Registered No: 01508295

# PRUTEC LIMITED

## ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

**PRUTEC LIMITED**

Incorporated and registered in England and Wales. Registered No. 01508295

Registered office: 10 Fenchurch Avenue, London EC3M 5AG

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**Directors**

The directors in office during the year and up to the date of signing the accounts were as follows **:**

D W King

J M B Daniels (appointed on 1 February 2019 and resigned on 30 June 2019)

M D P Richardson (appointed on 4 March 2019)

**Secretary**

M&G Management Services Limited
10 Fenchurch Avenue
London, EC3M 5AG

**Auditor**

KPMG LLP
15 Canada Square
London E14 5GL

## Principal activity

The principal activity of Prutec Limited ('the Company') is investment in partnerships, venture capital funds and private equity funds. This activity is expected to continue in 2020.

## Business review

The Company invests in partnerships, venture capital funds, private equity funds and private equity transactions. These investments are funded by a loan arrangement with the parent company, The Prudential Assurance Company Limited ('PAC'). The Company primarily derives its income from the investment returns arising from the disposal and the revaluation of investments.

The Company is a wholly owned subsidiary of PAC, a wholly-owned subsidiary of M&G Group Regulated Entity Holding Company Limited, which is wholly-owned by M&G plc. The ownership of PAC changed from M&G plc to M&G Group Regulated Entity Holding Company Limited on 23 July 2020. M&G plc became the ultimate parent of the Company following a demerger from Prudential plc on 21 October 2019. M&G plc is a public limited company, limited by shares, incorporated and registered in England and Wales. The Group is an international financial services group, with significant operations in the United Kingdom and overseas. M&G plc was previously named M&G Prudential Limited. It registered as a public limited company M&G Prudential plc on 24 July 2019 and changed its name to M&G plc on 16 September 2019.

The Company continues to monitor the effects of the coronavirus (‘COVID-19’) outbreak which has been declared as a pandemic by the World Health Organization. COVID-19 has caused significant sickness and death globally. The outbreak has not only prompted widespread health concerns, but has caused recent deteriorations in global market conditions. The eventual outcome is highly uncertain and is largely dependent on how successful authorities are at containing and managing the outbreak.

In these difficult times, the Company has two clear priorities: the safety and well-being of colleagues and continuing to serve customers to the best of our abilities. Detailed business continuity plans have been invoked to ensure that the Company can operate as usual in the face of the challenge posed by the spread of COVID-19. The vast majority of colleagues are now working from home with access to the full set of support systems and necessary equipment to do their jobs and are able to satisfactorily serve customers.

The Company holds investments in limited partnerships and funds. The performance of these investments could be affected by the challenges arising from the COVID-19 pandemic resulting in a reduction in the fair value of the investments. The impact on the business environment could also result in delays in distributions by the underlying investments. This is also discussed in the post balance sheet event note in the Directors' report and note 16 to the financial statements.

| **Key Performance Indicators** | **2019** | 2018 | Change |
|---|---|---|---|
| | **£** | £ | % |
| Profit on ordinary activities before taxation | **154,364,335** | 64,929,913 | 137.7 |
| Closing Shareholders’ funds | **766,600,188** | 632,786,083 | 21.1 |

The Company has made a profit before tax of £154,364,335 (2018: £64,929,913). The increase in the profit on ordinary activities is mainly due to the increase of £37,703,896 in the foreign exchange gains and an increase of £55,420,489 in the net return on investments during the year. This increase in profits is partially offset by an increase of £4,870,939 of interest expenses. The interest of £26,315,527 (2018: £21,444,588) is payable to PAC on the loan drawdowns to fund the investments.

Section 172(1) Statement

Section 172 of the Act requires a director of a company to act in the way he or she considers, 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 their section 172 duties the directors have regard to the factors set out above. They also recognise the matters that they consider as a Board can often have unique characteristics. This can require them to consider 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 they consider will vary depending on the decision being taken across all the Board's decisions. The directors are mindful of the Company's purpose, strategic priorities and alignment with the Group's overarching culture, vision and values.

The Company's key stakeholders are its ultimate beneficial owner M&G plc, related M&G plc group entities and the stakeholder groups set out in M&G plc's Annual Report. The views and the 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 or on certain issues, the size and spread of both the Company's stakeholders and the Group means that other stakeholder engagement takes place at Group level. The directors find that as well as being a more efficient and effective approach, this also helps them achieve a greater positive impact on environmental, social and other issues than by working alone as an individual company.

During the period, the directors received information to help them understand the investment-related services performed by the Company's stakeholders, namely M&G Alternatives and Silverfleet plc and also gain a better understanding and oversight of the valuation controls in place.

**Principal Decisions**

Although the Company has limited business activities, the directors set out below, some examples of how they have had regard to the matters set out in section 172(1)(a)-(f) when discharging their section 172 duty and the effect of that on decisions taken by them. The directors define principal decisions as both those that are material to the Company, but also those that are significant to any of the key stakeholders. In making the following principal decisions the Board considered the need to maintain a reputation for high standards of business conduct:

***Principal Decision 1- Regular Update and Oversight of Investments***

Significant efforts have been made to improve governance and Board oversight within the Company, including regular engagement with the Alternatives team in relation to investment oversight, manager selection and asset allocation. The Board receives regular (quarterly or as required) updates from the Alternatives team who provide a periodic review of underlying investment programmes held within the Company. In addition to the regular performance updates, additional reporting around valuation and the valuation review process was also provided to the Board at its May 2020 meeting. The valuation process is governed by the M&G Group Valuation Governance Framework.

***Principal Decision 2- Engagement with key stakeholders and Valuation Process***

The Company's investments are advised/managed by M&G Alternatives and Silverfleet, who are the key stakeholders of the Company. As part of their operational due diligence ('ODD') process, the Alternatives team perform a review of the valuation process, pre-investment, to ensure the processes and governance controls around valuation are appropriate. On an ongoing basis, additional reviews are performed on the valuation controls and approach through periodic ODD. A review of the underlying Fund's audited financial statements is also conducted on an annual basis for each of the funds invested. A check is performed on the valuation of assets within the accounts to ensure there have not been any material valuation adjustments or anything notable which could have an impact on the value of an asset. An investment review of Silverfleet Q4 2018 valuations and annual financial statements was undertaken in 2019.

***Principal Decision 3- UK's Modern Slavery Act 2015 Annual Statement (the "MSA Statement")***

The Company takes a Group-wide approach when preparing and publishing the MSA Statement. For the 2019 financial year, details of what we have done and what we are doing to help us deliver on this commitment was published in the 'M&G plc Modern Slavery Transparency Statement 2019'. The MSA Statement reflects the steps taken during 2019 to ensure that slavery and human trafficking are not taking place in the Group's supply chain or business. The MSA Statement also highlights the work being undertaken by the procurement teams across the business as supported by relevant case studies.

Risks & uncertainties

The Company is a wholly owned subsidiary of PAC, a wholly-owned subsidiary of M&G Group Regulated Entity Holding Company Limited, which is wholly-owned by M&G plc . The Company is subject to the Group's internal control and risk management processes as detailed in the Group Governance Manual ('GGM') and 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. As such, they can only provide reasonable rather than absolute assurance against material misstatement or loss, and focus on optimising the levels of risk and reward within a clearly defined risk appetite, with the aim of achieving business objectives.

The RMF requires all businesses and functions within the Group, including the Company, to establish processes for identifying, evaluating and managing key risks. The risk management framework is based on the concept of three lines of defence: risk management, risk oversight and independent assurance.

The Company's results and financial condition are exposed to both financial and non-financial risks. The key risk factors, mentioned below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties.

Financial risk

The Company is exposed to financial risk through its financial assets and financial liabilities. The key financial risk factors affecting the Company are credit, liquidity and market. These financial risks and the management thereof are discussed in note 13.

Non-financial risk

The Company has limited exposure to business environment, strategic, operational and group risk.

a) Business environment risk

Changing economic, political, environmental and market conditions, as well as changing customer needs and expectations, could adversely impact the Company and have implications for the profitability of its business model. The key dimensions to business environment risk pertaining to the Company are economic, political, competition and environmental. The COVID-19 outbreak could have an impact on the environment the Company operates in. Consumers, businesses and governments are already counting the economic cost of the outbreak, necessitating governments across the world to intervene with rescue and stimulus packages at unprecedented levels. The virus could not only impact global growth in the short term, but could lead to a sustained period of economic stagnation. COVID-19 is therefore expected to affect the value of the investments held by the Company. The distributions from the underlying investments could be delayed and the realisations from them may decrease.

b) Strategic risk

Strategic risk is the risk of loss to the business or failure to maximize opportunity resulting from ineffective, inefficient development or implementation of business strategy. Whilst the creation of M&G plc presents a significant opportunity to leverage scale, financial strength and complimentary product and distribution capabilities, it also carries strategic risk in terms of overall availability of funding, resources and the wider impacts of an extensive change agenda. The Company's activities are limited in nature, however the impacts of the change agenda across the Group present risks to the Company and may divert resources from it if not managed appropriately.

c) Operational risk

Operational risk is the risk of financial and non-financial impacts resulting from inadequate or failed internal processes, or from personnel and systems.

The Company's primary exposure to operational risk arises from business processes, people capabilities, operation of systems and financial reporting activity. Specific examples of potential operational risk exposures include outsourcer and supplier risk, technology and security risk and people risk, including impacts from COVID-19. Business continuity and resilience plans have been implemented to mitigate the operational and other risk impacts from the pandemic.

d) Group risk

Group risk is defined as the risk that the financial position of a firm may be adversely affected by its relationships, financial or non-financial, with other firms in the same group or by risks which may affect the financial position of the whole group.

Being a member of the wider M&G plc Group can provide significant advantages for the Company in terms of diversification of risk, financial strength, technical expertise and management experience. It can also give rise to risks; for example, if a guarantee of financial support given by the parent were removed, or from particular transactions arising from an impaired affiliate within the Group. The independent capitalisation of the Company as well as the risk management processes and internal control processes within the Company ensure Group risk and potential conflicts of interest are appropriately managed.

Signed for and on behalf of Board of Directors of the Company

H Archbold
On behalf of M&G Management Services Limited
Company Secretary
25 September 2020

**PRUTEC LIMITED**
Incorporated and registered in England and Wales. Registered No: 01508295

**DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019**

## Introduction

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2019.

## Future Developments

Likely future developments in the business of the Company are discussed in the Strategic Report in accordance with section 414C of the Companies Act 2006 (the Act).

## Ultimate Parent Company

The Company is a wholly owned subsidiary of M&G plc. M&G plc became the ultimate parent of the Company following a demerger from Prudential plc on 21 October 2019. M&G plc is a public limited company, limited by shares, incorporated and registered in England and Wales and the parent company of the M&G plc group ('the Group').

## Corporate responsibility

The Company is a wholly owned subsidiary within M&G plc and Corporate Responsibility ('CR') is integral to the way the Group does business.

The Group, of which the Company is a part, has developed a Group Governance Framework which is underpinned by a Group Governance Manual and associated processes. This encompasses all key policies and procedures.

As a savings and investment business with roots stretching back more than 170 years, the Group has a proud heritage of making a difference and creating positive long lasting impact. The Group believes it is important to be active and engaged to make its business and society stronger and more resilient. The Group aspires to ensure its investment has a sustainable benefit for its communities, its customers and its business.

The Group establishes long-term relationships with its charity partners on local, national and international programmes to improve lives and build communities and provide support not only through funding, but also with the experience and expertise of its colleagues.

The Group ensures that the projects it supports are sustainable, and it works closely with its partners to ensure that the programmes continuously improve.

The Group has three principal themes:

1. Urban regeneration - investing in essential needs for communities to thrive
2. Economic empowerment - equipping people with the tools they need to be financially secure
3. Skills and education - providing opportunities to prepare communities for future prosperity

### Governance

The Group has established an operating model for CR across M&G plc which provides guidance to support each office and market to manage charitable activities within the framework of a consistent, business-wide approach.

A CR Governance Committee is in place, with senior management representation, which oversees community investment activity and agrees strategy and spend. The Group Executive Committee and the Board review the CR strategy and performance on an annual basis.

The M&G plc CR team manages activities across the business: devising community investment initiatives, measuring impact and spend, tracking performance against annual competitor benchmarking, as well as refining issues of key social importance to the business and determining where the business can have the greatest social impact.

Accounts

The state of affairs of the Company at 31 December 2019 is shown in the statement of financial position on page 13. The statement of comprehensive income appears on page 12.

Share capital

There have been no changes to the Company's share capital during the year.

Post Balance sheet events

COVID-19 outbreak

The Company continues to monitor the effects of the coronavirus ('COVID-19') outbreak which has been declared as a pandemic by the World Health Organization. The outbreak has not only prompted widespread health concerns, but has caused recent deteriorations in global market conditions. The eventual outcome is highly uncertain and is largely dependent on how successful authorities are at containing and managing the outbreak.

COVID-19 is expected to have an impact on the financial performance over 2020. The Company holds investments in limited partnerships and funds. The performance of these investments could be affected by the challenges arising from the COVID-19 pandemic resulting in a reduction in the fair value of the investments. The impact on the business environment could also result in delays in distributions by the underlying investments.

There have been no other significant events affecting the Company since the balance sheet date.

Going concern assessment

On the basis of the assessment conducted and which is explained in the basis of preparation section of the notes to account, the directors have approved the prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations. 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.

Dividends

No dividends were declared and paid during the year. (2018: Nil).

Directors

The directors holding office during the year are shown on page 1.

M D P Richardson was appointed as a director of the Company on 4 March 2019. J M B Daniels was appointed as a director of the Company on 1 February 2019 and resigned on 30 June 2019.

There were no further changes during the year and up to the date of approving this report.

Stakeholder relationships and engagement

For details of the Company's engagement with its stakeholders please see the Section 172 Statement on pages 3-4. The ultimate parent company being M&G plc stakeholder engagement also takes place at a Group level.

## Financial risk management objectives, policies and exposure

The Company is exposed to financial risk through its financial assets and financial liabilities. The financial risk factors affecting the Company include credit risk, liquidity risk and market risk. Information on the financial risk management objectives, policies of the Company and the exposure of the Company to the financial risk factors is given in note 13.

## Disclosure 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 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 Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

## Auditor

In accordance with Section 487(2) of the Companies Act 2006, KPMG LLP will be deemed to be re-appointed auditor of the Company for the current financial year.

## Directors' and officers' protection

M&G plc has arranged appropriate insurance cover in respect of legal action against directors and senior managers of companies within the M&G plc group. In addition, the Articles of Association of the Company permit the directors, officers and employees of the Company to be indemnified in respect of liabilities incurred as a result of their office. M&G plc also provides protections for directors and senior managers of companies within the Group against personal financial exposure they may incur in their capacity. These include qualifying third party indemnity provisions (as defined by the relevant Companies Act) for the benefit of directors of M&G plc, including, where applicable, in their capacity as a director of the Company and other companies within the Group. These indemnities were in force during 2019 and remain in force.

Signed for and on behalf of Board of Directors of the Company

H Archbold

On behalf of M&G Management Services Limited
Company Secretary
10 Fenchurch Avenue
London EC3M 5AG
25 September 2020

## STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

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 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.

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.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PRUTEC LIMITED

We have audited the financial statements of Prutec Limited ("the company") for the year ended 31 December 2019 which comprise the Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Financial Position 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 company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK 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 the FRC Ethical Standard. 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").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the 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. We have nothing to report in these respects.

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

### Strategic Report and director's 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 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 our audit.

We have nothing to report in these respects.

**Directors' responsibilities**

As explained more fully in their statement set out on page 9, 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.

**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.

**Peter Crabb (Senior Statutory Auditor)**
**for and on behalf of KPMG LLP, Statutory Auditor**
*Chartered Accountants*
15 Canada Square
London E14 5GL
25 September 2020

**PRUTEC LIMITED**

**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019**

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | £ | £ |
| Net gain from financial assets held at fair value through profit or loss | | **164,565,613** | 109,145,123 |
| Operating expenses | 4 | **(4,982,402)** | (6,165,377) |
| **Operating profit** | | **159,583,211** | 102,979,746 |
| Interest receivable | | **4,462** | 6,462 |
| Interest payable | | **(26,315,527)** | (21,444,588) |
| Foreign exchange gain/(loss) | | **21,092,189** | (16,611,707) |
| Profit on ordinary activities for the year before taxation | | **154,364,335** | 64,929,913 |
| Tax charge | 5 | **(20,550,230)** | (2,065,067) |
| **Profit for the financial year after taxation** | | **133,814,105** | 62,864,846 |

All of the amounts above are in respect of continuing operations.

The accounting policies and notes on pages 15 to 18 along with accompanying notes on pages 18 to 27 form an integral part of these financial statements.

## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | **£** | £ |
| **Fixed assets** | | | |
| Investments | 6 | **1,230,139,935** | 1,099,922,535 |
| **Current assets** | | | |
| Cash at bank and in hand | 7 | **4,765,645** | 7,277,198 |
| Trade and other debtors | 8 | **—** | 4,006 |
| | | **4,765,645** | 7,281,204 |
| **Current liabilities** | | | |
| Trade and other creditors : amounts falling due within one year | 9 | **(32,874,245)** | (82,462,394) |
| Corporation tax payable | | **(8,276,020)** | (2,057,307) |
| | | **(41,150,265)** | (84,519,701) |
| **Net current liabilities** | | **(36,384,620)** | (77,238,497) |
| **Total assets less current liabilities** | | **1,193,755,315** | 1,022,684,038 |
| Creditors : amounts falling due after one year | 10 | **(427,155,127)** | (389,897,955) |
| **Net assets** | | **766,600,188** | 632,786,083 |
| **Capital and reserves** | | | |
| Share capital | 11 | **28,000,000** | 28,000,000 |
| Profit and loss account | | **738,600,188** | 604,786,083 |
| **Shareholders' funds** | | **766,600,188** | 632,786,083 |

The accounting policies on pages 15 to 18 along with the accompanying notes on pages 18 to 27 form an integral part of these financial statements.

The accounts were approved by the board of directors on 25 September 2020.

D.W King

D W King
Director

## STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2019

| | Share Capital | Profit and Loss Account | Total Equity |
|---|---|---|---|
| | £ | £ | £ |
| Balance at 1 January 2018 | 28,000,000 | 541,921,237 | 569,921,237 |
| Total comprehensive profit/(loss) for the year | | | |
| Profit for the year | — | 62,864,846 | 62,864,846 |
| Balance at 31 December 2018 | 28,000,000 | 604,786,083 | 632,786,083 |
| **Balance at 1 January 2019** | **28,000,000** | **604,786,083** | **632,786,083** |
| **Total comprehensive profit/(loss) for the year** | | | |
| Profit for the year | **—** | **133,814,105** | **133,814,105** |
| **Balance at 31 December 2019** | **28,000,000** | **738,600,188** | **766,600,188** |

The accounting policies on pages 15 to 18 along with the accompanying notes on pages 18 to 27 form an integral part of these financial statements.

## 1. Accounting policies

### A. Company information

Prutec Limited is a private limited company incorporated and domiciled in England and Wales. The address of its registered office is 10 Fenchurch Avenue, London EC3M 5AG.

### B. Basis of preparation

The financial statements have been prepared in accordance with FRS 101, Part 15 of the Companies Act 2006 and Schedule 1 of The Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008.

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-adopted IFRSs"), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

IFRS 16 *Leases* ('IFRS 16') introduces a single model for all leases, eliminating the distinction in accounting treatment between operating and finance leases for lessees. This standard is effective from 1 January 2019 and replaces IAS 17 *Leases* ('IAS 17'). The adoption of the standard does not have any impact on the financial statements of the Company as the Company does not have any lease agreements.

There were no other significant accounting pronouncements taking effect from 1 January 2019.

The Company's ultimate parent undertaking, M&G plc, includes the Company in its consolidated financial statements. The consolidated financial statements of M&G plc are prepared in accordance with EU-adopted IFRS and are available to the public and may be obtained from the Company Secretary, 10 Fenchurch Avenue, London, England, EC3M 5AG.

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

- Cash flow statement and related notes;
- Disclosures in respect of transactions with wholly owned subsidiaries within the Group;
- Disclosures in respect of the compensation of key management personnel;
- Comparative period reconciliations for share capital
- The effect of new but not effective IFRSs;
- Disclosures in respect of revenue from contracts with customers.

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

The directors have a reasonable expectation that the Company will be able to continue in operational existence for at least 12 months from the date of signing of the financial statements and thus continue to adopt the going concern basis of accounting in preparing the financial statements. This conclusion has been based upon the following: the Company is a subsidiary within the M&G plc Group and its parent company and the ultimate parent company are continuing to trade and there are no plans for liquidation. The Company's assets are predominantly fixed asset investments, and as a result the Company has net current liabilities. The Directors have therefore obtained a letter of support from the parent company that states it will provide the necessary financial support to allow the Company to pay its liabilities as and when they fall due, in case the Company is unable to. The loan from the parent company is not repayable until sufficient cash resources are available within the Company, either from its reserves or distributions from investments. The Company does not have any external debt.

Consideration has also been given to the Company's performance, the market in which it operates, its strategy and risks and uncertainties, as set out in the Strategic Report on page 2. The key method for assessing going concern is through the business planning process which considers profitability, liquidity and solvency. The Company's underlying portfolio of investments are diversified as they are split across a number of sectors and operate in a number of different geographic regions, which should mitigate the risk of severe or prolonged investment losses. The Company's cash outflow of funding undrawn commitments, tax liabilities and minor sundry expenses will be met in order through existing cash balances, receipt of distributions from maturing investments and drawdowns from the loan facility. The business planning process considers the 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.

These plans have been updated to take into consideration the current information available in respect of the coronavirus ('COVID-19') outbreak, acknowledging that information in respect of the outbreak and its outcome are highly uncertain. Detailed business continuity plans have been invoked to ensure that the Company can operate as usual in the face of the challenge posed by the spread of COVID-19. The vast majority of colleagues are now working from home with access to the full set of support systems and necessary equipment to do their jobs and are able to satisfactorily serve customers.

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 2019.

### C. Functional and presentation currency

These financial statements are presented in Pound Sterling (£), which is the Company's functional and presentation currency.

### D. Financial instruments - recognition and measurement

*Recognition and initial measurement*

A financial asset is initially measured at fair value plus, for a financial asset not measured at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

*Classification and subsequent measurement*

On initial recognition, a financial asset is classified and measured at either amortised cost or fair value through profit or loss ('FVTPL').

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- 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.

All financial assets that do not meet the criteria for being measured at amortised cost, as described above, are measured at FVTPL. This includes assets that are held for trading or are part of a portfolio that is managed on a fair value basis.

Financial assets are not reclassified subsequent to their initial recognition unless the entity 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.

Financial assets at FVTPL 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 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 de-recognition is recognised in profit or loss.

**Financial liabilities**

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

## E. Financial instruments - Impairment

**Financial assets impairment**

Impairment is recognised on financial assets measured at amortised cost based on expected credit losses ('ECL').

ECLs 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 entity expects to receive).

The impact of any collateral and financial guarantees is taken into account when determining ECL.

ECLs are discounted at the effective interest rate of the financial asset.

A financial instrument is considered to have low credit risk when it has an external credit rating of 'investment grade'. The entity has determined that the cash balances and deposits with credit institutions are considered to have low credit risk and therefore impairment is based on a 12 month ECL for these assets.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs, where material.

## F. Revenue recognition

Revenue includes investment income and gain/loss on revaluation of investments during the year, which is based on fair value movements within the investments balance.

## G. Operating expenses

Operating expenses are fund related expenses and are recognised on an accruals basis.

## H. Foreign currency

Foreign currency monetary assets and liabilities falling due within one year are translated at the rates of exchange ruling at the year-end date. Revenue items and long term investment transactions are translated at the rates of exchange ruling on the transaction dates. Differences on exchange are included in other income/expenses as part of the profit and loss account.

## I. 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 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.

**2. Critical accounting estimates and judgements**

In preparing the financial statements, the Company makes estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Estimates and judgements are continually evaluated and are based on management's experience and their expectations of future events. As management's judgement involves an estimate of the likelihood of future events, actual results could differ from those estimates which could affect the future reported amounts of assets and liabilities. The estimates and judgements that have had the most significant effect on the amounts recognised in the Company's financial statements are set out below:

**A. Assessment as a financial institution**

The directors believe the Company meets the definition of a financial institution as the Company's principal activity is investment in partnerships, venture capital funds and private equity funds.

As the Company meets the definition of a financial institution it is not exempt from the disclosure requirements of IFRS 7 Financial Instruments: Disclosures, IFRS 13 Fair Value Measurement to the extent that they apply to financial instruments, and paragraphs 134 to 136 of IAS 1 Presentation of Financial Statements.

**B. Investments held at fair value through profit and loss**

The fair value of investments is determined by using appropriate valuation techniques and methodologies. Please refer to note 1 for further details on the recognition and measurements of these assets. Management also makes estimates and assumptions concerning the future and the resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are outlined in notes 12 and 13.

**3. Administrative expenses**

Directors' remuneration in respect of the Company was £10,000 (2018: Nil). This remuneration was borne by another group undertaking. The Company's directors perform services for other Group companies. These costs are not included in the amounts charged to the Company as shown above. Emoluments are reported for directors who are deemed to work for the Company i.e. provide qualifying services in accordance with Schedule 5 of the Regulations. An assessment has been made of the proportion of each director's time that relates to this Company, and the emoluments reported above reflect this.

Both directors received shares under long-term incentive schemes in both 2019 and 2018, and no director exercised share options in either 2019 or 2018. No director (2018: none) was entitled to retirement funds under a defined contribution pension scheme.

The Company has no employees (2018: Nil).

The auditor's remuneration for audit services for the year of £28,150 (2018: £28,000) was borne by another group company. No non-audit services were provided by the auditor in 2019 or 2018.

**NOTES ON THE FINANCIAL STATEMENTS (continued)**

### 4. Operating expenses

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Management fees | **4,504,409** | 6,087,249 |
| Other expenses | **477,993** | 78,128 |
| | **4,982,402** | 6,165,377 |

### 5. Taxation

#### a) Recognised in the profit and loss account

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| **Current tax :** | | |
| Current tax on profit for the year | **20,378,355** | 2,947,688 |
| Adjustments in respect of prior years | **171,875** | (882,621) |
| Current tax charge in the period | **20,550,230** | 2,065,067 |
| Total tax charged to the profit and loss account | **20,550,230** | 2,065,067 |

#### b) Reconciliation of effective tax rate

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Profit on ordinary activities before tax | **154,364,335** | 64,929,913 |
| Tax on profit at standard UK tax rate of 19% (2018 : 19%) | **29,329,223** | 12,336,684 |
| Effects of: | | |
| Gains on investments qualifying for substantial shareholder exemption | **(7,530,992)** | (6,318,950) |
| Adjustment in respect of prior years | **171,875** | (882,621) |
| Dividend income not taxable | **(1,419,855)** | (3,070,017) |
| Other | **(21)** | (29) |
| Total tax charge for the year | **20,550,230** | 2,065,067 |

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 11th 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 will no longer take place.

**NOTES ON THE FINANCIAL STATEMENTS (continued)**

## 6. Investments

| | Cost | Revaluation | Fair Value |
|---|---|---|---|
| | £ | £ | £ |
| At 1 January 2019 | 929,346,123 | 170,576,412 | 1,099,922,535 |
| Capital & loan contributions | 174,505,713 | — | 174,505,713 |
| Distributions | (172,663,279) | — | (172,663,279) |
| Movement in fair value | (50,472,144) | 178,847,110 | 128,374,966 |
| At 31 December 2019 | **880,716,413** | **349,423,522** | **1,230,139,935** |
| At 31 December 2018 | 929,346,123 | 170,576,412 | 1,099,922,535 |

## 7. Cash at bank

Under the terms of the Company's arrangements with the M&G plc Group's main UK banker, the bank has a right of set-off between credit balances and all overdrawn balances of those Group companies with similar arrangements.

## 8. Trade and other debtors

| | 2,019 | 2,018 |
|---|---|---|
| | £ | £ |
| **Amounts falling due within one year:** | | |
| Other debtors | — | 4,006 |
| | — | 4,006 |

## 9. Trade and other creditors: amounts falling due within one year

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Amounts owed to group undertakings | **(31,795,295)** | (81,492,001) |
| Accrual for general fees payable | **(1,078,950)** | (970,393) |
| | **(32,874,245)** | (82,462,394) |

Amounts owed to group undertakings represent a loan received from The Prudential Assurance Company Limited ('PAC'). The interest is accrued on a daily basis at a fixed rate of 4% plus a floating rate of 12 month LIBOR or another currency specific bank rate. The loan is unsecured and has no fixed maturity date. It is repayable when sufficient cash resources are available within the Company, either from its reserves or distributions from investments. Of the total loan balance for 2019 of £(458,950,422), an amount of £(31,795,295) has been classified as current as this amount has been repaid since the end of the reporting period.

## 10. Creditors: amounts falling due after one year

Creditors due after one year represent a loan received from PAC. The interest is accrued on a daily basis at a fixed rate of 4% plus a floating rate of 12 month LIBOR or another currency specific bank rate. The loan is unsecured and has no fixed maturity date. It is repayable when sufficient cash resources are available within the Company, either from its reserves or distributions from investments.

## 11. Share capital

| | **2019** | 2018 |
|---|---|---|
| Authorised, allotted, issued and fully paid: | **£** | £ |
| 28 million ordinary shares of £1 each | **28,000,000** | 28,000,000 |

## 12. Financial assets and financial liabilities

### A. Financial assets and financial liabilities - classification and measurement

For financial investments the basis of valuation reflects the Company's application of IFRS 9 *Financial Instruments* . Financial assets and financial liabilities are measured at either fair value through profit or loss or amortised cost.

Where financial assets and financial liabilities have been valued at fair value or measured on a different basis but fair value is disclosed, the Company has followed the principles of IFRS 13 '*Fair Value Measurement*'. The basis applied is summarised below.

| **2019** | **Fair value through profit and loss** | **Amortised Cost** | **Total carrying value** | **Fair value** |
|---|---|---|---|---|
| Investments | **1,230,139,935** | **—** | **1,230,139,935** | **1,230,139,935** |
| Cash at bank and in hand | **—** | **4,765,645** | **4,765,645** | **4,765,645** |
| **Total financial assets** | **1,230,139,935** | **4,765,645** | **1,234,905,580** | **1,234,905,580** |

| | **Fair value through profit or loss** | **Amortised cost** | **Total carrying value** | **Fair value** |
|---|---|---|---|---|
| Trade and other creditors | **—** | **(460,029,372)** | **(460,029,372)** | **(460,029,372)** |
| **Total financial liabilities** | **—** | **(460,029,372)** | **(460,029,372)** | **(460,029,372)** |

| 2018 | Fair value through profit and loss | Amortised Cost | Total carrying value | Fair value |
|---|---|---|---|---|
| Investments | 1,099,922,535 | — | 1,099,922,535 | 1,099,922,535 |
| Cash at bank and in hand | — | 7,277,198 | 7,277,198 | 7,277,198 |
| Trade and other debtors | — | 4,006 | 4,006 | 4,006 |
| Total financial assets | 1,099,922,535 | 7,281,204 | 1,107,203,739 | 1,107,203,739 |

| | Fair value through profit or loss | Amortised Cost | Total carrying value | Fair value |
|---|---|---|---|---|
| Trade and other creditors | — | (472,360,349) | (472,360,349) | (472,360,349) |
| Total financial liabilities | — | (472,360,349) | (472,360,349) | (472,360,349) |

**Fair value measurement hierarchy of financial assets and financial liabilities**

**Financial assets and financial liabilities carried at fair value on the balance sheet:**

The Company classifies for disclosure purposes fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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 assets or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Company. The Company considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

All of the Company's investments trade infrequently and are classified as level 3 (2018: all investments classified as level 3). Level 3 instruments include unlisted investments in partnerships, venture capital funds and private equity funds. As observable prices are not available for these securities, the Company has used valuation techniques to derive the fair value.

The Company's investments are valued at the latest available net asset value of investee funds (inclusive of carried interest allocation), as ascertained from the periodic (usually quarterly) valuations provided by the general partners or managers of such funds. The underlying investee companies' valuations are necessarily dependent on the reasonable exercise of judgement by the managers in valuing the underlying investee companies and the methodologies applied are in line with the International Private Equity and Venture Capital Valuation 2018 Guidelines.

**B. Significant unobservable inputs used in measuring fair value**

The table below sets out information about significant unobservable inputs used at 31 December 2019 in measuring financial instruments categorised as level 3 in the fair value hierarchy.

| Description | Fair value at 31 December 2019<br>£ | Valuation Technique | Unobservable Inputs | Sensitivity to changes in significant unobservable inputs |
|---|---|---|---|---|
| Investments | 1,230,139,935 | **NAV adjusted for carried interest** | **NAV** | **See note below** |

The key inputs of investments are the NAV and carried interest as determined by the general partner of the funds. This NAV is subject to changes in the valuations of the underlying portfolio companies. These can be exposed to a number of risks, including liquidity risk, price risk, credit risk and interest rate risk. A movement of 10% in the value of Fund Investments would move the NAV at the year-end by 10%.

**Reconciliation of movements in level 3 financial instruments measured at fair value**

The following table reconciles the value of level 3 financial instruments at 1 January 2019 to that presented at 31 December 2019.

| | **As at 1 Jan 2019** | **Additions** | **Disposals** | **Revaluation** | **As at 31 Dec 2019** |
|---|---|---|---|---|---|
| Investments | 1,099,922,535 | **174,505,713** | **(172,663,279)** | **128,374,966** | **1,230,139,935** |

### C. Financial assets and financial liabilities not measured at fair value

Financial assets including cash at bank and financial liabilities including trade and other creditors and the loan from a group company are not measured at fair value. The carrying amount of these financial assets and financial liabilities approximates their fair value.

## 13. Financial risk management

The Company's underlying investment portfolio comprises of investments in partnerships, venture capital funds, private equity funds and private equity transactions which constitute the Fund Investments. The Group actively manages the investments held and realises investments as opportunities arise.

The Group's overall risk management programme seeks to maximise the returns derived for the level of risk to which the Group is exposed and seeks to minimise potential adverse effects on the Group's financial performance. Accordingly, investments made by the Group potentially carry a significant level of risk. There can be no assurance that the Group's objectives will be achieved or that there will be a return of capital invested.

The management of financial risks is carried out by Group and is subject to the Group's internal control and risk management processes as detailed in the GGM and RMF. The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk including price risk, foreign currency risk and interest rate risk.

The Company considers that it is not exposed to any significant concentration of risks. The Company has a diversified underlying portfolio of investments in Fund Investments. The underlying investments are further diversified as they are split across a number of sectors and operate in a number of different geographic regions. The Company may invest, directly or indirectly, a significant portion of its assets in securities of smaller, less established or newly incorporated companies.

Investments in such companies may involve greater risks than are generally associated with investments in more established companies. Less established companies tend to have lower capitalisation and fewer resources and, therefore, are often more vulnerable to financial failure. Such companies may also have short operating histories on which to assess future performance.

### A. Credit risk

Credit risk is the risk of loss or adverse change in the Company's financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors in the form of default, or other significant credit event (e.g. downgrades or spread widening).

This risk arises principally from the Company's investment in cash and cash equivalents. The Company limits its credit risk exposure in cash and cash equivalents by depositing cash only with adequately rated institutions, with significant balances invested in liquidity funds of suitably credit rated banking institutions.

The Company monitors the credit risk exposure on other receivables on a regular basis.

Impairment methodology

The impairment allowance calculation is based on the Group's counterparty default risk calibration used for Solvency II. The counterparty default risk uses a default state model and a recovery rate model which is run through 1 million scenarios to generate a probability distribution of losses.

This produces a loss rate reflecting the default losses as a percentage of exposure for various stresses over a 12 month period. These rates have been applied to the balances as at 31 December 2019 to derive the ECL.

The impact of collateral and financial guarantees has been considered, where relevant, in the determination of ECL.

The entity held cash balances of £4,765,645 at 31 December 2019 (2018: £7,277,198). These balances are held with bank and financial institution counterparties, and are considered to have low credit risk.

A 12-month ECL has been calculated in respect of these balances. This reflects the short maturities of the exposures. The entity considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

**B. Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's obligation requirements are met through a combination of liquidity from the sale of investments and the use of cash resources. The Company's Fund Investments are not readily realisable except in a secondary market, potentially at a discounted price. In addition, the timing and quantum of Fund Investment distributions and capital calls on the remaining undrawn commitments are difficult to predict.

The Company's financial liabilities had no stated maturity at 31 December 2019 or at 31 December 2018 based on contractual undiscounted repayment obligations. The contractual maturities of Fund Investments in the next 12 months are based on the estimated aggregate amounts these funds are expected to call within a financial year.

At 31 December 2019, the Company had undrawn commitments of £367,203,500 (2018: £565,197,598). As per note 10 above, the Company also has access to a loan from PAC. The Company may utilise this facility to pay for any calls and ensure that it can realise the investments at the best price available.

This risk is managed through careful management of bank balances. The investments made by the Company are specifically funded by the loan taken from PAC.

**C. Market risk**

Market risk is the risk that changes in market prices such as foreign currency exchange rates, interest rates and equity prices will affect the Company's income or the value of its investments. The Company aims to manage this risk within acceptable parameters while optimising the return.

**(i) Price risk**

The Company is not directly exposed to price risk as only private entities are held. Fair value is not derived from market price, nonetheless broader investment market direction where various factors such as the state of the global economy or global political developments can indirectly impact private equity fair values; as such, comparable companies' multiple metrics are used as an input to valuation models. In the period ended 31 December 2019, the main drivers in influencing comparable companies prices were economic growth warnings in emerging markets and a significant fall in energy prices affecting the price of listed companies comparable to the Company's underlying investments. The Company has no quantifiable price risk exposure, but private equity valuations tend to correlate the broader market direction in the short term when earnings growth is slow.

**(ii) Currency risk**

The Company is exposed to currency risk on those investments which are denominated in a currency other than the Company's functional currency, which is Pound Sterling. The investments of £1,230,139,935 are funded by loans of £458,950,422 taken in matching currencies. The Company regards its exposure to exchange rate movement on the underlying investments as part of its overall investment return and does not seek to mitigate that risk through the use of financial derivatives.

**NOTES ON THE FINANCIAL STATEMENTS (continued)**

The Company's exposure to currency risk from investments on a fair value basis is as follows:

| | **2019** | 2018 |
|---|---|---|
| | **£** | £ |
| US Dollar | **93,601,192** | 83,986,758 |
| Euro | **1,132,318,462** | 1,009,796,147 |
| Japanese Yen | **306,879** | 372,199 |

The Company's exposure to currency risk from trade and other creditors is as follows:

| | **2019** | 2018 |
|---|---|---|
| | **£** | £ |
| US Dollar | **(282,063,479)** | (269,361,966) |
| Euro | **(159,421,132)** | (193,553,009) |
| Japanese Yen | **7,997,755** | 13,545,618 |

Other than investments and the related loans taken to fund these investments, the Company's assets and liabilities are primarily denominated in Pound Sterling.

The Company's sensitivity to changes in foreign exchange movements on investments held at 31 December is summarised below.

| **2019** | **Base case** | **Base case (+10%)** | **Base case (-10%)** |
|---|---|---|---|
| | **£** | **£** | **£** |
| US Dollar | **93,601,192** | **85,091,993** | **104,001,325** |
| Euro | **1,132,318,462** | **1,029,380,420** | **1,258,131,624** |
| Japanese Yen | **306,879** | **278,981** | **340,976** |
| 2018 | Base case | Base case (+10%) | Base case (-10%) |
| | £ | £ | £ |
| US Dollar | 83,986,758 | 76,351,598 | 93,318,620 |
| Euro | 1,009,796,147 | 917,996,497 | 1,121,995,718 |
| Japanese Yen | 372,199 | 338,362 | 413,554 |

The Company's sensitivity to changes in foreign exchange movements on trade and other creditors as on 31 December is summarised below.

| **2019** | **Base case** | **Base case (+10%)** | **Base case (-10%)** |
|---|---|---|---|
| | **£** | **£** | **£** |
| US Dollar | **(282,063,479)** | **(256,421,344)** | **(313,403,865)** |
| Euro | **(159,421,132)** | **(144,928,301)** | **(177,134,591)** |
| Japanese Yen | **7,997,755** | **7,270,686** | **8,886,394** |

| 2018 | Base case | Base case (+10%) | Base case (-10%) |
|---|---|---|---|
| | £ | £ | £ |
| US Dollar | (269,361,966) | (244,874,514) | (299,291,073) |
| Euro | (193,553,009) | (175,957,281) | (215,058,899) |
| Japanese Yen | 13,545,618 | 12,314,198 | 15,050,687 |

**(iii) Interest rate risk**

Interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on financial assets and financial liabilities and future cash flows. The Company holds loans payable and cash and cash equivalents that expose the Company to cash flow interest rate risk. The interest rate is partly fixed and partly based on LIBOR which is variable. The Company's exposure to interest rate risk arises from financial assets valued at £4,765,645 (2018: £7,277,198) and financial liabilities valued at £(458,950,422) (2018: £471,389,956).

The following table shows an analysis of the classes of financial assets and financial liabilities and their direct exposure to interest rate risk. Each applicable class of the Company's assets or liabilities are analysed between those exposed to fair value interest rate risk, cash flow interest rate risk and those with no direct interest rate risk exposure.

| **2019** | **Fair value interest rate risk** | **Cash flow interest rate risk** | **Not directly exposed to interest rate risk** | **Total** |
|---|---|---|---|---|
| | **£** | **£** | **£** | **£** |
| **Financial Assets** | | | | |
| Investments | **—** | **—** | **1,230,139,935** | **1,230,139,935** |
| Cash at bank | **—** | **4,765,645** | **—** | **4,765,645** |
| | **—** | **4,765,645** | **1,230,139,935** | **1,234,905,580** |
| **Financial Liabilities** | | | | |
| Trade and other creditors | **—** | **(4,035,398)** | **(1,078,950)** | **(5,114,348)** |
| Loan from group company | **—** | **(454,915,024)** | **—** | **(454,915,024)** |
| | **—** | **(458,950,422)** | **(1,078,950)** | **(460,029,372)** |

| 2018 | Fair value interest rate risk | Cash flow interest rate risk | Not directly exposed to interest rate risk | Total |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| **Financial Assets** | | | | |
| Investments | — | — | 1,099,922,535 | 1,099,922,535 |
| Cash at bank | — | 7,277,198 | — | 7,277,198 |
| Trade and other debtors | — | — | 4,006 | 4,006 |
| | — | 7,277,198 | 1,099,926,541 | 1,107,203,739 |
| **Financial Liabilities** | | | | |
| Trade and other creditors | — | (81,492,001) | (970,393) | (82,462,394) |
| Loan from group company | — | (389,897,955) | — | (389,897,955) |
| | — | (471,389,956) | (970,393) | (472,360,349) |

If interest rates had been 10 basis points lower at 31 December 2019, with all other variables held constant, pre-tax profit for the year would have been £462,384 (2018: £423,213) higher, arising mainly as a result of lower interest expense on variable borrowings. If interest rates at that date had been 10 basis points higher with all other variables held constant, pre-tax profit for the year would have been £462,453 (2018: £423,276) lower, arising mainly as a result of higher interest expense on variable borrowings.

## 14. Capital management

The Company's total capital at 31 December 2019 was £766,600,188 (2018: £632,786,083) comprising equity share capital and reserves. The Company had no borrowings outside the Group (2018: Nil).

The investments of the Company are managed by third party administrators and the capital requirement to fund these investments are managed by these counterparties. The directors monitor and review the structure of the Company's capital on an ongoing basis to decide the possible timing and extent of returning capital to shareholders.

## 15. Immediate and ultimate parent company

The immediate parent company is The Prudential Assurance Company Limited and copies of its accounts are available from the Company Secretary, 10 Fenchurch Avenue, London EC3M 5AG. The ultimate parent company is M&G plc which is the only parent company which prepares Group accounts, copies of which can be obtained from the Company Secretary, 10 Fenchurch Avenue, London, EC3M 5AG.

## 16. Post Balance sheet events

The Company continues to monitor the effects of the coronavirus ("COVID-19") outbreak which has been declared as a pandemic by the World Health Organization. The outbreak has not only prompted widespread health concerns, but has caused recent deteriorations in global market conditions. The eventual outcome is highly uncertain and is largely dependent on how successful authorities are at containing and managing the outbreak.

COVID-19 is expected to have an impact on the financial performance over 2020. The Company holds investments in limited partnerships and funds. The performance of these investments could be affected by the challenges arising from the COVID-19 pandemic resulting in a reduction in the fair value of the investments. The impact on the business environment could also result in delays in distributions by the underlying investments.

There have been no other significant events affecting the Company since the balance sheet date.