Registered number: 03852763

M&G Real Estate Limited

Annual Report and Financial Statements

For the Year Ended 31 December 2020

Company Information

Directors	A M Brown J M B Daniels (resigned 3 March 2020) J D Lai (appointed 1 April 2021) E R Dudley (resigned 28 February 2020) N R McMorran C L Ng (resigned 1 April 2021) W Nicoll (appointed 24 February 2020) J-L Pellicer-Gallardo M G Reijnen (appointed 1 April 2021) S Sharma M A Towns
Company secretary	M&G Management Services Limited
Registered number	03852763
Registered office	10 Fenchurch Avenue London EC3M 5AG
Independent auditor	KPMG LLP 15 Canada Square London E14 5GL

Contents

Business review

M&G Real Estate Limited (the ‘Company’) is a member of the M&G plc group, the UK and international savings and investments business. The Company is a member of the sub-group headed by M&G Group Ltd (“M&G” or the “M&G Group”) and is an indirect subsidiary of M&G plc.

The principal activity of the Company is to provide a range of investment services to clients seeking to invest in real estate. The Company continues to seek new clients and develop new products and services to attract a wider spread of capital from clients.

The profit before tax for the Company for the year was £52,513,000 (2019: £31,096,000). Further details of the results for the year are set out in the Profit and Loss Account and Other Comprehensive Income statement on page 13.

Branches

As at the reporting date, the Company includes tax branches outside the United Kingdom, specifically in France, Germany and Sweden.

Principal risks and uncertainties

Overview

The Company is subject to M&G plc Group’s (the “Group”) internal control and risk management processes as detailed in the Group Governance Framework (GGF) and associated Group Risk Management Framework (RMF). The control procedures and systems established within the Group are designed to manage, rather than eliminate, the risk of failure to meet business objectives. The Company takes on exposure to risks where there is adequate reward, and risks can be appropriately quantified and managed to safeguard the Company’s ability to meet commitments to customers, comply with regulations, and protect its reputation.

The RMF requires all entities within the Group, including the Company, to establish processes for identifying, measuring, managing, monitoring and reporting key risks. The RMF sets out the processes require to manage risk within agreed appetite levels which are aligned to delivering the Company and M&G Group strategy. The RMF is approved by the Group Risk Committee and operates based on the concept of three lines of defence: (1) risk identification and management; (2) risk oversight, advice and challenge; and (3) independent assurance.

The Company is exposed to a number of risks. Some are inherent in performing the principal activities of the business and are not unique; others are unique and result from business strategy and structure. These risks may be categorised as follows:

Strategic risk

A significant portion of the Company’s cost base is fixed and the Board accepts that the Company’s revenues and profits are exposed to short-term market fluctuations. These risks are inherent in the Company’s business model and it aims to ensure that they are monitored and managed appropriately.

Business environment risk

The Company acknowledges and risk accepts its exposure to business environment risk. Senior management continually assess the business environment and will take appropriate measures when necessary.

Operational risk

Operational risk is the risk of financial or non-financial impact resulting from inadequate or failed internal or outsourced processes and controls, colleague errors, technology issues or from external events. The Company does not actively seek to take operational risk to generate returns, instead it accepts a level of risk that means the controls in place should prevent material impacts but should also not excessively restrict business activities.

Principal risks and uncertainties (continued)

Operational risk (continued)

The Company 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.

M&G plc has rigorous plans in place to ensure business continuity in the event of disruptive circumstances and in response to COVID 19, these have been activated. As the impact of the pandemic continues to be felt, the focus remains on protecting customers' interests, safeguarding employees, protecting financial capability, working with supply partners and engaging with regulators. Operational resilience is regularly reviewed to ensure all appropriate action is taken to manage the wellbeing and safety of all employees, and clients are provided with the service they need. Specific COVID 19 reporting has been created and is monitored on a regular basis to manage the risks emanating from the pandemic on the Company's operations.

Financial risk

Financial risk is the risk that the Company is unable to maintain adequate capital and liquidity to meet its clients' and stakeholders' requirements under normal and stressed conditions. Financial risk encompasses credit and liquidity.

Credit risk is the exposure to loss arising from counterparty's failure to meet its 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 the Company, the Company 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 the Company, although solvent, does not have available financial resources to enable it to meet its obligations as they fall due, or that the Company can secure such resources only at excessive cost. The Company expects to hold sufficient liquidity to ensure the continuity of its business under normal and stressed conditions.

With regard to COVID 19, the Company has modelled financial projections allowing for the impact of the pandemic. The projections currently show that the Company is expected to maintain sufficient net assets and liquid resources to remain financially viable for at least the period of the going concern assessment as outlined in the Directors' Report. Regarding liquidity management, the Company is also party to the M&G Group's contingency funding plan should a particularly adverse liquidity event arise.

Capital requirements and conflict management

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, are published on the Internet at:

https://www.mandgplc.com/~/media/Files/M/MandG-Plc/documents/mandg-investments-policies/pillar-3-disclosures-31st-dec-2019.pdf

The M&G Group operates administrative and organisational arrangements to identify and manage conflicts of interest that might adversely affect its clients including:

- effective procedures to restrict the exchange of information where such exchange might harm clients;
- effective segregation of duties with appropriate supervision; and
- charging and remuneration policies that are reasonably designed to align the long term interests of the Company, employees and clients.

Section 172(1) Statement

Section 172 of the Companies Act 2006 requires a Director of a company to act in the way they consider, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing this, section 172 requires a Director to have regard, amongst other matters, to the:

- likely consequences of any decisions in the long-term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- desirability of the company maintaining a reputation for high standards of business conduct, and
- need to act fairly as between members of the company.

In discharging the section 172 duties the Directors have regard to the factors set out above. It is also recognised that the matters considered as a board can have unique characteristics. It can be required to have regard to additional factors which are relevant to the specific matter under consideration. There is an acknowledgement from the Board that the relative importance of each factor considered will vary depending on the decision being taken. Across all decisions, the Board are mindful of the Company's purpose, strategic priorities and alignment with the M&G plc overarching culture, vision and values.

As is normal for large companies, authority is delegated for day-to-day management of the Company to executives who in turn charge management with execution of the business strategy and related policies. Financial and operational performance as well as risk, compliance and regulatory reporting, human resource requirements and individual business updates are reviewed at regular board meetings. Other areas are also reviewed over the course of the financial year including the Company's business strategy, key risks, health and safety, stakeholder-related matters, diversity and inclusivity, environmental matters, corporate responsibility and governance, compliance and legal matters. This is done through the consideration and discussion of reports which are sent in advance of each board meeting and through presentations to the Board.

The Company's key stakeholders are its ultimate beneficial owner, M&G plc, and the stakeholder groups set out in M&G plc's Annual Report. The views and impact of the Company's activities on those stakeholders are an important consideration for the Directors when making relevant decisions. While there are cases where the Board itself judges that it should engage directly with certain stakeholder groups on certain issues, the size and spread of both stakeholders and the M&G plc Group means that other stakeholder engagement takes place at Group level. It has been found that as well as being a more efficient and effective approach, this also helps to achieve a greater positive impact on environmental, social and other issues than by working alone as an individual company. For details on some of the engagement that takes place with the Company's stakeholders please refer to the M&G plc 2020 Annual Report.

During the period, information has been provided to enhance the understanding of the interests and views of the Company's key stakeholders and other relevant factors when making decisions. This information was distributed in a range of different formats including in reports and presentations on financial and operational performance, non-financial key performance indicators, risk and environmental and social and governance matters. As a result of this, there has been an overview of engagement with stakeholders and other relevant factors which allows the Directors to understand the nature of the stakeholders' concerns and to comply with section 172 duty to promote success of the Company.

Principal Decisions

Set out below are some examples of how the matters set out in section 172(1)(a)-(f) have been regarded when discharging the section 172 duty and the effect of that on decisions taken. Principal decisions are defined as both those that are material to the Company, but also those that are significant to any the key stakeholders. In making the following principal decisions, the Board considered the relevant impact on stakeholders as well as the need to maintain a reputation for high standards of business conduct:

Principal Decisions (continued)

Principal decision 1 – Dividends to Parent Company

Each year the Board makes an assessment of the strength of the Company's balance sheet and future prospects relative to uncertainties in the external environment and makes decisions about the payment of dividends. In 2020, the Board decided to pay a total of £28.75m in dividends to its parent company M&G FA Limited. In making this decision the Board received detailed financial planning materials and considered a range of factors. These factors included any impact on the Company in the short to medium term as well as the long-term viability of the Company, its expected cash flow and financing requirements (including regulatory and other obligations to third parties) and the ongoing need for strategic investment in its business, including the workforce and the expectations of its parent, M&G FA Limited.

Principal decision 2 - Annual Safety and Security Strategy

The Board carries out a review of the Company's Safety and Security strategy on an annual basis to ensure legislative compliance and effective risk mitigation throughout all of the Company's activities. This includes the ability of its client funds to manage and respond to the protection of life, property and reputation in all aspects of its global investments (the development of new assets, refurbishments and day to day management of operational properties). In 2020, the Safety and Security strategy review included a number of objectives which aimed to support improvements in this area as part of the business' commitment towards global security and strategy. In making its decision to approve the annual Safety and Security Strategy the Board considered the duty of care owed to everyone who works, visits, lives in or occupies the Company's properties. The Board also specifically considered its duty of care to provide relevant information, guidance and support to all third party suppliers as well as the need for improved training within the workforce.

Financial key performance indicators

Funds under management

Funds under management for the M&G Real Estate business have remained broadly stable with a value of £31.1bn at 31 December 2020 (2019: £31.2bn).

Profit before tax

Profit before tax has increased by 69% from £31,096,000 in 2019 to £52,513,000 in 2020. The increase in profit primarily reflects a decrease in costs allocated from the Company's parent, M&G FA Limited.

This report was approved by the Board and signed on its behalf.

A M Brown
Director

Date: 29/04/2021

Directors' Report
For the Year Ended 31 December 2020

The Directors present their report and the financial statements for the year ended 31 December 2020.

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

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

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

Results and dividends

The profit for the year, before taxation, amounted to £52,513,000 (2019: £31,096,000).

Dividends paid in the year amounted to £28,750,000 (2019: £13,000,000).

Payment of a further dividend is under consideration by the Directors which, if approved, will be reflected in the subsequent annual financial statements.

Directors

The Directors who served during the year were:

A M Brown
J M B Daniels (resigned 3 March 2020)
E R Dudley (resigned 28 February 2020)
N R McMorran
C L Ng (resigned 1 April 2021)
W Nicoll (appointed 24 February 2020)
J-L Pellicer-Gallardo
S Sharma
M A Towns

Political contributions

The Company made no political contributions during the year (2019: £nil).

Charitable donations

The Company made no charitable donations during the year (2019: £1,000).

Employment policies

The M&G Group relies heavily on the quality of key talent and management in each of the regions and countries in which it operates. The success of M&G's operations is dependent on, amongst other things, the ability to attract and retain highly qualified professional people. Competition for highly qualified professional people in most countries in which the M&G Group operates is intense. The M&G Group's ability to attract and retain key people is dependent on a number of factors, including prevailing market conditions, culture and working environment and compensation packages offered by companies competing for the same talent.

M&G Real Estate Limited is committed to providing all employees with a safe, healthy and engaging working environment. All of our leaders are accountable for ensuring our culture promotes diversity, inclusion and authenticity. To perform at their best for clients and customers, all employees need to enjoy working for the Company and be comfortable that the Company's culture is free from any form of bullying, harassment or victimisation.

In 2019 the M&G Group launched new people policies with the simple aim of becoming a leading flexible employer which recognises that employees work to live. M&G supports all employees with the 'moments that matter' to them through either our market leading family leave policy or other types of paid leave that aim to support employees of all ages, family constructs or faiths. The policies include:

- The M&G Code of Conduct
- Our M&G values and behaviours
- Our Diversity & Inclusion strategy, policy and colleague networks
- Transitioning at Work policy (for transgender colleagues)
- Code of Ethics
- Our 'Speak Out' and 'Raising Concerns at Work' policies

Seeking feedback from employees on the M&G Group's performance in this area is essential. There are a number of ways in which M&G Real Estate Limited achieve this including the ongoing and valued relationships with the M&G Colleague Forum, Union and through the annual One Voice colleague survey.

The M&G Group seeks to achieve an inclusive working environment and through our Diversity and Inclusion Policy embraces difference and removes barriers to inclusivity. All employees are 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 employed by the M&G Group by making adjustments to roles where possible.

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

Qualifying third party indemnity provisions

Qualifying third-party indemnity provisions (as defined by section 234 of the Companies Act 2006) were accordingly in force during the course of the financial year ended 31 December 2020 for the benefit of the then Directors and, at the date of this report, are in force for the benefit of the Directors in relation to certain losses and liabilities which may occur (or have occurred) in connection with their duties, power or office.

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 making this assessment the Directors have considered the profitability, liquidity and solvency of the Company, taking into account current performance and financial position, factors likely to affect the Company's future development, and key risks in the current economic climate. This assessment has taken into consideration the current information available in respect of the COVID-19 outbreak, acknowledging that information in respect of the outbreak and its outcome are highly uncertain. Due to the uncertainty regarding COVID-19, additional stress tests have been carried out to test the Company's resilience to an increased severity than is currently being experienced and actions available to the Company to mitigate or reduce the impact.

On the basis of the assessment described, the Directors have adopted the going concern basis of accounting in preparing the Company's financial statements for the year ended 31 December 2020.

Engagement with Stakeholders

Engagement with M&G's key stakeholder groups helps foster and maintain relationships and forms an important part the wider Company's operation and is therefore considered at an M&G plc level.

Not all stakeholder engagement is reported directly to the Board or takes place directly with the Board. However, the output of engagement across the wider Company informs business level decisions and proposals, with an overview of developments and relevant feedback being reported to the M&G plc Board and/or its Committees. The purpose of this is to ensure that the M&G plc Board can understand and consider the views of relevant stakeholders when making decisions.

Customers

The customer is at the heart of everything M&G plc does. The M&G plc Board has included in its scheduled meetings regular reports from the Chief Customer and Distribution Officer. As well as qualitative data, the Board also receives data on customer satisfaction complaints and outcomes. Throughout 2020, the M&G plc Board has focused specific attention on our COVID-19 pandemic response, customer vulnerability, ESG and Sustainability and Value Assessment.

Institutional Shareholders

The M&G plc Board is kept aware of major shareholder issues and concerns through reports from a variety of sources including the Chief Executive and Chief Financial Officer reports, a regular report at Board meetings by the Director of Investor Relations and feedback from the Chair on governance meetings with major investors. The Investor Relations Report covers share price performance, investor meetings and analyst reports, views and forecasts.

Retail Shareholders

Retail shareholders have dedicated services in place via the Group Secretariat team and the Company's registrars, Equiniti. Key information is also available on the Company's website including the 'Shareholder Information' page which contains information on corporate governance, dividends, the AGM and share dealing as well as answers to some of the most frequently asked questions. The M&G plc Board recognises the AGM as an important formal interaction with predominantly retail shareholders and was disappointed not to be able to hold its first AGM in person. However, ensuring the safety of shareholders and staff, as well as compliance with government guidelines during the unprecedented circumstances was paramount.

Disclosure of information to auditor

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the Director has taken all the steps that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Under section 487(2) of the Companies Act 2006, KPMG LLP will be deemed to have been reappointed as auditor 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

On 28 October 2020, the ultimate parent of the Company (M&G plc) approved the appointment of PricewaterhouseCoopers LLP as its auditor for the year ending 31 December 2022, subject to shareholder approval at the M&G plc 2022 Annual General meeting.

This report was approved by the Board and signed on its behalf.

A M Brown
Director

Date: 29/04/2021

Independent Auditor's Report to the Members of the M&G Real Estate Limited Board

Opinion

We have audited the financial statements of M&G Real Estate Limited (“the Company”) which comprise the balance sheet as at 31 December 2020, the statements of profit or loss account and other comprehensive income and the statement of changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of the Company's profit for the year then ended;
- are properly prepared in accordance with United Kingdom accounting standards, including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Going concern

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

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud (“fraud risks”) we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

Identifying and responding to risks of material misstatement due to fraud (continued)

- reading minutes of meetings of those charged with governance; and
- using analytical procedures to identify any unusual or unexpected relationships.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the Company’s revenue streams are non-judgmental and simple in nature with respect to accounting policy choice, and are easily verifiable to external data sources or agreements with little or no requirement for estimation from management. We did not identify any additional fraud risks.

We performed procedures including

- Identifying journal entries and other adjustments to test based on risk criteria and comparing any identified entries to supporting documentation; and
- incorporating an element of unpredictability in our audit procedures.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with management (as required by auditing standards), and discussed with management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

The Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

The Company is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of litigation or impacts on the Company’s ability to operate. We identified Company law as being the area most likely to have such an effect. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remains a higher risk of non-detection of fraud, as this may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Independent Auditor's Report to the Members of the M&G Real Estate Limited Board

The Directors' report and Strategic report

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

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

Based solely on that work:

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 5, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

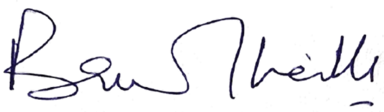
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit 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.

Independent Auditor's Report to the Members of the M&G Real Estate Limited Board

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.



Bano Sheikh (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square
London
E14 5GL
Date: 30/04/2021

Profit and Loss Account
For the Year Ended 31 December 2020

	Note	2020 £000	2019 £000
Revenue	2	**91,309**	91,844
Administrative expenses		**(49,287)**	(69,459)
Operating profit		**42,022**	22,385
Income from other fixed asset investments		**11,986**	9,088
Interest receivable and similar income	7	**32**	404
Interest payable and similar expenses	8	**(1,527)**	(781)
Profit before tax		**52,513**	31,096
Tax on profit	9	**(9,219)**	(5,510)
Profit for the financial year		**43,294**	25,586
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Currency translation differences		**545**	(461)
Total comprehensive income for the year		**43,839**	27,125

The notes on pages 17 to 37 form part of these financial statements.

M&G Real Estate Limited
Registered number: 03852763

Balance Sheet
As at 31 December 2020

	Note		2020 £000		2019 £000
Fixed assets					
Fixed Asset Investments	11		**7,233**		8,338
Current assets					
Debtors: amounts falling due after more than one year	12	**1,058**		855	
Debtors: amounts falling due within one year	12	**65,014**		49,882	
Bank and cash balances	13	**12,437**		15,154	
		78,509		65,891	
Creditors: amounts falling due within one year	14	**(18,231)**		(21,121)	
Net current assets			**60,278**		44,770
Total assets less current liabilities			**67,511**		53,108
Creditors: amounts falling due after more than one year	15		**(2,347)**		(2,410)
Provisions	18		**(826)**		(1,552)
Net assets			**64,338**		49,146
Capital and reserves					
Called up share capital	19		**1**		1
Foreign exchange reserve	20		**341**		(204)
Profit and loss account			**63,996**		49,349
			64,338		49,146

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

A M Brown
Director

The notes on pages 17 to 37 form part of these financial statements.

Statement of Changes in Equity
For the Year Ended 31 December 2020

	Called up share capital	Foreign exchange reserve	Profit and loss account	Total equity
	£000	£000	£000	£000
At 1 January 2020	1	(204)	49,349	49,146
Comprehensive income for the year				
Profit for the year	-	-	43,294	43,294
Foreign currency translation differences - foreign branches	-	545	-	545
Total comprehensive income for the year	-	545	43,294	43,838
Dividends paid	-	-	(28,750)	(28,750)
Share-based payments	-	-	103	103
Deferred tax on share-based payments	-	-	-	-
Current tax on share based payments	-	-	-	-
At 31 December 2020	1	341	63,996	64,338

The notes on pages 17 to 37 form part of these financial statements.

Statement of Changes in Equity
For the Year Ended 31 December 2019

	Called up share capital	Foreign exchange reserve	Profit and loss account	Total equity
	£000	£000	£000	£000
At 1 January 2019	1	257	36,674	36,932
Comprehensive income for the year				
Profit for the year	-	-	25,585	25,585
Foreign currency translation differences - foreign branches	-	(461)	-	(461)
Total comprehensive income for the year	-	(461)	25,585	25,124
Dividends paid	-	-	(13,000)	(13,000)
Share-based payments	-	-	101	101
Deferred tax on share-based payments	-	-	(79)	(79)
Current tax on share based payments	-	-	68	68
At 31 December 2019	1	(204)	49,349	49,146

The notes on pages 17 to 37 form part of these financial statements.

1. Accounting policies

1 Basis of preparation of financial statements

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

The financial statements have been prepared under the historical cost convention except that the following assets and liabilities are stated at their fair value in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006: financial instruments classified as fair value through profit and loss.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006 ("Adopted 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.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 1.19).

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

1.2 Financial reporting standard 101 - reduced disclosure exemptions

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

- the requirements of paragraphs 45(b) and 46 52 of IFRS 2 Share based payment
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present
- comparative information in respect of:
  - paragraph 79(a)(iv) of IAS 1
  - paragraph 73(e) of IAS 16 Property, Plant and Equipment
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- the requirements in IAS 24 to disclose compensation of Key Management Personnel; and
- the requirements in IAS 24 to disclose transactions with a management entity that provides key management personnel services to the company.

The Company is a subsidiary undertaking of M&G plc which is the ultimate parent company incorporated in England and Wales. Consolidated financial statements are prepared by M&G plc and copies of these are available to the public and may be obtained from the registered office at 10 Fenchurch Avenue, London, EC3M 5AG.

As the consolidated financial statements of M&G plc include the equivalent disclosures the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

1. Accounting policies (continued)

1.2 Financial reporting standard 101 - reduced disclosure exemptions (continued)

- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share-based payment

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.

1.3 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 making this assessment the Directors have considered the profitability, liquidity and solvency of the Company, taking into account current performance and financial position, factors likely to affect the Company’s future development, and key risks in the current economic climate. This assessment has taken into consideration the current information available in respect of the COVID 19 outbreak, acknowledging that information in respect of the outbreak and its outcome are highly uncertain. Due to the uncertainty regarding COVID 19, additional stress tests have been carried out to test the Company’s resilience to an increased severity than is currently being experienced and actions available to the Company to mitigate or reduce the impact.

On the basis of the assessment described, the Directors have adopted the going concern basis of accounting in preparing the Company’s financial statements for the year ended 31 December 2020.

1.4 Foreign currency

Functional and presentational currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. 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 back to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

The assets and liabilities of foreign operations are translated to the Company's presentational currency, GBP, using foreign exchange rates ruling at the balance sheet date. The revenues 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 date 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 foreign exchange reserve or non-controlling interest, as the case may be.

1. Accounting policies (continued)

1.5 Revenue

Management fee revenue is based on investment assets under management and is only recognised when the Company satisfies its performance obligation to provide the asset management services. It is recognised in the accounting period in which the services are rendered and is recognised net of rebates.

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

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

Transaction fee revenue is based on the value of the properties that are bought and sold by the Company and is only recognised when the Company satisfies its performance obligation to purchase or sell the property.

Insurance related income relates to premiums paid by the Company's clients. Premiums are recognised over the period of the contract with the clients.

1.6 Leases

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. In simple terms this applies if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At inception the Company allocates the consideration in a contract to each lease component. However, for the leases of land and buildings, in which the Company acts as lessee, the Company has elected to account for the lease and non-lease components as a single lease component.

Where the Company acts as a lessee, it recognises a ‘right of use’ asset and a corresponding lease liability, representing the obligation to make lease payments at the lease commencement date. The Company applies the cost model to right of use assets, except for those that meet the definition of an investment property, to which the fair value model is applied.

The asset is initially measured at cost which comprises the amount of the lease liability, and lease payments made at or before the commencement date, any initial direct costs incurred and an estimate of the costs related to the dilapidation of the asset that would be incurred, less any lease incentives received. Subsequently, the asset is depreciated using the straight-line method from the commencement date to the earlier of (i) the end of the right of use asset’s useful life and (ii) the end of the lease term.

The lease liability is initially measured at the present value of lease payments that are not yet paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company’s own incremental borrowing rate.

Subsequently, the lease liability is measured at amortised cost, using the effective interest method. From time to time, the lease liability may be re-measured where there is a change in future lease payments, for example where the Company reassesses whether it will exercise a purchase, extension or termination option. Where this happens, a corresponding adjustment is made to the carrying amount of the right of use asset or an amount is recognised in the consolidated income statement if the carrying amount of the right of use asset has been reduced to zero.

The Company presents the right of use assets that do not meet the definition of investment property in ‘Property, plant and equipment’ on the consolidated balance sheet. The corresponding lease liabilities are presented in ‘Lease liabilities.

1. Accounting policies (continued)

1.6 Leases (continued)

The Company has elected not to recognise right of use assets and lease liabilities for short term leases of PPE that have a lease term of 12 months or less and leases of low value assets. The Company recognises lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Where the Company acts as lessor, it classifies and accounts for its leases as operating or finance leases.

Where the Company acts as an intermediate lessor, as it does with some of its property leases, it accounts for its interests in the head lease and the sub lease separately. The Company assesses the lease classification of a sub-lease with reference to the right of use asset arising from the head lease, not with reference to the underlying asset. The Company recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of ‘Financial Income’.

1.7 Interest receivable and similar income

Interest receivable is recognised in profit or loss as it accrues.

Foreign currency gains are reported on a net basis, if applicable.

1.8 Interest payable and similar charges

Interest payable is recognised in profit or loss as it accrues.

Foreign currency losses are reported on a net basis, if applicable.

1.9 Pensions

Pensions

The Company participates in the Prudential plc group wide defined benefit pension plan ("the Prudential Staff Pension Scheme") and the M&G Group wide defined benefit pension plan ("the M&G Group Pension Scheme".) These schemes are closed to new members.

The Company is unable to identify its share of the underlying assets and liabilities of the schemes on a consistent and reasonable basis and therefore accounts for the schemes as if they were defined contribution schemes.

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

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company 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 plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

1.10 Share based payments

All share-based payments made to employees for services rendered are measured based on the fair value of the equity instrument granted. The fair value takes into account the impact of market-based vesting conditions and non-vesting conditions, but excludes any impact of non-market-based vesting conditions. The related share-based payment expense is recognised over the vesting period. The fair value may be determined using an option pricing model such as Black-Scholes or a Monte Carlo simulation where appropriate, taking into account the terms and conditions of the award.

1. Accounting policies (continued)

1.10 Share based payments (continued)

For equity-settled share-based payments, the fair value of service rendered is based on the fair value of the equity instrument at grant date, which is not remeasured subsequently. The share-based payment expense is recognised over the vesting period and is based on the number of equity instruments expected to vest, with the corresponding entry to equity.

A cancellation of an award without the grant of a replacement equity instrument is accounted for as an acceleration of vesting. Accordingly, any share-based expense that would have been recognised over the remaining vesting period is recognised immediately.

Where replacement equity instruments are granted to employees in place of the cancelled equity instruments, the replacement award is treated as a modification of the original award. At the point of replacement, the awards are remeasured to the fair value at the date of replacement, which forms the basis of recognising the expense over the remaining vesting period.

1.11 Taxation

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

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

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

The calculation of the total tax charge inherently involves a degree of estimation and judgement. The positions taken in tax returns, where applicable tax regulation is subject to interpretation, are recognised in full in the determination of the tax charge in the financial statements if the Company considers that it is probable that the taxation authority will accept those positions. Otherwise, the Company considers an uncertain tax position to exist and a provision is recognised to reflect that a taxation authority, upon review of the positions, could alter the tax returns. From recognition, the provision is measured based on management’s judgement and estimate of the likely amount of the liability or recovery. This is achieved by providing for the single best estimate of the most likely outcome or the weighted average expected value where there are multiple possible outcomes, taking into account external advice where appropriate. Each uncertain tax treatment is considered separately or together as a group, depending on management’s judgement as to which approach better predicts the resolution of the uncertainty. It is assumed that tax authorities will examine the uncertain tax treatments and they have full knowledge of all related information. The judgements and estimates made to recognise and measure the effect of uncertain tax positions are reassessed whenever circumstances change or when there is new information that affects those judgements.

1. Accounting policies (continued)

1.11 Taxation (continued)

The Company is a member of at least one partnership, which is a tax transparent entity. Accordingly, the Company is required to report on its tax return its share of the profits and losses of the partnership, which may give rise to a tax charge or tax credit for the Company, even if the Company earned no income nor incurred any expense during the period.

1.12 Expenses

Administrative expenses include a recharge from the immediate parent company of costs borne on behalf of the Company.

1.13 Tangible fixed assets

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

The parts of an item of property, plant and equipment have different useful lives and 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 range as follows:

Long-term leasehold improvements	over remaining lease term
Equipment and fittings	5 - 10 years

1.14 Provisions for liabilities

A provision is recognised on the balance sheet when the Company 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.

1.15 Dividends

Equity dividends are recognised when they become legally payable.

1.16 Financial instruments

(i) Recognition and initial measurement

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

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

1. Accounting policies (continued)

1.16 Financial instruments (continued)

(ii) Classification and subsequent measurement

(a) Classification

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

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

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

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income as described above are measured at fair value through profit or loss. Investments in subsidiaries are carried at cost less impairment.

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 Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

(b) Subsequent measurement and gains and losses

- Financial assets at fair value through profit and loss - these assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

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

Financial liabilities and equity

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

- 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

1. Accounting policies (continued)

1.16 Financial instruments (continued)

ii) Classification and subsequent measurement

- where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative 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's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

Financial liabilities are classified as measured at amortised cost and are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit and loss. Any gain or loss on derecognition is also recognised in profit and loss.

Impairment

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

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

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

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

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

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

Measurement of expected credit losses

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

1. Accounting policies (continued)

1.16 Financial instruments (continued)

Credit-impaired financial assets

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

Write-offs

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

1.17 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 Company has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be estimated reliably. In certain cases payment of the awarded amount is deferred for a period of greater than one year following the performance year, in which case the liability is recognised over a number of financial years up to the date of vesting.

1.18 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 Company 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.

1.19 Accounting estimates and judgements

In the process of applying the 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:

Estimates

Trade and other payables – long term incentive plans

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

1. Accounting policies (continued)

1.20 Adopted IFRS not applied yet

The following new accounting pronouncements have also been issued and are not yet effective:

- Amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16: Interest Rate Benchmark Reform – Phase 2 (effective date 1 January 2021)
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current (effective date 1 January 2023).
- Amendments to IAS 37: Onerous Contracts—Cost of Fulfilling a Contract (effective date 1 January 2022).
- Amendments to References to the Conceptual Framework in IFRS 3 (effective date 1 January 2022).
- Annual Improvements to IFRS Standards 2018-2020 (effective date 1 January 2022).

The Company is not expecting these pronouncements to have a significant impact on the Company's financial statements.

2. Analysis of revenue

An analysis of revenue by class of business is as follows:

	2020	2019
	£000	£000
Property fund management fees net of rebates*	**90,057**	89,797
Transaction fees	**191**	1,117
Insurance related income	**1,061**	930
	91,309	91,844

All revenue arose within Europe.

*Revenue includes management fee income from intergroup companies of £52,060,244 (2019: £50,876,431) and nil transaction fees from intergroup companies (2019: £778,834).

3. Auditor's remuneration

The Company paid the following amounts to its auditors in respect of the audit of the financial statements:

	2020	2019
	£000	£000
Audit of these financial statements	**46**	40

Amounts receivable by the Company's auditor and its associates in respect of services to the Company and its associates, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's ultimate parent, M&G plc.

4. Employees

Staff costs, including Directors' remuneration, were as follows:

	2020 £000	2019 £000
Wages and salaries	**26,692**	26,393
Social security costs	**3,730**	3,648
Cost of defined benefit scheme	**261**	306
Cost of defined contribution scheme	**2,056**	1,807
Share based payments	**910**	101
	33,649	32,255

The average monthly number of employees, including the Directors, during the year was as follows:

	2020 No.	2019 No.
Employees	**202**	215

5. Directors' remuneration

	2020 £000	2019 £000
Directors' salaries and bonuses	**4,070**	2,698
Amounts receivable under long-term incentive schemes	**857**	549
Company contributions to defined contribution pension schemes	**21**	14
Compensation for loss of office	**-**	57
	4,948	3,318

Where Directors provide services to multiple Group companies, the amounts paid for services of Directors are apportioned based on the time spent on the affairs of each company.

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid Director was £1,714,101 (2019: £1,157,660), and company pension contributions of £nil (2019: £nil) were made to a defined contribution scheme on their behalf. During the year, the highest paid Director did not exercise share options.

All Directors received emoluments in connection with the management of the affairs of the Company, with the exception of one in 2020.

5. Directors’ remuneration (continued)

	2020	2019
Retirement benefits are accruing to the following number of Directors under:		
Defined contribution schemes	**4**	5
Defined benefit schemes	**2**	2

	2020	2019
The number of Directors who exercised share options was	**-**	1
The number of Directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes was	**7**	7

6. Income from investments

	2020 £000	2019 £000
Dividend income on financial assets	**5,500**	4,500
Dividends received from subsidiaries	**6,486**	4,588
	11,986	9,088

7. Interest receivable and similar income

	2020 £000	2019 £000
Interest receivable from group companies	**29**	37
Net foreign exchange gain	**-**	359
Bank interest receivable	**3**	8
	32	404

8. Interest payable and similar expenses

	2020 £000	2019 £000
Net foreign exchange loss	**422**	-
Net loss on financial assets at fair value through profit and loss	**1,105**	781
	1,527	781

9. Taxation

	2020 £000	2019 £000
Corporation tax		
Current tax on profits for the year	**8,838**	4,835
Adjustments in respect of prior years	**93**	231
	8,931	5,066
Foreign tax		
Foreign tax suffered	**841**	722
Foreign tax relief/other relief	**(349)**	(534)
	492	188
Total current tax	**9,423**	5254
Deferred tax		
Current year	**26**	192
Adjustment in respect of previous periods	**(115)**	8
Effect of changes in tax rates	**(114)**	55
Total deferred tax	**(204)**	255
Tax on profit on ordinary activities	**9,219**	5,510

	2019 £000	2018 £000
Profit on ordinary activities before tax	**52,514**	31,096
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2019 - 19%)	**9,978**	5,908
Effects of:		
Adjustments in respect of prior years	**(22)**	239
Expenses not deductible	**376**	154
Income not taxable	**(2,277)**	(1727)
Transfer pricing adjustments	**3**	3
Tax rate changes	**(114)**	55
Effects of overseas tax rates	**492**	169
CFC adjustment	**835**	707
Share options	**(51)**	2
Total tax charge for the year	**9,219**	5,510

9. Taxation (continued)

Factors affecting the tax charge

The standard rate of Corporation Tax in the UK was due to change from 19% to 17% with effect from 1 April 2020. Following the budget announcement on 11 March 2020, the repeal of the legislation to reduce the tax rate was substantively enacted on 17 March 2020. Accordingly, the reduction in tax rate did not take place.

Deferred tax is provided at the tax rates enacted at the balance sheet date applicable to when the temporary differences are expected to reverse. The impact of the change to the tax rates is therefore recognised in the deferred tax movement for the year.

10. Dividends

	2020 £000	2019 £000
On 1,000 ordinary shares of £1 each	**28,750**	13,000

11. Fixed asset investments

	Investments in subsidiary companies £000	**Other fixed asset investments £000**	**Total £000**
Cost or valuation			
At 1 January 2020	**2,211**	**6,127**	**8,338**
Revaluations	**-**	**(1,105)**	**(1,105)**
At 31 December 2020	**2,211**	**5,022**	**7,233**

Other fixed asset investments comprise the Company's holding of 100% (2019: 100%) of the cellular redeemable preference shares in the property cell of M&G Prudential Guernsey PCC Limited, a standalone Guernsey incorporated and domiciled protected cell company (“Guernsey Property Cell”). The Company bears all risks and rewards of the Guernsey Property Cell, however power and all influence over the Guernsey Property Cell is held by M&G Prudential (Holdings) Limited, an entity over which the Company holds no control.

The Company provided a deed of guarantee and indemnity in connection with the Real Estate cell’s operations. The deed provides that, subject to a maximum annual aggregate liability of £2,000,000 (2019: £1,000,000), the Company will guarantee amounts owing by Real Estate cell to the principal insurer and indemnify the principal insurer against losses incurred by Real Estate cell.

The Captive must maintain cash assets of no less than 125% of the Company’s Potential Retained Liability (CPRL), the CPRL is 87.5% of the Captives aggregate liability which equates to 125% of the Net annual premiums.

11. Fixed asset investments (continued)

Investments in subsidiaries and associates

The Group has the following investments in subsidiary entities:

(a) Direct subsidiaries

Subsidiaries	Registered office	Registered Number	Class of Equity Held	Ownership % 2020	Ownership % 2019
M&G RE Espana 2016, S.L.	Calle Fortuny 6 - 4°A, 28010, Madrid, Spain	B87676896	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 Funds Management SARL	34 38 Avenue de la Liberte, L 1930, Luxembourg	B175545	Ordinary shares	100%	100%
M&G RPF GP Limited	10 Fenchurch Avenue, London, EC3M 5AG	08407747	Ordinary shares	100%	100%
M&G UK Property GP Limited	10 Fenchurch Avenue, London, EC3M 5AG	08462545	Ordinary shares	100%	100%
Prudential Property Investment Managers Ltd	10 Fenchurch Avenue, London, EC3M 5AG	08732334	Ordinary shares	100%	100%
M&G UK Shared Ownership Limited	10 Fenchurch Avenue, London, EC3M 5AG	12199619	Ordinary shares	100%	100%
M&G Real Estate France	8 avenue Hoche, 75008, Paris, France	893124842	Ordinary shares	100%	-

(b) Indirect subsidiaries

Subsidiaries	Registered office	Registered Number	Class of Equity Held	Ownership % 2020	Ownership % 2019
M&G Real Estate Asia Pte Limited	10 Marina Boulevard, #31 03 Marina Bay Financial Centre, Singapore	200610218G	Ordinary shares	100%	67%
M&G Real Estate Japan Co. Limited	Shiroyama Trust Tower, Tokyo, Japan	0100-01-148048	Ordinary shares	100%	67%
M&G Real Estate Korea Co. Limited	15th Floor, Kyobo Building, 1 Jongno, Jongno gu, Seoul, 110 714, Korea	110111-4931831	Ordinary shares	100%	67%
M&G RPF Nominee 1 Limited	10 Fenchurch Avenue, London, EC3M 5AG	08409413	Ordinary shares	100%	100%
M&G RPF Nominee 2 Limited	10 Fenchurch Avenue, London, EC3M 5AG	08410027	Ordinary shares	100%	100%
M&G UK Property Nominee 1 Limited	10 Fenchurch Avenue, London, EC3M 5AG	08494699	Ordinary shares	100%	100%
M&G UK Property Nominee 2 Limited	10 Fenchurch Avenue, London, EC3M 5AG	08494704	Ordinary shares	100%	100%
M&G European Secured Property Holding Company S.à r.l.	16 Boulevard Royal, Luxembrourg, L-2449, Luxembourg	B193079	Ordinary shares	100%	-

12. Debtors

	2020 £000	2019 £000
Due after more than one year		
Deferred tax asset	**1,058**	855

Due within one year	**2020 £000**	2019 £000
Trade debtors	**4,027**	3,209
Amounts owed by group undertakings	**53,568**	40,721
Other debtors	**3,079**	2,623
Prepayments and accrued income	**4,340**	3,329
	65,014	49,882

13. Cash and cash equivalents

	2020 £000	2019 £000
Cash at bank and in hand	**12,437**	15,154

14. Creditors: Amounts falling due within one year

	2020 £000	2019 £000
Amounts owed to group undertakings	**1,013**	7,274
Corporation tax	**3,866**	385
Other taxation and social security	**480**	482
Other creditors	**375**	182
Accruals and deferred income	**12,497**	12,978
	18,231	21,121

15. Creditors: Amounts falling due after more than one year

	2020 £000	2019 £000
Accruals and deferred income	**2,347**	2,410

16. Financial instruments

The carrying value of trade and other debtors, trade and other creditors, loans and cash is a reasonable approximation of their fair value.

	2020 £000	2019 £000
Financial assets		
Financial assets measured at fair value through profit or loss	**5,022**	6,127

Financial assets measured at fair value through profit or loss comprise the Company's investment in M&G Prudential Guernsey PCC Limited (“Guernsey property cell”). The net assets of the Guernsey property cell are the Company's measure of fair value. The investment is classified as fair value through profit and loss according to the accounting policy to IFRS 9.

17. Deferred taxation

	Deferred tax £000
At 1 January 2020	**855**
Credited to profit or loss	**88**
Adjustment in respect of prior years	**115**
Charge in equity for the period	**-**
Charged to other comprehensive income	**-**
At 31 December 2020	**1,058**

Deferred tax assets are recognised to the extent that they are regarded as recoverable. On the assessment of all available evidence, the asset is recognised if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

On 3 March 2021, the UK Government announced a proposal to increase the rate of UK corporation tax from 19% to 25% with effect from 1 April 2023. Changes in tax laws and rates may affect recorded deferred tax assets and liabilities and our effective tax rate in the future. We expect that, in line with the rate increase proposed, there will be an increase to our effective tax rate for periods from 2023 onwards. The impact of this proposal on the Group's deferred tax assets and liabilities is not expected to be significant.

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 company did not recognise deferred income tax assets of £475,009 (2019: £425,008) in respect of losses amounting to £2,500,049 (2019: £2,500,049).

The deferred tax asset is made up as follows:

	2020 £000	2019 £000
Fixed assets	**68**	74
Share schemes	**51**	-
Pension	**7**	7
Provisions	**157**	131
Bonus	**183**	45
Long-term incentive plan	**415**	487
Holiday pay entitlement	**175**	111
	1,058	855

18. Provisions

	Investment management losses £000	Dilapidation provision £000	Project provision £000	Total £000
At 1 January 2020	**770**	**600**	**182**	**1,552**
Charged to profit or loss	**240**	**-**	**-**	**240**
Released	**530**	**(358)**		**172**
Utilised in year	**(714)**	**(242)**	**(182)**	**(1,138)**
At 31 December 2020	**826**	**-**	**-**	**826**

Investment management losses:
Provisions for losses suffered by investors in funds managed by the Company.

Dilapidation provision:
Provision for the cost of making good any changes made to the Company's UK premises on lease expiry in 2020. During the year, the provision was utilised and the remainder has been released.

Project provision:
Provision for costs related to implementation of a new IT system. The project was completed in 2020 therefore, the provision has been fully utilised.

19. Share capital

	2020 £000	2019 £000
Allotted, called up and fully paid		
1,000 ordinary shares of £1.00 each	**1**	1

20. Reserves

Foreign exchange reserve

The foreign exchange reserve comprises all foreign exchange differences arising since 1 January 2014 (the transition date to FRS 101) from the translation of foreign operations.

21. Share based payments

a) Description of the plans

The M&G Group operates various share-based payment schemes that award M&G plc shares to participants upon meeting the required vesting conditions. Details of those schemes are stated below:

Discretionary schemes:

Long-term Incentive Plan (LTIP)

Long-term incentive plans are long-term bonus schemes earned over three years, linked to business performance.

21. Share based payments (continued)

Group Deferred Bonus Plan (GDBP)

Under these plans, a participant's annual bonus is paid in the form of a share award that vests after three years. Other than the service condition, there are no other performance conditions associated with this plan.

Performance Share Plan (PSP)

The PSP is a conditional share plan: the shares awarded will ordinarily be released to participants after a predetermined period, usually three years, to the extent that performance conditions have been met. If performance conditions are not achieved in full, the unvested portion of any award lapses.

Deferred Incentive Plan (DIP)

Under these plans, part of the participant's Annual Bonus is paid in the form of a share award that vests after three or four years. Other than the service condition, there are no other performance conditions associated with this plan.

Approved schemes:

Save As You Earn (SAYE) plans

The Group operates Save-as-you-earn (SAYE) plans, which allow eligible employees the opportunity to save a monthly amount from their salaries, over either a three or five year period, which can be used to purchase shares in M&G plc at a predetermined price subject to the employee remains in employment for three years after the grant date of the options and that the employee satisfying the monthly savings requirement.

Share Incentive Plan (SIP)

In addition, to celebrate the demerger, all eligible employees were provided with M&G plc shares with a value of £2,000. The awards vest subject to the employee remaining in employment for 2 years.

All approved schemes are accounted for as equity-settled as the awards would be settled in M&G plc shares.

b) Outstanding options and awards

As at 31 December 2020 movements in outstanding options and awards under the Group's share-based compensation plans.

	Outstanding options under SAYE schemes	
	2020	**2019**
Outstanding as at 1 January	**670,458**	-
Granted	**801,727**	670,458
Exercised	**-**	-
Lapsed	**(408,893)**	-
Outstanding as at 31 December	**1,063,292**	670,458
Options immediately exercisable at 31 December	-	

21. Share based payments (continued)

The following table provides a summary of the range of exercise prices for the SAYE options. The awards under the other schemes do not have an exercise price:

Option price	Number outstanding 2020	Weighted average remaining contractual life (years) 2020	Weighted average exercise prices (£) 2020	Number exercisable 2020
£1 - £2	1,063,292	3.06	1.43	-

Option price	Number outstanding 2019	Weighted average remaining contractual life (years) 2019	Weighted average exercise prices (£) 2019	Number exercisable 2019
£1 - £2	670,458	3.47	1.84	-

c) Fair value of options and awards

The fair value of all awards, except for the LTIP TSR award and the SAYE options, is based on the M&G plc share price at the date of grant.

The determination of the fair value of the LTIP TSR award and the SAYE options requires the use of various assumptions which are disclosed below:

	Awards granted in 2020		Awards granted in 2019	
	PSP TSR	SAYE options	LTIP	SAYE options
Dividends yield (%)	-	11.14%	-	7.30%
Expected volatility (%)	45.00%	33.10%	22.50%	20.00%
Risk-free interest rate (%)	0.49%	0.13%	0.80%	0.80%
Expected option life (years)	-	3.65	-	3.68
Weighted average exercise price (£)	-	1.29	-	1.84
Weighted average share price at grant date (£)	1.09	1.61	2.18	2.44
Weighted average fair value at grant date (£)	0.15	0.21	0.21	0.33

The Group uses the Black-Scholes model to value the SAYE options whereas the TSR performance conditions are valued using a Monte-Carlo model. In determining the fair value of options granted the historic volatility of the share price of suitable peers and a risk-free rate determined by reference to swap rates was also considered.

21. Share based payments (continued)

d) Share-based payment expense charged to the income statement

Total expenses recognised in the year in the Group financial statements relating to share-based compensation is as follows:

	As at 31 December 2020	As at 31 December 2019
	£000	£000
Equity settled share-based payment expense	**103**	148

23. Related party transactions

The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with fellow wholly owned group companies and the exemption under paragraph 8(j) of FRS101 not to disclose key management personnel compensation and amounts incurred for the provision of key management personnel services by a separate management entity.

24. Immediate & ultimate parent company

The Company's immediate parent company is M&G FA Limited.

The Company is a subsidiary undertaking of M&G plc which is the ultimate parent company incorporated in England and Wales. Consolidated financial statements are prepared by M&G plc and copies of these are available to the public and may be obtained from the registered office at 10 Fenchurch Avenue, London, EC3M 5AG.