PRUDENTIAL

Prudential plc
March 2023

Climate transition plan

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Foundations

Foreword

Prudential fully supports the urgent need to reduce global greenhouse gas (GHG) to net zero to limit climate change in line with the Paris Agreement. We are concerned about how the potentially catastrophic effects of climate change may impact our communities and customers across Asia and Africa.

We are invested in the sustainable long-term development of our markets, and our approach to the just and inclusive transition focuses on making sure that no one, including those within emerging markets, is left behind in the global transition towards a low carbon economy. As such, we are focused on ensuring the debate on how to achieve this common goal is based on steps that are relevant and appropriate for these specific societies, given that they are not largely responsible for the current level of global environmental damage.

The financial industry can play an accelerating or hampering role in the energy transition. Long-term investors like Prudential will be crucial for the energy transition as they have to take a long-term view due to the nature of the business and long-term liabilities. Even with this long-term view, however, looking more than 25 years ahead is challenging, as there remain many unknowns on a global scale. Importantly, the financial industry is dependent on other actors in society, most notably governments, to create the enabling environment needed for the energy transition.

This is the first iteration of our Climate Transition Plan. It sets out our long-term net zero pledge and interim targets, and the progress we have made against them. It describes the actions we plan to take to implement our decarbonisation strategy across our investment portfolio[1] and operations, as well as highlighting the areas in which we need to strengthen our understanding and approach. We are seeking to utilise this first iteration of our externally disclosed Climate Transition Plan as an engagement mechanism with our investors and stakeholders, to seek feedback as we continue in the current target cycle and begin to think about the next iteration of climate-related targets. We will therefore consider providing our shareholders with an advisory vote on our climate action and updated transition planning in the future.

We acknowledge the current and future uncertainties that we and others face in our decarbonisation journey, and that the long-term projections within this plan are more uncertain than the short-term ones. Our plan reflects a measured and deliberate approach which is expected to evolve over time. In particular, we expect our climate and decarbonisation strategy to continue to evolve as we gain more accurate and in-depth data, deeper insights into the specific challenges and evolutions of our local markets, and knowledge from our engagement and advocacy efforts across our value chain. We also expect our Climate Transition Plan to adapt to reflect market, regulatory, technological and other climate-related developments affecting the context and pace of the global transition towards net zero. Therefore, we aim to update this document periodically to ensure we maintain transparency and accountability of our climate ambition and strategy.

We look forward to further engagement with our stakeholders on the transition towards a net zero economy, and welcome feedback and collaboration as we continue to evolve our approach.

Prudential's climate targets

Divest from all direct investments in businesses that derive more than **30%** of their income from coal	By end of 2022
25% reduction in the carbon emissions[2] of the investment portfolio intensity against our 2019 baseline	By 2025
25% reduction in Scope 1 and 2 emissions intensity (per full-time employee) from a 2016 baseline and become carbon neutral across our Scope 1 and 2 emissions	By 2030
Net Zero asset owner in alignment with the Net Zero Asset Owner Alliance (NZAOA)	By 2050
Target to annually engage with the companies responsible for **65%** of the absolute emissions in our investment portfolio.	Ongoing

1 Our investment portfolio ('investment portfolio') includes both listed equities and corporate bonds in all shareholder and policyholder assets, while excluding assets held by joint venture businesses and assets in unit-linked funds as we do not have full authority to change the investment strategies of these. Further information is provided in the Basis of Reporting.

2 Carbon emissions refers to carbon dioxide equivalent emissions (CO_2e) per the Greenhouse Gas (GHG) Protocol, including carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF_6) and nitrogen trifluoride (NF_3).

Climate journey to date

2018:

- Endorsed the TCFD recommendations
- Established ESG Executive Committee
- Eastspring became a PRI signatory

2019:

- Published our first TCFD-aligned disclosure (investments not included)
- Set operational climate targets for 2030

2020:

- Undertook scenario analysis and stress testing across three climate scenarios
- Disclosed material climate risks and responses
- New Group ESG Committee established
- Eastspring join Climate Action 100+
- Developed our new Group ESG Strategic Framework

2021:

- Established Board Responsibility & Sustainability Working Group
- Committed to net zero by 2050
- Set short-term climate investment targets
- Joined the Net Zero Asset Owners Alliance
- Disclosed weighted average carbon intensity (WACI) & impact of climate scenarios across geographies
- Integrated climate risk into enterprise risk management
- Updated our Group Responsible Investment Policy

2022:

- Initiated subtrack within NZAOA: Emerging Markets Transition Investment (EMTI) project
  - EMTI published paper on recommendations of accelerating transition investment in EM
- Launched the 'Just and Inclusive Transition' paper articulating our view on the climate transition for our markets
- Formulated sectoral climate views
- Further enhanced disclosure on metrics, including absolute financed emissions
- Joined the Vietnam Just Energy Transition Partnership working group

How to use this document

Prudential has been reporting on sustainability since 2016, and has published climate-related disclosures aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) since 2019.

This Climate Transition Plan should be read in conjunction with our 2022 ESG Report and Annual Report, including our TCFD disclosures, which includes an analysis of our most material climate-related risks and opportunities.

Figure 1 sets out the interplay between this document, our TCFD disclosures and other relevant documents. Our full ESG reporting suite can be found here: www.prudentialplc.com/en/esg.

Our Climate Transition Plan covers material aspects of our business and value chain, including our investments and operations, the former of which makes up over 99 per cent of our total carbon emissions footprint as currently measured.

More information on the assumptions and methodologies utilised throughout can be found at the end of this document.

Figure 1: How this Climate Transition Plan fits into our wider ESG reporting suite

ESG Report, Annual Report

TCFD disclosure

Overview of climate risk and opportunity indentification, management, strategy, metrics and targets.

Looking back:
Review of activities undertaken during 2022.

Common elements

Board and management oversight

Targets

Metrics

ESG strategy implentation

Climate transition plan

Detail on how we are meeting our climate ambitions, including addressing the risks and opportunities identified in TCFD disclosure

Looking forward:
How we will continue to meet our decarbonisation goals

Responsible Investment and ESG policies

The importance of a just and inclusive transition

The International Labour Organization defines the just and inclusive transition as 'greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind'.

Prudential's view on 'leaving no one behind when we green the economy' is that a just and inclusive transition is relevant on two levels:

- All countries need to transition, and countries should not be left behind in this global transition, especially the most vulnerable ones; and
- Within countries, workers' rights and livelihoods should be secured during the transition, for example securing jobs for coal workers in coal-dependent regions.

We strong believe that a just and inclusive transition is necessary for emerging markets. They are typically most vulnerable to the physical impacts of climate change, despite historically contributing less to the cumulative carbon emissions present in our atmosphere today.

Additionally, although more dependent on fossil fuels for ongoing development, emerging markets have fewer resources to fund the transition to a low-carbon economy and manage the physical impact of climate change. This is further compounded by having the greatest unfinanced basic development needs, as reflected by the Sustainable Development Goals (SDGs).

With Prudential's operations and investments focused on markets in emerging economies across Asia and Africa, we are continuously mindful of the need to implement our decarbonisation strategy in a just and inclusive manner, promoting sustainable development for all stakeholders.

More information can be found in our white paper, https://www.prudentialplc.com/en/news-and-insights/insights/just-and-inclusive-transition-paper#

Objectives and priorities

Targets and progress

Our long-term target is to become a net zero asset owner by 2050, in alignment with the Paris Agreement. We publicly committed to this in May 2021, when we also joined the United Nations-convened Net Zero Asset Owner Alliance (NZAOA), a network of institutional investors committed to the decarbonisation of their portfolios.

Our long-term target is supported by our shorter-term, interim climate targets:

Short-term target	Progress up to end of 2022	2023 priorities
Deliver a 25 per cent reduction in the carbon emissions intensity of our investment portfolio by 2025 against our 2019 baseline	**On track:** by the end of 2022, we had reduced the weighted average carbon intensity (WACI) of our investment portfolio by 43 per cent	> Explore the next phase of our WACI target, aiming to develop a 2030 WACI reduction target by the end of 2024 as part of our NZAOA commitments. > Refine source data inputs, including data from our asset managers and third-party providers.
Divest from all direct investments in businesses that derive more than 30 per cent of their income from coal, with equities to be fully divested from by the end of 2021 and fixed-income assets fully divested from by the end of 2022	**Substantively completed:** > In 2021, we fully achieved our divestment from coal equities > By the end of 2022, we had substantively completed our divestment from coal bonds with one holding remaining as a result of market conditions. We continue to seek opportunities to divest from the remaining holding and intend to do so as soon as practicable	> Maintain a watching brief on the suitability of our coal policy in alignment with our climate commitments and objective for a just and inclusive transition.
Engage with the companies responsible for 65 per cent of the absolute emissions in our investment portfolio	**Fully met:** This is a continuing annual target, which we have fully met in 2022 for the identified cohort of companies	> Work with Eastspring on implementing best practice engagement practices within our local markets, as defined by the work we undertook as part of the EMTI project. > Continue to define sector-specific engagement and assessment techniques, including the exploration and development of specific tools to assess sector-specific aspects as they related to emerging markets.
Deliver a 25 per cent reduction in our operational emissions intensity from a 2016 baseline, abating the remaining emissions via carbon offsetting initiatives, to become carbon neutral across our Scope 1 and 2 (market-based) emissions by the end of 2030	**On track:** We achieved an intensity ratio of 1.21 tCO_2e/FTE for 2022, keeping us ahead of the emissions reduction trajectory required to meet our 2030 target of 1.65 tCO_2e/FTE	> Undertake an additional feasibility analysis of setting net zero operational targets, including further review of renewable energy certificates within our markets.

In 2021, we fully divested from equities meeting the policy criteria, which we continue to monitor so as to maintain this divestment position. By the end of 2022, we had substantively completed our commitment to divest from coal bonds meeting the policy criteria: we had divested from 97 per cent of the coal bonds held at 31 March 2021, the date used for our May 2021 commitment. Due to illiquidity in the market, we were unable to fully divest from one remaining holding of $12.1 million, which illustrates the degree of challenge in implementing a divestment strategy in our markets. We continue to seek opportunities to divest from the remaining holding and intend to do so as soon as practicable. We also continue to engage with the issuer on other options for us to divest from this holding as we believe we have set our coal policy in a just and inclusive manner. Since 31 December 2022, we have further divested from this coal bond.

Objectives and priorities / continued

We continue to keep all our climate targets under regular review to ensure they reflect current scientific data, remain appropriate for our markets and are aligned to our strategy around the pursuit of a just and inclusive transition.

Further detail on progress against our targets, including specific case examples can be found within the Climate and Responsible Investment sections of our 2022 ESG Report.

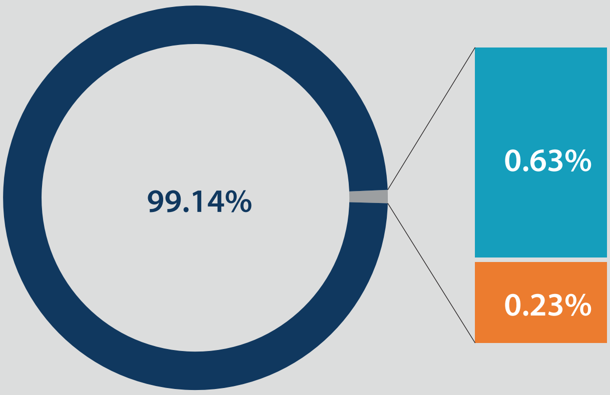
In support of our climate ambition, and in alignment with our overall ESG and business strategy, we also pursue a broader range of climate-related objectives, which are built into the actions that we take. Some specific examples of outcomes related to these objectives across 2022 include:

Objective	Outcomes	2023 priorities
Support a just and inclusive transition	> Published our 'Supporting a Just and Inclusive Transition' white paper, demonstrating our position and support for a transition towards a low carbon economy that leaves no country behind. > Hosted a policy roundtable led by our Group CEO in October 2022 to share findings of our new white paper with academics, policymakers, NGOs and think tanks to discuss how the voices and realities of emerging markets can be profiled, particularly in the global policy context. > Shared our view on the just and inclusive transition and the challenges for the energy transition in emerging markets at different speaking opportunities, including PRI in Person and the Singapore FinTech Festival.	> Maintain engagement with external stakeholders to mainstream the challenges and perspectives of emerging markets. > Support existing partnerships such as the NZAOA, Insurance Development Forum (IDF) and the United Nations High Level Champions team on themes of importance as we look ahead to COP28. > Further explore our approach for using an internal carbon price to support a just and inclusive transition.
Promote accessible and inclusive products and services	> Climate change will not only have material impact on physical assets, for example due to flooding, but will also impact people's health and wellbeing, particularly within underserved and vulnerable populations. During 2022 we continued to develop and re-design our products and services, for example affordable products that address infectious diseases which are more prevalent due to climate change. More information can be found in the Climate section of the 2022 ESG report.	> Continue to expand the coverage of offerings within our markets, working collaboratively across the business and with our stakeholders to meet the needs of our customers.
Explore climate financing mechanisms for emerging markets	> In December 2022 we were announced as the insurance partner on the private sector working group for Vietnam's Just Energy Transition Partnership (JETP). > Initiated and led a sub-track within the Net Zero Asset Owner Alliance (NZAOA) on 'Financing the Transition in Emerging Markets', which includes the Emerging Markets Transition Investment (EMTI) project.	> Actively participate in the Just Energy Transition Partnership in Vietnam. > Co-lead the financing transition track of the Net Zero Asset Owner Alliance which covers an emerging markets and blended finance subtrack. > Create partnerships of like-minded investors and stakeholder groups to identify and lobby governments for suitable climate supportive investment opportunities
Support research and development related to climate change and health	> During 2022, Prudential embarked on a two-year research partnership with the Nanyang Technological University and its Earth Observatory of Singapore (EOS) Climate Impacts Initiative, focusing on 10 key Prudential markets across Asia and Africa. The research focuses on the relationship between air quality and the health impact on individuals. > Additionally, Prudential, via Prudence Foundation, is funding research by the International Federation of the Red Cross's Climate Centre research into the compound health risks of heat, humidity and air pollution, and what effective early actions can be taken to reduce these risks. The findings from this research are expected to help inform product innovation and development opportunities.	> Socialise the findings from the Prudential EOS Climate Impacts Initiative with stakeholders across our key markets from April onwards, and considering where this may be relevant for product development. > The Prudence Foundation and IFRC project will produce a scoping review of the current state of knowledge and the work will culminate in a pilot study of an early action plan to address heatwaves impacted by air pollution and humidity in an Asian city.

Our journey towards decarbonisation

The most material contributor to our carbon emissions is the footprint of our investment book, otherwise known as our Scope 3 category 15, financed emissions (see figure 2 below). As pledged in our net zero commitment, we seek to reduce these financed emissions to net zero by 2050, in line with required emissions reductions targets to reach a 1.5 degree reduction in alignment with the Paris Agreement. This is supported by setting regular short-term targets, such as our target[1] to deliver a 25 per cent reduction in the carbon emissions intensity of our investment portfolio by 2025 against our 2019 baseline. In order to meet this ambition, we are focusing on reducing the intensity and, ultimately, the absolute amount of financed emissions in respect of our investments. We use the weighted average carbon intensity (WACI) as a metric that allows us to compare progress in emissions intensity improvements on different portfolios. We use the WACI as a proxy for the transition risk in our investment portfolio: a higher WACI typically indicates that an investment portfolio has to transition more extensively to align with the Paris Agreement.

Figure 2: Prudential's carbon emission profile as at 31 December 2022



As a data user, we are at the end of the data value chain, using data disclosed by investees to calculate our WACI through reporting frameworks such as the TCFD recommendations and CDP. As discussed in the Financial Stability Board's 2022 TCFD status report[2], which describes the global state of alignment of companies' reporting with the TCFD recommendations, the TCFD-aligned reporting by region is notably lower across Asia and Africa, ie the regions where we operate. Data availability therefore remains an ongoing challenge. We continue to work with data providers and our asset managers to improve the availability of data. An increase in data coverage may have the impact of either raising or lowering the WACI of our investment portfolio if the profile of the new companies' data is different to those already included in the current coverage. We expect such limitations to be overcome as more climate disclosures occur in these regions, potentially using established frameworks such as the TCFD or the anticipated standards from the International Sustainability Standards Board (ISSB).

We anticipate that our WACI reduction progress will be driven by different activities throughout our portfolio decarbonisation journey, taking place across the following phases (figure 3):

1. Implementation of our responsible investment policy, including coal divestment and the implementation of WACI budgets to a number of our equity strategies;
2. Engagement and education with our investee companies as well as with other public and private stakeholders, both bilaterally and through collaborative mechanisms;
3. Decarbonisation by investee companies executing their decarbonisation strategies; and
4. Broader changes that occur as part of the whole economy transition, both at a local and international level.

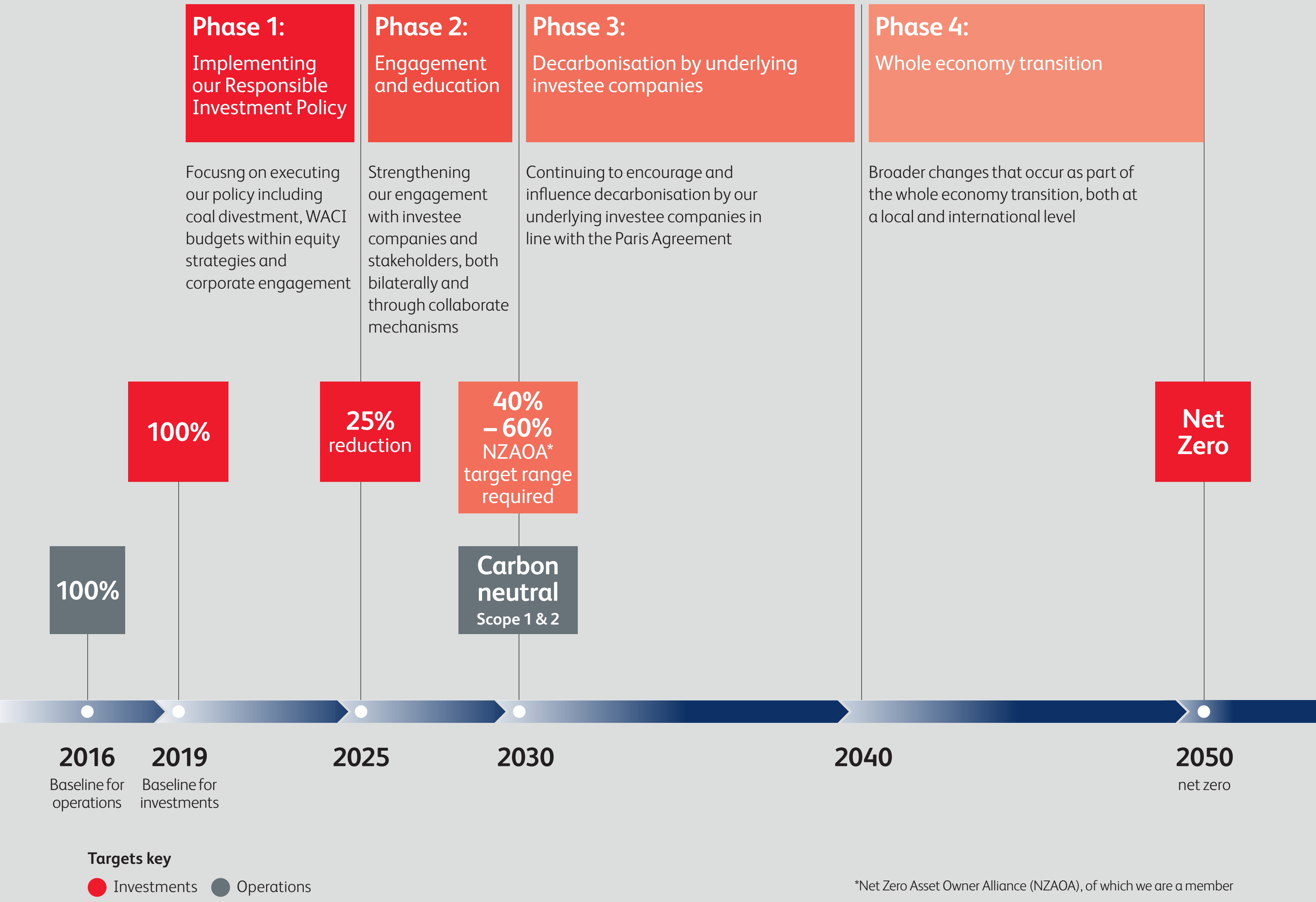
To date, the WACI of our investment portfolio has declined by 43 per cent compared with our 2019 baseline. The decline to date has been driven largely by the implementation of our coal policy, carbon intensity reductions made by our underlying investee companies, and the implementation of WACI budgets to a number of our equity strategies.

However, we believe more lasting real-world impact can be achieved through financing the transition and engagement, rather than simply changing the portfolio to optimise our investment portfolio carbon footprint. Therefore, we do not anticipate that our portfolio decarbonisation will continue at the same pace going forward.

In collaboration with our asset management and asset owner businesses, we continue to develop further climate-related metrics. During 2022, we reviewed peers' practice and industry recommendations regarding forward-looking metrics, such as Climate Value at Risk (C-VAR) and implied temperature risk (ITR). We have identified that these metrics are appropriate for internal use, although they have limitations surrounding data availability – particularly in the markets in which we operate and invest in – and the level of assumptions they require. We will continue to develop our internal understanding of these new metrics, while considering disclosing them externally, once these shortcomings can be appropriately overcome or mitigated.

1 See the methodologies section for assumptions underlying these targets.
2 https://assets.bbhub.io/company/sites/60/2022/10/2022-TCFD-Status-Report.pdf
3 Includes Scope 3 categories: 3 (fuel- and energy-related activities, 5 (waste generated in operations) and 6 (business travel).

Figure 3: Phased approach to achieving net zero



Looking ahead

There is significant effort required to become a net zero asset owner by 2050. The journey towards a net zero economy requires large-scale transformation, including for those companies held within our investment portfolio.

We are aware that climate data and decarbonisation information and methodologies are continuously evolving areas, and acknowledge there are unknowns which may arise in the future. We are also aware that we do not yet have all of the answers, and have more work to do to continuously evolve our transition plan development and execution over time. As such, we are committed to maintaining our focus on areas of development both internally and externally, updating our approach as required, and reporting on progress. Specific areas of focus over the next few years are set out in Figure 4, and include:

Data coverage and quality

- **Improve data coverage and quality:** We continually seek to increase the coverage and quality of our Scope 3 investment book data. As a data user, we are at the end of the data value chain, using data disclosed by investees through reporting frameworks, such as the TCFD recommendations and CDP. We continue to work with data providers and our asset managers to improve both the availability and quality of data.
- **Scope 3, categories 1-14:** Beyond our financed emissions, further develop the coverage of our Scope 3 value chain emissions; in particular, assessing our supply chain emissions and initiatives to reduce these.
- **Forward-looking metrics:** Continue to consider forward-looking metrics both for internal use and external disclosure.

Decarbonisation targets[1] and pathways

- **Update our WACI target:** Set a 2030 decarbonisation target by the end of 2024, in line with the NZAOA Protocol requirements, as well as continuing to map out our longer-term decarbonisation trajectory in line with our 2050 net zero commitment.
- **Expand asset classes and sectoral pathways:** Expand our monitoring to further asset classes (such as sovereign bonds) as methodologies develop, and continue to develop sector-specific decarbonisation pathways.
- **Explore operational targets:** Further investigate the feasibility of setting net zero operational targets, taking into account current challenges and the constraints of renewable energy availability within our markets.
- **Consider emerging topics:** Develop a view on how emerging topics, such as nature and biodiversity, may impact our decarbonisation strategy and our overall approach to climate change.

Climate-related opportunities

- **Climate financing within emerging markets:** Explore innovative opportunities to finance the transition in a just and inclusive manner. In particular, we are focused on opportunities to create real-world impact within emerging markets, such as blended finance and financing mechanisms to accelerate the move away from fossil fuels (eg coal retirement).
- **Internal carbon price:** Investigate how we use carbon pricing consistently internally. After developing an initial internal view on carbon pricing, we will seek to further develop and agree on the methodology for setting an internal carbon price, by socialising and educating our internal stakeholders on what an internal carbon price is and how Prudential could use it in a consistent manner for operations and investments.
- **Additional internal and external opportunities:** In line with our broader climate and TCFD strategy, continue to explore and execute upon relevant climate-related opportunities, such as those relating to our customers and digital services, climate-related health products and services, and employee initiatives.

Engagement

- **Further evolve our engagement approach:** Further develop an engagement approach covering corporate engagement and asset manager engagement, to focus on appropriate sector-specific and emerging market engagement approaches to maximise our real-world impact. This includes working closely with our asset managers to adopt our approach towards responsible investment within emerging markets.
- **Localised responsible investment approaches:** Continue to develop localised, market-specific responsible investment approaches to help to address specific local challenges and opportunities. These approaches will supplement the Group Responsible Investment policy.

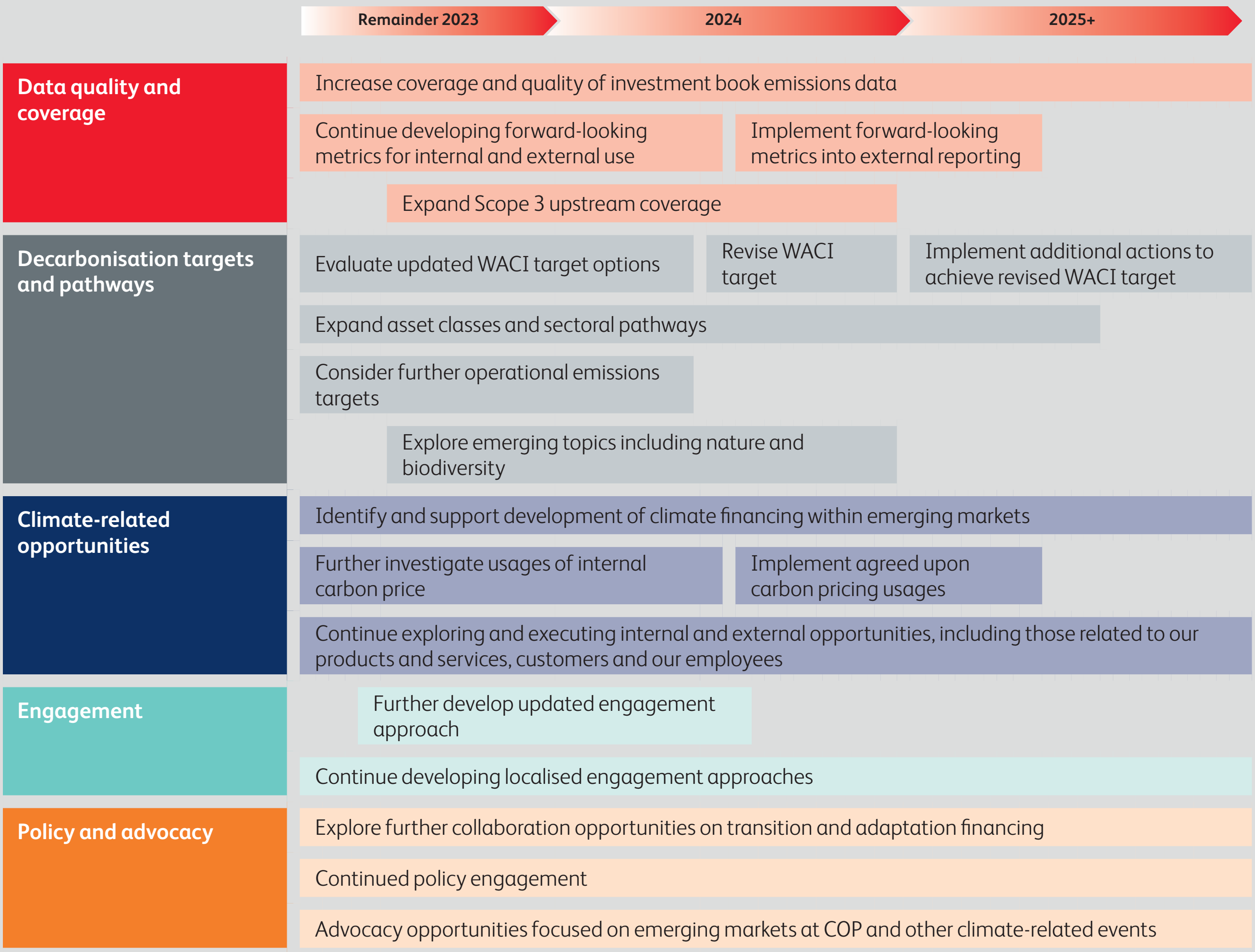
Policy and advocacy

- **Collaboration opportunities:** Further explore opportunities to collaborate and partner with both private and public entities on adaptation and transition financing, similar to our involvement in the Vietnam JETP Working Group.
- **Policy engagement:** Continue to engage with other financial market participants, local regulators and standard setters to further the development of localised frameworks that support responsible investment in emerging markets.
- **Advocacy opportunities:** Advocate for climate transition within emerging markets and other opportunities at COP and similar climate events during 2023 and beyond.

1 See the methodologies section for assumptions underlying these targets.

We will continually monitor our Climate Transition Plan progress, specifically the delivery of our climate-related targets, and provide periodic updates on progress. Further detail of progress against our targets and implementation strategies in 2022 can be found within our 2022 ESG Report, and future releases of our ESG reporting suite.

Figure 4: Looking ahead in evolving our transition planning approach



Target ambition and the nuances of emerging markets

Emerging markets face significant challenges in decarbonisation due to a higher dependence on fossil fuels combined with increased economic growth, insufficient resources to finance the transition as well as other unfinanced basic development needs. Aligned with our approach to a just and inclusive transition, it is our preference that we engage with companies to work with them to overcome such challenges. Part of this approach is reflecting the nuances of country decarbonisation pathways, which may take place at different paces and via different mechanisms than the global decarbonisation pathways typically utilised by international standards.

During 2022, as part of our ongoing review of our climate targets, we undertook an internal review of the Science Based Targets initiative (SBTi) and engaged with the SBTi to understand their view of the methodology's application in emerging markets. The SBTi uses global decarbonisation targets and pathways for their verification which do not distinguish between the differing needs for emerging markets and developed markets. Aligned with our approach to a just and inclusive transition, we believe it is critical that we engage with countries and companies to work with them to overcome their transition challenges. A part of this approach is reflecting the nuances of the challenges faced by specific countries, for example in balancing economic growth and decarbonisation. This leads to differences in pace of decarbonisation as accepted in the Paris agreement through the 'common but differentiated responsibilities' principle, which we try to integrate in our Responsible Investment approach and articulated in our Just and Inclusive Transition paper. We continue to engage with the SBTi and monitor its publications to explore how the methodology can be appropriately applied in our markets, in a manner that is consistent with the needs of emerging markets and our broader philosophy.

We will maintain a watching brief on the suitability and ambition of our climate targets, while both continuing to hold ourselves to account as a large asset owner and maintaining our approach to a just and inclusive transition.

Implementation and engagement strategy

To deliver our net zero commitment we will focus on the areas where we can have the biggest impact, using our influence as an asset owner and asset manager.

We aim to do this while prioritising a just and inclusive transition in line with our ESG strategy and overall business model. We believe that it is critical to respond to the challenge of transitioning towards a low carbon economy in a way that reflects both geographical and sectoral challenges, as well as considering the social implications of our plans. Prudential is focused on real-world impact that is meaningful for our stakeholders.

Given the cross-functional strategy required to support the climate transition, we are coordinating our efforts across four key areas:

- **Our responsible investment activities;**
- **Our products and services;**
- **Industry engagement and advocacy; and**
- **Within our own operations.**

As an asset owner, the most significant lever we can utilise for portfolio decarbonisation is our responsible investment activity. By focusing our energy and resources in this area we can have the most material and real-world impact, and our engagement and implementation strategy reflects this.

While full progress on our overall ESG, climate and Responsible Investment strategies can be found in our 2022 ESG Report, the section below highlights these strategic areas in which we differentiate our approach towards decarbonisation.

Responsible Investment

Financial institutions have a clear role to play in the transition towards a net zero economy. Encouraging and assisting portfolio companies to adopt a low carbon pathway and operating model via our influence as an asset owner is mutually beneficial.

We are aligned with the NZAOA view that doing so is the best climate risk mitigation strategy that investors – individually or collectively – can put in place.

Prudential is uniquely positioned as both a global and a local asset owner, which affects our approach towards decarbonisation and engagement, as well as how we work with our asset managers. Our position as a local asset owner within many emerging markets in Asia and Africa means we invest the majority of our assets within the countries where we operate. We believe that this development of capital markets is a positive societal contribution. As we seek to hedge local insurance liabilities with local assets, we are likely to be a significant buyer of local market securities, often government or state-controlled entities. By assisting governments to develop sustainable and efficient securities markets, we can help to reduce the cost of investment funding across society. This should create more opportunities for economic growth, levels of employment and employment incomes. Over time, we see similar opportunities to apply these same basic principles around green finance, and potentially 'crowd in' further investment flows, helping to create a virtuous circle to support a just and inclusive transition.

While our role as local asset owner has these benefits from a capital market growth perspective, it also means we must take very specific local circumstances into account as we support the transition from today's starting point. From a financial perspective, local markets remain smaller and less diversified than the global financial market, which means we have fewer opportunities to change our portfolio.

From a climate change perspective, it is important to realise that companies operating within emerging markets are often more carbon intensive, and have a different starting point for decarbonisation. This means we must accept a higher initial baseline for decarbonisation, and explore and implement a wider variety of strategies to achieve the ultimate goal of net zero.

We employ six different implementation strategies (see figure 5) to support our ESG and decarbonisation targets for our investment portfolio, which are described comprehensively in our 2022 ESG Report. The section below sets out more detail on our policy implementation and engagement strategy, which we believe will be critical to achieving our decarbonisation targets.

Figure 5: Our six implementation strategies

Screening the portfolio
Maintaining an awareness of the potential risks to the Group's reputation arising from investment activities

Exclusion
Excluding a company from the investment portfolio if its products or conduct is considered to be unacceptable

ESG integration
Incorporation of ESG information into our parts of the investment process:

- Asset allocation
- Manager selection
- Portfolio management
- Risk management

Active ownership
Maintaining a dialogue with the companies in which we invest about ESG risks and opportunities

Voting policy that supports long-term performance by taking account of relevant ESG issues

Capital allocation
Shifting capital from harmful activities towards environmental or social needs

- Portfolio decarbonisation
- ESG investments

Market influence
Influencing the market with regard to responsible investment by contributing to sustainable initiatives

Corporate engagement

We believe that the biggest area of influence we can have is via effective engagement with our portfolio companies, to encourage broad scale decarbonisation strategy development and implementation. We strongly believe in engagement versus divestment, where this is feasible. Our concern is that divestment will only further increase the already large financing gap that exists within emerging markets. In line with our support for the just and inclusive transition, we aim to influence decarbonisation without compromising social and economic development, on which divestment can have such unintended consequences.

Eastspring has developed a process to meet our target of engaging with the companies responsible for 65 per cent of the absolute carbon footprint of our investment portfolio. These engagement requests are aligned with the recommendations of the NZAOA, including requests:

- To immediately put into place policies and transition plans that commit the company to net-zero GHG emissions across their value chains by no later than 2050 and to be supportive of the transition to a net-zero GHG emissions world by 2050;
- To accelerate progress towards full 'green' on the CA100+ Net Zero Company Benchmark indicators, or, if not a CA100+ target company, to still meet all its expectations;
- To set science-based near-term GHG reduction targets that are in line with reaching net-zero emissions by 2050, and consistent with maximum 1.5°C of warming;
- To develop and implement plans for their businesses to remain viable in a carbon neutral economy, with meaningful consideration of associated social impacts;
- To support the adoption and implementation of governmental policies that facilitate the transition to net-zero emissions;
- To support, prepare for and not disrupt pricing mechanisms on GHG emissions;
- To take action and make progress on efforts to lower GHG emission intensity of their operations and products;
- To disclose their efforts and progress on decarbonisation in line with the four core elements of TCFD recommendations; and
- To enter into direct time-bound engagement dialogue with Alliance members and/or other investor initiatives to discuss efforts to decarbonise their business by 2050.

We utilise the NZAOA engagement requests framework and adapt our requests to the specific circumstances of our investee companies in a way that will best drive engagement and ultimately decarbonisation.

An update on our progress on company engagement in 2022 can be found in the Responsible Investment section of our 2022 ESG report.

Implementing a local engagement approach

While climate change is a global problem, the majority of carbon intensive industries are very local – and, therefore, require local solutions. As a local asset owner, we have a combination of local businesses that can invest both globally and locally. We believe we are well positioned to have a positive local influence through this avenue.

For this to be successful, we believe in implementing a local engagement approach within emerging markets. This means actively engaging with companies in a constructive way that acknowledges the specific circumstances and complexity of challenges. Where feasible, we aim to include local portfolio managers in corporate engagements in that country; recognising the benefits of a shared language, culture and experience.

As part of the Emerging Markets Transition Investment (EMTI) project that we started within the NZAOA, we helped develop the paper 'Call for Action on Responsible Corporate Engagement in Emerging Markets'. This sets out the following guiding principles for responsible and effective engagement in emerging markets:

1. Establish a local approach with an appreciation for the complexity and variation of challenges;
2. Integrate the 'common but differentiated responsibilities' principle of the Paris Agreement into the engagement approach, by adjusting asks to locally specific social factors and the aspects around just transition.'
3. Be prepared for ongoing engagement, with sustained dialogue to build trust;
4. Commit to knowledge sharing between global and local investors; and
5. Be flexible with the engagement ask – consider the practicalities around ambitious target setting.

We are aiming to further develop our strategy on engagement which outlines our specific approach, and also includes policy engagement. We are also seeking to develop market-specific responsible investment approaches which will supplement the Group Responsible Investment policy. These approaches will be more focused on the specific challenges and opportunities in the local market, and aim to play to our specific strengths in each market.

Capital allocation and the bias against investing in emerging markets

Prudential's 'Supporting a Just and Inclusive Transition' paper highlights that current ESG investment frameworks can unintentionally create biases against investing in emerging markets. This is in part because companies and countries are often judged on their alignment to one global decarbonisation pathway, which typically differentiates between sectors, but not between countries or the state of economic development. Additionally, companies within emerging markets are often more carbon intensive, which may increase an investor's carbon footprint, even if that investment is used positively to finance the energy transition. In the implementation of some decarbonisation strategies this becomes apparent: the allocation towards emerging markets is lower compared to the broader benchmark.

As we also try to decarbonise our portfolio through capital allocation, we are actively monitoring to ensure we do not create these biases in our portfolio. The set-up of our asset allocation process, which includes a regional allocation, reduces this risk.

Sectoral decarbonisation

During 2022, we established an internal cross-functional sectoral decarbonisation working group with the aim of formulating sectoral approaches to inform investment decisions and engagement on climate change, particularly within emerging markets.

The working group explored a range of sectoral decarbonisation pathways and toolkits, and chose the Transition Pathway Initiative (TPI) which allows the assessment of companies based on an IEA-aligned 1.5°C scenario, a below 2°C scenario, and a national pledges scenario. As data coverage across emerging markets can be a challenge for Prudential, we commenced the development of an internal tool to complement the TPI tool. When it is ready, the tool will be made available across the organisation, including to investment teams within the local businesses.

Additionally, the working group assessed sectoral engagement questions from leading industry sources. Based on this analysis, they focused on developing a list of sector-specific engagement questions for the utilities sector, designed to elicit a higher quality engagement response, and ultimately improve the decarbonisation progress. Moving forward, the working group will aim to formulate further sector-specific engagement approaches for the five most carbon intensive sectors in the investment portfolio.

Industry engagement and advocacy

With operations exclusively in Asia and Africa, we are well placed to bring an emerging markets perspective to stakeholder discussions, to help ensure the need for a just and inclusive transition in developing markets is considered across the industry, and in a policy and regulatory context.

In 2022 we built on our existing outreach and focus, bringing an emerging market perspective to our wide range of policy discussions on the role of the finance community in a transition to a net-zero world.

Policy and regulatory engagement

We regularly engage with regulators and monitor evolving climate risk-related initiatives that could develop into new regulation in the markets in which we operate. We consider the transition to a low carbon economy to be essential and we engage constructively with trade associations, policymakers and NGOs to shape the evolution of regulation and standards relating to climate risk and transition. From a financing perspective, we are working bilaterally and multi-laterally to engage our stakeholders to support these journeys. This includes support on transitional finance for markets that are at a different stage of their journey from more developed markets.

We believe that work on blended finance will be of increasing interest to policymakers in Asia and Africa in 2023 and beyond, and we will seek to build out our work in this area. In December 2022 we were announced as the insurance partner on the private sector working group for Vietnam's Just Energy Transition Partnership (JETP), and we are proud to be supporting the country with their ambitious net zero targets. We look forward to supporting the deepening of Vietnam's capital market, including the mobilisation of domestic finance for the country's inclusive transition.

For a more comprehensive update on specific activities and initiatives relating to our policy and regulatory engagement during the year, please see our 2022 ESG Report.

Net Zero Asset Owners Alliance

In 2021, Prudential joined the NZAOA – a network of institutional investors committed to the decarbonisation of their asset portfolios – to facilitate greater collaboration with global peers. As an active member, and one of the only members with an emerging market footprint, we support their wider policy and outreach work.

In 2022, Prudential's continued focus has helped to ensure that emerging markets feature more prominently in NZAOA discussions, including a focus on the energy transition and climate solutions for emerging markets. In 2022, we supported specific NZAOA sub-tracks, including the Financing the Transition in Emerging Markets subtrack, which we initiated and lead. Within this subtrack, we started the Emerging Markets Transition Investment (EMTI) project, with the objective of accelerating investment towards the net-zero transition of emerging markets. Full details of our involvement and progress in 2022 can be found within our 2022 ESG Report.

Looking ahead to 2023, we will be taking more of a leadership role in NZAOA's emerging market thematic workstreams. In 2023, Prudential will be co-lead of the Financing Transition track, and will take a more active role in this important area.

Products and services

As part of our climate and overall business strategy, we are working towards exploring more climate-related opportunities, particularly with regards to new and existing products and services to support efforts to transition towards a net zero pathway. Climate change is creating opportunities for new savings and insurance products:

> New savings products could incorporate investment in green bonds, transition financing and adaptation financing;
> New health and protection products need to reflect the impact of climate change on human health via changes in the frequency, severity and emergence of certain diseases, such as the dengue cover we currently provide; and
> Recognising that financial security at all levels is a climate adaptation measure, we are actively developing inclusive insurance products, which include more products for underserved sections of the market.

During 2022, we established a new framework to classify ESG investments (figure 6) and intend to increasingly allocate Prudential assets to ESG- and UN Sustainable Development Goals (SDG)-promoted funds over time where we have mandate (ie, in our investment portfolio), subject to appropriate investment governance. This builds upon our ESG screening process, for which Prudential has integrated a minimum threshold on ESG into its investment management agreements for mandates.

From a climate change perspective, considerations for our products and services include:

> **Market and geographical relevance:** Considering the applicability of the opportunity within an emerging market context. Is this something that can be scaled across multiple regions, or does it require a market and/or geographical-specific approach?
> **Just and inclusive transition:** Ensuring that the principles of a just and inclusive transition are considered, with thought given to the social implications and any unintended consequences.
> **Real-world impact:** In exploring opportunities and evaluating action, we consider the real-world impact. We seek to contribute to tangible progress on decarbonisation, in a way that makes sense to the communities in which we operate, our customers, and our investors.

Eastspring invests in labelled bonds issued by companies, when suitable investment opportunities are available. Labelled bonds include green bonds, and are considered by Eastspring only where the companies produce documentation that funding provided solely funds sustainable alternatives. These exist where investee companies issue a debt instrument that finances decarbonisation targets, and is certified by a globally recognised standard. As of December 2022, Eastspring's portfolio contained $1.5 billion in green bonds, a 25 per cent increase from FY21.

In the future, Prudential may consider setting targets around the proportion of its assets to be classified as ESG- or SDG-promoted. These targets would be set with full consideration of investment objectives, risk tolerance and overall strategy. Further information can be found in our 2022 ESG Report.

Policies and exclusions

Our coal policy is to divest from all direct investments in businesses that derive more than 30 per cent of their income from coal (whether mining or energy production). Our coal policy was set to balance our stewardship duties in emerging markets, while also allowing companies in those markets to phase out coal in a just and inclusive manner, as discussed in our 'Supporting a Just and Inclusive Transition' white paper. We maintain a watching brief on the suitability of our existing policies and exclusions, as well as other potential areas related to the net zero transition, such as nature and biodiversity.

Figure 6: Framework to classify ESG investments

ESG screened	ESG promoted	SDG promoted
Objective: **Risk/return and minimum threshold on ESG**	Objective: **Specific ESG objective alongside risk/return**	Objective: **SDG alignment alongside risk/return**
Prudential has continued to integrate a minimum threshold on ESG into its investment management agreements for mandates.	Eastspring classifies a range of strategies, developed in 2022, as ESG promoted. These are funds managed against one or more ESG KPIs, such as a lower carbon footprint, a lower exposure to fossil fuel reserves, and gender diversity indicators. In 2022, Prudential introduced WACI budgets into certain current funds or mandates, which allows these funds to be considered as ESG promoted. A phased approach for WACI budgets into current funds and mandates was approved by the Group ESG Committee during mid-2022, subject to appropriate investment governance.	Eastspring is currently developing funds with the objective of targeting alignment with the UN SDGs. These funds will look at investing in listed companies that have evidence of addressing one or more UN SDGs through their products and services.

Our own operations

We seek to actively reduce our direct impact on the environment in line with our purpose of improving the lives of our customers and their communities. To understand our impact, we measure our environmental performance and take action to improve our performance.

We have set a target to become carbon neutral across our Scope 1 and 2 (market-based) emissions by the end of 2030. We aim to deliver a 25 per cent reduction per full time employee (FTE) in our operational emissions from a 2016 baseline, and abate the remaining emissions via carbon offsetting initiatives. As of 2022, we are ahead of the emissions reduction trajectory required to meet our 2030 target.

We are continuing to explore the feasibility of setting operational net-zero targets, which is currently difficult due to the lack of renewable energy available within the markets that we operate. However, it may be possible in the future, through mechanisms such as renewable energy certificates.

During 2021, we carried out a review of our Scope 3 emissions in accordance with the Greenhouse Gas Protocol and Partnership for Carbon Accounting Financials (PCAF). It considered all 15 Scope 3 categories and provided us a better understanding of which areas of our value chain contribute most significantly to our overall emissions footprint. For 2022, we focused on improving the data quality for the categories we already report. Moving forward, we seek to keep this under review and explore expansions of further Scope 3 categories, such as our extended supply chain.

Carbon offsets

Although we have an operational carbon neutral target, it is our strategy to decarbonise where possible before purchasing offsets. Importantly, offsets do not form a part of our core decarbonisation strategy. As the fall in our 2022 emissions continues to be ahead of the reduction trajectory required to meet our 2030 target for Scope 1 and 2 emissions, we have not purchased any carbon offsets for Scope 1 and 2 emissions in 2022. We continue to keep our policy around the use of offsets under review and revisit the purchase of offsets on an annual basis.

Metrics

Prudential's relevant climate-related metrics can be found in the table below. For our progress against our short- and longer-term targets, please see the Objectives and priorities section of this report.

Movement in metrics	2022	2021
Target-related metrics		
WACI	**219 ***	296
Holdings in companies with more than 30 per cent of revenue from coal	**Substantially divested from bonds**	Fully divested from equities
Engagement with the companies responsible for 65 per cent of the absolute emissions in our investment portfolio	**Reviewed 100% Engaged 100%**	**Reviewed 44% Engaged 31%**
Operational emissions intensity (tCO_2e/FTE)	**1.21**	1.47
Our own operations		
Scope 1 (tCO_2e)	**1,645***	1,481
Scope 2 – market-based (tCO_2e)	**16,938***	19,986
Scope 2 – location based (tCO_2e)	**19,880***	21,547
Scope 3 (upstream activities)† (tCO_2e)	**9,487***	8,793
Our financed emissions		
Scope 3: Downstream activities (financed emissions) (tCO_2e)	**3,100,000***	4,700,000
Further relevant metrics		
Coverage for WACI and financed emissions	**67%**	69%

* Within the scope of EY assurance – for further information, see the 'Scope 3 emissions review' section of our 2022 ESG report and the Basis of Reporting which notes those Scope 3 categories that were within the scope of EY assurance

† Includes Scope 3 categories: 3 (fuel- and energy-related activities, 5 (waste generated in operations) and 6 (business travel).

For more information on our climate and other ESG metrics, including progress and case studies, please see our 2022 ESG Report.

Governance

Board and management oversight

ESG governance overview

The Board considers ESG to be integrated and aligned with our core business strategy of protecting people's wealth, helping them grow their assets, and empowering them to save for their goals. It recognises the major role that Prudential can continue to play across Asia and Africa, as well as in the long-term success, resilience and health of the communities in which we operate. As such, ESG matters, including climate change, are overseen by the Board, which is responsible for determining overall strategy and prioritisation of key focus areas, and monitoring risk. More information on the composition and competencies of our Board can be found in the Governance section of our 2022 Annual Report.

The Board Responsibility and Sustainability Working Group (RSWG), established in January 2021, continued during 2022. In July 2022, the responsibilities of the RSWG were re-positioned to focus on customer, culture and digital, in addition to people and community matters. Oversight responsibilities for environmental and climate-related issues, and the ongoing implementation of the Group's external commitments to the decarbonisation of its operations and investment portfolio and other climate-focused external responsible investment commitments were transferred to the Group Risk Committee (GRC). Their terms of reference were amended to ensure a holistic approach to these climate-related topics. The GRC's additional responsibilities extend to external reporting, via the ESG Report, where it relates to those areas within its remit, including monitoring the progress of the Group's reporting against the recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD).

Following this transition, an exercise was completed to map the material climate and climate-commitment-related activities which support the GRC's new responsibilities, and the supporting governance arrangements. The supporting management information and frequency has also been reviewed.

In addition to regular course discussion, to further enhance strategic Board-level discussions on climate, a dedicated climate deep-dive session was also held with the Board in September 2022. Following discussions at the Board on our approach to climate change, the progress towards the Group's externally communicated climate-related commitments, climate-related opportunities and the evolving expectations of stakeholders, the Board agreed on the need for clear communication around Prudential's role in emerging markets. The latter point has been supported by the publication of Prudential's Supporting a Just and Inclusive Transition white paper, which sets out the Group's approach to ensuring the transition to a low-carbon economy considers all countries, economies and worker populations by raising awareness on the country-specific challenges for emerging markets in the energy transition.

Management oversight

ESG activity, including the impacts from climate change, is overseen at a management level by the Group ESG Committee, which was chaired by the Group Chief Executive in his role as ESG sponsor. Other members of the Committee are the Group Chief Financial Officer, the Group Chief Risk and Compliance Officer, the Group HR Director, both the Chief Executive and CIO of Eastspring, and the Chief Executive of PACS (Prudential's Singapore business). During 2022, the Group ESG Committee was strengthened by the inclusion of the recently-appointed Group Chief Information Officer and Group Corporate Affairs Director. From 26 February 2023, the Group ESG Committee is chaired by the Group Chief Financial Officer.

One of the Group ESG Committee's responsibilities is to oversee the Group's progress towards fulfilling our commitment to report against the recommendations of the TCFD. In 2022, the Group ESG Committee reported to the Board through the RSWG, as highlighted in figure 7.

Figure 7: Governance of ESG, including climate change, during 2022

Prudential plc Board

- Oversees all aspects of ESG, including people, culture and communities, with ultimate responsibility for determining strategy and prioritisation of key focus areas
- Provides rigorous challenge to management on progress against goals and targets
- Ensures the Group maintains an effective risk management framework, including over climate-related risks and opportunities

REPORTING INFORMING

The Board delegates specific ESG, including climate change, oversight matters to its committees

Group Risk Committee

- Meeting frequency in 2022: six times
- Oversight responsibilities for environmental and climate-related issues
- Oversees implementation of external climate-focused commitments
- Reviews climate-related information presented within the ESG report
- Oversees the Group's ongoing commitment relating to TCFD
- Supports the ESG strategy by ensuring the risks, including climate-related risks and opportunities, people and culture are effectively managed

Board Responsibility and Sustainability Working Group

- Meeting frequency in 2022: five times
- Oversees the embedding of the Group's ESG strategy, focusing on customer, culture, digital, people and community matters

Group Audit Committee

- Meeting frequency in 2022: eight times
- Oversees the Group's Annual Report and Accounts, of which the ESG report is an integral part
- Oversees whistle-blowing programme

Remuneration Committee

- Meeting frequency in 2022: six times
- Supports the ESG strategy through alignment of the Group's incentive plan to external ESG targets

REPORTING INFORMING

Chief Executive and Management Team

The Chief Executive has responsibility for implementation of the Group's ESG strategy, including people, culture and climate change risks and opportunities, with support from the executive management team

REPORTING INFORMING

Group ESG Committee

- Focused on the holistic assessment of ESG matters, including climate change, that are material to the Group
- Chaired in 2022 by Group CEO, and from February 2023 by Group CFO
- Members include asset owner and asset manager CEOs, Group CRCO, and Group CHRO

REPORTING INFORMING

Group Responsible Investment Advisory Committee (GRIAC)

- Operational responsibility for oversight of Responsible Investment activity
- Co-chaired by Group CIO and Eastspring CIO
- Members include local business CIOs

REPORTING INFORMING

Prudential Sustainability Advisory Group (PSAG)

- Share Group processes and practices on communications and reporting of ESG-related matters
- Focus on knowledge sharing to support developing and embedding of local business ESG strategies consistent with the Group strategy
- Chaired by Director of Group ESG
- Members include local business ESG leads and other specialists

PSAG is focused on execution and is not part of formal governance

REPORTING INFORMING

Local businesses

The local businesses support the implementation of the Group's ESG strategy, including climate change risks and opportunities

Skills and culture

The success of our transition towards a low carbon economy is closely linked to the training and education of our employees, right up to Board level, and how we integrate climate-related issues into our culture across the business.

In September 2022, recognising the need to maintain focus on climate as a key topic of importance, the Board took part in a climate deep-dive. This was an interactive session that focused on current and emerging climate-related topics, including climate-related issues within emerging markets, evolving regulatory and disclosure requirements, increasing stakeholder expectations, and climate-related opportunities. As part of the preparation for this session, materials were made available to the Board from Chapter Zero, of which our Chair and Chair of the GRC are members.

During the year, we also conducted a range of formal and informal climate-related education and engagement sessions for employees across our business. We sought to build awareness with employee activities such as Climate Week, where we posted interviews with senior team members working in climate-related roles. A number of our businesses have also rolled out climate and ESG training modules. We are cognisant of the link between climate change and mental health, and believe it is important to empower our employees with access to climate-related training, information and broader mental health support systems.

We aim to foster a culture where our employees live our values: to be ambitious, curious, empathetic, courageous, and nimble. This is critical for setting our organisation up for success, both for our own journey towards net zero, and the external transformation which the global economy is undergoing. More information on our culture can be found in the Building social capital section of the 2022 ESG Report.

Recognising the interconnectivity of climate change to other macro-issues, Prudential seeks to link our response to climate change to other important social topics, which are important to many of our internal and external stakeholders, as described in table 1.

Incentives and remuneration

An important element of aligning our business activities and value proposition with the transition towards net zero is through our remuneration and incentives, both short and long term.

Short term: In recent years, the Group's Executive Directors have had a strategic priority, which is included in their Annual Incentive Plan, to drive the climate and responsible investment focus across the organisation, both as an asset owner and an asset manager, through embedding the external ESG commitments made in May 2021.

Long term: In late 2021, the Remuneration Committee decided that a measure aligned with our published commitment to reduce the carbon emissions of all shareholder and policyholder assets by 25 per cent by 2025 should be attached to Executive Directors' 2022 Prudential Long Term Incentive Plan (PLTIP) awards. Carbon reduction targets will also be attached to Executive Directors' 2023 PLTIP awards.

Table 1: Considering Prudential's stakeholders

Stakeholder	Considerations
Customers	We seek to identify where climate change and the transition to a low carbon economy may impact access to health and financial security, and seek to address these impacts to support our customers.
Communities	We are conscious of what the potentially catastrophic impacts of climate change may mean for our communities in Asia and Africa. We are also aware that activities typically involved in transitioning towards a low carbon economy, such as divestment from higher carbon-emitting assets, can come with unintended consequences, such as exacerbating existing socio-economic imbalances.
Employees	It is critical that our employees feel adequately supported, personally and professionally, during both the short- and long-term transition process. Empowering employees to become climate literate, promoting training and work opportunities, and fostering a culture of transparency and accountability is crucial during this process.
Investors	As part of our fiduciary duty, we must balance the investment strategies and opportunities that meet the long-term needs of our investors, while considering the potential risks and opportunities that may be relevant for us. Further information on our climate-related risk and opportunity identification and management can be found within our TCFD disclosure in our 2022 ESG Report.
Governments and regulators	We regularly engage with regulators and monitor climate-related initiatives that could develop into new regulations or requirements in the markets where we operate. We seek to mainstream the voice of emerging markets within our discussions, and support the development of localised frameworks that assist decarbonisation initiatives within individual jurisdictions. We engage actively with the stock exchanges in our markets to adopt consistent and internationally compatible ESG disclosures.

Methodologies and references

Methodology

For a full outline of the scope, reporting boundary and assessment methodology for climate-related metrics, in particular carbon emissions and WACI, see Prudential's 2022 Basis of Reporting document.

Additional assumptions

- Our targets have been set based on our current Group structure and excludes assets of our joint ventures. Were this to materially change, we would consider revising our targets in line with the NZAOA target setting protocol.
- We use industry protocols and methodologies, such as the Partnership for Carbon Accounting Financials (PCAF) and TCFD, for target setting. To date, these protocols and methodologies do not cover all asset classes held across the Prudential Group, so we are not yet able to set and achieve targets for all asset classes.
- Achieving our stated targets, and any targets we may set in future, relies not only on our actions but also on our underlying investees, suppliers and governments ultimately achieving their climate targets in line with the Paris Agreement.

References and alignment

We have produced this paper in alignment with industry standards and guidance, as relevant to Prudential as at the time this report was produced, in particular:

- Glasgow Financial Alliance for Net Zero: Financial Institution Net-zero Transition Plans- Fundamentals, Recommendations, and Guidance and Supplemental Information
- Transition Plan Taskforce (TPT): The Transition Plan Taskforce Disclosure Framework and supplementary Implementation Guidance
- TCFD: Guidance on Metrics, Targets and Transition Plans
- CDP Technical Note: Reporting on Transition Plans
- The Grantham Research Institute on Climate Change and the Environment: Making Transition Plans Just

We expect that further local transition plan guidance from the markets in which we operate will continue to be developed and published, and we will seek to implement this into future iterations of our Climate Transition Plan.

Disclaimers

Where third-party information has been used in this paper, the source of such information has been identified. While industry surveys, publications, consultant surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, the accuracy and completeness of such information is not guaranteed. Prudential has not independently verified any of the data obtained from third-party sources (whether identified in this paper by source or used as a basis for any beliefs and estimates stated herein), or any of the assumptions underlying such data. Similarly, internal surveys, industry forecasts and market research, which Prudential believes to be reliable, have not been independently verified.

Forward-looking statements

This document contains 'forward-looking statements' with respect to certain of Prudential's (and its wholly and jointly owned businesses') plans and its goals and expectations relating to future financial condition, performance, results, strategy and objectives. Statements that are not historical facts, including statements about Prudential's (and its wholly and jointly owned businesses') beliefs and expectations and including, without limitation, commitments, ambitions and targets, including those related to ESG, and statements containing the words 'may', 'will', 'should', 'continue', 'aims', 'estimates', 'projects', 'believes', 'intends', 'expects', 'plans', 'seeks' and 'anticipates', and words of similar meaning, are forward-looking statements. These statements are based on plans, estimates and projections as at the time they are made, and therefore undue reliance should not be placed on them. By their nature, all forward-looking statements involve risk and uncertainty.

A number of important factors could cause actual future financial condition or performance or other indicated results to differ materially from those indicated in any forward-looking statement. Such factors include, but are not limited to:

- current and future market conditions, including fluctuations in interest rates and exchange rates, inflation (including resulting interest rate rises), sustained high or low interest rate environments, the performance of financial and credit markets generally and the impact of economic uncertainty, slowdown or contraction (including as a result of the Russia-Ukraine conflict and related or other geopolitical tensions and conflicts), which may also impact policyholder behaviour and reduce product affordability;
- asset valuation impacts from the transition to a lower carbon economy;
- derivative instruments not effectively mitigating any exposures;
- global political uncertainties, including the potential for increased friction in cross-border trade and the exercise of laws, regulations and executive powers to restrict trade, financial transactions, capital movements and/or investment;
- the longer-term impacts of Covid-19, including macro-economic impacts on financial market volatility and global economic activity and impacts on sales, claims, assumptions and increased product lapses;
- the policies and actions of regulatory authorities, including, in particular, the policies and actions of the Hong Kong Insurance Authority, as Prudential's Group-wide supervisor, as well as the degree and pace of regulatory changes and new government initiatives generally;
- given Prudential's designation as an Internationally Active Insurance Group, the impact on Prudential of systemic risk and other group supervision policy standards adopted by the International Association of Insurance Supervisors;
- the physical, social, morbidity/health and financial impacts of climate change and global health crises, which may impact Prudential's business, investments, operations and its duties owed to customers;
- legal, policy and regulatory developments in response to climate change and broader sustainability-related issues, including the development of regulations and standards and interpretations such as those relating to ESG reporting, disclosures and product labelling and their interpretations (which may conflict and create misrepresentation risks);
- the collective ability of governments, policymakers, the Group, industry and other stakeholders to implement and adhere to commitments on mitigation of climate change and broader sustainability-related issues effectively (including not appropriately considering the interests of all Prudential's stakeholders or failing to maintain high standards of corporate governance and responsible business practices);
- the impact of competition and fast-paced technological change;
- the effect on Prudential's business and results from, in particular, mortality and morbidity trends, lapse rates and policy renewal rates;
- the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries;
- the impact of internal transformation projects and other strategic actions failing to meet their objectives or adversely impacting the Group's employees;
- the availability and effectiveness of reinsurance for Prudential's businesses;
- the risk that Prudential's operational resilience (or that of its suppliers and partners) may prove to be inadequate, including in relation to operational disruption due to external events;
- disruption to the availability, confidentiality or integrity of Prudential's information technology, digital systems and data (or those of its suppliers and partners) including the Pulse platform;
- the increased non-financial and financial risks and uncertainties associated with operating joint ventures with independent partners, particularly where joint ventures are not controlled by Prudential;
- the impact of changes in capital, solvency standards, accounting standards or relevant regulatory frameworks, and tax and other legislation and regulations in the jurisdictions in which Prudential and its affiliates operate; and
- the impact of legal and regulatory actions, investigations and disputes.

These factors are not exhaustive. Prudential operates in a continually changing business environment with new risks emerging from time to time that it may be unable to predict or that it currently does not expect to have a material adverse effect on its business. In addition, these and other important factors may, for example, result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits. Further discussion of these and other important factors that could cause actual future financial condition or performance to differ, possibly materially, from those anticipated in Prudential's forward-looking statements can be found under the 'Risk Factors' heading of Prudential's 2022 Annual Report and any subsequent filing Prudential makes with the US Securities and Exchange Commission, including any subsequent Annual Report on Form 20-F.

Any forward-looking statements contained in this document speak only as of the date on which they are made. Prudential expressly disclaims any obligation to update any of the forward-looking statements contained in this document or any other forward-looking statements it may make, whether as a result of future events, new information or otherwise except as required pursuant to the UK Prospectus Rules, the UK Listing Rules, the UK Disclosure Guidance and Transparency Rules, the Hong Kong Listing Rules, the SGX-ST Listing Rules or other applicable laws and regulations.

Prudential may also make or disclose written and/or oral forward-looking statements in reports filed with or furnished to the US Securities and Exchange Commission, the UK Financial Conduct Authority, the Hong Kong Stock Exchange and other regulatory authorities, as well as in its annual report and accounts to shareholders, periodic financial reports to shareholders, proxy statements, offering circulars, registration statements, prospectuses, prospectus supplements, press releases and other written materials and in oral statements made by directors, officers or employees of Prudential to third parties, including financial analysts. All such forward-looking statements are qualified in their entirety by reference to the factors discussed under the 'Risk Factors' heading of Prudential's 2022 Annual Report and any subsequent filing Prudential makes with the US Securities and Exchange Commission, including any subsequent Annual Report on Form 20-F.

Cautionary statements

This document does not constitute or form part of any offer or invitation to purchase, acquire, subscribe for, sell, dispose of or issue, or any solicitation of any offer to purchase, acquire, subscribe for, sell or dispose of, any securities in any jurisdiction nor shall it (or any part of it) or the fact of its distribution, form the basis of, or be relied on in connection with, any contract therefor.

Important notice – basis of preparation and caution regarding data limitations

The sustainability-related information contained in this document has been prepared on the following basis:

i the sustainability-related information is unaudited;

ii all sustainability-related information, positions and statements set out in this document are subject to change without notice;

iii the sustainability-related information included in this document does not constitute any investment, accounting, legal, regulatory or tax advice or an invitation or recommendation to enter into any transaction;

iv the sustainability-related information included in this document may have been prepared using models, methodologies and data which are subject to certain limitations. These limitations include: a lack of reliable data (due, amongst other things, to developing measurement technologies and analytical methodologies); a lack of standardisation of data (given, amongst other things, the current lack of international coordination on data and methodology standards); and future uncertainty (due, amongst other things, to changing projections relating to technological development and global and regional laws, regulations and policies, and the inability to make use of strong historical data);

v the models, external data and methodologies used in sustainability-related information included in this document are or could be subject to adjustment which is beyond Prudential's control;

vi any opinions and estimates should be regarded as indicative, preliminary and for illustrative purposes only. Expected and actual outcomes may differ from those set out (as explained in the "Forward-looking statements" paragraph above);

vii some of the sustainability-related information appearing in this document may have been obtained from public and other sources and, while Prudential believes such information to be reliable, it has not been independently verified by Prudential and no representation or warranty is made by Prudential as to its quality, completeness, accuracy, fitness for a particular purpose or non-infringement of such information;

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