

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). The Company has complied throughout the financial year ended 31 December 2006 with all of the provisions set out in Section 1 of the Code, and has applied the principles of the Code in the manner described below and in the directors' remuneration report.

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

The Board

As at 31 December 2006, the Board comprised the Chairman, six executive directors and seven independent non-executive directors, as set out on pages 80 and 81. Nick Prettejohn, Lord Turnbull and Barry Stowe were appointed as directors on 1 January 2006, 18 May 2006 and 1 November 2006 respectively. Rob Rowley and Mark Norbom ceased to be directors of the Company on 18 May 2006 and 14 December 2006 respectively. In accordance with the Articles of Association, Barry Stowe will retire and offer himself for election at the Annual General Meeting on 17 May 2007. Philip Broadley, Michael Garrett, Bridget Macaskill and Clark Manning will retire by rotation at the Annual General Meeting and offer themselves for re-election.

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 80 and 81. 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 directors' remuneration report on page 88. Protections afforded to directors, including qualifying third party indemnities under the provisions of the Companies Act 1985, are detailed in the directors' remuneration report on page 87. 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 making. 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. 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 Chairman meets, at least annually, with the non-executive directors without the executive directors being present.

During 2006, the Board met 11 times and held a separate two-day 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 diversity of the business. In June 2006, a Board meeting was held in Chicago. The Board also visited the offices of Jackson National Life Insurance Company (Jackson) in Lansing, Michigan, and took part in a day and a half of presentations given by senior members of the Jackson and

PPM America management teams on the US businesses and future market opportunities. In November 2006, a Board meeting was held in Derby, which included presentations on the operations of Egg.

The majority of the directors attended all scheduled Board meetings occurring during their period in office, apart from some absence due to ill health, family bereavements and one clash with a long-standing prior engagement. In addition, Mr Norbom was no longer required to attend Board meetings after it had been agreed that he would be leaving the Company. There were two 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 on page 77 details the number of Board and Committee meetings attended by each director throughout the year. A further six ad hoc Board Committee meetings took place during the year. In addition, the Chairman met with the non-executive directors without the executive directors present in 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 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 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 at 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

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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.

Other commitments of the Chairman and changes during the year are detailed in his biography on page 80. 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 audit, remuneration and nomination committees, each a standing committee of non-executive directors with written terms of reference, which are kept under regular review. Reports of each of those committees are included below:

Audit Committee report

The Group Audit Committee is a key element of the Group's 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

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

Kathleen O'Donovan ACA (Chairman)

Keki Dadiseth FCA

James Ross

Lord Turnbull (appointed 1 January 2007)

Full biographical details of the members of the Committee, including their relevant experience, are set out on pages 80 and 81.

The Board has designated Kathleen O'Donovan as its audit committee financial expert for Sarbanes-Oxley Act purposes; she also has recent and relevant financial experience for the purposes of the Code.

Meetings

The Committee met nine times during the year. Additionally, by invitation, the Chairman of the Board, the Group Finance Director, the Group Chief Risk Officer, the Company Secretary, the Group-wide Internal Audit Director, and other senior staff from Internal Audit, Group Risk and Group Compliance where appropriate, as well as the external auditor, attended the majority of the meetings.

The Chairman held preparatory meetings with the Group-wide Internal Audit Director, the Group Chief Risk Officer, the external auditor, the Group Finance Director and the Company Secretary before each Committee meeting, with the exception of single-issue meetings. A detailed annual agenda has been developed which ensures all matters for which the Committee is responsible are addressed at the appropriate time of 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 judgemental 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, economic service, and recommendations for the appointment/re-appointment of the external auditor;
- 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, and monitoring of the audit framework and internal audit effectiveness;
- effectiveness of compliance processes and controls, and performance against the Group Compliance Plan;
- audit committee effectiveness and terms of reference;
- Group Security annual report, report on anti-money laundering and reporting of allegations from whistleblowers;
- International Financial Reporting Standards (IFRS) and practices;
- Supplementary Financial Reporting under European Embedded Value (EEV); and
- changes in and implementation of Group Accounting Policies in compliance with International Accounting Standards and practices, including the European CFO Forum Principles and Guidance on Embedded Values and IFRS.

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

The Group Audit 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 February and July 2006 with the external and internal auditors, and in September 2006 with the internal auditors.

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 are approved by the Chairman of the Group Audit Committee, and the committees are attended by business unit senior management including the business units' chief executives and heads of finance, risk, compliance and internal audit. Business unit audit 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 Group 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. 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 79 and 55.

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. 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 2006. During the year, the Group's external auditor, KPMG Audit Plc, also reported to the Committee on the Company's progress towards compliance with Section 404. The first annual assessment and related report from the external auditor will be included in the Group's annual report on Form 20-F, which will be published in the coming months.

Internal audit

The Group Audit Committee regards its relationship with internal audit as a particularly important one. Group-wide 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 report to the Group-wide Internal Audit Director. Group-wide 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 118. 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 business unit audit committees reviewed and approved internal audit's plans, resources and the results of its work. Reporting to the Group Audit Committee by Group-wide Internal Audit occurs through formal reports four times during the year and through private meetings, as well as additional 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 through a review carried out by external advisers, and through ongoing dialogue with the Group-wide Internal Audit Director. An external review of internal audit arrangements and standards was also conducted in 2006 to ensure that the activities and resources of internal audit are most effectively organised to support the oversight responsibilities of the Committee. This review, 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 Group 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 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 2005 and 2006, the Committee formally considered the need to re-tender the external audit service and concluded that, given the significant changes in accounting 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, except a rotation of audit partner, in line with the Auditing Practices Board Ethical Statements and the Sarbanes-Oxley Act, which the Group is effecting following approval of the 2006 Annual Report.

During the year, the 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, 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.

For the year ended 31 December 2006, the Committee approved fees of £10.1 million for audit services and other services supplied by its auditor pursuant to relevant legislation. In addition, the Committee approved other fees of £2.4 million, not related to audit work, and in accordance with the Group's Auditor Independence Policy, these fees were approved prior to work commencing. These non-audit related fees amounted to 19 per cent of total fees paid to its auditor, KPMG Audit Plc. The Committee reviewed the non-audit services being provided to the Group by its auditor at regular intervals in 2006. These services primarily related to comfort and attestation letters, to assurance services associated with the implementation of Sarbanes-Oxley, to accounting and regulatory requirements, and to corporate finance transactions. Further information is provided in note 14 on page 235.

Financial reporting

The Group 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

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audit adjustments; the going concern assumption; compliance with accounting standards; and compliance with obligations under the Code and other applicable laws and regulations.

In addition, the Committee is regularly briefed by senior management on developments in International Financial Reporting 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 helpline.

Audit committee effectiveness

During the year, the Group 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 Committee will be undertaken annually.

Remuneration Committee report

Bridget Macaskill (Chairman)
Keki Dadiseth FCA
Michael Garrett
Roberto Mendoza

Full biographical details of the members of the Remuneration Committee, including their relevant experience, are set out on pages 80 and 81.

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 and the application of that policy. The Remuneration Committee determines the remuneration packages of the Chairman and executive directors, and monitors 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. During 2006, a total of nine meetings were held. In framing its remuneration policy, the Committee has given full consideration to the provisions of Schedule A to the Code. The directors' remuneration report prepared by the Board is set out in full on pages 83 to 95. In preparing the report, the Board has followed the provisions of the Code, the Listing Rules of the Financial Services Authority, and the Companies Act 1985 as amended from time to time, in particular by 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. The Committee has access to professional advice inside and outside the Company.

Nomination Committee report

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

The Nomination Committee is comprised exclusively of independent non-executive directors and the Chairman. The 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 2006, the Committee held four meetings resulting in the appointment by the Board of Lord Turnbull as a non-executive director on 18 May 2006, and Barry Stowe as an executive director on 1 November 2006. Full biographical details of these new directors are set out on pages 80 and 81.

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

Board Committees – terms of reference

The full terms of reference of the Group 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.

Attendance at Board and Committee meetings

The number of full Board and Committee meetings attended by each director during 2006 was as follows:

No. of meetings in year	Full Board Meetings*	Audit Committee Meetings**	Remuneration Committee Meetings***	Nomination Committee Meetings
	11	9	9	4
Sir David Clementi	11 (11)	n/a	n/a	4 (4)
Philip Broadley	11 (11)	n/a	n/a	n/a
Keki Dadiseth ¹	9 (11)	3 (9)	8 (9)	n/a
Michael Garrett ²	10 (11)	n/a	9 (9)	n/a
Bridget Macaskill ³	9 (11)	n/a	9 (9)	4 (4)
Clark Manning ⁴	10 (11)	n/a	n/a	n/a
Michael McLintock ⁵	9 (11)	n/a	n/a	n/a
Roberto Mendoza	11 (11)	n/a	9 (9)	n/a
Mark Norbom ⁶	8 (11)	n/a	n/a	n/a
Kathleen O'Donovan ⁷	10 (11)	9 (9)	n/a	n/a
Nick Prettejohn	11 (11)	n/a	n/a	n/a
James Ross	11 (11)	9 (9)	n/a	4 (4)
Rob Rowley ⁸	6 (6)	4 (4)	n/a	2 (2)
Barry Stowe ⁹	2 (2)	n/a	n/a	n/a
Mark Tucker	11 (11)	n/a	n/a	n/a
Lord Turnbull ¹⁰	5 (5)	n/a	n/a	n/a

Figures in brackets indicate the maximum number of meetings which the individual could have attended in the period in which she/he was a Board or Committee member.

* During 2006 there were nine scheduled Board meetings and two additional Board meetings.

** During 2006 there were eight scheduled Audit Committee meetings and one additional meeting.

*** During 2006 there were three scheduled Remuneration Committee meetings and six additional meetings.

1. Unable to attend two scheduled Board meetings and certain Audit and Remuneration Committee meetings due to illness and serious illness of a member of his immediate family.

2. Unable to attend one scheduled Board meeting due to a family bereavement.

3. Unable to attend one scheduled and one additional Board meeting held on consecutive days due to a family bereavement.

4. Attended all scheduled meetings, but was unable to attend one of the additional Board meetings due to a prior commitment.

5. Unable to attend one scheduled and one additional Board meeting due to illness.

6. Ceased to be a director on 14 December 2006 but not required to attend Board or Board Committee meetings on or after 21 September 2006. In addition, was unable to attend one earlier additional meeting due to a prior commitment.

7. Unable to attend one scheduled Board meeting due to a long-standing prior commitment.

8. Ceased to be a director on 18 May 2006.

9. Appointed as a director on 1 November 2006.

10. Appointed as a director on 18 May 2006.

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

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.

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 to 28 February 2006, cross-directorships existed with Roberto Mendoza and Philip Broadley who both sat on the boards of Egg plc and Egg Banking plc (Egg), the Company's subsidiaries. Egg plc had its own listing on the London Stock Exchange until 20 February 2006. The Board does not consider that this relationship in any way affected Mr Mendoza's status as an independent director of the Company, as both Mr Broadley and Mr Mendoza disclosed their interests as director and Chairman of Egg respectively where appropriate. Egg plc became a wholly-owned subsidiary of the Company on 16 May 2006, and on 29 January 2007 the Company announced that it had entered into a binding agreement to sell Egg Banking plc.

During the year, Keki Dadiseth was appointed 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 Prudential ICICI 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 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 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.

The term for which a non-executive director is appointed is usually an initial three-year term, following their election by shareholders at the first Annual General Meeting after their appointment. Their appointment is reviewed towards the end of this period against performance and the requirements of the Group's businesses. 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. All directors are required to submit themselves for election at the first Annual General Meeting following their appointment by the Board, and for re-election at subsequent Annual General Meetings at least every three years, and also when reaching the age of 70.

The Company Secretary supports the Chairman in providing tailored induction programmes for new directors and on-going training for all directors. On appointment, all directors embark upon a wide-ranging induction programme covering, amongst

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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 2006, 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 Jackson and PPM America management teams on the US businesses and future market opportunities, during the Board visit to Chicago and Lansing, Michigan, in June 2006. A further series of presentations was also given to the Board in November 2006 on the Egg business, when the Board visited Egg's offices in Derby. Throughout their period in office, directors are continually updated on the Group's businesses and the regulatory and industry-specific environments in which they operate. These updates can be in the form of written reports to the Board 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 UK-listed company both in writing and in face-to-face meetings with the Company Secretary.

Performance evaluation

An evaluation was carried out of the performance of the Board and its Committees for the year 2006, in line with the requirements of the Code. The aim was to improve 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 and the Company Secretary by the independent consultant. The interview questions were based on the Code and sought views on the effectiveness of the Board as a whole, the Chairman's performance, and processes for making specific decisions during the year. 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 2007. The Board considered the report of the independent consultant and, without the Chairman present, met under the chairmanship of the Senior Independent Director to review the performance of the Chairman.

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.

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 2006. 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 some of the non-executive directors provided 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.

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 17 May 2007 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 2006, the Company introduced voting on a poll on all resolutions, and 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. As with last year's meeting, shareholders will again be given the opportunity to put questions to the Board on matters relating to the Group's operation and performance.

Major shareholders

The number of accounts on the share register at 31 December 2006 was 79,881 (2005: 60,942). Further information about shareholdings in the Company is given on page 282. As at 14 March 2007, 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 Barclays PLC of holdings of 4.50 per cent and 3.02 per cent respectively of the Company's ordinary share capital at the time of notification.

The shareholder information section on pages 282 and 283 details further information that may be of interest to shareholders.

Authority to purchase own shares

At the Annual General Meeting in 2006, 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 2007 or 18 months from the date granted, whichever is earlier.

Shares issued under authority to disapply pre-emption rights

Details of shares issued during 2006 and 2005 are given in note H11 on page 211. Shares issued in 2004 disapplying pre-emption rights amounted to 567,121, which were issued under the Group's share option schemes. The total of shares issued disapplying pre-emption rights amounted to less than 7.5 per cent over the last three years.

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 99 to 249 and the supplementary information on pages 252 to 280. It is the responsibility of the auditor to form independent opinions, based on its audit of the financial statements and 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 251 and 281.

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 250.

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.

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.

Auditor

A resolution for the re-appointment of KPMG Audit Plc as auditor of the Company until the end of the 2008 Annual General Meeting will be put to the Annual General Meeting on 17 May 2007.

Risk management and internal control

The Board has overall responsibility for the Group's system of internal control, and for reviewing its effectiveness. 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 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). 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 as they arise. The procedures for the management of risk and the systems of internal control operated by the Group are described in more detail within the risk management section on pages 54 to 66.

In line with the guidance on the Combined Code, 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 on the adequacy of the policies adopted and their operation through the year by its representation in the joint ventures' boards. In line with the Group Risk Framework and as set out within the section on risk governance on pages 54 to 57, 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.

US corporate governance compliance

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 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, including matters to be raised with 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 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 control over financial reporting in its annual report on Form 20-F, which is filed with the US Securities and Exchange Commission. This report on the effectiveness of internal control is required for the first time in respect of 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 controls over financial reporting in the format required by the Act. The first 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.

On behalf of the Board of directors



Philip Broadley
Group Finance Director
14 March 2007