

Company Number: 05935873

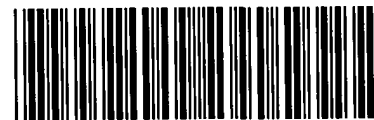


LEGAL & GENERAL PENSIONS LIMITED

FINANCIAL STATEMENTS

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LEGAL & GENERAL PENSIONS LIMITED

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Registered Office:
One Coleman Street
London EC2R 5AA

Registered in England & Wales No. 05935873

LEGAL & GENERAL PENSIONS LIMITED

STRATEGIC REPORT

Directors' Review

The principal activity of Legal & General Pensions Limited (the "Company") is the letting of properties.

The Company is a wholly owned subsidiary of Legal & General Assurance Society ("the Parent"). The directors consider the ultimate controlling party to be Legal & General Group Plc ('the Group').

In 2015 the Company issued rental income and residual value notes secured on its investment properties and entered into a Liquidity and Expenses Risk Agreement ("LERA") with its immediate parent company, Legal & General Assurance Society Limited ("LGAS"). LERA remains effective as at 31 December 2017.

Principal risks and uncertainties

Risks relating to credit worthiness, liquidity and interest rates arise in the Company's normal course of business. The Company addresses these risks and defines strategies to limit the economic impact on its performance in accordance with its financial risk management policy. The Directors of the Company are responsible for overseeing compliance with the Company's risk management policies and procedures.

Credit risk is the risk of financial loss to the Company if a tenant fails to meet its contractual obligations and arises principally from the Company's receivables from tenants. The Company's exposure is impacted by the individual characteristics of each tenant, its industry and the region where it operates. The Company has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. This risk ultimately lies with LGAS. Credit evaluations are performed on all tenants.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Liquidity and Expenses Risk Agreement ("LERA") enables the Company to have sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations.

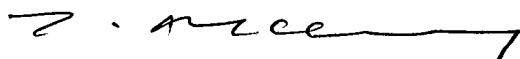
Financial key performance indicators

During the year, the Company sold two properties and purchased four properties. As at 31 December 2017, the property portfolio consisted of 31 properties (31 December 2016: 29) and was valued at £1,905m (2016: £1,482m).

The results of the company are set out on page 9. The directors do not recommend the payment of a dividend (2016: £3,799m).

The Company forms part of a wider group of assets known collectively as the Annuity Property Fund. Analysis of investments is performed at the Annuity Property Fund level rather than at the Company level.

By order of the Board



J McCarthy
For and on behalf of Legal & General Co Sec Limited
Company Secretary
16 April 2018

LEGAL & GENERAL PENSIONS LIMITED

DIRECTORS' REPORT

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

Principal activities

Legal & General Pensions Limited is a property investment company.

Future developments

The Company intends to continue to hold and let the portfolio of properties for investment purposes.

Result for the year and dividend

The results of the Company are set out on page 9. No dividends were paid in the year (year ended 31 December 2016: £3,799m).

Post balance sheet events

There are no significant post balance sheet events to report.

Directors

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

A Banks

M Barrie

J Malpas (Appointed 15 December 2017)

W Hughes (Resigned 15 December 2017)

Directors' Insurance

Legal & General Group Plc, the ultimate parent undertaking and controlling party, maintains an appropriate level of Directors and Officers' liability insurance which is reviewed annually.

Going concern

The directors consider the going concern to be appropriate based on the support from its intermediate parent company, Legal & General Assurance Society Limited ("LGAS") by way of a Liquidity and Expenses Risk Agreement. Further details of this agreement can be found in note 18. The opinion of the Directors' is that this support will be continued and accordingly the financial statements have been prepared on a going concern basis.

LEGAL & GENERAL PENSIONS LIMITED

DIRECTORS' REPORT

Disclosure of information to auditors

Each of the directors, who held office, at the date the Directors' Report is approved, confirms that:

- (a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- (b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information. This confirmation is given in accordance with section 418(2) of the Companies Act 2006.

Statement of directors' responsibilities

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

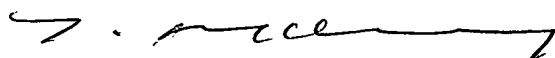
Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They 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



J McCarthy

For and on behalf of Legal & General Co Sec Limited

Company Secretary

16 April 2018

LEGAL & GENERAL PENSIONS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LEGAL & GENERAL PENSIONS LIMITED

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2017; the income statement, and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

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

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

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

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.

LEGAL & GENERAL PENSIONS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LEGAL & GENERAL PENSIONS LIMITED

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

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

Strategic Report and Directors' Report

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

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, 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.

LEGAL & GENERAL PENSIONS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LEGAL & GENERAL PENSIONS LIMITED

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.



Caroline May (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
16 April 2018

LEGAL & GENERAL PENSIONS LIMITED
INCOME STATEMENT

For the year ended 31 December 2017

	Note	31 December 2017 £000	31 December 2016 £000
Revenue	2	80,143	72,737
Gross profit		80,143	72,737
Administrative expenses		(2,706)	(3,123)
Other operating income / (expense)		2,168	(444)
Operating profit	3	79,605	69,170
Realised (loss) / gain on disposal of investment properties	10	(2,101)	836
Unrealised gain / (loss) on revaluation of investment properties	10	111,259	(11,127)
Unrealised gain on revaluation of financial investments	11	4,493	241
Unrealised (loss) / gain on revaluation of loan notes	18	(120,137)	6,362
Realised gain on disposal of loan notes	18	637	472
Investment income	4	2,852	2,423
Interest payable and similar expenses	5	(76,608)	(68,377)
Result before taxation		-	-
Tax on result	8	-	-
Result for the financial year		-	-

There were no other comprehensive income in the year other than those included in the above income

The notes on pages 12 to 27 form an integral part of these financial statements.

LEGAL & GENERAL PENSIONS LIMITED
BALANCE SHEET

As at 31 December 2017

	Note	2017 £000	2016 £000
Assets			
Non-current assets			
Investment properties	10	1,876,270	1,454,982
Financial investments	11	322,354	56,254
Accounts receivable	12	29,498	27,293
Total non current assets		<u>2,228,122</u>	<u>1,538,529</u>
Current assets			
Accounts receivable	12	37,809	24,371
Cash and cash equivalents		34,526	37,556
Total current assets		<u>72,335</u>	<u>61,927</u>
Total assets		<u>2,300,457</u>	<u>1,600,456</u>
Liabilities			
Non-current liabilities			
Deferred tax liability	17	1,032	1,032
Payables and other financial liabilities	18	2,161,722	1,511,002
Total non-current liabilities		<u>2,162,754</u>	<u>1,512,034</u>
Current liabilities			
Payables and other financial liabilities	18	78,021	67,069
Accounts payable	13	59,682	21,353
Total current liabilities		<u>137,703</u>	<u>88,422</u>
Total liabilities		<u>2,300,457</u>	<u>1,600,456</u>
Net assets		<u>-</u>	<u>-</u>
Capital and reserves			
Called up share capital	14	-	-
Retained earnings		-	-
Total shareholders' funds		<u>-</u>	<u>-</u>

The notes on pages 12 to 27 form an integral part of these financial statements.

The financial statements on pages 9 to 27 were approved by the board of directors on 16 April 2018 and signed on its behalf by



A Banks

Director

Legal & General Pensions Limited

Registered in England & Wales No. 05935873

LEGAL & GENERAL PENSIONS LIMITED

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Called up share capital £000	Retained earnings £000	Total shareholders' funds £000
At 1 January 2016	300,000	3,498,854	3,798,854
Capital reorganisation:			
Issue of bonus shares	128,716	(128,716)	-
Capital reduction	(428,716)	428,716	-
Comprehensive income:			
Result and total comprehensive income for the year	-	-	-
Transactions with Shareholders:			
Dividends paid	-	(3,798,854)	(3,798,854)
At 31 December 2016	-	-	-
Comprehensive income:			
Result and total comprehensive income for the year	-	-	-
At 31 December 2017	-	-	-

The notes on pages 12 to 27 form an integral part of these financial statements.

LEGAL & GENERAL PENSIONS LIMITED

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2017

1 Summary of significant accounting policies

The main accounting policies of the Company are as follows:

(a) **Reporting entity**

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

(b) **Use of estimates**

The preparation of the financial statements includes the use of estimates and assumptions. These estimates are based on management's best knowledge of current circumstances and future events and actions, actual results may differ from those estimates. This is particularly relevant to the following; Investment Property, Financial Investments and Payable and other financial liabilities and have been discussed in the relevant accounting policies.

(c) **Basis of preparation**

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards. In the previous financial year, the Company prepared its financial statements in accordance with International Financial Reporting Standard as adopted by the European Union (EU IFRS). Following the cessation of the Company's reinsurance business in 2015 the Company adopted FRS 101 in 2017 to be consistent with the preparation of the financial statements for all the other property investment vehicles within the Annuity Property Fund. The assets and liabilities in 2016 and the current financial year have been therefore split between current and non-current accordingly.

There were no differences to previously reported results for the year ended 31 December 2016 or shareholder's equity as at 1 January 2016 and 31 December 2016 on transition to FRS 101. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, financial investments and loan notes, and in accordance with the Companies Act 2006.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

The Company's financial statements are presented in Sterling.

The Company is a wholly owned subsidiary of Legal & General Group Plc and is included in the consolidated financial statements of Legal & General Group Plc which are publicly available.

These financial statements are prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of land and buildings, financial investments and loan notes and in accordance with the Companies Act 2006 as applicable to companies using FRS101 and applicable accounting standards in the United Kingdom.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2017.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirement in paragraph 38 of IAS 1 "Presentation of Financial Statements" to present comparative information in respect of:

(i) paragraph 79(a)(iv) of IAS 1;

(ii) paragraphs 76 and 79(d) of IAS 40 Investment Property; and

LEGAL & GENERAL PENSIONS LIMITED

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2017

1 Summary of significant accounting policies (continued)

(c) Basis of preparation (continued)

- the requirements of IFRS 7 Financial Instruments;
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member ; and
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

(d) Going concern

The directors consider the going concern to be appropriate based on the current net asset position and future earnings potential of the Company. The Company relies on the support of its immediate parent company Legal and General Assurance Society Limited, by way of a Liquidity and Expenses Risk Agreement ("LERA"). The directors are of the opinion that this support will be continued and accordingly the financial statements have been prepared on a going concern basis.

(e) Investment properties

Investment property comprises land and buildings which are held for long term rental yields and capital growth. Investment properties are initially measured at cost, including the purchase price and any directly attributable expenditure such as legal and brokerage fees, property transfer taxes and other transaction costs as well as borrowing costs that meet the criteria for capitalisation. It is carried at fair value with changes in fair value recognised in the Income Statement within fair value adjustment on investment property. Investment property in the UK is valued quarterly by independent valuers on the basis of open market value as defined in the appraisal and valuations manual of the Royal Institute of Chartered Surveyors. Valuation techniques may include discounted cash flow calculations using net current rent, and estimated and terminal values; they may also include yield methodology calculations using market rental values capitalised with a market capitalisation rate. Both of these are then further validated against actual market transactions to produce a final valuation.

Investment properties are treated as acquired when the entity enters into an unconditional purchase contract and as sold when subject to an unconditional contract for sale. Additions to properties consist of costs of a capital nature.

LEGAL & GENERAL PENSIONS LIMITED

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2017

1 Summary of significant accounting policies (continued)

(e) Investment properties (continued)

The valuation of properties at market value is in accordance with the Deed of the company. Surpluses and deficits arising on the valuation of investment properties are reflected in the Income Statement.

Investment properties are treated as acquired at the point the entity assumes the significant risks and returns of ownership and as disposed when the significant risks and returns of ownership are transferred to the buyer. This generally occurs on unconditional exchange or on completion if this is expected to occur significantly after exchange or the entity has significant outstanding obligations between exchange and completion. Additions to properties consist of costs of a capital nature.

(f) Accounts receivable

Receivables are recognised in the balance sheet, when and only when, the Company becomes party to the contractual provisions of the contract. Receivables are initially recognised at fair value adjusted for any directly attributable transaction costs.

After initial recognition, receivables are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

(g) Accounts payable

Payables are recognised in the balance sheet, when and only when, the Company becomes party to the contractual provisions of the contract. Payables are initially recognised at fair value adjusted for any directly attributable transaction costs.

After initial recognition, payables are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

(h) Financial investments

The Company's financial investments includes investments in subsidiaries and unlisted investments. The Company measures its financial investments at their net asset value.

LEGAL & GENERAL PENSIONS LIMITED

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2017

1 Summary of significant accounting policies (continued)

(i) Payables and other financial liabilities

Liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through the income statement or other liabilities, as appropriate.

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

Financial liabilities included in trade and other payables are recognised initially at fair value and subsequently at amortised cost. The fair value of a non-interest bearing liability is its discounted repayment amount. If the due date of the liability is less than one year, discounting is omitted.

Financial liabilities also include loan notes which comprise rental value notes, residual value notes and the LERA. The rental income notes, residual value notes and the LERA are recognised at fair value and subsequently remeasured.

(j) Tax and deferred tax

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

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

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

LEGAL & GENERAL PENSIONS LIMITED

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2017

1 Summary of significant accounting policies (continued)

(k) **Dividend recognition**

A dividend distribution to the Company's shareholders is recognised as a liability in the period in which the dividends are authorised and are no longer at the discretion of the Company.

(l) **Cash and cash equivalents**

Cash comprises cash in hand and bank deposits that can be withdrawn immediately or within twenty four hours without penalty.

(m) **Revenue**

The Company's revenue comprises rental income and other recoveries from tenants of its investment property. Property income is recognised on an accruals basis, including a best estimate for unsettled rent reviews and surrender premiums received. Rental income received in advance is deferred and recognised as income in the period to which it relates.

In accordance with FRS101, rental income from properties which have been let subject to a rent free period or lease inducement, is accounted for on a straight line basis from the rent commencement date to the lease end date, unless the rental payments are structured to increase in line with expected general inflation, in which case the Partnership recognises annual rental income equal to amounts due from the lessee. The valuation of investment properties is reduced by all unamortised lease incentives. Any remaining unamortised lease incentive in respect of properties disposed of is included in the calculation of profit or loss arising on disposal.

(n) **Investment income**

Investment income includes distribution income and interest. Distribution income is recognised when the Company's right to receive payment is established. Interest income is recognised using the effective interest method.

(o) **Expenses**

Expenses are recognised on an accrual basis.

(p) **Consolidated financial statements**

The Company is exempt from the requirement to prepare consolidated financial statements under Section 400 of the Companies Act 2006. Consolidated financial statements are prepared by Legal & General Group Plc, incorporated in England and Wales, the ultimate parent undertaking. These financial statements therefore present information about the Company as an individual undertaking and not about its Group.

LEGAL & GENERAL PENSIONS LIMITED

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 Revenue

Revenue and pre-tax profit is mainly attributable to the Company's principal activities and arises from the properties held across the UK and Jersey.

Revenue recognised in the income statement is analysed as follows.

	2017 £000	2016 £000
Rental and service charge income	82,146	72,297
Movement in prepaid rent	(2,003)	440
	<u>80,143</u>	<u>72,737</u>

No revenue was derived from exchanges of goods or services (2016: nil), except for rental income.

3 Operating profit

Operating profit is stated after charging:

	2017 £000	2016 £000
Auditors' remuneration		
- in relation to the audit of the financial statements of the Company	<u>26</u>	<u>30</u>

The Company has taken advantage of the exemption not to disclose amounts paid for non audit services as these are disclosed in the group financial statements of its parent Legal & General Group Plc.

4 Investment income

	2017 £000	2016 £000
Distribution income	2,782	2,333
Bank interest	70	90
	<u>2,852</u>	<u>2,423</u>

5 Interest payable and similar charges

	2017 £000	2016 £000
Coupon payments	76,608	68,377
	<u>76,608</u>	<u>68,377</u>

6 Staff costs

The Company has no employees (year ended 31 December 2016: nil) and hence makes no contributions towards retirement benefits.

LEGAL & GENERAL PENSIONS LIMITED

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2017

7 Directors' emoluments

No emoluments were paid to any director nor were any direct pension contributions paid in respect of qualifying services to this Company (year ended 31 December 2016: £nil).

8 Tax on result

	2017 £000	2016 £000
Current tax		
UK corporation tax at 19.25% (2016: 20%)		
- Current tax for the year	-	-
Total current tax charge	-	-
Deferred tax		
- Origination and reversal of timing differences	-	-
Total deferred tax charge	-	-
Tax charge on result	-	-

Factors affecting current tax charge for the year:

The total current tax for the year is the same as (2016: the same as) the standard rate of UK corporation tax:

	2017 £000	2016 £000
Result before taxation	-	-
Tax calculated at the standard UK corporation tax rate of 19.25% (2016: 20%)	-	-
Effects of:		
Expenses not deductible for tax purposes	(1,126)	-
Differences between taxable and accounting investment gains/losses	844	-
Difference between taxable & accounting realised gains/losses	282	-
Total current tax charge	-	-
- Origination and reversal of timing differences	-	-
Tax charge on result	-	-

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

To calculate the current tax on profits, the rate of tax used is 19.25% (2016: 20%), which is the average rate of Corporation Tax applicable for the year.

Following the capital reorganisation in 2015 the Company's tax liability arising from UK revenue and expenses recognised in the income statement is borne by Legal & General Assurance Society.

LEGAL & GENERAL PENSIONS LIMITED

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2017

9 Dividends

There were no dividends paid or proposed in the current year (2016: interim dividend of £3,799m (1,266.28p per share)).

10 Investment properties

(a) Reconciliation of carrying amount

	2017 £000	2016 £000
Cost		
At 1 January	1,363,133	1,264,399
Additions	363,834	111,677
Disposals	(51,704)	(12,943)
At 31 December	<u>1,675,263</u>	<u>1,363,133</u>
Fair value gains		
At 1 January	91,849	102,140
Gain / (loss) for the year	111,259	(11,127)
Disposals	(2,101)	836
At 31 December	<u>201,007</u>	<u>91,849</u>
Fair value		
At 31 December	<u>1,876,270</u>	<u>1,454,982</u>
Market value as estimated by external valuers	1,905,545	1,482,275
Less: lease incentive balance included in receivables	(29,275)	(27,293)
Fair value for financial reporting purposes	<u>1,876,270</u>	<u>1,454,982</u>

(b) Measurement of fair value

(i) Fair value hierarchy

The Company's investment properties were valued as at 31 December 2017 by CBRE Limited in accordance with the Royal Institution of Chartered Surveyors ("RICS") Valuations Standards, on the basis of Market Value. Market Value represents the figure that would appear in a hypothetical contract of sale between a willing buyer and a willing seller on an open market basis.

The investment value is a product of rent and yield derived using comparison techniques. In undertaking the valuation of properties under this method, an assessment has been made on the basis of a collation and analysis of appropriate comparable investment, rental and sale transactions, together with evidence of demand within the vicinity of the subject property. With the benefit of such transactions, capitalisation rates have then been applied to the properties, taking into account size, location, terms, covenant and other material factors.

LEGAL & GENERAL PENSIONS LIMITED

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2017

10 Investment properties (continued)

(b) Measurement of fair value (continued)

(i) Fair value hierarchy (continued)

At each financial year end the Company's Investment Manager:

- verifies all major inputs to the independent valuer's report
- assesses property valuation movements when compared to the prior year valuation report; and
- holds discussions with the independent valuer

The fair value measurement of investment property of £1,905.5m (2016: £1,482.3m) has been categorised as Level 3 fair value based on the inputs to the valuation techniques used (as discussed below):

(ii) Level 3 value

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair value.

	2017	2016
	£000	£000
Balance at 1 January	1,482,275	1,392,395
Additions	363,834	111,677
Less disposal	(53,805)	(12,107)
Gain included in income statement		
Lease incentives movement	1,982	1,437
Changes in fair value (unrealised)	111,259	(11,127)
Balance at 31 December	1,905,545	1,482,275

The following valuation technique was used in measuring the fair value of the Company's investment property.

Valuation techniques

Market Approach

The valuation has been prepared using the "market approach" valuation technique - using prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets. All of the valuations within the portfolio fall within Level 3 of the Fair Value hierarchy, which categorises the inputs to valuation techniques used to measure Fair Value.

Significant unobservable inputs

The significant unobservable inputs used in the fair value measurement are estimated rental value, rental growth, long-term vacancy rate and discount rate.

LEGAL & GENERAL PENSIONS LIMITED

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2017

10 Investment properties (continued)

(iii) Sensitivity analysis

Significant increases / decreases in rental value and rent growth in isolation would result in a significantly higher/ lower fair value measurement, respectively. Significant increases/ decreases in long term vacancy rate and discount rate in isolation would result in a significantly lower/ higher fair value measurement, respectively.

The table below presents the sensitivity analysis of the valuation to changes in the most significant assumptions underlying the valuation of completed investment property.

	2017 £000	2016 £000
Increase in yield of 25bps	(85,545)	(67,275)
Decrease in rental rates of 500 bps	(29,145)	(21,275)

11 Financial investments

Unquoted investments in property vehicles

(a) Reconciliation of carrying amount

	2017 £000	2016 £000
Cost		
At 1 January	67,469	36,301
Additions	261,607	31,168
At 31 December	329,076	67,469
Fair Value Gains		
At 1 January	(11,215)	(11,456)
Gain for the year	4,493	241
At 31 December	(6,722)	(11,215)
Fair Value		
At 31 December	322,354	56,254

The investments are made up of the following holdings

Entity name	Country of incorporation	% equity held
Canary Property Unit Trust	Jersey	100
Old Cornwall Limited	England and Wales	100
Sapphire Campus Management Company Limited	England and Wales	9.52
Antham 1 Limited	England and Wales	100
LGPL Cornwall Limited	England and Wales	100
SCBD S6 Trust	Jersey	100

LEGAL & GENERAL PENSIONS LIMITED

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2017

11 Financial investments (continued)

The registered office of Old Cornwall Limited, Sapphire Campus Management Company Limited, Antham 1 Limited and LGPL Cornwall Limited is One Colemans Street, London, EC2R 5AA. The registered office of Canary Property Unit Trust and SCBD S6 Trust is 12 Castle Street, St Helier, Jersey, JE2 3RT. All entities are directly held investments with financial year end of 31 December.

(b) Measurement of fair value

(i) Fair value hierarchy

The Company holds unquoted investments in property vehicles. The investment properties held within the investment vehicle have been valued as at 31 December 2017 by CBRE Limited in accordance with the Royal Institution of Chartered Surveyors ("RICS") Valuations Standards, on the basis of Market Value. Market Value represents the figure that would appear in a hypothetical contract of sale between a willing buyer and a willing seller on an open market basis.

The investment value is a product of rent and yield derived using comparison techniques. In undertaking the valuation of properties under this method, an assessment has been made on the basis of a collation and analysis of appropriate comparable investment, rental and sale transactions, together with evidence of demand within the vicinity of the subject property. With the benefit of such transactions, capitalisation rates have then been applied to the properties, taking into account size, location, terms, covenant and other material factors.

At each financial year end the Company's Investment Manager:

- verifies all major inputs to the independent valuer's report
- assesses property valuation movements when compared to the prior year valuation report; and
- holds discussions with the independent valuer

The fair value measurement of unquoted investments in property vehicles of £322.4m (2016: £56.3m) has been categorised as Level 3 fair value based on the inputs to the valuation techniques used (as discussed below):

(ii) Level 3 value

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair value.

	2017	2016
	£000	£000
Balance at 1 January	56,254	24,845
Additions	261,607	31,168
Gain included in income statement		
Changes in fair value (unrealised)	4,493	241
Balance at 31 December	322,354	56,254

The following valuation technique was used in measuring the fair value of the investment property held by the unquoted property vehicles owned by the Company.

LEGAL & GENERAL PENSIONS LIMITED

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2017

11 Financial investments (continued)

Valuation techniques

Market Approach

The valuation has been prepared using the "market approach" valuation technique - using prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets. All of the valuations within the portfolio fall within Level 3 of the Fair Value hierarchy, which categorises the inputs to valuation techniques used to measure Fair Value.

Significant unobservable inputs

The significant unobservable inputs used in the fair value measurement are estimated rental value, rental growth, long-term vacancy rate and discount rate.

(iii) Sensitivity analysis

Significant increases/ decreases in rental value and rent growth in isolation would result in a significantly higher/ lower fair value measurement, respectively. Significant increases/ decreases in long term vacancy rate and discount rate in isolation would result in a significantly lower/ higher fair value measurement, respectively.

The table below presents the sensitivity analysis of the valuation to changes in the most significant assumptions underlying the valuation of the property vehicles.

	2017	2016
	£000	£000
Increase in yield of 25bps	(16,910)	(2,230)
Decrease in rental rates of 500 bps	(12,425)	(1,030)

12 Accounts receivable

	2017	2016
	£000	£000
Accrued interest and rent	30,233	28,819
Prepayments and accrued income	19,441	20,203
Other receivables	17,032	2,041
Corporation tax refund from fellow group company	601	601
	67,307	51,664
Due within 12 months	37,809	24,371
Due after 12 months	29,498	27,293
	67,307	51,664

Included in accrued interest and rent is £29,498,000 (2016: 27,293,000) relating to lease incentives due after 12 months.

LEGAL & GENERAL PENSIONS LIMITED

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2017

13 Accounts payable

	2017 £000	2016 £000
Amounts due from fellow group undertakings	17,744	736
Other creditors	25,967	6,649
Accruals and deferred income	15,971	13,968
	<u>59,682</u>	<u>21,353</u>
Due within 12 months	59,682	21,353
Due after 12 months	-	-
	<u>59,682</u>	<u>21,353</u>

14 Called up share capital

	2017 £000	2016 £000
Issued: 1 Ordinary share of £1 fully paid (31 December 2016: 1 Ordinary share of £1 fully paid)	-	-

The holders of the Company's ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at shareholder meetings of the Company.

LEGAL & GENERAL PENSIONS LIMITED

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2017

15 Post balance sheet events

There are no significant post balance sheet events to report.

16 Related party transactions

The Company has taken advantage of the exemption under paragraph 8 (j) and (k) of FRS 101 from certain requirements under IAS 24 Related party disclosures. These include the requirement to disclose transactions entered into by the Company with other wholly owned members of Legal & General Group Plc, and the requirement to present disclosures on compensation arrangements for key management personnel.

17 Deferred tax liability

	2017	2016
	£000	£000
At 1 January	1,032	1,032
Charge to income statement	-	-
At 31 December	<u>1,032</u>	<u>1,032</u>

The deferred tax balances are as follows:

Other temporary differences	<u>1,032</u>	<u>1,032</u>
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18 Payables and other financial liabilities

Loan Notes

	2017	2016
	£000	£000
Cost		
At 1 January	1,584,905	1,461,391
Issue	593,822	136,380
Redemption	(51,650)	(12,866)
At 31 December	<u>2,127,077</u>	<u>1,584,905</u>

Fair value losses

Opening balance	(6,834)	-
Loss / (gain) for the year	120,137	(6,362)
Redemption	(637)	(472)
At 31 December	<u>112,666</u>	<u>(6,834)</u>

At 31 December	<u>2,239,743</u>	<u>1,578,071</u>
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Due within 12 months	78,021	67,069
Due after 12 months	2,161,722	1,511,002
	<u>2,239,743</u>	<u>1,578,071</u>

LEGAL & GENERAL PENSIONS LIMITED

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2017

18 Payables and other financial liabilities (continued)

In 2015 the Company issued rental income notes and residual value notes secured on its investment properties and entered into a Liquidity and Expenses Risk Agreement ("LERA") with its immediate parent company, Legal & General Assurance Society Limited ("LGAS").

The rental income notes represent 98.75% of future rents receivable on the associated lease. They bear a coupon payment based on 98.75% of the underlying rental income. This coupon falls due 45 days following each quarterly rent.

The residual value notes represent the value of the associated property on completion of the lease.

The rental income notes and residual value notes are recognised at fair value and subsequently remeasured.

LERA represents the funding of the operating expenses of the Company from LGAS and the issued amount in 2015 was treated as an exceptional item in the income statement. Subsequent valuations of LERA are measured at fair value with the movement being recognised in the income statement.

19 Ultimate parent undertaking

The immediate parent company is Legal & General Assurance Society Limited.

The ultimate parent company is Legal & General Group Plc, a company incorporated in England & Wales and domiciled in the UK - the controlling party which consolidates the financial statements of the Company. These financial statements therefore provide information about the Company as an individual undertaking. Copies of the financial statements of the ultimate holding company, Legal & General Group Plc, are available on the Group website, www.legalandgeneralgroup.com or from the Company Secretary at the Registered Office, One Coleman Street, London, EC2R 5AA.

20 Cash flow statement

The Company has taken advantage of the exemption under paragraph 8 (h) of FRS 101 from the requirements of IAS 7 Statement of Cash flows, and hence has not presented a cash flow statement.

LEGAL & GENERAL PENSIONS LIMITED

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2017

21 Commitments

(a) Capital commitments

Authorised and contracted commitments not provided in respect of investment property development payable after the year end has been disclosed below:

	2017	2016
	£000	£000
Capital commitments	15,753	128,890

(b) Operating leases

	2017	2016
	£000	£000
The future aggregate minimum lease payment under non-cancellable operating leases are as follows:		
- Not later than 1 year	29	29
- Later than 1 year and not later than 5 years	118	118
- Later than 5 years	2,036	2,065
	2,183	2,212

Future aggregate minimum sublease payments to be received under operating subleases are as follows:

- Not later than 1 year	121	118
- Later than 1 year and not later than 5 years	483	471
- Later than 5 years	2,575	2,628
	3,179	3,217

The future aggregate minimum lease receivables under non-cancellable operating leases are as follows:

- Not later than 1 year	90,247	71,618
- Later than 1 year and not later than 5 years	363,110	300,516
- Later than 5 years	2,081,567	1,848,648
	2,534,924	2,220,782