Aviva Employment Services Limited

Registered in England and Wales No. 03280551

Annual Report and Financial Statements 2018

Contents

Directors and officers

Directors

A J Darlington
A G Pooley
L C Rix
M T Sigsworth
B S Turner
S E Thompson
A Cairns
A J Gammon
I M Hughes

Officer – Company Secretary

Aviva Company Secretarial Services Limited
St Helen's
1 Undershaft
London
EC3P 3DQ

Independent auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Registered office

St Helen's
1 Undershaft
London
EC3P 3DQ

Company number

Registered in England and Wales No. 03280551

Other information

Aviva Employment Services Limited ("the Company") is regulated by the Financial Conduct Authority ("FCA").

The Company is a member of the Aviva plc group of companies ("the Group").

Strategic report

The directors present their strategic report for the Company for the year ended 31 December 2018.

Review of the Company's business

Principal activities

The principal activity of the Company is that of the employing company for the majority of staff of the Aviva plc group of companies ("the Group") in the United Kingdom ("UK").

Financial position and performance

The financial position of the Company at 31 December 2018 is shown in the statement of financial position on page 19, with the trading results shown in the income statement on page 16, and the statement of cash flows on page 20.

Profit for the year before tax has decreased from £311 million in 2017 to £176 million in 2018. The decrease from the prior year is largely due to 2017 including a one off pension contribution funding revenue of £79 million and additional past service pension costs of £62 million in 2018 related to the Guaranteed Minimum Pension ("GMP") equalisation noted below.

Net assets have decreased from £3,053 million as at 31 December 2017 to £2,899 million as at 31 December 2018. The decrease is primarily due to a decrease in the retirement benefit surplus driven by a loss on scheme assets, partially offset by changes in assumptions and employer contributions paid into the schemes.

Significant events

An interim dividend of £22 million on the ordinary shares of the Company was declared and settled by way of a full reduction of the intercompany balance due to Aviva Central Services UK Limited ("ACS"). The dividend was settled on 31 December 2018.

Following the High Court judgement in October 2018 in the case involving Lloyds Banking Group and the resulting requirement to equalise members' benefits for the effects of GMP, an additional estimated liability of £62 million has arisen in the defined benefit schemes at 31 December 2018.

Future outlook

Strategies for the Group as a whole are determined by the Board of Aviva plc and these are shown in the Aviva plc Annual Report and Accounts 2018 and Preliminary Announcement for the year ended 31 December 2018. The Company will work with the Group to support the implementation of these strategies. The directors consider that the Company's principal activities will continue unchanged for the foreseeable future.

It is anticipated that the Company's significant financial assets will continue to comprise the assets of the pension schemes held. The long-term investment objectives are to limit the risk of the assets failing to meet the liabilities of the schemes over the long term, and to maximise returns consistent with an acceptable level of risk so as to control the long-term costs of these schemes.

Principal risks and uncertainties

A description of the material risks and uncertainties facing the Company and the Company's risk management policies are set out in note 17 to the financial statements.

The principal risks and uncertainties faced by the Company relate to exposure to risks affecting its pension scheme surplus, which can be summarised as follows:

- *Market risks* affecting the valuation of pension scheme assets, being interest rates, equity prices, property prices and foreign exchange rates.
- *Credit and market risk* affecting the average rate yield on AA-rated corporate bonds used to discount pension scheme liabilities.
- *Liquidity risks* affecting the Company's ability to make payments as they become due.
- *Other risks* affecting assumptions used to calculate pension scheme liabilities, such as retail / consumer price inflation and mortality assumptions. Mortality assumptions are subject to longevity risk.
- *Brexit*: Although the directors do not believe that Brexit has a significant operational impact on the business, the influence that it will continue to have on the UK economy will require careful monitoring. During the year the Group Board reviewed the impact of potential exit scenarios and the operational response plans.

Strategic report (continued)

Key performance indicators

The directors consider that the Company's key performance indicators ("KPIs") that communicate the financial performance are as follows:

	2018 **£m**	2017 £m
Increase in revenue	**13%**	34%
Profit for the year before tax as a percentage of revenue	**13.6%**	27.2%
Retirement benefit surplus	**3,478**	3,636

The increase in revenue in 2018 is largely due to a full year of cost in 2018 in respect of staff transferred to the Company from Aviva Investors Employment Services Limited ("AIESL") on 1 July 2017 together with an increase in share scheme recharges, partially offset by lower pension contribution funding revenue from one-off receipt in 2017 not repeated in 2018.

Profit for the year before tax as a percentage of revenue is lower than prior year due to a decrease in pension contribution funding revenue and additional past service costs relating to the GMP equalisation.

Retirement benefit surplus is lower in 2018 due to a loss on scheme assets, offset by changes in assumptions and employer contributions paid into the schemes.

Non-Financial Metrics

	2018	2017
Average number of employees	**16,978**	15,861

The increase in 2018 is mainly due to staff transferred to the Company from AIESL on 1 July 2017.

By order of the Board on 1 August 2019

A Cairns
Director

Directors' report

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

Directors

The names of the present directors of the Company appear on page 3.

S E Thompson was appointed as a director of the Company on 7 June 2018.
A Cairns was appointed as a director of the Company on 5 December 2018.
A J Gammon was appointed as a director of the Company on 5 December 2018.
I M Hughes was appointed as a director of the Company on 5 December 2018.

S L Morris resigned as a director of the Company on 7 June 2018.
B Bergin resigned as a director of the Company on 11 October 2018.
K A Cooper resigned as a director of the Company on 5 December 2018.

Dividends

Interim ordinary dividends totalling £22 million on the Company's ordinary shares were declared and settled during 2018 *(2017: £nil)*. The directors do not recommend a final dividend on the Company's ordinary shares for the year ended 31 December 2018 *(2017: £nil)*.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report, which includes a section describing the principal risks and uncertainties. In addition, the financial statements include notes on the Company's management of its major risks (note 17).

The Company and its ultimate parent, Aviva plc, have considerable financial resources and as a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain macro-economic outlook.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of at least twelve months from the date of approval of the financial statements. For this reason, they continue to adopt, and to consider appropriate, the going concern basis in preparing the financial statements.

Future outlook

Likely future developments in the business of the Company are discussed in the strategic report on page 4.

Financial instruments

The business of the Company includes the use of financial instruments. Details of the Company's risk management objectives and policies and exposures to risk relating to financial instruments are set out in note 17 to the financial statements.

Employees

The Group, of which the Company is a part, is committed to continuing communication and dialogue with employees. The existence of a Group wide intranet enables engagement and communication with employees throughout the Group on a single platform. It also helps management to share information, ideas and opportunities quickly and to achieve a common awareness on the part of all employees of the financial and economic factors affecting the performance of the Company. A strong emphasis is placed on the provision of news and information through a range of media.

Employees have opportunities to voice their opinion and ask questions through intranet sites, questions and answer sessions with the Group Chief Executive Officer, via telephone conferencing, opinion surveys and the Voice of Aviva Survey which is open to all employees. Face-to-face briefings and team meetings are actively encouraged and are held in all business units across the Group. The Group's businesses in the UK have established employee consultative forums and a European Consultative Forum convenes annually to discuss matters impacting the business across Europe.

The Group respects all fundamental human rights and is guided in the conduct of its business by the provisions of the United Nations Universal Declaration of Human Rights and the International Labour Organisation core labour standards. The Group also supports the United Nations Global Compact Principles. The Group companies are committed to providing equal opportunities to all employees, irrespective of their gender, sexual orientation, marital status, race, nationality, ethnic origin, disability, age, religion or union membership status. Aviva is an inclusive employer and values diversity in its employees. These commitments extend to recruitment and selection, training, career development, flexible working arrangements, promotion and performance appraisal.

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Directors' Report (continued)

Employees (continued)

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 Company as a whole. Communication with all employees continues through electronic newsletters and the distribution of the annual report.

The Group ensures that involvement for employees in its performance is encouraged by allowing eligible employees to participate in the Group's Matching Share Plan and Save As You Earn Plan. There are also executive share schemes in place for senior employees.

Disclosure of information to the auditors

In accordance with section 418 of the Companies Act 2006, the directors in office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's External Auditors, PricewaterhouseCoopers LLP, are unaware and each director has taken all steps that ought to have been taken as a director in order to make themselves aware of any relevant audit information and to establish that PricewaterhouseCoopers LLP are aware of that information.

Independent auditors

It is the intention of the directors to reappoint the auditors, PricewaterhouseCoopers LLP, under the deemed appointment rules of Section 487 of the Companies Act 2006.

Qualifying indemnity provisions

Aviva plc, the Company's ultimate parent, granted in 2004 an indemnity to the directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985, which continue to apply in relation to any provision made before 1 October 2007. This indemnity is a "qualifying third party indemnity" for the purposes of sections 309A to 309C of the Companies Act 1985. These qualifying third party indemnity provisions remain in force as at the date of approving the directors' report by virtue of paragraph 15, Schedule 3 of the Companies Act 2006 (Commencement No. 3, Consequential Amendments, Transitional Provisions and Savings) Order 2007.

The directors also have the benefit of the indemnity provision contained in the Company's articles of association, subject to the conditions set out in the Companies Act 2006. This is a "qualifying third party indemnity" provision as defined by section 234 of the Companies Act 2006.

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, 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 the directors have prepared the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU"). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make reasonable and prudent judgements and accounting estimates
- state whether applicable IFRSs as adopted by the EU and IFRSs issued by IASB have been followed, subject to any material departures disclosed and explained in the financial statements; 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.

By order of the Board on 1 August 2019

A Cairns
Director

Independent auditors' report

Report on the audit of the financial statements

Opinion

In our opinion, Aviva Employment Services Limited's 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 and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2018; the income statement, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; the accounting policies; and the notes to the financial statements.

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.

Conclusions relating to going concern

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.

We have nothing to report in respect of the above matters.

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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

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.

Independent auditors' report (continued)

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 2018 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 7, 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. 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.

Other required reporting

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

Philip Watson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
1 August 2019

Accounting policies

The Company, a private limited company incorporated and domiciled in the United Kingdom ("UK") and limited by shares, is the employing company for the majority of staff of the Group in the UK. The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(A) Basis of preparation

The financial statements of the Company have been prepared and approved by the directors in accordance with International Financial Reporting Standards ("IFRSs") as endorsed by the European Union ("EU"), and those parts of the Companies Act 2006 applicable to those reporting under IFRS. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss ("FVTPL").

The financial statements have been prepared on the going concern basis as explained in the directors' report on page 6.

The Company's financial statements are stated in pounds sterling, which is the Company's functional and presentational currency. Unless otherwise noted, the amounts shown in these financial statements are in millions of pounds sterling (£m).

New standards, interpretations and amendments to published standards that have been adopted by the Company

The Company has adopted the following amendments to standards which became effective for the annual reporting period beginning 1 January 2018.

(i) IFRS 9, Financial Instruments

In July 2014, the IASB published IFRS 9, Financial Instruments which has replaced IAS 39, Financial Instruments: Recognition and Measurement. The standard incorporates new classification and measurements requirements for financial assets, the introduction of an expected credit loss impairment model which will replace the incurred loss model of IAS 39, and new hedge accounting requirements. Under IFRS 9, all financial assets will be measured at either amortised cost or fair value. The basis of classification will depend on the business model and the contractual cash flow characteristics of the financial assets. The standard retains most of IAS 39's requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value changes attributable to own credit is to be recognised in other comprehensive income instead of the income statement. The hedge accounting requirements are more closely aligned with risk management practices and follow a more principle-based approach.

IFRS 9 is effective for the Company from 1 January 2018.

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at fair value through other comprehensive income ("FVTOCI").
- If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Company assumed that the credit risk on the asset had not increased significantly since its initial recognition.

The adoption of IFRS 9 does not have a significant impact on the Company's primary statements.

Accounting policies (continued)

(A) Basis of preparation (continued)

New standards, interpretations and amendments to published standards that have been adopted by the Company (continued)

(ii) IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. This standard applies to annual reporting periods beginning on or after 1 January 2018 and has been endorsed by the EU. This standard replaces IAS 18, Revenue.

The scope of IFRS 15 includes all contracts where the Company has agreed to provide goods or services to a customer, except for the following:

- Insurance contracts (IFRS 4 / IFRS 17)
- Financial instruments (IAS 39 / IFRS 9)
- Leases (IAS 17 / IFRS 16)

The adoption of this standard has resulted in the following minor amendments to the Company's accounting policies:

- Other investment contract fee revenue - updated to clarify that variable consideration, such as performance fees and commission subject to clawback arrangements, is not recognised as revenue until it is reasonably certain that no significant reversal of amounts recognised would occur.

The adoption of IFRS 15 does not have a significant impact on the Company's financial statements.

Standards, interpretations and amendments to published standards that are not yet effective and have not been adopted early by the Company

The following new standards, amendments to existing standards and interpretations have been issued, are not yet effective and have not been adopted early by the Company:

(i) IFRIC 23, Uncertainty over Income Tax Treatments

In June 2017, the IASB published IFRIC 23, Uncertainty over Income Tax Treatments. The standard is effective for annual reporting beginning on or after 1 January 2019 and has been endorsed by the EU.

(ii) Amendments to IAS 19, Plan Amendment, Curtailment or Settlement

In February 2018, the IASB published Plan Amendment, Curtailment or Settlement (Amendments to IAS 19). The amendments are effective for annual reporting beginning on or after 1 January 2019 and have not yet been endorsed by the EU.

(iii) Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures

In October 2017, the IASB published Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28). The amendments are effective for annual reporting beginning on or after 1 January 2019 and has been endorsed by the EU.

(iv) Annual Improvements to IFRS Standards 2015-2017 Cycle

These improvements consist of amendments to four IFRSs including: IFRS 3, Business Combination; IFRS 11, Joint Arrangements; IAS 12, Income taxes; and IAS 23, Borrowing Costs. The amendments are effective for annual reporting beginning on or after 1 January 2019 and have not yet been endorsed by the EU.

(v) Amendments to References to the Conceptual Framework in IFRS Standards

Published by the IASB in March 2018. The amendments are effective for annual reporting beginning on or after 1 January 2020 and have not yet been endorsed by the EU.

(vi) Amendment to IFRS 3 Business Combinations

Published by the IASB in October 2018. The amendments are effective for annual reporting beginning on or after 1 January 2020 and has been endorsed by the EU.

Accounting policies (continued)

(B) Critical accounting policies and the use of estimates

The preparation of financial statements requires the Company to select accounting policies and make estimates and assumptions that affect items reported in the income statement, statement of financial position, other primary statements and notes to the financial statements.

Critical accounting policies

The following accounting policies are those that have the most significant impact on the amounts recognised in the financial statements, with those judgements involving estimation summarised thereafter.

Item	Critical accounting judgement	Accounting policy
Pension obligations	Set out in accounting policy K	K

Use of estimates

All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events and actions. Actual results may differ from those estimates, possibly significantly.

The table below sets out those items considered particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy and note disclosures.

Item	Critical accounting estimates	Accounting policy	Note
Pension obligations	Set out in accounting policy K	K	13

(C) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. This presumes that the transaction takes place in the principal (or most advantageous) market under current market conditions. Fair value is a market-based measure and in the absence of observable market prices in an active market, it is measured using the assumptions that market participants would use when pricing the asset or liability.

The fair value of a non-financial asset is determined based on its highest and best use from a market participant's perspective. When using this approach, the Company takes into account the asset's use that is physically possible, legally permissible and financially feasible.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received. In certain circumstances, the fair value at initial recognition may differ from the transaction price. If the fair value is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or is based on a valuation technique whose variables include only data from observable markets, then the difference between the fair value at initial recognition and the transaction price is recognised as a gain or loss in the income statement. When unobservable market data has a significant impact on the valuation of financial instruments, the difference between the fair value at initial recognition and the transaction price is not recognised immediately in the income statement, but deferred and recognised in the income statement on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out or otherwise matures.

If an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances is used to measure fair value.

(D) Derecognition and offset of financial assets and financial liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and has either transferred substantially all the risks and rewards of the asset or has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Financial assets and liabilities are offset, and the net amount reported in the statement of financial position when there is a currently enforceable legal right to set off the recognised amounts and there is the ability and intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Accounting policies (continued)

(E) Receivables and other financial assets

Receivables and other financial assets are recognised initially at their fair value. Subsequent to initial measurement receivables are measured at amortised cost using the effective interest rate method, less expected credit losses.

(F) Payables and other financial liabilities

Payables and other financial liabilities are recognised initially at their fair value and are subsequently measured at amortised cost using the effective interest rate method.

(G) Statement of cash flows

Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are those with less than three months' maturity from the date of acquisition, or which are redeemable on demand with only an insignificant change in their fair values.

For the purposes of the statement of cash flows, cash and cash equivalents also include bank overdrafts, which are included in payables and other financial liabilities on the statement of financial position.

(H) Provisions and contingent liabilities

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more probable than not that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recorded as a provision is the best estimate of the expenditure required to settle the present value of obligation at the balance sheet date. Where the effect of the time value of money is material, the provision is the present value of the expected expenditure.

Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The Company recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable, or the amount cannot be reasonably estimated.

(I) Income taxes

The current tax expense is based on the taxable profits for the year, after any adjustments in respect of prior years. Tax, including tax relief for losses if applicable, is allocated over profits before taxation and amounts charged or credited to components of other comprehensive income and equity as appropriate.

Provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The rates enacted or substantively enacted at the statement of financial position date are used to value the deferred tax assets and liabilities.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Where there is a history of tax losses, deferred tax assets are only recognised in excess of deferred tax liabilities if there is convincing evidence that future profits will be available.

Deferred tax is provided on any temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Deferred taxes are not provided in respect of any temporary differences arising from the initial recognition of goodwill, or from the initial recognition of an asset or liability in a transaction which is not a business combination and affects neither accounting profit nor taxable profit or loss at the time of the transaction.

Current and deferred tax relating to items recognised in other comprehensive income and directly in equity are similarly recognised in other comprehensive income and directly in equity respectively. Deferred tax related to any fair value re-measurement of pensions and other post-retirement obligations and other amounts charged or credited directly to other comprehensive income is recognised in the statement of financial position as a deferred tax asset or liability.

Accounting policies (continued)

(J) Share capital

Equity instruments

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Accordingly, a financial instrument is treated as equity if:

- there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and
- the instrument is a non-derivative that contains no contractual obligation to deliver a variable number of shares or is a derivative that will be settled only by the Company exchanging a fixed amount of cash or other assets for a fixed number of the Company's own equity instruments.

Dividends

Interim dividends on ordinary shares are recognised in equity in the period in which they are paid. Final dividends on these shares are recognised when they have been approved by shareholders.

(K) Employee benefits

Pension obligations

The Company operates three schemes, whose members receive benefits on either a defined benefit or defined contribution basis. Under a defined contribution plan, the Company's legal or constructive obligation is limited to the amount it agrees to contribute to a fund and there is no obligation to pay further contributions if the fund does not hold sufficient assets to pay benefits. A defined benefit pension plan is a pension plan that is not a defined contribution plan and typically defines the amount of pension benefit that an employee will receive on retirement.

The defined benefit obligation is calculated by independent actuaries using the projected unit credit method. The pension obligation is measured as the present value of the estimated future cash outflows, using a discount rate based on market yields for 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 liability. The resultant net surplus or deficit recognised as an asset or liability on the statement of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. Plan assets exclude unpaid contributions due from Group entities to the schemes, and any non-transferrable financial instruments issued by a Group entity and held by the schemes.

If the fair value of plan assets exceeds the present value of the defined benefit obligation, the resultant asset is limited to the asset ceiling defined as the present value of economic benefits available in the form of future refunds from the plan or reductions in contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Company.

Remeasurements of defined benefit plans comprise actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, the return on plan assets (excluding net interest) and the effect of the asset ceiling (if any). The Company recognises remeasurements immediately in other comprehensive income and does not reclassify them to the income statement in subsequent periods.

Service costs comprising current service costs, past service costs, gains and losses on curtailments and net interest expense/(income) are charged or credited to the income statement.

Past service costs are recognised at the earlier of the date the plan amendment or curtailment occurs or when related restructuring costs are recognised.

The Company determines the net interest expense/(income) on the net defined liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset). Net interest expense is charged to finance costs, whereas net interest income is credited to investment income.

For defined contribution plans, the Company pays contributions to publicly or privately administered pension plans. Once the contributions have been paid, the Company, as employer, has no further payment obligations. The Company's contributions are charged to the income statement in the year to which they relate and are included in staff costs.

(L) Revenue recognition

Revenue, which excludes VAT, represents income from the provision of staff to UK companies within the Group, which is recognised in the accounting period in which the services are rendered.

Accounting policies (continued)

(M) Expense recognition

Share based payments

Equity-settled share-based payments to employees and others providing services are measured at fair value of the equity instruments of the ultimate parent entity, Aviva plc at the grant date. The fair value excludes the effect of non market-based vesting conditions.

The fair value determined at the grant date of the equity-settled payments is expensed on a straight-line basis over the vesting period, based on estimate of equity instruments that will eventually vest. At each period end, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in the Statement of Comprehensive Income.

Income statement
For the year ended 31 December 2018

	Note	2018 £m	2017 £m
Revenue	L, 1 & 18(a)(i)	**1,294**	1,143
Cost of sales	2	**(1,207)**	(920)
Gross profit		**87**	223
Net investment income	K & 3	**89**	88
Profit for the year before tax		**176**	311
Tax charge	I & 7(a)(i)	**(38)**	(52)
Profit for the year after tax		**138**	259

The accounting policies (identified alphabetically) on pages 10 to 15 and notes (identified numerically) on pages 21 to 37 are an integral part of these financial statements.

Statement of comprehensive income
For the year ended 31 December 2018

	Note	2018 £m	2017 £m
Profit for the year		**138**	259
Other comprehensive (losses)/income:			
Items that will not be reclassified to income statement			
Remeasurements of pension schemes	K & 13(b)(i)	**(330)**	2
Tax credit/(charge)	I & 7(b)	**60**	(17)
Total other comprehensive losses, net of tax		**(270)**	(15)
Total comprehensive (expense)/ income for the year		**(132)**	244

The accounting policies (identified alphabetically) on pages 10 to 15 and notes (identified numerically) on pages 21 to 37 are an integral part of these financial statements.

Statement of changes in equity
For the year ended 31 December 2018

	Note	Ordinary share capital £m	Retained earnings £m	Total equity £m
Balance at 1 January 2017		-	2,809	2,809
Profit for the year		-	259	259
Other comprehensive losses		-	(15)	(15)
Total comprehensive income for the year		-	244	244
Balance at 31 December 2017		-	**3,053**	**3,053**
Profit for the year		-	**138**	**138**
Other comprehensive losses		-	**(270)**	**(270)**
Total comprehensive expense for the year		-	**(132)**	**(132)**
Dividends paid	J & 8	-	**(22)**	**(22)**
Balance at 31 December 2018		-	**2,899**	**2,899**

The accounting policies (identified alphabetically) on pages 10 to 15 and notes (identified numerically) on pages 21 to 37 are an integral part of these financial statements.

Statement of financial position
As at 31 December 2018

	Note	2018 £m	2017 £m
Assets			
Non-current assets			
Current tax asset	I & 12(a)	**3**	-
Deferred tax asset	I & 12(b)	**23**	25
Retirement benefit surplus	K & 13(a)	**3,478**	3,636
Current assets			
Receivables and other financial assets	E & 9	**162**	128
Cash and cash equivalents	G & 16(b)	**93**	72
Total assets		**3,759**	3,861
Equity			
Ordinary share capital	J & 10	**-**	-
Retained earnings	11	**2,899**	3,053
Total equity		**2,899**	3,053
Liabilities			
Non-current liabilities			
Current tax liability	I & 12(a)	**-**	12
Deferred tax liability	I & 12(b)	**694**	720
Current liabilities			
Payables and other financial liabilities	F & 15	**163**	72
Provisions	H & 14	**3**	4
Total liabilities		**860**	808
Total equity and liabilities		**3,759**	3,861

The financial statements were approved by the Board of Directors on 1 August 2019 and signed on its behalf by

A Cairns
Director

Registered in England and Wales No. 03280551

The accounting policies (identified alphabetically) on pages 10 to 15 and notes (identified numerically) on pages 21 to 37 are an integral part of these financial statements.

Statement of cash flows
For the year ended 31 December 2018

	Note	**2018 £m**	2017 £m
Cash flows from operating activities			
Cash generated from operating activities	16(a)	**21**	59
Net cash generated from operating activities		**21**	59
Net increase in cash and cash equivalents		**21**	59
Cash and cash equivalents at 1 January		**72**	13
Cash and cash equivalents at 31 December	G & 16(b)	**93**	72

The accounting policies (identified alphabetically) on pages 10 to 15 and notes (identified numerically) on pages 21 to 37 are an integral part of these financial statements.

Notes to the financial statements

1. Revenue

The Company's activities consist solely of acting as the employing company for the majority of staff of the Group in the UK. Refer to note 18 for further information on income earned during the year.

2. Cost of sales

	Note	2018 £m	2017 £m
Wages and salaries		**668**	574
Social security costs		**102**	86
Defined benefit scheme contributions	13(b)(i) & 13(d)	**84**	21
Defined contribution scheme contributions	13(d)	**132**	111
Profit sharing and incentive plans	2(a)	**198**	102
Termination benefits		**15**	18
Other costs		**8**	8
Total staff costs		**1,207**	920

(a) Profit sharing and incentive plans

Whilst the expense arising from equity-settled transactions is recorded in the income statement, in accordance with IFRS 2 the corresponding credit entry is classified as a capital contribution received from Aviva plc within equity. However, this capital contribution is immediately offset by a corresponding management recharge of equivalent value.

3. Net investment income

	Note	2018 £m	2017 £m
Net interest income on pension schemes held at amortised cost	13(b)(i)	**89**	88
		89	88

4. Employee information

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

	2018	2017
United Kingdom	**16,978**	15,861

5. Directors' remuneration

All directors are remunerated by the Company for their services to the Group as a whole. They are not remunerated directly for their services as directors of the Company and the amount of time spent performing their duties is incidental to their role across the Group. This is consistent with prior years.

A J Darlington's and K A Cooper's remuneration is disclosed within the aggregate of key management compensation in the annual report and accounts of Aviva plc.

Notes to the financial statements (continued)

6. Auditors' remuneration

The total remuneration payable by the Company, excluding VAT, to its auditors, PricewaterhouseCoopers LLP is as follows:

	2018 £	2017 £
Fees payable to PwC LLP for the statutory audit of the Company's financial statements	**201,924**	70,000

The Company is exempt under SI 2008/489 from the obligation to disclose fees in respect of 'Other services' as the Company is a subsidiary of Aviva plc, which prepares consolidated financial statements. Fees paid to the Company's auditors, PricewaterhouseCoopers LLP and its associates for services other than the statutory audit of the Company and other Group undertakings are disclosed in the consolidated accounts of Aviva plc.

There were no non-audit fees paid to the Company's auditors during the year *(2017: £nil)*. All fees have been borne by Aviva plc (see note 18(a)(iii)).

7. Tax

(a) Tax charged to the income statement

(i) The total tax charge comprises:

	Note	2018 £m	2017 £m
Current tax			
For this year		**(36)**	(41)
Adjustments in respect of prior years		**(5)**	-
Total current tax		**(41)**	(41)
Deferred tax:			
Origination and reversal of temporary differences		**-**	(11)
Changes in the tax rates or tax laws		**3**	-
Total deferred tax	7(a)(ii)	**3**	(11)
Total tax charged to the income statement	7(c)	**(38)**	(52)

(ii) Deferred tax credited/(charged) to the income statement represents movements on the following items:

	2018 £m	2017 £m
Pensions and other post retirement obligations	**3**	(11)
Total deferred tax credited/(charged) to the income statement	**3**	(11)

(b) Tax credited/(charged) to other comprehensive income

The tax credited/(charged) to other comprehensive income comprises:

	2018 £m	2017 £m
Current tax		
In respect of pensions and other post retirement obligations	**39**	29
Deferred tax:		
In respect of pensions and other post retirement obligations	**21**	(46)
Total tax credited/(charged) to other comprehensive income	**60**	(17)

Notes to the financial statements (continued)

7. Tax (continued)

(c) Tax reconciliation

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate of the United Kingdom as follows:

	2018 £m	2017 £m
Profit for the year before tax	**176**	311
Tax calculated at standard UK corporation tax rate of 19% *(2017: 19.25%)*	**(33)**	(60)
Adjustments in respect of prior years	**(5)**	-
Disallowable expenses	**(9)**	-
Movement in deferred tax	**-**	2
Share schemes	**6**	6
Impact of change in rate of tax	**3**	-
Total tax charged to the income statement	**(38)**	(52)

Finance Act 2016, which received Royal Assent on 15 September 2016, will reduce the corporation tax rate to 17% from 1 April 2020. The reduction in rate from 19% to 17% has been used as appropriate in the calculation of the Company's deferred tax assets and liabilities at 31 December 2018.

8. Dividends

	2018 £m	2017 £m
Ordinary dividends declared and charged to equity in the year		
Interim dividend - paid £10,802,917.50 per share on 31 December 2018	**22**	-
	22	-

The interim dividend was settled by way of a full reduction of the intercompany balance due from the Company's immediate parent, ACS.

9. Receivables and other financial assets

	Note	2018 £m	2017 £m
Amounts due from parent	18(a)(i)	**70**	28
Amounts due from fellow Group companies	18(a)(i)	**91**	87
Group relief asset	18(a)(iv)	**-**	11
Other receivables		**1**	2
Total at 31 December		**162**	128
Expected to be recovered in less than one year		**162**	128
Total at 31 December		**162**	128

The fair value of receivables is approximate to their carrying amounts. All receivables are held at amortised cost.

10. Ordinary share capital

	2018 £	2017 £
Allotted, called up and fully paid		
2 *(2017: 2)* ordinary shares of £1 each	**2**	2

Ordinary shares in issue in the Company rank pari passu. All the ordinary shares in issue carry the same right to receive all dividends and other distributions declared, made or paid by the Company.

Notes to the financial statements (continued)

11. Retained earnings

	Note	2018 £m	2017 £m
At 1 January		**3,053**	2,809
Profit for the year		**138**	259
Other comprehensive losses for the year		**(270)**	(15)
Dividends paid	8	**(22)**	-
At 31 December		**2,899**	3,053

12. Tax assets and liabilities

(a) Current tax

	2018 £m	2017 £m
Expected to be (payable)/recoverable in more than one year	**3**	(12)
Net tax (liability)/asset recognised in the statement of financial position	**3**	(12)

Assets and liabilities for prior years tax to be settled by group relief of £17 million liability *(2017: £11 million asset)* are included within payables and other financial liabilities (note 15) *(2017: receivables and other financial assets (note 9))* and are payable/receivable in less than one year.

(b) Deferred tax

(i) The balance at 31 December comprises:

	2018 £m	2017 £m
Deferred tax asset	**23**	25
Deferred tax liability	**(694)**	(720)
Net deferred tax liability	**(671)**	(695)

(ii) The net deferred tax liability arises on the following items:

	2018 £m	2017 £m
Provisions and other timing differences	**-**	1
Pensions and other post retirement obligations	**(681)**	(704)
Other temporary differences	**10**	8
Net deferred tax liability	**(671)**	(695)

(iii) The movement in the net deferred tax liability comprises:

	Note	2018 £m	2017 £m
As at 1 January		**(695)**	(638)
Amounts credited/(charged) to income statement	7(a)(ii)	**3**	(11)
Amounts credited/(charged) to other comprehensive income	7(b)	**21**	(46)
As at 31 December		**(671)**	(695)

The Company has unrecognised capital losses of £27 million *(2017: £27 million)* to carry forward indefinitely against future taxable gains.

Notes to the financial statements (continued)

13. Retirement benefit surplus

(a) Introduction

The Company operates a number of defined benefit and defined contribution pension schemes. The material defined benefit schemes are the Aviva Staff Pension Scheme ("ASPS"), the RAC (2003) Pension Scheme ("RAC") which was retained after the sale of RAC Limited in September 2011, and the Friends Provident Pension Scheme ("FPPS"), which was transferred to the Company in 2016 from Friends Life Management Services Limited ("FLMS"), a management service company within the Group.

As the defined benefit section of each scheme is now closed to both new members and future accrual, existing deferred members and new entrants participate in the defined contribution section of the ASPS. Each scheme operates within the UK pensions' regulatory framework.

The assets and liabilities of the material defined benefit schemes as at 31 December are shown below:

				2018				2017
	ASPS	**RAC**	**FPPS**	**Total**	ASPS	RAC	FPPS	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Total fair value of the scheme assets (see b(ii) below)	**13,902**	**1,879**	**1,898**	**17,679**	14,441	1,968	1,956	18,365
Present value of defined benefit obligation	**(10,994)**	**(1,531)**	**(1,676)**	**(14,201)**	(11,370)	(1,602)	(1,757)	(14,729)
Net surplus in the schemes	**2,908**	**348**	**222**	**3,478**	3,071	366	199	3,636

Under the IAS 19 valuation basis, the Company applies the principles of IFRIC 14, 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction', whereby a surplus is only recognised to the extent that the Company is able to access the surplus either through an unconditional right of refund to the surplus or through reduced future contributions relating to ongoing service, which have been substantively enacted or contractually agreed. The Company has determined that it can derive economic benefit from the surplus in the ASPS via a reduction to future employer contributions for DC members, which could theoretically be paid from the surplus funds in the ASPS. In the RAC and FPPS, the Company has determined that the rules set out in the schemes' governing documentation provide for an unconditional right to a refund from any future surplus funds in the schemes.

The assets of the schemes are held in separate trustee-administered funds to meet long-term pension liabilities to past and present employees. In all schemes, the appointment of trustees of the funds is determined by their trust documentation, and they are required to act in the best interests of the schemes' beneficiaries. The long-term investment objectives of the trustees and the employers are to limit the risk of the assets failing to meet the liabilities of the schemes over the long term, and to maximise returns consistent with an acceptable level of risk so as to control the long-term costs of these schemes. Closure of the schemes has removed the volatility associated with additional future accrual for active members.

A funding actuarial valuation of each of the defined benefit schemes is carried out at least every three years for the benefit of scheme trustees and members. Actuarial reports have been submitted for each scheme within this period.

Notes to the financial statements (continued)

13. Retirement benefit surplus (continued)

(b) IAS 19 disclosures

Disclosures under IAS 19 are given below. Where schemes provide both defined benefit and defined contribution pensions, the assets and liabilities shown exclude those relating to defined contribution pensions.

(i) Movements in the schemes surpluses

Movements in the pension schemes' surpluses comprise:

2018	Note	Fair Value of Scheme Assets £m	Present Value of defined benefit obligation £m	IAS 19 Pensions net surplus £m
Net surplus in the schemes at 1 January		18,365	(14,729)	3,636
Past service costs[1]		-	(62)	(62)
Administrative expenses[2]		-	(22)	(22)
Total pension cost charged to cost of sales	2	-	(84)	(84)
Net interest credited to net investment income	3	435	(346)	89
Total recognised in income statement		435	(430)	5
Remeasurements:				
Actual return on these assets		(174)	-	(174)
Less: Interest income on schemes assets		(435)	-	(435)
Return on schemes assets excluding amounts in interest income		(609)	-	(609)
Gain from change in financial assumptions		-	614	614
Loss from change in demographic assumptions		-	(225)	(225)
Experience loss		-	(110)	(110)
Total remeasurements recognised in other comprehensive income		(609)	279	(330)
Employer contributions		167	-	167
Plan participants' contributions		10	(10)	-
Benefits paid		(667)	667	-
Administrative expenses paid from schemes assets[2]		(22)	22	-
Net surplus in the schemes at 31 December		17,679	(14,201)	3,478

1 Past service costs include a charge of £62 million relating to the estimated additional liability arising in the defined benefit schemes as a result of the requirement to equalise members' benefits for the effects of Guaranteed Minimum Pension (GMP). This additional liability has arisen following the High Court judgement in October 2018 in the case involving Lloyds Banking Group.

2 Administrative expenses are expensed as incurred.

The decrease in the surplus during the period is primarily due to loss on schemes assets, partially offset by changes in assumptions and employer contributions paid into the schemes.

Notes to the financial statements (continued)

13. Retirement benefit surplus (continued)

(b) IAS 19 disclosures (continued)

(i) Movements in the schemes surpluses (continued)

2017	Note	Fair Value of Scheme Assets £m	Present Value of defined benefit obligation £m	IAS 19 Pensions net surplus £m
Net surplus in the schemes at 1 January		19,463	(16,088)	3,375
Administrative expenses[1]		-	(21)	(21)
Total pension cost charged to cost of sales	2	-	(21)	(21)
Net interest credited to net investment income	3	465	(377)	88
Total recognised in income statement		465	(398)	67
Remeasurements:				
Actual return on these assets		695	-	695
Less: Interest income on schemes assets		(465)	-	(465)
Return on schemes assets excluding amounts in interest income		230	-	230
Loss from change in financial assumptions		-	(176)	(176)
Gain from change in demographic assumptions		-	10	10
Experience loss		-	(62)	(62)
Total remeasurements recognised in other comprehensive income		230	(228)	2
Employer contributions		192	-	192
Plan participant contributions		8	(8)	-
Benefits paid		(1,972)	1,972	-
Administrative expenses paid from schemes assets[1]		(21)	21	-
Net surplus in the schemes at 31 December		18,365	(14,729)	3,636

1 Administrative expenses are expensed as incurred.

(ii) Scheme assets

Scheme assets are stated at their fair values at 31 December 2018. Total scheme assets are analysed by those that have a quoted market price in an active market and those that do not as follows

	2018			2017		
	Total Quoted £m	**Total Unquoted £m**	**Total £m**	Total Quoted £m	Total Unquoted £m	Total £m
Bonds						
Fixed interest	**3,076**	**3,045**	**6,121**	3,926	2,999	6,925
Indexed-linked	**9,985**	**424**	**10,409**	11,335	408	11,743
Equities	**-**	**-**	**-**	35	94	129
Property	**-**	**353**	**353**	-	365	365
Pooled investment vehicles	**-**	**4,738**	**4,738**	-	4,955	4,955
Derivatives	**(12)**	**(52)**	**(64)**	1	(35)	(34)
Cash and other[1]	**(1,205)**	**(2,673)**	**(3,878)**	(1,816)	(3,902)	(5,718)
Total fair value of assets	**11,844**	**5,835**	**17,679**	13,481	4,884	18,365

1 Cash and other assets comprise cash at bank, insurance policies, receivables, payables and repurchase agreements. At 31 December 2018, cash and other assets primarily consist of repurchase agreements of £3,162 million *(2017: £5,096 million)*.

Notes to the financial statements (continued)

13. Retirement benefit surplus (continued)

(b) IAS 19 disclosures (continued)

(ii) Scheme assets (continued)

Plan assets include investments in Aviva Group-managed funds of £2,280 million *(2017: £2,046 million)* and transferrable insurance policies with other Group companies of £156 million *(2017: £172 million)* in ASPS. Where the investment and insurance policies are in segregated funds with specific asset allocations, they are included in the appropriate line in the table above, otherwise they appear in 'Cash and other'. There are no significant judgements involved in the valuation of scheme assets.

(iii) Assumptions on scheme liabilities

The valuations used for accounting under IAS 19 have been based on the most recent funding actuarial valuations, updated to take account of the standard's requirements in order to assess the liabilities of the material schemes at 31 December 2018.

The projected unit credit method

The inherent uncertainties affecting the measurement of scheme liabilities require these to be measured on an actuarial basis. This involves discounting the best estimate of future cash flows to be paid out by the scheme using the projected unit credit method. This is an accrued benefits valuation method which calculates the past service liability to members and makes allowance for their projected future earnings. It is based on a number of actuarial assumptions and changes in these assumptions can materially affect the measurement of the pension obligations.

Financial assumptions

The main financial assumptions used to calculate scheme liabilities under IAS19 are:

	2018	2017
Inflation rate[1]	**3.3% / 2.2%**	**3.2% / 2.1%**
General salary increases[2]	**5.1%**	**5.0%**
Pension increases[3]	**3.3% / 2.2%**	**3.2% / 2.1%**
Deferred pension increases[3]	**3.3% / 2.2%**	**3.2% / 2.1%**
Discount rate[4]	**2.7%**	**2.4%**
	2.6% (pensioners)/	**2.4% (pensioners)/**
	2.7% (deferred)	**2.4% (deferred)**
Basis of discount rate		AA-rated corporate bonds

1 Assumptions provided for RPI/CPI. The assumptions for the ASPS and RAC schemes are the single rates for RPI/CPI; for FPPS, relevant RPI/CPI swap curves are used, which are broadly equivalent to these single rates.
2 For ASPS, the only remaining linkage between pension benefits and general salary increases is in respect of a small amount of Guaranteed Minimum Pensions benefits that increases, in line with National Average Earnings.
3 Assumptions provided for RPI/CPI. The assumptions for the ASPS and RAC schemes are the single rates for RPI/CPI; for FPPS, relevant RPI/CPI swap curves are used, which are broadly equivalent to these single rates. The assumptions are also adjusted to reflect the relevant caps/floors and the inflation volatility.
4 To calculate scheme liabilities, a single discount rate is used in ASPS/RAC, whereas in FPPS, separate discount rates are used for the defined benefit obligation for pensioners and deferred.

The discount rate and pension increase rate are the two assumptions that have the largest impact on the value of the liabilities, with the difference between them being known as the net discount rate. The discount rate is based on current average yields of high-quality debt instruments taking account of the maturities of the defined benefit obligations.

Notes to the financial statements (continued)

13. Retirement benefit surplus (continued)

(b) IAS 19 disclosures (continued)

(iii) Assumptions on scheme liabilities (continued)

Mortality assumptions

Mortality assumptions are significant in measuring the obligations under the Company's defined benefit schemes, particularly given the maturity of these obligations in the material schemes. The assumptions used are summarised in the table below and have been selected to reflect the characteristics and experience of the membership of these schemes.

The mortality tables, average life expectancy and pension duration used at 31 December 2018 for scheme members are as follows:

		Life expectancy / (pension duration) at NRA of a male		Life expectancy / (pension duration) at NRA of a female	
Mortality table	Normal retirement age (NRA)	Currently aged NRA	20 years younger than NRA	Currently aged NRA	20 years younger than NRA
ASPS - Club Vita pooled experience, including an allowance for future improvements	60	88.8 (28.8)	90.7 (30.7)	90.2 (30.2)	92.5 (32.5)
RAC schemes - SAPS, including allowances for future improvement	65	87.1 (22.1)	89.0 (24.0)	89.0 (24.0)	90.6 (25.6)
FPPS schemes - SAPS, including allowances for future improvement	60	87.9 (27.9)	90.4 (30.4)	90.5 (30.5)	92.6 (32.6)

The assumptions above are based on commonly used mortality tables. The tables make allowance for observed variations in such factors as age, gender, pension amount, salary and postcode-based lifestyle group, and have been adjusted to reflect recent research into mortality experience. However, the extent of future improvements in longevity is subject to considerable uncertainty and judgement is required in setting this assumption. For the ASPS, which is the most material scheme to the Company, the allowance for mortality improvement is per the actuarial profession's 'CMI_2017 (S=7.5) Advanced with adjustments' model (2017: 'CMI_2016 (S=7.5) Advanced with adjustments'), with a long-term improvement rate of 1.75% *(2017: 1.75%)* for males and 1.5% (2017: 1.5%) for females. The CMI_2017 tables have been adjusted by adding 0.25% *(2017: 0.25%)* and 0.35% *(2017: 0.35%)* to the initial rate of mortality improvements for males and females respectively (to allow for greater mortality improvements in the pension scheme membership relative to the general population on which CMI_2017 is based), and uses the advanced parameters to taper the long-term improvement rates to zero between ages 90 and 115 (the 'core' parameters taper the long-term improvement rates to zero between ages 85 and 110).

Sensitivity analysis

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, inflation rate and mortality. The sensitivity analysis below has been determined by changing the respective assumptions whilst holding all other assumptions constant. The following table summarises how the defined benefit obligation of £14,201 million *(2017: £14,729 million)* would have increased/ (decreased) as a result of the change in the respective assumptions:

Impact on present value of defined benefit obligation

	Increase in discount rate +1% £m	Decrease in discount rate -1% £m	Increase in inflation rate +1% £m	Decrease in inflation rate -1% £m	1 year younger[1] £m
Impact on present value of defined benefit obligation at 31 December 2018	**(2,310)**	**3,052**	**2,156**	**(1,710)**	**493**
Impact on present value of defined benefit obligation at 31 December 2017	(2,495)	3,333	2,420	(1,860)	529

1 The effect of assuming all members in the schemes were one year younger.

It is unlikely that the changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, the present value of the defined benefit obligation has been calculated using the projected unit credit method, which is the same as that applied in calculating the defined benefit obligation recognised within the statement of financial position. In addition, the sensitivities shown are for liabilities only and ignore the impact on assets, which would significantly mitigate the net interest rate and inflation sensitivity impact on the net surplus.

Notes to the financial statements (continued)

13. Retirement benefit surplus (continued)

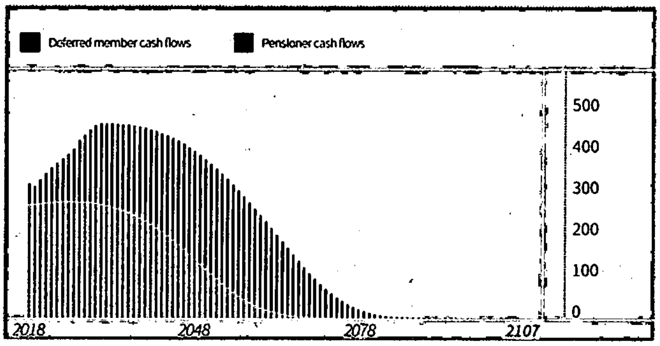
(b) IAS 19 disclosures (continued)

(iii) Assumptions on scheme liabilities (continued)

Maturity profile of the defined benefit obligation

The discounted scheme liabilities have an average duration of 19 years in ASPS, 20 years in the RAC scheme and 18 years in FPPS. The expected undiscounted benefits payable from ASPS is shown in the chart below:

Undiscounted benefit payments (£m)



(iv) Risk management and asset allocation strategy

As noted above, the long-term investment objectives of the trustees and the employers are to limit the risk of the assets failing to meet the liabilities of the schemes over the long term, and to maximise returns consistent with an acceptable level of risk so as to control the long-term costs of these schemes. To meet those objectives, the schemes' assets are invested in a portfolio consisting primarily of debt securities. The investment strategy will continue to evolve over time and is expected to match to the liability profile increasingly closely with swap overlays to improve interest rate and inflation matching. The schemes are generally matched to interest rate risk relative to the funding bases.

ASPS

The Company works closely with the trustee, who is required to consult it on the investment strategy.

Interest rate and inflation risks are managed using a combination of liability-matching assets and swaps. Exposure to equity risk has been reducing over time and credit risk is managed within risk appetite. Currency risk is relatively small and is largely hedged. The other principal risk is longevity risk. This risk has reduced due to the ASPS entering into a longevity swap in 2014 covering approximately £5 billion of pensioner in payment scheme liabilities

Other schemes

The RAC scheme and FPPS are considerably less material but their risks are managed in a similar way to those in ASPS.

(v) Funding

Formal actuarial valuations normally take place every three years and where there is a deficit, the Group and the trustees would agree a deficit recovery plan. The assumptions adopted for triennial actuarial valuations are determined by the trustees and agreed with the Group and are normally more prudent than the assumptions adopted for IAS19 purposes, which are best estimate.

For the ASPS, following the latest formal actuarial valuation (with an effective date of 31 March 2015) a schedule of contributions was agreed with the trustees, even though the ASPS was fully funded on its technical provisions basis consistent with the requirements of the UK pension regulations. The ASPS is currently undergoing a triennial actuarial valuation as at 31 March 2018.

Total employer contributions for all schemes in 2019 are currently expected to be £0.2 billion.

(c) Defined contribution (money purchase) section of the ASPS

The trustees have responsibility for selecting a range of suitable funds in which the members can choose to invest and for monitoring the performance of the available investment funds. Members of this section contribute at least 2% of their pensionable salaries and, depending on the percentage chosen, the Company contributes up to a maximum 14%, together with the cost of the death-in-service benefits. These contribution rates remained unchanged until June 2017. From 1 July 2017, for every 1% additional employee contribution over 8%, the Company will contribute an additional 0.1% employer contribution.

Notes to the financial statements (continued)

13. Retirement benefit surplus (continued)

(d) Credits or charges to staff costs in the income statement

The total pension costs of the pension schemes borne by, and the amounts credited in, the Company were:

	Note	**2018 £m**	2017 £m
Defined benefit sections	2	**(84)**	(21)
Defined contribution sections	2	**(132)**	(111)
Total pension costs		**(216)**	(132)
Less: Amounts recharged to operating businesses		**303**	355
Net credit to the income statement		**87**	223

The Company has deferred £90 million *(2017: £87 million)* of contributions to the ASPS which will be paid in 2019, as part of an agreement with the trustee that allows contributions to be paid (with interest) up to 12 months after they would otherwise be due.

14. Provisions

(a) Carrying amounts

	2018 £m	2017 £m
Provision for holiday pay	**3**	4
Total at 31 December	**3**	4

(b) Movement in provisions

	2018 £m	2017 £m
As at 1 January	**4**	4
Unused amounts reversed	**(1)**	-
As at 31 December	**3**	4

15. Payables and other financial liabilities

	Note	**2018 £m**	2017 £m
Due to fellow Group companies	18(a)(ii)	**118**	48
Other payables including other taxes and social security		**28**	24
Group relief liability	18(a)(iv)	**17**	-
Total at 31 December		**163**	72
Expected to be settled within one year		**163**	72
Total at 31 December		**163**	72

All payables and other financial liabilities are carried at cost, which approximates to fair value.

Notes to the financial statements (continued)

16. Statement of cash flows

(a) The reconciliation of profit before tax to the net cash outflow from operating activities is:

	Note	2018 £m	2017 £m
Profit for the year before tax		**176**	311
Adjustments for:			
Pension cost charged to income statement	13(b)(i)	**84**	21
Net investment income on pension scheme	13(b)(i)	**(89)**	(88)
Net gain on pension schemes		**(5)**	(67)
Changes in working capital:			
Decrease/(increase) in receivables and other financial assets[1]	9	**(67)**	(49)
Decrease in provisions	14	**(1)**	-
Increase in payables and other financial liabilities[2]	15	**74**	48
Decrease in borrowings		**-**	(1)
		6	(2)
Group relief settlement		**11**	9
Pension contributions paid	13(b)(i)	**(167)**	(192)
Total cash generated from operating activities		**21**	59

1 Increase in receivables are stated after eliminating group relief asset of £nil (2017: £11 million) and dividends settled by way of reduction of intercompany receivable of £22 million (2017: £nil)
2 Increase in payables are stated after eliminating group relief asset of £17 million (2017: £nil)

(b) Cash and cash equivalents in the statement of cash flows at 31 December comprise:

	2018 £m	2017 £m
Cash at bank and in hand	**93**	72
Total at 31 December	**93**	72

17. Risk management

(a) Risk management framework

The Company operates a risk management framework that forms an integral part of the management and Board processes and decision-making framework, aligned to the Group's risk management framework.

The Company's risk management approach is proportionate to its activities as the employing company for staff of the Group in the UK. It does not provide any services to third parties. At least annually the Company's management review the key risks specific to the Company.

To promote a consistent and rigorous approach to risk management, the Group has set out formal risk management policies and business standards which set out the risk strategy, framework and minimum requirements for the Group's worldwide operations, including the Company.

For the purposes of risk identification and measurement, and aligned to the Company's risk policies, risks are usually grouped by risk type: credit, market, liquidity and operational risk. Risks falling within these types may affect a number of metrics including those relating to statement of financial position strength, liquidity and profit.

The directors recognise the critical importance of having efficient and effective risk management systems in place and acknowledge that they are responsible for the Company's framework of internal control and of reviewing its effectiveness. The framework is designed to manage rather than eliminate the risk of failure to achieve the Company's objectives and can only provide reasonable assurance against misstatement or loss. The directors of the Company are satisfied that their adherence to this Company framework provides an adequate means of managing risk in the Company.

Further information on the types and management of specific risk types is given in sections (b) to (h) below.

Notes to the financial statements (continued)

17. Risk management (continued)

(b) Credit risk

Credit risk is the risk of financial loss as a result of the default or failure of third parties to meet their payment obligations to the Company, or variations in market values as a result of changes in expectations related to these risks.

The Company's approach to managing credit risk recognises that there is a risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default and rating transition. The Company's credit risks arise principally through exposures to internal counterparties.

The Company's management of credit risk includes implementation of credit risk management processes (including limits frameworks), the operation of specific risk management committees, and detailed reporting and monitoring of exposures against pre-established risk criteria.

(i) Financial exposures to Group companies

The Company's financial assets are largely amounts due from fellow Group companies. The credit risk arising from Group counterparties failing to meet all or part of their obligations is considered remote. Due to the nature of the intra-group receivables, and the fact that these are settled, and not traded, the Company is not exposed to the risk of changes to the market value caused by changing perceptions of the creditworthiness of such counterparties.

The Company entered into a longevity swap with Aviva plc in 2014, covering approximately £5 billion of pension payment scheme liabilities.

(ii) Financial exposures by credit ratings

The Company's maximum exposure to credit risk of financial assets is represented by the carrying amount of assets included in the statement of financial position.

Receivables include amounts due from other group companies of £90 million *(2017: £115 million)* and as such the Company gains some reassurance as to the recoverability of these amounts due from the credit worthiness of the Group's ultimate parent, Aviva plc, which has an external S&P issuer credit rating of A-. Refer to note 18.

The Company is exposed to movements in the value of the pension scheme assets due to credit defaults and changes in counterparty creditworthiness, and in the value of pension scheme liabilities due to changes in the credit spread of AA-rated corporate bonds, which comprise the benchmark rate used to discount pension scheme liabilities.

(iii) Calculation of expected credit losses

Expected credit losses in relation to intercompany loans are calculated with reference to an assessment of the counterparty's ability to repay contractual amounts over the lifetime of the financial asset, and, where relevant, the credit rating of the ultimate parent company. All intercompany loans have been assessed on a 12 month expected credit losses basis.

The Company has no financial assets which are categorised such that lifetime expected credit losses are calculated or which are deemed to be credit impaired at the reporting date. The Company has not purchased or originated any credit-impaired financial assets as at the reporting date.

The Company makes use of the simplified approach when calculating expected credit losses on trade receivables which don't include a significant financing component, and therefore calculates expected credit losses over the lifetime of the instrument in question. As at the reporting date, no lifetime expected credit losses have been recognised in relation to trade receivables.

There are no financial assets past due or impaired in either 2018 or 2017.

(iv) Modification of contractual cash flows that have not resulted in derecognition

There have been no significant modifications of contractual cash flows on any of the Company's financial assets during the period.

Notes to the financial statements (continued)

17. Risk management (continued)

(c) Market risk

Market risk is the risk of adverse financial impact resulting directly or indirectly from fluctuations in interest rates, inflation, and foreign currency exchange rates. Market risk arises due to fluctuations in both the value of liabilities and the value of investments held.

The management of market risk is undertaken at business unit and at Group level. Businesses manage market risks locally using the Group market risk framework and within local regulatory constraints. Group Capital is responsible for monitoring and managing market risk at Group level and has established criteria for matching assets and liabilities to limit the impact of mismatches due to market movements.

The most material types of market risk that the Company is exposed to are described below.

(i) Pension scheme discount rate

The discount rate applied to the Company's pension scheme liabilities is based on the current average yields of AA-rated corporate bonds taking into account the maturities of the liabilities. The unwind of the discount is recognised in investment income. As such the Company's total pension liability and investment income is exposed to fluctuations in the market yield of the benchmark debt instruments, which determine the discount rate.

(ii) Pension scheme assets

The Company is exposed to movements in the value of its pension scheme assets due to fluctuations in interest rates, equity prices, property prices and foreign currency exchange rates. Further details of assets and liabilities of the pension scheme are set out in note 13.

(d) Liquidity risk

Liquidity risk is the risk of not being able to make payments as they become due because there are insufficient assets in cash form.

The Company seeks to ensure that it maintains sufficient financial resources to meet its obligations as they fall due.

In extreme circumstances, the Company would approach the Group for additional short-term borrowing whilst the Company liquidated other assets. The Group maintains significant undrawn committed borrowing facilities of £1,650 million *(2017: £1,650 million)* from a range of leading international banks to mitigate this risk further.

The Company's cash resources are held in a pooled banking arrangement with fellow group companies, Aviva Central Services Limited and Aviva Insurance Limited, whereby the group participating companies are able draw down on the cash resources in the pool for short term investment or to fund payments, so that the net cash balance in the pool is maintained close to £nil. There is a risk that the Company may be unable to fund payments, if liquidity is unavailable from its fellow group companies participating in the pool. This risk is considered remote due to the liquid resources held by and available to fellow banking pool participants, an overdraft facility available to the pool which can be drawn on and operational controls to ensure forward notification of planned payments.

Notes to the financial statements (continued)

17. Risk management (continued)

(d) Liquidity risk (continued)

Maturity analyses

The following tables show the maturities of the Company's liabilities, and of the financial assets held to meet them.

(i) Analysis of maturity of liabilities

The following table shows the Company's financial liabilities analysed by duration:

				2018
	Note	**On demand or within 1 year £m**	**1-5 years £m**	**Total £m**
Payables and other financial liabilities	15	**163**	-	**163**
Provisions	14	**3**	-	**3**
		166	-	**166**

				2017
	Note	On demand or within 1 year £m	1-5 years £m	Total £m
Payables and other financial liabilities	15	72	-	72
Provisions	14	4	-	4
		76	-	76

(ii) Analysis of maturity of financial assets

The following table provides an analysis, by maturity date of the principal, of the carrying value of financial assets which are available to fund the repayment of liabilities as they crystallise.

				2018
	Note	**On demand or within 1 year £m**	**1-5 years £m**	**Total £m**
Receivables and other financial assets	9	**162**	-	**162**
Cash and cash equivalents	16	**93**	-	**93**
		255	-	**255**

				2017
	Note	On demand or within 1 year £m	1-5 years £m	Total £m
Receivables and other financial assets	9	128	-	128
Cash and cash equivalents	16	72	-	72
		200	-	200

The assets above are analysed in accordance with the earliest possible redemption date of the instrument at the initiation of the Company.

Notes to the financial statements (continued)

17. Risk management (continued)

(e) Other risks affecting pension scheme liabilities

In addition to market risks, other risks affecting assumptions used to calculate pension scheme liabilities are retail / consumer price inflation, general wage inflation and longevity.

The risk of general wage inflation is limited to a small amount of guaranteed minimum pension benefits that increase in line with national average earnings.

Longevity risks impact the mortality assumptions used to calculate pension scheme liabilities.

Further details on the assumptions used to calculate pension scheme liabilities are set out in note 13.

(f) Operational risk

Operational risk is the risk of direct or indirect loss, arising from inadequate or failed internal processes, people and systems, or external events including changes in the regulatory environment.

The Company's principal operational risks relate to the employment of people and payment of their salaries and benefits, including deduction and payment of payroll taxes and pension contributions.

The Company has limited appetite for operational risk and aims to reduce these risks as far as is commercially sensible.

Operational risk is quantitatively assessed on the basis of financial loss and misstatement. Potential reputational and conduct impacts are qualitatively assessed. Management use key indicator data to help monitor the status of the risk and control environment. They also identify and capture loss events, taking appropriate action to address actual control breakdowns and promote internal learning.

(g) Risk and capital management

The Company's capital risk is determined with reference to the requirements of the Company's stakeholders. In managing capital, the Company seeks to maintain sufficient, but not excessive, financial strength to support the requirements of stakeholders. The sources of capital used by the Company are equity shareholders' funds. At 31 December 2018 the Company had £2,899 million *(2017: £3,053 million)* of total capital employed.

(h) Brexit

Although the directors do not believe that Brexit has a significant operational impact on the business, the influence that it will continue to have on the UK economy will require careful monitoring. During the year the Group Board reviewed the impact of potential exit scenarios and the operational response plans.

Notes to the financial statements (continued)

18. Related party transactions

The Company acts as the principal employing company for staff in the Group in the United Kingdom. The Company had the following transactions with related parties, which include parent companies, subsidiaries and fellow group companies, in the normal course of business.

(a) The Company had the following related party transactions

(i) Services provided and expenses recharged to related parties

	2018		2017	
	Income earned in the year	**Receivable at year end**	Income earned in the year	Receivable at year end
	£m	**£m**	£m	£m
Parent	**1,096**	**70**	182	28
Fellow Group companies	**198**	**91**	961	87
	1,294	**161**	1,143	115

Income earned in the year relates to the provision of staff and associated services.

(ii) Services provided and expenses recharged by related parties

	2018		2017	
	Expenses incurred in the year	**Payable at year end**	Expenses incurred in the year	Payable at year end
	£m	**£m**	£m	£m
Group employee pension schemes	**216**	**118**	132	48
	216	**118**	132	48

Expenses incurred in the year relates to pension costs (see note 13(d)).

(iii) Audit fees

There were no non-audit fees paid to the Company's auditors during the year *(2017: £nil)*. Audit fees as described in note 6 are borne by the Company's ultimate parent, Aviva plc.

(iv) Group relief

Transactions with Group Companies for settlement of corporation tax assets and liabilities by way of group relief are described in note 12(a).

(v) Dividends paid

A dividend of £22 million *(2017: £nil)* was paid to the Company's parent, ACS, settled by way of a full reduction of the intercompany balance due to ACS. Refer to note 8.

(b) Key management compensation

Key management, which comprises the directors of the Company, are not remunerated directly for their services as directors of the Company and the amount of time spent performing their duties is incidental to their role across the Group. The majority of such costs are borne by Aviva plc and are not recharged to the Company. Refer note 5 for details of directors' remuneration.

(c) Parent entity

The immediate parent entity is Aviva Central Services UK Limited, a private limited company incorporated and domiciled in the United Kingdom

(d) Ultimate parent entity

The ultimate parent entity and controlling party is Aviva plc, a public limited company incorporated and domiciled in the United Kingdom, which is the parent undertaking of the smallest and largest Group to consolidate these financial statements. Copies of Aviva plc consolidated financial statements are available on application to the Group Company Secretary, Aviva plc, St Helen's, 1 Undershaft, London EC3P 3DQ, and on the Aviva plc website at www.aviva.com.

19. Subsequent events

There are no subsequent events to report.