Corporate governance report

The directors are committed to high standards of corporate governance and support the Combined Code on Corporate Governance issued by the Financial Reporting Council (the Code). Apart from the requirement under the Code that shareholders be sent the notice of Annual General Meeting at least 20 working days before the meeting, the Company has complied throughout the financial year ended 31 December 2005 with all the Code provisions set out in Section 1 of the Code. As a result of the late publication of FRS 27, 'Life Assurance' which was only released on 13 December 2004, the Company was unable to comply with the 20 working day requirement under the Code and so gave the statutory 21 clear days' notice of the Annual General Meeting.

We have applied the principles of the Code in the manner described below and in the remuneration report.

The Board

As at 31 December 2005, the Board comprised the Chairman, five executive directors and seven independent non-executive directors. Since the year end, Nick Prettejohn has been appointed as an additional executive director with effect from 1 January 2006. The non-executive directors bring a wide range of business, financial and global experience to the Board. Biographical details of the current Board members appear on pages 36 and 37. The roles of Chairman and Group Chief Executive are separate and clearly defined, and have been approved by the Board so that no individual has unfettered powers of decision. The Chairman is responsible for the leadership and governance of the Board as a whole and the Group Chief Executive for the management of the Group and the implementation of Board strategy and policy on the Board's behalf. In discharging his responsibility, the Group Chief Executive is advised and assisted by the Group Executive Committee, comprising all the business unit heads and a Group Head Office team of functional specialists. Rob Rowley is the Company's Senior Independent Director, to whom concerns may be conveyed by shareholders if they are unable to resolve them through the existing mechanisms for investor communications, or where such channels are inappropriate. The Chairman meets, at least annually, with the non-executive directors without the executive directors being present.

During 2005, the Board met 14 times and held a separate two-day strategy meeting. Each year, one of the Board meetings is held at one of the Group's business operations to facilitate a fuller understanding of the diversity of the business. In June 2005, a Board meeting was held in Beijing, following a day of discussion on the Asian business and future market opportunities for Prudential Corporation Asia across the region. Presentations were given by senior members of the Prudential Corporation Asia management team.

All the directors attended all scheduled Board meetings occurring during their period of appointment, apart from Jonathan Bloomer and Mark Wood, who were not required to attend Board meetings after it had been agreed that they would cease to be directors of the Company. There were four additional Board meetings, and the majority of the directors attended most of those meetings. Where a director was not able to attend any of the additional meetings, their views were canvassed by the Chairman prior to the meeting.

The table on page 42 details the number of Board and Committee meetings attended by each director throughout the year. A further six Board Committee meetings took place during the year. In addition, the Chairman met with the non-executive directors without the executive directors being present in March, July and December.

The Board's terms of reference, which are regularly reviewed, set out those matters specifically reserved to it for decision, in order to ensure that it exercises control over the Group's affairs. These include, amongst other things, approval of the annual and interim results, strategy and corporate objectives, operating plans, significant transactions and matters affecting the Company's share capital.

A corporate governance framework approved by the Board maps out the internal approvals processes and those matters which may be delegated. These principally relate to the operational management of the Group's businesses and include pre-determined authority limits delegated by the Board to the Group Chief Executive for further delegation by him in respect of matters which are necessary for the effective day-to-day running and management of the business.

The chief executive of each business unit, who in respect of his business unit responsibilities reports to the Group Chief Executive, has authority for management of that business unit and has established a management board comprising its most senior executives. In accordance with the Group Governance Framework, business unit chief executives are required to certify annually their compliance with the requirements of the framework. The Board has adopted a Code of Business Conduct, which sets out the behaviour expected of staff in their dealings with shareholders, customers, fellow employees, suppliers and other stakeholders of the Group. A copy of the Company's Code of Business Conduct may be found on the website www.prudential.co.uk/prudential-plc/cr/managementpolicies/codeofconduct

The Board is responsible for ensuring that an effective system for succession planning and management development is in place. This is delivered through an established review process that is applied across all the businesses and covers both director and senior management succession and development. The Board reviews the outcomes of the review annually and actions arising from the review are implemented as part of the management development agenda.

All directors have direct access to the services of the Company Secretary who advises them on all corporate governance matters, on Board procedures, and on compliance with applicable rules and regulations. In order to ensure good information flows, full Board and Committee papers are provided to the directors by the Company Secretary approximately one week before each Board or Committee meeting. The Company Secretary also supports the Chairman in providing tailored induction programmes for new directors and on-going training for all directors.

Other commitments of the Chairman and changes during the year are detailed in his biography on page 36. The Board is satisfied that these other commitments are not such as to interfere with the performance of the Chairman's duties for the Group.

Board Committees

The Board has established the following standing committees of non-executive directors with written terms of reference which are kept under regular review:

Audit Committee report

At Prudential, the Audit Committee is a key element of the governance framework. This report sets out its responsibilities and the work the Committee has done to meet its objectives.

Role of the Committee

The Committee's principal oversight responsibilities cover:

- Internal control and risk management;
- internal audit;
- external audit (including auditor independence); and
- financial reporting.

The Committee has formal terms of reference set by the Board, which are reviewed regularly.

Membership

All the members of the Audit Committee are independent non-executive directors. The members of the Committee are:

Rob Rowley FCMA (Chairman)
Keki Dadiseth FCA (appointed 5 May 2005)
Kathleen O'Donovan ACA
James Ross

Full biographical details of the members of the Audit Committee, including their relevant experience, are set out on page 37.

The Board has designated Rob Rowley as its Audit Committee financial expert for Sarbanes-Oxley Act purposes; he also has recent and relevant financial experience for the purposes of the Code.

The Committee continued to receive detailed presentations from senior management throughout the year. These presentations were designed to keep members up to date and aware of the impact on the business of changes to international accounting standards and practices, including International Financial Reporting Standards (IFRS) and European Embedded Value (EEV).

Meetings

The Audit Committee met nine times during the year. Additionally, by invitation, the Chairman of the Board, Group Chief Executive, Group Finance Director, Group Chief Risk Officer, Group Company Secretary, Heads of Internal Audit, Group Risk and Group Compliance, as well as the external auditor, attended some of the meetings.

The Chairman held preparatory meetings with the Group Chief Internal Auditor, the Group Chief Risk Officer, the external auditor and the Group Finance Director before each Committee meeting. A detailed forward agenda has been developed which ensures all matters for which the Committee is responsible are addressed at the appropriate time of the year. The principal business of the Committee's meetings includes:

- Half year and full year results, press releases and annual report and accounts;
- accounting policies and key judgmental areas, Group policies for compliance with relevant regulations worldwide, including Sarbanes-Oxley procedures;
- US filings and related external audit opinion;
- external auditor's interim management letter, external auditor's full year memorandum, external audit opinion and final management letter;
- auditor independence, external auditor's plans and audit strategy, effectiveness of the external audit process, external auditor's qualifications, expertise and resources and economic service;
- framework and effectiveness of the Group's systems of internal control and Turnbull compliance statement;
- effectiveness of the Group Risk Framework and half-yearly key risk report;
- internal audit plan and resources, reassurance on the audit framework and internal audit effectiveness;
- effectiveness of compliance processes and controls and performance against the Group Compliance Plan;
- Audit Committee effectiveness and Audit Committee terms of reference;
- Group Security annual report, report on anti-money laundering and reporting of allegations from whistleblowers;
- International Accounting Standards (IAS) and practices, including EEV and IFRS; and
- changes in and implementation of Group Accounting Policies in compliance with IAS and practices, including the European CFO Forum Principles and Guidance on Embedded Values (EEV) and IFRS.

During the year, the Committee's standing agenda items also included reports from Group Internal Audit, Group Risk, Group Compliance and Group Security. In addition, the Committee also received presentations from some of the business unit chief executives.

The Audit Committee Chairman reported to the Board on matters of particular significance after each Committee meeting. The minutes of Committee meetings were circulated to all Board members.

The Committee recognises the need to meet without the presence of executive management. Such a session was held in July 2005 with the external and internal auditors.

Business unit audit committees

Each business unit has its own audit committee whose members and chairman are independent of the individual business unit. The chairman of these committees is approved by the Chairman of the Group Audit Committee. The committees are attended by business unit senior management including the Chief Executive and heads of finance, risk, compliance and internal audit. Business unit committees have similar terms of reference to the Group Audit Committee, and report significant issues to the Group Audit Committee when they arise. They approve the business unit internal audit plans and oversee the adequacy of internal audit resources; receive presentations from external audit; and meet privately with local external audit and the business unit heads of internal audit.

Internal control and risk management

The Audit Committee reviewed the Group's statement on internal control systems prior to its endorsement by the Board. It also reviewed the policies and processes for identifying, assessing and managing business risks. The Committee also received the minutes of the Disclosure Committee and the Group Operational Risk Committee and noted their activities. Further information on these Committees appears on pages 44 and 45.

From 31 December 2006, the Group must undertake an annual assessment of the effectiveness of internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act. In common with other companies, which must comply with this legislation, this has required the Group to undertake a significant project to document and test its internal controls over financial reporting. The Committee has overseen the progress of this project through regular status reports submitted by management in 2005. During the year, the Group's external auditor, KPMG Audit Plc, reported to the Committee on the Company's progress towards compliance with Section 404.

Internal audit

The Audit Committee regards its relationship with internal audit as a particularly important one. Group Internal Audit plays an important role in supporting the Committee to fulfil its responsibilities under the Code and the Sarbanes-Oxley Act. Each of the Group's business units has an internal audit team, the heads of which, from 1 January 2006, report to the Group-wide Internal Audit Director. Internal audit resources, plans and work are overseen by the Group Audit Committee and by business unit audit committees. Across the Group, total internal audit headcount stands at 113. The Group-wide Internal Audit Director reports functionally to the Committee and for management purposes to the Group Chief Risk Officer.

During the year, the committees reviewed and approved internal audit's plans, resources and the results of its work. Reporting to the Group Audit Committee by Group Internal Audit is through the formal reports four times during the year and through private meetings, as well as regular private meetings between the Chairman of the Committee and the Group-wide Internal Audit Director. Additionally, the Chairman of the Committee attended the Group's internal audit conference in September 2005.

The Committee assesses the effectiveness of internal audit through a review carried out by external advisers, and through ongoing dialogue with the Group-wide Internal Audit Director. An internal review of internal audit arrangements and standards was also conducted in 2005, to ensure that the activities and resources of internal audit are most effectively organised to support the oversight responsibilities of the Committee.

External audit

The Audit Committee has a key oversight role in relation to the external auditor, KPMG Audit Plc, whose primary relationship is with the Committee. The Group's Auditor Independence Policy ensures that the independence and objectivity of the external auditor is not impaired, and that the Group maintains a sufficient choice of appropriately qualified audit firms. The policy sets out four key principles which underpin the provision of non-audit services by the external auditor, namely that the auditor should not:

- Audit its own firm's work;
- make management decisions for the Group;
- have a mutuality of financial interest with the Group; or
- be put in the role of advocate for the Group.

The Committee reviewed and updated the policy in December 2005.

The Group has a policy that at least once every five years, the Audit Committee undertakes a formal review to assess whether the external audit should be re-tendered. The external audit was last put out to competitive tender in 1999 when the present auditor was appointed. In both February 2004 and July 2005, the Committee formally considered the need to re-tender the external audit service and concluded that given the significant changes in audit and regulatory requirements, the interests of the Company were better served by retaining the existing auditor through a period of transition. In addition, the Committee concluded that there was nothing in the performance of the auditor requiring a change.

During the year, the Audit Committee assessed the qualification, expertise and resources, effectiveness and independence of the external auditor. In addition to the questioning of the external auditor and the Group Finance Director that is a regular feature of meetings, the review of the effectiveness of the external audit process was conducted through a questionnaire-based exercise administered by Group Internal Audit, supplemented by interviews with senior finance staff and Audit Committee members.

For the year ended 31 December 2005, fees for audit services of £6.8 million were approved by the Committee. All fees for non-audit services were approved by the Committee, in accordance with the Group's Auditor Independence Policy, prior to work commencing. The Audit Committee reviewed the non-audit services being provided to the Group by its external auditor at regular intervals in 2005. During the year, fees for non-audit services of £5.6 million were approved by the Audit Committee. Fees for non-audit services amounted to 45 per cent of total fees paid to KPMG Audit Plc. These fees primarily related to assurance services associated with the implementation of IFRS and EEV accounting requirements, Sarbanes-Oxley requirements and other regulatory changes, and also to due diligence work related to the acquisition of the Egg minority. A more detailed analysis is set out in note I4 on page 180.

Financial reporting

The Audit Committee reviewed the interim and annual financial statements before their submission to the Board, paying particular attention to critical accounting policies and practices and any changes in them; decisions requiring a major element of judgement; unusual transactions; clarity of disclosures; significant audit adjustments; the going concern assumption; compliance with accounting standards; and compliance with obligations under the Code and other applicable laws and regulations.

As described above, the Committee is regularly briefed by senior management on developments in international accounting standards, and during the year it continued to review the progress of the Group's project to implement IFRS and EEV reporting.

Confidential reporting

At each meeting, the Committee received and reviewed a report on calls to the confidential reporting line, which is made available to employees to enable them to communicate confidentially on matters of concern, and actions taken in response to these calls. The Committee also considered whether any internal control implications arose from communications received. No internal control implications were raised from calls to the confidential helpline.

Audit Committee effectiveness

During the year, the Audit Committee undertook a formal review of its own effectiveness and the Committee is satisfied, based on the findings of this review, that it had been operating as an effective Audit Committee, meeting all applicable legal and regulatory requirements. Further reviews of the effectiveness of the Audit Committee will be undertaken annually.

Remuneration Committee report

Roberto Mendoza (Chairman)
Keki Dadiseth (appointed 1 April 2005)
Michael Garrett
Bridget Macaskill
Kathleen O'Donovan (until 22 September 2005)
James Ross (until 22 September 2005)
Rob Rowley (until 22 September 2005)

Full biographical details of the members of the Remuneration Committee, including their relevant experience, are set out on page 37.

The Remuneration Committee is comprised exclusively of independent non-executive directors of the Company. While the Chairman and Group Chief Executive are not members, they attend meetings unless they have a conflict of interest.

The Remuneration Committee normally has scheduled meetings at least three times a year and a number of additional meetings, as required, to review remuneration policy. The Remuneration Committee determines the remuneration packages of the Chairman and executive directors. During 2005, a total of 11 meetings were held. In framing its remuneration policy, the Committee has given full consideration to the provisions of Schedule A to the Code. The remuneration report prepared by the Board is set out in full on pages 46 to 57. In preparing the report, the Board has followed the provisions of the Code and The Directors' Remuneration Report Regulations 2002.

Except in relation to the remuneration of the Group Chief Executive, when only the Chairman is consulted, the Remuneration Committee consults the Chairman and the Group Chief Executive about the Committee's proposals relating to the remuneration of all executive directors. Following the publication of the Code in July 2003, the terms of reference of the Committee were reviewed and amended. They were widened to include monitoring the level and structure of remuneration for a defined population of senior management as determined by the Board. The Committee agreed principles for the level and structure of remuneration for this population. The Committee has access to professional advice inside and outside the Company.

Nomination Committee report

Sir David Clementi (Chairman)
Jonathan Bloomer (until 5 May 2005)
Bridget Macaskill
Kathleen O'Donovan (until 22 September 2005)
James Ross (from 22 September 2005)
Rob Rowley

The Nomination Committee now comprises exclusively independent non-executive directors and the Chairman and until 5 May 2005 included the former Group Chief Executive. The current Group Chief Executive is also closely involved in the work of the Committee and is invited to attend and contribute to meetings of the Committee. The Committee meets as required to consider candidates for appointment to the Board and to make recommendations to the Board in respect of those candidates. The Committee, in consultation with the Board, evaluates the balance of skills, knowledge and experience on the Board and makes recommendations regarding appointments based on merit and against objective criteria and the requirements of the Group's business. In appropriate cases, search consultants are used to identify suitable candidates.

During 2005, the Committee held four meetings resulting in the appointment by the Board of Mark Tucker as Group Chief Executive on 6 May 2005, and Nick Prettejohn as executive director on 1 January 2006. Full biographical details of these new directors are set out on page 36.

During the year, the Nomination Committee continued the search for additional non-executive directors and employed professional search consultants who oversaw the initial process. This process is ongoing.

Board Committees – terms of reference

The full terms of reference of the Audit, Remuneration and Nomination Committees are available on the Company's website at www.prudential.co.uk/prudential-plc/aboutpru/corporategovernance/boardcommittees
Hard copies may be obtained upon written request to the Company Secretary at the Company's registered office.

Corporate governance report continued

Attendance at Board and Committee meetings

The number of full Board and Committee meetings attended by each director during 2005 was as follows:

	Full Board Meetings*	Audit Committee Meetings**	Remuneration Committee Meetings***	Nomination Committee Meetings
Number of meetings in year	14	9	11	4
Sir David Clementi	14 (14)	n/a	n/a	4 (4)
Jonathan Bloomer[1]	4 (7)	n/a	n/a	0 (2)
Philip Broadley	14 (14)	n/a	n/a	n/a
Keki Dadiseth[2]	9 (9)	5 (5)	6 (6)	n/a
Michael Garrett[3]	11 (14)	n/a	11 (11)	n/a
Bridget Macaskill	14 (14)	n/a	11 (11)	3 (4)
Clark Manning	14 (14)	n/a	n/a	n/a
Michael McLintock	14 (14)	n/a	n/a	n/a
Roberto Mendoza	14 (14)	n/a	11 (11)	n/a
Mark Norbom	14 (14)	n/a	n/a	n/a
Kathleen O'Donovan	14 (14)	9 (9)	7 (7)	2 (2)
James Ross	14 (14)	8 (9)	7 (7)	4 (4)
Rob Rowley	14 (14)	9 (9)	7 (7)	4 (4)
Mark Tucker[4]	7 (7)	n/a	n/a	n/a
Mark Wood[5]	10 (11)	n/a	n/a	n/a

Figures in brackets indicate the maximum number of meetings in the period in which the individual was a Board or Committee member.

*During 2005 there were 10 scheduled Board meetings and four additional Board meetings.

**During 2005 there were eight scheduled Audit Committee meetings and one additional meeting.

***During 2005 there were eight scheduled Remuneration Committee meetings and three additional meetings.

1. Resigned as a director on 5 May 2005 but not required to attend Board or Committee meetings on or after 24 March 2005.

2. Appointed as a director on 1 April 2005.

3. Attended all scheduled meetings, but was unable to attend additional meetings because of prior commitments and submitted his comments to the Chairman prior to each additional meeting.

4. Appointed as a director on 6 May 2005.

5. Resigned as a director on 17 October 2005 but not required to attend Board meetings on or after 16 October 2005.

Independent professional advice

The Board has approved a procedure whereby directors have the right in furtherance of their duties to seek independent professional advice at the Company's expense.

Copies of any instructions and advice given by an independent professional adviser to a director are supplied by the director to the Company Secretary who will, where appropriate, circulate to other directors sufficient information to ensure that other members of the Board are kept informed on issues arising which affect the Company or any of its subsidiaries.

Directors' independence, development and re-election

Throughout the year all the non-executive directors were considered by the Board to be independent in character and judgement. No non-executive director:

- Has been an employee of the Group within the last five years;
- has, or has had within the last three years, a material business relationship with the Group;
- receives remuneration from the Group other than a director's fee;
- has close family ties with any of the Group's advisers, directors or senior employees;
- represents a significant shareholder; or
- has served on the Board for more than nine years.

During the year, cross-directorships existed with Roberto Mendoza and Philip Broadley who both sat on the board of Egg plc, the Company's subsidiary which, until 20 February 2006, had its own listing on the London Stock Exchange. Under the Company's Relationship Agreement with Egg, established prior to its flotation in 2000, the Company agreed with Egg that, absent specific events, the number of Company related directors should represent less than half the total number of directors in office. The Company had the right, whilst it continued to own more than 10 per cent of the voting shares, to nominate one director and also, whilst it continued to own more than 15 per cent of the voting shares, to appoint the Chairman of the board. Jonathan Bloomer was accordingly appointed as the Company's nominated director and on his retirement from the Board of the Company on 5 May 2005, Philip Broadley was appointed the Company's nominated representative on the board of Egg. Roberto Mendoza was appointed as the Chairman of the board of Egg. Consequently, Roberto Mendoza and Philip Broadley disclosed their interests as Chairman and director of Egg. The Board does not consider that this relationship in any way affected Mr Mendoza's status as an independent director of the Company. On 1 December 2005, the Company announced its intention to acquire the remaining 21 per cent of Egg plc. Mr Mendoza and Mr Broadley did not participate in discussions at Egg regarding this acquisition. Nor did they form part of the Independent Committee of the board of Egg recommending the Offer from the Company. Since the year-end on 20 February 2006, Egg delisted its shares from the London Stock Exchange. On 15 March 2006, the Company owned 96.66 per cent of Egg.

It is proposed that Keki Dadiseth will be appointed a director of ICICI Prudential Life Insurance Company Limited, an Indian company which is owned 26 per cent by Prudential, and of Prudential ICICI Asset Management Company Limited, an Indian company which is owned 49 per cent by Prudential. The Board does not consider that these appointments will in any way affect Mr Dadiseth's status as an independent director of Prudential.

The Group is one of the UK's largest institutional investors and the Board does not believe that this situation compromises the independence of those non-executive directors who are also on the boards of companies in which the Company has a shareholding. The Board also believes that such shareholdings should not preclude the Company from having the most appropriate and highest calibre non-executive directors.

Non-executive directors are appointed initially for a three-year term. The terms and conditions of appointment of non-executive directors are available for inspection at the Company's registered office during normal business hours and at the Annual General Meeting. Their appointment is reviewed towards the end of this period against performance and the requirements of the Group's businesses. Upon appointment, all directors embark upon a wide-ranging induction programme covering, amongst other things, the principal bases of accounting for the Group's results, the role of the Audit Committee and the ambit of the internal audit function. In addition, they receive detailed briefings on the Group's principal businesses, its product range, the markets in which it operates and the overall competitive environment. Other areas addressed include legal issues affecting directors of financial services companies, the Group's governance arrangements, its investor relations programme, as well as its remuneration policies.

A programme of on-going professional development was undertaken for all directors in 2005, which covered a number of sector-specific and business issues as well as legal, accounting and regulatory changes and developments. A cornerstone of the programme was a series of presentations made to the Board by the Prudential Corporation Asia management team on the Asian business and future market opportunities, during the Board visit to Beijing in June 2005. Throughout their period in office, the directors are continually updated on the Group's businesses and the regulatory and industry-specific environments in which it operates. These updates can be in the form of written briefings or meetings with senior executives and, where appropriate, external sources. Directors are also advised on appointment of their legal and other duties and obligations as a director of a listed company both in writing and in face-to-face meetings with the Company Secretary.

All directors are required to submit themselves for re-election at the Annual General Meeting at least every three years, and annually following their reaching the age of 70.

Performance evaluation

An evaluation was carried out of the performance of the Board and its Committees, and of the individual directors, for the year 2005, in line with the requirements of the Code. The aim was to improve individual contributions, the effectiveness of the Board and its Committees and the Group's performance.

The evaluation of the Board as a whole and of the Chairman was carried out by an independent consultant, following a briefing by the Chairman and the Senior Independent Director. Interviews were conducted with each Board member by the independent consultant. The interview questions were based on the Code and sought views on the effectiveness of the Board and on the Chairman's performance. The independent consultant prepared its report based on the interviews with directors. The overall results of the evaluation were presented to and reviewed by the Board in February 2006. The non-executive directors met, under the leadership of the Senior Independent Director, to consider the report of the independent consultant and to review the performance of the Chairman. The performance of individual non-executive directors and the Group Chief Executive was evaluated by the Chairman in a meeting with each non-executive director and with the Group Chief Executive. The Group Chief Executive individually appraised the performance of the executive directors.

Relations with shareholders

As a major institutional investor, the Company is acutely aware of the importance of maintaining good relations with its shareholders. The Company regularly holds discussions with major shareholders and a programme of meetings took place during 2005. Board members also regularly receive copies of the latest analysts' and brokers' reports on the Company and the sector, to further develop their knowledge and understanding of external views about the Company. The Chairman and the Senior Independent Director gave feedback to the Board on issues raised with them by major shareholders. Should major shareholders wish to meet newly appointed directors they are welcome to do so.

The Annual General Meeting will be held at The Auditorium, The Mermaid Conference Centre, Puddle Dock, Blackfriars, London EC4V 3DB on 18 May 2006 at 11.00am. The Company believes the Annual General Meeting is an important forum for both institutional and private shareholders and encourages attendance by all its shareholders. At its Annual General Meeting in 2005, the Company indicated the balance of proxies lodged for and against each resolution after it had been dealt with on a show of hands, and the total percentage of share capital voted on all resolutions. This practice provides shareholders present with sufficient information regarding the level of support and opposition to each resolution. The Company discloses the number of the proxy votes cast on each resolution on its website after the Annual General Meeting. At the 2006 Annual General Meeting, as with last year's meeting, shareholders will be given the opportunity to put questions to the Board on matters relating to the Group's operation and performance.

The Group maintains a corporate website www.prudential.co.uk containing a wide range of information of interest to private and institutional investors including the Group's financial calendar.

Financial reporting

The directors have a duty to report to shareholders on the performance and financial position of the Group and are responsible for preparing the financial statements on pages 62 to

195 and the European Embedded Value (EEV) basis supplementary information on pages 204 to 229. It is the responsibility of the auditor to form independent opinions, based on its audit of the financial statements and its review of the EEV basis supplementary information; and to report its opinions to the Company's shareholders. Its opinions are given on pages 197 and 230.

Risk management and internal control

As a provider of financial services, including insurance, the Group's business is the managed acceptance of risk. The system of internal control is an essential and integral part of the risk management process. Prudential management has established a comprehensive framework of internal controls for the management of risk within the Group and its business units. The Board has overall responsibility for the internal controls. The Board has conducted a review of the effectiveness of the Group's system of internal control. The focus on aligning the taking of risk with the achievement of business objectives means that the control procedures and systems the Group has established are designed to manage, rather than eliminate, the risk of failure to meet business objectives and can only provide reasonable and not absolute assurance against material mis-statement or loss. The system of internal control includes financial, operational and compliance controls and risk management. Aspects are delegated to the Group-level risk committees and Group Executive Committee as well as to senior management within the Group and business units.

The Group's internal control framework includes detailed procedures laid down in financial and actuarial procedure manuals. The Group prepares an annual business plan with three-year projections. Executive management and the Board receive monthly reports on the financial position of the Group and actual performance against plan, together with updated forecasts. The insurance operations of the Group all prepare a financial condition report, which is reported on to the Board.

As part of the annual preparation of its business plan, all of the Group's businesses and functions are required to carry out a review of risks. This involves an assessment of the impact and likelihood of key risks and of the effectiveness of the controls in place to manage them. The assessment is reviewed regularly throughout the year. In addition, business units review opportunities and risks to business objectives regularly with the Group Chief Executive and Group Finance Director and the Group Chief Risk Officer.

Business units are required to confirm annually that they have undertaken risk management during the year as required by the Group Risk Framework and that they have reviewed the effectiveness of the system of internal control. The results of this review are reported to and reviewed by the Group Audit Committee, and it was confirmed that the processes described above and required by the Group Risk Framework were in place throughout the period covered by this report, and complied with Internal Control: Guidance on the Combined Code (the Turnbull guidance). Business unit internal audit teams execute risk-based audit plans throughout the Group, from which all significant issues are reported to the Group Audit Committee.

Group Risk Framework

The Board believes that good risk management and mitigation protects and enhances the Group's embedded and franchise value.

The Group Risk Framework requires that all of the Group's businesses and functions establish processes for identifying, evaluating and managing the key risks faced by the Group. The Group Risk Framework is based on the concept of 'three lines of defence'. Primary management responsibility for strategy, performance management and risk control lies with the Board, the Group Chief Executive and the Chief Executive and management of each business unit (the first line of defence). The second line of defence is oversight of the Group Risk Framework by the Group Risk Committees, Group Chief Risk Officer and the Group Risk function working with counterparts in the business units, in addition to other Group functions, including Group Compliance and Group Security. The third line of defence is independent assurance on the effectiveness of the Group's and business unit control and risk management systems provided by internal audit reporting to business unit and Group Audit Committees. During 2005, a Group Chief Risk Officer was appointed, reporting directly to the Group Chief Executive. The Group Chief Risk Officer oversees the Group Risk function, Group Compliance, Group Security and, for management purposes, Group Internal Audit. This demonstrates the importance which the Board and management attach to risk management within Prudential. It also increases the Group's ability to manage risk in a co-ordinated way and benefit from optimising the management of the risk oversight and compliance functions under the Group Chief Risk Officer.

The Group Risk Framework includes the following Group-level committees: the Group Asset Liability Committee; the Group Operational Risk Committee and the Group Balance Sheet Management Committee.

The Group Asset Liability Committee is the senior management forum responsible for oversight of market, credit and insurance risks across the Group. It is chaired by the Group Chief Risk Officer and its membership includes senior business unit and Group executives involved in the management of market, credit and insurance risks framework. The Group Asset Liability Committee reports to the Group Chief Executive.

The Group Balance Sheet Management Committee is the senior management forum responsible for oversight of the Group's balance sheet strategy, including debt capacity and capital structure. Its membership includes senior management involved in the operation of the Group's policies for balance sheet management, including liquidity, financing and capital adequacy. The Group Balance Sheet Management Committee is chaired by the Group Finance Director and reports to the Group Chief Executive.

The Group Operational Risk Committee is the senior management forum responsible for oversight of the non-financial operational risks, business environment risks, and strategic risks facing the Group and oversight of the Group Risk Framework including monitoring operational risk and related policies and processes as they are applied throughout the Group. The Group Operational Risk Committee is chaired by the Group Chief Risk Officer and its membership includes representatives of the business unit and Group Risk functions. The Group Operational Risk Committee reports to the Group Chief Executive.

The Group Chief Risk Officer and the Group Risk Committees are supported by the Group Risk function and the risk committees and risk functions in each business unit. Quarterly risk reports from the business units and Group are reported to Group Risk covering risks of Group significance. Regular reports are also made to the Group and business unit audit committees by management, internal audit and compliance functions. Updates on the Group Risk Framework and the Group's risk profile have been reported to the Group Executive Committee and Group Audit Committee and Board during 2005. This has included the Group Executive Committee assessment of Group-level risks.

Group Risk acts as secretariat and facilitates the agenda of the Group Asset Liability Committee and Group Operational Risk Committee. Group Risk acts as adviser in respect of all risks faced by Prudential Group, and establishes and maintains the risk management agenda across the Group, including through the design, implementation and maintenance of economic capital models, a consistent and harmonised risk management framework and policies, including recommendations as to risk appetite and risk-adjusted profitability. The Group Economic Capital Framework includes the modelling and quantification of the Group's financial and non-financial operational risk economic capital position.

Business units undertake risk self-assessments in accordance with the Group Risk Framework, with dedicated risk functions and named individuals responsible for the operation of the Group Risk Framework within each business unit. The operation of this includes business units' communication and application of the Group Risk Framework internally, including risk co-ordinators, identified risk owners, and regular risk reviews. Quarterly risk reports from the business units and Group are reported to Group Risk and the Group-level risk committees covering risks of Group significance. Regular reports are also made to the Group and business unit audit committees by management, internal audit, compliance and legal functions.

The Group is committed to developing its risk management techniques and methodologies, both to maintain high standards of risk management practice, and to fulfil the requirements of regulators. The control system continues to evolve and Group Risk carry out reviews and research to identify industry best practice together with ensuring that the standards and policies within the Group are progressively developed to improve risk management practice.

Disclosure Committee

The Sarbanes-Oxley Act 2002 (the Act) was passed by the US Congress in July 2002 to establish new or enhanced standards for corporate accountability in the US. As a result of the listing of its securities on the New York Stock Exchange, the Company must comply with the relevant provisions of the Act.

The Company has already adopted procedures to comply with all applicable provisions of the Act.

In particular, in relation to Section 302 of the Act which covers disclosure controls and procedures, a Disclosure Committee has been established, reporting to the Group Chief Executive, chaired by the Group Finance Director and comprising members of senior management. The objectives of this Committee are to:

- Assist the Group Chief Executive and the Group Finance Director in designing, implementing and periodically evaluating the Company's disclosure controls and procedures;
- monitor compliance with the Company's disclosure controls and procedures;
- review and provide advice to the Group Chief Executive and the Group Finance Director with regard to the scope and content of all public disclosures of the Company which are of material significance to the market or investors; and
- review and consider, and where applicable follow up on, matters raised by other components of the disclosure process, including assessments made by the Group Audit Committee, the internal auditor or the external auditor of the Company's internal controls to the extent they are relevant to the disclosure process.

In discharging these objectives, the Committee helps to support the Group Chief Executive's and the Group Finance Director's certifications of the effectiveness of disclosure procedures and controls required by Section 302 of the Act.

The provisions of Section 404 of the Act require Prudential's management to report on the effectiveness of internal control over financial reporting in its annual report on Form 20-F which is filed with the US Securities and Exchange Commission. The first requirement for this report is for the year ended 31 December 2006, and in common with other companies which have to comply with this requirement, the Group has undertaken a significant project to document and test its internal control over financial reporting in the format required by the Act.

Additionally, the Disclosure Committee has regard to the UK Listing Regime, effective from 1 July 2005, and evaluates whether or not a particular matter would constitute 'inside information' and therefore would require to be disclosed to the market.