Stock Exchange Release - Part 1
27 July 2006

Continuing to build value

• **Worldwide new business APE[1] £896m:**	**+37%**
• **UK individual new business APE £754m:**	**+46%**
• **EEV[2] new life and pensions contribution £192m:**	**+37%**
• **£10.8bn new institutional funds under management:**	**+56%**
• **EEV operating profit £560m:**	**+17%**
• **IFRS[3] operating profit £334m:**	**+12%**
• **Interim dividend 1.74p:**	**+5%**

NEWS

Group Chief Executive, Tim Breedon, said:

"Legal & General delivered another strong set of results in the first half of 2006. Worldwide sales were up 37% in APE terms to £896m. In the UK, individual new business rose by 46% and life and pensions sales increased by 16%, with strong growth in savings, individual protection and bulk purchase annuities. Growth in our investment management business accelerated, with nearly £11bn of new institutional funds under management.

New business growth was achieved whilst increasing profitability. The contribution from new life and pensions business was up 37% to £192m.

Worldwide operating profit on the EEV basis grew by 17% to £560m. Given our operational strengths and the returns being driven from profitable business written in the past, the Board has recommended a 5% increase in the interim dividend.

Legal & General has been successful in seizing opportunities in a changing and growing marketplace. We continue to challenge the organisation to find new opportunities to improve the business model and to deliver further profitable growth. We believe that we have the expertise and breadth of product range to continue to outgrow the market."

Notes:

1. Annual Premium Equivalent – comprises the new annual premiums together with 10% of single premiums
2. European Embedded Value
3. International Financial Reporting Standards

Financial highlights	EEV basis		IFRS basis	
	H1 2006	% change on H1 2005	H1 2006	% change on H1 2005
Operating profit	£560m	*17*	£334m	*12*
Profit from continuing operations before tax	£676m	*(4)*	£401m	*(18)*
New life and pensions business (PVNBP[1])	£4,095m	*14*	N/A	*N/A*
Contribution from new life and pensions business	£192m	*37*	N/A	*N/A*
Interim dividend per share	1.74p	*5*	1.74p	*5*
UK shareholder net worth/retained capital	£1,714m	*17*	£2,591m	*13*
Ordinary shareholders' equity	£7,166m	*16*	£4,252m	*12*
Ordinary shareholders' equity per share	110p	*16*	65p	*12*

Notes

1. Present value of new business premiums

Overview of results

Worldwide new business increased by 37% in APE terms to £896m (H1 2005: £652m). New UK life and pensions business was 16% higher at £496m (H1 2005: £426m), driven by growth in savings, individual protection and bulk purchase annuities. UK retail investments new business more than doubled from £169m to £342m APE, benefiting from a large institutional transfer, but also from good underlying retail demand. Our investment management business attracted £10.8bn of new institutional funds under management.

On an EEV basis, the Group's profit before tax decreased marginally to £676m (H1 2005: £705m) as a result of lower equity market performance in H1 2006 compared with H1 2005.

EEV operating profit was up 17%, reflecting strong results in our UK life, pensions and investment management businesses. The PVNBP margin on sales of UK life and pensions products increased from 4.6% for the full year 2005 to 4.9%, with higher margins in all non profit business categories. The internal rate of return on new non profit business was 16% in H1 2006 (FY 2005: 15%). The contribution from new UK life and pensions business of £179m grew by 39% (H1 2005: £129m), benefiting from improved margins, sales and mix. Overall UK life and pensions operating profit was up 19% for the half year to £405m (H1 2005: £340m). Our overseas operations generated an increase of 13% in operating profit from £45m in H1 2005 to £51m in H1 2006.

On an IFRS basis, operating profit increased by 12% from £298m in H1 2005 to £334m in H1 2006. Operating profit from our investment management business grew by 35% to £65m (H1 2005: £48m), demonstrating the benefits of scale and quality of execution. General Insurance operating profit was £2m for the half year (H1 2005: £4m). This lower level of profit was the result of closure costs associated with our decision to withdraw from our small position in the motor insurance market and increased competition in the broker channel.

UK distribution

The Cofunds platform continues to play an important part in our distribution strategy. At the end of January 2006, we made the Legal & General Portfolio Bond available to IFAs via the platform. This provides investors with the opportunity to invest in over 200 funds, with all the additional administrative benefits the platform technology offers. This was followed by the launch of our Self Invested Personal Pension in April. Both products have been well received by the IFA market. We are delighted with performance to date and will continue to invest in the integration of our products onto the Cofunds platform, in line with our original business plan.

Our business partnership with Connells, one of the UK's largest estate agencies, began trading in the first week of July and we have recently announced an agreement with Citibank to offer protection products to their UK customers. We now work with over 30 UK banks and building societies as business partners.

The scale, breadth and efficiency of our distribution continue to underpin our success in the savings, protection and investment markets in the UK.

Dividend

The Board has recommended an interim dividend of 1.74 pence per share, an increase of 5% on the 2005 interim dividend of 1.65 pence per share.

Outlook

The UK market continues to offer significant opportunities. The public debate around the future of pensions saving in the UK, as well as activity surrounding Pensions A-Day, has increased awareness of the need to save. We expect this to continue to stimulate the savings and investment markets.

We believe there are further opportunities for Legal & General arising from evolution in the pensions arena. In the bulk purchase annuity market, we continue to see strong demand from pension funds seeking to manage mortality, investment and expense risk. Activity remains high and we believe there are early signs of greater demand from larger schemes. Our investment management business continues to benefit from its reputation for excellence in managing pension fund assets.

Open architecture is changing and improving the way we do business with IFAs, tied partners and customers. This technology, which provides a single point of access to multiple funds and investment options, has already made a positive impact in our bond business and has the potential to do so in the pensions segment.

We continue to invest in our technology, our processes and our expertise to ensure that we are able to take advantage of opportunities in our core UK markets going forward.

Enquiries to:

Investors:

Jonathan Maddock, Head of Investor Relations	020 7528 6298
Nicola Marshall, Investor Relations Manager	020 7528 6263

Media:

John Morgan, Media Relations Director	020 7528 6213
Anthony Carlisle, Citigate Dewe Rogerson	07973 611888

Notes:

- Issued share capital at 30 June 2006 was 6,527,906,573 shares of 2.5p each.
- A copy of this announcement can be found in the News and Results section of our shareholder web site at http://investor.legalandgeneral.com/releases.cfm
- A presentation to analysts and fund managers will take place at 09.30 GMT today at Temple Court, 11 Queen Victoria Street, London EC4N 4TP.
- There will be a live listen only teleconference link to the presentation. UK investors should dial 0845 245 3471 and overseas investors should dial +44 (0)1452 542 300. The conference ID number is 3533797.
- The presentation slides will be available from 09.20 GMT at http://investor.legalandgeneral.com/results.cfm
- An audio-cast of the presentation will be available later today at http://investor.legalandgeneral.com/presentations.cfm

The following financial information was approved by the Board on 26 July 2006.

The results for the six months to 30 June 2006 and 30 June 2005 are unaudited, but have been subject to a review by the independent auditors and constitute non-statutory accounts within the meaning of Section 240 of the Companies Act 1985. The Group consolidated financial statements for the year ended 2005 published on 16 March 2006 have been filed with the Registrar of Companies and include an independent auditors' report which is unqualified and does not contain a statement under either Sections 237(2) or 237(3) of the Companies Act 1985.

Financial calendar 2006:

Ex-dividend date for interim dividend	6 September
Record date for interim dividend	8 September
Payment date for interim dividend	2 October
Third quarter new business results	18 October

A Dividend Reinvestment Plan is available to shareholders.

Forward-looking statements:

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

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Business review

New business

£m	H1 2006 APE	H1 2006 PVNBP	H1 2005 APE	H1 2005 PVNBP
UK life and pensions:				
Protection	**111**	**555**	109	478
Annuities	**71**	**708**	79	787
Savings: Unit linked bonds	**121**	**1,213**	94	939
Savings: Pensions – Stakeholder and other non profit	**91**	**535**	72	471
With-profits	**102**	**602**	72	466
Total UK life and pensions	**496**	**3,613**	426	3,141
International life and pensions	**57**	**482**	56	464
Total life and pensions	**553**	**4,095**	482	3,605
UK retail investments	**342**	**N/A**	169	N/A
International retail investments	**1**	**N/A**	1	N/A
Total retail investments	**343**	**N/A**	170	N/A
Total new business	**896**	**N/A**	652	N/A
Institutional fund management	**£10.8bn**		£6.9bn	

UK LIFE AND PENSIONS – H1 PVNBP up 15% to £3,613m

Protection – H1 PVNBP up 16% to £555m

Individual protection annual premiums grew by 16% to £78m (H1 2005: £67m), against a backdrop of an improved housing market. We successfully launched a pension term assurance product in April this year and are encouraged by performance to date, with the product recently accounting for over 30% of IFA life insurance applications.

Scale is critical in the individual protection segment, where we estimate that we have increased market share by three percentage points in Q1 2006 to nearly 20% (Q4 2005: 17%). We continue to invest in our underwriting expertise and infrastructure to improve further our competitive position.

Group Risk annual premiums fell by 21% to £33m (H1 2005: £42m). 2004 and 2005 new business figures benefited from the withdrawal of a competitor at the end of 2003. We have seen broadly stable annual premiums in Q2 2006 of £16m against £17m in Q1 2006.

Overall, protection volumes increased by 16% to £555m in the first half of 2006 (H1 2005: £478m) on a PVNBP basis and by 2% on an APE basis. The PVNBP growth rate reflects the change in mix towards individual business, where, on average, we expect to receive premiums for longer than on group business.

Annuities – H1 PVNBP down 10% to £708m

The high level of competitive activity in the individual annuity market, which we noted during 2005, continued in the early part of 2006. Although single premium individual annuities decreased from £458m in H1 2005 to £209m in H1 2006, our competitive position improved significantly in the second quarter of 2006. Single premiums nearly trebled from £56m in Q1 2006 to £153m in Q2 2006, as bond yields rose and as customers, who had delayed their purchase until the application of new pensions A-Day tax rules, entered the market. The resulting uplift in application volumes has yet to be fully reflected in completed sales. As announced earlier this year, we became the default annuity provider for Skandia's maturing pension customers in May.

The bulk purchase annuity business saw high levels of sales and quotation activity in the first half of this year. We completed more than 150 new policies, with an average case size of just over £3m. This lifted single premiums by 52% to £499m (H1 2005: £329m). We continue to focus on service excellence and have substantial pricing and processing expertise, built up over some 20 years, in managing high volumes of schemes. We believe that there is opportunity for significant additional growth in new products offering longevity risk management to larger schemes and we have seen early signs of increased activity in this area.

Savings: Unit linked bonds – H1 PVNBP up 29% to £1,213m

Legal & General's Portfolio Bond was an important driver behind the 29% increase in premiums to £1,213m in the first half of 2006 (H1 2005: £939m). In the year to date, over 25% of new bond business from IFAs came through the Cofunds platform, which provides advisors with the opportunity to simplify their administration while offering access to a wide range of funds. We believe the strength of our open architecture offering will be an important factor in driving and shaping our bond business in the future.

Savings: Pensions – H1 PVNBP up 14% to £535m

We saw strong growth in pensions volumes in the first half of 2006 to £535m from £471m in H1 2005, driven primarily by our success in the corporate segment. Taking advantage of the open architecture model, we launched our Self Invested Personal Pension on the Cofunds platform in April this year. The public debate on the future of pensions saving in the UK has, we believe, helped to increase awareness among consumers of the need to save for retirement. Additionally, pensions A-Day has stimulated the pensions transfer market, as investors seek to consolidate their assets into a single pool.

With-profits – H1 PVNBP up 29% to £602m

The strength of the pensions market has also fed into sales of pensions products written in the with-profits part of the long term fund. This includes those unit linked contracts which offer a with-profits option. The historically higher margin with-profits bond contracts continued to decline, decreasing by 59% to £42m of single premiums in H1 2006 (H1 2005: £103m).

INTERNATIONAL LIFE AND PENSIONS – H1 PVNBP up 4% to £482m

Although market conditions remained difficult, sales in our US operation increased by 6% to £145m (H1 2005: £137m). New business was little changed in France at £195m (H1 2005: £198m) and increased by 10% in the Netherlands to £142m (H1 2005: £129m), driven largely by strong single premium sales. Overall, new business from our overseas operations rose by 4% to £482m.

INVESTMENT MANAGEMENT

Retail investments – H1 up 102% to £343m APE

UK retail investment sales of £342m APE in the first half of 2006 (H1 2005: £169m) benefited from a £1.3bn single premium institutional transfer. Funds under management stood at £19.3bn at 30 June 2006. Legal & General is currently the UK's third largest retail investments provider (Source: Investment Management Association monthly rankings – May 2006).

Institutional fund management – H1 new funds up 56% to £10.8bn

Legal & General Investment Management achieved yet another outstanding new business result in the first half of 2006, winning £10.8bn (H1 2005: £6.9bn) of new funds under management. £1.9bn of this was received from non-pension fund institutions.

Profitability

Consolidated income statement

£m	EEV H1 2006	EEV H1 2005	IFRS H1 2006	IFRS H1 2005
From continuing operations:				
Life and pensions	**456**	385	**252**	228
Investment management	**87**	70	**65**	48
General insurance	**2**	4	**2**	4
Other operational income	**15**	18	**15**	18
Total operating profit	**560**	477	**334**	298
Variation from longer term investment return	**113**	206	**7**	63
Effect of economic assumption changes	**(18)**	11	**N/A**	N/A
Shareholder retained capital movement	**N/A**	N/A	**39**	116
Property income attributable to minority interests	**21**	11	**21**	11
Profit from continuing operations before tax	**676**	705	**401**	488
Tax	**(198)**	(186)	**(124)**	(124)
Effect of UK tax changes	**-**	(276)	**N/A**	N/A
Profit from continuing operations after tax	**478**	243	**277**	364
Profit from discontinued operations	**-**	13	**-**	13
Profit from ordinary activities after tax	**478**	256	**277**	377
Profit attributable to minority interests	**(21)**	(11)	**(21)**	(11)
Profit attributable to equity holders of the Company	**457**	245	**256**	366

Life and pensions – EEV basis

£m	UK H1 2006	UK H1 2005	International H1 2006	International H1 2005	Total H1 2006	Total H1 2005
Present value of new business premiums	**3,613**	3,141	**482**	464	**4,095**	3,605
New business margin (%)	**4.9**	4.1	**2.7**	2.4	**4.7**	3.9
Contribution from new business (after cost of capital)	**179**	129	**13**	11	**192**	140
Contribution from in-force business						
- Expected return	**158**	145	**33**	29	**191**	174
- Experience variances	**53**	11	**(6)**	-	**47**	11
- Operating assumption changes	**(7)**	(4)	**3**	(3)	**(4)**	(7)
Development costs	**(10)**	(5)	**-**	-	**(10)**	(5)
Contribution from shareholder net worth	**32**	64	**8**	8	**40**	72
Operating profit	**405**	340	**51**	45	**456**	385

UK life and pensions

The contribution from new business increased by 39% from £129m to £179m, benefiting from improved sales, mix and margins.

The expected return from in-force business increased by 9% from £145m to £158m, reflecting the unwind of a lower opening discount rate of 7.1% (2005: 7.5%) on a higher opening embedded value.

Opening adjustments to reflect a revision of assessments of prior and future tax resulted in a broadly net neutral impact on EEV operating profit. These have been reported as a positive experience variance and a similar reduction in the return from the shareholder net worth. Excluding this, underlying variances and assumption changes were a small positive. The BPA data loading project once again had a positive impact, with £17m in experience variances and £15m in assumption changes. Persistency, mortality and morbidity experience on our overall book of business are subject to full annual investigations and operating assumptions are normally fully reviewed during the second half. In the first half of 2006, there were small negative persistency variances on with-profits bonds and pensions, partly offset by positive mortality and morbidity experience variances from group protection business. In addition, there were minor expense assumption changes, relating to a number of products and to future office rental costs.

Development costs of £10m (H1 2005: £5m) relate primarily to the development of the Cofunds platform.

International life and pensions

EEV operating profit from our international operations grew by 13% to £51m (H1 2005: £45m), with increased results across our businesses. In the Netherlands, operating profit grew by 6% to £17m (H1 2005: £16m), reflecting higher sales and lower capital requirements on certain products. Operating profit in France increased by 40% to £14m (H1 2005: £10m) with improved margins. On the in-force book, adverse mortality assumption changes were offset by favourable persistency. In the USA, the decline in new business in 2005 increased the unit expenses in the first half of this year, giving rise to a negative margin of 1.9% on new business (H1 2005: positive 2.2%). The margin does not include any benefit from Triple X financing, which we expect to complete in the second half of 2006. Higher expected return from in-force business was partially offset by a small adverse mortality variance. Total operating profit in the USA grew by 5% to £20m (H1 2005: £19m).

Life and pensions – IFRS basis

£m	**H1 2006**	H1 2005
UK operating profit:		
With-profits business	**40**	32
Distribution relating to non profit and shareholder net worth	**157**	133
Subordinated debt interest	**18**	18
	215	183
International operating profit:		
USA	**33**	27
Netherlands	**(3)**	18
France	**7**	-
Operating profit	**252**	228

UK life and pensions

The distribution relating to non profit and shareholder net worth in any year is based on the formula which was agreed with our regulator. It is calculated as 7% of the embedded value of the shareholder retained capital (SRC) and Sub-fund and 5% of the embedded value of the non profit business. At the interim stage, an estimate is made of the provisional half year transfer that would be available from application of the formula based on half year results and after allowance for the transfer from the non profit part of the fund to the SRC. The shareholder net worth and the value of the non profit business both increased by 17% from H1 2005 to H1 2006. Overall, the UK life and pensions operating profit increased from £183m at H1 2005 to £215m at H1 2006. The with-profits transfer grew by 25% to £40m (H1 2005: £32m), reflecting increases in bonuses applied to a higher level of maturities and other claims.

International life and pensions

Higher results from our operations in the USA and France were offset by a reduction in reported profits in our operation in the Netherlands due to the accounting rules surrounding the valuation of assets and liabilities. On an IFRS basis, all assets but not all liabilities must be accounted for at fair value, giving rise to a £3m operating loss in H1 2006 against an £18m operating profit in H1 2005. Further volatility should be expected. Operating profit from our US operations increased by 22% to £33m (H1 2005: £27m), reflecting the increased size of the book. In France, operating profit increased to £7m (H1 2005: £nil), largely as a result of gains made on a property sale.

Investment management – IFRS basis

£m	H1 2006	H1 2005
Investment management operating profits:		
Managed pension funds	**45**	33
Ventures	**2**	2
Property	**4**	3
Retail investments	**5**	4
Other external income	**4**	2
Other operational income	**5**	4
Operating profit	**65**	48
Cost/income ratio	**36%**	36%

Operating profits from our investment management business increased by 35% to £65m (H1 2005: £48m), demonstrating the scalability of the business and continued focus on cost control. The cost/income ratio remained stable at 36% (H1 2005: 36%).

As a result of strong new business inflows, funds under management increased from £204bn at 31 December 2005 to £211bn at 30 June 2006. £152bn of funds at 30 June 2006 were managed on behalf of external clients.

Our supplementary reporting also includes details of the results of our managed pension funds business on an EEV basis which can be found in notes 3.2 and 3.8 of the EEV section of these results. These reflect growth in new business volumes and the continued benefit of strong persistency.

General insurance – IFRS basis

	H1 2006		H1 2005	
£m	Operating profit	Underwriting result	Operating profit	Underwriting result
Household	**2**	**(3)**	2	(5)
Other	**-**	**(3)**	2	-
Operating profit	**2**	**(6)**	4	(5)

Operating profit in our General Insurance business decreased from £4m in H1 2005 to £2m in H1 2006. This is after providing for £4m in closure costs following our decision to withdraw from our small position in the motor insurance market and to focus on building the household insurance book. We will be ceasing to write new motor insurance business or renew existing cover with effect from 1 September 2006. The motor book generated an operating loss before closure costs of £1m in the first half of 2006 (H1 2005: operating loss of £3m).

Our household insurance business offers greater synergies with our existing protection businesses. 38% of mortgages completed via our Legal & General Partnership Services Ltd network in the first half of the year also included our household insurance. The business saw stable gross premium income of £115m in the first half of this year (H1 2005: £115m). Operating profits were unchanged at £2m (H1 2005: £2m), as an improvement in weather claims was offset by increased competition in the broker channel.

Other operational income – IFRS basis

£m	H1 2006	H1 2005 restated
Shareholders' other income:		
Investment return on ordinary shareholders' equity	**69**	55
Interest expense	**(48)**	(30)
	21	25
Other operations	**(1)**	(3)
Unallocated corporate and development expenses	**(5)**	(4)
	15	18

Interest expense has increased following the issuance of €600m of subordinated debt in June 2005. This has been offset by the increased investment return of £69m (H1 2005: £55m), reflecting investment of the issue proceeds prior to their being used to repay the convertible debt in December 2006.

Profit attributable to equity holders

	EEV		IFRS	
£m	**H1 2006**	H1 2005	**H1 2006**	H1 2005
Operating profit	**560**	477	**334**	298
Variation from longer term investment return	**113**	206	**7**	63
Effect of economic assumption changes	**(18)**	11	**N/A**	N/A
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Profit attributable to equity holders of the Company	**457**	245	**256**	366

EEV basis
The Group's profit before tax decreased marginally to £676m (H1 2005: £705m), with lower equity market performance in the first half of this year compared with the prior period. The investment return on the equity and property portfolio of the UK long term fund was 2.1% above the assumption for the period (H1 2005: 3.7%)

IFRS basis
The pre-tax contribution from SRC reduced from £116m in H1 2005 to £39m in H1 2006 as a result of lower investment returns and a lower net capital release from the non profit business of £110m pre-tax (H1 2005: £138m) and £77m net of tax (H1 2005: £97m).

Within this net release, the new business strain of £279m before financing (H1 2005: £207m) was covered by the expected release from the in-force book of £290m before financing (H1 2005: £198m), all on a net of tax basis. A second tranche of term assurance financing had a benefit of £94m to support new business strain, offset by a £26m partial repayment of the financing put in place in 2005. The overall impact of other movements on the net capital released after tax was a negative £2m (H1 2005: positive £106m).

Capital and financing

The Group is required to measure and monitor its capital resources on a regulatory as well as an IFRS basis and to comply with the minimum capital requirements of regulators in each territory in which it operates. In general, the regulators require more prudent assumptions than IFRS. Legal & General's total capital resources are substantially in excess of both total regulatory capital and the minimum regulatory capital it is required to hold.

At Group level, the Insurance Groups Directive capital surplus was £2.3bn (31 December 2005: £2.4bn) in excess of the required capital of £3.8bn (31 December 2005: £4.4bn).

The total regulatory capital resources available to Legal & General Assurance Society Limited, the Group's main UK operating subsidiary, amounted to £8.1bn at 30 June 2006 (31 December 2005: £8.5bn) which included an implicit item of £425m (31 December 2005: £540m) in respect of non profit business, and exceeded the total capital requirements by £4.5bn (31 December 2005: £4.4bn).

As at 30 June 2006, the value of the assets supporting the UK with-profits business was estimated to have exceeded realistic liabilities by £907m (31 December 2005: £842m). The required Risk Capital Margin (RCM) for the with-profits part of the fund, calculated by reassessing realistic assets and liabilities in financially stressed conditions, was £244m at 30 June 2006 (31 December 2005: £327m). The RCM continued to benefit from management actions, which included refinements to our management of investment market risk.

In March 2006, the £400m undated subordinated notes (upper tier 2 regulatory capital) raised in March 2004 and required to be treated as equity at the end of 2005, were reclassified as debt following the modification of terms to remove the discretionary nature of the interest.

New Business

2.1 New business summary

	Notes	**30.06.06 Annual premium equivalent[1] £m**	**30.06.06 PVNBP[2] £m**	**30.06.06 Margin[3] %**	30.06.05 Annual premium equivalent[1] £m	30.06.05 PVNBP[2] £m	30.06.05 Margin[3] %
UK life and pensions	2.2	**496**	**3,613**	**4.9**	426	3,141	4.1
International life and pensions	2.5	**57**	**482**	**2.7**	56	464	2.4
Total life and pensions		**553**	**4,095**	**4.7**	482	3,605	3.9
UK retail investments	2.8	**342**			169		
International retail investments	2.8	**1**			1		
Total retail investments		**343**			170		
		896			652		
Institutional fund management[4]	2.11	**10,758**			6,875		

	Notes	Full year 31.12.05 Annual premium equivalent[1] £m	Full year 31.12.05 PVNBP[2] £m	Full year 31.12.05 Margin[3] %
UK life and pensions	2.2	872	6,621	4.6
International life and pensions	2.5	107	873	2.9
Total life and pensions		979	7,494	4.4
UK retail investments	2.8	315		
International retail investments	2.8	2		
Total retail investments		317		
		1,296		
Institutional fund management[4]	2.11	17,134		

1. Annual Premium Equivalent (APE) is calculated for total new business, including unit trusts and ISAs but excluding institutional fund management, and comprises the new annual premiums together with 10% of single premiums.
2. The present value of new business premiums (PVNBP) on the EEV basis is defined as the present value of annual premiums plus single premiums for any given period. It is calculated using the same assumptions as for the contribution from new business but determined as at the point of sale.
3. The new business margin is defined as the contribution from new business (including the cost of solvency capital) divided by the PVNBP.
4. New monies from pension fund clients of Legal & General Assurance (Pensions Management) Ltd. Corporate pensions gross new business excludes £1.7bn (1H05: £1.8bn; FY05: £4.1bn) which were held through the period on a temporary basis, generally as part of portfolio reconstructions.

2.2 Analysis of UK life and pensions new business by product

Six months ended 30 June 2006	APE £m	Contribution from new business[1] £m	PVNBP £m	Margin %
Protection	**111**	**45**	**555**	**8.0**
Annuities	**71**	**100**	**708**	**14.1**
Savings				
Unit linked bonds	**121**	**36**	**1,213**	**3.0**
Pensions - Stakeholder and other non profit	**91**	**(8)**	**535**	**(1.5)**
With-profits	**102**	**6**	**602**	**1.0**
Total	**496**	**179**	**3,613**	**4.9**
Cost of capital		**3**		
Contribution from new business before cost of capital		**182**		

Six months ended 30 June 2005				
Protection	109	29	478	6.1
Annuities	79	79	787	10.1
Savings				
Unit linked bonds	94	20	939	2.2
Pensions - Stakeholder and other non profit	72	(7)	471	(1.5)
With-profits	72	8	466	1.6
Total	426	129	3,141	4.1
Cost of capital		4		
Contribution from new business before cost of capital		133		

Full year ended 31 December 2005				
Protection	208	82	1,051	7.8
Annuities	154	177	1,539	11.5
Savings				
Unit linked bonds	208	49	2,082	2.3
Pensions - Stakeholder and other non profit	152	(18)	935	(1.9)
With-profits	150	16	1,014	1.6
Total	872	306	6,621	4.6
Cost of capital		8		
Contribution from new business before cost of capital		314		

1. The contribution from new business is defined as the present value at point of sale of assumed profits from new business written in the period and then rolled forward to the end of the financial period using the risk discount rate applicable at the end of the reporting period.

2.3 Internal rate of return on non profit business

	30.06.06 %	30.06.05 %	Full year 31.12.05 %
Non profit internal rate of return (including solvency margin)	**16**	13	15

2.4 Analysis of UK life and pensions PVNBP

	30.06.06 Annual premiums £m	30.06.06 Present value of annual premiums £m	30.06.06 Capitalisation factor[1]	30.06.06 Single premiums £m	30.06.06 PVNBP £m	30.06.05 PVNBP £m	Full year 31.12.05 PVNBP £m
Protection	**111**	**555**	**5.0**	**-**	**555**	478	1,051
Annuities	**-**	**-**	**N/A**	**708**	**708**	787	1,539
Savings							
Unit linked bonds	**-**	**-**	**N/A**	**1,213**	**1,213**	939	2,082
Pensions - Stakeholder and other non profit	**63**	**255**	**4.1**	**280**	**535**	471	935
With-profits	**63**	**213**	**3.4**	**389**	**602**	466	1,014
Total	**237**	**1,023**	**4.3**	**2,590**	**3,613**	3,141	6,621

1. The capitalisation factor is the present value of new annual premiums divided by the amount of new annual premiums.

2.5 Analysis of international life and pensions new business

Six months ended 30 June 2006	APE £m	Contribution from new business[1] £m	Cost of capital £m	PVNBP £m	Margin %
USA	**21**	**(3)**	**4**	**145**	**(1.9)**
Netherlands	**16**	**11**	**2**	**142**	**7.4**
France	**20**	**5**	**4**	**195**	**2.7**
Total	**57**	**13**	**10**	**482**	**2.7**
Six months ended 30 June 2005					
USA	19	3	2	137	2.2
Netherlands	14	6	2	129	4.7
France	23	2	4	198	1.2
Total	56	11	8	464	2.4
Full year ended 31 December 2005					
USA	42	2	6	295	0.8
Netherlands	29	16	5	258	6.1
France	36	7	6	320	2.1
Total	107	25	17	873	2.9

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

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

Six months ended 30 June 2006	APE m	Contribution from new business m	Cost of capital m	PVNBP m	Margin %
USA	**$38**	**($5)**	**$7**	**$260**	**(1.9)**
Netherlands	**€23**	**€15**	**€3**	**€207**	**7.4**
France	**€30**	**€8**	**€6**	**€285**	**2.7**
Six months ended 30 June 2005					
USA	$36	$6	$4	$245	2.2
Netherlands	€20	€9	€2	€191	4.7
France	€32	€3	€7	€293	1.2
Full year ended 31 December 2005					
USA	$75	$4	$10	$507	0.8
Netherlands	€42	€23	€7	€377	6.1
France	€57	€10	€8	€467	2.1

2.7 Analysis of international life and pensions PVNBP

	30.06.06 Annual premiums m	30.06.06 Present value of annual premiums m	30.06.06 Capitalisation factor	30.06.06 Single premiums m	30.06.06 PVNBP m	30.06.05 PVNBP m	Full year 31.12.05 PVNBP m
USA	**$38**	**$260**	**6.8**	**-**	**$260**	$245	$507
Netherlands	**€9**	**€67**	**7.4**	**€140**	**€207**	€191	€377
France	**€14**	**€129**	**9.2**	**€156**	**€285**	€293	€467

2.8 Analysis of retail investments new business

	30.06.06 Annual premiums £m	30.06.06 Single premiums £m	30.06.06 APE £m	30.06.05 Annual premiums £m	30.06.05 Single premiums £m	30.06.05 APE £m
UK	**10**	**3,315**	**342**	10	1,593	169
France	**-**	**10**	**1**	-	10	1
Total	**10**	**3,325**	**343**	10	1,603	170

	Full year 31.12.05 Annual premiums £m	Full year 31.12.05 Single premiums £m	Full year 31.12.05 APE £m
UK	15	2,999	315
France	-	25	2
Total	15	3,024	317

New Business

2.9 Analysis of UK APE new business premiums

	30.06.06 Annual premiums £m	**30.06.06 Single premiums £m**	**30.06.06 APE £m**	30.06.05 Annual premiums £m	30.06.05 Single premiums £m	30.06.05 APE £m	Full year 31.12.05 APE £m
Protection							
- Mortgage related	**52**	**-**	**52**	43	-	43	90
- Other	**26**	**-**	**26**	24	-	24	47
- Group risk	**33**	**-**	**33**	42	-	42	71
Annuities							
- Individual	**-**	**209**	**21**	-	458	46	66
- Bulk purchase	**-**	**499**	**50**	-	329	33	88
Savings							
- Unit linked bonds	**-**	**1,213**	**121**	-	939	94	208
- Individual pensions	**63**	**280**	**91**	45	274	72	152
With-profits							
- Annuities	**-**	**39**	**4**	-	24	2	6
- Individual pensions	**62**	**266**	**89**	38	185	57	110
- DWP rebates	**-**	**41**	**4**	-	7	1	12
- Group pensions	**1**	**1**	**1**	2	4	2	5
- Bonds	**-**	**42**	**4**	-	103	10	17
Total UK life and pensions business	**237**	**2,590**	**496**	194	2,323	426	872
- Unit trusts	**1**	**3,000**	**301**	1	1,304	131	259
- ISAs	**9**	**315**	**41**	9	289	38	56
Total UK retail investment business	**10**	**3,315**	**342**	10	1,593	169	315
Total UK new business	**247**	**5,905**	**838**	204	3,916	595	1,187

2.10 Analysis of the total UK APE

	30.06.06 APE £m	30.06.05 APE £m	Full year 31.12.05 APE £m
Independent financial advisers	**418**	317	667
Tied	**311**	182	327
Direct	**25**	19	31
Total UK individual	**754**	518	1,025
Individual life and pensions	**412**	349	710
Retail investments	**342**	169	315
Total UK individual	**754**	518	1,025
Group life and pensions	**84**	77	162
Total UK	**838**	595	1,187

2.11 Analysis of institutional fund management new business

	30.06.06 £m	30.06.05 £m	Full year 31.12.05 £m
Managed pension funds[1]			
Pooled funds	**8,263**	6,710	14,778
Segregated funds	**599**	105	240
Total managed funds	**8,862**	6,815	15,018
Other funds[2]	**1,896**	60	2,116
Total	**10,758**	6,875	17,134

1. New monies from pension fund clients of Legal & General Assurance (Pensions Management) Ltd. Corporate pensions gross new business excludes £1.7bn (1H05: £1.8bn; FY05: £4.1bn) which were held through the period on a temporary basis, generally as part of portfolio reconstructions.
2. Includes segregated property, property partnerships, ventures and institutional clients excluding institutional trusts.

2.12 Institutional fund management new business by investment approach

	30.06.06 %	30.06.05 %	Full year 31.12.05 %
Indexed equities	**34.0**	46.7	50.6
Indexed bonds (including indexed linked funds and cash)	**46.7**	41.7	37.6
Active bonds (including indexed linked funds and cash)	**17.8**	11.1	10.6
Property	**0.7**	-	0.7
Private equity	**0.3**	0.5	0.3
Active equities	**0.5**	-	0.2
Total	**100.0**	100.0	100.0

European Embedded Value

Consolidated income statement

Six months ended 30 June 2006

	Notes	**30.06.06 £m**	30.06.05 Restated £m	Full year 31.12.05 £m
From continuing operations				
Life and pensions	3.2/3.3	**456**	385	901
Investment management	3.8	**87**	70	136
General insurance	4.4	**2**	4	14
Other operational income	4.5	**15**	18	41
Operating profit		**560**	477	1,092
Variation from longer term investment return	3.6	**113**	206	870
Effect of economic assumption changes	3.2	**(18)**	11	8
Property income attributable to minority interests		**21**	11	81
Profit from continuing operations before tax attributable to equity holders		**676**	705	2,051
Tax	3.9	**(198)**	(186)	(563)
Effect of UK tax changes	3.10	**-**	(276)	(276)
Profit from continuing operations after tax		**478**	243	1,212
Profit from discontinued operations	4.9	**-**	13	13
Profit from ordinary activities after tax		**478**	256	1,225
Profit attributable to minority interests	4.17	**(21)**	(11)	(81)
Profit attributable to equity holders of the Company		**457**	245	1,144
Earnings per share	3.11	**p**	p	p
Based on operating profit from continuing operations after tax		**6.19**	5.22	12.02
Based on profit attributable to ordinary equity holders of the Company		**7.05**	3.67	17.42
Diluted earnings per share	3.11			
Based on operating profit from continuing operations after tax		**6.07**	5.09	11.74
Based on profit attributable to ordinary equity holders of the Company		**6.89**	3.61	16.89

European Embedded Value

Consolidated balance sheet

As at 30 June 2006

	Notes	At 30.06.06 £m	At 30.06.05 Restated £m	At 31.12.05 £m
Assets				
Investments		**193,050**	163,963	186,413
Long term in-force business asset		**2,943**	2,404	2,738
Other assets		**6,862**	6,080	5,427
		202,855	172,447	194,578
Equity and liabilities				
Ordinary shareholders' equity	3.14	**7,166**	6,177	6,970
Subordinated borrowings designated as equity		**-**	394	394
Minority interests		**318**	215	285
Subordinated borrowings		**813**	407	415
Unallocated divisible surplus		**1,982**	1,938	1,894
Participating contract liabilities		**19,764**	19,152	20,277
Non-participating contract liabilities		**167,126**	138,687	158,956
Senior borrowings		**1,682**	1,566	1,634
Other creditors and provisions		**4,004**	3,911	3,753
		202,855	172,447	194,578

Consolidated statement of recognised income and expense

Six months ended 30 June 2006

	30.06.06 £m	30.06.05 Restated £m	Full year 31.12.05 £m
Fair value losses on cash flow hedges	**(3)**	-	-
Exchange differences on translation of overseas operations	**(25)**	10	22
Actuarial gains/(losses) on defined benefit pension scheme	**64**	(28)	(55)
Actuarial (gains)/losses on defined benefit pension scheme transferred to unallocated divisible surplus	**(28)**	11	22
Net income/(expense) recognised directly in equity	**8**	(7)	(11)
Profit from ordinary activities after tax	**478**	256	1,225
Total recognised income and expense for the period	**486**	249	1,214
Attributable to:			
Minority interests	**21**	11	81
Equity holders of the Company	**465**	238	1,133

Notes to the financial information

3.1 Restatement of 2005 comparatives

The 30 June 2005 comparatives have been restated for the following items:

1. After the 2005 Interim Results were presented under International Financial Reporting Standards, the interpretation of provisions within IAS 32, "Financial Instruments: Disclosure and Presentation", has required the £400m 5.875% undated subordinated notes to be classified as equity, rather than as a liability. The change in classification has resulted in an increase in reported profit after tax for the six months to 30 June 2005 of £8m, due to the corresponding reclassification of interest payments as distributions and an increase in total equity of £398m. On 13 March 2006, the terms were varied and it is now classified as debt.
2. The results of Retail investments and Institutional fund management have been combined to create a new segment called Investment management. The Retail investments operating profit of £4m for the period ended 30 June 2005 was reclassified from Other operational income and included in Investment management.

3.2 Profit from continuing operations after tax from covered business

Six months ended 30 June 2006	Notes	UK £m	International £m	Life and pensions total £m	Investment management[1] £m	Total £m
Contribution from new business after cost of capital		**179**	**13**	**192**	**27**	**219**
Contribution from in-force business:						
- expected return		**158**	**33**	**191**	**12**	**203**
- experience variances	3.4	**53**	**(6)**	**47**	**12**	**59**
- operating assumption changes	3.5	**(7)**	**3**	**(4)**	**17**	**13**
Development costs		**(10)**	**-**	**(10)**	**(1)**	**(11)**
Contribution from shareholder net worth		**32**	**8**	**40**	**3**	**43**
Operating profit		**405**	**51**	**456**	**70**	**526**
Variation from longer term investment return		**125**	**(31)**	**94**	**(8)**	**86**
Effect of economic assumption changes		**(2)**	**(16)**	**(18)**	**-**	**(18)**
Profit from continuing operations before tax		**528**	**4**	**532**	**62**	**594**
Tax		**(175)**	**(1)**	**(176)**	**(18)**	**(194)**
Profit from continuing operations after tax		**353**	**3**	**356**	**44**	**400**
Six months ended 30 June 2005						
Contribution from new business after cost of capital		129	11	140	21	161
Contribution from in-force business:						
- expected return		145	29	174	10	184
- experience variances	3.4	11	-	11	12	23
- operating assumption changes	3.5	(4)	(3)	(7)	13	6
Development costs		(5)	-	(5)	-	(5)
Contribution from shareholder net worth		64	8	72	3	75
Operating profit		340	45	385	59	444
Variation from longer term investment return		135	10	145	11	156
Effect of economic assumption changes		21	(11)	10	1	11
Profit from continuing operations before tax		496	44	540	71	611
Tax		(131)	(15)	(146)	(21)	(167)
Effect of UK tax changes		(276)	-	(276)	-	(276)
Profit from continuing operations after tax		89	29	118	50	168

1. For covered business, Investment management comprises managed pension funds and is included in the total Investment management result of £87m (1H05: £70m) see note 3.8.

3.2 Profit from continuing operations after tax from covered business (continued)

Full year ended 31 December 2005	Notes	UK £m	International £m	Life and pensions total £m	Investment management[1] £m	Total £m
Contribution from new business after cost of capital		306	25	331	49	380
Contribution from in-force business:						
- expected return		294	62	356	21	377
- experience variances	3.4	89	-	89	25	114
- operating assumption changes	3.5	(14)	(5)	(19)	14	(5)
Development costs		(20)	-	(20)	(1)	(21)
Contribution from shareholder net worth		146	18	164	6	170
Operating profit		801	100	901	114	1,015
Variation from longer term investment return		653	53	706	35	741
Effect of economic assumption changes		3	5	8	-	8
Profit from continuing operations before tax		1,457	158	1,615	149	1,764
Tax		(421)	(51)	(472)	(45)	(517)
Effect of UK tax changes		(276)	-	(276)	-	(276)
Profit from continuing operations after tax		760	107	867	104	971

1. For covered business, Investment management comprises managed pension funds and is included in the total Investment management result of £136m see note 3.8.

3.3 Life and pensions operating profit

	30.06.06 £m	30.06.05 £m	Full year 31.12.05 £m
UK	**405**	340	801
USA	**20**	19	24
Netherlands	**17**	16	43
France	**14**	10	33
	456	385	901

3.4 Analysis of experience variances

	UK	International	Life and pensions total	Investment manage- ment	Total
Six months ended 30 June 2006	**£m**	**£m**	**£m**	**£m**	**£m**
Persistency	**(5)**	**4**	**(1)**	**4**	**3**
Mortality / morbidity	**6**	**(7)**	**(1)**	**-**	**(1)**
Expenses	**(1)**	**-**	**(1)**	**(1)**	**(2)**
Other	**53**	**(3)**	**50**	**9**	**59**
	53	**(6)**	**47**	**12**	**59**

Full experience investigations are not undertaken at the half year. A conservative estimate is made of both positive and negative variances.

UK other experience variances of £53m principally comprise the impact of the release of prudent margins as more data is loaded onto the new administration system for bulk purchase annuity business (£17m) and opening adjustments (£39m) primarily to reflect a revision of assessments of prior and future tax. These opening adjustments had a broadly neutral effect on the embedded value with the positive variance here being offset by a negative variance in the contribution from shareholder net worth.

Investment management other experience variances of £9m include the effect of higher average fee rates than assumed.

Six months ended 30 June 2005					
Persistency	(2)	3	1	7	8
Mortality / morbidity	7	(6)	1	-	1
Expenses	(2)	4	2	1	3
Other	8	(1)	7	4	11
	11	-	11	12	23

UK other experience variances of £8m principally comprise the impact of the release of prudent margins as more data is loaded onto the new administration system for bulk purchase annuity business (£4m).

Investment management other experience variances of £4m include the effect of higher average fee rates than assumed.

Full year ended 31 December 2005					
Persistency	2	2	4	15	19
Mortality / morbidity	14	(7)	7	-	7
Expenses	(6)	1	(5)	2	(3)
Other	79	4	83	8	91
	89	-	89	25	114

UK other experience variances of £79m principally comprise the impact of the release of prudent margins as more data is loaded onto the new administration system for bulk purchase annuity business (£73m).

Investment management other experience variances of £8m include the effect of higher average fee rates than assumed.

3.5 Analysis of operating assumption changes

Six months ended 30 June 2006	UK £m	International £m	Life and pensions total £m	Investment manage-ment £m	Total £m
Persistency	**(7)**	**9**	**2**	**-**	**2**
Mortality / morbidity	**-**	**(6)**	**(6)**	**-**	**(6)**
Expenses	**(12)**	**-**	**(12)**	**-**	**(12)**
Other	**12**	**-**	**12**	**17**	**29**
	(7)	**3**	**(4)**	**17**	**13**

Full experience investigations are not undertaken at the half year. A conservative approach is taken when revising any future operating assumptions.

UK other operating assumption changes of £12m principally comprise the impact of revisions to the anticipated future releases of prudent margins as more data is loaded onto the new administration system for bulk purchase annuities (£15m).

Investment management other operating assumption changes of £17m principally arise from the continuation of the ten year lapse assumption for all contracts through the extension of the modelling period.

Six months ended 30 June 2005					
Persistency	(1)	(3)	(4)	-	(4)
Mortality / morbidity	-	-	-	-	-
Expenses	(2)	-	(2)	-	(2)
Other	(1)	-	(1)	13	12
	(4)	(3)	(7)	13	6

Investment management other operating assumption changes of £13m arise from the continuation of the ten year lapse assumption for all contracts through the extension of the modelling period.

Full year ended 31 December 2005					
Persistency	30	(12)	18	-	18
Mortality / morbidity	11	(11)	-	-	-
Expenses	(24)	4	(20)	-	(20)
Other	(31)	14	(17)	14	(3)
	(14)	(5)	(19)	14	(5)

UK other operating assumption changes of -£31m relate mainly to reserve strengthening relating to endowment compensation (-£24m).

Investment management other operating assumption changes of £14m arise from the continuation of the ten year lapse assumption for all contracts through the extension of the modelling period.

3.6 Variation from longer term investment return

	30.06.06 £m	30.06.05 £m	Full year 31.12.05 £m
Total covered business	**86**	156	741
General insurance	**(1)**	(2)	8
Other operational income	**28**	52	121
	113	206	870

3.7 Time value of options and guarantees

	30.06.06	30.06.05	Full year 31.12.05
	£m	£m	£m
Life and pensions:			
UK with-profits	**2**	4	2
UK non profit	**16**	25	21
International	**12**	8	5
	30	37	28

For UK non profit, the reduction is the result of the reduced financial impact of caps and collars on index linked annuities.

For International, the increase is primarily the result of the impact of the rise in US interest rates on universal life contracts which have a guaranteed minimum crediting rate and a guaranteed surrender value.

3.8 Investment management income statement

	30.06.06	30.06.05 Restated	Full year 31.12.05
	£m	£m	£m
From continuing operations			
Managed pension funds	**70**	59	114
Ventures	**2**	2	4
Property	**4**	3	4
Retail investments	**5**	4	7
Other external income	**4**	2	5
Other income	**2**	-	2
Operating profit from investment management	**87**	70	136
Variation from longer term investment return	**(8)**	11	35
Effect of economic assumption changes	**-**	1	-
Profit from ordinary activities before tax	**79**	82	171
Tax	**(23)**	(22)	(52)
Profit from ordinary activities after tax	**56**	60	119

Other income excludes the element relating to managed pension funds on the IFRS basis.

Investment management comprises the managed pensions fund business on an EEV basis and other investment management business on an IFRS basis.

3.9 Analysis of tax

	30.06.06 Profit/(loss) before tax £m	30.06.06 Tax £m	30.06.05 Restated Profit before tax £m	30.06.05 Restated Tax £m	Full year 31.12.05 Profit before tax £m	Full year 31.12.05 Tax £m
From continuing operations						
UK life and pensions	**405**	**(121)**	340	(98)	801	(230)
International life and pensions	**51**	**(16)**	45	(15)	100	(33)
	456	**(137)**	385	(113)	901	(263)
Investment management	**87**	**(25)**	70	(21)	136	(42)
General insurance	**2**	**-**	4	(1)	14	(4)
Other operational income	**15**	**3**	18	(4)	41	(5)
Operating profit	**560**	**(159)**	477	(139)	1,092	(314)
Variation from longer term investment return	**113**	**(45)**	206	(43)	870	(246)
Effect of economic assumption changes	**(18)**	**6**	11	(4)	8	(3)
Property income attributable to minority interests	**21**	**-**	11	-	81	-
Profit from continuing operations before tax / Tax	**676**	**(198)**	705	(186)	2,051	(563)

3.10 Effect of 2005 UK tax changes

The 2005 tax charge of £276m represented a one-off reduction in the embedded value arising from a change in tax law. The Finance (No. 2) Act 2005 included provisions which change the way in which investment return is apportioned between categories of business for the purposes of computing taxable profits earned from writing pension business. These changes result in significantly larger taxable pension business profits in the non profit part of the fund.

3.11 Earnings per share

(a) Earnings per share

	30.06.06 Profit/(loss) before tax £m	**30.06.06 Tax (charge)/ credit £m**	**30.06.06 Profit/(loss) after tax £m**	**30.06.06 Per share p**	30.06.05 Restated Profit before tax £m	30.06.05 Restated Tax (charge)/ credit £m	30.06.05 Restated Profit/(loss) after tax £m	30.06.05 Restated Per share p
Operating profit from continuing operations	**560**	**(159)**	**401**	**6.19**	477	(139)	338	5.22
Variation from longer term investment return	**113**	**(45)**	**68**	**1.05**	206	(43)	163	2.52
Effect of economic assumption changes	**(18)**	**6**	**(12)**	**(0.19)**	11	(4)	7	0.11
Profit from discontinued operations	**-**	**-**	**-**	**-**	12	1	13	0.20
Effect of UK tax changes	**-**	**-**	**-**	**-**	-	(276)	(276)	(4.26)
Distributions on subordinated borrowings designated as equity			**-**	**-**			(8)	(0.12)
Earnings per share	**655**	**(198)**	**457**	**7.05**	706	(461)	237	3.67

	Full year 31.12.05 Profit before tax £m	Full year 31.12.05 Tax (charge)/ credit £m	Full year 31.12.05 Profit/(loss) after tax £m	Full year 31.12.05 Per share p
Operating profit from continuing operations	1,092	(314)	778	12.02
Variation from longer term investment return	870	(246)	624	9.64
Effect of economic assumption changes	8	(3)	5	0.08
Profit from discontinued operations	12	1	13	0.20
Effect of UK tax changes	-	(276)	(276)	(4.27)
Distributions on subordinated borrowings designated as equity			(16)	(0.25)
Earnings per share	1,982	(838)	1,128	17.42

3.11 Earnings per share (continued)

(b) Diluted earnings per share

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

	30.06.06 Profit after tax £m	**30.06.06 Number of shares [1] m**	**30.06.06 Per share p**	30.06.05 Restated Profit after tax £m	30.06.05 Number of shares [1] m	30.06.05 Restated Per share p
Operating profit from continuing operations after tax	**401**	**6,478**	**6.19**	338	6,477	5.22
Net shares under options allocable for no further consideration	**-**	**41**	**(0.04)**	-	35	(0.03)
Convertible bonds outstanding	**12**	**285**	**(0.08)**	8	285	(0.10)
Diluted earnings per share	**413**	**6,804**	**6.07**	346	6,797	5.09

	Full year 31.12.05 Profit after tax £m	Full year 31.12.05 Number of shares [1] m	Full year 31.12.05 Per share p
Operating profit from continuing operations after tax	778	6,474	12.02
Net shares under options allocable for no further consideration	-	38	(0.07)
Convertible bonds outstanding	20	285	(0.21)
Diluted earnings per share	798	6,797	11.74

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

	30.06.06 Profit after tax £m	**30.06.06 Number of shares [1] m**	**30.06.06 Per share p**	30.06.05 Profit after tax £m	30.06.05 Number of shares [1] m	30.06.05 Per share p
Profit attributable to ordinary equity holders of the Company	**457**	**6,478**	**7.05**	237	6,477	3.67
Net shares under options allocable for no further consideration	**-**	**41**	**(0.04)**	-	35	(0.02)
Convertible bonds outstanding	**12**	**285**	**(0.12)**	8	285	(0.04)
Diluted earnings per share	**469**	**6,804**	**6.89**	245	6,797	3.61

	Full year 31.12.05 Profit after tax £m	Full year 31.12.05 Number of shares [1] m	Full year 31.12.05 Per share p
Profit attributable to ordinary equity holders of the Company	1,128	6,474	17.42
Net shares under options allocable for no further consideration	-	38	(0.09)
Convertible bonds outstanding	20	285	(0.44)
Diluted earnings per share	1,148	6,797	16.89

1. Weighted average number of shares.

Notes to the financial information

3.12 Embedded value reconciliation

As at 30 June 2006	Notes	UK value of in-force £m	UK shareholder net worth £m	UK life and pensions £m	International life and pensions £m	Life and pensions total £m	Investment management[1] £m	Total £m
At 1 January								
Value of in-force business		3,142	-	3,142	570	3,712	238	3,950
Shareholder net worth		-	1,762	1,762	298	2,060	184	2,244
		3,142	1,762	4,904	868	5,772	422	6,194
Exchange rate movements		-	-	-	(39)	(39)	-	(39)
		3,142	1,762	4,904	829	5,733	422	6,155
Profit for the period		298	55	353	3	356	44	400
Capital movements		-	-	-	17	17	-	17
Distributions relating to:								
With-profits EV		(28)		(28)				
Non profit EV	5.4(a)		(67)	(67)				
Shareholder net worth EV	5.4(a)		(43)	(43)				
Subordinated debt			(13)	(13)				
Distributions		(28)	(123)	(151)	-	(151)	-	(151)
Movement in pension deficit		-	13	13	-	13	-	13
Inter-fund transfer		(7)	7	-	-	-	-	-
Embedded value		3,405	1,714	5,119	849	5,968	466	6,434
Represented by:								
With-profits		756		756				
Non profit		2,649		2,649				
Value of in-force business		3,405	-	3,405	601	4,006	250	4,256
Shareholder net worth		-	1,714	1,714	248	1,962	216	2,178

1. For covered business, Investment management comprises managed pension funds and is included in the total Investment management shareholders' equity of £564m as at 30 June 2006.

3.12 Embedded value reconciliation (continued)

As at 30 June 2005	Notes	UK value of in-force £m	UK shareholder net worth £m	UK life and pensions £m	International life and pensions £m	Life and pensions total £m	Investment management[1] £m	Total £m
At 1 January								
Value of in-force business		2,885	-	2,885	431	3,316	191	3,507
Shareholder net worth		-	1,560	1,560	276	1,836	162	1,998
		2,885	1,560	4,445	707	5,152	353	5,505
Exchange rate movements		-	-	-	25	25	-	25
		2,885	1,560	4,445	732	5,177	353	5,530
Profit for the period		138	(49)	89	29	118	50	168
Capital movements		-	-	-	5	5	-	5
Distributions relating to:								
With-profits EV		(23)		(23)				
Non profit EV	5.4(a)		(57)	(57)				
Shareholder net worth EV	5.4(a)		(35)	(35)				
Subordinated debt			(13)	(13)				
Distributions		(23)	(105)	(128)	-	(128)	-	(128)
Movement in pension deficit		-	(7)	(7)	-	(7)	-	(7)
Inter-fund transfer		(65)	65	-	-	-	-	-
Embedded value		2,935	1,464	4,399	766	5,165	403	5,568
Represented by:								
With-profits		667		667				
Non profit		2,268		2,268				
Value of in-force business		2,935	-	2,935	476	3,411	215	3,626
Shareholder net worth		-	1,464	1,464	290	1,754	188	1,942

1. For covered business, Investment management comprises managed pension funds and is included in the total Investment management shareholders' equity of £489m as at 30 June 2005.

3.12 Embedded value reconciliation (continued)

As at 31 December 2005	Notes	UK value of in-force £m	UK shareholder net worth £m	UK life and pensions £m	International life and pensions £m	Life and pensions total £m	Investment management[1] £m	Total £m
At 1 January								
Value of in-force business		2,885	-	2,885	431	3,316	191	3,507
Shareholder net worth		-	1,560	1,560	276	1,836	162	1,998
		2,885	1,560	4,445	707	5,152	353	5,505
Exchange rate movements		-	-	-	51	51	-	51
		2,885	1,560	4,445	758	5,203	353	5,556
Profit for the period		585	175	760	107	867	104	971
Capital movements		-	-	-	5	5	-	5
Distributions relating to:								
With-profits EV		(46)		(46)				
Non profit EV	5.4(a)		(119)	(119)				
Shareholder net worth EV	5.4(a)		(100)	(100)				
Subordinated debt			(26)	(26)				
Distributions		(46)	(245)	(291)	(2)	(293)	(35)	(328)
Movement in pension deficit		-	(10)	(10)	-	(10)	-	(10)
Inter-fund transfer		(282)	282	-	-	-	-	-
Embedded value		3,142	1,762	4,904	868	5,772	422	6,194
Represented by:								
With-profits		755		755				
Non profit		2,387		2,387				
Value of in-force business		3,142	-	3,142	570	3,712	238	3,950
Shareholder net worth		-	1,762	1,762	298	2,060	184	2,244

1. For covered business, Investment management comprises managed pension funds and is included in the total Investment management shareholders' equity of £506m as at 31 December 2005.

3.13 Analysis of ordinary shareholders' equity

As at 30 June 2006	UK life and pensions £m	International life and pensions £m	Life and pensions total £m	Investment management[1] £m	Other operations[2] £m	Total £m
Analysed as:						
IFRS basis ordinary shareholders' equity	**2,591**	**713**	**3,304**	**216**	**732**	**4,252**
Additional retained profit on an EEV basis	**2,528**	**136**	**2,664**	**250**	**-**	**2,914**
Ordinary shareholders' equity on an EEV basis	**5,119**	**849**	**5,968**	**466**	**732**	**7,166**
Comprising:						
Shareholder net worth						
- Free surplus	**-**	**96**	**96**	**198**		
- Required capital to cover solvency margin	**689**	**152**	**841**	**18**		
- Other required capital	**1,025**	**-**	**1,025**	**-**		
Value of in-force						
- Value of in-force business	**3,415**	**656**	**4,071**	**254**		
- Cost of capital	**(10)**	**(55)**	**(65)**	**(4)**		
As at 30 June 2005 (restated)						
Analysed as:						
IFRS basis ordinary shareholders' equity	2,301	699	3,000	188	609	3,797
Additional retained profit on an EEV basis	2,098	67	2,165	215	-	2,380
Ordinary shareholders' equity on an EEV basis	4,399	766	5,165	403	609	6,177
Comprising:						
Shareholder net worth						
- Free surplus	-	174	174	170		
- Required capital to cover solvency margin	575	116	691	18		
- Other required capital	889	-	889	-		
Value of in-force						
- Value of in-force business	2,940	526	3,466	217		
- Cost of capital	(5)	(50)	(55)	(2)		

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

Total required capital includes any amount of assets attributed to the covered business over and above that required to back liabilities for covered business whose distribution to shareholders is restricted.

1. Investment management comprises managed pension funds and is included in the total Investment management shareholders' equity of £564m (at 30 June 2005: £489m).
2. Other Investment management businesses included on an IFRS basis of £98m are included in other operations (at 30 June 2005: £86m).

3.13 Analysis of ordinary shareholders' equity (continued)

As at 31 December 2005	UK life and pensions £m	International life and pensions £m	Life and pensions total £m	Investment manage-ment[1] £m	Other operations[2] £m	Total £m
Analysed as:						
IFRS basis ordinary shareholders' equity	2,560	737	3,297	184	776	4,257
Additional retained profit on an EEV basis	2,344	131	2,475	238	-	2,713
Ordinary shareholders' equity on an EEV basis	4,904	868	5,772	422	776	6,970
Comprising:						
Shareholder net worth						
- Free surplus	-	148	148	166		
- Required capital to cover solvency margin	689	150	839	18		
- Other required capital	1,073	-	1,073	-		
Value of in-force						
- Value of in-force business	3,148	618	3,766	243		
- Cost of capital	(6)	(48)	(54)	(5)		

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

Total required capital includes any amount of assets attributed to the covered business over and above that required to back liabilities for covered business whose distribution to shareholders is restricted.

1. Investment management comprises managed pension funds and is included in the total Investment management shareholders' equity as at 31 December 2005 of £506m.
2. Other Investment management businesses as at 31 December 2005 included on an IFRS basis of £84m are included in other operations.

Notes to the financial information

3.14 Segmental analysis of ordinary shareholders' equity

	At 30.06.06 Covered business EEV basis £m	**At 30.06.06 Other business IFRS basis £m**	**At 30.06.06 Total £m**	At 30.06.05 Covered business EEV basis £m	At 30.06.05 Restated Other business IFRS basis £m	At 30.06.05 Restated Total £m
UK [1]	**5,119**	**-**	**5,119**	4,399	-	4,399
Society shareholder capital [2]	**-**	**2,042**	**2,042**	-	2,048	2,048
	5,119	**2,042**	**7,161**	4,399	2,048	6,447
Embedded value of international life and pensions businesses						
- USA	**537**	**-**	**537**	543	-	543
- Netherlands	**197**	**-**	**197**	138	-	138
- France	**115**	**-**	**115**	85	-	85
	5,968	**2,042**	**8,010**	5,165	2,048	7,213
Investment management	**466**	**98**	**564**	403	86	489
	6,434	**2,140**	**8,574**	5,568	2,134	7,702
General insurance	**-**	**164**	**164**	-	161	161
Corporate funds [3]	**-**	**(1,572)**	**(1,572)**	-	(1,686)	(1,686)
	6,434	**732**	**7,166**	5,568	609	6,177

	At 31.12.05 Covered business EEV basis £m	At 31.12.05 Other business IFRS basis £m	At 31.12.05 Total £m
UK [1]	4,904	-	4,904
Society shareholder capital [2]	-	1,896	1,896
	4,904	1,896	6,800
Embedded value of international life and pensions businesses			
- USA	566	-	566
- Netherlands	192	-	192
- France	110	-	110
	5,772	1,896	7,668
Investment management	422	84	506
	6,194	1,980	8,174
General insurance	-	167	167
Corporate funds [3]	-	(1,371)	(1,371)
	6,194	776	6,970

1. Includes £602m of intra-group subordinated debt capital attributed to the SRC.
2. Represents surplus capital held outside the UK Long Term Fund, including the rights issue proceeds.
3. Includes the convertible debt of £518m (1H05: £501m; FY05: £509m), senior debt of £602m and subordinated borrowings of £813m (1H05 £801m; FY05: £809m). £602m has been lent on to the UK Long Term Fund.

3.15 Assumptions

UK assumptions

The assumed future pre-tax returns on fixed interest and RPI linked securities are set by reference to redemption yields available in the market at the end of the reporting period. The corresponding return on equities and property is equal to the fixed interest gilt assumption plus the appropriate risk premium. An asset mix consistent with the current investment policy and future management intentions has been assumed within the projections.

Economic assumptions

	30.06.06 % p.a.	30.06.05 % p.a.	31.12.05 % p.a.	31.12.04 % p.a.
Equity risk premium	**3.0**	3.0	3.0	3.0
Property risk premium	**2.0**	2.0	2.0	2.0
Investment return				
- Gilts:				
- Fixed interest	**4.6**	4.2	4.1	4.5
- RPI linked	**4.7**	4.2	4.2	4.5
- Non gilts:				
- Fixed interest	**4.9 – 5.3**	4.5 – 5.0	4.4 – 4.8	4.9 – 5.3
- RPI linked	**4.7 – 5.2**	4.3 – 4.8	4.2 – 4.6	4.7 – 5.1
- Equities	**7.6**	7.2	7.1	7.5
- Property	**6.6**	6.2	6.1	6.5
Risk margin	**3.0**	3.0	3.0	3.0
Risk discount rate (net of tax)	**7.6**	7.2	7.1	7.5
Inflation				
- Expenses/earnings	**4.1**	3.6	3.9	3.8
- Indexation	**3.1**	2.6	2.9	2.8

The assumed returns on non gilt securities are net of an allowance for default risk of 0.2% p.a. (2005: 0.2% p.a.), other than for certain government-supported securities where no such allowance is made.

UK life and pensions

i. The value of the Sub-fund is the discounted value of total projected investment returns over its lifetime.

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

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

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

v. Other actuarial assumptions have been set at levels commensurate with recent operating experience, including those for mortality, morbidity, persistency and maintenance expenses (excluding the development costs referred to below). These are reviewed annually. An allowance is made for future improvements in annuitant mortality based on experience and externally published data. Male annuitant mortality is assumed to improve in accordance with CMI Working Paper 1, projection MC for future experience with a minimum annual improvement of 0.6%, and the average of projections MC and LC for statutory reserving with a minimum annual improvement of 0.8%. Female annuitant mortality is assumed to improve in accordance with the MC projection from CMI Working Paper 1 for statutory reserving and at 70% of this rate for future experience, with the same underpinning minima as for males.

vi. The subordinated debt capital has been included in the embedded value at the face value of £602m (estimated market value of £669m at 30 June 2006 (£699m at 31 December 2005)). If the market value of the subordinated debt capital were used, total embedded value would increase by £20m (31 December 2005: £31m).

vii. Development costs relate to strategic systems.

viii. Projected tax has been determined assuming current tax legislation and rates.

3.15 Assumptions (continued)

ix. EEV results are computed on an after tax basis and are grossed up to the pre-tax level for presentation in the profit and loss account. The tax rate used for grossing-up is the corporation tax rate of 30% (2005: 30%), except for the profit attributable to shareholder net worth, where the rate used is derived from the tax attributed to the contribution from shareholder net worth in the IFRS accounts. To arrive at operating profit, the contribution from shareholder net worth is grossed up at 20% (2005: 20%) which reflects the tax associated with a longer term investment return.

UK managed pension funds

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

International

xi. Key assumptions:

	30.06.06 % p.a.	30.06.05 % p.a.	31.12.05 % p.a.	31.12.04 % p.a.
USA				
Reinvestment rate	**5.9**	4.7	5.1	4.9
Risk margin	**3.0**	3.0	3.0	3.0
Risk discount rate (net of tax)	**8.2**	7.0	7.4	7.3
Europe				
Government bond return	**4.1**	3.3	3.3	3.8
Risk margin	**3.0**	3.0	3.0	3.0
Risk discount rate (net of tax)	**7.1**	6.3	6.3	6.8

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

Stochastic calculations

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

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

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

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

Asset classes

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

3.15 Assumptions (continued)

Summary statistics

The following table sets out means and standard deviations (StDev) of future returns as at 31 December 2005 for the most significant asset classes. Correlations between asset classes have been set based on an internal assessment of historical data.

	10-year return		20-year return	
	Mean[1]	StDev[2]	Mean[1]	StDev[2]
UK Business (Sterling)				
Government bonds	4.7%	4.5%	4.6%	3.5%
Corporate bonds	5.3%	3.1%	5.2%	3.5%
Property (excess returns)	2.0%	15.1%	2.0%	15.1%
Equities (excess returns)	3.0%	19.9%	3.1%	20.2%
European Business (Euro)				
Long Government bonds[3]	4.1%	5.3%	4.6%	5.4%
Short Government bonds[4]	4.1%	3.9%	4.6%	7.8%
US Business (US Dollar)				
Long Government bonds[3]	5.4%	6.3%	5.9%	6.2%

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

Risk discount rate

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

Sensitivity calculations

In accordance with the dispensation within the CFO guidelines, a full sensitivity analysis is only provided annually.

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International Financial Reporting Standards

Operating profit income statement

Six months ended 30 June 2006

	Notes	**30.06.06 £m**	30.06.05 Restated £m	Full year 31.12.05 £m
From continuing operations				
Life and pensions	4.2	**252**	228	489
Investment management	4.3	**65**	48	103
General insurance	4.4	**2**	4	14
Other operational income	4.5	**15**	18	41
Operating profit		**334**	298	647
Variation from longer term investment return	4.6	**7**	63	139
Shareholder retained capital (SRC) movement	4.7	**39**	116	516
Property income attributable to minority interests		**21**	11	81
Profit from continuing operations before income tax attributable to equity holders		**401**	488	1,383
Tax	4.8	**(124)**	(124)	(371)
Profit from continuing operations after tax		**277**	364	1,012
Profit from discontinued operations	4.9	**-**	13	13
Profit from ordinary activities after tax		**277**	377	1,025
Profit attributable to minority interests	4.17	**(21)**	(11)	(81)
Profit attributable to equity holders of the Company		**256**	366	944

		p	p	p
Earnings per share	4.10			
Based on operating profit from continuing operations after tax		**3.69**	3.17	7.04
Based on profit attributable to ordinary equity holders of the Company		**3.95**	5.53	14.33
Diluted earnings per share	4.10			
Based on operating profit from continuing operations after tax		**3.67**	3.13	7.00
Based on profit attributable to ordinary equity holders of the Company		**3.93**	5.38	13.95

For UK long term insurance business, operating profit is the accrued distributable transfer from the UK Long Term Fund (LTF) to shareholders, grossed up at the corporate tax rate. For non profit business, it is augmented by the interest paid on the intra-group subordinated debt capital included within the SRC. Operating profit includes a longer term investment return on shareholders', general insurance and Netherlands' funds held outside the UK LTF. It excludes investment variances and the change in the SRC. The income statement comprises returns to shareholders and excludes policyholders' returns. This supplementary information provides further analysis of the results reported under IFRS and we believe gives shareholders a better understanding of the underlying performance of the business.

International Financial Reporting Standards

Consolidated income statement

Six months ended 30 June 2006

	Notes	**30.06.06 £m**	30.06.05 Restated £m	Full year 31.12.05 £m
Revenue				
Gross written premiums	4.11	**2,053**	2,100	4,084
Outward reinsurance premiums		**(247)**	(187)	(406)
Net change in provision for unearned premiums		**(2)**	(14)	(6)
Net premiums earned		**1,804**	1,899	3,672
Fees from fund management and investment contracts		**248**	148	348
Investment return		**2,730**	9,994	26,931
Operational income		**23**	8	38
Total revenue		**4,805**	12,049	30,989
Expenses				
Claims and change in insurance liabilities		**1,717**	3,150	6,367
Reinsurance recoveries		**(514)**	(344)	19
Net claims and change in insurance liabilities		**1,203**	2,806	6,386
Change in provisions for investment contract liabilities		**2,511**	7,669	21,369
Acquisition costs		**232**	310	550
Finance costs		**70**	46	116
Other expenses		**336**	281	619
Transfers to unallocated divisible surplus		**60**	361	360
Total expenses		**4,412**	11,473	29,400
Profit before income tax		**393**	576	1,589
Income tax attributable to policyholder returns		**8**	(88)	(206)
Profit from continuing operations before income tax attributable to equity holders		**401**	488	1,383
Total income tax expense		**(116)**	(212)	(577)
Less income tax attributable to policyholder returns		**(8)**	88	206
Income tax attributable to equity holders		**(124)**	(124)	(371)
Profit from continuing operations after income tax		**277**	364	1,012
Profit from discontinued operations		**-**	13	13
Profit from ordinary activities after income tax		**277**	377	1,025
Attributable to:				
Minority interests		**21**	11	81
Equity holders of the Company		**256**	366	944
Dividend distributions to ordinary equity holders of the Company during the period		**236**	224	331
Distributions during the period on subordinated borrowings designated as equity		**-**	8	16
Dividend distributions to ordinary equity holders of the Company proposed after the period end		**113**	107	236
		p	p	p
Earnings per share				
Based on profit from continuing operations after income tax attributable to ordinary equity holders		**3.95**	5.33	14.13
Diluted earnings per share				
Based on profit from continuing operations after income tax attributable to ordinary equity holders		**3.93**	5.19	13.76

International Financial Reporting Standards

Consolidated balance sheet

As at 30 June 2006

	Notes	**At 30.06.06 £m**	At 30.06.05 Restated £m	At 31.12.05 £m
Assets				
Investment in associates		**16**	19	16
Plant and equipment		**34**	26	32
Investment property		**6,625**	5,322	5,774
Financial investments	4.14	**182,428**	154,212	176,622
Reinsurers' share of contract liabilities		**3,194**	3,238	2,779
Purchased interests in long term business		**29**	24	25
Deferred acquisition costs		**1,542**	1,171	1,375
Income tax recoverable		**6**	59	79
Other debtors		**2,086**	1,586	1,162
Cash and cash equivalents		**3,981**	4,410	4,001
Total assets		**199,941**	170,067	191,865
Equity				
Share capital		**163**	163	163
Share premium account		**920**	907	908
Treasury shares		**(44)**	(36)	(36)
Other reserves		**22**	34	34
Retained earnings		**3,191**	2,729	3,188
Capital and reserves attributable to ordinary equity holders of the Company	4.15	**4,252**	3,797	4,257
Subordinated borrowings designated as equity	4.16	**-**	394	394
Capital and reserves attributable to equity holders of the Company		**4,252**	4,191	4,651
Minority interests	4.17	**318**	215	285
Total equity	4.18	**4,570**	4,406	4,936
Liabilities				
Subordinated borrowings	4.16	**813**	407	415
Participating insurance contracts		**12,727**	12,489	13,180
Participating investment contracts		**7,438**	7,155	7,476
Unallocated divisible surplus		**1,982**	1,938	1,894
Value of in-force non-participating contracts		**(401)**	(492)	(379)
Participating contract liabilities		**21,746**	21,090	22,171
Non-participating insurance contracts		**23,439**	22,347	23,152
Non-participating investment contracts		**143,687**	116,340	135,804
Non-participating contract liabilities		**167,126**	138,687	158,956
Senior borrowings	4.16	**1,682**	1,566	1,634
Provisions		**484**	554	582
Deferred income liabilities		**373**	298	351
Deferred tax liabilities		**461**	330	492
Income tax liabilities		**87**	127	197
Other creditors		**1,869**	1,937	1,303
Net asset value attributable to unitholders		**730**	665	828
Total liabilities		**195,371**	165,661	186,929
Total equity and liabilities		**199,941**	170,067	191,865

International Financial Reporting Standards

Consolidated statement of recognised income and expense

Six months ended 30 June 2006

	30.06.06 **£m**	30.06.05 Restated £m	Full year 31.12.05 £m
Fair value losses on cash flow hedges	**(3)**	-	-
Exchange differences on translation of overseas operations	**(26)**	7	20
Actuarial gains/(losses) on defined benefit pension scheme	**64**	(28)	(55)
Actuarial (gains)/losses on defined benefit pension scheme transferred to unallocated divisible surplus	**(28)**	11	22
Net change in financial investments designated as available-for-sale	**(12)**	-	(10)
Net expense recognised directly in equity	**(5)**	(10)	(23)
Profit from ordinary activities after income tax	**277**	377	1,025
Total recognised income and expense	**272**	367	1,002
Attributable to:			
Minority interests	**21**	11	81
Equity holders of the Company	**251**	356	921

International Financial Reporting Standards

Consolidated cash flow statement

Six months ended 30 June 2006

	30.06.06 **£m**	30.06.05 Restated £m	Full year 31.12.05 £m
Cash flows from operating activities			
Profit from ordinary activities after income tax	**277**	377	1,025
Adjustments for non cash movements in net profit for the period:			
Realised and unrealised (gains)/losses on financial investments and investment properties	**961**	(6,956)	(20,962)
Investment income	**(3,525)**	(2,894)	(5,646)
Interest expense	**70**	46	116
Income tax payable	**116**	212	577
Other adjustments	**7**	20	40
Net (increase)/decrease in operational assets:			
Investments designated as held for trading or fair value through profit or loss	**(7,679)**	(7,535)	(16,519)
Investments designated as available-for-sale	**(51)**	15	86
Other assets	**(1,382)**	(668)	(294)
Net increase/(decrease) in operational liabilities:			
Insurance contracts	**(86)**	1,640	3,071
Transfer to unallocated divisible surplus	**88**	383	338
Investment contracts	**7,836**	13,401	33,173
Value of in-force non-participating contracts	**(22)**	(58)	55
Other liabilities	**345**	522	536
Cash used in operations	**(3,045)**	(1,495)	(4,404)
Interest paid	**(73)**	(43)	(96)
Interest received	**1,653**	1,471	2,967
Income tax paid	**(184)**	(155)	(240)
Dividends received	**1,843**	1,329	2,576
Net cash flows from operating activities	**194**	1,107	803
Cash flows from investing activities			
Net acquisition of plant and equipment	**(9)**	(9)	(22)
Net proceeds from disposal of Ventures' investments	**-**	-	23
Net proceeds from disposal of Gresham	**-**	73	73
Non-financial investments purchased	**(2)**	-	(19)
Net cash flows from investing activities	**(11)**	64	55
Cash flows from financing activities			
Dividend distributions to ordinary equity holders of the Company during the period	**(236)**	(224)	(331)
Distributions during the period on subordinated borrowings designated as equity	**-**	(8)	(16)
Proceeds from issue of ordinary share capital	**12**	-	1
Purchase of treasury shares	**(9)**	(11)	(15)
Proceeds from borrowings	**367**	567	764
Repayment of borrowings	**(322)**	(74)	(257)
Other	**-**	-	(1)
Net cash flows from financing activities	**(188)**	250	145
Net (decrease)/increase in cash and cash equivalents	**(5)**	1,421	1,003
Exchange (losses)/gains on cash and cash equivalents	**(15)**	(3)	6
Cash and cash equivalents at beginning of period	**4,001**	2,992	2,992
Cash and cash equivalents at end of period	**3,981**	4,410	4,001

The Group's consolidated cash flow statement includes all cash and cash equivalent flows, including those relating to the UK Long Term Fund.

Notes to the financial information

4.1 Restatement of 30 June 2005 comparatives

The 30 June 2005 comparatives have been restated for the following items:

1. After the 2005 Interim Results were presented under International Financial Reporting Standards, the interpretation of provisions within IAS 32, "Financial Instruments: Disclosure and Presentation", required the £400m 5.875% undated subordinated notes to be classified as equity, rather than as a liability. The change in classification resulted in an increase in reported profit after tax for the six months to 30 June 2005 of £8m, due to the corresponding reclassification of interest payments as distributions and an increase in total equity of £398m. On 13 March 2006, the terms were varied and it is now classified as debt.
2. After the 2005 results a decision was made to smooth mismatches in the Netherlands. The Netherlands' operating profit is affected by various mismatches between asset and liability valuations. An adjustment to partially smooth the investment return fluctuations was made to the Netherlands' operating profit. This reduced the 30 June 2005 operating profit by £13m and increased the variation from longer term investment return by the same amount.
3. The results of Retail investments and Institutional fund management were combined to create a new segment called Investment management. The Retail investments operating profit of £4m for the period ended 30 June 2005 was reclassified from Other operational income and included in Investment management.

4.2 Life and pensions operating profit

	Notes	**30.06.06 £m**	30.06.05 Restated £m	Full year 31.12.05 £m
With-profits business		**40**	32	66
Distribution relating to non profit and shareholder net worth	5.4(a)	**157**	133	312
Subordinated debt interest		**18**	18	37
Non profit business	5.3(a)	**175**	151	349
UK		**215**	183	415
USA		**33**	27	52
Netherlands		**(3)**	18	18
France		**7**	-	4
		252	228	489

4.3 Investment management operating profit

	30.06.06 £m	30.06.05 Restated £m	Full year 31.12.05 £m
Managed pension funds	**45**	33	74
Ventures	**2**	2	4
Property	**4**	3	4
Retail investments	**5**	4	7
Other external income	**4**	2	5
Other income	**5**	4	9
	65	**48**	103

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

(a) Operating profit

	30.06.06 £m	30.06.05 £m	Full year 31.12.05 £m
From continuing operations			
Household	**2**	2	7
Other business	**-**	2	7
	2	4	14

(b) Underwriting result

	30.06.06 £m	30.06.05 £m	Full year 31.12.05 £m
From continuing operations			
Household	**(3)**	(5)	(6)
Other business	**(3)**	-	1
	(6)	(5)	(5)

(c) Combined operating ratio

	30.06.06 %	30.06.05 %	Full year 31.12.05 %
From continuing operations			
Household	**104%**	104%	101%
Other business	**110%**	101%	101%
	106%	104%	101%

The combined operating ratio is:

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

4.5 Other operational income

	30.06.06 £m	30.06.05 Restated £m	Full year 31.12.05 £m
Shareholders' other income			
Investment return on ordinary shareholders' equity	**69**	55	127
Interest expense	**(48)**	(30)	(75)
	21	25	52
Other operations[1]	**(1)**	(3)	(5)
Unallocated corporate and development expenses	**(5)**	(4)	(6)
	15	18	41

1. Principally the Regulated mortgage network.

4.6 Variation from longer term investment return

	30.06.06 £m	30.06.05 Restated £m	Full year 31.12.05 £m
Netherlands	**(20)**	13	10
General insurance	**(1)**	(2)	8
Other operational income	**28**	52	121
	7	63	139

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

4.7 Shareholder retained capital (SRC) movement

	Notes	30.06.06 £m	30.06.05 £m	Full year 31.12.05 £m
Investment income		**45**	36	67
Interest expense and charges		**(1)**	(1)	(3)
Realised investment gains		**95**	48	191
Unrealised investment (losses)/gains		**(35)**	46	132
Investment return on SRC		**104**	129	387
Net capital released from non profit business	5.3	**110**	138	478
Distribution of operating profit from non profit business		**(175)**	(151)	(349)
SRC movement before tax		**39**	116	516
SRC at beginning of period		**2,560**	2,196	2,196
SRC movement before tax		**39**	116	516
Tax charge		**(33)**	(18)	(148)
SRC movement included in the statement of recognised income and expense		**25**	7	(4)
SRC at end of period		**2,591**	2,301	2,560

SRC includes intra-group subordinated debt capital of £602m.

Further analysis is given in note 5.3

4.8 Analysis of tax

	30.06.06 Profit before tax £m	30.06.06 Tax £m	30.06.05 Restated Profit before tax £m	30.06.05 Restated Tax £m	Full year 31.12.05 Profit before tax £m	Full year 31.12.05 Tax £m
From continuing operations						
UK life and pensions	**215**	**(65)**	183	(55)	415	(125)
International life and pensions	**37**	**(14)**	45	(19)	74	(25)
	252	**(79)**	228	(74)	489	(150)
Investment management	**65**	**(19)**	48	(14)	103	(32)
General insurance	**2**	**-**	4	(1)	14	(4)
Other operational income	**15**	**3**	18	(4)	41	(5)
Operating profit	**334**	**(95)**	298	(93)	647	(191)
Variation from longer term investment return	**7**	**4**	63	(13)	139	(32)
SRC movement	**39**	**(33)**	116	(18)	516	(148)
Property income attributable to minorities	**21**	**-**	11	-	81	-
Profit from continuing operations before tax / Tax	**401**	**(124)**	488	(124)	1,383	(371)

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

No deferred tax is provided at the incremental rate on the undeclared surplus in the UK Long Term Fund represented by the SRC on the grounds that, at the balance sheet date, no obligation to make a declaration of surplus actually exists and there is no expectation that such a declaration will occur. The maximum amount of incremental tax which would crystallise on such a declaration of surplus is estimated to be £475m (1H05: £644m; FY05: £509m).

4.9 Profit from discontinued operations

Gresham Insurance Company Limited
On 31 March 2005, the Group sold its 90% stake in its subsidiary Gresham to Barclays Bank Plc for a consideration of £85m, of which £4m was paid in dividends by Gresham and the remainder in cash by Barclays. The transaction resulted in an exceptional profit before tax of £15m (£15m after tax).

	30.06.06 £m	30.06.05 £m	Full year 31.12.05 £m
Post tax result from discontinued operations to 31 March 2005	**-**	(2)	(2)
Gain on disposal	**-**	15	15
	-	13	13

4.10 Earnings per share

(a) Earnings per share

	30.06.06 Profit before tax £m	**30.06.06 Tax (charge)/ credit £m**	**30.06.06 Profit after tax £m**	**30.06.06 Per share p**	30.06.05 Restated Profit before tax £m	30.06.05 Restated Tax (charge)/ credit £m	30.06.05 Restated Profit after tax £m	30.06.05 Restated Per share p
Operating profit from continuing operations	**334**	**(95)**	**239**	**3.69**	298	(93)	205	3.17
Variation from longer term investment return	**7**	**4**	**11**	**0.17**	63	(13)	50	0.77
Change in SRC	**39**	**(33)**	**6**	**0.09**	116	(18)	98	1.51
Profit from discontinued operations	**-**	**-**	**-**	**-**	12	1	13	0.20
Distributions on subordinated borrowings designated as equity			**-**	**-**			(8)	(0.12)
Earnings per share	**380**	**(124)**	**256**	**3.95**	489	(123)	358	5.53

	Full year 31.12.05 Profit before tax £m	Full year 31.12.05 Tax (charge)/ credit £m	Full year 31.12.05 Profit after tax £m	Full year 31.12.05 Per share p
Operating profit from continuing operations	647	(191)	456	7.04
Variation from longer term investment return	139	(32)	107	1.66
Change in SRC	516	(148)	368	5.68
Profit from discontinued operations	12	1	13	0.20
Distributions on subordinated borrowings designated as equity			(16)	(0.25)
Earnings per share	1,314	(370)	928	14.33

4.10 Earnings per share (continued)

(b) Diluted earnings per share

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

	30.06.06 Profit after tax £m	30.06.06 Number of shares [1] m	30.06.06 Per share p	30.06.05 Restated Profit after tax £m	30.06.05 Number of shares [1] m	30.06.05 Restated Per share p
Operating profit from continuing operations after tax	**239**	**6,478**	**3.69**	205	6,477	3.17
Net shares under options allocable for no further consideration	**-**	**41**	**(0.02)**	-	35	(0.02)
Convertible bonds outstanding [2]	**12**	**285**	**-**	8	285	(0.02)
Diluted earnings per share	**251**	**6,804**	**3.67**	213	6,797	3.13

	Full year 31.12.05 Profit after tax £m	Full year 31.12.05 Number of shares [1] m	Full year 31.12.05 Per share p
Operating profit from continuing operations after tax	456	6,474	7.04
Net shares under options allocable for no further consideration	-	38	(0.04)
Convertible bonds outstanding	20	285	-
Diluted earnings per share	476	6,797	7.00

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

	30.06.06 Profit after tax £m	30.06.06 Number of shares [1] m	30.06.06 Per share p	30.06.05 Profit after tax £m	30.06.05 Number of shares [1] m	30.06.05 Per share p
Profit attributable to ordinary equity holders of the Company	**256**	**6,478**	**3.95**	358	6,477	5.53
Net shares under options allocable for no further consideration	**-**	**41**	**(0.02)**	-	35	(0.03)
Convertible bonds outstanding [2]	**12**	**285**	**-**	8	285	(0.12)
Diluted earnings per share	**268**	**6,804**	**3.93**	366	6,797	5.38

	Full year 31.12.05 Profit after tax £m	Full year 31.12.05 Number of shares [1] m	Full year 31.12.05 Per share p
Profit attributable to ordinary equity holders of the Company	928	6,474	14.33
Net shares under options allocable for no further consideration	-	38	(0.08)
Convertible bonds outstanding	20	285	(0.30)
Diluted earnings per share	948	6,797	13.95

1. Weighted average number of shares.
2. These shares are antidilutive for the period ended 30 June 2006 as they would increase the net profit per share, and are therefore ignored along with their associated revenue impact in the calculation of diluted earnings per share.

4.11 Analysis of gross written premiums

	30.06.06 £m	30.06.05 £m	Full year 31.12.05 £m
From continuing operations			
Life and pensions participating business	**203**	283	485
Life and pensions non-participating business	**1,216**	1,240	2,428
Total UK life and pensions	**1,419**	1,523	2,913
USA	**174**	158	329
Netherlands	**147**	120	243
France	**152**	129	265
Total life and pensions	**1,892**	1,930	3,750
General insurance business			
Household	**115**	115	234
Other business	**46**	55	100
Total general insurance	**161**	170	334
Total gross written premiums	**2,053**	2,100	4,084

4.12 Segmental analysis

(a) By business segments

The Group is organised into three main business segments:
- Long term business
- General insurance
- Investment management

Other operations comprise Shareholders' assets, Regulated mortgage network, Estate agencies and Corporate expenses, none of which constitute a separately reportable segment.

(i) Income statement analysed by business segments (primary disclosures)

	Long term business	Investment manage-ment	General insurance	Other operations	Elimination of inter segment amounts	Total
Six months ended 30 June 2006	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Total revenue from continuing operations	**2,469**	**2,067**	**154**	**225**	**(110)**	**4,805**
Total expenses from continuing operations	**2,245**	**1,984**	**158**	**135**	**(110)**	**4,412**
Profit from continuing operations after income tax	**151**	**45**	**(3)**	**84**	**-**	**277**
Profit from discontinued operations	-	-	-	-	-	-
Inter segment revenue	**-**	**(34)**	**-**	**(76)**	**110**	**-**
Six months ended 30 June 2005 (Restated)						
Total revenue from continuing operations	5,091	6,704	160	205	(111)	12,049
Total expenses from continuing operations	4,717	6,625	154	88	(111)	11,473
Profit from continuing operations after income tax	227	34	3	100	-	364
Profit from discontinued operations	-	-	13	-	-	13
Inter segment revenue	-	(28)	(1)	(82)	111	-
Full year ended 31 December 2005						
Total revenue from continuing operations	11,512	18,833	328	559	(243)	30,989
Total expenses from continuing operations	10,373	18,724	311	235	(243)	29,400
Profit from continuing operations after income tax	650	71	13	278	-	1,012
Profit from discontinued operations	-	-	13	-	-	13
Inter segment revenue	-	(59)	(2)	(182)	243	-

4.12 Segmental analysis (continued)

(a) By business segments (continued)

(ii) Balance sheet analysed by business segments (primary disclosures)

As at 30 June 2006	Long term business £m	Investment manage-ment £m	General insurance £m	Other operations £m	Elimination of inter segment amounts £m	Total £m
Total assets	**67,021**	**129,559**	**520**	**4,443**	**(1,602)**	**199,941**
Total liabilities	**64,713**	**128,831**	**356**	**3,073**	**(1,602)**	**195,371**
Total equity	**2,308**	**728**	**164**	**1,370**	**-**	**4,570**
As at 30 June 2005 (Restated)						
Total assets	60,404	106,555	501	4,244	(1,637)	170,067
Total liabilities	58,488	105,867	340	2,603	(1,637)	165,661
Total equity	1,916	688	161	1,641	-	4,406
As at 31 December 2005						
Total assets	65,146	123,304	516	4,676	(1,777)	191,865
Total liabilities	62,901	122,622	351	2,832	(1,777)	186,929
Total equity	2,245	682	165	1,844	-	4,936

(b) By geographic segments

30 June 2006	UK £m	USA £m	Netherlands £m	France £m	Elimination of inter segment amounts £m	Total £m
Total revenue from continuing operations	**4,410**	**157**	**116**	**122**	**-**	**4,805**
Segment assets	**195,033**	**1,910**	**1,309**	**1,710**	**(21)**	**199,941**
30 June 2005						
Total revenue from continuing operations	11,506	149	191	203	-	12,049
Segment assets	165,478	1,930	1,132	1,546	(19)	170,067
31 December 2005						
Total revenue from continuing operations	29,918	321	362	388	-	30,989
Segment assets	186,936	2,016	1,269	1,663	(19)	191,865

4.13 Pension cost

The Legal & General Group UK Pension and Assurance Fund and the Legal & General Group UK Senior Pension Scheme are defined benefit pension arrangements and account for all UK and the majority of worldwide assets and contributions to such schemes. At 30 June 2006 the combined after tax deficit of these arrangements (net of annuity obligations) has been estimated at £79m (1H05: £132m; FY05: £148m). These amounts have been recognised in the financial information with £49m charged against shareholder equity (1H05: £78m; FY05: £88m) and £30m against the unallocated divisible surplus (1H05: £54m; FY05: £60m).

4.14 Financial investments

	At 30.06.06 £m	At 30.06.05 £m	At 31.12.05 £m
Equities	**101,907**	85,090	99,277
Unit trusts	**3,166**	2,117	2,941
Debt securities	**75,700**	65,855	72,941
Accrued interest	**970**	817	887
Derivative assets	**46**	60	30
Loans and receivables	**639**	273	546
	182,428	154,212	176,622

4.15 Segmental analysis of ordinary shareholders' equity

	At 30.06.06 £m	At 30.06.05 Restated £m	At 31.12.05 £m
SRC [1]	**2,591**	2,301	2,560
Society shareholder capital [2]	**2,042**	2,048	1,896
	4,633	4,349	4,456
General insurance	**164**	161	167
Netherlands	**88**	102	103
France	**69**	60	64
Total Society shareholders' equity	**4,954**	4,672	4,790
USA	**556**	537	570
Investment management	**314**	274	268
Corporate funds [3]	**(1,572)**	(1,686)	(1,371)
Ordinary shareholders' equity	**4,252**	3,797	4,257

1. Includes £602m of intra-group subordinated debt capital attributed to the SRC.
2. Represents surplus capital held outside the UK Long Term Fund, including the rights issue proceeds.
3. Includes the convertible debt of £518m (1H05: £501m; FY05: £509m), senior debt of £602m and subordinated borrowings of £813m (1H05 £801m; FY05: £809m). £602m has been lent on to the UK Long Term Fund.

4.16 Borrowings

	At 30.06.06 £m	At 30.06.05 Restated £m	At 31.12.05 £m
Subordinated borrowings designated as equity			
5.875% Sterling undated subordinated notes	**-**	394	394
Subordinated borrowings			
5.875% Sterling undated subordinated notes	**429**	-	-
4.0% Euro subordinated notes 2025	**384**	407	415
Total subordinated borrowings	**813**	801	809
Senior borrowings			
2.75% Sterling convertible bond 2006	**518**	501	509
Sterling medium term notes 2031-2041	**602**	602	608
Euro commercial paper 2006	**111**	71	110
Bank loans 2006	**25**	4	6
Non-recourse financing			
- US Dollar Triple X securitisation 2025	**286**	295	308
- Sterling property partnership loans 2011	**140**	93	93
Total senior borrowings	**1,682**	1,566	1,634
Total borrowings	**2,495**	2,367	2,443
Total borrowings (excluding non-recourse financing)	**2,069**	1,979	2,042

£48m of interest expense was incurred during the period (1H05: £30m (restated); FY05: £75m).

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

Legal & General Group Plc has issued €600m of 4% dated subordinated notes. The proceeds were swapped into sterling and will be used to repay part of the convertible bond which matures in 2006. The notes are callable on 8 June 2015 and each year thereafter. If not called, the coupon from 8 June 2015 will reset to a floating rate of interest based on prevailing three month Euribor plus 1.7% per annum.

Legal & General Group Plc has also issued £400m of 5.875% undated subordinated notes. These notes are callable on 1 April 2019 and every 5 years thereafter. If not called, the coupon from 1 April 2019 will be reset to the prevailing five year benchmark gilt yield plus 2.33% per annum.

Coupon payments on both subordinated issues may be deferred if no dividend is paid on the Group's ordinary shares.

The undated subordinated notes were classified as equity because their perpetual nature meant that in certain circumstances, interest could be deferred indefinitely. On 13 March 2006 the Group entered into a supplementary trust deed to remove the discretionary nature of the interest in respect of the undated subordinated notes which had the effect of reclassifying the notes from equity to liability and coupon payments from distributions to interest. Upon reclassification the new debt component was recognised at fair value.

The Euro dated subordinated notes are treated as lower tier II capital for regulatory purposes and the sterling undated subordinated notes as upper tier II capital.

A subsidiary of Legal & General America has issued US$550m of non-recourse debt in the US domestic capital markets to meet the Triple X reserve requirements on the US term insurance business. It is secured on the cash flows related to this business.

The property partnership loans are secured on specific properties.

Of the total borrowings £602m (1H05:£602m; FY05: £602m) is attributed to the SRC.

4.17 Minority interests

Minority interests represent third party interests in property investment vehicles which are consolidated in the Group's results.

4.18 Movement in equity

	At 30.06.06 £m	At 30.06.05 Restated £m	At 31.12.05 £m
At beginning of period	**4,936**	4,283	4,283
Total recognised income and expense	**272**	367	1,002
Issue of ordinary share capital	**12**	-	1
Net movements in employee share schemes and treasury shares	**(4)**	(2)	7
Dividend distributions to ordinary equity holders of the Company during the period	**(236)**	(224)	(331)
Distributions during the period on subordinated borrowings designated as equity	**-**	(8)	(16)
Movements in minority interests including disposals	**12**	(10)	(10)
Derecognition of subordinated borrowings from equity to debt	**(394)**	-	-
Fair value loss after tax on recognition of subordinated borrowings as debt	**(28)**	-	-
At end of period	**4,570**	4,406	4,936

4.19 Value of UK Long Term Fund assets

	At 30.06.06 £bn	At 30.06.05 £bn	At 31.12.05 £bn
With-profits business	**29.4**	27.8	29.7
Non profit business	**24.3**	20.1	22.7
Sub-fund	**0.3**	0.3	0.3
SRC	**2.6**	2.3	2.6
	56.6	50.5	55.3

4.20 Non linked invested asset mix and investment return

30 June 2006	Investment Return 2006 %	With-profits Asset share %	With-profits Non Par %	With-profits Other %	Non profit %	SRC %	Sub-fund %	SSC %
Equities	**4**	**49**	**4**	**(31)**	**2**	**81**	**83**	**56**
Bonds	**(3)**	**30**	**84**	**119**	**92**	**-**	**-**	**40**
Property	**9**	**18**	**1**	-	**4**	**18**	**16**	**-**
Cash	**2**	**3**	**11**	**12**	**2**	**1**	**1**	**4**
		100	**100**	**100**	**100**	**100**	**100**	**100**
Investment return (%)	**1**	**3**	**(1)**	**(5)**	**(2)**	**4**	**5**	**4**
Invested assets (£bn)		**18.4**	**2.4**	**1.8**	**15.0**	**2.2**	**0.3**	**1.9**

All investment return percentages are year to date.

4.21 Contingent liabilities, guarantees and indemnities

Provision for the liabilities arising under contracts with policyholders is based on certain assumptions. The variance of actual experience from that assumed may result in such liabilities differing from the provisions made for them. Liabilities may also arise in respect of claims relating to the interpretation of such contracts, or the circumstances in which policyholders have entered into them (together in this paragraph "liabilities"). The extent of such liabilities is influenced by a number of factors including the actions and requirements of the FSA, by ombudsman rulings, by industry compensation schemes and by court judgements. The continuing general profile and emphasis being given by the FSA and other bodies to the suitability of the past sales of endowment policies in the context of some mortgage transactions has led to the continuing receipt of claims from holders of endowment policies.

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

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

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

4.22 Foreign exchange rates

(a) Period end exchange rates

	At 30.06.06	At 30.06.05	At 31.12.05
United States Dollar	**1.85**	1.79	1.72
Euro	**1.45**	1.48	1.46

(b) Average exchange rates

	01.01.06-30.06.06	01.01.05-30.06.05	01.07.05-31.12.05
United States Dollar	**1.79**	1.87	1.77
Euro	**1.46**	1.46	1.47

Capital and Cash Flow

5.1 Group capital resources

The Group's total capital resources of £7.0bn on an IFRS basis, comprise ordinary equity holders' capital (£4.2bn), subordinated debt (£0.8bn), and unallocated divisible surplus (£2.0bn, including £0.3bn of Sub-fund).

5.2 Insurance Groups Directive surplus

The Group is required to measure and monitor its capital resources on a regulatory, as well as an IFRS, basis and to comply with the minimum capital requirements of regulators in each territory in which it operates. At a Group level, Legal & General must comply with the requirements of the Insurance Groups Directive (IGD). This is a very prudent measure of capital resources as it excludes any amount of surplus capital within a long term fund (£2.3bn at 30 June 2006). The table below shows the total estimated Group capital resources, Group capital resources requirement and the surplus.

	30.06.06 **£m**	Full year 31.12.05 £m
Tier I	**5,399**	6,047
Upper tier II	**423**	394
Lower tier II	**411**	408
Deductions	**(67)**	(62)
Group capital resources	**6,166**	6,787
Group capital resources requirement	**3,833**	4,376
Insurance Groups Directive surplus	**2,333**	2,411

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

	30.06.06 **£m**	Full year 31.12.05 £m
Capital and reserves attributable to equity holders on an IFRS basis	4,252	4,651
Qualifying tier II capital	834	408
Additional capital available from Legal & General Assurance Society Ltd	1,552	2,148
Adjustment to reflect regulatory value of L&G America	(466)	(430)
Other adjustments to restate to IGD basis	(6)	10
Group capital resources	**6,166**	6,787

5.3 Society capital resources

(a) Analysis of Society capital on an IFRS basis

Legal & General Assurance Society Limited (Society), the Group's principal operating subsidiary, has been allocated capital of £4.6bn, reflecting the significance of this operation and the importance of ensuring financial strength to support long term growth of the business. Of this total, £2.0bn is held outside the long term fund as Society Shareholder Capital (SSC), and the remainder of £2.6bn is held within the UK long term fund as Shareholder Retained Capital (SRC). An analysis of the movement in total Society capital on the IFRS basis is provided in the table below:

	Notes	**30.06.06 SSC £m**	**30.06.06 SRC £m**	30.06.05 SSC £m	30.06.05 SRC £m	Full year 31.12.05 SSC £m	Full year 31.12.05 SRC £m
SSC/SRC as at 1 January		**1,896**	**2,560**	1,973	2,196	1,973	2,196
Investment return		**70**		103		250	
Transfer from long term fund	5.4(b)	**138**		115		265	
Dividends from subsidiaries		**2**		105		105	
Distribution to shareholders		**(50)**		(229)		(638)	
Tax		**(11)**		(22)		(57)	
Other		**(3)**		3		(2)	
SSC at end of period		**2,042**		2,048		1,896	
Investment return			**104**		129		387
Net capital released from non profit business	5.3(b)		**110**		138		478
Distribution of operating profit from non profit business			**(175)**		(151)		(349)
Tax			**(33)**		(18)		(148)
SRC movement included in total recognised income and expense			**25**		7		(4)
SRC at end of period			**2,591**		2,301		2,560
Society capital at end of period		**2,042**	**2,591**	2,048	2,301	1,896	2,560

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

	30.06.06 £m	30.06.05 £m	Full year 31.12.05 £m
Net capital released from non profit business comprises:			
New business:			
- Strain arising in the period, before financing arrangements	**(279)**	(207)	(466)
- Financing arrangements	**94**	-	125
Existing business:			
- Expected capital release in the period, before financing arrangements	**290**	198	499
- Financing arrangements	**(26)**	-	-
Experience variances	**(45)**	127	274
Changes to non-economic assumptions	**(28)**	(35)	(35)
Movements in non-cash items	**58**	2	(67)
Other	**13**	12	5
	77	97	335
Tax gross-up	**33**	41	143
	110	138	478

Financing arrangements comprise the financial reinsurance for new term assurance business which was finalised in the last quarter of 2005. The reinsurance contract has a beneficial impact of £94m (net of tax) on the financing of new business for regulatory purposes. This has been partially offset by repayments (£26m) relating to the financial reinsurance on premiums written in 2005. Under IFRS, the impact is neutral and there is an equal and opposite impact reported through non-cash items.

5.3 Society capital resources (continued)

Expected capital release represents the capital and profit generated in the period from the in-force non profit business if the embedded value assumptions are borne out in practice. The experience variances are calculated with reference to embedded value assumptions, including the apportionment of investment return and tax in the EEV model. The release figure of £290m reflects the substantial growth in non profit business in recent years.

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

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

Experience variances	**30.06.06** £m	Full year 31.12.05 £m
Persistency	**-**	13
Mortality / morbidity	**(1)**	15
Expenses	**(20)**	(8)
Bulk Purchase Annuity data loading	**43**	78
Investment	**2**	121
Allocated tax and other	**(69)**	55
	(45)	274

Experience variances of £(45)m comprises principally the impact from loading data onto the new administration system for Bulk Purchase Annuity business, and variances between actual and modelled allocated tax.

Changes to non-economic assumptions	**30.06.06** £m	Full year 31.12.05 £m
Mortality / morbidity	**-**	33
Expenses	**(13)**	(19)
Negative inflation	**(15)**	(33)
Other	**-**	(16)
	(28)	(35)

Movements in non-cash items	**30.06.06** £m	Full year 31.12.05 £m
Deferred tax	**37**	34
Deferred acquisition costs	**130**	160
Deferred income liabilities	**(25)**	(110)
IFRS adjustment for financial reinsurance	**(68)**	(125)
Other	**(16)**	(26)
	58	(67)

(c) Regulatory capital surplus

Society is required to measure and monitor its capital resources on a regulatory basis. The primary requirement is for Society to maintain capital resources in excess of its capital resources requirement and the table below shows the estimated regulatory capital surplus as at 30 June 2006.

	30.06.06 Long term business £m	**30.06.06** General insurance £m	Full year 31.12.05 Long term business £m	Full year 31.12.05 General insurance £m
Tier I	**7,527**	**55**	7,944	55
Upper tier II	**602**	**-**	602	-
Available capital resources	**8,129**	**55**	8,546	55
Capital resources requirement	**3,597**	**53**	4,142	55
Regulatory capital surplus	**4,532**	**2**	4,404	-

5.3 Society capital resources (continued)

Tier 1 resources include an implicit item relating to non profit business of £425m (FY05: £540m).

Society is required to maintain a surplus in the with-profits part of the fund on a realistic basis. If the surplus on a realistic basis is lower than the surplus using Peak 1 solvency rules, then a further capital requirement is included in the capital resources requirement. This additional capital requirement is the With-Profits Insurance Capital Component and amounts to £1,192m for 30 June 2006 (FY05: £1,504m) of the total capital resources requirement of £3,597m (FY05: £4,142m).

The table below summarises the realistic position of the with-profits part of the fund:

	30.06.06 £m	Full year 31.12.05 £m
With-profits surplus	**907**	842
Risk capital margin (RCM)	**244**	327
Surplus	**663**	515

(d) Society financial strength ratings

Society continues to be one of the two highest rated European life assurers. Currently, our financial strength ratings from Standard & Poor's, Moody's and A.M.Best are AA+, Aa1 and A+ respectively, all with a stable outlook.

5.4 Distributions to shareholders from the UK long term fund

(a) Calculation of distribution relating to non profit and shareholder net worth

The transfer to shareholders from the long term fund is limited by a formula agreed with our regulator. The formula is the aggregate of the shareholders' share of the with-profits surplus, a smoothed investment return of 7% on the embedded value of the SRC and Sub-fund, the shareholder net worth (SNW) and 5% on the embedded value of the non profit business.

	30.06.06 Non profit £m	**30.06.06 SNW £m**	30.06.05 Non profit £m	30.06.05 SNW £m	Full year 31.12.05 Non profit £m	Full year 31.12.05 SNW £m
At end of period	**2,649**	**1,714**	2,268	1,464	2,387	1,762
Less: subordinated debt capital	**-**	**(602)**	-	(602)	-	(602)
Add back: pension deficit attributable to SNW	**-**	**38**	-	47	-	51
Add back: distributions	**-**	**110**	-	92	-	219
	2,649	**1,260**	2,268	1,001	2,387	1,430
Distribution formula - full year					5%	7%
Distribution formula - half year	**2.5%**	**3.5%**	2.5%	3.5%		
Distribution after tax	**67**	**43**	57	35	119	100
Tax gross up @ 30%	**29**	**18**	26	15	51	42
Distribution before tax	**96**	**61**	83	50	170	142

(b) Analysis of distribution to shareholders

	30.06.06 £m	30.06.05 £m	Full year 31.12.05 £m
With-profits transfer	**28**	23	46
Non profit transfer	**110**	92	219
Transfer from long term fund	**138**	115	265
Subordinated debt	**13**	13	26
Distribution to shareholders after tax	**151**	128	291
Tax gross up @ 30%	**64**	55	124
Distribution to shareholders before tax	**215**	183	415

5.5 Group cash flow statement

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

	30.06.06 **£m**	30.06.05 Restated £m	Full year 31.12.05 £m
Dividends received:			
UK life and pensions	**50**	124	533
General insurance	-	105	105
Investment management	-	24	69
Other	**2**	1	2
	52	254	709
Dividend distributions to ordinary equity holders of the Company during the period	**(236)**	(224)	(331)
Distributions during the period on subordinated borrowings designated as equity	-	(8)	(16)
Proceeds from issue of equity	**12**	-	1
Proceeds from issue of subordinated borrowings	**-**	397	397
Working capital movements	**(6)**	(66)	(136)
Net cash (outflow)/inflow	**(178)**	353	624

Following the implementation of FRS 21 'Events after the balance sheet date', dividends from operating subsidiaries are paid prior to the year end to fund both the final and interim dividend payments to shareholders. This has contributed to the net cash outflow in the first half of 2006.

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Appendices

I UK funds under management

	At 30.06.06 £m	At 30.06.05 £m	At 31.12.05 £m
Total investments	**211,140**	177,626	204,328
Represented by			
Index tracking funds:			
- UK equities	**61,726**	52,200	58,739
- Overseas equities	**37,460**	29,417	36,468
- Fixed interest	**25,686**	20,859	23,364
- Index linked	**20,390**	16,665	18,906
- Cash/deposits	**938**	411	170
Total index tracking funds	**146,200**	119,552	137,647
Actively managed funds	**64,940**	58,074	66,681
	211,140	177,626	204,328
By investment approach			
Indexed equities	**99,186**	81,617	95,207
Active bonds (including index linked funds and cash)	**45,163**	40,319	46,419
Indexed bonds (including index linked funds and cash)	**47,014**	37,935	42,440
Active equities	**10,406**	10,248	11,542
Property	**9,081**	7,107	8,388
Private equity	**290**	400	332
	211,140	177,626	204,328
By source of business			
Institutional funds under management[1]:			
- Managed pension funds pooled	**128,231**	105,114	122,116
- Managed pension funds segregated	**7,837**	8,070	8,921
- Other	**5,658**	2,809	4,069
Total institutional funds under management	**141,726**	115,993	135,106
UK Operations (unit trusts - excluding life fund investment)	**10,339**	8,363	10,378
UK Operations (life and general insurance funds)	**59,075**	53,270	58,844
	211,140	177,626	204,328

1. Excludes institutional investments in unit trust funds.

II Reconciliation of shareholder net worth (SNW)

	At 30.06.06 UK life and pensions £m	At 30.06.06 Total £m	At 30.06.05 UK life and pensions £m	At 30.06.05 Restated Total £m	At 31.12.05 UK life and pensions £m	At 31.12.05 Total £m
SNW of long term operations (IFRS basis)	**2,591**	**3,520**	2,301	3,188	2,560	3,481
Other assets (IFRS basis)	**-**	**732**	-	609	-	776
Ordinary shareholders' equity on the IFRS basis	**2,591**	**4,252**	2,301	3,797	2,560	4,257
Purchased interests in long term business	**(9)**	**(29)**	(11)	(24)	(10)	(25)
Sub-fund	**292**	**292**	258	258	287	287
Deferred acquisition costs / income liabilities	**(360)**	**(927)**	(228)	(780)	(216)	(790)
Deferred tax [1]	**(850)**	**(686)**	(680)	(528)	(810)	(646)
Other [2]	**50**	**8**	(176)	(172)	(49)	(63)
Shareholder net worth on the EEV basis	**1,714**	**2,910**	1,464	2,551	1,762	3,020
Represented by:						
SNW of long term operations (EEV basis)	**1,714**	**2,178**	1,464	1,942	1,762	2,244
Other assets (IFRS basis)	**-**	**732**	-	609	-	776

1. Deferred tax represents all tax which is expected to be paid under current legislation, including tax which would arise if shareholders' assets were eventually distributed.
2. Other relates primarily to the different treatment of sterling reserves and other long term reserves under EEV compared with IFRS.

III New business

a) UK life and pensions new business APE by quarter

	3 months 30.06.06 £m	3 months 31.03.06 £m	3 months 31.12.05 £m	3 months 30.09.05 £m	3 months 30.06.05 £m	3 months 31.03.05 £m
Protection	**55**	**56**	46	54	54	54
Annuities	**38**	**33**	40	35	35	44
Savings						
Unit linked bonds	**60**	**61**	60	54	51	43
Pensions - stakeholder and other non profit	**50**	**41**	39	41	41	31
With-profits	**54**	**48**	40	38	37	35
Total	**257**	**239**	225	222	218	207

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

	3 months 30.06.06 £m	3 months 31.03.06 £m	3 months 31.12.05 £m	3 months 30.09.05 £m	3 months 30.06.05 £m	3 months 31.03.05 £m
Protection	**55**	**56**	46	54	54	54
Annuities	**-**	**-**	-	-	-	-
Savings						
Unit linked bonds	**-**	**-**	-	-	-	-
Pensions - stakeholder and other non profit	**36**	**27**	26	26	26	19
With-profits	**34**	**29**	18	19	21	19
Total	**125**	**112**	90	99	101	92

III New business (continued)

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

	3 months 30.06.06 £m	**3 months 31.03.06 £m**	3 months 31.12.05 £m	3 months 30.09.05 £m	3 months 30.06.05 £m	3 months 31.03.05 £m
Protection	**-**	**-**	-	-	-	-
Annuities	**375**	**333**	401	352	348	438
Savings						
Unit linked bonds	**608**	**605**	599	544	505	434
Pensions - stakeholder and other non profit	**138**	**142**	128	146	151	124
With-profits	**199**	**190**	217	192	161	159
Total	**1,320**	**1,270**	1,345	1,234	1,165	1,155

d) International life and pensions new business APE by quarter

	3 months 30.06.06 £m	**3 months 31.03.06 £m**	3 months 31.12.05 £m	3 months 30.09.05 £m	3 months 30.06.05 £m	3 months 31.03.05 £m
USA	**10**	**11**	12	11	9	10
Netherlands	**7**	**9**	7	8	6	8
France	**13**	**7**	6	8	17	5
Total	**30**	**27**	25	27	32	23

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

	3 months 30.06.06 £m	**3 months 31.03.06 £m**	3 months 31.12.05 £m	3 months 30.09.05 £m	3 months 30.06.05 £m	3 months 31.03.05 £m
USA	**10**	**11**	12	11	9	10
Netherlands	**4**	**3**	3	4	3	3
France	**8**	**1**	1	3	12	1
Total	**22**	**15**	16	18	24	14

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

	3 months 30.06.06 £m	**3 months 31.03.06 £m**	3 months 31.12.05 £m	3 months 30.09.05 £m	3 months 30.06.05 £m	3 months 31.03.05 £m
USA	**-**	**-**	-	-	-	-
Netherlands	**37**	**59**	41	39	32	46
France	**48**	**59**	50	49	48	44
Total	**85**	**118**	91	88	80	90

g) Retail investments new business APE by quarter

	3 months 30.06.06 £m	**3 months 31.03.06 £m**	3 months 31.12.05 £m	3 months 30.09.05 £m	3 months 30.06.05 £m	3 months 31.03.05 £m
UK	**218**	**124**	67	79	94	75
France	**1**	**-**	-	1	1	-
Total	**219**	**124**	67	80	95	75

III New Business (continued)

h) Retail investments new business annual premiums by quarter

	3 months 30.06.06 £m	3 months 31.03.06 £m	3 months 31.12.05 £m	3 months 30.09.05 £m	3 months 30.06.05 £m	3 months 31.03.05 £m
UK	**6**	**4**	3	2	7	3
France	**-**	**-**	-	-	-	-
Total	**6**	**4**	3	2	7	3

i) Retail investments new business single premiums by quarter

	3 months 30.06.06 £m	3 months 31.03.06 £m	3 months 31.12.05 £m	3 months 30.09.05 £m	3 months 30.06.05 £m	3 months 31.03.05 £m
UK	**2,120**	**1,195**	642	765	874	718
France	**5**	**5**	4	11	5	5
Total	**2,125**	**1,200**	646	776	879	723

j) Analysis of the distribution of UK individual life and pensions products by quarter

	3 months 30.06.06 £m	3 months 31.03.06 £m	3 months 31.12.05 £m	3 months 30.09.05 £m	3 months 30.06.05 £m	3 months 31.03.05 £m
Independent financial advisers	**196**	**222**	165	185	180	137
Tied	**226**	**85**	76	69	95	87
Direct	**15**	**10**	7	5	10	9
Total UK individual	**437**	**317**	248	259	285	233

k) UK new business APE summary

	3 months 30.06.06 £m	3 months 31.03.06 £m	3 months 31.12.05 £m	3 months 30.09.05 £m	3 months 30.06.05 £m	3 months 31.03.05 £m
Individual life and pensions	**219**	**193**	181	180	191	158
Retail investments	**218**	**124**	67	79	94	75
Total UK individual	**437**	**317**	248	259	285	233
Group life and pensions	**38**	**46**	44	42	27	49
Total UK	**475**	**363**	292	301	312	282

l) Institutional fund management new business by quarter

	3 months 30.06.06 £m	3 months 31.03.06 £m	3 months 31.12.05 £m	3 months 30.09.05 £m	3 months 30.06.05 £m	3 months 31.03.05 £m
Managed pension funds[1]						
Pooled funds	**4,500**	**3,763**	5,129	2,939	3,396	3,314
Segregated funds	**538**	**61**	94	41	63	42
Total managed funds	**5,038**	**3,824**	5,223	2,980	3,459	3,356
Other funds[2]	**157**	**1,739**	1,705	351	3	57
Total	**5,195**	**5,563**	6,928	3,331	3,462	3,413

1. New monies from pension fund clients of Legal & General Assurance (Pensions Management) Ltd. Corporate pensions gross new business excludes £1.7bn (1H05: £1.8bn; FY05: £4.1bn) which was held through the year on a temporary basis, generally as part of a portfolio reconstruction.
2. Includes segregated property, property partnerships, ventures, alternative investments and institutional clients excluding institutional trusts.

IV European Embedded Value Methodology

Basis of preparation

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

Covered business

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

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

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

Description of methodology

The objective of EEV is to provide shareholders with more realistic information on the financial position and current performance of the Group than is provided within the primary financial statements.

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

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

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

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

Embedded value

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

The embedded value is the sum of the shareholder net worth (SNW) and the value of the in-force business (VIF). SNW is defined as those amounts, within covered business, which are regarded either as required capital or which represent free surplus.

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

Service companies

All services relating to the UK life and pensions business, including investment management services, are charged on a cost recovery basis.

New business

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

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

DWP rebates have not been treated as recurrent and they are included in single premium new business when received.

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

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

IV European Embedded Value Methodology (continued)

Projection assumptions

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

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

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

Tax

The projections take into account all tax which is expected to be paid under current legislation, including tax which would arise if surplus assets within the covered business were eventually to be distributed.

Allowance for risk

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

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

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

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

Required capital and free surplus

Regulatory capital for UK life and pensions business is provided by assets backing the with-profits business or by the SNW. The SNW comprises the sum of the values of the Shareholder Retained Capital (SRC) and the Sub-fund.

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

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

The SRC is either required to cover EU solvency margin or is encumbered because its distribution to shareholders is restricted due to previous understandings with the Financial Services Authority. It is therefore classified as required capital and not as free surplus for the purposes of EEV reporting. SRC is valued by assuming it is distributed from the LTF over a 20 year period with allowance for tax payable on distribution. For this purpose, distribution of the SRC is restricted such that there is always sufficient SRC and subordinated debt left to cover the EU solvency margin for in-force non profit business.

The initial strains relating to new non profit business, together with the related EU solvency margin, are supported by releases from existing non profit business and the SRC. As a consequence, the writing of new business defers the release of capital from the SRC to free surplus. Cost of holding required capital is defined as the difference between the value of the required capital and the present value of future releases of that capital. For new business, the cost of capital is taken as the difference in the value of that capital assuming it was available for release immediately and the present value of the future releases of that capital. As the investment return, net of tax, on that capital is less than the risk discount rate, there is a resulting cost of capital which is reflected in the value of new business.

The Sub-fund is also treated as required capital, because its distribution to shareholders is restricted by Legal & General Assurance Society's Articles of Association.
For our UK managed pension funds business, management's capital policy has been used to set the level of required capital. The balance of net assets within the UK Managed Funds business is treated as free surplus.

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

For L&G Netherlands (LGN), required capital has been set at 100% of EU minimum solvency for all products which do not have any related financial options and guarantees (FOGs). For those products with FOGs, capital of between 112.5% and 150% of the EU minimum solvency margin has been used. The level of capital has been determined using risk based capital techniques.

IV European Embedded Value Methodology (continued)

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

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

Financial options and guarantees

In the UK, all FOGs are within the UK Life & Pensions business.

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

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

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

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

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

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

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

In France, FOGs which have been separately provided for relate to guaranteed minimum crediting rates and surrender values on a range of contracts. The guaranteed surrender value of the contract is the accumulated value of the contract including accrued bonuses. The bonuses are based on the accounting income for the amortising bond portfolios plus income and releases from realised gains on any equity type investments. Policy liabilities equal guaranteed surrender values. Local statutory accounting rules require the establishment of a specific liability when the accounting income for a company is less than 125% of the guaranteed minimum credited returns, although this has never been required. In general, the guaranteed annual bonus rates are between 1.5% and 4.5%.

Risk Discount Rate

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

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

IV European Embedded Value Methodology (continued)

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

The cost of debt used in the WACC calculations takes account of the actual locked-in rates for our senior and subordinated long term debt. For the Group's convertible debt, which matures in 2006, the probability of conversion is considered low given current market conditions. The cost of debt therefore assumes an equivalent long term market cost for this debt based on 5-year swap rates rather than the actual rate of 2.75%. All debt attracts tax relief at a rate of 30%.

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

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

Key assumptions are summarised below:

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

Analysis of Profit

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

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

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

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

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

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

i. expected return - the discount earned from the value of business in-force at the start of the year;
ii. experience variances - the variance in the actual experience over the reporting period from that assumed in the value of business in-force as at the start of the year; and
iii. operating assumption changes - the effects of changes in future assumptions, other than changes in economic assumptions from those used in valuing the business at the start of the year. These changes are made prospectively from the end of the year.

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

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

i. encumbered assets within the covered business – principally the unwind of the discount rate; and
ii. residual assets - the expected investment return.

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

IV European Embedded Value Methodology (continued)

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

Economic assumption changes comprise the effect of changes in economic variables, beyond the control of management, including associated changes to valuation bases to the extent that they are reflected in revised assumptions.

V IFRS basis of preparation

The Group's financial information for the period ended 30 June 2006 has been prepared in accordance with the Listing Rules of the Financial Services Authority. The Group's financial information has been prepared in accordance with the accounting policies that the Group expects to adopt for the 2006 year-end which are consistent with the principal accounting policies which were set out in the Group's 2005 consolidated financial statements. The principal accounting policies adopted by the Group for the 2005 year-end, as set out in the Group's 2005 consolidated financial statements, were consistent with IFRSs issued by the IASB as adopted by the European Commission (EC) for use in the European Union (EU). The Group has chosen not to adopt IAS 34 'Interim Financial Reporting' in preparing its 2006 interim accounts since adoption of this standard is not mandatory until the EU Transparency Directive is implemented through the FSA's Listing Rules.

The preparation of the financial information includes the use of estimates and assumptions that affect items reported in the consolidated balance sheet and income statement and the disclosure of contingent assets and liabilities at the date of the financial information. Although these estimates are based on management's best knowledge of current circumstances and future events and actions, actual results may differ from those estimates, possibly significantly.

The accounting policies have been consistently applied to all periods presented.