PRUDENTIAL

# Managing our tax affairs responsibly and sustainably

Prudential plc

# Introduction

At Prudential we are clear about our purpose. Through the products that our businesses around the world create and distribute, we help people to de-risk their lives and deal with their biggest financial concerns. At the same time, we invest our customers' savings in the real economy, helping to drive the cycle of growth and build stronger communities.

**£2,839m**

**2018 global total tax contribution**

A key part of our commitment to the communities in which we operate is ensuring that we pay the right amount of tax, at the right time. In 2018 we made a total tax contribution of more than £2.8 billion, helping those communities to provide the public services and infrastructure necessary to support their citizens, drive growth and build confidence in the future.

We are committed to making the right tax contribution. We work to build strong, constructive relationships with tax authorities and we are transparent in all our disclosures, enabling our stakeholders to be fully informed about our tax matters. That commitment to transparency is evident in this report, which contains a tax contribution analysis of every major market in which we operate, showing the clear link between our business footprint and our tax footprint.

There will be a significant change to both our business and tax footprints following the planned demerger of our UK and Europe business, M&GPrudential, from Prudential plc, which we announced in March 2018. The demerger will result in two separately listed companies with distinct investment characteristics and opportunities. Within this report you will find a section on the impact of the planned demerger on our total tax contribution.

We keep a close watch on developments in all areas of tax that may affect us and engage fully in discussions around them. Tax transparency is one such focus for us, and we are following closely the work being done in this area. Digital technology is becoming an increasingly important tool for us as a Group in meeting the needs of our customers. We therefore welcome the opportunity to provide input to the OECD's public consultation on solutions to the tax challenges arising from the growth of digitalisation.

We have clear and strong accountability and governance structures on tax matters. Our tax strategy applies to all of our local businesses around the world. The Prudential plc Board is accountable for that strategy, and we have mechanisms in place to ensure awareness of and adherence to the strategy. We report to the Group Audit Committee and to the Board regularly on our tax affairs, and we have 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 2018 Annual Report. While the financial information within this report covers 2018, the strategy applies to 2019, demonstrating clearly our intentions for the year ahead. This report was approved by Prudential plc's Group Audit Committee in April 2019.

I hope you find this report useful and informative.

**Mark FitzPatrick**
Chief Financial Officer
Prudential plc

# Contents

# Our tax strategy

Our clear and consistent business strategy is to meet the long-term savings and protection needs of a growing middle class and ageing population. We focus on three markets – Asia, the US and the UK and Europe – where the need for our products is strong and growing and we use our capabilities, footprint and scale to meet that need. In recent years, we have expanded into Africa, taking advantage of the emerging demand for our products in the region.

Our trusted brands and strong distribution channels enable us to understand the growing needs of our customers for long-term savings and financial security, and to design innovative products that meet those needs. By helping to build better lives and stronger communities and to fuel the growth cycle, we create long-term value for both our customers and our shareholders.

## 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
We manage tax (including uncertainties and risks) in line with our Group Governance Framework and risk management procedures.

### Transparency and engagement with stakeholders
We provide transparent disclosure of our tax affairs to better inform our stakeholders of 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.

We manage our tax affairs to provide responsible and sustainable support to our business strategy. In delivering this tax strategy through our day-to-day operations, we follow a set of guiding principles.

Customers are at the heart of our business strategy and the business decisions we make. 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. More than ever, responsible tax practices are a key driver in customers' decision-making, and in customers becoming advocates for our business. We have an obligation to 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. 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.

It is also in our customers' and shareholders' interest for Prudential 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. More information on Prudential's approach to sustainability can be found in our 2018 Environmental, social and governance report.

We place great importance on having an effective relationship with those who supervise us and our markets. Our customers' 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 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 the tax decisions we make 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.

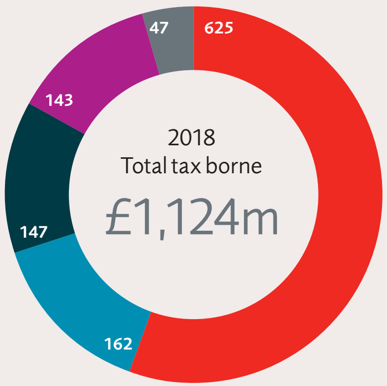
### What do we mean by paying the 'right' amount of tax?
Tax is inherently complex, particularly when it involves financial services and international dimensions. Where the tax treatment of a particular transaction or activity is unclear, we will follow the generally understood interpretation of tax 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 that our businesses bore in 2018 – which represents a cost to the Group – and, in Figure 2, the taxes our businesses collected and remitted to tax authorities in 2018. Together these represent the total tax contribution of the Group (£2,839 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 2018 and 2017 total tax contribution numbers.

**Figure 1: 2018 tax borne**




- Corporation tax
- Irrecoverable VAT and sales tax
- Employer payroll taxes
- Other withholding taxes
- Property taxes

### Corporation tax
The Group pays corporation 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 2.

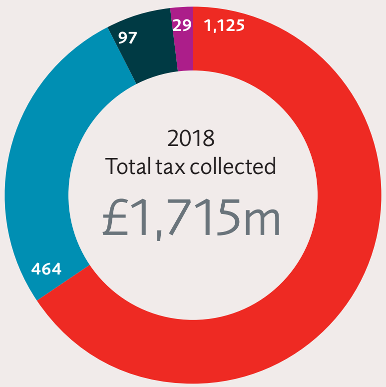
### Irrecoverable VAT and sales tax
The Group incurs VAT and other sales taxes on goods and services that it purchases. In most jurisdictions, life insurance products are exempt from VAT and sales tax and our insurance businesses can usually only recover a small proportion of the VAT and sales tax incurred. 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.

### 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 corporation tax or otherwise recovered, they represent a cost to the Group.

### Property taxes
This relates to stamp duty or transfer tax paid on properties we have bought.

**Figure 2: 2018 tax collected**




- Tax collected from policyholders
- Employee payroll taxes
- Sales and premium tax collected
- Other withholding taxes

### Tax collected from policyholders
In jurisdictions such as the UK and US, we are required to deduct tax from annuity payments made to customers and remit this to the relevant tax authority.

### Employee payroll taxes
In many 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/Goods and Services Tax) on some services it provides to third parties and its customers, and remits the tax collected 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 make significant tax contributions in the jurisdictions in which we operate. In 2018,our global total tax contribution was £2,839 million. Figure 3 breaks down corporation 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 2018. 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 corporation tax rates applicable to the Group's businesses. These can be found on pages 210 to 212 of the Group's 2018 Annual Report.

**Figure 3: 2018 total tax contribution by jurisdiction**

| | **2018** (£m – other than employee numbers) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Total revenue net of reinsurance** | **Profit (loss) before tax[1]** | **Total current tax charge[2]** | **Corporation taxes paid[3]** | **Other taxes borne[4]** | **Taxes collected[5]** | **Total taxes remitted** | **Average employee numbers** |
| UK | (1,785)[6] | (208)[8] | 331 | 246 | 226 | 889 | 1,361 | 5,795 |
| USA | 12,732[7] | 1,758 | 84 | 25 | 69 | 655 | 749 | 4,290 |
| Indonesia | 1,360[7] | 399 | 98 | 88 | 41 | 22 | 151 | 2,008 |
| Hong Kong | 6,118[7] | 160 | 65 | 71 | 9 | – | 80 | 1,871 |
| Malaysia | 1,334 | 156 | 33 | 34 | 9 | 28 | 71 | 2,177 |
| Singapore | 2,988[7] | 561 | 49 | 54 | 9 | 5 | 68 | 1,708 |
| Philippines | 146 | 37 | 4 | 4 | 11 | 10 | 25 | 697 |
| Thailand | 612 | 10 | 9 | 10 | 7 | 6 | 23 | 911 |
| Vietnam | 860 | 137 | 9 | 2 | 4 | 12 | 18 | 6,204 |
| Japan | 50 | 6 | 2 | 3 | 13 | – | 16 | 56 |
| Ireland | 28 | 10 | 1 | 2 | 11 | 3 | 16 | 78 |
| Taiwan | 746 | 12 | 1 | 4 | 5 | 2 | 11 | 776 |
| Italy | 19 | 10 | 3 | 6 | 3 | 2 | 11 | 27 |
| Germany | 16 | 9 | 3 | 2 | 8 | – | 10 | 36 |
| France | 11 | 2 | – | – | 8 | 1 | 9 | 27 |
| Luxembourg | 94 | 4 | 1 | 4 | 2 | 1 | 7 | 28 |
| South Korea | 15 | 2 | – | 1 | 4 | 1 | 6 | 71 |
| Switzerland | 5 | – | – | – | 5 | – | 5 | 10 |
| Rest of the world | 183 | 33 | 3 | 7 | 18 | 16 | 41 | 1,436 |
| **Total subsidiaries** | **25,532** | **3,098** | **696** | **563** | **462** | **1,653** | **2,678** | **28,206** |
| Joint ventures and associates | – | 291 | – | 62 | 37 | 62 | 161 | – |
| Loss on disposal of businesses and corporate transactions | – | (80) | – | – | – | – | – | – |
| Intra-group revenue[9] | (601) | – | – | – | – | – | – | – |
| **Group total 2018** | **24,931** | **3,309** | **696** | **625** | **499** | **1,715** | **2,839** | **28,206** |
| Group total 2017 | 86,390 | 3,970 | 696 | 915 | 427 | 1,561 | 2,903 | 27,151 |

**Notes**

1 This measure is the formal profit before tax measure under IFRS. Profit before all taxes is determined after deducting the cost of policyholder benefits and movements in the liability for unallocated surplus of The Prudential Assurance Company Limited's with-profits fund, after adjusting for taxes borne by policyholders.

2 The total current tax charge is the tax liability we expect to be due when the 2018 corporation tax returns are filed, together with adjustments for prior years. This differs from the corporation tax paid in the year principally due to the timing of when tax is paid, and also because the tax payments in 2018 include adjustments to tax payments made in previous years reflecting tax returns filed or adjusted in 2018. These differences between current tax charge and tax paid are explained further in the following section, 'Why does the amount of corporation tax paid differ from the tax charge in the accounts?'.

3 Corporation taxes paid includes (i) corporation tax paid on taxable profits, and (ii) withholding tax on income in Indonesia and the Philippines where this withholding tax is a form of corporation tax. In addition, for certain jurisdictions such as the UK, the corporation tax paid includes amounts paid on policyholder investment returns on certain life insurance products. In 2018, the corporation tax paid in the UK on policyholder investment returns was £134 million (2017: £298 million). The taxable profit on which corporation 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 2, there are some jurisdictions where the taxable profit is based on something other than the local GAAP profits.

4 Other taxes borne include irrecoverable VAT, 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.

5 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.

6\. The negative total revenue net of reinsurance number for the UK reflects gross premiums of £12,088 million, reduced by outward reinsurance (principally the £12 billion annuity liabilities reinsured to Rothesay Life) and negative investment return arising from adverse market conditions in 2018.

7 For several jurisdictions, the total revenue net of reinsurance numbers for 2018 were significantly lower than 2017 due to the negative investment return arising from adverse market movements.

8 The loss before tax of £208 million includes the loss of £508 million arising on the reinsurance transaction for part of the UK shareholder backed annuity portfolio.

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? continued

## Why does the amount of corporation tax paid differ from the tax charge in the accounts?

The amount of corporation 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 2018 our current tax charge was £696 million and our corporation tax payments were £625 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 corporation tax payments made during 2018.

**Figure 4: 2018 reconciliation of expected tax to current tax charge**

| | Total £m | Shareholder £m | Policyholder (Note 1) £m | 2018 Annual Report reference |
|---|---|---|---|---|
| **Profit (loss) before tax** | **3,309** | 3,635 | (326) | Page 173 |
| Tax charge (credit) at the expected rate (Note 2) | **448** | 774 | (326) | – |
| Adverse recurring items (Note 3) | **117** | 117 | – | – |
| Favourable recurring items (Note 4) | **(260)** | (260) | – | – |
| Non-recurring items (Note 5) | **(9)** | (9) | – | Page 211 |
| Less: Deferred tax credit (charge) | **400** | (206) | 606 | Page 210 |
| **Current tax charge** | **696** | 416 | 280 | Page 210 |

### Notes

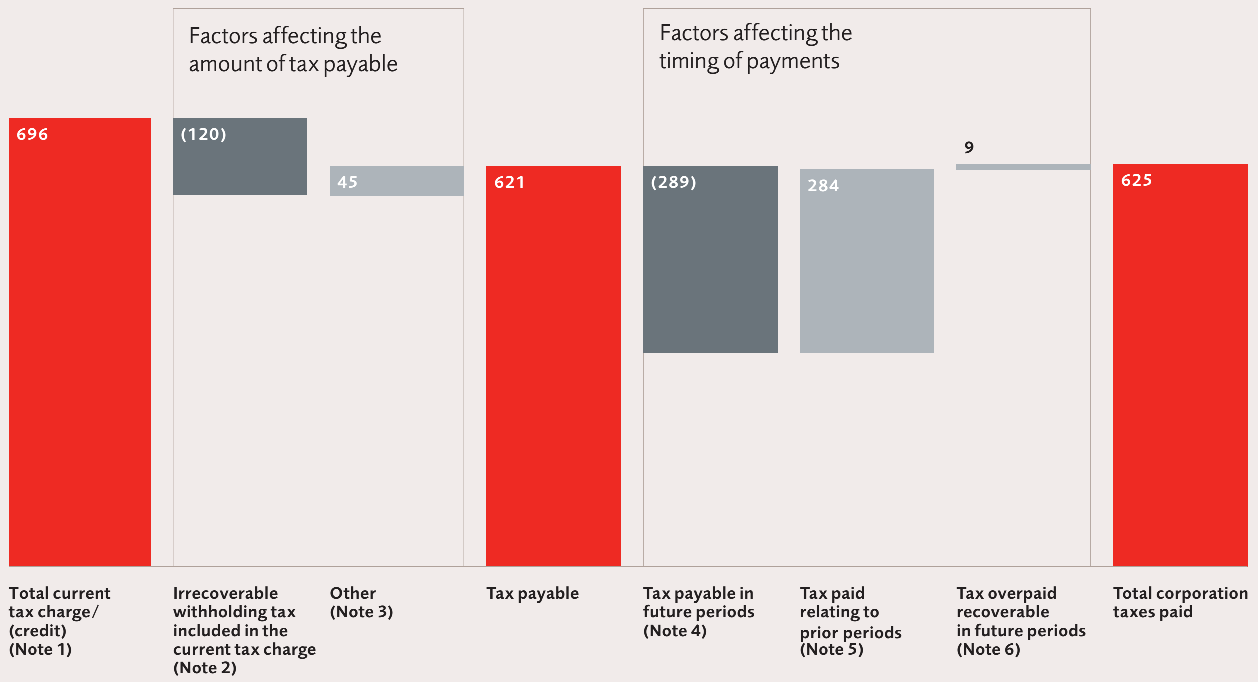
The following items affect the 2018 total current tax charge:

1. The total tax credit attributable to policyholders of £326 million is split between a current tax charge of £280 million and a deferred tax credit of £606 million and represents corporate 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 £448 million reflects a £774 million charge (as per page 211 of the 2018 Annual Report) relating to the tax on profit before tax attributable to shareholders using the corporate tax rates that are expected to apply to the taxable profit of the relevant businesses and a £326 million credit equal to the loss before tax attributable to policyholders of £326 million. This is the result of accounting for policyholder income after the deduction of expenses and movement on unallocated surpluses and on an after-tax basis.
3. Items that increase the current tax charge include: deductions not allowable for tax purposes (£67 million); irrecoverable withholding taxes (£47 million); and other (£3 million).
4. Items that decrease the current tax charge include: income not taxable or taxable at concessionary rates (£59 million); items relating to taxation of life insurance businesses (£98 million); deferred tax adjustments (£39 million); and the effect of the post-tax results of joint ventures and associates being included in pre-tax profits (£64 million).
5. Items that are not expected to recur include: net favourable adjustments to current tax charge in relation to prior years (£(14) million); and net adverse adjustments relating to movements in provisions for open tax matters (£5 million).

More detail on adjustments outlined in Notes 3, 4 and 5 can be found on page 212 of the 2018 Annual Report.

# How much tax do we pay? continued

**Figure 5: 2018 reconciliation of current tax charge to corporation tax paid** (£m)




### Notes

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

1 Total current tax of £696 million is per note B4 on pages 210 to 212 in the 2018 Annual Report and comprises the current tax charge in respect of 2018 together with adjustments for prior years. It does not include any deferred tax.

2 Reducing tax payable, this relates to irrecoverable withholding tax on dividends payable to the UK from certain non-UK subsidiaries, and dividends on overseas portfolio investments of insurance funds. The withholding tax is included in the accounts tax charge but as it is not corporation tax as such, it is not included in the corporation tax paid. The £120 million withholding tax is included in the £143 million withholding tax in total taxes borne in Figure 1, with the remainder of the £143 million predominately relating to withholding taxes suffered which have been expensed in computing the profit before tax.

3 Increasing tax payable, Other comprises £63 million in respect of Prudential's share of tax paid from joint ventures offset by a net £18 million from other adjustments.

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

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

5 The tax paid in 2018 relating to prior periods is higher than might have been expected (£103 million per Figure 5 in the 2017 published tax strategy) principally due to revised estimates of tax payable by US operations in 2018, and US tax repayments originally expected to be received in 2018, now not expected until either 2019 or 2020.

6 Instalment tax payments are typically based on estimated taxable profits. The £9 million reflects overpaid tax following a downward revision of estimated taxable profits.

# How much tax do we pay? continued

**Impact of the planned demerger on our total tax contribution**
In the context of the demerger, both parts of the Group – Prudential plc (excluding M&GPrudential) and M&GPrudential – make significant tax contributions as shown in Figure 6.

M&GPrudential makes a proportionally higher contribution to the Prudential Group's total tax contribution for two main reasons. Firstly, the corporation tax payments made by M&GPrudential in the UK, include both tax payable on the profits of the UK insurance and asset management businesses, and tax paid on policyholder investment returns on certain life insurance products. Secondly, the UK insurance business has a significant number of annuitants for whom it is required to deduct PAYE on the annuity payments.

As illustrated in Figure 7, the total taxes contributed for Prudential plc (excluding M&GPrudential) is heavily weighted to jurisdictions other than the UK whereas M&GPrudential's total tax contributions are more heavily weighted towards the UK.

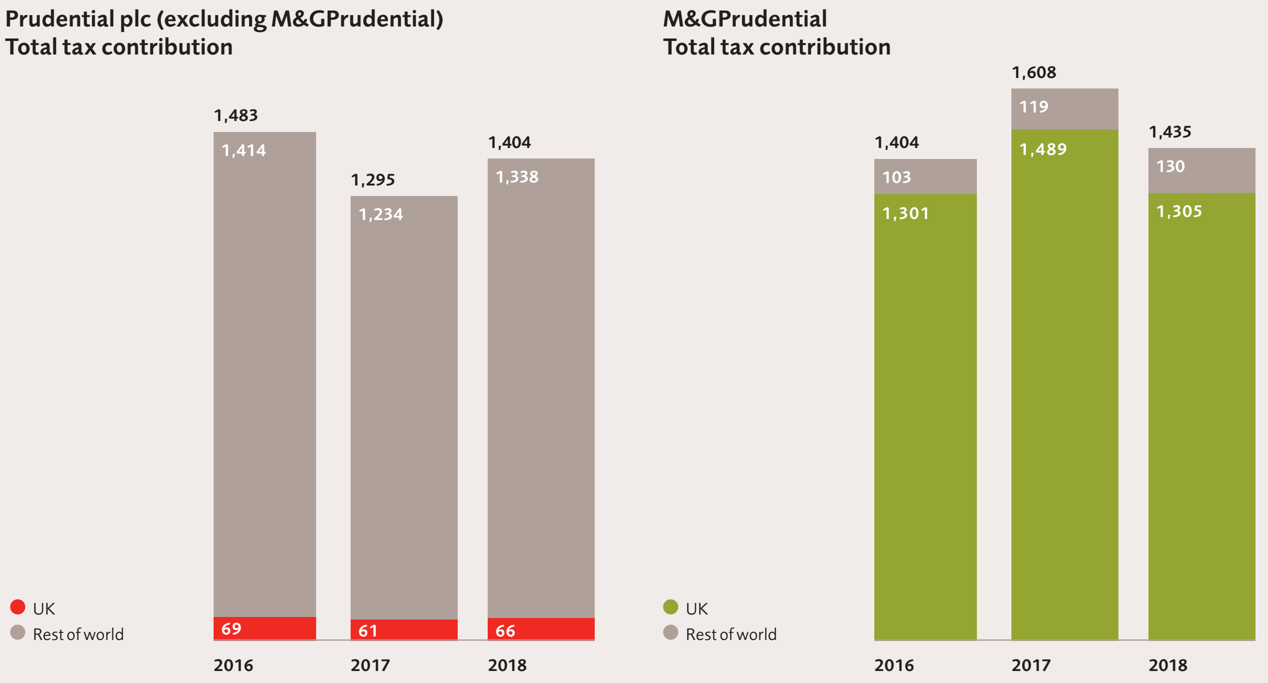
For Prudential plc (excluding M&GPrudential), this is because the majority of its income is in the form of dividends, from its underlying businesses, which are exempt from UK corporation tax. The UK tax contributions of Prudential plc (excluding M&GPrudential) mainly comprise UK payroll taxes on the Group employees based in London, and UK VAT arising on Group costs incurred in the UK.

For M&GPrudential, the weighting of total tax contribution towards the UK reflects the UK corporation tax arising on UK insurance and asset management businesses (including the UK corporation tax payable on policyholder investment returns) combined with UK taxes collected from UK annuitants and customers and payroll taxes on M&GPrudential's UK employees.

**Figure 6: Split of total tax contribution between Prudential plc (excluding M&GPrudential) and M&GPrudential** (£m)

| | 2016 | 2017 | 2018 |
|---|---|---|---|
| Prudential plc (excluding M&GPrudential) | 1,483 | 1,295 | 1,404 |
| M&GPrudential | 1,404 | 1,608 | 1,435 |
| **Total Prudential Group** | **2,887** | **2,903** | **2,839** |

**Figure 7: UK/non-UK split of total tax contribution of both Prudential plc (excluding M&GPrudential) and M&GPrudential** (£m)



# 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 idea 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.

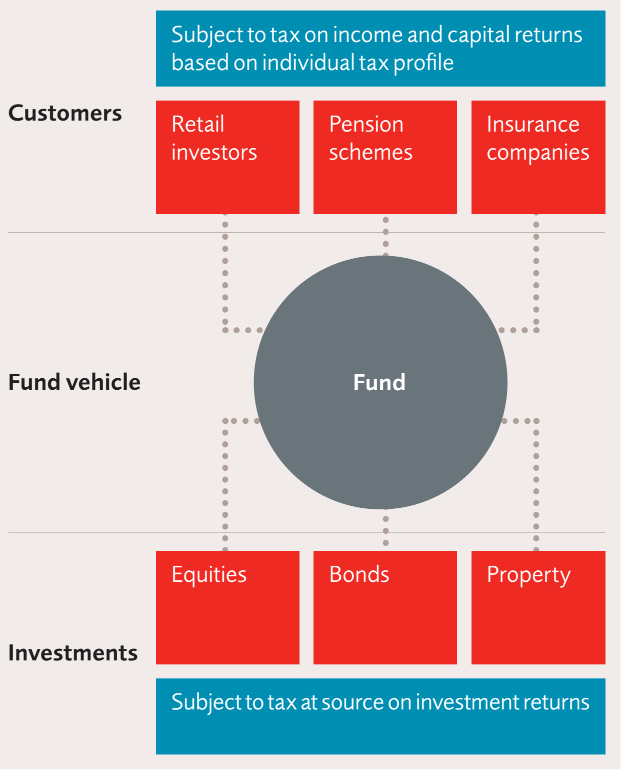
## Managing and structuring investments

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.

Illustrative example of simplified fund structure:



# How we manage our tax affairs continued

## 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 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 of 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. 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.

**Figure 8: 2018 analysis of entities tax resident in low tax rate jurisdictions**

| | Total | Insurance | Investment activity | Investment management |
|---|---|---|---|---|
| Bermuda | **1** | 1 | – | – |
| Cayman Islands | **8** | 1 | 6 | 1 |
| Guernsey | **12** | 1 | 8 | 3 |
| Jersey | **8** | – | 8 | – |
| **Total** | **29** | 3 | 22 | 4 |

## Low tax rate jurisdictions

At the end of 2018, the Group had 29 entities[1] (2017: 32 entities) tax resident in jurisdictions with a headline corporate tax rate of 10 per cent or lower. The 29 entities accounted for 0.03 per cent (£7 million) of total Group revenues (2017: 0.01 per cent, £7 million) and 0.15 per cent (£5 million) of total Group profit (2017: 0.13 per cent, £5 million). Figure 8 provides an analysis of these entities by location and activity.

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. In Ireland we have been offering investment bonds to predominantly UK customers for over 20 years.

M&GPrudential has established an authorised presence in Luxembourg and launched a new range of Luxembourg-domiciled SICAV funds. As one of the most popular investment vehicles within Europe, the ability to offer SICAV funds will enable M&GPrudential to expand and deepen its highly successful international business further over the coming years.

In common with the asset management industry, our asset management businesses have fund-related entities in jurisdictions such as Mauritius, Ireland and the Cayman Islands. These jurisdictions are established centres for asset management businesses, and because they typically have either low or zero corporate 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. We comply with all customer tax disclosure requirements for the funds that we manage.

**Note**

1 Note D6(c) of the Group's 2018 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

### Interaction with tax authorities

Our tax affairs are complex, reflecting a combination of specific or additional corporation 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.

### 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, both directly and through industry trade bodies, 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 have engaged with UK tax authorities on the implications of Brexit on the financial services industry and are currently engaging in the wider discussions concerning the OECD project addressing the challenges of the digitalisation of the economy. Similarly, we have proactively engaged with civil society forums that are focused on building a sustainable and transparent global tax system.

### Use of tax advisers

Our tax teams at Group, regional and jurisdiction level 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, to provide second opinions on significant transactions, to help us understand new legislation or to provide us with insight on industry practice. In addition, we engage tax advisers (and others) 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

Ownership of our tax strategy, as with the wider business strategy, rests with the Group's Board. The day-to-day responsibility for tax rests within the business units, as taxes by their nature are levied on legal entities, and sometimes groups of entities, rather than on the Group as a whole. Business unit audit and risk committees receive regular reports and updates on material tax risks, tax disputes and tax policy developments. Business units submit regular tax risk reports to Group Tax, which are reviewed by the Group's Head of Tax, and are discussed in regular meetings between the Group Tax function and the business units. At Group level, the Group Audit Committee receives regular updates from the Group's Head of Tax on material tax issues, tax disputes and tax policy developments. The Chief Financial Officer provides updates on material tax matters as part of the regular updates to the Board.

## Managing tax risk

Tax risk is managed in a manner consistent with the management of all other risks. We recognise that we are implicitly committing to customers that we will maintain a healthy company, and are there to meet our long-term commitments to them. We define 'risk' as the uncertainty that is faced in implementing our strategies and achieving our objectives successfully, and includes all internal or 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 at pages 55-58 of the Group's 2018 Annual Report, we have well defined risk governance structures in place made effective through individuals, Group-wide functions and committees involved in the management of risk. Our Group Risk Framework requires all of our business units and functions to establish processes for identifying, evaluating, managing and reporting the key risks faced by the Group. Our Group Tax Risk Policy comprises processes to identify, measure, control and report on our tax risks within this framework.

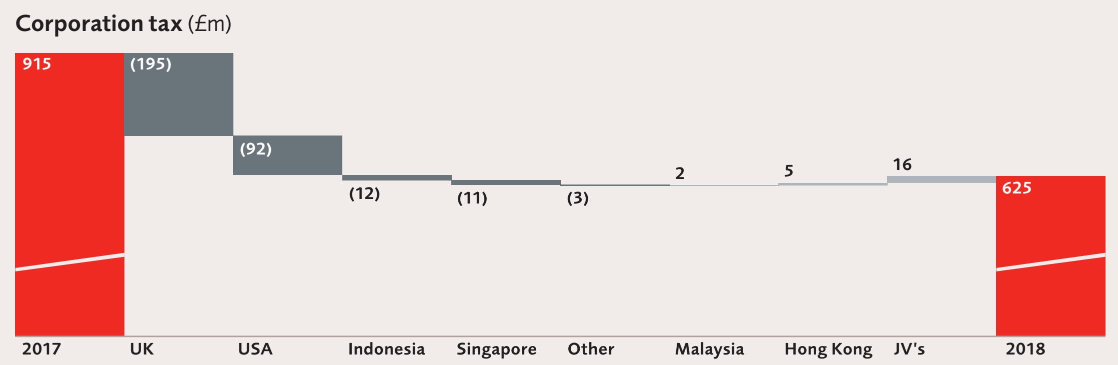
**We define tax risk as:**

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.

Tax risk can broadly be grouped into four categories as set out in the table below.

| | Technical judgment 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:<br>(1) it is possible that the tax authority may take a differing interpretation, or<br>(2) the tax authority does dispute the interpretation, or<br>(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 judgment which is based on an aggressive interpretation of the relevant tax law, nor do we have any appetite for adopting a technical judgment 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. |

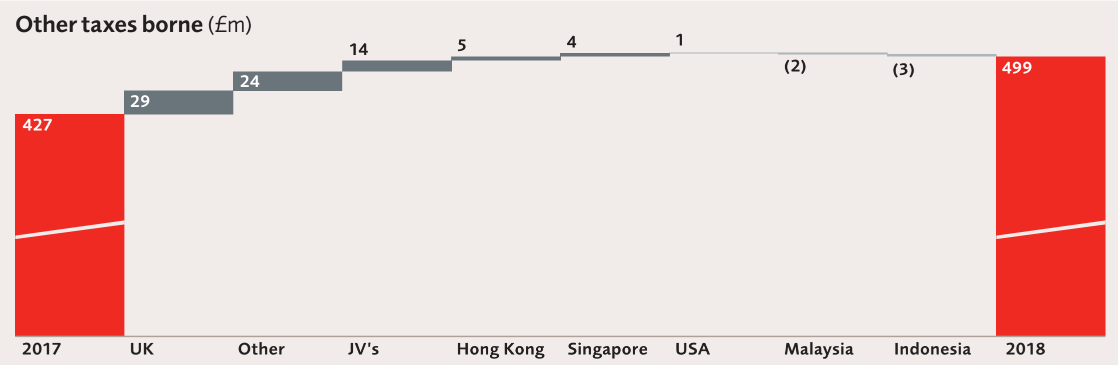
# Appendix 1 – Prudential's total tax contribution in 2018 compared to 2017




**UK** corporation tax payments were £195 million lower, reflecting the combination of adverse bond markets (which lowered taxable investment income in our main UK insurance company) and the tax loss arising on the reinsurance of part of the UK shareholder backed annuity portfolio.

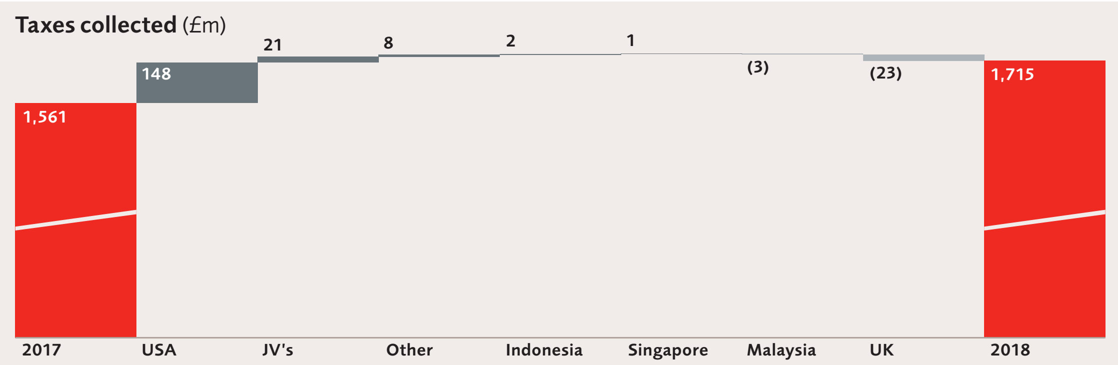
**US** corporation tax payments were £92 million lower, reflecting the ongoing dampening effect on US corporation tax payments from 2017 hedging losses, combined with the absence in 2018 of the gain on the sale of our US independent broker-dealer network, which had been reflected in 2017 payments.

Our share of corporation tax payments relating to **JVs** were £16 million higher in 2018 than 2017, mainly reflecting increased tax payments in our China joint venture.




The increase in other taxes borne in the **UK** primarily reflects higher irrecoverable VAT arising from an increase in VAT incurred (relative to 2017) combined with lower VAT recovery rates (than 2017).

The increase in taxes borne in **Other** jurisdictions principally relates to increases in irrecoverable VAT, GST, sales taxes and withholding taxes in a variety of jurisdictions.




The increase in the taxes collected in the **US** principally relates to taxes withheld on annuity payments to customers, which increased by £139 million compared to 2017. This is due to an increasing number of older annuity policies moving from accumulation to disbursement.

# Appendix 2 – 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).
- In the UK, Singapore and Malaysia, 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 corporation 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 UK, unrealised gains and losses on debt securities and derivatives recognised in the accounts of insurance companies are included in the taxable profit. This can lead to significant volatility in the taxable profits of insurance companies that have investments in debt securities. In addition, in the UK, unrealised gains and losses relating to investments of life insurers in certain collective investment vehicles are amortised into the taxable profit over a seven-year period. 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.

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