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**LEGAL & GENERAL ASSURANCE
(PENSIONS MANAGEMENT) LIMITED**

REPORT AND ACCOUNTS

2007

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LEGAL & GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED

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Registered Office
One Coleman Street
London, EC2R 5AA

Registered in England & Wales No 1006112

LEGAL & GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED

BOARD OF DIRECTORS

C P Chambers, (Chairman)

M D T Craston

K J Gregory, FCA

B Holman, FIA

A K Overy, ACA

R G Williams, FIA

N M Higgins

Actuarial Function Head

R G Williams, FIA

Secretary

Legal & General Co Sec Limited

LEGAL & GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED

DIRECTORS' REPORT

The directors submit their annual report together with the audited financial statements of Legal & General Assurance (Pensions Management) Limited for the year ended 31 December 2007

Principal activity

The principal activity of the Company, which is a long term insurance company authorised under the Insurance Companies Act 1982, is the transaction of pensions business. The Company does not envisage any change in activities in the foreseeable future.

The Company is regulated by the Financial Services Authority (FSA)

Review of business and future developments

PMC is one of the largest external pension fund management businesses in the UK with over £212 billion of external client monies. Operating profits rose from £103 million to £115 million during the year. Profit growth was driven by exceptional new business levels, rising market values and favourable persistency.

Key Performance Indicators

The directors review a range of performance indicators to monitor the performance of PMC. Profit before tax, new money and funds under management, are regarded as key performance indicators.

Profit before tax for the year was £115.3m (2006: £102.2m)

New money for the year was £52.1bn (2006: £18.5bn)

Funds under Management, including Segregated funds, at the year end were £212.4bn (2006: £151.3bn)

The principal risks and uncertainties

PMC's business involves the acceptance and management of risk. The principal risks and uncertainties facing PMC are shown below:

1) Market and Economic Conditions

Competitor activity and changes in market product shape and client requirements would impact new business targets. PMC's principal business channel is the Pensions market and uncertainty in this market would limit both new client mandates and contributions from existing clients.

PMC revenue is primarily based on the value of funds under management and invested in the equity and bond markets. The majority of investment assets are in securities traded on recognised exchanges and property. Controlled use is also made of financial instruments utilising strongly rated counterparties. Whilst PMC holds capital and performs stress tests for falls in asset values, a fall in these investment markets, extreme events in other markets in which the Group has no direct involvement, or a failure in market infrastructure would adversely impact the fee income earned by PMC and profitability.

2) Confidence in the Financial Services Sector and specifically PMC

Events in the financial services sector outside the control of PMC and the L&G Group may impact earnings and profitability, due to their potential impact on the value of funds under management.

LEGAL & GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED

DIRECTORS' REPORT

The Group seeks wherever practicable to mitigate the effects of these contagion risks. Historically such events have included

- Failings by competitors, or
- Actions by regulators within the industry, or
- Shock events such as significant market failures, or
- Adverse performance of investment markets

In addition, internal processes and client service standards, while carefully controlled and managed, may fail or be impacted by, say, fraud or IT systems failure, giving rise to adverse client reaction and a resultant loss of existing clients or inability to write new business

3) Regulation and Legislation

The financial services markets in which PMC operates are highly regulated, with regulation and government fiscal policy influencing the overall framework for the design, marketing and distribution of products, the acceptance and administration of business, and the prudential capital that regulated companies should hold

Additionally, there is a continuing international dimension and the volume of regulatory and legislative change is increasing

PMC's activities and strategies are based upon prevailing legislation and regulation, with continuous monitoring to ensure that PMC meets its regulatory obligations. The potential for change is continuously identified and analysed. Sudden, unanticipated changes in legislation, or the differing interpretation and application of regulation over time, may have a detrimental effect on PMC's strategy and profitability

4) Third Party Risk

PMC has reliance on a number of third parties which undertake market transactions as part of the daily securities and financial instrument dealing process, or custodian services in respect of client assets. Despite the rigorous selection process and continuous monitoring of performance, the financial failure of a third party or the inability to perform obligations would impact the reputation of PMC and could adversely impact client funds under management

5) Resources

PMC has market leading expertise in a number of the fields in which it operates. PMC actively focuses on retaining the best personnel and ensuring that key dependencies do not arise through employee training & development programmes, remuneration strategies and succession planning. However, the sudden unanticipated loss of teams of expertise may, in the short term, impact PMC's businesses

6) Disaster or Terrorist Activity

There is a continued heightened state of awareness of the potential risk posed by shock events, such as disaster, terrorist activity or a major influenza pandemic, which may disrupt the ability of PMC to run its business normally. Despite the preparation and testing of contingency and business resumption plans, the impact of such events could have a detrimental impact on the business and profitability

LEGAL & GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED

DIRECTORS' REPORT

Financial Risk Management

Management of Risk

The Company, in the course of its business activities, is exposed to Market, Credit, Liquidity and Operational risks. Overall responsibility for the management of these risks is vested in the Company's holding company, Legal & General Investment Management (Holdings) Limited. To support it in this role, a risk framework is in place for the LGIM(H) Group of Companies which includes the Company. This comprises formal committees, risk assessment processes and review functions. The framework provides assurance that risks are being appropriately identified and managed and that an independent assessment of risks is being performed.

In addition there is a Risk, Compliance & Internal Controls Committee in place for Legal & General Investment Management (Holdings) Limited which is predominantly responsible for the management of operational risks and regulation across the Legal & General Investment Management (Holdings) Limited Group of Companies which includes the Company. This committee formally reports to the Board of the Company and to the Legal & General Group Risk and Compliance Committee on a monthly basis.

Risk Assessment Processes

A continuous process is in place to formally identify, evaluate and manage the significant risks to the achievement of the Company's objectives. A standard approach is used to assess risks.

The Company Directors, senior management and the Legal & General Investment Management (Holdings) Limited Risk Management Function (see below) review the risk assessments.

Risk Management Function

The Legal & General Investment Management (Holdings) Limited Risk Management Function provides an oversight of the risk management processes within the Company. Its responsibilities include the evaluation of changes in the business operating environment and business processes, the assessment of these changes on risks to business and the monitoring of the mitigating actions. The Risk Management Function also ensures that risk committees are provided with meaningful risk reports and that there is appropriate information to assess risk issues.

The Company has defined policies for the management of its key risks, the operation of which are supported by Risk Management Function and are independently confirmed by Group Internal Audit. Details of the categories of risk to the Company and high-level management processes are set out below.

Market Risk

Market risk is the risk that the Company is exposed to loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets.

The Company's products are unit linked and, as such, the policyholders carry the primary market risk which arises from the impact of market fluctuations on the value of their assets. There is a secondary market risk for the Company in that fee income is related to the value of funds under management.

LEGAL & GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED

The shareholders' funds are impacted by market risk and the Board of the Company establishes investment policies for these funds

Credit Risk

Credit risk is the risk that the Company is exposed to loss if another party fails to perform its financial obligations to the Company

Credit risk is not sought in its own right. However, the investment of shareholders' and policyholders' monies requires credit risks to be taken. Exposure to credit risk also arises in the reinsurance of insurance contracts. Credit risk is managed through the setting and regular review of detailed counterparty credit and concentration limits. Compliance with these limits for investment and treasury transactions is monitored daily. The Legal & General Group Counterparty Credit Committee oversees these processes.

Liquidity Risk

Liquidity risk is the risk that the Company, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can secure them only at excessive costs.

Liquidity is not a material risk for the Company as the products are unit linked. When appropriate the controls allow for deferment and spreading of the encashment of client monies.

The shareholder funds' liquidity is established by the Board of the Company and is mitigated through the setting of clear objectives for the funds.

Result for the year and dividend

The results of the Company are set out on pages 11 and 12. The directors recommend the payment of a final dividend of £520 per ordinary share. The 2006 corresponding amount relates to final dividend of £620 per ordinary share.

Directors

The names of the present directors are shown on page 2.

N M Higgins was appointed as a director of the Company on 15 November 2007.

Creditors

The Legal & General Investment Management Holdings Limited agrees terms and conditions for its business transactions with suppliers. Payment is made on these terms provided the supplier meets its obligations. Creditor payment days are carefully monitored in the group, using the systems which record the actual purchases and payments. The Legal & General Investment Management Holdings Limited estimates that average creditor payment days in 2007 were 33 days (2006 41 days).

Disclosure of information to Auditors

Each of the directors, at the date of approval of this report, confirms that

- so far as the director is aware, there is no relevant information of which the Company's auditors are unaware, and
- The director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

LEGAL & GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED

DIRECTORS' REPORT

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

Elective resolution

An elective resolution has been passed by the Company's shareholders under Companies Act 1985. The elective regime was abolished by the Companies Act 2006 and the transitional provisions relating to the reappointment of auditors permit the auditors to remain in office unless the directors resolve otherwise.

In accordance with the Companies Act 2006, the Company is no longer required to hold an Annual General Meeting or lay the Company's Report and Accounts before the shareholders.

By Order of the Board



D. Gilbert, ACIS
For and on behalf of Legal & General Co Sec Limited
Corporate Company Secretary
19 March 2008

LEGAL & GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which 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 and which comply with the relevant provisions of the Companies Act 1985. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently, with the exception of changes arising on the adoption of new accounting standards in the year,
- make judgements and estimates which are reasonable and prudent,
- state whether applicable accounting standards 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 confirm that they comply with the above requirements

The directors are also responsible for

- keeping proper accounting records which 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 company's act 1985,
- safeguarding the assets of the Company, and
- taking reasonable steps for the prevention and detection of fraud and other irregularities

LEGAL & GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LEGAL & GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED

We have audited the financial statements of Legal & General (Pensions Management) Limited for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet, the Reconciliation of movements in Shareholders' funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of Directors and Auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

LEGAL & GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LEGAL &
GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED**

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
19 March 2008

LEGAL & GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2007

Technical account – long term business

	Note	2007	2006
		£m	£m
Profit on continuing operations			
<i>Investment income</i>	3(i)	11,046 4	9,378 5
<i>Unrealised (loss)/gain on investments</i>	3(ii)	(71 8)	2,319 8
<i>Other technical income, net of reinsurance</i>	2	<u>142 3</u>	<u>116 4</u>
		<u>11,116 9</u>	<u>11,814 7</u>
<i>Claims incurred, net of reinsurance</i>			
Claims paid			
- gross amount		1 6	1 8
- reinsurers' share		<u>(1 6)</u>	<u>(1 8)</u>
		<u>0 0</u>	<u>0 0</u>
<i>Change in other technical provisions, net of reinsurance</i>			
Long-term business provision, net of reinsurance			
- gross amount		(1 7)	(1 8)
- reinsurers' share		<u>1 7</u>	<u>1 8</u>
		<u>0 0</u>	<u>0 0</u>
Other technical provisions, net of reinsurance			
-Technical provisions for linked liabilities		10,897 3	11,641 1
<i>Net operating expenses</i>	4	62 3	44 2
<i>Investment expenses and charges</i>	3(iii)	1 5	1 8
<i>Tax attributable to the long term business</i>	7	<u>83 5</u>	<u>60 2</u>
		<u>11,044 6</u>	<u>11,747 3</u>
Balance on the technical account			
- long term business		<u>72 3</u>	<u>67 4</u>

LEGAL & GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2007

Non technical account

	Note	2007	2006
		£m	£m
Profit on continuing operations			
<i>Profit from long term business</i>			
Balance on the technical account – long term business		72.3	67.4
Tax credit attributable to balance on the technical account – long term business	7	31.0	28.9
Shareholders pre-tax profit from long term business		<u>103.3</u>	<u>96.3</u>
<i>Other operations</i>			
Investment income	3(i)	9.9	6.8
Unrealised gains/(losses) on investments	3(ii)	2.2	(0.8)
Investment expenses and charges	3(iii)	(0.1)	(0.1)
Profit on ordinary activities before tax		<u>115.3</u>	<u>102.2</u>
Tax charge on profit on ordinary activities	7	(34.3)	(30.7)
Profit for the financial year		<u>81.0</u>	<u>71.5</u>
Dividends	8	<u>(52.0)</u>	<u>(62.0)</u>
Retained profit for the financial year	14	<u>29.0</u>	<u>9.5</u>

All gains and losses which arose during the year have been recognised in the profit and loss account

LEGAL & GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED

BALANCE SHEET

As at 31 December 2007

	Note	2007	2006
		£m	£m
Assets			
<i>Investments</i>			
Investment in subsidiary undertakings	9	0.2	0.2
Other financial investments	10	404.8	296.5
<i>Assets held to cover linked liabilities</i>	12	202,677.1	143,431.3
<i>Reinsurers' share of technical provisions</i>			
Long term business provision	15	9.6	11.3
<i>Debtors</i>			
Debtors arising out of direct insurance operations - policyholders		1.1	1.3
Amounts owed by group undertakings		0.3	0.5
<i>Other assets</i>			
Cash at bank and in hand		7.9	11.6
<i>Accrued interest</i>		41.6	33.8
Total assets		203,142.6	143,786.5

LEGAL & GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED

BALANCE SHEET

As at 31 December 2007

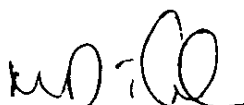
	Note	2007	2006
Liabilities		£m	£m
<i>Capital and reserves</i>			
Called up share capital	13	0.1	0.1
Profit and loss account	14	<u>222.4</u>	<u>193.4</u>
Shareholders' funds		222.5	193.5
<i>Technical provisions</i>			
Long-term business provision	15	9.6	11.3
<i>Technical provisions for linked liabilities</i>	16	202,677.1	143,431.3
<i>Creditors</i>			
Other creditors including taxation and social security	17	231.1	148.3
<i>Accruals and deferred income</i>		2.3	2.1
Total liabilities		<u>203,142.6</u>	<u>143,786.5</u>

Reconciliation of movements in shareholders' funds for the year ended 31 December 2007

		2007	2006
		£'m	£m
At 1 January		193.5	184.0
Profit for the financial year		81.0	71.5
Dividends	8	<u>(52.0)</u>	<u>(62.0)</u>
At 31 December		<u>222.5</u>	<u>193.5</u>

The notes on pages 15 to 28 form an integral part of these financial statements

The financial statements on pages 11 to 28 were approved by the board of directors on 19 March 2008 and signed on its behalf by



M D T Craston, Director



A K Overy, Director

LEGAL & GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED

NOTES TO FINANCIAL STATEMENTS

1. Accounting Policies

The main accounting policies of the Company are as follows

(a) Basis of Preparation

The financial statements conform to applicable accounting standards and have been prepared on a going concern basis under the historical cost convention, modified by the revaluation of certain fixed assets as required by the Companies Act 1985

The financial statements have been prepared in compliance with section 255 of, and Schedule 9A to, the Companies Act 1985 and conform with the Association of British Insurers' (ABI) Statement of Recommended Practice on Accounting for Insurance Business (SORP) issued in December 2005 and revised in December 2006

(b) Changes in accounting policies

The Company has adopted FRS 29 'Financial Instruments Disclosures' within its 2007 financial statements. The adoption of this standard represents a change in accounting policy and the comparative disclosures have been restated accordingly. There is no impact on the current or prior year's profit or net assets as a result of adopting this standard.

(c) Long term business

General

The results of long term business are reported using the modified statutory solvency (MSS) basis of accounting set out in the SORP.

Product classification

The Company's products are classified for accounting purposes as either insurance contracts (non-participating) or investment contracts (non-participating). Insurance contracts are contracts which transfer significant insurance risk at the inception of the contract. Contracts that do not transfer significant insurance risk are accounted for as investment contracts.

Unit linked contracts written by the Company, where the liability under the contract is dependent on the value of the underlying financial asset, derivative and/or investment property, are classified as investment contracts unless the contracts also contain futures that transfer significant risk.

Other technical income

Other technical income represents the other operating income, including investment contracts whereby fees charged for investment management services are recognised as revenue as the services are provided.

LEGAL & GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED

NOTES TO FINANCIAL STATEMENTS

1. Accounting policies (continued)

Claims

For investment contracts, claims are not included in the profit and loss account but are instead deducted from investment contract liabilities. The movement in investment contract liabilities consists of claims incurred in the period less the corresponding elimination of the policyholder liability originally recognised in the balance sheet and the investment return credited to policyholders.

All other claims and surrenders are accounted for when payment is due.

Non-participating investment contracts

Non-participating investment contracts consist of unit linked contracts. The Companies Act requires such contract liabilities to be measured on a prudently-determined actuarial basis. However, in accordance with FRS 26 and the guidance issued by the ASB (Accounting Standards Board) in its press notice 262, the Company's unit linked liabilities are measured at amortised costs by reference to the value of the underlying net asset values of the Company's unitised investment funds at the balance sheet date. These liabilities are designated at fair value to avoid an accounting mismatch in the income statement and the directors consider that this accounting policy is necessary for the accounts to give a true and fair view.

Deferral of acquisition costs

Acquisition costs comprise direct, such as initial commission, and the indirect costs of obtaining and processing new business.

By having regard to the nature of the business which the company transacts, the degree by which product charging structures allow for the immediate recovery of acquisition costs and the relative immateriality of amounts involved, the directors believe it prudent to adopt an accounting policy whereby no acquisition costs are deferred.

Assets held to cover linked liabilities

Where there are reinsurance agreements within assets held to cover linked liabilities under which the directors do not consider there is in substance any significant exchange of insurance risk, in accordance with the ABI SORP, the transactions are not accounted for as reinsurance agreements and disclosed separately within the technical account and balance sheet. Instead, they are accounted for as any other policyholders or investment transactions in the ordinary course of business.

Long term business provision

The long term business provision and the technical provisions for linked liabilities are determined by the Actuarial Function Head following an annual investigation of the long term fund and are in accordance with the requirements of EU Directive 92/96/EEC.

LEGAL & GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED

NOTES TO FINANCIAL STATEMENTS

1. Accounting policies (continued)

Reinsurance

The Company cedes insurance premiums and risk in the normal course of business in order to limit the potential for losses. Outwards reinsurance premiums are accounted for in the same accounting period as the related premiums for the direct or inwards reinsurance business being reinsured. Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses and ceded future life policy benefits. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded as an asset in total in the balance sheet unless a right of offset exists.

Tax

The investment return on shareholders' funds within the UK long term fund is included in the Balance of the technical account – long term business, gross of attributable tax, and is not subject to further grossing up. The remainder of the balance of the technical account – long term business is grossed up at the corporate tax rate applicable for the period.

(c) Investments

Investment in Subsidiary Undertakings

Shares in subsidiary undertakings are stated in the Company's balance sheet at cost, less any provision for impairment in value.

Investment income

Investment income includes dividends, interest and rent on investment contracts. Directly related investment expenses are reported separately within investment expenses and charges. Dividends are accrued on an ex-dividend basis net of associated tax credits. Interest and rent are included on an accruals basis.

Interest expense

Interest expense reflects the underlying cost of borrowing and is accounted for on an accrual basis.

Investment valuations

Listed investments held by the long term fund to match the technical provisions for linked liabilities are stated at values which approximate to market bid values and those held by the shareholders' fund at bid values. Unlisted investments are stated at directors' valuation. Derivative contracts purchased to manage the mix of investments, principally future contracts, are included at market value.

Land and buildings are valued by external chartered surveyors at open market values, as at the balance sheet date, in accordance with the Appraisal and Valuation Manual of The Royal Institution of Chartered Surveyors.

NOTES TO FINANCIAL STATEMENTS

1 Accounting policies (continued)

The Companies Act requires that land and buildings are depreciated over their estimated useful lives. However, in accordance with Statement of Standard Accounting Practice 19 'Investment Properties' no depreciation is provided on land and buildings and the directors consider that this accounting policy is necessary for the accounts to give a true and fair view. Depreciation is only one of the factors reflected in the valuations and the amount which might otherwise have been shown cannot reasonably be separately identified or quantified.

Financial investments

The Company classifies its financial investments on initial recognition as held for trading (HFT), designated at fair value through profit or loss (FVTPL), or loans and receivables. Initial recognition of financial investments is on the trade date.

The Company's policy is to measure investments at FVTPL. All derivatives are classified as HFT.

Financial investments held by the Company are designated as FVTPL as their performance is evaluated on a total return basis, consistent with asset performance reporting to the Board of Directors and the Company's investment strategy. Assets designated as FVTPL include debt securities and equity instruments which would otherwise have been classified as available for sale under FRS 26.

The fair values of quoted financial investments are based on current bid prices. If the market for a financial investment is not active, the Company establishes fair value by using valuation techniques such as recent arm's length transactions, reference to similar listed investments, discounted cash flow models or option pricing models. The policies used for determining fair value include earnings multiples, the price of a recent investment or a net asset basis.

Financial investments classified as HFT and FVTPL are measured at fair value with gains and losses reflected in the profit and loss account.

Investment gains and losses

Realised gains and losses on investments are calculated as the difference between net sales proceeds and the original cost.

Unrealised gains and losses on investments are calculated as the difference between the carrying valuation of investments at the balance sheet date and original cost. Movements in unrealised gains and losses on investments arising in the year are included in the profit and loss account.

LEGAL & GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED

NOTES TO FINANCIAL STATEMENTS

1 Accounting policies (continued)

(d) Impairment policy

The company reviews the carrying value of its assets (other than those held at FVTPL) at each balance sheet date. If the carrying value of a financial asset is impaired, the carrying value is reduced through a charge to the profit and loss account. There must be objective evidence of impairment as a result of one or more events which have occurred after the initial recognition of the asset. Impairment is only recognised if the loss event has an impact on the estimated future cash flows of the financial assets that can be reliably estimated.

(e) Cash at bank and in hand

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

(f) Expenses

Management expenses include administration and systems costs and are included on an accruals basis. Expenses and fees are charged to the long term business fund as incurred in the management of that fund.

(g) Foreign currencies

Transactions in overseas currencies are translated at the exchange rate ruling at the date of the transaction or, where forward cover contracts have been arranged, at the contracted rates. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates ruling at the balance sheet date or at a contracted rate if applicable and any exchange differences arising are taken to the profit and loss account.

(h) Deferred tax

Deferred tax is recognised in respect of timing differences which have not reversed at the balance sheet date and which result in an obligation to pay more tax, or a right to pay less tax, at a future date. Deferred tax is measured at rates expected to apply when the timing differences reverse, based on current tax rates and law. Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

(i) Dividend recognition

Dividend distribution to the Company's shareholders is recognised as a liability in the period in which dividends are declared and approved.

LEGAL & GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED

NOTES TO FINANCIAL STATEMENTS

2. Other technical income

	2007 £m	2006 £m
Management fees from linked investment contracts	139.1	113.0
Other technical Income	<u>3.2</u>	<u>3.4</u>
Total	<u>142.3</u>	<u>116.4</u>

Other technical income include £0.7m (2006 £0.7m) received from the Legal & General Group UK Pension Scheme and £0.3m (2006 £0.3m) received from the Legal & General Group UK Senior Pension Scheme

3. Investment return

	Technical account- Long term business		Non-technical account	
	2007 £m	2006 £m	2007 £m	2006 £m
(i) Investment Income				
Income from land and buildings	22.4	18.8	-	-
Income from other investments	5,241.9	4,187.0	8.7	9.9
Net gains/(losses) on the realisation of investments	<u>5,782.1</u>	<u>5,172.7</u>	<u>1.2</u>	<u>(3.1)</u>
	11,046.4	9,378.5	9.9	6.8
(ii) Unrealised investments gains	-	2,319.8	2.2	-
(ii) Unrealised investment (losses)	(71.8)	-	-	(0.8)
	<u>10,974.6</u>	<u>11,698.3</u>	<u>12.1</u>	<u>6.0</u>

LEGAL & GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED

NOTES TO FINANCIAL STATEMENTS

	Technical account- long term business		Non-technical account	
	2007	2006	2007	2006
	£m	£m	£m	£m
(iii) Investment expenses and charges				
Interest on bank loans and overdrafts	(0 8)	(1 0)	-	-
Total interest expense	(0 8)	(1 0)	-	-
Investment management expenses	(0 7)	(0 8)	(0 1)	(0 1)
Investment expenses and charges	(1 5)	(1 8)	(0 1)	(0 1)
Total investment return	10,973 1	11,696 5	12 0	5 9

4 Net operating expenses

	Technical account – Long term business	
	2007	2006
	£m	£m
Acquisition costs	9 4	5 9
Administrative expenses	52 9	38 3
	62 3	44 2

Auditors' remuneration of £71,998 (2006 £43,542) relating to audit services

5. Directors' emoluments and employees

The Company has no direct employees. The employees' contracts of service during the year are with the parent company, Legal & General Investment Management (Holdings) Limited ("LGIM(H)") and their remuneration is included in LGIM(H)'s financial statements. The management charge made by LGIM(H) included the cost of these employees, but it is not possible to ascertain separately the element of the charge that relates to staff costs.

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NOTES TO FINANCIAL STATEMENTS

These figures represent that portion of the directors' emoluments allocated in respect of their services to the Company

	2007	2006
	£	£
Aggregate emoluments	1,913,931	1,481,044
Aggregate money purchase benefits	63,103	47,085
Aggregate defined benefits	130,009	96,663
	<u>2,107,043</u>	<u>1,624,792</u>

No fees were paid by the Company to directors. Emoluments relate to salaries and performance bonuses. Retirement benefits are accruing to 3 (2006 3) directors under the Legal & General Group defined benefit pension scheme.

No directors exercised share options during the year and 7 directors were entitled to receive shares under the Employee Share Plan (ESP) and Share Based Payment (SBP) schemes.

	2007	2006
	£	£
Highest paid director		
Emoluments	607,535	427,352
Money purchase pension scheme accrued at end of year	-	23,517
Defined benefit pension scheme accrued pension at end of year	<u>103,467</u>	<u>-</u>

The highest paid director did not exercise share options during the year and received shares under the Employee Share Plan (ESP) and Share Based Payment (SBP) schemes.

6. Pension costs

The Company has no direct employees and hence makes no contributions towards retirement benefits.

7. Tax charge

	Technical Account – Long term business	Non-technical account	Technical Account – Long term business	Non-technical account
	2007	2007	2006	2006
	£m	£m	£m	£m
Current tax				
UK Corporation tax at 30% (2006 30%)	31.8	3.5	26.8	1.8
Double tax relief	(0.6)	-	(0.4)	-
Adjustment in respect of prior periods	0.9	(0.2)	(2.7)	-
Foreign tax	51.4	-	36.5	-
	<u>83.5</u>	<u>3.3</u>	<u>60.2</u>	<u>1.8</u>
Tax attributable to the balance on the technical account - long term business		<u>31.0</u>		<u>28.9</u>
		<u>34.3</u>		<u>30.7</u>

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NOTES TO FINANCIAL STATEMENTS

The tax attributable to the balance on the long term business technical account is calculated by grossing-up the balance on the long term business technical account at the full corporation tax rate

8. Dividends

	2007	2006
	£m	£m
Approved - £520 per ordinary share (2006 £620)	52 0	62 0
Dividends	52 0	62 0

9. Subsidiary Undertakings

	Shares in subsidiary undertaking
	£m
At 1 January 2007	0 2
At 31 December 2007	0 2

The Company holds directly all of the ordinary share capital and voting rights of Legal & General UCITS Manager (Ireland) Limited, an investment management company incorporated in Ireland

10. Other financial investments

	2007	2006
	£m	£m
Debt securities at fair value	209 3	237 6
Deposits with credit institutions	195 5	58 9
	404 8	296 5

11. Financial Risk Management

For unit linked contracts, the Company matches all the liabilities with assets in the portfolio on which the unit prices are based. There is therefore no interest, price, currency or credit risk for the Company on these contracts.

a) Credit Risk

Credit risk is the risk that PMC is exposed to loss if another party fails to perform its financial obligations to PMC. A significant area where PMC is exposed to credit risk is

- PMC holds corporate bonds, government securities and short term deposits as capital. Significant exposures are managed by the application of concentration limits.

The credit profile of PMC's assets exposed to credit risk is shown in table below. The credit rating bands are provided by independent rating agencies.

LEGAL & GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED

NOTES TO FINANCIAL STATEMENTS

i) Exposure to credit risk

As at 31 December 2007	AAA £'m	AA £'m	A £'m	Total £'m
Government securities	125 1	-	-	125 1
Other fixed rate securities	84 2	-	-	84 2
Deposits with credit institutions	-	162 5	33 0	195 5
Financial assets	<u>209 3</u>	<u>162 5</u>	<u>33 0</u>	<u>404 8</u>

As at 31 December 2006	AAA £'m	AA £'m	A £'m	Total £'m
Government securities	237 6	-	-	237 6
Other fixed rate securities	-	-	-	-
Deposits with credit institutions	-	57 9	1 0	58 9
Financial assets	<u>237 6</u>	<u>57 9</u>	<u>1 0</u>	<u>296 5</u>

ii) Ageing of financial assets that are past due but not impaired

For 2006 and 2007 no financial assets are either past their date due or impaired, and the carrying value is equal to the market value

Assuming a 1% change in interest rates the value of the government and other fixed rate securities could be expected to rise or fall by £3 8m

12. Assets held to cover linked liabilities

	Linked 2007 £m	Linked 2006 £m
Fair Value through profit or loss	197,106 4	140,906 5
Held for trading	<u>450 6</u>	<u>34 5</u>
Financial investments at fair value (i)	197,557 0	140,941 0
Deposits with credit institutions	<u>429 4</u>	<u>81 1</u>
Total financial investments	197,986 4	141,022 1
Cash at bank or in hand	4,145 0	1,925 3
Investment Property	399 2	427 6
Net operating assets	<u>146 5</u>	<u>56 3</u>
Assets held to cover linked liabilities	<u>202,677 1</u>	<u>143,431 3</u>

LEGAL & GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED

NOTES TO FINANCIAL STATEMENTS

(i) Financial investments at fair value

	Linked 2007 £m	Linked 2006 £m
Equity securities	128,919 4	90,721 5
Debt securities	67,430 4	49,604 5
Accrued interest	756 6	580 5
Derivative assets (ii)	450 6	34 5
Total financial investments at fair value	197,557 0	140,941 0

(ii) Derivative assets – held for trading

Interest rate contracts	262 3	12 7
Forward foreign exchange contracts	0 2	21 1
Equity/index derivatives	188 1	0 7
Total	450 6	34 5

13 Share Capital

	2007 £m	2006 £m
Authorised 100,000 ordinary shares of £1 each	0 1	0 1
Issued 100,000 ordinary shares of £1 each fully paid	0 1	0 1

14 Movement in reserves

	Profit and Loss Account £m
At 1 January 2007	193 4
Retained profit	29 0
At 31 December 2007	222 4

LEGAL & GENERAL ASSURANCE, (PENSIONS MANAGEMENT) LIMITED

NOTES TO FINANCIAL STATEMENTS

15 Long term business provision

The principal assumptions underlying the calculation of the long term business provision are

	2007	2006
Valuation rate of interest	5.51%	4.80%
Mortality table	Males 89% PCMA00, Females 87% PCFA00 Males CMI MC Cohort based improver With minimum 2.0% pa Up to age 90 tapering to 0% at 120 and females 75% CMI MC cohort based improver with minimum 1.5% up to age 90 tapering to 0% at 120 for females. In both cases a base date of 30/09/05	Males 92% PCMA00, Females 92% PCFA00 Males average of CMI MC & LC Cohort based improver with minimum 0.8 pa and females CMI MC cohort based improver with minimum 0.8 pa In both cases a base date of 30/09/04

16. Technical provisions for Linked Liabilities

	Unit-Linked Investment Contracts 2007 £m	Unit-Linked Investment Contracts 2006 £m
At 1 January	143,431.3	122,133.8
Deposits received from policyholders under investment contracts	70,521.7	23,438.7
Payments made to policyholders of, and fees deducted from, investment contracts	(22,173.2)	(13,782.3)
Change in technical provision	10,897.3	11,641.1
At 31 December	<u>202,677.1</u>	<u>143,431.3</u>

LEGAL & GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED

NOTES TO FINANCIAL STATEMENTS

17. Other creditors including taxation and social security

	2007	2006
	£m	£m
Amounts due to group undertakings	69 8	70 4
Corporation tax payable	18 1	12 4
Other creditors	143 2	65 5
	<u>231 1</u>	<u>148 3</u>

Amounts due to group undertakings are unsecured, interest free and repayable on demand. This includes the £52m approved dividend (2006 £62m)

18. Financial Risk Management

Creditors

As at 31 December 2007	0-5 years £'m	Carrying value £'m
Creditors	143 2	143 2
Corporation tax payable	18 1	18 1
Amounts due to group undertakings	69 8	69 8
Technical provisions	<u>231 1</u>	<u>231 1</u>

As at 31 December 2006	0-5 years £'m	Carrying value £'m
Creditors	65 5	65 5
Corporation tax payable	12 4	12 4
Amounts due to group undertakings	70 4	70 4
Technical provisions	<u>148 3</u>	<u>148 3</u>

Creditors also include accruals and deferrals that are all less than one year

19. Contingent liabilities

Provision for the liabilities arising under contracts with policyholders is based on certain assumptions. The variance of actual experience from that assumed may result in such liabilities differing from the provisions made for them. Liabilities may also arise in respect of claims relating to the interpretation of such contracts, or the circumstances in which policyholders have entered into them. In addition, the extent of liabilities in respect of contracts with policyholders may be affected by Court judgements, Ombudsman rulings, regulatory action and industry compensation schemes. Whilst it is not possible to predict with certainty the resultant financial impact or timing of all these factors, the Company considers that provisions have been made on a prudent basis and that it has adequate capital and reserves to meet all reasonable foreseeable eventualities.

LEGAL & GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED

NOTES TO FINANCIAL STATEMENTS

20. Ultimate parent undertaking

The holding company is Legal & General Investment Management (Holdings) Limited, a company incorporated in England and Wales. Legal & General Investment Management (Holdings) Limited is exempt from the obligation to prepare and deliver consolidated accounts as it is a wholly-owned subsidiary of Legal & General Group Plc, a company incorporated in England and Wales – the controlling party and ultimate holding undertaking which consolidates the financial statements of the Company. These accounts therefore provide information about the Company as an individual undertaking. Copies of the accounts of the ultimate holding company, Legal & General Group Plc, are available at the Registered Office, One Coleman Street, London EC2R 5AA.

21. Exchange rates

Principal rates of exchange used for translation into sterling at the end of the year

	2007	2006
United States Dollars	1.99	1.96
Euro	1.36	1.48

22. Segmental disclosure

There are two classes of business, UK and overseas. In accordance with SSAP 25 'Segmental Reporting' the Company has not included any segmental analysis of overseas turnover or result since this class of business division is not deemed significant.

23. Cash flow statement

In accordance with FRS1 'Cash Flow Statements' (Revised 1996) the Company has not prepared a cashflow statement as the ultimate holding company, Legal & General Group Plc, has included a group cashflow statement within its publicly available accounts.

24. Related party transactions

The Company has taken advantage of the exemptions under the terms of FRS 8 'Related Party Disclosures' from disclosing related party transactions with entities that are part of Legal & General Group Plc or investees of Legal & General Group Plc.

The directors and key management of the company had no material transactions with the Company or any other group undertakings.

25. Guarantees and Financial Commitments

No authorised and contracted commitments in respect of investments, including property development, are payable after 31 December 2007 (2006 £Nil). There were no commitments for uncalled capital on stock exchange investments as at 31 December 2007 (2006 £Nil).