

Registered No: 00633480

# M&G Group Limited

## 2017 Annual Report

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## Strategic Report

### Business review

2017 was a successful year for M&G. Net revenue increased by 14% to £1,067 million from £932 million, which in turn led to growth in the profit before tax to £463 million from £407 million. This was driven off the back of an increase in assets under management to £298 billion from £266 billion which is as a result of a combination of inflows and market movements.

M&G Group's net assets position grew by 12% to £752 million (2016: £673 million), after dividend payment of £323 million.

M&G's open-ended flexible global bond fund, the M&G Optimal Income Fund, performed strongly in 2017. Having achieved an average annualised return of over 7 per cent since its launch in 2006, Optimal Income has been one of the top performing bond funds across all sectors over the last decade. This return for its customers has been rewarded with net inflows of over £5 billion during 2017, bringing its assets under management to £23 billion.

This year M&G added its first open-ended infrastructure fund to its range, which aims to provide individual investors with both a growing income stream and long-term capital appreciation through exposure to the equity of global listed infrastructure companies. M&G also launched the M&G ESG Global High Yield Fund, a sister fund to the £1 billion Global High Yield Bond Fund. The new fund is aimed at meeting the needs of individual investors seeking higher yield.

During 2017, M&G also launched a further six funds on our new Luxembourg-domiciled SICAV platform. As one of the most popular investment vehicles within Europe, the ability to offer SICAV funds will enable M&G to expand and deepen its highly successful international business further over the coming years. The new platform will also ensure we can continue to serve our European-based customers regardless of the outcome of Brexit negotiations between the UK and the EU. To that end, in September M&G announced its plans to migrate assets in four UK-domiciled funds held by European customers to the SICAV platform during 2018.

For M&G's third-party institutional clients, we continue to deliver innovative and competitive investment strategies to meet their specific needs. M&G are leading investors in 'alternative' assets such as commercial real estate debt, infrastructure debt and equity, and direct lending. These private assets are increasingly attractive options for investors looking for a yield to match their long-term pension liabilities, and of course also provide a valuable source of competitively-priced funding for new housing and infrastructure projects.

Reflecting growing demand from institutional clients for investments which make a positive societal and environmental impact, in 2017 M&G launched its first Impact Financing Fund. Through private and illiquid debt transactions, the fund is already financing projects including a regeneration scheme, green energy and social housing construction.

With over 15 years of experience in international distribution, offices in 15 countries and a new Luxembourg investment platform, we are well placed to continue to take advantage of the attractive growth opportunities in Europe and beyond. This includes retail distribution in Europe, and in international institutional markets, where our strong track record in private asset origination is a real competitive advantage.

### M&G Prudential

In August Prudential announced the intention to merge M&G and Prudential UK and Europe to create a long-term savings and investment business focused on meeting growing customer demand for comprehensive financial solutions. Subsequently in March 2018 it was announced that the intention was that M&G Prudential would demerge from Prudential. M&G Prudential will be an independent, capital-efficient UK and Europe savings and investment provider, headquartered in London and premium-listed on the London stock exchange.

### European Referendum

Following the referendum decision for the UK to leave the European Union, M&G Group has taken a series of precautionary measures aimed at protecting the interests of its non-UK domiciled investors. These measures, which will see M&G Group's legal structure and SICAV offering in Luxembourg expanded, will ensure clients outside the UK have continued access to M&G Group's investment strategies regardless of the final agreement between the UK and Europe.

**Strategic Report** *(continued)***Principal risks and uncertainties****Overview**

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 is an investment-led, active fund management company. M&G's strategy is to meet or exceed the investment performance and service expectations of customers and to operate profitably over the medium and longer term to deliver value to the shareholder. M&G seeks to create an open and collegiate environment where talented individuals want to work and build a career.

The strategy is supported by a set of business principles which are based on the belief that:

- Successful companies are also companies that operate responsibly;
- Sustainable long-term success for a company must be based on integrity in business; and
- M&G needs to ensure a consistent approach with business partners.

M&G's principles help protect and enhance its reputation by creating a clear framework for decision making and by guiding the behaviour of everyone throughout the organisation, whatever their position. They will help ensure that M&G's approach is robust, sustainable and based on clear ethics and that M&G treats customers fairly at all times.

**Risk management**

The key risk objective for M&G is to facilitate continued controlled growth, within an agreed risk appetite, that will meet the requirements of M&G customers, shareholder, clients and regulators. In order to support the management of risks, the M&G Board has established effective systems and processes, proportionate to the nature, scale and complexity of its operations. These include but are not necessarily limited to:

- A regular cycle of review of risk policies and standards;
- A regular cycle of risk appetite setting, Key Indicator (KI) and limit monitoring and reporting for each category of risk;
- A risk and control assessment that includes systems and processes for risk:
  - Identification;
  - Measurement;
  - Management;
  - Monitoring; and
  - Reporting (for both current and emerging risks);
- Control self-certification;
- Management, reporting and review of operational incidents, including impact assessment of relevant external incidents;
- Operational Risk Scenario Analysis to assess capital requirements of high impact, low likelihood operational events;
- Capital planning and liquidity stress tests;
- Reverse stress tests; and
- Formulation of orderly wind down plan and assessment of associated costs.

**Strategic Report** *(continued)***Principal risks and uncertainties** *(continued)***Risk management** *(continued)*

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 Financial Conduct Authority (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 M&G Group, along with the M&G Group's compliance with the provisions of the FCA's Remuneration Code, and disclosures in respect of the Capital Requirements (Country by Country Reporting) Regulations 2013 are published on the internet at: <https://www.mandg.com/-/media/Literature/UK/Corporate/Regulatory-Financial-Reporting.pdf>

**Operational risk**

Operational risk is the risk of loss or unintended gain arising from inadequate or failed internal processes and systems, from failure by personnel or from external events. The M&G Group aims to manage all aspects of operational risk in a way that meets or surpasses the reasonable expectations of its clients, shareholders and Regulators. The M&G Group has a robust risk management framework, established risk governance arrangements and effective risk management processes to ensure appropriate challenge and oversight of operational risk exposures and continued effectiveness of controls in the context of risk appetite.

**Financial risks**

Financial risk is the risk that M&G is unable to maintain adequate capital and liquidity to meet clients' and stakeholders' requirements under normal and stressed conditions. Financial risk encompasses credit, liquidity and market risk.

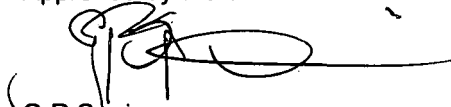
Credit risk is the exposure to loss arising from counterparties' failure to meet their contractual obligations, either as a result of business failure or intentional withholding of amounts due. In order to help ensure the profitability and solvency of M&G, M&G provides ongoing monitoring of key credit risk exposures on its balance sheet and actively manages these exposures via established governance forums.

Liquidity risk is the risk that M&G, although solvent, does not have available financial resources to enable it to meet its obligations as they fall due, or that M&G can secure such resources only at excessive cost. M&G expects to hold sufficient liquidity to ensure the continuity of its business under normal and stressed conditions. Liquidity risk disclosures are outlined in note 21(c) of the M&G consolidated group financial statements.

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, equity prices and property will affect M&G's income or the value of its assets and liabilities. Income earned from investment management activities will vary dependent on the value of assets under management. M&G is also exposed to structural foreign exchange risk as a result of overseas operations which contribute to equity. The assets and liabilities of foreign operations are translated to M&G's presentational currency, Sterling. Foreign exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the foreign exchange reserve.

A significant portion of M&G's cost base is fixed and the Board accepts that M&G's revenues and profits are exposed to short-term market fluctuations. Market risk disclosures are outlined in note 21(d) of the M&G consolidated group financial statements.

Approved by the board.



G R Speirs  
Director  
Laurence Pountney Hill  
London EC4R 0HH  
27 March 2018

## Directors' Report

The directors present their annual report and the financial statements for the year ended 31 December 2017.

### Directors

A H Richards  
G R Speirs  
M S Scrimgeour (resigned 23 February 2017)  
J W Foley (appointed 22 November 2017)  
P J Remnant  
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 13. This shows an operating profit of £399 million (2016: £367 million) and a profit after tax of £372 million (2016: £327 million). Revenue, principally received from management fees, has increased in 2017 to £1,409 million (2016: £1,221 million). Interim dividends of £323 million were paid during the year (2016: £290 million). The directors do not recommend the payment of a further dividend (2016: nil).

The Consolidated Balance Sheet is set out on page 14 and shows that cash and cash equivalents including bank overdraft have increased to £413 million for 2017 (2016: £362 million), total assets have increased to £1,720 million (2016: £1,594 million) with total liabilities increasing to £968 million (2016: £921 million). This has increased total equity to £752 million for 2017 (2016: £673 million).

### Branches

The Group includes tax branches outside the United Kingdom, specifically in Finland, France, Germany, Italy, Netherlands, Spain, Sweden, Austria and Republic of Ireland. 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 21 of the M&G consolidated group financial statements.

### Subsequent events & future developments

Post year end, on 10 January 2018 the Group received an additional capital injection of £88 million from the immediate parent entity, helping maintain capital for the Group's strategic and operational objectives.

Future expected developments, the Group has agreed a pre-let transaction to relocate to new London headquarters, commencing in 2018. Post year end, on 23 January 2018 the Group entered into this significant lease arrangement to relocate headquarters. The new headquarters will enable the M&G Group to bring together its London businesses under a single roof in premises that have been designed to meet the highest property standards.

On 14 March 2018 it was announced that the intention was that M&G Group would demerge from Prudential, forming M&G Prudential. M&G Prudential will be an independent, capital-efficient UK and Europe savings and investment provider, headquartered in London and premium-listed on the London stock exchange.

### 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. In addition, the Articles of Association of the Company provide for the directors, officers and employees of the Company to be indemnified in respect of liabilities incurred as a result of their office.

**Directors' Report** *(continued)***Qualifying third party indemnities** *(continued)*

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, J W Foley and P J Remnant in relation to their directorships of the Company were in force from their appointment date and remain in force at the date of this report.

**Employment policies**

The M&G Group'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 M&G Group also seeks to encourage employees to express their ideas through engagement surveys. Staff are kept informed of developments within the M&G Group through various means, including the M&G intranet, staff notice boards, Q&A boards and regular town halls.

The M&G 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 attracts, retains and promotes the best available talent. A series of active employee networks further support this objective.

The M&G 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 M&G 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.

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

**Political contributions**

There were no political contributions during the period (2016: £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 3 to 5. Further risk analysis associated with the Group can be found in the M&G consolidated group financial statements including assets and liabilities in note 21 on pages 53 to 60, cash flow details in the Consolidated Cash Flow Statement on page 17, provisions in note 19 on pages 51 to 52 and contingencies in note 24 on page 62. 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 2017.

**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 the Group and Parent Company financial statements for each financial year. Under that law they have elected to prepare:

- Group financial statements in accordance with International Financial Reporting Standards as adopted by the EU ("EU IFRS") and applicable law; and
- Parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), 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 Group and Parent company and of their profit or loss for that period.

In preparing the Group and Parent Company financial statements, the directors are required:

- to select suitable accounting policies and then apply them consistently;
- to make judgments and estimates that are reasonable and prudent;
- for the Group financial statements, to state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the Parent Company financial statements, to state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group or Parent Company will continue in business.

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

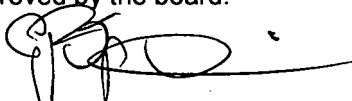


**Directors' Report** *(continued)*

**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.



G R Speirs  
Director

Laurence Pountney Hill  
London EC4R 0HH  
27 March 2018

## **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 2017 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 and 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 2017 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.

### **Going concern**

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 twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

### **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.

## **Independent Auditor's Report to the members of M&G Group Limited** *(continued)*

### **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 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. They are also 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; 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](http://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

29 March 2018

**Consolidated Statement of Profit and Loss and Other Comprehensive Income***For year ended 31 December 2017*

	Note	Group 2017 £000	2016 £000
Revenue	2	1,408,577	1,220,680
Rebates and commission expenses	2	(341,852)	(288,103)
<b>Net revenue</b>	2	<b>1,066,725</b>	<b>932,577</b>
Operating expenses	3,4,5	(667,467)	(565,447)
<b>Operating profit</b>		<b>399,258</b>	<b>367,130</b>
Financial income	6	52,901	28,999
Financial expenses	6	(4,138)	(1,603)
<b>Net financing income</b>		<b>48,763</b>	<b>27,396</b>
Share of profit of associates	1	15,106	12,741
<b>Profit before tax</b>		<b>463,127</b>	<b>407,267</b>
Tax	7	(91,553)	(79,902)
<b>Profit for the year</b>		<b>371,574</b>	<b>327,365</b>
<b>Other comprehensive income</b>			
Actuarial gains on defined benefit pension scheme	17	26,037	4,898
Income tax on items that will not be reclassified to profit or loss		(4,426)	(1,068)
<b>Items that are or may be reclassified to profit or loss</b>		<b>21,611</b>	<b>3,830</b>
Foreign currency translation differences – foreign operations		3,905	12,084
Change in fair value of assets classified as available-for-sale		2,928	(5,626)
Income tax on items that are or may be reclassified subsequently to profit or loss		(306)	996
<b>Items that are or may be reclassified subsequently to profit or loss</b>		<b>6,527</b>	<b>7,454</b>
<b>Other comprehensive income for the year, net of income tax</b>		<b>28,138</b>	<b>11,284</b>
<b>Total comprehensive income for the year</b>		<b>399,712</b>	<b>338,649</b>
<b>Profit attributable to:</b>			
Equity holders of the parent		369,812	326,476
Non-controlling interest		1,762	889
<b>Profit for the year</b>		<b>371,574</b>	<b>327,365</b>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the parent		397,950	337,760
Non-controlling interest		1,762	889
<b>Total comprehensive income for the year</b>		<b>399,712</b>	<b>338,649</b>

The accompanying notes form part of these financial statements.

**Consolidated Balance Sheet**

As at 31 December 2017

	Note	Group 2017 £000	2016 £000
<b>Non-current assets</b>			
Property, plant and equipment	8	3,513	5,215
Intangible assets	9	2	7
Trade and other receivables	14	11,871	10,792
Investments in associates	10	40,343	38,834
Other financial assets	11	67,997	118,438
Deferred tax assets	13	25,949	28,513
Pension scheme surplus	17	106,513	80,693
		<u>256,188</u>	<u>282,492</u>
<b>Current assets</b>			
Other financial assets	11	312,617	294,982
Trade and other receivables	14	717,222	654,980
Cash and cash equivalents	15	434,426	362,169
		<u>1,464,265</u>	<u>1,312,131</u>
<b>Total assets</b>		<u>1,720,453</u>	<u>1,594,623</u>
<b>Current liabilities</b>			
Bank overdraft	15	21,272	-
Trade and other payables	16	767,419	741,628
Tax payable		43,240	37,789
Provisions	19	5,090	4,586
Deferred tax liabilities	13	1,209	-
Other financial liabilities	12	-	5
		<u>838,230</u>	<u>784,008</u>
<b>Non-current liabilities</b>			
Other payables	16	103,057	109,819
Share-based payment liability	18	2,296	4,175
Provisions	19	5,927	7,996
Deferred tax liabilities	13	18,703	15,241
		<u>129,983</u>	<u>137,231</u>
<b>Total liabilities</b>		<u>968,213</u>	<u>921,239</u>
<b>Net assets</b>		<u>752,240</u>	<u>673,384</u>
<b>Equity attributable to equity holders of the parent:</b>			
Share capital	20	100	100
Reserves		14,999	(13,139)
Retained earnings		733,777	684,540
		<u>748,876</u>	<u>671,501</u>
<b>Non-controlling interest</b>		3,364	1,883
<b>Total equity</b>		<u>752,240</u>	<u>673,384</u>

These financial statements were approved by the board of directors on 27 March 2018 and were signed on its behalf by:

  
**G R Speirs**  
 Director

Company registered number: 00633480

The accompanying notes form part of these financial statements.

**Consolidated Statement of Changes in Equity**

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
<b>Balance at 1 January 2017</b>	<b>100</b>	<b>8,155</b>	<b>(6,015)</b>	<b>(15,279)</b>	<b>684,540</b>	<b>1,883</b>	<b>673,384</b>
<b>Profit for the year</b>	-	-	-	-	369,812	1,762	371,574
Pension actuarial gain (note 17)	-	-	-	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
<b>Other comprehensive income</b>	-	<b>2,622</b>	<b>3,905</b>	<b>21,611</b>	-	-	<b>28,138</b>
<b>Total comprehensive income</b>	-	<b>2,622</b>	<b>3,905</b>	<b>21,611</b>	<b>369,812</b>	<b>1,762</b>	<b>399,712</b>
Share-based payments (note 18)	-	-	-	-	1,088	-	1,088
Current and deferred tax on share-based payments	-	-	-	-	1,337	-	1,337
Dividends paid (note 20)	-	-	-	-	(323,000)	(281)	(323,281)
<b>Total transactions with shareholder</b>	-	-	-	-	<b>(320,575)</b>	<b>(281)</b>	<b>(320,856)</b>
<b>Balance at 31 December 2017</b>	<b>100</b>	<b>10,777</b>	<b>(2,110)</b>	<b>6,332</b>	<b>733,777</b>	<b>3,364</b>	<b>752,240</b>

The accompanying notes form part of these financial statements.

**Consolidated Statement of Changes in Equity** (continued)

At 31 December 2016

	Share capital £000	Fair value Reserve £000	Translation Reserve £000	Pension Reserve £000	Retained Earnings £000	Non- Controlling Interest £000	Group Total Equity £000
<b>Balance at 1 January 2016</b>	<b>100</b>	<b>12,785</b>	<b>(18,099)</b>	<b>(19,109)</b>	<b>646,268</b>	<b>994</b>	<b>622,939</b>
<b>Profit for the year</b>	-	-	-	-	326,476	889	327,365
Pension actuarial gain (note 17)	-	-	-	4,898	-	-	4,898
Deferred tax on pension actuarial gain	-	-	-	(1,068)	-	-	(1,068)
Available-for-sale fair value movement	-	(5,626)	-	-	-	-	(5,626)
Deferred tax on fair value movement	-	996	-	-	-	-	996
Exchange movements on foreign currency translation	-	-	12,084	-	-	-	12,084
<b>Other comprehensive income/(loss)</b>	-	(4,630)	12,084	3,830	-	-	11,284
<b>Total comprehensive income/(loss)</b>	-	(4,630)	12,084	3,830	326,476	889	338,649
Share-based payments (note 18)	-	-	-	-	1,200	-	1,200
Current and deferred tax on share-based payments	-	-	-	-	596	-	596
Dividends paid (note 20)	-	-	-	-	(290,000)	-	(290,000)
<b>Total transactions with shareholder</b>	-	-	-	-	(288,204)	-	(288,204)
<b>Balance at 31 December 2016</b>	<b>100</b>	<b>8,155</b>	<b>(6,015)</b>	<b>(15,279)</b>	<b>684,540</b>	<b>1,883</b>	<b>673,384</b>

The accompanying notes form part of these financial statements.

**Consolidated Cash Flow Statement***For year ended 31 December 2017*

	Note	Group 2017 £000	2016 £000
<b>Cash flows from operating activities</b>			
Profit before tax for the year		463,127	407,267
Adjustments for:			
Depreciation, amortisation and impairment	8,9	2,641	2,555
Financial income		(8,281)	(10,674)
Financial expense		367	1,603
Share of profit of equity-accounted investees		(15,106)	(12,741)
Loss on sale of tangible and intangible assets		15	3,250
Equity settled share-based payment expenses	18	1,088	1,200
		<u>443,851</u>	<u>392,460</u>
(Increase) in trade and other receivables	14	(63,321)	(218,954)
Decrease/(increase) in employee benefit asset		218	(3,645)
Increase in trade and other payables		13,635	195,361
(Decrease) in provisions	19	(1,565)	(5,148)
		<u>392,818</u>	<u>360,074</u>
Tax paid		(80,576)	(70,476)
<b>Net cash from operating activities</b>		<u>312,242</u>	<u>289,598</u>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		124	77
Proceeds from sales of investments		50,487	19,942
Issue of loans	11	31,533	1,976
Dividends received	10	14,524	11,217
Purchase of investments		(33,579)	(83,161)
Acquisition of property, plant and equipment	8,9	(1,065)	(993)
<b>Net cash used in investing activities</b>		<u>62,024</u>	<u>(50,942)</u>
<b>Cash flows from financing activities</b>			
Dividends paid	20	(323,281)	(290,000)
<b>Net cash used in financing activities</b>		<u>(323,281)</u>	<u>(290,000)</u>
<b>Net decrease in cash and cash equivalents</b>		<u>50,985</u>	<u>(51,344)</u>
Cash and cash equivalents at 1 January	15	362,169	413,513
<b>Cash and cash equivalents at 31 December</b>	15	<u>413,154</u>	<u>362,169</u>

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 64 to 72.

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 or as available-for-sale; and liabilities for cash-settled share-based payments.

#### 1.2 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.

**Notes to the consolidated group financial statements** *(continued)***1 Accounting policies** *(continued)***1.2 Basis of consolidation** *(continued)**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.

**1.3 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 Sociétés d'Investissement à 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 properties. 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 at held for trading or fair value through profit or loss.

Where the Group set 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.

**1.4 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. Accordingly, they continue to adopt a going concern basis in preparing the Group financial statements.

**1.5 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.

**Notes to the consolidated group financial statements** *(continued)***1 Accounting policies** *(continued)***1.5 Foreign currency** *(continued)*

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.

**1.6 Non-derivative financial instruments**

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)*

#### 1.7 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.

#### 1.8 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.

#### 1.9 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	5-10 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.

#### 1.10 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
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#### 1.11 Impairment excluding deferred tax assets

##### *Financial assets (including receivables)*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

**Notes to the consolidated group financial statements** *(continued)***1 Accounting policies** *(continued)***1.11 Impairment excluding deferred tax assets** *(continued)**Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit ("CGU") is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "CGU").

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**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.

*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.

**Notes to the consolidated group financial statements** *(continued)***1 Accounting policies** *(continued)***1.12 Pension schemes** *(continued)*

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.

The Prudential Staff Pension Scheme 'Defined Benefit Scheme' has no contractual agreement for charging the net defined benefit cost of the plan to participating entities. 70% of the net defined benefit cost of the Prudential Staff Pension Scheme is recognised by the sponsoring employer The Prudential Assurance Company Limited and the remaining 30% by Prudential plc. The Group then recognises a cost equal to its contribution payable for the period.

**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.

**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.

**Notes to the consolidated group financial statements** *(continued)***1 Accounting policies** *(continued)***1.15 Share-based payments** *(continued)*

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 and performance fees.

Management fee revenue is based on investment assets under management and is recognised as the service is provided and when it is probable that the fee will be received.

Performance fee revenue is based on the achievement of prescribed performance hurdles and is recognised when a reliable estimate of the fee can be made and it is probable that the fee will be received.

*Rebates and commissions*

Rebates are paid to certain external investors and other Prudential plc group companies in respect of investments in M&G funds and are recognised at the same time as the respective management fee. 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. Both rebate and 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.

**Notes to the consolidated group financial statements** *(continued)***1 Accounting policies** *(continued)***1.18 Expenses** *(continued)**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, in which case it is recognised in equity.

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.

**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 & employee bonuses*

The Group's Long-Term Incentive Plan (LTIP) and other employee bonus awards 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.



**Notes to the consolidated group financial statements** *(continued)***1 Accounting policies** *(continued)***1.20 Accounting estimates and judgements** *(continued)**Share-based payments*

The Group measures the cost of equity-settled share schemes using the grant date fair value and expenses this cost over the period that the employees become unconditionally entitled to the awards. Grant date fair value is measured using an option valuation model containing reasonable estimates and assumptions, in particular taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect assumptions on the actual number of awards for which the related service and non-market vesting conditions are expected to be met. Notes 1.14 and 18 provide further details on share-based payment assumptions and estimates.

**1.21 EU IFRS not yet applied**

The following standards, interpretations and amendments have been issued but are not yet effective in 2017, 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 15 'Revenue from Contracts with Customers' (endorsed by the EU but not yet effective)*

This standard effective for annual periods beginning on or after 1 January 2018, provides a single framework to recognise revenue for contracts with different characteristics and overrides the framework provided for such contracts in other standards. The following contracts are exempt from this standard:

- Lease contracts within IAS 17;
- Insurance contracts within IFRS 4;
- Financial instruments as covered within IAS 39.

A detailed IFRS 15 impact assessment has been undertaken applying the principles based five-step model provided in the standard to the various sources of Revenue, with particular attention on the recognition of investment management fees, performance fees and carried interest, which were identified as the principal sources of Revenue for the Group.

The adoption of this standard in 2018 is not expected to have a significant impact on the recognition of investment management fees and performance fees.

The adoption of IFRS 15 will result in a change in accounting policy in respect of carried interest. Currently the carry rights are recognised under IAS 32 on the basis of the carry rights meeting the definition of a financial asset and classified as an available for sale asset. Under IFRS 15 the recognition of carried interest will be aligned with the recognition of performance fees, the anticipated impact is a reduction in the Group net assets of £5m, net of deferred tax. The modified retrospective approach will be adopted and the opening equity as at 1 January 2018 will be adjusted to reflect the adjustment, therefore no prior period adjustments will be required.

**Notes to the consolidated group financial statements** *(continued)***1 Accounting policies** *(continued)***1.21 EU IFRS not yet applied** *(continued)**IFRS 9 'Financial Instruments: Classification and measurement' (endorsed by the EU but not yet effective)*

In July 2014, the IASB published a complete version of IFRS 9 with the exception of macro hedge accounting. The standard becomes mandatory for the annual periods beginning on or after 1 January 2018, with early application permitted. This standard replaces the existing IAS 39 'Financial Instruments: Recognition and measurement', and is likely to affect:

- The classification and the measurement of financial assets and liabilities. Under IFRS 9, financial assets are classified under one of the following categories: cost; fair value through other comprehensive income (FVOCI); and fair value through profit or loss (FVTPL) based on their contractual cash flow characteristics and/or the business model in which they are held. The existing cost measurement for financial liabilities is largely maintained under IFRS 9, but for financial liabilities designated at FVTPL, changes in fair value due to changes in an entity's own credit risk are to be recognised in other comprehensive income;
- The calculation of the impairment charge relevant for financial assets held at cost or FVOCI. A new impairment model based on an expected credit loss approach replaces the existing IAS 39 incurred loss impairment model; and
- The hedge accounting requirements, which are more closely aligned with the risk management activities of the Group.

A detailed IFRS 9 impact assessment has been undertaken; the adoption of the requirements of IFRS 9 will result in reclassification of the assets currently held as available for sale and hence lead to a change in the measurement of these instruments and the performance reporting of them.

Certain of the assets currently held as available for sale will, with effect from 1 January 2018 fall under the scope of IFRS 15 and will be recognised in accordance with that standard.

The Group does not anticipate the impact of the expected losses to be material due to the nature of assets held and the low level of historical defaults.

It is anticipated that there will be minimal change in the net asset position of the Group Balance sheet as a result of the adoption of IFRS 9.

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

This standard effective for annual periods beginning on or after 1 January 2019, provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

The Group is assessing the potential impact of this standard, particularly in respect of the relocation of the Group's headquarters to new leasehold premises in 2018.

**Notes to the consolidated group financial statements** *(continued)***2 Revenue**

	2017 £000	2016 £000
Management fees	1,376,030	1,198,378
Performance fees	32,547	22,302
Revenue	1,408,577	1,220,680
Less: rebates and commission expenses	(341,852)	(288,103)
Total net revenue	1,066,725	932,577

Revenue arose primarily from management fees within Europe.

**3 Auditor's remuneration**

	2017 £000	2016 £000
<i>Included in profit is the following:</i>		
Audit of these financial statements	27	27
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	628	639
Audit related assurance services	547	421
Tax advisory services	-	105
All other services	29	311
Total auditor's remuneration	1,231	1,503

The 2017 Audit related assurance services include £71,000 amounts receivable in respect of audit related assurance services for the year ended 31 December 2016.

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 £22,000 (2016: £22,000).

**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	
	2017	2016
Total permanent headcount	1,881	1,869
Fixed-term headcount	38	28
Total headcount	1,919	1,897

The aggregate payroll costs of these persons were as follows:

	2017 £000	2016 £000
Wages and salaries	329,204	276,916
Social security costs	42,597	33,903
Defined benefit schemes	8,136	8,871
Defined contribution schemes	12,761	11,727
Share-based payments	2,045	4,093
Total payroll costs	394,743	335,510

**Notes to the consolidated group financial statements** *(continued)***5 Directors' remuneration**

The Group wide remuneration is disclosed within note 25, and the accounts of M&G Limited and Prudential plc, where applicable.

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £5,650,000 (2016: £4,118,000), and company pension contributions of £nil. (2016: £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.

	<b>Number of directors</b>	
	<b>2017</b>	<b>2016</b>
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	<b>1</b>	<b>1</b>
Defined benefit schemes	<b>-</b>	<b>-</b>
The number of directors who exercised share options was:	<b>-</b>	<b>1</b>

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, J W Foley and P J Remnant in relation to their directorships of the Company were in force from their appointment date and remain in force at the date of this report.

**6 Financial income and expense****Recognised in profit or loss**

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
<b>Finance income</b>		
Net gain on financial instruments designated at fair value through profit or loss	<b>5,192</b>	<b>6,896</b>
Net gain on financial instruments held for trading	<b>1,572</b>	<b>493</b>
Interest income on unimpaired financial assets	<b>4,532</b>	<b>4,615</b>
Distribution and dividend income on available-for-sale financial assets	<b>39,292</b>	<b>3,000</b>
Net foreign exchange gain	<b>-</b>	<b>11,117</b>
Net interest on net defined benefit pension plan assets	<b>2,313</b>	<b>2,878</b>
Total finance income	<b>52,901</b>	<b>28,999</b>
<b>Finance expense</b>		
Net loss on financial instruments designated at fair value through profit or loss	<b>-</b>	<b>1,603</b>
Net foreign exchange loss	<b>4,138</b>	<b>-</b>
Total finance expense	<b>4,138</b>	<b>1,603</b>

**Notes to the consolidated group financial statements** *(continued)***7 Tax**

<b>Recognised in the profit and loss account</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
<b>Current tax expense</b>		
Current year	78,395	69,460
Adjustment for prior year	2,894	3,527
Foreign tax current year	6,920	3,211
Foreign tax adjustment for prior year	-	-
Current tax expense	<u>88,209</u>	<u>76,198</u>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	3,256	7,268
Reduction in tax rates	430	(614)
Adjustments for prior years	(342)	(2,950)
Total tax on profit on ordinary activities	<u>3,344</u>	<u>3,704</u>
Tax expense in profit and loss account	<u>91,553</u>	<u>79,902</u>
<b>Income tax recognised in other comprehensive income</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Foreign exchange translation differences	(62)	(75)
Change in fair value of assets classified as available-for-sale	306	(996)
Remeasurement of defined benefit asset	4,426	1,068
Total tax recognised in other comprehensive income	<u>4,670</u>	<u>(3)</u>
<b>Tax recognised directly in equity</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Current tax recognised directly in equity	(558)	(372)
Deferred tax recognised directly in equity	(779)	(224)
Total tax recognised directly in equity	<u>(1,337)</u>	<u>(596)</u>
<b>Factors affecting tax charge for the period</b>		
The tax assessed in the period is higher than (2016 - 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 Group will be taxed.		
<b>Reconciliation of effective tax rate</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Profit before tax of group entities	<u>463,127</u>	<u>407,267</u>
Tax using the UK corporation tax rate of 19.25% (2016: 20%)	89,136	81,453
Effect of tax rates in foreign jurisdictions	1,561	868
Reduction in tax rate on deferred tax balances	430	(566)
Non-deductible expenses	1,039	1,520
Tax exempt revenues	(3,719)	(3,505)
Current tax through OCI	553	-
Movement in capital loss	1	(445)
Under/(over) provided in prior years	2,552	577
Tax expense in profit and loss account	<u>91,553</u>	<u>79,902</u>

**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
<b>Cost</b>				
Balance at 1 January 2017	17,955	4,552	714	23,221
Acquisitions	968	54	43	1,065
Disposals	(7)	(15)	(250)	(272)
Effect of movements in foreign exchange	11	(15)	-	(4)
Balance at 31 December 2017	<u>18,927</u>	<u>4,576</u>	<u>507</u>	<u>24,010</u>
<b>Depreciation</b>				
Balance at 1 January 2017	14,682	3,066	258	18,006
Depreciation charge for the year	1,899	672	65	2,636
Depreciation on disposals	(4)	(12)	(129)	(145)
Effect of movements in foreign exchange	2	(2)	-	-
Balance at 31 December 2017	<u>16,579</u>	<u>3,724</u>	<u>194</u>	<u>20,497</u>
<b>Net book value</b>				
At 1 January 2017	<u>3,273</u>	<u>1,486</u>	<u>456</u>	<u>5,215</u>
At 31 December 2017	<u><b>2,348</b></u>	<u><b>852</b></u>	<u><b>313</b></u>	<u><b>3,513</b></u>

*Depreciation charge*

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

**Notes to the consolidated group financial statements** *(continued)***9 Intangible assets**

	<b>Computer Software £000</b>
<b>Cost</b>	
Balance at 1 January 2017	970
Acquisitions	-
Disposals	-
Effect of movements in foreign exchange	-
Balance at 31 December 2017	<u>970</u>
<b>Amortisation</b>	
Balance at 1 January 2017	963
Amortisation charge for the year	5
Depreciation on disposals	-
Effect of movements in foreign exchange	-
Balance at 31 December 2017	<u>968</u>
<b>Net book value</b>	
At 1 January 2017	<u>7</u>
<b>At 31 December 2017</b>	<u><u>2</u></u>

*Amortisation charge*

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

## 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 % 2017	Ownership % 2016
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 International Investments Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	4134655	Ordinary shares	100%	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 Liberté, L-1930, Luxembourg	B 213.164	Ordinary shares	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	6 <sup>th</sup> 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%	-
M&G PFI 2018 GP2 Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	10954003	Ordinary shares	100%	-
M&G PFI 2018 GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO306178	Liability Partnership	100%	-
M&G PFI Carry Partnership 2016 LP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SL028237	Capital Limited Partner Capital	25%	25%
M&G Luxembourg S.A.	34-38, Avenue de la Liberté, 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 Liberté, 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%
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%



## 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 % 2017	Ownership % 2016
M&G Real Estate UKEV (GP) LLP	Governors House, Laurence Pountney Hill, London, EC4R 0HH	OC418419	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	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC369804	Ordinary shares	100%	100%
M&G RED GP Limited	Dory Court, St Peter Port, Guernsey	50554	Ordinary shares	100%	100%
M&G RED SLP LP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SL007548	Limited Partner Capital	44%	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 UKEV (SLP) General Partner LLP	Governors House, Laurence Pountney Hill, London, EC4R 0HH	OC420257	Limited Liability Partnership Capital	100%	-
M&G UKEV (SLP) LP	Governors House, Laurence Pountney Hill, London, EC4R 0HH	SL032565	Limited Partner Capital	60%	-
M&G UK Property GP Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	8462545	Ordinary shares	100%	100%
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	Lime Grove House, Green Street, St Helier, Jersey, JE1 2ST	87691	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 % 2017	Ownership % 2016
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%	-
Digital Infrastructure Investment Partners GP LLP	Governors House, Laurence Pountney Hill, London, EC4R 0HH	OC416887	Limited Liability Partnership Capital	100%	-
Digital Infrastructure Investment Partners SLP GP1 Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	10715067	Ordinary shares	100%	-
Digital Infrastructure Investment Partners SLP GP2 Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	10715126	Ordinary shares	100%	-
Digital Infrastructure Investment Partners SLP GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO306056	Limited Liability Partnership Capital	100%	-
Embankment GP Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	10747140	Ordinary shares	100%	-
Embankment Nominee 1 Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	10749686	Ordinary shares	100%	-
Embankment Nominee 2 Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	10750266	Ordinary shares	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%	-
George Digital GP 2 Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC577098	Ordinary shares	100%	-
George Digital GP 1 LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO306174	Limited Liability Partnership Capital	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%	-
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%
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 (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%

## 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 % 2017 2016	
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%	-
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 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%
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%	-
Infracapital Greenfield Partners 1 SLP GP1 Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC554629	Ordinary shares	100%	-
Infracapital Greenfield Partners 1 SLP GP2 Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC554631	Ordinary shares	100%	-
Infracapital Greenfield Partners 1 SLP GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO305944	Limited Liability Partnership Capital	100%	-
Infracapital Greenfield Partners I Employee Feeder GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO306040	Limited Liability Partnership Capital	100%	-
Infracapital Greenfield Partners I Employee Feeder LP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SL030887	Limited Partner Capital	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%

## 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 % 2017 2016	
Infracapital Greenfield Partners I SLP LP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SL029954	Limited Partner Capital	37%	-
Infracapital Greenfield Partners I SLP2 GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO306184	Limited Liability Partnership Capital	100%	-
Infracapital Greenfield Partners I SLP2 LP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SL032352	Partner Capital	100%	-
Infracapital Greenfield Partners I Subholdings GP1 Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC578139	Ordinary shares	100%	-
Infracapital Greenfield Partners I Subholdings GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO306189	Limited Liability Partnership Capital	100%	-
Infracapital Long Term Income Partners GP 1 Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	09901460	Ordinary shares	100%	100%
Infracapital Long Term Income Partners GP 2 Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	09901468	Ordinary shares	100%	100%
Infracapital Long Term Income Partners GP LLP	Governors House, Laurence Pountney Hill, London, EC4R 0HH	OC403297	Limited Liability Partnership Capital	100%	100%
Infracapital Partners II Subholdings GP1 Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC578127	Ordinary shares	100%	-
Infracapital Partners II Subholdings GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO306188	Limited Liability Partnership Capital	100%	-
Infracapital Partners III GP S.a.r.l	6, rue Eugene Ruppert, L-2453 Luxembourg	B217179	Ordinary shares	100%	-
Infracapital RF GP Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC557453	Ordinary shares	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%	-
London Stone Investments F3 I Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC583847	Ordinary shares	100%	-
London Stone Investments F3 II Limited	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SC583856	Ordinary shares	100%	-
London Stone Investments F3 SP GP LLP	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ	SO306261	Limited Liability Partnership Capital	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%

## 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 % 2017 2016	
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%
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%
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%	-
Selly Oak Shopping Park (Nominee 1) Limited	Governors House, Laurence Pountney Hill, London, EC4R 0HH	11105117	Ordinary shares	100%	-
Selly Oak Shopping Park (Nominee 2) Ltd	Governors House, Laurence Pountney Hill, London, EC4R 0HH	11105380	Ordinary shares	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 Feeder of Episode Macro (GBP Class T-H Accumulation) Fund	Arthur Cox Building, Earlsfort Terrace, Dublin2 Ireland	C143465	ICAV shares	-	100%
M&G Feeder of Global Dividend (GBP Class I Accumulation) Fund	Arthur Cox Building, Earlsfort Terrace, Dublin2 Ireland	C143465	ICAV shares	-	100%
M&G Feeder of Global Emerging Markets (GBP Class I Income) Fund	Arthur Cox Building, Earlsfort Terrace, Dublin2 Ireland	C143465	ICAV shares	-	100%
M&G Feeder of Global Convertibles (GBP Class I Income) Fund	Arthur Cox Building, Earlsfort Terrace, Dublin2 Ireland	C143465	ICAV shares	-	100%
M&G (Lux) Absolute Return Bond Fund	49 Avenue, J.F. Kennedy, L-1855, Luxembourg	B210615	SICAV shares	-	100%
M&G (Lux) Floating Rate High Yield Solution Fund	49 Avenue, J.F. Kennedy, L-1855, Luxembourg	B210615	SICAV shares	94%	-
M&G (Lux) Global Target Return Fund	49 Avenue, J.F. Kennedy, L-1855, Luxembourg	B210615	SICAV shares	-	100%
M&G Absolute Return Bond Fund	Governors House, Laurence Pountney Hill, London, EC4R 0HH	IC000841	Various share classes	-	100%
M&G Global Target Return Fund	Governors House, Laurence Pountney Hill, London, EC4R 0HH	IC000845	Various share classes	-	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 17, 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 2017, 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 held for trading.

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 % 2017	Ownership % 2016
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 and A class shares	49.99%	49.99%
				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, Dublin 2 Ireland	C143465	ICAV shares	-	21.95%

The Group's share of post-acquisition total recognised profit or loss in the associates for the year ended 31 December 2017 is disclosed below;

	2017 £'000	2016 £'000
Prudential Portfolio Managers (South Africa) (Pty) Limited	14,971	11,563
Profit from individually immaterial associates	135	1,178
Total share of profit of associates	<u>15,106</u>	<u>12,741</u>

The Group's Investments in associates are disclosed below;

	2017 £'000	2016 £'000
Prudential Portfolio Managers (South Africa) (Pty) Limited	39,906	38,540
Carrying amount of individually immaterial associates	437	294
Total investments in associates	<u>40,343</u>	<u>38,834</u>

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:

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Current assets	<b>527,447</b>	478,671
Non-current assets	<b>66,218</b>	64,605
Current liabilities	<b>(506,536)</b>	(459,476)
<b>Net Assets (100% of PPM SA)</b>	<b><u>87,129</u></b>	<b><u>83,800</u></b>
<b>Group's share of net assets:</b>		
- attributable to PPM SA ordinary shares	<b>39,608</b>	38,097
- attributable to PPM SA A-class shares	<b>298</b>	443
<b>Group's carrying amount of associate</b>	<b><u>39,906</u></b>	<b><u>38,540</u></b>
<b>Revenue (PPM SA)</b>	<b>74,219</b>	61,484
<b>Profit from continuing operations (PPM SA)</b>	<b>24,070</b>	18,737
<b>Total comprehensive income (PPM SA)</b>	<b>24,210</b>	18,537
<b>Group's share of PPM SA's total comprehensive income</b>	<b>14,970</b>	11,563
<b>Group's share of dividends from PPM SA</b>	<b>14,524</b>	11,217



**Notes to the consolidated group financial statements** *(continued)***11 Other financial assets**

	<b>2017</b> <b>£000</b>	2016 £000
<b>Current</b>		
Financial assets designated at fair value through profit or loss	<b>7,532</b>	20,136
Financial assets held for trading	<b>82,380</b>	43,944
Related party loans	<b>199,369</b>	230,902
Available-for-sale financial assets	<b>23,336</b>	-
	<b><u>312,617</u></b>	<b><u>294,982</u></b>
<b>Non-current</b>		
Financial assets designated at fair value through profit or loss	<b>58,085</b>	31,756
Financial assets held for trading	<b>3,179</b>	63,841
Available-for-sale financial assets	<b>6,733</b>	22,841
	<b><u>67,997</u></b>	<b><u>118,438</u></b>

Financial assets held for trading are carried at fair value through profit or loss and consist of equity securities (fund retail book and fund seeding), derivative contracts and the assets of the funds consolidated.

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 impairment.

Financial assets designated at fair value through profit or loss are other equity securities in the Group's fund products that are not held for trading.

Available-for-sale financial assets are primarily carried interest right investments in limited partnership funds. As the holder of carried interest rights, distributions are received once performance conditions are met, the main performance criterion generally being realisation by the fund's limited partner investors of a specified hurdle rate return on their original investment.

Also classified as an available-for-sale financial asset, the Group's holding of 100% (2016: 100%) of the cellular redeemable preference shares in the property cell of Furnival Insurance Company PCC Limited ("Furnival"), a Guernsey incorporated and domiciled protected cell company. The Group bears all risks and rewards of the Furnival property cell, however power and all influence over the property cell is held by Prudential Group Holdings Limited, an entity over which M&G holds no control.

**12 Other financial liabilities**

	<b>2017</b> <b>£000</b>	2016 £000
<b>Current</b>		
Financial liabilities held for trading	<b>-</b>	5
	<b><u>-</u></b>	<b><u>5</u></b>

Financial liabilities held for trading are derivative contracts.

**Notes to the consolidated group financial statements** *(continued)***13 Deferred tax assets and liabilities**

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

	<b>Assets</b>		<b>Liabilities</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Property, plant and equipment	694	601	-	-
Other financial assets	-	-	1,301	1,013
Employee benefits	21,535	24,095	-	-
Share-based payments	2,163	1,386	-	-
Pension scheme surplus	455	462	18,611	14,228
Provisions	423	408	-	-
Tax value of loss carry-forwards	-	1	-	-
Other	679	1,560	-	-
<b>Tax assets/liabilities</b>	<b>25,949</b>	<b>28,513</b>	<b>19,912</b>	<b>15,241</b>

Movement in deferred tax during the year:

	<b>1 Jan</b>	<b>Recognised</b>	<b>Recognised</b>	<b>31 Dec</b>
	<b>2017</b>	<b>in income</b>	<b>in equity</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
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
	<b>13,272</b>	<b>(3,344)</b>	<b>(3,891)</b>	<b>6,037</b>

Movement in deferred tax during the prior year:

	<b>1 Jan</b>	<b>Recognised</b>	<b>Recognised</b>	<b>31 Dec</b>
	<b>2016</b>	<b>in income</b>	<b>in equity</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Property, plant and equipment	537	64	-	601
Other financial assets	(1,978)	(31)	996	(1,013)
Employee benefits	28,257	(4,160)	(2)	24,095
Share-based payments	1,239	(77)	224	1,386
Pension scheme surplus	(13,034)	336	(1,068)	(13,766)
Provisions	90	318	-	408
Tax value of loss carry-forwards	491	(490)	-	1
Other	1,044	336	180	1,560
	<b>16,646</b>	<b>(3,704)</b>	<b>330</b>	<b>13,272</b>

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 £1,242,000 (2016: £924,000) in respect of losses amounting to £6,537,000 (2016: £4,864,000).

**Notes to the consolidated group financial statements** *(continued)***14 Trade and other receivables**

	2017 £000	2016 £000
<b>Current</b>		
Trade receivables due from related parties	66,593	70,708
Other trade receivables	642,846	574,690
Interest receivable	3	2
Prepayments	6,381	6,462
Deferred acquisition costs	1,399	3,118
	<u>717,222</u>	<u>654,980</u>
<b>Non-current</b>		
Other trade receivables	6,744	5,846
Deferred acquisition costs	5,127	4,946
	<u>11,871</u>	<u>10,792</u>

**15 Cash and cash equivalents / bank overdrafts**

	2017 £000	2016 £000
Cash and cash equivalents	434,426	362,169
Bank overdrafts	(21,272)	-
Cash and cash equivalents per cash flow statements	<u>413,154</u>	<u>362,169</u>

**16 Trade and other payables**

	2017 £000	2016 £000
<b>Current</b>		
Trade payables to related parties	19,889	15,358
Other trade payables	443,637	486,534
Accrued expenses and deferred income	303,893	239,736
	<u>767,419</u>	<u>741,628</u>
<b>Non-current</b>		
Accrued expenses and deferred income	3,677	-
Other payables	99,380	109,819
	<u>103,057</u>	<u>109,819</u>

**17 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 2014 by Willis Towers Watson Limited, actuaries to the Scheme.

**Notes to the consolidated group financial statements** *(continued)***17 Pension schemes** *(continued)**Prudential Staff Pension Scheme 'Defined Benefit Scheme' (continued)*

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.

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/](http://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 2014 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 2017 by Willis Tower Watson Limited, actuaries to the Scheme.

**M&G Defined Benefit Schemes****Pension scheme surplus**

	<b>2017</b>	2016
	<b>£000</b>	£000
Defined benefit asset	<b>616,800</b>	573,600
Defined benefit liability	<b>(510,287)</b>	(492,907)
Total pension scheme surplus	<b><u>106,513</u></b>	<u>80,693</u>

**Notes to the consolidated group financial statements** *(continued)***17 Pension schemes** *(continued)*

<b>Fair value of plan assets</b>	<b>2017 £000</b>	<b>2016 £000</b>
At 1 January	573,600	418,000
<b>Included in profit or loss</b>		
Interest income on plan assets	14,900	15,900
<b>Included in other comprehensive income</b>		
Return on plan assets (excluding interest income)	32,300	140,400
<b>Other</b>		
Contributions paid by the Group	6,870	7,167
Employee contributions	700	700
Benefits paid	(11,570)	(8,567)
<b>Balance at 31 December</b>	<b>616,800</b>	<b>573,600</b>
<b>Defined benefit obligation</b>	<b>2017 £000</b>	<b>2016 £000</b>
At 1 January	(492,907)	(345,850)
<b>Included in profit or loss</b>		
Current service cost	(9,400)	(6,400)
Interest cost	(12,587)	(13,022)
<b>Included in other comprehensive income</b>		
Actuarial remeasurement gain/(loss) arising from:		
- Changes in demographic assumptions	-	2,513
- Changes in financial assumptions	(2,728)	(140,616)
- Experience adjustments	(3,535)	2,601
<b>Other</b>		
Employee contributions	(700)	(700)
Benefits paid	11,570	8,567
<b>Balance at 31 December</b>	<b>(510,287)</b>	<b>(492,907)</b>
<b>Net pension scheme surplus</b>	<b>106,513</b>	<b>80,693</b>

The net amount included in profit is £7,087,000 (2016: (£3,522,000)), and the net amount included in other comprehensive income is £26,037,000 (2016: £4,898,000).

<b>Defined benefit plan assets</b>	<b>2017 £000</b>	<b>2016 £000</b>
Equity instruments	194,100	174,900
Corporate bonds	79,500	77,100
Government bonds	220,300	216,000
Real estate	69,500	63,700
Other investments	2,300	-
Cash and cash equivalents	51,100	41,900
<b>Total plan assets</b>	<b>616,800</b>	<b>573,600</b>

Included in the amounts above, £345,400,000 (2016: £315,700,000) 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.

**Notes to the consolidated group financial statements** *(continued)***17 Pension schemes** *(continued)***Actuarial assumptions**

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

	2017	2016
	%	%
Discount rate at 31 December	2.50	2.60
Future salary increases	3.10	3.20
Retail price inflation	3.10	3.20
Consumer price inflation	2.10	2.20
Future pension increases	3.10	3.20

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: 28.3 years (male), 30.0 years (female).

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

- 30.9 years (male), 32.7 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:

	2017	2016
	£000	£000
Discount rate – reduced by 0.2%	26,000	26,000
Discount rate – increased by 0.2%	(24,000)	(24,000)
Lower inflation – reduced by 0.2%	(19,000)	(19,000)

In valuing the liabilities of the pension fund at 31 December 2017 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 2017 would have increased by £20,000,000 (2016: £19,000,000) before deferred tax.

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 38% per annum of pensionable salaries in respect of ongoing benefit accrual. Based on salary amounts in December 2017 estimated contributions paid would be £6,954,000 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 £15,215,000 (2016: £14,280,000).

**Notes to the consolidated group financial statements** *(continued)***18 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 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.

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
21-Sep-12	Equity	11,690	1,825	20-Sep-17
20-Sep-13	Equity	23,461	1,825	19-Sep-18
23-Sep-14	Equity	92,691	1,095	22-Sep-17
23-Sep-14	Equity	156,976	1,825	22-Sep-19
22-Sep-15	Equity	312,982	1,095	21-Sep-18
22-Sep-15	Equity	78,300	1,826	21-Sep-20
21-Sep-16	Equity	217,190	1,094	20-Sep-19
21-Sep-16	Equity	53,679	1,825	20-Sep-21
21-Sep-17	Equity	254,752	1,095	20-Sep-20
21-Sep-17	Equity	45,003	1,825	20-Sep-22

**Notes to the consolidated group financial statements** *(continued)***18 Share-based payments** *(continued)*

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
	2017 £	2017 (thousands)	2016 £	2016 (thousands)
Outstanding at the beginning of the year	10.93	1,337	10.08	1,408
Forfeited during the year	11.17	(22)	10.14	(30)
Exercised during the year	10.41	(307)	6.20	(243)
Granted during the year	14.55	300	11.04	295
Lapsed during the year	10.98	(61)	10.99	(93)
Outstanding at the end of the year	<u>11.93</u>	<u>1,247</u>	<u>10.93</u>	<u>1,337</u>
Exercisable at the end of the year	<u>10.96</u>	<u>105</u>	<u>7.96</u>	<u>64</u>

The weighted average share price at the date of exercise of share options exercised during the year was £17.51 (2016: £13.56).

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	-	-
	<u>1,247</u>	<u>2.42</u>	<u>11.93</u>	<u>105</u>	<u>10.96</u>



**Notes to the consolidated group financial statements** *(continued)***18 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 2016:

Range of exercise prices	Outstanding Options			Exercisable Options	
	Number Outstanding	Weighted average remaining contractual Life	Weighted average exercise prices	Number exercisable	Weighted average exercise prices
	(thousands)	(years)	£	(thousands)	£
Between £2 and £3	-	-	-	-	-
Between £3 and £4	-	-	-	-	-
Between £4 and £5	16	0.35	4.66	15	4.66
Between £5 and £6	-	-	-	-	-
Between £6 and £7	36	1.39	6.29	-	-
Between £7 and £8	-	-	-	-	-
Between £8 and £9	-	-	-	-	-
Between £9 and £10	75	1.10	9.01	49	9.01
Between £10 and £11	-	-	-	-	-
Between £11 and £12	1,210	2.75	11.27	-	-
	<u>1,337</u>	<u>2.61</u>	<u>10.93</u>	<u>64</u>	<u>7.96</u>

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

	2017 Share Options £	2017 PLTIP £	2017 Awards £	2016 Share Options £	2016 GPSP £	2016 Awards £
Weighted average fair value	<u>3.29</u>	<u>8.24</u>	<u>15.75</u>	<u>3.03</u>	<u>4.38</u>	<u>12.82</u>

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 2017	Share Options 2017	PLTIP 2016	Share Options 2016
Dividend yield (%)	-	2.85	-	3.19
Expected volatility (%)	23.28	20.16	29.51	25.25
Risk-free interest rate (%)	0.35	0.56	0.12	0.14
Expected option life (years)	3.00	3.50	3.00	3.60
Weighted average exercise price (£)	-	14.55	-	11.04
Weighted average share price (£)	16.72	17.74	12.79	13.94

**Notes to the consolidated group financial statements** *(continued)***18 Share-based payments** *(continued)*

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.

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:

	<b>2017</b>	2016
	<b>£000</b>	£000
Equity settled share-based payment expense	<b>1,088</b>	1,200
Cash settled share-based payment expense	<b>2,296</b>	4,175
	<b><u>3,384</u></b>	<u>5,375</u>
 Total carrying amount of liabilities for cash settled arrangement	 <b><u>2,296</u></b>	 <u>4,175</u>

**19 Provisions**

	<b>Dilapidation Provision £000</b>	<b>Other provision £000</b>	<b>Total £000</b>
Balance at 1 January 2017	6,164	6,418	12,582
Provisions made during the year	(109)	1,463	1,354
Provisions used during the year	-	(2,760)	(2,760)
Provisions reversed during the year	(134)	(45)	(179)
Effect of movements in foreign exchange	6	14	20
<b>Balance at 31 December 2017</b>	<b><u>5,927</u></b>	<b><u>5,090</u></b>	<b><u>11,017</u></b>
 Non-current	 5,927	 -	 5,927
Current	-	5,090	5,090
	<b><u>5,927</u></b>	<b><u>5,090</u></b>	<b><u>11,017</u></b>

**Notes to the consolidated group financial statements** *(continued)***19 Provisions** *(continued)*

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 2018.

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.

**20 Capital and reserves**

<i>Share Capital</i>	<b>2017</b> <b>£000</b>	<b>2016</b> <b>£000</b>
<b>Authorised</b>		
10,151,907 ordinary shares of 25p each	<u><b>2,538</b></u>	<u><b>2,538</b></u>
<b>Allotted, called up and fully paid</b>		
400,000 ordinary shares of 25p each	<u><b>100</b></u>	<u><b>100</b></u>

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.

*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 includes the cumulative net change in the fair value of available-for-sale financial assets until the investment is derecognised or impaired.

*Pension reserve*

The pension reserve comprises all actuarial gains and losses arising.

*Dividends*

The following dividends were recognised during the period:	<b>2017</b> <b>£000</b>	<b>2016</b> <b>£000</b>
On 400,000 ordinary shares of 25p each	<u><b>323,281</b></u>	<u><b>290,000</b></u>

**Notes to the consolidated group financial statements** *(continued)***21 Financial instruments****21 (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 (2016: £nil).

	Carrying Amount £000	2017 Fair Value Levels		
		Level 1 £000	Level 2 £000	Level 3 £000
Equity securities - fund retail book and fund seeding	85,559	85,559	-	-
<b>Financial assets held for trading (note 11)</b>	<b>85,559</b>	<b>85,559</b>	-	-
Equity securities - other fund securities	65,617	64,317	1,300	-
<b>Financial assets designated as fair value through profit or loss (note 11)</b>	<b>65,617</b>	<b>64,317</b>	<b>1,300</b>	-
<b>Total financial assets at fair value through profit or loss</b>	<b>151,176</b>	<b>149,876</b>	<b>1,300</b>	-
Equity securities - excluding fund securities	5,943	-	-	5,943
Limited partnership securities	24,126	-	-	24,126
<b>Available-for-sale financial assets (note 11)</b>	<b>30,069</b>	-	-	<b>30,069</b>
<b>Total financial assets carried at fair value</b>	<b>181,245</b>	<b>149,876</b>	<b>1,300</b>	<b>30,069</b>
Derivative contracts	-	-	-	-
<b>Financial liabilities held for trading (note 12)</b>	-	-	-	-
<b>Total financial liabilities at fair value through profit or loss</b>	-	-	-	-
<b>Total financial instruments carried at fair value</b>	<b>181,245</b>	<b>149,876</b>	<b>1,300</b>	<b>30,069</b>

**Notes to the consolidated group financial statements** *(continued)***21 Financial instruments** *(continued)***21 (a) Fair values of financial instruments** *(continued)*

	Carrying Amount £000	2016 Fair Value Levels		
		Level 1 £000	Level 2 £000	Level 3 £000
Equity securities - fund retail book and fund seeding	107,785	84,565	23,220	-
<b>Financial assets held for trading (note 11)</b>	<b>107,785</b>	<b>84,565</b>	<b>23,220</b>	<b>-</b>
Equity securities - other fund securities	51,892	46,566	5,326	-
<b>Financial assets designated as fair value through profit or loss (note 11)</b>	<b>51,892</b>	<b>46,566</b>	<b>5,326</b>	<b>-</b>
<b>Total financial assets at fair value through profit or loss</b>	<b>159,677</b>	<b>131,131</b>	<b>28,546</b>	<b>-</b>
Equity securities - excluding fund securities	4,633	-	-	4,633
Limited partnership securities	18,208	-	-	18,208
<b>Available-for-sale financial assets (note 11)</b>	<b>22,841</b>	<b>-</b>	<b>-</b>	<b>22,841</b>
<b>Total financial assets carried at fair value</b>	<b>182,518</b>	<b>131,131</b>	<b>28,546</b>	<b>22,841</b>
Derivative contracts	5	-	5	-
<b>Financial liabilities held for trading (note 12)</b>	<b>5</b>	<b>-</b>	<b>5</b>	<b>-</b>
<b>Total financial liabilities at fair value through profit or loss</b>	<b>5</b>	<b>-</b>	<b>5</b>	<b>-</b>
<b>Total financial instruments carried at fair value</b>	<b>182,513</b>	<b>131,131</b>	<b>28,541</b>	<b>22,841</b>

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.

**Reconciliation of Level 3 fair value movements:**

	2017 £000
Opening Balance	22,841
Other comprehensive income - total gain on available-for-sale investments	7,228 <sup>1</sup>
Closing Balance	30,069

<sup>1</sup> The £7,228,000 movement in fair value of assets classified as available-for-sale does not represent the available-for-sale movement recognised in 2016 other comprehensive income as other comprehensive income is reduced for amounts attributable to investors external to the Group.

**Notes to the consolidated group financial statements** *(continued)***21 Financial instruments** *(continued)***21 (a) Fair values of financial instruments** *(continued)*

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% (2016: 11.8%). The increase / (decrease) effects to the Group of a 1% movement in the discount rate are detailed in the below table:

	<b>Available-for-sale financial assets</b>		<b>Liabilities</b>		<b>Equity</b>	
	<b>2017 £000</b>	<b>2016 £000</b>	<b>2017 £000</b>	<b>2016 £000</b>	<b>2017 £000</b>	<b>2016 £000</b>
1% increase in discount rate	<b>(3,316)</b>	(5,167)	<b>(2,595)</b>	(4,010)	<b>(721)</b>	(1,157)
1% decrease in discount rate	<b>3,271</b>	1,369	<b>2,571</b>	1,062	<b>700</b>	307

The level 3 equity securities predominately 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.

**21 (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.

Historical default levels have been minimal.

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.

**Notes to the consolidated group financial statements** *(continued)***21 Financial instruments** *(continued)***21 (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:

	2017 £000	2016 £000
Financial guarantees (note 24)	1,500	1,500
Third party loans – undrawn	30,000	30,663
Related party loans – undrawn	4,833	6,237
Related party loans – drawn (note 11)	199,369	230,902
Trade and other receivables (note 14)	729,093	665,772
Cash and cash equivalents (note 15)	413,154	362,169
	<u>1,377,949</u>	<u>1,297,243</u>

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.

	2017 £000	2016 £000
P-1	400,728	319,746
P-2	3,124	33,427
Not rated	9,302	8,996
	<u>413,154</u>	<u>362,169</u>

*Credit quality of financial assets and impairment losses*

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

	2017 £000	2016 £000
Not past due	711,837	657,849
Past due (0-30 days)	5,801	4,142
Past due (31-120 days)	8,886	3,498
More than 120 days	2,569	283
	<u>729,093</u>	<u>665,772</u>

None of the receivables which were past due were considered to be impaired.

**Notes to the consolidated group financial statements (continued)****21 Financial instruments (continued)****21 (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:

	2017					2016				
	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	870,476	767,419	56,927	45,950	180	851,447	741,629	40,928	68,890	-
<b>Non-derivative financial liabilities</b>	<b>891,748</b>	<b>788,691</b>	<b>56,927</b>	<b>45,950</b>	<b>180</b>	<b>851,447</b>	<b>741,629</b>	<b>40,928</b>	<b>68,890</b>	<b>-</b>
<b>Derivative financial liabilities</b>	-	-	-	-	-	5	5	-	-	-
	<b>891,748</b>	<b>788,691</b>	<b>56,927</b>	<b>45,950</b>	<b>180</b>	<b>851,452</b>	<b>741,634</b>	<b>40,928</b>	<b>68,890</b>	<b>-</b>



**Notes to the consolidated group financial statements** *(continued)***21 Financial instruments** *(continued)***21 (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:

<b>31 December 2017</b>	<b>Sterling £'000</b>	<b>Euro £'000</b>	<b>US Dollar £'000</b>	<b>Other £'000</b>	<b>Total £'000</b>
Other financial assets (note 11)	319,589	46,584	10,776	3,665	380,614
Other trade receivables (note 14)	324,110	334,991	50,812	6,270	716,183
Prepayments and interest receivable (note 14)	4,659	380	1,135	210	6,384
Cash and cash equivalents (note 15)	354,054	30,346	27,075	22,951	434,426
Bank overdrafts (note 15)	-	(21,272)	-	-	(21,272)
Trade and other payables (note 16)	(476,364)	(334,594)	(47,587)	(11,931)	(870,476)
Tax payable	(39,919)	(2,468)	-	(853)	(43,240)
Other financial liabilities (note 12)	-	-	-	-	-
	<b>486,129</b>	<b>53,967</b>	<b>42,211</b>	<b>20,312</b>	<b>602,619</b>

<b>31 December 2016</b>	<b>Sterling £'000</b>	<b>Euro £'000</b>	<b>US Dollar £'000</b>	<b>Other £'000</b>	<b>Total £'000</b>
Other financial assets (note 11)	352,977	52,539	4,792	3,112	413,420
Other trade receivables (note 14)	257,111	326,955	61,355	5,823	651,244
Prepayments and interest receivable (note 14)	5,755	267	220	222	6,464
Cash and cash equivalents (note 15)	300,138	34,947	9,025	18,059	362,169
Bank overdrafts (note 15)	-	-	-	-	-
Trade and other payables (note 16)	(446,641)	(333,504)	(60,622)	(10,680)	(851,447)
Tax payable	(38,114)	893	-	(568)	(37,789)
Other financial liabilities (note 12)	-	(5)	-	-	(5)
	<b>431,226</b>	<b>82,092</b>	<b>14,770</b>	<b>20,312</b>	<b>544,056</b>

**Notes to the consolidated group financial statements** *(continued)***21 Financial instruments** *(continued)***21 (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	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
€ weakening	(4,906)	(7,463)	(4,906)	(7,463)
€ strengthening	5,996	9,121	5,996	9,121
\$ weakening	(3,837)	(1,343)	(3,837)	(1,343)
\$ strengthening	4,690	1,641	4,690	1,641

*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:

	2017 £000	2016 £000
<b>Variable rate instruments</b>		
Cash and cash equivalents	434,426	362,169
Bank overdrafts	(21,272)	-
Related party loans	199,369	230,902
	<u>612,523</u>	<u>593,071</u>

A decrease of 50 basis points in interest rates at the balance sheet date would reduce profit and equity by approximately £1,541,000 (2016: £1,828,000).

An increase of 50 basis points in interest rates at the balance sheet date would increase profit and equity by approximately £3,047,000 (2016: £3,090,000).

**Notes to the consolidated group financial statements** *(continued)***21 Financial instruments** *(continued)***21 (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 2017 Group net revenue by approximately £6,000,000 (2016: £7,000,000) and also reduce the 2017 profit and equity by approximately £4,845,000 (2016: £5,600,000). 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 2017 group net revenue by approximately £23,000,000 (2016: £23,000,000) and also reduce the 2017 profit and equity by approximately £18,572,500 (2016: £18,400,000). 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 2017 Group net revenue by approximately £5,000,000 (2016: £4,000,000) and also reduce the 2017 profit and equity by approximately £4,037,500 (2016: £3,200,000). An increase of five percent would have an equal and opposite effect on revenue, profit and equity.

**21 (e) Capital management**

The Group's policy is to maintain a strong capital base in order to continue as a going concern and 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 regularly reviews capital adequacy and the allocation of regulatory capital. Capital management impact are considered in key decisions made by the Group.

The Company 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.

All UK regulated entities within the Group are required to comply with the requirements set by the FCA and must meet minimum regulatory capital levels. At 31 December 2017 the Group included six FCA regulated firms.

**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)***22 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.

	<b>Total AUM £bn</b>	<b>Less: AUM within consolidated structured entities £m</b>	<b>AUM within unconsolidated structured entities £bn</b>
<b>31 December 2017</b>	298.4	1	298.4
<b>31 December 2016</b>	264.8	49	264.8

Included in the Group's consolidated net revenue amount is £617 million (2016: £493 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

	<b>2017 £m</b>	<b>2016 £m</b>
Trade and other receivables	<b>390</b>	447
Trade and other payables	<b>371</b>	434
Other financial assets	<b>150</b>	160

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 21 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)***23 Operating leases**

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

	<b>2017</b>	2016
	<b>£000</b>	£000
Less than one year	<b>12,451</b>	12,801
Between one and five years	<b>10,607</b>	11,802
More than five years	<b>1,806</b>	-
	<b>24,864</b>	24,603

During the year £13,844,000 was recognised as an expense in the profit and loss account in respect of operating leases (2016: £12,750,000). Leases relate to land and buildings.

As at the balance sheet date, the Group has agreed a pre-let transaction to relocate to new London headquarters, commencing in 2018. Post year end, on 23 January 2018 the Group entered into this significant lease arrangement to relocate headquarters, with a minimum term in excess of five years. The new headquarters will enable the M&G Group to bring together our London businesses under a single roof in premises that have been designed to meet the highest property standards.

**24 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 (2016: £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 (2016: £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.

**Notes to the consolidated group financial statements** *(continued)***25 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.

M&G Group companies receive management fees from these Prudential related entities for managing the assets, and in some instances, receive performance fees. Investment management and performance fees are disclosed in note 2. The Group earned £238,869,000 (2016: £200,398,000) during the year from investment management fees received from related parties and incurred costs of £539,000 (2016: £683,000) by related parties in relation to sub-advisory fees.

An amount of £66,517,000 was receivable by the Group as at 31 December 2017 (2016: £70,708,000) from related parties. Additionally an amount of £199,369,000 was receivable in the form of a loan by the Group as at 31 December 2017 (2016: £230,902,000) from related parties. The Group also received interest of £1,605,000 (2016: £2,013,000) from these related parties loans.

Of the amount due from related parties included as a loan, £186,202,000 (2016: £219,139,000) is due from the ultimate parent of the group. The Group received interest of £1,562,000 (2016: £1,951,000) from the ultimate parent of the group.

An amount of £19,812,000 was payable to related parties as at 31 December 2017 (2016: £15,358,000) 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 M&G Group Limited. The aggregate compensation paid or payable to key management for employee services are shown below:

	2017 £000	2016 £000
Short-term employee benefit	17,248	15,656
Long term benefits	5,714	5,761
Pension	47	60
	<u>23,009</u>	<u>21,477</u>

**26 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.

**27 Subsequent events**

Post year end, on the 10 January 2018 the Group received additional share premium of £88 million from the immediate parent entity, helping maintain capital for the Group's strategic and operational objectives and to maintain comfortable headroom above regulatory requirements.

**Profit and Loss Account and Other Comprehensive Income***For year ended 31 December 2017*

	<i>Note</i>	<b>Company 2017 £000</b>	<b>2016 £000</b>
Income from shares in subsidiary undertaking	4	<b>323,000</b>	290,000
Interest payable and similar charges	5	<b>(115)</b>	(175)
<b>Profit on ordinary activities before tax</b>		<b>322,885</b>	289,825
Tax credit on profit on ordinary activities	6	<b>22</b>	35
<b>Profit and other comprehensive income for the financial year</b>		<b>322,907</b>	289,860

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

The accompanying notes form part of these financial statements.

**Balance Sheet***As at 31 December 2017*

	Note	Company 2017 £000	2016 £000
<b>Fixed assets</b>			
Investment in subsidiary undertaking	7	39,475	39,475
<b>Current assets</b>			
Debtors	8	13	53
Cash at bank		101	101
<b>Total current assets</b>		<u>114</u>	<u>154</u>
<b>Current liabilities</b>			
Creditors – amounts falling due within one year	9	33,485	33,432
<b>Net current liabilities</b>		<u>33,371</u>	<u>33,278</u>
<b>Net assets</b>		<u>6,104</u>	<u>6,197</u>
<b>Capital and reserves</b>			
Called up share capital	10	100	100
Profit and loss account		6,004	6,097
<b>Total equity shareholders' funds</b>		<u>6,104</u>	<u>6,197</u>

The financial statements were approved by the board of directors on 27 March 2018 and were signed on its behalf by:



**G R Speirs**  
Director

Company registered number: 00633480

The accompanying notes form part of these financial statements.



**Statement of Changes in Equity***At 31 December 2017*

	<i>Note</i>	<b>Called up Share Capital £000</b>	<b>Profit and loss Account £000</b>	<b>Company Total Equity £000</b>
<b>Balance at 1 January 2017</b>		<b>100</b>	<b>6,097</b>	<b>6,197</b>
Profit for the year		-	322,907	322,907
<b>Total comprehensive income</b>		<b>-</b>	<b>322,907</b>	<b>322,907</b>
Dividends	10	-	(323,000)	(323,000)
<b>Total transactions with owner</b>		<b>-</b>	<b>(323,000)</b>	<b>(323,000)</b>
<b>Balance at 31 December 2017</b>		<b>100</b>	<b>6,004</b>	<b>6,104</b>

**Statement of Changes in Equity***At 31 December 2016*

	<i>Note</i>	<b>Called up Share Capital £000</b>	<b>Profit and loss Account £000</b>	<b>Company Total Equity £000</b>
<b>Balance at 1 January 2016</b>		<b>100</b>	<b>6,237</b>	<b>6,337</b>
Profit for the year		-	289,860	289,860
<b>Total comprehensive income</b>		<b>-</b>	<b>289,860</b>	<b>289,860</b>
Dividends	10	-	(290,000)	(290,000)
<b>Total transactions with owner</b>		<b>-</b>	<b>(290,000)</b>	<b>(290,000)</b>
<b>Balance at 31 December 2016</b>		<b>100</b>	<b>6,097</b>	<b>6,197</b>

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 *Going concern*

The directors have a reasonable expectation that the Company 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 Company in the foreseeable future. Accordingly, they continue to adopt a going concern basis in preparing the Company financial statements.

#### 1.2 *Classification of financial instruments issued by the Company*

Following the adoption of IAS 32, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

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

**Notes to the parent company financial statements** *(continued)***1 Accounting policies** *(continued)***1.3 Financial instruments***Investments in debt and equity 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.

**1.4 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.

**1.5 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.

**1.6 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 £27,000 (2016: £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**

Three of the directors (2016: five) 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 24 of the M&G consolidated group financial statements.

**Notes to the parent company financial statements** *(continued)***4 Income from shares in group undertakings**

	2017 £000	2016 £000
Dividend income from subsidiary	<u>323,000</u>	<u>290,000</u>

**5 Interest payable and similar charges**

	2017 £000	2016 £000
Interest on loan from subsidiary company	<u>115</u>	<u>175</u>

**6 Tax**

<b>Recognised in the Profit and Loss Account</b>	<b>2017 £000</b>	<b>2016 £000</b>
Current UK corporation tax on income for the period	(22)	(35)
Total tax credit on profit on ordinary activities	<u>(22)</u>	<u>(35)</u>

**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.

<b>Reconciliation of effective tax rate</b>	<b>2017 £000</b>	<b>2016 £000</b>
Profit for the year	322,907	289,860
Total tax credit	22	35
Profit excluding tax credit	<u>322,885</u>	<u>289,825</u>
Tax on profit at standard UK tax rate of 19.25% (2016: 20%)	62,144	57,965
Effects of:		
Income not taxable	(62,166)	(58,000)
Tax credit for the period	<u>(22)</u>	<u>(35)</u>

**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.

**Notes to the parent company financial statements** *(continued)***7 Fixed asset investments**

The Company has the following investment in a subsidiary:

<b>Company Subsidiary</b>	<b>Registered Office</b>	<b>Registered Number</b>	<b>Class of Equity Held</b>	<b>Ownership %</b>	
				<b>2017</b>	<b>2016</b>
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.

**8 Debtors**

	<b>2017 £000</b>	<b>2016 £000</b>
Corporation tax recoverable	12	52
Other debtors	1	1
<b>Total debtors due within one year</b>	<b>13</b>	<b>53</b>

**9 Creditors – amounts falling due within one year**

	<b>2017 £000</b>	<b>2016 £000</b>
Amounts owed to group undertaking	33,485	33,432

**10 Capital and reserves**

<i>Share capital</i>	<b>2017 £000</b>	<b>2016 £000</b>
<b>Authorised</b>		
10,151,907 ordinary shares of 25p each	2,538	2,538
<b>Allotted, issued and fully paid</b>		
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*

	<b>2017 £000</b>	<b>2016 £000</b>
The following dividends were recognised during the period:		
On 400,000 ordinary shares of 25p each	323,000	290,000

**11 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.

**Notes to the parent company financial statements** *(continued)***12 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.