Registered No: 00633480

M&G Group Limited

2018 Annual Report

Incorporated and registered in England and Wales.
Registered office: Laurence Pountney Hill, London EC4R 0HH

Contents

Strategic Report

Principal activity

M&G Group Limited (the 'Company') is part of M&GPrudential, the UK and European savings and investments business of Prudential plc. In March 2018 Prudential plc announced its intention to demerge M&GPrudential from Prudential plc, resulting in two separately listed companies, with different investment characteristics and opportunities.

The Company along with its direct and indirect subsidiaries form the M&G Group (the 'Group' and 'M&G').

The Group is the investment management arm of M&GPrudential. Its principal activity is to provide investment management services in equities, fixed income, real estate and other asset classes for its retail and institutional clients.

Business review

M&G is an asset management firm with more than 85 years of experience investing on behalf of individuals and institutions. M&G's aim is to help its customers prosper by putting their investments to work through the active and careful allocation of capital. In doing so, M&G has a conviction-led, long-term approach to asset management applied across the full range of asset types: cash, equities, bonds, real estate and alternatives. M&G offers products across diverse geographies, asset classes and investment strategies aimed at delivering value for clients through the generation of long-term capital growth and / or income.

Net revenue increased by 6% to £1,131 million from £1,067 million, however, increases in cost have led to a fall in the profit before tax to £424 million from £463 million. The increased revenue was driven by inflows in assets under management at the end of 2017, which has fallen from £298 billion at 31 December 2017 to £265 billion at 31 December 2018 as a result of a combination of outflows and market movements.

M&G's net assets position grew by 34% to £1,007 million (2017: £752 million), after the dividend payment of £197 million.

In December 2018 M&G began to occupy its new London headquarters, 10 Fenchurch Avenue. The building will be fully occupied in the first half of 2019.

Throughout 2018, M&GPrudential continued to invest in making it easier for all customers of the M&G and Prudential brand to do business with us. As part of M&GPrudential, the Group has the opportunity to offer its customers a wider set of solutions as their needs evolve.

The Group sees significant opportunities for continued growth, including from the synergies available from the combination of the asset management business of M&G with Prudential's life insurance business.

In support of this, M&GPrudential announced a major investment programme in the new combined business's infrastructure to improve customer service, accelerate product development, and widen customer choice. A substantial investment has been made in a business modernization programme and is already showing service benefits for customers. Our transformation also comes with clear efficiency gains, which will benefit our shareholders.

2018 was a year of political and economic turmoil, including escalating US-China trade tensions, the Italian elections and Brexit continuing to demand headlines, creating uncertainty for investors and resulting in extensive de-risking of portfolios. Even when returns on cash were low (0 - 0.5%) it was seen as preferable to investors than assets which were deemed to be riskier. The economic context drove negative returns across 90% of asset classes[1].

M&G's proven investment performance track record is a vital part of its capability. Investment performance of M&G's funds remains strong over a three year period, with 74% of mutual funds by assets under management ranking in the top two quartiles on a 3-year basis[2] and 100% of Institutional fixed income funds exceeding their benchmarks over three years.[3]

[1] Source: BofA Meryll Lynch Credit Markets Outlook, January 2019, using sample of over 300 assets
[2] Source: Morningstar against UK or European sector as appropriate, to end December 2018
[3] Refers to Public Debt benchmarked funds as at 30 September 2018

Strategic Report *(continued)*

Business review *(continued)*

M&G's asset management business offers a range of funds that give investors the opportunity to benefit from a long-term, diversified approach, helping to deliver sustainable investment performance regardless of short-term market fluctuations. Overall, the diversity of M&G's asset classes, strategies and client base has allowed it once more to deliver value for money for its customers and a sizeable cash contribution to the Prudential Group.

Available capital

The Group aims to maintain a strong Balance Sheet and the Board's intention is to create and maintain capital for the Group's strategic and operational objectives and to maintain comfortable headroom above regulatory requirements.

The Group ensures it is able to continue as a going concern and has sufficient capital surplus to meet the regulatory requirement going forwards. The amount of distributable reserves and cash flow position are considered when making any decision to pay a dividend.

Customers

Throughout its 85-year history, M&G has maintained its purpose: to help customers prosper by putting their long-term savings to work. Our customers have always been at the heart of what we do.

Today we manage the savings of millions of people in the UK, Europe and the rest of the world. These include direct or intermediated investors in our open-ended investment funds, members of pension schemes or other long-term savings schemes who invest through financial institutions, and Jackson (US subsidiary of Prudential Plc) and Prudential policyholders, including the Prudential UK With-Profits Fund. The merger of M&G Prudential has provided us with an opportunity to harness our collective investment and distribution capabilities to deliver even greater value to our combined customer base.

Our customers benefit from our conviction-led, long-term approach to asset management, applied across the full range of asset types: cash, equities, bonds, real estate, multi-asset and alternatives. We are constantly developing our capabilities to offer our customers strategies that meet their needs, whatever the market conditions.

Strategic direction

Over the past decade, the asset management industry has seen a fundamental shift in demand towards investment solutions as investors, intermediaries and institutions look to investment propositions that can deliver to defined customer outcomes. This trend has been accelerated by the move from Defined Benefit to Defined Contribution pensions and increased pension freedoms, with customers now faced with greater pressure and responsibility to generate sufficient returns for retirement, manage investment volatility, ensure cash flow predictability and asset liquidity.

M&G is seeing strong demand from pension funds for its alternatives products because they are willing to tolerate lower liquidity in exchange for higher yields. These types of alternative investment strategy remain comparatively resilient to fee pressure because they are not easy for passive investment managers to replicate. This is because they involve securing real and private assets. M&G has established investment capabilities to provide this offering, as well as a number one Institutional brand in Europe [4].

Given the breadth and depth of our investment capabilities, proven investment track record and strong distribution footprint across the world with established partnerships with Global Banks and Institutions, M&G is well placed to deliver on the increasing demand for bespoke investment solutions through various arrangements, including sub-advisory services, segregated mandates, open ended and closed ended vehicles.

[4] Edelman Survey 2018

Strategic Report *(continued)*

Strategic direction *(continued)*

In March 2018 Prudential plc announced its intention to demerge M&GPrudential from Prudential plc, resulting in two separately listed companies with different investment characteristics and opportunities. M&GPrudential is one of the leading retirement and savings businesses in UK and Europe. M&GPrudential as a standalone group will continue to drive its transformation into a more capital efficient and customer focused business, targeting growing customer demand for comprehensive financial solutions.

On 26 November 2018 the Company's legal ownership was transferred from its previous management company Prudential plc to a new holding company, M&GPrudential Limited. M&GPrudential Limited is a subsidiary of Prudential plc. The ultimate parent of the Company therefore remains Prudential plc, a public limited company, limited by shares, incorporated and registered in England and Wales and the parent company of the Prudential Group ('the Prudential Group').

Products

M&G has a long history of innovation through products such as M&G Optimal Income, M&G Alpha Opportunities, M&G Global Dividend, Illiquid Credit Opportunities and the Dynamic Allocation funds. These funds are managed by many long serving and highly experienced investment teams across multi-asset, equity, real estate and public and private debt which provides a competitive advantage as more wholesale and institutional clients look to outsource investment decision-making.

The Group has responded to growing client demand for social and environmental investment strategies with the launch of several new funds. They include the M&G Impact Financing Fund, which was awarded Best New Entrant (Fund) at the Sustainable and ESG Investment Awards 2018, as well as the M&G Positive Impact Fund and M&G Sustainable Allocation Fund. M&G also launched an investment trust which allows UK retail investors access to M&G's private debt capability by investing in a portfolio spanning the public and private credit markets.

Distribution

M&G continues to focus on servicing our customers in the UK and internationally. In March 2018, we made the full suite of M&G's range of mutual funds available for the first time on the Prudential adviser portal for UK customers. We are also committed to deepening our distribution presence in internationally by building on our strong partnerships with wholesale clients and gradually building out our distribution capabilities across the globe. To better serve our customers, we opened offices in New York, Miami, Melbourne and Sydney, bringing the total number of countries where M&G distributes to 28.

Investment for growth

M&G continues to invest in technology and operational infrastructure so we can take full advantage of the opportunities in the fast-evolving distribution and regulatory landscape in which we operate.

In 2018, M&G successfully implemented Aladdin, a new global risk and portfolio management platform which has been adopted across its asset management businesses. This will significantly advance the data capabilities of the Group and operational efficiency and has already enabled M&G to enhance the data analytics and reporting capabilities for its fund managers and customers. In addition to this, a continued focus on operational scalability and harnessing new technologies to drive growth will be a priority for the business.
Overall, M&G remains committed to investing in differentiated investment products that meet the evolving needs of its customers' and distributing these capabilities globally.

Strategic Report *(continued)*

Brexit

Following the referendum result of 2016, the Group has taken a number of steps to minimise disruption to its clients, protect their interests and provide certainty and clarity where possible, regardless of the outcome of the Brexit negotiations.

While the final Brexit outcome remains uncertain, M&G has implemented the Group Brexit plan formed in 2016, which included the establishment of a Luxembourg based super management company and MiFID distribution firm. Both are now fully licensed and operational; managing and distributing M&G EU domiciled funds, products and services.

Cliff edge, no deal Brexit contingency planning

The Group has completed an evaluation of the various scenarios that could result from a cliff edge Brexit and have determined the absolute worst-case scenario for the asset management industry is one where there is no withdrawal agreement, no transition period and neither the Memorandums of Understanding (for funds) or the ESMA certification of equivalence (for MiFID activities) that enable the delegation of regulated portfolio management activities outside of the EU are in place at the point of Brexit.

A contingency plan has been developed, although implementation remains highly unlikely following commitments made by Financial Conduct Authority (FCA), the European Securities and Markets Authorities (ESMA) and the National Competent Authorities (NCAs) to put in place the Memorandums of Understanding that will enable the EU domiciled funds to continue delegating portfolio management activities to the UK.

For our clients with segregated mandates who are subject to MiFID regulation, the NCAs in the countries in which the majority of our clients are domiciled have confirmed temporary arrangements which will enable the continuation of portfolio management delegation until the end of 2020, with the exception of France. In the event that French NCAs do not confirm a similar temporary arrangement as the other NCAs we will implement our contingency plan to ensure there is no disruption to the clients.

The Group continues to monitor political and regulatory developments, and to adjust or activate contingency plans, where necessary.

Strategic Report *(continued)*

Principal risks and uncertainties

Risk management

The key risk objective for the Board is to facilitate continued controlled growth, within agreed risk appetite, that will meet the requirements of M&G's customers, shareholder and regulators. In order to achieve this, M&G:

- Identifies the significant risks that it faces by pursuing its business plan;
- Articulates a risk appetite statement for each category of material risk;
- Establishes formal processes to manage risks in the context of M&G's risk appetite;
- Regularly re-assesses the capital requirements and liquidity impacts implied by these risk exposures; and
- Ensures a robust risk governance structure and risk culture is maintained.

M&G is exposed to a number of risks. Some are inherent in running an investment management business and are not unique to M&G; others are unique to M&G and result from M&G's business strategy and structure.

M&G's categorisation of its material business risks is aligned with Prudential plc's risk categorisation framework. The high-level risk categories are as follows:

- Strategic risk - the risk that M&G is unable to generate profitable medium-term growth as a result of inadequate execution of strategy.
- Financial risk - the risk that M&G is unable to maintain adequate capital and liquidity to meet its customers' and stakeholders' requirements.
- Business environment risk - the risk that M&G is unable to generate profitable medium-term growth as a result of M&G's business structure or M&G's exposure to the external environment.
- Operational risk - the risk of loss or unintended gain arising from inadequate or failed internal processes and systems, from failures by personnel or from external events.

The high-level risks are driven by a number of underlying risks. M&G's assessment of its risk profile highlights that most of M&G's significant risk exposures are operational in nature.

M&G has a robust governance structure with key committees to ensure sufficient oversight of activities. M&G's risk governance is based on the principle that risk management, risk oversight and independent assurance are distinct activities that should each be carried out by different individuals, committees and departments for any particular risk.

M&G is authorised and regulated by the FCA. The FCA supervises M&G on a consolidated basis and receives information on the capital adequacy of M&G as a whole. In addition, a number of M&G subsidiaries are directly authorised and regulated by the FCA.

In accordance with the Capital Requirements Directive, the Pillar 3 disclosures for the Group, along with the Group's compliance with the provisions of the FCA's Remuneration Code are published on the internet at: http://docs.mandg.com/docs/Corporate/Pillar-3-Disclosures.pdf

Strategic risk

M&G's key strategic risks are in relation to profit volatility, investment performance and revenue concentration. M&G has established key risk indicators ('KRIs') and associated threshold limits for each of these risks and re-evaluates these limits on an annual bases in the context of M&G's business strategy and risk appetite. A trigger of one of these limits would result in discussion by established governance forums over potential management action.

Strategic Report *(continued)*

Principal risks and uncertainties *(continued)*

Financial risk

M&G is exposed to capital, liquidity, pension, credit and market risk.

- Capital and liquidity - M&G expects to hold sufficient capital and liquidity to ensure the continuity of its business under normal and stressed conditions. Senior management review details of regulated entities' capital adequacy on a monthly basis and performs stress and scenario testing at least annually.

- Credit and market - In addition to its Pillar 1 calculations of credit and market risk M&G has internal processes to measure these risk exposures against risk appetite. To protect the solvency of M&G, the Board is reluctant to take market risk on to the balance sheet. Therefore, M&G's appetite is to restrict the balance sheet exposure to a limited set of activities. These activities are managed in line with M&G's risk appetite statement and risk policies and standards.

- Pension - M&G has established monitoring arrangements in place to identify and report on Defined Benefit ("DB") scheme obligations.

Business environment risk

M&G is exposed to regulatory relationship, legal, and group risk.

- Regulatory relationship – It is the responsibility of all staff to ensure M&G remains regulatory compliant. M&G has in place a suitably resourced Compliance function, which assists the business to ensure ongoing compliance with new and existing regulations.

- Legal – M&G requires all of its agreements with third parties are properly documented with legal advice taken internally or, where appropriate, from one of the law firms on M&G's approved panel by an authorized individual.

- Group – As M&G is a member of Prudential plc, an event occurring at Prudential plc level could impact M&G. M&G includes consideration of group risk in its stress and scenario testing as part of the ICAAP.

Strategic Report *(continued)*

Principal risks and uncertainties *(continued)*

Operational risk

All areas of M&G are exposed to operational risk through their day-to-day operations. Any control absence or failure associated with processes, people, systems or any external events can result in direct or indirect financial and non-financial consequences to M&G.

In order to support the management of operational risks, the Board has established processes, proportionate to the nature, scale and complexity of its operations. These include but are not necessarily limited to:

- Regular cycle of review of risk policies and standards;
- Regular cycle of risk appetite setting and KIs monitoring and reporting;
- Risk and control self-assessments ("RCSA");
- Management, reporting and review of operational incidents, including impact assessment of relevant external incidents; and
- Operational risk scenario analysis to assess capital requirements of high impact, low likelihood operational events.

Approved by the board.

C J Bousfield
Director
M&G Group Limited
Laurence Pountney Hill
London EC4R 0HH
28 March 2019

Directors' Report

The directors present their annual report and the financial statements for the year ended 31 December 2018.

Directors

M J Evans (appointed 01 October 2018)
A H Richards (resigned 10 August 2018)
G R Speirs (resigned 31 January 2019)
C J Bousfield (appointed 07 February 2019)
M M Ammon (appointed 27 March 2018)
J W Foley
P J Remnant (resigned 01 October 2018)
B H M Hollond
C D Keogh

Financial highlights

The results for the year are shown in the Consolidated Statement of Profit and Loss and Other Comprehensive Income on page 19. This shows an operating profit of £411 million (2017: £399 million) and a profit after tax of £348 million (2017: £372 million). Revenue, principally received from management fees, has decreased in 2018 to £1,405 million (2017: £1,409 million). Interim dividends of £197 million were paid during the year (2017: £323 million). The directors do not recommend the payment of a further dividend (2017: nil).

The Consolidated Balance Sheet is set out on page 20 and shows that cash and cash equivalents including bank overdraft have fallen to £343 million for 2018 (2017: £413 million), total assets have increased to £1,899 million (2017: £1,720 million) with total liabilities falling to £891 million (2017: £968 million). This has increased total equity to £1,007 million for 2018 (2017: £752 million).

Branches

The Group includes tax branches outside the United Kingdom, specifically in Austria, Finland, France, Germany, Italy, Netherlands, Republic of Ireland, Spain and Sweden. The Spain and Finland branches are also regulatory branches and must adhere with local regulatory rules.

Financial instruments

Description of the Group and Company's exposure to risks arising from the use of financial instruments and related financial risk management objectives and policies are outlined in note 22 of the M&G consolidated group financial statements.

Subsequent events & future developments

No important events affecting the Group or Company have occurred since the end of the financial year. Future expected developments include the Group's demerger from Prudential Plc and merger with Prudential UK and Europe.

Qualifying third party indemnities

Prudential plc has arranged appropriate insurance cover in respect of legal action against directors and senior managers of companies within the Prudential Group.

Employment policies

M&G's employment policies are designed to create an environment that encourages employees to be aware of, and involved in, the performance of the Group. The Group also seeks to encourage employees to express their ideas through engagement surveys. Staff are kept informed of developments within the Group through various means, including the M&G intranet, staff notice boards, Q&A boards and regular town halls.

The Group recognises, respects and values difference and diversity and seeks to promote a highly inclusive culture. Its equal opportunities policy is to promote equal treatment for all employees or potential employees and to ensure that the Group attract, retains and promote the best available talent. A series of active employee networks further support this objective.

Directors' Report *(continued)*

Employment policies *(continued)*

The Group is committed to ensuring that people with disabilities are supported and are able to achieve progress through the Company. They will be treated so that they have an equal opportunity, so far as is justifiable, to be selected, trained and promoted. Every reasonable effort will be made to enable disabled persons to be retained in the employment of the Company by investigating the possibility of making reasonable adjustments to the job.

Both internal and external training opportunities will be provided where they are appropriate to an employee's current role and/or development. The Human Resources and Learning and Talent Development teams will ensure that suitable arrangements can be made with regard to the venue or event or to the format of the event to enable employees with disabilities to participate.

A Staff Consultative Committee provides a forum where elected members of staff meet with representatives from management on a regular basis to discuss various issues which affect employees and the Company. This committee has been set up to meet the Company's statutory obligations to consult with employees on such matters as health and safety as well as seeking to promote communication throughout the Group on topical matters of concern or interest to employees or management. Directors and employees may participate in the Prudential Group's Savings-Related Share Option Scheme and Share Incentive Plan and are thereby encouraged to participate in the progress of the Prudential Group by becoming shareholders. During the financial year the Savings-Related Share Option Scheme was closed to employees.

Employees, including directors, participate in various bonus arrangements and incentive plans that are reasonably designed to align the long-term interests of the Group, employees and clients.

Political contributions

There were no political contributions during the period (2017: £nil).

Going concern

The directors have a reasonable expectation that the Group and Company have adequate resources to continue their operations for a period of at least 12 months from the date that the financial statements are approved. In support of this expectation, the Group and Company's business activities, together with factors likely to affect its future development, successful performance and position, and key risks in the current economic climate are set out in the Strategic Report on pages 4 to 10. Further risk analysis associated with the Group can be found in the M&G consolidated group financial statements including assets and liabilities in note 22 on pages 68 to 76, cash flow details in the Consolidated Cash Flow Statement on page 23, provisions in note 20 on page 66 and contingencies in note 25 on page 78. The directors have therefore adopted the going concern basis of accounting in preparing the Group and Company financial statements for the year ended 31 December 2018.

Directors' Report *(continued)*

Statement of directors' responsibilities in respect of the Strategic Report, Directors' Report and the financial statements

The directors are responsible for preparing the Strategic Report, Directors' Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Parent Company financial statements for each financial year. Under that law they have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the Parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of Information to Auditor

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Group and Parent Company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Group and Parent Company's auditor is aware of that information.

Directors' Report *(continued)*

Auditor

KPMG LLP, having expressed their willingness to continue in office, will be deemed reappointed for the next financial year in accordance with section 487(2) of the Companies Act 2006 unless the Company receives notice under section 488(1) of the Companies Act 2006.

Approved by the board.

C J Bousfield
Director
M&G Group Limited
Laurence Pountney Hill
London EC4R 0HH
28 March 2019

Independent Auditor's Report to the members of M&G Group Limited

Opinion

We have audited the financial statements of M&G Group Limited ("the Company") for the year ended 31 December 2018 which comprise the Consolidated Statement of Profit and Loss and Other Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement, Company Profit and Loss Account and Other Comprehensive Income, Company Balance Sheet, Company Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to Britain exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's and the Parent Company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardized firm-wide approach in response to that uncertainty when the Group's and the Parent Company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the company or to cease their operations, and as they have concluded that the group and the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the group's business model, including the impact of Brexit, and analysed how those risks might affect the group and company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the company will continue in operation.

Strategic Report and Directors' Report

The directors are responsible for the Strategic Report and the Directors' Report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic Report and the Directors' Report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 13, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Ravi Lamba (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

3 April 2019

Financial Statements

Consolidated Group

Consolidated Statement of Profit and Loss and Other Comprehensive Income
For year ended 31 December 2018

	Note	Group 2018 £000	2017 £000
Revenue from contracts with customers	2	**1,405,202**	1,408,577
Commission expenses	2	**(274,469)**	(341,852)
Net revenue	2	**1,130,733**	1,066,725
Operating expenses	3,4,5	**(719,292)**	(667,467)
Operating profit		**411,441**	399,258
Financial income	6	**22,111**	52,901
Financial expenses	6	**(26,216)**	(4,138)
Net financing income		**(4,105)**	48,763
Share of profit of associates	10	**16,351**	15,106
Profit before tax		**423,687**	463,127
Tax	7	**(75,966)**	(91,553)
Profit for the year		**347,721**	371,574
Other comprehensive income			
Remeasurements of defined benefit pension scheme surplus	18	**25,566**	26,037
Income tax on items that will not be reclassified to profit or loss		**(4,346)**	(4,426)
Items that will not be reclassified to profit or loss		**21,220**	21,611
Foreign currency translation differences – foreign operations		**33**	3,905
Change in fair value of assets classified as available-for-sale		**-**	2,928
Income tax on items that are or may be reclassified subsequently to profit or loss		**-**	(306)
Items that are or may be reclassified subsequently to profit or loss		**-**	6,527
Other comprehensive income for the year, net of income tax		**21,253**	28,138
Total comprehensive income for the year		**368,974**	399,712
Profit attributable to:			
Equity holders of the parent		**345,354**	369,812
Non-controlling interest		**2,376**	1,762
Profit for the year		**347,721**	371,574
Total comprehensive income attributable to:			
Equity holders of the parent		**366,598**	397,950
Non-controlling interest		**2,376**	1,762
Total comprehensive income for the year		**368,974**	399,712

The accompanying notes form part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2018

	Note	Group 2018 £000	2017 £000
Non-current assets			
Property, plant and equipment	8	**104,119**	3,513
Intangible assets	9	**18,233**	2
Trade and other receivables	15	**11,717**	11,871
Investments in associates	10	**37,479**	40,343
Other financial assets	11	**94,696**	67,997
Share-based payment asset	19	**573**	-
Deferred tax assets	14	**21,457**	25,949
Pension scheme surplus	18	**128,778**	106,513
		417,052	256,188
Current assets			
Other financial assets	11	**506,411**	312,617
Financial assets held for sale	13	**98,391**	-
Trade and other receivables	15	**534,750**	717,222
Cash and cash equivalents	16	**342,632**	434,426
		1,482,184	1,464,265
Total assets		**1,899,236**	1,720,453
Current liabilities			
Bank overdraft	16	**-**	21,272
Trade and other payables	17	**657,541**	767,419
Tax payable		**20,728**	43,240
Provisions	20	**10,478**	5,090
Deferred tax liabilities	14	**-**	1,209
Other financial liabilities	12	**101,487**	-
		790,234	838,230
Non-current liabilities			
Other payables	17	**79,154**	103,057
Share-based payment liability	19	**-**	2,296
Provisions	20	**-**	5,927
Deferred tax liabilities	14	**22,491**	18,703
		101,645	129,983
Total liabilities		**891,879**	968,213
Net assets		**1,007,357**	752,240
Equity attributable to equity holders of the parent:			
Share capital	21	**100**	100
Share premium	21	**88,000**	-
Reserves		**25,475**	14,999
Retained earnings		**888,966**	733,777
		1,002,541	748,876
Non-controlling interest		**4,816**	3,364
Total equity		**1,007,357**	752,240

These financial statements were approved by the board of directors on 28 March 2019 and were signed on its behalf by:

C J Bousfield
Director

M J Evans
Director

Company registered number: 00633480

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity
At 31 December 2018

	Share capital £000	Share premium £000	Fair value Reserve £000	Translation Reserve £000	Pension Reserve £000	Retained Earnings £000	Non-Controlling Interest £000	Group Total Equity £000
Balance at 1 January 2018	**100**	**-**	**10,777**	**(2,110)**	**6,332**	**733,777**	**3,364**	**752,240**
Adjusted on initial application of IFRS 9	-	-	(5,344)	-	-	5,344	-	-
Adjusted on initial application of IFRS 15	-	-	(5,433)	-	-		-	(5,433)
Adjusted balance at 1 January 2018	**100**	**-**	**-**	**(2,110)**	**6,332**	**739,121**	**3,364**	**746,807**
Profit for the year	-	-	-	-	-	345,345	2,376	347,721
Remeasurement of defined benefit pension scheme surplus (note 18)	-	-	-	-	25,566	-	-	25,566
Deferred tax on defined benefit pension scheme remeasurement	-	-	-	-	(4,346)	-	-	(4,346)
Exchange movements on foreign currency translation	-	-	-	33	-	-	-	33
Other comprehensive income	-	-	-	33	21,220	-	-	21,253
Total comprehensive income	-	-	-	33	21,220	345,345	2,376	368,974
Share-based payments (note 19)	-		-	-	-	990	-	990
Current and deferred tax on share-based payments	-		-	-	-	(490)	-	(490)
Dividends paid (note 21)	-		-	-	-	(196,000)	(924)	(196,924)
Issue of shares	-	88,000	-	-	-	-	-	88,000
Total transactions with shareholder	-	88,000	-	-	-	(195,500)	(924)	(108,424)
Balance at 31 December 2018	**100**	**88,000**	**-**	**(2,077)**	**27,552**	**888,966**	**4,816**	**1,007,357**

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity *(continued)*
At 31 December 2017

	Share capital £000	Fair value Reserve £000	Translation Reserve £000	Pension Reserve £000	Retained Earnings £000	Non-Controlling Interest £000	Group Total Equity £000
Balance at 1 January 2017	100	8,155	(6,015)	(15,279)	684,540	1,883	673,384
Profit for the year	-	-	-	-	369,812	1,762	371,574
Pension actuarial gain (note 18)	-	-	-	26,037	-	-	26,037
Deferred tax on pension actuarial gain	-	-	-	(4,426)	-	-	(4,426)
Available-for-sale fair value movement	-	2,928	-	-	-	-	2,928
Deferred tax on fair value movement	-	(306)	-	-	-	-	(306)
Exchange movements on foreign currency translation	-	-	3,905	-	-	-	3,905
Other comprehensive income	-	2,622	3,905	21,611	-	-	28,138
Total comprehensive income	-	2,622	3,905	21,611	369,812	1,762	399,712
Share-based payments (note 19)	-	-	-	-	1,088	-	1,088
Current and deferred tax on share-based payments	-	-	-	-	1,337	-	1,337
Dividends paid (note 21)	-	-	-	-	(323,000)	(281)	(323,281)
Total transactions with shareholder	-	-	-	-	(320,575)	(281)	(320,856)
Balance at 31 December 2017	100	10,777	(2,110)	6,332	733,777	3,364	752,240

The accompanying notes form part of these financial statements.

Consolidated Cash Flow Statement

For year ended 31 December 2018

	Note	Group 2018 £000	2017 £000
Cash flows from operating activities			
Profit before tax for the year		**423,687**	463,127
Adjustments for:			
Depreciation, amortisation and impairment	8,9	**5,388**	2,641
Deferral of intangible assets	9	**(15,149)**	-
Financial income		**(8,573)**	(8,281)
Financial expense		**23,157**	367
Share of profit of investments in associates	10	**(16,351)**	(15,106)
Loss on sale of tangible and intangible assets		**21**	15
Equity settled share-based payment expenses	19	**990**	1,088
		413,170	443,851
Decrease/(Increase) in trade and other receivables	15	**175,526**	(63,321)
Decrease in employee benefit asset		**3,301**	218
Issue of loans	11	**(215,979)**	31,533
(Decrease)/Increase in trade and other payables		**(18,720)**	13,635
(Decrease) in provisions	20	**(539)**	(1,565)
		(56,411)	392,818
Tax paid		**(94,971)**	(80,576)
Net cash from operating activities		**261,788**	312,242
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**123**	124
Proceeds from sale of investments		**399,862**	50,487
Dividends received	10	**15,840**	14,524
Purchase of investments		**(536,601)**	(33,579)
Acquisition of property, plant and equipment	8,9	**(102,610)**	(1,065)
Net cash used in investing activities		**(223,386)**	62,024
Cash flows from financing activities			
Share premium		**88,000**	-
Dividends paid	21	**(196,924)**	(323,281)
Net cash used in financing activities		**(108,924)**	(323,281)
Net decrease in cash and cash equivalents		**(70,522)**	50,985
Cash and cash equivalents at 1 January	16	**413,154**	362,169
Cash and cash equivalents at 31 December	16	**342,632**	413,154

The accompanying notes form part of these financial statements.

Notes to the consolidated group financial statements

1 Accounting policies

M&G Group Limited (the "Company") is a company incorporated and domiciled in the UK.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") and equity account the Group's interest in associates.

The Group is exempt from preparing Group financial statements under Section 400 of the Companies Act 2006, since it is included in the consolidated financial statements of the ultimate controlling party, Prudential plc, a company registered in England and Wales. The Group has chosen not to apply this exemption.

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("EU IFRS") and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The Company has elected to prepare its company financial statements in accordance with FRS 101. These are presented on pages 80 to 91.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

Judgements made by the directors in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1.20.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments; financial instruments classified at fair value through the profit or loss; and liabilities for cash-settled share-based payments.

1.2 Changes in accounting policy

IFRS 9 Financial Instruments

The Group has adopted IFRS 9 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement.*

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for the year ended 31 December 2017 does not reflect the requirements of IFRS 9 and is therefore not comparable to the information presented for the year ended 31 December 2018 under IFRS 9.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

  - The determination of the business model within which a financial asset is held
  - The designation and revocation of previous designations of certain financial assets and liabilities as measured at fair value through profit and loss.

- If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Group assumed that the credit risk on the asset had not increased significantly since its initial recognition.

Notes to the consolidated group financial statements *(continued)*

1 Accounting policies *(continued)*

1.2 Changes in accounting policy (continued)

The nature and effects of the key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Equity securities relating to the Group's retail book and fund seeding investments which were classified as held for trading under IAS 39 with gains and losses going through other comprehensive income were re-classified as fair value through profit and loss on adoption of IFRS 9. M&G's equity security investments are held for trading and therefore meet the requirements of IFRS 9 to be measured at fair value through profit and loss. The measurement of these assets is unaffected by the adoption of IFRS 9. There were no other changes as a result of the adoption of IFRS 9.

The table below shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018.

	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 £'000	Original carrying amount under IFRS 9 £'000
Financial assets					
Equity securities (retail book and fund seeding)	*11*	Held for trading	Fair value through profit and loss	85,559	85,559
Equity securities (employee liability hedge investments)	*11*	Fair value through profit and loss	Fair value through profit and loss	65,617	65,617
Related party loans	*11*	Amortised cost	Amortised cost	199,369	199,369
Trade and other receivables	*15*	Amortised cost	Amortised cost	729,093	729,093
Total financial assets				**1,079,638**	**1,079,638**

The recognition and measurement of financial liabilities is unaffected by the adoption of IFRS 9.

The measurement of expected credit losses is based on the present value of cash shortfalls and considers both the amount and timing of contractual payments. Therefore, a credit loss will arise in instances where there is a delay in the payment of contractually required amounts, even if all contractual cash payments are ultimately expected to be received in full.

For financial assets, a cash shortfall is the difference between the present value of the principal and interest cash flows due to the Group under the contract and the present value of the cash flows that the Group expects to receive.

IFRS 9 establishes a simplified impairment approach for qualifying trade receivables and contract assets within the scope of IFRS 15. The simplified approach does not apply to intercompany loans.

The Group has adopted a practical expedient permitted by IFRS 9 that allows an entity to use a simplified provision matrix for calculating expected credit losses as a practical expedient, if consistent with the general principles for measuring expected losses. The provision matrix is based on an entity's historical default rates over the expected life of the trade receivables and is adjusted for forward-looking estimates.

Notes to the consolidated group financial statements *(continued)*

1 Accounting policies *(continued)*

1.2 Changes in accounting policy *(continued)*

IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 using the retrospective with cumulative effect method by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Therefore the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11.

IFRS 15 replaces IAS 18 for annual periods beginning on or after 1 January 2018 and provides a new five-step revenue recognition model for determining recognition and measurement of revenue from contracts with customers. The Group's revenue generated from financial instruments within the scope of IFRS 9 is exempt from IFRS 15.

The Group's revenue streams that meet the definition of 'Revenue from contracts with customers' are set out below.

- Management fees, net of rebates
- Performance fees
- Carried interest revenue

The adoption of IFRS 15 has had no significant impact on the timing of revenue recognition of the Group. The Group's accounting policy for revenue has been updated to state that revenue within the scope of IFRS 15 is recognised as performance obligations are satisfied. The change in identification of performance obligations impacts the recognition of carried interest revenue and does not impact the recognition of any other stream of revenue from contracts with customers.

Following the application of IFRS 15 the Group has amended its recognition of carried interest revenue. Carry rights were previously recognised in accordance with IAS 32 and classified as Available-for-sale financial assets, initially measured at cost with any resultant fair value movement taken through Other Comprehensive Income. Income was recognised when the other comprehensive income crystallised as revenue in the Profit and Loss Account. Under IFRS 15 the Group does not recognise carry rights as Available-for-sale financial assets in accordance with IAS 32, and only recognises carried interest revenue to the extent that a significant reversal in the cumulative revenue recognised will not occur.

Following the application of IFRS 15, the Group has reclassified its presentation of rebates. Previously under IAS 18 the Group deducted rebates from gross revenue when it acted as principal. Where the Group acted as an agent the rebates were netted off within gross revenue. Under IFRS 15, rebates are classified as variable consideration and in that respect the Group has included all of its rebates within Revenue from Contracts with Customers.

Notes to the consolidated group financial statements *(continued)*

1 Accounting policies *(continued)*

1.2 Changes in accounting policy (continued)

The IFRS 15 transitional adjustments in respect of the Carried Interest Rights and rebates have had the following impact on the Group's financial statements:

	2017 reported balances £'000	IFRS 15 transition adjustment £'000	Comparable 2017 balances if IFRS 15 had been applied £'000
Balance sheet			
Other financial assets	380,614	(23,336)	357,278
Current trade and other payables	(767,419)	16,694	(750,725)
Current deferred tax liability	(1,271)	1,271	-
Fair value reserve	(10,777)	5,433	(5,344)
Statement of profit and loss and other comprehensive income			
Revenue	1,408,577	(117,133)	1,291,444
Rebates and commission expenses	(341,852)	117,133	(224,719)
Change in fair value of assets classified as available-for-sale	2,928	(2,928)	-
Income tax on items that are or may be reclassified subsequently to profit or loss	(306)	306	-

IFRS 15 does not give rise to any significant judgements and estimates.

The standard amends IAS 34 to require additional disclosures in the financial statements in respect of disaggregated revenue and its relationship with revenue reported for each reportable segment. These disclosures are provided in Note 2.

1.3 Going concern

The directors have a reasonable expectation that the Group has adequate resources to continue its operations for a period of at least 12 months from the date that the financial statements are approved. In support of this expectation the directors are unaware of any factors likely to affect the Group in the foreseeable future.

While the final Brexit outcome remains uncertain, the directors have implemented the Group Brexit plan formed in 2016, which included the establishment of a Luxembourg based super management company and MiFID distribution firm. Both are now fully licensed and operational; managing and distributing M&G EU domiciled funds, products and services

The directors have completed an evaluation of the various scenarios that could result from a cliff edge Brexit and have determined the absolute worst-case scenario for the asset management industry is one where there is no withdrawal agreement, no transition period and neither the Memorandums of Understanding (for funds) or the ESMA certification of equivalence (for MiFID activities) that enable the delegation of regulated portfolio management activities outside of the EU are in place at the point of Brexit.

The directors continue to monitor political and regulatory developments, and to adjust or activate contingency plans, where necessary. Accordingly, they continue to adopt a going concern basis in preparing the Group financial statements.

Notes to the consolidated group financial statements *(continued)*

1 Accounting policies *(continued)*

1.4 Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the M&G consolidated group financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Generally significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Application of the equity method to associates

Associates are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The M&G consolidated group financial statements include the Group's share of the total comprehensive income and equity movements of equity accounted investees, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

1.5 Structured entities

Structured entities are those that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Voting rights relate to administrative tasks. Relevant activities are directed by means of contractual arrangements. The Group invests in structured entities such as Open Ended Investment Companies (OEICs) and Societes d'Investissement a Capital Variable (SICAVs).

The Group invests in open ended investment companies (OEICs) and SICAVs which mainly invest in equities, bonds, cash and cash equivalents, and property. Where the Group is deemed to control these entities, they are treated as subsidiaries and are consolidated. Where the Group does not control these entities (as it is deemed to be acting as an agent) and they do not meet the definition of associates, they are carried at fair value and designated as financial assets measured at fair value through profit or loss or held for trading financial assets.

Where the Group sets up OEICs and SICAVs, the Group's interest is limited to the investment management fees charged to manage the assets of the entities. With little participation in these entities, the Group does not retain risks associated with OEICs and SICAVs. For these OEICs and SICAVs, the Group is not deemed to control the entities but to be acting as an agent. The Group generates returns and retains the ownership risks in investment vehicles commensurate to its participation and does not have any further exposure to the residual risks of the investment vehicles.

Notes to the consolidated group financial statements *(continued)*

1 Accounting policies *(continued)*

1.6 Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit and loss account. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations, including fair value adjustments arising on consolidation, are translated to the Group's presentational currency, Sterling, at foreign exchange rates ruling at the balance sheet date. The revenue and expenses of foreign operations are translated on a monthly basis using the average rate for each respective month where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve or non-controlling interest, as the case may be. When a foreign operation is disposed of, such that control or significant influence (as the case may be) is lost, the entire accumulated amount in the foreign currency translation reserve, net of amounts previously attributed to non-controlling interests, is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of part only of its interest in a subsidiary that includes a foreign operation while still retaining control, the relevant proportion of the accumulated amount is reattributed to non-controlling interests. When the Group disposes of part only of its investment in an associate that includes a foreign operation while still retaining significant influence, the relevant proportion of the cumulative amount is reclassified to profit or loss.

Exchange differences arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the translation reserve.

1.7 Financial instruments (applicable from 1 January 2018)

(i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit and loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets

(a) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost or fair value through profit and loss.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Notes to the consolidated group financial statements *(continued)*

1 Accounting policies *(continued)*

1.7 Financial instruments (applicable from 1 January 2018) *(continued)*

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost of fair value through other comprehensive income as described above are measured at fair value through profit and loss. This includes all derivative financial assets.

Investments in associates and subsidiaries are accounted for using the equity method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

(b) Subsequent measurement and gains and losses

- Financial assets at fair value through profit and loss - these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
- Financial assets at amortised cost - These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Notes to the consolidated group financial statements *(continued)*

1 Accounting policies *(continued)*

1.7 Financial instruments (applicable from 1 January 2018) *(continued)*

Financial liabilities and equity

Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the group; and

(b) where the instrument will or may be settled in the group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the group's own equity instruments or is a derivative that will be settled by the group's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the group's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Financial liabilities are classified as measured at amortised cost or fair value through profit and loss. A financial liability is classified as at fair value through profit and loss if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at fair value through profit and loss are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

Impairment

The Group recognises loss allowances for expected credit losses on financial assets measured at amortised cost.

Loss allowances are measured at an amount equal to lifetime expected credit losses, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, which are measured as 12-month expected credit loss.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime expected credit loss.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

12-month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating expected credit losses is the maximum contractual period over which the group is exposed to credit risk.

Notes to the consolidated group financial statements *(continued)*

1 Accounting policies *(continued)*

1.7 Financial instruments (applicable from 1 January 2018) (continued)

Measurement of expected credit losses

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the group expects to receive). Expected credit losses are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

1.8 Financial instruments (applicable prior to 1 January 2018)

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Investments in debt and equity securities

Financial instruments held for trading or designated at fair value through profit or loss upon initial recognition or at the IAS 39 transition date (1 January 2013) if later are stated at fair value, with any resultant gain or loss recognised in profit or loss.

Debt investments with Prudential plc subsidiaries outside the M&G consolidated group (related party loans) are stated at cost less impairment.

Other investments in debt and equity securities held by the Group are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity (in the fair value reserve), except for impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the Cash Flow Statement.

Notes to the consolidated group financial statements *(continued)*

1 Accounting policies *(continued)*

1.8 Financial instruments (applicable prior to 1 January 2018) (continued)

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss

1.9 Intra-group financial instruments

Where the Group enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Group considers these to be insurance arrangements. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

1.10 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

Leasehold improvements	5-20 years
Equipment and fittings	5-7 years
Motor vehicles	4 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

1.11 Intangible assets

Expenditure on internally generated goodwill and brands is recognised in the profit and loss account as an expense as incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Computer software	4-10 years
Deferred placement fees	life of fund

1.12 Pension schemes

Pensions

The Group participates in a Group wide defined benefit pension plan ("the M&G Group Pension Scheme"), the Prudential plc group wide defined benefit pension plan ("the Prudential Staff Pension Scheme") and a small unfunded defined benefit pension plan which has two members. These schemes are all closed to new members.

For those employees who are not members of the defined benefit schemes, contributions are made by the Group to a defined contribution plan.

Notes to the consolidated group financial statements *(continued)*

1 Accounting policies *(continued)*

1.12 Pension Schemes *(continued)*

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Group determines the net interest on the net defined benefit asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit asset.

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA, maturity dates approximating to the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Group recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs.

The calculation of the defined benefit obligation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs. The gain or loss on a settlement is the difference between the present value of the defined benefit obligation being settled as determined on the date of settlement and the settlement price, including any plan assets transferred and any payments made directly by the Group in connection with the settlement.

1.13 Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

1.14 Long-term incentive plan (LTIP)

Long-term incentive plans are long-term bonus schemes earned over three years, linked to the business performance. Long-term incentive plans are measured on an undiscounted basis and are expensed over the three year period. A liability is recognised for the amount expected to be paid under long term incentive plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Notes to the consolidated group financial statements *(continued)*

1 Accounting policies *(continued)*

1.15 Share-based payments

The Group, as part of the wider Prudential plc group, offers share award and option plans for certain key employees and a Saving-Related Share Option Scheme for all UK and certain overseas employees. The Group has both equity-settled and cash-settled plans.

Share options and awards of the ultimate parent company's equity instruments, for which the ultimate parent company (Prudential plc) has the obligation to settle, are accounted for as equity-settled share-based payments. The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity over the period that the employees become unconditionally entitled to the awards. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted.

The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share options and awards for which the Group has the obligation to settle are accounted for as cash-settled share-based payments i.e. as an obligation to transfer the equity instruments of Prudential plc. The Group receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of Prudential plc's equity instruments. The fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expenses in profit or loss.

1.16 Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, which can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

1.17 Revenue

Fees

The Group's revenue is principally derived from management fees, performance fees and carried interest.

Management fee revenue is based on investment assets under management and is only recognised when the Group satisfies its performance obligation to provide the asset management services. It is recognised in the accounting period in which the services are rendered and is recognised net of rebates. Prior to transition to IFRS 15 on 1 January 2018 management fee revenue was presented gross of rebates where the Group has acted as principal.

Since the asset management service the Group provides is a continuous service, it satisfies its performance obligation over time. Therefore, the Group meets the criteria for its revenue to be recognised over time as the client benefits from the asset management services received from the Group.

Performance fee and carried interest revenue is based on the achievement of prescribed performance hurdles. It is only recognised when the performance obligations are satisfied or upon the crystallisation event occurring and when it is highly probable that a significant reversal will not occur.

Notes to the consolidated group financial statements *(continued)*

1 Accounting policies *(continued)*

1.17 Revenue (continued)

Commission

Commissions are paid to third parties for ongoing services under distribution agreements and are charged to the profit and loss account over the period in which the service is expected to be provided. Commission payments are compliant with local regulation.

1.18 Expenses

Operating lease payments

Payments made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit and loss account as an integral part of the total lease expense. During the year ended 31 December 2018, the Group received a lease incentive in respect of it's new London headquarters. The lease incentive relating to the period of time that the building was uninhabitable has been capitalised along with fit out costs incurred to bring the building into use.

Financing income and expenses

Financing expenses includes net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy). Financing income includes interest receivable on cash invested, dividend and distribution income, and net foreign exchange gains.

Interest income is recognised in profit or loss as it accrues, using the effective interest method. Dividend and distribution income is recognised in the profit and loss account on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

1.19 Tax

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Notes to the consolidated group financial statements *(continued)*

1 Accounting policies *(continued)*

1.20 Accounting estimates and judgements

In the process of applying the EU IFRS accounting policies listed above, key assumptions and estimates have been made at the balance sheet date. The estimates and assumptions that could have a significant effect on the carrying amounts of assets and liabilities are:

Trade and other payables – long term incentive plans

The Group's Long-Term Incentive Plan (LTIP) are long-term employee benefits. Long-term employee benefit liabilities include the constructive obligation to employees from past practice and are subject to the achievement of performance criteria, typically over a period of not less than three years. In particular, the long-term employee benefit liability measurement may include assumptions regarding vesting conditions and the performance of each employee's business unit and/or performance of M&G fund's that each respective employee directly influences.

Pension schemes

The costs and obligations under defined benefit pension plans are determined using actuarial valuations. Actuarial valuations contain assumptions including expected returns on assets, future salary increases, mortality rates, future pension increases and discount rates. Due to the long-term nature of the defined benefit plans, such estimates are subject to significant uncertainty. Notes 1.12 and 17 provide further details on defined benefit pension plan assumptions and estimates. Further assumptions have been used to calculate the Group's guaranteed minimum pension equalisation. The Group has applied a prudent funding approach based on an allowance of liabilities for the M&G Group Pension Scheme.

1.21 EU IFRS not yet applied

The following standards, interpretations and amendments have been issued but are not yet effective in 2018, including those which have not yet been adopted in the EU. This is not intended to be a complete list as only those standards, interpretations and amendments that could have an impact upon the Group's financial statements are discussed.

IFRS 16 'Leases' (endorsed by the EU but not yet effective)

In January 2016, the IASB published IFRS 16, 'Leases' effective for periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15, 'Revenue from Contracts with Customers' has also been applied. The new standard brings most leases on-balance-sheet for lessees under a single model, eliminating the distinction between operating and finance leases. For lessee accounting, this has the effect of requiring most of the existing operating leases to be accounted for in a similar manner as finance leases under the existing IAS 17, 'Leases'. The only optional exemptions are for short-term leases and leases of low-value assets. Lessor accounting however remains largely unchanged from IAS 17.

IFRS 16 will apply primarily to operating leases of major properties occupied by the Group's businesses where M&G is a lessee. Under IFRS 16, these leases will be brought onto the Group's statement of financial position with a 'right of use' asset being established and a corresponding liability representing the obligation to make lease payments. The current rental accrual charge in the income statement will be replaced with a depreciation charge for the 'right of use' asset and an interest expense on the lease liability leading to a more front-loaded operating lease cost profile compared to IAS 17.

Notes to the consolidated group financial statements *(continued)*

1 Accounting policies *(continued)*

1.20 EU IFRS not yet applied (continued)

IFRS 16 permits transition to the new standard through a modified retrospective approach or a full retrospective approach. Under the modified retrospective approach, as well as affording a number of simplifications, the Group's comparative information is not restated, but there may be an adjustment to retained earnings at the date of initial application (ie 1 January 2019) depending on the option used to measure 'right-of-use asset'. Under the modified retrospective approach, a lessee has the option to choose, on a lease-by-lease basis, to measure the 'right-of-use' asset at either; its carrying amount as if the standard had been applied since the commencement of the lease (referred to as 'modified retrospective approach option A') or an amount equal to the discounted remaining lease payments adjusted by any prepaid or accrued lease payment balance immediately before the date of initial application of the standard (referred to as 'modified retrospective approach option B').

Following the completion of the IFRS 16 implementation project, the Group has adopted IFRS 16 from 1 January 2019 using the modified retrospective approach option B. It is estimated that application of the standard will result in recognition of an additional lease liability amounting to approximately £293 million and a 'right-of-use' asset amounting to £258 million as at 1 January 2019. These amounts remain subject to ongoing refinement and verification. Under the modified retrospective approach option B there is no adjustment to the Group's retained earnings at 1 January 2019. For existing finance leases where the Group is a lessee, the carrying amount of the 'right-of-use' asset and lease liability at 1 January 2019 will be determined based on the carrying amount of the lease asset and lease liability immediately before that date measured applying IAS 17.

The Group will apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts, which were identified as leases in accordance with IAS 17 and IFRIC 4, 'Determining whether an Arrangement contains a Lease', entered into before 1 January 2019. The Group also will apply the practical expedient to use a single discount rate to a portfolio of leases with reasonably similar

characteristics. Accordingly, for such portfolios, the incremental borrowing rates used to discount the future lease payments will be determined based on country specific risk free rates adjusted with a margin/spread to reflect the Group's credit standing, lease term and the outstanding lease payments.

Notes to the consolidated group financial statements *(continued)*

2 Revenue from contracts with customers

	2018 £000	2017 £000
Management fees*	**1,392,337**	1,376,030
Performance fees and carried interest	**12,865**	32,547
Revenue	**1,405,202**	1,408,577
Less: rebates (Note 1.2)*	**-**	(52,544)
Less: commission expenses	**(274,469)**	(289,308)
Total net revenue	**1,130,733**	1,066,725

Revenue arose primarily from management fees within Europe

*IFRS 15 classifies rebates as variable consideration and in that respect the Group has included its rebates within Revenue from Contracts with Customers on the face of the Statement of Profit and Loss, certain rebates previously shown separately.

Disaggregation of revenue

The following table disaggregates management fee revenue by business division which represents the operating structure of the Group.

	2018 £000	2017 £000
EFIMA*	**936,997**	959,072
Fixed Income and Real Estate	**410,625**	399,931
Corporate	**44,715**	16,942
Total management fees	**1,392,337**	1,376,030
Performance fees and carried interest	**12,865**	32,547
Revenue	**1,405,202**	1,408,577

*EFIMA – Equities fixed income and multi asset

3 Auditor's remuneration

Included in profit and loss is the following:	2018 £000	2017 £000
Audit of these financial statements	**48**	27
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	**640**	628
Audit related assurance services	**651**	547
All other services	**-**	29
Total auditor's remuneration	**1,339**	1,231

£28,000 (2017: Nil) included in amounts receivable in respect of audit of financial statements of subsidiaries of the Company and £48,000 (2017: £71,000) included in amounts receivable in respect of audit related assurance services relates to services for the year ended 31 December 2017.

Amounts receivable by the Company's auditors and its associates in respect of the audit of the financial statements of the M&G Group pension scheme is £27,000 (2017: £22,000).

Notes to the consolidated group financial statements *(continued)*

4 Staff numbers and costs

The average number of persons employed by the group (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2018	2017
Total permanent headcount	**1,978**	1,881
Fixed-term headcount	**79**	38
Total headcount	**2,057**	1,919

The aggregate payroll costs of these persons were as follows:

	2018 £000	2017 £000
Wages and salaries	**286,855**	329,204
Social security costs	**35,320**	42,597
Defined benefit schemes	**11,170**	8,136
Defined contribution schemes	**15,133**	12,761
Share-based payments	**1,030**	2,045
Total payroll costs	**349,508**	394,743

5 Directors' remuneration

Directors remuneration is disclosed in note 26.

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £1,744,000 (2017: £5,650,000), and company pension contributions of £nil. (2017: £nil) were made to a defined contribution scheme on their behalf. The highest paid director did not exercise any Prudential plc share options during the year, however they did receive Prudential plc share awards under long term incentive schemes.

	Number of directors	
	2018	2017
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	**2**	1
Defined benefit schemes	-	-
The number of directors who exercised share options was:	-	-

Prudential plc also provides protection for directors and senior managers of companies within the Group against personal financial exposure they may incur in their capacity as such. These include qualifying third party indemnity provisions (as defined by the relevant Companies Act) for the benefit of directors of Prudential plc and certain directors of associated companies, including and where applicable, financial exposure incurred in their capacity as a director of the Company and other companies within the Group.

Qualifying third party indemnities in favour of A H Richards and P J Remnant in relation to their directorships of the Company were in force from their appointment date until their resignation date.
A qualifying third party indemnity in favour of J W Foley in relation to his directorship of the Company has been in force from his appointment date and remains in force at the date of this report.

Notes to the consolidated group financial statements *(continued)*

6 Financial income and expense

Recognised in profit or loss

Finance income	**2018 £000**	2017 £000
Net gain on financial instruments designated at fair value through profit or loss	-	5,192
Net gain on financial instruments held for trading	-	1,572
Interest income on unimpaired financial assets	**6,212**	4,532
Distribution and dividend income on financial assets designated at fair value through profit or loss	**4,554**	-
Distribution and dividend income on available-for-sale financial assets	-	39,292
Net foreign exchange gain	**8,521**	-
Net interest on net defined benefit pension plan assets	**2,824**	2,313
Total finance income	**22,111**	52,901

Finance expense	**2018 £000**	2017 £000
Net loss on financial instruments designated at fair value through profit or loss	**23,158**	-
Total interest expense on financial liabilities measured at amortised cost	**3,058**	-
Net foreign exchange loss	-	4,138
Total finance expense	**26,216**	4,138

Notes to the consolidated group financial statements *(continued)*

7 Tax

Recognised in the profit and loss account	**2018**	2017
	£000	£000
Current tax expense		
Current year	**66,015**	78,395
Adjustment for prior year	**(4,119)**	2,894
Foreign tax current year	**10,953**	6,920
Current tax expense	**72,849**	88,209
Deferred tax expense		
Origination and reversal of temporary differences	**5,247**	3,256
Reduction in tax rates	**547**	430
Adjustments for prior years	**(2,677)**	(342)
Total tax on profit on ordinary activities	**3,117**	3,344
Tax expense in profit and loss account	**75,966**	91,553

Income tax recognised in other comprehensive income	**2018**	2017
	£000	£000
Foreign exchange translation differences	**(95)**	(62)
Change in fair value of assets designated at fair value through profit or loss	**-**	-
Change in fair value of assets classified as available-for-sale	**-**	306
Remeasurement of defined benefit pension asset	**4,347**	4,426
Total tax recognised in other comprehensive income	**4,252**	4,670

Tax recognised directly in equity		2017
		£000
Current tax recognised directly in equity	**(483)**	(558)
Deferred tax recognised directly in equity	**973**	(779)
Total tax recognised directly in equity	**490**	(1,337)

Factors affecting tax charge for the period

The tax assessed in the period is lower than (2017 - higher than) the standard rate of corporation tax in the UK and the differences are explained below. The standard rate of tax has been determined by using the UK rate of corporation tax enacted for the period for which the profits of the Group will be taxed.

Reconciliation of effective tax rate

	2018	2017
	£000	£000
Profit before tax of group entities	**423,687**	463,127
Tax using the UK corporation tax rate of 19.00% (2017: 19.25%)	**80,500**	89,136
Effect of tax rates in foreign jurisdictions	**3,035**	1,561
Reduction in tax rate on deferred tax balances	**547**	430
Non-deductible expenses	**2,325**	1,039
Tax exempt revenues	**(3,561)**	(3,719)
Current tax through OCI	**-**	553
Movement in capital loss	**-**	1
Share options	**(84)**	-
Under/(over) provided in prior years	**(6,796)**	2,552
Tax expense in profit and loss account	**75,966**	91,553

Notes to the consolidated group financial statements *(continued)*

7 Tax *(continued)*

Factors that may affect future tax charges

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce any future current tax charge for the company accordingly.

8 Property, plant and equipment

	Leasehold improvements £000	Equipment & fittings £000	Motor Vehicles £000	Total £000
Cost				
Balance at 1 January 2018	18,927	4,576	507	24,010
Acquisitions	101,909	525	176	102,610
Disposals	-	(375)	(144)	(519)
Effect of movements in foreign exchange	36	26	-	62
Balance at 31 December 2018	120,872	4,752	539	126,163
Depreciation				
Balance at 1 January 2018	16,579	3,724	194	20,497
Depreciation charge for the year	1,357	501	86	1,944
Depreciation on disposals	-	(335)	(62)	(397)
Effect of movements in foreign exchange	7	(7)	-	-
Balance at 31 December 2018	17,943	3,883	218	22,044
Net book value				
At 1 January 2018	2,348	852	313	3,513
At 31 December 2018	**102,929**	**869**	**321**	**104,119**

Depreciation charge

The depreciation charge is recognised in operating expenses in the profit and loss account. £101m additions incurred during the year in respect of the lease incentives and fit out of the Group's new London headquarters have not been depreciated as at 31 December 2018. The Group will begin depreciating these assets when the building is fully occupied in Q1 2019.

Notes to the consolidated group fnancial statements *(continued)*

9 Intangible assets

	Computer Software £000	Deferred Acquisition Costs £000	Total £000
Cost			
Balance at 1 January 2018	970	-	970
Reclassification from debtors*	-	23,158	23,158
Acquisitions	-	15,149	15,149
Disposals	(77)	-	(77)
Effect of movements in foreign exchange	(11)	42	31
Balance at 31 December 2018	882	38,349	39,231
Depreciation			
Balance at 1 January 2018	968	-	968
Reclassification from debtors*	-	16,632	16,632
Amortisation charge for the year	-	3,484	3,484
Depreciation on disposals	(77)	-	(77)
Effect of movements in foreign exchange	(9)	-	(9)
Balance at 31 December 2018	882	20,116	20,998
Net book value			
At 1 January 2018	2	-	2
At 31 December 2018	**-**	**18,233**	**18,233**

Amortisation charge

The amortisation charge is recognised in operating expenses in the profit and loss account.

*In 2018 deferred acquisition costs relating to placement agent fees have been reclassified from Trade and other receivables. The comparative information has not been reclassified and is presented in note 15.

Notes to the consolidated group financial statements *(continued)*

10 Investments in subsidiaries and associates

10 (a) Subsidiaries

The Group has the following investments in subsidiary entities:

Group Subsidiaries	Registered Office	Registered Number	Class of Equity Held	Ownership % 2018	Ownership % 2017
M&G Alternatives Investment Management Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	2059989	Ordinary shares	100%	100%
M&G Financial Services Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	923891	Ordinary shares	100%	100%
M&G Founders 1 Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	4401042	Ordinary shares	100%	100%
M&G General Partner Inc.	Mary Street, PO BOX 908GT George Town Ky1-9002	151319	Ordinary shares	100%	100%
M&G (Guernsey) Limited	Dory Court, St Peter Port, Guernsey	21432	Ordinary shares	100%	100%
M&G IMPPP 1 Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	4382172	Ordinary shares	100%	100%
M&G Investments (Americas) Inc	251 Little Falls Drive, Wilmington, DE, 19801	6843211	Ordinary shares	100%	-
M&G Investments (Australia) Pty Ltd	Level 16, Grosvenor Place, 225 George Street, Sydney, Australia, NSW 2	629 169 160	Ordinary shares	100%	-
M&G International Investments Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	4134655	Ordinary shares	-	100%
M&G International Investments Nominees Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	4195540	Ordinary shares	100%	100%
M&G International Investments Switzerland AG	Talstrasse 66, 8001 Zurich, Switzerland	CHE-286.542.158	Ordinary shares	100%	100%
M&G International Investments SA	34-38 Avenue de la Liberte, L-1930, Luxembourg	B 213.164	Ordinary shares	100%	100%
M&G Investment Management Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	936683	Ordinary shares	100%	100%
M&G Investments (Hong Kong) Limited	6th Floor, Alexandra House, Hong Kong	1730458	Ordinary shares	100%	100%
M&G Investments Japan Co., LTD	3-1 Toranomon, 4 Chome Minato-ko, Tokyo, Japan	010401 124078	Common stock	100%	100%
M&G Investments (Singapore) Pte. Ltd.	10 Marina Boulevard, 31-03 Marina Bay Financial Centre, Singapore	201131425R	Ordinary shares	100%	100%
M&G Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	1048359	Ordinary shares	100%	100%
M&G Management Services Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	5286403	Ordinary shares	100%	100%
M&G Nominees Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	3469213	Ordinary shares	100%	100%
M&G Platform Nominees Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	09581702	Ordinary shares	100%	100%
M&G PFI 2018 GP1 Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	10954144	Ordinary shares	100%	100%
M&G PFI 2018 GP2 Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	10954003	Ordinary shares	100%	100%
M&G PFI 2018 GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO306178	Limited Liability Partnership Capital	100%	100%
M&G PFI Carry Partnership 2016 LP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SL028237	Limited Partner Capital	25%	25%
M&G Luxembourg S.A.	34-38, Avenue de la Liberte, L-1930, Luxembourg	B170483	Ordinary shares	100%	100%
M&G Real Estate Asia Holding Company Pte. Ltd	10 Marina Boulevard, 31-03 Marina Bay Financial Centre, Singapore	201543062C	Ordinary shares	67%	67%
M&G Real Estate Asia Pte. Ltd	10 Marina Boulevard, 31-03 Marina Bay Financial Centre, Singapore	200610218 G	Ordinary shares	67%	67%
M&G Real Estate Funds Management SARL	34-38, Avenue de la Liberte, L-1930, Luxembourg	B175545	Ordinary shares	100%	100%
M&G Real Estate Japan Co. Ltd	Shiroyama Trust Tower, Tokyo, Japan	0100-01-148048	Common stock	67%	67%

Notes to the consolidated group financial statements *(continued)*

10 Investments in subsidiaries and associates *(continued)*

10 (a) Subsidiaries *(continued)*

Group Subsidiaries (continued)	Registered Office	Registered Number	Class of Equity Held	Ownership % 2018	Ownership % 2017
M&G Real Estate Korea Co. Ltd	15th Floor, Kyobo Building, 1 Jongno, Jongno-gu, Seoul, 110-714, Korea	110111-4931831	Common stock	67%	67%
M&G Real Estate Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	3852763	Ordinary shares	100%	100%
M&G Real Estate UKEV (GP) LLP	Governors House, Laurence Pountney Hill, London, EC4R 0HH	OC418419	Limited Liability Partnership Capital	100%	100%
M&G Real Estate UKEV 1 Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	11163869	Ordinary shares	100%	100%
M&G Real Estate UKEV (GP1) LLP	Governors House, Laurence Pountney Hill, London, EC4R 0HH	OC420581	Limited Liability Partnership Capital	100%	-
M&G RE Espana 2016 S.L.	Plaza de Colon, Torre II, Planta 14, 28046 Madrid		Ordinary shares	100%	100%
M&G RED Employee Feeder GP Limited	7 Exchange Crescent, Edinburgh, EH3 8AN	SC369804	Ordinary shares	100%	100%
M&G RED GP Limited	Dory Court, St Peter Port, Guernsey	50554	Ordinary shares	-	100%
M&G RED SLP LP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SL007548	Limited Partner Capital	-	44%
M&G RED II Employee Feeder GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC430540	Ordinary shares	100%	100%
M&G RED II GP Limited	Third Floor, La Plaiderie Chambers La Plaiderie, St Peter Port, GY1 1WG, Guernsey	55378	Ordinary shares	100%	100%
M&G RED II SLP GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC430535	Ordinary shares	100%	100%
M&G RED II SLP LP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SL011176	Limited Partner Capital	28%	28%
M&G RED III Employee Feeder GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC434132	Ordinary shares	100%	100%
M&G RED III GP Limited	Third Floor, La Plaiderie Chambers La Plaiderie, St Peter Port, GY1 1WG, Guernsey	55393	Ordinary shares	100%	100%
M&G RED III SLP GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC434193	Ordinary shares	100%	100%
M&G RED III SLP LP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SL011512	Limited Partner Capital	25%	25%
M&G RED SLP GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC369803	Ordinary shares	100%	100%
M&G RPF GP Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	8407747	Ordinary shares	100%	100%
M&G RPF Nominee 1 Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	8409413	Ordinary shares	100%	100%
M&G RPF Nominee 2 Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	8410027	Ordinary shares	100%	100%
M&G Securities Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	90776	Ordinary shares	100%	100%
M&G SIF Management Company (Ireland) Limited	78 Sir John Rogerson's Quay, Dublin 2	511747	Ordinary shares	100%	100%
M&G Specialty Finance Fund (GP) Sarl	51, Avenue J.F. Kennedy, L-1855 Luxembourg	B219359	Ordinary shares	100%	-
M&G Specialty Finance Fund Carry Interest Partnership (GP) Sarl	51, Avenue J.F. Kennedy, L-1855 Luxembourg	B220304	Ordinary shares	100%	-
M&G UKEV (SLP) General Partner LLP	Governors House, Laurence Pountney Hill, London, EC4R 0HH	OC420257	Limited Liability Partnership Capital	100%	100%
M&G UKEV (SLP) LP	Governors House, Laurence Pountney Hill, London, EC4R 0HH	SL032565	Limited Partner Capital	50%	60%
M&G UK Property GP Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	8462545	Ordinary shares	100%	100%

Notes to the consolidated group financial statements *(continued)*

10 Investments in subsidiaries and associates *(continued)*

10 (a) Subsidiaries *(continued)*

Group Subsidiaries (continued)	Registered Office	Registered Number	Class of Equity Held	Ownership % 2018	Ownership % 2017
M&G UK Property Nominee 1 Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	8494699	Ordinary shares	100%	100%
M&G UK Property Nominee 2 Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	8494704	Ordinary shares	100%	100%
M&G UKCF II GP Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	8214036	Ordinary shares	100%	100%
Calvin F1 GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC472933	Ordinary shares	100%	100%
Calvin F2 GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC468691	Ordinary shares	100%	100%
Canada Property (Trustee) No. 1 Limited	180 Dundas Street West, Suite 1200, Toronto ON MSG 1 ZB, Canada	1060750-9	Ordinary shares	100%	100%
Canada Property Holdings Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	4415746	Ordinary shares	100%	100%
Digital Infrastructure Investment Partners GP1 Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	10713853	Ordinary shares	100%	100%
Digital Infrastructure Investment Partners GP LLP	Governors House, Laurence Pountney Hill, London, EC4R 0HH	OC416887	Limited Liability Partnership Capital	65%	100%
Digital Infrastructure Investment Partners SLP GP1 Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	10715067	Ordinary shares	100%	100%
Digital Infrastructure Investment Partners SLP GP2 Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	10715126	Ordinary shares	100%	100%
Digital Infrastructure Investment Partners SLP GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO306056	Limited Liability Partnership Capital	100%	100%
Embankment GP Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	10747140	Ordinary shares	100%	100%
Embankment Nominee 1 Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	10749686	Ordinary shares	100%	100%
Embankment Nominee 2 Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	10750266	Ordinary shares	100%	100%
Falan GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC463668	Ordinary shares	100%	100%
Genny GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC536481	Ordinary shares	100%	100%
Genny GP 2 Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC547302	Ordinary shares	100%	100%
Genny GP 1 LLP	Governors House, Laurence Pountney Hill, London, EC4R 0HH	OC414130	Limited Liability Partnership Capital	100%	100%
George Digital GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC576789	Ordinary shares	100%	100%
George Digital GP 2 Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC577098	Ordinary shares	100%	100%
George Digital GP 1 LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO306174	Limited Liability Partnership Capital	100%	100%
GGE GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC504237	Ordinary shares	100%	100%
Green GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC569021	Ordinary shares	100%	100%
Greenpark (Reading) General Partner Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	6529374	Ordinary shares	100%	100%
Greenpark (Reading) Nominee No.1 Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	6562317	Ordinary shares	100%	100%
Greenpark (Reading) Nominee No.2 Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	6562424	Ordinary shares	100%	100%

Notes to the consolidated group financial statements *(continued)*

10 Investments in subsidiaries and associates *(continued)*

10 (a) Subsidiaries (continued)

Group Subsidiaries (continued)	Registered Office	Registered Number	Class of Equity Held	Ownership % 2018	Ownership % 2017
Holborn Bars Nominees Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	2334947	Ordinary shares	100%	100%
Infracapital (AIRI) GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC553164	Ordinary shares	100%	100%
Infracapital (Bio) GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC516021	Ordinary shares	100%	100%
Infracapital (GC) GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC500778	Ordinary shares	100%	100%
Infracapital (IT PPP) GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC550062	Ordinary shares	100%	100%
Infracapital (Leo) GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	611979	Ordinary shares	100%	-
Infracapital (Sense) GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC553170	Ordinary shares	100%	100%
Infracapital (TLSB) GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC486888	Ordinary shares	100%	100%
Infracapital ABP GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC481727	Ordinary shares	100%	100%
Infracapital (Belmond) GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC576332	Ordinary shares	100%	100%
Infracapital (Churchill) GP 1 Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	11460502	Ordinary shares	100%	-
Infracapital (Churchill) GP LLP	Governors House, Laurence Pountney Hill, London, EC4R 0HH	OC423386	Limited Liability	100%	-
Infracapital CI II Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC387664	Ordinary shares	100%	100%
Infracapital DF II GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO305002	Limited Liability Partnership Capital	100%	100%
Infracapital DF II Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC389185	Ordinary shares	100%	100%
Infracapital Employee Feeder GP 1 LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO305006	Limited Liability Partnership Capital	100%	100%
Infracapital Employee Feeder GP 2 LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO305007	Limited Liability Partnership Capital	100%	100%
Infracapital Employee Feeder GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC347134	Ordinary shares	100%	100%
Infracapital F1 GP2 Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	09180200	Ordinary shares	100%	100%
Infracapital F2 GP1 Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	09183883	Ordinary shares	100%	100%
Infracapital F2 GP2 Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	09180249	Ordinary shares	100%	100%
Infracapital (Gigaclear) GP 1 Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC602700	Ordinary shares	100%	-
Infracapital (Gigaclear) GP 2 Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC602698	Ordinary shares	100%	-
Infracapital (Gigaclear) GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO306478	Limited Liability Partnership Capital	100%	-
Infracapital GP 1 LLP	Governors House, Laurence Pountney Hill, London, EC4R 0HH	OC395042	Limited Liability Partnership Capital	100%	100%
Infracapital GP 2 LLP	Governors House, Laurence Pountney Hill, London, EC4R 0HH	OC395043	Limited Liability Partnership Capital	100%	100%
Infracapital GP II Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	7372931	Ordinary shares	100%	100%

Notes to the consolidated group financial statements *(continued)*

10 Investments in subsidiaries and associates *(continued)*

10 (a) Subsidiaries (continued)

Group Subsidiaries (continued)	Registered Office	Registered Number	Class of Equity Held	Ownership % 2018	Ownership % 2017
Infracapital GP Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	5455448	Ordinary shares	100%	100%
Infracapital Greenfield DF GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO306200	Limited Liability Partnership Capital	100%	100%
Infracapital Greenfield Partners 1 SLP GP1 Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC554629	Ordinary shares	100%	100%
Infracapital Greenfield Partners 1 SLP GP2 Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC554631	Ordinary shares	100%	100%
Infracapital Greenfield Partners 1 SLP GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO305944	Limited Liability Partnership Capital	100%	100%
Infracapital Greenfield Partners I Employee Feeder GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO306040	Limited Liability Partnership Capital	100%	100%
Infracapital Greenfield Partners I Employee Feeder LP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SL030887	Limited Partner Capital	76%	76%
Infracapital Greenfield Partners I GP 1 Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	09901632	Ordinary shares	100%	100%
Infracapital Greenfield Partners I GP 2 Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	09901644	Ordinary shares	100%	100%
Infracapital Greenfield Partners I GP LLP	Governors House, Laurence Pountney Hill, London, EC4R 0HH	OC403293	Limited Liability Partnership Capital	100%	100%
Infracapital Greenfield Partners I SLP LP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SL029954	Limited Partner Capital	37%	37%
Infracapital Greenfield Partners I SLP2 GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO306184	Limited Liability Partnership Capital	100%	100%
Infracapital Greenfield Partners I SLP2 LP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SL032352	Limited Partner Capital	100%	100%
Infracapital Greenfield Partners I Subholdings GP1 Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC578139	Ordinary shares	100%	100%
Infracapital Greenfield Partners I Subholdings GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO306189	Limited Liability Partnership Capital	100%	100%
Infracapital Long Term Income Partners GP 1 Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	09901460	Ordinary shares	-	100%
Infracapital Long Term Income Partners GP 2 Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	09901468	Ordinary shares	-	100%
Infracapital Long Term Income Partners GP LLP	Governors House, Laurence Pountney Hill, London, EC4R 0HH	OC403297	Limited Liability Partnership Capital	-	100%
Infracapital Partners II Subholdings GP1 Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC578127	Ordinary shares	100%	100%
Infracapital Partners II Subholdings GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO306188	Limited Liability Partnership Capital	100%	100%
Infracapital Partners III GP S.a.r.l	6, rue Eugene Ruppert, L-2453 Luxembourg	B217179	Ordinary shares	100%	100%

Notes to the consolidated group financial statements *(continued)*

10 Investments in subsidiaries and associates *(continued)*

10 (a) Subsidiaries (continued)

Group Subsidiaries (continued)	Registered Office	Registered Number	Class of Equity Held	Ownership % 2018	Ownership % 2017
Infracapital Partners III Subholdings (Euro) GP LLP	Governors House, Laurence Pountney Hill, London, EC4R 0HH	OC422333	Limited Liability Partnership Capital	100%	-
Infracapital Partners III Subholdings GP1 Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	11347638	Ordinary shares	100%	-
Infracapital Partners III Subholdings GP2 Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	11347641	Ordinary shares	100%	-
Infracapital Partners III Subholdings (Sterling) GP LLP	Governors House, Laurence Pountney Hill, London, EC4R 0HH	OC422334	Limited Liability Partnership Capital	100%	-
Infracapital RF GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC557453	Ordinary shares	100%	100%
Infracapital Sisu GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC521443	Ordinary shares	100%	100%
Infracapital SLP II GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO305000	Limited Liability Partnership Capital	100%	100%
Infracapital SLP II LP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SL008358	Limited Partner Capital	34%	34%
Infracapital SLP Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	5455461	Ordinary shares	100%	100%
London Stone Investments F3 Employee Feeder GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO306260	Limited Liability Partnership Capital	100%	100%
London Stone Investments F3 I Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC583847	Ordinary shares	100%	100%
London Stone Investments F3 II Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC583856	Ordinary shares	100%	100%
London Stone Investments F3 SP GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO306261	Limited Liability Partnership Capital	100%	100%
PPM Capital (Holdings) Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	3852755	Ordinary shares	100%	100%
PPM Managers GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC452033	Ordinary shares	100%	100%
PPM Managers Partnership CI VII (A) LP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SL013387	Limited Partner Capital	25%	25%
PPM Ventures (Asia) Limited	Gloucester Tower, 15 Queens Road, Central Hong Kong	663554	Ordinary shares	100%	100%
Prudential / M&G UKCF GP Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	6570276	Ordinary shares	100%	100%
Prudential GP Limited	Craigforth, Stirling, FK9 4UE	SC206683	Ordinary shares	100%	100%
Prudential Greenfield GP LLP	Governors House, Laurence Pountney Hill, London, EC4R 0HH	OC394904	Limited Liability Partnership Capital	100%	100%
Prudential Greenfield GP1 Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	09183905	Ordinary shares	100%	100%
Prudential Greenfield GP2 Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	09183929	Ordinary shares	100%	100%

Notes to the consolidated group financial statements *(continued)*

10 Investments in subsidiaries and associates *(continued)*

10 (a) Subsidiaries (continued)

Group Subsidiaries (continued)	Registered Office	Registered Number	Class of Equity Held	Ownership % 2018	Ownership % 2017
Prudential Greenfield SLP GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC304997	Limited Liability Partnership Capital	100%	100%
Prudential Property Investment Managers Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	08732334	Ordinary shares	100%	100%
Prudential Trustee Company Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	1863305	Ordinary shares	100%	100%
Prudential Unit Trusts Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	1796126	Ordinary shares	100%	100%
Prudential Loan Investments GP S.a.r.l	Rue Hildegard von Bingen 1, 1282 Luxembourg, Luxembourg	B212677	Ordinary shares	100%	-
Prudential Credit Opportunities GP S.a.r.l	Rue Hildegard von Bingen 1, 1282 Luxembourg, Luxembourg	B210013	Ordinary shares	100%	-
Rift GP 1 Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC425352	Ordinary shares	100%	100%
Rift GP 2 Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC425365	Ordinary shares	100%	100%
Selly Oak Shopping Park (General Partner) Ltd	Governors House, Laurence Pountney Hill, London, EC4R 0HH	11104396	Ordinary shares	100%	100%
Selly Oak Shopping Park (Nominee 1) Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	11105117	Ordinary shares	100%	100%
Selly Oak Shopping Park (Nominee 2) Ltd	Governors House, Laurence Pountney Hill, London, EC4R 0HH	11105380	Ordinary shares	100%	100%
Stableview Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	5506654	Ordinary shares	100%	100%
Staple Nominees Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	2076846	Ordinary shares	100%	100%
The First British Fixed Trust Company Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	255830	Ordinary shares	100%	100%
M&G (Lux) Floating Rate High Yield Solution Fund	49 Avenue, J.F. Kennedy, L-1855, Luxembourg	B210615	SICAV shares	2%	94%
M&G (Lux) Global Recovery Fund	49 Avenue, J.F. Kennedy, L-1855, Luxembourg	B210615	SICAV shares	100%	-
M&G Offshore Global Macro Bond Fund Limited	Dorey Court, Admiral Park, St Peter Port, Guernsey, GY1 2HT	1-52477	Class I shares	100%	-
M&G Offshore UK Inflation Linked Corp Bond Fund Limited	Dorey Court, Admiral Park, St Peter Port, Guernsey, GY1 2HT	1-54058	Class A Shares	100%	-

Notes to the consolidated group financial statements *(continued)*

10 Investments in subsidiaries and associates *(continued)*

Additional information concerning certain of the subsidiaries listed above are described below:

'M&G (LUX) INVESTMENT FUNDS 1' is a Luxembourg societe d'investissement a capital variable ('SICAV'), with registration number B210615 and is an umbrella fund with segregated liability between sub-funds. As at 31 December 18, one of the sub-funds of 'M&G (LUX) INVESTMENTS FUNDS 1' is a Group subsidiary.

'M&G FUNDS 1 ICAV' is an Irish Collective Asset–Management Vehicle ('ICAV'), with registration number C143465 and is an umbrella fund with segregated liability between sub-funds. As at 31 December 2018, none of the thirty nine sub-funds of 'M&G FUNDS 1 ICAV' are Group subsidiaries. During the period, the Group's holding in four of the ICAV holdings listed above, were diluted to an extent that they are now classified as Financial assets at fair value through profit and loss.

Non-controlling interests are not material to the Group. There are no significant restrictions on the ability of any subsidiary with non-controlling interests to transfer funds to the Group in the form of cash dividends, or to repay loans or advances.

The Group holds less than 50% of the limited partner capital of the seven limited partnerships listed above, but holds power over these limited partnerships as other Group subsidiaries act as the partnerships general partner and manager. This power combined with the significant variability of returns (proportionate to the ownership percentage of the limited partner capital) results in these partnerships being Group subsidiaries. The limited partnerships consolidated by the Group include Qualifying Partnerships as defined under the UK Partnerships (Accounts) Regulations 2008 (the "Partnerships Act"). Certain limited partnerships have taken advantage of the exemption under the Partnerships Act regulation 7 from the requirements of regulations 4 to 6 of the Partnerships Act, on the basis that these limited partnerships are dealt with on a consolidated basis in these financial statements.

Notes to the consolidated group financial statements *(continued)*

10 Investments in subsidiaries and associates *(continued)*

10 (b) Associates

The Group has the following investments in associate entities:

Group Associates	Registered Office	Registered number	Class of equity held	Ownership % 2018	Ownership % 2017
Innisfree M&G PPP LLP	1st Floor, Boundary House 91-93 Charterhouse Street, London, EC1M 6HR	OC301650	Limited Liability Partnership Member	35%	35%
Prudential Portfolio Managers (South Africa) (Pty) Limited	PO Box 44813, Claremont 7735, South Africa	1993/00450 3/07	Ordinary shares	49.99%	49.99%
			and A class shares	75%	75%
PGF Management Company (Ireland) Limited	25-28 North Wall Quay, Dublin 1, Ireland	586964	Ordinary shares	50.0001%	50.0001%
M&G Feeder of Global Dividend (GBP Class I Accumulation) Fund	Arthur Cox Building, Earlsfort Terrace, Dublin 2, Ireland	C147090	ICAV shares	-	22.08%
M&G Feeder of Global Emerging Markets (GBP Class I Accumulation) Fund	Arthur Cox Building, Earlsfort Terrace, Dublin2 Ireland	C143465	ICAV shares	21.38%	-
M&G Offshore Global High Yield Bond Limited	Dorey Court, Admiral Park, St Peter Port, Guernsey, GY1 2HT	1-37562	Class I shares	39.34%	-

The Group's share of post-acquisition total recognised profit or loss in the associates for the year ended 31 December 2018 is disclosed below:

	2018 £'000	2017 £'000
Prudential Portfolio Managers (South Africa) (Pty) Limited	**16,026**	14,971
Profit from individually immaterial associates	**325**	135
Total share of profit of associates	**16,351**	15,106

The Group's Investments in associates are disclosed below;

	2018 £'000	2017 £'000
Prudential Portfolio Managers (South Africa) (Pty) Limited	**36,706**	39,906
Carrying amount of individually immaterial associates	**773**	437
Total investments in associates	**37,479**	40,343

Prudential Portfolio Managers (South Africa) (Pty) Limited ('PPM SA'), based at Claremont in Cape Town, is the only material Group associate. PPM SA provides fund management services to predominantly African based retail and institutional investors.

The Group holds 49.99% of PPM SA voting rights. Although the Group holds 75% of 'A' class shares in PPM SA, the voting rights attached to these shares are negligible and combined with the 49.99% of ordinary shares held; the Group does not hold sufficient power through voting rights or other means to control PPM SA.

PPM SA must adhere to South African regulatory capital requirements that could potentially limit its ability to pay cash dividends. There are no other major restrictions on the ability of any associate to transfer funds to the Group in the form of cash dividends, or to repay loans or advances.

Notes to the consolidated group financial statements *(continued)*

10 Investments in subsidiaries and associates *(continued)*

10 (b) Associates *(continued)*

Financial information included in the PPM SA financial statements, adjusted for fair value adjustments at acquisition and differences in accounting policies, is disclosed immediately below:

	2018 £'000	2017 £'000
Current assets	521,517	527,447
Non-current assets	60,276	66,218
Current liabilities	(503,265)	(506,536)
Net Assets (100% of PPM SA)	78,527	87,129
Group's share of net assets:		
- attributable to PPM SA ordinary shares	36,433	39,608
- attributable to PPM SA A-class shares	274	298
Group's carrying amount of associate	36,707	39,906
Revenue (PPM SA)	73,349	74,219
Profit from continuing operations (PPM SA)	22,568	24,070
Total comprehensive income (PPM SA)	22,568	24,210
Group's share of PPM SA's total comprehensive income	16,026	14,970
Group's share of dividends from PPM SA	15,840	14,524

Notes to the consolidated group financial statements *(continued)*

11 Other financial assets

	2018 £000	2017 £000
Current		
Financial assets designated at fair value through profit or loss	**91,063**	7,532
Financial assets held for trading	**-**	82,380
Related party loans	**415,348**	199,369
Available-for-sale financial assets	**-**	23,336
	506,411	312,617
Non-current		
Financial assets designated at fair value through profit or loss	**94,696**	58,085
Financial assets held for trading	**-**	3,179
Available-for-sale financial assets	**-**	6,733
	94,696	67,997

On adoption of IFRS 9, from 1 January 2018 those financial assets previously held for trading and available-for-sale are now designated at fair value through profit or loss.

In 2017, financial assets held for trading were carried at fair value through profit or loss and consisted of equity securities (retail book and fund seeding) and derivative contracts. As these were carried at fair value through profit or loss, no restatement is required on transition to IFRS 9.

In 2017, financial assets classified as available-for-sale were primarily carried interest right investments as well as the Group's holding of 100% of the cellular redeemable preference shares in the property cell of Furnival Insurance Company PCC Limited. The change in fair value of these assets previously recognised through the Fair value Reserve has been reclassified to the Profit and Loss reserve in 2018.

There were no adjustments required to the value of the Group's holding of 100% of the cellular redeemable preference shares in the property cell of Furnival Insurance Company PCC Limited on transition to IFRS 9.

In 2018 the Group's carry right investments were recognised in accordance with IFRS 15 and have been de-recognised from 'Other financial assets'. See note 1.2.

Related party loans are debt investments with other Prudential plc group entities outside the M&G consolidated Group and are carried at cost less any provision for expected credit loss.

The Group's related party loans receivable at 31 December 2018 are set out below.

	Prudential Plc £000	PGDS £000	Total £'000
Opening balance at 1 January 2018	186,202	13,167	**199,369**
Drawdowns	215,900	-	**215,900**
Repayments	-	(283)	**(283)**
Interest received	(1,336)	(82)	**(1,418)**
Interest charged	1,698	82	**1,780**
Closing balance at 31 December 2018	402,464	12,884	**415,348**

Prudential Plc loan receivable

This balance consists of five individual loans ranging from £9.6 million to £215.9 million. All of these loans are repayable on demand and are interest bearing at the 12 month GBP LIBOR rate.

Notes to the consolidated group financial statements *(continued)*

11 Other financial assets *(continued)*

PGDS loan receivable

This loan matures on 1 January 2019 and is interest bearing at the 1 month GBP LIBOR rate.

12 Other financial liabilities

	2018 £000	2017 £000
Current		
Financial liabilities at fair value through profit or loss	**753**	-
Related party loans	**100,734**	-
	101,487	-

Financial liabilities at fair value through profit or loss are forward contract liabilities.

Related party loans relate to a loan payable to Prudential Capital Limited. The loan is repayable on demand and interest bearing at the 3 month EURIBOR rate

13 Held for sale financial assets

	2018 £000	2017 £000
Held for sale financial assets	**98,391**	-

Held for sale financial assets relate to seed investments in SICAVs as part of the Group's Brexit strategy. Held for sale financial assets have been measured at fair value. The Group intends to sell these assets within the first half of 2019.

14 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities are attributable to the following:

	Assets 2018 £000	2017 £000	**Liabilities 2018 £000**	2017 £000
Property, plant and equipment	-	694	**110**	-
Other financial assets	-	-	-	1,301
Employee benefits	**18,905**	21,535	-	-
Share-based payments	**1,059**	2,163	-	-
Pension scheme surplus	**442**	455	**22,381**	18,611
Provisions	**419**	423		-
Other	**632**	679	-	-
Tax assets/liabilities	**21,457**	25,949	**22,491**	19,912

Notes to the consolidated group financial statements *(continued)*

14 Deferred tax assets and liabilities *(continued)*

Movement in deferred tax during the year:

	1 Jan 2018 £000	Recognised in income £000	Recognised in equity £000	31 Dec 2018 £000
Property, plant and equipment	694	(804)	-	(110)
Other financial assets	(30)	30	-	-
Employee benefits	21,534	(2,629)	-	18,905
Share-based payments	2,163	(131)	(973)	1,059
Pension scheme surplus	(18,155)	562	(4,346)	(21,939)
Provisions	423	(4)	-	419
Other	679	(142)	95	632
	7,308	(3,118)	(5,224)	(1,034)

The opening balance differs from the closing deferred tax balance due to accounting changes on the adoption of IFRS 15. See note 1.2 for further details.

Movement in deferred tax during the prior year:

	1 Jan 2017 £000	Recognised in income £000	Recognised in equity £000	31 Dec 2017 £000
Property, plant and equipment	601	91	2	694
Other financial assets	(1,013)	19	(307)	(1,301)
Employee benefits	24,095	(2,560)	-	21,535
Share-based payments	1,386	(2)	779	2,163
Pension scheme surplus	(13,766)	36	(4,426)	(18,156)
Provisions	408	15	-	423
Tax value of loss carry-forwards	1	(1)	-	-
Other	1,560	(942)	61	679
	13,272	(3,344)	(3,891)	6,037

Deferred income tax assets are recognised for tax loss carry forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise income tax assets of £780,000 (2017: £1,242,000) in respect of losses amounting to £4,103,000 (2017: £6,537,000).

15 Trade and other receivables

	2018 £000	2017 £000
Current		
Trade receivables due from related parties	**76,983**	66,593
Other trade receivables	**450,372**	642,846
Interest receivable	**6**	3
Prepayments	**7,389**	6,381
Deferred acquisition costs	**-**	1,399
	534,750	717,222
Non-current		
Other trade receivables	**11,717**	6,744
Deferred acquisition costs	**-**	5,127
	11,717	11,871

In 2018 deferred acquisition costs have been included within Intangible Assets and presented in note 9.

Notes to the consolidated group financial statements *(continued)*

16 Cash and cash equivalents / bank overdrafts

	2018 £000	2017 £000
Cash and cash equivalents	**342,632**	434,426
Bank overdrafts	**-**	(21,272)
Cash and cash equivalents per cash flow statements	**342,632**	413,154

17 Trade and other payables

	2018 £000	2017 £000
Current		
Trade payables to related parties	**23,958**	19,889
Other trade payables	**297,476**	443,637
Accrued expenses and deferred income	**336,107**	303,893
	657,541	767,419
Non-current		
Accrued expenses and deferred income	**761**	3,677
Other payables	**78,393**	99,380
	79,154	103,057

18 Pension schemes

The Group operates defined contribution and defined benefit pension schemes for the benefit of staff.

Prudential Staff Pension Scheme 'Defined Contribution Scheme'

The Prudential Staff Pension Scheme 'Defined Contribution Scheme' is a defined contribution scheme, with charges made to the Profit and Loss Account representing the contributions payable in respect of the accounting period.

Prudential Staff Pension Scheme 'Defined Benefit Scheme'

The Prudential Staff Pension Scheme 'Defined Benefit Scheme' (PSPS) is a defined benefit pension scheme that provides benefits based on final pensionable salary. The Scheme has been closed to new members since 2003. It has assets held in separate trustee administered funds and was last subject to a full triennial actuarial valuation as at 5 April 2017 by Willis Towers Watson Limited, actuaries to the Scheme.

The Group is unable to identify its share of the underlying assets and liabilities of PSPS on a consistent and reasonable basis, and therefore accounts for its contributions as if PSPS were a defined contribution scheme. Disclosure of the circumstances of PSPS is given in the consolidated financial statements of the ultimate parent company, Prudential plc.

M&G Group Pension Scheme 'Defined Benefit Scheme'

The M&G Group Pension Scheme ("the Scheme") is a defined benefit pension scheme that provides benefits to its members based on final pensionable salary. The Scheme has been closed to new members since 2003. A surplus is recognised to the extent that the Group is able to access the surplus either through an unconditional right of refund to the surplus or through reduced future contributions relating to ongoing services, which have been substantively enacted or contractually agreed.

Notes to the consolidated group financial statements *(continued)*

18 Pension schemes *(continued)*

The Scheme's Trustee company is The First British Fixed Trust Company Limited. The Trustee company has its own board, which comprises seven directors. The Trustee is required by law to act in the interest of all relevant beneficiaries and is responsible for the overall governance of the Scheme and the day to day administration of the Scheme. The Trustee's investment forum comprises three members, one employer nominated and two member nominated. The Scheme is regulated by The Pensions Regulator and information on the regulatory regime in which the Scheme operates can be found at www.thepensionsregulator.gov.uk/.

The Scheme is exposed to a number of risks which pose a threat to meeting its objectives. The principal risks affecting the Scheme are:

Funding risk – the Trustee measures and manages financial mismatch in two ways. It has set a strategic asset allocation benchmark for the Scheme. It assesses risk relative to that benchmark by monitoring the Scheme's asset allocation and investment returns relative to the benchmark. It also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities through regular funding updates. The Trustee keeps under review the mortality and other demographic assumptions which could influence the costs of the benefits. These assumptions are considered formally at the triennial valuation.

Asset risk – the Trustee measures and manages asset risk by providing a practical constraint on Scheme investments deviating greatly from the intended approach by setting diversification guidelines and by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrains risk within the Trustee's expected parameters. By investing across a range of assets, including quoted equities and bonds, the Trustee has recognised the need for some access to liquidity in the short term.

The Scheme was last subject to a full triennial actuarial valuation as at 31 December 2017 by Aon Hewitt Limited, actuaries to the Scheme.

M&G unfunded pension scheme 'Defined Benefit Scheme'

The Group operates an unfunded pension scheme which has two members. An actuarial valuation took place as at 31 December 2018 by Willis Tower Watson Limited, actuaries to the Scheme.

Notes to the consolidated group financial statements *(continued)*

18 Pension schemes *(continued)*

M&G Defined Benefit Schemes

Pension scheme surplus

	2018 £000	2017 £000
Defined benefit asset	**597,800**	616,800
Defined benefit liability	**(469,022)**	(510,287)
Total pension scheme surplus	**128,778**	106,513

Fair value of plan assets	2018 £000	2017 £000
At 1 January	**616,800**	573,600
Included in profit or loss		
Interest income on plan assets	**15,300**	14,900
Included in other comprehensive income		
Return on plan assets (excluding interest income)	**(28,000)**	32,300
Other		
Contributions paid by the Group	**6,474**	6,870
Employee contributions	**700**	700
Benefits paid	**(13,474)**	(11,570)
Balance at 31 December	**597,800**	616,800

Defined benefit obligation	2018 £000	2017 £000
At 1 January	**(510,287)**	(492,907)
Included in profit or loss		
Current service cost	**(7,900)**	(9,400)
Past service cost	**(4,700)**	-
Interest cost	**(12,476)**	(12,587)
Included in other comprehensive income		
Actuarial remeasurement gain/(loss) arising from:		
- Changes in demographic assumptions	**14,780**	-
- Changes in financial assumptions	**15,181**	(2,728)
- Experience adjustments	**23,606**	(3,535)
Other		
Employee contributions	**(700)**	(700)
Benefits paid	**13,474**	11,570
Balance at 31 December	**(469,022)**	(510,287)
Net pension scheme surplus	**128,778**	106,513

The net amount included in profit is a loss of £9,776,000 (2017: a loss of £7,087,000), and the net amount included in other comprehensive income is £25,566,000 (2017: £26,037,000).

Notes to the consolidated group financial statements *(continued)*

18 Pension schemes *(continued)*

Defined benefit plan assets	**2018**	2017
	£000	£000
Equity instruments	**58,700**	194,100
Corporate bonds	**120,800**	79,500
Government bonds	**190,800**	220,300
Real estate	**78,500**	69,500
Other investments	**10,700**	2,300
Cash and cash equivalents	**138,300**	51,100
Total plan assets	**597,800**	616,800

Included in the amounts above, £280,600,000 (2017: £345,400,000) relates to funds managed by the group. All plan assets with the exception of cash and cash equivalents and other investments, have quoted prices in active markets. All government bonds are issued by European governments and are AAA or AA rated.

Actuarial assumptions

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages):

	2018	2017
	%	%
Discount rate at 31 December	**2.80**	2.50
Future salary increases	**3.30**	3.10
Retail price inflation	**3.30**	3.10
Consumer price inflation	**2.30**	2.10
Future pension increases	**3.30**	3.10

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity.

The assumed pensioner life expectancies on retirement at age 60 years old are as follows:

- Current pensioner aged 60: 28.2 years (male), 29.1 years (female).

In addition for those retiring in 20 years' time the life expectancies are:

- 31 years (male), 31.5 years (female).

Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarises how the impact on the defined benefit obligation at the end of the reporting period would have increased (decreased) as a result of a change in the respective assumptions:

	2018	2017
	£000	£000
Discount rate – reduced by 0.2%	**23,000**	26,000
Discount rate – increased by 0.2%	**(21,600)**	(24,000)
Lower inflation – reduced by 0.2%	**(19,000)**	(19,000)

In valuing the liabilities of the pension fund at 31 December 2018 mortality assumptions have been made as indicated above. If life expectancy had been changed to assume that all members of the fund lived for one year longer, the value of the reported liabilities at 31 December 2018 would have increased by £20,200,000 (2017: £20,000,000) before deferred tax.

Notes to the consolidated group financial statements *(continued)*

18 Pension schemes *(continued)*

The above sensitivities are based on the average duration of the benefit obligation determined at the date of the last full actuarial valuation at 31 December 2014 and are applied to adjust the defined benefit obligation at the end of the reporting period for the assumptions concerned. Whilst the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation to the sensitivity of the assumptions shown.

Funding

The Group will pay 34.9% per annum of pensionable salaries in respect of ongoing benefit accrual. Based on salary amounts in December 2018 estimated contributions paid would be £6,470,000 over the year.

Defined contribution plans

The Group operates a number of defined contribution pension plans. The total expense relating to these plans in the current year was £15,133,000 (2017: £15,215,000).

19 Share-based payments

M&G employees of the Group are able to participate in the Prudential Group Saving-Related Share Option scheme, an HMRC approved Share Incentive Plan to acquire Prudential plc shares, which are equity settled schemes. Prudential plc have apportioned the relevant cost under IFRS 2 and this is shown as a charge within operating expenses and a corresponding credit to retained earnings.

One director of the Group is also a director of the ultimate parent company Prudential plc and participates in the Prudential LTIP (PLTIP) and annual incentive plans (AIP), incentive plans under which they may be entitled to options and awards of Prudential plc shares, which are equity settled schemes.

Certain senior executives within the Prudential Group have Annual Incentive Plans (AIP) or Group Deferred Bonus Plans (GDBP) with awards paid in cash up to the target level of their plan. The portion of any award for the above target performance is made in the form of awards of shares deferred for three years, with the release of shares subject to close periods. The shares are held in the employee share trust and shares equivalent to dividends otherwise payable will accumulate for the benefit of award holders during the deferral period up to the release date.

The Savings-Related Share Option Scheme is designed to foster share ownership among UK and certain non-UK employees. The scheme allows participants to save towards the exercise of options over Prudential plc shares, at an option price set at the beginning of the savings period as determined by reference to the average market value of the ordinary shares on the three business days immediately preceding the invitation at a discount of 20 per cent to the market price. Participants may save up to £500 per month for three or five years. On maturity at the end of the set term, participants may exercise their options within six months of the end of the savings period and purchase Prudential plc shares. If an option is not exercised within six months, participants are entitled to receive a refund of their cash contributions plus interest if applicable under the rules. The Savings-Related Share Option Scheme was closed during 2018.

The Share Incentive Plan allows all UK-based employees to purchase shares of Prudential plc (partnership shares) on a monthly basis out of gross salary. For every four partnership shares bought, an additional matching share is awarded, purchased on the open market. Dividend shares accumulate while the employee participates in the plan. Partnership shares may be withdrawn from the scheme at any time. If the employee withdraws from the plan within five years, the matching shares are forfeited and if within three years, dividend shares are forfeited.

Notes to the consolidated group financial statements *(continued)*

19 Share-based payments *(continued)*

The terms and conditions of the grants are as follows:

Grant date	Method of settlement accounting	Number of instruments	Vesting conditions (days)	Contractual life of options
20-Sep-13	Equity	12,652	1,825	19-Sep-18
23-Sep-14	Equity	143,533	1,825	22-Sep-19
22-Sep-15	Equity	112,717	1,095	21-Sep-18
22-Sep-15	Equity	72,900	1,826	21-Sep-20
21-Sep-16	Equity	192,139	1,094	20-Sep-19
21-Sep-16	Equity	43,900	1,825	20-Sep-21
21-Sep-17	Equity	222,373	1,095	20-Sep-20
21-Sep-17	Equity	40,675	1,825	20-Sep-22
18-Sep-18	Equity	11,014	1,095	17-Sep-21
18-Sep-18	Equity	1,076	1,825	17-Sep-23

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
	2018	**2018**	2017	2017
	£	**(thousands)**	£	(thousands)
Outstanding at the beginning of the year	**11.93**	**1,241**	10.93	1,337
Forfeited during the year	**12.39**	**(28)**	11.17	(22)
Exercised during the year	**11.02**	**(314)**	10.41	(307)
Granted during the year	**13.94**	**12**	14.55	300
Lapsed during the year	**12.41**	**(63)**	10.98	(61)
Outstanding at the end of the year	**12.23**	**853**	11.93	1,247
Exercisable at the end of the year	**10.90**	**103**	10.96	105

The weighted average share price at the date of exercise of share options exercised during the year was £17.36 (2017: £17.51).

Notes to the consolidated group financial statements *(continued)*

19 Share-based payments *(continued)*

The following table provides a summary of the range of exercise prices for Prudential plc options outstanding, as at 31 December 2018:

	Outstanding Options			Exercisable Options	
	Number Outstanding	Weighted average remaining contractual life	Weighted average exercise prices	Number exercisable	Weighted average exercise prices
Range of exercise prices	(thousands)	(years)	£	(thousands)	£
Between £2 and £3	-	-	-	-	-
Between £3 and £4	-	-	-	-	-
Between £4 and £5	-	-	-	-	-
Between £5 and £6	-	-	-	-	-
Between £6 and £7	-	-	-	-	-
Between £7 and £8	-	-	-	-	-
Between £8 and £9	-	-	-	-	-
Between £9 and £10	13	0.36	9.01	13	9.01
Between £10 and £11	-	-	-	-	-
Between £11 and £12	565	1.4	11.19	113	11.11
Between £12 and £13	-	-	-	-	-
Between £13 and £14	12	3.59	13.94	-	-
Between £14 and £15	263	2.70	14.55	-	-
	853	1.87	12.23	126	10.90

The following table provides a summary of the range of exercise prices for Prudential plc options outstanding, as at 31 December 2017:

	Outstanding Options			Exercisable Options	
	Number Outstanding	Weighted average remaining contractual life	Weighted average exercise prices	Number exercisable	Weighted average exercise prices
Range of exercise prices	(thousands)	(years)	£	(thousands)	£
Between £2 and £3	-	-	-	-	-
Between £3 and £4	-	-	-	-	-
Between £4 and £5	-	-	-	-	-
Between £5 and £6	-	-	-	-	-
Between £6 and £7	12	0.41	6.29	12	6.29
Between £7 and £8	-	-	-	-	-
Between £8 and £9	-	-	-	-	-
Between £9 and £10	23	1.39	9.01	-	-
Between £10 and £11	-	-	-	-	-
Between £11 and £12	912	2.05	11.21	93	11.55
Between £12 and £13	-	-	-	-	-
Between £13 and £14	-	-	-	-	-
Between £14 and £15	300	3.69	14.55	-	-
	1,247	2.42	11.93	105	10.96

Notes to the consolidated group financial statements *(continued)*

19 Share-based payments *(continued)*

The weighted average fair values of Prudential plc options and awards granted during the period are as follows:

	2018 Share Options £	**2018 PLTIP £**	**2018 Awards £**	2017 Share Options £	2017 PLTIP £	2017 Awards £
Weighted average fair value	3.15	7.87	16.53	3.29	8.24	15.75

The fair value amounts relating to all options including conditional nil cost options above were determined using the Black-Scholes and Monte Carlo option-pricing models using the following assumptions:

	PLTIP 2018	**Share Options 2018**	PLTIP 2017	Share Options 2017
Dividend yield (%)	**-**	**2.52**	-	2.85
Expected volatility (%)	**23.99**	**20.49**	23.28	20.16
Risk-free interest rate (%)	**0.77**	**0.89**	0.35	0.56
Expected option life (years)	**3.00**	**3.38**	3.00	3.50
Weighted average exercise price (£)	**-**	**13.94**	-	14.55
Weighted average share price (£)	**17.50**	**16.64**	16.72	17.74

Compensation costs for the above share-based compensation plans are determined using the Black-Scholes model and the Monte Carlo model. Share options and awards granted by the parent company are valued using the share price at the date of grant. The compensation costs for all awards and options are recognised in net income over the plans' respective vesting periods.

The Group uses the Black-Scholes model to value all options and awards. This model is used to calculate fair values for share options and awards at the grant date, based on the quoted market price of the stock at the measurement date, the amount, if any, that the employees are required to pay, the dividend yield, expected volatility, risk-free interest rates and exercise prices.

The expected volatility is measured at the standard deviation of expected share price returns based on statistical analysis of daily share prices over a period up to the grant date equal to the expected life of options. Risk-free interest rates are UK gilt rates with projections for three, five and seven years terms to match corresponding vesting periods. Dividend yield is determined as the average yield over the year of grant and expected dividends are not incorporated into the measurement of fair value.

When options are granted or awards made to employees, an estimate is made of what percentage is more than likely to vest, be forfeited, lapse or be cancelled based on historical information. Based on these estimates, compensation expense to be accrued at that date is calculated and amortised over the vesting period. For early exercise of options or release of awards due to redundancy, death or resignation, the compensation expense is immediately recognised and for forfeitures due to employees leaving the Group, any previously recognised expense is reversed. However, if an employee loses their award because of the Group's failure to meet the performance criteria, previously recognised expense is not reversed.

Notes to the consolidated group financial statements *(continued)*

19 Share-based payments *(continued)*

The total expenses recognised for the year and the total liabilities recognised at the end of the year arising from share-based payments are as follows:

	2018 £000	2017 £000
Equity settled share-based payment expense	**990**	1,088
Cash settled share-based payment expense	**40**	2,296
	1,030	3,384
Total carrying amount of assets/(liabilities) for cash settled arrangement	**573**	(2,296)

20 Provisions

	Dilapidation Provision £000	**Other provision £000**	**Total £000**
Balance at 1 January 2018	5,927	5,091	11,017
Provisions made during the year	1,396	272	1,668
Provisions used during the year	-	(1,263)	(1,263)
Provisions reversed during the year	(747)	(203)	(949)
Effect of movements in foreign exchange	-	5	5
Balance at 31 December 2018	**6,576**	**3,902**	**10,478**
Non-current	-	-	-
Current	6,576	3,902	10,478
	6,576	**3,902**	**10,478**

Dilapidation provision – relates to dilapidation costs for properties leased by the Group in London, these are expected to be realised on the expiry of the lease terms in 2019.

Other provision – relates to the implementation of IT systems which are expected to be completed over a number of years and amounts to be paid to fund investors.

The provisions reflect the Group's current estimates of amounts and timings.

21 Capital and reserves

Share capital	**2018 £000**	2017 £000
Authorised		
10,151,907 ordinary shares of 25p each	**2,538**	2,538
Allotted, called up and fully paid		
400,004 (2017: 400,000) ordinary shares of 25p each	**100**	100

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Share premium

Share premium relates to a capital contribution received from the Group's parent, Prudential Plc.

Notes to the consolidated group financial statements *(continued)*

21 Capital and reserves *(continued)*

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

Fair value reserve

The fair value reserve in 2017 includes the cumulative net change in the fair value of available-for-sale financial assets until the investment is derecognised or impaired. For 2018 the fair value reserve has been transferred to retained earnings on adoption of IFRS 9 and IFRS 15.

Pension reserve

The pension reserve comprises all actuarial gains and losses arising and associated deferred tax.

Dividends

The following dividends were recognised during the period:	**2018**	2017
	£000	£000
On 400,004 ordinary shares of 25p each	**196,924**	323,281

Notes to the consolidated group financial statements *(continued)*

22 Financial instruments

22 (a) Fair values of financial instruments

The carrying value of trade and other receivables, trade and other payables, loans and cash is a reasonable approximation of their fair value. The table below analyses other financial instruments, into a fair value hierarchy based on the valuation technique used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable input).

During the year, there were no instrument transfers in or out of Level 1, Level 2 and Level 3 (2017: £nil).

	2018			
	Carrying Amount £000	Fair Value Levels Level 1 £000	Level 2 £000	Level 3 £000
Equity securities - fund retail book and fund seeding	**188,043**	188,043	-	-
Equity securities - other fund securities	**84,406**	84,406	-	
Equity securities – excluding fund securities	**7,292**	-	-	7,292
Limited partnership securities	**4,005**	-	-	4,005
Debt securities	**405**	-	405	-
Financial assets designated as fair value through profit or loss (note 11,13)	**284,151**	**277,449**	**405**	**11,297**
Total financial assets at fair value through profit or loss	**284,151**	**277,449**	**405**	**11,297**
Derivative contracts	**(753)**	-	(753)	-
Total financial liabilities at fair value through profit or loss	**(753)**	-	**(753)**	-
Total financial instruments carried at fair value	**283,398**	**272,449**	**(348)**	**11,297**

Notes to the consolidated group financial statements *(continued)*

22 Financial instruments *(continued)* 2017

	Carrying Amount £000	Fair Value Levels Level 1 £000	Level 2 £000	Level 3 £000
Equity securities - fund retail book and fund seeding	85,559	85,559	-	-
Financial assets held for trading (note 11)	85,559	85,559	-	-
Equity securities - other fund securities	65,617	64,317	1,300	-
Financial assets designated as fair value through profit or loss (note 11)	65,617	64,317	1,300	-
Total financial assets at fair value through profit or loss	151,176	149,876	1,300	-
Equity securities - excluding fund securities	5,943	-	-	5,943
Limited partnership securities	24,126	-	-	24,126
Available-for-sale financial assets (note 11)	30,069	-	-	30,069
Total financial assets carried at fair value	181,245	149,876	1,300	30,069
Derivative contracts	-	-	-	-
Financial liabilities held for trading (note 12)	-	-	-	-
Total financial liabilities at fair value through profit or loss	-	-	-	-
Total financial instruments carried at fair value	181,245	149,876	1,300	30,069

The carrying value of equity securities at fair value through profit or loss (both designated and held for trading) is determined from published trading prices for fund units and shares.

Forward exchange contract derivative fair values are estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds). The derivative contracts are held to reduce specific market risk exposures and the Group does not apply hedge accounting.

The level 2 equity securities fair value is based on the portion of the underlying investment entity's net asset value attributable to the Group. The investment entity's net asset value is drawn from unqualified audited statutory accounts in which its material investments are fair valued using level 2 valuation techniques, principally the latest available security redemption pricing.

Notes to the consolidated group financial statements *(continued)*

22 Financial instruments *(continued)*

22 (a) Fair values of financial instruments (continued)

Reconciliation of Level 3 fair value movements:	2018
	£000
Opening Balance	30,069
Additions	2,855
Disposals	-
Revaluation	1,735
Reclassification under IFRS 15	(23,366) [1]
Closing Balance	11,297

1 The reclassification of level 3 fair value movements is in response to the adoption of IFRS 15. See notes 1.2 and 11 for explanation of current treatment

In 2017 available-for-sale financial assets are classified as level 3. Although the Group believes its level 3 estimates of fair values are appropriate, the use of different assumptions could lead to different measures of fair value.

The fair value of the limited partnership securities is measured by determining the hypothetical share of the limited partnership profits that would be received by the Group, based on liquidating the limited partnership assets at their estimated fair value on the balance sheet date. The fair values of the underlying limited partnership assets are measured through modelling of expected cash flows, using an average risk-adjusted discount rate of 12.14% and 7.25%. The increase / (decrease) effects to the Group of a 1% movement in the discount rate are detailed in the below table:

	Available-for-sale financial assets		Liabilities		Equity	
	2018	2017	**2018**	2017	**2018**	2017
	£000	£000	**£000**	£000	**£000**	£000
1% increase in discount rate	-	(3,316)	-	(2,595)	-	(721)
1% decrease in discount rate	-	3,271	-	2,571	-	700

The level 3 equity securities in 2018 materially relate to the Group's investment in Furnival. The net assets of Furnival's property cell are the Group's measure of fair value, the main assumption being the future level of income set against insurance claims on Furnival's pre-existing property cell insurance contracts. A deterioration or improvement in Furnival's property cell portfolio will not have a significant impact on the Group.

The Group's Red Fund carry right investments have been reclassified on transition to IFRS 15 and are no longer subject to sensitivities.

Notes to the consolidated group financial statements *(continued)*

22 Financial instruments *(continued)*

22 (b) Credit risk

Financial risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

The Group is exposed to credit risk primarily on its trade receivables and its cash and cash equivalents.

Trade receivables arise principally as a result of the Group's investment management business, these amounts are monitored regularly.

Credit risk also arises through financial guarantees and loan facilities provided including undrawn loan commitments.

The risk of a particular transaction or portfolio of transactions is viewed in the context of the risk of doing business with the counterparty. The assessment of the level of risk of business with the counterparty is arrived at after a fundamental financial and business analysis of the counterparty with input, where considered appropriate, from analysis provided by objective third parties.

Using the credit assessment of Counterparty Risk and an internal M&G Credit Rating, M&G quantifies counterparty risk by applying its own measures of the probability of default and rating transitions, based on regulatory capital proxies for default risk capital, to provide an estimate of the likelihood of default by counterparties of varying initial credit quality over different time frames.

With regard to the cash and cash equivalents, the Group maintains banking relationships with only major international banks. Counterparty limits with these banks are set and reviewed by the M&G board and the exposures to these counterparties are regularly monitored.

The Group considers a financial instrument defaulted and therefore Stage 3 for expected credit loss calculations in all cases when the borrower becomes 90 days past due on its contractual payments. As part of a qualitative assessment of whether a customer is in default, the Group monitors whether credit risk has increased significantly in the year by considering the following:

- Changes in the general economic and/or market conditions;
- Significant changes in the operating results or financial position of the borrower
- Expected delay in payment

In order to calculate expected credit losses the Group considers on an individual basis the historic default rate of each asset. Where no historic default rate is available, the Group will apply an ECL to each asset that is greater than 90 days past due.

Notes to the consolidated group financial statements *(continued)*

22 Financial instruments *(continued)*

22 (b) Credit risk *(continued)*

Exposure to credit risk

The maximum exposure to credit risk at the balance sheet date by class of financial instrument, including financial guarantees and undrawn loan commitments not recognised on the balance sheet was:

	2018 £000	2017 £000
Financial guarantees (note 25)	**1,500**	1,500
Third party loans – undrawn	**29,551**	30,000
Related party loans – undrawn	**4,116**	4,833
Related party loans – drawn (note 11)	**415,348**	199,369
Trade and other receivables (note 15)	**546,467**	729,093
Cash and cash equivalents (note 16)	**342,632**	413,154
	1,339,614	1,377,949

The ratings for the cash and cash equivalents are as follows, which are as rated by Moody's. All other financial assets of the Group are generally not rated, including the trade and other receivables.

	2018 £000	2017 £000
P-1	**319,747**	400,728
P-2	**15,369**	3,124
Not rated	**7,516**	9,302
	342,632	413,154

Credit quality of financial assets and impairment losses

The ageing of trade receivables at the balance sheet date was:

	2018 £000	2017 £000
Not past due	**556,943**	711,837
Past due (0-30 days)	**3,050**	5,801
Past due (31-120 days)	**2,725**	8,886
More than 120 days	**1,984**	2,569
	564,702	729,093

Notes to the consolidated group financial statements *(continued)*

22 Financial instruments *(continued)*

22 (c) Liquidity risk

Financial risk management

Liquidity risk is the risk that the Group, although solvent, does not have available financial resources to enable it to meet its obligations as they fall due, or that the Group can secure such resources only at excessive cost.

The Group is exposed to short term funding requirements from:

- Intraday cash requirement. This is the Group's main source of liquidity risk.
- The requirement to 'top-up' relevant client money accounts due to the client asset rules (CASS) leads to intra-day liquidity calls.
- The timing of cash paid to clients or received from funds.

In addition to this the Group is exposed to liquidity risk primarily on its trade and other payables and its bank overdrafts.

For loan facilities provided by the Group, undrawn related party loan commitments mature on 1 January 2019 and third party loan commitments are expected to mature over a number of years with the latest being in 2041. All undrawn loan commitments require the borrower to submit a written drawdown notice the business day prior to the date of funding. Maximum undrawn commitment amounts are disclosed above in note 21 (b).

The Group does not enter into collateralised capital market transactions and is not, therefore, exposed to collateral liquidity risk.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

	2018					2017				
	Carrying Amount £000	**1 year or less £000**	**1 to < 2 Years £000**	**2 to < 5 Years £000**	**5 years and over £000**	Carrying Amount £000	1 year or less £000	1 to < 2 years £000	2 to < 5 years £000	5 years and over £000
Bank overdrafts	**-**	**-**	**-**	**-**	**-**	21,272	21,272	-	-	-
Trade and other payables	**736,695**	**657,541**	**52,251**	**26,059**	**844**	870,476	767,419	56,927	45,950	180
Non-derivative financial liabilities						891,748	788,691	56,927	45,950	180
Derivative financial liabilities	**753**	**753**	**-**	**-**	**-**	-	-	-	-	-
	737,448	**658,293**	**52,251**	**26,095**	**844**	891,748	788,691	56,927	45,950	180

Notes to the consolidated group financial statements *(continued)*

22 Financial instruments *(continued)*

22 (d) Market risk

Financial risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

The M&G board is accountable for risk and is responsible for the oversight of the risk management process. The M&G board is responsible for the risk strategy of the Group, and for determining an appropriate risk appetite, tolerance and mitigation methods within which the Group must operate.

Foreign currency risk

Foreign currency risk is the risk that the Group will sustain losses through adverse movements in currency exchange rates. The Group is exposed to foreign currency risk through its exposure to non-sterling income, expenses, assets and liabilities of its overseas subsidiaries as well as monetary assets and liabilities denominated in currency other than sterling.

The Group's exposure to foreign currency risk is as follows and is based on the carrying amount for monetary financial instruments of the Group, with the exception of the consolidated funds which are presented under their functional currency:

31 December 2018	**Sterling £'000**	**Euro £'000**	**US Dollar £'000**	**Other £'000**	**Total £'000**
Other financial assets (note 11)	**546,927**	**41,118**	**8,996**	**4,065**	**601,106**
Held for sale financial assets (note 13)	**-**	**98,391**	**-**	**-**	**98,391**
Other trade receivables (note 15)	**299,412**	**149,956**	**83,626**	**6,079**	**539,073**
Prepayments and interest receivable (note 15)	**3,246**	**1,840**	**2,310**	**-**	**7,396**
Cash and cash equivalents (note 16)	**201,930**	**85,200**	**23,915**	**31,587**	**342,632**
Bank overdrafts (note 16)	**-**	**-**	**-**	**-**	**-**
Trade and other payables (note 17)	**(474,572)**	**(165,569)**	**(83,260)**	**(13,294)**	**(736,695)**
Tax payable	**(12,177)**	**(7,455)**	**-**	**(1,096)**	**(20,728)**
Other financial liabilities (note 12)	**-**	**(101,487)**	**-**	**-**	**(101,487)**
	564,766	**101,994**	**35,587**	**27,341**	**729,688**

31 December 2017	Sterling £'000	Euro £'000	US Dollar £'000	Other £'000	Total £'000
Other financial assets (note 11)	319,589	46,584	10,776	3,665	380,614
Other trade receivables (note 15)	324,110	334,991	50,812	6,270	716,183
Prepayments and interest receivable (note 15)	4,659	380	1,135	210	6,384
Cash and cash equivalents (note 16)	354,054	30,346	27,075	22,951	434,426
Bank overdrafts (note 16)	-	(21,272)	-	-	(21,272)
Trade and other payables (note 17)	(476,364)	(334,594)	(47,587)	(11,931)	(870,476)
Tax payable	(39,919)	(2,468)	-	(853)	(43,240)
Other financial liabilities (note 12)	-	-	-	-	-
	486,129	53,967	42,211	20,312	602,619

Notes to the consolidated group financial statements *(continued)*

22 Financial instruments *(continued)*

***22 (d) Market risk** (continued)*

Foreign currency risk (continued)

A 10 percent movement on the following currencies against the pound sterling at 31 December would have approximately increased / (decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant. The analysis is performed on the same basis for the comparative period.

	Equity		**Profit or loss**	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
€ weakening	**(9,320)**	(4,906)	**(9,320)**	(4,906)
€ strengthening	**11,282**	5,996	**11,282**	5,996
$ weakening	**(3,235)**	(3,837)	**(3,235)**	(3,837)
$ strengthening	**3,954**	4,690	**3,954**	4,690

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to the risk of changes in interest rates relates primarily to the Group's cash balances.

At the balance sheet date the interest rate profile of the Group's interest-bearing financial instruments is set out below:

	2018	2017
	£000	£000
Variable rate instruments		
Cash and cash equivalents	**342,632**	434,426
Bank overdrafts	**-**	(21,272)
Related party loans	**415,348**	199,369
	757,980	612,523

A decrease of 50 basis points in interest rates at the balance sheet date would reduce profit and equity by approximately £1,616,000 (2016: £1,541,000).

An increase of 50 basis points in interest rates at the balance sheet date would increase profit and equity by approximately £2,992,000 (2016: £3,047,000).

Notes to the consolidated group financial statements *(continued)*

22 Financial instruments *(continued)*

22 (d) Market risk *(continued)*

Market equity, bond and property price risk

Market price risk is the risk that the Group will sustain losses through adverse movements in the equity, bond and property markets.

The Group's exposure to equity price risk arises as a result of revenue calculations being based on fund valuations. A one hundred point fall in the Financial Times London Stock All Share ('FTAS') index would reduce 2018 Group net revenue by approximately £6,000,000 (2017: £6,000,000) and also reduce the 2018 profit and equity by approximately £4,845,000 (2018: £4,845,000). An increase of one hundred points in the FTAS would have had an equal and opposite effect on the revenue, profit and equity.

The Group's exposure to the bond market arises as a result of revenue calculations being based on fund valuations. A one hundred points reduction in the basis points would reduce 2018 group net revenue by approximately £16,000,000 (2017: £23,000,000) and also reduce the 2018 profit and equity by approximately £12,920,000 (2017: £18,572,500). An increase of one hundred basis points would have had an equal and opposite effect on revenue, profit and equity.

The Group's exposure to the property market arises as a result of revenue calculations being based on property valuations. A five percent fall in the growth rate of the global property markets would reduce 2018 Group net revenue by approximately £5,000,000 (2017: £5,000,000) and also reduce the 2018 profit and equity by approximately £4,037,500 (2018: £4,037,500). An increase of five percent would have an equal and opposite effect on revenue, profit and equity.

22 (e) Capital management

The Group maintains a strong capital base in order to continue as a going concern in both normal and stressed conditions and to provide business confidence to counterparties. A sufficient base is retained to ensure compliance with all regulatory capital requirements set by the Financial Conduct Authority ('FCA'). The board and its delegated sub-committees regularly reviews capital adequacy and the allocation of regulatory capital. Capital management impact are considered in key decisions made by the Group.

The Group is subject to a minimum regulatory capital requirement imposed by the FCA. Regulatory capital is defined as the total of share capital and retained earnings less regulatory deductions.

The minimum level of regulatory requirements is the higher of:

i) Fixed overhead requirement;
ii) Sum of the credit risk and market risk capital requirements.

In addition the Group is required to maintain a minimum level of Pillar 2 capital and publicly disclose Pillar 3.

M&G is subject to supervision by the FCA on a group consolidated basis.

Internal Capital Adequacy Assessment Process

M&G continually assesses its capital and liquidity adequacy relative to its current and future risk profile under normal and severe conditions. This process includes assessment of M&G's risk profile and capital requirements over the business planning horizon. The calculation of capital requirements includes minimum regulatory requirements, Pillar 1, and M&G's own internal assessment of its capital requirement, Pillar 2. The process also includes analysis of a number of capital and liquidity stress scenarios, reverse stress tests and wind down analysis to ensure M&G has adequate capital and liquidity under severe but plausible conditions. Annually, or more frequently if required, M&G produces an Internal Capital Adequacy Analysis Process (ICAAP) report which documents the capital adequacy assessment methodology used and the results together with a detailed description of M&G's risk governance and risk management framework. The results of the ICAAP process are used to support management decision making throughout the business.

Notes to the consolidated group financial statements *(continued)*

23 Interests in structured entities

The Group has interests in structured entities as a result of the management of assets on behalf of its clients. Where the Group hold a direct interest in open-ended investment companies and SICAVs, the interest is accounted for either as a consolidated structured entity or as a financial asset, depending on whether the Group has control over the fund or not.

The Group's interest in structured entities is reflected in the Group's AUM. The Group is exposed to movements in AUM of structured entities through the potential loss of fee income as a result of client withdrawals. Outflows from funds are dependent on investors considerations, asset performance and market sentiment.

The reconciliation of AUM reported by the Group within unconsolidated structured entities is shown below.

	Total AUM £bn	Less: AUM within consolidated structured entities £m	AUM within unconsolidated structured entities £bn
31 December 2018	265.2	1	265.2
31 December 2017	298.4	1	298.4

Included in the Group's consolidated net revenue amount is £658 million (2016: £617 million) earned from unconsolidated structured entities.

The table below shows the carrying values of the Group's interest in unconsolidated structured entities, recognised in the Group balance sheet, which are equal to the Group's maximum exposure to loss from those interests

	2018 £m	2017 £m
Trade and other receivables	**235**	390
Trade and other payables	**246**	371
Other financial assets	**272**	150

The main risk the Group faces from its beneficial interests in unconsolidated structured entities arises from a potential decrease in the fair value of the seed capital investments. Note 22 includes further information on the group's exposure to market risk.

The Group does not ordinary provide financial support to any consolidated or unconsolidated structured entity through guarantees over the repayment of borrowings, or otherwise.

There are no contractual obligations or current intentions to provide further financial support in the future.

Notes to the consolidated group financial statements *(continued)*

24 Operating leases

Non-cancellable operating lease rentals are payable annually as follows:

	2018 £000	2017 £000
Less than one year	**7,426**	12,501
Between one and five years	**80,069**	13,377
More than five years	**321,659**	1,806
	409,154	27,684

During the year £17,716,000 was recognised as an expense in the profit and loss account in respect of operating leases (2017: £13,844,000). Leases relate to land and buildings.

25 Contingencies

Subsidiaries within the Group have provided:

- a guarantee to settle all of Prudential Unit Trusts Limited's outstanding redemption and commission creditors. The maximum amount of this guarantee is £500,000 (2017: £500,000);
- a guarantee and indemnity pursuant to the reinsurance arrangements entered into between Aviva Insurance Limited ('Aviva') and Furnival Insurance Company PCC Limited ('Furnival'). This guarantees to Aviva all monies and liabilities owing to Aviva by Furnival in relation to such reinsurance arrangements. The maximum amount of this guarantee and indemnity is £1m (2017: £1m); and
- indemnities dated 2 May 2014 and 17 November 2014 respectively in favour of Capita Financial Managers Limited on its appointment as Authorised Corporate Director/Manager of certain funds in the place of Prudential Unit Trusts Limited. These provide that M&G shall indemnify Capita in relation to any claims which relate to acts or omissions arising prior to Capita's appointment, these indemnities expired on 5 May 2016 and 3 November 2016 respectively, except in respect of taxation matters where it may continue for a further 4 years.

26 Related parties

Identity of related parties with which the Group has transacted

The related parties of the Group are members of the ultimate parent company group (Prudential plc group), including associates and joint ventures and any entity controlled by those parties.

Group companies receive management fees from these Prudential related entities for managing the assets, and in some instances, receive performance fees. The Group earned £167,325,000 (2016: £238,869,000) during the year from investment management fees received from related parties and incurred costs of £1,162,000 (2016: £539,000) by related parties in relation to sub-advisory fees.

An amount of £76,983,000 was receivable by the Group as at 31 December 2018 (2017: £66,517,000) from related parties. Additionally an amount of £415,348,000 was receivable in the form of a loan by the Group as at 31 December 2018 (2017: £199,369,000) from related parties. The Group also received interest of £1,780,000 (2017: £1,605,000) from these related parties loans, of which £362 (2017: 124) was receivable at year end.

Of the amount due from related parties included as a loan, £402,464,000 (2017: £186,202,000) is due from the ultimate parent of the group. The Group received interest of £1,698,000 (2017: £1,562,000) from the ultimate parent of the group, of which £362 (2017: 118) was receivable at year end..

Furthermore, at 31 December 2018, the Group had a loan due to Prudential Capital of £100,734,000 (2017: £nil). Interest of £3,059,000 (2017: £nil)was paid by the Group in respect of this loan, of which £361,000 (2017: £nil) was payable at year end.

Notes to the consolidated group financial statements *(continued)*

26 Related parties *(continued)*

An amount of £14,785,000 was payable to related parties as at 31 December 2018 (2017: £19,812,000) in relation to cost recharges and pre-paid management fees.

Transactions with key management personnel

The Group also considers transactions with its key management personnel as related party transactions. Key management personnel are defined as the board of directors of M&G Limited and the non-executive directors of The M&G Group Limited. The aggregate compensation paid or payable to key management for employee services are shown below:

	2018	2017
	£000	£000
Short-term employee benefit	**3,846**	17,248
Long term benefits	**2,549**	5,714
Pension	**22**	47
Compensation for loss of office	**170**	-
	6,587	23,009

27 Ultimate parent company

The Company is a subsidiary undertaking of Prudential plc which is the ultimate parent company incorporated in England and Wales. Consolidated financial statements are prepared by Prudential plc and copies of these are available to the public and may be obtained from the registered office at Laurence Pountney Hill, London EC4R 0HH.

28 Subsequent events

There were no subsequent events requiring disclosure at the date of this report.

Financial Statements

Parent Company

Profit and Loss Account and Other Comprehensive Income

For year ended 31 December 2018

	Note	**Company 2018 £000**	2017 £000
Income from shares in subsidiary undertaking	*4*	**196,000**	323,000
Interest receivable and similar income	*5*	**348**	-
Interest payable and similar charges	*6*	**-**	(115)
Profit on ordinary activities before tax		**196,348**	322,885
Tax (charge)/credit on profit on ordinary activities	*7*	**(66)**	22
Profit and other comprehensive income for the financial year		**196,282**	322,907

Operating income and profit on ordinary activities before tax for the year relate exclusively to continuing operations as defined by IAS 1.

Balance Sheet

As at 31 December 2018

	Note	Company 2018 £000	2017 £000
Fixed assets			
Investment in subsidiary undertaking	7	**39,475**	39,475
Current assets			
Debtors	8	**54,850**	13
Cash at bank		**101**	101
Total current assets		**54,950**	114
Current liabilities			
Creditors – amounts falling due within one year	9	**39**	33,485
Net current liabilities		**39**	33,371
Net assets		**94,386**	6,104
Capital and reserves			
Called up share capital	10	**100**	100
Share premium		**88,000**	-
Profit and loss account		**6,286**	6,004
Total equity shareholders' funds		**94,386**	6,104

The financial statements were approved by the board of directors on 28 March 2019 and were signed on its behalf by:

C J Bousfield
Director

M J Evans
Director

Company registered number: 00633480

The accompanying notes form part of these financial statements.

Statement of Changes in Equity
At 31 December 2018

	Note	Called up Share Capital £000	Share Premium £'000	Profit and loss Account £000	Company Total Equity £000
Balance at 1 January 2018		**100**	**-**	**6,004**	**6,104**
Profit for the year		-	-	196,282	196,282
Total comprehensive income		-	-	196,282	196,282
Dividends	11	-	-	(196,000)	(196,000)
Contribution of equity		-	**88,000**	-	88,000
Total transactions with owner		-	**88,000**	282	88,282
Balance at 31 December 2018		**100**	**88,000**	**6,286**	**94,386**

Statement of Changes in Equity
At 31 December 2017

	Note	Called up Share Capital £000	Profit and loss Account £000	Company Total Equity £000
Balance at 1 January 2017		**100**	**6,097**	**6,197**
Profit for the year		-	322,907	322,907
Total comprehensive income		-	322,907	322,907
Dividends	11	-	(323,000)	(323,000)
Total transactions with owner		-	(323,000)	(323,000)
Balance at 31 December 2017		**100**	**6,004**	**6,104**

The accompanying notes form part of these financial statements.

Notes to the parent company financial statements

1 Accounting policies

M&G Group Limited (the "Company") is a parent holding company. These financial statements present information about the Company on the historical cost basis as an individual undertaking and not about its Group.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("EU IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following:

- a cash flow statement and related notes;
- disclosures in respect of capital management;
- disclosures in respect of transactions with wholly owned subsidiaries;
- disclosures in respect of the compensation of key management personnel; and
- disclosures in respect of the effects of new but not yet effective IFRSs.

As the consolidated Group financial statements include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

1.1 Changes in accounting policy

IFRS 9 Financial Instruments

The Group has adopted IFRS 9 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement.*

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
    - The determination of the business model within which a financial asset is held

The measurement and recognition of financial instruments is unaffected by the adoption of IFRS 9.

The measurement of expected credit losses is based on the present value of cash shortfalls and considers both the amount and timing of contractual payments. Therefore, a credit loss will arise in instances where there is a delay in the payment of contractually required amounts, even if all contractual cash payments are ultimately expected to be received in full.

Notes to the parent company financial statements *(continued)*

1 Accounting policies *(continued)*

1.1 Changes in accounting policy *(continued)*

For financial assets, a cash shortfall is the difference between the present value of the principal and interest cash flows due to the Group under the contract and the present value of the cash flows that the Group expects to receive.

IFRS 9 establishes a simplified impairment approach for qualifying trade receivables and contract assets within the scope of IFRS 15. The simplified approach does not apply to intercompany loans.

The Company has adopted a practical expedient permitted by IFRS 9 that allows an entity to use a simplified provision matrix for calculating expected credit losses as a practical expedient, if consistent with the general principles for measuring expected losses. The provision matrix is based on an entity's historical default rates over the expected life of the trade receivables and is adjusted for forward-looking estimates.

1.2 Going concern

The directors have a reasonable expectation that the Group has adequate resources to continue its operations for a period of at least 12 months from the date that the financial statements are approved. In support of this expectation the directors are unaware of any factors likely to affect the Group in the foreseeable future.

While the final Brexit outcome remains uncertain, the directors have implemented the Group Brexit plan formed in 2016, which included the establishment of a Luxembourg based super management company and MiFID distribution firm. Both are now fully licensed and operational; managing and distributing M&G EU domiciled funds, products and services

The directors have completed an evaluation of the various scenarios that could result from a cliff edge Brexit and have determined the absolute worst-case scenario for the asset management industry is one where there is no withdrawal agreement, no transition period and neither the Memorandums of Understanding (for funds) or the ESMA certification of equivalence (for MiFID activities) that enable the delegation of regulated portfolio management activities outside of the EU are in place at the point of Brexit.

The directors continue to monitor political and regulatory developments, and to adjust or activate contingency plans, where necessary. Accordingly, they continue to adopt a going concern basis in preparing the Group financial statements.

Notes to the parent company financial statements *(continued)*

1 Accounting policies *(continued)*

1.3 Financial instruments *(applicable from 1 January 2018)*

(i) Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

(ii) Classification and subsequent measurement

Financial assets

(a) Classification

On initial recognition, a financial asset is classified as measured at amortised cost.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Investments in subsidiaries are carried at cost less impairment.

Notes to the consolidated group financial statements *(continued)*

1 Accounting policies *(continued)*

1.4 Financial instruments (applicable from 1 January 2018) *(continued)*

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

(b) *Subsequent measurement and gains and losses*

- Financial assets at amortised cost - These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial liabilities and equity

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

(c) they include no contractual obligations upon the group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the group; and

(d) where the instrument will or may be settled in the group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the group's own equity instruments or is a derivative that will be settled by the group's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the group's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Financial liabilities are classified as measured at amortised cost or fair value through profit and loss.

Impairment

The Company recognises loss allowances for expected credit losses on financial assets measured at amortised cost.

Loss allowances are measured at an amount equal to lifetime expected credit losses, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, which are measured as 12-month expected credit loss.

Loss allowances for trade receivables are always measured at an amount equal to lifetime expected credit loss.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

Notes to the consolidated group financial statements *(continued)*

1 Accounting policies *(continued)*

1.4 Financial instruments (applicable from 1 January 2018) (continued)

Impairment *(continued)*

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

12-month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating expected credit losses is the maximum contractual period over which the group is exposed to credit risk.

Measurement of expected credit losses

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the group expects to receive). Expected credit losses are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

1.4 Financial instruments (applicable prior to 1 January 2018)

Investments in securities

Investments in subsidiaries are carried at cost less provision for any impairment.

Trade and other debtors

Trade and other receivables are recognised initially at cost, which materially equates to fair value. Subsequent to initial recognition they are measured at cost less any impairment losses.

Trade and other creditors

Trade and other payables are recognised at cost, which materially equates to fair value. Subsequent to initial recognition they are measured at cost using the effective interest method.

1.5 Income from shares in group undertakings

Dividend income is recognised in the Profit and Loss Account on the date the entity's right to receive payments is established.

1.6 Interest payable and similar charges

Interest payable is interest on the loan from the subsidiary company. Interest payable is recognised in profit or loss as it accrues, using the effective interest method.

Notes to the parent company financial statements *(continued)*

1.7 Tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

2 Expenses and auditor's remuneration

All staff were employed during the year by M&G Limited. Analysis of staff costs, pension commitments and share-based payments are shown in the annual report and financial statements of that company.

Amounts receivable by the Company's auditor in respect of the audit of the Company and Group financial statements is £35,000 (2017: £27,000) and is payable by M&G Limited, the immediate subsidiary company. Other amounts paid to the Company's auditor and its associates in respect of services to the Company, have not been disclosed as the information is disclosed on a consolidated basis in note 3 of the Group consolidated financial statements.

3 Directors' remuneration

Two of the directors (2017: three) were also directors of M&G Limited and received no remuneration in connection with the management of the affairs of the Company. Their remuneration is disclosed in notes 5 and 26 of the M&G consolidated group financial statements.

4 Income from shares in group undertakings

	2018 £000	2017 £000
Dividend income from subsidiary	**196,000**	323,000

5 Interest receivable and similar income

	2018 £000	2017 £000
Interest on loan from subsidiary company	**348**	-

6 Interest payable and similar charges

	2018 £000	2017 £000
Interest on loan from subsidiary company	**-**	115

7 Tax

Recognised in the Profit and Loss Account	**2018 £000**	2017 £000
Current UK corporation tax on income for the period	**66**	(22)
Total tax charge/(credit) on profit on ordinary activities	**66**	(22)

Notes to the parent company financial statements *(continued)*

7 Tax *(continued)*

Factors affecting tax charge for period

The tax assessed in the period is lower than the standard rate of Corporation tax in the UK and the differences are explained below. The standard rate of tax has been determined by using the UK rate of Corporation tax enacted for the period for which the profits of the Company will be taxed.

Reconciliation of effective tax rate	2018 £000	2017 £000
Profit for the year	**196,348**	322,907
Tax on profit at standard UK tax rate of 19.00% (2017: 19.25%)	**37,306**	62,144
Effects of:		
Income not taxable	**(37,240)**	(62,166)
Tax charge/(credit) for the period	**66**	(22)

Factors that may affect future tax charges

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce any future current tax charge for the company accordingly.

8 Fixed asset investments

The Company has the following investment in a subsidiary:

Company Subsidiary	Registered Office	Registered Number	Class of Equity Held	Ownership % 2018	Ownership % 2017
M&G Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	1048359	Ordinary shares	100%	100%

For a list of the indirect subsidiary undertakings, see note 10 of the M&G consolidated group financial statements.

9 Debtors

	2018 £000	2017 £000
Corporation tax recoverable	-	12
Amounts owed by Group undertaking	**54,849**	-
Other debtors	-	1
Total debtors due within one year	**54,876**	13

Notes to the parent company financial statements *(continued)*

10 Creditors – amounts falling due within one year

	2018 **£000**	2017 £000
Amounts owed to group undertaking	-	33,485
Corporation tax payable	**39**	-
	39	33,485

11 Capital and reserves

Share capital	**2018** **£000**	2017 £000
Authorised		
10,151,907 ordinary shares of 25p each	**2,538**	2,538
Allotted, issued and fully paid		
400,004 (2017: 400,000) ordinary shares of 25p each	**100**	100

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares are classified in shareholders' funds. No shares are classified as liabilities.

Dividends

The following dividends were recognised during the period:	**2018** **£000**	2017 £000
On 400,004 ordinary shares of 25p each	**196,000**	323,000

12 Related parties

The Company has taken advantage of the exemption under paragraph 8(k) of FRS101 relating to the disclosure of transactions with other wholly owned subsidiary undertakings of the Prudential Group. There are no other transactions with related parties.

13 Ultimate parent company

The Company is a subsidiary undertaking of Prudential plc which is the ultimate parent company incorporated in England and Wales. Consolidated financial statements are prepared by Prudential plc and copies of these are available to the public and may be obtained from the registered office at Laurence Pountney Hill, London EC4R 0HH.

14 Subsequent events

There were no subsequent events requiring disclosure at the date of this report.