10,947	\$ 576	\$ 416,102
Total fixed maturities held to maturity	<u>\$ 405,731</u>	<u>\$ 10,947</u>	<u>\$ 576</u>	<u>\$ 416,102</u>

Pruco Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements

3. INVESTMENTS (continued)

The amortized cost and estimated fair value of fixed maturities, categorized by contractual maturities at December 31, 1997, are shown below:

	Available for Sale		Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(In Thousands)		(In Thousands)	
Due in one year or less	\$ 29,759	\$ 29,731	\$ 13,736	\$ 13,838
Due after one year through five years	1,738,532	1,758,946	204,298	212,050
Due after five years through ten years	555,194	567,928	98,192	101,143
Due after ten years	201,993	206,023	22,622	23,025
Mortgage-backed securities	1,076	1,224	-	-
Total	<u>\$ 2,526,554</u>	<u>\$ 2,563,852</u>	<u>\$ 338,848</u>	<u>\$ 350,056</u>

Actual maturities will differ from contractual maturities because issuers have the right to call or prepay obligations.

Proceeds from the sale of fixed maturities available for sale during 1997, 1996, and 1995 were \$2,796,306 thousand, \$3,667,062 thousand, and \$1,807,584 thousand, respectively. Gross gains of \$18,635 thousand, \$22,078 thousand, and \$25,909 thousand and gross losses of \$7,990 thousand, \$17,718 thousand, and \$13,907 thousand were realized on those sales during 1997, 1996, and 1995, respectively. Proceeds from the maturity of fixed maturities available for sale during 1997, 1996, and 1995 were \$32,359 thousand, \$219,192 thousand, and \$79,103 thousand, respectively. During the years ended December 31, 1997, 1996, and 1995, there were no securities classified as held to maturity that were sold.

The following table describes the amortized cost and estimated fair value of fixed maturity securities by rating agency equivalent as of December 31, 1997:

	Available for Sale		Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(In Thousands)		(In Thousands)	
AAA/AA/A	\$ 1,319,527	\$ 1,334,823	\$ 187,692	\$ 194,797
BBB	1,047,203	1,062,641	128,481	131,820
BB	80,136	83,293	20,540	21,264
B	73,717	76,781	2,132	2,172
CCC or lower	5,943	6,288	-	-
In or near default	28	26	3	3
Total	<u>\$ 2,526,554</u>	<u>\$ 2,563,852</u>	<u>\$ 338,848</u>	<u>\$ 350,056</u>

The NAIC rates certain public and private placement securities as "in or near default" if they are currently non-performing or believed subject to default in the near term. The Company's holdings of these securities, in the aggregate, comprised less than 1% of total invested assets at December 31, 1997 and 1996.

Pruco Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements

3. INVESTMENTS (continued)

Mortgage Loans on Real Estate

The Company's mortgage loans were collateralized by the following property types at December 31,

	1997		1996	
	(In Thousands)			
Office buildings	\$ 4,607	20%	\$ 18,497	39%
Retail stores	8,090	35%	8,731	19%
Apartment complexes	6,080	27%	11,771	25%
Industrial buildings	4,010	18%	7,916	17%
Net carrying value	<u>\$ 22,787</u>	<u>100%</u>	<u>\$ 46,915</u>	<u>100%</u>

The mortgage loans are geographically dispersed throughout the United States with the largest concentrations in Washington (29%) and Pennsylvania (27%).

Special Deposits

Fixed maturities of \$8,302 thousand and \$8,744 thousand at December 31, 1997 and 1996, respectively, were on deposit with governmental authorities or trustees as required by certain insurance laws.

Other Long-Term Investments

The Company's "Other long-term investments" of \$1,317 thousand and \$4,528 thousand as of December 31, 1997 and 1996, respectively, are comprised of non-real estate related interests. The Company's share of net income from these entities is \$2,158 thousand, \$1,434 thousand and \$345 thousand for the years ended December 31, 1997, 1996 and 1995, respectively, and is reported in "Net investment income."

Pruco Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements

3. INVESTMENTS (continued)

Investment Income and Investment Gains and Losses

Net investment income arose from the following sources for the years ended December 31:

	1997	1996	1995
		(In Thousands)	
Fixed maturities - available for sale	\$ 161,140	\$ 152,445	\$ 160,740
Fixed maturities - held to maturity	26,936	33,419	33,458
Equity securities	76	44	104
Mortgage loans on real estate	2,585	5,669	7,757
Investment real estate	-	613	647
Policy loans	37,398	33,449	29,775
Short-term investments	22,011	16,780	15,092
Other	14,920	9,438	3,949
Gross investment income	265,066	251,857	251,522
Less: investment expenses	(5,432)	(4,529)	(4,904)
Net investment income	<u>\$ 259,634</u>	<u>\$ 247,328</u>	<u>\$ 246,618</u>

Realized investment gains, net including charges for other than temporary reductions in value, for the years ended December 31, were from the following sources:

	1997	1996	1995
		(In Thousands)	
Fixed maturities - available for sale	\$ 9,039	\$ 9,036	\$ 11,359
Fixed maturities - held to maturity	821	-	-
Equity securities	8	781	2,020
Mortgage loans on real estate	797	1,677	(90)
Investment real estate	-	487	(99)
Other	309	(1,146)	10
Realized investment gains, net	<u>\$ 10,974</u>	<u>\$ 10,835</u>	<u>\$ 13,200</u>

Net unrealized investment gains on securities available for sale are included in the consolidated statement of financial position as a component of equity, net of tax. Changes in these amounts for the years ended December 31, are as follows:

	1997	1996	1995
		(In Thousands)	
Balance, beginning of year	\$ 14,104	\$ 32,056	\$ (41,761)
Changes in unrealized investment gains (losses) attributable to:			
Fixed maturities	10,631	(43,853)	110,932
Equity securities	571	1,403	68
Participating group annuity contracts	1,292	(3,855)	5,092
Deferred policy acquisition costs	(8,412)	17,321	(25,214)
Deferred federal income taxes	(1,057)	11,032	(17,061)
Balance, end of year	<u>\$ 17,129</u>	<u>\$ 14,104</u>	<u>\$ 32,056</u>

Pruco Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements

4. INCOME TAXES

The components of income taxes for the years ended December 31, are as follows:

	<u>1997</u>	<u>1996</u>	<u>1995</u>
		(In Thousands)	
Current tax expense:			
U.S.	\$71,989	\$59,489	\$65,131
State and local	1,337	703	1,876
Foreign	-	4	7
Total	<u>73,326</u>	<u>60,196</u>	<u>67,014</u>
Deferred tax (benefit) expense:			
U.S.	(11,458)	18,413	12,196
State and local	-	526	348
Total	<u>(11,458)</u>	<u>18,939</u>	<u>12,544</u>
Total income tax expense	<u>\$61,868</u>	<u>\$79,135</u>	<u>\$79,558</u>

The Company's income tax expense for the years ended December 31, differs from the amount computed by applying the expected federal income tax rate of 35% to income from operations, before income taxes, for the following reasons:

	<u>1997</u>	<u>1996</u>	<u>1995</u>
		(In Thousands)	
Expected federal income tax expense	\$58,885	\$79,925	\$81,271
State income taxes	869	1,229	2,224
Other	2,114	(2,019)	(3,937)
Total income tax expense	<u>\$61,868</u>	<u>\$79,135</u>	<u>\$79,558</u>

Pruco Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements

4. INCOME TAXES (continued)

Deferred tax assets and liabilities at December 31, resulted from the items listed in the following table:

	1997	1996
	(In Thousands)	
Deferred income tax assets		
Insurance reserves	\$ 40.896	\$ 38.532
Total deferred income tax assets	<u>40.896</u>	<u>38.532</u>
Deferred income tax liabilities		
Deferred acquisition costs	168.702	173.785
Net investment gains	8.161	12.502
Other	2.516	1.205
Total deferred income tax liabilities	<u>179.379</u>	<u>187.492</u>
Deferred federal income tax liabilities	<u>\$138.483</u>	<u>\$148.960</u>

Management believes that based on its historical pattern of taxable income, the Company will produce sufficient income in the future to realize its deferred tax assets after valuation allowance. Adjustments to the valuation allowance will be made if there is a change in management's assessment of the amount of the deferred tax assets that are realizable.

The Internal Revenue Service (the "Service") has completed examinations of the consolidated federal income tax returns through 1989. The Service has examined the years 1990 through 1992. Discussions are being held with the Service with respect to proposed adjustments. However, management believes there are adequate defenses against, or sufficient reserves to provide for, such adjustments. The Service has begun their examination of the years 1993 through 1995.

5. REINSURANCE

The Company assumes and cedes reinsurance with Prudential and other companies. The effect of reinsurance for the years ended December 31, is summarized as follows:

	1997	1996	1995
Life insurance premiums			
Gross Amount	\$ 51.851	\$ 53.776	\$ 44.357
Ceded to other companies	(3.724)	(3.379)	(2.268)
Assumed from other companies	1.369	1.128	-
Net amount	<u>\$ 49,496</u>	<u>\$ 51,525</u>	<u>\$ 42,089</u>
Life insurance in force			
Gross Amount	\$ 47,328,495	\$ 47,430,580	\$ 47,822,892
Ceded to other companies	(1,292,395)	(1,172,449)	(822,619)
Net amount	<u>\$ 46,036,100</u>	<u>\$ 46,258,131</u>	<u>\$ 47,000,273</u>

Pruco Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements

6. EQUITY

Reconciliation of Statutory Surplus and Net Income

Accounting practices used to prepare statutory financial statements for regulatory purposes differ in certain instances from GAAP. The following table reconciles the Company's statutory net income and surplus as of and for the years ended December 31, determined in accordance with accounting practices prescribed or permitted by the Arizona Department of Banking and Insurance with net income and equity determined using GAAP.

	1997	1996	1995
		(In Thousands)	
Statutory net income	\$ 12,778	\$ 48,846	\$ 113,565
Adjustments to reconcile to net income on a GAAP basis:			
Statutory income of subsidiaries	18,553	25,001	44,186
Deferred acquisition costs	38,003	48,862	(6,103)
Deferred premium	1,144	1,295	(743)
Insurance liabilities	26,517	28,662	32,665
Deferred taxes	11,458	(7,780)	(27,669)
Valuation of investments	506	365	5,480
Other, net	(2,585)	3,971	(8,737)
GAAP net income	<u>\$ 106,374</u>	<u>\$ 149,222</u>	<u>\$ 152,644</u>

	1997	1996
		(In thousands)
Statutory surplus	\$ 853,130	\$ 901,645
Adjustments to reconcile to equity on a GAAP basis:		
Valuation of investments	97,787	95,411
Deferred acquisition costs	655,242	633,159
Deferred premium	(14,817)	(11,859)
Insurance liabilities	(107,525)	(124,781)
Deferred taxes	(113,461)	(124,823)
Other, net	135,161	30,229
GAAP stockholder's equity	<u>\$ 1,505,517</u>	<u>\$ 1,398,981</u>

The New York State Insurance Department ("Department") recognizes only statutory accounting for determining and reporting the financial condition of an insurance company, for determining its solvency under the New York Insurance Law and for determining whether its financial condition warrants the payment of a dividend to its stockholders. No consideration is given by the Department to financial statements prepared in accordance with GAAP in making such determinations.

Pruco Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values presented below have been determined using available information and valuation methodologies. Considerable judgment is applied in interpreting data to develop the estimates of fair value. Accordingly, such estimates presented may not be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies could have a material effect on the estimated fair values. The following methods and assumptions were used in calculating the fair values (for all other financial instruments presented in the table, the carrying value approximates fair value.)

Fixed maturities and Equity securities

Fair values for fixed maturities and equity securities, other than private placement securities, are based on quoted market prices or estimates from independent pricing services. Fair values for private placement securities are estimated using a discounted cash flow model which considers the current market spreads between the U.S. Treasury yield curve and corporate bond yield curve, adjusted for the type of issue, its current credit quality and its remaining average life. The estimated fair value of certain non-performing private placement securities is based on amounts estimated by management.

Mortgage loans on real estate

The fair value of the mortgage loan portfolio is primarily based upon the present value of the scheduled future cash flows discounted at the appropriate U.S. Treasury rate, adjusted for the current market spread for a similar quality mortgage.

Policy loans

The estimated fair value of policy loans is calculated using a discounted cash flow model based upon current U.S. Treasury rates and historical loan repayments.

Derivative financial instruments

The fair value of futures is estimated based on market quotes for a transactions with similar terms.

The following table discloses the carrying amounts and estimated fair values of the Company's financial instruments at December 31,:

	1997		1996	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
(In Thousands)				
Financial Assets:				
Fixed maturities:				
Available for sale	\$ 2,563,852	\$ 2,563,852	\$ 2,236,817	\$ 2,236,817
Held to maturity	338,848	350,056	405,731	416,102
Equity securities	1,982	1,982	3,748	3,748
Mortgage loans	22,787	24,994	46,915	46,692
Policy loans	703,955	703,605	639,782	623,218
Short-term investments	316,355	316,355	169,830	169,830
Cash	71,358	71,358	73,766	73,766
Separate Account assets	8,022,079	8,022,079	5,336,851	5,336,851
Financial Liabilities:				
Policyholders'				
account balances	\$ 2,282,191	\$ 2,282,191	\$ 2,188,862	\$ 2,188,862
Cash collateral for loaned securities	143,421	143,421	-	-
Separate Account liabilities	7,948,788	7,948,788	5,277,454	5,277,454
Derivatives	653	653	-	-

Pruco Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements

8. DERIVATIVE INSTRUMENTS

Derivative Financial Instruments

The fair value of liability positions in future instruments, which represents the Company's current exposure to credit loss from other parties' non-performance, was \$653 thousand at December 31, 1997. This includes the estimated fair values of outstanding derivative positions only and does not include the fair values of associated financial and non-financial assets and liabilities, which generally offset derivative notional amounts. The fair value amounts presented also do not reflect the netting of amounts pursuant to right of setoff, qualifying master netting agreements with counterparties or collateral arrangements.

9. RELATED PARTY TRANSACTIONS

Service Agreements

Prudential and Pruco Securities Corporation, an indirect wholly-owned subsidiary of Prudential, operate under service and lease agreements whereby services of officers and employees (except for those agents employed by the Company in Taiwan), supplies, use of equipment and office space are provided. The net cost of these services allocated to the Company were \$139,489 thousand, \$101,662 thousand and \$98,119 thousand for the years ended December 31, 1997, 1996, and 1995, respectively.

Reinsurance

The Company currently has three reinsurance agreements in place with Prudential (the reinsurer). Specifically a reinsurance Group Annuity Contract, whereby the reinsurer, in consideration for a single premium payment by the Company, provides reinsurance equal to 100% of all payments due under the contract, and two yearly renewable term agreements in which the Company may offer and the reinsurer may accept reinsurance on any life in excess of the Company's maximum limit of retention. The Company is not relieved of its primary obligation to the policyholder as a result of these reinsurance transactions. These agreements had no material effect on net income for the years ended December 31, 1997, 1996, and 1995.

10. CONTINGENCIES

Several actions have been brought against the Company on behalf of those persons who purchased life insurance policies based on complaints about sales practices engaged in by Prudential, the Company and agents appointed by Prudential and the Company. Prudential has agreed to indemnify the Company for any and all losses resulting from such litigation.

In the normal course of business, the Company is subject to various claims and assessments. Management believes the settlement of these matters would not have a material effect on the financial position or results of operations of the Company.

11. DIVIDENDS

The Company is subject to Arizona law which limits the amount of dividends that insurance companies can pay to stockholders. The maximum dividend which may be paid in any twelve month period without notification or approval is limited to the lesser of 10% of statutory surplus as of December 31 of the preceding year or the net gain from operations of the preceding calendar year. Cash dividends may only be paid out of surplus derived from realized net profits. Based on these limitations and the Company's surplus position at December 31, 1997, the Company would be permitted a maximum of \$15,260 thousand in dividend distribution in 1998, all of which could be paid in cash, without approval from The State of Arizona Department of Insurance.

Report of Independent Accountants

To the Board of Directors of
Pruco Life Insurance Company

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of operations, of changes in stockholder's equity and of cash flows present fairly, in all material respects, the financial position of Pruco Life Insurance Company and its subsidiaries at December 31, 1997 and 1996, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PRICE WATERHOUSE LLP
New York, New York
March 23, 1998

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Pruco Life Insurance Company
Newark, New Jersey

We have audited the accompanying consolidated statements of operations, changes in stockholder's equity, and cash flows of Pruco Life Insurance Company and subsidiaries for the year ended December 31, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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, such consolidated statements of operations, changes in stockholder's equity, and cash flows present fairly, in all material respects, the results of operations and cash flows of Pruco Life Insurance Company and subsidiaries for the year ended December 31, 1995 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP
Parsippany, NJ
December 19, 1996

WITH RESPECT TO RESIDENTS OF STATES OTHER THAN PENNSYLVANIA, IN WHICH DISCOVERY PREFERRED IS BEING OFFERED. WITH RESPECT TO RESIDENTS OF PENNSYLVANIA, SEE PAGE C-3.

MARKET-VALUE ADJUSTMENT FORMULA

The Market-Value Adjustment, which is applied to withdrawals and transfers made at any time other than the 30-day period following the end of an interest rate period, involves three amounts:

1. The number of whole months remaining in the existing interest rate period.
2. The guaranteed interest rate.
3. The interest rate that Pruco Life declares for a duration of one year longer than the number of whole years remaining on the existing cell being withdrawn from.

Stated as a formula, the Market Value Factor is equal to:

$(M/12) \times (R-C)$, not to exceed +0.40 or be less than -0.40 ;

Where,

M = the number of whole months (not to be less than one) remaining in the interest rate period.

R = the Contract's guaranteed interest rate expressed as a decimal. Thus 6.2% is converted to 0.062.

C = the interest rate, expressed as a decimal, that Pruco Life declares for a duration equal to the number of whole years remaining in the present interest rate period, plus 1 year as of the date the request for a withdrawal or transfer is received.

The Market-Value Adjustment is then equal to the Market Value Factor multiplied by the amount subject to a Market-Value Adjustment.

The steps below explain how a Market-Value Adjustment is calculated.

Step 1: Divide the number of whole months left in the existing interest rate period (not to be less than one) by 12.

Step 2: Determine the interest rate Pruco Life declares on the date the request for withdrawal or transfer is received for a duration of years equal to the whole number of years determined in Step 1, plus 1 additional year. Subtract this interest rate from the guaranteed interest rate. The result could be negative.

Step 3: Multiply the results of Step 1 and Step 2. Again, the result could be negative. If the result is less than -0.4 , use the value -0.4 . If the result is in between -0.4 and 0.4 , use the actual value. If the result is more than 0.4 , use the value 0.4 .

Step 4: Multiply the result of Step 3 (which is the Market Value Factor) by the value of the amount subject to a Market-Value Adjustment. The result is the Market-Value Adjustment.

Step 5: The result of Step 4 is added to the interest cell. If the Market-Value Adjustment is positive, the interest cell will go up in value. If the Market-Value Adjustment is negative, the interest cell will go down in value.

Depending upon when the withdrawal request is made, a withdrawal charge may apply.

The following example will illustrate the application of a Market-Value Adjustment and the determination of the withdrawal charge. Suppose a Contract owner made two invested purchase payments, the first in the amount of \$10,000 on December 1, 1995, all of which was allocated to the Equity Subaccount, and the second in the amount of \$5,000 on October 1, 1997, all of which was allocated to the MVA Option with a guaranteed interest rate of 8% (0.08) for 7 years. A request for withdrawal of \$8,500 is made on February 1, 2000 (the Contract owner does not provide any withdrawal instructions). On that date the amount in the Equity Subaccount is equal to \$12,000 and the amount in the interest cell with a maturity date of September 30, 2004 is \$5,985.23, so that the Contract Fund on that date is equal to \$17,985.23.

On February 1, 2000, the interest rate declared by Pruco Life for the duration of 5 years (4 whole years remaining until September 30, 2004, plus one year) is 11%.

The following computations would be made:

1. Calculate the Contract Fund value as of the effective date of the transaction. This would be \$17,985.23.
2. Calculate the charge-free amount (the amount of the withdrawal that is not subject to a withdrawal charge).

<u>DATE</u>	<u>PAYMENT</u>	<u>FREE</u>
12/1/95	\$10,000	\$1,000
12/1/96		\$2,000
10/1/97	\$ 5,000	\$2,500
12/1/97		\$4,000
12/1/98		\$5,500
12/1/99		\$7,000

The charge-free amount in the fifth Contract year is 10% of \$15,000 (total purchase payments) plus \$5,500 (the charge-free amount available in the fourth Contract year) for a total of \$7,000.

3. Since the withdrawal request is in the fifth Contract year, a 3% withdrawal charge rate applies to any portion of the withdrawal which is not charge-free.

\$8,500.00	requested withdrawal amount
<u>– \$7,000.00</u>	charge-free
\$1,500.00	additional amount needed to complete withdrawal

The Contract provides that the Contract Fund will be reduced by an amount which, when reduced by the withdrawal charge, will equal the amount requested. Therefore, in order to produce the amount needed to complete the withdrawal request (\$1,500), we must “gross-up” that amount, before applying the withdrawal charge rate. This is done by dividing by 1 minus the withdrawal charge rate.

$$\begin{aligned} & \$1,500.00 / (1 - .03) = \\ & \$1,500.00 / 0.97 = \$1,546.39 \text{ grossed-up amount} \end{aligned}$$

Please note that a 3% withdrawal charge on this grossed-up amount reduces it to \$1,500, the balance needed to complete the request.

\$1,546.39	grossed-up amount
× .03	withdrawal charge rate
<u>\$ 46.39</u>	withdrawal charge

4. The Market Value Factor is determined as described in steps 1 through 5, above. In this case, it is equal to 0.08 (8% is the guaranteed rate in the existing cell) minus 0.11 (11 % is the interest rate that would be offered for an interest cell with a duration of the remaining whole years plus 1), which is –0.03, multiplied by 4.58333 (55 months remaining until September 30, 2004, divided by 12) or –0.13750. Thus, there will be a negative Market-Value Adjustment of 14% of the amount in the interest cell that is subject to the adjustment.

–0.13750 × \$5,985.23 =	– 822.97	negative MVA
	<u>\$5,985.23</u>	unadjusted value
	\$5,162.26	adjusted value
	<u>\$12,000.00</u>	Equity value
	\$17,162.26	adjusted Contract Fund

5. The total amount to be withdrawn, \$8,546.39, (sum of the surrender charge, \$46.39, and the requested withdrawal amount of \$8,500) is apportioned over all accounts making up the Contract Fund following the Market-Value Adjustments, if any, associated with the MVA option.

Equity	(\$ 12,000/ \$17,162.26) × \$8,546.39 =	\$5,975.71
7-Yr MVA	(\$5,162.26/ \$17,162.26) × \$8,546.39 =	<u>\$2,570.68</u>
		\$8,546.39

6. The adjusted value of the interest cell, \$5,162.26, reduced by the withdrawal of \$2,570.68 leave \$2,591.58. This amount must be "unadjusted" by dividing it by 0.86250 (1 plus the Market-Value Adjustment of -0.13750) to determine the amount remaining in the interest cell to which the guaranteed interest rate of 8% will continue to be credited until September 30, 2004 or a subsequent withdrawal. That amount is \$3,004.73.

WITH RESPECT TO RESIDENTS OF PENNSYLVANIA ONLY, PAGES C1-C3 ARE HEREBY DELETED AND REPLACED IN THEIR ENTIRETY WITH THE FOLLOWING:

MARKET-VALUE ADJUSTMENT FORMULA

The Market-Value Adjustment, which is applied to withdrawals and transfers made at any time other than the 30-day period following the end of an interest rate period, involves three amounts:

1. The number of whole months remaining in the existing interest rate period.
2. The guaranteed interest rate.
3. The interpolated value of the interest rates that Pruco Life declares for the number of whole years remaining and the duration 1 year longer than the number of whole years remaining in the existing interest rate period.

Stated as a formula, the Market Value Factor is equal to:

$(M/12) \times (R - C)$, not to exceed +0.40 or be less than -0.40;

Where,

M = the number of whole months (not to be less than one) remaining in the interest rate period.

R = the Contract's guaranteed interest rate expressed as a decimal. Thus 6.2% is converted to 0.062.

C = the interpolated value of the interest rates, expressed as a decimal, that Pruco Life declares for the number of whole years remaining and the duration 1 year longer than the number of whole years remaining as of the date the request for a withdrawal or transfer is received or $m/365 \times (n + 1)$ year rate + $(365 - m)/365 \times n$ year rate, where 'n' equals years and 'm' equals days remaining in year 'n' of the existing interest rate period.

The Market-Value Adjustment is then equal to the Market Value Factor multiplied by the amount subject to a Market-Value Adjustment.

The steps below explain how a Market-Value Adjustment is calculated.

Step 1: Divide the number of whole months left in the existing interest rate period (not to be less than one) by 12.

Step 2: Interpolate the interest rates Pruco Life declares on the date the request for withdrawal or transfer is received for the duration of years equal to the whole number of years determined in Step 1, plus the whole number of years plus 1 additional year.

Step 3: Subtract this interpolated interest rate from the guaranteed interest rate. The result could be negative.

Step 4: Multiply the results of Step 1 and Step 2. Again, the result could be negative. If the result is less than -0.4, use the value -0.4. If the result is in between -0.4 and 0.4, use the actual value. If the result is more than 0.4, use the value 0.4.

Step 5: Multiply the result of Step 3 (which is the Market Value Factor) by the value of the amount subject to a Market-Value Adjustment. The result is the Market-Value Adjustment.

Step 6: The result of Step 4 is added to the interest cell. If the Market-Value Adjustment is positive, the interest cell will go up in value. If the Market-Value Adjustment is negative, the interest cell will go down in value.

Depending upon when the withdrawal request is made, a withdrawal charge may apply.

The following example will illustrate the application of a Market-Value Adjustment and the determination of the withdrawal charge. Suppose a Contract owner made two invested purchase payments, the first in the amount of \$10,000 on December 1, 1995, all of which was allocated to the Equity Subaccount, and the second in the amount

of \$5,000 on October 1, 1997, all of which was allocated to the MVA Option with a guaranteed interest rate of 8% (0.08) for 7 years. A request for withdrawal of \$8,500 is made on February 1, 2000 (the Contract owner does not provide any withdrawal instructions). On that date the amount in the Equity Subaccount is equal to \$12,000 and the amount in the interest cell with a maturity date of September 30, 2004 is \$5,985.23, so that the Contract Fund on that date is equal to \$17,985.23.

On February 1, 2000, the interest rates declared by Pruco Life for the durations 4 and 5 years (4 whole years remaining until September 30, 2004, plus 1 year) are 10.8% and 11.4%, respectively.

The following computations would be made:

1. Calculate the Contract Fund value as of the effective date of the transaction. This would be \$17,985.23.
2. Calculate the charge-free amount (the amount of the withdrawal that is not subject to a withdrawal charge).

<u>DATE</u>	<u>PAYMENT</u>	<u>FREE</u>
12/1/95	\$10,000	\$1,000
12/1/96		\$2,000
10/1/97	\$ 5,000	\$2,500
12/1/97		\$4,000
12/1/98		\$5,500
12/1/99		\$7,000

The charge-free amount in the fifth Contract year is 10% of \$15,000 (total purchase payments) plus \$5,500 (the charge-free amount available in the fourth Contract year) for a total of \$7,000.

3. Since the withdrawal request is in the fifth Contract year, a 3% withdrawal charge rate applies to any portion of the withdrawal which is not charge-free.

\$8,500.00	requested withdrawal amount
<u>-\$7,000.00</u>	charge-free
\$1,500.00	additional amount needed to complete withdrawal

The Contract provides that the Contract Fund will be reduced by an amount which, when reduced by the withdrawal charge, will equal the amount requested. Therefore, in order to produce the amount needed to complete the withdrawal request (\$1,500), we must "gross-up" that amount, before applying the withdrawal charge rate. This is done by dividing by 1 minus the withdrawal charge rate.

$$\begin{aligned} & \$1,500.00 / (1 - .03) = \\ & \$1,500.00 / 0.97 = \$1,546.39 \text{ grossed-up amount} \end{aligned}$$

Please note that a 3% withdrawal charge on this grossed-up amount reduces it to \$1,500, the balance needed to complete the request.

\$1,546.39	grossed-up amount
<u>× .03</u>	withdrawal charge rate
\$ 46.39	withdrawal charge

4. The Market Value Factor is determined as described in steps 1 through 5, above. In this case, it is equal to 0.08 (8% is the guaranteed rate in the existing cell) minus 0.11 (11% is the interpolated value for the interest rates that would be offered for interest cells with durations of whole years remaining and whole year plus 1 remaining in the existing interest rate period), which is -0.03, multiplied by 4.58333 (55 months remaining until September 30, 2004, divided by 12) or -0.13750. Thus, there will be a negative Market-Value Adjustment of 14% of the amount in the interest cell that is subject to the adjustment.

$-0.13750 \times \$5,985.23 =$	-822.97	negative MVA
	<u>\$5,985.23</u>	unadjusted value
	\$5,162.26	adjusted value
	<u>\$12,000.00</u>	Equity value
	\$17,162.26	adjusted Contract Fund

5. The total amount to be withdrawn, \$8,546.39, (sum of the surrender charge, \$46.39, and the requested withdrawal amount of \$8,500) is apportioned over all accounts making up the Contract Fund following the Market-Value Adjustments, if any, associated with the MVA option.

Equity	$(\$ 12,000 / \$17,162.26) \times \$8,546.39 =$	<u>\$5,975.71</u>
7-Yr MVA	$(\$5,162.26 / \$17,162.26) \times \$8,546.39 =$	<u>\$2,570.68</u>
		<u>\$8,546.39</u>

6. The adjusted value of the interest cell, \$5,162.26, reduced by the withdrawal of \$2,570.68 leaves \$2,591.58. This amount must be "unadjusted" by dividing it by 0.86250 (1 plus the Market-Value Adjustment - 0.13750) to determine the amount remaining in the interest cell to which the guaranteed interest rate of 8% will continue to be credited until September 30, 2004 or a subsequent withdrawal. That amount is \$3,004.73.

PROSPECTUS

May 1, 1998

THE PRUDENTIAL SERIES FUND, INC.

The Prudential Series Fund, Inc. (the "Series Fund") is a diversified, open-end management investment company (commonly known as a "mutual fund") that is intended to provide a range of investment alternatives through its fifteen separate portfolios, each of which is, for investment purposes, in effect a separate fund. The portfolios are: the Money Market Portfolio, the Diversified Bond Portfolio, the Government Income Portfolio, two Zero Coupon Bond Portfolios with different liquidation dates—2000 and 2005, the Conservative Balanced Portfolio, the Flexible Managed Portfolio, the High Yield Bond Portfolio, the Stock Index Portfolio, the Equity Income Portfolio, the Equity Portfolio, the Prudential Jennison Portfolio, the Small Capitalization Stock Portfolio, the Global Portfolio, and the Natural Resources Portfolio. A separate class of capital stock is issued for each portfolio. Shares of the Series Fund are currently sold only to separate accounts (the "Accounts") of The Prudential Insurance Company of America ("Prudential") and certain other insurers to fund the benefits under variable life insurance and variable annuity contracts (the "Contracts") issued by those Companies. The Accounts invest in shares of the Series Fund through subaccounts that correspond to the portfolios. The Accounts will redeem shares of the Series Fund to the extent necessary to provide benefits under the Contracts or for such other purposes as may be consistent with the Contracts.

Not every portfolio is available under all of the variable contracts. The prospectus for each Contract lists the portfolios currently available under that particular Contract.

Shares of the Money Market Portfolio and the Government Income Portfolio are neither insured nor guaranteed by the U.S. Government. While the Money Market Portfolio seeks to maintain a stable price per share, there is no assurance that the portfolio will be able to do so.

THE INVESTMENT OBJECTIVES OF THE PORTFOLIOS CAN BE FOUND ON THE NEXT PAGE

Information contained in this prospectus should be read carefully by a prospective investor before an investment is made. Additional information about the Series Fund has been filed with the Securities and Exchange Commission in a statement of additional information, dated May 1, 1998, which information is incorporated herein by reference and is available without charge upon written request to The Prudential Series Fund, Inc., 751 Broad Street, Newark, New Jersey 07102-3777, or by telephoning (800) 437-4016.

PLEASE READ THIS PROSPECTUS AND KEEP IT FOR FUTURE REFERENCE.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The Prudential Series Fund, Inc.
751 Broad Street
Newark, New Jersey 07102-3777
Telephone: (800) 437-4016

INVESTMENT OBJECTIVES OF THE PORTFOLIOS ARE AS FOLLOWS:

FIXED INCOME PORTFOLIOS

Money Market Portfolio. The maximum current income that is consistent with stability of capital and maintenance of liquidity through investment in high-quality short-term debt obligations.

Diversified Bond Portfolio. A high level of income over the longer term while providing reasonable safety of capital through investment primarily in readily marketable intermediate and long-term fixed income securities that provide attractive yields but do not involve substantial risk of loss of capital through default.

Government Income Portfolio. Achievement of a high level of income over the longer term consistent with the preservation of capital through investment primarily in U.S. Government securities, including intermediate and long-term U.S. Treasury securities and debt obligations issued by agencies of or instrumentalities established, sponsored or guaranteed by the U.S. Government. At least 65% of the total assets of the portfolio will be invested in U.S. Government securities.

Zero Coupon Bond Portfolios 2000 and 2005. Achievement of the highest predictable compounded investment return for a specific period of time, consistent with the safety of invested capital, by investing primarily in debt obligations of the United States Treasury and investment-grade corporations that have been issued without interest coupons or stripped of their unmatured interest coupons, interest coupons that have been stripped from such debt obligations, and receipts and certificates for such stripped debt obligations and stripped coupons.

To obtain the predicted investment return an investor must plan to retain his or her investment in the selected portfolio until the designated year in which the portfolio will be liquidated. Redemption prior to that time may result in a loss. Moreover, since the portfolios will be actively managed with the objective of obtaining a yield higher than the predicted yield, there is a risk that the actual yield may be lower.

BALANCED PORTFOLIOS

Conservative Balanced Portfolio. Achievement of a favorable total investment return consistent with a portfolio having a conservatively managed mix of money market instruments, fixed income securities, and common stocks, in proportions believed by the investment manager to be appropriate for an investor desiring diversification of investment who prefers a relatively lower risk of loss than that associated with the Flexible Managed Portfolio while recognizing that this reduces the chances of greater appreciation.

Flexible Managed Portfolio. Achievement of a high total return consistent with a portfolio having an aggressively managed mix of money market instruments, fixed income securities, and common stocks, in proportions believed by the investment manager to be appropriate for an investor desiring diversification of investment who is willing to accept a relatively high level of loss in an effort to achieve greater appreciation.

HIGH YIELD BOND PORTFOLIOS

High Yield Bond Portfolio. Achievement of a high total return through investment in high yield/high risk fixed income securities in the medium to lower quality ranges. **Such securities may have speculative characteristics and generally involve greater risks of loss of income and principal than higher rated securities.**

DIVERSIFIED STOCK PORTFOLIOS

Stock Index Portfolio. Achievement of investment results that correspond to the price and yield performance of publicly traded common stocks in the aggregate by following a policy of attempting to duplicate the price and yield performance of the Standard & Poor's 500 Composite Stock Price Index (the "S&P 500 Index").

Equity Income Portfolio. Both current income and capital appreciation through investment primarily in common stocks and convertible securities that provide favorable prospects for investment income returns above those of the S&P 500 Index or the NYSE Composite Index.

Equity Portfolio. Capital appreciation through investment primarily in common stocks of companies, including major established corporations as well as smaller capitalization companies, that appear to offer attractive prospects of price appreciation that is superior to broadly-based stock indices. Current income, if any, is incidental.

Prudential Jennison Portfolio. Long-term growth of capital through investment primarily in equity securities of established companies with above-average growth prospects. Current income, if any, is incidental.

Small Capitalization Stock Portfolio. Long-term growth of capital through investment primarily in equity securities of publicly-traded companies with small market capitalization. Current income, if any, is incidental.

Global Portfolio. Long-term growth of capital through investment primarily in common stock and common stock equivalents of foreign and domestic issuers. Current income, if any, is incidental.

SPECIALIZED PORTFOLIOS

Natural Resources Portfolio. Long-term growth of capital through investment primarily in common stocks and convertible securities of "natural resource companies" (as defined in this prospectus) and in securities (typically debt securities and preferred stock) the terms of which are related to the market value of a natural resource.

There can be no assurance that the objectives of any portfolio will be realized. See **INVESTMENT OBJECTIVES AND POLICIES OF THE PORTFOLIOS**, page 10. The Series Fund may in the future establish other portfolios with different investment objectives.

CONTENTS

	Page
FINANCIAL HIGHLIGHTS	1
PORTFOLIO RATES OF RETURN	9
THE SERIES FUND	10
THE ACCOUNTS AND THE CONTRACTS	10
INVESTMENT MANAGER	10
INVESTMENT OBJECTIVES AND POLICIES OF THE PORTFOLIOS	10
Fixed Income Portfolios	11
<i>Money Market Portfolio</i>	11
<i>Diversified Bond Portfolio</i>	11
<i>Government Income Portfolio</i>	12
<i>Zero Coupon Bond Portfolios 2000 and 2005</i>	14
Balanced Portfolios	15
<i>Conservative Balanced Portfolio</i>	15
<i>Flexible Managed Portfolio</i>	16
High Yield Bond Portfolios	17
<i>High Yield Bond Portfolio</i>	17
Diversified Stock Portfolios	19
<i>Stock Index Portfolio</i>	19
<i>Equity Income Portfolio</i>	21
<i>Equity Portfolio</i>	22
<i>Prudential Jennison Portfolio</i>	22
<i>Small Capitalization Stock Portfolio</i>	23
<i>Global Portfolio</i>	24
Specialized Portfolios	25
<i>Natural Resources Portfolio</i>	25
Convertible Securities	26
Loan Participations	27
Foreign Securities	27
Options on Equity Securities	28
Options on Debt Securities	29
Options on Stock Indices	30
Options on Foreign Currencies	30
Futures Contracts	31
Options on Futures Contracts	31
Repurchase Agreements	32
Reverse Repurchase Agreements and Dollar Rolls	32
When-Issued and Delayed Delivery Securities	32
Short Sales	33
Short Sales Against the Box	33
Interest Rate Swaps	33
Loans of Portfolio Securities	33
INVESTMENT RESTRICTIONS APPLICABLE TO THE PORTFOLIOS	34
INVESTMENT MANAGEMENT ARRANGEMENTS AND EXPENSES	34
PURCHASE AND REDEMPTION OF SHARES	35
DETERMINATION OF NET ASSET VALUE	35
DIVIDENDS, DISTRIBUTIONS, AND TAXES	36
OTHER INFORMATION CONCERNING THE SERIES FUND	37
Incorporation and Authorized Stock	37
Voting Rights	38
Monitoring for Possible Conflict	38
Periodic Reports	38

Portfolio Brokerage and Related Practices	38
Transfer Agent and Dividend Disbursing Agent	39
Year 2000	39
Additional Information	39

APPENDIX: SECURITIES IN WHICH THE MONEY MARKET PORTFOLIO MAY CURRENTLY INVEST	A1
--------------------------------------------------------------------------------------------	----

THE PRUDENTIAL SERIES FUND, INC.
FINANCIAL HIGHLIGHTS

(For a Share outstanding throughout the periods indicated)

The following highlights for the two years ended December 31, 1997 have been audited by Price Waterhouse LLP, independent accountants, whose report thereon was unqualified. In addition, the financial highlights for each of the years prior to and including the period ended December 31, 1995 have been audited by other independent auditors, whose report thereon was also unqualified. Price Waterhouse LLP's report is included in the Statement of Additional Information.

Money Market										
Year ended December 31,										
	1997	1996	1995(a)	1994(a)	1993(a)	1992(a)	1991(a)	1990(a)	1989(a)	1988(a)
Per Share Operating Performance:										
Net Asset Value, beginning of year	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00
Income From Investment Operations:										
Net investment income and net realized gains	0.54	0.51	0.56	0.40	0.29	0.37	0.60	0.78	0.88	0.72
Dividends and distributions	(0.54)	(0.51)	(0.56)	(0.40)	(0.29)	(0.37)	(0.60)	(0.78)	(0.88)	(0.72)
Net Asset Value, end of year	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00
Total Investment Return(b)	5.41%	5.22%	5.80%	4.05%	2.95%	3.79%	6.16%	8.16%	9.25%	7.35%
Ratios/Supplemental Data:										
Net assets, end of year (in millions)	\$657.5	\$668.8	\$613.3	\$583.3	\$474.7	\$528.7	\$529.6	\$434.2	\$236.1	\$155.9
Ratios to average net assets:										
Expenses	0.43%	0.44%	0.44%	0.47%	0.45%	0.47%	0.46%	0.50%	0.55%	0.57%
Net investment income	5.28%	5.10%	5.64%	4.02%	2.90%	3.72%	5.96%	7.80%	8.77%	7.17%

Diversified Bond										
Year ended December 31,										
	1997	1996	1995(a)	1994(a)	1993(a)	1992(a)	1991(a)	1990(a)	1989(a)	1988(a)
Per Share Operating Performance:										
Net Asset Value, beginning of year	\$ 11.07	\$ 11.31	\$ 10.04	\$ 11.10	\$ 10.83	\$ 11.00	\$ 10.33	\$ 10.32	\$ 9.94	\$ 10.04
Income From Investment Operations										
Net investment income	0.80	0.76	0.76	0.68	0.68	0.76	0.80	0.83	0.89	0.88
Net realized and unrealized gains (losses) on investments	0.11	(0.27)	1.29	(1.04)	0.40	0.01	0.84	(0.01)	0.42	(0.07)
Total from investment operations	0.91	0.49	2.05	(0.36)	1.08	0.77	1.64	0.82	1.31	0.81
Less Distributions:										
Dividends from net investment income	(0.83)	(0.73)	(0.75)	(0.68)	(0.66)	(0.72)	(0.78)	(0.81)	(0.85)	(0.91)
Distributions from net realized gains	(0.13)	—	(0.03)	(0.02)	(0.15)	(0.22)	(0.19)	—	(0.08)	—
Total distributions	(0.96)	(0.73)	(0.78)	(0.70)	(0.81)	(0.94)	(0.97)	(0.81)	(0.93)	(0.91)
Net Asset Value, end of year	\$ 11.02	\$ 11.07	\$ 11.31	\$ 10.04	\$ 11.10	\$ 10.83	\$ 11.00	\$ 10.33	\$ 10.32	\$ 9.94
Total Investment Return(b)	8.57%	4.40%	20.73%	(3.23)%	10.13%	7.19%	16.44%	8.32%	13.49%	8.19%
Ratios/Supplemental Data:										
Net assets, end of year (in millions)	\$816.7	\$720.2	\$655.8	\$541.6	\$576.2	\$428.8	\$318.7	\$227.7	\$191.1	\$148.8
Ratios to average net assets:										
Expenses	0.43%	0.45%	0.44%	0.45%	0.46%	0.47%	0.49%	0.47%	0.53%	0.53%
Net investment income	7.18%	6.89%	7.00%	6.41%	6.05%	6.89%	7.43%	8.06%	8.56%	8.52%
Portfolio turnover rate	224%	210%	199%	32%	41%	61%	131%	42%	273%	222%

(a) Calculations are based on average month-end shares outstanding.

(b) Total investment return is calculated assuming a purchase of shares on the first day and a sale on the last day of each year reported and includes reinvestment of dividends and distributions.

This information should be read in conjunction with the financial statements of The Prudential Series Fund, Inc. and notes thereto, which appear in the Statement of Additional Information.

Further information about performance of the portfolios is contained in the Annual Report to Contract Owners which may be obtained without charge.

THE PRUDENTIAL SERIES FUND, INC.
FINANCIAL HIGHLIGHTS
(For a Share outstanding throughout the periods indicated)

The following highlights for the two years ended December 31, 1997 have been audited by Price Waterhouse LLP, independent accountants, whose report thereon was unqualified. In addition, the financial highlights for each of the years prior to and including the period ended December 31, 1995 have been audited by other independent auditors, whose report thereon was also unqualified. Price Waterhouse LLP's report is included in the Statement of Additional Information.

	Government Income								May 1, 1989(d) to December 31, 1989(a)
	Year ended December 31,								
	1997	1996	1995(a)	1994(a)	1993(a)	1992(a)	1991(a)	1990(a)	
Per Share Operating Performance:									
Net Asset Value, beginning of period . . .	\$ 11.22	\$ 11.72	\$ 10.46	\$ 11.78	\$ 11.09	\$ 11.13	\$ 10.15	\$ 10.32	\$ 10.02
Income From Investment Operations									
Net investment income	0.75	0.75	0.74	0.70	0.70	0.73	0.73	0.79	0.54
Net realized and unrealized gains (losses) on investments	0.30	(0.51)	1.28	(1.31)	0.68	(0.09)	0.85	(0.17)	0.61
Total from investment operations . . .	1.05	0.24	2.02	(0.61)	1.38	0.64	1.58	0.62	1.15
Less Distributions:									
Dividends from net investment income . .	(0.75)	(0.74)	(0.76)	(0.71)	(0.64)	(0.59)	(0.60)	(0.77)	(0.49)
Distributions from net realized gains . . .	—	—	—	—	(0.05)	(0.09)	—	(0.02)	(0.36)
Total distributions	(0.75)	(0.74)	(0.76)	(0.71)	(0.69)	(0.68)	(0.60)	(0.79)	(0.85)
Net Asset Value, end of period	\$ 11.52	\$ 11.22	\$ 11.72	\$ 10.46	\$ 11.78	\$ 11.09	\$ 11.13	\$ 10.15	\$ 10.32
Total Investment Return(b)	9.67%	2.22%	19.48%	(5.16)%	12.56%	5.85%	16.11%	6.34%	11.60%
Ratios/Supplemental Data:									
Net assets, end of period (in millions) . .	\$429.6	\$482.0	\$501.8	\$487.6	\$540.1	\$315.5	\$95.0	\$23.7	\$17.0
Ratios to average net assets:									
Expenses	0.44%	0.46%	0.45%	0.45%	0.46%	0.53%	0.58%	0.74%	0.50%(c)
Net investment income	6.40%	6.38%	6.55%	6.30%	5.91%	6.58%	6.97%	7.86%	5.06%(c)
Portfolio turnover rate	88%	95%	195%	34%	19%	81%	127%	379%	209%

	Zero Coupon Bond 2000									
	Year ended December 31,									
	1997	1996	1995(a)	1994(a)	1993(a)	1992(a)	1991(a)	1990(a)	1989(a)	1988(a)
Per Share Operating Performance:										
Net Asset Value, beginning of year	\$ 12.92	\$ 13.27	\$ 11.86	\$ 13.72	\$ 12.55	\$ 12.40	\$ 11.28	\$ 11.88	\$ 11.00	\$ 10.69
Income From Investment Operations										
Net investment income	0.67	0.55	0.59	0.92	0.85	0.89	0.91	1.11	0.92	0.92
Net realized and unrealized gains (losses) on investments	0.22	(0.36)	1.95	(1.91)	1.16	0.14	1.30	(0.59)	1.28	0.29
Total from investment operations . . .	0.89	0.19	2.54	(0.99)	2.01	1.03	2.21	0.52	2.20	1.21
Less Distributions:										
Dividends from net investment income . .	(0.67)	(0.54)	(0.60)	(0.85)	(0.84)	(0.88)	(0.94)	(1.12)	(0.92)	(0.90)
Distributions from net realized gains . . .	(0.53)	—	(0.53)	(0.02)	(0.01)	—	(0.15)	—	(0.40)	—
Total distributions	(1.20)	(0.54)	(1.13)	(0.87)	(0.85)	(0.88)	(1.09)	(1.12)	(1.32)	(0.90)
Net Asset Value, end of year	\$ 12.61	\$ 12.92	\$ 13.27	\$ 11.86	\$ 13.71	\$ 12.55	\$ 12.40	\$ 11.28	\$ 11.88	\$ 11.00
Total Investment Return(b)	7.17%	1.53%	21.56%	(7.18)%	16.15%	8.59%	20.71%	5.11%	20.38%	11.56%
Ratios/Supplemental Data:										
Net assets, end of year (in millions) . . .	\$41.3	\$44.7	\$25.3	\$20.6	\$22.2	\$16.7	\$14.6	\$13.9	\$13.1	\$10.9
Ratios to average net assets:										
Expenses	0.66%	0.52%	0.48%	0.51%	0.62%	0.66%	0.68%	0.75%	0.75%	0.75%
Net investment income	4.78%	4.88%	4.53%	6.69%	6.21%	7.24%	7.77%	9.99%	7.73%	8.24%
Portfolio turnover rate	32%	13%	71%	9%	1%	—	—	—	39%	—

(a) Calculations are based on average month-end shares outstanding.

(b) Total investment return is calculated assuming a purchase of shares on the first day and a sale on the last day of each period reported and includes reinvestment of dividends and distributions. Total returns for less than a full year are not annualized.

(c) Annualized.

(d) Commencement of Investment operations.

This information should be read in conjunction with the financial statements of The Prudential Series Fund, Inc. and notes thereto, which appear in the Statement of Additional Information.

Further information about performance of the portfolios is contained in the Annual Report to Contract Owners which may be obtained without charge.

**THE PRUDENTIAL SERIES FUND, INC.
FINANCIAL HIGHLIGHTS**

(For a Share outstanding throughout the periods indicated)

The following highlights for the two years ended December 31, 1997 have been audited by Price Waterhouse LLP, independent accountants, whose report thereon was unqualified. In addition, the financial highlights for each of the years prior to and including the period ended December 31, 1995 have been audited by other independent auditors, whose report thereon was also unqualified. Price Waterhouse LLP's report is included in the Statement of Additional Information.

Zero Coupon Bond 2005

	Year ended December 31,							May 1, 1989(d) to December 31, 1989(a)	
	1997	1996	1995(a)	1994(a)	1993(a)	1992(a)	1991(a)	1990(a)	
	Per Share Operating Performance:								
Net Asset Value, beginning of period . . .	\$ 12.25	\$ 13.19	\$ 10.74	\$ 12.68	\$ 11.03	\$ 10.87	\$ 9.80	\$ 10.46	\$ 10.02
Income From Investment Operations									
Net investment income	0.68	0.66	0.66	0.75	0.77	0.80	0.82	0.85	0.56
Net realized and unrealized gains (losses) on investments	0.66	(0.82)	2.73	(1.97)	1.62	0.21	1.14	(0.65)	0.60
Total from investment operations . . .	1.34	(0.16)	3.39	(1.22)	2.39	1.01	1.96	0.20	1.16
Less Distributions:									
Dividends from net investment income . .	(0.71)	(0.64)	(0.65)	(0.72)	(0.74)	(0.79)	(0.83)	(0.86)	(0.53)
Distributions from net realized gains . . .	(0.28)	(0.14)	(0.29)	—	—	(0.06)	(0.06)	—	(0.19)
Total distributions	(0.99)	(0.78)	(0.94)	(0.72)	(0.74)	(0.85)	(0.89)	(0.86)	(0.72)
Net Asset Value, end of period	\$ 12.60	\$ 12.25	\$ 13.19	\$ 10.74	\$ 12.68	\$ 11.03	\$ 10.87	\$ 9.80	\$ 10.46
Total Investment Return(b)	11.18%	(1.01)%	31.85%	(9.61)%	21.94%	9.66%	21.16%	2.56%	11.67%
Ratios/Supplemental Data:									
Net assets, end of period (in millions) . .	\$30.8	\$25.8	\$23.6	\$16.5	\$14.5	\$9.8	\$8.7	\$7.3	\$7.2
Ratios to average net assets:									
Expenses	0.74%	0.53%	0.49%	0.60%	0.66%	0.75%	0.75%	0.75%	0.49%(c)
Net investment income	5.71%	5.42%	5.32%	6.53%	6.17%	7.46%	8.08%	8.83%	5.25%(c)
Portfolio turnover rate	35%	10%	69%	6%	4%	11%	6%	4%	60%

Conservative Balanced

	Year ended December 31,									
	1997	1996	1995(a)	1994(a)	1993(a)	1992(a)	1991(a)	1990(a)	1989(a)	1988(a)
	Per Share Operating Performance:									
Net Asset Value, beginning of year	\$ 15.52	\$ 15.31	\$ 14.10	\$ 14.91	\$ 14.24	\$ 14.32	\$ 13.06	\$ 13.36	\$ 12.30	\$ 11.89
Income From Investment Operations										
Net investment income	0.76	0.66	0.63	0.53	0.49	0.56	0.69	0.82	0.89	0.77
Net realized and unrealized gains (losses) on investments	1.26	1.24	1.78	(0.68)	1.23	0.41	1.74	(0.14)	1.15	0.43
Total from investment operations . . .	2.02	1.90	2.41	(0.15)	1.72	0.97	2.43	0.68	2.04	1.20
Less Distributions:										
Dividends from net investment income . .	(0.76)	(0.66)	(0.64)	(0.51)	(0.47)	(0.54)	(0.67)	(0.81)	(0.89)	(0.79)
Distributions from net realized gains . . .	(1.81)	(1.03)	(0.56)	(0.15)	(0.58)	(0.51)	(0.50)	(0.17)	(0.09)	—
Total distributions	(2.57)	(1.69)	(1.20)	(0.66)	(1.05)	(1.05)	(1.17)	(0.98)	(0.98)	(0.79)
Net Asset Value, end of year	\$ 14.97	\$ 15.52	\$ 15.31	\$ 14.10	\$ 14.91	\$ 14.24	\$ 14.32	\$ 13.06	\$ 13.36	\$ 12.30
Total Investment Return(b)	13.45%	12.63%	17.27%	(0.97)%	12.20%	6.95%	19.07%	5.27%	16.99%	10.19%
Ratios/Supplemental Data:										
Net assets, end of year (in millions) . . .	\$4,744.2	\$4,478.8	\$3,940.8	\$3,501.1	\$3,103.2	\$2,114.0	\$1,500.0	\$1,100.2	\$976.0	\$815.6
Ratios to average net assets:										
Expenses	0.56%	0.59%	0.58%	0.61%	0.60%	0.62%	0.63%	0.65%	0.64%	0.65%
Net investment income	4.48%	4.13%	4.19%	3.61%	3.22%	3.88%	4.89%	6.21%	6.81%	6.22%
Portfolio turnover rate	295%	295%	201%	125%	79%	62%	115%	44%	154%	111%
Average commission rate paid per share	\$0.0563	\$0.0554	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

- (a) Calculations are based on average month-end shares outstanding.
- (b) Total investment return is calculated assuming a purchase of shares on the first day and a sale on the last day of each period reported and includes reinvestment of dividends and distributions. Total returns for less than a full year are not annualized.
- (c) Annualized.
- (d) Commencement of investment operations.

This information should be read in conjunction with the financial statements of The Prudential Series Fund, Inc. and notes thereto, which appear in the Statement of Additional Information.

Further information about performance of the portfolios is contained in the Annual Report to Contract Owners which may be obtained without charge.

THE PRUDENTIAL SERIES FUND, INC.
FINANCIAL HIGHLIGHTS
(For a Share outstanding throughout the periods indicated)

The following highlights for the two years ended December 31, 1997 have been audited by Price Waterhouse LLP, independent accountants, whose report thereon was unqualified. In addition, the financial highlights for each of the years prior to and including the period ended December 31, 1995 have been audited by other independent auditors, whose report thereon was also unqualified. Price Waterhouse LLP's report is included in the Statement of Additional Information.

	Flexible Managed									
	Year ended December 31,									
	1997	1996	1995(a)	1994(a)	1993(a)	1992(a)	1991(a)	1990(a)	1989(a)	1988(a)
Per Share Operating Performance:										
Net Asset Value, beginning of year	\$ 17.79	\$ 17.86	\$ 15.50	\$ 16.96	\$ 16.01	\$ 16.29	\$ 14.00	\$ 14.45	\$ 13.12	\$ 12.33
Income From Investment Operations										
Net investment income	0.59	0.57	0.56	0.47	0.57	0.58	0.65	0.72	0.82	0.72
Net realized and unrealized gains (losses) on investments	2.52	1.79	3.15	(1.02)	1.88	0.61	2.81	(0.47)	1.99	0.84
Total from investment operations	3.11	2.36	3.71	(0.55)	2.45	1.19	3.46	0.25	2.81	1.56
Less Distributions:										
Dividends from net investment income	(0.58)	(0.58)	(0.56)	(0.45)	(0.57)	(0.56)	(0.66)	(0.70)	(0.81)	(0.77)
Distributions from net realized gains	(3.04)	(1.85)	(0.79)	(0.46)	(0.93)	(0.91)	(0.51)	—	(0.67)	—
Total distributions	(3.62)	(2.43)	(1.35)	(0.91)	(1.50)	(1.47)	(1.17)	(0.70)	(1.48)	(0.77)
Net Asset Value, end of year	\$ 17.28	\$ 17.79	\$ 17.86	\$ 15.50	\$ 16.96	\$ 16.01	\$ 16.29	\$ 14.00	\$ 14.45	\$ 13.12
Total Investment Return(b)	17.96%	13.64%	24.13%	(3.16)%	15.58%	7.61%	25.43%	1.91%	21.77%	12.83%
Ratios/Supplemental Data:										
Net assets, end of year (in millions)	\$5,490.1	\$4,896.9	\$4,261.2	\$3,481.5	\$3,292.2	\$2,435.6	\$1,990.7	\$1,507.8	\$1,386.5	\$1,103.9
Ratios to average net assets:										
Expenses	0.62%	0.64%	0.63%	0.66%	0.66%	0.67%	0.67%	0.69%	0.69%	0.70%
Net investment income	3.02%	3.07%	3.30%	2.90%	3.30%	3.63%	4.23%	5.13%	5.66%	5.52%
Portfolio turnover rate	227%	233%	173%	124%	63%	59%	93%	52%	141%	128%
Average commission rate paid per share	\$0.0569	\$0.0563	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

	High Yield Bond									
	Year ended December 31,									
	1997	1996	1995(a)	1994(a)	1993(a)	1992(a)	1991(a)	1990(a)	1989(a)	1988(a)
Per Share Operating Performance:										
Net Asset Value, beginning of year	\$ 7.87	\$ 7.80	\$ 7.37	\$ 8.41	\$ 7.72	\$ 7.21	\$ 5.84	\$ 7.67	\$ 8.90	\$ 8.74
Income From Investment Operations										
Net investment income	0.78	0.80	0.81	0.87	0.82	0.82	0.83	0.94	1.07	1.07
Net realized and unrealized gains (losses) on investments	0.26	0.06	0.46	(1.10)	0.63	0.42	1.40	(1.79)	(1.22)	0.06
Total from investment operations	1.04	0.86	1.27	(0.23)	1.45	1.24	2.23	(0.85)	(0.15)	1.13
Less Distributions:										
Dividends from net investment income	(0.77)	(0.78)	(0.84)	(0.81)	(0.76)	(0.73)	(0.86)	(0.98)	(1.08)	(0.97)
Dividends in excess of net investment income	—	(0.01)	—	—	—	—	—	—	—	—
Total distributions	(0.77)	(0.79)	(0.84)	(0.81)	(0.76)	(0.73)	(0.86)	(0.98)	(1.08)	(0.97)
Net Asset Value, end of year	\$ 8.14	\$ 7.87	\$ 7.80	\$ 7.37	\$ 8.41	\$ 7.72	\$ 7.21	\$ 5.84	\$ 7.67	\$ 8.90
Total Investment Return(b)	13.78%	11.39%	17.56%	(2.72)%	19.27%	17.54%	39.71%	(11.84)%	(2.05)%	13.17%
Ratios/Supplemental Data:										
Net assets, end of year (in millions)	\$568.7	\$432.9	\$367.9	\$306.2	\$282.9	\$153.7	\$78.7	\$49.8	\$60.0	\$65.8
Ratios to average net assets:										
Expenses	0.57%	0.63%	0.61%	0.65%	0.65%	0.70%	0.75%	0.75%	0.71%	0.75%
Net investment income	9.78%	9.89%	10.34%	9.88%	9.91%	10.67%	12.05%	13.42%	12.29%	11.60%
Portfolio turnover rate	106%	88%	139%	69%	96%	75%	57%	35%	61%	71%

(a) Calculations are based on average month-end shares outstanding.

(b) Total investment return is calculated assuming a purchase of shares on the first day and a sale on the last day of each year reported and includes reinvestment of dividends and distributions.

This information should be read in conjunction with the financial statements of The Prudential Series Fund, Inc. and notes thereto, which appear in the Statement of Additional Information.

Further information about performance of the portfolios is contained in the Annual Report to Contract Owners which may be obtained without charge.

THE PRUDENTIAL SERIES FUND, INC.
FINANCIAL HIGHLIGHTS
(For a Share outstanding throughout the periods indicated)

The following highlights for the two years ended December 31, 1997 have been audited by Price Waterhouse LLP, independent accountants, whose report thereon was unqualified. In addition, the financial highlights for each of the years prior to and including the period ended December 31, 1995 have been audited by other independent auditors, whose report thereon was also unqualified. Price Waterhouse LLP's report is included in the Statement of Additional Information.

	Stock Index									
	Year ended December 31,									
	1997	1996	1995(a)	1994(a)	1993(a)	1992(a)	1991(a)	1990(a)	1989(a)	1988(a)
Per Share Operating Performance:										
Net Asset Value, beginning of year	\$ 23.74	\$ 19.96	\$ 14.96	\$ 15.20	\$ 14.22	\$ 13.61	\$ 10.76	\$ 11.73	\$ 9.45	\$ 8.53
Income From Investment Operations										
Net investment income	0.43	0.40	0.40	0.38	0.36	0.35	0.35	0.36	0.33	0.36
Net realized and unrealized gains (losses) on investments	7.34	4.06	5.13	(0.23)	1.00	0.60	2.82	(0.79)	2.57	0.95
Total from investment operations	7.77	4.46	5.53	0.15	1.36	0.95	3.17	(0.43)	2.90	1.31
Less Distributions:										
Dividends from net investment income	(0.42)	(0.40)	(0.38)	(0.37)	(0.35)	(0.33)	(0.31)	(0.31)	(0.35)	(0.39)
Distributions from net realized gains	(0.87)	(0.28)	(0.15)	(0.02)	(0.03)	(0.01)	(0.01)	(0.23)	(0.27)	—
Total distributions	(1.29)	(0.68)	(0.53)	(0.39)	(0.38)	(0.34)	(0.32)	(0.54)	(0.62)	(0.39)
Net Asset Value, end of year	\$ 30.22	\$ 23.74	\$ 19.96	\$ 14.96	\$ 15.20	\$ 14.22	\$ 13.61	\$ 10.76	\$ 11.73	\$ 9.45
Total Investment Return(b)	32.83%	22.57%	37.06%	1.01%	9.66%	7.13%	29.72%	(3.63)%	30.93%	15.44%
Ratios/Supplemental Data:										
Net assets, end of year (in millions)	\$2,448.2	\$1,581.4	\$1,031.3	\$664.5	\$615.1	\$433.5	\$236.9	\$104.5	\$53.8	\$36.0
Ratios to average net assets:										
Expenses	0.37%	0.40%	0.38%	0.42%	0.42%	0.46%	0.47%	0.60%	0.69%	0.78%
Net investment income	1.55%	1.95%	2.27%	2.50%	2.43%	2.56%	2.82%	3.23%	2.95%	3.87%
Portfolio turnover rate	5%	1%	1%	2%	1%	1%	1%	18%	15%	16%
Average commission rate paid per share	\$0.0235	\$0.0250	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

	Equity Income									
	Year ended December 31,									
	1997	1996	1995(a)	1994(a)	1993(a)	1992(a)	1991(a)	1990(a)	1989(a)	February 19, 1988(d) to December 31, 1988(a)
Per Share Operating Performance:										
Net Asset Value, beginning of period	\$ 18.51	\$ 16.27	\$ 14.48	\$ 15.66	\$ 13.67	\$ 13.21	\$ 11.24	\$ 12.25	\$ 10.62	\$ 10.13
Income From Investment Operations										
Net investment income	0.61	0.58	0.64	0.67	0.55	0.58	0.58	0.51	0.54	0.45
Net realized and unrealized gains (losses) on investments	6.06	2.88	2.50	(0.45)	2.46	0.72	2.43	(0.98)	1.84	0.69
Total from investment operations	6.67	3.46	3.14	0.22	3.01	1.30	3.01	(0.47)	2.38	1.14
Less Distributions:										
Dividends from net investment income	(0.57)	(0.71)	(0.62)	(0.56)	(0.50)	(0.52)	(0.54)	(0.46)	(0.46)	(0.42)
Distributions from net realized gains	(2.22)	(0.51)	(0.73)	(0.82)	(0.52)	(0.32)	(0.50)	(0.08)	(0.29)	(0.23)
Total distributions	(2.79)	(1.22)	(1.35)	(1.38)	(1.02)	(0.84)	(1.04)	(0.54)	(0.75)	(0.65)
Net Asset Value, end of period	\$ 22.39	\$ 18.51	\$ 16.27	\$ 14.50	\$ 15.66	\$ 13.67	\$ 13.21	\$ 11.24	\$ 12.25	\$ 10.62
Total Investment Return(b)	36.61%	21.74%	21.70%	1.44%	22.28%	10.14%	27.50%	(3.73)%	22.67%	11.31%
Ratios/Supplemental Data:										
Net assets, end of period (in millions)	\$2,029.8	\$1,363.5	\$1,110.0	\$859.7	\$602.8	\$234.4	\$106.9	\$55.5	\$34.9	\$11.3
Ratios to average net assets:										
Expenses	0.41%	0.45%	0.43%	0.52%	0.54%	0.57%	0.57%	0.60%	0.74%	0.64%(c)
Net investment income	2.90%	3.36%	4.00%	3.92%	3.56%	4.32%	4.53%	4.53%	4.48%	4.08%(c)
Portfolio turnover rate	38%	21%	64%	63%	41%	40%	60%	55%	57%	61%
Average commission rate paid per share	\$0.0566	\$0.0553	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

- (a) Calculations are based on average month-end shares outstanding.
(b) Total investment return is calculated assuming a purchase of shares on the first day and a sale on the last day of each period reported and includes reinvestment of dividends and distributions. Total returns for periods less than a one year are not annualized.
(c) Annualized.
(d) Commencement of investment operations.

This information should be read in conjunction with the financial statements of The Prudential Series Fund, Inc. and notes thereto, which appear in the Statement of Additional Information.

Further information about performance of the portfolios is contained in the Annual Report to Contract Owners which may be obtained without charge.

**THE PRUDENTIAL SERIES FUND, INC.
FINANCIAL HIGHLIGHTS**

(For a Share outstanding throughout the periods indicated)

The following highlights for the two years ended December 31, 1997 have been audited by Price Waterhouse LLP, independent accountants, whose report thereon was unqualified. In addition, the financial highlights for each of the years prior to and including the period ended December 31, 1995 have been audited by other independent auditors, whose report thereon was also unqualified. Price Waterhouse LLP's report is included in the Statement of Additional Information.

	Equity									
	Year ended December 31,									
	1997	1996	1995(a)	1994(a)	1993(a)	1992(a)	1991(a)	1990(a)	1989(a)	1988(a)
Per Share Operating Performance:										
Net Asset Value, beginning of year	\$ 26.96	\$ 25.64	\$ 20.66	\$ 21.49	\$ 18.90	\$ 17.91	\$ 15.45	\$ 18.54	\$ 15.46	\$ 13.62
Income From Investment Operations										
Net investment income	0.69	0.71	0.55	0.51	0.42	0.44	0.48	0.58	0.47	0.40
Net realized and unrealized gains (losses) on investments	5.88	3.88	5.89	0.05	3.67	2.05	3.42	(1.58)	4.07	1.91
Total from investment operations	6.57	4.59	6.44	0.56	4.09	2.49	3.90	(1.00)	4.54	2.31
Less Distributions:										
Dividends from net investment income	(0.70)	(0.67)	(0.52)	(0.49)	(0.40)	(0.44)	(0.48)	(0.56)	(0.50)	(0.47)
Distributions from net realized gains	(1.76)	(2.60)	(0.94)	(0.90)	(1.10)	(1.06)	(0.96)	(1.53)	(0.96)	—
Total distributions	(2.46)	(3.27)	(1.46)	(1.39)	(1.50)	(1.50)	(1.44)	(2.09)	(1.46)	(0.47)
Net Asset Value, end of year	\$ 31.07	\$ 26.96	\$ 25.64	\$ 20.66	\$ 21.49	\$ 18.90	\$ 17.91	\$ 15.45	\$ 18.54	\$ 15.46
Total Investment Return(b)	24.66%	18.52%	31.29%	2.78%	21.87%	14.17%	26.01%	(5.21)%	29.73%	17.05%
Ratios/Supplemental Data:										
Net assets, end of year (in millions)	\$6,024.0	\$4,814.0	\$3,813.8	\$2,617.8	\$2,186.5	\$1,416.6	\$1,032.8	\$700.5	\$675.5	\$500.1
Ratios to average net assets:										
Expenses	0.46%	0.50%	0.48%	0.55%	0.53%	0.53%	0.51%	0.56%	0.56%	0.57%
Net investment income	2.27%	2.54%	2.28%	2.39%	1.99%	2.33%	2.66%	3.37%	2.66%	2.67%
Portfolio turnover rate	13%	20%	18%	7%	13%	16%	21%	85%	74%	62%
Average commission rate paid per share	\$0.0336	\$0.0524	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

	Prudential Jennison		
	Year ended December 31,		April 25, 1995(d) to December 31, 1995(a)
	1997	1996	
Per Share Operating Performance:			
Net Asset Value, beginning of period	\$ 14.32	\$ 12.55	\$ 10.00
Income From Investment Operations			
Net investment income	0.04	0.02	0.02
Net realized and unrealized gains on investments	4.48	1.78	2.54
Total from investment operations	4.52	1.80	2.56
Less Distributions:			
Dividends from net investment income	(0.04)	(0.03)	(0.01)
Distributions from net realized gains	(1.07)	—	—
Total distributions	(1.11)	(0.03)	(0.01)
Net Asset Value, end of period	\$ 17.73	\$ 14.32	\$ 12.55
Total Investment Return(b)	31.71%	14.41%	24.20%
Ratios/Supplemental Data:			
Net assets, end of period (in millions)	\$495.9	\$226.5	\$63.1
Ratios to average net assets:			
Expenses	0.64%	0.66%	0.79%(c)
Net investment income	0.25%	0.20%	0.15%(c)
Portfolio turnover rate	60%	46%	37%
Average commission rate paid per share	\$0.0590	\$0.0603	N/A

- (a) Calculations are based on average month-end shares outstanding.
(b) Total investment return is calculated assuming a purchase of shares on the first day and a sale on the last day of each period reported and includes reinvestment of dividends and distributions. Total investment returns for less than a full year are not annualized.
(c) Annualized
(d) Commencement of Operations

This information should be read in conjunction with the financial statements of The Prudential Series Fund, Inc. and notes thereto, which appear in the Statement of Additional Information.

Further information about performance of the portfolios is contained in the Annual Report to Contract Owners which may be obtained without charge.

**THE PRUDENTIAL SERIES FUND, INC.
FINANCIAL HIGHLIGHTS**

(For a Share outstanding throughout the periods indicated)

The following highlights for the two years ended December 31, 1997 have been audited by Price Waterhouse LLP, independent accountants, whose report thereon was unqualified. In addition, the financial highlights for each of the years prior to and including the period ended December 31, 1995 have been audited by other independent auditors, whose report thereon was also unqualified. Price Waterhouse LLP's report is included in the Statement of Additional Information.

Small Capitalization Stock

	Year ended December 31,		April 25, 1995(d) to December 31, 1995(a)
	1997	1996	
Per Share Operating Performance:			
Net Asset Value, beginning of period	\$ 13.79	\$ 11.83	\$ 10.00
Income From Investment Operations			
Net investment income	0.10	0.09	0.08
Net realized and unrealized gains (losses) on investments	3.32	2.23	1.91
Total from investment operations	3.42	2.32	1.99
Less Distributions:			
Dividends from net investment income	(0.10)	(0.09)	(0.04)
Distributions from net realized gains	(1.18)	(0.27)	(0.12)
Total distributions	(1.28)	(0.36)	(0.16)
Net Asset Value, end of period	\$ 15.93	\$ 13.79	\$ 11.83
Total Investment Return(b)	25.17%	19.77%	19.74%
Ratios/Supplemental Data:			
Net assets, end of period (in millions)	\$290.3	\$147.9	\$47.5
Ratios to average net assets:			
Expenses	0.50%	0.56%	0.60%(c)
Net investment income	0.69%	0.87%	0.68%(c)
Portfolio turnover rate	31%	13%	32%
Average commission rate paid per share	\$0.0291	\$0.0307	N/A

Global

	Year ended December 31,									September 19, 1988(d) to December 31, 1988(a)
	1997	1996	1995(a)	1994(a)	1993(a)	1992(a)	1991(a)	1990(a)	1989(a)	
Per Share Operating Performance:										
Net Asset Value, beginning of year	\$ 17.85	\$ 15.53	\$ 13.88	\$ 14.64	\$ 10.37	\$ 10.79	\$ 9.87	\$ 11.55	\$ 10.51	\$ 9.82
Income From Investment Operations										
Net investment income	0.09	0.11	0.06	0.02	0.02	0.05	0.09	0.20	0.08	0.05
Net realized and unrealized gains (losses) on investments	1.11	2.94	2.14	(0.74)	4.44	(0.42)	1.02	(1.80)	1.81	0.79
Total from investment operations	1.20	3.05	2.20	(0.72)	4.46	(0.37)	1.11	(1.60)	1.89	0.84
Less Distributions:										
Dividends from net investment income	(0.13)	(0.11)	(0.24)	(0.02)	(0.08)	(0.05)	(0.10)	(0.07)	(0.07)	(0.15)
Dividends in excess of net investment income	(0.10)	—	—	—	—	—	—	—	—	—
Distributions from net realized gains	(0.90)	(0.62)	(0.31)	(0.02)	(0.11)	—	(0.09)	(0.01)	(0.78)	—
Total distributions	(1.13)	(0.73)	(0.55)	(0.04)	(0.19)	(0.05)	(0.19)	(0.08)	(0.85)	(0.15)
Net Asset Value, end of year	\$ 17.92	\$ 17.85	\$ 15.53	\$ 13.88	\$ 14.64	\$ 10.37	\$ 10.79	\$ 9.87	\$ 11.55	\$ 10.51
Total Investment Return(b)	6.98%	19.97%	15.88%	(4.89)%	43.14%	(3.42)%	11.39%	(12.91)%	18.82%	8.57%
Ratios/Supplemental Data:										
Net assets, end of year (in millions)	\$638.4	\$580.6	\$400.1	\$345.7	\$129.1	\$34.0	\$34.3	\$26.2	\$29.4	\$26.9
Ratios to average net assets:										
Expenses	0.85%	0.92%	1.06%	1.23%	1.44%	1.87%	1.62%	1.67%	1.47%	0.42%(c)
Net investment income	0.47%	0.64%	0.44%	0.20%	0.18%	0.49%	0.92%	1.92%	0.70%	0.51%(c)
Portfolio turnover rate	70%	41%	59%	37%	55%	78%	136%	43%	48%	6%
Average commission rate paid per share	\$0.0247	\$0.0358	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

(a) Calculations are based on average month-end shares outstanding.

(b) Total investment return is calculated assuming a purchase of shares on the first day and a sale on the last day of each period reported and includes reinvestment of dividends and distributions. Total returns for less than a full year are not annualized.

(c) Annualized.

(d) Commencement of Operations.

This information should be read in conjunction with the financial statements of The Prudential Series Fund, Inc. and notes thereto, which appear in the Statement of Additional Information.

Further information about performance of the portfolios is contained in the Annual Report to Contract Owners which may be obtained without charge.

THE PRUDENTIAL SERIES FUND, INC.

FINANCIAL HIGHLIGHTS

(For a Share outstanding throughout the periods indicated)

The following highlights for the two years ended December 31, 1997 have been audited by Price Waterhouse LLP, independent accountants, whose report thereon was unqualified. In addition, the financial highlights for each of the years prior to and including the period ended December 31, 1995 have been audited by other independent auditors, whose report thereon was also unqualified. Price Waterhouse LLP's report is included in the Statement of Additional Information.

Natural Resources

	Year ended December 31,									February 19, 1988(d) to December 31,
	1997	1996	1995(a)	1994(a)	1993(a)	1992(a)	1991(a)	1990(a)	1989(a)	1988(a)
Per Share Operating Performance:										
Net Asset Value, beginning of period	\$ 19.77	\$ 17.27	\$ 14.44	\$ 15.56	\$ 12.95	\$ 12.45	\$ 11.62	\$ 12.71	\$ 10.14	\$ 9.91
Income From Investment Operations										
Net investment income	0.12	0.15	0.21	0.18	0.23	0.32	0.37	0.41	0.36	0.26
Net realized and unrealized gains (losses) on investments	(2.43)	5.11	3.66	(0.85)	3.00	0.59	0.82	(1.14)	3.22	0.27
Total from investment operations	(2.31)	5.26	3.87	(0.67)	3.23	0.91	1.19	(0.73)	3.58	0.53
Less Distributions:										
Dividends from net investment income	(0.10)	(0.14)	(0.21)	(0.15)	(0.21)	(0.31)	(0.36)	(0.34)	(0.36)	(0.25)
Distributions from net realized gains	(2.12)	(2.62)	(0.83)	(0.30)	(0.41)	(0.10)	—	(0.02)	(0.65)	(0.05)
Total distributions	(2.22)	(2.76)	(1.04)	(0.45)	(0.62)	(0.41)	(0.36)	(0.36)	(1.01)	(0.30)
Net Asset Value, end of period	\$ 15.24	\$ 19.77	\$ 17.27	\$ 14.44	\$ 15.56	\$ 12.95	\$ 12.45	\$ 11.62	\$ 12.71	\$ 10.14
Total Investment Return(b)	(11.59)%	30.88%	26.92%	(4.30)%	25.15%	7.30%	10.30%	(5.76)%	35.64%	5.42%
Ratios/Supplemental Data:										
Net assets, end of period (in millions)	\$358.0	\$438.4	\$293.2	\$227.3	\$158.8	\$77.5	\$62.6	\$50.6	\$17.9	\$9.5
Ratios to average net assets:										
Expenses	0.54%	0.52%	0.50%	0.61%	0.60%	0.72%	0.68%	0.75%	0.86%	0.58%(c)
Net investment income	0.60%	0.75%	1.25%	1.09%	1.50%	2.44%	2.97%	3.45%	3.04%	2.46%(c)
Portfolio turnover rate	32%	36%	46%	18%	20%	29%	21%	42%	49%	59%
Average commission rate paid per share	\$0.0439	\$0.0454	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

- (a) Calculations are based on average month-end shares outstanding.
- (b) Total investment return is calculated assuming a purchase of shares on the first day and a sale on the last day of each period reported and includes reinvestment of dividends and distributions. Total returns for less than a full year are not annualized.
- (c) Annualized.
- (d) Commencement of investment operations.

This information should be read in conjunction with the financial statements of The Prudential Series Fund, Inc. and notes thereto, which appear in the Statement of Additional Information.

Further information about performance of the portfolios is contained in the Annual Report to Contract Owners which may be obtained without charge.

PORTFOLIO RATES OF RETURN

The following table, based upon the immediately preceding financial highlights for the Series Fund, shows first the average annual compounded net rates of return for each Portfolio for the year ended December 31, 1997, for the 5 year and 10 year periods ending on that date, and from the inception date of each Portfolio to December 31, 1997. These rates of return should not be regarded as an estimate or prediction of future performance. They may be useful in assessing the competence and performance of the Series Fund's investment advisor and in helping you to decide which portfolios to choose. **This information relates only to the Series Fund and does not reflect the various other charges made under the Contracts.**

Portfolio	Inception Date	Year Ended 12/31/97	5 Years Ended 12/31/97	10 Years Ended 12/31/97	Inception to Date 12/31/97
Money Market	5/83	5.41%	4.68%	5.80%	6.46%
Diversified Bond	5/83	8.57%	7.84%	9.24%	9.39%
Government Income	5/89	9.67%	7.41%	N/A	8.85%
Zero Coupon Bond 2000	2/86	7.17%	7.36%	10.19%	10.30%
Zero Coupon Bond 2005	5/89	11.18%	9.85%	N/A	10.81%
Conservative Balanced	5/83	13.45%	10.74%	11.15%	10.80%
Flexible Managed	5/83	17.96%	13.25%	13.41%	12.18%
High Yield Bond	2/87	13.78%	11.57%	10.69%	9.30%
Stock Index	10/87	32.83%	19.84%	17.47%	17.92%
Equity Income	2/88	36.61%	20.22%	N/A	16.82%
Equity	5/83	24.66%	19.43%	17.54%	15.55%
Prudential Jennison	5/95	31.71%	N/A	N/A	26.97%
Small Capitalization Stock	5/95	25.17%	N/A	N/A	24.50%
Global	9/88	6.98%	15.10%	N/A	10.10%
Natural Resources	5/88	- 11.59%	11.96%	N/A	11.26%

THE SERIES FUND

The Prudential Series Fund, Inc. (the "Series Fund"), a diversified open-end management investment company, is a Maryland corporation organized on November 15, 1982. The Series Fund is currently made up of fifteen separate portfolios: the Money Market Portfolio, the Diversified Bond Portfolio, the Government Income Portfolio, the Zero Coupon Bond Portfolios 2000 and 2005, the Conservative Balanced Portfolio, the Flexible Managed Portfolio, the High Yield Bond Portfolio, the Stock Index Portfolio, the Equity Income Portfolio, the Equity Portfolio, the Prudential Jennison Portfolio, the Small Capitalization Stock Portfolio, the Global Portfolio, and the Natural Resources Portfolio. Each portfolio is, for investment purposes, in effect a separate investment fund, and a separate class of capital stock is issued for each portfolio. In other respects the Series Fund is treated as one entity. Each share of capital stock issued with respect to a portfolio has a pro-rata interest in the assets of that portfolio and has no interest in the assets of any other portfolio. Each portfolio bears its own liabilities and also its proportionate share of the general liabilities of the Series Fund. The Series Fund is registered under the Investment Company Act of 1940 (the "1940 Act") as an open-end, diversified, management investment company. This registration does not imply any supervision by the Securities and Exchange Commission ("SEC") over the Series Fund's management or its investment policies or practices.

THE ACCOUNTS AND THE CONTRACTS

Shares in the Series Fund are currently sold only to separate accounts of The Prudential Insurance Company of America ("Prudential") and certain other insurers to fund benefits under variable life insurance and variable annuity contracts issued by those Companies. All the separate accounts are referred to as the "Accounts," and all the contracts are referred to as the "Contracts." Each Contract owner allocates the net premiums and the assets relating to the Contract, within the limitations described in the Contracts, among the subaccounts of the Accounts which in turn invest in the corresponding portfolios of the Series Fund. Not all portfolios of the Series Fund are currently available to all Contracts. The attached prospectus for the Contracts lists the portfolios that are currently available and describes the particular type of Contract selected and the relationship between changes in the value of shares of each portfolio and changes in the benefits payable under the Contracts. The rights of the Accounts as shareholders should be distinguished from the rights of a Contract owner which are described in the Contracts. The terms "shareholder" or "shareholders" in this prospectus refer to the Accounts.

INVESTMENT MANAGER

Prudential is the investment manager of the Series Fund. Prudential's principal business address is 751 Broad Street, Newark, New Jersey 07102-3777.

Prudential has entered into a Service Agreement with its wholly-owned subsidiary, The Prudential Investment Corporation ("PIC"), which provides that PIC will furnish to Prudential such services as Prudential may require in connection with the performance of its obligations under an Investment Advisory Agreement with the Series Fund. One of PIC's business groups is Prudential Investments. In addition, Prudential has entered into a Subadvisory Agreement with its wholly-owned subsidiary Jennison Associates LLC ("Jennison"), under which Jennison furnishes investment advisory services in connection with the management of the Prudential Jennison Portfolio. See **INVESTMENT MANAGEMENT ARRANGEMENTS AND EXPENSES**, page 34.

Prudential will continue to have responsibility for all investment advisory services under its Investment Advisory Agreement with respect to the Series Fund.

INVESTMENT OBJECTIVES AND POLICIES OF THE PORTFOLIOS

Each portfolio of the Series Fund has a different investment objective which it pursues through separate investment policies as described below. Since each portfolio has a different investment objective, each can be expected to have different investment results and incur different market and financial risks. The Series Fund may in the future establish other portfolios with different investment objectives.

The investment objectives of each portfolio are fundamental and may not be changed without the approval of the holders of a majority of the outstanding shares of the portfolio affected (which for this purpose and under the 1940 Act means the lesser of: (i) 67% of the shares represented at a meeting at which more than 50% of the outstanding shares are represented; or (ii) more than 50% of the outstanding shares). The policies by which a portfolio seeks to achieve its investment objectives, however, are not fundamental. They may be changed by the Board of Directors of the Series Fund without the approval of the shareholders.

The portfolio turnover rate of the portfolios that were available for investment as of December 31, 1997 can be found in the **FINANCIAL HIGHLIGHTS** table on pages 1 through 8. The portfolio turnover rate is, generally, the percentage computed by dividing the lesser of portfolio purchases or sales by the average value of the portfolio, in each case excluding securities with maturities of 1 year or less. Generally, the higher the portfolio turnover rate, the greater the brokerage costs incurred by a portfolio.

The following paragraphs describe the investment objectives and policies of each portfolio. There is no guarantee that any of these objectives will be met.

Fixed Income Portfolios

Money Market Portfolio. The *objective* of this portfolio is to achieve, through investment in high-quality short-term debt obligations, the maximum current income that is consistent with stability of capital and maintenance of liquidity.

The portfolio seeks to achieve this objective by following the *policy* of investing primarily in money market instruments denominated in U.S. dollars that mature in 397 days or less from the date the portfolio acquires them. Money market instruments include short-term obligations of the United States and foreign governments, their agencies, instrumentalities, and political subdivisions, and of domestic and foreign banks and corporations. They also include commercial paper, other corporate obligations, obligations of savings and loan associations and savings banks, and variable amount demand master notes. The portfolio may also enter into repurchase and reverse repurchase agreements and may purchase and sell securities on a when-issued and delayed delivery basis. These investment techniques may involve additional risks. A detailed description of the money market instruments in which the portfolio may invest, of the repurchase and reverse repurchase agreements it may enter into, and of the risks associated with those instruments and agreements may be found in the Appendix to this prospectus.

Because of the high quality, short-term nature of the portfolio's holdings, increases in the value of an investment in the portfolio will be derived almost entirely from interest on the securities held by it. Accordingly, the results for the portfolio are subject to the risk of fluctuation in short-term interest rates.

Diversified Bond Portfolio. The *objective* of this portfolio is to achieve a high level of income over the longer term while providing reasonable safety of capital through investment primarily in readily marketable intermediate and long-term fixed income securities that provide attractive yields but do not involve substantial risk of loss of capital through default.

The portfolio seeks to achieve this objective by following the *policies* of purchasing primarily debt securities of investment grade or, if not rated, of comparable quality in the opinion of the portfolio manager and of investing from time to time a portion of its assets in high quality money market instruments of the kind held in the Money Market Portfolio as described in the Appendix to this prospectus. Moreover, when conditions dictate a temporary defensive strategy or during temporary periods of portfolio structuring and restructuring, the Diversified Bond Portfolio may invest, without limit, in high quality money market instruments of the kind held by the Money Market Portfolio.

Since the value of fixed income securities generally fluctuates inversely with changes in interest rates, the proportions of intermediate or longer-term securities and short-term debt obligations held in the portfolio will vary to reflect Prudential's assessment of prospective changes in interest rates, so that the portfolio may benefit from relative price appreciation when interest rates decline and suffer lesser declines in value when interest rates rise. The success of this strategy will depend on Prudential's ability to forecast changes in interest rates, and there is a corresponding risk that the value of the securities held in the portfolio will decline.

At least 80% of the portfolio's holdings (including short-term debt obligations) will generally consist of debt securities that at the time of purchase have a rating within the four highest grades determined by Moody's Investor Services, Inc. ("Moody's"), Standard & Poor's Ratings Services ("S&P"), or a similar nationally-recognized rating service. The portfolio may retain a security whose rating has dropped below the four highest grades as determined by a commercial rating service. Without limitation, the portfolio may invest in obligations of the U.S. Government and its agencies and instrumentalities. The Appendix to the statement of additional information defines the ratings that are given to debt securities by Moody's and S&P and describes the standards applied by them in assigning these ratings.

The remaining assets of the portfolio may be invested in, among other things, debt securities that are not rated within the four highest grades or convertible debt securities, preferred stocks or convertible preferred stocks of any quality. On occasion, however, the portfolio may acquire common stock, not through direct investment but by the conversion of convertible debt securities or the exercise of warrants. For additional information regarding warrants, see **INVESTMENT OBJECTIVES AND POLICIES OF THE PORTFOLIOS** in the statement of additional information. No more than 10% of the value of the total assets of the portfolio will be held in common stocks, and those will usually be sold as soon as a favorable opportunity is available.

The portfolio may invest up to 20% of its total assets in United States currency denominated debt securities issued outside the United States by foreign or domestic issuers. For additional information regarding such securities, see **Foreign Securities**, page 27.

In addition, the portfolio may: (i) purchase and sell options on debt securities; (ii) purchase and sell interest rate futures contracts and options thereon; (iii) purchase securities on a when-issued or delayed delivery basis; (iv) use interest rate swaps; and (v) make short sales. These techniques are described on pages 29 through 33, and further information about some of them is included in the statement of additional information.

Barbara Kenworthy, Managing Director, Prudential Investments, has been portfolio manager of the Diversified Bond Portfolio since 1995. Ms. Kenworthy is also portfolio manager of the Prudential Diversified Bond Fund, Inc., the Prudential Government Income Fund, Inc., and the Government Income and Zero Coupon Bond Portfolios 2000 and 2005 of the Series Fund. Prior to 1994, Ms. Kenworthy was a portfolio manager and president of several taxable fixed-income funds for The Dreyfus Corp.

Government Income Portfolio. The *objective* of this portfolio is to achieve a high level of income over the longer term consistent with the preservation of capital through investment primarily in intermediate and long-term U.S. Treasury securities and debt obligations issued by agencies of or instrumentalities established, sponsored or guaranteed by the U.S. Government. At least 65% of the total assets of the portfolio will be invested in U.S. Government securities.

The portfolio seeks to achieve this objective by investing at least 65% of its assets in U.S. Treasury securities, obligations issued or guaranteed by U.S. Government agencies and instrumentalities, mortgage-related securities issued by U.S. Government instrumentalities or non-governmental corporations, or related collateralized mortgage obligations. These instruments are described below. The portfolio may invest up to a total of 35% of its assets in the following four categories: (1) money market instruments of the kind held in the Money Market Portfolio; (2) securities of issuers other than the U.S. Government and related entities, usually foreign governments, where the principal and interest are substantially guaranteed (generally to the extent of 90% thereof) by U.S. Government agencies whose guarantee is backed by the full faith and credit of the United States and where an assurance of payment on the unguaranteed portion is provided for in a comparable way; (3) Foreign Government Securities including debt securities issued or guaranteed, as to payment of principal and interest, by governments, governmental agencies, supranational entities and other governmental entities denominated in U.S. dollars. A supranational entity is an entity constituted by the national governments of several countries to promote economic development (examples of such supranational entities include, among others, the World Bank (International Bank for Reconstruction and Development), the European Investment Bank and the Asian Development Bank); and (4) asset-backed securities rated in either of the top two ratings by Moody's or S&P, or if not rated, determined by the portfolio manager to be of comparable quality. A description of corporate bond ratings is contained in the Appendix to the statement of additional information. When conditions dictate a temporary defensive strategy or during temporary periods of portfolio structuring and restructuring, the Government Income Portfolio may invest, without limit, in high quality money market instruments of the kind held by the Money Market Portfolio.

U.S. Treasury Securities. U.S. Treasury securities include bills, notes, and bonds issued by the U.S. Treasury. These instruments are direct obligations of the U.S. Government and, as such, are backed by the full faith and credit of the United States. They differ primarily in their coupons, the lengths of their maturities, and the dates of their issuances.

Obligations Issued or Guaranteed by U.S. Government Agencies and Instrumentalities. Obligations issued by agencies of the U.S. Government or instrumentalities established or sponsored by the U.S. Government include securities that are guaranteed by federal agencies or instrumentalities, and may or may not be backed by the full faith and credit of the United States. Obligations of the Government National Mortgage Association ("GNMA"), the Farmers Home Administration, and the Export-Import Bank are backed by the full faith and credit of the United States. Securities in which the portfolio may invest that are not backed by the full faith and credit of the United States include obligations issued by the Tennessee Valley Authority, The Federal National Mortgage Association ("FNMA"), the Federal Home Loan Mortgage Corporation ("FHLMC"), the United States Postal Service, each of which has the right to borrow from the United States Treasury to meet its obligations, and obligations of the Federal Farm Credit Bank and the Federal Home Loan Bank, the obligations of which may be satisfied only by the individual credit of the issuing agency. In the case of securities not backed by the full faith and credit of the U.S. Government, the portfolio must look principally to the agency issuing or guaranteeing the obligation for ultimate repayment and may not be able to assert a claim against the U.S. Government if the agency or instrumentality does not meet its commitments.

U.S. Government Securities are considered among the most creditworthy of fixed income investments. The yields available from U.S. Government Securities are generally lower than the yields available from corporate debt securities. The values of U.S. Government Securities (like those of fixed income securities, generally) will change as interest rates fluctuate. During periods of falling U.S. interest rates, the values of outstanding long-term U.S. Government Securities generally rise. Conversely, during periods of rising interest rates, the values of such

securities generally decline. The magnitude of these fluctuations will generally be greater for securities with longer maturities. Although changes in the value of U.S. Government Securities will not affect investment income from those securities, they will affect the portfolio's net asset value. The proportions of intermediate and long-term securities held in the portfolio will vary to reflect Prudential's assessment of prospective changes in interest rates, so that the portfolio may benefit from relative price appreciation when interest rates decline and suffer lesser declines in value when interest rates rise. The success of this strategy will depend on Prudential's ability to forecast changes in interest rates, and there is a corresponding risk that the value of the securities held in the portfolio will decline.

Mortgage-Related Securities Issued by U.S. Government Instrumentalities or by Non-Governmental Corporations. The portfolio may invest in the following three types of mortgage-backed securities: (i) those issued or guaranteed by the U.S. Government or one of its agencies or instrumentalities, such as GNMA, FNMA and FHLMC; (ii) those issued by private issuers that represent an interest in or are collateralized by mortgage-backed securities issued or guaranteed by the U.S. Government or one of its agencies or instrumentalities; and (iii) those issued by private issuers that represent an interest in or are collateralized by whole mortgage loans or mortgage-backed securities without government guarantee but usually having some form of private credit enhancement. The portfolio may invest in adjustable rate and fixed rate mortgage securities. With respect to private mortgage-backed securities not collateralized by securities of the U.S. Government or its agencies, the portfolio will only purchase such securities rated not lower than Aa by Moody's or AA by S&P or similarly rated by another nationally recognized rating service or, if unrated, of comparable quality in the opinion of the portfolio manager. The mortgages backing these securities include conventional 30 year fixed rate mortgages, 15 year fixed rate mortgages, graduated payment mortgages, and adjustable rate mortgages ("ARMs"). The mortgage-backed securities may include those representing an undivided ownership interest in a pool of mortgages, e.g., GNMA, FNMA and FHLMC certificates. The U.S. Government or the issuing agency guarantees the payment of interest and principal of mortgage-backed securities issued by the U.S. Government or its agencies/instrumentalities. However, these guarantees do not extend to the securities' yield or value, which are likely to vary inversely with fluctuations in interest rates, nor do the guarantees extend to the yield or value of the portfolio's shares. Mortgage-backed securities are in most cases pass-through instruments, through which the holders receive a share of all interest and principal payments from the mortgages underlying the securities, net of certain fees. Because the prepayment characteristics of the underlying mortgages vary, it is not possible to predict accurately the average life of a particular issue of pass-through securities. Mortgage-backed securities are often subject to more rapid repayment than their stated maturity date would indicate as a result of the pass-through of prepayments of principal on the underlying mortgage obligations. For example, securities backed by mortgages with 30 year maturities are customarily treated as prepaying fully in the 12th year and securities backed by mortgages with 15 year maturities are customarily treated as prepaying fully in the seventh year. While the timing of prepayments of graduated payment mortgages differs somewhat from that of conventional mortgages, the prepayment experience of graduated payment mortgages is basically the same as that of the conventional mortgages of the same maturity dates over the life of the pool. During periods of declining interest rates, prepayment of mortgages underlying mortgage-backed securities can be expected to accelerate. When the mortgage obligations are prepaid, the portfolio reinvests the prepaid amounts in securities, the yields of which reflect interest rates prevailing at the time. Therefore, the portfolio's ability to maintain a portfolio of high yielding mortgage-backed securities will be adversely affected to the extent that prepayments of mortgages must be reinvested in securities which have lower yields than the prepaid mortgages. Moreover, prepayments of mortgages which underlie securities purchased at a premium could result in capital losses. Mortgage-backed securities of the types described under (i) and (ii) above are considered to be U.S. Government Securities for purposes of meeting the requirement that at least 65% of the portfolio's assets be invested in U.S. Government Securities.

Adjustable rate mortgage securities are pass-through mortgage securities collateralized by mortgages with adjustable rather than fixed rates. Generally ARMs have a specified maturity date and amortize principal over their life. In periods of declining interest rates, there is a reasonable likelihood that ARMs will experience increased rates of pre-payment of principal. However, the major difference between ARMs and fixed rate mortgage securities is that the interest rate and the rate of amortization of principal of ARMs can and do change in accordance with movements in a particular pre-specified, published interest rate index.

CMOs. The portfolio may also purchase collateralized mortgage obligations ("CMOs"). A CMO is a security issued by a corporation or a U.S. Government instrumentality that is backed by a portfolio of mortgages or mortgage-backed securities. The issuer's obligation to make interest and principal payments is secured by the underlying portfolio of mortgages or mortgage-backed securities. CMOs are partitioned into several classes with a ranked priority by which the classes of obligations are redeemed. The portfolio may invest in CMOs issued by agencies or instrumentalities of the U.S. Government or by private originators of, or investors in mortgage loans, including depository institutions, mortgage banks, investment banks and special purpose subsidiaries of the foregoing. With respect to privately issued CMOs, the portfolio will only purchase such securities rated not lower than Aa by Moody's or AA by S&P or similarly rated by another nationally recognized rating service, or if unrated,

of comparable quality in the opinion of the portfolio manager. Privately issued CMOs that are collateralized by mortgage-backed securities issued by GNMA, FHLMC or FNMA, and CMOs issued by agencies or instrumentalities of the U.S. Government are considered to be U.S. Government Securities for purposes of meeting the requirement that at least 65% of the portfolio's assets be invested in U.S. Government Securities. Neither the United States Government nor any U.S. Government agency guarantees the payment of principal or interest on these securities.

Asset-Backed Securities. Asset-backed securities represent a participation in, or are secured by and payable from, a stream of payments generated by particular assets, such as automobile or credit card receivables. Asset-backed securities present certain risks, including the risk that the underlying obligor on the asset, such as the automobile purchaser or the credit card holder, may default on his or her obligation. In addition, asset-backed securities often do not provide a security interest in the related collateral. For example, credit card receivables are generally unsecured, and for automobile receivables the security interests in the underlying automobiles are often not transferred when the pool is created, with the resulting possibility that the collateral could be resold.

In addition, the portfolio may: (i) purchase and sell options on debt securities; (ii) purchase and sell interest rate futures contracts and options thereon; (iii) purchase securities on a when-issued or delayed delivery basis; (iv) make short sales; and (v) use interest rate swaps. These techniques are described on pages 29 through 33, and further information about some of them is included in the statement of additional information.

Under normal circumstances, this portfolio's turnover rate is not expected to exceed 200%. Purchases of U.S. Government Securities are generally made from dealers at prices which usually include a profit to the dealer. See **Portfolio Brokerage and Related Practices**, page 38.

Barbara Kenworthy, Managing Director, Prudential Investments, has been portfolio manager of the Government Income Portfolio since 1995. Ms. Kenworthy is also portfolio manager of the Prudential Diversified Bond Fund, Inc., the Prudential Government Income Fund, Inc., and the Diversified Bond and Zero Coupon Bond Portfolios 2000 and 2005 of the Series Fund. Prior to 1994, Ms. Kenworthy was a portfolio manager and president of several taxable fixed-income funds for The Dreyfus Corp.

Zero Coupon Bond Portfolios 2000 and 2005. The *objective* of both of these portfolios is to achieve the highest predictable compounded investment return for a specific period of time, consistent with the safety of invested capital, by investing primarily in debt obligations of the United States Treasury and investment-grade corporations that have been issued without interest coupons or stripped of their unmatured interest coupons, interest coupons that have been stripped from such debt obligations, and receipts and certificates for such stripped debt obligations and stripped coupons (collectively "stripped securities"). The two portfolios differ only in their liquidation dates, which for each portfolio is November 15 of the specified year.

In pursuing this objective, each Zero Coupon Bond Portfolio invests only in readily marketable debt securities that do not involve substantial risk of loss of capital through default, although their value may vary because of changes in the general level of interest rates. It is the *policy* of each Zero Coupon Bond Portfolio to invest at least 70% of its assets in stripped securities that are obligations of the United States Government maturing within 2 years of the portfolio liquidation date. Up to 30% of the assets may be invested and held either in stripped securities issued by investment-grade corporations or in high-grade interest bearing corporate debt securities, in each case with a quality rating of Baa or better, provided that no more than 20% of the assets of the portfolio may be invested in interest bearing securities. However, as a defensive position, as the liquidation date of each portfolio draws near, more than 20% of assets may be invested in interest bearing securities when deemed appropriate in the view of the portfolio manager given prevailing market conditions and investment opportunities available at the time. Prudential will evaluate the creditworthiness of potential investments in corporate securities in order to determine whether such securities are suitable for purchase by the portfolios. A small portion of the portfolios may be invested in money market instruments of the kind held in the Money Market Portfolio in order to make effective use of cash reserves pending investments in the securities described above. Moreover, when conditions dictate a temporary defensive strategy or during temporary periods of portfolio structuring and restructuring, each Zero Coupon Bond Portfolio may invest, without limit, in high quality money market instruments of the kind held by the Money Market Portfolio.

At the beginning of each week, Prudential will calculate the anticipated compounded growth rate that investors purchasing shares of each portfolio that day are predicted to achieve if their investment is maintained until the portfolio liquidation date. That rate will change from day to day depending on various factors, including particularly the general level of interest rates, but daily changes will generally not be significant. If there is a significant change in interest rates (greater than a 0.30% change in the yield of a zero coupon Treasury bond maturing in the specified year), Prudential will recalculate the predicted yield. Prudential will furnish the anticipated compounded growth rate on request.

In order to achieve a predictable compounded investment return to each portfolio's liquidation date that will be as little affected as possible by variations in the general level of interest rates, the composition of the securities held in each portfolio is such that the weighted average period of time until receipt of scheduled cash payments

(whether of principal or interest)—sometimes referred to as the portfolio's "duration"—will be kept within 1 year of the period remaining until the portfolio liquidation date. When the portfolio's duration is thus maintained, differences between the market value and the face amount of unmatured bonds on the portfolio's liquidation date resulting from changes in the general level of interest rates will be approximately equal in magnitude to, but opposite in direction from, the difference between the amount of interest accumulated through the reinvestment of earlier coupon or principal payments and the amount that would have been accumulated at the originally predicted rate. Each portfolio is thus able to hold interest bearing securities and stripped securities with maturity dates before, during, and after the portfolio's liquidation date. The concept of "duration" is explained more fully in the statement of additional information.

On the liquidation date of a Zero Coupon Bond Portfolio, all of the securities held by the portfolio will be sold and all outstanding shares of the portfolio will be redeemed. The redemption proceeds will, except as otherwise directed by Contract owners, be used to purchase shares of the Money Market Portfolio.

Each portfolio seeks to realize a higher yield than would be obtained simply by maintaining the portfolio's initial investments. The portfolios are actively managed by Prudential to take advantage of trading opportunities that may exist from time to time due to price and yield distortions resulting from changes in the supply and demand characteristics or perceived differences in quality or liquidity characteristics of the securities available for purchase by the portfolio. There is a corresponding risk that, to the extent that this strategy is unsuccessful, the initial yield objective will not be met.

The stripping of interest coupons will cause the stripped securities to be purchased at a substantial (or "deep") discount from their principal amounts payable at maturity. If held to maturity, these obligations provide a predictable yield. But because interest on stripped securities is not paid in cash on a current basis but rather is in effect compounded until maturity (or the payment date in the case of a coupon), the market values of securities of this type are subject to greater fluctuations, as a result of changes in interest rates, than are the values of debt securities that provide for the periodic payment of interest; and the longer the term to maturity of a portfolio, the greater the risk of such fluctuations. In light of these factors, investors who desire to attain the anticipated growth rate on their investment expected at the time of purchase must plan to hold the portfolio's shares and to reinvest all dividends and distributions until the portfolio matures. Any investor who redeems his or her interest in the portfolio prior to the portfolio liquidation date or who fails to reinvest dividends is likely to achieve quite a different investment return than the return that was predicted on the date the investment was made, and may even suffer a loss.

Barbara Kenworthy, Managing Director, Prudential Investments, has been portfolio manager of the Zero Coupon Bond Portfolios 2000 and 2005 since 1995. Ms. Kenworthy is also portfolio manager of the Prudential Diversified Bond Fund, Inc., the Prudential Government Income Fund, Inc., and the Diversified Bond and Government Income Portfolios of the Series Fund. Prior to 1994, Ms. Kenworthy was a portfolio manager and president of several taxable fixed-income funds for The Dreyfus Corp.

Balanced Portfolios

Conservative Balanced Portfolio. The *objective* of this portfolio is to achieve a favorable total investment return consistent with a portfolio having a conservatively managed mix of money market instruments, fixed income securities, and common stocks in proportions believed by the investment manager to be appropriate for an investor desiring diversification of investment who prefers a relatively lower risk of loss than that associated with the Flexible Managed Portfolio while recognizing that this reduces the chances of greater appreciation.

To achieve this objective, the Conservative Balanced Portfolio will follow a *policy* of maintaining a more conservative asset mix among stocks, bonds and money market instruments than the Flexible Managed Portfolio. In general, the portfolio manager will observe the following range of target asset allocation mixes:

<u>Asset Type</u>	<u>Minimum</u>	<u>Normal</u>	<u>Maximum</u>
Stocks	15%	35%	50%
Bonds and Money Market	25%	65%	85%

The portfolio manager will make variations in the proportions of each investment category in accordance with its judgment about the expected returns and risks of the various investment categories, but will maintain at least 25% of the value of the portfolio's assets in fixed-income senior securities.

The bond portion of this portfolio will be invested primarily in securities with maturities of 2 to 10 years and ratings at the time of purchase within the four highest grades determined by Moody's, S&P, or a similar nationally-recognized rating service or if unrated, of comparable quality in the opinion of the portfolio manager. However, the portfolio may purchase below-investment grade debt. The risks of medium to lower rated securities, also known as high risk securities, are described below in connection with the High Yield Bond Portfolio. A description of corporate bond ratings is contained in the Appendix to the statement of additional information.

Because of their shorter maturities, the value of the notes and bonds in this portfolio will be less sensitive to changes in interest rates than the longer-term bonds likely to be held in the Flexible Managed Portfolio. Thus, there will be less of a risk of loss of principal, but not as much of a likelihood for greater appreciation in value. Up to 20% of the bond portion of this portfolio may be invested in United States currency denominated debt securities issued outside the United States by foreign or domestic issuers. The stock portion of this portfolio will be invested primarily in the equity securities of major, established corporations in sound financial condition that appear to offer attractive prospects of a total return from dividends and capital appreciation that is superior to broadly based stock indices. The portfolio may also invest in preferred stock, including below investment grade preferred stock, and other equity-related securities. The money market portion of the portfolio will hold high quality money market instruments of the kind held by the Money Market Portfolio. Moreover, when conditions dictate a temporary defensive strategy or during temporary periods of portfolio structuring and restructuring, the Conservative Balanced Portfolio may invest, without limit, in high quality money market instruments of the kind held by the Money Market Portfolio.

To the extent permitted by applicable insurance law, this portfolio may invest up to 30% of its total assets in non-United States currency denominated debt and equity securities of foreign and U.S. issuers. The particular risks of investments in foreign securities are described under **Foreign Securities**, page 27.

In addition, the portfolio may: (i) purchase and sell options on equity securities, debt securities, stock indices and foreign currencies; (ii) purchase and sell stock index, interest rate and foreign currency futures contracts and options thereon; (iii) enter into forward foreign currency exchange contracts; (iv) purchase securities on a when-issued or delayed delivery basis; (v) make short sales; and (vi) use interest rate swaps. These techniques are described on pages 28 through 33, and further information about some of them is included in the statement of additional information.

The Conservative Balanced Portfolio is managed by a team of portfolio managers. Mark Stumpp, Senior Managing Director, Prudential Investments, has been lead portfolio manager of the Conservative Balanced Portfolio since 1994 and is responsible for the overall asset allocation decisions. Mr. Stumpp has supervisory responsibility of the portfolio management team. Warren Spitz, Managing Director, Prudential Investments, has been the portfolio manager of the portfolio since 1995 and manages a portion of the portfolio's equity holdings. The balance of the portfolio's equity holdings are managed to replicate the performance of the S&P 500 Index. Tony Rodriguez, Managing Director, Prudential Investments, has been the portfolio manager of the fixed income portion of the portfolio since 1993. Mr. Stumpp also supervises the team of portfolio managers for the Flexible Managed Portfolio. Mr. Stumpp is also portfolio manager for several employee benefit trusts including The Prudential Retirement System for U.S. Employees and Special Agents. Prior to 1994, he was responsible for corporate pension asset management for Prudential Diversified Investment Strategies' corporate clients. Mr. Spitz is also portfolio manager of the Prudential Equity Income Fund and the Equity Income and Flexible Managed Portfolios of the Series Fund. Mr. Rodriguez is also portfolio manager for the Prudential Structured Maturity Fund, Inc. and the Flexible Managed Portfolio of the Series Fund.

Flexible Managed Portfolio. The *objective* of this portfolio is achievement of a high total return consistent with a portfolio having an aggressively managed mix of money market instruments, fixed income securities, and common stocks, in proportions believed by the investment manager to be appropriate for an investor desiring diversification of investment who is willing to accept a relatively high level of loss in an effort to achieve greater appreciation.

To achieve this objective, the Flexible Managed Portfolio will follow a *policy* of maintaining a more aggressive asset mix among stocks, bonds and money market investments than the Conservative Balanced Portfolio. In general, the portfolio manager will observe the following range of target asset allocation mixes:

<u>Asset Type</u>	<u>Minimum</u>	<u>Normal</u>	<u>Maximum</u>
Stocks	25%	60%	100%
Bonds	0%	40%	75%
Money Market	0%	0%	75%

The portfolio manager may make short-run, and sometimes substantial, variations in the asset mix based upon its judgment about the expected returns and risks of the various investment categories. In varying the asset mix in accordance with these judgments, Prudential will also seek to take advantage of imbalances in fundamental values among the different markets.

The bond component of this portfolio is expected under normal circumstances to have a weighted average maturity of greater than 10 years. The values of bonds with long maturities are generally more sensitive to changes in interest rates than those of shorter maturities. The bond portion of this portfolio will primarily be invested in securities that have a rating at the time of purchase within the four highest grades determined by Moody's, S&P, or a similar nationally-recognized rating service. A description of corporate bond ratings is contained in the Appendix to the statement of additional information. However, up to 25% of the bond component of this portfolio may be invested in securities having ratings at the time of purchase of "BB," "Ba" or lower, or if not rated, of

comparable quality in the opinion of the portfolio manager, also known as high risk securities. The risks of medium to lower rated securities, are described below in connection with the High Yield Bond Portfolio. Up to 20% of the bond portion of this portfolio may be invested in United States currency denominated debt securities issued outside the United States by foreign or domestic issuers. The established company common stock component of this portfolio will consist of the equity securities of major corporations that are believed to be in sound financial condition. In selecting stocks of smaller capitalization companies, the portfolio manager may invest in companies that show above average profitability (measured by return-on-equity, earnings, and dividend growth rates) with modest price/earnings ratios or alternatively, in companies whose stock is undervalued relative to other stocks in the market. The individual equity selections for this portfolio may have more volatile market values than the equity securities selected for the Equity Portfolio or the Conservative Balanced Portfolio. The portfolio may also invest in preferred stock, including below investment grade preferred stock, and other equity-related securities. The money market portion of the portfolio will hold high quality money market instruments of the kind held by the Money Market Portfolio. Moreover, when conditions dictate a temporary defensive strategy or during temporary periods of portfolio structuring and restructuring, the Flexible Managed Portfolio may invest, without limit, in high quality money market instruments of the kind held by the Money Market Portfolio.

To the extent permitted by applicable insurance law, this portfolio may invest up to 30% of its total assets in non-United States currency denominated debt and equity securities of foreign and U.S. issuers. The particular risks of investments in foreign securities are described under **Foreign Securities**, page 27.

In addition, the portfolio may: (i) purchase and sell options on equity securities, debt securities, stock indices and foreign currencies; (ii) purchase and sell stock index, interest rate and foreign currency futures contracts and options thereon; (iii) enter into forward foreign currency exchange contracts; (iv) purchase securities on a when-issued or delayed delivery basis; (v) make short sales; and (vi) use interest rate swaps. These techniques are described on pages 28 through 33, and further information about some of them is included in the statement of additional information.

The facts that this portfolio will invest in a mix of common stocks regarded as having higher risks than the mix of common stocks that will be purchased by the Conservative Balanced Portfolio; that it will invest in bonds with longer maturities; and that the "normal" mix for this portfolio will include a higher percentage of stocks all combine to mean that the risk of investing in this portfolio is relatively higher—to the extent that each of these factors results in greater risks—than the risk of investing in the Conservative Balanced Portfolio.

The Flexible Managed Portfolio is managed by a team of portfolio managers. Mark Stumpp, Senior Managing Director, Prudential Investments, has been lead portfolio manager of the Flexible Managed Portfolio since 1994 and is responsible for the overall asset allocation decisions. Mr. Stumpp has supervisory responsibility of the portfolio management team. Warren Spitz, Managing Director, Prudential Investments, manages a portion of the portfolio's equity holdings. The balance of the portfolio's equity holdings are managed to replicate the performance of the S&P 500 Index. Tony Rodriguez, Managing Director, Prudential Investments, has been the portfolio manager of the fixed income portion of the portfolio since 1993. Mr. Stumpp also supervises the team of portfolio managers for the Conservative Balanced Portfolio. Mr. Stumpp is also portfolio manager for several employee benefit trusts including The Prudential Retirement System for U.S. Employees and Special Agents. Prior to 1994, he was responsible for corporate pension asset management for Prudential Diversified Investment Strategies' corporate clients. Mr. Spitz has been portfolio manager of the equity portion of the Conservative Balanced Portfolio since 1995 and is also portfolio manager of the Prudential Equity Income Fund and the Equity Income Portfolio of the Series Fund. Mr. Rodriguez is also portfolio manager for the Prudential Structured Maturity Fund, Inc. and the Conservative Balanced Portfolio of the Series Fund.

High Yield Bond Portfolios

High Yield Bond Portfolio. The *objective* of this portfolio is to achieve a high total return through investment in a diversified portfolio of high yield/high risk fixed income securities.

The portfolio seeks to achieve its objective by following a *policy* of generally investing in fixed income securities rated in the medium to lower categories by recognized rating services or in unrated fixed income securities of comparable quality. The portfolio expects to invest principally in fixed income securities rated Baa or lower by Moody's, or BBB or lower by S&P. These securities are sometimes known as "junk bonds." Corporate bonds which are rated Baa by Moody's are described by Moody's as being investment grade, but are also characterized as having speculative characteristics. Corporate bonds rated below Baa by Moody's and BBB by S&P are considered speculative. A description of corporate bond ratings is contained in the Appendix to the statement of additional information.

Medium to lower rated and comparable non-rated securities tend to offer higher yields than higher rated securities with the same maturities because the historical financial condition of the issuers of such securities may not have been as strong as that of other issuers. Since medium to lower rated securities generally involve greater risks of

loss of income and principal than higher rated securities, investors should consider carefully the relative risks associated with investments in high yield/high risk securities which carry medium to lower ratings and in comparable non-rated securities. Investors should understand that such securities are not generally meant for short-term investing.

The achievement of the portfolio's investment objectives will depend on Prudential's analytical and portfolio management skills. These skills are more important in connection with the investment in medium to lower rated and comparable unrated securities and to the portfolio's performance than would be the case if the portfolio invested in higher quality fixed income securities. In selecting securities for the portfolio, Prudential will evaluate, among other things, an issuer's financial history, condition, prospects and management. A credit rating assigned by a commercial rating service will not measure the market risk of high yield/high risk bonds and may not be a timely reflection of the condition and economic viability of an individual issuer. In its credit analysis, Prudential therefore will not rely principally on the ratings assigned by the ratings services (e.g., Moody's and S&P), although such ratings will be considered. Through careful selection and by investment in a diversified mix of securities, Prudential will seek to reduce the risks that are associated with investing in medium to lower rated and comparable unrated debt securities.

Fixed income securities are subject to the risk of an issuer's inability to meet principal and interest payments on the obligations (credit risk) and may also be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (market risk). The value of the fixed income securities in the portfolio will be directly impacted by the market perception of the creditworthiness of the securities' issuers and will fluctuate inversely with changes in interest rates. Lower rated or unrated securities are more likely to react to developments affecting market and credit risk than are more highly rated securities, which react primarily to movements in the general level of interest rates. For example, because investors generally perceive that there are greater risks associated with investing in medium or lower rated securities, the yields and prices of such securities may tend to fluctuate more than those of higher rated securities. Moreover, in the lower quality segments of the fixed income securities market, changes in perception of the creditworthiness of individual issuers tend to occur more frequently and in a more pronounced manner than do changes in higher quality segments of the fixed income securities market. The yield and price of medium to lower rated securities therefore may experience greater volatility than is the case with higher rated securities. Prudential considers both credit risk and market risk in selecting securities for the portfolio. By holding a diversified selection of such securities, the portfolio seeks to reduce this volatility.

The secondary market for high yield/high risk securities, which is concentrated in relatively few market makers, may not be as liquid as the secondary market for more highly rated securities. Under adverse market or economic conditions, the secondary market for high yield/high risk securities could contract further, independent of any specific adverse changes in the condition of a particular issuer. As a result, Prudential could find it more difficult to sell such securities or may be able to sell the securities only at prices lower than if such securities were widely traded. Prices realized upon the sale of such lower rated or unrated securities therefore may be less than the prices used in calculating the portfolio's net asset value. In the absence of readily available market quotations, high yield/high risk securities will be valued by the Series Fund's Board of Directors using a method that, in the good faith belief of the Board, accurately reflects fair value. Valuing such securities in an illiquid market is a difficult task. The Board's judgment plays a more significant role in valuing such securities than those securities for which more objective market data are available.

From time to time, federal laws have been enacted which have required the divestiture by companies of their investments in high yield bonds and have limited the deductibility of interest by certain corporate issuers of high yield bonds. These types of laws could adversely affect the portfolio's net asset value and investment practices, the secondary market for high yield securities, the financial condition of issuers of these securities and the value of outstanding high yield securities. There is currently no legislation pending that would adversely impact the market for high yield/high risk securities. However, there can be no assurance that such legislation will not be proposed or enacted in the future.

During the fiscal year ended December 31, 1997, the monthly dollar weighted average ratings of the debt obligations held by the High Yield Bond Portfolio, expressed as a percentage of the portfolio's total investments, were as follows:

Ratings	Percentage of Total Investments
AAA/Aaa	0%
AA/Aa	0%
A/A	0%
BBB/Baa	0.2%
BB/Ba	19.4%
B/B	49.6%
CCC/Caa or lower	10.1%
Unrated	20.7%

Consistent with its investment objective, the portfolio anticipates that under normal conditions at least 80% of the value of its total assets will be invested in high yield/high risk, medium to lower rated fixed income securities. Fixed income securities appropriate for the portfolio may include both convertible and nonconvertible debt securities and preferred stock. The portfolio will not acquire common stocks, except when attached to or included in a unit with fixed income securities which otherwise would be attractive to the portfolio.

The portfolio may invest up to 20% of its total assets in United States currency denominated fixed-income securities issued outside the United States by foreign and domestic issuers. For additional information regarding such securities, see **Foreign Securities**, page 27.

The portfolio may, when it has temporary cash available, invest in money market instruments of the kind held by the Money Market Portfolio. The portfolio may also invest in commercial paper of domestic corporations that does not meet the quality restrictions applicable to the investments of the Money Market Portfolio. Moreover, when conditions dictate a temporary defensive strategy or during temporary periods of portfolio structuring and restructuring, the High Yield Bond Portfolio may invest, without limit, in high quality money market instruments of the kind held by the Money Market Portfolio. The portfolio may also: (i) purchase and sell options on debt securities; (ii) purchase and sell interest rate futures contracts and options thereon; (iii) purchase securities on a when-issued or delayed delivery basis; (iv) make short sales; and (v) use interest rate swaps. These techniques are described on pages 29 through 33, and further information about some of them is included in the statement of additional information.

Although the portfolio is not expected to engage in substantial short-term trading, it may sell securities it owns without regard to the length of time they have been held. The portfolio's turnover rate is not expected to exceed 150%.

George Edwards, Managing Director, Prudential Investments, has been the manager of the High Yield Bond Portfolio since 1997. Mr. Edwards also manages the Prudential High Yield Total Return Fund, Inc. and co-manages the Prudential Distressed Securities Fund, Inc. Mr. Edwards has held various positions with Prudential Investments since 1985.

Diversified Stock Portfolios

Stock Index Portfolio. The *objective* of this portfolio is to achieve investment results that correspond to the price and yield performance of publicly-traded common stocks in the aggregate.

The portfolio seeks to achieve this objective by following the *policy* of attempting to duplicate the price and yield performance of the S&P 500 Index, an index which represents more than 70% of the total market value of all publicly-traded common stocks and is widely viewed among investors as representative of the performance of publicly-traded common stocks as a whole. The S&P 500 Index is composed of 500 selected common stocks, over 95% of which are listed on the New York Stock Exchange ("NYSE"). S&P chooses the stocks to be included in the index on a statistical basis taking into account market values and industry diversification. Inclusion in the index in no way implies an opinion by S&P as to a stock's attractiveness as an investment. "Standard & Poor's," "Standard & Poor's 500" and "500" are trademarks of McGraw Hill, Inc. and have been licensed for use by The Prudential Insurance Company of America and its affiliates and subsidiaries. The Series Fund is not sponsored, endorsed, sold or promoted by S&P and S&P makes no representation regarding the advisability of investing in the Series Fund. Reference is made to the statement of additional information which sets forth certain additional disclaimers and limitations of liabilities on behalf of S&P.

The S&P 500 Index is a "weighted" index in which the weighting of each stock depends on its relative total market value: its market price per share times the number of shares outstanding. Because of this weighting, approximately 11% of the S&P 500 Index's value is accounted for by the stocks of the five largest companies by relative market value. As of December 31, 1997 those companies were: General Electric Co., Coca-Cola Co., Microsoft Corp., Exxon Corp. and Merck & Co., Inc.

This portfolio will not be "managed" in the traditional sense of using economic, financial or market analysis to determine the stocks to be purchased by the portfolio. Rather, the portfolio manager will purchase stocks for the portfolio in proportion to their weighting in the S&P 500 Index. Thus, adverse financial performance by a company will not result in reduction or elimination of the portfolio's holdings of its stock and, conversely, superior financial performance by a company will not lead the portfolio to increase its holdings of the company's stock. If a stock held by this portfolio is eliminated from the S&P 500 Index, the portfolio will sell its holdings of the stock regardless of the prospects of the company. Because the portfolio will not be "managed" in the traditional sense, portfolio turnover is expected to be low and is generally not expected to exceed 10%. A 10% portfolio turnover rate would occur if one-tenth of the portfolio's securities were sold and either repurchased or replaced within 1 year. Because of the expected low turnover, transaction costs, such as brokerage commissions, are also expected to be relatively low.

The following table shows the performance of the S&P 500 Index for the 25 years ending in 1997. The period covered by this table is one of generally rising stock prices, and the performance of the S&P 500 Index in this period should not be viewed as a representation of any future performance by that index. In addition, the fees and costs involved in the operation of the Stock Index Portfolio mean that the performance of a share of stock in the portfolio may not equal the performance of the S&P 500 Index even if the assets held by the portfolio do equal that performance.

*S&P 500 Index WITH DIVIDENDS REINVESTED			
Annual Percentage Change			
1973	-14.77	1986	+18.56
1974	-26.39	1987	+5.10
1975	+37.16	1988	+16.61
1976	+23.57	1989	+31.69
1977	-7.42	1990	-3.10
1978	+6.38	1991	+30.47
1979	+18.20	1992	+7.61
1980	+32.27	1993	+10.08
1981	-5.01	1994	+1.32
1982	+21.44	1995	+37.58
1983	+22.38	1996	+22.96
1984	+6.10	1997	+33.36
1985	+31.57		

Source: Standard & Poor's Ratings Services. Percentage change calculated in accordance with specifications of SEC release number IA-327.

In the last ten years, this portfolio's total return, compared to that of the S&P 500 Index, was as follows:

	Annual Percentage Change S&P 500 Index with Dividends Reinvested	Total Return Stock Index Portfolio (after deduction of expenses)
1988	+16.61	+15.44
1989	+31.69	+30.93
1990	-3.10	-3.63
1991	+30.47	+29.72
1992	+7.61	+7.13
1993	+10.08	+9.66
1994	+1.32	+1.01
1995	+37.58	+37.06
1996	+22.96	+22.57
1997	+33.36	+32.83

Under normal circumstances, the portfolio generally intends to purchase all 500 stocks represented in the S&P 500 Index and to invest its assets as fully in those stocks (in proportion to their weighting in the index) as is feasible in light of cash flows into and out of the portfolio. In order to reduce transaction costs, a weighted investment in the 500 stocks comprising the S&P 500 Index is most efficiently made in relatively large amounts. As additional cash is received from the purchase of shares in the portfolio, it may be held temporarily in short-term, high quality investments of the sort in which the Money Market Portfolio invests, until the portfolio has a sufficient amount of assets in such investments to make an efficient weighted investment in the 500 stocks comprising the S&P 500 Index. If net cash outflows from the portfolio are anticipated, the portfolio may sell stocks (in proportion to their

weighting in the S&P 500 Index) in amounts in excess of those needed to satisfy the cash outflows and hold the balance of the proceeds in short-term investments if such a transaction appears, taking into account transaction costs, to be more efficient than selling only the amount of stocks needed to meet the cash requirements. The portfolio will not, however, increase its holdings of cash in anticipation of any decline in the value of the S&P 500 Index or of the stock markets generally. The portfolio will instead remain as fully invested in the S&P 500 Index stocks as feasible in light of its cash flow patterns during periods of market declines as well as advances, and investors in the portfolio thus run the risk of remaining fully invested in common stocks during a period of general decline in the stock markets.

Tracking accuracy is measured by the difference between total return for the S&P 500 Index with dividends reinvested and total return for the portfolio with dividends reinvested before deductions of portfolio fees and expenses. Tracking accuracy is monitored by the portfolio manager on a daily basis. All tracking accuracy deviations are reviewed to determine the effectiveness of investment policies and techniques.

If the portfolio does hold short-term investments as a result of the patterns of cash flows to and from the portfolio, such holdings may cause its performance to differ from that of the S&P 500 Index. The portfolio will attempt to minimize any such difference in performance through transactions involving stock index futures contracts, options on stock indices, and/or options on stock index future contracts. These derivative investment instruments are described under **Options on Stock Indices, Futures Contracts, and Options on Futures Contracts** on pages 30 through 31. The portfolio will not use such instruments for speculative purposes or to hedge against any decline in the value of the stocks held in the portfolio, but instead will employ them only as a temporary substitute for investment of cash holdings directly in the 500 stocks when the portfolio's cash holdings are too small to make such an investment in an efficient manner.

For example, if the portfolio's cash reserves are insufficient to invest efficiently in another unit of the basket of stocks comprising the S&P 500 Index, the portfolio may purchase S&P 500 futures contracts to hedge against a rise in the value of the stocks the portfolio intends to acquire. In its attempt to minimize any difference in performance between the portfolio and the S&P 500 Index, the portfolio currently intends to engage in transactions involving S&P 500 Index futures contracts, NYSE Composite Index futures contracts, options on the S&P 500 Index, the S&P 100 Index, and the NYSE Composite Index, and options on S&P 500 Index futures contracts and NYSE Composite Index futures contracts. There can be no assurance that the portfolio's attempt to minimize such performance difference through the use of any of these instruments will succeed. See the statement of additional information for a more detailed discussion of the manner in which the portfolio will employ these instruments and for a description of other risks involved in the use of such instruments.

The above described investment policies and techniques of the Stock Index Portfolio are non-fundamental and may be changed without shareholder approval if it is determined that alternative investment techniques would be more effective in achieving the portfolio's objective.

Equity Income Portfolio. The *objective* of this portfolio is both current income and capital appreciation through investment primarily in common stocks and convertible securities that provide favorable prospects for investment income returns above those of the S&P 500 Index or the NYSE Composite Index. In selecting these securities, the portfolio will put emphasis on earnings, balance sheet and cash flow analysis, and the relationships that these factors have to the price and return of a given security. Under normal circumstances, the portfolio intends to invest at least 65% of its total assets in such securities.

The portfolio may invest the balance of its assets in other stocks, other securities convertible into common stocks, other equity-related securities, debt securities (including money market instruments), options on stocks and stock indices, and stock index futures. The portfolio may under normal circumstances invest up to 35% of its total assets in money market instruments of the kind held by the Money Market Portfolio. Moreover, when conditions dictate a temporary defensive strategy or during temporary periods of portfolio structuring and restructuring, the Equity Income Portfolio may invest, without limit, in high quality money market instruments of the kind held by the Money Market Portfolio.

In addition, up to 35% of the portfolio's total assets may be invested in other fixed-income obligations including convertible and nonconvertible preferred stock. The portfolio anticipates that these will primarily be rated A or better by Moody's or S&P. However, the portfolio may also invest in lower-rated fixed-income securities, although it will not invest in securities rated lower than CC or Ca by Moody's or S&P, respectively. The risks of medium to lower rated securities, also known as high risk securities, are described above in connection with the High Yield Bond Portfolio. A description of debt ratings is contained in the Appendix to the statement of additional information. The portfolio may also invest in non-rated fixed-income securities which, in the opinion of the investment manager, are of a quality comparable to rated securities in which the portfolio may invest.

To the extent permitted by applicable insurance law, the portfolio may invest up to 30% of its total assets in non-United States currency denominated debt and equity securities of foreign and U.S. issuers. The particular risks of investments in foreign securities are described under **Foreign Securities**, page 27.

In addition, the portfolio may: (i) purchase and sell options on equity securities, stock indices and foreign currencies; (ii) purchase and sell stock index and foreign currency futures contracts and options thereon; (iii) enter into forward foreign currency exchange contracts; and (iv) purchase securities on a when-issued or delayed delivery basis. These techniques are described on pages 28 through 32, and further information about some of them is included in the statement of additional information.

As a result of its investment policies, the portfolio's turnover rate may exceed 100%, although it is not expected to exceed 200%.

Warren Spitz, Managing Director, Prudential Investments, has been portfolio manager of the Equity Income Portfolio since 1988. Mr. Spitz is also portfolio manager of the Prudential Equity Income Fund and the Conservative Balanced and Flexible Managed Portfolios of the Series Fund.

Equity Portfolio. The *objective* of this portfolio is to achieve capital appreciation through investment primarily in common stocks of companies, including major established corporations as well as smaller capitalization companies, that appear to offer attractive prospects of price appreciation that is superior to broadly-based stock indices. Current income, if any, is incidental.

Although the portfolio will be invested primarily in common stocks, it may also invest to a limited extent in short, intermediate or long term debt, either convertible or nonconvertible into common stock, as well as in nonconvertible preferred stock and other equity-related securities. In addition, it may also invest up to 5% of its assets in below investment grade debt securities. The risks of medium to lower rated securities, also known as high risk securities, are described above in connection with the High Yield Bond Portfolio. A description of corporate bond ratings is contained in the Appendix to the statement of additional information. The portfolio will attempt to maintain a flexible approach to the selection of common stocks of various types of companies whose valuations appear to offer opportunities for above-average appreciation. Thus, the portfolio may invest in securities of companies whose estimated growth in earnings exceeds that projected for the market as a whole because of factors such as expanding market share, new products or changes in market environment. Or it may invest in "undervalued" securities which are often characterized by a lack of investor recognition of the basic value of a company's assets. Securities of companies with sales and earnings trends which are currently unfavorable but which are expected to reverse may also be in the portfolio. The effort to achieve price appreciation that is superior to broadly based stock indices necessarily involves accepting a greater risk of declining values. During periods when stock prices decline generally, it can be expected that the value of the portfolio will also decline.

To the extent permitted by applicable insurance law, this portfolio may invest up to 30% of its total assets in non-United States currency denominated common stock and fixed-income securities convertible into common stock of foreign and U.S. issuers. The particular risks of investments in foreign securities are described under **Foreign Securities**, page 27.

In addition, the portfolio may: (i) purchase and sell options on equity securities, stock indices and foreign currencies; (ii) purchase and sell stock index and foreign currency futures contracts and options thereon; (iii) enter into forward foreign currency exchange contracts; and (iv) purchase securities on a when-issued or delayed delivery basis. These techniques are described on pages 28 through 32, and further information about some of them is included in the statement of additional information.

A portion of the portfolio may be invested in money market instruments of the kind held by the Money Market Portfolio in order to make effective use of cash reserves pending investment in common stocks. Moreover, when conditions dictate a temporary defensive strategy or during temporary periods of portfolio structuring and restructuring, the Equity Portfolio may invest, without limit, in high quality money market instruments of the kind held by the Money Market Portfolio.

Thomas Jackson, Managing Director, Prudential Investments, has been portfolio manager of the Equity Portfolio since 1990. Mr. Jackson is also portfolio manager of the Prudential Equity Fund, Inc. and the PRICOA Worldwide Investors Portfolio, US Equity Fund.

Prudential Jennison Portfolio. The *objective* of the Prudential Jennison Portfolio is to achieve long-term growth of capital through investment primarily in equity securities of established companies with above-average growth prospects. Current income, if any, is incidental.

In order to achieve this objective, the Prudential Jennison Portfolio will follow a *policy* of selecting stocks on a company-by-company basis primarily through the use of fundamental analysis. The portfolio manager will look for companies that have demonstrated growth in earnings and sales, high returns on equity and assets, or other strong financial characteristics, and in the opinion of the portfolio manager, are attractively valued. These companies tend to have a unique market niche, a strong new product profile or superior management. Under normal market conditions, at least 65% of the value of the total assets of the portfolio will be invested in common stocks and preferred stocks of companies which exceed \$1 billion in market capitalization.

The portfolio may invest up to 35% of its total assets in: (i) common stocks, preferred stocks, and other equity-related securities of companies that are undergoing changes in management or product and marketing dynamics which have not yet been reflected in reported earnings but which are expected to impact earnings in the intermediate term — these securities often lack investor recognition and are often favorably valued; (ii) other equity-related securities; (iii) with respect to a maximum of 30% of its total assets, common stocks, preferred stocks and other equity-related securities of non-United States currency denominated issuers or American Depository Receipts ("ADRs"); (iv) investment grade fixed income securities and mortgage-backed securities, including lower rated securities (i.e., rated in the fourth highest rating category by a nationally recognized rating service (Baa by Moody's or BBB by S&P) or, if not rated, determined by the portfolio manager to be of comparable quality to securities so rated (a description of debt ratings is contained in the Appendix to the statement of additional information); and (v) obligations issued or guaranteed by the U.S. Government, its agencies and instrumentalities. Moreover, when conditions dictate a temporary defensive strategy or during temporary periods of portfolio structuring and restructuring, the Prudential Jennison Portfolio may invest, without limit, in high quality money market instruments of the kind held by the Money Market Portfolio.

In addition, the portfolio may: (i) purchase and sell options on equity securities, stock indices, and foreign currencies; (ii) lend its portfolio securities; (iii) purchase and sell stock index and foreign currency futures contracts and options thereon; (iv) enter into forward foreign currency exchange contracts; and (v) enter into repurchase agreements and purchase securities on a when-issued or delayed delivery basis. These techniques are described on pages 28 through 32, and further information about some of them is included in the statement of additional information.

The effort to achieve superior investment returns necessarily involves a risk of exposure to declining values. Securities in which the portfolio may primarily invest have historically been more volatile than the S&P 500 Index. Accordingly, during periods when stock prices decline generally, it can be expected that the value of the portfolio will decline more than the market indices.

David Poiesz, Director and Senior Vice President of Jennison Associates LLC ("Jennison"), is the portfolio manager, and Peter Reinemann, Director and Senior Vice President of Jennison, is the associate portfolio manager of the Prudential Jennison Portfolio. Mr. Poiesz is responsible for the day to day management of the portfolio and has been portfolio manager of the Prudential Jennison Portfolio since its inception in 1995. Mr. Poiesz also manages the Prudential Jennison Growth Fund. Mr. Poiesz joined Jennison in 1983 as an equity research analyst and has been an equity portfolio manager since 1991. Mr. Reinemann is also the associate portfolio manager for the Prudential Jennison Growth Fund, the Prudential Jennison Growth and Income Fund, and the Prudential Jennison Active Balanced Fund. Mr. Reinemann has been with Jennison since 1992 as an associate portfolio manager. Prior to 1992, he served as a Vice President at Paribas Asset Management, Inc.

Small Capitalization Stock Portfolio. The *objective* of this portfolio is to achieve long-term growth of capital through investment primarily in equity securities of publicly-traded companies with small market capitalization. Current income, if any, is incidental.

The portfolio seeks to achieve this objective by following the *policy* of attempting to duplicate the price and yield performance of the Standard & Poor's Small Capitalization Stock Index (the "S&P SmallCap 600 Index"), an index which consists of six-hundred smaller capitalization domestic stocks chosen for market size, liquidity, and industry group representation. Stocks in the index have market capitalizations between \$35 million and \$1.215 billion. However, to be included in the index, stock selections are also screened for trading volume, share turnover, ownership concentration, share price and bid/ask spreads. The initial sector weightings were selected to reflect the industry distribution of all small capitalization stocks followed by S&P. The S&P SmallCap 600 Index has above average risk and may fluctuate more than the S&P 500 Index which invests in stocks of larger, more established firms.

The S&P SmallCap 600 Index is a market weighted index (stock price times shares outstanding), with each stock affecting the index in proportion to its market value. S&P is responsible for selecting and maintaining the list of stocks to be included in the index. Inclusion in the index in no way implies an opinion by S&P as to a stock's attractiveness as an investment. "Standard & Poor's," "Standard & Poor's Small Capitalization Stock Index" and "Standard & Poor's SmallCap 600" are trademarks of McGraw Hill, Inc. The Series Fund is not sponsored, endorsed, sold or promoted by S&P and S&P makes no representation regarding the advisability of investing in the Series Fund. Reference is made to the statement of additional information which sets forth certain additional disclaimers and limitations of liabilities on behalf of S&P.

The following table shows the performance of the S&P SmallCap 600 Index for the 10 years ending in 1997. Although the index was first published in 1994, S&P reconstructed its performance for earlier years. The performance of the S&P SmallCap 600 Index in this period should not be viewed as a representation of any future performance by that index. In addition, the fees and costs involved in the operation of the Small Capitalization Stock Portfolio mean that the performance of a share of stock in the portfolio may not equal the performance of the S&P SmallCap 600 Index even if the assets held by the portfolio do equal that performance.

S&P SmallCap 600 Index With Dividends Reinvested Annual Percentage Change	
1988	+ 19.49
1989	+ 13.89
1990	- 9.90
1991	+ 48.49
1992	+ 21.04
1993	+ 18.79
1994	- 4.77
1995	+ 29.96
1996	+ 21.32
1997	+ 25.58

Source: Standard & Poor's Ratings Services. Percentage change calculated in accordance with specifications of SEC release number IA-327.

Under normal circumstances, this portfolio intends to be invested in all or a representative sample of the stocks in the S&P SmallCap 600 Index. The portfolio may hold cash or its equivalent, which may cause its performance to differ from that of the S&P SmallCap 600 Index. The portfolio will attempt to minimize any such differences in performance through transactions involving stock index futures contracts, options on stock indices, and/or options on stock index future contracts. These investment instruments are described under **Options on Stock Indices, Futures Contracts, and Options on Futures Contracts** on pages 30 through 31.

In addition, the portfolio may: (i) purchase and sell options on equity securities; (ii) lend its portfolio securities; and (iii) purchase securities on a when-issued or delayed delivery basis. These techniques are described on pages 28 through 32, and further information about some of them is included in the statement of additional information.

The investment policies and techniques of the Small Capitalization Stock Portfolio are not fundamental and may be changed without shareholder approval if it is determined that alternative investment techniques would be more effective in achieving the portfolio's objective.

Wai Chiang, Vice President, Prudential Investments, has been portfolio manager of the Small Capitalization Stock Portfolio since its inception in 1995. Mr. Chiang manages several other funds for Prudential including the Prudential Small-Capitalization Index Fund and the unregistered commingled domestic equity index separate accounts, Pridex and Pridex 500 for Prudential. Mr. Chiang has been employed by Prudential as a portfolio manager since 1986.

Global Portfolio. The *objective* of this portfolio is long-term growth of capital through investment primarily in common stocks and common stock equivalents (such as convertible debt securities) of foreign and domestic issuers. Current income, if any, is incidental.

The portfolio is intended to provide investors with the opportunity to invest in a portfolio of common stocks and other equity-related securities of companies located throughout the world. In making the allocation of assets among the various countries and geographic regions, the portfolio manager ordinarily considers such factors as: prospects for relative economic growth between foreign countries; expected levels of inflation and interest rates; government policies influencing business conditions; the range of individual investment opportunities available to international investors; and other pertinent financial, tax, social, political and national factors—all in relation to the prevailing prices of the securities in each country or region.

There are, generally, no geographic limitations on companies in which the portfolio may invest. Depending upon market conditions, the portfolio may be invested primarily in foreign securities. Investments may be made in companies based in the Pacific Basin (for example, Japan, Australia, New Zealand, Singapore, Malaysia, and Hong Kong) and Western Europe (for example, the United Kingdom, Spain, Germany, Switzerland, the Netherlands, France, and Scandinavia), as well as the United States, Canada, and such other areas and countries as the portfolio manager may determine from time to time. The portfolio may seek to hedge its position in foreign currencies as more fully described herein.

The portfolio is not required to maintain any particular geographic or currency mix of its investments. The portfolio intends to maintain investments in at least three countries (including the United States), but may, when market conditions warrant, invest up to 35% of its assets in companies located in any one country (other than the United States).

In analyzing companies for investment, the portfolio manager ordinarily looks for one or more of the following characteristics: prospects for above-average earnings growth per share; high return on invested capital; healthy balance sheet; sound financial and accounting policies and overall financial strength; strong competitive advantages; effective research and product development and marketing; efficient service; pricing flexibility; strength of management; and general operating characteristics which will enable the companies to compete successfully in their marketplace—all in relation to the prevailing prices of the securities of such companies.

Investing in securities of foreign companies and countries involves special risks. The particular risks of investments in foreign securities are described under **Foreign Securities**, page 27.

When conditions dictate a temporary defensive strategy or during temporary periods of portfolio structuring and restructuring, the Global Portfolio may invest, without limit, in high quality money market instruments of the kind held by the Money Market Portfolio.

In addition, the portfolio may: (i) purchase and sell options on equity securities, stock indices and foreign currencies; (ii) purchase and sell stock index, interest rate and foreign currency futures contracts and options thereon; (iii) enter into forward foreign currency exchange contracts; and (iv) purchase securities on a when-issued or delayed delivery basis. These techniques are described on pages 28 through 32, and further information about some of them is included in the statement of additional information.

The operating expense ratio of the portfolio can be expected to be significantly higher than that of a fund investing exclusively in domestic securities since the expenses of the portfolio, such as custodial, valuation and communication costs, as well as the rate of the investment management fee (0.75% of the portfolio's average daily net assets), though similar to such expenses of other global funds, are higher than those generally incurred by funds investing solely in the securities of U.S. issuers.

As a result of its investment policies, the portfolio's turnover rate may exceed 100% although it is not expected to exceed 200%.

Daniel Duane, Managing Director, Prudential Investments, Ingrid Holm, Vice President, Prudential Investments, and Michelle Picker, Vice President, Prudential Investments, have been co-managers of the Global Portfolio since 1997. Mr. Duane has managed the Global Portfolio since 1990 and also manages several funds including the Prudential World Fund, Inc., Global Series. Ms. Holm has assisted in the management of several mutual funds since 1994 and manages a portion of Prudential's general account. Prior to 1994, Ms. Holm headed the high yield research group for Prudential's general account. Ms. Picker has been an analyst in Prudential's global equity investments group since 1992 and has also managed a portion of Prudential's general account.

Specialized Portfolios

Natural Resources Portfolio. The *objective* of this portfolio is long-term growth of capital through investment primarily in common stocks and convertible securities of "natural resource companies" (as defined below) and in securities (typically debt securities and preferred stocks) the terms of which are related to the market value of some natural resource ("asset-indexed securities"). Under normal circumstances, the portfolio will invest at least 65% of its total assets in such securities.

Companies that primarily own, explore, mine, process or otherwise develop natural resources, or supply goods and services primarily to such companies, will be considered "natural resource companies." Natural resources generally include precious metals (e.g., gold, silver and platinum), ferrous and nonferrous metals (e.g., iron, aluminum and copper), strategic metals (e.g., uranium and titanium), hydrocarbons (e.g., coal, oil and natural gases), timber land, undeveloped real property and agricultural commodities.

The value of equity securities of natural resource companies (including those companies that are primarily involved in providing goods and services to natural resource companies) will fluctuate pursuant to market conditions generally, as well as to the market for the particular natural resource in which the issuer is involved. In addition, the values of natural resources are affected by numerous factors including events occurring in nature, inflationary pressures and international politics. For instance, events in nature (such as earthquakes or fires in prime natural resource areas) and political events (such as coups or military confrontations) can affect the overall supply of a natural resource and thereby the value of companies involved in such natural resources. In addition, rising interest rates (i.e., inflationary pressures) may affect the demand for natural resources such as timber. The portfolio manager will seek securities that are attractively priced relative to the intrinsic values of the relevant natural resource or that are of companies which are positioned to benefit under existing or anticipated economic conditions. Accordingly, the portfolio may shift its emphasis from one natural resource industry to another depending upon prevailing trends or developments, provided that the portfolio will not invest 25% or more of its total assets in the securities of companies in any one natural resource industry. See **INVESTMENT RESTRICTIONS** in the statement of additional information for information concerning the industry classifications. The portfolio is not required to maintain any particular mix of investments among the natural resource industries.

In addition to common stocks and equity-related securities, the portfolio may invest in securities, the principal amount, redemption terms or conversion terms of which are related to the market price of a natural resource asset, referred to herein as "asset-indexed securities." The portfolio expects to purchase asset-indexed securities which are rated, or are issued by issuers that have outstanding obligations which are rated, at least BBB or Baa by S&P or Moody's, respectively, or commercial paper rated at least A-2 or P-2 by S&P or Moody's, respectively, or in unrated securities that the portfolio manager has determined to be of comparable quality. The portfolio reserves the right, however, to invest in asset-indexed securities rated as low as CC or Ca by Moody's or S&P, respectively, or in unrated securities of comparable quality, also known as high risk securities. A description of security ratings is set forth in the Appendix to the statement of additional information. If the asset-indexed security is backed by a letter of credit or other similar instrument, the investment manager may take such backing into account in determining the quality of the security.

Although it is expected that the market prices of the asset-indexed securities will fluctuate on the basis of the natural resources on which such securities are based, there may not be a perfect correlation between the price movements of the asset-indexed securities and the underlying natural resources. Asset-indexed securities are not always secured with a security interest in the underlying natural resource asset. Further, asset-indexed securities typically bear interest or pay dividends at below market rates (and in certain cases at nominal rates). Although the value of asset-indexed securities that bear interest may fluctuate inversely with market interest rates, such fluctuations are anticipated generally to be minimal since the value of such securities is typically based on the natural resources on which the securities are based.

Certain asset-indexed securities may be payable at maturity in cash, or, at the option of the holder, directly in a stated amount of the asset to which the securities are related. The portfolio does not intend to invest directly in natural resources and, therefore, would elect to be paid in cash or would attempt to sell the asset-indexed security prior to maturity to realize the appreciation in the underlying asset.

As indicated above, the portfolio intends to invest primarily in common stocks and convertible securities of natural resource companies and asset-indexed securities. The portfolio may invest the balance of its assets in other stocks, other securities convertible into common stocks, debt securities (including money market instruments), and options on stocks and on natural resource-related stock indices. The portfolio may under normal circumstances invest up to 35% of its total assets in money market instruments of the type held by the Money Market Portfolio. Moreover, when conditions dictate a temporary defensive strategy or during temporary periods of portfolio structuring and restructuring, the Natural Resources Portfolio may invest, without limit, in high quality money market instruments of the kind held by the Money Market Portfolio. In addition, up to 35% of the portfolio's total assets may be invested in other fixed-income obligations. The portfolio anticipates that these will primarily be rated A or better by Moody's or S&P. However, the portfolio may also invest in lower-rated fixed-income securities, also known as high risk securities, although it will not invest in securities rated lower than CC or Ca by Moody's or S&P, respectively. The portfolio may also invest in non-rated fixed-income securities which, in the opinion of the investment manager, are of a quality comparable to rated securities in which the portfolio may invest.

To the extent permitted by applicable insurance law, this portfolio may invest up to 30% of its total assets in non-United States currency denominated common stock and fixed-income securities convertible into common stock of foreign and U.S. issuers. The particular risks of investments in foreign securities are described under **Foreign Securities**, page 27.

In addition, the portfolio may: (i) purchase and sell options on equity securities, stock indices and foreign currencies; (ii) purchase and sell stock index and foreign currency futures contracts and options thereon; (iii) enter into forward foreign currency exchange contracts; and (iv) purchase securities on a when-issued or delayed delivery basis. These techniques are described on pages 28 through 32, and further information about some of them is included in the statement of additional information.

As a result of its investment policies, the portfolio's turnover rate may exceed 100%, although it is not expected to exceed 200%.

Leigh Goehring, Vice President, Prudential Investments, has been portfolio manager of the Natural Resources Portfolio since 1992. Mr. Goehring also manages the Prudential Natural Resources Fund, Inc. Prior to 1992, Mr. Goehring was portfolio manager of The Prudential-Bache Option Growth Fund.

Convertible Securities

The Conservative Balanced, Flexible Managed, Equity Income, Equity, Prudential Jennison, Small Capitalization Stock, Global, and Natural Resources Portfolios may invest in convertible securities and such securities may constitute a major part of the holdings of the Equity Income, Global and Natural Resources Portfolios. A convertible security is a fixed-income security (a bond or preferred stock) which may be converted at a stated price within a specified period of time into a certain quantity of the common stock of the same or a different issuer. Convertible securities are senior to common stocks in a corporation's capital structure, but are usually subordinated to similar

nonconvertible securities. While providing a fixed income stream (generally higher in yield than the income derivable from a common stock but lower than that afforded by a similar nonconvertible security), a convertible security also affords an investor the opportunity, through its conversion feature, to participate in the capital appreciation attendant upon a market price advance in the convertible security's underlying common stock. The price of a convertible security tends to increase as the market value of the underlying stock rises, whereas it tends to decrease as the market value of the underlying stock declines. While no securities investment is without risk, investments in convertible securities generally entail less risk than investments in the common stock of the same issuer.

Loan Participations

The Diversified Bond, Conservative Balanced, Flexible Managed, and High Yield Bond Portfolios may invest in fixed and floating rate loans ("Loans") arranged through private negotiations between a corporate borrower and one or more financial institutions ("Lenders"). The portfolios may invest in such Loans generally in the form of participations in Loans ("Participations"). Participations typically will result in the Series Fund having a contractual relationship only with the Lender, not with the borrower. The Series Fund will have the right to receive payments of principal, interest and any fees to which it is entitled only from the Lender selling the Participation and only upon receipt by the Lender of the payments from the borrower. In connection with purchasing Participations, the Series Fund generally will have no right to enforce compliance by the borrower with the terms of the loan agreement relating to the Loan, nor any rights of set-off against the borrower, and the Series Fund may not benefit directly from any collateral supporting the Loan in which it has purchased the Participation. As a result, the Series Fund will assume the credit risk of both the borrower and the Lender that is selling the Participation. In the event of the insolvency of the Lender selling a Participation, the Series Fund may be treated as a general creditor of the Lender and may not benefit from any set-off between the Lender and the borrower.

Foreign Securities

The Global Portfolio may invest up to 100% of its total assets in common stock and convertible securities denominated in a foreign currency and issued by foreign or domestic issuers. The Diversified Bond and High Yield Bond Portfolios may each invest up to 20% of their assets in United States currency denominated debt securities issued outside the United States by foreign or domestic issuers. In addition, the bond components of the Conservative Balanced and Flexible Managed Portfolios may each invest up to 20% of their assets in such securities. To the extent permitted by applicable law, the Conservative Balanced, Flexible Managed, and Equity Income Portfolios may invest up to 30% of their total assets in debt and equity securities denominated in a foreign currency and issued by foreign or domestic issuers. Further, to the extent permitted by applicable insurance law, the Equity, Prudential Jennison, and Natural Resources Portfolios may invest up to 30% of their total assets in non-United States currency denominated common stock and fixed-income securities convertible into common stock of foreign and U.S. issuers. Securities issued outside the United States and not publicly traded in the United States, as well as ADRs, and securities denominated in a foreign currency are referred to collectively in this prospectus as "foreign securities."

ADRs are U.S. dollar-denominated certificates issued by a United States bank or trust company and represent the right to receive securities of a foreign issuer deposited in a domestic bank or foreign branch of a United States bank and traded on a United States exchange or in an over-the-counter market. Investment in ADRs has certain advantages over direct investment in the underlying foreign securities because they are easily transferable, have readily available market quotations, and the foreign issuers are usually subject to comparable auditing, accounting, and financial reporting standards as domestic issuers.

Foreign securities involve certain risks, which should be considered carefully by an investor. These risks include political or economic instability in the country of the issuer, the difficulty of predicting international trade patterns, the possibility of imposition of exchange controls and, in the case of securities not denominated in United States currency, the risk of currency fluctuations. Such securities may be subject to greater fluctuations in price than domestic securities. Under certain market conditions, foreign securities may be less liquid than domestic securities. In addition, there may be less publicly available information about a foreign company than about a domestic company. Foreign companies generally are not subject to uniform accounting, auditing, and financial reporting standards comparable to those applicable to domestic companies. There is generally less government regulation of securities exchanges, brokers, and listed companies abroad than in the United States, and, with respect to certain foreign countries, there is a possibility of expropriation, confiscatory taxation or diplomatic developments which could affect investment in those countries. Finally, in the event of a default of any foreign debt obligations, it may be more difficult for a portfolio to obtain or to enforce a judgment against the issuers of such securities.

If the security is denominated in foreign currency, it may be affected by changes in currency rates and in exchange control regulations, and costs may be incurred in connection with conversions between currencies. The portfolios that may invest in foreign securities may, but need not, enter into forward foreign currency exchange contracts

for the purchase or sale of foreign currency for hedging purposes, including: locking-in the U.S. dollar price equivalent of interest or dividends to be paid on such securities which are held by the portfolio; and protecting the U.S. dollar value of such securities which are held by the portfolio. The portfolios will not enter into such forward contracts or maintain a net exposure to such contracts where the consummation of the contracts would obligate the portfolio to deliver an amount of foreign currency in excess of the value of the portfolio's portfolio securities or other assets denominated in that currency. See **Forward Foreign Currency Exchange Contracts** in the statement of additional information. In addition, the portfolios may, for hedging purposes, enter into certain transactions involving options on foreign currencies, foreign currency futures contracts and options on foreign currency futures contracts. See **Options on Foreign Currencies, Futures Contracts, and Options on Futures Contracts** on pages 30 through 31.

Options on Equity Securities

The Conservative Balanced, Flexible Managed, Equity Income, Equity, Prudential Jennison, Small Capitalization Stock, Global, and Natural Resources Portfolios may purchase and write (i.e., sell) put and call options on equity securities that are traded on securities exchanges, are listed on the National Association of Securities Dealers Automated Quotation System ("NASDAQ"), or that result from privately negotiated transactions with broker-dealers ("OTC options"). A call option is a short-term contract pursuant to which the purchaser or holder, in return for a premium paid, has the right to buy the equity security underlying the option at a specified exercise price at any time during the term of the option. The writer of the call option, who receives the premium, has the obligation, upon exercise of the option, to deliver the underlying equity security against payment of the exercise price. A put option is a similar contract which gives the purchaser or holder, in return for a premium, the right to sell the underlying equity security at a specified price during the term of the option. The writer of the put, who receives the premium, has the obligation to buy the underlying equity security at the exercise price upon exercise by the holder of the put.

A portfolio will write only "covered" options on stocks. A call option is covered if: (1) the portfolio owns the security underlying the option; or (2) the portfolio has an absolute and immediate right to acquire that security without additional cash consideration (or for additional cash consideration held in a segregated account by its custodian) upon conversion or exchange of other securities it holds; or (3) the portfolio holds on a share-for-share basis a call on the same security as the call written where the exercise price of the call held is equal to or less than the exercise price of the call written or greater than the exercise price of the call written if the difference is maintained by the portfolio in cash, U.S. Government securities or other liquid unencumbered assets in a segregated account with its custodian. A put option is covered if: (1) the portfolio deposits and maintains with its custodian in a segregated account cash, U.S. Government securities or other liquid unencumbered assets having a value equal to or greater than the exercise price of the option; or (2) the portfolio holds on a share-for-share basis a put on the same security as the put written where the exercise price of the put held is equal to or greater than the exercise price of the put written or less than the exercise price if the difference is maintained by the portfolio in cash, U.S. Government securities or other liquid unencumbered assets in a segregated account with its custodian.

The Conservative Balanced, Flexible Managed, Equity Income, Equity, Prudential Jennison, Small Capitalization Stock, Global, and Natural Resources Portfolios may also purchase "protective puts" (i.e., put options acquired for the purpose of protecting a portfolio security from a decline in market value). In exchange for the premium paid for the put option, the portfolio acquires the right to sell the underlying security at the exercise price of the put regardless of the extent to which the underlying security declines in value. The loss to the portfolio is limited to the premium paid for, and transaction costs in connection with, the put plus the initial excess, if any, of the market price of the underlying security over the exercise price. However, if the market price of the security underlying the put rises, the profit the portfolio realizes on the sale of the security will be reduced by the premium paid for the put option less any amount (net of transaction costs) for which the put may be sold. Similar principles apply to the purchase of puts on debt securities and stock indices, as described under **Options on Debt Securities**, page 29 and **Options on Stock Indices**, page 30.

These portfolios may purchase call options for hedging and investment purposes. No portfolio intends to invest more than 5% of its net assets at any one time in the purchase of call options on stocks. These portfolios may also purchase puttable and callable equity securities, which are securities coupled with a put or a call option provided by the issuer.

If the writer of an exchange-traded option wishes to terminate the obligation, he or she may effect a "closing purchase transaction" by buying an option of the same series as the option previously written. Similarly, the holder of an exchange-traded option may liquidate his or her position by exercise of the option or by effecting a "closing sale transaction" by selling an option of the same series as the option previously purchased. A portfolio will realize a profit from a closing transaction if the price of the transaction is less than the premium received from writing the option or is more than the premium paid to purchase the option. Because increases in the market price of a call

option will generally reflect increases in the market price of the underlying security, any loss resulting from a closing purchase transaction with respect to a call option is likely to be offset in whole or in part by appreciation of the underlying equity security owned by the portfolio. Unlike exchange-traded options, OTC options generally do not have a continuous liquid market. Consequently, the portfolio will generally be able to realize the value of an OTC option it has purchased only by exercising it or reselling it to the dealer who issued it. Similarly, when the portfolio writes an OTC option, it generally will be able to close out the OTC option prior to its expiration only by entering into a closing purchase transaction with the dealer to which the portfolio originally wrote the OTC option. There is, in general, no guarantee that closing purchase or closing sale transactions can be effected.

There are certain special risks associated with the portfolios' transactions in stock options, in addition to a risk that the market value of the security will move adversely to the portfolio's option position. These risks, which relate primarily to liquidity, are discussed in the statement of additional information.

Options on Debt Securities

The Diversified Bond, Government Income, Conservative Balanced, Flexible Managed, and High Yield Bond Portfolios may purchase and write (i.e., sell) put and call options on debt securities (including U.S. Government debt securities) that are traded on U.S. securities exchanges or that result from privately negotiated transactions with primary U.S. Government securities dealers recognized by the Federal Reserve Bank of New York ("OTC options"). Options on debt are similar to options on stock, except that the option holder has the right to take or make delivery of a debt security, rather than stock.

A portfolio will write only "covered" options. Options on debt securities are covered in the same manner as options on stocks, discussed above, except that, in the case of call options on U.S. Treasury Bills, the portfolio might own U.S. Treasury Bills of a different series from those underlying the call option, but with a principal amount and value corresponding to the option contract amount and a maturity date no later than that of the securities deliverable under the call option. The principal reason for a portfolio to write an option on one or more of its securities is to realize through the receipt of the premiums paid by the purchaser of the option a greater current return than would be realized on the underlying security alone. Calls on debt securities will not be written when, in the opinion of Prudential, interest rates are likely to decline significantly, because under those circumstances the premium received by writing the call likely would not fully offset the foregone appreciation in the value of the underlying security.

These portfolios may also write straddles (i.e., a combination of a call and a put written on the same security at the same strike price where the same issue of the security is considered "cover" for both the put and the call). In such cases, the portfolio will also segregate or deposit for the benefit of the portfolio's broker cash, U.S. Government securities or other liquid unencumbered assets equivalent to the amount, if any, by which the put is "in the money." It is contemplated that each portfolio's use of straddles will be limited to 5% of the portfolio's net assets (meaning that the securities used for cover or segregated as described above will not exceed 5% of the portfolio's net assets at the time the straddle is written). The writing of a call and a put on the same security at the same strike price where the call and the put are covered by different securities is not considered a straddle for purposes of this limit.

These portfolios may purchase "protective puts" in an effort to protect the value of a security that it owns against a substantial decline in market value. Protective puts are described in **Options on Equity Securities**, page 28. A portfolio may wish to protect certain portfolio securities against a decline in market value at a time when put options on those particular securities are not available for purchase. A portfolio may therefore purchase a put option on securities other than those it wishes to protect even though it does not hold such other securities in its portfolio. While changes in the value of the put option should generally offset changes in the value of the securities being hedged, the correlation between the two values may not be as close in these transactions as in transactions in which the portfolio purchases a put option on an underlying security it owns.

These portfolios may also purchase call options on debt securities for hedging or investment purposes. No portfolio currently intends to invest more than 5% of its net assets at any one time in the purchase of call options on debt securities. A portfolio may also purchase puttable and callable debt securities, which are securities coupled with a put or call option provided by the issuer.

If the writer of an exchange-traded option wishes to terminate the obligation, he or she may effect a "closing purchase transaction" or a "closing sale transaction" in a manner similar to that discussed above in connection with options on equity securities.

The staff of the SEC has taken the position that purchased OTC options and the assets used as "cover" for written OTC options are illiquid for purposes of a portfolio's 15% limitation on investment in illiquid securities. However, pursuant to the terms of certain no-action letters issued by the staff, the securities used as cover for written OTC options may be considered liquid provided that the portfolio sells OTC options only to qualified dealers who agree that the portfolio may repurchase any OTC option it writes for a maximum price to be calculated by a

predetermined formula. In such cases, the OTC option would be considered illiquid only to the extent that the maximum repurchase price under the formula exceeds the intrinsic value of the option.

There are certain risks associated with the portfolios' transactions in debt options, in addition to a risk that the market value of the security will move adversely to the portfolio's option position. These risks, which relate primarily to liquidity, are discussed in the statement of additional information.

Options on Stock Indices

The Conservative Balanced, Flexible Managed, Equity Income, Equity, Prudential Jennison, Global, and Natural Resources Portfolios may purchase and sell put and call options on stock indices traded on securities exchanges, listed on NASDAQ or that result from privately negotiated transactions with broker-dealers ("OTC options"). The Stock Index and Small Capitalization Stock Portfolios may utilize options on stock indices by constructing "put/call" combinations that are economically comparable to a long stock index futures position, as described in the statement of additional information. Options on stock indices are similar to options on stock except that, rather than the right to take or make delivery of stock at a specified price, an option on a stock index gives the holder the right to receive, upon exercise of the option, an amount of cash if the closing level of the stock index upon which the option is based is greater than, in the case of a call, or less than, in the case of a put, the exercise price of the option. This amount of cash is equal to such difference between the closing price of the index and the exercise price of the option expressed in dollars times a specified multiple (the "multiplier"). The writer of the option is obligated, in return for the premium received, to make delivery of this amount. Unlike stock options, all settlements are in cash, and gain or loss depends on price movements in the stock market generally (or in a particular industry or segment of the market) rather than price movements in individual stocks.

The multiplier for an index option performs a function similar to the unit of trading for a stock option. It determines the total dollar value per contract of each point in the difference between the exercise price of an option and the current level of the underlying index. A multiplier of 100 means that a one-point difference will yield \$100. Options on different indices may have different multipliers.

A portfolio will write only "covered" options on stock indices. The manner in which these options are covered is discussed in the statement of additional information.

These portfolios may purchase put and call options for hedging and investment purposes. No portfolio intends to invest more than 5% of its net assets at any time in the purchase of puts and calls on stock indices. A portfolio may effect closing sale and purchase transactions involving options on stock indices, as described above in connection with stock options.

Options on Foreign Currencies

The Conservative Balanced, Flexible Managed, Equity Income, Equity, Prudential Jennison, Global, and Natural Resources Portfolios may purchase and write put and call options on foreign currencies traded on U.S. or foreign securities exchanges or boards of trade for hedging purposes in a manner similar to that in which forward foreign currency exchange contracts (discussed under **Foreign Securities**, page 27 and futures contracts on foreign currencies (discussed under **Futures Contracts**, page 31) will be employed. Options on foreign currencies are similar to options on stock, except that the option holder has the right to take or make delivery of a specified amount of foreign currency, rather than stock.

A portfolio may purchase and write options to hedge the portfolio's securities denominated in foreign currencies. If there is a decline in the dollar value of a foreign currency in which the portfolio's securities are denominated, the dollar value of such securities will decline even though the foreign currency value remains the same. To hedge against the decline of the foreign currency, a portfolio may purchase put options on such foreign currency. If the value of the foreign currency declines, the gain realized on the put option would offset, in whole or in part, the adverse effect such decline would have on the value of the portfolio's securities. Alternatively, a portfolio may write a call option on the foreign currency. If the foreign currency declines, the option would not be exercised and the decline in the value of the portfolio securities denominated in such foreign currency would be offset in part by the premium the portfolio received for the option.

If, on the other hand, the portfolio manager anticipates purchasing a foreign security and also anticipates a rise in such foreign currency (thereby increasing the cost of such security), a portfolio may purchase call options on the foreign currency. The purchase of such options could offset, at least partially, the effects of the adverse movements of the exchange rates. Alternatively, a portfolio could write a put option on the currency and, if the exchange rates move as anticipated, the option would expire unexercised.

A portfolio's successful use of currency exchange options on foreign currencies depends upon the investment manager's ability to predict the direction of the currency exchange markets and political conditions, which requires different skills and techniques than predicting changes in the securities markets generally. For instance, if the

currency being hedged has moved in a favorable direction, the corresponding appreciation of the portfolio's securities denominated in such currency would be partially offset by the premiums paid on the options. Further, if the currency exchange rate does not change, the portfolio net income would be less than if the portfolio had not hedged since there are costs associated with options.

The use of these options is subject to various additional risks. The correlation between movements in the price of options and the price of the currencies being hedged is imperfect. The use of these instruments will hedge only the currency risks associated with investments in foreign securities, not market risks. The portfolio's ability to establish and maintain positions will depend on market liquidity. The ability of the portfolio to close out an option depends upon a liquid secondary market. There is no assurance that liquid secondary markets will exist for any particular option at any particular time.

Futures Contracts

The Conservative Balanced, Flexible Managed, Stock Index, Equity Income, Equity, Prudential Jennison, Small Capitalization Stock, Global, and Natural Resources Portfolios may, to the extent permitted by applicable regulations, purchase and sell stock index futures contracts. A stock index futures contract is an agreement between the buyer and the seller of the contract to transfer an amount of cash equal to the daily variation margin of the contract. No physical delivery of the underlying stocks in the index is made.

The Diversified Bond, Government Income, Conservative Balanced, Flexible Managed, High Yield Bond, and Global Portfolios may, to the extent permitted by applicable regulations, purchase and sell futures contracts on interest-bearing securities (such as U.S. Treasury bonds and notes) or interest rate indices (referred to collectively as "interest rate futures contracts").

The Conservative Balanced, Flexible Managed, Equity Income, Equity, Prudential Jennison, Global, and Natural Resources Portfolios may, to the extent permitted by applicable regulations, purchase and sell futures contracts on foreign currencies or groups of foreign currencies.

When the futures contract is entered into, each party deposits with a futures commission merchant (or in a segregated custodial account) approximately 5% of the contract amount, called the "initial margin." Subsequent payments to and from the futures commission merchant, called the "variation margin," will be made on a daily basis as the underlying security, index or rate fluctuates making the long and short positions in the futures contracts more or less valuable, a process known as "marking to the market."

A portfolio may purchase or sell futures contracts without limit for hedging purposes and may purchase and sell such contracts for non-hedging purposes provided the initial margins and premiums associated with the contracts do not exceed 5% of the fair market value of the portfolio's assets, taking into account unrealized profits and unrealized losses on any such futures. Hedging is generally considered to be the use of futures to reduce the risk of a particular position in a security. For example, a portfolio manager might attempt to reduce the risk of investment in equity securities by hedging a portion of its equity portfolio through the use of stock index futures contracts. Subject to the limitation discussed above, futures may also be utilized by a portfolio for non-hedging uses, such as for investment purposes, to enhance income or to adjust its asset mix. An example of non-hedging use of futures would be if the investment manager expects bonds to outperform stocks, it may purchase interest rate futures contracts rather than actually selling stocks and buying bonds.

A portfolio's successful use of futures contracts depends upon the investment manager's ability to predict the direction of the relevant market. The correlation between movement in the price of the futures contract and the price of the securities or currencies being hedged is imperfect. The ability of a portfolio to close out a futures position depends on a liquid secondary market. There is no assurance that liquid secondary markets will exist for any particular futures contract at any particular time.

Options on Futures Contracts

To the extent permitted by applicable insurance law and federal regulations, the Conservative Balanced, Flexible Managed, Stock Index, Equity Income, Equity, Prudential Jennison, Small Capitalization Stock, Global and Natural Resources Portfolios may enter into certain transactions involving options on stock index futures contracts; the Diversified Bond, Government Income, Conservative Balanced, Flexible Managed, High Yield Bond and Global Portfolios may enter into certain transactions involving options on interest rate futures contracts; and the Conservative Balanced, Flexible Managed, Equity Income, Equity, Prudential Jennison, Global and Natural Resources Portfolios may enter into certain transactions involving options on foreign currency futures contracts. An option on a futures contract gives the purchaser or holder the right, but not the obligation, to assume a position in a futures contract (a long position if the option is a call and a short position if the option is a put) at a specified price at any time during the option exercise period. The writer of the option is required upon exercise to assume an offsetting futures position (a short position if the option is a call and long position if the option is a put). Upon exercise of the option, the assumption of offsetting futures positions by the writer and holder of the option will

be accomplished by delivery of the accumulated balance in the writer's futures margin account which represents the amount by which the market price of the futures contract, at exercise, exceeds, in the case of a call, or is less than, in the case of a put, the exercise price of the option on the futures contract. As an alternative to exercise, the holder or writer of an option may terminate a position by selling or purchasing an option of the same series. There is no guarantee that such closing transactions can be effected. The Stock Index and Small Capitalization Stock Portfolios intend to utilize options on stock index futures contracts by constructing "put/call" combinations that are economically comparable to a long stock index futures position, as described in the statement of additional information. The other portfolios intend to utilize options on futures contracts for the same purposes that they use the underlying futures contracts.

Repurchase Agreements

The portfolios may enter into repurchase agreements, subject to each portfolio's investment limit in short-term debt obligations, whereby the seller of a security agrees to repurchase that security from the portfolio at a mutually agreed-upon time and price. The period of maturity is usually quite short, possibly overnight or a few days, although it may extend over a number of months. The resale price is in excess of the purchase price, reflecting an agreed-upon rate of return effective for the period of time the portfolio's money is invested in the repurchase agreement. The repurchase agreements will at all times be fully collateralized in an amount at least equal to the resale price. The instruments held as collateral are valued daily, and if the value of the instruments declines, the portfolio will require additional collateral. If the seller defaults and the value of the collateral securing the repurchase agreement declines, the portfolio may incur a loss. All portfolios, except the Global Portfolio, participate in a joint repurchase account pursuant to an order of the SEC. On a daily basis, any uninvested cash balances of the portfolios may be aggregated and invested in one or more repurchase agreements. Each portfolio participates in the income earned or accrued in the joint account based on the percentage of its investment.

Reverse Repurchase Agreements and Dollar Rolls

The Diversified Bond, Government Income and High Yield Bond Portfolios, as well as the fixed income portions of the Conservative Balanced and Flexible Managed Portfolios, may use reverse repurchase agreements and dollar rolls. The Money Market Portfolio and the money market portion of any portfolio may use reverse repurchase agreements. Reverse repurchase agreements involve the sale of securities held by a portfolio with an agreement by the portfolio to repurchase the same securities at an agreed upon price and date. During the reverse repurchase period, the portfolio often continues to receive principal and interest payments on the sold securities. The terms of each agreement reflect a rate of interest for use of the funds for the period, and thus these agreements have the characteristics of borrowing by the portfolio. Dollar rolls involve sales by a portfolio of securities for delivery in the current month with a simultaneous contract to repurchase substantially similar securities (same type and coupon) from the same party at an agreed upon price and date. During the roll period, the portfolio forgoes principal and interest paid on the securities. A portfolio is compensated by the difference between the current sales price and the forward price for the future purchase (often referred to as the "drop") as well as by the interest earned on the cash proceeds of the initial sale. A "covered roll" is a specific type of dollar roll for which there is an offsetting cash position or a cash equivalent security position which matures on or before the forward settlement date of the dollar roll transaction. A portfolio will establish a segregated account with its custodian in which it will maintain cash, U.S. Government securities or other liquid unencumbered assets equal in value to its obligations in respect of reverse repurchase agreements and dollar rolls. Reverse repurchase agreements and dollar rolls involve the risk that the market value of the securities retained by the portfolio may decline below the price of the securities the portfolio has sold but is obligated to repurchase under the agreement. In the event the buyer of securities under a reverse repurchase agreement or dollar roll files for bankruptcy or becomes insolvent, the portfolio's use of the proceeds of the agreement may be restricted pending a determination by the other party, or its trustee or receiver, whether to enforce the portfolio's obligation to repurchase the securities. The Diversified Bond, Government Income and High Yield Bond Portfolios, as well as the fixed income portions of the Conservative Balanced and Flexible Managed Portfolios, will not obligate more than 30% of their net assets in connection with reverse repurchase agreements and dollar rolls. No other portfolio will obligate more than 10% of its net assets in connection with reverse repurchase agreements.

When-Issued and Delayed Delivery Securities

From time to time, in the ordinary course of business, the Diversified Bond, Government Income, Conservative Balanced, Flexible Managed, High Yield Bond, Equity Income, Equity, Prudential Jennison, Small Capitalization Stock, Global and Natural Resources Portfolios may purchase or sell securities on a when-issued or delayed delivery basis, that is, delivery and payment can take place a month or more after the date of the transaction. A portfolio will make commitments for such when-issued transactions only with the intention of actually acquiring the securities. A portfolio's custodian will maintain, in a separate account, cash, U.S. Government securities or other liquid unencumbered assets having a value equal to or greater than such commitments. If a portfolio chooses to

dispose of the right to acquire a when-issued security prior to its acquisition, it could, as with the disposition of any other portfolio security, incur a gain or loss due to market fluctuations.

In addition, the Money Market Portfolio and short-term portions of the other portfolios may purchase money market securities on when-issued or delayed delivery basis on the terms set forth in the Appendix to this prospectus.

Short Sales

The Diversified Bond, Government Income, Conservative Balanced, Flexible Managed and High Yield Bond Portfolios may sell securities they do not own in anticipation of a decline in the market value of those securities ("short sales"). To complete such a transaction, the portfolio will borrow the security to make delivery to the buyer. The portfolio is then obligated to replace the security borrowed by purchasing it at the market price at the time of replacement. The price at such time may be more or less than the price at which the security was sold by the portfolio. Until the security is replaced, the portfolio is required to pay to the lender any interest which accrues during the period of the loan. To borrow the security the portfolio may be required to pay a fee which would increase the cost of the security sold. The proceeds of the short sale will be retained by the broker to the extent necessary to meet margin requirements until the short position is closed out. Until the portfolio replaces the borrowed security, it will (a) maintain in a segregated account cash, U.S. Government securities or other liquid unencumbered assets at such a level that the amount deposited in the account plus the amount deposited with the broker as collateral will equal the current market value of the security sold short and will not be less than the market value of the security at the time it was sold short or (b) otherwise cover its short position.

The portfolio will incur a loss as a result of the short sale if the price of the security increases between the date of the short sale and the date on which the portfolio replaces the borrowed security. The portfolio will realize a gain if the security declines in price between those dates. This result is the opposite of what one would expect from a cash purchase of a long position in a security. The amount of any gain will be decreased, and the amount of any loss will be increased, by the amount of any fee or interest paid in connection with the short sale. No more than 25% of any portfolio's net assets will be, when added together: (i) deposited as collateral for the obligation to replace securities borrowed to effect short sales and (ii) allocated to segregated accounts in connection with short sales.

Short Sales Against the Box

All portfolios (other than the Money Market and Zero Coupon Bond Portfolios) may make short sales of securities or maintain a short position, provided that at all times when a short position is open the portfolio owns an equal amount of such securities or securities convertible into or exchangeable, with or without payment of any further consideration, for an equal amount of the securities of the same issuer as the securities sold short (a "short sale against the box"); provided, that if further consideration is required in connection with the conversion or exchange, cash, U.S. Government securities or other liquid unencumbered assets in an amount equal to such consideration must be put in a segregated account.

Interest Rate Swaps

The Diversified Bond, Government Income and High Yield Bond Portfolios and the fixed income portions of the Conservative Balanced and Flexible Managed Portfolios may use interest rate swaps to increase or decrease a portfolio's exposure to long- or short-term interest rates. No portfolio currently intends to invest more than 5% of its net assets at any one time in interest rate swaps. For more information, see the statement of additional information.

Loans of Portfolio Securities

All of the portfolios except the Money Market Portfolio may from time to time lend the securities they hold to broker-dealers, qualified banks and certain institutional investors provided that such loans are made pursuant to written agreements and are continuously secured by collateral in the form of cash, U.S. Government securities or irrevocable standby letters of credit in an amount equal to at least the market value at all times of the loaned securities plus the accrued interest and dividends. During the time securities are on loan, the portfolio will continue to receive the interest and dividends or amounts equivalent thereto, on the loaned securities while receiving a fee from the borrower or earning interest on the investment of the cash collateral. The right to terminate the loan will be given to either party subject to appropriate notice. Upon termination of the loan, the borrower will return to the lender securities identical to the loaned securities. The portfolio will not have the right to vote securities on loan, but would terminate the loan and retain the right to vote if that were considered important with respect to the investment.

The primary risk in lending securities is that the borrower may become insolvent on a day on which the loaned security is rapidly advancing in price. In such event, if the borrower fails to return the loaned securities, the

existing collateral might be insufficient to purchase back the full amount of the security loaned, and the borrower would be unable to furnish additional collateral. The borrower would be liable for any shortage; but the portfolio would be an unsecured creditor with respect to such shortage and might not be able to recover all or any of it. However, this risk may be minimized by a careful selection of borrowers and securities to be lent and by monitoring collateral.

No portfolio will lend securities to entities affiliated with Prudential, including Prudential Securities Incorporated. This will not affect a portfolio's ability to maximize its securities lending opportunities.

INVESTMENT RESTRICTIONS APPLICABLE TO THE PORTFOLIOS

The Series Fund is subject to certain investment restrictions which are fundamental to the operations of the Series Fund and may not be changed except with the approval of a majority vote (as defined under **INVESTMENT OBJECTIVES AND POLICIES OF THE PORTFOLIOS** on page 10) of the persons participating in the affected portfolio.

The investments of the various portfolios are generally subject to certain additional restrictions under state laws. In the event of future amendments to the applicable statutes, each portfolio will comply, without the approval of the shareholders, with the statutory requirements as so modified.

For a detailed discussion of investment restrictions applicable to the Series Fund, see **INVESTMENT RESTRICTIONS** in the statement of additional information.

INVESTMENT MANAGEMENT ARRANGEMENTS AND EXPENSES

The Series Fund has entered into an Investment Advisory Agreement with Prudential under which Prudential will, subject to the direction of the Board of Directors of the Series Fund, be responsible for the management of the Series Fund, and provide investment advice and related services to each portfolio. The directors, in addition to reviewing the actions of the Series Fund's investment manager, decide upon matters of general policy. The Series Fund's officers conduct and supervise the daily business operations of the Series Fund.

Prudential, founded in 1875 under the laws of New Jersey, is subject to regulation by the Department of Insurance of the State of New Jersey as well as by the insurance departments of all the other states and jurisdictions in which it does business. Prudential is registered as an investment advisor under the Investment Advisers Act of 1940. Prudential's principal business address is 751 Broad Street, Newark, New Jersey 07102-3777.

Prudential manages the assets that it owns as well as those of various separate accounts established by Prudential and those held by other investment companies for which it acts as investment advisor. Total assets under management as of December 31, 1997 were over \$370.4 billion which includes over \$251.6 billion owned by Prudential and approximately \$118.8 billion of external assets under Prudential's management.

Subject to Prudential's supervision, substantially all of the investment advisory services provided to the Series Fund by Prudential are furnished, with respect to fourteen of the Series Fund's fifteen portfolios, by its wholly-owned subsidiary, PIC, pursuant to the Service Agreement between Prudential and PIC. The Agreement provides that a portion of the fee received by Prudential for providing investment advisory services will be paid to PIC. Investment advisory services with respect to the Prudential Jennison Portfolio provided by Prudential are furnished by another wholly-owned subsidiary, Jennison, pursuant to an Investment Subadvisory Agreement between Prudential and Jennison. That Agreement provides that a portion of the fee received by Prudential for providing investment advisory services to the Prudential Jennison Portfolio will be paid to Jennison. PIC and Jennison are both registered as investment advisors under the Investment Advisers Act of 1940.

Under the Investment Advisory Agreement, Prudential receives an investment management fee as compensation for its services to the Series Fund. The fee is a daily charge, payable quarterly, equal to an annual percentage of the average daily net assets of each individual portfolio.

The investment management fee for the Stock Index Portfolio is equal to an annual rate of 0.35% of the average daily net assets of the portfolio. For the Money Market, Diversified Bond, Government Income, Equity Income, Zero Coupon Bond, and Small Capitalization Stock Portfolios that fee is equal to an annual rate of 0.40% of the average daily net assets of each of the portfolios. For the Equity and Natural Resources Portfolios, the fee is equal to an annual rate of 0.45% of the average daily net assets of each of the portfolios. The fee for the Conservative Balanced and the High Yield Bond Portfolios is equal to an annual rate of 0.55% of the average daily net assets of each of the portfolios. For the Flexible Managed and Prudential Jennison Portfolios, the fee is equal to an annual rate of 0.60% of the average daily net assets of each of the portfolios. The fee for the Global Portfolio is equal

to an annual rate of 0.75% of the average daily net assets of the portfolio. For further information about the expenses of the Series Fund, see **INVESTMENT MANAGEMENT ARRANGEMENTS AND EXPENSES** in the statement of additional information.

PURCHASE AND REDEMPTION OF SHARES

Shares in the Series Fund are currently offered continuously, without sales charge, at prices equal to the respective net asset values of the portfolios, only to the Accounts to fund benefits payable under the Contracts. The Series Fund may at some later date also offer its shares to other separate accounts of Prudential or other insurers. Currently, Pruco Securities Corporation ("Prusec"), an indirect wholly-owned subsidiary of Prudential, acts as the principal underwriter of the Series Fund. Prusec's principal business address is 751 Broad Street, Newark, New Jersey 07102-3777. Subject to Board approval, during the second quarter of 1998 Prusec's responsibilities as principal underwriter will be assigned to Prudential Investment Management Services LLC ("PIMS"). PIMS, also an indirect wholly-owned subsidiary of Prudential, is a limited liability corporation organized under Delaware law in 1996. PIMS will act as principal underwriter under substantially the same terms as Prusec does currently. Both Prusec and PIMS are registered as broker-dealers under the Securities Exchange Act of 1934 and are members of the National Association of Securities Dealers, Inc. PIMS' principal business address is 751 Broad Street, Newark, New Jersey 07102-3777.

The Series Fund is required to redeem all full and fractional shares of the Series Fund for cash within 7 days of receipt of proper notice of redemption. The redemption price is the net asset value per share next determined after the initial receipt of proper notice of redemption.

The right to redeem shares or to receive payment with respect to any redemption may be suspended only for any period during which trading on the NYSE is restricted as determined by the SEC or when such exchange is closed (other than customary weekend and holiday closings), for any period during which an emergency exists as defined by the SEC as a result of which disposal of a portfolio's securities or determination of the net asset value of each portfolio is not reasonably practicable, and for such other periods as the SEC may by order permit for the protection of shareholders of each portfolio.

DETERMINATION OF NET ASSET VALUE

The net asset value of the shares of each portfolio is determined once daily, as of 4:15 p.m. New York City time (12:00 noon New York City time in the case of the Money Market Portfolio) on each day during which the NYSE is open for business. The NYSE is open for business Monday through Friday except for the days on which the following holidays are observed: New Year's Day, Martin Luther King, Jr. Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day. In the event the NYSE closes early on any business day, the net asset value of each portfolio shall be determined at a time between such closing and 4:15 p.m. New York City time. The net asset value per share of each portfolio except the Money Market Portfolio is computed by adding the sum of the value of the securities held by that portfolio plus any cash or other assets it holds, subtracting all its liabilities, and dividing the result by the total number of shares outstanding of that portfolio at such time. Expenses, including the investment management fee payable to Prudential, are accrued daily.

In determining the net asset value of the Diversified Bond, Government Income and High Yield Bond Portfolios, securities (other than debt obligations with remaining maturities of less than 60 days, which are valued at amortized cost) will be valued utilizing an independent pricing service to determine valuations for normal institutional size trading units of securities. The pricing service considers such factors as security prices, yields, maturities, call features, ratings, and developments relating to specific securities in arriving at securities valuations.

The net asset value of shares of the Money Market Portfolio will normally remain at \$10 per share, because the net investment income of this portfolio (including realized and unrealized gains and losses on portfolio holdings) will be declared as a dividend each time the portfolio's net income is determined, see **DIVIDENDS, DISTRIBUTIONS, AND TAXES**, page 36. If in the view of the Board of Directors of the Series Fund it is inadvisable to continue to maintain the net asset value of the Money Market Portfolio at \$10 per share, the Board reserves the right to alter the procedure. The Series Fund will notify shareholders of any such alteration.

All short-term debt obligations in the Money Market Portfolio of 397 days' maturity or less are valued on an amortized cost basis. This means that each obligation will be valued initially at its purchase price and thereafter by amortizing any discount or premium uniformly to maturity, regardless of the impact of fluctuating interest rates on the market value of the obligation. This highly practical method of valuation is in widespread use and almost always results in a value that is extremely close to the actual market value. In order to continue to utilize the amortized cost method of valuation, the Money Market Portfolio may not purchase any security with a remaining

maturity of more than 397 days and must maintain a dollar-weighted average of portfolio maturity of 90 days or less. In the event of sizeable changes in interest rates, however, the value determined by this method may be higher or lower than the price that would be received if the obligation were sold. The Board of Directors has established procedures to determine whether, on these occasions, if any should occur, the deviation might be enough to affect the value of shares in the portfolio by more than ½ of one percent, and, if it does, an appropriate adjustment will be made in the value of the obligations. The portfolio may only be invested in securities of high quality as described in detail in the Appendix to this prospectus.

The net asset value of the Conservative Balanced and Flexible Managed Portfolios (collectively, the "Balanced Portfolios"), Stock Index, Equity Income, Equity, Prudential Jennison, Small Capitalization Stock, Global and Natural Resources Portfolios will be determined in the following manner. NASDAQ National Market System equity securities and securities for which the primary market is on an exchange are generally valued at the last sale price on such system or exchange on that day or, in the absence of recorded sales, at the mean between the most recently quoted bid and asked prices on that day or at the bid price on such day in the absence of an asked price. Other over-the-counter equity securities are valued by an independent pricing agent or principal market maker. Convertible debt securities that are actively traded in the over-the-counter market, including listed securities for which the primary market is believed to be over-the-counter, are valued at the mean between the most recently quoted bid and asked prices provided by a principal market maker. Corporate bonds (other than convertible debt securities) and Government bonds held by the Balanced, Equity Income and Natural Resources Portfolios are valued on the same basis as securities in the Diversified Bond and High Yield Bond Portfolios, as described above. Short-term debt instruments which mature in less than 60 days are valued at amortized cost. For valuation purposes, quotations of foreign securities in a foreign currency are converted to U.S. dollar equivalents.

In determining the net asset value of shares of Zero Coupon Bond Portfolios 2000 and 2005, securities (other than debt obligations with maturities of less than 60 days, which are valued at amortized cost) will be valued utilizing an independent pricing service to determine valuations for normal institutional size trading units of securities. The pricing service considers such factors as security prices, yields, maturities, call features, ratings, and developments relating to specific securities in arriving at securities valuations.

With respect to all the portfolios which utilize such investments, options on stock and stock indices traded on national securities exchanges are valued at the average of the bid and asked prices as of the close of the respective exchange (which is currently 4:10 p.m. New York City time). Futures contracts and options thereon are valued at the last sale price at the close of the applicable commodities exchanges or board of trade (which is currently 4:15 p.m. New York City time) or, if there was no sale on the applicable commodities exchange or board of trade on such day, at the mean between the most recently quoted bid and asked prices on such exchange or board of trade.

Securities or assets for which market quotations are not readily available will be valued at fair value as determined by Prudential under the direction of the Board of Directors of the Series Fund.

At the beginning of each week, after the net asset value of each Zero Coupon Bond Portfolio has been determined, Prudential will calculate the compounded annual yield that would result if all securities in the portfolio were held until the liquidation date or until their maturity dates, if earlier (with the proceeds reinvested until the liquidation date). This is the predicted yield for that date. It can also be expressed as the amount to which a premium payment of \$10,000 is predicted to grow by the portfolio's liquidation date. Prudential will furnish both of these numbers on request. Unless there is a significant change in the general level of interest rates—in which case a recalculation will be made—the predicted yield is not likely to vary materially over the course of each week.

DIVIDENDS, DISTRIBUTIONS, AND TAXES

The Series Fund intends to continue to qualify as a regulated investment company under certain provisions of the Internal Revenue Code (the "Code"). Under such provisions, the Series Fund will not be subject to federal income tax on the part of its net ordinary income and net realized capital gains that it distributes to the Accounts. The Series Fund intends to meet the requirements for treatment as a regulated investment company both on a portfolio-by-portfolio basis and for the Series Fund as a whole. The Series Fund's compliance with those requirements may prevent a portfolio from utilizing options and futures contracts as much as the portfolio manager might otherwise believe to be desirable.

The Series Fund intends to distribute as dividends substantially all the net investment income, if any, of each portfolio. For dividend purposes, net investment income of each portfolio, other than the Money Market Portfolio and the Zero Coupon Bond Portfolios, will consist of all payments of dividends (other than stock dividends) or interest received by such portfolio less the estimated expenses of such portfolio (including fees payable to the investment manager). Net investment income of the Money Market Portfolio consists of: (i) interest accrued and/or discount earned (including both original issue and market discount); (ii) plus or minus all realized and unrealized gains and losses; (iii) less the expenses of the portfolio (including the fees payable to the investment manager).

The Internal Revenue Service has ruled that the owner of a zero coupon bond, for federal income tax purposes, realizes taxable interest each year equal to a portion of the difference between the face value of the zero coupon bond and its purchase price. For dividend purposes, the net investment income of each Zero Coupon Bond Portfolio will be equal to the sum of such taxable interest realized by such portfolio and the interest upon the interest-bearing securities less the estimated expenses of the portfolio. Therefore, each portfolio may be required to distribute more cash than it actually has received. Each portfolio will raise the cash necessary to make such distributions by selling securities or from interest income. This may require the portfolio to sell securities when it would not do so for investment reasons, and may cause the portfolio to realize additional gains. The Contract owner is not subject to federal or state income taxes on distributions from the Series Fund portfolios to the corresponding subaccounts.

Dividends on the Money Market Portfolio will be declared and reinvested daily in additional full and fractional shares of the portfolio. Shares will begin accruing dividends on the day following the date on which they are issued. Dividends from investment income of the other portfolios will normally be declared and reinvested in additional full and fractional shares quarter-annually.

The Series Fund will also declare and distribute annually all net realized capital gains of the Series Fund, other than short-term gains of the Money Market Portfolio, which are declared as dividends daily.

The Code generally imposes a 4% excise tax on a portion of the undistributed income of a regulated investment company if that company fails to distribute required percentages of its ordinary income and capital gain net income. The Series Fund intends to employ practices that will eliminate or minimize the imposition of this excise tax.

In addition, Section 817(h) of the Code requires that assets underlying variable life insurance and variable annuity contracts must meet certain diversification requirements if the contracts are to qualify as life insurance and annuity contracts. The diversification requirements ordinarily must be met within 1 year after Contract owner funds are first allocated to the particular portfolio, and within 30 days after the end of each calendar quarter thereafter. In order to meet the diversification requirements set forth in Treasury Regulations issued pursuant to Section 817(h), each portfolio must meet one of two alternative tests. Under the first test, no more than 55% of the portfolio's assets can be invested in any one investment; no more than 70% of the assets can be invested in any two investments; no more than 80% of the assets can be invested in any three investments; and no more than 90% can be invested in any four investments. Under the second test, the portfolio must meet the tax law diversification requirements for a regulated investment company and no more than 55% of the value of the portfolio's assets can be invested in cash, cash items, Government securities, and securities of other regulated investment companies. A third test is available for portfolios that underlie only variable life insurance contracts, such as the Zero Coupon Bond Portfolios. Under this test, such portfolios can be invested without limit in Treasury securities and, where the portfolio is invested in part in Treasury securities, the percentages of the first test are revised and applied to the portion of the portfolio not invested in Treasury securities.

For purposes of determining whether a variable account is adequately diversified, each United States Government agency or instrumentality is treated as a separate issuer for purposes of determining whether a variable account is adequately diversified. The Series Fund's compliance with the diversification requirements will generally limit the amount of assets that may be invested in federally insured certificates of deposit and all types of securities issued or guaranteed by each United States Government agency or instrumentality.

Any portfolio investing in foreign securities may be required to pay withholding or other taxes to foreign governments. If so, the taxes will reduce the portfolio's dividends. Foreign tax withholding from dividends and interest (if any) is typically set at a rate between 10% and 15%. While Contract owners will thus bear the cost of foreign tax withholding, they will not be able to claim a foreign tax credit or deduction for foreign taxes paid by the portfolio.

The foregoing is a general and abbreviated summary of the applicable provisions of the Code and Treasury Regulations currently in effect. For the complete provisions, reference should be made to the pertinent Code sections and the Treasury Regulations promulgated thereunder. The Code and these Regulations are subject to change by legislative or administrative actions.

OTHER INFORMATION CONCERNING THE SERIES FUND

Incorporation and Authorized Stock

The Series Fund was incorporated under Maryland law on November 15, 1982. As of the date of this prospectus, the shares of Capital Stock are divided into fifteen classes: Money Market Portfolio Capital Stock, Diversified Bond Portfolio Capital Stock, Government Income Portfolio Capital Stock, Zero Coupon Bond Portfolio 2000 Capital Stock, Zero Coupon Bond Portfolio 2005 Capital Stock, Conservative Balanced Portfolio Capital Stock, Flexible

Managed Portfolio Capital Stock, High Yield Bond Portfolio Capital Stock, Stock Index Portfolio Capital Stock, Equity Income Portfolio Capital Stock, Equity Portfolio Capital Stock, Prudential Jennison Portfolio Capital Stock, Small Capitalization Stock Portfolio Capital Stock, Global Portfolio Capital Stock, Natural Resources Portfolio Capital Stock. The shares of each portfolio, when issued, will be fully paid and non-assessable, will have no conversion, exchange or similar rights, and will be freely transferable.

Each share of stock will have a pro rata interest in the assets of the portfolio to which the stock of that class relates and will have no interest in the assets of any other portfolio. Holders of shares of any portfolio are entitled to redeem their shares as set forth under **PURCHASE AND REDEMPTION OF SHARES**, page 35.

From time to time, Prudential has purchased Series Fund shares to provide initial capital for the Series Fund and to enable portfolios to avoid unrealistically poor investment performance that might otherwise result because the amounts available for investment were too small. Prudential will not redeem any of its shares until a portfolio is large enough so that redemption will not have an adverse effect upon investment performance. Prudential will vote its shares in the same manner and in the same proportion as the shares held in the Accounts, which generally are voted in accordance with instructions of Contract owners.

Voting Rights

The voting rights of Contract owners, and limitations on those rights, are explained in the accompanying prospectus for the Contracts. Prudential and certain other insurers with separate accounts which invest in the Series Fund, as the owners of the assets in the Accounts, vote all of the shares of the Series Fund, but they will generally do so in accordance with the instructions of Contract owners pursuant to the current SEC requirements and staff interpretations regarding pass-through voting. Under certain circumstances, however, Prudential and/or the other insurers with separate accounts which invest in the Series Fund may disregard voting instructions received from Contract owners. The Series Fund does not hold annual meetings of shareholders in any year in which it is not required to do so either under Maryland law or the Investment Company Act of 1940. For additional information describing how the Companies will vote the shares of the Series Fund, see **Voting Rights** in the accompanying prospectus for the Contracts.

Monitoring for Possible Conflict

As stated above, Series Fund shares will be sold to separate accounts of Prudential and certain other insurers to fund both variable life insurance and variable annuity contracts. The Board of Directors of the Series Fund intends to monitor events for the existence of any material conflict between the interests of variable life insurance and variable annuity contract owners. Prudential and/or the other insurers with separate accounts which invest in the Series Fund have agreed to be responsible for reporting any potential or existing conflicts to the Board of Directors. Moreover, they have agreed to be responsible, at their cost, to remedy any material irreconcilable conflict up to and including establishing a new registered management investment company and segregating the assets underlying the variable life insurance and variable annuity contracts.

Periodic Reports

The Series Fund will send each shareholder, at least annually, statements showing as of a specified date the number of shares in each portfolio credited to the shareholder. The Series Fund will also send Contract owners annual and semi-annual reports showing the financial condition of the portfolios and the investments held in each. If a single individual or company invests in the Series Fund through more than one variable insurance contract, then the individual or company will receive only one copy of each annual or semi-annual report issued by the Series Fund. However, if such individual or company wishes to receive multiple copies of any such report, a request may be made by calling the toll-free telephone number listed on the cover page of this prospectus. The annual report may take the form of an updated copy of this prospectus and its accompanying statement of additional information.

Portfolio Brokerage and Related Practices

Prudential is responsible for decisions to buy and sell securities for the portfolios, the selection of brokers and dealers to effect the transactions and the negotiation of brokerage commissions, if any. Transactions on a stock exchange in equity securities will be executed primarily through brokers that will receive a commission paid by the portfolio. The Money Market, Diversified Bond, High Yield Bond, Government Income, and Zero Coupon Bond Portfolios, on the other hand, will not normally incur any brokerage commissions. Fixed income securities, as well as equity securities traded in the over-the-counter market, are generally traded on a "net" basis with dealers acting as principals for their own accounts without a stated commission, although the price of the security usually includes a profit to the dealer. In underwritten offerings, securities are purchased at a fixed price that includes an amount of compensation to the underwriter, generally referred to as the underwriter's concession or discount.

Certain of these securities may also be purchased directly from an issuer, in which case neither commissions nor discounts are paid.

An affiliated broker may be employed to execute brokerage transactions on behalf of the portfolios, as long as the commissions are reasonable and fair compared to the commissions received by other brokers in connection with comparable transactions involving similar securities being purchased or sold on a securities exchange during a comparable period of time. The Series Fund may not engage in any transactions in which Prudential or its affiliates, including Prudential Securities Incorporated, acts as principal, including over-the-counter purchases and negotiated trades in which such a party acts as a principal. Additional information about portfolio brokerage and related transactions is included in the statement of additional information.

Transfer Agent and Dividend Disbursing Agent

Prudential is the transfer agent and dividend disbursing agent for the Series Fund. Prudential as transfer agent issues and redeems shares of the Series Fund and maintains records of ownership for the shareholders. Prudential's principal business address is 751 Broad Street, Newark, New Jersey 07102-3777.

Year 2000

The services provided to the Series Fund and its shareholders by Prudential, PIC, Jennison, as well as the Series Fund's principal underwriter and its custodians, depend on the smooth functioning of their computer systems and those of their outside service providers. Many computer software systems in use today cannot distinguish the year 2000 from the year 1900 because of the way dates are encoded and calculated. Such event could have a negative impact on handling securities trades, payments of interest and dividends, pricing and account services. Although at this time, there can be no assurance that there will be no adverse impact on the Series Fund, Prudential, PIC, Jennison, as well as the Series Fund's principal underwriter and its custodians, have advised the Series Fund that they have been actively working on necessary changes to their computer systems to prepare for the year 2000 and expect that their systems, and those of their outside service providers, will be adapted in time for that event.

Additional Information

This prospectus and the statement of additional information referred to on the cover page do not contain all the information set forth in the registration statement, certain portions of which have been omitted pursuant to the rules and regulations of the SEC. The omitted information may be obtained from the SEC's principal office in Washington, D.C., upon payment of the fees prescribed by the SEC.

For further information, shareholders may also contact the Series Fund's office, the address and phone number of which are set forth on the cover of this prospectus.

SECURITIES IN WHICH THE MONEY MARKET PORTFOLIO MAY CURRENTLY INVEST

The Money Market Portfolio, and the other portfolios to the extent their investment policies so provide, may invest in the following liquid, short-term, debt securities regularly bought and sold by financial institutions:

1. U.S. Treasury Bills and other obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities. These are debt securities (including bills, certificates of indebtedness, notes, and bonds) issued or guaranteed by the U.S. Treasury or by an agency or instrumentality of the U.S. Government that is established under the authority of an act of Congress. Although all obligations of agencies and instrumentalities are not direct obligations of the U.S. Treasury, payment of the interest and principal on them is generally backed directly or indirectly by the U.S. Government. This support can range from the backing of the full faith and credit of the United States, to U.S. Treasury guarantees or to the backing solely of the issuing instrumentality itself. Securities which are not backed by the full faith and credit of the United States include but are not limited to obligations of the Tennessee Valley Authority, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the United States Postal Service, each of which has the right to borrow from the U.S. Treasury to meet its obligations, and obligations of the Federal Farm Credit System and the Federal Home Loan Banks, the obligations of which may only be satisfied by the individual credit of the issuing agency. Obligations of the Government National Mortgage Association, the Farmers Home Administration, and the Export-Import Bank are examples of securities that are backed by the full faith and credit of the United States.

2. Obligations (including certificates of deposit, bankers' acceptances, and time deposits) of domestic banks, foreign branches of U.S. banks, U.S. branches of foreign banks, and foreign offices of foreign banks provided that such bank has, at the time of the portfolio's investment, total assets of at least \$1 billion or the equivalent. Obligations of any savings and loan association or savings bank organized under the laws of the United States or any state thereof, provided that such association or savings bank has, at the time of the portfolio's investment, total assets of at least \$1 billion. The term "certificates of deposit" includes both Eurodollar certificates of deposit, which are traded in the over-the-counter market, and Eurodollar time deposits, for which there is generally not a market. "Eurodollars" are dollars deposited in banks outside the United States. An investment in Eurodollar instruments involves risks that are different in some respects from an investment in debt obligations of domestic issuers, including future political and economic developments such as possible expropriation or confiscatory taxation that might adversely affect the payment of principal and interest on the Eurodollar instruments.

"Certificates of deposit" are certificates evidencing the indebtedness of a commercial bank to repay funds deposited with it for a definite period of time (usually from 14 days to 1 year). "Bankers' acceptances" are credit instruments evidencing the obligation of a bank to pay a draft which has been drawn on it by a customer. These instruments reflect the obligation both of the bank and of the drawer to pay the face amount of the instrument upon maturity. "Time deposits" are non-negotiable deposits in a bank for a fixed period of time.

3. Commercial paper, variable amount demand master notes, bills, notes, and other obligations issued by a U.S. company, a foreign company or a foreign government, its agencies, instrumentalities or political subdivisions, denominated in U.S. dollars, and, at the date of investment, rated at least A or A-2 by Standard & Poor's Ratings Services ("S&P"), A or Prime-2 by Moody's Investors Service ("Moody's") or, if not rated, issued by an entity having an outstanding unsecured debt issue rated at least A or A-2 by S&P or A or Prime-2 by Moody's. A description of corporate bond ratings is contained in the Appendix to the statement of additional information. If such obligations are guaranteed or supported by a letter of credit issued by a bank, such bank (including a foreign bank) must meet the requirements set forth in paragraph 2 above. If such obligations are guaranteed or insured by an insurance company or other non-bank entity, such insurance company or other non-bank entity must represent a credit of high quality, as determined by the Series Fund's investment advisor under the supervision of the Series Fund's Board of Directors. Any guarantee relied upon by the Money Market Portfolio to comply with the credit quality, maturity or liquidity requirements of Investment Company Act Rule 2a-7 must comply with the rating requirements above unless excepted by the Rule.

As stated above in paragraphs 2 and 3, the Money Market Portfolio and short-term portions of the other portfolios may contain obligations of foreign branches of domestic banks and domestic branches of foreign banks, as well as commercial paper, bills, notes, and other obligations issued in the United States by foreign issuers, including foreign governments, their agencies, and instrumentalities. This involves certain additional risks. These risks include future political and economic developments in the country of the issuer, the possible imposition of withholding taxes on interest income payable on such obligations held by the Series Fund, the possible seizure or nationalization of foreign deposits, and the possible establishment of exchange controls or other foreign governmental laws or restrictions which might affect adversely the payment of principal and interest on such obligations held by the Series Fund. In addition, there may be less publicly available information about a foreign

issuer than about a domestic one, and foreign issuers may not be subject to the same accounting, auditing and financial recordkeeping standards, and requirements as domestic issuers. Securities issued by foreign issuers may be subject to greater fluctuations in price than securities issued by U.S. entities. Finally, in the event of a default with respect to any such foreign debt obligations, it may be more difficult for the Series Fund to obtain or to enforce a judgment against the issuers of such securities.

4. **Repurchase Agreements.** When the Money Market Portfolio purchases money market securities of the types described above, it may on occasion enter into a repurchase agreement with the seller wherein the seller and the buyer agree at the time of sale to a repurchase of the security at a mutually agreed upon time and price. The period of maturity is usually quite short, possibly overnight or a few days, although it may extend over a number of months. The resale price is in excess of the purchase price, reflecting an agreed-upon market rate effective for the period of time the portfolio's money is invested in the security, and is not related to the coupon rate of the purchased security. Repurchase agreements may be considered loans of money to the seller of the underlying security, which are collateralized by the securities underlying the repurchase agreement. The Series Fund will not enter into repurchase agreements unless the agreement is "fully collateralized" (i.e., the value of the securities is, and during the entire term of the agreement remains, at least equal to the amount of the "loan" including accrued interest). The Series Fund will take possession of the securities underlying the agreement and will value them daily to assure that this condition is met. The Series Fund has adopted standards for the parties with whom it will enter into repurchase agreements which it believes are reasonably designed to assure that such a party presents no serious risk of becoming involved in bankruptcy proceedings within the time frame contemplated by the repurchase agreement. In the event that a seller defaults on a repurchase agreement, the Series Fund may incur a loss in the market value of the collateral, as well as disposition costs; and, if a party with whom the Series Fund had entered into a repurchase agreement becomes involved in bankruptcy proceedings, the Series Fund's ability to realize on the collateral may be limited or delayed and a loss may be incurred if the collateral securing the repurchase agreement declines in value during the bankruptcy proceedings.

The Series Fund will not enter into repurchase agreements with Prudential or its affiliates, including Prudential Securities Incorporated. This will not affect the Series Fund's ability to maximize its opportunities to engage in repurchase agreements.

5. **Reverse Repurchase Agreements.** The Money Market Portfolio may use reverse repurchase agreements, which are described on page 32 of the prospectus. No portfolio may obligate more than 10% of its net assets in connection with reverse repurchase agreements, except that the Diversified Bond, High Yield Bond, and Government Income Portfolios, as well as the fixed income portions of the Conservative Balanced and Flexible Managed Portfolios, may obligate up to 30% of their net assets in connection with reverse repurchase agreements and dollar rolls.

6. **When-Issued and Delayed Delivery Securities.** From time to time, in the ordinary course of business, the Money Market Portfolio may purchase securities on a when-issued or delayed delivery basis (i.e., delivery and payment can take place a month or more after the date of the transaction). The purchase price and the interest rate payable on the securities are fixed on the transaction date. The securities so purchased are subject to market fluctuation, and no interest accrues to the portfolio until delivery and payment take place. At the time the portfolio makes the commitment to purchase securities on a when-issued or delayed delivery basis, it will record the transaction and thereafter reflect the value, each day, of such securities in determining its net asset value. The portfolio will make commitments for when-issued transactions only with the intention of actually acquiring the securities and, to facilitate such acquisitions, the Series Fund's custodian bank will maintain in a separate account securities of the portfolio having a value equal to or greater than such commitments. On delivery dates for such transactions, the portfolio will meet its obligations from maturities or sales of the securities held in the separate account and/or from then available cash flow. If the portfolio chooses to dispose of the right to acquire a when issued security prior to its acquisition, it could, as with the disposition of any other obligation, incur a gain or loss due to market fluctuation. No when-issued commitments will be made if, as a result, more than 15% of the portfolio's net assets would be so committed.

The Board of Directors of the Series Fund has adopted policies for the Money Market Portfolio to conform to amendments of an SEC rule applicable to money market funds, like the portfolio. These policies do not apply to any other portfolio. The policies are as follows: (1) The portfolio will not invest more than 5% of its assets in the securities of any one issuer (except U.S. Government securities); however, the portfolio may exceed the 5% limit with respect to a single security rated in the highest rating category for up to three business days after the purchase thereof; (2) To be eligible for investment, a security must be a United States dollar-denominated instrument that the Series Fund's Board has determined to present minimal credit risks and must be rated in one of the two highest rating categories by at least two nationally recognized statistical rating organizations ("NRSROs") assigning a rating to the security or issue, or if only one NRSRO has assigned a rating, that NRSRO. An unrated security must be deemed to be of comparable quality as determined by the Series Fund's Board. In other words, the portfolio will invest in only first tier or second tier securities. First tier securities are securities

which are rated by at least two NRSROs, or by the only NRSRO that has rated the security, in the highest short-term rating category, or unrated securities of comparable quality as determined by the Series Fund's Board. Second tier securities are eligible securities that are not first tier securities; (3) The portfolio will not invest more than 5% of its total assets in second tier securities; (4) The portfolio may not invest more than 1% of its assets in second tier securities of any one issuer; (5) In the event a first tier security held by the portfolio is downgraded and becomes a second tier security, or in the case of an unrated security the Series Fund's Board determines it is no longer of comparable quality to a first tier security, or in the event Prudential becomes aware that a NRSRO has rated a second tier security or an unrated portfolio security below its second highest rating, the Board will reassess promptly whether the security presents minimal credit risks and shall cause the portfolio to take such action as the Board determines is in the best interests of the portfolio and its shareholders; (6) In the event of a default or because of a rating downgrade a security held in the portfolio is no longer an eligible investment, the portfolio will sell the security as soon as practicable unless the Series Fund's Board makes a specific finding that such action would not be in the best interest of the portfolio; and (7) The portfolio's dollar-weighted average maturity will be no more than 90 days. The Series Fund's Board of Directors has adopted written procedures delegating to the investment advisor under certain guidelines the responsibility to make several of the above-described determinations, including certain credit quality determinations.

- **FLEXIBLE PREMIUM VARIABLE ANNUITY
ACCOUNT**

- **THE PRUDENTIAL SERIES FUND, INC.**



WITH RESPECT TO RESIDENTS OF STATES OTHER THAN PENNSYLVANIA, IN WHICH DISCOVERY PREFERRED IS BEING OFFERED. WITH RESPECT TO RESIDENTS OF PENNSYLVANIA, SEE PAGE C-3.

MARKET-VALUE ADJUSTMENT FORMULA

The Market-Value Adjustment, which is applied to withdrawals and transfers made at any time other than the 30-day period following the end of an interest rate period, involves three amounts:

1. The number of whole months remaining in the existing interest rate period.
2. The guaranteed interest rate.
3. The interest rate that Pruco Life declares for a duration of one year longer than the number of whole years remaining on the existing cell being withdrawn from.

Stated as a formula, the Market Value Factor is equal to:

$(M/12) \times (R-C)$, not to exceed +0.40 or be less than -0.40 ;

Where,

M = the number of whole months (not to be less than one) remaining in the interest rate period.

R = the Contract's guaranteed interest rate expressed as a decimal. Thus 6.2% is converted to 0.062.

C = the interest rate, expressed as a decimal, that Pruco Life declares for a duration equal to the number of whole years remaining in the present interest rate period, plus 1 year as of the date the request for a withdrawal or transfer is received.

The Market-Value Adjustment is then equal to the Market Value Factor multiplied by the amount subject to a Market-Value Adjustment.

The steps below explain how a Market-Value Adjustment is calculated.

Step 1: Divide the number of whole months left in the existing interest rate period (not to be less than one) by 12.

Step 2: Determine the interest rate Pruco Life declares on the date the request for withdrawal or transfer is received for a duration of years equal to the whole number of years determined in Step 1, plus 1 additional year. Subtract this interest rate from the guaranteed interest rate. The result could be negative.

Step 3: Multiply the results of Step 1 and Step 2. Again, the result could be negative. If the result is less than -0.4 , use the value -0.4 . If the result is in between -0.4 and 0.4 , use the actual value. If the result is more than 0.4 , use the value 0.4 .

Step 4: Multiply the result of Step 3 (which is the Market Value Factor) by the value of the amount subject to a Market-Value Adjustment. The result is the Market-Value Adjustment.

Step 5: The result of Step 4 is added to the interest cell. If the Market-Value Adjustment is positive, the interest cell will go up in value. If the Market-Value Adjustment is negative, the interest cell will go down in value.

Depending upon when the withdrawal request is made, a withdrawal charge may apply.

The following example will illustrate the application of a Market-Value Adjustment and the determination of the withdrawal charge. Suppose a Contract owner made two invested purchase payments, the first in the amount of \$10,000 on December 1, 1995, all of which was allocated to the Equity Subaccount, and the second in the amount of \$5,000 on October 1, 1997, all of which was allocated to the MVA Option with a guaranteed interest rate of 8% (0.08) for 7 years. A request for withdrawal of \$8,500 is made on February 1, 2000 (the Contract owner does not provide any withdrawal instructions). On that date the amount in the Equity Subaccount is equal to \$12,000 and the amount in the interest cell with a maturity date of September 30, 2004 is \$5,985.23, so that the Contract Fund on that date is equal to \$17,985.23.

On February 1, 2000, the interest rate declared by Pruco Life for the duration of 5 years (4 whole years remaining until September 30, 2004, plus one year) is 11%.

The following computations would be made:

1. Calculate the Contract Fund value as of the effective date of the transaction. This would be \$17,985.23.
2. Calculate the charge-free amount (the amount of the withdrawal that is not subject to a withdrawal charge).

<u>DATE</u>	<u>PAYMENT</u>	<u>FREE</u>
12/1/95	\$10,000	\$1,000
12/1/96		\$2,000
10/1/97	\$ 5,000	\$2,500
12/1/97		\$4,000
12/1/98		\$5,500
12/1/99		\$7,000

The charge-free amount in the fifth Contract year is 10% of \$15,000 (total purchase payments) plus \$5,500 (the charge-free amount available in the fourth Contract year) for a total of \$7,000.

3. Since the withdrawal request is in the fifth Contract year, a 3% withdrawal charge rate applies to any portion of the withdrawal which is not charge-free.

\$8,500.00	requested withdrawal amount
<u>– \$7,000.00</u>	charge-free
\$1,500.00	additional amount needed to complete withdrawal

The Contract provides that the Contract Fund will be reduced by an amount which, when reduced by the withdrawal charge, will equal the amount requested. Therefore, in order to produce the amount needed to complete the withdrawal request (\$1,500), we must “gross-up” that amount, before applying the withdrawal charge rate. This is done by dividing by 1 minus the withdrawal charge rate.

$$\begin{aligned} & \$1,500.00 / (1 - .03) = \\ & \$1,500.00 / 0.97 = \$1,546.39 \text{ grossed-up amount} \end{aligned}$$

Please note that a 3% withdrawal charge on this grossed-up amount reduces it to \$1,500, the balance needed to complete the request.

\$1,546.39	grossed-up amount
× .03	withdrawal charge rate
<u>\$ 46.39</u>	withdrawal charge

4. The Market Value Factor is determined as described in steps 1 through 5, above. In this case, it is equal to 0.08 (8% is the guaranteed rate in the existing cell) minus 0.11 (11 % is the interest rate that would be offered for an interest cell with a duration of the remaining whole years plus 1), which is –0.03, multiplied by 4.58333 (55 months remaining until September 30, 2004, divided by 12) or –0.13750. Thus, there will be a negative Market-Value Adjustment of 14% of the amount in the interest cell that is subject to the adjustment.

– 0.13750 × \$5,985.23 =	– 822.97	negative MVA
	<u>\$5,985.23</u>	unadjusted value
	\$5,162.26	adjusted value
	<u>\$12,000.00</u>	Equity value
	\$17,162.26	adjusted Contract Fund

5. The total amount to be withdrawn, \$8,546.39, (sum of the surrender charge, \$46.39, and the requested withdrawal amount of \$8,500) is apportioned over all accounts making up the Contract Fund following the Market-Value Adjustments, if any, associated with the MVA option.

Equity	(\$ 12,000/ \$17,162.26) × \$8,546.39 =	\$5,975.71
7-Yr MVA	(\$5,162.26/ \$17,162.26) × \$8,546.39 =	<u>\$2,570.68</u>
		\$8,546.39

6. The adjusted value of the interest cell, \$5,162.26, reduced by the withdrawal of \$2,570.68 leave \$2,591.58. This amount must be “unadjusted” by dividing it by 0.86250 (1 plus the Market-Value Adjustment of -0.13750) to determine the amount remaining in the interest cell to which the guaranteed interest rate of 8% will continue to be credited until September 30, 2004 or a subsequent withdrawal. That amount is \$3,004.73.

WITH RESPECT TO RESIDENTS OF PENNSYLVANIA ONLY, PAGES C1-C3 ARE HEREBY DELETED AND REPLACED IN THEIR ENTIRETY WITH THE FOLLOWING:

MARKET-VALUE ADJUSTMENT FORMULA

The Market-Value Adjustment, which is applied to withdrawals and transfers made at any time other than the 30-day period following the end of an interest rate period, involves three amounts:

1. The number of whole months remaining in the existing interest rate period.
2. The guaranteed interest rate.
3. The interpolated value of the interest rates that Pruco Life declares for the number of whole years remaining and the duration 1 year longer than the number of whole years remaining in the existing interest rate period.

Stated as a formula, the Market Value Factor is equal to:

$(M/12) \times (R - C)$, not to exceed +0.40 or be less than -0.40 ;

Where,

M = the number of whole months (not to be less than one) remaining in the interest rate period.

R = the Contract's guaranteed interest rate expressed as a decimal. Thus 6.2% is converted to 0.062.

C = the interpolated value of the interest rates, expressed as a decimal, that Pruco Life declares for the number of whole years remaining and the duration 1 year longer than the number of whole years remaining as of the date the request for a withdrawal or transfer is received or $m/365 \times (n + 1)$ year rate + $(365 - m)/365 \times n$ year rate, where 'n' equals years and 'm' equals days remaining in year 'n' of the existing interest rate period.

The Market-Value Adjustment is then equal to the Market Value Factor multiplied by the amount subject to a Market-Value Adjustment.

The steps below explain how a Market-Value Adjustment is calculated.

Step 1: Divide the number of whole months left in the existing interest rate period (not to be less than one) by 12.

Step 2: Interpolate the interest rates Pruco Life declares on the date the request for withdrawal or transfer is received for the duration of years equal to the whole number of years determined in Step 1, plus the whole number of years plus 1 additional year.

Step 3: Subtract this interpolated interest rate from the guaranteed interest rate. The result could be negative.

Step 4: Multiply the results of Step 1 and Step 2. Again, the result could be negative. If the result is less than -0.4 , use the value -0.4 . If the result is in between -0.4 and 0.4 , use the actual value. If the result is more than 0.4 , use the value 0.4 .

Step 5: Multiply the result of Step 3 (which is the Market Value Factor) by the value of the amount subject to a Market-Value Adjustment. The result is the Market-Value Adjustment.

Step 6: The result of Step 4 is added to the interest cell. If the Market-Value Adjustment is positive, the interest cell will go up in value. If the Market-Value Adjustment is negative, the interest cell will go down in value.

Depending upon when the withdrawal request is made, a withdrawal charge may apply.

The following example will illustrate the application of a Market-Value Adjustment and the determination of the withdrawal charge. Suppose a Contract owner made two invested purchase payments, the first in the amount of \$10,000 on December 1, 1995, all of which was allocated to the Equity Subaccount, and the second in the amount

of \$5,000 on October 1, 1997, all of which was allocated to the MVA Option with a guaranteed interest rate of 8% (0.08) for 7 years. A request for withdrawal of \$8,500 is made on February 1, 2000 (the Contract owner does not provide any withdrawal instructions). On that date the amount in the Equity Subaccount is equal to \$12,000 and the amount in the interest cell with a maturity date of September 30, 2004 is \$5,985.23, so that the Contract Fund on that date is equal to \$17,985.23.

On February 1, 2000, the interest rates declared by Pruco Life for the durations 4 and 5 years (4 whole years remaining until September 30, 2004, plus 1 year) are 10.8% and 11.4%, respectively.

The following computations would be made:

1. Calculate the Contract Fund value as of the effective date of the transaction. This would be \$17,985.23.
2. Calculate the charge-free amount (the amount of the withdrawal that is not subject to a withdrawal charge).

<u>DATE</u>	<u>PAYMENT</u>	<u>FREE</u>
12/1/95	\$10,000	\$1,000
12/1/96		\$2,000
10/1/97	\$ 5,000	\$2,500
12/1/97		\$4,000
12/1/98		\$5,500
12/1/99		\$7,000

The charge-free amount in the fifth Contract year is 10% of \$15,000 (total purchase payments) plus \$5,500 (the charge-free amount available in the fourth Contract year) for a total of \$7,000.

3. Since the withdrawal request is in the fifth Contract year, a 3% withdrawal charge rate applies to any portion of the withdrawal which is not charge-free.

\$8,500.00	requested withdrawal amount
<u>– \$7,000.00</u>	charge-free
\$1,500.00	additional amount needed to complete withdrawal

The Contract provides that the Contract Fund will be reduced by an amount which, when reduced by the withdrawal charge, will equal the amount requested. Therefore, in order to produce the amount needed to complete the withdrawal request (\$1,500), we must “gross-up” that amount, before applying the withdrawal charge rate. This is done by dividing by 1 minus the withdrawal charge rate.

$$\begin{aligned} & \$1,500.00 / (1 - .03) = \\ & \$1,500.00 / 0.97 = \$1,546.39 \text{ grossed-up amount} \end{aligned}$$

Please note that a 3% withdrawal charge on this grossed-up amount reduces it to \$1,500, the balance needed to complete the request.

\$1,546.39	grossed-up amount
<u>× .03</u>	withdrawal charge rate
\$ 46.39	withdrawal charge

4. The Market Value Factor is determined as described in steps 1 through 5, above. In this case, it is equal to 0.08 (8% is the guaranteed rate in the existing cell) minus 0.11 (11% is the interpolated value for the interest rates that would be offered for interest cells with durations of whole years remaining and whole year plus 1 remaining in the existing interest rate period), which is –0.03, multiplied by 4.58333 (55 months remaining until September 30, 2004, divided by 12) or –0.13750. Thus, there will be a negative Market-Value Adjustment of 14% of the amount in the interest cell that is subject to the adjustment.

– 0.13750 × \$5,985.23 =	– 822.97	negative MVA
	<u>\$5,985.23</u>	unadjusted value
	\$5,162.26	adjusted value
	<u>\$12,000.00</u>	Equity value
	\$17,162.26	adjusted Contract Fund

5. The total amount to be withdrawn, \$8,546.39, (sum of the surrender charge, \$46.39, and the requested withdrawal amount of \$8,500) is apportioned over all accounts making up the Contract Fund following the Market-Value Adjustments, if any, associated with the MVA option.

Equity	$(\$ 12,000 / \$17,162.26) \times \$8,546.39 =$	<u>\$5,975.71</u>
7-Yr MVA	$(\$5,162.26 / \$17,162.26) \times \$8,546.39 =$	<u>\$2,570.68</u>
		\$8,546.39

6. The adjusted value of the interest cell, \$5,162.26, reduced by the withdrawal of \$2,570.68 leaves \$2,591.58. This amount must be "unadjusted" by dividing it by 0.86250 (1 plus the Market-Value Adjustment – 0.13750) to determine the amount remaining in the interest cell to which the guaranteed interest rate of 8% will continue to be credited until September 30, 2004 or a subsequent withdrawal. That amount is \$3,004.73.

- **FLEXIBLE PREMIUM VARIABLE ANNUITY
ACCOUNT**
 - **THE PRUDENTIAL SERIES FUND, INC.**
-
-

