

Chairman's Speech – AGM 2005

This meeting is the Group's 26th AGM. At 14 of those meetings, more than half, David Prosser has sat next to the Chair as the Group Chief Executive. This will be the last AGM at which he will be present in that capacity and I would like to say a few words later about David's contribution to the growth and success of your company.

In saying that though, David, I know, would agree that Legal & General's achievements are the result of the collective team of management and staff and, on your behalf, I am pleased today to pay tribute to all their efforts over 2004.

Our Annual Report this year, which I hope once again you will have enjoyed reading, was, as many of you will have noticed, thicker than ever. We apologise for this but we are governed by increasingly onerous reporting requirements. Unfortunately, even more is required for 2005, and the requirements as to what must be provided as a part of our Results presentation simply won't, in any reasonable practical way, be available until ten weeks after the accounts for 2005 are closed. Next year's AGM cannot therefore be in April as has been the pattern in the recent past, but instead is likely to be in mid-May. In subsequent years, we hope to be able to claw back some of this slippage as the processes for the new requirements settle down.

In keeping with our recent practice, we announced today our new business results for the first three months of the year and I hope you have all had the chance to read those results in the papers handed to you as you came in this morning. If you have read them, then I am sure you will have been very pleased to see the excellent sales increases. I won't go into detail as David will talk about our performance last year and so far this year in his remarks. What I cannot do though, is resist the opportunity to say how pleased your Board was to see our UK retail market share reach another new high in 2004, of 9.5%. This is remarkable when you realise only five years ago the equivalent number was 5.1%. That growth has been achieved organically and with a firm focus on profitability. And of course our excellent first quarter numbers will, we believe, put us well on the way towards a double digit market share for the first time in Legal & General's history. If achieved for 2005, that would be excellent news. Our other significant UK business whose performance, I have to say I find quite remarkable, is Legal & General Investment Management. Over £162 billion of assets under management at the end of last year. £167 billion at the end of last month and profits also growing well – up 25% last year. These are very good results and I hope you, the owners of this enterprise, take satisfaction from what has been achieved and what continues to be achieved, by Tim Breedon and his colleagues.

I would now like to concentrate my remarks on four issues of importance to your company and to you the shareholders. These are first the issue of savings in the UK and the role Government has in stimulating savings activity; second the question of how our industry is regulated, referring specifically to

our own case, recently heard by the Financial Services and Markets Tribunal, third the process for appointing a successor to David Prosser and finally, the performance of our share price and relating to that the dividend policy which your Board follows.

This AGM takes place as we enter the final week of what looks to be an intensely fought General Election campaign. As always on these occasions, there are many issues to command the attention of politicians and voters alike. However, by no means has enough attention in the campaign been paid to the inadequate level of saving and in particular of long term saving for pensions in this country. The problem has been well identified but by failing to act, Governments have allowed the pensions gap to get larger. We therefore urge all the parties to give a much higher priority to this issue and to commit themselves to taking effective steps to address this most important matter. Our own proposal is that employers be required to match the pension savings of their employees up to a certain minimum percentage of salary. Thus for the 22p taxpayer, 78p of foregone current consumption would buy £2.00 of pension investment for the future, a level of incentive which we believe would achieve the cultural shift required. Many larger and better employers already offer such arrangements. On our estimates, such a change would not stimulate inflation unduly but it would deal with a significant part of the problem. Pension saving in a company – sponsored or supported scheme should once again become the norm rather than, as it is in certain sectors, the exception. All parties should commit to stimulating pension saving for the less

affluent, should they be elected and we were pleased to see that one did commit to a modest amount which would sit well alongside our own proposal.

As you will be aware, Legal & General conducts the overwhelming majority of its business in the UK. Committed to the UK as we are, we recognise the importance of there being a vibrant, competitive and trusted UK financial services industry, operating within a regulatory framework which is fit for purpose and which is fair to provider and consumer alike. As shareholders will be aware, your Board decided unanimously in 2003 to appeal against an FSA disciplinary Decision Notice. That appeal or to be more accurate, the new hearing of the case in front of the Financial Services and Markets Tribunal, took place last Autumn and the preliminary decision of the Tribunal was announced in January. The Tribunal found that Legal & General had been guilty of eight cases of mis-selling, from an initial sample of 250 cases, and your Board and your Company regret that these occurred and has sought to compensate the customers involved. However on the evidence presented, the Tribunal found that except to this limited extent the charge of mis-selling brought by the FSA had failed. Further the Tribunal found that and I quote, “the RDC was in error in its approach to the mis-selling case and reached conclusions not justified by the material before it”. In addition, referring to errors in the Decision Notice and in the way it was reached, the Tribunal stated that and I quote again, “Legal & General were justified in feeling aggrieved by these aspects of the RDC’s decision”.

Since the initial judgement in January, our legal team has submitted pleadings to the Tribunal calling for a cancellation of the proposed fine and the awarding against the FSA of our costs. The Tribunal heard the case yesterday and we expect its final judgement to be published within the next two weeks.

Importantly though, subsequent to the Tribunal's initial judgement the FSA has set up a review of its enforcement processes, with an overview being provided by very eminent business people. One of the four key issues which the review will consider is, "the options for a fair procedure under which regulatory decisions are made by people separate from the investigators". We welcome this review and are hopeful that significant changes will follow it.

Ladies and Gentlemen, your Board is involved in the very important task of appointing a successor to our Chief Executive. I would like to bring you up to date on the work we have been doing to select the next Chief Executive. As you would expect, this is a matter which the Board is treating with the utmost seriousness. As I am sure you will agree, we have a pool of excellent managers within our business from which to select the new Chief Executive but we have thought it right also to look outside the company, so that when we make our decision we will know that we will have looked at the very best people available. I am sure you would expect us to do this. We have retained the services of a leading executive search firm with particular expertise in this type of appointment and with a knowledge of Legal & General. The process of meetings, interviews and deliberations is underway. There will be further discussion over the coming weeks and I am confident that we will be in a

position to announce our choice in the course of the summer, leaving ample time for a proper handover of responsibilities.

I should emphasize that, though the individual leading your company may be about to change, we are not seeking to change the strategy on which your company's success has been founded nor our winning culture. Good value products and good service define our brand and ensure we win the support of customers as well as IFA's, banking partners and other agents. These core elements of the strategy have produced success over many years and we wish to continue with evolution not revolution.

Finally, let me turn now to the performance of our share price. When we met a year ago our shares were trading at 96p. On Monday night, they closed at 108.5p, after allowing for the payment of over 5p in dividends. That's a total return in the last year of some 19% following on from over 30% in the previous year. The equivalent return for the FTSE 100 index of shares over the last twelve months was as the slide shows, 10%, indicating an 9% outperformance for Legal & General over the period.

On a five year view, the position shows negative shareholder returns for both ourselves and the FTSE 100 though not so negative for Legal & General. On a ten year performance though, we're not just ahead of FTSE 100, as we are for one and five years, but showing it a clean pair of heels.

Markets can be hard to interpret but that ten year TSR outperformance captures in part the successful growth in both new business and profit which your company has achieved. Growth in these key areas and the prospects for continuing growth in them have been amongst the factors your Board has considered in the formation and continuing application of our dividend policy. This year, we are recommending an increase in the final dividend of 3.6% matching inflation at the end of 2004 and in line with our stated dividend policy. As I have said before from this platform, dividends do matter. Our current dividend policy is, we believe, in the interests of shareholders and it is one which we wish to maintain.

I said earlier I would refer to David's period in office as your Group Chief Executive and his contribution over the last 14 years. Not only have we become a much stronger company operationally in the UK with market share which has increased significantly but also shareholders have benefited from a total return of over 400% compared to less than 200% for the FTSE 100. There has in addition been excellent growth in the dividends you receive as shareholders. Someone buying £1,000 of shares on the day David took office and making no further investment would by now have received over £1,140 back in dividends, including £130 in respect of 2004 alone.

As I have said, that's an excellent performance but it has only been made possible by the transformation of the business over the last fourteen years. Profits up from £33m in 1991 to £464m last year. Worldwide new business APE less than a third of a billion in 1991; more than a billion in 2004. And

finally, funds under management. £19 billion in 1991 - that's less than one year's premium and investment inflow nowadays - £167 billion today.

These are remarkable numbers and they are reflective, in my judgement, of the outstanding executive leadership of one man of your company. Ladies and Gentlemen, please join with me in showing your appreciation of David Prosser, your Group Chief Executive for the last fourteen years.

Thank you very much. However, as you know, though this is David's last AGM, he is not retiring quite yet and we expect him and the whole team to deliver another successful year for Legal & General in 2005. So, to talk about that and our performance last year let me hand over now to David.