PRUDENTIAL

Managing our tax affairs responsibly and sustainably

Prudential plc

Tax Strategy Report

Contents

2 Foreword

3 2020 total tax contribution by region

4 Our tax strategy

- 5 How we consider our stakeholders in our approach to tax

6 What taxes do our businesses pay?

7 How much tax do we pay?

- 8 Why does the amount of corporate income tax paid differ from the tax charge in the accounts?
- 10 Impact of the planned demerger of Jackson on our total tax contribution

11 How we manage our tax affairs

- 11 Our approach to tax planning
- 11 Managing and structuring investments
- 11 Our investments
- 12 Low tax rate jurisdictions
- 12 Interaction with tax authorities
- 13 Tax policy work
- 13 Our tax teams and the use of tax advisers

14 Governance and management of tax risk

- 14 Governance over tax
- 14 Managing tax risk
- 15 Our definition of tax risk

16 Appendix 1 – Prudential plc total tax contribution in 2020 compared to 2019

17 Appendix 2 – Prudential plc historical tax remittances

18 Appendix 3 – Calculating our taxable profit

Foreword

2020 global total tax contribution

$2,114m

(2019: $2,168m)

At Prudential plc, one of the ways we fulfil our purpose of helping people get the most out of life is by contributing to the communities in which we operate.

In 2020, we made a total tax contribution of $2,114 million, demonstrating our commitment to paying the right amount of tax, and thus helping to contribute to the health and development of those communities. Making the right tax payments is always important, but perhaps never more so than over the past year, as public finances around the world have been affected by sharp rises in expenses and declines in revenue caused by the impact of Covid-19.

Our Tax Strategy Report sets out how we contribute to our communities through the taxes we pay in all of our major markets, showing the clear link between our business footprint and our tax footprint, and demonstrating our commitment to transparency. Our tax strategy forms part of our wider activity on environmental, social and governance (ESG) issues, and you can find out more about those in our 2020 ESG Report.

There is strong ongoing interest in tax transparency. We actively follow developments in this area, such as the GRI 207 tax standard published by the Global Sustainability Standards Board, which encourages public country-by-country reporting and greater explanations of tax numbers, and the EU considerations of a mandatory publication of the OECD Country-by-Country report. We are committed to continuing to develop our disclosures to remain as transparent as possible. The voluntary disclosures contained in this report demonstrate this commitment.

This report outlines our 2020 total tax contribution, along with a breakdown of our contributions, revenue and profit across all the jurisdictions where we pay at least $5 million in tax. It also discusses the impact of the planned demerger of our US business, Jackson, on our total tax contribution and tax footprint. For the first time, in 2020 our total tax contribution in Asia was above $1 billion, reflecting our growth in the region.

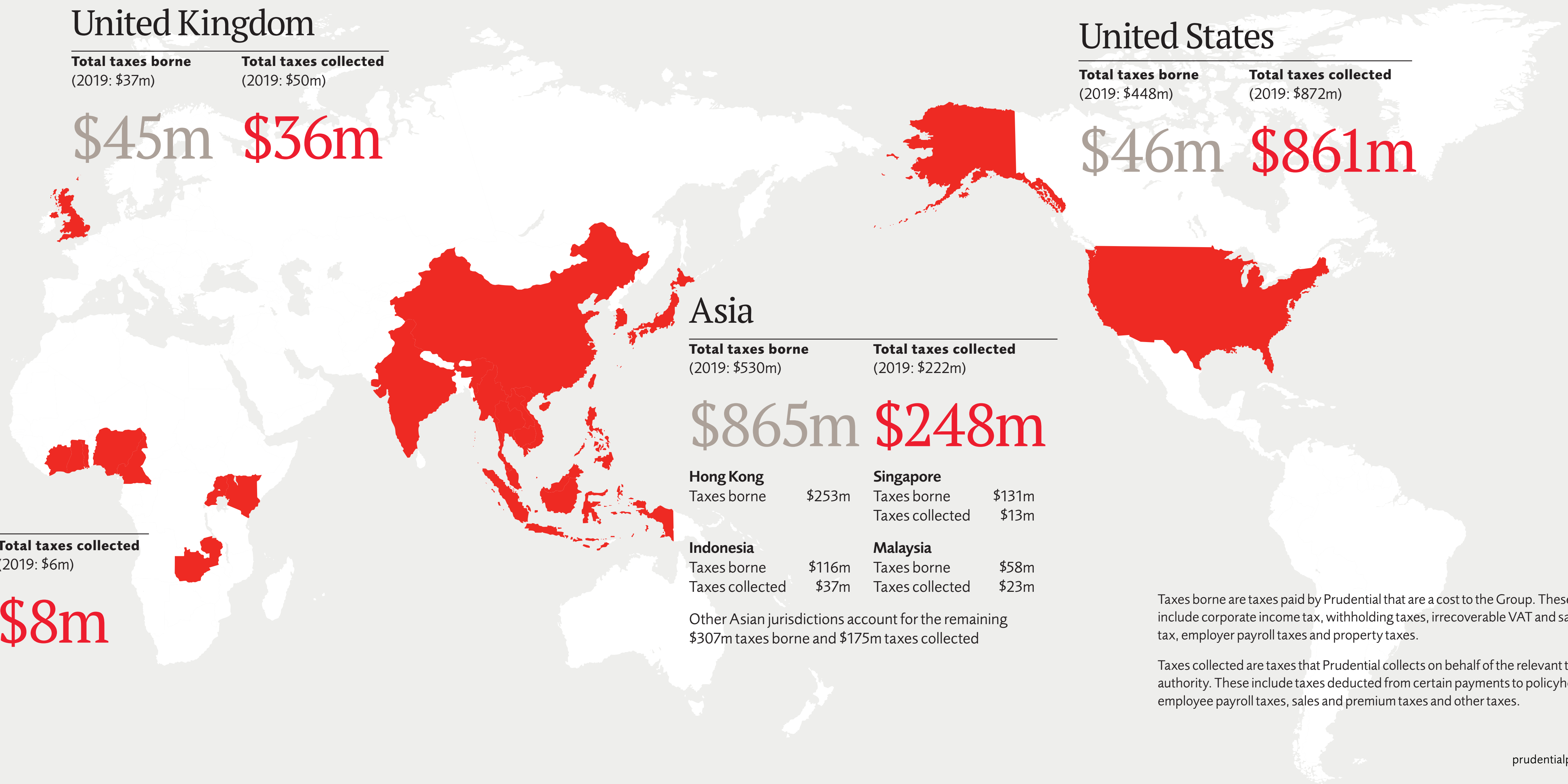
We are monitoring the ongoing discussions regarding reforming the international tax system to reflect a more digitalised global economy. While the insurance industry is not a target of these potential reforms, it is possible that changes to the international tax system as well as measures individual countries may take to restore their public finances, may lead to new or higher taxes for our industry.

We have strong governance structures on tax matters and our tax strategy applies to all our local businesses worldwide. We report our tax affairs regularly to our Group Audit Committee and our Board, which is accountable for the tax strategy. We have mechanisms in place to ensure awareness of and adherence to the strategy, and clear procedures in relation to tax risk management.

This report has been prepared to meet the requirements of Paragraph 16(2) Schedule 19 of the UK Finance Act 2016 to publish a tax strategy annually. It also contains information on our responsible and sustainable tax practices worldwide, alongside additional tax disclosures, which complement the existing disclosures in our 2020 Annual Report. While the financial information within this report covers 2020, the strategy applies to 2021, demonstrating our intentions for the year ahead. This report was approved by Prudential plc's Group Audit Committee in May 2021.

Mark FitzPatrick
Group Chief Financial Officer
and Chief Operating Officer
Prudential plc

2020 total tax contribution by region



United Kingdom

Total taxes borne (2019: $37m)	Total taxes collected (2019: $50m)
$45m	$36m

United States

Total taxes borne (2019: $448m)	Total taxes collected (2019: $872m)
$46m	$861m

Asia

Total taxes borne (2019: $530m)	Total taxes collected (2019: $222m)
$865m	$248m

Hong Kong
Taxes borne $253m

Singapore
Taxes borne $131m
Taxes collected $13m

Indonesia
Taxes borne $116m
Taxes collected $37m

Malaysia
Taxes borne $58m
Taxes collected $23m

Other Asian jurisdictions account for the remaining $307m taxes borne and $175m taxes collected

Africa

Total taxes borne (2019: $3m)	Total taxes collected (2019: $6m)
$5m	$8m

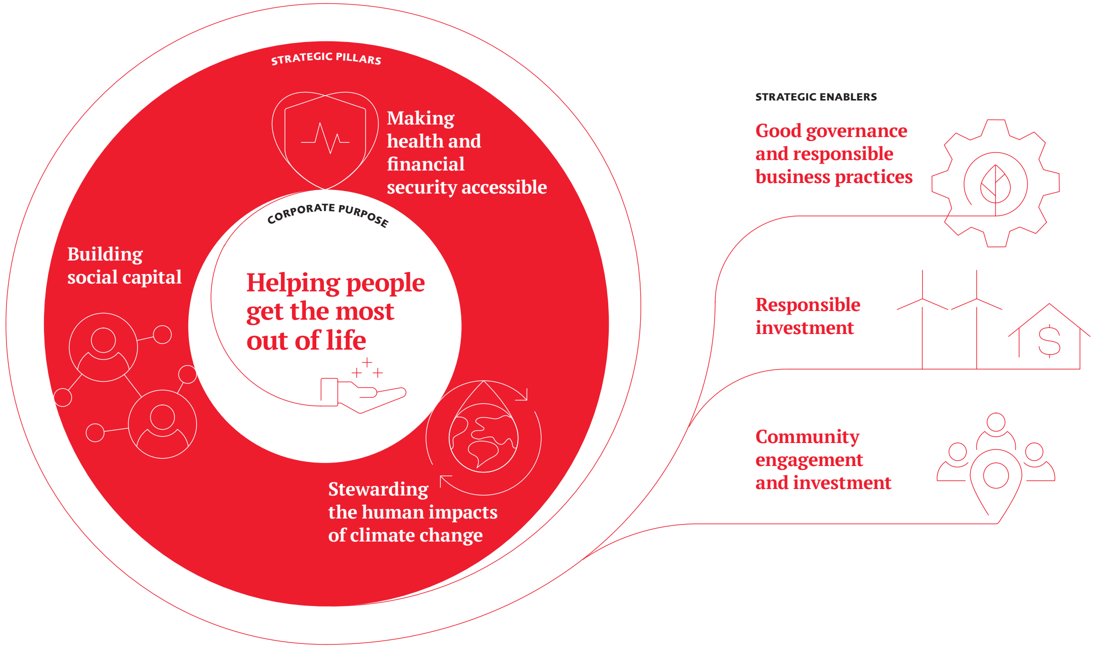
Taxes borne are taxes paid by Prudential that are a cost to the Group. These include corporate income tax, withholding taxes, irrecoverable VAT and sales tax, employer payroll taxes and property taxes.

Taxes collected are taxes that Prudential collects on behalf of the relevant tax authority. These include taxes deducted from certain payments to policyholders, employee payroll taxes, sales and premium taxes and other taxes.

Our tax strategy

Our purpose is to help people get the most out of life. We deliver on that purpose by making healthcare affordable and accessible, helping people accumulate wealth through growing their assets, and empowering our customers to save for their goals.

Our purpose is served through implementing our business strategy, and our environmental, social and governance (ESG) strategy as set out in our 2020 Annual Report and ESG Report respectively. During 2020, to reinforce this linkage between our business model and our purpose, we refreshed our ESG strategy. The key features of our ESG framework are its three strategic pillars and its three strategic enablers.



Our tax strategy and the responsible and sustainable management of our tax affairs are an important component of our ESG Strategic Enabler: good governance and responsible business practices.

In delivering our tax strategy through our day-to-day operations, we follow a set of guiding principles.

Guiding principles

Tax compliance
We act responsibly in all of our tax matters. We understand the importance to governments and societies of paying the right amount of tax on time, and so we take our tax compliance obligations seriously.

Approach to tax
We take an objective view of the generally understood interpretation of the tax laws and regulations in each jurisdiction in which we operate.

Governance
Strong governance processes are the foundation of our business and critical to maintaining trust with stakeholders, particularly in the highly-regulated financial markets within which we operate. We seek to comply fully with all our tax obligations, including paying the right amount of tax in each jurisdiction in which we operate and applying rigorous management over our tax uncertainties and risks through our Group Code of Business Conduct, Group Governance Manual and risk management procedures.

Transparency and engagement with stakeholders
We provide transparent disclosure of our tax affairs, the amounts and types of taxes we pay and where we pay tax. We believe that transparency is key to the responsible and sustainable management of our tax affairs and better informs our stakeholders about how tax works in our Group and our tax governance practices. We respect the tax authorities with which we interact. Where possible and following prevailing practice, we seek to build constructive relationships with tax authorities, discussing and resolving matters in real time.

Our tax strategy / continued

How we consider our stakeholders in our approach to tax

Customers: The needs of our customers are central to what we do. Responsible tax practices – in terms of providing tax-efficient products and investment returns, ensuring accurate reporting of customer information to tax authorities (where required) and paying the right amount of tax in each jurisdiction in which we operate – are critical in meeting the needs of our customers and providing them with peace of mind. We believe that responsible tax practices are important in our customers' decision-making process, and in customers becoming advocates for our business.

Investors: We act in the best interests of our investors by maximising the returns to the people and organisations that have invested with us, through managing the taxes we pay in a responsible and sustainable manner.

Communities: Prudential seeks to be a responsible business which invests in and has a positive and sustainable impact on our local communities, alongside the jobs, growth and tax revenue we provide.

Regulators: We place great importance on having effective relationships with those who supervise us and our markets. Our stakeholders' interests are best served when we work constructively with our regulators. Therefore, positive and transparent engagement with tax authorities, which leads to the timely and accurate payment of taxes, helps the societies in which we operate to provide valuable public services and build infrastructure for the benefit of the wider community and the economy.

What do we mean by 'responsible and sustainable'?
By responsible, we mean that our tax decisions balance our responsibility to support our business strategy with our responsibility to the communities in which we operate, which need sustainable tax revenues.

By sustainable, we mean making tax decisions with a long-term rather than short-term perspective.

What do we mean by paying the 'right' amount of tax?
Tax is inherently complex, particularly when it involves financial services and international dimensions. Where the tax treatment of a particular transaction or activity is unclear, we will follow the generally understood interpretation of tax law.

What do we mean by 'generally understood interpretation'?
Within each of the jurisdictions in which we operate there arises over time a common view across the informed tax community (comprising taxpayers, tax advisers and the prevailing practice followed by the tax authority) of how the tax laws and regulations are interpreted and applied. This forms a 'generally understood interpretation'.

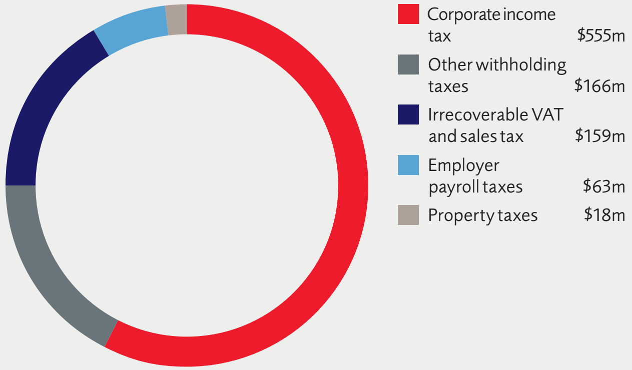
What taxes do our businesses pay?

We set out below in Figure 1 the taxes borne by our businesses in 2020 – which represents a cost to the Group – and, in Figure 2, the taxes our businesses collected and remitted to tax authorities in 2020. Together these represent the total tax contribution of the Group ($2,114 million) to the societies and economies in which our businesses operate and invest. In Appendix 1 we have provided a comparison and explanation of the differences between the 2020 and 2019 total tax contribution numbers.

Figure 1: 2020 total tax borne

$961m

(2019: $1,018m)



Corporate income tax
The Group pays corporate income tax on taxable profits as computed under the relevant tax laws of the jurisdictions in which we operate or have a taxable presence. Further details about what drives our taxable profit are set out in Appendix 3.

Other withholding taxes
The Group incurs withholding tax on intra-group dividends and other intra-group fees paid in certain jurisdictions. In addition, as a large institutional investor, the Group incurs withholding tax on investment income (eg dividends and interest) received in certain jurisdictions. Where these withholding taxes cannot be offset against corporate income tax or otherwise recovered, they represent a cost to the Group.

Irrecoverable VAT and sales tax
The Group incurs VAT and other sales taxes on goods and services that it purchases. In most jurisdictions, life insurance products are exempt from VAT and sales tax and our insurance businesses can usually only recover a small proportion of the VAT and sales tax incurred. The VAT and sales tax incurred that we cannot recover results in a cost to the Group.

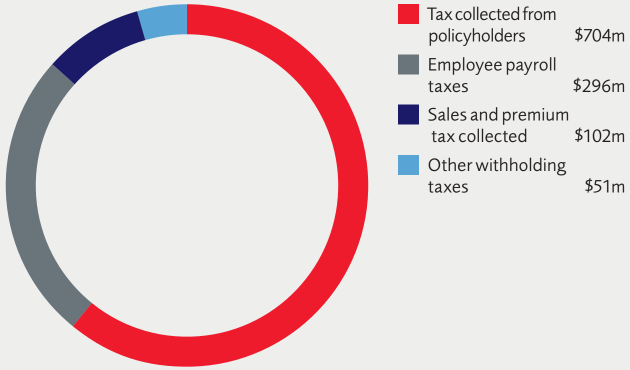
Employer payroll taxes
This represents the payroll tax, such as national insurance and social security, that the Group's businesses pay as an employer.

Property taxes
This relates to stamp duty or transfer tax paid on properties we have bought and other property-related duties.

Figure 2: 2020 total tax collected

$1,153m

(2019: $1,150m)



Tax collected from policyholders
In the US, Jackson is required to deduct tax from annuity payments made to customers and remit this to the Internal Revenue Service.

Employee payroll taxes
In the majority of jurisdictions in which we operate, we are required to deduct tax and social security from payments made to our employees, and then remit this tax and social security to the local tax authority. In limited circumstances, we may pay some or all of the employee's own tax on certain items of their remuneration.

Sales and premium tax
The Group collects sales tax (eg VAT/Goods and Services Tax) on some services it provides to third parties and its customers, and in some jurisdictions in which we operate we collect tax on insurance premiums paid. The tax collected is then remitted to the relevant tax authority.

Other withholding taxes
The withholding taxes collected represent tax deducted by our businesses on certain payments to third parties.

How much tax do we pay?

We continue to make significant tax contributions in the jurisdictions in which we operate. In 2020, our global total tax contribution was $2,114 million. Figure 3 breaks down corporate income taxes paid, other taxes borne and taxes collected for each jurisdiction in which $5 million or more in total tax was paid to the local tax authority in 2020. Revenue, profit and employee numbers for these jurisdictions are also shown to give context for the tax disclosures. As can be seen from Figure 3, the Group's tax footprint (where we pay taxes) is consistent with the Group's economic footprint (where we earn revenues and profits).

The tax notes in our financial statements provide information on our effective tax rates and why these differ from the corporate income tax rates applicable to the Group's businesses. These can be found on pages 239 to 241 of the Group's 2020 Annual Report.

Figure 3: 2020 Prudential plc continuing operations total tax contribution by jurisdiction

	2020 ($m – other than employee numbers)							
	Total revenue net of reinsurance[1]	**IFRS Profit (loss) before tax**[2]	**Total current tax charge**[3]	**Corporate income tax paid**[4]	**Other taxes borne**[5]	**Taxes collected**[6]	**Total taxes remitted**	**Average employee numbers**
United States	19,842	(742)[7]	(79)[7]	4[7]	42	861	907	3,653
Hong Kong	17,945	807	87	158[8]	95	–	253	1,825
Indonesia	1,688	508	99	91	25	37	153	1,989
Singapore	8,671	1,023	82	96	35	13	144	1,725
Malaysia	2,485	395	46	44	14	23	81	2,070
United Kingdom	95	(521)[9]	(6)	–[9]	45	36	81	291
Thailand	980	(75)[10]	18	13	46	21	80	1,059
Vietnam	1,832	205	28	21	25	16	62	1,513
Philippines	620	94	27	15	17	20	52	852
Taiwan	1,816	255	5	3	21	2	26	827
Japan	42	–	–	2	6	–	8	45
Rest of the world	329	1	7	7	6	14	27	1,407
Total subsidiaries	**56,345**	**1,950**	**314**	**454**	**377**	**1,043**	**1,874**	**17,256**
Joint ventures and associates[11]	–	517	–	101	19	110	230	–
Loss attaching to corporate transactions	–	(48)	–	–	10	–	10	–
Intra-group revenue[12]	(372)	–	–	–	–	–	–	–
Group total 2020	**55,973**	**2,419**	**314**	**555**	**406**	**1,153**	**2,114**	**17,256**
Group total 2019	93,736	2,287	561	717	301	1,150	2,168	19,004

Notes

1 The total revenue net of reinsurance numbers for 2020 was lower than 2019, reflecting the reinsurance of Jackson's fixed and fixed index annuity portfolio by Athene in June 2020.

2 This measure is the formal profit before tax measure under IFRS, not the adjusted operating profit. Profit before all taxes is determined after deducting the cost of policyholder benefits and movements in the liability for unallocated surplus of with-profits funds, after adjusting for taxes borne by policyholders.

3 The total current tax charge is the tax liability we expect to be due when the 2020 corporate income tax returns are filed, together with adjustments for prior years. This differs from the corporate income tax paid in the year principally due to the timing of when tax is paid, and also because the tax payments in 2020 include adjustments to tax payments made in previous years reflecting tax returns filed or adjusted in 2020. These differences between current tax charge and tax paid are explained further in the following section 'Why does the amount of corporate income tax paid differ from the tax charge in the accounts?'.

4 Corporate income tax paid includes (i) corporate income tax paid on taxable profits, and (ii) final tax on certain investment income in Indonesia and the Philippines where this tax is a form of corporate income tax. In addition, for certain jurisdictions, the corporate income tax paid includes amounts paid on policyholder investment returns on certain life insurance products. The taxable profit on which corporate income tax is calculated, will be based on local tax laws and regulations, typically using local generally accepted accounting principles ('GAAP') profits as a starting point. As noted in Appendix 3, there are some jurisdictions where the taxable profit is based on something other than the local GAAP profits.

5 Other taxes borne include irrecoverable VAT and sales tax, employer payroll taxes, withholding taxes and property taxes. Withholding taxes are disclosed against the jurisdiction to which the withholding tax has been paid.

6 Taxes collected are taxes that Prudential is required to collect from employees, customers and third parties which are paid to tax authorities. See Figure 2 for more information.

7 The loss before tax of $742 million reflects the significant adverse movement for 2020 in short-term fluctuations in investment returns for US operations. The $79 million current tax credit reflects significant prior year adjustments arising from the true up of the 2019 US corporate income tax returns when finalised and submitted during 2020, together with the carryback of losses under the US Coronavirus Aid, Relief, and Economic Security (CARES) Act. The lower than normal corporate income tax paid in the US reflects lower tax payments due for 2019 arising from the finalisation of the 2019 tax returns and lower tax payments due for 2020 reflecting derivative losses.

8 In Hong Kong corporate income tax due in 2019 of $93 million (which would normally have been paid around November 2019) was not paid until January 2020 due to the delay in issuing the relevant tax assessments.

9 The loss before tax of $521 million reflects interest payable on core structural borrowings, corporate expenditure and restructuring costs. Consistent with previous years, the Group's UK entities paid no UK corporate income tax in 2020, due to tax losses arising from external interest costs and head office costs.

10 The loss before tax reflects the significant adverse movement for 2020 in short-term fluctuations for the Thailand insurance business.

11 Includes our Insurance and Asset Management joint ventures and associates in China, India, Hong Kong and Malaysia. See Note D6.3 of our 2020 Annual Report for more detail.

12 The Group's asset management operations provide services to the Group's insurance operations. These intra-group fees are included within the revenue of the asset management operations and are eliminated on consolidation.

How much tax do we pay? / continued

Why does the amount of corporate income tax paid differ from the tax charge in the accounts?

The amount of corporate income tax paid (sometimes referred to as the cash tax paid) will differ each year from the current tax charge shown in the Group's Annual Report. This is due to a number of factors. The principal factor is the timing of when payments are made in respect of a given financial period. Some payments will be due during the year in question and some will be due in the following year. A secondary factor is that adjustments made when the tax return is filed (or when the tax return is agreed with the tax authority) can lead to additional tax payments being made or refunds being received in a later year.

In 2020 our current tax charge was $314 million and our corporate income tax payments were $555 million. Figure 4 provides a reconciliation between the expected tax charge and the current tax charge and Figure 5 reconciles the current tax charge to the corporate income tax payments made during 2020.

Figure 4: 2020 reconciliation of expected tax to current tax charge

	Total $m	Shareholder $m	Policyholder[1] $m	2020 Annual Report reference
Profit (loss) before tax	2,419	2,148	271	Page 209
Tax charge (credit) at the expected rate[2]	713	442	271	–
Adverse recurring items[3]	250	250	–	–
Favourable recurring items[4]	(554)	(554)	–	–
Non-recurring items[5]	(175)	(175)	–	Page 240
Total tax charge (credit)	234	(37)	271	Page 239
Less deferred tax (charge) credit	80	199	(119)	Page 239
Current tax charge	314	162	152	Page 239

Notes

The following items affect the 2020 total current tax charge:

1 The total tax credit attributable to policyholders of $271 million is split between a current tax charge of $152 million and a deferred tax charge of $119 million and represents corporate income tax charged on the investment returns of our insurance funds which are subject to tax at the policyholder rate. This differs from the 'tax collected from policyholders' outlined in Figure 2.

2 The total expected tax charge of $713 million reflects a $442 million charge (as per page 240 of the Group's 2020 Annual Report) relating to the tax on profit before tax attributable to shareholders using the corporate income tax rates that are expected to apply to the taxable profit of the relevant businesses and a $271 million charge (as per page 239 of the Group's 2020 Annual Report) equal to the profit before tax attributable to policyholders of $271 million.

3 Items that increase the current tax charge include: losses arising where it is unlikely that relief for the losses will be available in future periods ($146 million); deductions not allowable for tax purposes ($43 million); irrecoverable withholding taxes ($35 million); and deferred tax adjustments ($26 million).

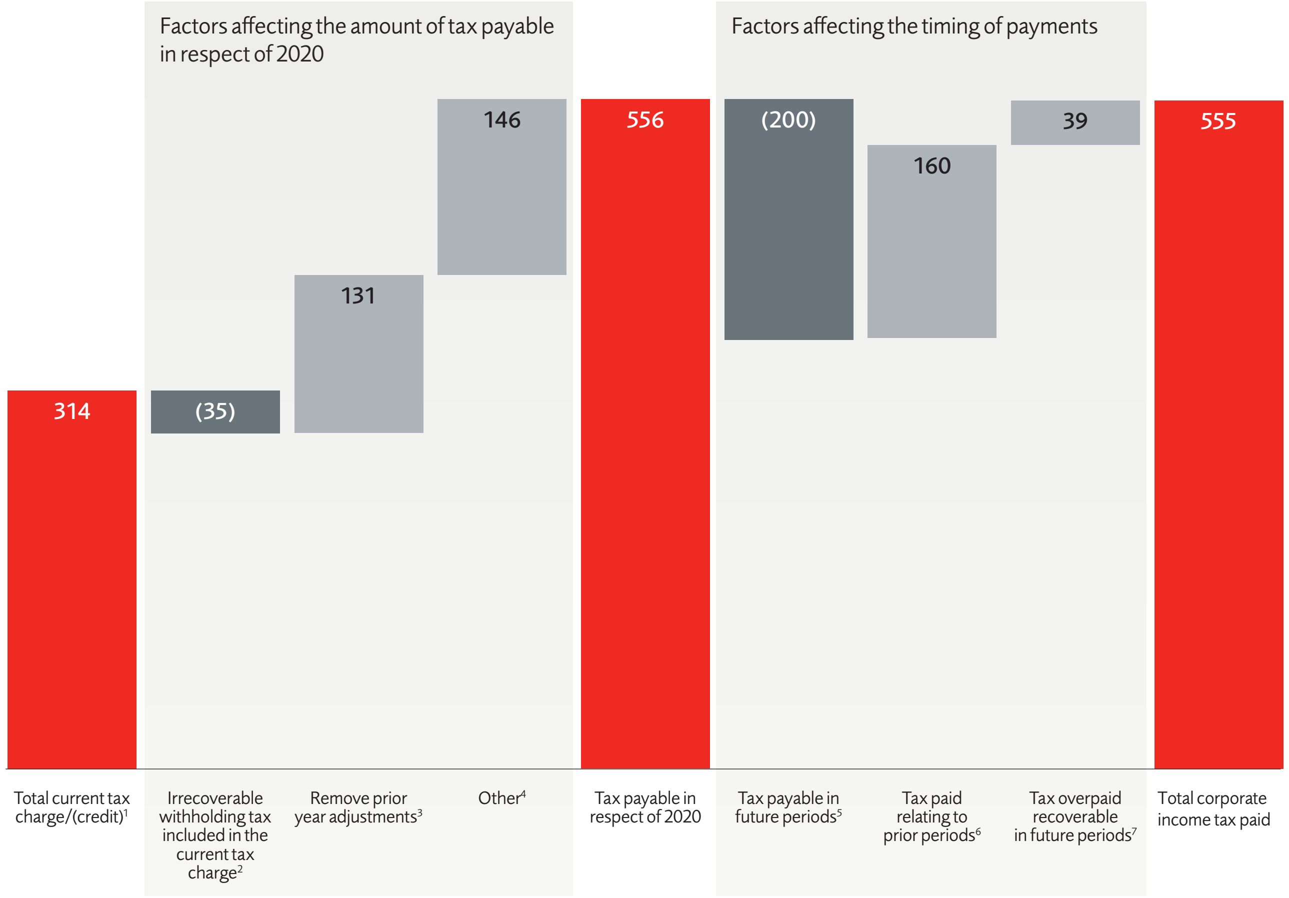
4 Items that decrease the current tax charge include: items relating to taxation of life insurance businesses ($258 million); income not taxable or taxable at concessionary rates ($147 million); the effect of the post-tax results of joint ventures and associates being included in pre-tax profits ($129 million); and other adjustments ($20 million).

5 Items that are not expected to recur include favourable prior year adjustments ($(133) million); movements in provisions for open tax matters ($(33) million); the impact of the carryback of losses under the US CARES Act ($(16) million) partly offset by other movements ($7 million).

More detail on adjustments outlined in notes 3, 4 and 5 can be found on page 240-241 of the Group's 2020 Annual Report.

How much tax do we pay? / continued

Figure 5: 2020 Reconciliation of current tax charge to corporate income tax paid ($m)



Notes

1 Total current tax of $314 million as per note B3.1 on page 239 of the Group's 2020 Annual Report and comprises the current tax charge in respect of 2020 together with adjustments for prior years. It does not include any deferred tax.

2 Reducing tax payable, this principally relates to irrecoverable withholding tax on cross-border dividends payable. The withholding tax is included in the accounts tax charge but as it is not corporate income tax as such, it is not included in the corporate income tax paid. The $35 million withholding tax is included in the $166 million withholding tax in total taxes borne in Figure 1, with the remainder of the $166 million predominantly relating to withholding taxes suffered which have been expensed in computing the profit before tax.

3 Prior year adjustments which do not impact tax payable in respect of 2020 are removed. This primarily relates to the true up of the 2019 tax provision for US operations, following the completion and submission of the 2019 corporate income tax return, during 2020, together with the impact of the carryback of losses under the CARES Act.

4 Increasing tax payable, Other comprises $101 million in respect of Prudential's share of tax paid from joint ventures and associates; which as per the Consolidated income statement on page 209 of the Group's 2020 Annual Report, has been deducted from Prudential's share of profits from joint ventures and associates; $33 million from movements in provisions and $12 million from foreign exchange adjustments.

The following items affect the timing of tax payments and not the total amount payable in respect of 2020:

5 In most jurisdictions, corporate income tax is payable in regular instalments, some of which fall into the current period, and some of which fall into the following period.

6 This is a combination of $207 million of payments, primarily in respect of instalment tax payments in Asia, falling due in 2020 relating to 2019, offset by $(47) million of repayments relating to prior periods. The refunds relate to Jackson and the carryback of losses under the CARES Act.

7 Instalment tax payments are typically based on estimated taxable profits. The $39 million reflects overpaid tax following a downward revision of estimated taxable profits.

How much tax do we pay? / continued

Impact of the planned demerger of Jackson on our total tax contribution

Both parts of the Group – Prudential plc (excluding Jackson) and Jackson – make significant total tax contributions, as shown in Figure 6.

Figure 6: Split of total tax contribution between Prudential plc (excluding Jackson) and Jackson ($m)

	2018 $m	2019 $m	2020 $m
Prudential plc (excluding Jackson)			
Corporate income tax	454	322	551
Other taxes borne	199	248	364
Taxes collected	263	278	293
Total	916	848	1,208
Jackson			
Corporate income tax	22	395	4
Other taxes borne	57	53	42
Taxes collected	834	872	860
Total	913	1,320	906
Total Prudential Group	1,829	2,168	2,114

- Our total tax contributions predominantly relate to our Asian operations but also include our African operations and the United Kingdom (where taxes arise relating to head office staff and activities).
- Our total tax contributions have steadily increased over the years across all categories – corporate income tax, other taxes borne and tax collected.
- 2020 was the first year in which the total tax contribution for our Asian operations exceeded $1 billion.

- The most significant total tax contribution for Jackson has been the tax collected from annuity payments to customers.
- Corporate income tax payments have been volatile in recent years, reflecting the impact of derivative losses on taxable profits.

How we manage our tax affairs

Questions we consider when making tax decisions

- What is the overall business objective underpinning our approach?
- Is the tax position sustainable in the long term, or is it based on an area of tax law that is likely to change?
- What is the legal and regulatory framework that we need to respect?
- Does the tax position reflect the business and economic reality?
- What is the potential reputational impact?

Our approach to tax planning

The management of our tax affairs reflects the regulatory, legal and commercial environment in which our businesses operate. All decisions are taken after careful consideration of all the issues and potential impacts. Where we have a choice on how to structure a particular business, transaction or investment, we will structure it in a tax-efficient manner, where we have concluded that it is a responsible and sustainable choice, consistent with our business strategy. We do not base our decisions on aggressive interpretations of the tax law.

Managing and structuring investments

An important part of our business is managing investments from our insurance companies and third parties through investment vehicles. Collective investment vehicles, such as funds, are designed to provide a cost-efficient, diversified pooling vehicle to facilitate investment and savings. Funds are widely accepted and used by a variety of investors for a number of reasons:

- Professional management – investing directly requires considerable time and research. Our asset managers have the expertise to keep on top of any market changes and make the decisions about when to buy or sell assets.
- Spread the risk – our funds help mitigate the risk associated with investing into individual stocks and bonds. If one of the fund's investments underperforms, its impact may be mitigated for the investor by the overall investment performance.
- Convenience – our asset management companies handle the buying and selling of the assets and the collection of dividends and income on behalf of the investors.
- Reduced cost – by pooling investors' money the cost of investing is reduced and shared.

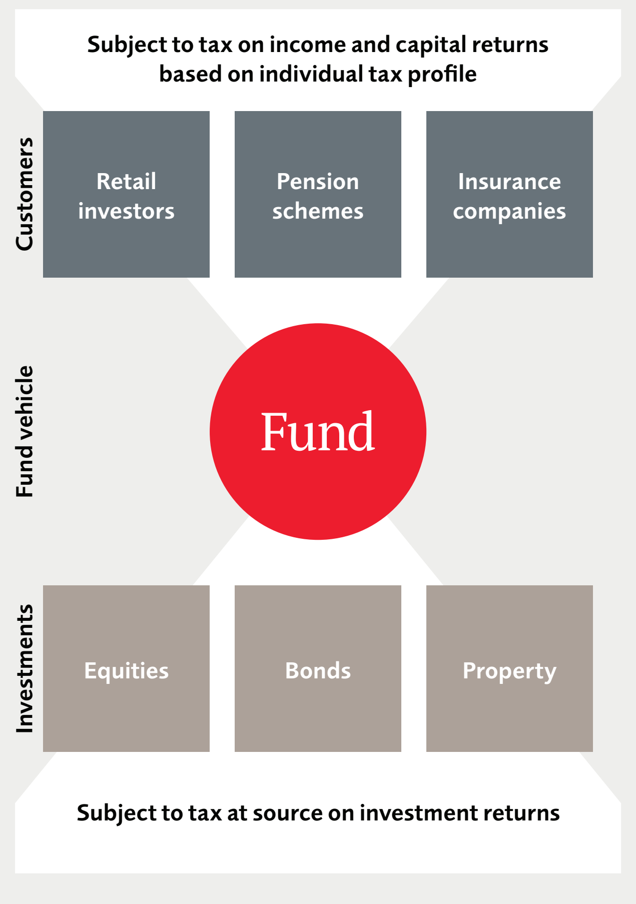
It is common for funds to be established in jurisdictions that do not impose an additional layer of taxes on the fund itself. Instead the investment return is taxed in the hands of the investor (commonly referred to as the 'look through tax treatment'). This ensures that as much as possible of the investment return from the underlying investments flows through to the investors. Most widely held fund vehicles seek to ensure the investors' tax position would be the same if they had the capacity to invest directly. Regardless of where the fund is established, investors will be subject to tax on investment returns in accordance with the tax rules of those jurisdictions where the investors are resident. We comply with all customer tax disclosure requirements for the funds that we manage.

Our investments

Our insurance companies hold a broad investment portfolio on behalf of our customers that will include investments in real estate and infrastructure. Such investments are typically made through a layered fund structure with special purpose vehicles that will hold the underlying assets. These may be supported by debt funds that provide a vital source of capital for companies that own real estate and infrastructure investments to enable future economic growth. These funds will often be managed by one of our investment managers – Eastspring Investments and PPM America – and widely held by both external investors and Prudential's insurance companies.

Funds are often structured with various legal entities in different jurisdictions. There are a number of reasons for this, including commercial and regulatory factors, eg to facilitate the segregation and limited liability of investments, to provide flexibility on the future disposal of investments or, as is often the case with real estate, to address legal impediments to non-residents holding property.

Illustrative example of simplified fund structure:



How we manage our tax affairs / continued

In common with other investors, our insurance companies invest in funds as part of a diversified investment strategy and as part of managing liquidity. Real estate and infrastructure funds in particular also provide a vital source of capital for investment to drive future economic growth. In many instances our insurance companies will provide the start-up capital for such funds.

Fund look through tax treatment is recognised in many tax regimes throughout the world and we do not invest in funds with the intention to reduce the tax that we pay. Our investing companies will be subject to tax on income and capital returns from the fund based on their individual tax profile. The consequence of our companies investing in these funds is that in most instances the tax paid is similar to what the tax would have been if our companies had invested directly in the underlying assets.

Low tax rate jurisdictions

At the end of 2020, the Group had nine[1] entities (2019: nine entities) tax resident in jurisdictions with a headline corporate income tax rate of 10 per cent or lower. Figure 7 provides an analysis of these entities by location and activity.

Figure 7: 2020 analysis of entities tax resident in low tax rate jurisdictions

	Number of entities	
	2020	**2019**
Insurance and investment management entities:		
Bermuda	1	1
Cayman Islands	2	2
Guernsey	1	1
Total	4	4
Revenue for each entity	<$1m	<$1m
Investment entities:		
Cayman Islands	5	5
Total	5	5

In common with the asset management industry, our asset management businesses – Eastspring Investments and PPM America – manage fund-related entities in jurisdictions that are established centres for asset management businesses. This includes entities in the Cayman Islands (as noted in Figure 7), Luxembourg and Mauritius. As these jurisdictions typically have either low or zero corporate income tax rates or special rules for asset management vehicles, basing funds in these jurisdictions will in most situations ensure that our customers are only taxed once, where the customer is resident. As mentioned in the Our Investments section, our own investment in these funds will be subject to tax on income and capital returns from the fund based on the investing company's tax profile.

The insurance companies and the investment management company in Figure 7 are not material for Group reporting purposes, and each accounted for less than $1 million of total Group revenues and total Group profit.

We also have a number of business operations in jurisdictions that often feature on lists of low tax rate jurisdictions. For example, as evidenced in Figure 3, we have a significant presence in Hong Kong and Singapore, where we are one of the leading providers of life insurance and asset management services, offering savings and protection opportunities to local customers.

Interaction with tax authorities

Our tax affairs are complex, reflecting a combination of specific or additional corporate income tax rules for life insurance companies, the range of taxes that apply to our businesses and the cross-border dimensions that come from being an international group. We deal with tax authorities in an open and constructive manner aimed at bringing matters to a timely conclusion. In the UK, we are committed to discussing all significant matters in real time with HMRC.

The complexity of the tax laws and regulations that relate to our businesses means that from time to time we may disagree with tax authorities on the technical interpretation of a particular area of tax law. Generally this is due to:

- Ambiguity in the law and its intent;
- Changes that occur over time in tax authority interpretation;
- Case law developments; and
- Tax law not keeping pace with product or wider commercial/regulatory developments.

Most of the time, these disagreements can be resolved through discussion. Sometimes, however, it is necessary for the matter to proceed to litigation to clarify the interpretation of the law. As noted on page 241 of our 2020 Annual Report, $113 million of provisions in respect of open tax issues were held at 31 December 2020, reduced from $198 million at 31 December 2019.

Note
1 Note D6.4 of the Group's 2020 Annual Report provides a full list of entities disclosed in accordance with Section 409 of the Companies Act 2006.

How we manage our tax affairs / continued

Tax policy work

We believe that more informed and sustainable outcomes are achieved where governments openly consult with industry and other affected stakeholders. We work with governments directly, where possible, or through industry trade bodies or networks, to explain the wider impact that tax proposals will have on the industry, the regulatory environment and our customers. We seek to provide pragmatic, proportionate and constructive comments to help meet the objectives of new initiatives in the interests of all of our stakeholders.

We continue to engage and provide input into the OECD/G20 Inclusive Framework's two-pillar approach to address the tax challenges arising from the digitalisation of the global economy. The aim of this project, which is part of the Base Erosion and Profit Shifting (BEPS) project, is to ensure that digitally-intensive or consumer-facing multinationals pay taxes where they conduct business, even when they do not have a physical presence. The proposals are focused on reforming the international tax system both in terms of allocating taxing rights between jurisdictions, and introducing some form of global minimum tax for multinational businesses. While the insurance industry is not a target for the reforms, we recognise that any changes which are agreed and implemented may apply to our Group. Along with other insurance groups, we have been providing input to a variety of stakeholders with the intention that any changes made should apply to insurance groups in a pragmatic and proportionate manner.

Similarly, we have proactively engaged with civil society forums that are focused on building a sustainable and transparent global tax system.

Our tax teams and the use of tax advisers

Our specialist tax teams in the UK, Asia and the US are comprised of individuals with a mix of industry and business knowledge and subject matter expertise. From time to time we will engage tax advisers to provide specialist expertise, second opinions and advice on significant transactions. We also use tax advisers to help us understand new legislation or to provide us with insight on industry practice. In addition, we engage tax advisers to undertake tax compliance work on our behalf in various jurisdictions where it is more cost-efficient or operationally sensible to do so.

Governance and management of tax risk

Governance over tax

The Group's tax governance focuses on the Group's strategic tax issues, our Group Tax Risk Policy, and the day-to-day operational processes and controls that are designed to ensure that tax risks are managed effectively and within our risk appetite. Accountability for our tax strategy and management of tax risk ultimately rests with the Board. Responsibility for the implementation of our tax strategy rests with the Group Chief Financial Officer and Chief Operating Officer, who updates the Board on material tax matters, and is supported in fulfilling this role by the Group's Head of Tax and Group Tax department. The day-to-day operational management of tax lies within our businesses, as taxes by their nature are levied on legal entities and sometimes groups of entities, rather than on the Group as a whole. Therefore, our business CEOs and CFOs are responsible for managing tax risks within their jurisdictions.

In line with the Group Tax Risk Policy, our business unit specialist tax teams provide regular tax risk reports to the Group Tax department. These are reviewed by the Group Head of Tax and discussed in regular meetings between Group and business unit specialist tax teams. At Group level, the management of tax risk is overseen by the Audit and Risk committees. The Group Audit Committee receives regular updates from the Group's Head of Tax on material tax issues, tax disputes and tax policy developments, and on an annual basis assesses the effectiveness of the Group's system of risk management and internal control. The Group Risk Committee receives updates on material tax risks, operational incidents, and associated controls in line with the wider Group Risk Framework.

Managing tax risk

The tax strategy is supported by the Group Tax Risk Policy which sets out the standards for managing and reporting a broad range of tax risks across the Group. Our approach to tax risk management also gives due regard to the commitments we have made to our customers, key stakeholders and our communities – in that our governance, processes and controls enable us to deal with uncertainty effectively, which is critical to the achievement of our strategy of capturing long-term structural opportunities and helping our customers achieve their long-term financial goals.

The Group Tax Risk Policy falls under the wider Group Risk Framework where we define 'risk' as the uncertainty that the Group faces in successfully implementing its strategies and objectives. This includes all internal and external events, acts or omissions that have the potential to threaten the success and survival of the Group. As outlined in the section on 'Risk Governance' that can be found on pages 51–54 of the Group's 2020 Annual Report, we have a system of governance that promotes and embeds a clear ownership of risk, processes that link risk management to business objectives and a proactive Board and senior management providing oversight of risks. Mechanisms and methodologies to review, discuss and communicate risks are in place, together with risk policies and standards to enable risks to the Group to be identified, measured and assessed, managed and controlled, monitored and reported.

Our Group Risk Framework requires all of our businesses and functions to establish processes for identifying, measuring, managing and reporting the key risks faced by the Group. In particular, within the Group Operational Risk Policy, the Management Risk and Control Self-Assessment (RCSA) is a key risk process that enables tax risks to be identified, business impacts (financial and non-financial) to be assessed, and controls implemented to mitigate those risks. As business processes change, or new risks are identified, the RCSAs are adapted and controls reviewed and implemented. Additionally, within the Group's Operational Risk Appetite Framework, tax risk is also incorporated within broader risk appetite limits and triggers for the Group's finance processes. In line with these risk frameworks, our Group Tax Risk Policy incorporates processes to identify, measure, manage and report on our tax risks, and details the processes and procedures followed in respect of each category of tax, to ensure risks are minimised and managed consistently across the Group.

Governance and management of tax risk / continued

Our definition of tax risk

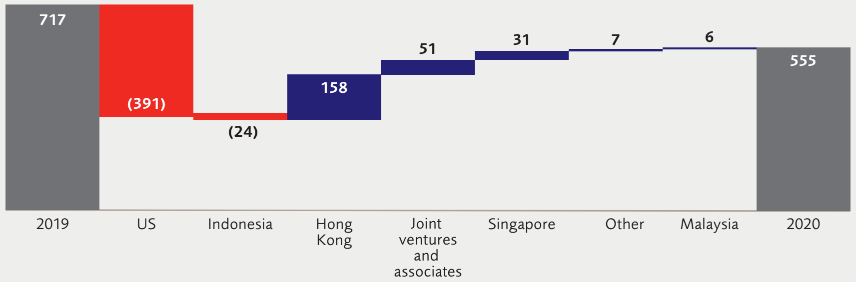
Any uncertainty from either the interpretation of tax law to a particular situation or the practical implementation of tax law in an operational or tax compliance sense, which has the potential to have an adverse financial or reputational outcome.

Categories of tax risk

	Technical judgement tax risk	Operational tax risk	Regulatory tax risk	Reputational tax risk
Definition	This is the uncertainty arising where a transaction or investment is structured, or a tax return is filed based on an interpretation of the tax law where (1) it is possible that the tax authority may take a differing interpretation, (2) the tax authority does dispute the interpretation, or (3) it is possible that the tax law may change in a manner that affects the tax treatment of the transaction or investment.	Risk of loss (or unintended gain or profit) arising from inadequate or failed internal processes, personnel and systems, or from external events, which result in the filing of inaccurate or late tax returns or incorrect tax payments.	This is risk that relates to compliance with changing tax and regulatory requirements. The high rate of global tax change, in an already complex tax and wider regulatory landscape, increases the risk of non-compliance due to a failure to identify, correctly interpret, implement and/or monitor regulations.	Risk that, as a result of actions or decisions we take or as a result of an external event, the perception of our Group, from the perspective of key stakeholders, is damaged, leading to financial and non-financial impacts.
Risk appetite	We have no appetite for adopting a technical judgement which is based on an aggressive interpretation of the relevant tax law, nor do we have any appetite for adopting a technical judgement where external advice has been obtained and has indicated a 'less likely than not' chance of success.	We have no appetite for material losses (direct or indirect) suffered as a result of failing to develop, implement and monitor appropriate controls to manage operational tax risks.	We have no appetite for material losses (direct or indirect) suffered as a result of failing to monitor and respond to tax changes.	We have no appetite for suffering reputational damage, which destroys shareholder value, adversely impacts revenues or results in significant costs to rectify as a result of failing to develop, implement and monitor appropriate controls to manage reputational risk.
Management of risk	We take an objective view of the generally understood interpretation of the tax laws that exist. Where alternative rules or positions are available, we will only look for responsible and sustainable tax outcomes in the context of seeking to deliver long-term value for our customers and our shareholders.	We look to manage these risks by the way we operate on a day-to-day basis when meeting all our tax filing and financial reporting disclosure requirements and our interactions with tax authorities.	We actively monitor emerging tax changes and input, where appropriate, into the tax policy process.	We expect our employees to exercise reasonable care and operate in a way that preserves the Group's reputation and to consider reputational consequences in their decision-making processes.

Appendix 1 – Prudential plc total tax contribution in 2020 compared to 2019

Corporate income tax ($m)



US corporate income tax payments were significantly lower than 2019, reflecting a combination of: the impact of higher derivative losses on 2020 taxable profits; the ability to carryback losses and obtain tax refunds for prior years under the CARES Act; and the 2019 tax payments including a one-off additional payment to take into consideration the acquisition of John Hancock's group pay out annuity business.

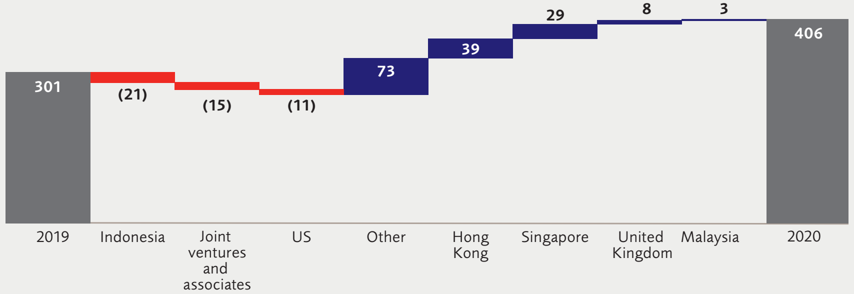
In **Indonesia** the lower tax payments reflect a reduction in the corporate income tax rate from 25 per cent to 22 per cent.

Hong Kong corporate tax payments were $158 million higher, as it includes $93 million relating to 2019 liabilities which was not paid until January 2020, as explained in Note 8 of Figure 3.

Corporate income tax payments from **joint ventures and associates** were $51 million higher, reflecting the 2019 number having been reduced by refunds in **China** and **India** which did not recur in 2020.

In **Singapore** the $31 million increase reflects a combination of higher taxable profits in 2020 compared to 2019 and the 2019 payments having been reduced by a tax refund received following the closure of prior year tax assessments.

Other taxes borne ($m)

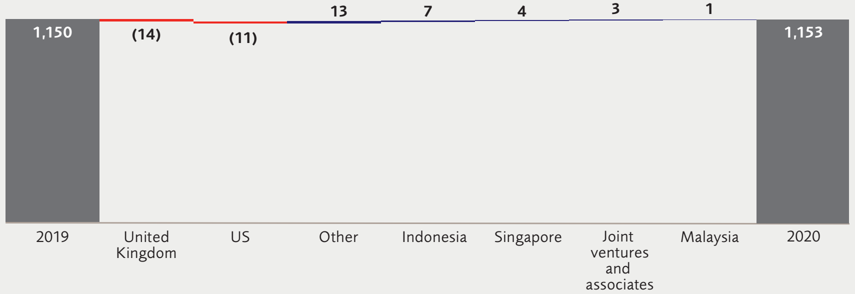


In **Indonesia** the decrease is mainly due to a reduction in the total withholding tax paid on applicable cross-border payments.

The increase in **Other** mainly relates to higher irrecoverable VAT costs in **Thailand** and **Vietnam** which in turn reflects VAT incurred on bancassurance deals.

The increases in both **Hong Kong** and **Singapore** are mainly due to an increase in investments in securities where the income received is subject to withholding tax.

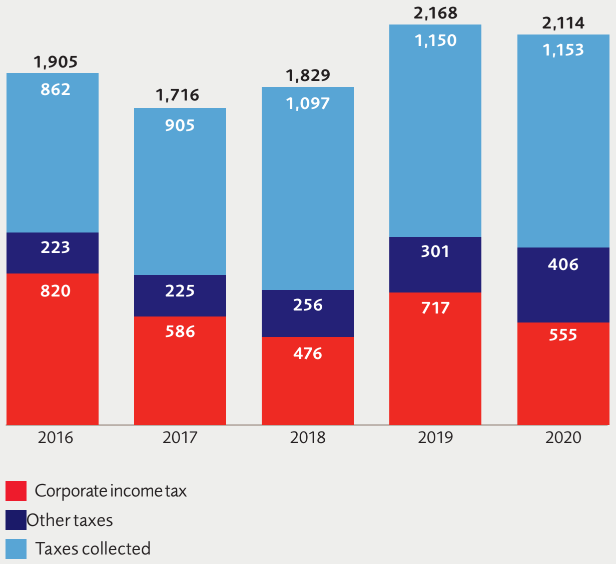
Taxes collected ($m)



The reductions in tax collected in the **UK** and the **US** is principally due to lower employee payroll tax deductions reflecting lower employee numbers in both jurisdictions.

Appendix 2 – Prudential plc historical tax remittances

Total taxes remitted[1] ($m)



	Total 2016 $m	Total 2017 $m	Total 2018 $m	Total 2019 $m	Total 2020 $m
United States	1,082	888	915	1,320	**907[2]**
Hong Kong	58	91	106	56	**253[3]**
Indonesia	246	211	201	191	**153**
Singapore	61	94	87	80	**144[4]**
Malaysia	82	96	95	71	**81**
United Kingdom	93	79	88	87	**81**
Africa	2	9	8	9	**12**
Other	148	106	131	163	**253**
Total subsidiaries	1,772	1,574	1,631	1,977	**1,884**
Joint ventures and associates	133	142	198	191	**230**
Total tax paid	1,905	1,716	1,829	2,168	**2,114**

Notes
1 All years exclude tax remitted by M&G plc entities.
2 See Note 7 of Figure 3 and Appendix 1 for explanation of decrease from 2019 to 2020.
3 See Note 8 of Figure 3 and Appendix 1 for explanation of increase from 2019 to 2020.
4 See Appendix 1 for explanation of increase from 2019 to 2020.

Appendix 3 – Calculating our taxable profit

What is the taxable profit based on?

For most of our businesses, the taxable profit is based on the accounting profit before tax in the financial statements. However, there are some exceptions to this for some of our insurance businesses. For example:

- In the US, the taxable profit is based on the surplus for the period from the regulatory return;
- In Hong Kong, the taxable profit for most of the business is assessed as 5 per cent of the premium income (net of reinsurance); and
- In Singapore, Malaysia, Indonesia and the Philippines the taxable profit comprises both the shareholder profit and the investment return earned for policyholders within the insurance funds (policyholder profit). In such jurisdictions, differential corporate income tax rates can apply to the shareholder and policyholder profits.

How do we approach cross-border transactions?

The international tax environment can be complex. In addition to applying the local tax laws of the jurisdiction in which we operate, we follow the OECD's principles on transfer pricing and other international tax matters to ensure we pay tax in the jurisdictions in which economic value is created.

How are investment income and capital gains taxed?

Most jurisdictions in which our insurance businesses operate have specific tax rules relating to investment income and capital gains, and these rules apply to all businesses and not just insurance companies. However, the rules can have a more noticeable effect on the tax position of insurance companies, given that investment income and capital gains are a major part of the revenues of an insurance company.

In many jurisdictions it is common for dividend income from portfolio investments to be exempt from tax. However, in the US, dividends received from portfolio investments are included in policyholders' taxable income, but a deduction (known as the dividend received deduction) removes 35 per cent of the dividends from the taxable profit of the company.

In most jurisdictions, capital gains are only taxed when they are realised, and so unrealised gains recognised in the accounts will not be taxed (and equally unrealised losses will not be tax-deductible).

Some jurisdictions have specific tax rules that only apply to insurance companies or that apply to certain financial companies, including insurers. In the US, unrealised gains and losses on certain derivatives of life insurers are amortised into the taxable profit over a number of years.

Are policyholder liabilities and expenses tax-deductible?

Technical reserves set up for policyholder liabilities are generally tax-deductible. There are some jurisdictions (eg the US, Indonesia and Thailand) where there are either restrictions on the quantum of technical reserves that can be deducted in any one year, or where specific types of technical reserve are not tax-deductible.

Whether or not expenses incurred by an insurance company are tax-deductible will generally follow the same rules as for other companies. Many jurisdictions have specific tax rules that require acquisition (or new business) expenses to be deducted for tax purposes over a number of years and not in the year in which they are incurred.

Prudential public limited company
Incorporated and registered in England and Wales

Registered office
1 Angel Court,
London EC2R 7AG

Registered number 1397169

www.prudentialplc.com

Principal place of business in Hong Kong
13th Floor
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

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