Strength & Growth through Partnership

Legal & General

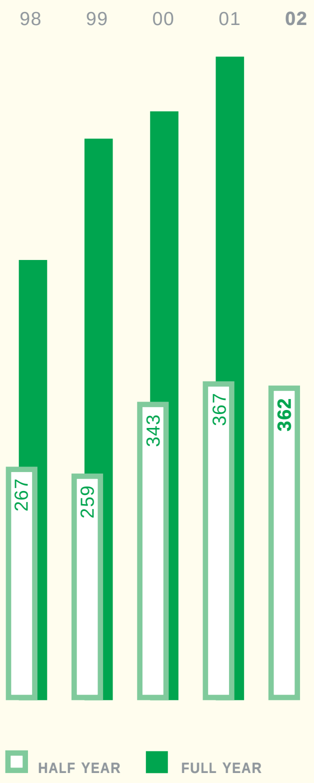
INTERIM REPORT AND ACCOUNTS 2002

CONTENTS

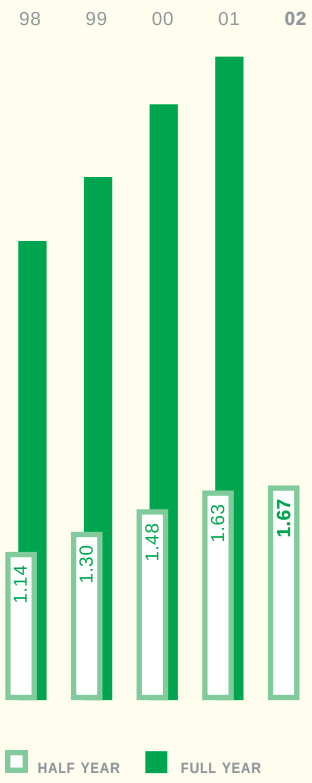
† Achieved profits. * Modified statutory solvency.

FINANCIAL HIGHLIGHTS

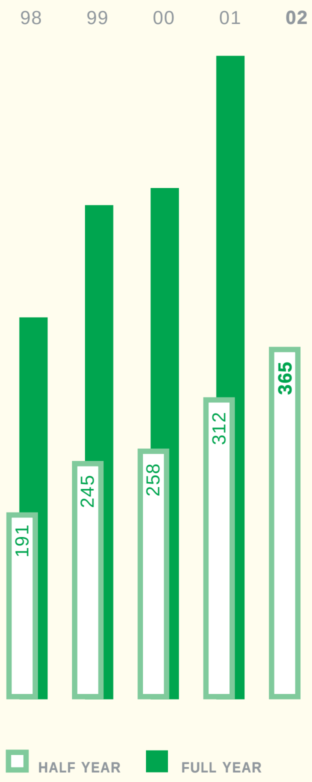
OPERATING PROFIT FROM CONTINUING OPERATIONS (AP BASIS) (£m)



DIVIDEND PER SHARE (p)



NEW WORLDWIDE LONG-TERM INSURANCE APE* (£m)



* Annual Premium Equivalent (APE) is total new annual premiums plus 10% of new single premiums.

"The Board has declared a dividend of 1.67p, an increase of 2.5% at the interim stage. This rate of increase is ahead of price inflation and follows our progressive approach to dividends while recognising the current level and volatility of equity markets."

CHAIRMAN ROB MARGETTS

OPERATIONAL REVIEW

UK NEW BUSINESS

Our UK new business grew by 38% in the first half of 2002 to £449m APE (1H01: £325m). Within that result, individual new business grew 57% to £410m APE (1H01: £261m), as we continue to benefit from the impact of new partnerships both large and small.

Individual life. Annual premium sales grew to £71m (1H01: £67m), benefiting from the strong position we have built up in the life protection market. The increasing success of our Mortgage Club helped to offset the new business impact of our decision to withdraw our ISA mortgage repayment product in May last year.

Single premium bond sales were up sharply at £776m, an increase of 56%, reflecting, in particular, high levels of demand from our new distribution partners, especially for with-profits bonds. The level of demand has declined in recent weeks as investors and their advisers have adopted a more cautious approach in the light of equity market volatility.

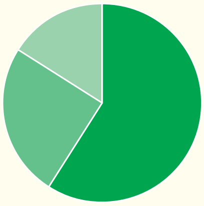
Individual pensions. Annual premium business continued to grow strongly, increasing by 86% to £93m (1H01: £50m), as we populate Stakeholder pension schemes and gain further business from specialist fee-based advisers. Single premium pension sales were £378m, up from £353m in the first half of 2001, as we achieved higher volumes of annuity business.

Unit trusts and ISAs. Despite the downturn in total market sales, we have continued to achieve very strong growth in new business, benefiting from the support of our strategic partners.

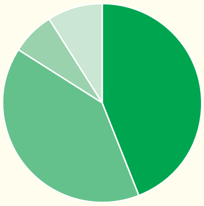
Regular payment business almost doubled to £31m (1H01: £16m). Single payment sales reached £1,005m, an increase of 134% (1H01: £430m). Demand was strongest for our UK Index Trust, the Fixed Interest (corporate bond) and High Income Trusts and for our Protected Portfolio product.

Group business. Primarily as a consequence of lower volumes of bulk purchase annuities, Group new business declined by 39% to £39m APE (1H01: £64m). For the first half, bulk purchase annuity premiums were £175m (1H01: £397m). The decline in demand from larger pension schemes reflects the impact of falling equity markets on the funding levels of these schemes. However, we continue to win bulk purchase business in the small and mid-sized segment of the market. New group annual premiums were broadly maintained at £18m (1H01: £20m).

UK INDIVIDUAL NEW BUSINESS BY DISTRIBUTION CHANNEL



Six months to 30 June 2001
- 59% IFAs
- 25% BUSINESS PARTNERS
- 16% DIRECT



Six months to 30 June 2002
- 44% IFAs
- 40% BUSINESS PARTNERS
- 7% BP DIRECT
- 9% DIRECT

DISTRIBUTION

New business volumes have increased in both the IFA and Business Partnerships channels. However, the proportion of business sold through our Business Partnerships channel continues to increase, due to the impact both of our strategic partners and the significant numbers of smaller firms which are continuing to tie to Legal & General.

In June we announced that, from 1 January 2003, Gresham Insurance, which is 90 per cent owned by Legal & General Insurance and 10 per cent owned by the Woolwich, will provide buildings and contents insurance to customers of Barclays. This extension of the relationship between Barclays and Legal & General builds upon the success Barclays has achieved in selling Legal & General's savings and protection products to its customer base and on the long-standing general insurance relationship between Legal & General and the Woolwich.

ANALYSIS OF PROFIT – ACHIEVED PROFITS (AP) BASIS

UK life and pensions profit. Operating profit grew 5% to £277m (1H01: £265m). The contribution before tax from new life and pensions business was up 22% to £94m (1H01: £77m). In a highly competitive market, we have again written new business which delivers significant value for our shareholders. As a percentage of APE, the contribution was 30% (1H01: 29%) as the mix of new business continued to be favourable.

The contribution from in-force business was lower at £103m (1H01: £137m) as a result of adverse experience variances and assumption changes, in part arising from poorer persistency for mortgage endowment business. This contrasted with last year's positive experience variances.

The contribution from shareholder net worth was £83m (1H01: £61m). The increase was primarily due to the capital injections into the UK long-term fund in the form of subordinated debt.

International life and pensions. Operating profit from international life and pensions businesses was £36m (1H01: £54m), including a new business contribution of £18m (1H01: £20m). The contribution from in-force business was £10m (1H01: £27m).

In the USA, our business has settled into the post-Triple X solvency requirements environment in very good shape, with new annual premium business up by 12% to £29m (an increase of 21% in local currency terms). Operating profit was £20m (1H01: £33m) reflecting a reduced contribution from the in-force book, resulting from higher than anticipated mortality experience in the period. The new business contribution, as a percentage of APE, remains relatively high and roughly in line with pre-Triple X levels.

SANDLER
REVIEW OF UK SAVINGS

The Sandler Review into medium and long-term retail savings in the UK was submitted to the Chancellor in July 2002. The Review stated that the savings industry has not only achieved considerable success in encouraging a wide range of consumers to save for the long-term, but had also made a significant contribution to the UK economy. However, the Review also found causes for concern and it made a series of recommendations to address these to the Government and the Financial Services Authority. These recommendations include:

- Simple, comprehensive product suite
- Products can be purchased without regulated advice
- A new model for independent advice
- Measures to boost consumer education in financial matters

David Prosser commented "We are pleased that many of the barriers to savings have been challenged. These proposals play to Legal & General's strengths as a successful multi-channel provider of low cost, good value products".

“These are very positive results for Legal & General in difficult investment conditions. Our business model, which recognises consumers’ needs for value for money products, continues to gain support and provides the basis for further profitable growth.”

GROUP CHIEF EXECUTIVE DAVID PROSSER

New business volumes in the Netherlands were maintained at £10m APE but continued to outperform the wider market. In France, where market conditions remained difficult, new business, including unit trusts, fell to £10m APE (1H01: £12m). The operating profits of the Dutch and French businesses were £11m (1H01: £12m) and £5m (1H01: £9m) respectively. The combined contribution from new business was £6m (1H01: £9m).

Institutional fund management. In the first half of 2002, our institutional fund management team maintained its impressive track record, winning a further £7.2bn (1H01: £6.0bn) of new funds. We continue to benefit from the move to specialist management by larger pension funds, in which an indexed core often forms a substantial part of the assets. We are gaining an increasing number of bond mandates, for both active and indexed management, reflecting a shift in asset allocation by UK pension funds.

The profit from institutional fund management was £40m (1H01: £31m). The contribution from new business declined to £15m (1H01: £17m), reflecting the changing mix of business.

Funds under management by the Group grew by 6% to £120bn at 30 June 2002 (1H01: £113bn), of which nearly 60% was held for institutional clients.

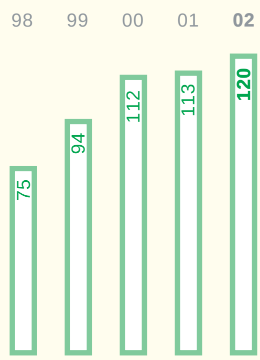
General insurance. All classes of business were profitable in the first half of the year, resulting in 38% growth in operating profit to £22m (1H01: £16m). Net written premiums grew 14% to £141m (1H01: £124m).

The household account, which represents over three-quarters of net premiums written, produced an increased operating profit of £8m.

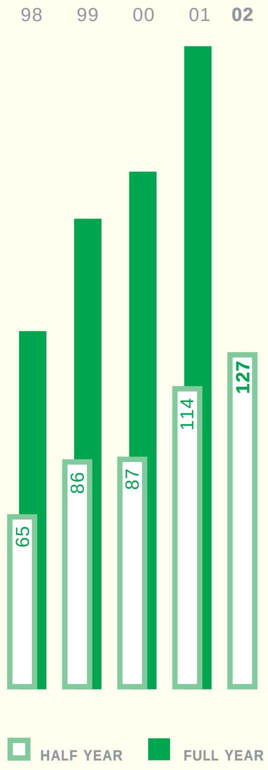
The operating profit for mortgage indemnity business was £5m (1H01: £6m). £2m of the total profit arose from the release of provisions for pre-1993 mortgage indemnity contracts, for which the remaining provision is now £7m.

Other personal lines business produced an operating profit of £9m (1H01: £4m), with equal contributions from motor, private medical insurance and accident, sickness and unemployment insurance.

LEGAL & GENERAL FUNDS UNDER MANAGEMENT
(£bn) at 30 June



CONTRIBUTION FROM WORLDWIDE NEW BUSINESS (£m)



Other operational income. Other operational income comprises the longer-term investment return arising from investments held outside the UK long-term fund, interest expense, unallocated corporate expenses and the results of the Group's other operations. The loss of £13m (1H01: £1m profit) arose from increased interest expense on a higher level of debt, the growth of our retail investment business and the costs related to European developments.

The Group's other operations produced an unchanged loss of £8m. This primarily reflects the financing costs on our rapidly growing retail investment business, which is reported on a Modified Statutory Solvency basis, and the impact on this business of lower equity values on fee income.

Profit on ordinary activities. The Group's Operating profit on continuing operations before tax was £362m (1H01: £367m). The result from ordinary activities before tax, which includes the effect of variances in investment return from the longer-term return assumed at the end of 2001, was a loss of £131m (1H01: £193m profit). This includes a negative investment return variance of £492m (1H01: £217m) reflecting the worldwide fall in equity markets. The largest impact came from UK life and pensions, where there was a negative variance of £425m (1H01: £154m). The investment return on the equity and property portfolio was 9.7% below the assumption for the period. The effect of economic assumption changes resulted in a decrease of £1m (1H01: £36m increase).

Balance sheet. At 30 June 2002 the embedded value of the Group's long-term businesses was £5,144m (30 June 2001: £4,609m). At 30 June 2002 Shareholders' funds on the Achieved Profits basis amounted to £4,775m (30 June 2001: £4,994m) after providing for the 2002 interim dividend of £86m.

ANALYSIS OF PROFIT – MODIFIED STATUTORY SOLVENCY (MSS) BASIS

Operating profit on continuing operations grew to £262m (1H01: £247m), reflecting improved results in all major business areas.

The UK life and pensions operating profit before tax rose to £200m (1H01: £176m), reflecting a 7% growth in the accrued net transfer from the UK long-term fund. The transfer for non-profit business is augmented by the distribution in respect of the intra-group subordinated debt capital attributed to the Shareholder Retained Capital (SRC). The external servicing cost of that debt has been reflected in interest expense reported within Other operational income.

The contribution to profit before tax from the SRC in the UK long-term fund was a negative £424m (1H01: £165m). This reflected negative investment returns and the strain associated with substantial volumes of new non-profit business, which made an important contribution to the new business value added reported in our Achieved Profits results. In addition, following the introduction of FRS 19, the new business strain has been modified by an additional requirement in respect of deferred tax.

The operating profit from our overseas life and pensions businesses was £30m (1H01: £32m). Results for the USA and the Netherlands have benefited from strong growth in the book of business over recent years. The results for France reflect the lack of realised gains in current investment markets and strengthening of regulatory provisions.

CAPITAL STRENGTH

As at 30 June 2002 the free asset ratio for the UK long-term fund stood at 13.4%. This allows for the FSA's recently announced modification to the resilience test and includes an implicit item. If this implicit item is excluded, the ratio was 10.2%, compared with 12.1% at 31 December 2001.

ENVIRONMENT

PROGRESS TOWARDS ENVIRONMENTAL TARGETS

A number of environmental objectives for the Group in the UK, covering issues such as socially responsible investment, carbon dioxide emissions, water usage and waste management, were set out as part of the environment programme in our 2001 Annual Report. Below are just some of the achievements of our environment programme in 2002 so far:

- Water consumption and paper usage have reduced
- Two investment properties and a second major operational site are working towards achieving the International Environmental Management Standard ISO 14001 by the end of 2002
- We are on track for the removal of all halon fire extinguishing equipment from operational sites by the end of 2002
- An initiative has been launched to identify the environmental risks and opportunities associated with the FTSE 350 companies in which we invest
- Through the increased use of green tariffs, we hope to achieve our goal of reducing annual fixed CO_2 emissions to below 100kg per square metre at target sites

Full details of environmental targets and achievements can be found in our 2002 Interim Environmental Report at www.legalandgeneral.com.

From time to time we have indicated the quantum of the with-profits estate in our UK long-term fund. At 31 December 2001 the market value of assets supporting with-profits business was £25.2bn (31.12.99: £26.9bn). This amount exceeded that required to meet guaranteed benefits, expected future bonuses and all other liabilities. The excess comprises working capital substantially provided by shareholders over many years and retained in the with-profits fund. At 31 December 2001 this excess amounted to £1.6bn (31.12.99: £2.3bn). The reduction over the period primarily arose from the fall in the market value of equities.

LIFE INSURER OF THE YEAR
Legal & General was named Life Insurer of the Year for the fourth time in five years at the British Insurance Awards 2002.

POST-BALANCE SHEET EVENTS

On 4 July 2002, we announced the sale of Legal & General Bank Ltd and Legal & General Mortgage Services Ltd to Northern Rock plc for an estimated total of £131m, subject to regulatory approval. The transactions will generate a pre-tax profit of £36m (£36m post tax). These banking operations, reported as discontinuing operations, generated a profit of £3m in the first half of the year (1H01: £2m). Through a new distribution agreement, Northern Rock will manufacture mortgage and retail deposit products, which will be marketed to Legal & General's customer and agent networks under the Legal & General brand.

On 25 July 2002, we announced that Alliance & Leicester plc will sell Legal & General life protection products from 1 August 2002, extending the highly successful partnership announced last year under which Alliance & Leicester distributes our retail savings products. We have also agreed, subject to regulatory approval, to purchase Alliance & Leicester Life Assurance Company Ltd. The consideration of approximately £84m represents £30m for the value of in-force business and £54m for the net assets of the company.

PAYMENT OF DIVIDEND

The interim dividend of 1.67p per share will be paid on 1 October 2002 to shareholders registered at the close of business on 13 September 2002. The shares go ex-dividend on 11 September 2002.

CONSOLIDATED PROFIT & LOSS ACCOUNT

SIX MONTHS ENDED 30 JUNE 2002

	Notes	30.6.02 £m	30.6.01 Restated £m	Full year 2001 Restated £m
Profit on continuing operations				
Life and pensions	3	**313**	319	633
Institutional fund management		**40**	31	76
General insurance	5	**22**	16	37
Other operational income	6	**(13)**	1	1
		362	367	747
Profit on discontinuing operations				
Other operational income – Banking		**3**	2	4
Operating profit		**365**	369	751
Variation from longer-term investment return	8	**(492)**	(217)	(688)
Change in equalisation provision		**(3)**	(3)	(6)
Effect of economic assumption changes	9	**(1)**	36	(3)
Profit on sale of Fairmount Group	10	**–**	8	8
(Loss)/profit on ordinary activities before tax		**(131)**	193	62
Tax on (loss)/profit on ordinary activities	11	**(6)**	(88)	(98)
(Loss)/profit for the financial period		**(137)**	105	(36)
Dividends		**(86)**	(83)	(261)
Retained (loss)/profit		**(223)**	22	(297)
Earnings per share		**p**	p	p
Based on operating profit on continuing operations after tax		**5.00**	5.15	10.73
Based on (loss)/profit for the financial period		**(2.66)**	2.03	(0.70)
Diluted earnings per share				
Based on operating profit on continuing operations after tax		**4.86**	5.14	10.22
Based on (loss)/profit for the financial period		**(2.66)**	2.03	(0.70)
Dividend per share				
The dividend will be paid on 1 October 2002 to shareholders on the register on 13 September 2002		**1.67**	1.63	5.09

These financial statements were approved by the Board on 24 July 2002.

The results for the year ended 2001 and the six months to 30 June 2001 have been restated following the adoption of Financial Reporting Standard 19 (FRS 19), Deferred tax (see note 11). Other than in respect of this restatement, the results for the six months to 30 June 2002 and 30 June 2001 have been prepared on a basis which is consistent with the financial statements for the year ended 31 December 2001, and constitute non-statutory accounts within the meaning of Section 240 of the Companies Act 1985. The results are unaudited, but have been subject to a review by the auditors. The results for year ended 2001 have been taken from the financial statements for the year ended 2001 and restated for the adoption of FRS 19 as referred to above. The 2001 financial statements have been filed with the Registrar of Companies and include an auditors' report which is unqualified and does not contain a statement under either Sections 237(2) or 237(3) of the Companies Act 1985.

These figures have been prepared for long-term business using the Achieved Profits (AP) basis. The Modified Statutory Solvency (MSS) results are included at page 13.

CONSOLIDATED BALANCE SHEET AND NOTES TO FINANCIAL STATEMENTS

SIX MONTHS ENDED 30 JUNE 2002	Notes	At 30.6.02 £m	At 30.6.01 Restated £m	At 31.12.01 Restated £m
Assets				
Investments		**34,234**	34,011	34,464
Assets held to cover linked liabilities		**72,162**	70,692	70,982
Long-term in-force business asset		**2,190**	2,145	2,147
Other assets		**3,431**	2,953	2,804
		112,017	109,801	110,397
Liabilities				
Shareholders' funds		**4,775**	5,311	4,994
Fund for future appropriations		**1,078**	2,497	1,845
Technical provisions		**102,035**	98,472	99,720
Borrowings	13	**1,762**	773	1,642
Bank customer deposits		**1,130**	1,186	1,043
Other creditors		**1,237**	1,562	1,153
		112,017	109,801	110,397

1. NEW BUSINESS

	30.6.02 Annual £m	30.6.02 Single £m	30.6.01 Annual £m	30.6.01 Single £m	Full year 2001 Annual £m	Full year 2001 Single £m
Life and pensions						
Life	**85**	**776**	83	498	170	1,238
Individual pensions	**93**	**378**	50	353	123	721
Group pensions	**4**	**203**	4	434	14	815
UK	**182**	**1,357**	137	1,285	307	2,774
USA	**29**	**0**	26	0	52	1
Netherlands	**5**	**53**	4	62	8	91
France	**3**	**53**	5	55	7	109
Total worldwide insurance business	**219**	**1,463**	172	1,402	374	2,975
Retail investment business						
ISAs – UK	**26**	**536**	16	310	38	467
Unit trusts – UK	**5**	**469**	–	120	1	405
– France	**–**	**16**	–	22	–	35
Total worldwide new business	**250**	**2,484**	188	1,854	413	3,882
Institutional fund management*		**7,217**		6,012		13,219

Annual premium equivalent (APE) is calculated for total new business, including unit trusts and ISAs, and comprises the new annual premiums together with 10% of single premiums. APE from insurance business in the first six months has increased to £365m (1H01: £312m; FY01 £671m). APE from total new business in the same period has increased to £498m (1H01: £373m; FY01 £801m).

* Additional funds which are held on a temporary basis, generally as part of portfolio reconstructions, amounting to £0.7bn (1H01: £0.4bn; FY01: £2.6bn) have been excluded from the above figures.

2. STERLING EXCHANGE RATES USED

	30.6.02	30.6.01	31.12.01
United States dollar	**1.52**	1.41	1.46
Euro	**1.54**	1.66	1.63

3. OPERATING PROFIT FROM LONG-TERM BUSINESS

	UK £m	International £m	Life and pensions total £m	Managed pension funds* £m	Total £m
Six months ended 30.6.02					
Contribution from:					
New business	**94**	**18**	**112**	**15**	**127**
In-force business					
– expected return	**128**	**23**	**151**	**7**	**158**
– experience variances	**(18)**	**(14)**	**(32)**	**7**	**(25)**
– operating assumption changes	**(7)**	**1**	**(6)**	**2**	**(4)**
Development costs	**(3)**	**0**	**(3)**	**(1)**	**(4)**
Shareholder net worth	**83**	**8**	**91**	**2**	**93**
Operating profit	**277**	**36**	**313**	**32**	**345**
Six months ended 30.6.01					
Contribution from:					
New business	77	20	97	17	114
In-force business					
– expected return	118	22	140	7	147
– experience variances	19	5	24	9	33
– operating assumption changes	0	0	0	(5)	(5)
Development costs	(10)	0	(10)	0	(10)
Shareholder net worth	61	7	68	–	68
Operating profit	265	54	319	28	347
Full year ended 31.12.01					
Contribution from:					
New business	183	34	217	27	244
In-force business					
– expected return	242	45	287	14	301
– experience variances	43	(5)	38	20	58
– operating assumption changes	(33)	11	(22)	11	(11)
Development costs	(26)	0	(26)	(2)	(28)
Shareholder net worth	123	16	139	–	139
Operating profit	532	101	633	70	703

* Included in the Institutional fund management result of £40m (1H01: £31m; FY01: £76m).

4. LIFE AND PENSIONS GROSS PREMIUMS AND OPERATING PROFIT

	30.6.02 Premiums written £m	30.6.02 Operating profit £m	30.6.01 Premiums written £m	30.6.01 Operating profit £m	Full year 2001 Premiums written £m	Full year 2001 Operating profit £m
UK	**2,085**	**277**	2,012	265	4,250	532
USA	**142**	**20**	130	33	272	67
Netherlands	**78**	**11**	82	12	131	18
France	**74**	**5**	73	9	146	16
	2,379	**313**	2,297	319	4,799	633

5. GENERAL INSURANCE NET PREMIUMS AND OPERATING PROFIT

	30.6.02 Premiums written £m	30.6.02 Operating profit £m	30.6.01 Premiums written £m	30.6.01 Operating profit £m	Full year 2001 Premiums written £m	Full year 2001 Operating profit £m
Household	**108**	**8**	90	6	204	15
Mortgage indemnity	**1**	**5**	1	6	1	14
Other business (including overseas)	**32**	**9**	33	4	64	8
	141	**22**	124	16	269	37

6. OTHER OPERATIONAL INCOME

	30.6.02 £m	30.6.01 £m	Full year 2001 £m
Shareholders' other income			
Investment return on shareholders' funds	**21**	26	52
Interest expense	**(21)**	(12)	(24)
	0	14	28
Other operations	**(8)**	(8)	(17)
Unallocated corporate and development expenses	**(5)**	(5)	(10)
	(13)	1	1

7. GENERAL INSURANCE AND SHAREHOLDER INVESTMENT RETURN

	30.6.02 £m	30.6.01 £m	Full year 2001 £m
Investment income	**22**	34	62
Interest expense and charges	**(21)**	(12)	(25)
Realised investment losses	**0**	(2)	(12)
Unrealised investment depreciation	**(22)**	(29)	(42)
	(21)	(9)	(17)
reported within:			
General insurance	**9**	9	18
Other operational income	**0**	14	28
Variation from longer-term investment return			
– General insurance	**(9)**	(14)	(25)
– Other operational income	**(21)**	(18)	(38)
	(30)	(32)	(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.

8. VARIATION FROM LONGER-TERM INVESTMENT RETURN

	30.6.02 £m	30.6.01 £m	Full year 2001 £m
Life and pensions			
– UK	**(425)**	(154)	(579)
– International	**(13)**	(15)	(15)
Total life and pensions	**(438)**	(169)	(594)
Managed pension funds	**(24)**	(16)	(31)
Total long-term business	**(462)**	(185)	(625)
General insurance	**(9)**	(14)	(25)
Other operational income	**(21)**	(18)	(38)
	(492)	(217)	(688)

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

	30.6.02 £m	30.6.01 £m	Full year 2001 £m
Life and pensions			
– UK	**1**	44	2
– International	**(2)**	(7)	(5)
Total life and pensions	**(1)**	37	(3)
Managed pension funds	**0**	(1)	0
	(1)	36	(3)

10. SALE OF FAIRMOUNT GROUP

The sale of Fairmount Group plc, a wholly owned subsidiary, to Brown Shipley & Co Ltd was completed on 16 August 2001. This transaction resulted in an exceptional profit before tax of £8m (£8m after tax). The results to the date of sale were not material and hence were not separately reported as discontinued business. This transaction, after an interim dividend of £2m, generated net proceeds of £35m against which goodwill of £20m, previously written off against reserves, had been charged.

11. TAX

FRS 19, Deferred tax, has been adopted and the 2001 comparatives restated accordingly. Profits after tax for 1H01 and FY01 increased by £Nil and £7m, respectively. Shareholders' funds were reduced by £7m at 30 June 2001 and £Nil at 31 December 2001 and the Fund for future appropriations reduced by £443m and £405m, respectively. The achieved profits methodology effectively requires expected future tax provisions for long-term business to be discounted. Deferred tax provisions for other than long-term business operations have not been discounted.

12. FUNDS UNDER MANAGEMENT

	At 30.6.02 £m	At 30.6.01 £m	At 31.12.01 £m
Pooled pension fund investments	**62,522**	61,958	61,675
Other balance sheet investments	**43,874**	42,745	43,771
	106,396	104,703	105,446
Segregated funds	**8,334**	4,677	7,561
Unit trusts, ISAs and PEPs	**5,353**	3,830	4,535
	120,083	113,210	117,542

13. ANALYSIS OF BORROWINGS

	At 30.6.02 £m	At 30.6.01 £m	At 31.12.01 £m
2.75% Convertible bond 2006	**515**	–	515
Medium Term Notes 2031/2041	**597**	197	402
Medium Term Notes 2002/2004	**454**	211	334
Commercial paper 2002	**179**	337	321
Bank loans 2002	**17**	28	70
	1,762	773	1,642

The convertible bond is due in 2006 with a coupon of 2.75% p.a. and is convertible into ordinary shares of the Company at 204p per share. If converted, this bond would give rise to the issue of 257.4m new ordinary shares which represents approximately 5% of the current issued share capital.

14. POST BALANCE SHEET EVENTS

On 4 July 2002, the Group agreed to sell Legal & General Bank Ltd and Legal & General Mortgage Services Ltd, two wholly owned subsidiaries, to Northern Rock plc, subject to regulatory approval. The results to 30 June 2002 have been reported in these financial statements as discontinuing business. This transaction will result in an exceptional profit before tax of £36m (£36m after tax) and will generate net proceeds estimated to be £131m.

On 24 July 2002 the Group agreed to acquire Alliance & Leicester Life Assurance Company Ltd, subject to regulatory approval, from Alliance & Leicester plc. The consideration, estimated to be approximately £84m, represents £30m for the value of in-force business and £54m for the net assets of the company. The results will be accounted for as an acquisition in the Group's consolidated financial statements.

15. EMBEDDED VALUE

	At 30.6.02 UK Life and Pensions £m	**At 30.6.02 International Life and Pensions £m**	At 30.6.01 UK Life and Pensions £m	At 30.6.01 International Life and Pensions £m	At 31.12.01 UK Life and Pensions £m	At 31.12.01 International Life and Pensions £m
Value of in-force business	**2,474**	**401**	2,457	369	2,439	394
Shareholder net worth	**1,777**	**234**	1,409	246	1,993	239
Embedded value	**4,251**	**635**	3,866	615	4,432	633

	Managed pension funds £m	**Total £m**	Managed pension funds £m	Total £m	Managed pension funds £m	Total £m
Value of in-force business	**129**	**3,004**	128	2,954	136	2,969
Shareholder net worth	**129**	**2,140**	–	1,655	116	2,348
Embedded value	**258**	**5,144**	128	4,609	252	5,317

These embedded values have been reviewed by the Group's consulting actuaries.

For the UK life and pensions business, shareholder net worth comprises the SRC on the MSS basis, adjusted for deferred acquisition costs, and the sub-fund, both net of allowance for tax. It also includes intra-group subordinated debt capital of £602m (1H01: £197m; FY01: £502m), but excludes the net assets of £71m (1H01: £228m; FY01: £68m) of UK long-term fund operational subsidiaries.

16. ASSUMPTIONS

Key economic assumptions are set out below and should be read in conjunction with the supplementary financial statements in the 2001 Report and Accounts. The assumed future pre-tax return on fixed interest securities is 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 gilt assumption.

	At 30.6.02 % p.a.	At 30.6.01 % p.a.	At 31.12.01 % p.a.	At 31.12.00 % p.a.
UK				
Investment return				
– Gilts:				
Fixed interest	**5.0**	5.3	5.0	4.7
RPI linked	**5.0**	5.3	5.0	4.7
– Non-gilts:				
Fixed interest	**5.4-6.2**	5.8-6.9	5.4-6.3	5.3-6.5
RPI linked	**5.2-5.6**	5.4-6.3	5.1-5.8	5.0-6.0
– Equities and property	**7.6**	7.9	7.6	7.3
Risk discount rate (after tax)	**7.5**	7.8	7.5	7.2
Inflation				
– Expenses/earnings	**3.7**	3.7	3.5	3.6
– Indexation	**2.7**	2.7	2.5	2.6
USA				
Reinvestment rate	**5.9**	8.0	6.5	7.0
Risk discount rate (after tax)	**7.4**	9.0	7.6	7.7
Europe				
Government bond rate	**5.2**	5.2	5.0	5.0
Risk discount rate (after tax)	**8.5**	8.5	8.5	8.5

Operational assumptions, which are reviewed annually to reflect recent operating experience, are largely unchanged from those made at the end of 2001. The contribution from new business has been calculated using actual acquisition costs incurred during the period.

NOTES TO THE FINANCIAL STATEMENTS

17. CONTINGENT LIABILITY

In June 2001, Legal & General Assurance Society Limited ("the Society") reinsured certain new individual term assurance business with the UK life branch of Munich Reinsurance company ("the reinsurer"). On 11 July 2002, the Society received notification that the reinsurer considers the reinsurance to be void on the basis of mistaken pricing by the reinsurer.

Were the reinsurer's contention to be upheld, the reported profit on an AP basis would be adversely affected. On an MSS basis there would be no impact on operating profit, although there would be an adverse effect on the reported change in the SRC and profit before tax. However, it is not yet practicable to estimate the resultant financial impact as this would depend on the terms of the alternative arrangements which would be made.

Having taken advice from leading counsel, the directors are confident that there is no valid basis for the reinsurer's claim and that it is unlikely that a material loss will arise.

INDEPENDENT REVIEW REPORT TO LEGAL & GENERAL GROUP PLC

INTRODUCTION

We have been instructed by the company to review the financial information which comprises the consolidated profit and loss account, consolidated balance sheet, and the related notes 1 to 17 prepared on the Achieved Profits basis, and the consolidated profit and loss account, consolidated balance sheet, cashflow statement and the related notes 1 to 3 prepared on the Modified Statutory Solvency basis (together the "financial information") and we have read the other information contained in the interim report for any apparent misstatements or material inconsistencies with the financial information.

DIRECTORS' RESPONSIBILITIES

The interim report, including the financial information contained therein, is the responsibility of, and has been approved, by the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

REVIEW WORK PERFORMED

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

REVIEW CONCLUSION

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2002.

PricewaterhouseCoopers
Chartered Accountants
London
24 July 2002

CONSOLIDATED PROFIT & LOSS ACCOUNT

SIX MONTHS ENDED 30 JUNE 2002

	Notes	**30.6.02 £m**	30.6.01 Restated £m	Full year 2001 Restated £m
Profit on continuing operations				
Life and pensions	1	**230**	208	414
Institutional fund management		**23**	22	41
General insurance		**22**	16	37
Other operational income		**(13)**	1	1
		262	247	493
Profit on discontinuing operations				
Other operational income – Banking		**3**	2	4
Operating profit		**265**	249	497
Variation from longer-term investment return		**(30)**	(32)	(63)
Change in equalisation provision		**(3)**	(3)	(6)
Shareholder retained capital (SRC) contribution	2	**(424)**	(165)	(550)
Profit on sale of Fairmount Group		**–**	8	8
(Loss)/profit on ordinary activities before tax		**(192)**	57	(114)
Tax credit/(charge) on (loss)/profit on ordinary activities		**10**	(49)	(30)
(Loss)/profit for the financial period		**(182)**	8	(144)
Dividends		**(86)**	(83)	(261)
Retained loss		**(268)**	(75)	(405)
Earnings per share		**p**	p	p
Based on operating profit on continuing operations after tax		**3.52**	3.32	6.87
Based on (loss)/profit for the financial period		**(3.53)**	0.16	(2.80)
Diluted earnings per share				
Based on operating profit on continuing operations after tax		**3.45**	3.31	6.55
Based on (loss)/profit for the financial period		**(3.53)**	0.16	(2.80)

CONSOLIDATED BALANCE SHEET

SIX MONTHS ENDED 30 JUNE 2002	At 30.6.02 £m	At 30.6.01 Restated £m	At 31.12.01 Restated £m
Assets			
Investments	**34,234**	34,011	34,464
Assets held to cover linked liabilities	**72,162**	70,692	70,982
Other assets	**3,458**	2,996	2,834
	109,854	107,699	108,280
Liabilities			
Shareholders' funds	**2,612**	3,209	2,877
Fund for future appropriations	**1,078**	2,497	1,845
Technical provisions	**102,035**	98,472	99,720
Borrowings	**1,762**	773	1,642
Bank customer deposits	**1,130**	1,186	1,043
Other creditors	**1,237**	1,562	1,153
	109,854	107,699	108,280

CASH FLOW STATEMENT

	30.6.02 £m	30.6.01 £m	Full year 2001 £m
Net cash inflow/(outflow) from operating activities	**210**	177	(79)
Interest paid	**(21)**	(12)	(24)
Tax received/(paid)	**5**	(4)	(20)
Capital expenditure – net receipts	**0**	2	0
Capital injection into Legal & General Bank Ltd	**(6)**	–	–
Disposal of Fairmount Group	**–**	–	34
Acquisition of investment management subsidiaries from the UK long-term fund	**–**	–	(570)
Dividends paid	**(178)**	(166)	(250)
Financing	**(38)**	177	837
	(28)	174	(72)
Cash flows (not including long-term business) were invested/(divested) as follows:			
Decrease in cash holdings	**(11)**	(3)	(6)
Net (sale)/purchase of investments	**(17)**	177	(66)
Net (divestment)/investment	**(28)**	174	(72)
Reconciliation of profit before tax to operating cash flow			
(Loss)/profit on ordinary activities before tax	**(192)**	57	(114)
– Profit/(loss) relating to long-term business and SRC	**187**	(59)	108
– Cash received from/(paid to) long-term business	**143**	168	(137)
Other items	**72**	11	64
Net cash inflow/(outflow) from operating activities	**210**	177	(79)

NOTES TO THE FINANCIAL STATEMENTS

1. LIFE AND PENSIONS OPERATING PROFIT

	30.6.02 £m	30.6.01 £m	Full year 2001 £m
With-profits business	**56**	69	129
Non-profit business	**144**	107	224
UK	**200**	176	353
USA	**26**	25	50
Netherlands	**6**	6	12
France	**(2)**	1	(1)
Worldwide	**230**	208	414

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

2. MOVEMENT IN SHAREHOLDER RETAINED CAPITAL (SRC)

	30.6.02 £m	30.6.01 Restated £m	Full year 2001 Restated £m
Investment income	**30**	26	51
Interest expense and charges	**(1)**	0	(1)
Realised investment gains	**9**	32	6
Unrealised investment depreciation	**(167)**	(125)	(203)
Investment return on SRC	**(129)**	(67)	(147)
Net capital (invested in)/released from non-profit business	**(151)**	9	(179)
Distribution of operating profit from non-profit business	**(144)**	(107)	(224)
SRC contribution before tax	**(424)**	(165)	(550)
SRC at 1 January	**2,631**	2,293	2,293
SRC contribution before tax	**(424)**	(165)	(550)
Tax	**87**	26	101
	(337)	(139)	(449)
Change in the net asset values of SRC subsidiaries	**(536)**	12	432
Dividends received from SRC subsidiaries	**542**	–	–
Movement in intra-group subordinated debt	**100**	50	355
SRC at end of period	**2,400**	2,216	2,631

On 24 December 2001, the investment management subsidiaries held within the SRC were transferred to new shareholder owned holding companies.

SRC includes £602m (1H01: £197m; FY01: £502m) of intra-group subordinated debt capital.

3. TAX

FRS 19, Deferred tax, has been adopted and the 2001 comparatives restated accordingly. The principal impact is the recognition of additional deferred tax in respect of unrealised appreciation of investments and future tax relief for acquisition expenses. Profits after tax for 1H01 and FY01 increased by £4m and £47m respectively. Shareholders' funds increased by £72m at 30.06.01 and £115m at 31.12.01, and the Fund for future appropriations reduced by £443m and £405m, respectively. Deferred tax provisions have not been discounted.

Although the SRC has been recognised as profit in these financial statements, there has been no corresponding recognition in the FSA regulatory returns, on which the taxation of life assurance business is currently based. As the payment of incremental tax on this profit depends upon a future event, the occurrence of which is under the company's control, no event giving rise to the need to provide deferred tax has occurred. Accordingly no additional deferred tax has been provided. The maximum amount of such deferred tax not provided at 30.6.02 was £690m (30.6.01, £650m; 31.12.01, £768m).

SHAREHOLDER INFORMATION

SHAREHOLDERS AT 30 JUNE 2002

Categories of ordinary shareholder and ranges of shareholdings at 30 June 2002 were:

	Shareholders		Shares	
	Number	%	Number	%
Category of Shareholder				
Individuals	35,286	68.4	422,369,924	8.2
Banks	29	0.1	6,714,417	0.1
Nominee companies	14,352	27.8	4,522,069,729	87.7
Insurance companies and pension funds	26	0.0	64,002,889	1.2
Limited companies	1,492	2.9	90,079,123	1.7
Other corporate bodies	430	0.8	54,073,963	1.1
	51,615	100.0	5,159,310,045	100.0

	Shareholders		Shares	
	Number	%	Number	%
Range of Holdings				
1 – 20,000	44,377	86.0	211,333,834	4.1
20,001 – 100,000	5,372	10.4	217,548,890	4.2
100,001 – 500,000	1,088	2.1	234,762,384	4.6
500,001 and over	778	1.5	4,495,664,937	87.1
	51,615	100.0	5,159,310,045	100.0

OTHER SHAREHOLDER INFORMATION

Registrars. The Company's share register is administered by Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA (Tel: 0870 600 3954). All shareholder enquiries should be addressed to Lloyds TSB Registrars.

Electronic Share Service. This Service allows you to hold shares in Legal & General without the need for a share certificate and enables you to benefit from shorter market settlement periods. Individual shareholders hold their shares in the Company in a nominee holding registered in the name of Lloyds TSB Registrars Corporate Nominee Limited. If you would like to join this Service, or require further information, you should contact the Registrars directly on 0870 600 3954. They will send you a booklet, which sets out the terms and conditions under which your shares will be held, together with the appropriate share transfer form. The booklet and the share transfer form are also available from the shareholder site of Legal & General's website at www.legalandgeneral.com.

You can view your shareholding in Legal & General Group Plc on the internet at www.shareview.co.uk. To register to use this service, you should log onto www.shareview.co.uk and follow the instructions on screen. You will need your shareholder reference number, shown on your latest dividend counterfoil. Should you have any queries, please telephone the shareholder helpline on 0870 600 3989.

Dividend. The record date for the interim dividend for 2002, payable on 1 October 2002, is 13 September 2002 and the shares will trade ex-dividend on the London Stock Exchange from 11 September 2002.

Multiple Share Certificates. Shareholders with more than one certificate for shares may arrange for them to be consolidated into one certificate by contacting Lloyds TSB Registrars.

Individual Savings Account (ISA). Lloyds TSB Registrars provides a Single Company ISA for Legal & General Group Plc shares. If you would like more information please call the helpline on 0870 242 4244.

Capital Gains Tax. For the purpose of calculating UK capital gains tax, the market value on 31 March 1982 of each of the shares, after adjusting for the 1986 capitalisation issue and the 1996 and 1999 sub-divisions, was 7.996p.

Close Company Provisions. The Company is not a close company within the terms of the Income and Corporation Taxes Act 1988.

Dividend Reinvestment Plan. The Legal & General Dividend Reinvestment Plan ("DRIP") enables shareholders to use their cash dividends in an inexpensive and efficient way to purchase Legal & General Group Plc shares.

Should you wish to participate in the DRIP in respect of the interim dividend to be paid on 1 October 2002, a completed and signed DRIP mandate form should be received by the Registrars no later than 16 September 2002. For further details please contact Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA or telephone on 0870 241 3018. You can find further information, including the DRIP booklet and mandate form, on the shareholder site of Legal & General's website at www.legalandgeneral.com.

2002 Interim Results Presentation. An audio recording of the presentation given to analysts and fund managers by David Prosser, Group Chief Executive and Andrew Palmer, Group Director (Finance), and the slides accompanying that presentation can be found on the shareholder site of Legal & General's website at www.legalandgeneral.com. A full copy of the interim announcement, sent to the London Stock Exchange on 25 July 2002, can also be viewed on the shareholder site.

EXCLUSIVE OFFER FOR OUR SHAREHOLDERS

Thank you

Commitment to our shareholders

and their immediate family including parent(s), children, brother(s), sister(s) and partner.

2% CASHBACK

ON ACTIVELY MANAGED ISAs FOR LUMP SUM INVESTMENTS OF £500 OR MORE[1]

10% DISCOUNT

OFF STANDARD TERM ASSURANCE PREMIUMS[3]

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ON OUR LOW COST RANGE OF UNIT TRUST BASED ISAs FOR LUMP SUM INVESTMENTS OF £500 OR MORE[1], INCLUDING:

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- HIGH INCOME
- GLOBAL TECHNOLOGY INDEX-TRACKING
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- FUND SUPERMARKET CHOOSE FROM OVER 70 FUNDS FROM DIFFERENT PROVIDERS

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Legal & General

2002

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