Stock Exchange Release
18 March 2008

Robust results - £269m[1] longevity strengthening - strong platform for increased shareholder value

Financial

- **EEV and IFRS profits[2] lower in 2007 after annuitant longevity assumption strengthening and major one-off benefits in 2006**
  - EEV operating profit £912m (2006: £1,233m)
  - IFRS profit after tax £718m (2006: £1,631m)
  - Longevity strengthening of £269m (EEV basis), £214m (IFRS basis)
- **Strong efficient balance sheet**
  - High quality credit portfolio
  - AA+ financial strength (Legal & General Assurance Society Limited)
  - Capital review added a further £322m to embedded value in 2007
  - £1bn share buyback ongoing, £516m completed as at 29 February 2008
- **Recommended full year dividend up 7.6% to 5.97p (2006: 5.55p)**
  - Dividend underpinned by strong cash flow and future prospects

Business

- **Good performance from Risk business**
  - Leading market player in individual and group protection
  - Strong growth in pension buy-outs
- **Savings business - growth opportunity**
  - Strong growth in pensions sales: up 20%
  - Bond volumes affected by market volatility and CGT change
- **Strong Investment management performance**
  - £53bn in LGIM[3] new business, £297bn total LGIM funds under management
  - Investment management operating profit up 17% to £155m on IFRS basis (2006: £133m)
- **International businesses**
  - International business operating profit up 15% to £86m on IFRS basis (2006: £75m)
  - Growing international reach: Bank of Baroda and Andhra Bank (India) shareholders agreement on joint venture signed
- **Distribution**
  - Nationwide Building Society distribution agreement now live

NEWS

1. Pre-tax, EEV basis
2. Under IFRS, UK reserving changes and other adjustments contributed £869m in 2006 against just £51m in 2007
3. Legal & General Investment Management Limited

Group Chief Executive, Tim Breedon, said:

"Legal & General has delivered a robust set of financial results. Headline numbers are lower, but taking into account the significant positive regulatory and reserving changes in 2006 , and the £269m of longevity strengthening this year, the business has performed consistently over the past two years.

"The Risk business remains a market leader in its field, the Savings business is well positioned for future growth and Legal & General Investment Management is a proven winner.

"We have completed the major components of our Capital review this year. Our strong and efficient balance sheet provides us with the levers to drive future growth and shareholder value. As at 29 February, £516 million of our £1 billion share buyback has been completed and the programme continues. We are increasing our dividend by 7.6% to 5.97p, and this is strongly underpinned by cashflow. The strength of our balance sheet is unimpaired by the credit crunch. We have no material exposure to credit-impaired securities and our AA+/Aa1 financial strength ratings are unchanged.

"Our outlook is positive for the Risk business. The 'new' pension buy-out market is developing rapidly, and our quotation activity in this area has never been greater. Our partnership with Nationwide Building Society is now live and is already delivering increased new protection business in line with our expectations. We grew our savings business strongly and we continue to focus on improving margins. We have scale, breadth and distribution capability on which we intend to build in 2008.

"Legal & General's distinguishing characteristics of capital strength, breadth and diversity of product and distribution position us well to deliver long-term growth and shareholder value in 2008."

Business Commentary

Legal & General has three businesses: Risk, Savings and Investment management.

Risk – Strong performance from protection and annuities

The risk business includes group and individual protection, annuities and general insurance. Annuities delivered record business volumes in 2007. As we have predicted, the 'new' market for pension buy-outs is growing strongly as it is being used by a wider variety of schemes. We wrote over £1.1bn of single premium in 2007 and have established expertise in pricing and structuring buy-outs. This positions us well in a business which has the potential to grow exponentially, and where we intend to continue to be a key player. In protection, Legal & General has expanded its distribution and diversified its product range away from housing related sales, consequently new business volumes remained resilient in 2007 despite the slowing housing market.

Savings – Building for the future

Whilst markets have seen a high degree of turbulence we have increased sales in most of our core products (individual pensions, corporate pensions, unit trusts and ISAs). We see the Savings market as a growth area driven by an increasing number of mass affluent and high net worth clients. The market is evolving rapidly. Customers' requirements change over their lifetime. Flexibility in fund choice and tax wrapper is vital for customers' interests, and encourages them to stay with us for the long term, and it is here that we are focusing our business investment. Few companies can match our scale, breadth of product range and distribution and we therefore believe we are well placed to grow our assets under administration.

Investment management – £53bn in LGIM new business wins

LGIM delivered outstanding performance in 2007. Gross new fund inflows were £53bn, with total funds under management at the year end of £297bn. LGIM is now one of the largest asset managers in the UK. Our core product offering and acclaimed client service continue to resonate with the investment marketplace. The provision of structured solutions to UK corporate pension funds continues to grow in an attractive market.

Distribution

Legal & General's multi-channel distribution includes independent financial advisers, tied agents, bank and building society partners and direct sales. We regard diversity of distribution as very important, as it increases our flexibility to respond to market conditions. The Nationwide Building Society distribution partnership launched on 1 February 2008, providing us with access to over 13 million members.

Last year, through our Mortgage Club, we were involved in 6% of all mortgage transactions in the UK, with a total value of £23bn. This gives us unparalleled access to thousands of customers at a point when many long-term financial decisions about protection or savings are being made. We continue to invest in new distribution technology, particularly through our strategic relationship with the UK's largest independent investment platform Cofunds (£14bn assets under administration at 29 February 2008), with whom we recently extended our relationship to supply a wider range of products going forward.

Dividend

Legal & General's Board is recommending a final dividend of 4.10p. With the interim dividend of 1.87p announced in July 2007, this will bring the full year dividend for 2007 to 5.97p, an increase of 7.6%. The Company's recommended dividend is based on a thorough review of the Company's financial strength, future capital requirements and current and future investment market conditions, and a continued commitment to a strong credit rating and profitable growth.

Outlook

We anticipate further market share growth in protection. Our protection business will benefit from the Nationwide Building Society distribution agreement. The start of 2008 has been encouraging given the lower housing market activity. In annuities, the 'new' pension buyout market has arrived and quotation activity for new schemes is very strong.

Savings market conditions in 2008 are likely to be more testing than in 2007. Equity market volatility coupled with CGT uncertainty may dampen short term market growth. We are, nevertheless, confident that we have put in place the building blocks to grow our savings funds at a faster rate than the market. The year has started well for LGIM and it continues to attract funds from corporate, local authority pensions and other institutional clients.

We expect 2008 will be a challenging year for the economy and for the industry. Legal & General has shown in the past that it can build profitable market share in tougher trading conditions. We expect our combination of balance sheet strength, quality products and broad distribution to enable us to continue to deliver long-term growth and shareholder value.

Enquiries

Investors:

Jonathan Maddock	Head of Investor Relations	020 3124 2150
Nicola Marshall	Investor Relations Manager	020 3124 2151
Ching-Yee Chan	Investor Relations Co-ordinator	020 3124 2345

Media:

John Godfrey	Group Communications Director	020 3124 2090
Richard King	Head of Media Relations	020 3124 2095
Anthony Carlisle	Citigate Dewe Rogerson	07973 611888

Notes

- Issued share capital at 31 December 2007 was 6,296,321,160 shares of 2.5p.
- A copy of this announcement can be found in "Results", under the "Financial information" section of our shareholder website at http://investor.legalandgeneral.com/investors/results.cfm.
- A presentation to analysts and fund managers will take place at 09.30 GMT today at One Coleman Street, London, EC2R 5AA. There will be a live webcast of the presentation which can be accessed at http://investor.legalandgeneral.com/investors/results.cfm. A replay will be available on this website later today.
- There will be a live listen only teleconference link to the presentation. UK investors should dial 0800 953 0844 and overseas investors should dial +44 (0)1452 562 716. The conference ID number is 39176483.

Basis of preparation

The European Union requires all listed companies to prepare their consolidated financial statements using standards issued by the International Accounting Standards Board as adopted by the European Union. The Group's statutory results have therefore been reported on an International Financial Reporting Standards basis. The Group's directors continue to believe that the supplementary accounts prepared using European Embedded Value principles provide shareholders with a good understanding of the value which has been generated by the Group.

The following financial statements were approved by a sub-committee of the Board on 17 March 2008 and constitute non statutory accounts within the meaning of Section 240 of the Companies Act 1985. The Group's financial statements for 2007 include the auditors' unqualified report and do not contain a statement under either Sections 237(2) or 237(3) of the Companies Act 1985.

Financial calendar 2008:

Event	Date
Ex-dividend date for 2007 final dividend	16 April 2008
Q1 2008 new business results	16 April 2008
Annual General Meeting	14 May 2008
Payment date of 2007 final dividend (to members registered on 18 April 2008)	19 May 2008
2008 interim results and Q2 2008 new business results	5 August 2008
Ex-dividend date for 2008 interim dividend	3 September 2008
Payment date for 2008 interim dividend (to members registered on 5 September 2008)	1 October 2008

A Dividend Re-investment Plan is available to shareholders.

Forward-looking statements

This document may contain certain forward-looking statements with respect to certain of Legal & General Group Plc's plans and its current goals and expectations relating to future financial condition, performance and results. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond Legal & General Group Plc's control, including, among others, UK domestic and global economic and business conditions, market related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities, the impact of competition and the policies and actions of governmental and regulatory authorities and the timing impact and other uncertainties of future acquisition or combinations within relevant industries. As a result, Legal & General Group Plc's actual future condition, performance and results may differ materially from the plans, goals and expectations set out in Legal & General Group Plc's forward-looking statements. Legal & General Group Plc does not undertake to update forward-looking statements contained in this document or any other forward-looking statement it may make.

This page is intentionally blank

Business review

Financial highlights	2007	2006
EEV[1] basis:		
Worldwide life and pensions new business (PVNBP[2])	**£9,807m**	£8,930m
Worldwide contribution from new life and pensions business	**£359m**	£418m
Worldwide life and pensions operating profit	**£856m**	£1,030m
Worldwide operating profit	**£912m**	£1,233m
Profit from ordinary activities after tax	**£1,212m**	£1,446m
Shareholders' equity	**£8,468m**	£7,931m
Shareholders' equity per share	**134.5p**	121.4p
Diluted earnings per share based on operating profit after tax	**9.76p**	13.36p
IFRS[3] basis:		
Worldwide operating profit	**£658m**	£1,720m[4]
Profit from ordinary activities after tax	**£718m**	£1,631m
Shareholders' equity	**£5,446m**	£5,425m
Shareholders' equity per share	**86.5p**	83.0p
Diluted earnings per share based on operating profit after tax	**7.13p**	21.30p
Recommended final dividend per share	**4.10p**	3.81p
Recommended full year dividend per share	**5.97p**	5.55p

Notes:

1. European Embedded Value
2. Present Value of New Business Premiums
3. International Financial Reporting Standards
4. Restated for revised IFRS operating profit definition

RESULTS OVERVIEW

The present value of new worldwide life and pensions premiums increased by 10% in 2007 to £9,807m (2006: £8,930m) driven by strong sales of bulk purchase annuities (BPA), with the rapid development of the new pensions buy-out market, individual annuities and pensions.

Contribution from new life and pensions business was £359m (2006: £418m). The benefit to our protection margin of the introduction of PS06/14 in 2006 moderated during 2007, as anticipated, and competition and fiscal uncertainty in the bond market affected the contribution from our bond business. Life and pensions experience variances and operating assumption changes were positive £133m, before the impact of a strengthening in longevity assumptions on our UK annuities book of negative £269m (gross of tax). Worldwide EEV operating profit was £912m (2006: £1,233m). Shareholders' equity on an embedded value basis increased by 7% to £8,468m (2006: £7,931m), reflecting the profits generated in the year and the benefits of the Capital review – the major elements of which were completed in 2007.

Worldwide IFRS operating profit in 2007 was £658m (2006: £1,720m). UK Reserving changes and other adjustments contributed £869m in 2006 against just £51m in 2007. The 2007 operating profit included the impact of strengthened longevity reserving on our annuities book (negative £214m) and the June and July UK flood losses in our general insurance business (negative £76m net of reinsurance). Operating profit from our investment management business increased by 17% to £155m (2006: £133m), which included additional income earned from the management of internal funds at market referenced rates.

There were a number of significant positive changes to our balance sheet structure during 2006 and 2007 as part of our broad ranging Capital review. These were summarised in a presentation to analysts and investors on 10 January 2008. During 2007, actions taken included the conversion of Legal & General Pensions Limited (LGPL) to an Insurance Special Purpose Vehicle and the modernisation of Legal & General Assurance Society Limited's (Society's) long term fund structure. These added a total of £322m to embedded value and £321m to IFRS profit before tax in 2007. We also initiated a £1bn share buyback in July 2007 – details of which can be found in the "Share buyback" section below.

EEV BASIS

UK life and pensions operating profit

£m	2007	2006
Contribution from new business after cost of capital	**321**	380
Contribution from in-force business	**121**	369
Development costs	**(41)**	(21)
Contribution from shareholder net worth	**319**	146
UK life and pensions operating profit	**720**	874

UK life and pensions - Contribution from new business after cost of capital

	PVNBP (£m)		Contribution (£m)		Margin (%)	
	2007	2006[1]	**2007**	2006[1]	**2007**	2006[1]
Protection	**1,161**	1,201	**108**	131	**9.3**	10.9[2]
Annuities[1]	**2,045**	1,818	**187**	195	**9.1**	10.7
Risk business total	**3,206**	3,019	**295**	326	**9.2**	10.8
Unit linked bonds	**2,512**	2,612	**21**	51	**0.8**	2.0
Pensions – Stakeholder and other non profit	**1,674**	1,326	**(14)**	(10)	**(0.8)**	(0.7)
With-profits savings	**1,500**	1,149	**19**	13	**1.3**	1.1
Savings business total	**5,686**	5,087	**26**	54	**0.5**	1.1
Total	**8,892**	8,106	**321**	380	**3.6**	4.7

(1) For 2007 reporting, with-profits annuity business has been recategorised from 'with-profits' to 'annuities'. 2006 comparatives have been restated. This business amounted to £47m of PVNBP and £2m of new business contribution in 2007 (£83m and £4m respectively in 2006).
(2) Includes an uplift of 2.8 percentage points as a result of the implementation of PS06/14 in 2006.

- **Protection:** Despite a slowing housing market in 2007, the present value of new protection premiums was only marginally lower than 2006 at £1,161m (2006: £1,201m). With better than expected mortality experience, positive business mix changes in both individual and group protection and lower in-force expenses, the full year margin of 9.3% was above the H1 07 margin of 9.1% and well above the full year 2006 underlying margin of 8.1%. As stated at our 2006 Preliminary results, the reported 2006 margin of 10.9% was inflated by approximately 2.8 percentage points by the implementation of PS06/14. As anticipated, this led to significant repricing of individual protection policies in 2007 as the margin benefit of the revised regulation was largely passed on to customers. These results were achieved while continuing to invest in our operational capabilities to extend further our competitive advantage.

- Our **annuity** business grew strongly in 2007, with the present value of new annuities business up 12% to £2,045m (2006: £1,818m). This reflected growth in individual annuities and our success in the rapidly emerging new pensions buy-out market. The latter has been dominated, in our experience to date, by the buy-out of pensions in payment. These transactions are of shorter duration and consequently of lower reported margin than traditional schemes but satisfy our return on capital targets.

The aggregate annuities new business margin of 9.1% (2006 restated: 10.7%) reflects not just the current profile of this new market but also increased investment in our systems and technical capabilities to ensure we are equipped to deal with high levels of business activity and the evolving requirements of our clients. It also takes fully into account our strengthened longevity assumptions, detailed in the "Contribution from in-force business" section below. We plan to invest in an improved IT platform in 2008 to reinforce our administrative capacity further.

- The **unit linked bond** margin was 0.8% against a 2006 margin of 2.0%, reflecting the increasingly competitive nature of this market segment, together with a small increase in lapse assumptions and investment in improved processing. In addition, the uncertainty around proposed new Capital Gains Tax rules impacted volumes in the fourth quarter, whilst acquisition expenses remained geared to higher volumes.

- **Stakeholder and other non profit pensions:** We believe the high net worth individual and corporate pensions markets offer significant opportunity for long-term profitable growth. In 2007, we increased investment to expand our product range and infrastructure, launching a non-insured SIPP on the Cofunds platform and developing our web functionality for corporate schemes. Consequently, the new business margin of negative 0.8% was slightly lower than 2006 (negative 0.7%). We continued to build momentum in the corporate pensions segment, focussing on large, high quality schemes and entering the Group SIPP market. In individual pensions, we successfully targeted larger case size, single premium transfer business. We increased our total pensions market share during the year to 6.3% (2006: 5.8%).

- The **with-profits savings** new business margin now reflects the aggregate with-profits bond and pension margins. With-profits annuities have been reclassified within 'annuities'. The with-profits savings margin improved to 1.3% in 2007 (2006 restated: 1.1%).

UK life and pensions - Contribution from in-force business

£m	2007	2006
Expected return[1]	**262**	323
Experience variances and operating assumption changes:		
- Mortality/longevity/morbidity	**(155)**	5
- Persistency	**(66)**	(27)
- Expenses	**(51)**	(78)
- Other	**131**	146
Contribution from in-force business	**121**	369

[1] Details of the calculation on which expected return is based can be found in Note 3.02 of the financial results.

- **Mortality/longevity/morbidity:** Mortality experience and operating assumption changes, excluding annuitant longevity strengthening, were strongly positive at £114m. Our long term investment in underwriting and claims management in both our individual and group protection businesses contributed to the favourable experience variances and assumption changes of £72m. A review of our expectations relating to the proportion of married annuitants gave rise to a positive assumption change of £42m.

  Mortality experience on our annuities book in 2007 was a small positive. However, we changed the shape and strengthened our assumptions of future longevity, giving rise to a reduction in operating profit of £269m. As an example, under the revised assumptions, the life expectancy of a new male customer, aged 65, in our Compulsory Purchase Annuity portfolio increased to 25.1 years from 23.8 on a best estimate basis and to 26.2 years from 25.1 on a regulatory reserving basis. Full details of these changes are provided in Note 3.17 in the financial results.

- **Persistency:** Persistency experience and assumption changes totalled negative £66m in 2007 (2006: negative £27m). There was a deterioration in protection lapse experience at shorter durations during 2007, owing to the effect of the temporary introduction of Pensions Term Assurance in 2006 and more active repricing in the market following the introduction of PS06/14. Future lapse assumptions were strengthened for unit linked bonds and with-profits savings. Experience and assumption changes relating to non profit pensions were a small positive.

- **Expenses:** Expense experience and operating assumption changes were negative £51m (2006: negative £78m). Negative experience variances of £19m related mainly to one-off costs, including the implementation of the partnership with Nationwide Building Society. Changes to future expense assumptions gave rise to a negative variance of £32m. We benefited from reduced expense assumptions for our protection business. However, this was more than offset by increased investment and administration expenses across a number of products, including annuities, pensions and with-profits savings.

- **Other:** Other experience and operating assumption changes were positive £131m (2006: £146m). Positive experience variances of £106m mainly related to the impact of introducing market referenced fees for investment management services provided to Society and LGPL by Legal & General Investment Management Limited (LGIM). This led to an increase in the underlying value of the with-profits business under the EEV look through principle. Assumption changes of positive £25m included a change to reserving assumptions for unit linked business following the implementation of PS06/14, and a favourable reappraisal of the endowment review reserve.

UK life and pensions - Development costs

Development costs for 2007 of £41m (2006: £21m) related primarily to the establishment of Legal & General International (Ireland) Limited (£17m) and improvements to our pensions administration systems.

UK life and pensions - Contribution from shareholder net worth

Following the balance sheet restructuring which took place as part of the Capital review, the definition of shareholder net worth was revised to include Society Shareholder Capital held outside the long term fund (see Note 3.01 in the financial results). This change was reflected in an increased contribution of £319m in 2007 (2006: £146m). The full calculation is detailed in Note 3.02.

From 2008, the contribution from shareholder net worth will be calculated as a gross investment return on all Society shareholder capital excluding the contingent loan. For the contingent loan, the contribution will continue to be calculated as the unwind of the discount rate on its opening value (31 December 2007: £614m), grossed up for tax.

International life and pensions operating profit

£m	2007	2006
Contribution from new business after cost of capital	**38**	38
Contribution from in-force business		
- Expected return	**80**	70
- Experience variances	**3**	19
- Operating assumption changes	**2**	17
Contribution from shareholder net worth	**13**	12
Operating profit	**136**	156

Full year 2007 contribution from new business of £38m was in line with 2006 (£38m) but more than double the H1 07 contribution of £13m, owing mainly to the implementation of a Triple X financing arrangement in the second half of the year in the USA. Experience and operating assumption changes of positive £5m in 2007 compared with positive £36m in 2006. Expected return from in-force business increased to £80m (2006: £70m) as a result of the unwind of a higher opening value of in-force at a higher discount rate. Overall operating profit from our international operations was £136m (2006: £156m).

Profit attributable to equity holders

£m	2007	2006
Operating profit	**912**	1,233
Variation from longer term investment return	**116**	460
Effect of economic assumption changes	**57**	2
Property (expense)/income attributable to minority interests	**(6)**	67
Corporate restructure	**161**	(216)
Profit from continuing operations before tax attributable to equity holders	**1,240**	1,546
Tax charge on profit from ordinary activities	**(327)**	(422)
Effect of UK Budget tax changes	**93**	-
Tax impact of corporate restructure	**206**	322
Profit from ordinary activities after tax	**1,212**	1,446
Loss/(profit) attributable to minority interests	**6**	(67)
Profit attributable to equity holders	**1,218**	1,379

Profit attributable to equity holders was £1,218m in 2007 (2006: £1,379m). The variation from longer term investment return was £116m in 2007 (2006: £460m), reflecting the positive impact of the changed investment strategy for the assets backing the in-force annuity business (see Note 3.17), partially offset by underperformance against long term assumptions in UK equities and property.

The corporate restructuring benefit to profit before tax of £161m related principally to the conversion of LGPL to an Insurance Special Purpose Vehicle on 1 November 2007. The tax impact of corporate restructuring reflected the benefit of transferring £1.7bn of Shareholder Retained Capital from the long term fund with no incremental tax. These actions were two of a number taken during 2007 as part of the Capital review. Further details can be found in Note 3.01 to these results.

As we reported at our Interim results, the 2007 UK Budget gave rise to a one-off increase in embedded value of £93m, primarily from the reduction in the corporation tax rate from 30% to 28% from April 2008.

IFRS BASIS

UK life and pensions operating profit

£m	2007	2006 restated[1]
Non profit business		
- Expected capital release	**406**	555[2]
- New business strain	**(344)**	(546)[3]
- Reserving changes and other adjustments	**51**	869
Net capital released from non profit business (net of tax)	**113**	878
Net capital released from non profit business (gross of tax)	**161**	1,255
Investment return	**317**	213
Other expenses	**(27)**	(17)
Non profit business	**451**	1,451
With-profits business	**106**	95
UK life and pensions operating profit	**557**	1,546

(1) Restated for revised IFRS operating profit definition.
(2) Reported expected release prior to PS06/14.
(3) New business strain prior to PS06/14: £546m; New business strain post PS06/14: £268m.

The expected capital release from the in-force business exceeded new business strain by £62m net of tax in 2007. As anticipated, the expected release of £406m was lower than in 2006 (£555m), reflecting the significant acceleration in the release of reserves in 2006 following the implementation of PS06/14. Current management estimates suggest an increase of around 10% in the expected release for 2008.

The new business strain of £344m (2006: £268m after PS06/14 adjustment) included the impact of strengthened annuitant longevity assumptions, together with more prudent strain factors applied to the significant levels of new BPA business written towards the end of 2007 which had not been loaded onto the administrative system by year end. In addition, we experienced increased strain on our protection products as a result of continued investment in systems and processes and more intense repricing activity in the market during the year.

Reserving changes and other adjustments in 2006 of positive £869m mainly reflected the implementation of PS 06/14 (positive £641m) and a change to the investment mix of assets backing our annuity business (positive £422m). By comparison, Reserving changes and other adjustments in 2007 were positive £51m. This included a charge of £214m for the impact of strengthened annuitant longevity reserving assumptions, partially offset by a change in assumptions for the proportions married (positive £64m). The non profit business also benefited from a favourable investment experience variance in the year of £134m, principally relating to the impact of the changed investment strategy for the assets backing the in-force annuity business. There were also reserve releases of £37m from our unit linked bond and pension business following the implementation of PS06/14 (see Note 4.02(b) in the financial results).

The investment return increased by 49% to £317m in 2007 (2006: £213m), reflecting an average return of 7% on the average balance of invested assets held within Society Shareholder Capital (SSC) during 2007 (including interest bearing intra group balances) calculated on a quarterly basis. The average balance was significantly higher than during 2006, following the non profit reserve releases at 31 December 2006. The invested assets (including interest bearing intra group balances) held within the SSC amounted to £4.7bn at 31 December 2007 (£4.8bn at 31 December 2006).

Other expenses were £27m (2006: £17m), comprising mainly the development of our International bond product.

The with-profits transfer reflects one ninth of the cost of policyholder bonuses, which for 2007 totalled £665m, grossed up for corporation tax at 30%.

International life and pensions operating profit

£m	**2007**	2006
USA	**59**	58
Netherlands	**11**	7
France	**16**	10
International life and pensions operating profit	**86**	75

Operating profit across our international operations increased by 15% in 2007. In the USA, profit was broadly stable at £59m (2006: £58m), reflecting increased sales levels offset by currency fluctuations. In the Netherlands, profits increased to £11m (2006: £7m) despite a challenging savings market. In France, regulatory changes to certain equity savings products led to increased new business growth and an increase in profits to £16m (2006: £10m).

Investment management operating profit

£m	**2007**	2006
Investment management new business:		
- Institutional funds(1)	**54,431**	26,033
- Core UK retail investments APE	**161**	123
Operating profit:		
- Managed pension funds	**103**	96
- Private equity	**-**	4
- Property	**6**	6
- Retail investments	**8**	11
- Other income	**38**	16
Operating profit	**155**	133

(1) Including £1,809m of institutional investments in unit trust funds (2006: £5,383m) previously reported within UK Savings

Operating profit from our investment management business increased by 17% to £155m (2006: £133m). Managed pension fund profits increased by 7% in 2007 to £103m (2006: £96m). During 2007, we continued to invest in building our broader product capabilities, particularly in structured solutions and active fixed income.

There was a small reduction in profitability in our retail investment business to £8m (2006: £11m), as we increased investment in our distribution and product offering.

The increase in other income to £38m (2006: £16m) reflected the change to charging market referenced fees for the provision of investment management services to the UK business. This was in place for LGPL from the beginning of 2007 and for Society from July 2007. It added £23m to investment management operating profit for the year.

General insurance operating profit

£m	2007 Operating profit/(loss)	2007 Underwriting result	2006 Operating profit/(loss)	2006 Underwriting result
Household	**(86)**	**(101)**	(9)	(21)
Other	**19**	**15**	18	13
	(67)	**(86)**	9	(8)

The General Insurance operating loss in 2007 of £67m included losses of £76m net of reinsurance from the UK floods in June and July, and £8m for the cost of windstorm Kyrill in January.

Following our withdrawal from the motor and healthcare markets in 2006 and early 2007, we have focussed on developing our core household insurance proposition and diversifying distribution. Household premiums grew by 6% in the year, while expenses remained flat.

Other operational income

£m	2007	2006 restated
Shareholders' other income:		
- Investment return on shareholders' equity	**51**	65
- Interest expense	**(119)**	(106)
	(68)	(41)
Other operations	**1**	-
Unallocated corporate and development expenses	**(6)**	(2)
Other operational income	**(73)**	(43)

Investment return on shareholders' equity in 2007 reflected an average return of 5% on the average balance of invested assets (including interest bearing intra group balances) held outside Society Shareholder Capital during 2007 calculated on a quarterly basis. As at 31 December 2007, these assets amounted to £1.1bn (31 December 2006: £1.1bn). However, we expect this to reduce as we continue the £1bn share buyback programme announced and initiated in July 2007.

Interest expense reflects the cost of the average level of group debt outstanding in 2007, excluding non recourse financing. Group debt (excluding non recourse financing) amounted to £2.2bn at 31 December 2007 (31 December 2006: £1.8bn), reflecting the issue of £600m Innovative Tier 1 capital and the repayment of commercial paper in the year.

Profit attributable to equity holders

£m	2007	2006 restated
Operating profit	**658**	1,720
Variation from longer term investment return	**(90)**	231
Property (expense)/income attributable to minority interests	**(6)**	67
Release of 1996 Sub-fund	**321**	-
Profit from continuing operations before tax attributable to equity holders	**883**	2,018
Tax attributable to equity holders	**(165)**	(387)
Profit from ordinary activities after tax	**718**	1,631
Loss/(profit) attributable to minority interests	**6**	(67)
Profit attributable to equity holders	**724**	1,564

The merger of the 1996 Sub-fund with shareholder retained capital in 2007 – one of the actions of the broader Capital review – gave rise to a one-off increase in profit before tax of £321m, as the 1996 Sub-fund was transferred from unallocated divisible surplus to shareholders' equity.

SHARE BUYBACK

In July 2007, Legal & General initiated a £1bn share buyback programme. In 2007, 241.2m shares were repurchased at a cost of £320m (after stamp duty), giving an average price per share of 131.9p (before stamp duty). This compared with the volume weighted average price over that same period of 133.7p. All shares repurchased have been cancelled. In the first two months of 2008, a further 156.2m shares were repurchased at an average price per share of 126.7p (before stamp duty). It is expected that the buyback programme will be completed by the end of the third quarter of 2008.

INVESTMENT PORTFOLIO

Legal & General has no material exposure to credit-impaired securities.

£bn	31 December 2007
Worldwide funds under management	312
Client and policyholder assets	(264)
With-profits fund assets	(21)
Assets to which shareholders are directly exposed	27
Comprising:	
Assets held to back the UK non-linked non profit business	17
Society Shareholder Capital assets	4
Assets of other operations	6
	27
Split by asset class:	
Equities	2.9
Property	0.6
Bonds	22.5
Cash and cash equivalents	1.0
	27.0
Split of bonds by credit rating:	
AAA	8.9
AA	3.2
A	6.8
BBB	2.8
BB or below	0.2
Not rated	0.6
	22.5

Legal & General manages over £312bn of assets worldwide of which £264bn are managed for the exclusive benefit of clients and policyholders and for which shareholders bear no direct market risk.

£21bn of assets are held within the with-profits part of the fund in the UK. Although there is a risk that shareholders would have to provide capital support in extreme scenarios, this fund is managed with the aim of being self-financing.

The shareholders' direct exposure to asset markets comprises:

- Assets held to back Legal & General's UK non-linked non profit business of £17bn;
- Society Shareholder Capital assets of £4bn, which are invested predominantly in equities (69% equities; 12% property; 19% bonds and cash); and
- Assets of other operations of £6bn, including Legal & General Insurance Limited, LGIM and our overseas businesses.

In respect of the £22.5bn held in bonds to which shareholders are exposed, more than 96% is investment grade. At 31 December 2007, total asset-backed security (ABS) bond holdings within these portfolios amounted to £4.5bn, with an AA average credit rating. Within this, we held:

- Sub-prime and Alt A mortgage backed holdings of £65m, including £7m exposure to structured investment vehicles. There were no other sub-investment grade ABS holdings.
- Commercial Mortgage Backed Securities of £811m with an average credit rating of AA+.
- Residential Mortgage Backed Securities of £509m with an average credit rating of AAA.
- Total CDO holdings of £797m, with an average credit rating of AAA on the Moody's methodology. The holdings are internally managed, with a reference portfolio of investment grade US and European corporate bonds.

Shareholder exposure to non-investment grade monoline wrapped credit was very limited, representing approximately 0.4% of the total bond portfolio assets of £22.5bn to which shareholders are exposed.

Legal & General made greater use of derivative instruments in 2007, which diversified sources of investment return and reduced reliance on UK corporate bonds. The approach enables more active management of the annuity portfolio assets and offers the potential for higher returns by accessing the shorter end of the credit market in the UK and overseas. The average duration of new fixed income securities purchased in 2007, as backing assets for new business annuity liabilities, was approximately 3 years less than existing holdings.

CAPITAL REVIEW

Legal & General completed the major components of a broad ranging Capital review in 2007. A summary of the review and the principal actions taken was presented to analysts and investors on 10 January 2008.

The presentation also provided estimated proforma financial impacts of the changes made in 2007 on the 2007 Preliminary results, based on year end 2006 figures. The actual impacts were broadly in line with the estimates given.

1) The conversion of LGPL to an Insurance Special Purpose Vehicle gave rise to an increase in embedded value of £112m. As anticipated, there was no impact on IFRS results.
2) The restructuring of the long term fund gave rise to an increase in embedded value of £210m. IFRS profit before tax increased by £321m.

Further details can be found in notes 3.01, 4.01 and 5.01.

CAPITAL BALANCED SCORECARD MEASURES

At our Capital and Cash Flow presentation in November 2006, we indicated our intention to update the market regularly on our balanced scorecard measures for capital management. These are detailed in the following table:

	Range	**31 December 2007**	31 December 2006
IGD Surplus capital	£3bn-£4bn	**£4.1bn**(1)	£2.0bn
Society Surplus capital	£2.5bn-£3.5bn	**£4.4bn**(1)	£4.9bn
Economic Capital	Strong AA	**Very strong AA**	Very strong AA
Return on Embedded Value	Increase over medium term	**8.0%**	12.5%

(1) Based on draft unaudited regulatory returns

The IGD Surplus capital range has been updated to reflect the revised balance sheet structure put in place at 31 December 2007 (Range at 31 December 2006: £1bn-£2bn).

This page has been left intentionally blank

New Business

2.01 New business summary

	Notes	APE[1] 2007 £m	PVNBP[2] 2007 £m	Margin[3] 2007 %	APE 2006 Restated[4] £m	PVNBP 2006 £m	Margin 2006 %
UK life and pensions	2.02	**1,160**	**8,892**	**3.6**	1,073	8,106	4.7
International life and pensions	2.05	**114**	**915**	**4.1**	103	824	4.6
Total life and pensions		**1,274**	**9,807**	**3.7**	1,176	8,930	4.7
UK core retail investments[4]	2.08	**161**			123		
International retail investments	2.08	**2**			2		
Total core retail investments		**163**			125		
Total		**1,437**			1,301		

	Notes	2007 £m	2006 £m
Institutional fund management	2.11	**54,431**	26,033

1. Annual Premium Equivalent (APE) is calculated for total new business, including core retail investments, but excluding institutional fund management new business, and comprises the new annual premiums together with 10% of single premiums.
2. The present value of new business premiums (PVNBP) on the EEV basis is defined as the present value of annual premiums plus single premiums for any given period. It is calculated using the same assumptions as for the contribution from new business but determined as at the point of sale.
3. The new business margin is defined as the contribution from new business (including the cost of solvency capital) divided by the PVNBP.
4. For 2007 reporting, UK core retail investments excludes institutional investments in unit trust funds which are disclosed as part of institutional fund management new business in Note 2.11. 2006 has been restated to reflect this change.

2.02 Analysis of UK life and pensions new business by product

For the year ended 31 December 2007	**APE £m**	**Contri-bution from new business[1] £m**	**PVNBP £m**	**Margin %**
Protection	**223**	**108**	**1,161**	**9.3**
Annuities[2]	**205**	**187**	**2,045**	**9.1**
Total risk	**428**	**295**	**3,206**	**9.2**
Unit linked bonds	**251**	**21**	**2,512**	**0.8**
Pensions, stakeholder and other non profit	**253**	**(14)**	**1,674**	**(0.8)**
With-profits savings	**228**	**19**	**1,500**	**1.3**
Total savings	**732**	**26**	**5,686**	**0.5**
Total risk and savings	**1,160**	**321**	**8,892**	**3.6**
Cost of capital		**19**		
Contribution from new business before cost of capital		**340**		

For the year ended 31 December 2006	Restated[2]	Restated[2]	Restated[2]	Restated[2]
Protection	231	131	1,201	10.9
Annuities[2]	182	195	1,818	10.7
Total risk	413	326	3,019	10.8
Unit linked bonds	261	51	2,612	2.0
Pensions, stakeholder and other non profit	208	(10)	1,326	(0.7)
With-profits savings	191	13	1,149	1.1
Total savings	660	54	5,087	1.1
Total risk and savings	1,073	380	8,106	4.7
Cost of capital		27		
Contribution from new business before cost of capital		407		

1. The contribution from new business is defined as the present value at point of sale of assumed profits from new business written in the period and then rolled forward to the end of the financial period using the risk discount rate applicable at the end of the reporting period.
2. For 2007 reporting, with-profits annuity business has been recategorised from 'with-profits' to 'annuities' and 2006 comparatives restated. This business amounted to £47m (2006: £83m) of PVNBP and £2m (2006: £4m) of new business contribution.

2.03 Internal rate of return on non profit business

	2007 %	2006 %
Non profit internal rate of return (including solvency margin)	**14**	16

2.04 Analysis of UK life and pensions PVNBP

	Annual premiums 2007 £m	Present value of annual premiums 2007 £m	Capital-isation factor[1] 2007	Single premiums 2007 £m	PVNBP 2007 £m	PVNBP 2006 Restated[2] £m
Protection	**223**	**1,161**	**5.2**	**-**	**1,161**	1,201
Annuities[2]	**-**	**-**	**-**	**2,045**	**2,045**	1,818
Total risk	**223**	**1,161**	**5.2**	**2,045**	**3,206**	3,019
Unit linked bonds	**-**	**-**	**-**	**2,512**	**2,512**	2,612
Pensions, stakeholder and other non profit	**141**	**552**	**3.9**	**1,122**	**1,674**	1,326
With-profits savings	**130**	**517**	**4.0**	**983**	**1,500**	1,149
Total savings	**271**	**1,069**	**4.0**	**4,617**	**5,686**	5,087
Total risk and savings	**494**	**2,230**	**4.5**	**6,662**	**8,892**	8,106

1. The capitalisation factor is the present value of annual premiums divided by the amount of new annual premiums.
2. For 2007 reporting, with-profits annuity business has been recategorised from 'with-profits' to 'annuities' and 2006 comparatives restated. This business amounted to £47m (2006: £83m) of PVNBP and £2m (2006: £4m) of new business contribution.

2.05 Analysis of international life and pensions new business

For the year ended 31 December 2007	APE £m	Contri-bution from new business[1] £m	Cost of capital £m	PVNBP £m	Margin %
USA	**45**	**23**	**5**	**319**	**7.3**
Netherlands	**27**	**6**	**3**	**227**	**2.5**
France	**42**	**9**	**8**	**369**	**2.4**
Total	**114**	**38**	**16**	**915**	**4.1**
For the year ended 31 December 2006					
USA	42	10	6	286	3.5
Netherlands	29	21	3	258	8.3
France	32	7	6	280	2.4
Total	103	38	15	824	4.6

1. Contribution from new business is reported after the cost of capital.

2.06 Analysis of international life and pensions new business in local currency

For the year ended 31 December 2007	APE m	Contri-bution from new business[1] m	Cost of capital m	PVNBP m	Margin %
USA	**$90**	**$46**	**$11**	**$637**	**7.3**
Netherlands	**€38**	**€8**	**€5**	**€331**	**2.5**
France	**€60**	**€13**	**€11**	**€539**	**2.4**
For the year ended 31 December 2006					
USA	$77	$19	$11	$528	3.5
Netherlands	€43	€32	€5	€379	8.3
France	€46	€10	€9	€411	2.4

1. Contribution from new business is reported after the cost of capital.

2.07 Analysis of international life and pensions PVNBP in local currency

	Annual premiums 2007 m	Present value of annual premiums 2007 m	Capital-isation factor 2007	Single premiums 2007 m	PVNBP 2007 m	PVNBP 2006 m
USA	**$90**	**$637**	**7.1**	**-**	**$637**	$528
Netherlands	**€15**	**€103**	**6.7**	**€228**	**€331**	€379
France	**€24**	**€175**	**7.3**	**€364**	**€539**	€411

2.08 Analysis of core retail investments new business

	Annual premiums 2007 £m	Single premiums 2007 £m	APE 2007 £m	Annual premiums 2006 Restated[1] £m	Single premiums 2006 Restated[1] £m	APE 2006 Restated[1] £m
UK[1]	**21**	**1,399**	**161**	17	1,063	123
France	**-**	**24**	**2**	-	25	2
Total	**21**	**1,423**	**163**	17	1,088	125

1. For 2007 reporting, UK core retail investments excludes institutional investments in unit trust funds which are disclosed as part of institutional fund management new business in Note 2.11. 2006 has been restated to reflect this change.

2.09 Analysis of UK risk and savings new business premiums

	Annual premiums 2007 £m	Single premiums 2007 £m	APE 2007 £m	Annual premiums 2006 Restated[1] £m	Single premiums 2006 Restated[1] £m	APE 2006 Restated[1] £m
Protection						
- Individual	**160**	**-**	**160**	167	-	167
- Group	**63**	**-**	**63**	64	-	64
Annuities						
- Individual (non profit)	**-**	**875**	**88**	-	702	71
- Individual (with-profits)	**-**	**47**	**5**	-	83	8
- Bulk purchase	**-**	**1,123**	**112**	-	1,033	103
Total risk	**223**	**2,045**	**428**	231	1,818	413
Non profit savings						
- Unit linked bonds	**-**	**2,512**	**251**	-	2,612	261
- Individual pensions	**141**	**1,118**	**253**	126	812	207
- DWP rebates	**-**	**4**	**-**	-	5	1
With-profits savings						
- Bonds	**-**	**102**	**10**	-	83	8
- Individual pensions	**124**	**752**	**199**	115	502	165
- DWP rebates	**-**	**124**	**12**	-	155	16
- Group pensions	**6**	**5**	**7**	2	4	2
Total life and pensions savings	**271**	**4,617**	**732**	243	4,173	660
Core retail investments[1]						
- Unit trusts	**7**	**962**	**103**	2	683	70
- ISAs	**14**	**437**	**58**	15	380	53
Total savings	**292**	**6,016**	**893**	260	5,236	783
Total risk and savings new business	**515**	**8,061**	**1,321**	491	7,054	1,196

1. For 2007 reporting, core retail investments excludes institutional investments in unit trust funds which are disclosed as part of institutional fund management new business in Note 2.11. 2006 has been restated to reflect this change.

2.10 Analysis of total UK APE

	2007 £m	2006 Restated[1] £m
Independent financial advisers	**842**	719
Tied	**261**	270
Direct	**36**	38
Total UK individual[1]	**1,139**	1,027
Individual life and pensions	**978**	904
Core retail investments[1]	**161**	123
Total UK individual	**1,139**	1,027
Group life and pensions	**182**	169
Total UK risk and savings new business premiums	**1,321**	1,196

1. For 2007 reporting, core retail investments excludes institutional investments in unit trust funds which are disclosed as part of institutional fund management new business in Note 2.11. 2006 has been restated to reflect this change.

2.11 Analysis of institutional fund management new business

	2007 £m	2006 Restated[1] £m
Managed pension funds[2]		
Pooled funds	**49,460**	17,878
Segregated funds	**2,603**	608
Total managed funds	**52,063**	18,486
Other funds[3]	**2,368**	7,547
Total	**54,431**	26,033
Attributable to:		
Legal & General Investment Management	**52,622**	20,650
Legal & General Retail Investments[1]	**1,809**	5,383

1. For 2007 reporting, Other funds includes institutional investments in unit trust funds managed by Legal & General Retail Investments which were previously disclosed as UK core retail investments APE in Note 2.01. 2006 has been restated to reflect this change.
2. New monies from pension fund clients of Legal & General Assurance (Pensions Management) exclude £19.4bn (2006: £4.4bn) held through the year on a temporary basis, generally as part of portfolio reconstructions.
3. Includes segregated property, property partnerships, ventures partnerships and institutional clients funds managed by Legal & General Investment Management and institutional investments in unit trust funds managed by Legal & General Retail Investments.

2.12 Legal & General Investment Management new business by investment approach

	2007 %	2006 %
Indexed equities	**70.9**	46.3
Indexed bonds (including index linked funds and cash)	**21.1**	39.1
Active bonds (including index linked funds and cash)	**4.0**	9.6
Structured solutions	**3.6**	3.9
Property	**0.4**	0.7
Private equity	**-**	0.1
Active equities	**-**	0.3
Total	**100.0**	100.0

European Embedded Value

Consolidated income statement

For the year ended 31 December 2007

	Notes	2007 £m	2006 £m
From continuing operations			
Life and pensions	3.02/3.03	**856**	1,030
Investment management	3.08	**196**	181
General insurance	4.04	**(67)**	9
Other operational income	3.09	**(73)**	13
Operating profit		**912**	1,233
Variation from longer term investment return	3.06	**116**	460
Effect of economic assumption changes	3.02	**57**	2
Property (expense)/income attributable to minority interests		**(6)**	67
Corporate restructure	3.01/3.02	**161**	(216)
Profit from continuing operations before tax attributable to equity holders		**1,240**	1,546
Tax charge on profit from ordinary activities	3.10	**(327)**	(422)
Effect of UK Budget tax changes	3.10	**93**	-
Tax impact of corporate restructure	3.01/3.10	**206**	322
Profit from ordinary activities after tax		**1,212**	1,446
Loss/(profit) attributable to minority interests	4.14	**6**	(67)
Profit attributable to equity holders of the Company		**1,218**	1,379

	Notes	p	p
Earnings per share	3.11		
Based on operating profit from continuing operations after tax attributable to equity holders		**9.81**	13.45
Based on profit attributable to equity holders of the Company		**18.90**	21.27
Diluted earnings per share	3.11		
Based on operating profit from continuing operations after tax attributable to equity holders		**9.76**	13.36
Based on profit attributable to equity holders of the Company		**18.80**	21.12

Consolidated balance sheet

As at 31 December 2007

	Notes	2007 £m	2006 £m
Assets			
Investments		**276,438**	213,228
Long term in-force business asset		**3,041**	2,529
Other assets		**4,828**	4,614
		284,307	220,371
Equity and liabilities			
Shareholders' equity	3.13/3.14	**8,468**	7,931
Minority interests	4.14	**178**	414
Total equity		**8,646**	8,345
Subordinated borrowings	4.13	**1,461**	818
Unallocated divisible surplus		**1,721**	2,178
Participating contract liabilities		**18,849**	19,770
Non-participating contract liabilities		**247,779**	183,618
Senior borrowings	4.13	**1,327**	1,607
Other liabilities and provisions		**4,524**	4,035
		284,307	220,371

Consolidated statement of recognised income and expense

For the year ended 31 December 2007

	2007 £m	2006 £m
Fair value losses on cash flow hedges	**-**	(3)
Exchange differences on translation of overseas operations	**18**	(41)
Actuarial (losses)/gains on defined benefit pension schemes	**(23)**	3
Actuarial losses/(gains) on defined benefit pension schemes transferred to unallocated divisible surplus	**16**	(1)
Income/(expense) recognised directly in equity, net of tax	**11**	(42)
Profit from ordinary activities after tax	**1,212**	1,446
Total recognised income and expense	**1,223**	1,404
Attributable to:		
Minority interests	**(6)**	67
Equity holders of the Company	**1,229**	1,337

Notes to the Financial Statements

3.01 Capital review

Conversion of Legal & General Pensions Limited (LGPL) to an Insurance Special Purpose Vehicle (ISPV)

On 1 November 2007, LGPL was converted to an ISPV and repaid subordinated debt of £400m to Legal & General Assurance Society Limited (Society).

Society's long term fund restructure

In December 2007, the Group implemented a new capital structure for Society.

A key component was the removal of the transfer formula which has limited the annual amounts of distribution from Society's long term fund since 1996. As part of the restructure, it was also announced that the 1996 Sub-fund (£321m) was merged into the Shareholder Retained Capital (SRC). Society's Board of Directors has undertaken to maintain an initial £500m of assets within Society to support the with-profits business. The amount of the commitment will gradually reduce to zero over a period not exceeding ten years.

The removal of the formula and the merger of the 1996 Sub-fund with the SRC have removed significant dividing lines between the pools of shareholder capital within Society. From 2007, all the shareholder assets supporting the UK non profit life and pensions businesses have been aggregated for reporting purposes and designated 'Society Shareholder Capital'. This comprises the SRC (including the merged 1996 Sub-fund), and all Society's shareholder capital held outside the long term fund and in LGPL.

For 2007, £1.7bn (2006: £272m) has been transferred from the SRC into the shareholder capital held outside Society's long term fund.

Financial impacts of ISPV conversion and Society's long term fund restructure

The effects of the changes on the EEV financial statements are shown in the table below:

	ISPV conversion[1] £m	Long term fund restructure[2,3] £m	Tax impact of restructure[4] £m	Total £m
Profit from continuing operations before tax	156	5	-	161
Embedded value	112	4	206	322

1. The conversion of LGPL to an ISPV resulted in an increase in embedded value of £112m and an increase in profit before tax of £156m. This reflects the removal of the requirement to hold a solvency margin in the ISPV and the consequent reduction in the modelled cost of solvency capital.
2. In Society, the SRC and 1996 Sub-fund have either been required to cover the EU solvency margin or regarded as encumbered due to the restrictions over distribution. Following the restructure, these assets are no longer encumbered and are valued at market value less the anticipated tax charge. The Group has previously modelled EEV operating profit assuming the SRC is released into surplus over a period of 20 years. It is assumed that the remainder of the SRC is distributed over two years with the exception of the contingent loan balance with LGPL which is assumed to be distributed as it is repaid.
3. To take account of the more flexible nature of the capital in Society, the assets modelled to cover the required capital now reflect the average investment mix of the total Society Shareholder Capital which, as a result, includes a higher proportion of fixed interest investments.
4. The transfer from the SRC into the Society Shareholder Capital held outside Society's long term fund at the end of 2007 did not give rise to any incremental tax. The tax impact on future distributions of SRC assets has been modelled using marginal tax rates of between 10% and 12%.

The combined impact for the four factors above on both contribution from new business after cost of capital and operating profit was an increase of £12m.

Following the restructure, the shareholder net worth (SNW) of the UK life and pensions business has been redefined to include the shareholder capital held outside the long term fund. The longer term investment return earned on these assets of £52m (2006: £104m) is included in UK contribution from SNW for 2007. In the segmental analysis of ordinary shareholders' equity, the shareholder capital held outside the long term fund of £2,109m (2006: £1,307m) has been reallocated to UK life and pensions covered business at the balance sheet date. Prior year comparatives have not been restated to reflect this reclassification.

Notes to the Financial Statements

3.02 Profit from continuing operations after tax from covered business

For the year ended 31 December 2007	Notes	UK £m	International £m	Life and pensions total £m	Investment management[1] £m	Total £m
Contribution from new business after cost of capital		**321**	**38**	**359**	**109**	**468**
Contribution from in-force business:						
- expected return[2]		**262**	**80**	**342**	**30**	**372**
- experience variances	3.04	**98**	**3**	**101**	**21**	**122**
- operating assumption changes	3.05	**(239)**	**2**	**(237)**	**9**	**(228)**
Development costs		**(41)**	**-**	**(41)**	**(2)**	**(43)**
Contribution from shareholder net worth[3]		**319**	**13**	**332**	**8**	**340**
Operating profit		**720**	**136**	**856**	**175**	**1,031**
Variation from longer term investment return[4]		**128**	**(8)**	**120**	**4**	**124**
Effect of economic assumption changes		**70**	**(18)**	**52**	**5**	**57**
Corporate restructure[5]		**161**	**-**	**161**	**-**	**161**
Profit from continuing operations before tax		**1,079**	**110**	**1,189**	**184**	**1,373**
Tax		**(287)**	**(32)**	**(319)**	**(52)**	**(371)**
Effect of UK Budget tax changes	3.10	**86**	**-**	**86**	**7**	**93**
Tax impact of corporate restructure[5]	3.10	**206**	**-**	**206**	**-**	**206**
Profit from continuing operations after tax		**1,084**	**78**	**1,162**	**139**	**1,301**

For the year ended 31 December 2006	Notes	UK £m	International £m	Life and pensions total £m	Investment management[1] £m	Total £m
Contribution from new business after cost of capital		380	38	418	61	479
Contribution from in-force business:						
- expected return		323	70	393	24	417
- experience variances	3.04	41	19	60	34	94
- operating assumption changes	3.05	5	17	22	26	48
Development costs		(21)	-	(21)	(1)	(22)
Contribution from shareholder net worth		146	12	158	7	165
Operating profit		874	156	1,030	151	1,181
Variation from longer term investment return[4]		387	(21)	366	13	379
Effect of economic assumption changes		(5)	7	2	-	2
Corporate restructure[5]		(216)	-	(216)	-	(216)
Profit from continuing operations before tax		1,040	142	1,182	164	1,346
Tax		(337)	(45)	(382)	(49)	(431)
Tax impact of corporate restructure[5]	3.10	322	-	322	-	322
Profit from continuing operations after tax		1,025	97	1,122	115	1,237

1. For covered business, Investment management comprises managed pension funds and is included in the total Investment management result of £196m (2006: £181m). See Note 3.08.
2. The UK expected return on in-force is based on the unwind of the discount rate on the opening, adjusted base value of in-force (VIF). The opening base VIF was £2,428m in 2007. This is adjusted for the effects of opening model changes (£52m) to give an adjusted opening base VIF of £2,480m. This is then multiplied by the opening risk discount rate of 7.6% and the result grossed up at the notional attributed tax rate of 28% to give a return of £262m.
3. The UK contribution from shareholder net worth (SNW) of £319m is based on a mechanical calculation from opening balance sheet values. It reflects a different treatment for that part of the SNW which is discounted for the time value of money and that which is held at face value.
   The first element (£277m) is based on the unwind of the discount rate on the opening, adjusted base SNW.
   - The base SNW was £2,608m in 2007.
   - This is adjusted for the effects of opening model changes (£18m) to give an adjusted opening base SNW of £2,626m.
   - The adjusted opening base SNW is multiplied by the opening risk discount rate of 7.6% and the result grossed up at the notional attributed tax rate of 28% to give a return of £277m.

   The second element (£99m) is the pre-tax smoothed investment return on other SNW assets held at face value. This is offset by pre-tax corporate expenses charged to shareholders' funds of £13m.

   In 2007, the contribution from SNW was also adjusted for modelling changes and second order tax effects of negative £44m (£32m net of the notional attributed tax rate of 28%).
4. UK life and pensions variation from longer term investment return comprises £246m (2006: £185m) relating to the value of in-force business and negative £118m (2006: £202m) relating to SNW.
5. Further details relating to the Capital review can be found in Note 3.01.

Notes to the Financial Statements

3.03 Life and pensions operating profit

	2007 £m	2006 £m
UK	**720**	874
USA	**75**	89
Netherlands	**32**	45
France	**29**	22
	856	1,030

3.04 Analysis of experience variances

For the year ended 31 December 2007	UK £m	International £m	Life and pensions total £m	Investment management £m	Total £m
Persistency	**(25)**	**(1)**	**(26)**	**5**	**(21)**
Mortality/morbidity	**36**	**16**	**52**	**-**	**52**
Expenses	**(19)**	**1**	**(18)**	**(8)**	**(26)**
Other	**106**	**(13)**	**93**	**24**	**117**
	98	**3**	**101**	**21**	**122**

2007 UK other experience variances of £106m principally comprise the impact of introducing market referenced fees for the investment management services provided to Society's with-profits business by Legal & General Investment Management (£83m), which are recognised on a look through basis.

2007 Investment management other experience variances of £24m relates primarily to the effect of higher than assumed 'other income' and average fees.

For the year ended 31 December 2006					
Persistency	(15)	2	(13)	12	(1)
Mortality/morbidity	10	(9)	1	-	1
Expenses	2	-	2	-	2
Other	44	26	70	22	92
	41	19	60	34	94

2006 UK other experience variances of £44m principally comprise the impact of the release of prudent margins as more data is loaded onto the BPA administration system (£33m) and opening adjustments (£34m) primarily to reflect a revision of assessments of prior and future tax. These opening adjustments had a broadly neutral effect on the embedded value, with the positive variance here being offset by a negative variance in the contribution from shareholder net worth. This is partially offset by differences between actual and modelled tax and an increase in deferred tax provisions (-£21m).

2006 International other experience variances relate primarily to the impact of Triple X financing.

2006 Investment management other experience variances of £22m relate primarily to the effect of higher than assumed average fee rates.

Notes to the Financial Statements

3.05 Analysis of operating assumption changes

For the year ended 31 December 2007	UK £m	International £m	Life and pensions total £m	Investment management £m	Total £m
Persistency	**(41)**	**(4)**	**(45)**	**-**	**(45)**
Mortality/morbidity	**(191)**	**21**	**(170)**	**-**	**(170)**
Expenses	**(32)**	**(4)**	**(36)**	**(12)**	**(48)**
Other	**25**	**(11)**	**14**	**21**	**35**
	(239)	**2**	**(237)**	**9**	**(228)**

2007 UK mortality/morbidity operating assumption changes of -£191m relate primarily to the strengthening of assumptions for annuitant mortality (-£269m) offset by a change in assumptions for the proportion of annuitants married (£42m) and improved mortality on individual protection and other products (£36m).

2007 Investment management other operating assumption changes of £21m primarily arise from the continuation of the ten year lapse assumption for all contracts through the extension of the modelling period.

For the year ended 31 December 2006					
Persistency	(12)	21	9	-	9
Mortality/morbidity	(5)	(7)	(12)	-	(12)
Expenses	(80)	4	(76)	(1)	(77)
Other	102	(1)	101	27	128
	5	17	22	26	48

2006 UK expenses of -£80m relate to an assumed increase in future expenses in relation to the management of existing protection policies (-£33m) and an anticipated rise in investment management costs (-£40m). The latter relates to the move to new City premises in 2007 and the development of our structured solutions and US based fixed income teams.

2006 UK other operating assumption changes of £102m primarily relate to the impact of PS 06/14 on realistic protection reserving after the recapture of financial reinsurance (£64m) and changes to annuity investment policy (£19m), together with a reassessment of future reserve releases as data is loaded onto the BPA administration system (£23m).

2006 Investment management other operating assumption changes of £27m arise from the continuation of the ten year lapse assumption for all contracts through the extension of the modelling period (£15m) coupled with higher fee and income assumptions (£12m).

3.06 Variation from longer term investment return

	2007 £m	2006 £m
Total covered business[1]	**124**	379
Investment management[2]	**-**	(1)
General insurance	**(9)**	(7)
Other operational income	**1**	89
	116	460

1. 2007 includes the variation from longer term investment return on total Society Shareholder Capital. Further details relating to the Capital review can be found in Note 3.01.
2. Non-covered Investment management business.

3.07 Time value of options and guarantees

	2007 £m	2006 £m
Life and pensions		
UK non profit	**4**	4
UK with-profits	**1**	2
International	**13**	12
	18	18

Notes to the Financial Statements

3.08 Investment management income statement

	2007 £m	2006 £m
From continuing operations[1]		
Managed pension funds	**175**	151
Private equity	**-**	4
Property	**6**	6
Retail investments	**8**	11
Other income[2]	**7**	9
Operating profit from investment management	**196**	181
Variation from longer term investment return	**4**	13
Effect of economic assumption changes	**5**	-
Profit on ordinary activities before tax	**205**	194
Tax[3]	**(53)**	(58)
Profit on ordinary activities after tax	**152**	136

Investment management comprises the managed pension funds business on an EEV basis and other investment management business on an IFRS basis.

1. Operating profit in 2007 excludes £23m of profits arising from the provision of investment management services at market referenced rates to the covered business. These are reported on a look through basis and as a consequence are included in the UK life and pensions covered business on an EEV basis.
2. Other income excludes the element relating to managed pension funds on the IFRS basis.
3. 2007 includes the effect of UK Budget tax changes of £7m.

3.09 Other operational income

	2007 £m	2006 £m
Shareholders' other income		
Investment return on shareholders' equity[1]	**51**	134
Interest expense[2]	**(119)**	(106)
	(68)	28
Other operations[3]	**1**	(2)
Unallocated corporate and development expenses	**(6)**	(13)
	(73)	13

1. Investment return on shareholders' equity in 2007 excludes investment return on Society Shareholders Capital, which is included in UK life and pensions.
2. Interest expense relates to average borrowings (excluding non-recourse financing) for 2007 (see Note 4.13).
3. Principally the regulated mortgage network and Cofunds.

Notes to the Financial Statements

3.10 Tax

Analysis of tax

	Profit/(loss) before tax 2007 £m	Tax (charge)/ credit 2007 £m	Profit/(loss) before tax 2006 £m	Tax (charge)/ credit 2006 £m
From continuing operations				
UK life and pensions	**720**	**(232)**	874	(262)
International life and pensions	**136**	**(40)**	156	(51)
	856	**(272)**	1,030	(313)
Investment management	**196**	**(57)**	181	(54)
General insurance	**(67)**	**19**	9	(2)
Other operational income	**(73)**	**30**	13	8
Operating profit	**912**	**(280)**	1,233	(361)
Variation from longer term investment return	**116**	**12**	460	(128)
Effect of economic assumption changes	**57**	**(14)**	2	2
Property (expense)/income attributable to minority interests	**(6)**	**-**	67	-
Corporate restructure[1]	**161**	**(45)**	(216)	65
Profit from continuing operations before tax / Tax	**1,240**	**(327)**	1,546	(422)

1. Further details relating to the Capital review can be found in Note 3.01.

For the purposes of grossing up the movement in the UK embedded value to report pre-tax profits, the notional attributed tax rate was 28% (2006: 30%).

Effect of UK Budget tax changes

The Finance Act 2007 contained two measures which increased the UK embedded value by £93m. The reduction in the UK corporation tax rate from 30% to 28% with effect from 1 April 2008 increased the post-tax profits from the UK life and pensions and managed pension funds businesses reported on an EEV basis over the projection period. The effect was to increase the UK embedded value by £101m. This was offset by a reduction of £8m from the requirement to tax the loan interest payable by LGPL to the SRC at the full UK corporation tax rate.

Tax impact of corporate restructure

There was no incremental tax for 2007 on the transfer of the SRC, whereas marginal tax rates of between 10% and 12% had been assumed for 2006. The favourable impact on EEV was £206m. For 2006, the favourable impact of £322m arose primarily from the reversal of the effect of the UK tax changes reported in 2005.

Notes to the Financial Statements

3.11 Earnings per share

(a) Earnings per share

	Profit before tax 2007 £m	Tax (charge)/ credit 2007 £m	Profit after tax 2007 £m	Per share 2007 p	Profit/(loss) before tax 2006 £m	Tax (charge)/ credit 2006 £m	Profit/(loss) after tax 2006 £m	Per share 2006 p
Operating profit from continuing operations	**912**	**(280)**	**632**	**9.81**	1,233	(361)	872	13.45
Variation from longer term investment return	**116**	**12**	**128**	**1.99**	460	(128)	332	5.12
Effect of economic assumption changes	**57**	**(14)**	**43**	**0.67**	2	2	4	0.06
Corporate restructure	**161**	**(45)**	**116**	**1.80**	(216)	65	(151)	(2.33)
Effect of UK Budget tax changes	**-**	**93**	**93**	**1.44**	-	-	-	-
Tax impact of corporate restructure	**-**	**206**	**206**	**3.19**	-	322	322	4.97
Earnings per share based on profit attributable to equity holders	**1,246**	**(28)**	**1,218**	**18.90**	1,479	(100)	1,379	21.27

(b) Diluted earnings per share

(i) Based on operating profit from continuing operations after tax

	Profit after tax 2007 £m	Number of shares[1] 2007 m	Per share 2007 p	Profit after tax 2006 £m	Number of shares[1] 2006 m	Per share 2006 p
Operating profit from continuing operations after tax	**632**	**6,444**	**9.81**	872	6,483	13.45
Net shares under options allocable for no further consideration	**-**	**34**	**(0.05)**	-	46	(0.09)
Diluted earnings per share	**632**	**6,478**	**9.76**	872	6,529	13.36

(ii) Based on profit attributable to equity holders of the Company

	Profit after tax 2007 £m	Number of shares[1] 2007 m	Per share 2007 p	Profit after tax 2006 £m	Number of shares[1] 2006 m	Per share 2006 p
Profit attributable to equity holders of the Company	**1,218**	**6,444**	**18.90**	1,379	6,483	21.27
Net shares under options allocable for no further consideration	**-**	**34**	**(0.10)**	-	46	(0.15)
Diluted earnings per share	**1,218**	**6,478**	**18.80**	1,379	6,529	21.12

The number of shares in issue at 31 December 2007 was 6,296,321,160 (2006: 6,532,261,961).

1. Weighted average number of shares.

Notes to the Financial Statements
3.12 Embedded value reconciliation

As at 31 December 2007	Notes	UK value of in-force £m	UK shareholder net worth[1] £m	UK life and pensions £m	International life and pensions £m	Life and pensions total £m	Investment management[2] £m	Total £m
At 1 January								
Value of in-force business (VIF)		2,428	-	2,428	652	3,080	281	3,361
Shareholder net worth (SNW)		-	3,828	3,828	261	4,089	194	4,283
		2,428	3,828	6,256	913	7,169	475	7,644
Exchange rate movements		-	-	-	28	28	-	28
		2,428	3,828	6,256	941	7,197	475	7,672
Profit for the period:								
- New business contribution		510	(279)	231				
- Expected return on VIF		189	-	189				
- Expected return - transfer to SNW		(331)	331	-				
- Movement in contingent loan[3]		(108)	108	-				
- Experience variances		64	7	71				
- Operating assumption changes		(23)	(179)	(202)				
- Development costs		-	(34)	(34)				
- Expected return on SNW		-	233	233				
- Investment variances		195	(57)	138				
- Economic assumption changes		(97)	147	50				
- Effect of UK Budget tax changes		48	38	86				
- Corporate restructure[4]		45	71	116				
- Tax impact of corporate restructure		-	206	206				
Profit for the period[5]		492	592	1,084	78	1,162	139	1,301
Capital movements[6]		-	(590)	(590)	84	(506)	-	(506)
Other capital movements[1]		-	1,307	1,307	-	1,307	-	1,307
Distributions:								
- With-profits transfer		(74)	74	-				
- Dividend to Group		-	(728)	(728)				
Distributions		(74)	(654)	(728)	(2)	(730)	(52)	(782)
Other reserve movements including pension deficit		-	(20)	(20)	-	(20)	-	(20)
Transfer to non-covered business[7]		-	(16)	(16)	-	(16)	-	(16)
Embedded value	3.13/3.14	**2,846**	**4,447**	**7,293**	**1,101**	**8,394**	**562**	**8,956**
Represented by:								
Non profit		2,056		2,056				
With-profits		790		790				
Value of in-force business		2,846	-	2,846	782	3,628	340	3,968
Shareholder net worth		-	4,447	4,447	319	4,766	222	4,988

1. In previous periods, UK SNW represented the amounts in the Society long term fund and LGPL shareholder capital which were regarded as either required capital or free surplus held within the covered business. As a consequence of the Capital review, from 2007, all shareholder capital in Society and LGPL is included as SNW within the covered business. This notional transfer of the previously excluded Society Shareholder Capital (SSC) into UK SNW is included as Other capital movements in 2007.
2. Investment management covered business comprises managed pension funds and is included in the total Investment management shareholders' equity of £689m (2006: £592m).
3. On an EEV basis, the contingent loan (between Society and LGPL) is modelled as an asset of SNW. As profits from the in-force business of LGPL are earned, cash is realised and transferred to SNW and the contingent loan asset is reduced accordingly. The movement includes both repayment of capital relating to in-force business and drawdown of loan relating to new business written in the period.
4. Further details relating to the Capital review can be found in Note 3.01.
5. Included in the profit for the period is an inter-fund transfer from non profit (included in VIF) to SSC (included in SNW) of £60m.
6. Capital movements comprise the repayment of £602m of intra-group subordinated debt, offset by £57m ($114m) of capital injected into the USA and £39m injected into Legal & General International (Ireland) from Group, together with £27m (€40m) injected into France from Society
7. The transfer to non-covered business represents the IFRS profits arising in the period from the provision of investment management services by Legal & General Investment Management to the UK life and pensions covered business, which have been included in the operating profit of the covered business on the look through basis.

Notes to the Financial Statements

3.12 Embedded value reconciliation (continued)

As at 31 December 2006	Notes	UK value of in-force £m	UK shareholder net worth[1] £m	UK life and pensions £m	International life and pensions £m	Life and pensions total £m	Investment manage-ment[2] £m	Total £m
At 1 January								
Value of in-force business (VIF)		3,142	-	3,142	570	3,712	238	3,950
Shareholder net worth (SNW)		-	1,762	1,762	298	2,060	184	2,244
		3,142	1,762	4,904	868	5,772	422	6,194
Exchange rate movements		-	-	-	(78)	(78)	-	(78)
		3,142	1,762	4,904	790	5,694	422	6,116
Profit for the period:								
- New business contribution		485	(219)	266				
- Expected return on VIF		226	-	226				
- Expected return - transfer to SNW		(293)	293	-				
- Experience variances		(160)	161	1				
- Operating assumption changes		(284)	286	2				
- Development costs		-	(14)	(14)				
- Expected return on SNW		-	112	112				
- Investment variances		(56)	320	264				
- Economic assumption changes		(5)	2	(3)				
- Corporate restructure		(561)	410	(151)				
- Tax impact of corporate restructure		-	322	322				
Profit for the period[3]		(648)	1,673	1,025	97	1,122	115	1,237
Capital movements[4]		-	698	698	31	729	-	729
Distributions:								
- Non profit			(110)	(110)				
- With-profits transfer		(66)		(66)				
- SNW			(162)	(162)				
- Subordinated debt			(24)	(24)				
Distributions		(66)	(296)	(362)	(5)	(367)	(62)	(429)
Other reserve movements including pension deficit		-	(9)	(9)	-	(9)	-	(9)
Embedded value	3.13/3.14	2,428	3,828	6,256	913	7,169	475	7,644
Represented by:								
Non profit		1,643		1,643				
With-profits		785		785				
Value of in-force business		2,428	-	2,428	652	3,080	281	3,361
Shareholder net worth		-	3,828	3,828	261	4,089	194	4,283

1. UK SNW represented the amounts in the Society long term fund and LGPL shareholder capital which are regarded as either required capital or free surplus held within the covered business.
2. Investment management covered business comprises managed pension funds and is included in the total investment management shareholders' equity of £592m.
3. Included in the profit for the period is an inter-fund transfer from non profit (included in VIF) to SRC (included in SNW) of £1,222m.
4. Capital movements comprise £300m equity capital, £600m capital contribution and £400m of intra-group subordinated debt attributed to LGPL, less the repayment of £602m of intra-group subordinated debt previously attributed to the SRC.

Notes to the Financial Statements

3.13 Analysis of shareholders' equity

As at 31 December 2007	UK[1] £m	International £m	Life and pensions total £m	Investment management[2] £m	Other operations[3] £m	Total £m
Analysed as:						
IFRS basis shareholders' equity	**4,832**	**880**	**5,712**	**222**	**(488)**	**5,446**
Additional retained profit on an EEV basis	**2,461**	**221**	**2,682**	**340**	**-**	**3,022**
Shareholders' equity on an EEV basis	**7,293**	**1,101**	**8,394**	**562**	**(488)**	**8,468**
Comprising:						
Shareholder net worth						
- Free surplus	**3,249**	**140**	**3,389**	**198**		
- Required capital to cover solvency margin	**1,198**	**179**	**1,377**	**24**		
Value of in-force						
- Value of in-force business	**2,944**	**840**	**3,784**	**347**		
- Cost of capital	**(98)**	**(58)**	**(156)**	**(7)**		
As at 31 December 2006						
Analysed as:						
IFRS basis shareholders' equity	4,213	731	4,944	194	287	5,425
Additional retained profit on an EEV basis	2,043	182	2,225	281	-	2,506
Shareholders' equity on an EEV basis	6,256	913	7,169	475	287	7,931
Comprising:						
Shareholder net worth						
- Free surplus	652	110	762	176		
- Required capital to cover solvency margin	1,362	151	1,513	18		
- Other required capital	1,814	-	1,814	-		
Value of in-force						
- Value of in-force business	2,572	703	3,275	286		
- Cost of capital	(144)	(51)	(195)	(5)		

Free surplus is the value of any capital and surplus allocated to, but not required to support, the in-force covered business at the valuation date.

1. 2007 includes total Society Shareholder Capital. Further details relating to the Capital review can be found in Note 3.01.
2. Investment management comprises managed pension funds and is included in the total Investment management shareholders' equity of £689m (2006: £592m).
3. Other Investment management businesses included on an IFRS basis of £127m (2006: £117m) are included in Other operations.

Notes to the Financial Statements

3.14 Segmental analysis of shareholders' equity

	Covered business EEV basis 2007 £m	Other business IFRS basis 2007 £m	Total 2007 £m	Covered business EEV basis 2006 £m	Other business IFRS basis 2006 £m	Total 2006 £m
UK life and pensions[1]	**7,293**	**-**	**7,293**	6,256	1,307	7,563
Embedded value of international life and pensions business						
- USA[2]	**645**	**-**	**645**	552	-	552
- Netherlands	**270**	**-**	**270**	228	-	228
- France[2]	**186**	**-**	**186**	133	-	133
	8,394	**-**	**8,394**	7,169	1,307	8,476
Investment management	**562**	**127**	**689**	475	117	592
	8,956	**127**	**9,083**	7,644	1,424	9,068
General insurance	**-**	**114**	**114**	-	169	169
Corporate funds[3]	**-**	**(729)**	**(729)**	-	(1,306)	(1,306)
	8,956	**(488)**	**8,468**	7,644	287	7,931

Further analysis of the covered business is included in Note 3.12.

	2007 £m	2006 £m
Movement		
As at 1 January	**7,931**	6,970
Total recognised income and expense	**1,229**	1,337
Issue of share capital	**4**	15
Share buyback	**(320)**	**-**
Net movements in employee scheme shares	**1**	(5)
Dividend distributions to equity holders of the Company during the year	**(369)**	(349)
Other reserve movements including pension deficit	**(8)**	(9)
Fair value loss after tax on reclassification of subordinated borrowings as debt	**-**	(28)
As at 31 December	**8,468**	7,931

1. Further details relating to the Capital review can be found in Note 3.01.
2. Includes capital of £57m ($114m) injected into the USA and £27m (€40m) injected into France.
3. Corporate funds include investments, subordinated borrowings and senior borrowings. The increase in Corporate funds primarily reflects the repayment of the subordinated debt from Society shareholder capital of £602m during the year.

3.15 Reconciliation of shareholder net worth

	UK life and pensions 2007 £m	Total 2007 £m	UK life and pensions 2006 £m	Total 2006 £m
SNW of long term operations (IFRS basis)	**4,832**	**5,934**	3,263	5,138
Other assets (IFRS basis)	**-**	**(488)**	950	287
Shareholders' equity on the IFRS basis	**4,832**	**5,446**	4,213	5,425
Purchased interests in long term business	**(5)**	**(19)**	(7)	(25)
1996 Sub-fund[1]	**-**	**-**	313	313
Deferred acquisition costs/deferred income liabilities	**(139)**	**(751)**	(115)	(677)
Deferred tax[2]	**(363)**	**(172)**	(693)	(520)
Other[3]	**122**	**(4)**	117	54
Shareholder net worth on the EEV basis[3]	**4,447**	**4,500**	3,828	4,570

1. Further details relating to the Capital review can be found in Note 3.01.
2. Deferred tax represents all tax which is expected to be paid under current legislation.
3. Other relates primarily to the different treatment of sterling reserves, other long term reserves and the non profit result of LGPL under EEV compared with IFRS.

Notes to the Financial Statements

3.16 Sensitivities

In accordance with the guidance issued by the CFO Forum in October 2005 the table below shows the effect of alternative assumptions on the long term embedded value and new business contribution.

Effect on embedded value as at 31 December 2007

	As published £m	1% lower risk discount rate £m	1% higher risk discount rate £m	1% lower interest rate £m	1% higher interest rate £m	1% higher equity/ property yields £m
Life and pensions						
- UK	**7,293**	**355**	**(311)**	**182**	**(201)**	**170**
- International	**1,101**	**86**	**(74)**	**19**	**(23)**	**5**
Total life and pensions	**8,394**	**441**	**(385)**	**201**	**(224)**	**175**
Investment management	**562**	**14**	**(14)**	**(5)**	**5**	**10**
Total covered business	**8,956**	**455**	**(399)**	**196**	**(219)**	**185**

	As published £m	10% lower equity/ property values £m	10% lower maintenance expenses £m	10% lower lapse rates £m	5% lower mortality (UK annuities) £m	5% lower mortality (other business) £m
Life and pensions						
- UK	**7,293**	**(277)**	**71**	**78**	**(119)**	**39**
- International	**1,101**	**(8)**	**12**	**43**	**n/a**	**65**
Total life and pensions	**8,394**	**(285)**	**83**	**121**	**(119)**	**104**
Investment management	**562**	**(23)**	**22**	**17**	**n/a**	**-**
Total covered business	**8,956**	**(308)**	**105**	**138**	**(119)**	**104**

Effect on new business contribution for the year

	As published £m	1% lower risk discount rate £m	1% higher risk discount rate £m	1% lower interest rate £m	1% higher interest rate £m	1% higher equity/ property yields £m
Life and pensions						
- UK	**321**	**72**	**(62)**	**10**	**(19)**	**30**
- International	**38**	**18**	**(16)**	**(1)**	**2**	**1**
Total life and pensions	**359**	**90**	**(78)**	**9**	**(17)**	**31**
Investment management	**109**	**5**	**(5)**	**(2)**	**2**	**3**
Total covered business	**468**	**95**	**(83)**	**7**	**(15)**	**34**

	As published £m	10% lower equity/ property values £m	10% lower maintenance expenses £m	10% lower lapse rates £m	5% lower mortality (UK annuities) £m	5% lower mortality (other business) £m
Life and pensions						
- UK	**321**	**(6)**	**16**	**28**	**(15)**	**9**
- International	**38**	**-**	**2**	**7**	**n/a**	**12**
Total life and pensions	**359**	**(6)**	**18**	**35**	**(15)**	**21**
Investment management	**109**	**-**	**-**	**5**	**n/a**	**n/a**
Total covered business	**468**	**(6)**	**18**	**40**	**(15)**	**21**

Opposite sensitivities are broadly symmetrical.

3.17 Assumptions

UK assumptions

The assumed future pre-tax returns on fixed interest and RPI linked securities are set by reference to redemption yields available in the market at the end of the reporting period.

For annuities, separate returns are calculated for business sold before or after December 2006. This reflects a change in investment policy applicable to the 2007 business, which has the aim of increasing the expected return whilst not increasing the level of asset risk compared with the historic policy. This has been achieved through improved investment efficiency and increased diversification through use of additional asset classes. The calculated return takes account of derivatives and other credit instruments in the investment portfolio. During the second half of 2007, some aspects of this revised strategy were also applied to the assets backing the inforce annuitiy business.

Where interest rate swaps are used to reduce risk, it is assumed that these swaps will be sold before expiry and the proceeds reinvested in corporate bonds with a redemption yield 0.50% p.a. greater than the swap rate at that time.

The returns on fixed and index-linked securities are calculated net of an allowance for default risk which takes account of the outstanding term of the securities. The allowances for default risk are set separately for the asset portfolios supporting fixed and index-linked securities, and average 0.11% p.a. and 0.10% p.a. respectively across the portfolios as a whole (0.15% p.a. and 0.10% p.a. at 31.12.2006).

Economic assumptions

	31.12.07 % p.a.	31.12.06 % p.a.	31.12.05 % p.a.
Equity risk premium	**3.0**	3.0	3.0
Property risk premium	**2.0**	2.0	2.0
Investment return			
- Gilts:			
- Fixed interest	**4.5**	4.6	4.1
- RPI linked	**4.5**	4.7	4.2
- Non gilts:			
- Fixed interest	**4.9 – 6.1**	4.9 – 5.3	4.4 – 4.8
- RPI linked	**4.9 – 5.3**	4.6 – 5.1	4.2 – 4.6
- Equities	**7.5**	7.6	7.1
- Property	**6.5**	6.6	6.1
Risk margin	**3.0**	3.0	3.0
Risk discount rate (net of tax)	**7.5**	7.6	7.1
Inflation			
- Expenses/earnings	**4.4**	4.2	3.9
- Indexation	**3.4**	3.2	2.9

UK life and pensions

i. Assets are valued at market value.

ii. Future bonus rates have been set at levels which would fully utilise the assets supporting the policyholders' portion of the with-profits business. The proportion of profits derived from with-profits business allocated to shareholders has been assumed to be 10% throughout.

iii. The value of in-force business reflects the cost, including administration expenses, of providing for benefit enhancement or compensation in relation to certain products.

iv. Other actuarial assumptions have been set at levels commensurate with recent operating experience, including those for mortality, morbidity, persistency and maintenance expenses (excluding the development costs referred to below). These are reviewed annually.

3.17 Assumptions

An allowance is made for future improvements in annuitant mortality based on experience and externally published data. As at 31 December 2007, male annuitant mortality is assumed to improve in accordance with CMI Working Paper 1, projection MC, with a minimum annual improvement of 1.5% for future experience, and 2.0% for statutory reserving. Female annuitant mortality is assumed to improve in accordance with 75% of projection MC, with a minimum annual improvement of 1.0% for future experience and 1.5% for statutory reserving. In each case, the minimum annual improvement is assumed to reduce linearly after age 89 to zero at age 120.

On the revised basis, the best estimate of the expectation of life for a new 65 year old Male CPA annuitant is 25.1 years (31.12.06: 23.8 years). The expectation of life on the regulatory reserving basis is 26.2 years (31.12.06: 25.1 years).

As at 31 December 2006, male annuitant mortality was assumed to improve in accordance with CMI Working Paper 1, projection MC for future experience with a minimum annual improvement of 0.6%, and the average of projections MC and LC for statutory reserving with a minimum annual improvement of 0.8%. Female annuitant mortality was assumed to improve in accordance with the MC projection from CMI Working Paper 1 for statutory reserving and at 70% of this rate for future experience, with the same underpinning minima as for males.

v. Development costs relate to strategic systems and the establishment of Legal & General International (Ireland) Limited.

UK managed pension funds

vi. All contracts are assumed to lapse over a 10 year period. Fees are projected on a basis which reflects current charges or, if less, anticipated charges. New business consists of monies received from new clients and incremental receipts from existing clients, and excludes the roll-up of the investment returns. Development costs relate to strategic systems.

International

vii. Key assumptions:

	31.12.07	31.12.06	31.12.05
	% p.a.	% p.a.	% p.a.
USA			
Reinvestment rate	**5.4**	5.4	5.1
Risk margin	**3.0**	3.0	3.0
Risk discount rate (net of tax)	**7.1**	7.8	7.4
Europe			
Government bond return	**4.4**	4.0	3.3
Risk margin	**3.0**	3.0	3.0
Risk discount rate (net of tax)	**7.4**	7.0	6.3

viii. Other actuarial assumptions have been set at levels commensurate with recent operating experience, including those for mortality, morbidity, persistency and maintenance expenses.

Tax

ix. EEV results are computed on an after tax basis and are grossed up by the notional attributed tax for presentation in the income statement. The tax rate used for grossing up is the corporate tax rate in the territory concerned which for the UK was 28% (2006: 30%). For the UK, investment return on Society shareholder capital held outside the long term fund is calculated on a pre-tax basis.

Stochastic calculations

x. The time value of options and guarantees is calculated using economic and non-economic assumptions consistent with those used for the deterministic embedded value calculations.

This section describes the models used to generate future investment simulations, and gives some sample statistics for the simulations used. A single model has been used for UK and international business, with different economic assumptions for each territory.

Government nominal interest rates are generated using a LIBOR Money Market Model projecting full yield curves at annual intervals. The model provides a good fit to the initial yield curve.

The total annual returns on equities and property are calculated as the return on 1 year bonds plus an excess return. The excess return is assumed to have a lognormal distribution. Corporate bonds are modelled separately by credit rating using stochastic credit spreads over the risk-free rates, transition matrices and default recovery rates. The real yield curve model assumes that the real short rate follows a mean-reverting process subject to two normally distributed random shocks.

3.17 Assumptions

Asset classes

The significant asset classes are for:
- UK with-profits business – equities, property and fixed rate bonds of various durations;
- UK annuity business – fixed rate and index-linked bonds of various durations; and
- International business – fixed rate bonds of various durations

Summary statistics

The following table sets out means and standard deviations (StDev) of future returns as at 31 December 2007 for the most significant asset classes. Correlations between asset classes have been set based on an internal assessment of historical data.

	10-year return		20-year return	
	Mean[1]	StDev[2]	Mean[1]	StDev[2]
UK Business (Sterling)				
Government bonds	4.7%	3.0%	4.7%	3.3%
Corporate bonds	5.9%	3.3%	5.8%	3.5%
Property (excess returns)	2.0%	15.1%	2.0%	14.8%
Equities (excess returns)	3.0%	20.1%	3.1%	20.3%
European Business (Euro)				
Long Government bonds[3]	4.5%	4.8%	5.1%	5.0%
Short Government bonds[4]	4.5%	4.2%	5.1%	8.4%
US Business (US Dollar)				
Long Government bonds[3]	4.4%	5.9%	5.1%	5.8%

1. Other than for equities and property, means are calculated as the excess of 1 year bond asset return means plus 1 year bond means. Means for the equities and property excess returns are calculated as the excess of 1 year bond asset return means. Each mean is derived by calculating the accumulated value of a unit asset invested to time n years for each simulation, averaging the resultant values across all simulations, then calculating the equivalent annual return required to give this average accumulation (by taking the nth root of the average accumulation and deducting 1).
2. Standard deviations are calculated by accumulating a unit investment for n years in each simulation, taking the natural logarithm of the result, calculating the variance of this statistic, dividing by n and taking the square root. Equities and property values use excess returns. The results are comparable to implied volatilities quoted in investment markets.
3. Long term bonds are defined to be 10-year par-coupon bonds.
4. Short term bonds are defined to be 1 year duration bonds.

Risk discount rate

The risk discount rate is scenario-dependent within the stochastic projection. It is calculated by applying the deterministic risk margin to the risk free rate in each stochastic projection.

Sensitivity calculations

xii. A number of sensitivities have been produced on alternative assumption sets to reflect the sensitivity of the embedded value and the new business contribution to changes in key assumptions. Relevant details relating to each sensitivity are:

- 1% variation in discount rate – a one percentage point increase/decrease in the risk margin has been assumed in each case (for example a 1% increase in the risk margin would result in a 4.0% risk margin).
- 1% variation in the interest rate environment – a one percentage point increase/decrease in all investment assumptions and the risk discount rate, including consequential changes to valuation bases.
- 1% higher equity/property yields – a one percentage point increase in the assumed equity/property investment returns, excluding any consequential changes, for example, to risk discount rates or valuation bases, has been assumed in each case (for example a 1% increase in equity returns would increase assumed total equity returns from 7.6% to 8.6%).
- 10% lower equity/property market values – an immediate 10% reduction in equity and property asset values.
- 10% lower maintenance expenses, excluding any consequential changes, for example, to valuation expense bases or potentially reviewable policy fees (a 10% decrease on a base assumption of £10 per annum would result in an £9 per annum expense assumption).
- 10% lower assumed persistency experience rates, excluding any consequential changes to valuation bases, incorporating a 10% decrease in lapse, surrender and premium cessation assumptions (a 10% decrease on a base assumption of 7% would result in a 6.3% lapse assumption).
- 5% lower mortality and morbidity rates, excluding any consequential changes to valuation bases but including assumed product repricing action where appropriate (for example if base experienced mortality is 90% of a standard mortality table then, for this sensitivity, the assumption is set to 85.5% of the standard table).

The sensitivities for life and pensions business allow for any material changes to the cost of financial options and guarantees but do not allow for any changes to reserving bases or capital requirements within the sensitivity calculation, unless indicated otherwise above.

Operating profit income statement

For the year ended 31 December 2007

	Notes	2007 £m	2006 Restated £m
From continuing operations			
Life and pensions	4.02	**643**	1,621
Investment management	4.03	**155**	133
General insurance	4.04	**(67)**	9
Other operational income	4.05	**(73)**	(43)
Operating profit		**658**	1,720
Variation from longer term investment return	4.06	**(90)**	231
Property (expense)/income attributable to minority interests		**(6)**	67
Release of 1996 Sub-fund		**321**	-
Profit from continuing operations before tax attributable to equity holders		**883**	2,018
Tax attributable to equity holders	4.07	**(165)**	(387)
Profit from ordinary activities after tax		**718**	1,631
Loss/(profit) attributable to minority interests	4.14	**6**	(67)
Profit attributable to equity holders		**724**	1,564

	Notes	p	p
Earnings per share	4.08		
Based on operating profit from continuing operations after tax attributable to equity holders		**7.17**	21.45
Based on profit attributable to equity holders of the Company		**11.24**	24.12
Diluted earnings per share	4.08		
Based on operating profit from continuing operations after tax attributable to equity holders		**7.13**	21.30
Based on profit attributable to equity holders of the Company		**11.18**	23.95

This supplementary operating profit information provides further analysis of the results reported under IFRS and we believe gives shareholders a better understanding of the underlying performance of the business.

Following Society's LTF restructure (see Note 4.01), operating profit for UK life and pensions business now represents the net capital invested/released from the non profit business, a smoothed investment return on all Society shareholder capital, including that retained within the LTF, and the with-profits transfer. The definition of the with-profits transfer and operating profit from all other subsidiaries remains unchanged.

For 2007, the group has refined the method of estimating the apportionment of the income tax expense of Society between the elements attributable to policyholder returns and equity holders' profits. If the 2007 method had been applied to the 2006 operating profit income statement, the operating profit from life and pensions would have reduced to £1,408m, the profit from continuing operations before tax attributable to equity holders would have reduced to £1,805m, and the income tax attributable to equity holders reduced to £174m. The profit from ordinary activities after tax would have been unchanged.

If the 2006 method had been applied to 2007, the release of the 1996 Sub-fund, profit from continuing operations before tax attributable to equity holders, and tax attributable to equity holders would all have been increased by £138m. The profit from ordinary activities after tax would have been unchanged.

Investment return on non profit business is calculated on a smoothed basis using EEV assumptions (as set out in Note 3.17), applied to the average balance of Society shareholder capital invested assets (including interest bearing intra group balances) calculated on a quarterly basis.

Operating profit also includes a longer term investment return on the shareholders' funds in our General insurance, Investment management and Netherlands' operations.

Consolidated income statement

For the year ended 31 December 2007

	Notes	2007 £m	2006 £m
Revenue			
Gross written premiums	4.09	**4,793**	4,286
Outward reinsurance premiums		**(517)**	(518)
Net change in provision for unearned premiums		**7**	7
Net premiums earned		**4,283**	3,775
Fees from fund management and investment contracts		**640**	535
Investment return		**13,225**	16,572
Operational income		**54**	84
Total revenue		**18,202**	20,966
Expenses			
Claims and change in insurance liabilities		**4,467**	1,938
Reinsurance recoveries		**(345)**	1,123
Net claims and change in insurance liabilities		**4,122**	3,061
Change in provisions for investment contract liabilities		**11,999**	13,878
Acquisition costs		**848**	987
Finance costs		**214**	153
Other expenses		**662**	674
Transfers (from)/to unallocated divisible surplus[1]		**(438)**	284
Total expenses		**17,407**	19,037
Profit before income tax		**795**	1,929
Income tax attributable to policyholder returns		**88**	89
Profit from continuing operations before income tax attributable to equity holders		**883**	2,018
Total income tax expense	4.07	**(77)**	(298)
Income tax attributable to policyholder returns		**(88)**	(89)
Income tax attributable to equity holders		**(165)**	(387)
Profit from ordinary activities after income tax		**718**	1,631
Attributable to:			
Minority interests		**(6)**	67
Equity holders of the Company		**724**	1,564
Dividend distributions to equity holders of the Company during the year		**369**	349
Dividend distributions to equity holders of the Company proposed after the year end		**247**	248
		p	p
Earnings per share			
Based on profit attributable to equity holders of the Company	4.08	**11.24**	24.12
Diluted earnings per share			
Based on profit attributable to equity holders of the Company	4.08	**11.18**	23.95

1. Includes £321m release of 1996 Sub-fund in 2007.

Consolidated balance sheet

As at 31 December 2007

	Notes	**2007 £m**	2006 £m
Assets			
Investment in associates		**14**	16
Plant and equipment		**79**	43
Investment property		**5,969**	6,852
Financial investments	4.11	**261,718**	201,430
Reinsurers' share of contract liabilities		**1,530**	1,481
Purchased interest in long term businesses		**19**	23
Deferred acquisition costs		**1,696**	1,456
Income tax recoverable		**4**	12
Other assets		**1,519**	1,622
Cash and cash equivalents		**8,737**	4,930
Total assets		**281,285**	217,865
Equity			
Share capital		**157**	163
Share premium account		**927**	923
Employee scheme shares		**(42)**	(45)
Other reserves		**59**	49
Retained earnings		**4,345**	4,335
Capital and reserves attributable to equity holders of the Company	4.12	**5,446**	5,425
Minority interests	4.14	**178**	414
Total equity	4.15	**5,624**	5,839
Liabilities			
Subordinated borrowings	4.13	**1,461**	818
Participating insurance contracts	4.16	**11,663**	12,660
Participating investment contracts	4.17	**7,462**	7,501
Unallocated divisible surplus		**1,721**	2,178
Value of in-force non-participating contracts		**(276)**	(391)
Participating contract liabilities		**20,570**	21,948
Non-participating insurance contracts	4.16	**22,873**	21,602
Non-participating investment contracts	4.17	**224,906**	162,016
Non-participating contract liabilities		**247,779**	183,618
Senior borrowings	4.13	**1,327**	1,607
Provisions		**595**	568
Deferred income liabilities		**493**	422
Deferred tax liabilities		**296**	472
Income tax liabilities		**113**	106
Other liabilities		**2,115**	1,663
Net asset value attributable to unit holders		**912**	804
Total liabilities		**275,661**	212,026
Total equity and liabilities		**281,285**	217,865

Consolidated statement of recognised income and expense

For the year ended 31 December 2007

	2007 £m	2006 £m
Fair value losses on cash flow hedges	**-**	(3)
Exchange differences on translation of overseas operations	**4**	(35)
Actuarial (losses)/gains on defined benefit pension schemes	**(40)**	3
Actuarial losses/(gains) on defined benefit pension schemes transferred to unallocated divisible surplus	**16**	(1)
Net change in financial investments designated as available-for-sale	**1**	7
Expense recognised directly in equity, net of tax	**(19)**	(29)
Profit from ordinary activities after income tax	**718**	1,631
Total recognised income and expense	**699**	1,602
Attributable to:		
Minority interests	**(6)**	67
Equity holders of the Company	**705**	1,535

Consolidated cash flow statement

For the year ended 31 December 2007

	Notes	2007 £m	2006 £m
Cash flows from operating activities			
Profit from ordinary activities after income tax		**718**	1,631
Adjustments for non cash movements in net profit for the period			
Realised and unrealised gains on financial investments and investment properties		**(4,862)**	(9,505)
Investment income		**(7,797)**	(6,630)
Interest expense		**214**	153
Income tax payable		**77**	298
Other adjustments		**46**	46
Net (increase)/decrease in operational assets			
Investments designated as held for trading or fair value through profit or loss		**(8,322)**	(9,599)
Investments designated as available-for-sale		**(98)**	(251)
Other assets		**(230)**	557
Net increase/(decrease) in operational liabilities			
Insurance contracts		**152**	(1,893)
Transfer (from)/to unallocated divisible surplus		**(455)**	285
Investment contracts		**17,686**	19,527
Value of in-force non-participating contracts		**115**	(12)
Other liabilities		**(73)**	596
Cash used in operations		**(2,829)**	(4,797)
Interest paid		**(214)**	(146)
Interest received		**4,202**	3,478
Income tax paid		**(244)**	(315)
Dividends received		**3,312**	3,095
Net cash flows from operating activities		**4,227**	1,315
Cash flows from investing activities			
Net acquisition of plant and equipment		**(58)**	(24)
Net proceeds from disposal of private equity investments		**-**	10
Non-financial investments purchased		**-**	(3)
Net cash flows from investing activities		**(58)**	(17)
Cash flows from financing activities			
Dividend distributions to ordinary equity holders of the Company during the year		**(369)**	(349)
Proceeds from issue of ordinary share capital		**4**	15
Purchase of employee scheme shares		**(5)**	(11)
Purchase of shares under share buyback programme	4.01	**(320)**	-
Proceeds from borrowings		**1,948**	1,062
Repayment of borrowings		**(1,637)**	(1,051)
Net cash flows from financing activities		**(379)**	(334)
Net increase in cash and cash equivalents		**3,790**	964
Exchange gains/(losses) on cash and cash equivalents		**17**	(35)
Cash and cash equivalents at 1 January		**4,930**	4,001
Cash and cash equivalents at 31 December		**8,737**	4,930

The Group's consolidated cash flow statement includes all cash and cash equivalent flows, including those relating to the UK long term funds.

Notes to the Financial Statements

4.01 Capital Review

Share buyback programme

In July 2007, the Group announced a £1bn return of capital to shareholders through an on-market share buyback programme. At 31 December 2007, 241,207,267 ordinary shares had been acquired under the buyback programme for cancellation for total consideration of £320m. The buyback programme has continued and as at 29 February 2008 a total of 397,421,196 ordinary shares have been acquired for a total consideration of £519m.

Conversion of Legal & General Pensions Limited (LGPL) to an Insurance Special Purpose Vehicle (ISPV)

On 1 November 2007, LGPL was converted to an ISPV and repaid subordinated debt of £400m to Society.

There has been no impact on the IFRS net assets or profit before tax as a result of the ISPV conversion.

Society's long term fund restructure

In December 2007, the Group implemented a new capital structure for Society.

A key component was the removal of the transfer formula, which has limited the annual amounts of distribution from Society's long term fund since 1996. As part of the restructure, it was also announced that the 1996 Sub-fund (£321m) was merged into the Shareholder Retained Capital (SRC). Society's Board of Directors has undertaken to maintain an initial £500m of assets within Society to support the with-profits business. The amount of the commitment will gradually reduce to zero over a period not exceeding ten years.

The removal of the formula and the merger of the 1996 Sub-fund with the SRC have removed significant dividing lines between the pools of shareholder capital within Society. From 2007, all the assets supporting the UK non profit life and pensions businesses have been aggregated for reporting purposes and designated 'Society Shareholder Capital'. This comprises the SRC (including the merged 1996 Sub-fund), and all Society's shareholder capital held outside the long term fund (LTF) and in LGPL.

For 2007, £1.7bn has been transferred from the SRC into the shareholder capital held outside Society's long term fund. There was no incremental tax in respect of this transfer. Deferred tax is provided at the incremental rate on the undeclared surplus in Society's LTF represented by the SRC. For 2007, the incremental rate in respect of the undeclared surplus of £2,047m was zero. At 31 December 2006, no deferred tax was provided, on the grounds that, at the balance sheet date, no obligation to make a declaration of surplus actually existed and there was no expectation that such a declaration would occur.

The merger of the 1996 Sub-fund into the SRC has increased IFRS profit before tax by £321m reflecting the transfer from unallocated divisible surplus to ordinary shareholders' equity.

Notes to the Financial Statements

4.02 Life and pensions operating profit

(a) Analysis of life and pensions operating profit

	Notes	2007 £m	2006 Restated £m
Net capital released from non profit business	4.02(b)	**161**	1,255
Investment return		**317**	213
Other expenses[1]		**(27)**	(17)
Non profit business		**451**	1,451
With-profits business		**106**	95
UK		**557**	1,546
USA		**59**	58
Netherlands		**11**	7
France		**16**	10
		643	1,621

Following Society's LTF restructure (see Note 4.01), operating profit for UK life and pensions business now represents the net capital invested/released from the non profit business, a smoothed investment return on all Society shareholder capital, including that retained within the LTF, and the with-profits transfer. The definition of the with-profits transfer and operating profit from all other subsidiaries remains unchanged.

Further details relating to Society's LTF restructure can be found in Note 4.01.

1. Other expenses include management fees payable, project expenses allocated to Society and amortisation of acquired VIF.

(b) Analysis of net capital released from non profit business

	Notes	2007 £m	2006 £m
Net capital released from non profit business comprises:			
New business			
- Strain before financing arrangements		**(344)**	(546)
- Changes to FSA reporting and capital rules		**-**	278
Existing business			
- Expected capital release, before financing arrangements		**406**	555
- Financing arrangements		**-**	(125)
Experience variances	4.02(c)	**115**	90
Changes to non-economic assumptions	4.02(d)	**(137)**	(90)
Annuity investment policy		**-**	422
Changes to FSA reporting and capital rules		**37**	363
Movements in non-cash items	4.02(e)	**74**	(96)
Other		**(38)**	27
		113	878
Tax gross-up		**48**	377
		161	1,255

Expected capital release represents the capital and profit generated in the period from the in-force non profit business if the embedded value assumptions are borne out in practice. The experience variances are calculated with reference to embedded value assumptions, including the apportionment of investment return and tax in the EEV model.

Both new business strain and expected capital release exclude required solvency margin, as this is not accounted for under IFRS. On average, the capital invested in new non profit business, including solvency margin, is repaid from product cash flows in approximately 6 years.

Notes to the Financial Statements

4.02 Life and pensions operating profit (continued)

An analysis of the experience variances, non-economic assumption changes and non-cash items, all net of tax, is provided below:

(c) Experience variances

	2007 £m	2006 £m
Persistency	**10**	4
Mortality/morbidity	**22**	-
Expenses	**(57)**	(28)
BPA data loading	**3**	157
Investment	**134**	27
Other	**3**	(70)
	115	90

(d) Changes to non-economic assumptions

	2007 £m	2006 £m
Mortality/morbidity[1]	**(121)**	(27)
Expenses	**(37)**	(50)
Other	**21**	(13)
	(137)	(90)

1. 2007 includes £(214)m relating to the strengthening of assumptions for annuitant longevity on existing business, offset by £64m relating to changes to the assumptions for the proportions married.

(e) Movements in non-cash items

	2007 £m	2006 £m
Deferred tax	**(17)**	(123)
Deferred acquisition costs	**114**	(21)
Deferred income liabilities	**(72)**	(78)
IFRS adjustment for financial reinsurance	**-**	125
Other	**49**	1
	74	(96)

Notes to the Financial Statements

4.03 Investment management operating profit

	2007 £m	2006 £m
Managed pension funds	**103**	96
Private equity	**-**	4
Property	**6**	6
Retail investments	**8**	11
Other income[1]	**38**	16
	155	133

1. In 2007, other income includes £23m of profits arising from the provision of investment management services at market referenced rates charged to the Group's UK life and pensions businesses.

4.04 General insurance operating profit, underwriting result and combined operating ratios

	Operating profit/ (loss) 2007 £m	Under-writing result 2007 £m	Combined operating ratio 2007 %	Operating profit/ (loss) 2006 £m	Under-writing result 2006 £m	Combined operating ratio 2006 %
From continuing operations						
Household[1]	**(86)**	**(101)**	**145%**	(9)	(21)	111%
Other business[2]	**19**	**15**	**74%**	18	13	89%
	(67)	**(86)**	**131%**	9	(8)	105%

1. Household business in 2007 includes a loss of £76m net of reinsurance as a result of flood related claims in June and July 2007.
2. Other business in 2007 includes £6m profit following the withdrawal from the healthcare business in the first quarter.

The combined operating ratio is:

$$\left[\frac{\text{Net incurred claims}}{\text{Net earned premiums}} + \frac{\text{Expenses} + \text{Net commission}}{\text{Net written premiums}}\right] \text{x } 100$$

4.05 Other operational income

	2007 £m	2006 Restated £m
Shareholders' other income		
Investment return on shareholders' equity[1]	**51**	65
Interest expense[2]	**(119)**	(106)
	(68)	(41)
Other operations[3]	**1**	-
Unallocated corporate and development expenses	**(6)**	(2)
	(73)	(43)

1. Investment return on shareholders' equity excludes investment return on Society shareholder capital, which is included in UK life and pensions.
2. Interest expense relates to average borrowings, excluding non-recourse financing (see Note 4.13).
3. Principally the regulated mortgage network and Cofunds.

4.06 Variation from longer term investment return

	2007 £m	2006 Restated £m
UK life and pensions	**(75)**	239
Netherlands	**(11)**	(18)
Investment management	**4**	(1)
General insurance	**(9)**	(7)
Other operational income	**1**	18
	(90)	231

Investment return is allocated to operating profit by reference to a longer term rate of investment return for the respective invested funds. The difference between the amount allocated to operating profit and actual investment return is the variation from longer term investment return analysed above.

Notes to the Financial Statements
4.07 Analysis of tax

	Profit/(loss) before tax 2007 £m	Tax 2007 £m	Profit/(loss) before tax 2006 Restated £m	Tax 2006 Restated £m
From continuing operations				
UK life and pensions	**557**	**(173)**	1,546	(280)
International life and pensions	**86**	**(25)**	75	(24)
	643	**(198)**	1,621	(304)
Investment management	**155**	**(47)**	133	(40)
General insurance	**(67)**	**19**	9	(2)
Other operational income	**(73)**	**30**	(43)	17
Operating profit	**658**	**(196)**	1,720	(329)
Variation from longer term investment return	**(90)**	**31**	231	(58)
Property income attributable to minority interests	**(6)**	**-**	67	-
Release of 1996 Sub-fund	**321**	**-**	-	-
Profit from continuing operations before tax/Tax	**883**	**(165)**	2,018	(387)

Only the element of total tax attributable to equity holders' profit is shown explicitly in the analysis above; the tax attributable to policyholder returns is included within expenses in the operating profit income statement.

Deferred tax is provided at the incremental rate on the undeclared surplus in Society's LTF represented by the Shareholder Retained Capital (SRC). For 2007, the incremental rate in respect of the undeclared surplus of £2,047m was zero. At 31 December 2006, no deferred tax was provided, on the grounds that, at the balance sheet date, no obligation to make a declaration of surplus actually existed and there was no expectation that such a declaration would occur. The maximum amount of incremental tax which would have crystallised on such a declaration of surplus at 31 December 2006 was estimated to be £717m.

Notes to the Financial Statements

4.08 Earnings per share

(a) Earnings per share

	Profit/(loss) before tax 2007 £m	Tax (charge)/ credit 2007 £m	Profit/ (loss) after tax 2007 £m	Earnings per share 2007 p	Profit before tax 2006 Restated £m	Tax charge 2006 Restated £m	Profit after tax 2006 Restated £m	Earnings per share 2006 Restated p
Operating profit from continuing operations	**658**	**(196)**	**462**	**7.17**	1,720	(329)	1,391	21.45
Variation from longer term investment return	**(90)**	**31**	**(59)**	**(0.91)**	231	(58)	173	2.67
Release of 1996 Sub-fund	**321**	**-**	**321**	**4.98**	-	-	-	-
Earnings per share based on profit attributable to equity holders	**889**	**(165)**	**724**	**11.24**	1,951	(387)	1,564	24.12

(b) Diluted earnings per share

(i) Based on operating profit from continuing operations after tax

	Profit after tax 2007 £m	Number of shares[1] 2007 m	Earnings per share 2007 p	Profit after tax 2006 Restated £m	Number of shares[1] 2006 m	Earnings per share 2006 Restated p
Operating profit from continuing operations after tax	**462**	**6,444**	**7.17**	1,391	6,483	21.45
Net shares under options allocable for no further consideration	**-**	**34**	**(0.04)**	-	46	(0.15)
Diluted earnings per share	**462**	**6,478**	**7.13**	1,391	6,529	21.30

(ii) Based on profit attributable to equity holders

	Profit after tax 2007 £m	Number of shares[1] 2007 m	Earnings per share 2007 p	Profit after tax 2006 £m	Number of shares[1] 2006 m	Earnings per share 2006 p
Profit attributable to equity holders of the Company	**724**	**6,444**	**11.24**	1,564	6,483	24.12
Net shares under options allocable for no further consideration	**-**	**34**	**(0.06)**	-	46	(0.17)
Diluted earnings per share	**724**	**6,478**	**11.18**	1,564	6,529	23.95

The number of shares in issue at 31 December 2007 was 6,296,321,160 (2006: 6,532,261,961).

1. Weighted average number of shares.

Notes to the Financial Statements

4.09 Gross written premiums

	2007 £m	2006 £m
From continuing operations		
UK life and pensions participating business	**382**	376
UK life and pensions non-participating business	**3,152**	2,691
Total UK life and pensions	**3,534**	3,067
USA	**345**	347
Netherlands	**259**	266
France	**348**	283
Total life and pensions	**4,486**	3,963
General insurance		
Household	**255**	240
Other business	**52**	83
Total General insurance	**307**	323
Total gross written premiums	**4,793**	4,286

4.10 Segmental analysis

The Group is organised into three main business segments:
- Long term business (includes insurance and investment business)
- Investment management
- General insurance

Other operations comprise estate agencies, regulated mortgage network corporate expenses and assets held outside the three main business segments, none of which constitutes a separately reportable segment.
As a result of Society's long term fund restructure detailed in Note 4.01, the Society shareholder capital held outside the LTF has been reclassified in 2007 as attributable to long term business. The comparatives have been restated accordingly.

(i) Income statement analysed by business segments

For the year ended 31 December 2007	Long term business £m	Investment manage-ment £m	General insurance £m	Other operations £m	Elimination of inter segment amounts £m	Total £m
Total revenue from continuing operations	**6,540**	**11,379**	**308**	**233**	**(258)**	**18,202**
Total expenses from continuing operations	**5,793**	**11,169**	**384**	**319**	**(258)**	**17,407**
Profit from continuing operations after income tax	**719**	**109**	**(55)**	**(55)**	**-**	**718**
Inter segment revenue	**(40)**	**(79)**	**-**	**(139)**	**258**	**-**

For the year ended 31 December 2006	Restated £m	£m	£m	Restated £m	Restated £m	£m
Total revenue from continuing operations	8,540	12,013	315	349	(251)	20,966
Total expenses from continuing operations	6,818	11,849	314	307	(251)	19,037
Profit from continuing operations after income tax	1,483	93	1	54	-	1,631
Inter segment revenue	(30)	(40)	(2)	(179)	251	-

Notes to the Financial Statements

4.10 Segmental analysis (continued)

(ii) Balance sheet analysed by business segments

As at 31 December 2007	Long term business £m	Investment management £m	General insurance £m	Other operations £m	Elimination of inter segment amounts £m	Total £m
Total assets	**75,279**	**204,313**	**473**	**3,266**	**(2,046)**	**281,285**
Total liabilities	**70,449**	**203,550**	**359**	**3,349**	**(2,046)**	**275,661**
Total equity	**4,830**	**763**	**114**	**(83)**	**-**	**5,624**

As at 31 December 2006	Restated £m	£m	£m	Restated £m	Restated £m	£m
Total assets	72,208	144,725	534	2,645	(2,247)	217,865
Total liabilities	67,133	144,000	365	2,775	(2,247)	212,026
Total equity	5,075	725	169	(130)	-	5,839

(iii) Revenue and assets by geographic segments

For the year ended 31 December 2007	UK £m	USA £m	Netherlands £m	France £m	Elimination of inter segment amounts £m	Total £m
Total revenue from continuing operations	**17,204**	**338**	**290**	**373**	**(3)**	**18,202**
Total assets	**274,975**	**2,588**	**1,663**	**2,110**	**(51)**	**281,285**
For the year ended 31 December 2006						
Total revenue from continuing operations	20,020	329	300	319	(2)	20,966
Total assets	212,185	2,478	1,415	1,807	(20)	217,865

4.11 Financial investments

	2007 £m	2006 £m
Equities	**149,567**	112,589
Unit trusts	**4,659**	4,190
Debt securities	**104,087**	82,685
Accrued interest	**1,363**	1,079
Derivative assets	**694**	77
Loans and receivables	**1,348**	810
	261,718	201,430

4.12 Segmental analysis of shareholders' equity

	2007 £m	2006 £m
Society shareholder capital[1]	**4,832**	5,520
General insurance	**114**	169
Netherlands	**107**	97
France[2]	**130**	82
Total Society shareholders' equity	**5,183**	5,868
USA[2]	**643**	552
Investment management	**349**	311
Corporate funds[3]	**(729)**	(1,306)
Shareholders' equity	**5,446**	5,425

1. As part of the capital review a £400m dividend was paid and £602m of subordinated debt capital was repaid to Corporate funds. Further details relating to the capital review can be found in note 4.01.
2. Capital of £57m ($114m) and £27m (€40m) respectively was injected into the USA and France operations.
3. Corporate funds include investments, subordinated borrowings and senior borrowings. The increase in Corporate funds primarily reflects the repayment of the subordinated debt from Society shareholder capital of £602m during the year.

Notes to the Financial Statements

4.13 Analysis of borrowings

	2007 £m	2006 £m
Subordinated borrowings		
6.385% Sterling perpetual capital securities	**620**	-
5.875% Sterling undated subordinated notes	**427**	429
4.0% Euro subordinated notes 2025	**414**	389
Total subordinated borrowings	**1,461**	818
Senior borrowings		
Sterling medium term notes 2031-2041	**608**	608
Euro commercial paper	**118**	370
Bank loans	**13**	3
Non recourse financing		
- US Dollar Triple X securitisation 2025	**266**	270
- US Dollar Triple X securitisation 2037	**223**	226
- Sterling property partnership loans 2011	**99**	130
Total senior borrowings	**1,327**	1,607
Total borrowings	**2,788**	2,425
Total borrowings (excluding non recourse financing)	**2,200**	1,799

Subordinated borrowings

6.385% Sterling perpetual capital securities
In 2007, Legal & General Group Plc issued £600m of 6.385% sterling perpetual capital securities. Simultaneous with the issuance, the fixed coupon was swapped into six month LIBOR plus 0.94% per annum. These securities are callable at par on 2 May 2017 and every three months thereafter. If not called, the coupon from 2 May 2017 will be reset to three month LIBOR plus 1.93% per annum. For regulatory purposes these securities are treated as innovative tier I capital. These securities have been classified as liability as the interest payments become mandatory in certain circumstances.

5.875% Sterling undated subordinated notes
In 2004, Legal & General Group Plc issued £400m of 5.875% Sterling undated subordinated notes. These notes are callable at par on 1 April 2019 and every five years thereafter. If not called, the coupon from 1 April 2019 will be reset to the prevailing five year benchmark gilt yield plus 2.33% per annum. These notes are treated as upper tier II capital for regulatory purposes. These securities have been classified as liability as the interest payments become mandatory in certain circumstances.

4.0% Euro subordinated notes 2025
In 2005, Legal & General Group Plc issued €600m of 4.0% Euro dated subordinated notes. The proceeds were swapped into sterling. The notes are callable at par on 8 June 2015 and each year thereafter. If not called, the coupon from 8 June 2015 will reset to a floating rate of interest based on prevailing three month Euribor plus 1.7% per annum. These notes mature on 8 June 2025 and are treated as lower tier II capital for regulatory purposes.

Non recourse financing

US Dollar Triple X securitisation 2025
In 2004, a subsidiary of Legal & General America Inc issued US$550m of non recourse debt in the US capital markets to meet the Triple X reserve requirements of part of the US term insurance written up to 2005. It is secured on the cash flows related to that tranche of business.

US Dollar Triple X securitisation 2037
In 2006, a subsidiary of Legal & General America Inc issued US$450m of non recourse debt in the US capital markets to meet the Triple X reserve requirements of part of the US term insurance written after 2005 and 2006. It is secured on the cash flows related to that tranche of business.

Sterling property partnership loans 2011
The property partnership loans are secured on specific properties.

4.14 Minority interests

Minority interests represent third party interests in property investment vehicles which are consolidated in the Group's results. The reduction in the minority interest is primarily as a result of divestments during 2007.

Notes to the Financial Statements

4.15 Total equity

	2007 £m	2006 £m
As at 1 January	**5,839**	4,936
Total recognised income and expense	**699**	1,602
Issue of share capital	**4**	15
Share buyback	**(320)**	-
Net movements in employee scheme shares	**1**	(5)
Dividend distributions to equity holders of the Company during the year	**(369)**	(349)
Movements in minority interests including disposals	**(230)**	62
Reclassification of subordinated borrowings from equity to debt	**-**	(394)
Fair value loss after tax on reclassification of subordinated borrowings as debt	**-**	(28)
As at 31 December	**5,624**	5,839

4.16 Insurance contract liabilities

(a) Analysis of insurance contract liabilities

	Notes	Gross 2007 £m	Reinsurance 2007 £m	Gross 2006 £m	Reinsurance 2006 £m
Life and pensions participating insurance contracts	4.16(b)	**11,663**	**(1)**	12,660	(1)
Life and pensions non-participating insurance contracts	4.16(c)	**22,568**	**(1,302)**	21,321	(1,237)
General insurance contracts	4.16(d)	**305**	**(19)**	281	(16)
Insurance contract liabilities		**34,536**	**(1,322)**	34,262	(1,254)

(b) Movement in participating insurance contract liabilities

	Gross 2007 £m	Reinsurance 2007 £m	Gross 2006 £m	Reinsurance 2006 £m
As at 1 January	**12,660**	**(1)**	13,180	(1)
New liabilities in the year	**219**	**-**	240	-
Liabilities discharged in the year	**(1,684)**	**-**	(1,671)	-
Unwinding of discount rates	**520**	**-**	432	-
Effect of change in non-economic assumptions	**(102)**	**-**	29	-
Effect of change in economic assumptions	**50**	**-**	487	-
Other	**-**	**-**	(37)	-
As at 31 December	**11,663**	**(1)**	12,660	(1)

(c) Movement in non-participating insurance contract liabilities

	Gross 2007 £m	Reinsurance 2007 £m	Gross 2006 £m	Reinsurance 2006 £m
As at 1 January	**21,321**	**(1,237)**	22,860	(2,649)
New liabilities in the year	**2,463**	**(286)**	1,995	(287)
Liabilities discharged in the year	**(1,108)**	**78**	(1,630)	75
Unwinding of discount rates	**876**	**(126)**	958	(134)
Effect of change in non-economic assumptions	**1**	**179**	90	(33)
Effect of change in economic assumptions	**(902)**	**-**	(417)	9
Foreign exchange adjustments	**109**	**2**	(176)	26
Other	**(192)**	**88**	(2,359)	1,756
As at 31 December	**22,568**	**(1,302)**	21,321	(1,237)

In 2007, the Effect of change in non-economic assumptions includes an increase of approximately £214m relating to the strengthening of assumptions for annuitant longevity on existing business, which was largely offset by weakening of mortality and expense assumptions on term business (on a gross of reassurance basis).

In 2006, Other includes £2,248m gross (£1,756m reinsurance) relating to the impact of applying PS 06/14.

Notes to the Financial Statements

4.16 Insurance contract liabilities (continued)

(d) Analysis of General insurance contract liabilities

	Gross 2007 £m	Reinsurance 2007 £m	Gross 2006 £m	Reinsurance 2006 £m
Outstanding claims	**132**	**(12)**	101	(4)
Claims incurred but not reported	**40**	**-**	36	(1)
Unearned premiums	**133**	**(7)**	144	(11)
General insurance contract liabilities	**305**	**(19)**	281	(16)

(e) Movement in General insurance claim liabilities

	Gross 2007 £m	Reinsurance 2007 £m	Gross 2006 £m	Reinsurance 2006 £m
As at 1 January	**137**	**(5)**	142	(5)
Claims arising	**323**	**(6)**	247	(3)
Claims paid	**(255)**	**(2)**	(206)	2
Adjustments to prior year liabilities	**(33)**	**1**	(46)	1
As at 31 December	**172**	**(12)**	137	(5)

Total gross claims of £86m (net £76m) arose as a result of the floods in 2007. At the year end £38m of these claims had been paid.

4.17 Investment contract liabilities

(a) Analysis of investment contract liabilities

	Gross 2007 £m	Reinsurance 2007 £m	Gross 2006 £m	Reinsurance 2006 £m
Participating investment contracts	**7,462**	**(74)**	7,501	(88)
Non-participating investment contracts	**224,906**	**(134)**	162,016	(139)
Investment contract liabilities	**232,368**	**(208)**	169,517	(227)

(b) Movement in investment contract liabilities

	Gross 2007 £m	Reinsurance 2007 £m	Gross 2006 £m	Reinsurance 2006 £m
As at 1 January	**169,517**	**(227)**	143,280	(115)
Reserves in respect of new business	**75,969**	**(412)**	28,423	(93)
Amounts paid on surrenders and maturities during the year	**(24,706)**	**262**	(15,633)	3
Investment return and related benefits	**11,854**	**169**	13,804	(22)
Management charges	**(399)**	**-**	(339)	-
Foreign exchange adjustments	**133**	**-**	(18)	-
As at 31 December	**232,368**	**(208)**	169,517	(227)

Notes to the Financial Statements
4.18 Value of policyholder assets held in Society and LGPL

	2007 £bn	2006 Restated £bn
With-profits business	**29.5**	30.1
Non profit business	**30.7**	26.6
	60.2	56.7

4.19 Non-linked business and Society shareholder capital invested asset mix and investment return

As at 31 December 2007	Investment return %	With-profits asset share %	With-profits non par %	With-profits other %	Non profit %	Society shareholder capital %
Equities	**9**	**45**	**4**	**(43)**	**-**	**69**
Bonds	**1**	**35**	**83**	**129**	**99**	**12**
Property	**(5)**	**17**	**2**	**-**	**-**	**12**
Cash	**5**	**3**	**11**	**14**	**1**	**7**
		100	**100**	**100**	**100**	**100**
Investment return (% pa)	**3**	**4**	**3**	**6**	**-**	**6**
Invested assets (£bn)		**17.1**	**2.4**	**1.8**	**16.6**	**4.0**
As at 31 December 2006						
Equities	14	50	4	(35)	1	62
Bonds	1	28	82	125	96	26
Property	20	19	2	-	2	10
Cash	5	3	12	10	1	2
		100	100	100	100	100
Investment return (% pa)	6	11	2	(5)	2	11
Invested assets (£bn)		18.7	2.5	1.7	16.1	4.6

All investment return percentages reflect average returns for the period.

Following the corporate restructure, all the assets supporting the UK non profit life and pensions businesses have been aggregated for reporting purposes and designated 'Society Shareholder Capital'. This comprises the SRC (including the merged 1996 Sub-fund), and all Society's shareholder capital held outside the long term fund (LTF) and in LGPL. Comparatives have been represented accordingly.

4.20 Sensitivities
General insurance sensitivity analysis

	Impact on pre-tax profit net of reinsurance 2007 £m	Impact on equity net of reinsurance 2007 £m	Impact on pre-tax profit net of reinsurance 2006 £m	Impact on equity net of reinsurance 2006 £m
Sensitivity test				
Single storm event with 1 in 200 year probability	**(42)**	**(29)**	(30)	(21)
Subsidence event – worst claims ratio in last 30 years	**(36)**	**(25)**	(37)	(26)
Repeat of 1990 recession on ASU/DMI[1]/Household accounts	**(54)**	**(38)**	(52)	(36)
5% decrease in overall claims ratio	**13**	**9**	15	11
5% surplus over claims liabilities	**7**	**5**	7	5

1. Accident, sickness and unemployment (ASU)/Domestic mortgage indemnity (DMI)

Notes to the Financial Statements

4.21 Pension cost

The Legal & General Group UK Pension and Assurance Fund and the Legal & General Group UK Senior Pension Scheme are defined benefit pension arrangements and account for all UK and the majority of worldwide assets of, and contributions to, such arrangements. At 31 December 2007, the combined after tax deficit arising from these arrangements (net of annuity obligations insured by Society) has been estimated at £130m (2006: £122m). These amounts have been recognised in the financial statements with £77m charged against shareholder equity (2006: £72m) and £53m against the unallocated divisible surplus (2006: £50m).

4.22 Contingent liabilities, guarantees and indemnities

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 (together in this paragraph "liabilities"). The extent of such liabilities is influenced by a number of factors including the actions and requirements of the FSA, by ombudsman rulings, by industry compensation schemes and by court judgements. The continuing general profile and emphasis being given by the FSA and other bodies to the suitability of the past sales of endowment policies in the context of some mortgage transactions has led to the continuing receipt of claims from holders of endowment policies.

Various Group companies receive claims and become involved in actual or threatened litigation and regulatory issues from time to time. Provision for liabilities continues to be made and is regularly reviewed. However, it is not possible to predict, with certainty, the extent and the timing of the financial impact to which these claims, litigation or issues may give rise. The relevant members of the Group nevertheless consider that each makes prudent provision, as and when circumstances calling for such provision become clear, and that each has adequate capital and reserves to meet all reasonably foreseeable eventualities.

In 1975, Society was required by the Institute of London Underwriters (ILU) to execute the ILU form of guarantee in respect of policies issued through the ILU's Policy Signing Office on behalf of NRG Victory Reinsurance Company Ltd (Victory), a company which was then a subsidiary of the Society. In 1990, Nederlandse Reassurantie Groep Holding NV (the assets and liabilities of which have since been assumed by Nederlandse Reassurantie Groep NV under a statutory merger in the Netherlands) acquired Victory and provided an indemnity to the Society against any liability the Society may have as a result of the ILU's requirement, and the ILU agreed that its requirement of the Society would not apply to policies written or renewed after the acquisition. Whether the Society has any liability as a result of the ILU's requirement and, if so, the amount of its potential liability is uncertain. The Society has made no payment or provision in respect of this matter.

Society has been discussing with Her Majesty's Revenue & Customs the application of certain tax legislation specific to life assurance companies for the years 1999 to 2006. It has not been possible to reach agreement and a reference will be made in 2008 to the Special Commissioners. The maximum exposure is estimated to be £230m. No amount is included in respect of this issue in the income tax provision at 31 December 2007, as the Group's view, supported by leading tax counsel, is that no amount will be payable.

Group companies have given indemnities and guarantees, including interest rate guarantees, as a normal part of their operating activities or in relation to capital market transactions.

4.23 Events after the balance sheet date

On 7 February 2007, the Group entered into an agreement with the Nationwide Building Society to purchase Nationwide Life Limited and Nationwide Unit Trust Managers Limited. On 1 February 2008 the acquisition was completed for total consideration of approximately £293m. The arrangements also provide access to Nationwide's distribution network, through which it is anticipated that a wide range of the Group's investment, pensions and life insurance products will be sold.

Since 31 December 2007, additional purchases have been made under the Company's share buyback programme. At 29 February 2008, a further 156,213,929 ordinary shares (representing 2.5% of Legal & General Group Plc's issued share capital at 31 December 2007) had been purchased for cancellation at a total cost of £199m including expenses, at an average cost of 126.7p per share. Cumulatively, a total of 397,421,196 shares have been repurchased at a total cost of £519m.

4.24 Foreign exchange rates

Principal rates of exchange used for translation are:

	01.01.07-31.12.07 Average	**2007 Year end**	01.01.06-31.12.06 Average	2006 Year end
United States Dollar	**2.00**	**1.99**	1.84	1.96
Euro	**1.46**	**1.36**	1.47	1.48

Capital and Cash Flow

5.01 Capital review

Conversion of Legal & General Pensions Limited (LGPL) to an Insurance Special Purpose Vehicle (ISPV)

On 1 November 2007, LGPL was converted to an ISPV and repaid subordinated debt of £400m to Society.

ISPVs have no formal requirement to hold a regulatory solvency margin. The conversion has therefore resulted in a reduction in the capital resources requirement for Society of £0.5bn, which has increased Society's regulatory surplus capital by a similar amount (2007 total surplus: £4.4bn). The Group's Insurance Group's Directive (IGD) regulatory surplus has also increased by approximately £0.5bn (2007 total surplus: £4.1bn) for similar reasons.

Society's long term fund restructure

In December 2007, the Group implemented a new capital structure for Society.

For 2007, £1.7bn has been transferred from the SRC into the shareholder capital held outside Society's long term fund. The full £1.7bn transfer is reflected in the increased Group's IGD surplus of £4.1bn, highlighting the increased flexibility of the funds transferred out of SRC. There has been no impact on Society's regulatory surplus capital.

5.02 Regulatory capital resources

(a) Insurance Group's Directive

The Group is required to measure and monitor its capital resources on a regulatory basis and to comply with the minimum capital requirements of regulators in each territory in which it operates. At Group level, Legal & General must comply with the requirements of the IGD. This is a very prudent measure of capital resources as it excludes any amount of surplus capital within a long term fund (£1.1bn for Society at 31 December 2007). The table below shows the estimated total Group capital resources, Group capital resources requirement and the surplus based on unaudited regulatory returns.

	Notes	**2007 £bn**	2006 £bn
Core tier I		**7.1**	5.9
Innovative tier I		**0.6**	-
Upper tier II		**0.4**	0.4
Lower tier II		**0.4**	0.4
Deductions		**(0.2)**	(0.1)
Group capital resources		**8.3**	6.6
Group capital resources requirement		**4.2**	4.6
IGD surplus	5.01	**4.1**	2.0

A segmental analysis is given below.

	Notes	**2007 £bn**	2006 £bn
Society long term fund		**3.9**	3.7
Society shareholder capital[1]		**3.1**	1.3
LGPL		**-**	1.4
General insurance		**0.1**	0.1
France		**0.1**	0.1
Netherlands		**0.1**	0.1
USA		**0.1**	0.1
Investment management		**0.3**	0.3
Other[2]		**1.4**	0.5
Innovative tier I		**0.6**	-
Tier II		**0.8**	0.8
Debt		**(2.2)**	(1.8)
Group capital resources		**8.3**	6.6
Society long term fund		**3.9**	3.7
LGPL		**-**	0.6
Other		**0.3**	0.3
Group capital resources requirement	5.01	**4.2**	4.6

1. Includes capital resources of LGPL for 2007 and excludes shareholder capital held within Society's long term fund for both 2006 and 2007.
2. Other reflects general corporate assets held at Group level including those used to support the ongoing share buyback programme.

A reconciliation of the Group capital resources on an IGD basis to the capital and reserves attributable to the equity holders of the Company on an IFRS basis is given below.

	2007 £bn	2006 £bn
Capital and reserves attributable to equity holders on an IFRS basis	**5.4**	5.4
Innovative tier I	**0.6**	-
Tier II	**0.8**	0.8
Proposed 2007 final dividend	**(0.2)**	-
Additional capital available from Society	**2.2**	0.8
Adjustment to reflect regulatory value of the USA operation	**(0.5)**	(0.4)
Group capital resources	**8.3**	6.6

Further details relating to the impact of the Capital review can be found in Note 5.01.

5.02 Regulatory capital resources (continued)

(b) Society capital surplus

Society is required to measure and monitor its capital resources on a regulatory basis.

	2007 Long term business £bn	**2007 General insurance £bn**	2006 Long term business £bn	2006 General insurance £bn
Tier I	**8.4**	**0.1**	8.7	0.1
Upper tier II[1]	**-**	**-**	0.3	-
Lower tier II[1]	**-**	**-**	0.3	-
Available capital resources	**8.4**	**0.1**	9.3	0.1
Insurance capital requirement	**1.9**	**0.1**	1.7	-
With-Profits Insurance Capital Component	**2.0**	**-**	2.0	-
Capital requirements of regulated related undertakings	**0.1**	**-**	0.7	0.1
Capital resources requirement	**4.0**	**0.1**	4.4	0.1
Regulatory capital surplus	**4.4**	**-**	4.9	-

1. The tier II capital of £602m was repaid in June 2007.

The table below summarises the realistic position of the with-profits part of Society's LTF:

	2007 £m	2006 £m
With-profits surplus	**1,047**	1,128
Risk capital margin	**262**	465
Surplus	**785**	663

Society is required to maintain a surplus in the with-profits part of the fund on a realistic basis (peak 2). If the surplus on a realistic basis is lower than the surplus using peak 1 solvency rules, then a further capital requirement, the With-Profits Insurance Capital Component (WPICC) is required. At 31 December 2007, the WPICC was reduced to reflect the value of shareholder transfers of £396m (2006: £432m) within the Risk Capital Margin calculation.

5.03 IFRS capital resources

(a) Group capital resources

The Group's total capital resources of £8.6bn on an IFRS basis, comprise equity holders' capital (£5.4bn) (see Note 4.12), subordinated debt (£1.5bn) and unallocated divisible surplus (£1.7bn).

(b) Society capital resources

Society has been allocated capital of £4.8bn, £2.6bn is held outside any long term fund of which approximately £0.5bn is within LGPL; the remainder of £2.2bn is held within Society's long term fund. An analysis of the movement in Society Shareholder Capital (SSC) on the IFRS basis is provided in the table below:

		Society Shareholder Capital		
2007	Notes	**Gross £m**	**Tax £m**	**Net £m**
As at 1 January				**5,520**
Investment return		**242**	**(70)**	**172**
With-profits distribution		**106**	**(32)**	**74**
Repayment of subordinated debt		**(602)**	**-**	**(602)**
Capital invested in subsidiaries		**(27)**	**-**	**(27)**
Net capital contributed/released from non profit business	4.02	**161**	**(48)**	**113**
Release of 1996 Sub-fund		**321**	**-**	**321**
Distribution to Group Plc		**(728)**	**-**	**(728)**
Movement included in the statement of recognised income and expense		**(13)**	**(3)**	**(16)**
Other		**2**	**3**	**5**
As at 31 December				**4,832**

The total net capital released from the non profit business is £161m, which comprises the net capital contributed to LGPL non profit business of £167m (net of tax £117m) and the net capital released from Society of £328m (net of tax £230m).

2006	Notes	Gross £m	Tax £m	Net £m
As at 1 January				4,456
Investment return		452	(108)	344
With-profits distribution		95	(29)	66
Dividends from subsidiaries		2	-	2
Capital invested in subsidiaries		(13)	-	(13)
Net capital contributed/released from non profit business	4.02	1,255	(377)	878
Distribution to Group Plc		(380)	-	(380)
Movement included in the statement of recognised income and expense		3	(1)	2
Deferred tax asset on corporate restructure		-	171	171
Other		(9)	3	(6)
As at 31 December				5,520

The total net capital released from the non profit business is £1,255m, which comprises the net capital contributed to LGPL non profit business of £717m (net of tax £502m) and the net capital released from Society of £1,972m (net of tax £1,380m).

5.04 Group credit ratings

Society continues to be one of the two highest rated European life assurers. The financial strength ratings from Standard & Poor's, Moody's and A.M.Best were maintained at AA+, Aa1 and A+ respectively, all with stable outlooks.

The Group's current long term and short term debt ratings are, from Standard & Poor's, AA- and A1+ and, from Moody's, A1 and P1.

5.05 Parent company cash flow statement

The table below shows the cash flows in the year relating to the Group's parent company.

	2007 £m	2006 £m
Dividends received:		
UK life and pensions[1]	**728**	380
Investment management	**71**	50
Other	**1**	3
	800	433
Dividend distributions to equity holders of the Company during the year	**(369)**	(349)
Repayment of intra-group subordinated debt[1]	**602**	-
Proceeds from issue of equity	**4**	15
Proceeds from issue of subordinated borrowings	**595**	-
Repayment of commercial paper	**(249)**	-
Capital injected into subsidiaries	**(90)**	-
Repayment of convertible bond	**-**	(525)
Purchase of shares under share buyback programme	**(320)**	-
Working capital movements	**(84)**	(52)
Net cash inflow/(outflow)	**889**	(478)

1. A first interim dividend of £400m was paid from brought forward distributable reserves in June 2007 to finance part of Group Plc's £1bn on-market share buyback programme with the balance financed when Society repaid £602m subordinated debt in June 2007 to Group Plc. A further dividend of £328m was paid in December 2007 in support of Group Plc's dividend to shareholders.

Appendices

I UK funds under management

	2007 £m	2006 £m
Total investments	**296,649**	232,969
Represented by		
Index tracking funds:		
- UK equities	**86,294**	68,531
- Overseas equities	**63,930**	42,114
- Fixed interest	**34,256**	29,076
- Index linked	**28,776**	21,594
- Cash/deposits	**860**	652
Total index tracking funds	**214,116**	161,967
Actively managed funds	**70,727**	66,503
Structured solutions	**11,806**	4,499
	296,649	232,969
By investment approach		
Indexed equities	**150,224**	110,644
Indexed bonds (including index linked funds and cash)	**63,891**	51,322
Active bonds (including index linked funds and cash)	**51,546**	44,713
Structured solutions	**11,806**	4,499
Active equities	**9,816**	10,966
Property	**9,086**	10,444
Private equity	**280**	381
	296,649	232,969
By source of business		
Institutional funds under management[1]:		
- Managed pension funds pooled	**194,771**	142,716
- Structured solutions	**11,806**	4,499
- Other	**7,030**	6,217
- Managed pension funds segregated	**5,807**	4,101
Total institutional funds under management	**219,414**	157,533
UK businesses (life and general insurance funds)	**65,280**	63,677
UK businesses (unit trusts - excluding life fund investment)	**11,955**	11,759
	296,649	232,969

1. Excludes institutional investments in unit trust funds.

II Capital

a) Group capital resources

As at 31 December 2007	UK with-profits £m	UK non profit and SRC £m	LGPL £m	Overseas and PMC £m	Total life £m	Shareholders' equity and other activities £m	Total £m
Shareholders' equity outside the LTF	-	-	512	1,104	1,616	1,648	3,264
Shareholders' equity held in the LTF	-	2,182	-	-	2,182	-	2,182
Capital and reserves attributable to equity holders of the company	-	2,182	512	1,104	3,798	1,648	5,446
Adjustments onto regulatory basis[1]:							
Unallocated divisible surplus[2]	1,757	-	-	(36)	1,721	-	1,721
Other[3]	(710)	(349)	(5)	(506)	(1,570)	(255)	(1,825)
Other qualifying capital:							
Subordinated borrowings[4]	-	-	-	-	-	1,429	1,429
Internal loans[5]	-	(703)	703	-	-	-	-
Proposed dividend	-	-	-	-	-	(247)	(247)
Total available capital resources	1,047	1,130	1,210	562	3,949	2,575	6,524
IFRS liability analysis:							
UK participating liabilities on realistic basis							
- Options and guarantees	533	-	-	-	533	-	533
- Other policyholder obligations	16,782	32	-	-	16,814	-	16,814
Overseas participating liabilities	-	-	-	1,778	1,778	-	1,778
Unallocated divisible surplus[2]	1,757	-	-	(36)	1,721	-	1,721
Value of in-force non-participating contracts	(276)	-	-	-	(276)	-	(276)
Participating contract liabilities	18,796	32	-	1,742	20,570	-	20,570
Unit linked non-participating life assurance liabilities	677	5,014	-	1,183	6,874	-	6,874
Non linked non-participating life assurance liabilities	2,097	12,019	-	1,578	15,694	-	15,694
Unit linked non-participating investment contract liabilities	8,208	14,107	-	202,591	224,906	-	224,906
General insurance liabilities	-	-	-	-	-	305	305
Non-participating contract liabilities	10,982	31,140	-	205,352	247,474	305	247,779

1. Figures extracted from draft unaudited regulatory returns.
2. The negative overseas unallocated divisible surplus arises as a result of differences between regulatory and IFRS reporting.
3. Shareholders' share in realistic liabilities of £616m and changes to the values of assets and liabilities on a regulated basis of £1,181m are included within Other.
4. In 2007, the Group issued £600m of perpetual capital securities which are treated as innovative tier I capital for regulatory purposes.
5. Internal loans wholly comprises the contingent loan (£703m) from Society's LTF to LGPL, which is reflected in the value of LGPL for regulatory purposes.

II Capital (continued)

b) Movements in life business capital resources

	UK with-profits 2007 £m	UK non profit and SRC 2007 £m	LGPL 2007 £m	Overseas and PMC 2007 £m	Total life 2007 £m
As at 1 January	1,128	2,752	1,451	504	5,835
Effect of investment variations	(22)	199	171	(18)	330
Effect of changes in non-economic assumptions	62	69	(296)	9	(156)
Changes in management policy	(59)	-	-	-	(59)
Changes in regulatory requirements	30	28	9	-	67
New business	(32)	(242)	(100)	(140)	(514)
Cash distributions	-	(1,700)	-	(55)	(1,755)
Other factors	(60)	24	(25)	262	201
As at 31 December	1,047	1,130	1,210	562	3,949

III New business

a) UK life and pensions new business APE by quarter

	3 months 31.12.07 £m	3 months 30.09.07 £m	3 months 30.06.07 £m	3 months 31.03.07 £m	3 months 31.12.06 Restated[1] £m	3 months 30.09.06 Restated[1] £m	3 months 30.06.06 Restated[1] £m	3 months 31.03.06 Restated[1] £m
Protection	**55**	**57**	**55**	**56**	59	61	55	56
Annuities[1]	**78**	**38**	**45**	**44**	54	53	40	35
Total risk	**133**	**95**	**100**	**100**	113	114	95	91
Unit linked bonds	**53**	**62**	**62**	**74**	80	60	60	61
Pensions, stakeholder and other non profit	**60**	**60**	**64**	**69**	60	55	52	41
With-profits savings	**45**	**54**	**69**	**60**	40	55	50	46
Total savings	**158**	**176**	**195**	**203**	180	170	162	148
Total UK risk and savings	**291**	**271**	**295**	**303**	293	284	257	239

1. For 2007 reporting, with-profits annuity business has been recategorised from 'with-profits' to 'annuities' and 2006 comparatives restated.

b) UK life and pensions new business annual premiums by quarter

	3 months 31.12.07 £m	3 months 30.09.07 £m	3 months 30.06.07 £m	3 months 31.03.07 £m	3 months 31.12.06 Restated[1] £m	3 months 30.09.06 Restated[1] £m	3 months 30.06.06 Restated[1] £m	3 months 31.03.06 Restated[1] £m
Protection	**55**	**57**	**55**	**56**	59	61	55	56
Annuities[1]	**-**	**-**	**-**	**-**	-	-	-	-
Total risk	**55**	**57**	**55**	**56**	59	61	55	56
Unit linked bonds	**-**	**-**	**-**	**-**	-	-	-	-
Pensions, stakeholder and other non profit	**37**	**34**	**27**	**43**	31	31	37	27
With-profits savings	**23**	**27**	**45**	**35**	25	30	33	29
Total savings	**60**	**61**	**72**	**78**	56	61	70	56
Total UK risk and savings	**115**	**118**	**127**	**134**	115	122	125	112

1. For 2007 reporting, with-profits annuity business has been recategorised from 'with-profits' to 'annuities' and 2006 comparatives restated.

c) UK life and pensions new business single premiums by quarter

	3 months 31.12.07 £m	3 months 30.09.07 £m	3 months 30.06.07 £m	3 months 31.03.07 £m	3 months 31.12.06 Restated[1] £m	3 months 30.09.06 Restated[1] £m	3 months 30.06.06 Restated[1] £m	3 months 31.03.06 Restated[1] £m
Protection	**-**	**-**	**-**	**-**	-	-	-	-
Annuities[1]	**780**	**370**	**458**	**437**	537	536	393	353
Total risk	**780**	**370**	**458**	**437**	537	536	393	353
Unit linked bonds	**537**	**620**	**616**	**739**	799	600	608	605
Pensions, stakeholder and other non profit	**229**	**258**	**373**	**262**	278	245	152	142
With-profits savings	**217**	**278**	**240**	**248**	162	244	167	170
Total savings	**983**	**1,156**	**1,229**	**1,249**	1,239	1,089	927	917
Total UK risk and savings	**1,763**	**1,526**	**1,687**	**1,686**	1,776	1,625	1,320	1,270

1. For 2007 reporting, with-profits annuity business has been recategorised from 'with-profits' to 'annuities' and 2006 comparatives restated.

d) International life and pensions new business APE by quarter

	3 months 31.12.07 £m	3 months 30.09.07 £m	3 months 30.06.07 £m	3 months 31.03.07 £m	3 months 31.12.06 £m	3 months 30.09.06 £m	3 months 30.06.06 £m	3 months 31.03.06 £m
USA	**11**	**12**	**11**	**11**	10	11	10	11
Netherlands	**7**	**6**	**6**	**8**	7	6	7	9
France	**6**	**9**	**17**	**10**	7	5	13	7
Total	**24**	**27**	**34**	**29**	24	22	30	27

III New Business (continued)

e) International life and pensions new business annual premiums by quarter

	3 months 31.12.07 £m	3 months 30.09.07 £m	3 months 30.06.07 £m	3 months 31.03.07 £m	3 months 31.12.06 £m	3 months 30.09.06 £m	3 months 30.06.06 £m	3 months 31.03.06 £m
USA	**11**	**12**	**11**	**11**	10	11	10	11
Netherlands	**3**	**3**	**2**	**3**	3	2	4	3
France	**1**	**5**	**9**	**2**	1	2	8	1
Total	**15**	**20**	**22**	**16**	14	15	22	15

f) International life and pensions new business single premiums by quarter

	3 months 31.12.07 £m	3 months 30.09.07 £m	3 months 30.06.07 £m	3 months 31.03.07 £m	3 months 31.12.06 £m	3 months 30.09.06 £m	3 months 30.06.06 £m	3 months 31.03.06 £m
USA	**-**	**-**	**-**	**-**	-	-	-	-
Netherlands	**36**	**30**	**35**	**56**	40	34	37	59
France	**47**	**45**	**78**	**78**	50	38	48	59
Total	**83**	**75**	**113**	**134**	90	72	85	118

g) Core retail investments new business APE by quarter

	3 months 31.12.07 £m	3 months 30.09.07 £m	3 months 30.06.07 £m	3 months 31.03.07 £m	3 months 31.12.06 Restated[1] £m	3 months 30.09.06 Restated[1] £m	3 months 30.06.06 Restated[1] £m	3 months 31.03.06 Restated[1] £m
UK[1]	**37**	**38**	**51**	**35**	28	26	40	29
France	**-**	**-**	**1**	**1**	-	1	1	-
Total	**37**	**38**	**52**	**36**	28	27	41	29

1. For 2007 reporting, total UK core retail investments excludes institutional investments in unit trust funds which are disclosed as part of institutional fund management new business in Note III(k). 2006 has been restated to reflect this change.

h) Core retail investments new business annual premiums by quarter

	3 months 31.12.07 £m	3 months 30.09.07 £m	3 months 30.06.07 £m	3 months 31.03.07 £m	3 months 31.12.06 Restated[1] £m	3 months 30.09.06 Restated[1] £m	3 months 30.06.06 Restated[1] £m	3 months 31.03.06 Restated[1] £m
UK[1]	**5**	**5**	**7**	**4**	2	5	6	4
France	**-**	**-**	**-**	**-**	-	-	-	-
Total	**5**	**5**	**7**	**4**	2	5	6	4

1. For 2007 reporting, total UK core retail investments excludes institutional investments in unit trust funds which are disclosed as part of institutional fund management new business in Note III(k). 2006 has been restated to reflect this change.

i) Core retail investments new business single premiums by quarter

	3 months 31.12.07 £m	3 months 30.09.07 £m	3 months 30.06.07 £m	3 months 31.03.07 £m	3 months 31.12.06 Restated[1] £m	3 months 30.09.06 Restated[1] £m	3 months 30.06.06 Restated[1] £m	3 months 31.03.06 Restated[1] £m
UK[1]	**316**	**324**	**440**	**319**	258	208	345	252
France	**4**	**5**	**9**	**6**	8	7	5	5
Total	**320**	**329**	**449**	**325**	266	215	350	257

1. For 2007 reporting, total UK core retail investments excludes institutional investments in unit trust funds which are disclosed as part of institutional fund management new business in Note III(k). 2006 has been restated to reflect this change.

III New Business (continued)

j) Analysis of total UK APE

	3 months 31.12.07 £m	3 months 30.09.07 £m	3 months 30.06.07 £m	3 months 31.03.07 £m	3 months 31.12.06 Restated[1] £m	3 months 30.09.06 Restated[1] £m	3 months 30.06.06 Restated[1] £m	3 months 31.03.06 Restated[1] £m
Independent financial advisers	**185**	**206**	**220**	**231**	203	196	175	145
Tied	**57**	**66**	**72**	**66**	69	65	69	67
Direct	**5**	**9**	**13**	**9**	6	7	15	10
Total UK individual	**247**	**281**	**305**	**306**	278	268	259	222
Individual life and pensions	**210**	**243**	**254**	**271**	250	242	219	193
Core retail investments [1]	**37**	**38**	**51**	**35**	28	26	40	29
UK individual	**247**	**281**	**305**	**306**	278	268	259	222
Group life and pensions	**81**	**28**	**41**	**32**	43	42	38	46
Total UK	**328**	**309**	**346**	**338**	321	310	297	268

1. For 2007 reporting, total UK core retail investments excludes institutional investments in unit trust funds which are disclosed as part of institutional fund management new business in Note III(k). 2006 has been restated to reflect this change.

k) Institutional fund management new business by quarter

	3 months 31.12.07 £m	3 months 30.09.07 £m	3 months 30.06.07 £m	3 months 31.03.07 £m	3 months 31.12.06 Restated[1] £m	3 months 30.09.06 Restated[1] £m	3 months 30.06.06 Restated[1] £m	3 months 31.03.06 Restated[1] £m
Managed pension funds[2]								
Pooled funds	**19,903**	**13,989**	**10,646**	**4,922**	5,801	3,814	4,500	3,763
Segregated funds	**230**	**1,925**	**380**	**68**	1	8	538	61
Total managed funds	**20,133**	**15,914**	**11,026**	**4,990**	5,802	3,822	5,038	3,824
Other funds[3]	**871**	**492**	**506**	**499**	2,179	753	1,933	2,682
Total	**21,004**	**16,406**	**11,532**	**5,489**	7,981	4,575	6,971	6,506
Attributable to:								
Legal & General Investment Management	20,247	16,149	11,167	5,059	5,961	3,931	5,195	5,563
Legal & General Retail Investments	757	257	365	430	2,020	644	1,776	943

1. For 2007 reporting, Other funds includes institutional investments in unit trust funds managed by Legal & General Retail Investments which were previously disclosed as UK core retail investments APE in Notes III (g), (h), (i) and (j). 2006 has been restated to reflect this change.
2. New monies from pension fund clients of Legal & General Assurance (Pensions Management) Limited exclude £19.4bn (2006: £4.4bn) held through the year on a temporary basis, generally as part of portfolio reconstructions.
3. Includes segregated property, property partnerships, ventures partnerships and institutional clients funds managed by Legal & General Investment Management and institutional investments in unit trust funds managed by Legal & General Retail Investments.

IV European Embedded Value Methodology

Basis of preparation

The supplementary financial statements have been prepared in accordance with the European Embedded Value (EEV) Principles issued in May 2004 by the European Insurance CFO Forum.

Covered business

The Group uses EEV methodology to value individual and group life assurance, pensions and annuity business written in the UK, Continental Europe and the US and within our UK managed pension funds company.

From 2007, all shareholder assets held within Legal & General Assurance Society Limited (Society) and Legal & General Pensions Limited (LGPL) have been allocated to covered business.

All other businesses are accounted for on the IFRS basis adopted in the primary financial statements.

There is no distinction made between insurance and investment contracts in our life and pensions businesses as there is under IFRS.

Description of methodology

The objective of EEV is to provide shareholders with realistic information on the financial position and current performance of the Group.

The methodology requires assets of an insurance company, as reported in the primary financial statements, to be attributed between those supporting the covered business and the remainder. The method accounts for assets in the covered business on an EEV basis and the remainder of the Group's assets on the IFRS basis adopted in the primary financial statements.

The EEV methodology recognises as profit from the covered business the total of:

i. cash transfers during the relevant period from the covered business to the remainder of the Group's assets; and

ii. the movement in the present value of future distributable profits to shareholders arising from the covered business over the relevant reporting period.

Embedded value

Shareholders' equity on the EEV basis comprises the embedded value of the covered business plus the shareholders' equity of other businesses, less the value included for purchased interests in long term business.

The embedded value is the sum of the shareholder net worth (SNW) and the value of the in-force business (VIF). SNW is defined as those amounts, within covered business (both within the long term fund and held outside the long term fund but used to support long term business), which are regarded either as required capital or which represent free surplus.

The VIF is the present value of future shareholder profits arising from the covered business, projected using best estimate assumptions, less an appropriate deduction for the cost of holding the required level of capital and the time value of financial options and guarantees (FOGs).

Service companies

All services relating to the UK life and pensions business are charged on a cost recovery basis, with the exception of investment management services provided to LGPL, which have been charged at market referenced rates since 1 January 2007, and to Society, which have been charged at market referenced rates from 1 July 2007. Profits arising on the provision of these services are valued on a 'look through' basis.

As the EEV methodology incorporates the future capitalised cost of these internal investment management services, the equivalent IFRS profits have been removed from the Investment management segment and are instead included in the results of the UK life and pensions segment on an EEV basis.

The capitalised value of future profits emerging from internal investment management services are therefore included in the embedded value and new business contribution calculations for the UK life and pensions segment. However, the historical profits which have emerged continue to be reported in the shareholders' equity of the Investment management segment on an IFRS basis. Since the look through into service companies includes only future profits and losses, current intra-group profits or losses must be eliminated from the closing embedded value and in order to reconcile the profits arising in the financial period within each segment with the net assets on the opening and closing balance sheet, a transfer of IFRS profits for the period from the UK life and pensions SNW is deemed to occur.

New business

New business premiums reflect income arising from the sale of new contracts during the reporting period and any changes to existing contracts, which were not anticipated at the outset of the contract.

In-force business comprises previously written single premium, regular premium and recurrent single premium contracts.

IV European Embedded Value Methodology (continued)

Department of Work and Pensions rebates have not been treated as recurrent and are included in single premium new business when received.

New business contribution arising from the new business premiums written during the reporting period has been calculated on the same economic and operating assumptions used in the embedded value at the end of the financial period. This has then been rolled forward to the end of the financial period using the risk discount rate applicable at the end of the reporting period.

The present value of future new business premiums (PVNBP) has been calculated and expressed at the point of sale. The PVNBP is equivalent to the total single premiums plus the discounted value of regular premiums expected to be received over the term of the contracts using the same economic and operating assumptions used for the embedded value at the end of the financial period. The new business margin is defined as new business contribution at the end of the reporting period divided by the PVNBP. The premium volumes and projection assumptions used to calculate the PVNBP are the same as those used to calculate new business contribution.

Projection assumptions

Cash flow projections are determined using realistic assumptions for each component of cash flow and for each policy group. Future economic and investment return assumptions are based on conditions at the end of the financial year. Future investment returns are projected by one of two methods. The first method is based on an assumed investment return attributed to assets at their market value. The second, which is used in the US, where the investments of that subsidiary are substantially all fixed interest, projects the cash flows from the current portfolio of assets and assumes an investment return on reinvestment of surplus cash flows. The assumed discount and inflation rates are consistent with the investment return assumptions.

Detailed projection assumptions including mortality, persistency, morbidity and expenses reflect recent operating experience and are reviewed annually. Allowance is made for future improvements in annuitant mortality based on experience and externally published data. Favourable changes in operating experience are not anticipated until the improvement in experience has been observed.

All costs relating to the covered business, whether incurred in the covered business or elsewhere in the Group, are allocated to that business. The expense assumptions used for the cash flow projections therefore include the full cost of servicing this business.

Tax

The projections take into account all tax which is expected to be paid, based on best estimate assumptions, applying current legislation and practice together with known or expected future changes. This includes tax which would arise if surplus assets within the covered business were eventually to be distributed. The future benefit of certain current UK tax rules on the apportionment of income has not been reflected. It is expected that these rules will be amended as part of the current consultation on life assurance taxation, such that the benefit is not expected to be realised.

Allowance for risk

Aggregate risks within the covered business are allowed for through the following principal mechanisms:

i. setting required capital levels with reference to both the Group's internal risk based capital models, and an assessment of the strength of regulatory reserves in the covered business;

ii. allowing explicitly for the time value of financial options and guarantees within the Group's products; and

iii. setting risk discount rates by deriving a Group level risk margin to be applied consistently to local risk free rates.

Required capital and free surplus

Regulatory capital for UK life and pensions business is provided by assets backing the with-profits business or by the SNW. The SNW comprises all shareholders' capital within Society, including those funds retained within the long term fund and the excess assets in LGPL (collectively Society Shareholder Capital).

Society Shareholder Capital is either required to cover EU solvency margin or is free surplus as its distribution to shareholders is not restricted.

For UK with-profits business, the required capital is covered by the surplus within the with-profits part of the fund and no effect is attributed to shareholders except for the burn-through cost, which is described later. This treatment is consistent with the Principles and Practices of Financial Management for this part of the fund.

For UK non profit business, the required capital will be maintained at no less than the level of the EU minimum solvency requirement. This level, together with the margins for adverse deviation in the regulatory reserves, is, in aggregate, in excess of internal capital targets assessed in conjunction with the Individual Capital Assessment (ICA) and the with-profits support account.

The initial strains relating to new non profit business, together with the related EU solvency margin, are supported by releases from existing non profit business and the Society Shareholder Capital. As a consequence, the writing of new business defers the release of capital to free surplus. The cost of holding required capital is defined as the difference between the value of the required capital and the present value of future releases of that capital. For new business, the cost of capital is taken as the difference in the value of that capital assuming it was available for release immediately and the present value of the future releases of that capital. As the

IV European Embedded Value Methodology (continued)

investment return, net of tax, on that capital is less than the risk discount rate, there is a resulting cost of capital which is reflected in the value of new business.

For our UK managed pension funds business, management's capital policy has been used to set the level of required capital. The balance of net assets within the UK managed funds business is treated as free surplus.

For Legal & General America, the Company Action Level (CAL) of capital has been treated as required capital for modelling purposes. The CAL is the regulatory capital level at which the company would have to take prescribed action, such as submission of plans to the State insurance regulator, but would be able to continue operating on the existing basis. The CAL is currently twice the level of capital at which the regulator is permitted to take control of the business.

For Legal & General Netherlands, 100% of EU minimum solvency margin has been used for all EV modelling purposes for all products both with and without FOGs. The level of capital has been determined using risk based capital techniques.

For Legal & General France, 100% of EU minimum solvency margin has been used for EV modelling purposes for all products both with and without FOGs. The level of capital has been determined using risk based capital techniques.

The contribution from new business for our International businesses reflects an appropriate allowance for the cost of holding the required capital.

Financial options and guarantees

In the UK, all financial options and guarantees (FOGs) are within the UK life and pensions business.

Under the EEV Principles an allowance for time value of FOGs is required where a financial option exists which is exercisable at the discretion of the policyholder. These types of option principally arise within the with-profits part of the fund and their time value is recognised within the with-profits burn-through cost described below. Additional financial options for non profit business exist only for a small amount of deferred annuity business where guaranteed early retirement and cash commutation terms apply when the policyholders choose their actual retirement date.

Further financial guarantees exist for non profit business, in relation to index-linked annuities where capped or collared restrictions apply. Due to the nature of these restrictions and the manner in which they vary depending on the prevailing inflation conditions, they are also treated as FOGs and a time value cost recognised accordingly.

The time value of FOGs has been calculated stochastically using a large number of real world economic scenarios derived from assumptions consistent with the deterministic EEV assumptions and allowing for appropriate management actions where applicable. The management action primarily relates to the setting of bonus rates. Future regular and terminal bonuses on participating business within the projections are set in a manner consistent with expected future returns available on assets deemed to back the policies within the stochastic scenarios.

In recognising the residual value of any projected surplus assets within the with-profits part of the fund in the deterministic projection, it is assumed that terminal bonuses are increased to exhaust all of the assets in the part of the fund over the future lifetime of the in-force with-profits policies. However, under stochastic modelling, there may be some extreme economic scenarios when the total projected assets within the with-profits part of the fund are insufficient to pay all projected policyholder claims and associated costs. The average additional shareholder cost arising from this shortfall has been included in the time value cost of options and guarantees and is referred to as the with-profits burn-through cost.

Economic scenarios have been used to assess the time value of the financial guarantees for non profit business by using the inflation rate generated in each scenario. The inflation rate used to project index-linked annuities will be constrained in certain real world scenarios, for example, where negative inflation occurs but the annuity payments do not reduce below pre-existing levels. The time value cost of FOGs allows for the projected average cost of these constrained payments for the index-linked annuities. It also allows for the small additional cost of the guaranteed early retirement and cash commutation terms for the minority of deferred annuity business where such guarantees have been written.

In the US, FOGs relate to guaranteed minimum crediting rates and surrender values on a range of contracts. The guaranteed surrender value of the contract is based on the accumulated value of the contract including accrued interest. The crediting rates are discretionary but related to the accounting income for the amortising bond portfolio. The majority of the guaranteed minimum crediting rates are between 4% and 5%. The assets backing these contracts are invested in US dollar denominated fixed interest securities.

In the Netherlands, there are two types of guarantees which have been separately provided for: interest rate guarantees and maturity guarantees. Certain contracts provide an interest rate guarantee where there is a minimum crediting rate based on the higher of 1-year Euribor and the policy guarantee rate. This guarantee applies on a monthly basis. Certain unit linked contracts provide a guaranteed minimum value at maturity where the maturity amount is the higher of the fund value and a guarantee amount. The fund values for both these contracts are invested in Euro denominated fixed interest securities.

IV European Embedded Value Methodology (continued)

In France, FOGs which have been separately provided for relate to guaranteed minimum crediting rates and surrender values on a range of contracts. The guaranteed surrender value of the contract is the accumulated value of the contract including accrued bonuses. The bonuses are based on the accounting income for the amortising bond portfolios plus income and releases from realised gains on any equity type investments. Policy liabilities equal guaranteed surrender values. Local statutory accounting rules require the establishment of a specific liability when the accounting income for a company is less than 125% of the guaranteed minimum credited returns, although this has never been required. In general, the guaranteed annual bonus rates are between 0% and 4.5%.

Risk discount rate

The risk discount rate (RDR) is a combination of the risk free rate and a risk margin, which reflects the residual risks inherent in the Group's covered businesses, after taking account of prudential margins in the statutory provisions, the required capital and the specific allowance for FOGs.

The risk margin has been determined based on an assessment of the Group's weighted average cost of capital (WACC). This assessment incorporates a beta for the Group, which measures the correlation of movements in the Group's share price to movements in a relevant index. Beta values therefore allow for the market's assessment of the risks inherent in the business relative to other companies in the chosen index.

The WACC is derived from the Group's cost of equity and debt, and the proportion of equity to debt in the Group's capital structure measured using market values. Each of these three parameters should be forward looking, although informed by historic information. The cost of equity is calculated as the risk free rate plus the equity risk premium for the chosen index multiplied by the Company's beta. Forward-looking or adjusted betas make allowance for the observed tendency for betas to revert to 1 and therefore a weighted average of the historic beta and 1 tends to be a better estimate of the Company's beta for the future period. We have computed the WACC using an arithmetical average of forward-looking betas against the FTSE 100 index.

The cost of debt used in the WACC calculations takes account of the actual locked-in rates for our senior and subordinated long term debt. All debt interest attracts tax relief at a rate of 28%.

Whilst the WACC approach is a relatively simple and transparent calculation to apply, subjectivity remains within a number of the assumptions. Management believes that the chosen margin, together with the levels of required capital, the inherent strength of the Group's regulatory reserves and the explicit deduction for the cost of options and guarantees, is appropriate to reflect the risks within the covered business. For these results the risk margin has been maintained at 3.0%.

A similar approach will be adopted when risk margins are reassessed in future periods.

Key assumptions are summarised below:

Risk free rate	Derived from gross redemption yields on relevant gilt portfolio
Equity risk premium	3.0% (UK only)
Property risk premium	2.0% (UK only)
Risk margin	3.0%

Analysis of profit

Operating profit is identified at a level which reflects an assumed longer term level of investment return.

The contribution to operating profit in a period is attributed to four sources:

i. new business;
ii. the management of in-force business;
iii. development costs; and
iv. return on shareholder net worth.

Further profit contributions arise from actual investment return differing from the assumed long term investment return (investment return variances), and from the effect of economic assumption changes.

The contribution from new business represents the value recognised at the end of each period from new business written in that period, after allowing for the actual cost of acquiring the business and of establishing the required technical provisions and reserves and after making allowance for the cost of capital. New business contributions are calculated using closing assumptions.

IV European Embedded Value Methodology (continued)

The contribution from in-force business is calculated using opening assumptions and comprises:

i. expected return - the discount earned from the value of business in-force at the start of the year;

ii. experience variances - the variance in the actual experience over the reporting period from that assumed in the value of business in-force as at the start of the year; and

iii. operating assumption changes - the effects of changes in future assumptions, other than changes in economic assumptions from those used in valuing the business at the start of the year. These changes are made prospectively from the end of the year.

Development costs are associated with investment in building a new enterprise or exceptional development activity over a defined period.

The contribution from shareholder net worth comprises the increase in embedded value based on assumptions at the start of the year in respect of :

i. encumbered assets within the covered business – principally the unwind of the discount rate; and

ii. other assets – the expected investment return.

Further profit contributions arise from actual investment returns differing from the assumed long term investment returns (investment return variances) and from the effect of economic assumption changes.

Investment return variances represent the effect of actual investment performance and changes to investment policy on shareholder net worth and in-force business from that assumed at the beginning of the period.

Economic assumption changes comprise the effect of changes in economic variables on shareholder net worth and in-force business from that assumed at the beginning of the period, which are beyond the control of management, including associated changes to valuation bases to the extent that they are reflected in revised assumptions.

V IFRS basis of preparation

Basis of preparation
The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and as adopted by the European Commission (EC) for use in the European Union. The Group's financial statements also comply with IFRS as issued by the IASB.

The Group presents its balance sheet broadly in order of liquidity. Given the long term nature of the Group's core business, this is considered to be more relevant than a presentation that distinguishes between before or after twelve months. However, for each asset and liability line item which combines amounts expected to be recovered or settled before and after twelve months from the balance sheet date, disclosure of the split is made by way of note.

Financial assets and financial liabilities are disclosed gross in the balance sheet unless a legally enforceable right of offset exists and there is an intention to settle recognised amounts on a net basis. Income and expenses are not offset in the income statement unless required or permitted by any accounting standard or International Financial Reporting Interpretations Committee (IFRIC) interpretation, as detailed in the applicable accounting policies of the Group.

Use of estimates
The preparation of the financial statements includes the use of estimates and assumptions which affect items reported in the consolidated balance sheet and income statement and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management's best knowledge of current circumstances and future events and actions, actual results may differ from those estimates, possibly significantly. They are particularly relevant to the estimation of insurance and investment contract liabilities and associated balances, deferred acquisition costs, pension schemes, deferred tax liabilities and the determination of fair values of unquoted financial investments.

Summary of significant accounting policies
The Group has selected accounting policies which fairly state its financial position and financial performance for a reporting period. The accounting policies have been consistently applied to all years presented, unless otherwise stated.