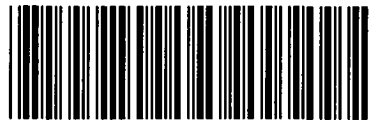


**Legal & General Resources Limited  
Financial Statements 2017**

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## Contents

| Page |                                   |
|------|-----------------------------------|
| 2    | Strategic Report                  |
| 3    | Directors' Report                 |
| 5    | Independent Auditors' Report      |
| 7    | Statement of Comprehensive Income |
| 8    | Statement of Financial Position   |
| 9    | Statement of Changes in Equity    |
| 10   | Notes to the Financial Statements |

## 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 £1,261m (2016: £1,234m) and annuity assets backing the pensions liabilities of £875m (2016: £779m). 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 £314m (2016: £371m). 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:

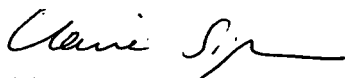
**Profit on ordinary activities before taxation** - £156m (2016: £62m) - This measures the profit or loss in a single period before deducting tax.

**Shareholder funds** - £314m liability (2016: £371m liability) - This represents the capital of the Company and losses that have been retained by the business.

**Actuarial losses on defined benefit pension schemes** - £87m (2016: £137m) - This measures movement on the defined benefit pension deficit.

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

By Order of the Board



C. Singleton  
For and on behalf of Legal & General Co Sec Limited  
Company Secretary  
8 May 2018

## Directors Report

The directors present their annual report together with the audited financial statements of the Company for the year ended 31 December 2017.

### 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 expect 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. J. Burke  
S. M. Hunter  
J. D. M. Noakes  
E. Hardaker-Jones - appointed 10 November 2017

E. M. Maclean - resigned on 10 November 2017

### 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.

### 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 Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). 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 the financial statements, the directors are required to:

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

The directors are responsible for keeping 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.

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

**Directors Report (continued)**

**Disclosure of Information to auditors**

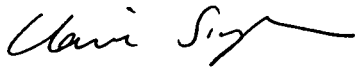
Each of the directors who held office at the date of approval of the directors' report confirms that:

- a) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware;  
and
- b) he/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of such information.

**Independent auditors**

PricewaterhouseCoopers LLP are expected to continue as external auditors of the Company until the Annual General Meeting of Legal & General Group Plc on 17 May 2018 at which point they are expected to resign as auditors of the Company and Group. KPMG LLP are expected to be formally appointed as auditors of the Company and Group from this date.

By Order of the Board



C. Singleton  
For and on behalf of Legal & General Co Sec Limited  
Company Secretary  
8 May 2018

# ***Independent auditors' report to the members of Legal & General Resources Limited***

## **Report on the audit of the financial statements**

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### **Opinion**

In our opinion, Legal & General Resources Limited's financial statements:

give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;

have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and

have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Accounts (the "Annual Report"), which comprise: the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity; and the notes to the financial statements, which include a description of the significant accounting policies.

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### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Independence**

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

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

the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

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### **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

### **Strategic Report and Directors' Report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

**Strategic Report and Directors' Report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

**Responsibilities for the financial statements and the audit****Responsibilities of the directors for the financial statements**

As explained more fully in the Statement of Directors' Responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

**Auditors' responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

**Use of this report**

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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**Other required reporting**

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**Companies Act 2006 exception reporting**

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

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

We have no exceptions to report arising from this responsibility.



Philip Watson (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
8 May 2018

**Statement of Comprehensive Income**

For the year ended 31 December 2017

|   | Notes | 2017<br>£000    | 2016<br>£000     |
|---|-------|-----------------|------------------|
| Revenue   | 2N/3  | 821,682         | 896,669          |
| Cost of providing services  |       | (729,633)       | (825,313)        |
| <b>Gross Profit</b>   |       | <b>92,049</b>   | <b>71,356</b>    |
| Administrative expenses   |       | (32,522)        | (41,722)         |
| Other operating income  | 7     | 96,027          | 32,666           |
| <b>Operating profit</b>   | 4     | <b>155,554</b>  | <b>62,300</b>    |
| Finance income  | 6     | 1               | 30               |
| <b>Profit on ordinary activities before taxation</b>                              |       | <b>155,555</b>  | <b>62,330</b>    |
| Income tax charge   | 2K/8  | (27,632)        | (14,252)         |
| <b>Profit for the financial year</b>  |       | <b>127,923</b>  | <b>48,078</b>    |
| Other comprehensive income: Items that will not be reclassified to profit or loss |       |                 |                  |
| Actuarial losses on defined benefit schemes                                       | 2L/14 | (86,730)        | (136,963)        |
| Tax on actuarial losses on defined benefit pension schemes                        | 2L/8  | 15,684          | 23,731           |
| <b>Other comprehensive expense for the year, net of tax</b>                       |       | <b>(71,046)</b> | <b>(113,232)</b> |
| <b>Total comprehensive income / (expense) for the year</b>                        |       | <b>56,877</b>   | <b>(65,154)</b>  |



**Statement of Financial Position**

As at 31 December 2017

|  | Notes | 2017<br>£000     | 2016<br>£000     |
|--|-------|------------------|------------------|
| <b>Non-current assets</b>                    |       |                  |                  |
| Deferred tax asset                           | 2D/9  | 69,051           | 81,019           |
| Financial investments                        | 2E/10 | 37,840           | 27,784           |
| Annuity assets                               | 2F/14 | 875,068          | 779,041          |
| Long term loans to group undertakings        | 2G/11 | 876              | 298              |
| <b>Total non-current assets</b>              |       | <b>982,835</b>   | <b>888,142</b>   |
| <b>Current assets</b>                        |       |                  |                  |
| Other receivables                            | 2H/12 | 223,147          | 210,876          |
| Cash and cash equivalents                    | 2I    | 4,200            | 3,828            |
| <b>Total current assets</b>                  |       | <b>227,347</b>   | <b>214,704</b>   |
| <b>Current liabilities</b>                   |       |                  |                  |
| Trade and other payables                     | 2J/13 | 263,287          | 239,955          |
| <b>Total current liabilities</b>             |       | <b>263,287</b>   | <b>239,955</b>   |
| <b>Net current liabilities</b>               |       | <b>35,940</b>    | <b>25,251</b>    |
| <b>Total assets less current liabilities</b> |       | <b>946,895</b>   | <b>862,891</b>   |
| <b>Non-current liabilities</b>               |       |                  |                  |
| Employee benefit obligations                 | 2L/14 | 1,260,821        | 1,233,694        |
| <b>Net liabilities</b>                       |       | <b>313,926</b>   | <b>370,803</b>   |
| <b>Equity</b>                                |       |                  |                  |
| Share capital                                | 16    | -                | -                |
| Retained earnings                            |       | (313,926)        | (370,803)        |
| <b>Total shareholders' funds</b>             |       | <b>(313,926)</b> | <b>(370,803)</b> |

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 8 May 2018 and were signed on their behalf by:



S. M. Hunter  
Director

**Statement of Changes in Equity**

|   | <b>Share<br/>capital<br/>£000</b> | <b>Retained<br/>earnings<br/>£000</b> | <b>Total<br/>equity<br/>£000</b> |
|---|-----------------------------------|---------------------------------------|----------------------------------|
| <b>As at 1 January 2017</b>                               | -                                 | (370,803)                             | (370,803)                        |
| Profit for the year                                       | -                                 | 127,923                               | 127,923                          |
| Actuarial losses on defined benefit pension schemes       | -                                 | (86,730)                              | (86,730)                         |
| Tax on actuarial losses on defined benefit pension scheme | -                                 | 15,684                                | 15,684                           |
| <b>Total comprehensive income for the year</b>            | -                                 | 56,877                                | 56,877                           |
| <b>As at 31 December 2017</b>                             | -                                 | (313,926)                             | (313,926)                        |
| <b>As at 1 January 2016</b>                               | -                                 | (305,649)                             | (305,649)                        |
| Profit for the year                                       | -                                 | 48,078                                | 48,078                           |
| Actuarial losses on defined benefit pension schemes       | -                                 | (136,963)                             | (136,963)                        |
| Tax on actuarial losses on defined benefit pension scheme | -                                 | 23,731                                | 23,731                           |
| <b>Total comprehensive income for the year</b>            | -                                 | (65,154)                              | (65,154)                         |
| <b>As at 31 December 2016</b>                             | -                                 | (370,803)                             | (370,803)                        |

## 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 2P.

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)
- Paragraphs 91-99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- Paragraph 38 of IAS 1, 'Presentation of financial statements (comparative information requirements in respect of:
  - o Paragraph 79(a)(iv) of IAS 1;
- 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 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) 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.

**2. Summary of significant accounting policies (continued)****E) Financial investments**

The ESOT investments are included at cost less impairment. Where the impairment is temporary, due to market fluctuations, reversals are recognised in the profit and loss account. The cost of shares acquired by the ESOT has been financed by an interest free loan from Legal & General Group Plc.

**F) 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.

**G) Long term loans to group undertakings**

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

**H) 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.

**I) 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.

**J) 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.

**K) 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.

**L) 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.

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.

**M) 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.

**2. Summary of significant accounting policies (continued)****N) Revenue**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services performed net of Value Added Tax. The Company recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity. Revenue represents service fees charged for the provision of employees and purchases made on behalf of Group companies.

**O) 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.

**P) 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:

|  | 2017<br>£000   | 2016<br>£000   |
|--|----------------|----------------|
| Wages and salaries   | 446,937        | 495,309        |
| Social security costs  | 45,961         | 45,645         |
| Other pension costs  | 1,289          | 1,509          |
| Share based payments   | 8,723          | 7,500          |
| <b>Total staff costs</b>   | <b>502,910</b> | <b>549,963</b> |
| Audit fees payable to the company auditor  | 12             | 11             |
| Changes in the value of the defined benefit pension scheme deficit and annuity assets: |                |                |
| Net interest expense   | 30,842         | 40,430         |
| Current service cost   | 1,590          | 1,215          |

The auditor received £nil (2016: £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:

|                          | 2017         | 2016         |
|--------------------------|--------------|--------------|
| <b>Average headcount</b> | <b>6,471</b> | <b>7,138</b> |

**Directors**

The directors' emoluments were as follows:

|                              | 2017<br>£000 | 2016<br>£000 |
|------------------------------|--------------|--------------|
| Short-term employee benefits | 35           | 348          |
| Post employment benefits     | 2            | 18           |
| <b>Aggregate emoluments</b>  | <b>37</b>    | <b>366</b>   |

Post-employment benefits are not accruing to any of the directors under a defined benefit pension scheme (2016: two).

**5. Employees and directors (Continued)**

Highest paid director:

|                              | 2017<br>£000 | 2016<br>£000 |
|------------------------------|--------------|--------------|
| Short-term employee benefits | 25           | 198          |
| Post employment benefits     | -            | 3            |

**6. Finance income**

|   | 2017<br>£000 | 2016<br>£000 |
|---|--------------|--------------|
| Interest receivable from group undertakings | 1            | 30           |

**7. Other operating income**

|                                  | 2017<br>£000 | 2016<br>£000 |
|----------------------------------|--------------|--------------|
| Fair value movement on annuities | 96,027       | 32,666       |

**8. Income tax expense**

|  | 2017<br>£000  | 2016<br>£000  |
|--|---------------|---------------|
| UK corporation tax at 19.25% (2016: 20%)                               |               |               |
| Current tax for the year   | (14)          | (2)           |
| UK tax adjustments in respect of prior periods                         | (6)           | (294)         |
| <b>Total current tax</b>   | <b>(20)</b>   | <b>(296)</b>  |
| Deferred tax   |               |               |
| Movement in temporary differences                                      | 29,959        | 12,479        |
| Impact of reductions in UK corporate tax rate to 19-17% (2016: 20-17%) | (2,307)       | 2,069         |
| <b>Total deferred tax</b>  | <b>27,652</b> | <b>14,548</b> |
| <b>Tax on profit</b>   | <b>27,632</b> | <b>14,252</b> |

Tax income included in other comprehensive income

|  | 2017<br>£000  | 2016<br>£000  |
|--|---------------|---------------|
| Deferred tax on actuarial losses on defined benefit pensions schemes | 15,684        | 23,731        |
| <b>Total tax income included in other comprehensive income</b>       | <b>15,684</b> | <b>23,731</b> |

To calculate the current tax on profits, the rate of tax used is 19.25% (2016: 20.00%), which is the average rate of Corporation Tax applicable for the year. The differences are explained below:

|  | 2017<br>£000  | 2016<br>£000  |
|--|---------------|---------------|
| Profit on ordinary activities before taxation  | 155,555       | 62,330        |
| Corporation tax at 19.25% (2016: 20%)  | 29,945        | 12,466        |
| Effects of:  |               |               |
| Adjustments in respect of prior periods  | (6)           | (294)         |
| Other disallowable   | -             | 11            |
| Impact of reduction in UK corporate tax rate to 19-17% (2016: 20-17%) on deferred tax balances | (2,307)       | 2,069         |
| <b>Total current tax charge</b>  | <b>27,632</b> | <b>14,252</b> |

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 1st April 2017 and the 17% rate from 1st 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**

|   | £000          | £000          |
|---|---------------|---------------|
| As at 1 January   | 81,019        | 71,836        |
| Amount charged to the Income Statement for the period               | (27,652)      | (14,548)      |
| Amount credited in the Statement of Comprehensive Income for period | 15,684        | 23,731        |
| <b>As at 31 December</b>  | <b>69,051</b> | <b>81,019</b> |

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**

|   | £000   | £000   |
|---|--------|--------|
| <b>Financial investments at cost less impairment designated as:</b> |        |        |
| Investment in parent shares   | 37,840 | 27,784 |

**Other receivables**

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 2017, 2.1m shares were released to satisfy the share scheme requirements. As at 31 December 2017, the ESOT held 21.5m shares acquired at a cost of £37.8m and with a market value of £58.8m, of which 5.5m were purchased at market rates between January and June 2017 at a cost of £13.4m. The ESOT's investments are included at cost 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 £876k (2016: £298k) 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**

|                                    | £000           | £000           |
|------------------------------------|----------------|----------------|
| Amounts owed by group undertakings | 193,976        | 186,236        |
| Prepayments and accrued income     | 27,746         | 23,224         |
| Other receivables                  | 1,425          | 1,416          |
| <b>Total other receivables</b>     | <b>223,147</b> | <b>210,876</b> |

**Current Liabilities**

All receivables fall due within one year.

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

**13. Current liabilities**

|                                    | £000           | £000           |
|------------------------------------|----------------|----------------|
| Amounts owed to group undertakings | 104,989        | 91,183         |
| Trade and other creditors          | 5,321          | 5,114          |
| Taxation and social security       | 10,484         | 10,317         |
| Accruals and deferred income       | 142,493        | 133,341        |
| <b>Total current liabilities</b>   | <b>263,287</b> | <b>239,955</b> |

**Post employment benefits**

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); and
- Legal & General America Inc. Savings Plan (US).

The Group pays contractual contributions in respect of defined contribution schemes. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Contributions of £49m (2016: £52m) 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; and
- Legal & General America Inc. Cash Balance Plan (US); the last full actuarial valuation was as at 31 December 2016.

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%. 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 returns for the beneficiaries within an acceptable level of risk.

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

|   |              |              |
|---|--------------|--------------|
| Employed deferreds  | 264          | 381          |
| Deferreds   | 3,568        | 3,900        |
| Pensioners  | 3,593        | 3,524        |
| <b>Total number of active members of the UK Fund and Scheme</b> | <b>7,425</b> | <b>7,805</b> |

**Defined benefit plans**

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, Liability Driven Investment ('LDI') funds and equities. 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 2017 the value of these annuities, on an IAS 19 basis, was £875m (2016: £779m).

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

| <b>Risk</b>                     | <b>Detail</b>   |
|---------------------------------|---|
| 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. |

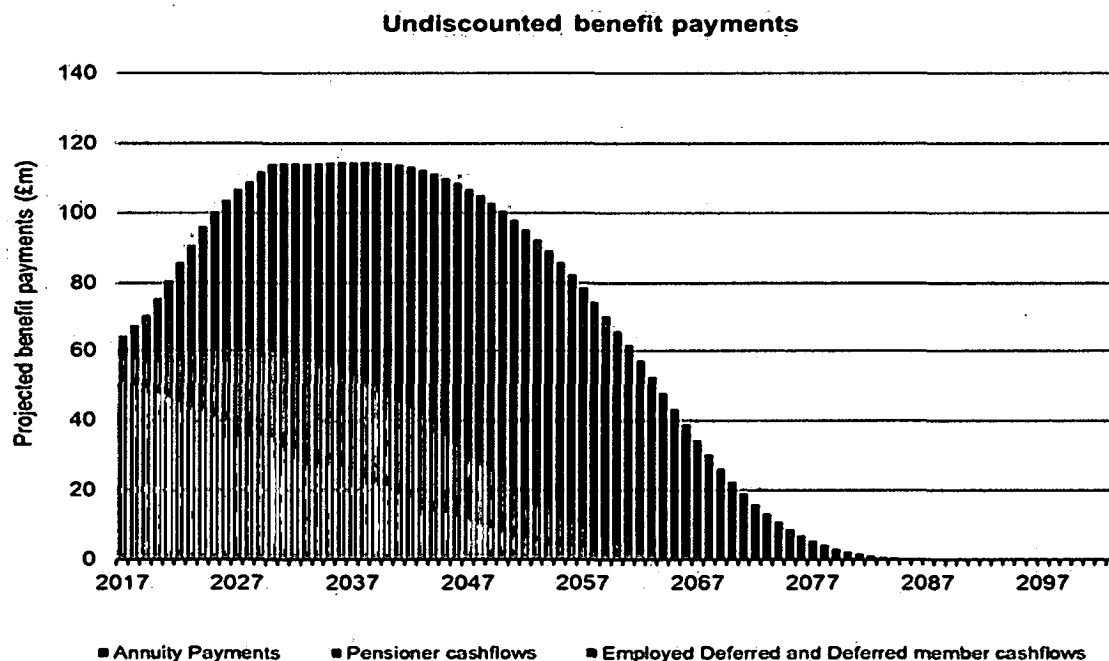
These risks are managed within the risk appetite of the Scheme and Fund. The sensitivity of the net obligations to changes in any of the variables are monitored and action is taken if any risk moves outside of the appetite.

During 2017, an asset switch was made for the Scheme and Fund, resulting in a significant reduction in the holding of equities and an increased holding in LDI Funds. 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 gilts flat measure, the Scheme and Fund currently hedge 68% interest rate changes and 64% inflation expectation changes. Annuities are purchased to mitigate risks for certain parts of the pension liabilities which passes the risks from the Scheme and Fund onto the Group.



**14. Post-employment benefits (Continued)**

The Scheme and the Fund liabilities have an average duration of 19.8 years (2016: 20.7 years) and 20.1 years (2016: 20.8 years) respectively. The expected undiscounted benefits payments to members of the Scheme and Fund, including pensions in payment secured by annuities purchased from the Group, are shown in the unaudited chart below:



The liability recognised in the Consolidated Balance Sheet in respect of defined benefit pension schemes is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, provided any surplus in the Fund and Scheme is not restricted. Plan assets exclude the insurance contracts issued by the Group. The defined benefit obligation is calculated actuarially each year using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows. The discount rate is based on market yields of high quality corporate bonds which are denominated in the currency in which the benefits will be paid, and that have terms to maturity which approximate to those of the related pension liability.

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 97% of worldwide assets of the Group's defined benefit schemes.

The principal actuarial assumptions for the UK defined benefit schemes were:

|   | 2017<br>% | 2016<br>% |
|---|-----------|-----------|
| Rate used to discount liabilities       | 2.5       | 2.7       |
| 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       | 3.3       |

Post retirement mortality

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% p.a. males and 1.0% p.a. females, with tapering linearly down to nil between ages 90 and 120.

2016: 80% / 90% (Male/Female) (Fund) and 70% / 80% (Male/Female) (Scheme) of PCMA/PCFA 00 with improvement at CMI 2014 base date 2013 with long term rates 1.5% p.a. males and 1.0% p.a. females, with tapering linearly down to nil between ages 90 and 120.

**14. Post-employment benefits (Continued)**

This equates to average life expectancy as follows:

|  | 2017<br>years | 2016<br>years |
|--|---------------|---------------|
| Normal retirement age  | 60.0          | 60.0          |
| Male life expectancy at retirement age                         | 88.0          | 88.1          |
| Female life expectancy at retirement age                       | 88.9          | 89.0          |
| Male life expectancy at 20 years younger than retirement age   | 90.6          | 90.7          |
| Female life expectancy at 20 years younger than retirement age | 90.6          | 90.7          |

|   | 2017<br>£000       | 2016<br>£000       |
|---|--------------------|--------------------|
| <b>Movement in present value of defined benefit obligations</b>           |                    |                    |
| As at 1 January   | (2,627,527)        | (2,259,197)        |
| Current service cost  | (1,590)            | (1,215)            |
| Interest expense  | (67,611)           | (84,151)           |
| Actuarial remeasurement (recognised in Statement of Comprehensive Income) | (89,216)           | (372,022)          |
| Benefits paid   | 242,899            | 89,058             |
| <b>As at 31 December</b>  | <b>(2,543,044)</b> | <b>(2,627,527)</b> |
| <b>Movement in fair value of plan assets</b>                              |                    |                    |
| As at 1 January   | 1,393,833          | 1,132,740          |
| Expected return on plan assets at liability discount rate                 | 36,769             | 43,721             |
| Actuarial remeasurement (recognised in Statement of Comprehensive Income) | 2,486              | 235,059            |
| Employer contributions  | 92,035             | 71,371             |
| Benefits paid   | (242,899)          | (89,058)           |
| <b>As at 31 December</b>  | <b>1,282,223</b>   | <b>1,393,833</b>   |
| <b>Gross pension obligation included in provisions</b>                    | <b>(1,260,821)</b> | <b>(1,233,694)</b> |
| Insured annuity obligations <sup>1</sup>                                  | 875,068            | 779,041            |
| <b>Gross defined benefit pension deficit</b>                              | <b>(385,753)</b>   | <b>(454,653)</b>   |
| Deferred tax on defined benefit pension deficit                           | 69,050             | 81,018             |
| <b>Net defined benefit pension deficit</b>                                | <b>(316,703)</b>   | <b>(373,635)</b>   |

<sup>1</sup> Insured by Legal and General Assurance Society Limited

The effect of assuming reasonable alternative assumptions in isolation to the gross defined benefit pension deficit are 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.

|  | £m   | £m   |
|--|------|------|
| 1 year increase in longevity                           | (92) | (86) |
| 0.1% decrease in the rate used to discount liabilities | (43) | (43) |
| 0.1% increase in the rate of general inflation (RPI)   | (25) | (20) |

The historic funding and experience adjustments are as follows:

|   | £000               | £000               | £000               | £000               | £000               |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| Present value of defined benefit obligations            | (2,543,044)        | (2,627,527)        | (2,259,197)        | (2,347,532)        | (2,069,180)        |
| Fair value of plan assets                               | 1,282,223          | 1,393,833          | 1,132,740          | 1,132,995          | 956,253            |
| <b>Gross pension obligations included in provisions</b> | <b>(1,260,821)</b> | <b>(1,233,694)</b> | <b>(1,126,457)</b> | <b>(1,214,537)</b> | <b>(1,112,927)</b> |
| Experience adjustments on plan liabilities              | 22,676             | 81,096             | 36,825             | 7,016              | 10,836             |
| Experience adjustment on plan assets                    | 2,486              | 235,059            | (62,295)           | 133,097            | 38,962             |

**14. Post-employment benefits (Continued)**

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

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

|                               | Valuation base on<br>quoted market price UK | Valuation based on other than<br>quoted market price UK |
|-------------------------------|---|---|
|                               | £000  | £000  |
| Equities                      | 595,257                                     | -   |
| Bonds                         | 637,418                                     | -   |
| Properties                    | -   | 67,615  |
| Other investments             | -   | 93,543  |
| <b>As at 31 December 2016</b> | <b>1,232,675</b>                            | <b>161,158</b>  |

The following amounts have been charged to the income statement:

|   | 2017<br>£000  | 2016<br>£000  |
|---|---------------|---------------|
| Current service costs                   | 1,590         | 1,215         |
| Net interest expense                    | 30,842        | 40,430        |
| <b>Total included in other expenses</b> | <b>32,432</b> | <b>41,645</b> |

**15. Share-based payments**

The Company provides the following equity settled share-based long term incentive plans for directors and eligible employees. These incentive plans are based on Legal & General Group Plc shares:

- Savings related share option scheme (SAYE);
- Company share option scheme (CSOP)/Executive share option scheme (ESOS);
- Share bonus plan (SBP);
- Performance share plan (PSP); and
- Employee share plan (ESP).

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 29 months (2016: 30 months). The weighted average share price at the date of exercise was 192p (2016: 98p).

**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 (2016: 101 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.

**15. Share-based payments (Continued)****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.

**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 254p (2016: 221p).

**Total options**

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

| Option Price (pence per share) | Number of shares | Option period ending in |
|--------------------------------|------------------|-------------------------|
| 0                              | 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                    |
| <b>Total</b>                   | <b>9,151,960</b> |                         |

Options over shares outstanding under CSOP, ESOS and SAYE at 31 December 2016 were as shown below:

| Option Price (pence per share) | Number of shares  | Option period ending in |
|--------------------------------|-------------------|-------------------------|
| 0                              | 122,029           | 2021-2026               |
| 50.01 – 60.00                  | 29,106            | 2017                    |
| 60.01 – 70.00                  | 31,160            | 2017                    |
| 70.01 – 80.00                  | 123,693           | 2017-2019               |
| 80.01 – 90.00                  | 18,772            | 2019                    |
| 100.01 – 110.00                | 500,989           | 2017 – 2019             |
| 110.01 – 120.00                | 3,252             | 2022                    |
| 130.01 – 140.00                | 257,092           | 2016 – 2018             |
| 150.01 – 160.00                | 235,178           | 2017 – 2019             |
| 180.01 – 190.00                | 5,865,972         | 2017 – 2021             |
| 190.01 – 200.00                | 1,099,673         | 2018 – 2020             |
| 210.01 – 220.00                | 263,888           | 2024                    |
| 220.01 – 230.00                | 1,384,361         | 2018-2021               |
| 240.01 – 250.00                | 401,269           | 2026                    |
| 280.01 – 290.00                | 322,061           | 2025                    |
| <b>Total</b>                   | <b>10,658,495</b> |                         |

**16. Share capital**

|  | 2017<br>£ | 2016<br>£ |
|--|-----------|-----------|
| Alotted and fully paid: 100 ordinary shares (2016: 100) of £1 each | 100       | 100       |

**17. Contingent liabilities and commitments**

The Company had no contingent liabilities or capital commitments at the balance sheet date.

**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](http://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 20th February 2008 in England and Wales and their registered office address is One Coleman Street, London, EC2R 5AA. They were inactive throughout the 2017 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.

On the 13 February 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.

**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 impact the profitability of the Company.

## 20. Risk Management and Control (Continued)

### 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 (HR) 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.