

26 February 2004

**Legal & General Group Plc**  
**Results for the year ended 31 December 2003**

- **Strong market share growth**
- **Improved profitability**
- **Capital strength reinforced - free asset ratio increased to 12.9%<sup>1</sup>**

	<b>Achieved Profits basis</b>		<b>Modified Statutory Solvency basis</b>	
	<b>2003</b>	<b>Change</b>	<b>2003</b>	<b>Change</b>
Operating profit before tax <sup>2</sup>	£759m	+9%	£555m	+13%
Profit on ordinary activities before tax	£1,117m	N/A	£469m	N/A
Shareholders' funds <sup>3</sup>	£5,596m	+11%	£3,260m	+2%
Earnings per share (diluted) <sup>4</sup>	8.26p	-	5.99p	+4%
Worldwide new business APE <sup>5</sup>	£886m	-2%	£886m	-2%
Contribution from new business <sup>6</sup>	£305m	+22%	N/A	N/A
Group funds under management	£138bn	+19%	£138bn	+19%
Total dividend per share	4.90p	+2.5%	4.90p	+2.5%

Group Chief Executive, David Prosser, said: "Legal & General has again produced significant gains in market share and improved profitability in our core UK retail business despite the tough market conditions. This reflects the strength and breadth of our products and distribution together with our pricing discipline and cost management. The overall growth in profits and the diversity of sources of profit enabled us to maintain our progressive dividend policy.

Our industry continues to consolidate, becoming increasingly focused on those companies that are financially and operationally strong. Our financial strength will be further demonstrated with the publication of a realistic balance sheet in April. This will show that our UK with-profits business has assets comfortably in excess of its realistic liabilities. The Risk Capital Margin is covered at least four times by Society's surplus assets.

Looking ahead, Legal & General has the strengths and market position to continue profitably to build its market share."

Footnotes:

<sup>1</sup>Management's estimate of the Form 9 ratio for UK business based on all Legal & General Assurance Society Ltd (Society) assets including an implicit item of £1bn but without use of the realistic waivers granted by the FSA in 2003.

<sup>2</sup>From continuing operations.

<sup>3</sup>Shareholders' funds after providing for dividends.

<sup>4</sup>Based on operating profit from continuing operations after tax and assuming full dilution from the convertible bond issued in 2001.

<sup>5</sup>Annual Premium Equivalent (APE) is total new annual premiums + 10% of single premiums, including ISAs and unit trusts.

<sup>6</sup>Contribution before tax from new worldwide life and pensions business.

The Achieved Profits highlights are based on the methodology issued by the Association of British Insurers in December 2001. Full details of the results can be found in Parts 2 Achieved Profits (AP), 3 Modified Statutory Solvency basis (MSS) and 4 Legal & General Investment Management.

## **Overview of results - Achieved Profits basis**

Legal & General's UK strategy continues to be focused on providing a broad range of competitive products through multi-channel distribution with good customer service. In a period in which new business volumes declined for the market as a whole, the success of this strategy was reflected by further profitable growth in market share. Our market share of individual new business, including ISAs and unit trusts, has now reached 8.6%.

- The Group's operating profit before tax from continuing operations was £759m (2002: £695m) driven by increased life and pensions profit and an improved result from other operational income.
- The contribution before tax from new life and pensions business grew by 22% to £305m reflecting pricing discipline, a favourable business mix and careful cost management.
- Legal & General Investment Management again delivered impressive results, winning £13.1bn (2002: £14.0bn) of new funds. Operating profit was lower at £80m (2002: £92m).
- In general insurance, all classes of business were profitable again in 2003, but operating profit reduced to £41m (2002: £46m) with a lower release of reserves.
- Group funds under management at the year end grew by 19% to £138bn reflecting both new business success and equity market recovery.
- Shareholders' funds increased to £5,596m (2002: £5,061m), equivalent to 86p per share (2002: 78p per share).
- The Board has recommended a final dividend of 3.33p per share, an increase of 2.5%. The total dividend for the year has, therefore, also increased by 2.5% to 4.90p per share.

## **Analysis of results - Achieved Profits basis**

### **UK life and pensions**

Operating profit was £537m (2002: £501m). The contribution before tax from new business increased by 28% to £271m (2002: £211m). We have again achieved attractive returns on the investment in new business reflecting continued pricing discipline, a favourable business mix and careful cost management. The net of tax return on capital supporting new business grew to 22% (2002: 19%).

The contribution from in-force business was £117m (2002: £134m). This reflected the lower value of in-force business brought forward and the unwind of a lower discount rate. There was a negative impact from operating assumption changes largely relating to the mortgage endowment book, where the tightening of assumptions reflected current persistency. Within our annuity business, assumption changes have been broadly neutral. Favourable mortality experience in our dominant bulk purchase and retained money annuity books has, together with some demographic assumption changes, offset the impact of prudent assumption strengthening on our smaller compulsory purchase annuity business.

### **International life and pensions**

Operating profit from international life and pensions business increased to £83m (2002: £80m), with an unchanged contribution from the USA, despite dollar weakness, and a modest improvement in the results from the Netherlands and France.

#### *USA*

New business in the USA was 7% lower in local currency terms but was 16% lower in sterling terms at £48m APE (2002: £57m). New business volumes were impacted by the move by some competitors away from savings related products, leading them to price term assurance aggressively for a limited period in the latter part of the year.

Legal & General America remains a top 10 provider in the term assurance market for upper income customers.

Operating profit increased 13% in local currency terms but was unchanged in sterling terms at £50m. Mortality experience in our term assurance business improved significantly in 2003 although it remained above the expected level. In response we have strengthened our future mortality assumptions. The impact of this has been offset by improved persistency and unit cost reductions.

#### *Europe*

Our European businesses produced £44m APE including unit trust sales, a 16% increase over the year (2002: £38m). Operating profit increased to £33m (2002: £30m).

#### **Legal & General Investment Management**

Operating profit from external client funds managed by Legal & General Investment Management fell to £80m (2002: £92m). This included a profit of £71m (2002: £83m) from the UK managed pension funds business where the contribution from new business was broadly unchanged but the contribution from in-force business declined to £38m from £45m. The 2002 result benefited from better than assumed business losses and benefit payments whereas 2003 experience was in line with assumptions.

Over the year, Legal & General Investment Management maintained its highly successful track record, winning new funds of £13.1bn (2002: £14.0bn). This result, which included increased volumes of active bond business, has ensured that our record of averaging over £1bn of new UK pension fund investment business per month has now extended over six years.

Funds managed by Legal & General Investment Management grew by 18% over the year to £135bn reflecting both new business success and equity market recovery.

#### **General insurance**

Net written premiums grew 27% to £387m (2002: £304m) as the existing joint venture with the Woolwich was extended to Barclays' customers. All classes of business have been profitable again in 2003, but operating profit reduced to £41m (2002: £46m). The household account, which represented 80% of net premiums written, produced an operating profit of £17m (2002: £18m), despite increased subsidence claims of £25m (2002: £9m) following the exceptionally dry summer.

#### **Other operational income**

Other operational income comprises the longer term investment return arising from investments held outside the UK Long Term Fund, interest expense, the results of the Group's other operations and unallocated corporate expenses.

The 2003 result of £18m (2002: £24m loss) included a full year's benefit from the investment return on the proceeds of the 2002 Rights Issue. The additional return was partly offset by the full year impact of increased interest expense on a higher level of shareholder debt taken on in 2002. The 2003 result also included a lower reported loss from our retail investment business where lower fee income in the first half was offset by operational cost savings in the second half of the year.

#### **Profit on ordinary activities**

The Group's operating profit from continuing operations before tax was £759m (2002: £695m). The profit on ordinary activities before tax of £1,117m (2002: £450m loss) included the variation in investment return from the longer term return assumed at the end of the previous year, together with economic assumption changes. The positive investment return variation of £424m (2002: negative variation of £1,174m) reflected the recovery in equity markets. The largest impact came from UK life and pensions, where the investment return on the UK long term fund equity and property portfolio was 11.4% above the assumption for the period (2002: 23.4% below assumption).

The effect of economic assumption and budget tax changes together resulted in a decrease of £59m, compared with a £6m decrease for economic assumption changes in 2002.

### **Balance sheet**

At 31 December 2003, the embedded value of the Group's long term businesses was £5,215m (2002: £4,779m). Shareholders' funds on the Achieved Profits basis increased to £5,596m (2002: £5,061m), equivalent to 86p per share (2002: 78p per share).

### **Overview of results - Modified Statutory Solvency (MSS) basis**

Operating profit before tax from continuing operations grew by 13% to £555m (2002: £493m), with improvements in most areas. The profit on ordinary activities before tax was £469m (2002: £106m loss).

The UK life and pensions operating profit before tax was broadly unchanged at £369m (2002: £366m), despite a reduced contribution from with-profits business as a consequence of lower levels of bonuses. The accrued transfer from non-profit business has been calculated as a smoothed investment return on the shareholder net worth and the embedded value of non-profit business, augmented by the distribution in respect of the intra-group subordinated debt capital attributed to the shareholder retained capital. The external servicing cost of that debt has been reflected in interest expense reported within other operational income.

Results for the USA and the Netherlands have benefited from strong growth in the book of business over recent years.

The contribution from shareholder retained capital in the UK Long Term Fund was negative £137m (2002: negative £571m). This reflected significantly better investment returns, the net capital invested to support our growing non-profit book and an increased transfer to shareholders from this business. The net capital invested reflected new business strain partly offset by the release of capital and strain from non-profit business. The net capital invested was further increased by some additional reserving for compulsory purchase annuities and by the impact of tactical investment actions taken at the year end, which had the effect of reducing the statutory valuation rate of interest.

### **Capital strength**

Legal & General Assurance Society Limited (Society), the Group's main UK operating subsidiary, continues to be highly rated by the major rating agencies and is one of the top two major European life insurers in terms of financial strength.

Management's estimate of the Form 9 free asset ratio for Society's UK long term business, including an implicit item, was 12.9% at 31 December 2003 (2002: 12.1%).

Society's returns to the FSA for 2003 will be submitted at the end of March and will include a balance sheet, constructed on realistic principles, for our UK with-profits business. Further details will be provided early in April, but at this stage we are confident that our UK with-profits business has assets comfortably in excess of its realistic liabilities. The Risk Capital Margin is covered at least four times by Society's surplus assets.

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Notes:

1. The statements in Part 2 of this release have been prepared in all material aspects in accordance with the methodology for Supplementary Accounting for long term insurance business (The Achieved Profits Method) issued in December 2001 by the Association of British Insurers. This methodology sets out a more realistic method for recognising shareholders' profits from long term business than the MSS basis contained in Part 3. These financial statements have been reviewed by PricewaterhouseCoopers and prepared in conjunction with our consulting actuaries - Tillinghast Towers-Perrin and, in the USA, Milliman USA.
2. The annual report will be sent to shareholders on 23 March 2004 and delivered to the Registrar of Companies after the Annual General Meeting on 28 April 2004.
3. Issued share capital at 31 December 2003: 6,503,861,912 shares of 2.5p each.
4. A copy of this announcement can be found in the News and Results section of our Shareholder web site at <http://investor.legalandgeneral.com/releases.cfm>
5. A presentation of the results will be made to analysts and fund managers at Temple Court, 11 Queen Victoria Street, London EC4N 4TP at 9.30 today. A webcast of the presentation to analysts and fund managers will be available later today at <http://investor.legalandgeneral.com/presentations.cfm>
6. There will be a conference call for investors chaired by Andrew Palmer, Group Director (Finance) at 15.00 UK time. Please access the conference call by dialling +44 (0)1452 542 300. Investors in the USA may call 1866 220 1452.
7. A recording of this call will be available for one week at +44 (0)1452 550 000 (in the USA call 1866 247 4222). The access number is 1044844#.
8. Financial Calendar:

Ex dividend date for 2003 final dividend	31 March 2004
Record date for 2003 final dividend	2 April 2004
AGM and first quarter new business	28 April 2004
Payment date for 2003 final dividend	4 May 2004
Interim results / second quarter new business	29 July 2004
Ex dividend date for interim dividend	8 September 2004
Record date for interim dividend	10 September 2004
Payment date for interim dividend	1 October 2004
9. A Dividend Re-investment Plan is available to shareholders. Details and a mandate form can be found at <http://investor.legalandgeneral.com/drip.cfm>

## Part 2

# Legal & General Group Plc

P1

## Consolidated Profit and Loss Account - Achieved Profits basis

Year ended 31 December 2003

	Notes	2003 £m	2002 £m
<i>Profit on continuing operations</i>			
Life and pensions	1	620	581
Institutional fund management		80	92
General insurance	5	41	46
Other operational income	6	18	(24)
<b>Operating profit on continuing operations</b>		<b>759</b>	<b>695</b>
<i>Profit on discontinued operations</i>			
Other operational income - Banking		-	4
<b>Operating profit</b>		<b>759</b>	<b>699</b>
Variation from longer term investment return	8	424	(1,174)
Change in equalisation provision		(7)	(5)
Effect of economic assumption changes	9	(32)	(6)
Effect of UK Budget tax changes	10	(27)	-
Profit on sale of Banking operations	11	-	36
<b>Profit/(loss) on ordinary activities before tax</b>		<b>1,117</b>	<b>(450)</b>
Tax charge on operating profit		(209)	(197)
Tax (charge)/credit on other profits/(losses)		(49)	224
Tax (charge)/credit on profit/(loss) on ordinary activities		(258)	27
<b>Profit/(loss) for the financial period</b>		<b>859</b>	<b>(423)</b>
Dividends		(318)	(297)
<b>Retained profit/(loss)</b>		<b>541</b>	<b>(720)</b>
<b>Earnings per share</b>		<b>p</b>	<b>p</b>
Based on operating profit after tax on continuing operations		8.47	8.50
Based on profit/(loss) for the financial period		13.24	(7.21)
<b>Diluted earnings per share</b>			
Based on operating profit after tax on continuing operations		8.26	8.28
Based on profit/(loss) for the financial period		12.83	(7.21)
<b>Dividend per share</b>		<b>4.90</b>	<b>4.78</b>

These financial statements were approved by the Board on 25 February 2004 and have been prepared for long term business using the Achieved Profits (AP) basis. The Modified Statutory Solvency (MSS) results are included in Part 3. The results constitute non-statutory accounts within the meaning of Section 240 of the Companies Act 1985.

## Consolidated Balance Sheet - Achieved Profits basis

Year ended 31 December 2003

	Notes	At 31.12.03 £m	At 31.12.02 Restated * £m
<i>Assets</i>			
Investments	12	35,280	32,442
Assets held to cover linked liabilities		84,308	69,723
Long term in-force business asset		2,365	1,916
Other assets		5,320	4,489
		<b>127,273</b>	<b>108,570</b>
<i>Liabilities</i>			
Shareholders' funds	14	5,596	5,061
Fund for future appropriations		1,498	516
Technical provisions			
- Technical provisions for linked liabilities		83,730	67,834
- Long term business provisions		33,206	30,679
- General insurance provisions		405	345
		<b>117,341</b>	<b>98,858</b>
Borrowings	15	1,475	1,589
Other creditors		1,363	2,546
		<b>127,273</b>	<b>108,570</b>

\* Prior year comparative figures have been adjusted to reclassify Institutional pension fund temporary monies as Other creditors rather than as Technical provisions for linked liabilities. There is no adjustment to the reported results.

## Statement of Total Recognised Gains and Losses

	At 31.12.03 £m	At 31.12.02 £m
Profit/(loss) for the financial period	859	(423)
Exchange losses	(7)	(5)
<b>Total recognised gains and losses</b>	<b>852</b>	<b>(428)</b>

## Notes to Financial Statements - Achieved Profits basis

Year ended 31 December 2003

### 1. Operating profit from long term business

	UK £m	International £m	Life and pensions Total £m	Managed pension funds* £m	Total £m
<b>Year ended 31.12.03</b>					
Contribution from:					
New business	271	34	305	31	336
In-force business					
- expected return	215	45	260	13	273
- experience variances **	9	(8)	1	5	6
- operating assumption changes **	(107)	1	(106)	20	(86)
Development costs	(2)	-	(2)	(1)	(3)
Shareholder net worth	151	11	162	3	165
<b>Operating profit</b>	<b>537</b>	<b>83</b>	<b>620</b>	<b>71</b>	<b>691</b>
<b>Year ended 31.12.02</b>					
Contribution from:					
New business	211	38	249	32	281
In-force business					
- expected return	264	46	310	15	325
- experience variances **	(25)	(18)	(43)	14	(29)
- operating assumption changes **	(105)	1	(104)	16	(88)
Development costs	(3)	-	(3)	(1)	(4)
Shareholder net worth	159	13	172	7	179
<b>Operating profit</b>	<b>501</b>	<b>80</b>	<b>581</b>	<b>83</b>	<b>664</b>

\* Included in the Institutional fund management result of £80m (2002: £92m).

\*\* The largest impact on UK life and pensions business in 2003 was from the tightening of future persistency assumptions and the strengthening of provisions for claims on the endowment book, and in 2002, was from an improvement in annuitant mortality and other related demographic assumption changes.



## Notes to Financial Statements - Achieved Profits basis

Year ended 31 December 2003

### 2. Life and pensions gross premiums and operating profit

	2003 Premiums written £m	2003 Operating profit £m	2002 Premiums written £m	2002 Operating profit £m
UK	4,541	537	4,229	501
USA	292	50	285	50
Netherlands	155	24	137	23
France	171	9	153	7
	<b>5,159</b>	<b>620</b>	<b>4,804</b>	<b>581</b>

International life and pensions gross premiums and operating profit for 2002 expressed at 31 December 2003 exchange rates are:

	Premiums written £m	Operating profit £m
USA	256	45
Netherlands	148	25
France	165	8

### 3. Sterling exchange rates used

	31.12.03	31.12.02
United States dollar	1.79	1.61
Euro	1.42	1.53

### 4. Half yearly analysis of operating profit from continuing operations

	2003		2002	
	Second half £m	First half £m	Second half £m	First half £m
Life and pensions	314	306	268	313
Institutional fund management	43	37	52	40
General insurance	22	19	24	22
Other operational income	15	3	(11)	(13)
Total	<b>394</b>	<b>365</b>	<b>333</b>	<b>362</b>

### 5. General insurance net premiums and operating profit

	2003 Premiums written £m	2003 Operating profit £m	2002 Premiums written £m	2002 Operating profit £m
Household	308	17	231	18
Other business	79	24	73	28
Total	<b>387</b>	<b>41</b>	<b>304</b>	<b>46</b>

## Notes to Financial Statements - Achieved Profits basis

Year ended 31 December 2003

### 6. Other operational income

	2003 £m	2002 £m
Shareholders' other income		
- Investment return on shareholders' funds	100	54
- Interest expense	(58)	(52)
	<hr/> 42	<hr/> 2
Other operations	(14)	(14)
Unallocated corporate and development expenses	(10)	(12)
	<hr/> 18	<hr/> (24)

### 7. General insurance and shareholders' investment return

	2003 £m	2002 £m
Investment income	82	57
Interest expense and charges	(60)	(52)
Realised investment losses	(8)	(6)
Unrealised investment appreciation/(depreciation)	104	(42)
	<hr/> 118	<hr/> (43)
reported within:		
General insurance	18	18
Other operational income	42	2
Variation from longer term investment return		
- General insurance	5	(21)
- Other operational income	53	(42)
	<hr/> 58	<hr/> (63)

The investment return shown represents the return on the General insurance and Corporate funds. Shareholders' other income, reported within Other operational income, has been allocated based on a longer term rate of investment return with the variation from the actual return being reported as Variation from longer term investment return.

## Notes to Financial Statements - Achieved Profits basis

Year ended 31 December 2003

### 8. Variation from longer term investment return

	2003 £m	2002 £m
Life and pensions		
- UK	346	(1,045)
- International	4	(18)
	<hr/>	<hr/>
Total life and pensions	350	(1,063)
Managed pension funds	16	(48)
	<hr/>	<hr/>
Total long term business	366	(1,111)
General insurance	5	(21)
Other operational income	53	(42)
	<hr/>	<hr/>
	424	(1,174)
	<hr/>	<hr/>

For long term business, the variation from longer term investment return represents the effect of the investment performance in respect of shareholder net worth and in-force business, compared with embedded value assumptions at the beginning of the period.

### 9. Effect of economic assumption changes

	2003 £m	2002 £m
Life and pensions		
- UK	(16)	(14)
- International	(16)	8
	<hr/>	<hr/>
Total	(32)	(6)

### 10. Effect of UK Budget tax changes

Changes in the 2003 Budget to the corporation tax rates applicable to the policyholders' share of certain income and gains reduced the UK life and pensions embedded value by £19m. The effect has been reported as a charge before tax of £27m.

### 11. Sale of Banking operations

The sale of Legal & General Bank Ltd and Legal & General Mortgage Services Ltd, two wholly owned subsidiaries, to Northern Rock plc, was completed on 1 August 2002. The results to the date of sale have been reported as discontinued business. This transaction resulted in an exceptional profit before tax in 2002 of £36m (£36m after tax) and generated net proceeds of £133m.

## Notes to Financial Statements - Achieved Profits basis

Year ended 31 December 2003

### 12. Funds under management

	At 31.12.03 £m	At 31.12.02 £m
Land and buildings	4,228	3,589
Shares, variable yield securities and unit trusts	11,325	10,139
Debt and other fixed income securities	18,277	15,977
Loans secured by mortgages	183	204
Other loans and investments	86	144
Deposits with credit institutions	1,181	2,389
<b>Total investments</b>	<b>35,280</b>	<b>32,442</b>
Assets held to cover linked liabilities	84,308	69,723
<b>Funds included in the consolidated balance sheet</b>	<b>119,588</b>	<b>102,165</b>
Segregated funds	11,235	8,970
Unit trusts, ISAs and PEPs	6,975	5,117
<b>Total funds under management</b>	<b>137,798</b>	<b>116,252</b>
representing:		
Managed in the UK		
- Active	42,214	36,018
- Index tracking	92,047	76,855
- For overseas subsidiaries	1,076	1,119
	135,337	113,992
Other including managed overseas	2,461	2,260
	137,798	116,252
including Institutional funds under management:		
Managed pension funds		
- Pooled	72,841	60,397
- Segregated	8,522	6,308
	81,363	66,705
Other funds	2,713	2,662
	84,076	69,367

The reported asset mix shown above does not reflect the use of derivatives. The effect of outstanding futures contracts is to change the mix as if the value reported for shares, variable yield securities and unit trusts increased by £46m (2002: £631m); deposits would be changed by corresponding amounts. The effect of other derivatives is not considered significant enough to be disclosed.

## Notes to Financial Statements - Achieved Profits basis

Year ended 31 December 2003

### 13. Embedded value

	UK £m	International £m	Life and pensions Total £m	Managed pension funds £m	Total £m
<b>Year ended 31.12.03</b>					
At 1 January	3,876	641	4,517	262	4,779
Exchange rate movements	-	(37)	(37)	-	(37)
	<b>3,876</b>	<b>604</b>	<b>4,480</b>	<b>262</b>	<b>4,742</b>
Profit after tax	636	47	683	61	744
Capital movements	-	6	6	-	6
Distributions	(259)	-	(259)	(18)	(277)
At 31 December	<b>4,253</b>	<b>657</b>	<b>4,910</b>	<b>305</b>	<b>5,215</b>
comprising:					
Value of in-force business	2,668	429	3,097	162	3,259
Shareholder net worth *	1,585	228	1,813	143	1,956
	<b>4,253</b>	<b>657</b>	<b>4,910</b>	<b>305</b>	<b>5,215</b>
<b>Year ended 31.12.02</b>					
At 1 January	4,432	633	5,065	252	5,317
Exchange rate movements	-	(36)	(36)	-	(36)
	4,432	597	5,029	252	5,281
(Loss)/profit after tax	(502)	45	(457)	25	(432)
Capital movements **	203	(1)	202	-	202
Distributions	(257)	-	(257)	(15)	(272)
At 31 December	<b>3,876</b>	<b>641</b>	<b>4,517</b>	<b>262</b>	<b>4,779</b>
comprising:					
Value of in-force business	2,153	408	2,561	132	2,693
Shareholder net worth *	1,723	233	1,956	130	2,086
	<b>3,876</b>	<b>641</b>	<b>4,517</b>	<b>262</b>	<b>4,779</b>

\* For the UK life and pensions business, shareholder net worth comprises the shareholder retained capital (SRC) on the MSS basis, adjusted for deferred acquisition costs, and the sub-fund, both net of an appropriate allowance for tax. It also includes intra-group subordinated debt capital of £602m (2002: £602m).

\*\* Capital movements for 2002 include the increase in subordinated debt of £100m together with £114m representing proceeds from the sale of Legal & General Bank Limited allocated to the SRC.

## Notes to Financial Statements - Achieved Profits basis

Year ended 31 December 2003

### 13. Embedded value (continued)

#### Reconciliation of in-force business

	At 31.12.03 £m	At 31.12.02 £m
<b>Long term in-force business asset included in the balance sheet</b>	<b>2,365</b>	1,916
Sub-fund	(223)	(189)
Deferred acquisition costs	709	613
Deferred tax on contribution *	366	323
Other miscellaneous adjustments	42	30
<b>Value of in-force business</b>	<b>3,259</b>	2,693

#### Reconciliation of shareholder net worth of long term business operations

- UK (SRC) **	2,212	2,259
- USA	443	453
- Netherlands	36	24
- France	45	36
- Managed pension funds	143	130
<b>Shareholder net worth on the MSS basis</b>	<b>2,879</b>	2,902
Purchased interests in long term business	(29)	(39)
Sub-fund	223	189
Deferred acquisition costs	(709)	(613)
Deferred tax on contribution *	(366)	(323)
Other miscellaneous adjustments	(42)	(30)
<b>Shareholder net worth on the AP basis</b>	<b>1,956</b>	2,086

The above reconciliations are provided in the spirit of the guidance provided by the Auditing Practices Board to auditors. It has been concluded that the AP and MSS accounting bases are so fundamentally different in the way that profits are cast, particularly as to the timing of profit recognition, that it is not meaningful to provide a reconciliation between them. Other than in respect of long term business, shareholder net worth is identical for both AP and MSS business.

\* Deferred tax represents all tax which is expected to be paid under current legislation, including tax which would arise if shareholders' backing assets were eventually distributed.

\*\* Including £602m (2002: £602m) of intra-group subordinated debt capital attributed to the SRC.

## Notes to Financial Statements - Achieved Profits basis

Year ended 31 December 2003

### 14. Shareholders' funds

#### Segmental analysis

	At 31.12.03 £m	At 31.12.02 £m
Embedded value of life and pensions businesses:		
- UK *	4,253	3,876
- USA	460	486
- Netherlands	112	87
- France	85	68
	<b>4,910</b>	4,517
Institutional fund management **	338	293
	<b>5,248</b>	4,810
General insurance	120	101
Corporate funds ***	228	150
	<b>5,596</b>	5,061
<i>Movement</i>		
At 1 January	5,061	4,994
Profit/(loss) for the financial period	859	(423)
Exchange movements	(7)	(5)
Dividends	(318)	(297)
Increase in share capital/share premium	1	792
	<b>5,596</b>	5,061

\* Includes £602m (2002: £602m) of intra-group subordinated debt capital attributed to the SRC.

\*\* Includes £305m (2002: £262m) net assets of managed pension funds business.

\*\*\* Includes £518m (2002: £516m) of convertible debt, £602m (2002: £602m) of senior debt which has been onlent to the Long Term Fund (LTF) and £788m representing the net proceeds from the 2002 Rights Issue.

### 15. Borrowings

	At 31.12.03 £m	At 31.12.02 £m
2.75% Convertible bond 2006	518	516
Medium Term Notes 2031-2041	597	597
Medium Term Notes 2004	6	369
Commercial paper 2004	352	89
Bank loans 2004	2	18
	<b>1,475</b>	1,589

The convertible bond matures in 2006 and is convertible into ordinary shares of the Company at 184p per share. If converted, this bond would give rise to the issue of 285.3m new ordinary shares which represents approximately 4.4% of the current issued share capital.

## Notes to Financial Statements - Achieved Profits basis

Year ended 31 December 2003

### 16. Embedded value assumptions UK life and pensions

i) 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. The corresponding return on equities and property and the risk discount rate have been set by reference to the fixed interest gilt assumption. The economic assumptions were:

	At 31.12.03 % p.a.	At 31.12.02 % p.a.
<i>Investment return</i>		
- Gilts		
- Fixed interest	4.7	4.5
- RPI linked	4.6	4.4
- Non-gilts		
- Fixed interest	5.1 - 5.5	4.9 - 5.8
- RPI linked	5.1 - 5.4	4.8 - 5.3
- Equities and property	7.3	7.1
<i>Risk discount rate (after tax)</i>	7.2	7.0
<i>Inflation</i>		
- Expenses/earnings	3.8	3.3
- Indexation	2.8	2.3

The assumed returns on non-gilt securities are net of an allowance for default risk of 0.20% p.a. (2002: 0.20% p.a.), other than for certain government-supported securities where no such allowance is made.

ii) Assets are valued at market value. For the projection of fixed interest and RPI linked investment returns, asset values are adjusted to reflect the assumed interest and inflation rates.

iii) Capital reported as transferred into the LTF since 1996, in the form of subordinated debt and any remaining excess consideration over the net asset value of subsidiaries transferred from the LTF in December 2001, is treated as residual.

iv) The value of the sub-fund is the discounted value of projected investment returns for a period of 20 years (2002: 20 years).

v) Development costs relate to the development of strategic administration systems.

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



## Notes to Financial Statements - Achieved Profits basis

Year ended 31 December 2003

### 16. Embedded value assumptions (continued)

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

viii) Other actuarial assumptions have been set at levels commensurate with recent operating experience, including those for mortality, persistency and maintenance expenses (excluding the development costs referred to above). These assumptions are reviewed annually. An allowance is made for future improvements in annuitant mortality based on externally published data. For end 2003, male annuitant mortality is assumed to improve in accordance with CMI Working Paper 1, projection SC for experience and projection MC for statutory reserving. Female annuitant mortality is assumed to improve in accordance with CMI Report No. 17.

ix) Business in force comprises previously written single premium, regular premium and recurrent single premium contracts. For this purpose, DWP rebates have not been treated as recurrent and their value is included as premiums are received.

x) Projected tax has been determined assuming current tax legislation and rates.

xi) AP results are computed on an after tax basis and are grossed up to the pre-tax level for presentation in the profit and loss account. The tax rate used for grossing up is the corporation tax rate of 30% (2002: 30%), except for the profit attributable to shareholder net worth, where the rate used is derived from the tax attributed to the contribution from shareholder net worth in the MSS accounts. To arrive at operating profit, the contribution from shareholder net worth is grossed up at a rate to reflect the tax associated with a longer term investment return.

### UK managed pension funds

The UK life and pensions economic assumptions are used. All contracts are assumed to lapse after 10 years. 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

Key assumptions are:

	At 31.12.03 % p.a.	At 31.12.02 % p.a.
<b>USA</b>		
Reinvestment rate	<b>4.8</b>	4.8
Risk discount rate (after tax)	<b>6.8</b>	6.4
<b>Europe</b>		
Government bond return	<b>4.5</b>	4.5
Risk discount rate (after tax)	<b>8.0</b>	8.0

## Notes to Financial Statements - Achieved Profits basis

Year ended 31 December 2003

### 17. Alternative assumptions

The discount rate appropriate to any investor will depend on the investor's own requirements, tax and perception of the risks associated with the anticipated cash flows to shareholders. The table below shows the effect of alternative discount rates and equity and property yields on the UK life and pensions embedded value and new business contribution for the period.

	As published	1% lower risk discount rate	1% higher risk discount rate	1% higher equities/property yields
	£m	£m	£m	£m
Effect on embedded value at 31 December 2003	4,253	+260	-230	+230
Effect on new business contribution for the period	271	+37	-33	+20

It should be noted that in calculating the alternative values all other assumptions are left unchanged.

## Notes to Financial Statements - Achieved Profits Basis

Year ended 31 December 2003

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### 18. 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.

On 27th November 2003, Legal & General Assurance Society Limited ("the Society") referred to the Financial Services and Markets Tribunal ("Tribunal") a Decision Notice issued by the FSA in relation to the sale of a small proportion of its mortgage related endowment policies issued between 1997 and 1999 ("Notice"). The matters contained in the Notice will be determined by the Tribunal later this year.

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 liabilities may give rise. The relevant members of the Group nevertheless consider that each makes prudent provision for such liabilities, 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 the 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.

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.

## New business

Year ended 31 December 2003

Life and pensions	2003		2002	
	Annual £m	Single £m	Annual £m	Single £m
<i>Insurance business</i>				
Life	183	1,126	171	1,431
Pensions	118	1,783	169	1,249
UK	301	2,909	340	2,680
USA	47	10	57	3
Netherlands	12	96	10	87
France	7	124	5	111
	66	230	72	201
<b>Insurance total</b>	<b>367</b>	<b>3,139</b>	<b>412</b>	<b>2,881</b>
<i>Retail investment business</i>				
UK	33	1,689	51	1,522
France	-	25	-	32
<b>Total new business</b>	<b>400</b>	<b>4,853</b>	<b>463</b>	<b>4,435</b>

International insurance new business for 2002 expressed at 31 December 2003 exchange rates

	Annual £m	Single £m
USA	51	3
Netherlands	11	94
France	6	120
	68	217

Annual Premium Equivalent (APE) is calculated for total new business, including unit trusts and ISAs but excluding institutional fund management, and comprises the new annual premiums together with 10% of single premiums.

APE from insurance business was £681m (2002: £700m); APE from total new business in the same period has decreased to £886m (2002: £906m).

	2003 £m	2002 £m
<i>Institutional fund management</i>		
Managed pension funds *		
- Pooled funds	11,066	12,359
- Segregated funds	1,504	1,039
- Limited partnerships	242	167
	12,812	13,565
Other funds	240	402
	13,052	13,967

\* New monies from pension fund clients of Legal & General Assurance (Pensions Management) Ltd. Corporate pensions gross new business excludes £4.0bn (2002: £2.1bn) which was held through the year on a temporary basis, generally as part of portfolio reconstruction.

## New business

Year ended 31 December 2003

	Full year £m	2003 Second half £m	First half £m	Full year £m	2002 Second half £m	First half £m
<b>UK annual premiums</b>						
<i>Insurance business</i>						
Life						
- Mortgage-related	103	55	48	96	47	49
- Protection	46	23	23	45	23	22
- Group risk	34	21	13	30	16	14
Pensions						
- Individual pensions	114	57	57	162	69	93
- Group pensions	4	2	2	7	3	4
	<b>301</b>	<b>158</b>	<b>143</b>	<b>340</b>	<b>158</b>	<b>182</b>
<i>Retail investment business</i>						
ISAs	27	12	15	44	18	26
Unit trusts	6	2	4	7	2	5
<b>Total</b>	<b>334</b>	<b>172</b>	<b>162</b>	<b>391</b>	<b>178</b>	<b>213</b>
<b>UK single premiums</b>						
<i>Insurance business</i>						
Bonds						
- With-profits	593	264	329	1,172	507	665
- Other	533	347	186	259	148	111
Pensions						
- Individual pensions	274	109	165	283	133	150
- Annuities - individual	727	413	314	434	249	185
- Annuities - bulk purchase	598	231	367	307	132	175
- Other group business	5	2	3	66	38	28
- DWP rebates	179	142	37	159	116	43
	<b>2,909</b>	<b>1,508</b>	<b>1,401</b>	<b>2,680</b>	<b>1,323</b>	<b>1,357</b>
<i>Retail investment business</i>						
ISAs	572	179	393	720	184	536
Unit trusts	1,117	485	632	802	333	469
<b>Total</b>	<b>4,598</b>	<b>2,172</b>	<b>2,426</b>	<b>4,202</b>	<b>1,840</b>	<b>2,362</b>
<b>UK APE</b>						
Individual life and pensions	494	263	231	534	255	279
Retail investments	202	80	122	203	72	131
<i>by channel</i>						
- Independent financial advisers	382	194	188	340	160	180
- Business partnerships	252	129	123	302	138	164
- Business partnerships direct	27	8	19	44	15	29
- Direct	35	12	23	51	14	37
<b>Total UK individual</b>	<b>696</b>	<b>343</b>	<b>353</b>	<b>737</b>	<b>327</b>	<b>410</b>
Group	98	46	52	74	35	39
<b>Total</b>	<b>794</b>	<b>389</b>	<b>405</b>	<b>811</b>	<b>362</b>	<b>449</b>

# Part 3

## Legal & General Group Plc

P1

### Consolidated Profit and Loss Account - Modified Statutory Solvency Basis

Year ended 31 December 2003

	Notes	2003 £m	2002 £m
<i>Profit on continuing operations</i>			
Life and pensions	1	443	421
Institutional fund management		53	50
General insurance		41	46
Other operational income		18	(24)
<b>Operating profit on continuing operations</b>		<b>555</b>	<b>493</b>
<i>Profit on discontinued operations</i>			
Other operational income - Banking		-	4
<b>Operating profit</b>		<b>555</b>	<b>497</b>
Variation from longer term investment return		58	(63)
Change in equalisation provision		(7)	(5)
Shareholder retained capital (SRC) contribution	2	(137)	(571)
Profit on sale of banking operations		-	36
<b>Profit/(loss) on ordinary activities before tax</b>		<b>469</b>	<b>(106)</b>
Tax charge on operating profit		(160)	(148)
Tax credit on other losses		95	74
Tax charge on profit/(loss) on ordinary activities		(65)	(74)
<b>Profit/(loss) for the financial period</b>		<b>404</b>	<b>(180)</b>
Dividends		(318)	(297)
<b>Retained profit/(loss)</b>		<b>86</b>	<b>(477)</b>
<i>Earnings per share</i>			
Based on operating profit after tax on continuing operations		6.09	5.88
Based on profit/(loss) for the financial period		6.22	(3.07)
<i>Diluted earnings per share</i>			
Based on operating profit after tax on continuing operations		5.99	5.78
Based on profit/(loss) for the financial period		6.12	(3.07)
<i>Dividend per share</i>		4.90	4.78

These financial statements were approved by the Board on 25 February 2004 and have been prepared for long term business using the Modified Statutory Solvency (MSS) basis. The Achieved Profits (AP) results are included in Part 2.

The results constitute non statutory accounts within the meaning of Section 240 of the Companies Act 1985 and are extracted from the Company's financial statements for the year ended 31 December 2003. The financial statements include the auditor's unqualified report and do not contain a statement under either Sections 237(2) or 237(3) of the Companies Act 1985.

## Consolidated Balance Sheet - Modified Statutory Solvency Basis

Year ended 31 December 2003

	Notes	At 31.12.03 £m	At 31.12.02 Restated * £m
<i>Assets</i>			
Investments		<b>35,280</b>	32,442
Assets held to cover linked liabilities		<b>84,308</b>	69,723
Other assets		<b>5,349</b>	4,528
		<b>124,937</b>	106,693
<i>Liabilities</i>			
Shareholders' funds	3	<b>3,260</b>	3,184
Fund for future appropriations		<b>1,498</b>	516
Technical provisions		<b>117,341</b>	98,858
Borrowings and other creditors		<b>2,838</b>	4,135
		<b>124,937</b>	106,693

\* Prior year comparative figures have been adjusted to reclassify Institutional pension fund temporary monies as Borrowings and other creditors rather than as Technical provisions. There is no adjustment to the reported results.

## Statement of Total Recognised Gains and Losses

	At 31.12.03 £m	At 31.12.02 £m
Profit/(loss) for the financial period	<b>404</b>	(180)
Exchange losses	<b>(11)</b>	(8)
<b>Total recognised gains and losses</b>	<b>393</b>	(188)

## Notes to Financial Statements - Modified Statutory Solvency Basis

Year ended 31 December 2003

### 1. Life and pensions operating profit

	2003 £m	2002 £m
With-profits business	74	91
Non-profit business	295	275
	<hr/>	<hr/>
UK	369	366
USA	57	52
Netherlands	17	8
France	0	(5)
	<hr/>	<hr/>
	<b>443</b>	<b>421</b>
	<hr/>	<hr/>

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

### 2. Change in SRC

	2003 £m	2002 £m
Investment income	73	60
Interest expense and charges	(2)	(2)
Realised investment gains/(losses)	20	(23)
Unrealised investment appreciation/(depreciation)	230	(377)
	<hr/>	<hr/>
<b>Investment return on SRC</b>	<b>321</b>	<b>(342)</b>
Net capital (invested in)/released from non-profit business	(163)	46
Distribution of operating profit from non-profit business	(295)	(275)
	<hr/>	<hr/>
<b>SRC contribution before tax</b>	<b>(137)</b>	<b>(571)</b>
	<hr/>	<hr/>
SRC at 1 January	2,259	2,631
SRC contribution before tax	(137)	(571)
Tax credit	90	63
	<hr/>	<hr/>
SRC contribution after tax	(47)	(508)
Change in the net asset values of SRC subsidiaries	0	36
Movement in intra-group subordinated debt	0	100
	<hr/>	<hr/>
<b>SRC at end of period</b>	<b>2,212</b>	<b>2,259</b>
	<hr/>	<hr/>

SRC includes intra-group subordinated debt capital of £602m (2002: £602m).



## Notes to Financial Statements - Modified Statutory Solvency Basis

Year ended 31 December 2003

### 3. Shareholders' funds

	At 31.12.03	At 31.12.02
	£m	Restated £m
At 1 January	<b>3,184</b>	2,877
Total recognised gains and losses	<b>393</b>	(188)
Dividends	<b>(318)</b>	(297)
Increase in share capital/premium	<b>1</b>	792
	<hr/>	<hr/>
At 31 December	<b>3,260</b>	3,184
	<hr/>	<hr/>
Comprising:		
Share capital	<b>163</b>	163
Share premium	<b>906</b>	905
Profit and loss account	<b>2,191</b>	2,116
	<hr/>	<hr/>
	<b>3,260</b>	3,184
	<hr/>	<hr/>

The number of fully paid ordinary shares of 2.5p in issue at the period end was 6,504m (2002: 6,502m).

The weighted average number of shares used for calculating earnings per share was 6,490m (2002: 5,868m), diluted 6,790m (2002: 6,167m).

### 4. Tax

Although the SRC has been recognised as profit in these financial statements, there has been no corresponding recognition in the FSA regulatory returns, on which the taxation of life assurance business is currently based. As the payment of incremental tax on this profit depends upon a future event, the occurrence of which is under the company's control, no event giving rise to the need to provide deferred tax has occurred. Accordingly no additional deferred tax has been provided. The maximum amount of such deferred tax not provided was £668m (2002: £655m).

## Notes to Financial Statements - Modified Statutory Solvency Basis

Year ended 31 December 2003

### 5. Segmental analysis of shareholders' funds

	At 31.12.03 £m	At 31.12.02 £m
UK solvency capital		
SRC *	2,212	2,259
General insurance	120	101
Other **	1,905	1,767
UK solvency capital	4,237	4,127
International shareholders' funds		
- USA	443	453
- Netherlands	36	24
- France	45	36
	524	513
Institutional fund management	176	161
Corporate funds ***	(1,677)	(1,617)
<b>Shareholders' funds on the MSS basis</b>	<b>3,260</b>	<b>3,184</b>
Less: Purchased interests in long term business included in above	(29)	(39)
AP long term in-force business asset	2,365	1,916
<b>Shareholders' funds on the AP basis</b>	<b>5,596</b>	<b>5,061</b>

\* Including £602m (2002: £602m) of intra-group subordinated debt capital attributed to the SRC.

\*\* Includes the net proceeds of £788m from the 2002 rights issue.

\*\*\* Corporate funds include the senior debt of £602m (2002: £602m) which has been onlent to the UK Long Term Fund and the convertible debt of £518m (2002: £516m).

### 6. UK Long Term Fund

	At 31.12.03 £bn	At 31.12.02 £bn
With-profits business	25.3	23.0
Non-profit business	14.3	11.6
Sub-fund	0.2	0.2
SRC	2.2	2.3
	2.4	2.5
<b>Value of fund</b>	<b>42.0</b>	<b>37.1</b>

## Consolidated Cash Flow Statement (excluding long term business)

Year ended 31 December 2003

	2003 £m	2002 £m
Net cash inflow from operating activities	407	520
Interest paid	(58)	(52)
Tax (received)/paid	(2)	18
Capital expenditure - net payments	-	(1)
Net cash received on disposal of banking subsidiaries	-	20
Acquisition of subsidiaries from the LTF	-	(107)
Dividends paid	(313)	(263)
Issue of share capital	1	792
(Decrease)/increase in total borrowing	(76)	249
Decrease in mortgage related borrowing	0	(31)
Financing	(75)	1,010
	(41)	1,145
<i>Cash flows (not including long term business) were invested/(divested) as follows:</i>		
Increase in cash holdings	2	4
Net (sale)/purchase of investments	(43)	1,141
Net (divestment)/investment	(41)	1,145
<b>Reconciliation of profit before tax to operating cash flow</b>		
Profit/(loss) on ordinary activities before tax	469	(106)
(Loss)/profit relating to life and pensions business	(308)	113
Long term business profit included in Institutional fund management	(40)	(34) *
Cash received from life and pensions business	275	132
Cash received from Institutional fund management	24	-
Increase in other operating creditors	19	199
Other items	(32)	216 *
<b>Net cash inflow from operating activities</b>	<b>407</b>	<b>520</b>

\* Profits relating to Institutional fund management have been separately classified.

## Part 4

# Legal & General Investment Management

## - supplementary information

### Profits - MSS basis

In another year of volatile markets overall profits grew 6% to £53m (2002: £50m). Gross new business of £13.1bn (2002: £14.0bn) means the average new business inflows have exceeded £1bn per month for the last six years.

Corporate Pensions operating profits increased 21% to £41m (2002: £34m). Fund management revenue grew strongly, up 10%, benefiting from the upturn in the market, new business growth, and a small increase in average pooled fund fee rates. Maintenance of tight cost controls, despite a 9% increase in client numbers to 2,425, enabled the growth in operational expenses to be contained to only 1%. The new business sales mix reflected successful implementation of the strategy to expand the actively-managed bonds and non-UK client base.

Legal & General Ventures, the private equity arm, saw profits reduce to £3m (2002 £5m). Lower levels of corporate activity led to a fall in corporate finance fees.

The Property fund management subsidiary continued to expand external funds under management. They are now the operator, asset manager or property manager to seven external property partnerships with total funds under management of £1.1bn. Profits increased to £3m (2002 £2m).

Growth in transition management income and fund management revenue on retail and institutional products led to profits rising to £3m (2002 £1m)

Other corporate income fell to £3m (2002 £8m), reflecting the impact of higher long-term interest rates on the capital value of shareholders' funds.

Total funds under LGIM's management increased 18% to a record £135bn (2002: £114bn)

### Profits – Achieved profits basis

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

Operating profit from institutional fund management was £80m (2002: £92m). Profit before tax increased to £96m (2002: £44m), benefiting from the impact of stronger investment markets relative to embedded value assumptions. The new business contribution from managed pension funds fell slightly on lower levels of new business to £31m (2002: £32m). The contribution from in-force business fell from £14m in 2002 to £5m, as fund outflows, which were low in 2002, moved into line with long-term expectations.

### Fund Performance

Legal & General Investment Management delivered good investment performance across its range of actively managed funds in 2003. Almost two-thirds of our actively managed unitised funds outperformed their peer group median or index benchmark over the year. Performance was particularly strong in Fixed Interest and Far East Equities. The flagship Linked Life Distribution Fund has now delivered top quartile performance over 1,3 and 5 years.

## Part 4

# Legal & General Investment Management

P1

## Consolidated Profit and Loss Account - Modified Statutory Solvency basis

Year ended 31 December 2003

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	2003 £m	2002 £m
<i>Profit on continuing operations</i>		
Corporate pensions	41	34
Ventures	3	5
Property	3	2
Other external income	3	1
Other operational income	3	8
	<hr/>	<hr/>
<b>Profit on ordinary activities before tax</b>	<b>53</b>	<b>50</b>
Tax charge on profit on ordinary activities	(16)	(14)
	<hr/>	<hr/>
<b>Profit for the financial period</b>	<b>37</b>	<b>36</b>

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These financial statements were approved by the Board on 25 February 2004 and have been prepared for long term business using the Modified Statutory Solvency basis. The Achieved Profits results are included on page 4. The results constitute non statutory accounts within the meaning of Section 240 of the Companies Act 1985 and are extracted from the Group's financial statements for the year ended 31 December 2003. The Group's financial statements include the auditor's unqualified report and do not contain a statement under either Sections 237(2) or 237(3) of the Companies Act 1985.

## Funds under management

Year ended 31 December 2003

	At 31.12.03 £m	At 31.12.02 £m
<b>Total investments</b>	<b>135,337</b>	113,992
<i>Represented by</i>		
Index tracking funds:		
- UK equities	42,944	35,940
- Overseas equities	21,144	17,999
- Fixed interest	16,950	15,107
- Index linked	10,650	7,481
- Cash/deposits	359	328
Total index tracking funds	92,047	76,855
Actively managed funds	43,290	37,137
	<b>135,337</b>	113,992
<i>By fund management approach</i>		
Indexed equities	64,088	53,939
Active bonds (including index linked funds)	28,883	25,035
Indexed bonds (including index linked funds)	27,959	22,916
Active equities	7,905	6,526
Property	6,022	5,137
Private equity (ventures)	480	439
	<b>135,337</b>	113,992
<i>By source of business</i>		
Institutional funds under management*:		
- Managed pension funds pooled	72,841	60,397
- Managed pension funds segregated	8,522	6,308
- Other	2,713	2,662
Total institutional funds under management	84,076	69,367
UK Operations (unit trusts - excluding life fund investment)	6,948	5,094
UK Operations (life and general insurance funds)	44,313	39,531
	<b>135,337</b>	113,992

\* Excludes institutional investments in unit trust funds

## New business

Year ended 31 December 2003

	2003	2002
	£m	£m
<b>New business</b>		
Managed pension funds*		
- Pooled funds	<b>11,066</b>	12,359
- Segregated funds	<b>1,504</b>	1,039
	<b>12,570</b>	13,398
Other funds**	<b>482</b>	569
	<b>13,052</b>	13,967
<i>By fund management approach</i>		
Active equities	<b>0.0%</b>	0.1%
Active bonds (including cash)	<b>11.8%</b>	0.5%
Indexed equities	<b>59.0%</b>	73.0%
Indexed bonds (including cash)	<b>27.3%</b>	25.0%
Property	<b>1.7%</b>	1.1%
Private equity	<b>0.2%</b>	0.3%
	<b>100.0%</b>	100.0%

\* New monies from pension fund clients of Legal & General Assurance (Pensions Management) Ltd. Corporate pensions gross new business excludes £4.0bn (2002: £2.1bn) which was held through the year on a temporary basis, generally as part of portfolio reconstruction.

\*\* Includes segregated property, property partnerships, ventures and institutional clients excluding trusts.

## Consolidated Profit and Loss Account - Achieved Profits basis

Year ended 31 December 2003

	2003	2002
	£m	£m
<i>Profit on continuing operations</i>		
Managed pension funds:		
Contribution from:		
New business	31	32
In-force business		
- expected return	13	15
- experience variances	5	14
- operating assumption changes	20	16
Development costs	(1)	(1)
Shareholder net worth	3	7
	<hr/>	<hr/>
Total	71	83
Ventures	3	5
Property	3	2
Other external income	3	1
Other operational income	-	1
	<hr/>	<hr/>
<b>Operating profit from institutional fund management</b>	<b>80</b>	<b>92</b>
Variation from longer term investment return*	16	(48)
	<hr/>	<hr/>
<b>Profit on ordinary activities before tax</b>	<b>96</b>	<b>44</b>
Tax charge on profit on ordinary activities	(29)	(12)
	<hr/>	<hr/>
<b>Profit for the financial period</b>	<b>67</b>	<b>32</b>
	<hr/>	<hr/>
* The variation from longer term investment return represents the effect of the investment performance in respect of shareholder net worth and in-force business, compared with embedded value assumptions at the beginning of the period.		
<b>Managed pension funds embedded value</b>		
	2003	2002
	£m	£m
At 1 January	262	252
Profit after tax	61	25
Distributions and capital movements	(18)	(15)
	<hr/>	<hr/>
At 31 December	305	262
	<hr/>	<hr/>
comprising:		
Value of in-force business	162	132
Shareholder net worth	143	130
	<hr/>	<hr/>
	305	262