

Legal & General Resources Limited
Report and Accounts
Year ended 31 December 2018

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Strategic Report

Principal activities

Legal & General Resources Limited ('the Company') is a wholly owned subsidiary of Legal & General Group Plc ('The Group' or 'The Parent Company'), which is also its ultimate parent company. The principal activities of the Company are the provision of staff to companies within the Group, acting on behalf of the Group as a contracting company with third party suppliers and as the sponsoring company for the Group's two defined benefit pension schemes and Employee Share Ownership Trust ('ESOT'). The ESOT purchases ordinary shares in Legal & General Group Plc from the market and holds such shares for delivery to employees under various employee share schemes operated by the Group. The Company's registered office is One Coleman Street, London, EC2R 5AA, United Kingdom. It is registered in England and Wales under company registration number 02334263 and domiciled in the UK.

Review of the business

The Company's main source of income is service fees from recharging employee and other costs to companies within the Group and service fees are based on costs incurred. Profit on ordinary activities before tax includes interest income from an intra-group loan and costs relating to the defined benefit pension schemes.

The Company is the sponsoring employer of the Group's two defined benefit pension schemes in the UK ('the Schemes') which are recognised in the Company's financial statements. The balance sheet includes a liability for employee benefit obligations of £1,091m (2017: £1,261m) and annuity assets backing the pensions liabilities of £858m (2017: £875m). Changes in the schemes' deficits and annuity assets are recognised in the income statement and statement of comprehensive income. As a consequence of including the overall pension schemes' deficit, the Company has net liabilities of £190m (2017: £314m). In order to ensure that the Company can continue to operate as a going concern, the directors have received confirmation that the Parent Company intends to support the Company, as explained in note 20.

Principal risks and uncertainties

The principal risks and uncertainties faced by the Company are the risks arising as the sponsoring employer of defined benefit schemes and sponsoring company for the Group's ESOT as well as operational, regulatory and liquidity risk. The Company is not considered subject to any significant credit risk as it only provides services to other Group companies. A review of the exposure to these risks and the management framework is detailed in note 20.

Key performance indicators

The directors consider the following to be the key performance indicators:

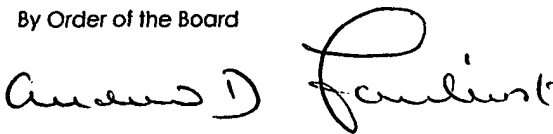
Profit on ordinary activities before taxation - £30m (2017: £156m) - This measures the profit or loss in a single period before deducting tax.

Shareholder funds - £190m liability (2017: £314m liability) - This represents the capital of the Company and losses that have been retained by the business.

Actuarial gain / (loss) on defined benefit pension schemes - £123m (2017: £(87)m) - This measures movement on the defined benefit pension deficit.

Details of the Group's key performance indicators can be found in the Group's published financial statements.

By Order of the Board



A. Fairhurst
For and on behalf of Legal & General Co Sec Limited
Company Secretary
10 September 2019

Directors Report

The directors present their annual report together with the audited financial statements of the Company for the year ended 31 December 2018.

Anticipated future developments

The directors expect the Company to continue to carry out its principal activities, as defined in the Strategic Report, for the foreseeable future and do not anticipate any future developments within the Group to have a significant effect on the Company.

Directors

The directors of the Company, who were in office during the year and up to the date of signing the financial statements, are shown below:

S. M. Hunter
E. Hardaker-Jones
G. Stevens - appointed 1 July 2018
E. Byron – appointed 11 September 2018

J. D. M. Noakes - resigned on 29 June 2018
S. J. Burke – resigned on 4 September 2018

Result for the year and dividend

The results of the Company are set out on page 7. The directors do not recommend the payment of a dividend (2017: £0).

Going concern

No material uncertainties that cast significant doubt about the ability of the company to continue as a going concern have been identified by the directors.

Directors' Insurance

The parent company, Legal & General Group Plc, maintains an appropriate level of Directors' and Officers' liability insurance which is reviewed annually.

Directors' Indemnities (S236 of the Companies Act 2006)

As permitted by Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and remains in force. The indemnity only applies to the extent permitted by law.

Legal & General Group Plc and its global subsidiaries ('Legal & General') recognise that companies have an obligation to ensure that their business and supporting supply chains are slavery free.

Legal & General's full modern slavery statement can be found at <https://www.legalandgeneralgroup.com/>

Post balance sheet Events

There were no adjusting post balance sheet events between 31 December 2018 and the approval of the report and accounts of the Company.

United Kingdom employees

It is the Company's policy to treat its employees without discrimination and to operate equal opportunity and employment practices designed to achieve this end. Furthermore, it is the Company's policy to give full and fair consideration to applications for employment made by disabled persons, to continue, wherever possible, the employment of staff who become disabled and to provide equal opportunities for the training and career development of disabled employees.

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the Group as a whole. Employees are remunerated with packages designed to align the interests of employees with those of shareholders, with an appropriate portion of total remuneration dependent on performance. Communication with all employees continues through the Intranet and newsletters, briefing groups and the distribution of the Group's annual report.

Statement of directors' responsibilities

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:

Directors Report (continued)

- 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 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/she ought to have taken as a director to make himself/ herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Independent auditors

Following a tender process in 2017, KPMG LLP were appointed as the Company's external auditor commencing with the 2018 financial year and its appointment was approved by the Company's Shareholder. In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditor of the company was approved on 23 May 2019 at the Legal & General Group Plc Annual General Meeting.

By Order of the Board



A. Fairhurst
For and on behalf of Legal & General Co Sec Limited
Company Secretary
10 September 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LEGAL & GENERAL RESOURCES LIMITED

Opinion

We have audited the financial statements of Legal & General Resources Limited ("the company") for the year ended 31 December 2018 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 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.

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

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

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

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the 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, including the impact of Brexit, 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 directors' report

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

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

- we have not identified material misstatements in the strategic report and the directors' report;

- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, 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 3, 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.

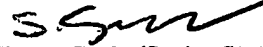
Auditor's responsibilities

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.


Shaun Gealy (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
3 Assembly Square,
Britannia Quay,
Cardiff, CF10 4AX
10 September 2019

Statement of Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 £000	2017 £000
Revenue	2P/3	1,007,209	821,682
Cost of providing services		(936,065)	(729,633)
Gross profit		71,144	92,049
Administrative expenses		(32,998)	(32,522)
Other operating (expenses) / income	7	(8,333)	96,027
Operating profit	4	29,813	155,554
Finance income	6	6	1
Profit on ordinary activities before taxation		29,819	155,555
Income tax charge	2L/8	(5,615)	(27,632)
Profit for the financial year		24,204	127,923
Other comprehensive income: Items that will not be reclassified to profit or loss			
Actuarial gain / (loss) on defined benefit schemes	2M/14	122,865	(86,730)
Tax on actuarial (loss) / gain on defined benefit pension scheme	2M/8	(22,734)	15,684
Other comprehensive income / (expense) for the year, net of tax		100,131	(71,046)
Total comprehensive income / (expense) for the year		124,335	56,877

Statement of Financial Position

As at 31 December 2018

	Notes	2018 £000	2017 £000
Non-current assets			
Deferred tax asset	2E/9	40,694	69,051
Financial investments	2F/10	58,339	37,840
Annuity assets	2G/14	857,615	875,068
Long term loans to group undertakings	2H/11	1,520	876
Total non-current assets		958,168	982,835
Current assets			
Other receivables	2I/12	225,134	223,147
Cash and cash equivalents	2J	337	4,200
Total current assets		225,471	227,347
Current liabilities			
Trade and other payables	2K/13	282,585	263,287
Total current liabilities		282,585	263,287
Net current liabilities		57,114	35,940
Total assets less current liabilities		901,054	946,895
Non-current liabilities			
Employee benefit obligations	2M/14	1,090,645	1,260,821
Net liabilities		189,591	313,926
Equity			
Share capital	16	-	-
Retained earnings		(189,591)	(313,926)
Total shareholders' funds		(189,591)	(313,926)

The notes on pages 10 to 21 are an integral part of these financial statements.

The financial statements on pages 7 to 9 were approved by the board of directors on 10 September 2019 and were signed on their behalf by:



S. M. Hunter
Director

Statement of Changes in Equity

	Share capital £000	Retained earnings £000	Total equity £000
As at 1 January 2018	-	(313,926)	(313,926)
Profit for the year	-	24,204	24,204
Actuarial gain on defined benefit schemes	-	122,865	122,865
Tax on actuarial gain on defined benefit pension scheme	-	(22,734)	(22,734)
Total comprehensive income for the year	-	124,335	124,335
As at 31 December 2018	-	(189,591)	(189,591)
As at 1 January 2017	-	(370,803)	(370,803)
Profit for the year	-	127,923	127,923
Actuarial (loss) on defined benefit schemes	-	(86,730)	(86,730)
Tax on actuarial loss on defined benefit pension scheme	-	15,684	15,684
Total comprehensive income for the year	-	56,877	56,877
As at 31 December 2017	-	(313,926)	(313,926)

1. General Information

Legal & General Resources Limited ('the Company') provides staff to companies within the Legal & General Group Plc ('the Group'), acts as a contracting company with third party suppliers and as the sponsoring company for two defined benefit pension schemes as well as the Employee Share Ownership Trust ('ESOT').

The Company is a private limited company and is incorporated and domiciled in the UK. The address of the registered office is One Colman Street London, EC2R 5AA, United Kingdom.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A) Basis of preparation

The financial statements of Legal & General Resources Limited have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS101). The financial statements have been prepared under the historical cost convention and in accordance with the provisions of the Companies Act 2006.

The preparation of financial statements in conformity with FRS101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2R.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted-average exercise price of share options, and how the fair value of goods or services received was determined)
- IFRS 7, 'Financial Statements: Disclosures'
- Paragraphs 91-99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15, 'Revenue from Contracts with Customers'.
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
 - o Paragraph 79(a)(iv) of IAS 1;
 - o paragraph 73(e) of IAS 16 Property, plant and equipment
 - o paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - o 10(d) of IAS 1, 'Presentation of financial statements' (statement of cash flows)
 - o 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements),
 - o 16 (statement of compliance with all IFRS)
 - o 38A (requirement for minimum of two primary statements, including cash flow statements),
 - o 38B-D (additional comparative information),
 - o 111 (cash flow statement information), and
 - o 134-136 (capital management disclosures)
- IAS 7, 'Statement of cash flows'
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement of the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation)
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group

These separate financial statements contain information about Legal & General Resources Limited as an individual company and do not contain consolidated financial information. The Company is included in the group financial statements of Legal & General Group Plc and has taken advantage of the exemption under Section 400 of the Companies' Act 2006.

B) Going concern

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future the Company continues to adopt the going concern basis in preparing its financial statements.

C) Consolidation

The Company is a wholly owned subsidiary of Legal & General Group Plc. It is included in the consolidated financial statements of that entity, which are publically available. The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements. The address of the ultimate parent's registered office is One Coleman Street, London, EC2R 5AA, United Kingdom.

These statements are separate financial statements.

D) Changes in accounting policies

(i) Implementation of IFRS 9 - Financial Instruments

In 2018 the Company has applied IFRS 9 for the first time, which is effective for annual periods starting on or after 1 January 2018. This had an impact on the Company's accounting policies for financial assets and impairment.

The Company has applied the new standard retrospectively with an initial application date of 1 January 2018. However, as permitted by the transition provisions of IFRS 9, the Company has elected not to restate comparative period information and the accounting policies as set out in the basis of preparation in the Company Financial Statements for the year ended 31 December 2017. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised as an adjustment to retained earnings as at 1 January 2018.

2. Summary of significant accounting policies (continued)

There has been a change in classification and measurement of the Company's financial assets as a result of the introduction of IFRS 9. Financial investments previously valued at cost less impairment are now valued at FVTPL. Other receivables continue to be held at amortised cost.

IFRS 9 largely retains the existing requirements for the classification and measurement of financial liabilities. The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities.

The introduction of the new impairment model for financial assets not held at FVTPL did not result in the recognition of impairment losses as at the date of initial application or at the reporting date.

(ii) Implementation of IFRS 15 - Revenue from Contracts with Customers

In 2018 the Company has applied IFRS 15 for the first time, which is effective for annual periods starting on or after 1 January 2018. The standard introduces a five-step model to account for revenue arising from contracts with customers, the core principle of which is that an entity will recognise revenue at an amount that reflects the consideration to which it expects to be entitled in exchange for transferring goods or services to a customer in the reporting period.

The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Company has adopted IFRS 15 using the full retrospective method. There has been no material impact on the Company's financial statements from the implementation of IFRS 15 and therefore the Company's financial statements have not been restated.

E) Deferred tax

Deferred tax is calculated on differences between the accounting value of assets and liabilities and their respective tax values. Deferred tax is also recognised in respect of unused tax losses to the extent it is probable that future taxable profits will arise against which the losses can be utilised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity or other comprehensive income.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority.

F) Financial investments

The ESOT investments are included at Fair Value through Profit and Loss ('FVTPL'). The cost of shares acquired by the ESOT has been financed by an interest free loan from Legal & General Group Plc.

G) Other operating income and annuity assets

Annuity assets represent insurance policies backing the defined benefit pension schemes. The policies are issued by Legal and General Assurance Society Limited ('LGAS'), a subsidiary of Legal & General Group Plc. LGAS meets the definition of a related party as defined by IAS 24 Related Party Disclosures and therefore the insurance policies do not meet the definition of qualifying insurance policies under IAS 19 Employee Benefits and are presented separately on the Statement of Financial Position. The assets are measured at their fair value at the balance sheet date with movements recognised as other operating income in the Income Statement.

H) Long term loans to group undertakings

Long term loans to group undertakings are held at amortised cost using the effective interest method.

I) Other receivables

Other receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

J) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

K) Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Payables are recognised at fair value.

L) Current and deferred tax expense

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds respectively.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the United Kingdom. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

M) Employee benefit obligations

The Company operates both defined benefit and defined contribution pension schemes for UK employees on behalf of the Group.

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current period and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

2. Summary of significant accounting policies (continued)

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to shareholders' funds in other comprehensive income in the period in which they arise.

The amount charged or credited to finance costs is a net interest amount calculated by applying the liability discount rate to the net defined benefit liability or asset.

Past-service costs are recognised immediately in the income statement.

For defined contribution plans, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

N) Share-based payments

Legal & General Group Plc operates a number of share-based payment schemes of which a proportion is allocated to the Company.

The fair value at the date of the grant of the equity instrument is recognised as an expense, spread over the vesting period of the instrument. The total amount to be expensed is determined by reference to the fair value of the awards, excluding the impact of any non-market vesting conditions. At each balance sheet date, the Group revises its estimate of the number of equity instruments which are expected to become exercisable.

The Company expense arising from the employee share schemes has been allocated to reflect the amount of services received. This allocation has been based on headcount.

O) Leases

Where a significant proportion of the risks and rewards of ownership is retained by the lessor, leases are classified as operating leases. Payments made by lessees under operating leases (net of any incentives from the lessor) are charged to the income statement on a straight line basis over the period of the lease. See note 17 for details of the operating leases commitments.

P) Revenue

Revenue is stated excluding recoverable Value Added Tax and represents amounts receivable for service fees charged for the provision of employees and purchases made on behalf of Group companies. Revenue from providing services is recognised in the accounting period in which services are rendered.

Q) Finance Income

Finance Income includes interest on a receipts basis. The ESOT has waived its rights to the dividends payable on the shares it holds.

R) Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstance.

The Company makes estimates and assumptions concerning the future. 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 within the next financial year are addressed below:

- Defined benefit pension scheme

The Company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation on the balance sheet. The assumptions reflect historical experience and current trends. See note 14 for the disclosures of the defined benefit pension scheme.

3. Revenue

The revenue and pre-tax profit is all attributable to the Company's activities as provider of staff within the Group, as a contracting company with third party suppliers and as the sponsoring company for the ESOT and arises predominantly in the UK.

4. Operating profit

Operating profit is stated after charging:

	2018 £000	2017 £000
Wages and salaries	488,483	446,937
Social security costs	50,746	45,961
Other pension costs	4,012	1,289
Share based payments	11,632	8,723
Total staff costs	554,873	502,910
Audit fees payable to the company auditor	14	12
Changes in the value of the defined benefit pension scheme deficit and annuity assets:		
Net interest expense	30,020	30,842
Current service cost	2,869	1,590

The auditor received £nil (2017: £nil) fees for non-audit services on the Company's behalf.

5. Employees and directors**Employees**

The average number of persons employed by the Company during the year was as follows:

	2018	2017
Average headcount	6,858	6,471

Directors

The directors' emoluments were as follows:

	2018 £000	2017 £000
Short-term employee benefits	37	35
Post employment benefits	1	2
Aggregate emoluments	38	37

Post-employment benefits are accruing for one director under a defined benefit pension scheme (2017: none).

Highest paid director:

	2018 £000	2017 £000
Short-term employee benefits	17	25
Post employment benefits	-	-

6. Finance income

	2018 £000	2017 £000
Interest receivable from group undertakings	6	1

7. Other operating (expenses) / income

	2018 £000	2017 £000
Fair value movement on annuities	(17,453)	96,027
Fair value movement on ESOT	9,120	-
Total other operating income	(8,333)	96,027

8. Income tax expense

	2018 £000	2017 £000
UK corporation tax at 19% (2017: 19.25%)		
Current tax for the year	(8)	(14)
UK tax adjustments in respect of prior periods	-	(6)
Total current tax	(8)	(20)
Deferred tax		
Movement in temporary differences	5,673	29,959
Impact of reductions in UK corporate tax rate to 19-17% (2017: 19-17%)	(50)	(2,307)
Total deferred tax	5,623	27,652
Tax on profit	5,615	27,632
<i>Tax income included in other comprehensive income</i>		
	2018 £000	2017 £000
Deferred tax on actuarial losses on defined benefit pensions schemes	(22,734)	15,684
Total tax income included in other comprehensive income	(22,734)	15,684

To calculate the current tax on profits, the rate of tax used is 19% (2017: 19.25%), which is the average rate of Corporation Tax applicable for the year. The differences are explained below:

	2018 £000	2017 £000
Profit on ordinary activities before taxation	29,819	155,555
Corporation tax at 19% (2017: 19.25%)	5,665	29,945
Effects of:		
Adjustments in respect of prior periods	-	(6)
Other disallowable	-	-
Impact of reduction in UK corporate tax rate to 19-17% (2017: 19-17%) on deferred tax balances	(50)	(2,307)
Total current tax charge	5,615	27,632

Following the 2016 Finance Act, the rate of Corporation Tax is expected to reduce progressively to 17% by 1 April 2020. The 19% rate will apply from 1 April 2017 and the 17% rate from 1 April 2020 onwards. The enacted rates of 19-17% have been used in the calculation of UK's deferred tax assets and liabilities, depending on which is the rate of corporation tax that is expected to apply when the differences as mentioned above reverse.

9. Deferred tax asset

	2018 £000	2017 £000
As at 1 January	69,051	81,019
Amount charged to the Income Statement for the period	(5,623)	(27,652)
Amount credited in the Statement of Comprehensive Income for period	(22,734)	15,684
As at 31 December	40,694	69,051

The enacted rates of 19-17% have been used in the calculation of UK's deferred tax assets and liabilities, depending on which is the rate of corporation tax that is expected to apply when the differences as mentioned above reverse.

10. Financial Investments

	2018 £000	2017 £000
Financial Investments at FVTPL¹ designated as:		
Investment in parent shares	58,339	37,840

¹As stated in note 2D(ii) the comparative period was recorded at cost and has not been restated

The shares were listed on recognised investment exchanges.

Legal & General Resources Limited being the principal UK employer within the Group, has assumed the role of sponsoring company for the Group's Employee Share Ownership Trust ('ESOT') which was previously held by Legal & General Group Plc. During 2018, 2.3m shares were released to satisfy the share scheme requirements. As at 31 December 2018, the ESOT held 25.3m shares acquired at a cost of £49.2m and with a market value of £58.4m, of which 6m were purchased at market rates between January and June 2018 at a cost of £15.7m. The ESOT investments are included at fair value through profit and loss ('FVTPL') in the balance sheet. The cost of shares acquired by the ESOT is being financed by an interest free loan from the Group. The ESOT has waived its rights to the dividends payable on the shares it holds.

11. Long term loans to group undertakings

Long term loans to group undertakings of £1,520k (2017: £876k) relates to a 10 year loan agreement with Legal & General Finance Plc which expired in March 2018. A new loan agreement was signed on 17 March 2018 for an additional 5 years. There is no intention to cancel the agreement before the expiry date. The loan is repayable on demand and interest charges are applied.

12. Other receivables

	2018 £000	2017 £000
Amounts owed by group undertakings	196,470	193,976
Prepayments and accrued income	26,918	27,746
Other receivables	1,746	1,425
Total other receivables	225,134	223,147

All receivables fall due within one year.

The amounts due from group undertakings are unsecured, and interest free.

13. Trade and other payables

	2018 £000	2017 £000
Amounts owed to group undertakings	120,825	104,989
Trade and other creditors	6,441	5,321
Taxation and social security	11,163	10,484
Accruals and deferred income	144,156	142,493
Total current liabilities	282,585	263,287

The amounts due to group undertakings are unsecured, interest free and repayable on demand.

14. Post-employment benefits**Defined contribution plans**

The Group operates the following principal defined contribution pension schemes in the UK and overseas:

- Legal & General Group Personal Pension Plan (UK);
- Legal & General Staff Stakeholder Pension Scheme (UK);
- Legal & General America Inc. Savings Plan (US); and
- CALA defined contribution pension scheme.

Contributions of £55m (2017: £49m) were charged as expenses during the year in respect of defined contribution schemes.

Defined benefit plans

The Group operates the following defined benefit pension schemes in the UK and overseas:

- Legal & General Group UK Pension and Assurance Fund (the Fund). The Fund was closed to new members from January 1995; the last full actuarial valuation was as at 31 December 2015;
- Legal & General Group UK Senior Pension Scheme (the Scheme). The Scheme was, with a few exceptions (principally transfers from the Fund), closed to new members from August 2000 and finally closed to new members from April 2007; the last full actuarial valuation was as at 31 December 2015;
- Legal & General America Inc. Cash Balance Plan (US); the last full actuarial valuation was as at 31 December 2017; and
- CALA Retirement and Death Benefits Scheme (UK). This scheme closed to new members from 31 December 2007 and closed to future accrual on 31 December 2015; the last triennial actuarial valuation was as at 30 April 2015.

The UK defined benefit schemes operate within the UK pensions' regulatory framework.

The UK Fund and Scheme were closed to future accrual on 31 December 2015. As part of this arrangement, payments to the Fund and Scheme in respect of future accruals ceased from this date and were replaced with a company contribution payment of between 5% and 15% into a defined contribution arrangement. In addition, as part of the closure, the company will contribute an additional £3m per annum until 31 December 2024 towards the deficit.

The assets of all UK defined benefit schemes are held in separate trustee administered funds to meet long term pension obligations to past and present employees. Trustees are appointed to the schemes and have a responsibility to act in the best interest of the scheme beneficiaries. The trustees' long term objectives are to minimise the risk that there are insufficient assets to meet the liabilities of the scheme over the longer term, control the on-going operational costs of the schemes and to maximise investment returns for the beneficiaries within an acceptable level of risk.

The total number of members of the UK Fund and Scheme was:

	2018	2017
Employed deferreds	171	264
Deferreds	3,292	3,568
Pensioners	3,657	3,593
Total number of active members of the UK Fund and Scheme	7,120	7,425

14. Post-employment benefits (continued)

The group works closely with the trustees to develop an investment strategy for each UK scheme in order to meet the long term objectives of the trustees as noted above. Each UK scheme has a Statement of Investment Principles which governs the mix of assets and limits for each class of asset. As noted below, the asset mix of the UK defined benefit schemes is primarily split between bonds including Liability Driven Investment (LDI) funds and unit trusts, equities and property. The main goal of the use of LDI is to hedge movements in the liabilities due to changes in interest rate and inflation expectations. On a gilt flat measure, the Fund and Scheme currently hedge 61% interest rate changes and 62% inflation expectation changes in respect of the non-insured liabilities.

Additionally, certain parts of the liabilities of the scheme are secured by way of annuities purchased from the group. These annuities are not recognised as an asset for IAS 19 purposes, but at 31 December 2018 the value of these annuities, on an IAS 19 basis, was £858m (2017: £875m).

The Fund and Scheme expose the Group to a number of risks:

Risk	Detail
Uncertainty in benefit payments	The value of the Group's liabilities for post-retirement benefits will ultimately depend on the amount of benefits paid out. This in turn will primarily depend on the level of inflation and how long individuals live.
Volatility in asset values	The Group is exposed to future movements in the values of assets held in the Scheme and the Fund to meet future benefit payments.
Uncertainty in cash funding	Movements in the values of the obligations or assets may result in the Group being required to provide higher levels of cash funding, although changes in the level of cash required can often be spread over a number of years. In addition, the Group is also exposed to adverse changes in pension regulation.

These risks are managed within the risk appetite of the Scheme and Fund. The sensitivity of the net obligations to changes in any of the variables are monitored and action is taken if any risk moves outside of the appetite.

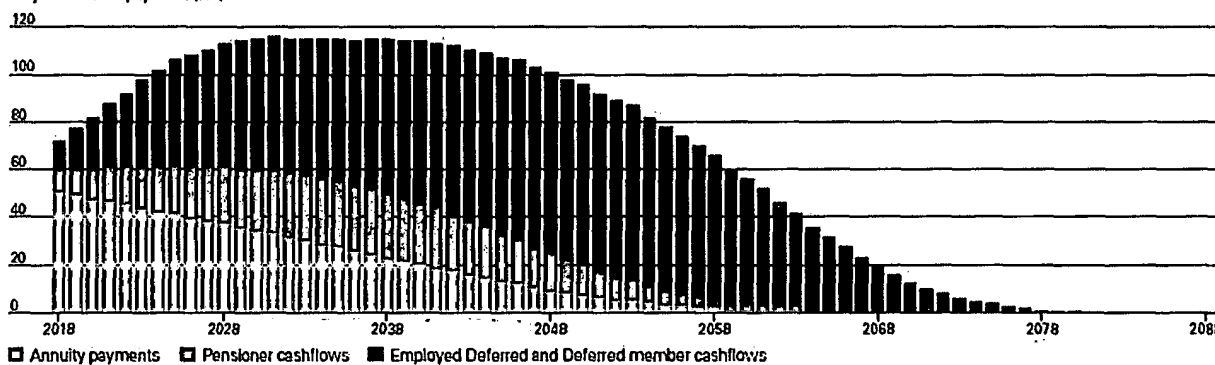
Annuities are purchased to mitigate risks for certain parts of the pension liabilities which passes the risks from the Fund and Scheme onto the group.

Full actuarial valuations are carried out on the Fund and Scheme every three years, updated by formal reviews at each reporting date. The actuarial assumptions used in the triennial valuation would normally be more prudent than those used for the purposes of IAS 19 reporting. Where the Fund or Scheme are in deficit following the triennial valuations, the group and the trustee agree a deficit recovery plan. Both the Fund and Scheme have formal deficit recovery plans which aim to make good the deficits over a certain period of time. The triennial valuation at 31 December 2015 showed a total funding deficit for both the Fund and Scheme of £599m. As a result of this, a recovery plan was agreed of £77m a year until 2024. The latest triennial valuation at 31 December 2015 was completed on 15 August 2017.

The Fund and the Scheme liabilities have an average duration of 19.1 years (2017: 19.8 years) and 18.7 years (2017: 20.1 years) respectively. The expected undiscounted benefits payments to members of the Fund and Scheme, including pensions in payment secured by annuities purchased from the group, are shown in the unaudited chart below:

Undiscounted benefit payments

Projected benefit payments (£m)



The benefits paid from the defined benefit schemes are based on percentages of the employees' final pensionable salary for each year of credited service. The group has no liability for retirement benefits other than for pensions. The Fund and Scheme account for all of the UK and over 90% of worldwide assets of the group's defined benefit schemes.

The principal actuarial assumptions for the Fund and Scheme were:

	2018 %	2017 %
Rate used to discount liabilities	2.9	2.5
Rate of increase in pensions in payment	3.7	3.7
Rate of increase in deferred pensions	3.8	3.8
Rate of general inflation (RPI)	3.2	3.2

14. Post-employment benefits (continued)

Post retirement mortality

2018: 75%/85% (Male/Female) (Fund) and 70%/80% (Male/Female) (Scheme) of PCMA/PCFA 00 with improvement at CMI 2016 base date 2015 with long term rates 1.5% pa males and 1.0% pa females, with tapering linearly down to nil between ages 90 and 120.

2017: 80%/90% (Male/Female) (Fund) and 70%/80% (Male/Female) (Scheme) of PCMA/PCFA 00 with improvement at CMI 2015 base date 2013 with long term rates 1.5% pa males and 1.0% pa females, with tapering linearly down to nil between ages 90 and 120.

This equates to average life expectancy as follows:

	2018 years	2017 years
Normal retirement age	60.0	60.0
Male life expectancy at retirement age	87.7	88.0
Female life expectancy at retirement age	88.8	88.9
Male life expectancy at 20 years younger than retirement age	89.8	90.6
Female life expectancy at 20 years younger than retirement age	90.2	90.6

	2018 £000	2017 £000
Movement in present value of defined benefit obligations		
As at 1 January	(2,543,044)	(2,627,527)
Current service cost	(2,869)	(1,590)
Interest expense	(60,421)	(67,611)
Actuarial remeasurement (recognised in Statement of Comprehensive Income)	231,401	(89,216)
Benefits paid	192,041	242,900
As at 31 December	(2,182,892)	(2,543,044)
Movement in fair value of plan assets		
As at 1 January	1,282,223	1,393,833
Expected return on plan assets at liability discount rate	30,401	36,769
Actuarial remeasurement (recognised in Statement of Comprehensive Income)	(108,536)	2,486
Employer contributions	80,200	92,035
Benefits paid	(192,041)	(242,900)
As at 31 December	1,092,247	1,282,223
Gross pension obligation included in provisions	(1,090,645)	(1,260,821)
Insured annuity obligations ¹	857,615	875,068
Gross defined benefit pension deficit	(233,030)	(385,753)
Deferred tax on defined benefit pension deficit	40,694	69,051
Net defined benefit pension deficit	(192,336)	(316,702)

¹ Insured by Legal and General Assurance Society Limited

During 2018 annuities were purchased from the Group. A premium of £59m (2017: £161m) was paid from the assets of the Fund and the Scheme to purchase these annuities. These annuities are not recognised as an asset for IAS 19 purposes and so the actuarial remeasurement recognised in the Consolidated Statement of Comprehensive Income includes allowance for this premium payment as well as annuity receipts over 2018 of £50m (2017: £53m).

On 26 October 2018, the High Court ruled that UK pension schemes must equalise Guaranteed Minimum Pensions (GMP) to ensure that male and female members of schemes were treated equitably. This judgement applied to GMP accrued between 17 May 1990 and 5 April 1997. The impact of GMP equalisation on the value of the group's defined benefit schemes is estimated to be negligible.

The effect on the defined benefit obligation of the Fund and Scheme of assuming reasonable alternative assumptions in isolation is shown below. Opposite sensitivities are broadly symmetrical, but larger sensitivities are not necessarily broadly proportionate due to the existence of maxima and minima for inflation linked benefits. These sensitivities have been calculated to show the movement in the defined benefit obligation in isolation, and assuming no other changes in market conditions at the accounting date. This is unlikely in practice – for example, a change in discount rate is unlikely to occur without any movement in the value of the assets held by the Fund and Scheme.

	2018 £m	2017 £m
1 year increase in longevity	(78)	(92)
0.1% decrease in the rate used to discount liabilities	(40)	(43)
0.1% increase in the rate of general inflation (RPI)	(20)	(25)

14. Post-employment benefits (continued)

The historic funding and experience adjustments are as follows:

	2018 £000	2017 £000	2016 £000	2015 £000	2014 £000
Present value of defined benefit obligations	(2,182,892)	(2,543,044)	(2,627,527)	(2,259,197)	(2,347,532)
Fair value of plan assets	1,092,247	1,282,223	1,393,833	1,132,740	1,132,995
Gross pension obligations included in provisions	(1,090,645)	(1,260,821)	(1,233,694)	(1,126,457)	(1,214,537)
Experience adjustments on plan liabilities	14,275	22,676	81,096	36,825	7,016
Experience adjustment on plan assets	(108,536)	2,486	235,059	(62,295)	133,097

The fair value of the plan assets at the end of the year is made up as follows:

	Valuation base on quoted market price UK £000	Valuation based on other than quoted market price UK £000
Equities	113,200	-
Bonds	912,600	-
Properties	-	52,400
Other investments ¹	14,000	-
As at 31 December 2018	1,039,800	52,400

	Valuation base on quoted market price UK £000	Valuation based on other than quoted market price UK £000
Equities	77,878	-
Bonds	1,112,017	-
Properties	-	73,587
Other investments ¹	18,741	-
As at 31 December 2017	1,208,636	73,587

¹ Other investments mainly consist of cash and cash equivalents.

The following amounts have been charged to the income statement:

	2018 £000	2017 £000
Current service costs	2,869	1,590
Net interest expense	30,020	30,842
Total included in other expenses	32,889	32,432

15. Share-based payments

The Company provides a number of equity settled share-based long term incentive plans for directors and eligible employees.

Details of the schemes are provided below.

Savings related share option scheme (SAYE)

The SAYE allows employees to enter into a regular savings contract over either 3 or 5 years, coupled with a corresponding option over shares of the parent company, Legal & General Group Plc. The grant price is equal to 80% of the quoted market price of the Group shares on the invitation date. Options are normally forfeited if the employee leaves the Group before the options vest.

The weighted average remaining contractual life for the outstanding options under the SAYE scheme is 26 months (2017: 29 months). The weighted average share price at the date of exercise was 196p (2017: 192p).

Share bonus plan (SBP)

The Share Bonus Plan (SBP) awards restricted shares, combined awards of CSOP options and restricted shares and combined awards of CSOP options and nil-paid options. With the exception of the Executive Directors, recipients of restricted shares are entitled to both vote and receive dividends. Fair value is calculated as the market value on the grant date, adjusted to reflect the eligibility for dividend payments.

The weighted average remaining contractual life for the outstanding options under the SBP scheme is 97 months (2017: 97 months).

Performance share plan (PSP)

Nil Cost Options can be granted to senior managers under the Performance Share Plan (PSP), based upon individual and company performance. Pre the 2014 award, the number of performance shares transferred to the individual at the end of the three year vesting period was dependent on the Group's relative Total Shareholder Return (TSR). New performance conditions attached to awards from 2014 result in the number of options that vest being equally dependent on the Group's relative TSR and Earnings per Share (EPS)/Dividend per Share (DPS) growth. In addition, the awards vest after the end of the three year performance period and become exercisable in thirds over three, four and five years. Further changes were made to the performance conditions for awards granted in 2018. The number of options that vest in respect of these awards is equally dependent on the Group's relative TSR and EPS growth (subject to Solvency II objectives). The majority of awards vest after the end of the three year performance period and become exercisable in thirds in year three, four and five. Awards granted to Executive Directors and Persons Delivering Managerial Responsibilities vest after three years but any options that vest will not become exercisable until year five.

Employee share plan (ESP)

Under the HMRC tax advantaged Employee share plan (ESP), UK employees may elect to purchase Group shares from the market at the best market price on a monthly basis. Employees can contribute between £5 and £150 per month from their gross salary. The Group supplements the number of shares purchased by giving employees one free matching share for every one share purchased up to the first £20 of the employees' contributions and one free matching share for every two shares purchased with contributions between £20 and £125. No matching shares will be provided in respect of contributions between £125 and £150. From time to time, the Group may make a grant of free shares. Both the free and matching shares must be held in trust for three years before they may vest to the employee. The fair value of granted shares is equal to the market value at grant date.

The weighted average fair value of the shares issued was 262p (2017: 254p).

Total options

Options over shares are outstanding under CSOP, ESOS and SAYE at 31 December 2018 as shown below:

Option Price (pence per share)	Number of shares	Option period ending in
0 – 100.00	157,205	2021 - 2028
100.01 – 110.00	38,490	2019
110.01 – 120.00	3,252	2022
130.01 – 140.00	220	2019
160.01 – 170.00	8,625	2019
180.01 – 190.00	2,839,623	2019 - 2021
190.01 – 200.00	256,013	2020
200.01 – 210.00	1,604,528	2020 - 2022
210.01 – 220.00	2,115,372	2021 - 2023
220.01 – 230.00	171,417	2019 - 2021
240.01 – 250.00	537,642	2026 - 2027
260.01 – 270.00	356,824	2028
Total	8,089,211	

Options over shares outstanding under CSOP, ESOS and SAYE at 31 December 2017 were as shown below:

Option Price (pence per share)	Number of shares	Option period ending in
0 – 70.00	105,681	2021 - 2027
70.01 – 80.00	53,607	2018
80.01 – 90.00	17,300	2019
100.01 – 110.00	76,708	2018 - 2019
110.01 – 120.00	3,252	2022
120.01 – 130.00	186,872	2018
160.01 – 170.00	86,804	2019
180.01 – 190.00	3,889,523	2017 - 2021
190.01 – 200.00	415,162	2017 - 2019
200.01 – 210.00	2,462,377	2020 - 2022
220.01 – 230.00	991,892	2018 - 2021
240.01 – 250.00	558,308	2026 - 2027
280.01 – 290.00	304,474	2025
Total	9,151,960	

16. Share capital

	2018 £	2017 £
Alotted and fully paid: 100 ordinary shares (2017: 100) of £1 each	100	100

17. Operating lease commitments

	2018 £000	2017 £000
The future minimum aggregate lease payments under non-cancellable operating leases are as follows		
Within one year	1,300	1,325
Within two to five years	1,715	3,015
After five years	-	-
Total operating lease commitments	3,015	4,340

The Company had no other commitments at 31 December 2018 (2017: £nil).

18. Controlling parties

The immediate and ultimate parent undertaking is Legal & General Group Plc, a company incorporated in England and Wales, which consolidates the financial statements of the Company. Copies of the Legal & General Group Plc's financial statements are available on the Group website, www.legalandgeneralgroup.com or from the Company Secretary at the registered office, One Coleman Street, London, EC2R 5AA.

19. Investment in subsidiary undertakings

The Company is the parent company of Legal & General Pension Fund Trustee Limited and Legal & General Pension Scheme Trustee Limited. These companies act as trustee to the Legal & General Pension Fund and the Legal & General Pension Scheme respectively. Both of these subsidiaries were incorporated on 20 February 2008 in England and Wales and their registered office address is One Coleman Street, London, EC2R 5AA. They were inactive throughout the 2018 financial year.

The Company's investment in Legal & General Pension Fund Trustee Limited is included at cost of £1, and the investment in Legal & General Pension Scheme Trustee Limited is also included at cost of £1. The Company holds 100% of the nominal value of shares in both Legal & General Pension Fund Trustee Limited and Legal & General Pension Scheme Trustee Limited.

In 2017, the Company subscribed £1 in the share capital of a wholly owned subsidiary, Legal & General Employee Benefits Administration Limited, incorporated in England & Wales, the registered office is One Coleman Street, London. The purpose of this company is to act as a trustee for group life assurance schemes.

20. Risk management and control

This section describes the Company's approach to risk management. It covers the overall approach to all risks and includes a detailed review of all risks within the business.

Risk management objectives

The Company's primary objective in undertaking risk management activity is to manage risk exposures in line with risk appetite, minimising exposure to unexpected financial loss and limiting the potential for deviation from anticipated outcomes.

Risk management approach

Risks are managed on a group wide basis. To support this, a risk framework is in place comprising formal committees, risk assessment processes and review functions. The framework provides assurance that risks are being appropriately identified and managed and that an independent assessment of risks is being performed.

The principal risks to which the Company is exposed to are below:

- i) **Group pension schemes:** exposure to losses arising from increases in the deficits of the schemes sponsored by the Company.
- ii) **Employee share schemes:** exposure to losses caused by fluctuations of the Group's share price.
- iii) **Operational risk:** exposure to loss arising from inadequate or failed internal processes, people, systems or from external events.
- iv) **Regulatory risk:** the risk that changes to employment regulation or legislation adversely impacts the Company.
- v) **Liquidity risk:** the risk that the Company, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can secure them only at excessive cost.
- vi) **Credit risk:** exposure to the risk that debtors may default on balances owed.

Group pension schemes

As the sponsoring employer for the defined benefit pension schemes, the Company is liable for the scheme deficit and is dependent on funding from the Parent Company to ensure that obligations to the scheme are met. The Parent Company provides written confirmation that the Company will be supported for at least one year after the financial statements are signed. The factors and uncertainties that could give rise to an increase in the pension scheme deficit include an increase in the longevity of scheme members and a significant fall in the stock market impacting the value of scheme assets. These factors may be mitigated as a result of the scheme being closed to new members and new accruals, as well as the number of members declining.

20. Risk Management and Control (Continued)**Employee share schemes**

For the purposes of fulfilling its obligations to employees, the Company has holdings in the Group's shares as the sponsoring company for the Group's Employee Share Ownership Trust ('ESOT'). Significant fluctuations in the stock market in general, and consequently the Group's share price, can significantly affect the Income Statement, however the Operating Profit is unaffected as the Company fully recovers any valuation gains or losses through the recharge process to other companies within the Group.

Operational risk

There are a number of categories under which operational risk and its management across the Company can be considered:

Internal process failure: The Company is potentially exposed to the risk of loss from failure of the internal processes with which it transacts its business. The Company seeks to ensure the adequacy of the controls over its processes through regular reviews and assessment of their appropriateness and effectiveness.

People: The Company is potentially exposed to the risk of loss from inappropriate actions by staff. The risk is managed by business management and human resource functions.

External events: Significant external events, likely to impact the Company, are monitored and responded to at a Group level.

Regulatory risk

As the main employer within the Group, the Company is required to comply with wide ranging regulation and legislation relating to the employment of staff and is exposed to the risk of non-compliance. The Company is also exposed to the risk of non-compliance with the Pension Act and Pension Regulator. The Group maintains policies that address relevant regulatory and legislative requirements and undertakes employee training where appropriate to ensure awareness. The Group maintains appropriate levels of employer liability insurance to mitigate some of the employer liability risks borne by the Company.

Liquidity risk

The Company relies on other subsidiaries within the Group to provide sources of liquidity, including the centralised Group treasury function. Business units within the Group have a responsibility to manage their liquidity management framework within the Group's Liquidity Risk Policy. Liquidity risk is quantified and monitored in two stress scenarios: 1 in 20 and 1 in 200 stresses.

Credit risk

As the Company only provides services to other Group companies it is not exposed to significant risk of default on amounts owing to the Company. The Company is normally able to, at least, fully recharge all costs incurred in the provision of services provided to other entities within the Group and is therefore fully reimbursed for these activities.