

# **Principal International South America II Ltd**

## **Report and Financial Statements**

For the year ended 31 December 2019

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## **Principal International South America II Ltd.**

Registered no.08137688

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### **Directors**

Timothy M. Dunbar

Karen E. Shaff

Paul McConomy (resigned 7th May 2019)

Kaushika Soni (appointed 7th May 2019)

### **Auditors**

Ernst & Young LLP

25 Churchill Place

Canary Wharf

London

E14 5EY

### **Registered Office**

1 Wood Street

London

EC2V 7JB

### **Functional Currency**

United States Dollars ("USD")

## **Principal International South America II Ltd.**

Registered no.08137688

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### **Directors' Report**

The directors present their report and financial statements of Principal International South America II Ltd. (the "Company") for the year ended 31 December 2019.

#### **Principal activity**

The Company's principal activity is to serve as a holding company.

#### **Directors of the Company**

The current directors are shown on page 1.

On 7 May 2019 Kaushika Soni was appointed as director and Paul McConomy resigned as director of the Company. There have been no other appointments or resignations during the year or subsequently since the balance sheet date to the date of this report.

#### **Dividends**

There were no dividends paid in 2019 (2018: \$nil).

#### **Future developments**

The Company intends to continue to serve as a holding company. As a holding company there may be additional capital movement and investment in future periods. The Company intends to continue to serve as a holding company.

#### **Employees**

The Company had no employees in the year.

#### **Going concern**

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out above. The financial position of the Company and its liquidity position are reflected on the balance sheet.

#### **COVID-19 Uncertainty**

The novel coronavirus ("COVID-19") outbreak since early 2020 has brought additional uncertainties into the operating environment of the Principal Financial Group ("PFG", "the Group"). It has had impacts on the operation of businesses in some industries and the overall market economic environment. Management's analysis of the impact is discussed in more detail in note 2(f) of the audited financial statements.

The Company has sufficient resources and the directors believe that it is well placed to manage its business risks successfully. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

#### **Events since the balance sheet date**

Significant events affecting the Company since the balance sheet date are shown in note 10.

#### **Independent Auditors**

The Company's incumbent auditors, Ernst & Young LLP, have indicated their willingness to continue in office and are deemed reappointed in the next financial year.

## **Directors' Report** (continued)

### **Directors' statement as to disclosure of information to Auditors**

The directors who were members of the board at the time of approving the Directors' report are listed on page 1. Having made enquiries of fellow directors and of the Company's auditors, each of these directors confirms that:

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and
- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board:

Karen E. Shaff  
Karen E. Shaff (May 5, 2020)

Karen E. Shaff  
5 May 2020

## **Strategic Report**

The directors present their strategic report for the year ended 31 December 2019.

### **Review of the business and results**

The profit for the year after taxation amounted to \$nil (2018: nil).

Total shareholders' funds at 31 December 2019 were \$632,691,238 (2018: \$632,691,238) as shown on the balance sheet on page 9.

During the year, the directors reviewed the carrying value of the investments held, and there was no indication of impairment.

### **Principal risks and uncertainties**

Principal risks to the business are the underlying performance of the underlying investments. The possible poor performance and a general downturn in the debt, equity and currency markets could lead to a decline in entity valuation. Movements in exchange rates could also have a significant impact on the long-term valuation of the underlying investments, which may lead to an impairment in the carrying value of the investments.

By order of the Board:

Karen E. Shaff  
Karen E. Shaff (May 5, 2020)

Karen E. Shaff  
5 May 2020

## **Statement of Directors' Responsibilities**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101'). 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 Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **Independent auditor's report to the members of Principal International South America II Ltd.**

### **Opinion**

We have audited the financial statements of Principal International South America II Ltd for the year ended 31 December 2019 which comprise the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 11, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Emphasis of matter – Effects of COVID-19**

We draw attention to note 2(f) and note 10 of the financial statements, which describes the economic disruption the Company is facing as a result of COVID-19, which is impacting financial markets and personnel available for work and or being able to access offices. Our opinion is not modified in respect of this matter.

### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you were:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## **Independent auditor's report to the members of Principal International South America II Ltd.**

### **Other Information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

### **Responsibilities of directors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied

## **Independent auditor's report to the members of Principal International South America II Ltd.**

that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the 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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### **Use of our report**

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.

*Ashley Coups*

Ashley Coups (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London

6 May 2020

## Principal International South America II Ltd.

Registered no.08137688

### Balance Sheet

	Note	As at 31 December 2019 USD	As at 31 December 2018 USD
<b>Fixed assets</b>			
Investments	5	632,691,238	632,691,238
<b>Net assets</b>		<u>632,691,238</u>	<u>632,691,238</u>
<b>Capital and reserves</b>			
Share capital	6	13	13
Share premium	7	411,090,705	411,090,705
Capital contribution		366,108,594	366,108,594
Retained earnings		(144,508,074)	(144,508,074)
<b>Total shareholders' funds</b>		<u>632,691,238</u>	<u>632,691,238</u>

The notes on pages 11 to 17 form an integral part of these financial statements.

There was no movement in the profit and loss account during the year (2018: none) hence no Income Statement is presented.

The financial statements were approved and authorised for issue by the Board of Directors and signed on its behalf by:

Karen E. Shaff  
Karen E. Shaff (May 5, 2020)

Karen E. Shaff  
5 May 2020

## **Statement of Changes in Equity**

For the year ended 31 December 2019

	<i>Share Capital USD</i>	<i>Share Premium USD</i>	<i>Capital Contribution USD</i>	<i>Retained Earnings USD</i>	<i>Total Equity USD</i>
At 1 January 2018	13	411,090,705	366,108,594	(144,508,074)	632,691,238
Profit for the financial year	-	-	-	-	-
At 31 December 2018	13	411,090,705	366,108,594	(144,508,074)	632,691,238
Profit for the financial year	-	-	-	-	-
At 31 December 2019	13	411,090,705	366,108,594	(144,508,074)	632,691,238

The notes on pages 11 to 17 form an integral part of these financial statements.

## **Notes to the financial statements**

### **1. Statement of Compliance with FRS 101**

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards.

The Company's financial statements are presented in USD and all values are rounded to the nearest dollar except when otherwise indicated.

The Company has taken advantage of the exemption under section 401 of the Companies Act 2006 not to prepare group accounts as it is a wholly owned subsidiary of Principal Financial Group, Inc. ("PFG").

The Company's immediate parent undertaking is Principal International South America I Ltd. The Company's ultimate parent undertaking and controlling party is Principal Financial Group, Inc., which is incorporated in USA. Copies of its group accounts, which include the Company, are available from 711 High Street, Des Moines, Iowa 50392-0120 USA.

The principal accounting policies adopted by the Company are set out in note 2.

### **2. Accounting Policies**

A summary of the principal accounting policies applied consistently throughout the year is set out below.

#### **Basis of preparation**

The financial statements have been prepared on a going concern basis and in accordance with FRS 101 and the Companies Acts 2006 ('the Acts'). The financial statements have been prepared under the historical cost convention.

There was no movement in the profit and loss account during the year (2018: none) hence no Income Statement is presented.

FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in FRS 101 which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

The Company is a qualifying entity for the purposes of FRS 101. Note 9 gives details of the Company's parent and from where its consolidated financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles (US GAAP) may be obtained.

The Company has availed of a number of exemptions from the requirements of IFRS in the preparation of these financial statements, in accordance with FRS 101. In accordance with FRS 101 the company has availed an exemption from:

- The requirements under IAS 7 "Statement of Cash Flows" (FRS 101, paragraph 8h);
- The requirements of paragraph 17, IAS 24 "Related Party Disclosures" and the requirement under IAS 24 to disclose transactions between wholly owned members of a group (FRS 101, paragraph 8j);
- The requirements of IFRS 7 "Financial Instruments: Disclosure" (FRS 101, paragraph 8d);
- The requirements of paragraphs 91 to 99, IFRS 13 "Fair Value Measurement" (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities);

## **Notes to the financial statements**

- The requirement to disclose standards in issue which have yet to become effective.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Management believes that the estimates utilised in preparing its financial statements are reasonable and prudent. Actual results could differ from these estimates.

The particular accounting policies are described below.

### **(a) Foreign currencies**

The financial statements are presented in US Dollars, which is the functional currency of the Company. The functional currency of the Company is US Dollars, as the majority of the transactions are denominated in US Dollars. Transactions denominated in currencies other than the US Dollars are translated into US Dollars at the rate of exchange ruling at the date of transaction. Non-monetary assets and liabilities are translated into US Dollars at the rate of exchange ruling at the date of transaction. Monetary assets and liabilities are translated into US Dollars at the rate of exchange ruling at the balance sheet date. All realised and unrealised exchange gains and losses are recognised in the profit and loss account.

### **(b) Preparation of consolidated financial statements**

The financial statements contain information about the Company as an individual company and do not contain consolidated financial information as the parent of a group. The Company has taken the option under section 401 of the Companies Act 2006 not to prepare consolidated financial statements.

### **(c) Cash flow statement**

The Company has taken advantage of the exemption under FRS 101, paragraph 8h. Accordingly, a cash flow statement has not been prepared because all the Company's voting rights are controlled by PFG, which produces publicly available consolidated accounts in which the Company is included.

### **(d) Investment**

Investments held in subsidiary undertakings are classified as such and included, at cost less provision for impairment, within fixed asset investments.

### **(e) Taxation and deferred taxation**

A provision is made for corporation tax at the current rates on the excess of taxable income over allowable expenses. FRS19 "Deferred Tax" has been adopted in these accounts and a provision is made on all material timing differences arising from the different treatment of items for accounting and tax purposes. There is no deferred tax liability or asset at the end of the year.

### **(f) Critical accounting estimates and judgments**

The Company's financial statements are influenced by accounting policies, assumptions, estimates and management's judgement, which necessarily have to be made in the course of preparation of the financial statements.

## **Notes to the financial statements**

The Company determines estimates and assumptions that affect the reported amounts of assets and liabilities for the next financial period. All estimates and assumptions required in conformity with FRS 101 are best estimates undertaken in accordance with the applicable standard.

Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events. The application of accounting policies and management's judgements for certain items are especially critical for the Company's results and financial situation due to their materiality.

The following are key judgments made by the Directors:

### ***Going concern***

On January 30, 2020, the World Health Organization declared the outbreak of coronavirus ("COVID-19") to be a public health emergency of international concern. This coronavirus outbreak has severely restricted the level of economic activity around the world. In response to this coronavirus outbreak, the governments of many countries, states, cities and other geographic regions have taken preventative or protective actions, such as imposing restrictions on travel and business operations and advising or requiring individuals to limit or forego their time outside of their homes.

The Company has no employees and is supported by employees of other Group entities. Effective 17 March 2020, the Group's staff and members across Europe, as a precautionary measure worked from home adhering to the guidance provided by respective national governments, including the UK. The impact of COVID-19 has led to significant volatility and declines in the global public equity markets and it is uncertain how long this volatility will continue.

The full extent to which the COVID-19 pandemic may impact the Company's results, operations or liquidity is uncertain. Management continues to monitor the impact that the COVID-19 pandemic has on the Company and the economies in which the Company operates. As an intermediate Holding Company, COVID-19 is unlikely to have a material direct impact on the Company management has performed a COVID-19 impact assessment as part of their going concern assessment using information available to the date of issue of these financial statements. The Company operates within the support structure of the Group and therefore, the analysis has modelled a number of adverse scenarios to assess the potential impact that COVID-19 may have on the Group's operations, liquidity and solvency. The Company being an intermediate holding company, COVID-19 is unlikely to have a material impact on the Company's going concern.

The most likely expected financial impact is in respect of impairment of the Company's investment in subsidiaries as this is calculated based on their underlying recoverable value, which may have changed since the year end due to the impact of COVID-19. It is not possible to quantify the overall impact of COVID-19 as financial markets continue to react to developments and management have a number of actions that they are able to take to protect profitability and solvency should they be required.

Having performed this analysis management believes that the Company will retain sufficient liquidity to meet its liabilities for the for the next 12 months and that the preparation of the financial statements on a going concern basis remains appropriate as the Company expects to be able to meet its obligations as and when they fall due for the foreseeable future.

The following are the Company's key sources of estimation uncertainty.

## Notes to the financial statements

### *Fair value of investments*

When the fair value of the investments recorded on the balance sheet cannot be derived from active market, their fair value is determined using a variety of valuation techniques that can include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible estimation is required in establishing fair values.

### *Impairment of non-current assets*

Determining whether a non-current asset is impaired requires an estimation of the "value in use" and/or the "fair value less costs to sell" of the cash-generating units ("CGUs") to which the non-current asset has been allocated. The value in use calculation requires an estimate of the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. The key assumptions for these values in use calculations are those regarding discount rates, growth rates and expected changes to selling prices and direct costs. The directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the individual CGU.

### **3. Operating Loss**

The audit fees of \$12,090 (2018: \$11,735) were borne by Principal Financial Services II (UK) Ltd., a group company.

The directors reviewed the carrying value of the investments held, and there was no indication of impairment (2018: none).

### **4. Directors' Remuneration**

The directors are remunerated for their services to the group as a whole and do not receive any payments for qualifying services to the Company. Two of the directors' salaries are paid by Principal Life Insurance Company, a group company. Two of the directors' salaries are paid by Principal Global Investors (Europe) Ltd, a group company.

Principal Global Investors (Europe) Ltd and Principal Life Insurance Company are wholly owned subsidiaries of the Company's ultimate parent, Principal Financial Group, Inc.

### **5. Investments**

	<i>As at 31 December 2019 USD</i>
<b>Cost</b>	
At 1 January 2019	777,199,312
Additions	-
At 31 December 2019	<u>777,199,312</u>



## Notes to the financial statements

### 8. Related Party Transactions

The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with entities within the PFG Group as its results are included within the consolidated financial statements of PFG.

### 9. Immediate and Ultimate Parent Undertaking and Controlling Party

The Company's immediate parent undertaking is Principal International South America I Ltd., a company incorporated in the United Kingdom.

The Company's ultimate parent company and controlling party is Principal Financial Group, Inc., a company incorporated in the United States of America. Electronic copies of the Consolidated Financial Statements of PFG, in which the Company is consolidated, are available at [www.principal.com/investor](http://www.principal.com/investor).

### 10. Events After the Balance Sheet Date

COVID-19 is considered to be a non-adjusting post balance sheet event and as such no adjustments have been made to the valuation of assets and liabilities as at 31 December 2019. Management does not expect COVID-19 to have a material impact on the Company's future operations. For further discussion concerning the management assessment of COVID 19 impact on the Company refer to Note 2(f).

### 11. Related Undertakings

The Company owns directly (\*) or indirectly investments in the following subsidiaries:

<i>Name</i>	<i>Place of Incorporation</i>	<i>Principal Activity</i>	<i>Registered Office</i>	<i>Percentage Held</i>	<i>Class of Shares Held</i>
Principal International South America II Ltd, Agencia en Chile (*)	Chile	Holding Company	Apoquindo 3600, Piso 8 Las Condes, Santiago, Chile	100%	N/a
Principal Holding Company Chile S.A.	Chile	Holding Company	Apoquindo 3600, Piso 8 Las Condes, Santiago, Chile	100%	Common
Principal Chile Limitada	Chile	Holding Company	Apoquindo 3600, Piso 8 Las Condes, Santiago, Chile	100%	N/a
Administradora de Fondos de Pensiones Cuprum S.A.	Chile	Holding Company	Bandera 236, Piso 9 Santiago, Chile	97%	Common
Inversiones Cuprum Internacional S.A.	Chile	Pension Services Company	Bandera 236, Piso 9 Santiago, Chile	100%	Common

## Notes to the financial statements

Principal International de Chile S.A.	Chile	Holding Company	Av. Apoquindo N 3.600, Piso 8 Las Condes, Santiago, Chile	100%	Common
Principal Servicios Corporativos Chile Ltda.	Chile	Provides corporate services for the companies of Principal Chile	Apoquindo 3600, Piso 15 Las Condes, Santiago, 755-0108, Chile	100%	N/a
Principal Compania de Seguros de Vida Chile S.A.	Chile	Life Insurance and Annuity Company	Apoquindo 3600, Piso 11 Las Condes, Santiago, Chile	100%	Common
Principal Administradora General de Fondos S.A.	Chile	Corporation organized for the administration of various funds	Apoquindo 3600, Piso 10 Las Condes, Santiago, Chile	100%	Common
Principal Ahorro e Inversiones S.A.	Chile	Investment Advisor	Av. Apoquindo 3600, Piso 11 Las Condes, Santiago, Chile	100%	Common
Principal Servicios de Administracion S.A.	Chile	Holding Company	Apoquindo 3600, Piso 8 Las Condes, Santiago, Chile	100%	Common
Hipotecaria Security Principal, S.A.	Chile	Mortgage Loan Company	El Golf 150, Piso 2 Las Condes, Santiago, Chile	49%	Common