

Corporate governance report

Governance and the role of the Board

The Board is responsible to shareholders for creating and delivering sustainable shareholder value through the management of the Group's business. This governance report explains Prudential's governance policies and practices, and sets out how the Board manages the business for the benefit of shareholders, promoting long-term shareholder interest.

The governance rules applicable to all UK companies admitted to the Official List of the UK Listing Authority are set out in the Combined Code, published by the Financial Reporting Council in June 2003, and revised in 2006. The directors believe that good corporate governance is central to achieving the Group's objectives and maximising shareholder value, and are committed to high standards of corporate governance. The Board supports the Combined Code, and confirms that it has complied with all of the provisions set out in Section 1 throughout the financial year ended 31 December 2007, and has applied the principles as set out below and in the Directors' Remuneration Report.

Board composition, appointments and election/re-election

As at 31 December 2007, the Board comprised the Chairman, six executive directors and eight independent non-executive directors. During the year, Sir Winfried Bischoff and Ann Godbehere were appointed by the Board as non-executive directors on 2 August 2007, and Roberto Mendoza retired as a non-executive director after seven years in office on 17 May 2007, with effect from the conclusion of the Annual General Meeting. Tidjane Thiam will join the Board as Chief Financial Officer on 25 March 2008. The biographies of all current directors and Tidjane Thiam are set out on pages 87 to 88.

The Board may appoint directors, up to the maximum total number of 20 directors set out in the Company's Articles of Association, and any director appointed by the Board will retire at the first Annual General Meeting following his or her appointment and offer himself or herself for election by shareholders. Accordingly, Sir Winfried Bischoff, Ann Godbehere and Tidjane Thiam will retire and offer themselves for election at the Annual General Meeting on 15 May 2008.

Under the current Articles of Association of the Company, all directors must retire as directors at least every three years, and therefore Keki Dadiseth and James Ross will retire and offer themselves for re-election at the Annual General Meeting on 15 May 2008. The current Articles of Association also state that at every Annual General Meeting at least one third of the current directors must retire by rotation and therefore Kathleen O'Donovan and Lord Turnbull will retire by rotation at the Annual General Meeting on 15 May 2008 and offer themselves for re-election. Philip Broadley, Group Finance Director until 25 March 2008, will also retire at the Annual General Meeting on 15 May 2008.

Non-executive directors are usually appointed for an initial three-year term, commencing with their election by shareholders at the first Annual General Meeting following their appointment. Each appointment is reviewed towards the end of this period against performance and the requirements of the Group's businesses. Non-executive directors are typically expected to serve for two three-year terms from their initial election by shareholders, although the Board may invite them to serve for

an additional period. The terms and conditions of appointment of all directors are available for inspection at the Company's registered office during normal business hours and at the Annual General Meeting.

The Board is actively engaged in succession planning for both executive and non-executive roles to ensure composition is periodically renewed, and that the Board retains its effectiveness at all times. This is delivered through an established review process that is applied across all 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. We believe that our non-executive directors bring a wide range of business, financial and global experience to the Board and its committees. Our executive directors, who head up the main businesses of the Group, each bring an in-depth understanding to the Board of their particular business, its markets and its challenges, ensuring coverage of the breadth and depth of the Group's principal activities.

Role of the Board

The roles of Chairman and Group Chief Executive are separate and clearly defined, and the scope of these roles has 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 responsibilities, the Group Chief Executive is advised and assisted by the Group Executive Committee, comprising all the business unit heads and a Group Head Office (GHO) team of functional specialists.

James Ross 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 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 approval of the annual and interim results, strategy and corporate objectives, operating plans, significant transactions and matters affecting the Company's share capital.

Powers of directors

The management and control of the business and affairs of the Company are vested in the Board. The Board may exercise all powers conferred on it by the Memorandum of Association, the Articles of Association, and the Companies Acts. This includes the powers of the Company to borrow money and to mortgage or charge any of its assets (subject to limitations in the Companies Acts and the Articles) and to give a guarantee, security or indemnity in respect of a debt or other obligation of the Company. The Board may exercise all powers and do everything within the power of the Company, other than matters required by the Companies Acts to be dealt with in general meeting.

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Governance framework

To promote effective governance across all of its operations, the Board has approved a governance framework which 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 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 annually certify their compliance with the requirements of the framework.

Board and committee meetings and attendance

During 2007, the Board met 11 times and held a separate strategy meeting. Each year, at least one of the Board meetings

is held at one of the Group's business operations to facilitate a fuller understanding of the business. In January 2007, a Board meeting was held in Mumbai, and the Board visited the Group's various operations in Mumbai, and attended a day of presentations given by senior managers of Prudential Corporation Asia. These presentations covered the diversity of businesses across Asia and included presentations by the Indian joint venture companies with ICICI, and by the country heads of a number of our different operations. The Board also spent half a day visiting the Group's Mumbai operations centre and meeting senior operations managers.

The majority of directors attended all eight scheduled Board meetings occurring during their period in office, apart from some absence due to prior commitments. There were three additional Board meetings, and the majority of the directors attended those meetings. Where directors were not able to attend any of the meetings, their views were canvassed by the Chairman prior to the meeting. The table below details the number of Board and Committee meetings attended by each director throughout the year. A further nine ad hoc Board Committee meetings took place during the year.

Number of meetings in year	Full Board Meetings*	Audit Committee Meetings†	Remuneration Committee Meetings‡	Nomination Committee Meetings
Sir David Clementi	11 (11)	n/a	n/a	2 (2)
Sir Winfried Bischoff ^{note 1}	2 (2)	n/a	n/a	n/a
Philip Broadley	11 (11)	n/a	n/a	n/a
Keki Dadiseth ^{note 2}	10 (11)	6 (7)	7 (7)	n/a
Michael Garrett ^{note 3}	10 (11)	n/a	7 (7)	n/a
Ann Godbehere ^{note 4}	2 (2)	2 (2)	n/a	n/a
Bridget Macaskill ^{note 5}	10 (11)	n/a	7 (7)	2 (2)
Clark Manning	11 (11)	n/a	n/a	n/a
Michael McLintock ^{note 6}	10 (11)	n/a	n/a	n/a
Roberto Mendoza ^{note 7}	5 (5)	n/a	3 (3)	n/a
Kathleen O'Donovan ^{note 8}	9 (11)	7 (7)	n/a	n/a
Nick Prettejohn	11 (11)	n/a	n/a	n/a
James Ross	11 (11)	7 (7)	n/a	2 (2)
Barry Stowe	11 (11)	n/a	n/a	n/a
Mark Tucker	11 (11)	n/a	n/a	n/a
Lord Turnbull	11 (11)	7 (7)	n/a	n/a

Figures in brackets indicate the maximum number of meetings which the individual could have attended in the period in which they were a Board or Committee member.

* During 2007, there were eight scheduled Board meetings and three additional Board meetings. In addition, there was a strategy event attended by all directors.

† During 2007, there were seven scheduled Audit Committee meetings.

‡ During 2007, there were four scheduled Remuneration Committee meetings and three additional meetings.

Notes

- 1 Appointed as a director on 2 August 2007.
- 2 Attended all scheduled Board meetings, but was unable to attend one of the additional Board meetings and one of the Audit Committee meetings due to prior commitments.
- 3 Attended all scheduled Board meetings, but was unable to attend one of the additional Board meetings due to a prior commitment.
- 4 Appointed as a director on 2 August 2007 and as a member of the Audit Committee on 1 October 2007.
- 5 Attended all scheduled Board meetings, but was unable to attend one of the additional Board meetings due to a prior commitment.
- 6 Unable to attend one scheduled Board meeting due to a long-standing prior commitment.
- 7 Resigned as a director on 17 May 2007.
- 8 Unable to attend one scheduled Board meeting due to a long-standing prior commitment, and unable to attend one of the additional Board meetings due to a prior commitment.

The Chairman meets, at least annually, with the non-executive directors without the executive directors being present. During 2007, a meeting without the executive directors took place in December.

Board independence

The Company follows the Combined Code when determining the independence of its non-executive directors, and in addition to that guidance Prudential is required to affirm annually the independence of its Audit Committee members under Sarbanes-Oxley legislation. Where necessary, the Board ensures that appropriate processes are in place to manage any possible conflict of interest.

In line with the principles of the Combined Code, the Chairman was independent on appointment. Throughout the year all non-executive directors were considered by the Board to be independent in character and judgement, and independent in accordance with the Combined Code.

Keki Dadiseth also serves, at Prudential's request, as a non-executive director of ICICI Prudential Life Insurance Company Limited, an Indian company which is owned 26 per cent by Prudential, and of ICICI Prudential Trust Limited, an Indian company which is owned 49 per cent by Prudential. The Board does not consider that these appointments in any way affect his status as an independent director of Prudential.

Sir Winfried Bischoff has been Chairman of Citi Europe and a Member of The Management, Operating and Business Heads Committees of Citigroup Inc. since May 2000. He is also Chairman of the European Advisory Board of Citigroup Inc. He was the acting Chief Executive Officer of Citigroup Inc. from 5 November 2007 to 11 December 2007 when he was appointed Chairman of Citigroup Inc. Prudential has a number of business relationships with Citi. The Board believes that, in respect of the Combined Code, these business relationships are not sufficiently material to compromise his independence in matters relating to Prudential.

Prudential 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 Group 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.

Other commitments

The Board is satisfied that the Chairman's other commitments do not interfere with the day-to-day performance of his duties for the Group, and that he has the commitment and capability to make himself available under unforeseen circumstances, should the need arise. The major commitments of the Chairman, including changes during the year are detailed in his biography on page 87.

Our executive directors may accept external directorships and retain any fees earned from those directorships, subject to

prior discussion with the Group Chief Executive, and always provided this does not lead to any conflicts of interest. In line with the Combined Code, executive directors would be expected to hold no more than one non-executive directorship of a FTSE 100 company. A number of our executive directors hold directorships of companies in the arts and educational sectors, for which they do not receive any fees. One of our executive directors, Michael McLintock, serves on the board of Close Brothers Group plc. The major commitments of our executive directors are detailed in their biographies on page 87. Details of any fees retained are included in the Directors' Remuneration Report.

Our non-executive directors may serve on a number of other boards, provided that they are able to demonstrate satisfactory time commitment to their role at Prudential, and that they discuss any new appointment with the Chairman prior to accepting. This ensures that they do not compromise their independence and that any potential conflicts of interest and any possible issues arising out of the time commitments required by the new role can be identified and addressed appropriately. The major commitments of our non-executive directors are detailed in their biographies set out on pages 87 to 88.

Induction, development and evaluation

Induction

The Company Secretary supports the Chairman in providing tailored induction programmes for new directors and ongoing training for all directors. 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 Board and its key committees, and the ambit of the internal audit and risk management functions. 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.

Ongoing development

Throughout their period in office, directors are continually updated on the Group's businesses and the regulatory and industry-specific environments in which it operates, as well as on their legal and other duties and obligations as directors where appropriate. These updates can be in the form of written reports to the Board or meetings with senior executives and, where appropriate, external sources. Non-executive directors serving on key committees are also updated regularly on matters specific to the relevant committee in order to enhance their knowledge and effectiveness throughout their term in office.

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A programme of ongoing professional development was undertaken for all directors in 2007, which covered a number of sector-specific and business issues as well as legal, accounting and regulatory changes and developments. Each business unit head accompanied by relevant senior managers gave a presentation to the Board during the course of the year on the challenges and opportunities currently faced by their business unit. In addition, senior managers of certain head office functions, including Group Risk and Investor Relations, presented to the Board on the key issues currently being handled by the function.

Performance evaluation

Prudential continued its programme of annual evaluations of the performance of the Board and its Committees in respect of 2007, in line with the requirements of the Combined Code. The aim was to improve the effectiveness of the Board and its committees, and enhance the Group's performance.

In 2007, 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. Each director and the members of the Group Executive Committee completed a questionnaire and were interviewed by the independent consultant. The questions asked were based on the Combined Code and on previously identified matters, and sought views on the effectiveness of the Board as a whole, and on the Chairman's performance. The independent consultant prepared a report based on the various discussions held and presented and discussed the overall results of the evaluation with the Board in February 2008. The Board, without the Chairman present, met under the chairmanship of the Senior Independent Director to review the performance of the Chairman. The use of external providers for this purpose is kept under review.

In addition, the performance of the non-executive directors and the Group Chief Executive was evaluated by the Chairman in individual meetings. The Group Chief Executive individually appraised the performance of each of the executive directors.

Internal and external support

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 in the ordinary course approximately one week before each Board or committee meeting.

The Board has approved a procedure whereby directors have the right to seek independent professional advice at the Company's expense where this is appropriate to enable the directors, either individually or as a group, to properly fulfil their obligations.

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' interests

Details of each director's interests in shares of the Company are set out in the Directors' Remuneration Report on page 113.

Directors' indemnities and protections

The Company has arranged appropriate insurance cover in respect of legal action against directors and senior managers of companies within the Prudential Group. In addition, the Articles of Association of the Company permit the directors and officers of the Company to be indemnified in respect of liabilities incurred as a result of their office. Prudential also provides protections for directors and senior managers of companies within the Group against personal financial exposure they may incur in their capacity as such. These include qualifying third party indemnity provisions (as defined by the relevant Companies Act) for the benefit of directors of Prudential, including, where applicable, in their capacity as directors of other companies within the Group. These indemnities were in force during 2007 and remain in force.

Risk management and internal control

The Board has overall responsibility for the Group's system of internal control, and for reviewing its effectiveness, and confirms that there is an ongoing process in place for identifying, evaluating and managing the significant risks faced by the Company, which is reviewed regularly. All 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 systems of internal control. The results of this review are reported to and reviewed by the Group Audit Committee and the Board, and it was confirmed that effective processes of internal control, including financial, operational and compliance controls and risk management, as required by the Group Risk Framework, were in place throughout the period covered by this report, and that they complied with the revised guidance on the Combined Code issued in October 2005 (the Turnbull guidance). Internal audit teams execute risk-based audit plans throughout the Group, from which all significant issues are reported to the Group Audit Committee on a periodic basis. The procedures for the management of risk and the systems of internal control operated by the Group are described in more detail in the Risk Management section on pages 72 to 80.

In line with the Turnbull guidance, the certification provided above does not apply to certain material joint ventures where the Group does not exercise full management control. In these cases, the Group satisfies itself that suitable governance and risk management arrangements are in place to protect the Group's interests. In addition, the Group company who is party to the joint venture must, in respect of any services it provides in support of the joint venture, comply with the requirements of the Group Governance Framework, which maps out the internal approvals processes. In line with the Group Risk Framework and as set out within the section on Risk Management on pages 72 to 80, the management of the relevant business unit discusses material issues and risks and includes them, where appropriate, in the regular risk reports to the Group.

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

Board Committees

The Board has established audit, remuneration and nomination committees as standing committees of the Board with written terms of reference, which are kept under regular review. These committees are key elements of the Group's governance framework, and reports on each are included below:

Audit Committee Report

This report sets out the responsibilities of the Group Audit Committee (the Committee) and the activities carried out by the Committee during the year to meet its objectives.

Role of the Committee

The Committee's principal responsibilities consist of oversight over financial reporting, internal control and risk management, and monitoring auditor independence. Its duties include gaining assurance on the control over financial processes and the integrity of the Group's financial reports, monitoring the performance, objectivity and independence of the external auditor, and reviewing the work of the internal auditor.

In performing its duties, the Committee has access to employees and their financial or other relevant expertise across the Group and to the services of the Group-wide Internal Audit Director and the Company Secretary. The Committee may also seek external professional advice at the Group's expense.

The Committee's terms of reference, which are set by the Board and kept under regular review, are available on our website at <http://www.prudential.co.uk/prudential-plc/aboutpru/corporategovernance/>. Alternatively, copies may be obtained upon request from the Company Secretary, at the Company's registered office.

Membership

The Committee is comprised exclusively of independent non-executive directors of the Company, as set out below:

Kathleen O'Donovan *ACA* (Chairman)
 Keki Dadiseth *FCA* (until 31 December 2007)
 Ann Godbehere *FCGA* (from 1 October 2007)
 James Ross (until 31 December 2007)
 Lord Turnbull *KCB CVO*

Membership is selected to provide a broad set of financial, commercial and other relevant experience to meet the Committee's objectives.

The Board has designated Kathleen O'Donovan as its audit committee financial expert for Sarbanes-Oxley Act purposes, and has determined that she also has recent and relevant financial experience for the purposes of the Combined Code. The Board has further determined that Ann Godbehere, who held senior financial positions in the insurance sector, brings additional recent and relevant financial experience to the Committee.

Full biographical details of the members of the Committee, including their relevant experience, are set out in their biographies on page 88.

Meetings

The Committee met seven times during the year. By invitation, the Chairman of the Board, the Group Finance Director, the Company Secretary and Group Legal Services Director, the Group-wide Internal Audit Director, and other senior staff from the internal audit, group risk and group compliance functions where appropriate, as well as the lead partner of the external auditor attended meetings. Other audit partners also attended some of the meetings to contribute to the discussions relating to their areas of expertise.

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A detailed forward agenda has been in operation for a number of years which is continually updated to ensure all matters for which the Committee is responsible are addressed at the appropriate time of year. The Committee's business during the year included the following:

- Review of half-year and full-year results, press releases and annual report and accounts;
- examination of critical accounting policies and key judgmental areas;
- review of US filings and related external audit opinion;
- review of changes in and implementation of Group Accounting Policies in compliance with International Accounting Standards and practices;
- approval of external auditor's management representation letter, review of external auditor's full-year memorandum, external audit opinion and final management letter;
- monitoring of auditor independence and the external auditor's plans and audit strategy, the effectiveness of the external audit process, the external auditor's qualifications, expertise and resources, and making recommendations for the re-appointment of the external auditor;
- monitoring of the framework and effectiveness of the Group's systems of internal control and Turnbull compliance statement, including Sarbanes-Oxley procedures;
- monitoring the effectiveness of the Group Risk Framework and reviewing the half-yearly key risk report;
- review of the internal audit plan and resources, and monitoring of the audit framework and internal audit effectiveness;
- monitoring the effectiveness of compliance processes and controls, and performance against the Group Compliance Plan;
- review of its own effectiveness, using external consultants, and review of its terms of reference; and
- review of anti-money laundering procedures, and allegations received via the employee confidential reporting lines.

During the year, the Committee's standing agenda items also included other reports from group-wide internal audit, group risk, group compliance and group security functions. In addition, the Committee received presentations on a range of topics including financial control, risk management, and actuarial assumptions and methodologies.

The Committee Chairman reported to the Board on matters of particular significance after each Committee meeting, and 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 sessions were held in March 2007 with the external and internal auditors, and in July 2007 with the external and internal auditors and the Head of Group Security. At all other times, management and auditors have open access to the Chairman.

Financial reporting

As part of its review of financial statements before recommending their publication to the Board, the Committee focused on: critical accounting policies and practices and any changes, 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 Combined Code and other applicable laws and regulations.

In addition, the Committee is regularly briefed by senior management on developments in international accounting standards.

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 reporting line.

Business unit audit committees

Each business unit has its own audit committee whose members and chairmen are independent of the respective business unit. The chairmen of these committees report regularly to the Committee, and their meetings are attended by senior management of the respective business unit, including the business units' chief executives and heads of finance, risk, compliance and internal audit. Business unit audit committees have adopted standard terms of reference across the Group, with only minor variations to address overseas requirements or particular requirements of the business. All terms of reference include escalation of significant matters to the Committee, approval of the business unit internal audit plans and overseeing the adequacy of internal audit resources. Also included are presentations from external auditors, and private meetings with local external auditors and the business unit heads of internal audit. During the year, the business unit audit committees reviewed and approved their respective internal audit plans, resources and the results of internal audit work.

Internal control and risk management

The 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. Throughout the year, the Committee received the minutes of the Disclosure Committee and the Group Operational Risk Committee and noted their activities. Further information on those committees appears on pages 98 and 74.

Pursuant to the requirements of Section 404 of the Sarbanes-Oxley Act, the Group must undertake an annual assessment of the effectiveness of internal control over financial reporting. Further details are provided on page 99.

Internal audit

The Committee regards its relationship with the internal audit function as pivotal to the effectiveness of its own activities. Group-wide Internal Audit plays an important role in supporting the Committee to fulfil its responsibilities under the Combined Code and the Sarbanes-Oxley Act, and provides independent assurance on the Company's processes of identification and control of risk. The Committee agreed the work programme of the internal audit function to be undertaken during 2007. Each of the Group's business units has an internal audit team, the heads of which report regularly to the Group-wide Internal Audit Director. Internal audit resources, plans and work are overseen by the Committee and by business unit audit committees. Across the Group, total internal audit headcount stands at 135. The Group-wide Internal Audit Director reports functionally to the Committee and for management purposes to the Group Chief Executive.

Formal reports are submitted to the Committee on a quarterly basis, with interim updates where appropriate, and views are also sought at the private meetings between the Committee and the internal auditors, as well as during regular private meetings between the Chairman of the Committee and the Group-wide Internal Audit Director.

The Committee assesses the effectiveness of the internal audit function by means of regular reviews, some of them carried out by external advisers, and through ongoing dialogue with the Group-wide Internal Audit Director. External reviews of internal audit arrangements and standards were also conducted in 2006 and 2007 to ensure that the activities and resources of the function are most effectively organised to support the oversight responsibilities of the Committee. These reviews, performed by Deloitte, confirmed that the internal audit function complies with the Institute of Internal Auditors' international standards for the professional practice of internal auditing and is operating effectively.

External audit

The 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. 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.

All services provided by the auditor in accordance with this policy are pre-approved by the Committee. The Committee reviewed and updated the policy in 2007 to ensure alignment

with the latest standards and best practice in establishing, maintaining and monitoring auditor independence and objectivity.

Audit fees

For the year ended 31 December 2007, the Committee approved fees of £9.1 million to its auditor, KPMG Audit Plc, for audit services and other services supplied pursuant to relevant legislation. In addition, the Committee approved fees of £2.3 million to KPMG for services not related to audit work, which accounted for 20 per cent of total fees paid to the external auditor in the year. Non-audit services primarily related to actuarial and basic tax compliance work, and to the provision of attestation and comfort letters. In accordance with the Group's Auditor Independence Policy, all services were approved prior to work commencing, and each of the non-audit services was confirmed to be permissible for the external auditor to undertake, as defined by the Sarbanes-Oxley Act. The Committee reviewed the non-audit services being provided to the Group by KPMG at regular intervals during 2007. A summary of audit fees is provided in note I4 on page 280.

Auditor performance and independence

As part of its work during 2007, the Committee assessed the performance of the external auditor, its independence and objectivity, and the effectiveness of the audit process. In addition to questioning the external auditor and the Group Finance Director, which 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-wide Internal Audit, supplemented by interviews with senior finance staff and Committee members. In addition, the Committee reviewed the external audit strategy and received reports from the auditor on its own policies and procedures regarding independence and quality control, including an annual confirmation of its independence in line with industry standards.

Re-appointment of auditor

The Group operates a policy under which at least once every five years a formal review is undertaken by the Committee 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 2005, 2006 and 2007 the Committee formally considered the need to re-tender the external audit service and concluded that, given the significant changes in accounting, audit and regulatory requirements, the interests of the Company were better served by retaining the existing auditor through a period of continuing change. In addition, the Committee concluded that there was nothing in the performance of the auditor requiring a change. During the year, following the approval of the 2006 Annual Report, a new lead audit partner was appointed by KPMG Audit Plc, in line with the Auditing Practices Board Ethical Statements and the Sarbanes-Oxley Act.

Following its review of the external auditor's effectiveness and independence, the Committee has recommended to the Board that KPMG Audit Plc be re-appointed as auditor of the

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Company, and a resolution for the re-appointment of KPMG Audit Plc as auditor of the Company to hold office until the end of the 2009 Annual General Meeting will be put to a shareholder vote at the Annual General Meeting on 15 May 2008.

Review of Committee effectiveness

During the year, the Committee undertook a formal review of its own effectiveness, conducted by an independent consultant who prepared a report on the findings and presented this to the Committee at its meeting in October. Recommendations to improve processes identified by the review were discussed by members, and improvements are being implemented during 2008. 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 Committee will be undertaken regularly, and will from time to time be conducted by external consultants.

Remuneration Committee Report

Role of the Committee

The Remuneration Committee (the Committee) determines the remuneration packages of the Chairman and executive directors. It also agrees the principles and monitors the level and structure of remuneration for a defined population of senior management as determined by the Board. In framing its remuneration policy, the Committee has given full consideration to the provisions of Schedule A to the Combined Code. The Directors' Remuneration Report prepared by the Board is set out in full on pages 102 to 123. In preparing the report, the Board has followed the provisions of the Combined Code, the Listing Rules of the Financial Services Authority, and the Companies Acts.

Except in relation to the remuneration of the Group Chief Executive, when only the Chairman is consulted, the Committee consults the Chairman and the Group Chief Executive about the Committee's proposals relating to the remuneration of all executive directors. The Committee has access to professional advice inside and outside the Company.

The Committee has formal terms of reference set by the Board, which are reviewed regularly, and which are available on our website at <http://www.prudential.co.uk/prudential-plc/aboutpru/corporategovernance/>. Alternatively, copies may be obtained upon request from the Company Secretary, at the Company's registered office.

Membership

The Committee is comprised exclusively of independent non-executive directors of the Company, as set out below:

Bridget Macaskill (Chairman)
Keki Dadiseth FCA
Michael Garrett
James Ross (from 1 January 2008)

Full biographical details of the members of the Committee, including their relevant experience, are set out in their biographies on page 88.

Meetings

The Committee normally has scheduled meetings at least four times a year and a number of additional meetings, as required, to review remuneration policy and the application of that policy. While the Chairman and Group Chief Executive are not members, they attend meetings unless they have a conflict of interest. During 2007, a total of seven Committee meetings were held.

Nomination Committee Report

Role of the Committee

The Nomination Committee (the Committee), in consultation with the Board, evaluates the balance of skills, knowledge and experience on the Board and identifies the role and capabilities required at any given time, taking into account the Group's business. Candidates are considered on merit against those criteria, and the Committee makes recommendations to the Board regarding suitable candidates for appointments. In appropriate cases, search consultants are used to identify candidates.

The Committee has formal terms of reference set by the Board, which are reviewed regularly, and which are available on our website at <http://www.prudential.co.uk/prudential-plc/aboutpru/corporategovernance/>. Alternatively, copies may be obtained upon request from the Company Secretary, at the Company's registered office.

Membership

The Committee is comprised of independent non-executive directors and the Chairman, as set out below:

Sir David Clementi FCA MBA (Chairman)
Bridget Macaskill
James Ross

Meetings

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 Group Chief Executive is closely involved in the work of the Committee and is invited to attend and contribute to meetings.

During 2007, the Committee met formally twice. The members of the Committee discussed candidates on a number of other occasions throughout the year, as required by the recruitment process. The Chairman also updates the full Board on Committee matters on a regular basis. During the year, the Committee recommended to the Board the appointment of Sir Winfried Bischoff and Ann Godbehere as non-executive directors, who were appointed by the Board on 2 August 2007, and the appointment of Tidjane Thiam as an executive director, which will become effective on 25 March 2008. Full biographical details of these new directors are set out on pages 87 and 88.

The process of evaluating the skills and composition of the Board is ongoing, and is kept under regular review in order to ensure appropriate plans for succession to the Board are in

place. During the year, the Committee continued the search for additional non-executive directors, which is an ongoing process, and employed professional search consultants to oversee the initial phase.

Relations with shareholders

Communication with shareholders

As a major institutional investor, the Company is acutely aware of the importance of maintaining good relations with its shareholders. We regularly hold discussions with major shareholders and a programme of meetings took place during 2007. A perception survey into the views of the Company's major investors is undertaken on an annual basis by an independent firm, and the results of this survey are presented to the Board. 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 non-executive directors provided feedback to the Board on topics raised with them by major shareholders. Should major shareholders wish to meet newly appointed directors, or any of the directors generally, they are welcome to do so.

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. The shareholder information section on pages 340 to 341 contains further details which may be of interest to shareholders.

Annual General Meeting

The Annual General Meeting will be held in the Churchill Auditorium at The Queen Elizabeth II Centre, Broad Sanctuary, Westminster, London SW1P 3EE on 15 May 2008 at 11.00am. The Company believes the Annual General Meeting is an important forum for both institutional and private shareholders and encourages all its shareholders to vote. Shareholders will again be given the opportunity to put questions to the Board on matters relating to the Group's operations and performance.

At its Annual General Meeting in 2007, the Company continued its practice of calling a poll on all resolutions. The voting results, which included all votes cast for and against each resolution at the meeting, and all proxies lodged prior to the meeting, were indicated at the meeting and published on the Company's website as soon as practicable after the meeting. The Company also disclosed the number of votes withheld at the meeting and on its website. This practice provides shareholders present with sufficient information regarding the level of support and opposition to each resolution, and ensures all votes cast either at the meeting or through proxies are included in the result.

Company constitution

The Company is governed by the Companies Acts and other applicable legislation, and by its Memorandum and the Articles of Association. The Memorandum and Articles of Association are available on Prudential's website at <http://www.prudential.co.uk/prudential-plc/aboutpru/memorandum/>

Any change to the Memorandum or the Articles of Association must be approved by special resolution of the shareholders in accordance with the provisions of the Companies Acts. Changes to the Articles of Association will be proposed at this year's Annual General Meeting. Details of the proposed changes are set out in the Notice of the Annual General Meeting, which is sent to shareholders and is also available on the Company's website at <http://www.prudential.co.uk/prudential-plc/investors/agminfo/2008/>

Share capital

On 31 December 2007, the Company's issued share capital, which is set out in note H11 on page 258, consisted of 2,470,017,240 ordinary shares of 5 pence each, all fully paid up and listed on the London Stock Exchange. The number of accounts on the share register at 31 December 2007 was 75,948 (2006: 79,881). The Company is listed on the New York Stock Exchange in the form of American Depositary Shares, referenced to its ordinary shares, under a depositary agreement with JP Morgan.

Rights and obligations

The rights and obligations attaching to the Company's shares are set out in full in the Company's Articles of Association. There are no voting restrictions on the ordinary shares, and each share carries one vote on a poll. If votes are cast on a show of hands, each shareholder present in person or by proxy has one vote regardless of the number of shares held, in accordance with the Companies Acts. Where, under an employee share plan operated by the Company, participants are the beneficial owners of the shares but not the registered owners, the voting rights are normally exercisable by the registered owner, either at the trustee's discretion or at the direction of the participants, in accordance with the relevant plan rules. Rights to dividends under the various schemes are set out in note I2 on pages 276 to 277.

Restrictions on transfer

In accordance with English company law, shares may be transferred by an instrument of transfer or through an electronic system (currently CREST), and transfer is not restricted except that the directors may in certain circumstances refuse to register transfers of shares, but only if such refusal does not prevent dealings in the shares from taking place on an open and proper basis. If the directors make use of that power, they must send the transferee notice of the refusal within two months.

Some of the Company's employee share plans include restrictions on transfer of shares while the shares are subject to the plan. As described in the Directors' Remuneration Report, non-executive directors use a proportion of their fees to purchase shares in the Company which may not normally be transferred during a director's period of office. In addition, all directors hold a number of qualification shares, which they would also be expected to retain during their tenure of office.

Corporate governance report

continued

Significant shareholdings

As at 13 March 2008, the Company had received notification in accordance with Rule 5.1.2 R of the UK Listing Authority's Disclosure and Transparency Rules from Legal & General Investment Management Limited and in accordance with Section 198 of the Companies Act 1985 from Barclays PLC of holdings of 5.17 per cent and 3.025 per cent respectively of the Company's issued ordinary share capital at the time of notification.

Powers of directors to issue shares

The directors require authority from shareholders in relation to the issue of shares by the Company. Whenever shares are issued, the Company has to offer the shares to existing shareholders pro rata to their holdings, unless it has been given authority by shareholders to issue shares without offering them first to existing shareholders. The Company seeks authority from its shareholders on an annual basis to issue shares, up to a maximum amount, and to issue up to five per cent of its issued share capital without observing pre-emption rights, in line with relevant regulations and best practice.

Details of shares issued during 2006 and 2007 are given in note H11 on page 258. Shares issued in 2005 dis-applying pre-emption rights amounted to 745,478, which were issued under the Group's share option schemes. The total number of shares issued dis-applying pre-emption rights amounted to less than 7.5 per cent over the last three years.

Powers of directors to buy back shares

The directors also require authority from shareholders in relation to the buying back of shares by the Company. The Company seeks authority by special resolution on an annual basis for the buyback of its own shares in accordance with the relevant provisions of the Companies Acts and other related guidance. The Company has not made use of that authority since it was last granted at its Annual General Meeting in 2007. This existing authority is due to expire at the end of this year's Annual General Meeting. A special resolution to approve the renewal of this authority will be put to shareholders at the Annual General Meeting on 15 May 2008.

Other information

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 127 to 299 and the supplementary information on pages 302 to 332. 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 and to the Company, respectively. Its opinions are given on pages 301 and 334.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group. The criteria applied in the preparation of the financial statements are set out in the statement of directors' responsibilities on page 300.

After making appropriate enquiries, the directors consider that the Group has adequate resources to continue its operations for the foreseeable future. The directors therefore continue to use the going concern basis in preparing the financial statements.

US corporate governance and regulations

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 is required to comply with the relevant provisions of the Act as they apply to foreign private issuers, and has adopted procedures to ensure this is the case.

In particular in relation to the provisions of 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 Group Finance Director with regard to the scope and content of all public disclosures made by 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. These may include, to the extent they are relevant to the disclosure process, any matters to be raised with the Group Audit Committee, the internal auditors or the external auditor of the Company's internal controls.

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

The provisions of Section 404 of the Act require the Company's management to report on the effectiveness of internal controls over financial reporting in its annual report on Form 20-F, which is filed with the US Securities and Exchange Commission. To comply with this requirement to report on the effectiveness of internal control, the Group has undertaken a significant project to document and test its internal controls over financial reporting in the format required by the Act. The annual assessment and related report from the external auditor will be included in the Group's annual report on Form 20-F that will be published in the coming months.

In addition, the Disclosure Committee has regard to the UK Listing Regime, and evaluates whether or not a particular matter requires disclosure to the market.

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.

Post balance sheet events

There have been no material events affecting the Company since the end of the financial year.

Significant agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid

Under the agreements governing Prudential Corporation Holdings Limited's life insurance and fund management joint ventures with China International Trust & Investment Corporation (Citic), if there is a change of control of the Company, Citic may terminate the agreements and either (i) purchase the Company's entire interest in the joint venture or require the Company to sell its interest to a third party designated by Citic or (ii) require the Company to purchase all of Citic's interest in the joint venture. The price of such purchase or sale is to be the fair value of the shares to be transferred, as determined by the auditor.

Compensation for loss of office

None of the terms of employment of the Company's directors includes specific change of control agreements. Terms applying on a termination of their office are set out in the Directors' Remuneration Report on page 110. In the US, in line with normal employment practice, senior executives participate on a discretionary basis in a plan which provides for compensation in the event that their employment is terminated as a result of a takeover. In addition, three employees in our Asian business participate in a similar plan.

Corporate governance report

continued

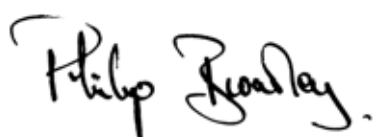
Information required to be disclosed in the directors' report

Information required to be disclosed in the directors' report may be found in the following sections:

Information	Section in Annual Report	Page number(s)
Business review	Overview and Operating and financial review	4-64
Disclosure of information to auditor	Corporate governance report	93
Directors in office during the year	Corporate governance report	87-89
Principal activities	Operating and financial review	25
Dividend recommended for the year	Operating and financial review	35
Political and charitable donations and expenditure	Corporate responsibility review	84
Financial instruments	Operating and financial review	65
Post balance sheet events	Corporate governance report	99
Future developments of the business of the Company	Operating and financial review	26-64
Employment and employee involvement	Corporate responsibility review	82-83
Creditors – policy on payment and practice	Corporate governance report	99
Structure of share capital, including restrictions on the transfer of securities, voting rights and significant shareholders	Corporate governance report	97-98
Rules governing appointments of directors	Corporate governance report	89
Rules governing changes to the articles of association	Corporate governance report	97
Powers of directors generally and in relation to issuing or buying back shares	Corporate governance report	89, 98
Significant agreements impacted by a change of control	Corporate governance report	99
Agreements for compensation for loss of office or employment on takeover	Corporate governance report	99

In addition, the risk factors set out on pages 336 to 339 are incorporated by reference into this directors' report.

On behalf of the Board of directors



Philip Broadley
Group Finance Director
13 March 2008