

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.

# Corporate governance report

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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](http://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.