

£19.2bn

Our groupwide direct investments portfolio increased by 34% to £19.2 billion.

1m

We provide pension annuity income for over 1 million people.

Leading provider

We're a leading UK provider of lifetime mortgages, enabling people to stay in their homes and improve their finances in retirement, with total loans of over £1 billion in 2018.

£1tn+

We now have over £1 trillion in worldwide assets under management.

£258bn

International AUM has grown by 23% compound annual growth since 2014 to £258 billion.

£4.4bn

We completed a £4.4bn buy-in of British Airways pension schemes, covering nearly 22,000 pensions – the largest ever bulk annuity policy with a UK pension scheme.

2018 Group Tax Supplement



Forward from our Group Chief Financial Officer



Jeff Davies
Group Chief Financial Officer

Our purpose is to improve the lives of our customers, build a better society and create value for our shareholders. We use our long-term assets in an economically and socially useful way.

We see our approach to taxation as very much a continuation of that theme. Paying and collecting taxes is part of our role as a responsible business and we take pride in the contribution we make to society through our products, our investments in housing and other infrastructure assets and our contribution through the taxes we pay and collect.

Our tax strategy

Our behaviours:

- We will always consider the group's reputation, and corporate and social responsibilities when considering tax.
- We will work with HMRC and other tax authorities co-operatively, collaboratively and on a real time basis.
- We will consider tax as part of every major business decision.
- We will contribute to the development of UK and international tax policy and legislation where we can.

Our actions:

- We will meet all of our legal requirements, making all appropriate tax returns and tax payments accurately and on time in the territories in which we operate.
- We will not undertake any transactions with the sole purpose of creating a tax benefit in excess of what is intended by relevant tax legislation, or what is outside of the group's risk appetite, or is not in line with our Group Code of Ethics.
- We will operate appropriate tax risk governance processes, including Board oversight.

Sustainable
Well Governed
Fair
Transparent

Our approach to tax is consistent with our values. We manage tax risk consistently with the group's three lines of defence risk framework.



Our tax strategy in action



Our tax strategy supports our group strategy and the way we do business. It is clear about what we will and will not do on tax.

Grace Stevens
Chief Tax Officer

We have a responsibility to create value for our shareholders, customers and communities – and we recognise that paying and collecting taxes is an important part of how our businesses contribute to society.

We aim to be:

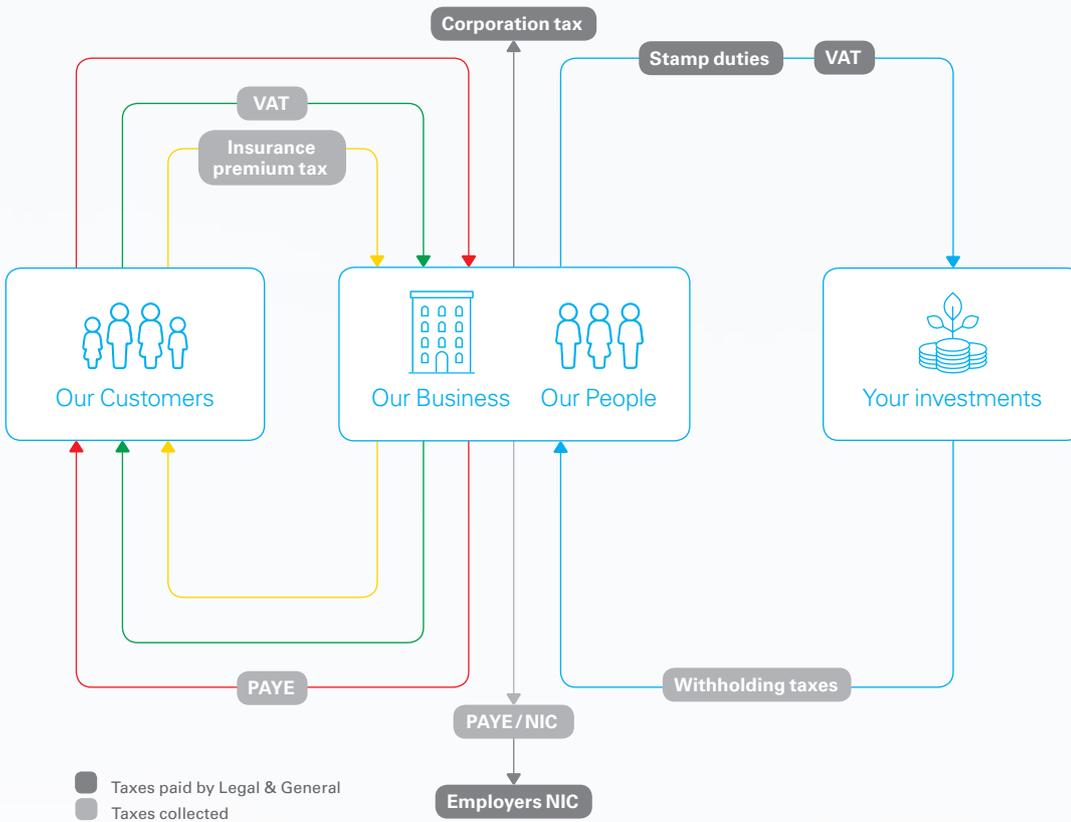
- Sustainable long term – our group's tax rate depends on our business performance and not artificial tax planning
- Well governed – we manage tax risk like any other risk in our business and invest in our people
- Transparent – we seek to explain the taxation of our business to all our stakeholders.

Our tax strategy helps us meet those aims and is regularly reviewed and approved by our Audit Committee. As Chief Tax Officer I have day-to-day responsibility for our strategy and how we implement in line with our values.

Our Group Tax team is responsible for the development, management and delivery of the tax strategy for the group. This includes responsibility for the group's tax policy, external influence, risk management, advice, reporting, compliance, providing tax insight across all parts of our business and of course making sure that we have the right people in the right roles.

Tax at Legal & General

We pay and collect a number of taxes – for our business, our people, our customers and on investments. We pay and collect various taxes in the countries in which we operate. The taxes we pay primarily arise where our business assets, capital, people and customers are located – where we have real economic substance.



Business:

Tax on our profits, employment taxes and transaction taxes

Customers:

For example, income tax withheld and paid to HMRC on annuity payments

People:

Income tax and NIC withheld and paid to HMRC

Investments:

For example withholding taxes on investment returns and transaction taxes

Tax at Legal & General

Our consolidated group includes approximately 300 taxable entities, including companies, branches, funds, trusts and partnerships operating in eleven jurisdictions: UK, US, Bermuda, Germany, Hong Kong, Ireland, Italy, Japan, Jersey, Luxembourg & The Netherlands.

Our group's asset management, insurance and savings activities can be complex and involve significant transactional volumes and values as well as cross-border transactions.

Our strategic approach is to ensure that existing and proposed transactions do not create unintended tax costs for our investors and policyholders, over and above what we think is intended by tax legislation.

All of the jurisdictions in which we operate have, or are implementing, international exchange of tax information agreements.

Reinsurance

Our global reinsurance hub in Bermuda was established to act as the reinsurance hub for the group and to support the growth of our international Pension Risk Transfer business.

Our Bermudan operations are staffed by our dedicated team of insurance and finance professionals. As there are no profit taxes in Bermuda, the taxes we pay are on our people and property.

Bermuda is one of the largest reinsurance markets in the world with a robust, Solvency II equivalent, regulatory framework and a well-established regulator. Bermuda has a highly qualified and experienced local workforce.

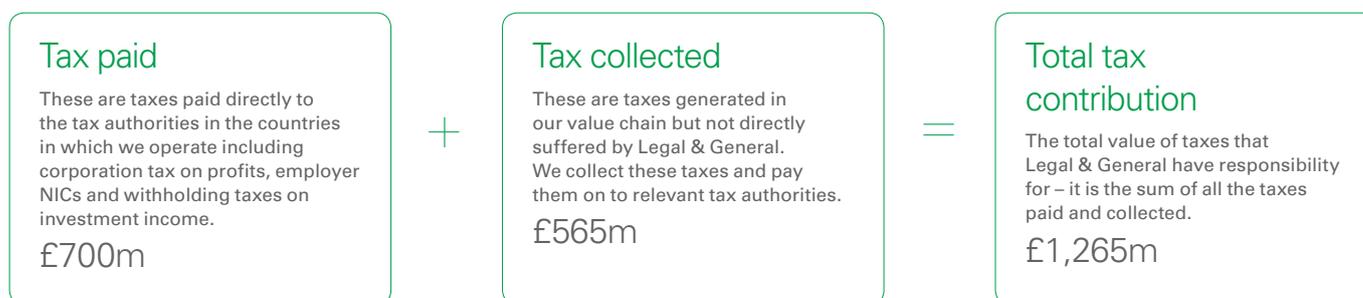
Funds

We have established collective investment schemes, which are investment funds or entities, in Jersey, Ireland and Luxembourg.

It is common to set up funds in jurisdictions like these that do not impose an additional layer of tax on the fund itself. Instead the investment return is taxed in the hands of the investor as though they were directly investing in the assets themselves – this ensures that as much investment return as possible flows through to the investors themselves.

Regardless of what territory the fund is established in, investors will pay tax on their returns in line with the tax rules of the jurisdiction they are resident in. Where our group companies invest in these funds, they pay corporation tax in their country of residence (usually the UK) on any investment.

Tax contribution



Our global tax contribution can be broken down as follows:

Country	2018 Profits ¹	Profit taxes paid	Other taxes paid	Taxes collected	2018 total tax contribution	2017 Profits	2017 total tax contribution
UK	1,576	479	173	538	1,190	2,013	1,159
US	224	25	22	25	72	137	59
Bermuda	333	–	1	–	1	137	1
Ireland	–	–	–	1	1	–	–
Luxembourg	–	–	–	–	–	–	–
Other ²	(5)	–	–	1	1	(8)	16
Total	2,128	504	196	565	1,265	2,279	1,234

All figures in £m

¹ IFRS profit before tax including discontinued activities

² Hong Kong, Netherlands, Japan, Germany where total tax in each territory is less than £1m.

Tax transparency

Tax is an important and integral part of our business and we are committed to being transparent on tax.

Our commitments to tax transparency:

- We recognise that our stakeholders on tax not only include our investors, tax authorities, customers and employees, but also wider society.
- We aim to provide useful information to our stakeholders to help them understand how we manage our tax affairs and the contribution we make to society through the taxes we pay and this includes voluntarily disclosing additional information which we consider is useful for our stakeholders to better understand our tax affairs.
- We have an open, co-operative and collaborative working relationship with HMRC across all our taxes and we participate in tax authority consultations on proposed changes to tax legislation.
- We engage with a range of interested parties and non-governmental organisations to discuss concerns about the responsible and transparent tax practices of large companies. This is in light of the expectations of society, governments and consumers for large companies on tax responsibility and transparency. For example, we participate in round table sessions organised by Responsible 100 on tax transparency. These discussions, involving a wide range of participants with differing perspectives on corporates' tax affairs, provide a 'critical friend' view of how transparent we are on tax.
- As a significant investor in public infrastructure and housing solutions, we ensure we speak to the companies we invest in about their tax policy and management as part of our overall engagement with them on governance and environmental and social impact. We also fully support and have participated in the United Nations-supported Principles for Responsible Investment, an international network of investors to understand the implications of sustainability. We have participated on the investor taskforce to produce guidance for investors' engagements on corporate tax responsibility.

Tax risk management

Our tax governance framework

Responsibility for our group's management of tax risk ultimately rests with the Board, with day to day responsibilities for the implementation of the group's tax strategy and supporting tax policies resting with the Chief Tax Officer.

Our tax risk management policy is aligned with the group's three lines of defence risk governance model, which includes a formal assessment of tax related risks and a reporting process to ensure that tax risk in the business is managed in line with tax risk appetite. The risk rating of an issue will determine how far it is escalated through the risk governance structure, including ultimately to the Board.

How we manage tax risk

We operate a three lines of defence policy for managing all operational risk. The management of tax risk is consistent with the three lines of defence model and can be summarised as:

- Tax risks and the day to day management of tax process are owned by our operating units (Group Tax owns the processes that it operates)
- Group Tax acts in support of our business units in the design and testing of tax related control frameworks and risk reporting and as a subject matter expert for our Group Risk function
- Group Internal Audit acts with independence for the last line of defence, and Group Tax can act in support if there is no conflict of interest
- Ultimately tax risk is managed by employing appropriately qualified and experienced people in key tax related roles, with specific tax responsibilities and accountabilities included in their job descriptions acting under appropriate delegated authorities.

Tax risk management

Our tax risks explained

The key tax risks for the group, together with acceptable risk level and approach to risk management are stated below:

Our tax risks	Tax risks explained	Our risk appetite	Our risk management
Tax legislation and other regulations	New tax legislation, changes in interpretation or application of existing tax legislation, changes in tax rates and changes in accounting standards or other regulations can contain significant tax risks. These changes may result in additional tax costs for the group and additional complexity in complying with new legislation or regulation.	<p>We may accept and manage tax risk where the group's interpretation of the application of specific tax legislation differs from a tax authority's, but will not seek to apply an aggressive interpretation of tax legislation outside what is understood to be intended.</p> <p>For high value tax risk on technical interpretation, group tax will typically obtain a pre-transaction validation of its technical position from reputable professional tax advisors.</p>	We actively monitor new or changing tax legislation and where appropriate participate in consultations over proposed legislation, either directly or through trade bodies. We actively engage with tax authorities to understand changes in their interpretation of existing tax legislation and seek tax authority clearances on our interpretation where we can. If new legislation is not clear and potentially material to the group, we will engage with reputable professional advisers to help us gain clarity.
Reputational	Our tax strategy aims to balance the needs of our key stakeholders. However our stakeholders' expectations of our tax behaviours and those of large corporates generally, are going through a period of unprecedented change. We need to understand these changes and where necessary adapt our tax behaviours to manage any impact on our reputation within our overall group risk appetite.	We have a low risk appetite for suffering any detriment to our reputation that may be caused by our approach to, or decisions taken in respect of, taxation. We might take a stronger view with a tax authority to ensure the right outcome for our customers.	We actively work to understand our stakeholders' expectations of us on tax, for example, through constructive co-operative working with HMRC, our Investor Relations team's interaction with shareholders and our discussions with a range of non-governmental organisations, to understand our stakeholders' perspective on tax. Stakeholder influence is factored into our tax decision making process to ensure we adopt a suitable approach to reputational risk.
Compliance and reporting	Ineffective management of our tax affairs could result in the group incurring excessive tax costs disproportionate to the group's results. Errors could be made, resulting in interest and penalty costs, as well as any payments of historic tax due, and we may be subject to additional costs related to increased audit activity from tax authorities.	<p>All significant tax risks are reported and monitored in the group's risk management systems. Accepted tax risks are reported to relevant local risk and compliance committees, and if appropriate, will feed up to the Audit and Group Risk committees in line with group procedures.</p> <p>We have low tolerance for tax arising from errors or omissions, late submission of tax returns or late tax payments for routine and well established tax compliance obligations.</p>	<p>We actively manage tax risks associated with tax compliance and reporting processes by devoting considerable effort to ensuring that our compliance and reporting obligations are fulfilled using well defined and controlled processes.</p> <p>We employ appropriately qualified and experienced people in key tax related roles, with specific tax responsibilities and accountabilities included in their job descriptions.</p>
Transactional	<p>Transactional tax risks can be generated through new product releases, corporate transactions or expanding operations into new countries.</p> <p>Failure to understand and effectively manage transactional tax risks could result in additional tax costs.</p>	<p>Tax risks for material transactions will usually only be accepted on the basis of full disclosure to, or clearances from, the tax authorities where possible.</p> <p>We may accept greater level of tax risk if it is determined as acceptable as part of the overall commercial risk assessment of a transaction.</p>	<p>We actively manage tax risks associated with new transactions, products and countries. We work in partnership with the relevant business areas to understand risk exposures.</p> <p>We mitigate our transactional tax risks by full disclosure to the tax authorities on a real time basis.</p> <p>Where there is a particularly complicated or significant transaction, we will validate our assessment with appropriate tax advisers.</p>

Our attitude to tax planning

- Tax law contains claims and elections and a wide variety of options whereby tax matters can be managed efficiently, and where such outcomes are expected and are widely regarded as within the spirit of the law. We will make use of government endorsed tax claims and elections, or seek to benefit from exemptions or similar mechanisms available within the tax legislation but we will not undertake transactions whose sole purpose is to create a tax benefit which is in excess of what is generally understood to be intended by tax legislation.
- We will undertake tax planning only in the context of wider business activity with real and commercial basis.
- We are evolving in an ever-changing economic and regulatory environment. As a result third-party external tax advice is sometimes necessary in order to safeguard the interests of our policyholders and ensure our tax position is managed efficiently within the law.
- In areas subject to particular risk, complexity and of a material nature, we will engage appropriately qualified and experienced external tax advisors to discuss and validate our understanding of relevant tax legislation and to assist us in complying with the tax legislation of the jurisdictions in which we operate.
- Where possible and practical, we will discuss new and complex tax positions with relevant tax authorities in real-time. For material issues in the UK this is often in advance of the transaction, or for other matters in the UK this would generally be before submission of the relevant tax returns. We may request generally available statutory or non-statutory clearances from relevant tax authorities in respect of specific transactions where there is material uncertainty or where the transaction is material to the group company involved. Where there is material tax uncertainty in a transaction we may also seek support from reputable professional tax advisers.

Demystifying tax – useful terms

Corporation Tax (Paid)

The tax we pay on the profits we earn

Withholding Tax (Paid)

The tax we suffer on our overseas investment income

Property Taxes (Paid)

The taxes we pay on properties and infrastructure we hold as investments and use in our businesses, including business rates and taxes on transactions when properties are bought and sold

VAT (Paid and collected)

The tax charged on the services we provide, less VAT we can recover on the goods and services we buy

Insurance premium tax (Collected)

The tax collected on insurance premiums received

Payroll Taxes (Paid and collected)

The taxes we pay on wages earned by employees and collect from employee wages on behalf of governments – primarily PAYE and National Insurance contributions (NIC) in the UK

Product related taxes (Paid and collected)

The taxes on our products including income tax collected on pension business and payments to annuity holders

Transactional (stamp) taxes (Paid)

The tax paid on legal transactions in regard to the properties and shares we buy

Registered office:

One Coleman Street,
London EC2R 5AA

T 020 3124 2000

F 020 3124 2500

legalandgeneralgroup.com