

25 July 2001

**Legal & General Group Plc**  
**Interim Results for the six months to 30 June 2001**

**New business**

• <b>UK life and pensions APE<sup>1</sup></b>	<b>£266m</b>	<b>+30%</b>
• <b>Worldwide (including unit trusts) APE<sup>1</sup></b>	<b>£373m</b>	<b>+18%</b>
• <b>UK fund management business</b>	<b>£6.0bn</b>	<b>+2%</b>

**Achieved Profits basis -**

• <b>Operating profit before tax</b>	<b>£351m</b>	<b>+4%</b>
• <b>Contribution from new business<sup>2</sup></b>	<b>£114m</b>	<b>+31%</b>
• <b>Shareholders' funds<sup>3</sup></b>	<b>£5,318m</b>	<b>+1%</b>
• <b>Earnings per share (diluted)<sup>4</sup></b>	<b>4.80p</b>	<b>+3%</b>

**Modified Statutory Solvency basis -**

• <b>Operating profit before tax</b>	<b>£231m</b>	<b>-1%</b>
• <b>Earnings per share (diluted)<sup>4</sup></b>	<b>3.01p</b>	<b>-6%</b>

<b>Dividend per share</b>	<b>1.63p</b>	<b>+10%</b>
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<sup>1</sup>Annual Premium Equivalent (APE) is total new annual premiums + 10% of new single premiums.

<sup>2</sup>Contribution before tax from new worldwide life and pensions business

<sup>3</sup>Change from 31/12/00

<sup>4</sup>Based on Operating profit from continuing operations after tax.

Full details of these results can be found in Parts 2 and 3.

Group Chief Executive, David Prosser said: " Legal & General has produced excellent new business value added and volumes in the first half. Our value for money strategy has delivered strong, profitable growth in market share. The UK life and pensions APE has grown by 30% to a new record, and our fund managers have won over £6 billion in new business.

Our multi-channel distribution strategy continues to develop with important new partners such as Barclays and Alliance & Leicester choosing Legal & General and expanding our customer reach significantly. Despite the current weak equity markets, we are confident of achieving substantial further profitable growth in market share once these alliances become fully operational in the next few months.

Legal & General is a financially strong business with a trusted brand and this is important to all our customers and distribution partners. We have had a first half of real achievement and there is more to come."

### Analysis of profit - Achieved Profits basis

	<b>1H 01</b>	<b>1H 00</b>
	<b>£m</b>	<b>£m</b>
UK Life and Pensions operating profit before tax	265	216
Worldwide operating profit before tax	351	339
Variation from longer term investment return	(199)	(90)
Profit before tax	193	256

Profit for the half year showed a good increase at the operating level, resulting largely from very positive growth in the contribution from our core UK life and pensions business. However, weak investment markets gave rise to a combined investment return for that business from equities and property 8.1% lower (1H 00: 4.3% lower) than the assumption for the six month period. This increased negative variance contrasts with strong positive variances seen in earlier periods, and has led in the current half year to a reduction in profit before tax compared with 2000. The total of investment variances since we started reporting this number in 1997 has been positive.

The contribution from worldwide new business, including Managed Funds, was up by 31% to £114m (1H00: £87m). Within this, the contribution from new life and pensions business grew 41% to £97m (1H00: £69m), compared with the 21% growth in APE. The contribution from our growing book of in-force business improved to £165m (1H00: £148m) but the contribution from shareholder net worth reduced to £68m (1H00: £75m) due to the lower assumed rate of return.

The changes in UK double tax relief, highlighted in our last results release, were the primary cause of the operating profit from our investment management business falling to £31m (1H00: £40m).

Shareholders' funds increased to £5,318m (31 December 2000: £5,274m), after payment of the dividend of £83m.

### Analysis of Profit - Modified Statutory Solvency basis

	<b>1H 01</b>	<b>1H 00</b>
	<b>£m</b>	<b>£m</b>
UK Life and pensions operating profit before tax	176	156
Worldwide operating profit before tax	231	234
Profit before tax	57	287

Operating profit before tax fell marginally compared with last year. Although there was growth in both life and pensions operating profit, driven largely by a 10% increase in the transfer from the UK Long Term Fund, and in General Insurance profit, these were offset by a fall in the investment management profit, following the tax change referred to above, and by the Other operational income. The reversal in Other operational income was largely caused by falling investment markets.

The contribution from Shareholder Retained Capital was affected by the adverse investment markets and by the increased level of capital invested to support the excellent growth we have achieved in new business volumes. Mainly as a result of this, profit before tax fell to £57m (1H00: £287m).

The high reported rate of tax results from there being no tax credit available for unrealised depreciation in equity values.

## Analysis of new business

	1H 01 £m	1H 00 £m	Increase/ (decrease)
<i>New business(APE)</i>			
UK life and pensions	266	205	30%
- individual	202	175	15%
- corporate	64	30	113%
UK unit trusts and ISAs	59	55	7%
Total UK	325	260	25%
International life and pensions	46	53	(13)%
Worldwide (including unit trusts)	373	315	18%
New UK fund management	6,012	5,869	2%

### UK new business

Our UK new business grew by 25% in the first half of 2001, with second quarter growth of 35% especially positive against the equivalent period last year. 59% of our individual new business came from the IFA sector, where we have experienced strong support from the fee-earning segment of the market. Our major new partnerships, described in more detail below, made a modest contribution to the half year but their real impact will begin to be seen later this year.

*Individual pensions.* Annual premium business grew by 19% to £50m (1H00: £42m) as a consequence of Legal & General's strong competitive position, with £42m being written on Stakeholder terms. Single premium pension sales were £353m, down from £372m in the first half of 2000, as a consequence of lower annuity volumes.

*Individual life.* Annual premium sales increased to £67m (1H00: £63m), benefiting from the strong position we have built up in the life protection market. Our competitive stance will help to offset the new business impact of our decision to withdraw our ISA mortgage repayment product in May. Single premium bond sales were up sharply at £498m, an increase of 52%, reflecting continuing high levels of demand, especially for with-profits bonds.

*ISAs and unit trusts.* In a subdued market, it is pleasing to report that sales of our regular savings ISA products were up 45% on the first half of 2000 at £16m. Single payment sales were broadly maintained at £430m (1H00: £440m).

*Corporate business.* Corporate new business increased to £64m APE (1H00: £30m) as a result of our strength in the bulk purchase annuity market. For the first half, bulk purchase annuity premiums increased by 336% to £397m (1H00: £91m). Although the flow of business in this market tends to be lumpy, quotation volumes remain high.

In the group risk market, Legal & General maintained its strong performance with new annual premiums up 14% at £16m (1H00: £14m). Product initiatives have included the introduction of voluntary group risk schemes, which can be sold alongside employers' Stakeholder pension schemes.

### **Expanding distribution**

In January, Legal & General and Barclays Bank Plc announced an important new strategic alliance whereby Legal & General's long term savings and protection products would be sold through the Barclays Bank branch and virtual networks. Barclays have offered Legal & General's Stakeholder pensions and group life assurance since April and from the beginning of August a broad range of Legal & General products will become available through these channels. Legal & General and Barclays have so far been designated as Stakeholder pensions provider by over 24,000 employers covering nearly 600,000 potential scheme members.

In February, Alliance & Leicester announced its intention to offer Legal & General long term savings and investment products through its 309 strong branch network. Initial indications from the arrangement, which came into effect early in May, are very positive, with sales exceeding our expectations.

In July, The Woolwich announced it would offer Legal & General protection products, usually connected with house purchase or re-mortgage transactions, through its branch network from 1 October 2001.

These initiatives, of which more are expected in the future, represent a massive expansion in our customer reach. That reach is being further expanded by the success of our internet site [www.legalandgeneral.com](http://www.legalandgeneral.com). The site has generated sales growth consistently for each month of this year and producing direct sales of £4m APE in the first half. We are also now receiving 15% of term applications from IFAs on line. Increased activity on the site is expected following its relaunch earlier this week.

### **International businesses**

The operating profits from the Group's international businesses grew strongly by 33% to £32m (1H00: £24m).

#### *USA*

New business APE in the first half of 2001 was \$36m, a 9% increase over the preceding six month period. Comparisons with the first half of 2000 are distorted by the effect of the introduction of the "Triple X" solvency requirements, which boosted sales recorded at the beginning of that year.

Growth in our US business has, allowing for the "Triple X" impact, been rapid over recent years. Operating profit before tax of \$36m was up 24% (1H00: \$29m), reflecting the benefit of this growth.

#### *Netherlands*

New business APE again grew rapidly, increasing by 78% to €16m (1H00: €9m). Annual premium business increased to €6m (1H00: €5m) reflecting the strong support we have received for our competitive term assurance products. Single premium sales were particularly buoyant, increasing 194% to €103m (1H00: €35m) boosted by an annuity product launch late last year.

Operating profit before tax grew by 67% to €10m (1H00: €6m) reflecting the continued strong growth in this business.

#### *France*

New business APE increased by 38% to €22m (1H00: €16m). Within this result, annual premium life and pension business more than doubled to €9m (1H00: €4m). Unit trust sales increased by 19% over the year to €37m (1H00: €31m). The operating profit from this business was unchanged at €2m.

### **Investment management**

In the first half of 2001, our investment management team maintained its impressive track record, winning a further £6.0bn (1H00: £5.9bn) of new institutional funds. We now have over 2000 corporate clients and our new AAA Fixed Interest Fund has so far attracted over £1.5bn of funds.

The profit from the management of external clients' funds was £22m (1H00: £29m). As mentioned earlier this business no longer benefits from UK double tax relief (1H00: £7m benefit). The result for our unit trust and ISA/PEP business is now reported within Other operational income, following a shift in its corporate ownership within the Group.

Group funds under management were £113bn at 30 June 2001, of which 62% was held for external clients.

### **General insurance**

All classes of business have achieved underwriting profits in the first half of 2001, contributing to the 78% growth in operating profit to £16m (1H00: £9m). The household account, which represents nearly three-quarters of net premiums written, produced an unchanged operating profit of £6m.

The operating profit for mortgage indemnity business was £6m (1H00: £10m). This included £2m (1H00: £4m) arising from the pre-1993 mortgage indemnity reserves, reflecting settlements made. The remaining provision for pre-1993 business is £12m.

Other personal lines business produced an operating profit of £4m (1H00: £7m loss). The 2000 result included a final settlement in respect of business written through Andrew Weir Insurance Company Limited.

### **Other operational income**

Other operational income comprises income 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 for this half year of £15m (1H 00: £15m profit) was largely as a result of the weaker investment markets, which caused the net investment return to fall by £22m to a £4m loss.

In the seven months to 30 June 2001, the Group raised £197m of debt on attractive long term rates of interest. This debt, which has been lent on an intra-group subordinated basis to the UK Long Term Fund, underpins our anticipated rapid new business growth. It has been set against Corporate Funds and its servicing cost of £5m has been reflected within interest expense. The investment return on the corresponding assets is included in the SRC contribution to profit.

The Group's other operations produced a loss of £6m (1H 00: £1m loss). Within this, the unit trust and ISA/PEP business result, which included the impact of lower equity values on fee income and systems development costs on both the Barclays fund integration and our planned funds supermarket, was only partially offset by a banking profit.

### **Shareholder retained capital (SRC)**

For the first half of 2001, the SRC contribution, grossed up to a pre-tax amount, was a decrease of £165m (1H00: an increase of £60m) and comprised:

- the release of capital and profits from business written in previous years. In the current period, this has largely been offset by the investment of capital to support the rapidly growing volumes of non-profit new business. In aggregate, these items amounted to an increase in the SRC of £9m compared with an increase of £160m in the first half of 2000; less

- a decrease of £67m (1H00: a decrease of £12m), primarily resulting from realised and unrealised depreciation of equities; and
- the distribution from non-profit business, already included in the life and pensions operating profit, of £107m (1H00: £88m).

### **Outlook**

Legal & General has performed strongly in the first half of 2001 and at the same time has laid the foundations for an even stronger future. We have a well recognised and widely admired brand; we provide quality products which offer our customers good value for money and, of increasing importance in difficult investment markets, our UK Long Term Fund has acknowledged financial strength. Similarly key to our success has been our multi-channel distribution strategy now further strengthened by our partnerships with Barclays, The Woolwich and Alliance & Leicester.

These attributes will serve Legal & General well in the marketplace in which we compete. In the first half of 2001, Legal & General has progressed and succeeded on many fronts. The outlook for the second half of this year and beyond remains positive.

### **Dividend**

The interim dividend has been increased by 10% to 1.63p and will be paid on 1 October to shareholders registered at the close of business on 14 September. The shares go ex-dividend on 12 September. The interim report will be sent to shareholders on 3 August together with details of our new Dividend Re-investment Plan.

### Notes:

- A copy of this announcement can be found in the News and Results section of our Shareholder site at [www.legalandgeneral.com](http://www.legalandgeneral.com).
- The results presentation to analysts and fund managers will also be available on our Shareholder site by 14.00 British Summer Time (BST).
- Institutional fund managers and analysts who cannot attend our results presentation may join a conference call at 15.00 BST today. To join the conference please call +44 (0)20 8515 2329 from 14.50 BST. Investors in the USA and Canada may call toll free on 1 800 218 8862. No PIN is required - quote Legal & General and Andrew Palmer as chairperson.

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## Part 2

# Legal & General Group Plc

P1

## Consolidated Profit and Loss Account

Six months ended 30 June 2001

	Notes	Six months to 30.6.01 £m	Six months to 30.6.00 £m	Full year 2000 £m
<i>Profit from continuing operations</i>				
Life and pensions	1	<b>208</b>	180	364
Investment management		<b>22</b>	29	59
General insurance	2	<b>16</b>	9	20
Other operational income	4	<b>(15)</b>	15	34
		<b>231</b>	233	477
<i>Profit from discontinued operations</i>				
Other operational income - Fairmount Group		<b>0</b>	1	2
<b>Operating profit</b>		<b>231</b>	234	479
Variation from longer term general insurance investment return	5	<b>(14)</b>	(4)	(5)
Change in equalisation provision		<b>(3)</b>	(3)	(6)
Shareholder retained capital (SRC) contribution	7	<b>(165)</b>	60	30
Profit on sale of Fairmount Group	6	<b>8</b>	-	-
<b>Profit from ordinary activities before tax</b>		<b>57</b>	287	498
Tax on profit on ordinary activities	8	<b>(53)</b>	(102)	(181)
<b>Profit for the financial period</b>		<b>4</b>	185	317
Dividends		<b>(83)</b>	(77)	(243)
<b>Retained profit</b>		<b>(79)</b>	108	74
<i>Earnings per share</i>				
Based on operating profit from continuing operations after tax		<b>3.02</b>	3.20	6.61
Based on profit for the financial period		<b>0.08</b>	3.61	6.18
<i>Diluted earnings per share</i>				
Based on operating profit from continuing operations after tax		<b>3.01</b>	3.19	6.59
Based on profit for the financial period		<b>0.08</b>	3.59	6.16
<i>Dividend per share</i>		<b>1.63</b>	1.48	4.71

The results for the six months to 30 June 2001 and 30 June 2000 are unaudited, but have been subject to a review by the auditors and constitute non-statutory accounts within the meaning of Section 240 of the Companies Act 1985. They have been prepared on a basis which is consistent with the financial statements for the year ended 31 December 2000. The results for the year ended 2000 have been taken from those financial statements which have been filed with the Registrar of Companies. They include the auditors' unqualified report and do not contain a statement under either sections 237(2) or 237(3) of the Companies Act 1985.

These financial statements were approved by the Board on 24 July 2001 and have been prepared using the modified statutory solvency basis for long term business.

## Consolidated Balance Sheet

As at 30 June 2001

	Notes	As at 30.6.01 £m	As at 30.6.00 £m	As at 31.12.00 £m
<i>Assets</i>				
Investments	9	<b>34,011</b>	34,350	35,077
Assets held to cover linked liabilities		<b>70,692</b>	68,618	70,678
Other assets		<b>2,996</b>	2,321	2,539
		<b>107,699</b>	105,289	108,294
<i>Liabilities</i>				
Shareholders' funds	10	<b>3,137</b>	3,217	3,187
Fund for future appropriations		<b>2,940</b>	5,147	4,331
Technical provisions				
- Technical provisions for linked liabilities		<b>70,592</b>	68,529	70,566
- Other long term business provisions		<b>27,551</b>	25,023	26,692
- General insurance provisions		<b>329</b>	333	350
		<b>98,472</b>	93,885	97,608
Borrowings	12	<b>773</b>	395	571
Bank customer deposits		<b>1,186</b>	1,245	1,307
Other creditors		<b>1,191</b>	1,400	1,290
		<b>107,699</b>	105,289	108,294

## Statement of Total Recognised Gains and Losses

	Six months to 30.6.01 £m	Six months to 30.6.00 £m	Full year 2000 £m
Profit for the financial period	<b>4</b>	185	317
Exchange gains	<b>6</b>	16	17
<b>Total recognised gains and losses</b>	<b>10</b>	201	334



## New business

Six months ended 30 June 2001

<i>New Annual Premium Equivalent (APE)</i>	<b>6 months to 30.6.01 £m</b>	6 months to 30.6.00 £m	Full year 2000 £m
<i>Life and pensions</i>			
Life	133	110	235
Pensions	133	95	207
UK	266	205	442
USA	26	40	62
Netherlands	10	5	12
France	10	8	16
International	46	53	90
<b>Total worldwide insurance business</b>	<b>312</b>	<b>258</b>	<b>532</b>
<i>Retail investment business</i>			
UK	59	55	94
France	2	2	4
<b>Total worldwide new business</b>	<b>373</b>	<b>315</b>	<b>630</b>
<b>International insurance business expressed at 30 June 2001 exchange rates</b>			
USA	26	42	66
Netherlands	10	5	11
France	10	8	15
	46	55	92

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

<i>Institutional fund management</i>	<b>Six months to 30.6.01 £m</b>	Six months to 30.6.00 £m	Full year 2000 £m
UK Managed Funds *			
- Pooled funds	5,597	4,973	11,040
- Segregated funds	402	289	327
	5,999	5,262	11,367
Other funds	13	607	1,310
	6,012	5,869	12,677

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

## New business

Six months ended 30 June 2001

	2001			2000		
	6 months to 30 June £m	3 months to 30 June £m	3 months to 31 Mar £m	6 months to 30 June £m	3 months to 30 June £m	3 months to 31 Mar £m
<i>UK Annual Premium Equivalent</i>						
Total individual life and pensions APE	202	109	93	175	91	84
Total retail investments APE	59	29	30	55	26	29
<i>by channel</i>						
- Independent financial advisers	155	81	74	134	68	66
- Business partnerships	65	35	30	55	28	27
- Direct	41	22	19	41	21	20
<b>Total UK individual APE</b>	<b>261</b>	<b>138</b>	<b>123</b>	<b>230</b>	<b>117</b>	<b>113</b>
Total group APE	64	38	26	30	13	17
<b>Total UK APE</b>	<b>325</b>	<b>176</b>	<b>149</b>	<b>260</b>	<b>130</b>	<b>130</b>

	2001			2000		
	6 months to 30 June £m	3 months to 30 June £m	3 months to 31 Mar £m	6 months to 30 June £m	3 months to 30 June £m	3 months to 31 Mar £m
<b>New annual business</b>						
<i>Insurance business</i>						
<b>UK</b>						
Life						
- Mortgage-related	51	28	23	57	30	27
- Protection	16	9	7	6	3	3
- Group risk	16	7	9	14	7	7
Pensions						
- Individual pensions	50	28	22	42	22	20
- Group pensions	4	2	2	3	1	2
	<b>137</b>	<b>74</b>	<b>63</b>	<b>122</b>	<b>63</b>	<b>59</b>
<b>International</b>						
USA	26	14	12	40	20	20
Netherlands	4	2	2	3	2	1
France	5	3	2	3	2	1
	<b>172</b>	<b>93</b>	<b>79</b>	<b>168</b>	<b>87</b>	<b>81</b>
<i>Retail investment business</i>						
ISAs (other than cash ISAs)	16	11	5	11	8	3
<b>Total new annual business</b>	<b>188</b>	<b>104</b>	<b>84</b>	<b>179</b>	<b>95</b>	<b>84</b>

## New business

Six months ended 30 June 2001

	2001			2000		
	6 months to 30 June £m	3 months to 30 June £m	3 months to 31 Mar £m	6 months to 30 June £m	3 months to 30 June £m	3 months to 31 Mar £m
<b>New single business</b>						
<i>Insurance business</i>						
<b>UK</b>						
Bonds						
- With-profits	459	280	179	267	159	108
- Other	39	22	17	60	28	32
Pensions						
- Individual pensions	158	71	87	157	76	81
- Annuities - individual	160	57	103	189	90	99
- Annuities - bulk purchase	397	268	129	91	34	57
- Other group business	37	15	22	33	14	19
- DSS rebates	35	11	24	26	5	21
	<b>1,285</b>	<b>724</b>	<b>561</b>	<b>823</b>	<b>406</b>	<b>417</b>
<b>International</b>						
Netherlands	62	15	47	22	11	11
France	55	26	29	56	35	21
	<b>1,402</b>	<b>765</b>	<b>637</b>	<b>901</b>	<b>452</b>	<b>449</b>
<i>Retail investment business</i>						
ISAs (other than cash ISAs)	310	140	170	296	113	183
Unit trusts						
- UK	120	45	75	144	66	78
- France	22	8	14	20	11	9
<b>Total new single business</b>	<b>1,854</b>	<b>958</b>	<b>896</b>	<b>1,361</b>	<b>642</b>	<b>719</b>

## Notes to Financial Statements

Six months ended 30 June 2001

### 1. Life and pensions premiums and operating profit

	Six months to 30.6.01		Six months to 30.6.00		Full year 2000	
	Gross premiums £m	Operating profit £m	Gross premiums £m	Operating profit £m	Gross premiums £m	Operating profit £m
With-profits business	1,133	69	1,001	68	2,173	135
Non-profit business	879	107	513	88	1,161	177
UK	2,012	176	1,514	156	3,334	312
USA	130	25	121	19	256	42
Netherlands	82	6	41	4	98	7
France	73	1	73	1	140	3
	<b>2,297</b>	<b>208</b>	<b>1,749</b>	<b>180</b>	<b>3,828</b>	<b>364</b>

UK life and pensions operating profit includes the accrued distributable transfer, grossed up at the corporate tax rate. The non-profit component of the transfer also includes 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.

Overseas life and pensions premium income and results expressed at 30 June 2001 exchange rates are:

	Gross premiums £m	Operating profit £m	Gross premiums £m	Operating profit £m	Gross premiums £m	Operating profit £m
USA	130	25	130	20	270	44
Netherlands	82	6	39	4	94	7
France	73	1	69	1	134	3

### 2. General insurance result

	Six months to 30.6.01		Six months to 30.6.00		Full year 2000	
	Net premiums written £m	Operating profit £m	Net premiums written £m	Operating profit (loss) £m	Net premiums written £m	Operating profit (loss) £m
Household	90	6	75	6	181	5
Mortgage indemnity	1	6	1	10	2	21
Other business (including overseas)	33	4	35	(7)	66	(6)
	<b>124</b>	<b>16</b>	<b>111</b>	<b>9</b>	<b>249</b>	<b>20</b>

### 3. Principal sterling exchange rates used

	As at 30.6.01	As at 30.6.00	As at 31.12.00
United States dollar	1.41	1.51	1.49
Euro	1.66	1.58	1.59

## Notes to Financial Statements

Six months ended 30 June 2001

### 4. Other operational income

	Six months to 30.6.01 £m	Six months to 30.6.00 £m	Full year 2000 £m
<i>Shareholders' other income (excluding SRC)</i>			
- Investment return on shareholders' funds	8	21	46
- Interest expense	(12)	(3)	(9)
	<u>(4)</u>	<u>18</u>	<u>37</u>
- Other operations *	(6)	(1)	2
- Unallocated corporate and development expenses	(5)	(2)	(5)
	<u>(15)</u>	<u>15</u>	<u>34</u>

\* Other operations includes the results of Legal & General (Unit Trust Managers) Ltd and Legal & General (Portfolio Management Services) Ltd previously reported within Investment management.

### 5. Investment return

	Six months to 30.6.01 £m	Six months to 30.6.00 £m	Full year 2000 £m
Investment income	34	30	61
Interest expense and charges	(12)	(3)	(10)
Realised investment (losses)/gains	(2)	15	19
Unrealised investment depreciation	(29)	(18)	(19)
	<u>(9)</u>	<u>24</u>	<u>51</u>
reported as:			
Allocated to general insurance operating profit	9	10	19
Variation from longer term general insurance investment return	(14)	(4)	(5)
Shareholders' other income	(4)	18	37

The investment return shown represents the return on the general insurance and shareholders' funds excluding that in respect of SRC and non-insurance operations (primarily Legal & General Bank Ltd).

### 6. Sale of Fairmount Group

A wholly owned subsidiary, Fairmount Group plc, was sold to Brown Shipley & Co Ltd on 22 June 2001, subject to regulatory approval. This transaction resulted in an exceptional profit before tax of £8m (£8m after tax). The results to the date of sale have been reported in these financial statements as discontinued business. This transaction generated net proceeds of £35m against which has been charged goodwill of £20m, previously written off against reserves.

## Notes to Financial Statements

Six months ended 30 June 2001

### 7. Movement in Shareholder Retained Capital (SRC) in the UK Long Term Fund

	Six months to 30.6.01 £m	Six months to 30.6.00 £m	Full year 2000 £m
Investment income	26	21	42
Interest expense and charges	0	0	(1)
Realised investment gains	32	63	106
Unrealised investment depreciation	(125)	(96)	(171)
<b>Investment return on SRC</b>	<b>(67)</b>	<b>(12)</b>	<b>(24)</b>
Net capital released from non-profit business	9	160	231
Distribution of operating profit from non-profit business	(107)	(88)	(177)
<b>SRC contribution before tax</b>	<b>(165)</b>	<b>60</b>	<b>30</b>
SRC at 1 January	2,153	1,981	1,981
SRC contribution before tax	(165)	60	30
Tax	19	(36)	(44)
SRC contribution after tax	(146)	24	(14)
Change in the net asset values of SRC subsidiaries	12	18	39
Movement in subordinated debt	50	-	147
<b>SRC at end of period</b>	<b>2,069</b>	<b>2,023</b>	<b>2,153</b>

The SRC balance at the end of the period includes £197m (31.6.00: £nil; 31.12.00: £147m) of intra-group subordinated debt capital previously reported within Corporate funds.

## Notes to Financial Statements

Six months ended 30 June 2001

### 8. Tax

	Six months to 30.6.01		Six months to 30.6.00		Full year 2000	
	Profit/(loss) before tax £m	Tax (charge)/ credit £m	Profit before tax £m	Tax (charge)/ credit £m	Profit before tax £m	Tax (charge)/ credit £m
<i>Profit from continuing operations</i>						
Life and pensions	208	(63)	180	(47)	364	(97)
Investment management	22	(6)	29	(8)	59	(20)
General insurance	16	(5)	9	(3)	20	(6)
Other operational income	(15)	(3)	15	(10)	34	(16)
	<b>231</b>	<b>(77)</b>	233	(68)	477	(139)
<i>Profit from discontinued operations</i>						
Other operational income - Fairmount Group	0	0	1	0	2	(1)
<b>Tax charge on operating profit</b>	<b>231</b>	<b>(77)</b>	234	(68)	479	(140)
Variation from longer term general insurance investment return	(14)	4	(4)	1	(5)	1
Change in equalisation provision	(3)	1	(3)	1	(6)	2
SRC contribution	(165)	19	60	(36)	30	(44)
Profit on sale of Fairmount Group	8	-	-	-	-	-
<b>Tax charge on profit from ordinary activities</b>	<b>57</b>	<b>(53)</b>	287	(102)	498	(181)

## Notes to Financial Statements

Six months ended 30 June 2001

9. Funds under management	As at 30.6.01 £m	As at 30.6.00 £m	As at 31.12.00 £m
Land and buildings	3,555	3,664	3,582
Shares, variable yield securities and unit trusts	13,722	15,513	15,069
Debt and other fixed income securities	13,525	12,628	13,451
Loans secured by mortgages	1,308	1,130	1,289
Other loans and investments	550	464	384
Deposits with credit institutions	1,351	951	1,302
<b>Total investments</b>	<b>34,011</b>	<b>34,350</b>	<b>35,077</b>
Assets held to cover linked liabilities	70,692	68,618	70,678
<b>Funds included in the consolidated balance sheet</b>	<b>104,703</b>	<b>102,968</b>	<b>105,755</b>
Segregated funds	4,677	4,753	4,565
Unit trusts, PEPs and ISAs (excluding cash ISAs)	3,830	3,778	3,867
<b>Total funds under management</b>	<b>113,210</b>	<b>111,499</b>	<b>114,187</b>
representing:			
Managed in the UK			
- Active	32,499	34,523	34,751
- Index tracking	76,129	72,279	74,913
- for overseas subsidiaries	1,163	999	1,089
	<b>109,791</b>	<b>107,801</b>	<b>110,753</b>
Mortgages and other	1,932	1,876	1,735
	<b>111,723</b>	<b>109,677</b>	<b>112,488</b>
Managed overseas	1,487	1,822	1,699
	<b>113,210</b>	<b>111,499</b>	<b>114,187</b>
Institutional fund management comprised			
UK Managed funds			
- Pooled funds	61,958	59,881	61,832
- Segregated funds	2,274	2,501	2,213
	<b>64,232</b>	<b>62,382</b>	<b>64,045</b>
Other funds	2,403	2,252	2,434
	<b>66,635</b>	<b>64,634</b>	<b>66,479</b>



## Notes to Financial Statements

Six months ended 30 June 2001

<b>10. Shareholders' funds</b>	As at 30.6.01 £m	As at 30.6.00 £m	As at 31.12.00 £m
At 1 January	3,187	3,085	3,085
Total recognised gains and losses	10	201	334
Dividends	(83)	(77)	(243)
Increase in share capital/premium	3	8	11
Fairmount Group plc goodwill written back on sale	20	-	-
At end of period	<u>3,137</u>	<u>3,217</u>	<u>3,187</u>
Comprising:			
Share capital	129	129	129
Share premium	145	140	142
Profit and loss account	2,863	2,948	2,916
	<u>3,137</u>	<u>3,217</u>	<u>3,187</u>

The number of fully paid ordinary shares of 2.5p in issue was 5,153m (30.6.00: 5,145m; 31.12.00: 5,149m).

<b>11. Segmental analysis of shareholders' funds</b>	As at 30.6.01 £m	As at 30.6.00 £m	As at 31.12.00 £m
<i>Life and Pensions</i>			
- UK (SRC)*	1,841	1,841	1,952
- USA	528	423	483
- Netherlands	18	18	15
- France	41	42	43
	<u>2,428</u>	<u>2,324</u>	<u>2,493</u>
Investment management **	133	98	117
General insurance	88	73	76
Banking	93	94	92
Corporate funds **	395	628	409
	<u>3,137</u>	<u>3,217</u>	<u>3,187</u>

\* Excluding £228m (30.6.00: £182m; 31.12.00: £201m) in respect of the net assets of SRC subsidiaries but including £197m (30.6.00: £nil; 31.12.00: £147m) of intra-group subordinated debt capital attributed to the SRC previously reported within Corporate funds.

\*\* Corporate funds includes Legal & General (Unit Trust Managers) Ltd and Legal & General (Portfolio Management Services) Ltd previously reported within Investment management.

## Notes to Financial Statements

Six months ended 30 June 2001

### 12. Borrowings

	As at 30.6.01 £m	As at 30.6.00 £m	As at 31.12.00 £m
Mortgage-related	317	257	279
Attributed to the SRC	197	-	147
Other	259	138	145
	<u>773</u>	<u>395</u>	<u>571</u>

### 13. UK Long Term Fund

	As at 30.6.01 £bn	As at 30.6.00 £bn	As at 31.12.00 £bn
With-profits business	25.9	26.9	27.0
Non-profit business	9.5	8.9	9.4
Sub-fund	0.3	0.3	0.3
SRC	2.1	2.0	2.2
	<u>2.4</u>	<u>2.3</u>	<u>2.5</u>
<b>Value of fund</b>	<u>37.8</u>	<u>38.1</u>	<u>38.9</u>

Assets of the fund are valued at market value.

## Consolidated cash flow statement (excluding long term business and SRC)

Six months ended 30 June 2001

	Six months to 30.6.01 £m	Six months to 30.6.00 £m	Full year 2000 £m
Net cash inflow from operating activities	177	245	55
Interest paid	(12)	(3)	(9)
Tax paid	(4)	(2)	(12)
Capital expenditure: net receipts/(payments)	2	-	(3)
Dividends paid	(166)	(146)	(223)
<i>Financing</i>			
- Issue of share capital	3	8	11
- (Decrease)/increase in debt	174	(19)	131
	177	(11)	142
	174	83	(50)
<i>Cash flows (not including long term business) were invested/(divested) as follows:</i>			
(Decrease)/increase in cash holdings	(3)	8	3
Shares, variable yield securities and unit trusts	0	(11)	(1)
Debt and other fixed income securities	(29)	(282)	(302)
Deposits with credit institutions	30	71	193
Other loans and investments	176	297	57
Net portfolio investment/(divestment)	177	75	(53)
Net investment/(divestment)	174	83	(50)
<b>Reconciliation of profit before tax to operating cash flow</b>			
Profit on ordinary activities before tax	57	287	498
- Profits relating to long term business and SRC	(59)	(266)	(454)
- Cash received from long term business	168	198	49
- Other items	11	26	(38)
<b>Net cash inflow from operating activities</b>	<b>177</b>	<b>245</b>	<b>55</b>

## Part 3

# Legal & General Group Plc

### Supplementary financial statements on the Achieved Profits basis

*Six months ended 30 June 2001*

A description of the Achieved Profits methodology was provided in the 2000 Report and Accounts. The principal activities which are not affected by the use of Achieved Profits are considered in Parts 1 and 2 of this release.

#### 2001 Interim results

The Group's operating profit before tax grew to £351m (1H00: £339m). The 2001 result was driven by the strong growth in the profits of the life and pensions businesses, which in total increased by 16% to £319m, with the contribution from new business up 41% to £97m (1H00: £69m).

The profit before tax of £193m (1H00: £256m) included the impact of a negative investment return variance of £199m (1H00: £90m negative). Shareholders' funds were £5,318m (31.12.00: £5,274m), which represented an annualised after-tax return of 5%, before dividends of £83m.

#### UK life and pensions

The operating profit before tax increased by 23% to £265m (1H00: £216m). The contribution from new business was up 57% to £77m (1H00: £49m), reflecting strong sales growth, associated unit cost benefits and a favourable mix. The new business contribution as a percentage of APE increased to 29% from 27% for full year 2000. We have again written new business which delivers significant value to shareholders. Further contributions to operating profit will arise from the subsequent management of this business.

The contribution from in-force business increased by 25% to £127m (1H00: £102m), exceeding the anticipated return. The contribution from shareholder net worth of £61m (1H00: £65m) reflected the impact of a lower anticipated rate of return.

Profit before tax of £155m (1H00: £131m) includes the impact of both variances from the assumed investment return and economic assumption changes. Weak investment markets gave rise to a combined investment return from equities and property 8.1% lower (1H00: 4.3% lower) than the assumption for the six months period. These market conditions generated a negative investment variance of £154m (1H00: £82m negative). The effect of economic assumption changes resulted in a positive contribution of £44m (1H00: £3m negative), reflecting the increase in interest rates particularly at longer durations.

#### Investment management

The operating profit from Investment management was £31m (1H00: £40m). This included a profit of £28m (1H00: £36m) from the UK Managed Funds business which no longer benefits from double tax relief (1H00: £7m benefit). New Managed Funds business, which included one particularly large mandate, increased by 14% to £6.0bn (1H00: £5.3bn). The contribution from new business was £17m (1H00: £18m).

The result of the UK unit trust and ISA/PEP business, previously included within the Investment management result, is now included in Other operational income.

# Legal & General Group Plc

## Supplementary financial statements on the Achieved Profits basis

*Six months ended 30 June 2001*

### International life and pensions

Operating profit from international businesses was £54m (1H00: £58m), with a new business contribution of £20m (1H00: £20m).

#### USA

The operating profit was £33m (1H00: £35m). The contribution from new business was £12m (1H00: £14m). Volumes decreased by 35% to £26m APE compared with the first half of 2000 when exceptional volumes were generated relating to the introduction of Triple X. The impact of these lower volumes in the first half was partly offset by higher margins on post-Triple X business, with the new business contribution as a percentage of APE being 47%. The in-force business contributed £16m (1H00: £18m), primarily reflecting the impact of a lower anticipated rate of return.

#### Europe

The operating profits of the Dutch and French businesses were £12m (1H00: £8m) and £9m (1H00: £15m) respectively. The combined contribution from new business was £8m (1H00: £6m).

### Embedded values

The embedded value of the UK life and pensions business was £3,866m (31.12.00: £3,868m). The growth in the UK embedded value, before capital movements and the distributions, represented an annualised return of 4% after tax. The embedded value of the UK Managed Funds business was £128m (31.12.00: £134m) and the embedded value of the international businesses grew to £615m (31.12.00: £578m), representing annualised returns after-tax of 12% and 7% respectively, before distributions and exchange movements.

## Consolidated Profit & Loss Account - Achieved Profits basis

Six months ended 30 June 2001

	Six months to 30.6.01 £m	Six months to 30.6.00 £m	Full year 2000 £m
<i>Profit from continuing operations</i>			
UK life and pensions (Note 1)	265	216	454
International life and pensions (Note 1)			
- USA	33	35	45
- Netherlands	12	8	17
- France	9	15	24
	54	58	86
Investment management	31	40	82
General insurance	16	9	20
Other operational income	(15)	15	34
	351	338	676
<i>Profit from discontinued operations</i>			
Other operational income - Fairmount Group	0	1	2
<b>Operating profit before tax</b>	<b>351</b>	<b>339</b>	<b>678</b>
Variation from longer term investment return	(199)	(90)	(306)
Change in equalisation provision	(3)	(3)	(6)
Effect of economic assumption changes	36	10	26
Profit on sale of Fairmount Group	8	-	-
<b>Profit on ordinary activities before tax</b>	<b>193</b>	<b>256</b>	<b>392</b>
Tax on profit on ordinary activities	(88)	(97)	(149)
<b>Profit for the financial period</b>	<b>105</b>	<b>159</b>	<b>243</b>
Dividends payable	83	77	243
<i>Earnings per share</i>			
- based on operating profit from continuing operations after tax	4.81p	4.66p	9.49p
- based on profit for the financial period	2.05p	3.10p	4.74p
<i>Diluted earnings per share</i>			
- based on operating profit from continuing operations after tax	4.80p	4.65p	9.47p
- based on profit for the financial period	2.04p	3.09p	4.73p
<i>Dividend per share</i>	1.63p	1.48p	4.71p

The results for the six months ended 30 June 2001 and 30 June 2000 are unaudited, but have been subject to a review by the auditors.

Other operational income includes the results of Legal & General (Unit Trust Managers) Ltd and Legal & General (Portfolio Management Services) Ltd previously reported within Investment management.

## Consolidated Balance Sheet - Achieved Profits basis

As at 30 June 2001

	As at 30.6.01 £m	As at 30.6.00 £m	As at 31.12.00 £m
<i>Assets</i>			
Investments	<b>34,011</b>	34,350	35,077
Assets held to cover linked liabilities	<b>70,692</b>	68,618	70,678
Other assets	<b>5,177</b>	4,460	4,626
	<b>109,880</b>	107,428	110,381
<i>Liabilities</i>			
Shareholders' funds (Note 4)	<b>5,318</b>	5,356	5,274
Fund for future appropriations	<b>2,940</b>	5,147	4,331
Technical provisions			
- Technical provisions for linked liabilities	<b>70,592</b>	68,529	70,566
- Other long term business provisions	<b>27,551</b>	25,023	26,692
- General insurance provisions	<b>329</b>	333	350
	<b>98,472</b>	93,885	97,608
Borrowings	<b>773</b>	395	571
Bank customer deposits	<b>1,186</b>	1,245	1,307
Other creditors	<b>1,191</b>	1,400	1,290
	<b>109,880</b>	107,428	110,381

## Notes to Financial Statements - Achieved Profits basis

Six months ended 30 June 2001

### 1. Profit from long term business

	Six months to 30.6.01		Six months to 30.6.00		Full year 2000	
	UK Life and Pensions	UK Managed Funds *	UK Life and Pensions	UK Managed Funds *	UK Life and Pensions	UK Managed Funds *
	£m	£m	£m	£m	£m	£m
Contribution from						
- New business	77	17	49	18	118	35
- In-force business	127	11	102	18	209	40
- Shareholder net worth	61	-	65	-	127	-
<b>Operating profit</b>	<b>265</b>	<b>28</b>	<b>216</b>	<b>36</b>	<b>454</b>	<b>75</b>
Variation from longer term investment return**	(154)	(16)	(82)	(7)	(274)	(18)
Effect of economic assumption changes	44	(1)	(3)	0	10	2
<b>Profit before tax</b>	<b>155</b>	<b>11</b>	<b>131</b>	<b>29</b>	<b>190</b>	<b>59</b>
Tax	(69)	(3)	(50)	(9)	(75)	(18)
<b>Profit after tax</b>	<b>86</b>	<b>8</b>	<b>81</b>	<b>20</b>	<b>115</b>	<b>41</b>
	<b>International</b>	<b>Total</b>	<b>International</b>	<b>Total</b>	<b>International</b>	<b>Total</b>
	£m	£m	£m	£m	£m	£m
Contribution from						
- New business	20	114	20	87	43	196
- In-force business	27	165	28	148	25	274
- Shareholder net worth	7	68	10	75	18	145
<b>Operating profit</b>	<b>54</b>	<b>347</b>	<b>58</b>	<b>310</b>	<b>86</b>	<b>615</b>
Variation from longer term investment return**	(15)	(185)	3	(86)	(9)	(301)
Effect of economic assumption changes	(7)	36	13	10	14	26
<b>Profit before tax</b>	<b>32</b>	<b>198</b>	<b>74</b>	<b>234</b>	<b>91</b>	<b>340</b>
Tax	(12)	(84)	(26)	(85)	(32)	(125)
<b>Profit after tax</b>	<b>20</b>	<b>114</b>	<b>48</b>	<b>149</b>	<b>59</b>	<b>215</b>

\* Included in the Investment management result of £31m (1H00: £40m; FY00: £82m)

\*\* The variation from longer term investment return represents the excess/(deficit) 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.



## Notes to Financial Statements - Achieved Profits basis

Six months ended 30 June 2001

### 2. Embedded value

	As at 30.6.01		As at 30.6.00		As at 31.12.00	
	UK Life and Pensions £m	UK Managed Funds £m	UK Life and Pensions £m	UK Managed Funds £m	UK Life and Pensions £m	UK Managed Funds £m
Value of in-force business	2,457	128	2,345	133	2,334	134
Shareholder net worth	1,409	-	1,451	-	1,534	-
<b>Embedded value</b>	<b>3,866</b>	<b>128</b>	<b>3,796</b>	<b>133</b>	<b>3,868</b>	<b>134</b>
	International £m	Total £m	International £m	Total £m	International £m	Total £m
Value of in-force business	369	2,954	403	2,881	356	2,824
Shareholder net worth	246	1,655	131	1,582	222	1,756
<b>Embedded value</b>	<b>615</b>	<b>4,609</b>	<b>534</b>	<b>4,463</b>	<b>578</b>	<b>4,580</b>

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

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 allowance for tax. It includes intra-group subordinated debt capital of £197m (30.6.00: £nil; 31.12.00: £147m), but excludes the net assets of £228m (30.6.00: £182m; 31.12.00: £201m) of Long Term Fund operational subsidiaries.

### 3. Movement in embedded value

	Six months to 30.6.01		Six months to 30.6.00		Full year 2000	
	UK Life and Pensions £m	UK Managed Funds £m	UK Life and Pensions £m	UK Managed Funds £m	UK Life and Pensions £m	UK Managed Funds £m
At 1 January	3,868	134	3,824	130	3,824	130
Profit after tax	86	8	81	20	115	41
Capital movements	35	-	-	-	147	-
Distributions	(123)	(14)	(109)	(17)	(218)	(37)
At end of period	<b>3,866</b>	<b>128</b>	<b>3,796</b>	<b>133</b>	<b>3,868</b>	<b>134</b>
	International £m	Total £m	International £m	Total £m	International £m	Total £m
At 1 January	578	4,580	461	4,415	461	4,415
Exchange rate movement	18	18	25	25	28	28
	<b>596</b>	<b>4,598</b>	<b>486</b>	<b>4,440</b>	<b>489</b>	<b>4,443</b>
Profit after tax	20	114	48	149	59	215
Capital movements	-	35	-	-	34	181
Distributions	(1)	(138)	0	(126)	(4)	(259)
At end of period	<b>615</b>	<b>4,609</b>	<b>534</b>	<b>4,463</b>	<b>578</b>	<b>4,580</b>

## Notes to Financial Statements - Achieved Profits basis

Six months ended 30 June 2001

### 4. Segmental analysis of shareholders' funds

	As at 30.6.01	As at 30.6.00	As at 31.12.00
	£m	£m	£m
<i>Embedded value of life and pension businesses</i>			
- UK*	<b>3,866</b>	3,796	3,868
- USA	<b>481</b>	397	443
- Netherlands	<b>70</b>	68	67
- France	<b>64</b>	69	68
	<b>4,481</b>	4,330	4,446
Investment management**	<b>261</b>	231	251
General insurance	<b>88</b>	73	76
Banking	<b>93</b>	94	92
Corporate funds***	<b>395</b>	628	409
	<b>5,318</b>	5,356	5,274

\* Includes £197m (30.6.00: £nil; 31.12.00: £147m) of intra-group subordinated debt capital attributed to the SRC previously reported within Corporate funds.

\*\* Includes £128m (30.6.00: £133m; 31.12.00: £134m) embedded value of UK Managed Funds business. All other Investment management subsidiaries are included at net asset value.

\*\*\* The net assets of the other UK Long Term Fund operational subsidiaries, including Legal & General (Unit Trust Managers) Ltd and Legal & General (Portfolio Management Services) Ltd which were previously reported within Investment management, are included in Corporate funds.

## Notes to Financial Statements - Achieved Profits basis

Six months ended 30 June 2001

### 5. Assumptions

Key economic assumptions are set out below and should be read in conjunction with the notes to the supplementary financial statements in the 2000 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.

UK	As at 30.6.01 % p.a.	As at 30.6.00 % p.a.	As at 31.12.00 % p.a.	As at 31.12.99 % p.a.
<i>Type of investment</i>				
<i>Gilts</i>				
- Fixed interest and RPI linked	5.3	4.9	4.7	5.1
<i>Non-gilts</i>				
- Fixed interest	5.8 - 6.9	6.6	5.3 - 6.5	6.4
- RPI linked	5.4 - 6.3	4.9	5.0 - 6.0	5.1
Equities and property	7.9	7.5	7.3	7.7
<i>Risk discount rate (after tax)</i>	7.8	7.4	7.2	7.6
<i>Inflation</i>				
Expenses/earnings	3.7	4.0	3.6	4.2
Indexation	2.7	3.0	2.6	3.2
 <b>USA</b>				
Reinvestment rate	8.0	7.6	7.0	7.6
Risk discount rate (after tax)	9.0	8.6	7.7	9.0

Operational assumptions, which are reviewed annually to reflect recent operating experience, are largely unchanged from those made at the end of 2000. The value of new business has been calculated using actual acquisition costs.

### 6. Alternative assumptions

The discount rate appropriate to any investor will depend on the investor's circumstances, tax position and perception of the risks associated with the anticipated cash flows to shareholders.

The table below shows the effect on UK life and pensions embedded value of calculations at alternative discount rates and equities and property yields.

	As published	1% lower risk discount rate	1% higher risk discount rate	1% higher equities/property yields
Effect on embedded value at 30 June 2001	£3,866m	+£330m	-£290m	+£300m

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