

Part 3

Légal & General Group Plc

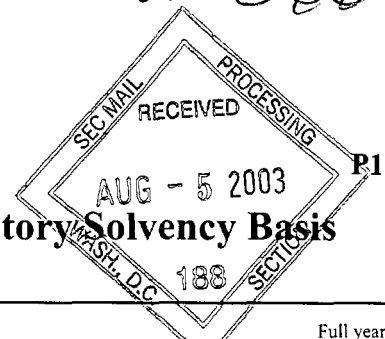
Consolidated Profit and Loss Account - Modified Statutory Solvency Basis

Six months ended 30 June 2003



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	Notes	30.6.03 £m	30.6.02 £m	Full year 2002 £m
<i>Profit on continuing operations</i>				
Life and pensions	1	211	230	421
Institutional fund management		25	23	50
General insurance		19	22	46
Other operational income		3	(13)	(24)
Operating profit on continuing operations		258	262	493
<i>Profit on discontinued operations</i>				
Other operational income - Banking		-	3	4
Operating profit		258	265	497
Variation from longer term investment return		20	(30)	(63)
Change in equalisation provision		(4)	(3)	(5)
Shareholder retained capital (SRC) contribution		(30)	(424)	(571)
Profit on sale of banking operations		-	-	36
Profit/(loss) on ordinary activities before tax		244	(192)	(106)
Tax (charge) on operating profit		(77)	(81)	(148)
Tax credit on other losses		22	91	74
Tax (charge)/credit on profit/(loss) on ordinary activities		(55)	10	(74)
Profit/(loss) for the financial period		189	(182)	(180)
Dividends		(102)	(86)	(297)
Retained profit/(loss)		87	(268)	(477)
Earnings per share				
		p	p	p
Based on operating profit after tax on continuing operations		2.79	3.22	5.88
Based on profit/(loss) for the financial period		2.91	(3.23)	(3.07)
Diluted earnings per share				
Based on operating profit after tax on continuing operations		2.75	3.16	5.78
Based on profit/(loss) for the financial period		2.87	(3.23)	(3.07)
Dividend per share		1.57	1.53	4.78

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These financial statements were approved by the Board on 23 July 2003 and have been prepared for long term business using the Modified Statutory Solvency (MSS) basis. The Achieved Profits (AP) results are included in Part 2.

The results for the six months to 30 June 2003 and 30 June 2002 are unaudited, but have been subject to a review by the auditors and constitute non-statutory accounts within the meaning of Section 240 of the Companies Act 1985. They have been prepared on a basis which is consistent with the financial statements for the year ended 31 December 2002. The results for the year ended 2002 have been taken from the financial statements for the year ended 2002 which have been filed with the Registrar of Companies and include an auditors' report which is unqualified and does not contain a statement under either sections 237(2) or 237(3) of the Companies Act 1985.

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Legal & General Group Plc

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Consolidated Balance Sheet - Modified Statutory Solvency Basis

Six months ended 30 June 2003

	Notes	At 30.6.03 £m	At 30.6.02 £m	At 31.12.02 £m
<i>Assets</i>				
Investments		33,884	34,234	32,442
Assets held to cover linked liabilities		75,733	72,162	69,723
Other assets		5,575	3,458	4,528
		115,192	109,854	106,693
<i>Liabilities</i>				
Shareholders' funds	3	3,271	2,612	3,184
Fund for future appropriations		633	1,078	516
Technical provisions		108,267	102,035	100,437
Borrowings and other creditors		3,021	4,129	2,556
		115,192	109,854	106,693

Statement of Total Recognised Gains and Losses

	At 30.6.03 £m	At 30.6.02 £m	At 31.12.02 £m
Profit/(loss) for the financial period	189	(182)	(180)
Exchange gains/(losses)	0	1	(8)
Total recognised gains and losses	189	(181)	(188)

Notes to Financial Statements - Modified Statutory Solvency Basis

Six months ended 30 June 2003

1. Life and pensions operating profit

	30.6.03 £m	30.6.02 £m	Full year 2002 £m
With-profits business	38	56	91
Non-profit business	136	144	275
UK	174	200	366
USA	28	26	52
Netherlands	9	6	8
France	0	(2)	(5)
	211	230	421

UK life and pensions operating profit is the accrued distributable transfer, grossed up at the corporate tax rate, and for non-profit business is augmented by the distribution in respect of the intra-group subordinated debt capital held within the SRC. Profits for international life and pensions business are reported on bases consistent with MSS or US GAAP.

2. Change in SRC

	30.6.03 £m	30.6.02 £m	Full year 2002 £m
Investment income	37	30	60
Interest expense and charges	(1)	(1)	(2)
Realised investment (losses)/gains	(13)	9	(23)
Unrealised investment appreciation/(depreciation)	93	(167)	(377)
Investment return on SRC	116	(129)	(342)
Net capital (invested in)/released from non-profit business	(10)	(151)	46
Distribution of operating profit from non-profit business	(136)	(144)	(275)
SRC contribution before tax	(30)	(424)	(571)
SRC at 1 January	2,259	2,631	2,631
SRC contribution before tax	(30)	(424)	(571)
Tax credit	15	87	63
SRC contribution after tax	(15)	(337)	(508)
Change in the net asset values of SRC subsidiaries	(1)	6	36
Movement in intra-group subordinated debt	0	100	100
SRC at end of period	2,243	2,400	2,259

SRC includes intra-group subordinated debt capital of £602m (1H02: £602m; FY02: £602m).

Notes to Financial Statements - Modified Statutory Solvency Basis

Six months ended 30 June 2003

3. Shareholders' funds

	30.6.03 £m	30.6.02 £m	Full year 2002 £m
At 1 January	3,184	2,877	2,877
Total recognised gains and losses	189	(181)	(188)
Dividends	(102)	(86)	(297)
Increase in share capital/premium	0	2	792
	<u>3,271</u>	<u>2,612</u>	<u>3,184</u>
At end of period	<u>3,271</u>	<u>2,612</u>	<u>3,184</u>
Comprising:			
Share capital	163	129	163
Share premium	905	149	905
Profit and loss account	2,203	2,334	2,116
	<u>3,271</u>	<u>2,612</u>	<u>3,184</u>

The number of fully paid ordinary shares of 2.5p in issue at the period end was 6,503m (1H02: 5,159m; FY02: 6,502m).

The weighted average number of shares used for calculating earnings per share was 6,489m (1H02: 5,614m; FY02: 5,868m), diluted 6,783m (1H02: 5,915m; FY02: 6,167m).

4. Tax

Although the SRC has been recognised as profit in these financial statements, there has been no corresponding recognition in the FSA regulatory returns, on which the taxation of life assurance business is currently based. As the payment of incremental tax on this profit depends upon a future event, the occurrence of which is under the company's control, no event giving rise to the need to provide deferred tax has occurred. Accordingly no additional deferred tax has been provided. The maximum amount of such deferred tax not provided at 30.6.03 was £676m (30.6.02, £690m; 31.12.02, £655m).

Notes to Financial Statements - Modified Statutory Solvency Basis

Six months ended 30 June 2003

5. Segmental analysis of shareholders' funds

	At 30.6.03 £m	At 30.6.02 £m	At 31.12.02 £m
Life and Pensions			
- UK (SRC) *	2,255	2,329	2,270
- USA	460	461	453
- Netherlands	31	23	24
- France	38	39	36
	2,784	2,852	2,783
Institutional fund management	179	165	161
General insurance	108	95	101
Corporate funds **	200	(500)	139
	3,271	2,612	3,184
Less: Purchased interests in long term business included in above	(27)	(27)	(39)
AP long term in-force business asset	2,028	2,190	1,916
	5,272	4,775	5,061

* Excluding net liabilities of £12m (1H02: net assets of £71m; FY02: net liabilities of £11m) in respect of SRC subsidiaries, but including £602m (1H02: £602m; FY02: £602m) of intra-group subordinated debt capital attributed to the SRC.

** Corporate funds include the convertible debt of £517m (1H02: £515m; FY02: £516m), the senior debt of £602m (1H02: £602m; FY02: £602m) which has been onlent to the UK Long Term Fund and the net proceeds of £788m from the 2002 rights issue.

6. UK Long Term Fund

	At 30.6.03 £bn	At 30.6.02 £bn	At 31.12.02 £bn
With-profits business	24.0	24.3	23.0
Non-profit business	12.9	11.1	11.6
Sub-fund	0.2	0.2	0.2
SRC	2.2	2.4	2.3
	2.4	2.6	2.5
Value of fund	39.3	38.0	37.1

Consolidated Cash Flow Statement (excluding long term business)

Six months ended 30 June 2003

	30.6.03 £m	30.6.02 £m	Full year 2002 £m
Net cash inflow from operating activities	493	210	520
Interest paid	(30)	(21)	(52)
Tax received	6	5	18
Capital expenditure - net payments/(receipts)	1	0	(1)
Net cash (invested in)/received on disposal of banking operations	-	(6)	20
Acquisition of subsidiaries from the long term fund	-	-	(107)
Dividends paid	(211)	(178)	(263)
Issue of share capital	0	2	792
(Decrease)/increase in total borrowing	(165)	120	249
(Decrease) in mortgage related borrowing	0	(160)	(31)
Financing	(165)	(38)	1,010
	94	(28)	1,145
<i>Cash flows (not including long term business) were invested/(divested) as follows:</i>			
Increase/(decrease) in cash holdings	8	(11)	4
Net purchase/(sale) of investments	86	(17)	1,141
Net investment/(divestment)	94	(28)	1,145
Reconciliation of profit before tax to operating cash flow			
Profit/(loss) on ordinary activities before tax	244	(192)	(106)
(Profit)/loss relating to long term business	(199)	187	112
Cash received from long term business	299	143	133
Increase in other operating creditors	246	99	199
Other items	(97)	(27)	182
Net cash inflow from operating activities	493	210	520

Part 4

Légál & General Investment Management

- supplementary information



During the first half of 2003, Legal & General Investment Management consolidated its position as the UK's leading index fund provider and made substantial progress in developing its active fund management business, particularly in the fixed interest area. This was underlined by the achievement of a number of awards, including Fixed Interest Manager of the Year and Gold Star Award for Best Group of the Year from Professional Pensions, together with Bond Fund Manager of the Year from Lipper. Legal & General's retail multi asset Distribution Fund was named by Standard & Poors' as the leading fund in its sector (over 1 and 5 years); the Fund continued to grow strongly and reached £1bn in June 2003.

Profits - MSS basis

Operating profit from institutional fund management was up 9% to £25m (1H02: £23m).

Total new business for the first half of 2003 was £6.0bn (1H02: £7.2bn).

Corporate Pensions profitability increased 6% from £16m to £17m. Fund management revenue remained broadly stable despite weak equity markets worldwide and there was an increased contribution from transition management fees. The new business sales mix was favourable with active bonds representing 12% (1H02: 3%) of the new business won in the period. Gross new business for the first half of 2003 was £5.6bn (1H02: £6.8bn). Client numbers at the end of June were 2,330 compared to 2,131 at the end of June 2002, an increase of 9%. Costs were marginally lower on the equivalent period in 2002.

Legal & General Ventures, the private equity arm, completed one new investment and one exit and generated profits of £2m (1H02: £3m).

The Property fund management subsidiary continued to grow its asset base through the creation of new property partnerships.

Total funds under management increased by 6% to £123bn (1H02: £116bn).

Profits - Achieved Profits basis

Managed pension fund business is written as a long-term contract and so the results of the business are also presented on an Achieved Profits basis. The embedded value assumptions are detailed in Part 2 of this announcement.

Operating profit from institutional fund management was £37m (1H02: £40m). Profit before tax increased to £40m (1H02: £16m) reflecting the impact of stronger investment markets relative to embedded value assumptions. The new business contribution was £12m (1H02: £15m) reflecting a favourable sales mix on lower new business levels. The contribution from in-force business was higher at £17m (1H02: £16m).

Fund Performance

Legal & General Investment Management continued to deliver solid investment performance across its range of funds. Index funds met their tracking parameters. Pooled corporate pension fund performance was robust and two-thirds of actively managed retail investment funds achieved above median performance over the six-month period.

Part 4

Légál & General Investment Management

P1

Consolidated Profit and Loss Account - Modified Statutory Solvency Basis

Six months ended 30 June 2003

	30.6.03 £m	30.6.02 £m	Full year 2002 £m
<i>Profit on continuing operations</i>			
Corporate pensions	17	16	34
Ventures	2	3	5
Property	1	1	2
Other external income	1	1	1
Other operational income	4	2	8
	<hr/>	<hr/>	<hr/>
Profit on ordinary activities before tax	25	23	50
Tax charge on profit on ordinary activities	(7)	(7)	(14)
	<hr/>	<hr/>	<hr/>
Profit for the financial period	18	16	36

These financial statements were approved by the Group Board on 23 July 2003 and have been prepared for long term business using the Modified Statutory Solvency basis. The Achieved Profits results are included in page 4. The results for the six months to 30 June 2003 and 30 June 2002 are unaudited, but have been subject to a review by the auditors and constitute non-statutory accounts within the meaning of Section 240 of the Companies Act 1985. They have been prepared on a basis which is consistent with the financial statements for the year ended 31 December 2002. The results for the year ended 2002 have been taken from the financial statements for the year ended 2002 which have been filed with the Registrar of Companies and include an auditors' report which is unqualified and does not contain a statement under either sections 237(2) or 237(3) of the Companies Act 1985.

Legal & General Investment Management

P2

Funds under management

Six months ended 30 June 2003

	At 30.6.03 £m	At 30.6.02 £m	At 31.12.02 £m
Total investments	122,583	115,666	113,992
<i>Represented by</i>			
Index tracking funds:			
- UK equities	38,442	39,045	35,940
- Overseas equities	19,813	20,044	17,999
- Fixed interest	15,051	13,432	15,107
- Index linked	8,666	7,490	7,481
- Cash/deposits	293	342	328
Total index tracking funds	82,265	80,353	76,855
Actively managed funds	40,318	35,313	37,137
	122,583	115,666	113,992
<i>By fund management approach</i>			
Indexed equities	58,255	59,089	53,939
Active bonds (including index linked funds)	26,911	22,870	25,035
Indexed bonds (including index linked funds)	24,010	21,264	22,916
Active equities	7,336	7,440	6,526
Property	5,614	4,506	5,137
Private equity (ventures)	457	497	439
	122,583	115,666	113,992
<i>By source of business</i>			
Institutional funds under management *:			
- Managed pension funds pooled	64,600	62,522	60,397
- Managed pension funds segregated	6,980	5,702	6,308
- Other	3,084	2,632	2,662
Total institutional funds under management	74,664	70,856	69,367
UK Operations (unit trusts - excluding life fund investment)	6,150	5,325	5,094
UK Operations (life and general insurance funds)	41,769	39,485	39,531
	122,583	115,666	113,992

* Excludes institutional investments in unit trust funds

Legal & General Investment Management

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New business

Six months ended 30 June 2003

	6 months 30.6.03 £m	3 months 30.6.03 £m	3 months 31.3.03 £m	6 months 30.6.02 £m	3 months 30.6.02 £m	3 months 31.3.02 £m
Managed pension funds *						
- Pooled funds	5,207	2,456	2,751	6,325	3,777	2,548
- Segregated funds	359	347	12	477	57	420
	5,566	2,803	2,763	6,802	3,834	2,968
Other funds	414	349	65	415	379	36
	5,980	3,152	2,828	7,217	4,213	3,004
				30.6.03 £m	30.6.02 £m	Full year 2002 £m
Managed pension funds *						
- Pooled funds				5,207	6,325	12,359
- Segregated funds				359	477	1,039
				5,566	6,802	13,398
Other funds **				414	415	569
				5,980	7,217	13,967
<i>By fund management approach</i>						
Active equities				1.4%	0.1%	0.1%
Active bonds (including cash)				11.6%	2.9%	0.5%
Indexed equities				51.4%	65.9%	73.0%
Indexed bonds (including cash)				31.6%	29.3%	25.0%
Property				3.6%	1.4%	1.1%
Private equity				0.4%	0.4%	0.3%
				100.0%	100.0%	100.0%

* New monies from pension fund clients of Legal & General Assurance (Pensions Management) Ltd.

Corporate pensions gross new business excludes £1.0bn (1H02: £0.7bn; FY02: £2.1bn) which is held on a temporary basis, generally as part of a portfolio reconstruction.

** Other includes segregated property, property partnerships, ventures and institutional clients excluding trusts.

Legal & General Investment Management

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Consolidated Profit and Loss Account - Achieved Profits Basis

Six months ended 30 June 2003

	30.6.03 £m	30.6.02 £m	Full year 2002 £m
<i>Profit on continuing operations</i>			
Managed pension funds:			
Contribution from:			
New business	12	15	32
In-force business			
- expected return	6	7	15
- experience variances	1	7	14
- operating assumption changes	10	2	16
Development costs	0	(1)	(1)
Shareholder net worth	3	2	7
Total	32	32	83
Ventures	2	3	5
Property	1	1	2
LGIM	1	1	2
Other operational income	1	3	-
Operating profit from institutional fund management	37	40	92
Variation from longer term investment return*	3	(24)	(48)
Profit on ordinary activities before tax	40	16	44
Tax charge on profit on ordinary activities	(12)	(5)	(12)
Profit for the financial period	28	11	32
* The variation from longer term investment return represents the effect of the investment performance in respect of shareholder net worth and in-force business, compared with embedded value assumptions at the beginning of the period.			
Managed pension funds embedded value			
	30.6.03 £m	30.6.02 £m	Full year 2002 £m
At 1 January	262	252	252
Profit after tax	25	6	25
Distributions and capital movements	-	-	(15)
At 31 December	287	258	262
comprising:			
Value of in-force business	142	129	132
Shareholder net worth	145	129	130
	287	258	262