

# Directors' report

The Directors' Report of Prudential plc for the year ended 31 December 2005 comprises these pages and the sections of the Annual Report referred to in these pages.

## Principal activity and business review

Prudential plc is the Group holding company and the principal activity of its subsidiary undertakings is the provision of financial services in the UK, the US and Asia. Particulars of principal subsidiary undertakings are given in note I6 on page 181. The Group's businesses and likely future developments are reviewed in the Chairman's statement on pages 2 and 3, the Group Chief Executive's review on pages 4 to 7, the business review on pages 8 to 15 and the financial review on pages 16 to 33, which contain details of the development of the businesses of the Group during the financial year and of the Group's position at the end of it. Important events affecting the Company after the end of the financial year are detailed in note I8 on page 185.

## Financial statements and supplementary information

The consolidated income statement is shown on page 62 and the consolidated balance sheet on pages 65 and 66 shows the state of affairs of the Group at 31 December 2005. The Company's balance sheet appears on page 186. Information prepared on the European Embedded Value basis of financial reporting is provided on pages 204 to 229. A summary of the results is shown on page 60.

Changes in the Company's share capital during 2005 are given in note H11 on pages 159 and 160.

## Dividends

The directors recommend that the shareholders declare a final dividend for 2005 of 11.02 pence per share payable on 26 May 2006 to shareholders on the register at the close of business on 24 March 2006. The interim dividend for 2005 was 5.3 pence per share. The total dividend for the year, including the interim dividend and the recommended final dividend, amounts to 16.32 pence per share compared with 15.84 pence per share for 2004. The total cost of dividends in respect of 2005 was £393 million.

## Financial instruments

The Group is exposed to financial risk through its financial assets, financial liabilities, and policyholder liabilities. The financial risk factors affecting the Group include market risk, foreign exchange risk, credit risk and liquidity risk. Information on the financial risk management objectives and policies of the Group and the exposure of the Group to the financial risk factors is given in Section C on pages 100 to 102.

Further information on the use of derivatives and hedge accounting by the Group is also provided in notes D3 and G3 on pages 115 and 145 respectively.

## Payment policy

It is the policy of the Group to agree terms of payment when orders for goods and services are placed and to pay in accordance with those terms. Trade creditor days, based on the ratio of amounts which were owed to trade creditors at the year-end to the aggregate of the amounts invoiced by trade creditors during the year, were 22 days.

## Directors

A list of the present directors is set out on pages 36 and 37. Keki Dadiseth, Mark Tucker and Nick Prettejohn were appointed as directors on 1 April 2005, 6 May 2005 and 1 January 2006 respectively. In accordance with the Articles of Association, Mark Tucker and Nick Prettejohn will retire and offer themselves for election at the Annual General Meeting on 18 May 2006. Jonathan Bloomer and Mark Wood resigned as directors of the Company on 5 May 2005 and 17 October 2005 respectively. Sir David Clementi, Michael McLintock, Mark Norbom and Kathleen O'Donovan will retire by rotation at the Annual General Meeting and offer themselves for re-election. Details of each director's interests in shares and debentures of the Company and its subsidiary, Egg plc, which was listed until 20 February 2006, are set out in the remuneration report on page 51. Protections afforded to directors, including qualifying third party indemnities under the provisions of the Companies Act 1985, are detailed in the remuneration report on page 50.

## Employees

The following information is given principally in respect of employees of the Group in the UK. The policy towards employees overseas is the same but the practical application of the policy varies according to local requirements.

## Equal opportunity

Prudential recognises, respects and values difference and diversity. Its equal opportunities policy is to be fair, responsible and caring in all aspects of the business. The Group seeks to ensure all employees and applicants to its businesses are given equal opportunity in all aspects of employment to ensure that the Group's businesses attract, retain and promote the best available talent. All the businesses work to embed these principles in all aspects of their management practices and to ensure that this is evident to employees in their day-to-day work.

It is Group policy to give full and fair consideration and encouragement to the employment of applicants with suitable aptitudes and abilities, and to continuing the employment of staff who become disabled, and to providing training and career development opportunities to disabled employees.

## Employee involvement

The Group has effective communication channels through which employees' views can be sought on issues which concern them. Throughout the Group there is close consultation between management and other employees on appropriate matters of concern, with a view to keeping employees informed about the progress of the Group's business and the economic factors affecting it. Communication with employees is achieved in a number of ways, including one-to-one staff briefings and through the Group's intranet site. Prudential's European Employee Forum provides an opportunity for elected employee representatives to consult with senior management on strategic European business issues. M&G's Staff Consultative Committee and UK Insurance Operations' Employee Forum promote communication and consultation throughout their respective businesses and provide for dialogue on a range of issues of interest to their staff.

During 2005, further improvements were made to staff consultative arrangements following a review by all Prudential UK based operations started in 2004. This review was given impetus by the UK legislation on Information and Consultation and was conducted with a view to improving the effectiveness of arrangements, consulting trade unions and other staff groups as appropriate.

In 2005 employees were again invited to participate in the Prudential Savings-Related Share Option Scheme. The Scheme has now been operating for 22 years and 60 per cent of UK staff currently participate. The Prudential International Savings-Related Share Option Scheme (ISSOS) for employees has been operating since 2000 in Hong Kong, Malaysia and Singapore; since 2001 in Taiwan and India; and since 2003 in Korea. On average 13 per cent of employees in those countries covered by the ISSOS currently participate. In addition, since 2002 Prudential has operated the International Savings-Related Share Option Scheme for Non-Employees (ISSOSNE) for its agents in Hong Kong. Currently eight per cent of agents participate.

Following shareholder agreement in 2000 to authorise the Board to introduce a Share Incentive Plan, The Prudential UK Share Incentive Plan (SIP) was introduced in 2004 for employees of Prudential UK Services Limited and The Prudential Assurance Company Limited, and in 2005 for employees of Prudential Services Limited. This plan enables employees to buy Prudential shares on a tax-efficient basis. For every four Partnership shares bought, an additional Matching share is granted. Currently 29 per cent of eligible staff participate.

The trustees of each of the Group's UK pension schemes include elected individuals.

#### **Donations**

Prudential is committed to supporting the communities where it is an employer. In 2005 the Group spent £4.7 million in support of the community. Within this, direct donations to charitable organisations amounted to £3.5 million, of which £2.3 million came from European Union (EU) operations. This is broken down as follows: Education £1,068,000; Social and Welfare £1,039,000; Environment and Regeneration £91,000; Cultural £84,000 and Staff Volunteering £56,000. The aggregate figure for charitable donations from Prudential's non-EU subsidiaries (Jackson National Life and Prudential Corporation Asia) amounted to £1.2 million. It is the Group's policy not to make donations to political parties or to incur political expenditure, within the meaning of those expressions as defined in the Political Parties, Elections and Referendums Act 2000, and the Group did not make any such donations or incur any such expenditure in 2005.

#### **Annual General Meeting**

The Company's Annual General Meeting will be held on 18 May 2006 at The Auditorium, The Mermaid Conference Centre, Puddle Dock, Blackfriars, London EC4V 3DB at 11.00am.

#### **Auditor**

A resolution for the re-appointment of KPMG Audit Plc as auditor of the Company until the end of the 2007 Annual General Meeting will be put to the Annual General Meeting on 18 May 2006.

#### **Authority to purchase own shares**

At the Annual General Meeting in 2005, the shareholders granted authority to the directors for the purchase by the Company of its own shares in accordance with the relevant provisions of the Companies Act 1985. This authority will expire at the end of the Annual General Meeting to be held in 2006 or 18 months from the date granted, whichever is earlier.

#### **Shareholders**

The number of accounts on the share register at 31 December 2005 was 60,942 (2004: 69,632). Further information about shareholdings in the Company is given on page 231. As at 15 March 2006 the Company had received notification in accordance with Sections 198 to 208 of the Companies Act 1985 from Legal & General Investment Management Limited, Barclays PLC and Fidelity Investments of holdings of 4.02 per cent, 3.10 per cent and 3.13 per cent respectively of the Company's ordinary share capital.

On behalf of the Board of directors



Peter Maynard  
Company Secretary  
15 March 2006