PRUDENTIAL

Managing our tax affairs responsibly and sustainably

Prudential plc

Tax Strategy Report

Contents

Foreword

2021 global total tax contribution

$1,071m

(2020: $1,208m)

I am delighted to introduce Prudential's Tax Strategy Report for 2021. This is the first such report we have published since I took up the role of Group Chief Financial Officer and it is a core contributor to our wider environmental, social and governance (ESG) activity.

We consider our tax strategy to be an important part of our commitment to good governance and responsible business practices. It demonstrates clearly one of the ways we are contributing to the communities in which we operate – through the taxes we pay – and is aligned with our purpose to help people get the most out of life.

We are committed to paying the right amount of tax at the right time, and that commitment remains more important than ever as communities around the world deal with the ongoing fiscal impacts of the Covid pandemic. This is the tenth year in which we have disclosed our total tax contribution, and over that period our continuing operations have contributed a total of over $8 billion across our markets, including $1,071 million in 2021. Our total tax contribution in 2021 was lower than 2020, principally due to the timing of when certain taxes were assessed, as explained on page 7 of this report.

During 2021 we completed the strategic re-positioning of our business to focus solely on growth opportunities in Asia and Africa and we completed the demerger of our US business, Jackson. Our approach to tax reflects our business strategy, with our tax footprint being aligned with our business footprint. In this year's report we have rebased all our prior year comparatives to our continuing operations, removing Jackson. We have also included an in-depth analysis for our main Asia jurisdictions, where our subsidiaries contribute more than $5 million in tax, to provide more detail on the drivers of our tax payments.

We remain fully committed to tax transparency, disclosing information that is relevant to our business and important to our stakeholders.

We are supportive of the development of an internationally recognised standard for tax-transparent disclosures. In the interim, we continue to evolve our disclosures and, when developing this report, we have taken into account the B Team Responsible Tax Principles[1] and the reporting requirements for the GRI 207: Tax standard issued by the Global Sustainability Standards Board.

In December 2021 the Organisation for Economic Co-operation and Development (OECD) published model rules, which provide governments with a template to introduce a global minimum tax rate of 15 per cent, with technical guidance around the rules published in March 2022. Since then, a number of jurisdictions in which we operate have indicated that they will introduce a domestic minimum tax rate based on the OECD principles. Analysis of the complex rules and lengthy guidance is ongoing. We will also need to take account of further documents expected to be released during 2022, including draft UK legislation, which is expected during Q3 2022.

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 2021 Annual Report. While the financial information within this report covers 2021, the strategy set out applies to 2022, demonstrating our intentions for the year ahead. This report was approved by Prudential plc's Group Audit Committee in May 2022.

James Turner
Group Chief Financial Officer
Prudential plc

Note
1 See Glossary.

2021 total tax contribution – overview

Taxes borne are taxes paid by Prudential that are a cost to the Group and are recorded against the jurisdiction to which they are remitted. 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 employee payroll taxes, sales and premium taxes and other taxes.

	Taxes borne	Taxes collected
Hong Kong	$71m	–
Indonesia	$91m	$36m
Malaysia	$75m	$25m
Philippines	$57m	$24m
Singapore	$86m	$11m
Taiwan	$26m	$2m
Thailand	$33m	$18m
Vietnam	$57m	$17m
Other Asia subsidiaries	$14m	$6m
Share of joint ventures and associates	$112m	$136m
Africa	$6m	$12m
Rest of the world (including the UK)	$119m*	$37m
TOTAL	**$747m**	**$324m**
TOTAL TAX CONTRIBUTION	**$1,071m**	

* Includes withholding taxes incurred by the Group's insurance businesses on investments outside their home jurisdiction.

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 and by promoting financial inclusion. We protect people's wealth, help them grow their assets, and empower them 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 2021 Annual Report and ESG Report respectively. 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.

Our tax strategy / continued

Guiding principles

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

Tax compliance
We act responsibly and with integrity in all of our tax matters. We understand the importance to governments and wider society 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.

How we consider our stakeholders in our approach to tax

Customers: We put customers first. 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.

Investors: We act in the best interests of our investors by managing the taxes we pay in a responsible and sustainable manner.

Government and wider society: We support our wider communities through investment in business and infrastructure, paying tax and community support activity.

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 that when making tax decisions we take the long view.

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'.

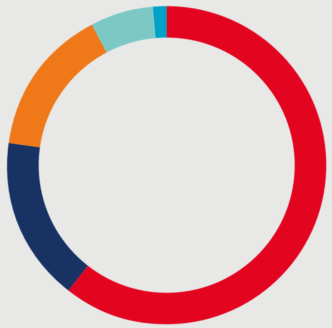
What taxes do our businesses pay?

We set out in Figure 1 the taxes borne by our businesses in 2021 – which represents a cost to the Group – and, in Figure 2, the taxes our businesses collected and remitted to tax authorities in 2021. Together these represent the total tax contribution of the Group ($1,071 million) to the societies and economies in which our businesses operate and invest.

Figure 1: 2021 total tax borne

$747m

(2020: $915m)



- **Corporate income tax** – $453m
- **Other withholding taxes** – $124m
- **Irrecoverable VAT and sales tax** – $113m
- **Employer payroll taxes** – $48m
- **Property taxes** – $9m

The taxes borne in 2021 of **$747 million** were lower than the **$915 million** taxes borne in 2020, principally as a result of:

- The 2020 corporate income tax payments for Hong Kong included a payment of $93 million for 2019, which would normally have been paid around November 2019, but was not paid until January 2020, due to a delay in the issuing of relevant tax assessments;
- Withholding taxes incurred in 2021 by our insurance companies on overseas investments were $40 million lower than in 2020, reflecting a different mix of investments; and
- VAT incurred in 2020 included one off payments relating to a number of bancassurance contracts

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.

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 other sales tax and our insurance businesses can usually only recover a small proportion of the VAT and sales tax incurred. Our asset management, service and holding companies will typically have higher VAT recovery rates than our insurance businesses, as fewer of their activities will be exempt from VAT. The VAT and sales tax incurred, across all our different businesses, 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: 2021 total tax collected

$324m

(2020: $293m)

- **Employee payroll taxes** – $144m
- **Sales and premium tax** – $131m
- **Other withholding taxes** – $49m

Taxes collected in 2021 of **$324 million** were higher than the **$293 million** collected in 2020, principally reflecting higher amounts of VAT and Goods and Services Tax ('GST') collected in jurisdictions that apply VAT/GST in relation to insurance premiums.

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.

Sales and premium tax
The Group collects sales tax (eg VAT/GST and other services tax) on some services it provides to third parties and its customers, and in some jurisdictions in which we operate we collect tax in relation to insurance premiums. 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 and where?

We continue to make significant tax contributions in the jurisdictions in which we operate. In 2021, our global total tax contribution was $1,071 million. Figure 3 breaks down corporate income taxes paid, other taxes borne and taxes collected for each jurisdiction in which our subsidiaries paid $5 million or more in total tax to the local tax authority in 2021. 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).

Effective tax rate

In 2021, the effective tax rate on the Group's total IFRS profit was 17 per cent (2020: 15 per cent). The increase in the 2021 effective tax rate reflects the adverse impact of investment losses on which no tax credit is recognised. The tax notes on pages 261 to 264 of the Group's 2021 Annual Report include a reconciliation of the Group expected tax rate of 20 per cent to the Group effective tax rate of 17 per cent. The Group expected tax rate reflects the corporate income tax rates that are expected to apply to the taxable profit or loss of our businesses. It reflects the statutory corporate income tax rates of each jurisdiction weighted by reference to the amount of profit or loss contributing to the aggregate result from our businesses. Further details regarding our effective tax rates compared to the statutory corporate income tax rate ('expected tax rate') at a jurisdictional level and the types of taxes remitted for our Asia jurisdictions, that have been separately identified in Figure 3, are set out in the 'Overview of key Asia jurisdictions' section.

Figure 3: 2021 Prudential plc continuing operations total tax contribution by jurisdiction

	2021 ($m – except for employee numbers)						
	Total taxes remitted	Corporate income taxes paid[1]	Other taxes borne[2]	Taxes collected[3]	Total revenue net of reinsurance	IFRS profit (loss) before tax[4]	Average employee numbers
Hong Kong	71	67	4	–	10,154	858	1,660
Indonesia	127	68	23	36	1,905	445	1,978
Malaysia	100	62	13	25	1,991	395	2,100
Philippines	81	31	26	24	782	101	876
Singapore	97	76	10	11	7,619	943	1,823
Taiwan	28	6	20	2	1,256	(71)[5]	826
Thailand	51	16	17	18	879	302	1,177
Vietnam	74	28	29	17	1,716	166	1,547
United Kingdom	72	–[6]	37	35	77	(437)[6]	225
Rest of the world[7]	122	11	91[7]	20	438	(1)	1,625
Total subsidiaries	**823**	**365**	**270**	**188**	**26,817**	**2,701**	**13,837**
Joint ventures and associates[8]	248	88	24	136	–	352	–
Loss attaching to corporate transactions	–	–	–	–	–	(35)	–
Intra-group revenue[9]	–	–	–	–	(317)	–	–
Group total 2021	**1,071**	**453**	**294**	**324**	**26,500**	**3,018**	**13,837**
Group total 2020	1,208	551	364	293	36,247	3,179	13,606

Notes

1 Corporate income taxes paid includes (i) corporate income tax paid on taxable profits, and (ii) withholding tax on certain investment income derived in Cambodia, Indonesia, the Philippines and Taiwan, where this tax is a form of corporate income tax. In addition, for some jurisdictions, the corporate income tax paid includes amounts paid on policyholder investment returns on some life insurance products. The taxable profit on which corporate income tax is calculated, will be based on local tax laws and regulations, typically using either local generally accepted accounting principles ('GAAP') profits or local regulatory return surplus as a starting point.

2 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.

3 Taxes collected are taxes that Prudential is required to collect from employees, customers and third parties which are paid to tax authorities.

4 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.

5 The loss before tax of $71 million reflects the adverse movement for 2021 in short-term fluctuations for the Taiwan insurance business.

6 The loss before tax of $437 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 2021, reflecting tax losses arising from external interest costs and head office costs.

7 Rest of the world comprises (i) all remaining subsidiaries and (ii) within other taxes borne, $80 million of withholding taxes incurred by the Group's insurance businesses on investments outside their home jurisdiction. This is made up of $57 million of US withholding tax, $13 million of withholding tax remitted to jurisdictions in Asia where we have operations and $10 million of withholding tax remitted to other jurisdictions.

8 Includes the Group share of our Insurance and Asset Management joint ventures and associates in China, India, Hong Kong and Malaysia. See Note D6.3 of our 2021 Annual Report for more detail.

9 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 and where? / continued

Overview of key Asia jurisdictions

Hong Kong

$71m
Total tax remitted

$67m Corporate income tax paid

$4m Other taxes borne

$0m Taxes collected

IFRS profit before tax	$858m (A)
Total tax charge of which	$130m
Policyholder tax	$79m (B)
Shareholder tax	$51m (C)
Expected tax rate	16.5%
Effective tax rate (C) / (A-B)	7%

Insurance, asset management and head office holding companies

Policyholder tax mainly comprises withholding tax incurred on non-Hong Kong investments of the insurance business.

The **effective tax rate** of 7 per cent represents the weighted average of the tax rates of all the Hong Kong businesses.

- In common with other Hong Kong insurers, the taxable profit of our Hong Kong insurance business is not based on an accounting profit or regulatory surplus; it is instead computed as 5 per cent of premium income (net of reinsurance). This measure of taxable profit is typically lower than the accounting profit and so leads to a low effective tax rate.
- The effective tax rate of the asset management business is typically very close to the 16.5 per cent expected tax rate.
- The head office and other costs in the Hong Kong head office entities, give rise to tax losses. The Hong Kong tax system does not allow tax losses to be offset against taxable profits of other Hong Kong group companies. No deferred tax asset is recognised in respect of the unused tax losses which are carried forward to future periods.

Other taxes borne mainly reflect stamp duty on the purchase of Hong Kong equity investments.

There are no **taxes collected** by our Hong Kong businesses. Hong Kong does not have a VAT or equivalent regime. There are no payroll taxes that need to be paid or collected in respect of the Hong Kong employees.

Indonesia

$127m
Total tax remitted

$68m Corporate income tax paid

$23m Other taxes borne

$36m Taxes collected

IFRS profit before tax	$445m (A)
Total tax charge of which	$71m
Policyholder tax	$(4)m (B)
Shareholder tax	$75m (C)
Expected tax rate	22%
Effective tax rate (C) / (A-B)	17%

Insurance and asset management companies

Policyholder tax mainly comprises final tax (which is a form of withholding tax at source) on investment income within the unit linked funds.

The **effective tax rate** of 17 per cent represents the weighted average of the tax rates of all the Indonesia businesses.

- The taxable profit of our Indonesia insurance business is based on the accounting profit. However, most investment gains are taxed under the final tax regime, with the final tax rate ranging from 0.1 per cent to 20 per cent. This can result in the effective tax rate being lower than the expected tax rate depending on the level of investment gains.
- The taxable profit of our Indonesia asset management business is based on the accounting profit and the effective tax rate is typically close to the 22 per cent expected tax rate.

Other taxes borne primarily comprises withholding tax on dividends paid by the insurance business, employer payroll related taxes and irrecoverable VAT due to much of the income of the Indonesia insurance business being exempt from VAT.

Taxes collected mainly comprise payroll taxes deducted from payments to employees and withholding taxes on certain payments to suppliers.

How much tax do we pay and where? / continued

Overview of key Asia jurisdictions

Malaysia

$100m
Total tax remitted

$62m
Corporate income tax paid

$13m
Other taxes borne

$25m
Taxes collected

IFRS profit before tax	$395m (A)
Total tax charge of which	$91m
Policyholder tax	$2m (B)
Shareholder tax	$89m (C)
Expected tax rate	24%
Effective tax rate (C) / (A-B)	23%

Insurance, asset management and service companies

Policyholder tax mainly comprises tax relating to the unit linked fund and the policyholder distributable portion of the participating fund.

The **effective tax rate** of 23 per cent represents the weighted average of the tax rates of all the Malaysia businesses.

- The taxable profit for the insurance company's main life fund, which consists of the participating fund, unit linked fund and non-participating fund, is 8 per cent of net investment income. Profits in the shareholders' fund are taxed at the standard tax rate of 24 per cent.
- The taxable profit of our Malaysia asset management business and service companies is based on accounting profit.

Other taxes borne mainly comprise employer payroll related taxes and irrecoverable Sales and Service Tax (SST) which is a final tax on certain costs incurred by the businesses.

Taxes collected mainly comprise payroll taxes deducted from payments to employees and SST collected on group insurance business.

Philippines

$81m
Total tax remitted

$31m
Corporate income tax paid

$26m
Other taxes borne

$24m
Taxes collected

IFRS profit before tax	$101m (A)
Total tax charge of which	$18m
Policyholder tax	$4m (B)
Shareholder tax	$14m (C)
Expected tax rate	25%
Effective tax rate (C) / (A-B)	14%

Insurance and asset management companies

Policyholder tax mainly comprises final tax (which is a form of withholding tax at source) on investment income within unit linked funds.

The **effective tax rate** of 14 per cent represents the weighted average of the tax rates of all the Philippines businesses.

- The taxable profits of our Philippines insurance and asset management businesses are based on the accounting profits. However, investment income is generally subject to final tax. Adjusting for this can often result in the effective tax rate being different to the expected tax rate.
- During 2021, the statutory corporate income tax rate was reduced from 30 per cent to 25 per cent with retrospective effect from 1 July 2020. This has resulted in a one-off prior year adjustment in 2021, leading to a lower effective tax rate in the year.

Other taxes borne are comprised of withholding tax on dividends paid by our Philippines insurance business, employer payroll related taxes and irrecoverable VAT due to much of the income of the Philippines insurance business being exempt from VAT.

Taxes collected mainly comprise payroll taxes deducted from payments to employees and withholding taxes on certain payments to suppliers. In addition, there is documentary stamp tax (DST), which is a premium type tax charged on certain life insurance policies.

How much tax do we pay and where? / continued

Overview of key Asia jurisdictions

Singapore

$97m
Total tax remitted

$76m Corporate income tax paid

$10m Other taxes borne

$11m Taxes collected

IFRS profit before tax	$943m (A)
Total tax charge of which	$369m
Policyholder tax	$261m (B)
Shareholder tax	$108m (C)
Expected tax rate	17%
Effective tax rate (C) / (A-B)	16%

Insurance, asset management and service companies

Policyholder tax mainly comprises tax on distributions to policyholders from the participating fund and withholding tax incurred on non-Singapore investments of the insurance business.

The **effective tax rate** of 16 per cent represents the weighted average of the tax rates of all the Singapore businesses.

> The taxable profit of our Singapore insurance business is based on the regulatory return rather than the accounting profit. Singapore dividend income and foreign dividend income that meets certain criteria are both exempt from tax and is therefore excluded when calculating the taxable profit. In addition, income from qualifying debt securities is subject to a concessionary tax rate of 10 per cent. These factors lead to the effective tax rate being typically lower than the expected tax rate of 17 per cent.

> The taxable profit of our Singapore asset management business is based on the accounting profit. The effective tax rate of the asset management business is typically slightly lower than the 17 per cent expected tax rate as management and advisory fees are subject to a concessionary tax rate of 10 per cent.

Other taxes borne primarily comprises irrecoverable GST, due to much of the income of the Singapore insurance business being exempt from GST.

Taxes collected mainly comprise GST collected on standalone health related insurance policies and fund management services.

Taiwan

$28m
Total tax remitted

$6m Corporate income tax paid

$20m Other taxes borne

$2m Taxes collected

IFRS profit before tax	$(71)m
Total tax charge	$26m
Expected tax rate	20%
Effective tax rate	(37)%

Insurance and asset management companies

The **effective tax rate** of (37) per cent represents the weighted average of the tax rates of all the Taiwan businesses.

> The taxable profit of our Taiwan insurance and asset management businesses is based on the accounting profit.

> The effective tax rate of the Taiwan insurance business reflects a combination of brought forward tax losses, investment gains or losses on domestic securities being not taxable (gains) or not deductible (losses) and Taiwan's alternative minimum tax regime.

> The effective tax rate of our Taiwan asset management business is typically close to the expected tax rate of 20 per cent.

Other taxes borne comprises withholding tax on payments to related parties and irrecoverable VAT.

Taxes collected comprises payroll taxes deducted from payments to employees.

How much tax do we pay and where? / continued

Overview of key Asia jurisdictions

Thailand

$51m
Total tax remitted

$16m Corporate income tax paid

$17m Other taxes borne

$18m Taxes collected

IFRS profit before tax	$302m
Total tax charge	$60m
Expected tax rate	20%
Effective tax rate	20%

Insurance and asset management companies

The **effective tax rate** of 20 per cent represents the weighted average of the tax rates of all the Thailand businesses and is typically close to the expected tax rate.

The taxable profits of our Thailand insurance and asset management businesses are based on the accounting profits.

Other taxes borne comprises employer payroll taxes and irrecoverable VAT due to much of the income of the Thailand insurance business being exempt from VAT.

Taxes collected mainly comprise payroll taxes deducted from payments to employees, withholding taxes on certain payments to suppliers, and stamp duty on some insurance policies.

Vietnam

$74m
Total tax remitted

$28m Corporate income tax paid

$29m Other taxes borne

$17m Taxes collected

IFRS profit before tax	$166m
Total tax charge	$31m
Expected tax rate	20%
Effective tax rate	19%

Insurance and asset management companies

The **effective tax rate** of 19 per cent represents the weighted average of the tax rates of all the Vietnam businesses and is typically very close to the expected tax rate of 20 per cent.

The taxable profits of our Vietnam insurance and asset management businesses are based on the accounting profits.

Other taxes borne comprise irrecoverable VAT incurred by the businesses, employer payroll related taxes and taxes withheld on certain payments to suppliers.

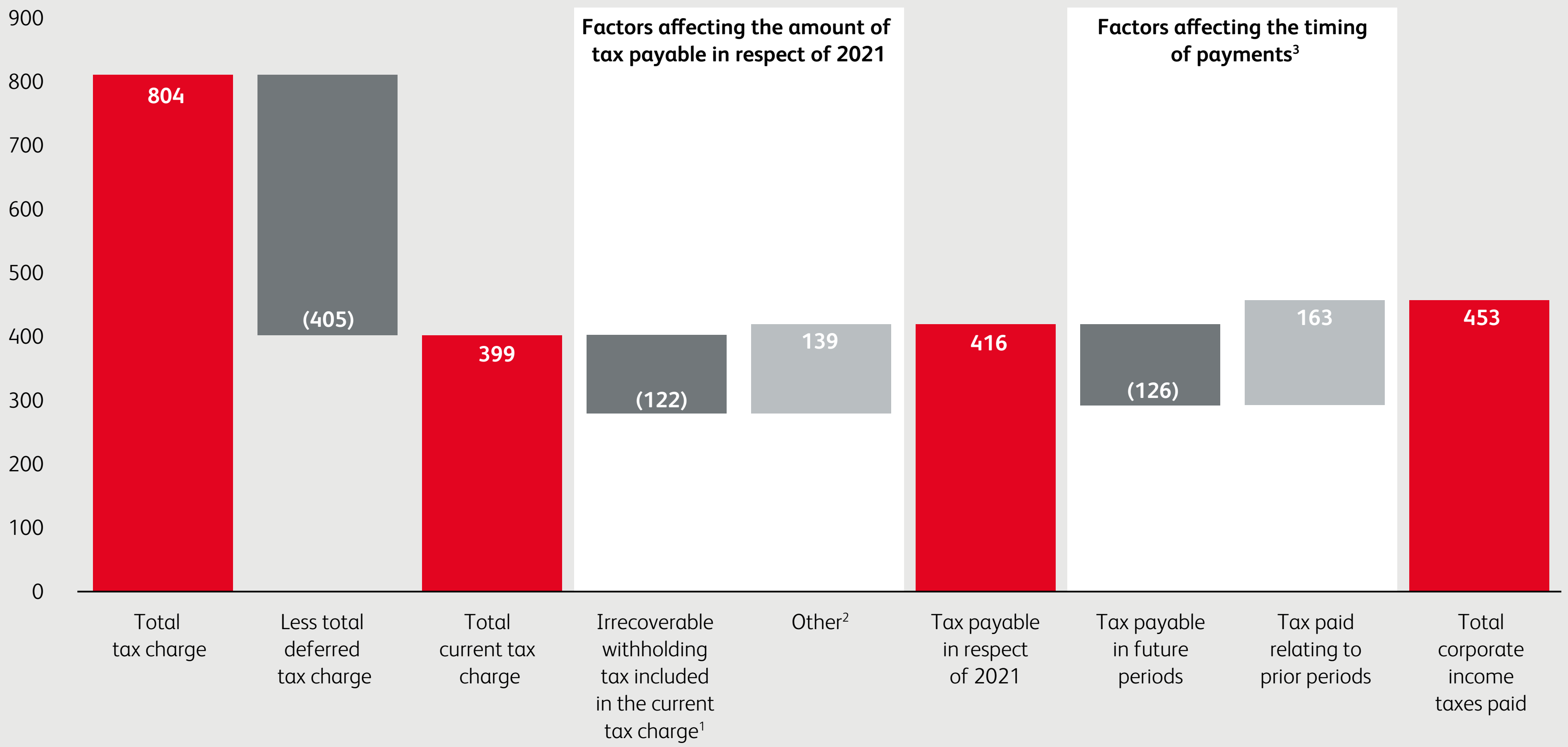
Taxes collected primarily comprises payroll taxes deducted from payments to employees.

How much tax do we pay and where? / 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 2021 our total tax charge was $804 million and our corporate income tax payments were $453 million. Figure 4 provides a reconciliation between the total tax charge and the corporate income tax payments made during 2021.

Figure 4: 2021 reconciliation of total tax charge to corporate income tax paid ($m)



Notes

1 Reducing tax payable, the Group incurs withholding tax on remittances received from certain jurisdictions and on certain investment income. 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 $122 million withholding tax is included in the $124 million withholding tax in total taxes borne in Figure 1, with the remainder of the $124 million relating to withholding taxes suffered which have been expensed in computing the profit before tax.

2 Increasing tax payable, Other comprises $88 million in respect of Prudential's share of tax paid from joint ventures and associates, which as per the Consolidated income statement on page 237 of the Group's 2021 Annual Report, has been deducted from Prudential's share of profits from joint ventures and associates; $47 million from movements in provisions; $6 million in prior year adjustments; and $(2) million in foreign exchange and other adjustments.

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

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.

Our investments

We protect people's wealth, help them grow their assets and empower them to save for their goals. Our insurance companies hold a broad investment portfolio on behalf of our customers. This includes collective investment vehicles, such as funds managed by our investment manager – Eastspring Investments – and externally managed funds. Such funds are often widely held by both external investors and Prudential's insurance companies.

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.

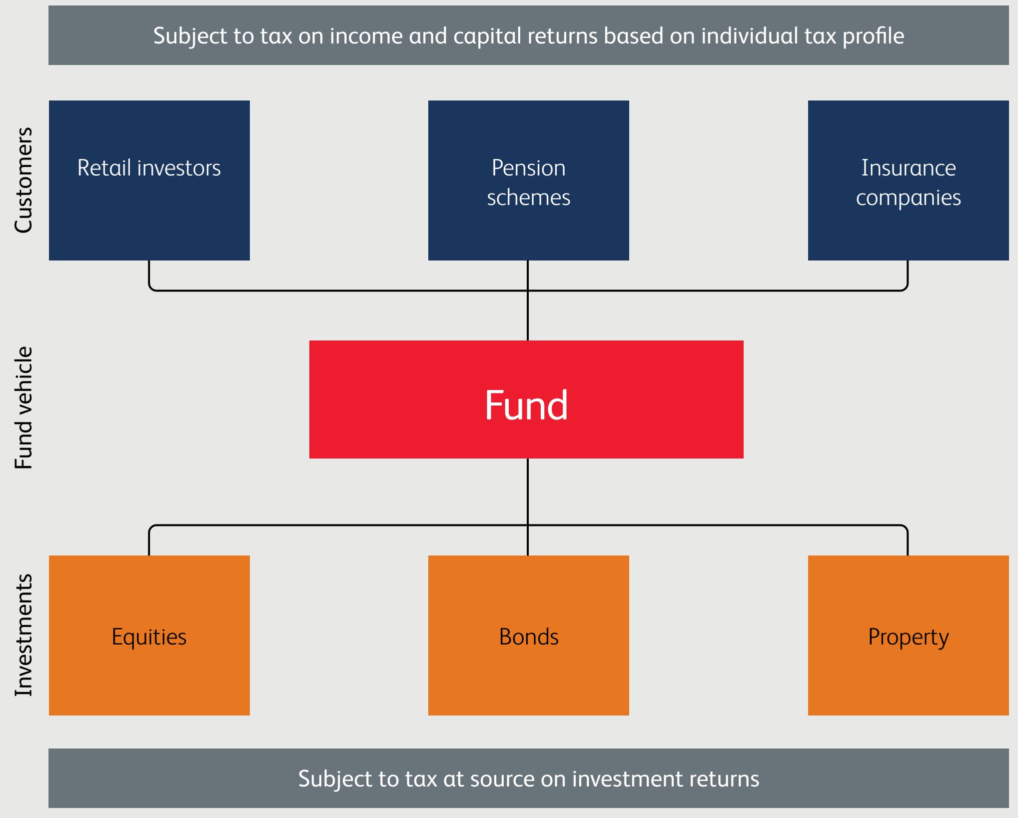
Funds are often structured with various legal entities in different jurisdictions. There are a number of reasons for this, including to facilitate the segregation and limited liability of investments, to provide flexibility on the future disposal of investments or, as is often the case with real estate,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

In common with other investors, our insurance companies invest in funds as part of a diversified investment strategy and as part of managing liquidity. Some of these funds will include investments in real estate and infrastructure. 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. 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.

As a significant allocator of capital in financial markets, our commitment to responsible investment encompasses our role as both asset owner and asset manager. We do not invest in funds with the intention to reduce the tax that we pay and we comply with all customer tax disclosure requirements for the funds we manage.

It is common for funds to be established in jurisdictions that do not impose an additional layer of taxes on the fund itself or have special rules for asset management entities. 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. As a consequence, our investing companies will be subject to tax on income and capital returns from the fund based on their individual tax profile. In most instances, this results in the tax paid being similar to what the tax would have been if our companies had invested directly in the underlying assets.

Illustrative example of simplified fund structure



How we manage our tax affairs / continued

Cross-border transactions and transfer pricing

Regulatory requirements typically mean that profits from insurance business are taxed in the jurisdiction where the insurance is sold and regulated.

All our businesses are responsible for developing their own products and distribution networks, for pricing and marketing, and for managing local regulatory capital requirements. Where cross-border transactions do arise between related parties, 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.

Low tax rate jurisdictions

In previous years, we have disclosed how many of our entities were in jurisdictions with a headline corporate income tax rate of 10 per cent or lower. In 2021, the international consensus in the OECD Base Erosion and Profit Shifting (BEPS) proposals was that 15 per cent should be the minimum tax threshold. Note D6.4 of the Group's 2021 Annual Report provides a full list of the Group's subsidiaries, joint ventures, associates, and significant holdings (being holdings of more than 20 per cent). Within that list, as at 31 December 2021, the Group had 11 entities in jurisdictions with a headline corporate income tax rate of less than 15 per cent. Details of these entities are as follows:

- **Cayman Islands:** We have one investment management subsidiary and three non-controlled related undertakings, which represent investments of Prudential.
- **Guernsey:** We have one regulated captive insurance subsidiary, whose profits are subject to tax in the UK under the UK's Controlled Foreign Company regime.
- **Ireland:** We have six non-controlled related undertakings, which represent investments of Prudential into various funds.

In aggregate, in 2021 the consolidated entities in low tax jurisdictions account for less than $1 million of total Group revenue and total Group profit.

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. However, there are times where it is necessary for the matter to proceed to litigation to clarify and resolve differences between the taxpayers and tax authorities interpretation of the relevant tax law. As noted on page 264 of our 2021 Annual Report, $42 million of provisions in respect of open tax issues were held at 31 December 2021, reduced from $113 million at 31 December 2020.

Tax policy work

We believe that more informed and sustainable outcomes are achieved where governments and policymakers openly consult with industry and other affected stakeholders. We work with governments and policymakers 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.

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

In October 2021 the OECD/G20 Inclusive Framework of over 130 jurisdictions reached an agreement in principle on reforming the international tax system. If implemented, the proposals could have significant consequences for the taxation of multinational enterprises (MNEs). The proposals comprise two pillars:

	Proposal	Prudential's actions	Next steps
Pillar 1	Concerns the re-allocation of some taxing rights to the markets where MNEs have business activities and earn profits, regardless of whether firms have a physical presence there.	We have contributed to representations made by a number of UK and Asia insurance and financial services trade bodies, arguing the case for regulated financial services (including regulated insurance) to be exempt from the rules. Such an exemption (which is included in the agreed proposals) reflects the regulatory framework within which insurance groups operate, which typically results in profits being taxed in the same jurisdiction where the insurance is sold and regulated.	On 6 May 2022, the OECD released a document on the regulated financial services exemption for public consultation. Our expectation is that the proposed exemption will apply to Prudential.
Pillar 2	Concerns MNEs paying a minimum level of tax and includes the proposed minimum tax rate of 15 per cent.	We have contributed to the representations made by a number of UK and Asia insurance and financial services trade bodies, in relation to the detailed Pillar 2 rules and guidance. Prudential has also responded to the UK Government's consultation on implementing the Pillar 2 rules into domestic UK law. Prudential's focus has been on practical matters arising from the proposals including areas where the rules and guidance either remain unclear or produce outcomes that appear inconsistent with the policy intent.	The Group's effective tax rate is likely to be impacted when the OECD rules and equivalent domestic minimum tax rules are implemented into relevant national law. Analysis of the complex rules and lengthy guidance is ongoing. We will also need to take account of further documents expected to be released during 2022, including draft UK legislation, which is expected during Q3 2022.

Our tax teams and the use of tax advisers

Our specialist tax teams in the UK and Asia comprise 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 operationally efficient 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 rest with the Board. Responsibility for the implementation of our tax strategy rests with the Group Chief Financial 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, reflecting that taxes are currently only 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 units 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 our specialist tax teams and the business units. 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, any operational incidents and the effectiveness of associated controls as part of 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 and other key stakeholders – 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 is part of 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 47 to 50 of the Group's 2021 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 are reviewed and implemented. Additionally, within the Group's Non-Financial Risk Appetite Framework, tax risk is also incorporated within broader risk appetite statements and limits. 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

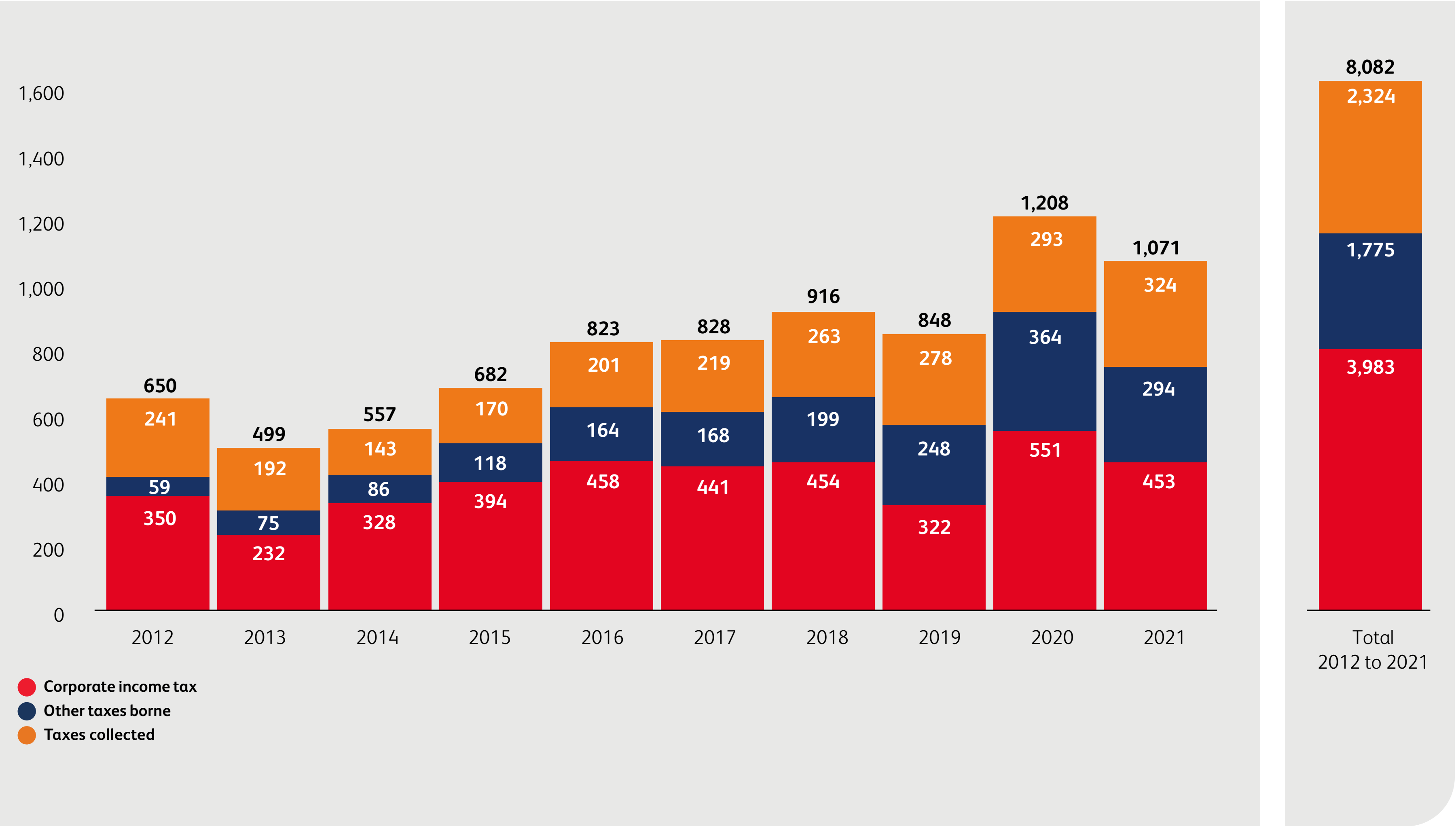
We define tax risk as any uncertainty from either the interpretation of tax law to a particular situation or the practical implementation of tax law in an operational or tax compliance sense, which has the potential to have an adverse financial or reputational outcome.

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 rapid and continuing evolution of global tax regulations, 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 failure to prevent the facilitation of tax evasion.	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

Prudential plc historical tax remittances from continuing operations ($m)



Glossary

B Team Responsible Tax Principles
See link.

Effective tax rate
The effective tax rate is the average rate at which profits are taxed for a particular period and is calculated by dividing the total tax charge by the profit before tax.

Expected tax rate
The expected tax rate, often referred to as the statutory tax rate, is the applicable tax rate established by the tax laws of the jurisdiction in question.

Non-participating business
A life insurance policy where the policyholder is not entitled to a share of the company's profits and surplus, but receives certain guaranteed benefits. Examples include pure risk policies (eg fixed annuities, term insurance, critical illness) and unit-linked insurance contracts.

Organisation for Economic Co-operation and Development (OECD)
An intergovernmental economic organisation with 38 member countries, founded in 1961 to stimulate economic progress and world trade.

Participating policies or participating business
Contracts of insurance where the policyholders have a contractual right to receive, at the discretion of the insurer, additional benefits based on factors such as investment performance, as a supplement to any guaranteed benefits. This is also referred to as with-profits business.

Taxes borne
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
Taxes that Prudential collects on behalf of the relevant tax authority. These include employee payroll taxes, sales and premium taxes and other taxes.

Transfer pricing
Refers to the setting of the price for a good or service sold or provided between related parties within a group.

Unit linked business
Insurance products where the surrender value of the policy is linked to the value of underlying investments (such as collective investment schemes, internal investment pools or other property) or fluctuations in the value of underlying investment or indices. Investment risk associated with the product is usually borne by the policyholder. Insurance coverage, investment and administration services are provided, for which the charges are deducted from the investment fund assets. Benefits payable will depend on the price of the units prevailing at the time of surrender, death or the maturity of the product, subject to surrender charges.

With-profits business
See 'participating policies' above.

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Prudential plc is a holding company, some of whose subsidiaries are authorised and regulated, as applicable, by the Hong Kong Insurance Authority and other regulatory authorities. The Group is subject to a group-wide supervisory framework which is regulated by the Hong Kong Insurance Authority.

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