



LEGAL & GENERAL FINANCE PLC
(registered no. 02338444)

LEGAL & GENERAL FINANCE EUROPE B.V.

U.S. \$1,000,000,000

EURO MEDIUM-TERM NOTE PROGRAMME

Unconditionally and irrevocably guaranteed by

LEGAL & GENERAL GROUP Plc
(registered no. 1417162)

Legal & General Finance PLC ("Finance") and Legal & General Finance Europe B.V. ("Finance Europe") (collectively, the "Issuers") have established a programme under which they may from time to time issue, in one or more Series (as defined below), medium-term notes (the "Notes") outside the United States denominated in U.S. dollars or, subject to certain conditions and as provided in "Description of the Notes — Form, Denomination and Title" herein, in other currencies. Each Note will have endorsed thereon the unconditional and irrevocable guarantee (each a "Guarantee") of Legal & General Group Plc, as guarantor thereunder ("Legal & General" or the "Guarantor"), as to all amounts of principal and premium and interest, if any, thereof and thereon due. The maximum principal amount of Notes outstanding may not exceed U.S. \$1,000,000,000 (or the equivalent in other currencies calculated as described herein); provided that the Issuers and the Guarantor reserve the right to increase such amount.

The Notes, which may be issued at their principal amount or at a premium or discount to their principal amount, may bear interest on a fixed or floating rate basis or be issued on a fully discounted basis and not bear interest.

All Notes denominated in the same currency, having the same maturity date, bearing interest, if any, on the same basis and at the same rate and the terms of which (but for the denomination, the issue date, issue price and date from which interest accrues) are otherwise identical will constitute a Series (a "Series" or the "Notes of a Series"). Notes of a Series may be issued in either bearer or registered form, but not in both registered and bearer form, and if in bearer form will initially be represented by a temporary global Note which will be deposited on or about the issue date thereof with a common depository for Morgan Guaranty Trust Company of New York, Brussels Office, as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") as further described in "Description of the Notes — Form, Denomination and Title" herein. Notes in bearer form will not be exchangeable for Notes in registered form and Notes in registered form will not be exchangeable for Notes in bearer form.

Application has been made to the UK Listing Authority (the "UKLA") for the Notes to be issued under this U.S. \$1,000,000,000 Euro medium term note programme (the "Programme"), during the period of twelve months from the date of this Information Memorandum, to be admitted to the Official List of the UKLA. If any Notes of a Series are so admitted, all Notes of such series will be so admitted upon issue. Application has also been made to the London Stock Exchange Plc (the "London Stock Exchange") for the Notes to be issued under the Programme to be admitted to trading on the London Stock Exchange. Notice of the aggregate principal amount of, interest, if any, payable in respect of, the issue price of and any other terms and conditions not contained herein which are applicable to any Series of Notes will be set forth in a pricing supplement (the "Pricing Supplement") which, with respect to Notes to be admitted to the Official List, will be delivered to the UKLA on or before the issue of such Series. Copies of this document, which comprises listing particulars approved by the UKLA as required by the Financial Services Act 1986, have been delivered for registration to the Registrar of Companies in England and Wales.

The Programme has been rated Aa3 by Moody's Investors Service, Inc. ("Moody's"), and AA by Standard & Poor's Rating Services ("S & P"). Where an issue of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Programme. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigned rating agency.

An Issuer may agree with the Dealers (as defined herein) that Notes may be issued in a form not contemplated by the "Description of the Notes" herein, in which case further listing particulars or supplementary listing particulars will be published which will describe the effect of the agreement reached in relation to such Notes.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and include Notes in bearer form that are subject to United States tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to U.S. persons.

The Notes may be offered and sold from time to time by the Issuers through the Dealers named elsewhere herein. Notes may be sold to the Dealers as principals at negotiated discounts. The Issuers reserve the right to appoint other dealers in addition to the Dealers and to sell Notes from time to time through securities firms other than the Dealers. No termination date for the offering of the Notes has been established. There can be no assurance that all or any Notes will be sold or that there will be a secondary market in the Notes. The Issuers or the Dealers may reject any offer to purchase Notes as a whole or in part. See "Subscription and Sale" herein.

Arranger

LEHMAN BROTHERS

Dealers

CREDIT SUISSE FIRST BOSTON
GREENWICH NATWEST
J.P. MORGAN SECURITIES LTD.

GOLDMAN SACHS INTERNATIONAL
LEHMAN BROTHERS
UBS WARBURG

This document is dated 20th June, 2000 and replaces the Information Memorandum dated 20th June, 1999.

currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty of Rome of 25 March 1957, as amended by the Single European Act 1986 and the Treaty on European Union of 7 February 1992, establishing the European Community, as amended from time to time (the "Treaty").

In connection with the issue of any Series of listed Notes, the Dealer disclosed as stabilizing manager in the relevant Pricing Supplement may over-allot or effect transactions which stabilize or maintain the market price of such Notes at a level which might not otherwise prevail. Such stabilizing, if commenced, may be discontinued at any time.

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Indexed Notes:	The Issuers may offer Notes which provide for payments of principal, premium or interest which are linked to a currency or commodity index, securities exchange or commodities exchange index or other index or as otherwise provided in the relevant Pricing Supplement (each such Note, an “Indexed Note”). Specific provisions regarding the manner in which such payments are to be calculated and made will be set forth in the Pricing Supplement relating to such Notes.
Dual Currency Notes:	The Issuers may offer Notes (“Dual Currency Notes”) as to which payments (whether in respect of principal or interest and whether at maturity or otherwise) will be made in such currencies and based upon such rates of exchange as agreed by the Issuer thereof and the relevant Dealer in the applicable Pricing Supplement.
Amortizing Notes:	The Issuers may offer Notes (“Amortizing Notes”) as to which payments of principal and interest are made in installments over the life of such Notes on dates and in amounts as agreed by the Issuer thereof and the relevant Dealer in the applicable Pricing Supplement.
Form of Notes:	Notes of a Series may be issued in either bearer or registered form, but in no event shall Notes of any particular Series be constituted by Notes in both bearer and registered form. Subject to the provisions of the relevant Pricing Supplement, the Notes in bearer form will initially be represented by a temporary global Note, which will be exchangeable for a permanent global Note, which will in turn be exchangeable, in whole but not in part, for definitive bearer Notes, all as more fully described in “Description of the Notes — Form, Denomination and Title”. Notes in bearer form will not be exchangeable for Notes in registered form and Notes in registered form will not be exchangeable for Notes in bearer form.
Denomination of Definitive Notes:	Subject to the provisions of the Pricing Supplement for the relevant Notes (which may provide that the Notes of the relevant Series are to be available in global form only or that definitive Notes are to be available only in restricted circumstances) and to such minimum denomination as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuers, the Guarantor or the relevant specified currency, definitive Notes will be in such denominations and integral multiples as the relevant Issuer, Legal & General and the relevant Dealer shall agree, in each case as specified in the relevant Pricing Supplement. Unless permitted by the then current laws and regulations, Notes (including Notes denominated in pounds sterling), in respect of which the issue proceeds are to be received by the relevant Issuer in the United Kingdom, will have a minimum denomination of £100,000 (or its equivalent in other currencies) unless such Notes may not be redeemed until the third anniversary of their date of issue and they are to be listed on the Official List of the UKLA or a European Economic Area (the “EEA”) Exchange.
Redemption:	<p>The Notes may be redeemed at the option of the Issuer thereof for taxation reasons as set out under “Description of the Notes — Redemption and Repurchase” below. The Pricing Supplement relating to each Series of Notes will indicate whether, under what circumstances and the terms on which the Notes of such Series may otherwise be redeemed prior to their stated maturity. The relevant Issuer, the Guarantor or any other Subsidiary (as defined below) may at any time purchase Notes in any manner and at any price.</p> <p>Unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the relevant Issuer in the United Kingdom must have a minimum redemption amount of £100,000 (or its equivalent in other currencies), unless such Notes may not be redeemed until the third anniversary of their date of issue and are to be listed on the Official List of the UKLA or an</p>

EEA Exchange (as defined in the Banking Act 1987 (Exempt Transactions) Regulations 1997).

Taxation:	Payments of principal, premium, if any, and interest, if any, on, the Notes will be made without deduction for or on account of United Kingdom withholding taxes, and, in the case of Notes issued by Finance Europe, Netherlands withholding taxes, subject to certain exceptions as are more fully described in "Description of the Notes — Payment of Additional Amounts" below.
Status of the Notes and Guarantees; Negative Pledge:	The Notes and the Guarantees will constitute direct, unconditional and (subject to the provisions set forth under "Description of the Notes — Negative Pledge" below) unsecured obligations of the relevant Issuer and the Guarantor, respectively, and will rank pari passu in right of payment among themselves, and equally with or senior to all other unsecured and unsubordinated obligations of such Issuer and the Guarantor, respectively (subject, in the event of insolvency, to laws affecting creditors' rights generally). See "Description of the Notes — Status". The Notes and the Guarantees will have the benefit of a negative pledge provision, as described in and subject to the exceptions set forth under "Description of the Notes — Negative Pledge" below.
Rating:	The Programme has been rated "Aa3" by Moody's and "AA" by S&P. Where an issue of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Programme. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigned rating agency.
Listing:	Application has been made to the UKLA for the Notes to be admitted to the Official List of the UKLA. The Issuers reserve the right to issue Notes which are not admitted to the Official List of the UKLA or which are listed on another or additional securities exchange. Application has also been made for the Notes to be admitted to trading on the London Stock Exchange.
Selling Restrictions:	There are restrictions on the sale of Notes and the distribution of offering material. See "Subscription and Sale" below.
Governing Law:	The Notes will be governed by, and construed in accordance with, the laws of the State of New York.

DESCRIPTION OF THE NOTES

The Notes may be issued from time to time in one or more Series pursuant to a Fiscal Agency Agreement dated as of April 29, 1992, as amended by a First Amendment, dated as of September 14, 1992, a Second Amendment dated as of May 20, 1994, a Third Amendment dated as of May 12, 1995, a Fourth Amendment dated as of May 8th, 1997, a Fifth Amendment dated as of June 12, 1998, a Sixth Amendment dated as of June 24, 1999 and a Seventh Amendment dated as of June 20, 2000 (as amended, the "Fiscal Agency Agreement") among the Issuers, the Guarantor and Citibank, N.A., as Fiscal Agent (the "Fiscal Agent"). The terms of any particular Series of Notes (including Notes to be listed on the Official List of the UKLA) will be set forth in a pricing supplement (the "Pricing Supplement") relating to such Series, as described under "Pricing Supplements" below. The statements in this section include summaries of, and are subject to, the detailed provisions of the Fiscal Agency Agreement, the Calculation Agency Agreement referred to below, the Notes, and any applicable Pricing Supplement. Copies of the Fiscal Agency Agreement and the Calculation Agency Agreement are available for inspection at the principal office of the Fiscal Agent, being at the date hereof at Citibank, N.A., Citibank House, 336 Strand, London WC2R 1HB and at the specified offices of such other Paying Agents as may be appointed from time to time (each, together with the Fiscal Agent in its capacity as Principal Paying Agent, a "Paying Agent"). The Holders (as defined below) of Notes and the Holders of any interest coupons and talons appertaining to the Notes are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Fiscal Agency Agreement applicable to them.

Form, Denomination and Title

Notes of a Series may be issued in either bearer form or in definitive registered form, but in no event shall Notes of any particular Series be constituted by Notes in both bearer and registered form. Unless otherwise specified in the applicable Pricing Supplement, the Notes will be in bearer form, serially numbered, and, in the case of definitive bearer Notes, denominated in such denominations and integral multiples as the relevant Issuer, Legal & General and the relevant Agent shall agree, provided that such denominations shall comply with such minimum denomination as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuers, the Guarantor or the relevant specified currency.

Notes in bearer form will initially be represented by a temporary global Note, without interest coupons attached (a "temporary Global Note"), which will be deposited on behalf of purchasers of the Notes of such Series with a common depositary for Euroclear and Clearstream, Luxembourg, on or about the issue date thereof. Upon deposit of such temporary Global Note, Euroclear and Clearstream, Luxembourg will credit purchasers with principal amounts of Notes of such Series equal to the principal amount thereof for which they have paid. Interests in the temporary Global Note of any Series will be exchangeable for interests in a permanent global Note (a "permanent Global Note") of such Series, without coupons attached, on or after the first Business Day (as defined in the Notes of such Series) following the expiration of a period of 40 days after the original issue date of the Notes of such Series (the "Exchange Date"), upon certification from Euroclear or Clearstream, Luxembourg to the Fiscal Agent as to the beneficial ownership thereof as required by U.S. Treasury Regulations and as set forth in the Fiscal Agency Agreement. Notwithstanding the foregoing, bearer Notes with a maturity of one year or less may be issued initially in the form of a permanent Global Note. Interests in a permanent Global Note may, unless otherwise specified in the Pricing Supplement relating to the Notes of such Series, be exchanged (but not prior to the Exchange Date) for bearer Notes of such Series in definitive form, with coupons ("Coupons") (except in the case of Notes with a specified interest rate of zero on the face thereof ("Zero Coupon Notes")) and, if applicable, talons ("Talons") attached, upon 40 days' notice (which may be given at any time prior to, on or after the Exchange Date) to the Fiscal Agent. If bearer Notes in definitive form and (if applicable) Coupons, and/or Talons have already been issued in exchange for a portion of a temporary Global Note or for all of the Notes represented for the time being by a permanent Global Note of the same Series because Euroclear and/or Clearstream, Luxembourg do not regard such permanent Global Note to be fungible with such bearer Notes in definitive form, then such temporary Global Note may only thereafter be exchanged for bearer Notes in definitive form and (if applicable) Coupons, and/or Talons. References herein to the Notes of a Series shall be deemed to include the temporary and permanent Global Notes and the other definitive bearer or registered Notes of such Series, unless the context requires otherwise. Notes in bearer form will not be exchangeable for Notes in registered form and Notes in registered form will not be exchangeable for Notes in bearer form. Zero Coupon Notes will be issued only upon certification to the Issuer as to the beneficial ownership thereof as required by U.S. Treasury Regulations and as set forth in the Fiscal Agency Agreement.

For so long as any bearer Notes are represented by a temporary or permanent Global Note, (i) such Notes will be transferable in accordance with the rules and procedures for the time being of Clearstream, Luxembourg and/or Euroclear, as the case may be, and (ii) each person who is for the time being shown in the records of Clearstream, Luxembourg and/or Euroclear, as the case may be, as the owner of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Clearstream, Luxembourg and/or Euroclear, as the case may be, as to the nominal amount of Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated by the relevant Issuer, Legal & General, the Fiscal Agent and any Paying Agent as a Holder of such nominal amount of Notes (and the term "Holder" shall be construed accordingly) for all purposes other than with respect to the payment of principal (including premium, if any, and in the case of Original Issue Discount Notes (as defined below), the Amortized Face Amount (as defined below) payable in respect thereof) and interest, if any, and any other amounts payable, on such Notes, the right to which shall be vested, as against the relevant Issuer, Legal & General, the Fiscal Agent and any Paying Agent, solely in the bearer of the temporary or permanent Global Note in accordance with and subject to its terms and the Fiscal Agency Agreement. The term "Holder" shall also include the person in whose name a registered Note is registered in the note register maintained pursuant to the Fiscal Agency Agreement and the bearer of a definitive bearer Note. Title to definitive bearer Notes, Coupons and Talons will pass by delivery. The relevant Issuer, Legal & General, the Fiscal Agent and any Paying Agent may (except as ordered by a court of competent jurisdiction or as required by applicable law) deem and treat the bearer of any definitive bearer Note, Coupon (a "Couponholder") or Talon (a "Talonholder") as the owner thereof for all purposes (notwithstanding any notice of ownership given or any writing thereon made by anyone) whether or not such definitive bearer Note or Coupon, or any Coupon to which any Talon appertains, shall be overdue. Title to Notes of any Series in registered form shall pass upon the registration of transfers in respect thereof in accordance with the provisions of the Fiscal Agency Agreement. Citibank, N.A. shall act as calculation agent (Citibank, N.A., or any other or additional agent appointed from time to time by the Issuers, the "Calculation Agent") for the purposes of determining, among other things, the interest rates on Floating Rate Notes pursuant to a Calculation Agency Agreement dated as of April 29, 1992 among the Issuers, the Guarantor and Citibank, N.A.

Status

Each Note will have endorsed thereon the unconditional and irrevocable guarantee of Legal & General as to all amounts of principal and premium and interest if any, thereof and thereon due. The Notes of each Issuer and the Guarantees will constitute direct, unconditional and (subject to the provisions set forth below under "Negative Pledge" and in the Fiscal Agency Agreement) unsecured obligations of such Issuer and the Guarantor, respectively, and will rank *pari passu* in right of payment among the Notes of such Issuer and the Guarantees, respectively, prior to the equity securities of such Issuer and the Guarantor, as the case may be, and equally with or senior to all other unsecured and unsubordinated obligations of such Issuer and the Guarantor, as the case may be (subject, in the event of insolvency, to laws affecting creditors' rights generally).

Pricing Supplements

The Pricing Supplement relating to each Series of Notes will describe the following terms: (i) the Specified Currency in which such Notes are to be denominated and, in the case of Dual Currency Notes, the currency or currencies in which payment in respect of the Notes is to be made, and certain other terms relating to the Notes, including the authorized minimum denominations (if any); (ii) the price (generally expressed as a percentage of the aggregate principal amount thereof) at which such Notes will be issued (the "Issue Price"); (iii) the date on which such Notes will be issued (the "Original Issue Date"); (iv) the date on which such Notes will mature (the "Maturity Date"); (v) whether such Notes are Fixed Rate Notes or Floating Rate Notes; (vi) if such Notes are Fixed Rate Notes, the rate per annum at which such Notes will bear interest, if any, and the Interest Payment Date or Dates (as defined below) and whether such Notes are Notes for which payments of principal and interest are made in installments over the life of such Notes ("Amortizing Notes"), (vii) if such Notes are Floating Rate Notes, the Interest Rate Basis, the Interest Payment Period, the Initial Interest Rate, Interest Payment Dates, the Index Maturity, if any, the Maximum Interest Rate, if any, the Minimum Interest Rate, if any, the Spread and/or Spread Multiplier, if any (all as defined below), and any other terms relating to the particular method of calculating the interest rate for such Notes; (viii) whether such Notes are Original Issue Discount Notes (as defined below); (ix) whether such Notes are Indexed Notes and, if so, the method of determining the amount of principal (including premium, if any, and in the case of Original Issue Discount Notes, the Amortized Face Amount payable in respect thereof) and interest, if any, payable with respect to such Notes; (x) whether such Notes are Dual Currency

Notes and, if so, the Option Election Date, Optional Payment Currency and Designated Exchange Rate (all as defined below); (xi) whether such Notes may be redeemed at the option of the Issuer thereof, or repaid at the option of the Holder, prior to the Maturity Date and, if so, the provisions relating to such redemption or repayment; (xii) whether the Notes are to be listed on the Official List of the UKLA; (xiii) whether the Notes are to be traded on the London Stock Exchange; and (xiv) any other terms of such Notes not inconsistent with the provisions of the Fiscal Agency Agreement. Such Pricing Supplement will also specify whether Finance or Finance Europe is to be the issuer of such Notes and may describe any relevant tax consequences associated with the terms of such Notes which have not been described in "Netherlands Taxation" or "United Kingdom Taxation". All Notes of a Series will be denominated in the same currency, have the same Maturity Date, bear interest (if any) on the same basis and at the same rate and have terms which are otherwise identical (except that the Original Issue Dates, Issue Prices, denominations and dates from which interest accrues need not be identical).

Payment Currency

Except as provided below or in the terms of a Note or in any applicable Pricing Supplement, payment of the principal of (including premium, if any, and, in the case of an Original Issue Discount Note, the Amortized Face Amount payable in respect thereof) and interest, if any, on each Note will be made in the Specified Currency specified in such Note (or, if the Specified Currency at the time of such payment is no longer used by the government of the country issuing such currency or for the settlement of transactions by public institutions of or within the international banking community, in such other coin or currency of the country which issued the Specified Currency which at the time of payment is used by the government of the country issuing such currency and for the settlement of transactions by public institutions of or within the international banking community).

Except as provided in the preceding paragraph, if the Specified Currency is unavailable due to the imposition of exchange controls or other circumstances beyond the control of the Issuer of a Note, such Issuer will be entitled to make such payments in such coin or currency of the United States as is at the time of payment legal tender for the payment of public and private debts on the basis of the most recently available Market Exchange Rate (as defined below) for such Specified Currency preceding the day on which such payment is due. Any payment made under such circumstances in U.S. dollars will not constitute an Event of Default (as defined below) under the Notes.

"Market Exchange Rate" means the noon buying rate in New York City for cable transfers in non-U.S. currencies as certified for customs purposes by the Federal Reserve Bank of New York for the applicable Specified Currency.

All choices and determinations referred to above made by the Calculation Agent shall be at its sole discretion and shall, in the absence of manifest error, be conclusive for all purposes and binding on the relevant Issuer and all Holders of Notes, Couponholders and Talonholders.

Interest Rates

A Pricing Supplement will designate as applicable to the Notes to which such Pricing Supplement relates (a) a fixed rate per annum, in which case each such Note will be a "Fixed Rate Note"; or (b) a variable rate at which interest is to be calculated, in which case each such Note will be a "Floating Rate Note". Interest on a Floating Rate Note may be calculated by reference to LIBOR (in which case such Note will be a "LIBOR Note") or by reference to any other interest rate basis (including the Euro-zone inter-bank offered rate ("EURIBOR")), all as more fully described herein and in the Pricing Supplement relating to such Note. The interest rate on each Note will be equal to (a) in the case of a Fixed Rate Note, a fixed rate (which shall be zero in the case of Zero Coupon Notes) or (b) in the case of a Floating Rate Note, the interest rate determined by reference to the specified Interest Rate Basis plus or minus the Spread, if any, and/or multiplied by the Spread Multiplier, if any. The "Interest Rate Basis" with respect to any Floating Rate Note shall be the interest rate basis specified in the applicable Pricing Supplement. The "Spread" is the number of basis points (one one-hundredth of a percentage point) specified in the applicable Pricing Supplement to be added to or subtracted from the Interest Rate Basis of such Floating Rate Note, and the "Spread Multiplier" is the percentage specified in the applicable Pricing Supplement to be applied to the Interest Rate Basis for such Floating Rate Note. Any Floating Rate Note may also have both or either a maximum interest rate limitation ("Maximum Interest Rate") and/or a minimum interest rate limitation ("Minimum Interest Rate"), on the rate at which interest may accrue during any interest period.

“Euro-zone” means the region comprised of Member States of the European Union that have adopted or that adopt the single currency in accordance with the Treaty.

All percentages resulting from any calculation with respect to Floating Rate Notes will be rounded, if necessary, to the nearest one-hundred thousandth of a percentage point, with five or more one-millionths of a percentage point being rounded upwards to the next higher one-hundred thousandth of a percentage point (e.g. 9.876545% (or .09876545) being rounded to 9.87655% (or .0987655)), and all currency amounts used in or resulting from such calculations will be rounded to the nearest one-hundredth of a unit (with .005% (or .00005) of a unit being rounded upwards).

Fixed Rate Notes

Each Fixed Rate Note (other than a Zero Coupon Note) will bear interest from its Original Issue Date, or from the most recent date to which interest on such Note has been paid or duly provided for, at the rate per annum stated therein until the principal amount thereof is paid or made available for payment. Interest on each Fixed Rate Note (other than a Zero Coupon Note or an Amortizing Note) will be payable in arrear on such date or dates for payment as are set forth in such Note (each such date being an “Interest Payment Date” with respect to a Fixed Rate Note) commencing with the first such Interest Payment Date falling at least 15 days after the Original Issue Date of such Note, and at the Maturity Date or any redemption date, until the principal of such Note shall be paid or made available for payment.

Payments of principal and interest on Amortizing Notes will be made quarterly, semi-annually or otherwise on such date or dates as may be set forth in the applicable Pricing Supplement, and at the Maturity Date or upon earlier redemption or repayment. Payments with respect to Amortizing Notes will be applied first to interest due and payable thereon and then to the reduction of the unpaid principal amount thereof. A table setting forth repayment information in respect of each Amortizing Note will be provided to the original purchaser and will be available, upon request, to subsequent Holders, and further information concerning additional terms and conditions of Amortizing Notes will be set forth in the applicable Pricing Supplement.

If payment of interest (and, in the case of Amortizing Notes, principal) on a Fixed Rate Note is due on any day which is not a Business Day with respect to such Fixed Rate Note, the payment of interest (and, in the case of Amortizing Notes, principal) may be made on the next succeeding Business Day with the same force and effect as if made on the due date, and no interest shall accrue as a result of such delay.

If, in respect of a Fixed Rate Note, interest is required to be calculated for a period of other than a full year, such interest shall be calculated by applying the interest rate per annum as stated therein to the principal amount thereof, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

“Day Count Fraction” means, in respect of the calculation of an amount of interest for a period of other than a full year:

- (i) if “Actual/Actual (ISMA)” is specified in the applicable Pricing Supplement:
 - (a) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Original Issue Date or, if different from the Original Issue Date, the first such Interest Payment Date falling at least 15 days after the Original Issue Date of such Note) to (but excluding) the relevant payment date (the “Accrual Period”) is equal to or shorter than the Interest Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Interest Determination Period and (2) the number of Interest Determination Dates that would occur in one calendar year assuming interest was to be payable in respect of the whole of that year, or
 - (b) in the case of Notes where the Accrual Period is longer than the Interest Determination Period commencing on the last Interest Payment Date on which interest was paid (or, if none, the Original Issue Date or, if different from the Original Issue Date, the first such Interest Payment Date falling at least 15 days after the Original Issue Date of such Note), the sum of:
 - (1) the number of days in such Accrual Period falling in the Interest Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Interest Determination Period and (y) the number of Interest Determination Dates that would occur in one calendar year assuming interest was to be payable in respect of the whole of that year; and

- (2) the number of days in such Accrual Period falling in the next Interest Determination Period divided by the product of (x) the number of days in such Interest Determination Period and (y) the number of Interest Determination Dates that would occur in one calendar year assuming interest was to be payable in respect of the whole of that year; and
- (ii) if “30/360” is specified in the applicable Pricing Supplement, the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Original Issue Date or, if different from the Original Issue Date, the first such Interest Payment Date falling at least 15 days after the Original Issue Date of such Note) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

For the purposes of this section:

“Interest Determination Period” means the period from (and including) an Interest Determination Date to (but excluding) the next Interest Determination Date;

“euro” means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended by the Treaty on European Union; and

“sub-unit” means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent.

“Business Day” with respect to any Note means any day except a Saturday or Sunday which is both:

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for business in London; and
- (B) either (1) in relation to any sum payable in a Specified Currency other than the euro, a day on which commercial banks and foreign exchange markets settle payments and are open for business (including foreign exchange and foreign currency deposits) in the principal financial center of the country of the relevant Specified Currency or (2) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System (the “TARGET System”) is open.

Floating Rate Notes

Interest on each Floating Rate Note will be payable by the Issuer thereof monthly, quarterly, semi-annually or annually (each an “Interest Payment Period”) on the dates in each year specified in such Note (or if any such day is not a Business Day with respect to such Note, on the next succeeding Business Day with respect to such Note, provided, however, that if the Interest Rate Basis specified in such Note is LIBOR and such next succeeding Business Day would fall in the next calendar month, such interest shall be payable on the immediately preceding Business Day) and at the Maturity Date or any redemption date, commencing on the first such date falling at least 15 days after the Original Issue Date of such Note. An “Interest Payment Date” with respect to any Floating Rate Note shall be a date on which, under the terms of such Note, regularly scheduled interest shall be payable.

The applicable Pricing Supplement will specify the Issue Price, the Interest Rate Basis, the Interest Payment Period, the Spread and/or Spread Multiplier, if any, and the Maximum or Minimum Interest Rate, if any, applicable to each Floating Rate Note. In addition, such Pricing Supplement will define or particularize for each Floating Rate Note the following terms, if applicable: the period to maturity of the instrument or obligation on which the interest rate formula is based (the “Index Maturity”), the Initial Interest Rate (as defined below), and the Interest Payment Date or Dates with respect to such Note.

The rate of interest on each Floating Rate Note will be reset monthly, quarterly, semi-annually or annually on the second Market Day prior to each Interest Payment Date with respect to such Note, or, in the case of Notes denominated in sterling, on the first day of the relevant Interest Payment Period unless otherwise specified in the applicable Pricing Supplement (each date upon which interest is so reset being hereinafter referred to as an “Interest Determination Date”), provided, however, that (i) the interest rate in effect for the period ending on the first Interest Payment Date will be the initial interest rate specified in such Note (the “Initial Interest Rate”) and (ii) the interest rate in effect for the ten calendar days immediately prior to the Maturity Date of such Note will be that in effect on the tenth calendar day preceding such Maturity Date. Notwithstanding the foregoing, the interest rate on any Note shall not be greater than the Maximum Interest Rate, if any, or less than the Minimum Interest Rate, if any, and in no event shall be

higher than the maximum rate permitted by New York law, as the same may be modified by United States law of general application.

“Market Day” means (i) in relation to Notes denominated in a Specified Currency other than euro any day on which dealings in deposits in the Specified Currency are transacted in the London interbank market or (ii) in relation to Notes denominated in euro a day on which the TARGET System is open.

Unless otherwise indicated in the applicable Pricing Supplement, the interest payable on any Interest Payment Date for a Floating Rate Note will include the unpaid interest accrued from and including the Original Issue Date or from and including the most recent Interest Payment Date to which interest has been paid or duly provided for to, but excluding, such Interest Payment Date.

Interest payable on the Maturity Date or upon redemption will include accrued interest from the Original Issue Date or from and including the last date in respect of which interest has been paid, to but excluding the Maturity Date or redemption date.

Accrued interest on a Floating Rate Note will be calculated by applying the interest rate, as determined by the Calculation Agent on each Interest Determination Date, to the principal amount of such Note, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

“Day Count Fraction” means, in respect of the calculation of an amount of interest for any Interest Payment Period:

- (i) if “Actual/365” or “Actual/Actual (ISDA)” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Payment Period divided by 365 (or, if any portion of such Interest Payment Period falls in a leap year, the sum of (A) the actual number of days in such portion of the Interest Payment Period falling in a leap year divided by 366 and (b) the actual number of days in such portion of the Interest Payment Period falling in a non-leap year divided by 365);
- (ii) if “Actual/365 (Fixed)” is specified in the applicable Pricing Supplement, the actual number of days in such Interest Payment Period divided by 365;
- (iii) if “Actual/365 (sterling)” is specified in the applicable Pricing Supplement, the actual number of days in such Interest Payment Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if “Actual/360” is specified in the applicable Pricing Supplement, the actual number of days in such Interest Payment Period divided by 360;
- (v) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Pricing Supplement, the number of days in such Interest Payment Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of such Interest Payment Period is the 31st day of a month but the first day of such Interest Payment Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of such Interest Payment Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
- (vi) if “30E/360” or “Eurobond Basis” is specified in the applicable Pricing Supplement, the number of days in such Interest Payment Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months without regard to the date of the first day or last day of such Interest Payment Period unless, in the case of the final Interest Payment Period, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

Unless otherwise provided for in the applicable Pricing Supplement, the Calculation Agent will determine the interest rate on each Interest Determination Date as described below. The Calculation Agent will notify the relevant Issuer, the Guarantor and the Fiscal Agent as soon as practicable of each determination of the interest rate applicable to any such Floating Rate Note. In addition, the Calculation Agent will cause such information to be published in accordance with the provisions in the Fiscal Agency Agreement for giving notices to Holders of Notes in bearer form. The Calculation Agent’s determination of any interest rate will be, in the absence of manifest error, final and binding.

Subject to applicable provisions of law and except as may be provided in any applicable Pricing Supplement, on each Interest Determination Date the rate of interest on Floating Rate Notes shall be the rate determined, in the case of LIBOR Notes, in accordance with the provisions below and, in the case of other Floating Rate Notes, in accordance with such Notes and the applicable Pricing Supplement.

The interest rate with respect to a LIBOR Note for any Interest Determination Date shall be determined by the Calculation Agent in accordance with the following provisions:

(a) On the Interest Determination Date, LIBOR will be either: (i) if "LIBOR Reuters" is specified in the applicable Note or Pricing Supplement, the arithmetic mean of the offered rates (unless the specified Designated LIBOR Page (as defined below) by its terms provides only for a single rate, in which case such single rate shall be used) for deposits in the Index Currency (as defined below) having the Index Maturity designated in the applicable Note or Pricing Supplement, that appear on the Designated LIBOR Page specified in the applicable Note or Pricing Supplement as determined at or about 11:00 A.M., London time, on such Interest Determination Date, if at least two such offered rates appear (unless, as aforesaid, only a single rate is required) on such Designated LIBOR Page, or (ii) if "LIBOR Telerate" is specified in the applicable Note or Pricing Supplement, the rate for deposits in the Index Currency having the Index Maturity designated in the applicable Note or Pricing Supplement, that appears on the Designated LIBOR Page specified in the applicable Note or Pricing Supplement, as determined at or about 11:00 A.M., London time, on such Interest Determination Date. If "LIBOR Reuters" is specified in the applicable Note or Pricing Supplement and fewer than two offered rates appear, then (unless the Designated LIBOR Page by its terms provides only for a single rate) LIBOR in respect of the related Interest Determination Date will be determined as if the parties had specified "LIBOR Telerate".

(b) If no rate is specified in the applicable Note or Pricing Supplement, "LIBOR" for each such Interest Determination Date will be determined as of such Interest Determination Date, and will be determined on the basis of the offered rates for deposits in the Index Currency having the Index Maturity designated on the Note which appears on the Telerate Screen Page 3750 as determined at or about 11:00 A.M., London time. If no such rate is available on the Telerate Screen at such time, LIBOR will be the arithmetic mean of the offered rates as determined by the Calculation Agent for deposits in the Index Currency having the Index Maturity specified on the Note representing such LIBOR Note, which appear on the Reuters Screen LIBOR Page, if at least two such offered rates appear as determined at or about 11:00 A.M., London time on such Interest Determination Date. With respect to an Interest Determination Date on which no rate appears on the Telerate Screen Page 3750 and less than two such rates appear on the Reuters Screen LIBOR page, LIBOR for such Interest Determination Date will be determined as if the parties had specified the rate described in (c) below

(c) With respect to an Interest Determination Date on which fewer than the minimum number of offered rates appear on the applicable Designated LIBOR Page as specified in clause (a) or (b) above, the Calculation Agent will request the principal London offices of each of four major reference banks in the London interbank market, as selected by the Calculation Agent (after consultation with the relevant Issuer and the Guarantor), to provide the Calculation Agent with its offered quotation for deposits in the Index Currency for the period of the Index Maturity designated in the applicable Note or Pricing Supplement, commencing on the second London Business Day immediately following such Interest Determination Date, to prime banks in the London interbank market at approximately 11:00 A.M., London time, on such Interest Determination Date and in a principal amount that is representative for a single transaction in such Index Currency in such market at such time. If at least two such quotations are provided, LIBOR determined on such Interest Determination Date will be the arithmetic mean of such quotations. If fewer than two quotations are provided, LIBOR determined on such Interest Determination Date will be the arithmetic mean of the rates quoted at approximately 11:00 A.M. (or such other time specified in the applicable Note or Pricing Supplement), in the applicable Principal Financial Center, on such Interest Determination Date by three major banks in such Principal Financial Center selected by the Calculation Agent (after consultation with the relevant Issuer and the Guarantor) for loans in the Index Currency to leading European banks having the Index Maturity designated in the applicable Note or Pricing Supplement, and in a principal amount that is representative for a single transaction in such Index Currency in such market at such time; *provided, however*, that if the banks so selected by the Calculation Agent are not quoting as mentioned in this sentence, LIBOR determined on such Interest Determination Date will be LIBOR then in effect on such Interest Determination Date.

“Index Currency” means the currency (including composite currencies) specified in the applicable Note or Pricing Supplement, as the currency for which LIBOR shall be calculated. If no such currency is specified in the applicable Note or Pricing Supplement, the Index Currency shall be U.S. dollars.

“Designated LIBOR Page” means either (a) if “LIBOR Reuters” is designated in the applicable Note or Pricing Supplement, the display on the Reuters Monitor Money Rates Service for the purpose of displaying the London interbank rates of major banks for the applicable Index Currency, or (b) if “LIBOR Telerate” is designated in the applicable Note or Pricing Supplement, the display on the Dow Jones Telerate Service for the purpose of displaying the London interbank rates of major banks for the applicable Index Currency. If neither LIBOR Reuters nor LIBOR Telerate is specified in the applicable Note or Pricing Supplement, LIBOR for the applicable Index Currency will be determined as if LIBOR Telerate (and, if the United States dollar is the Index Currency, Page 3750, or any comparable page) had been specified.

“London Business Day” means any day except a Saturday, Sunday or other day in which banking institutions are required or authorized by law or executive order to close in London.

“Principal Financial Center” will generally be the capital city of the country of the specified Index Currency, except that with respect to United States dollars, the principal Financial Center shall be the City of New York and, with respect to euro, the principal Financial Center shall be any capital city of the countries in the Euro-zone.

Original Issue Discount and Zero Coupon Notes

The Notes may be issued as Original Issue Discount Notes. An “Original Issue Discount Note” is a Note, including any Zero Coupon Note, which is issued at a price lower than the principal amount thereof and which provides that, upon redemption prior to the maturity thereof or acceleration of the maturity thereof, an amount less than the principal thereof shall become due and payable.

Unless otherwise specified in the applicable Pricing Supplement, in the event of acceleration of maturity of an Original Issue Discount Note, the amount payable thereon in lieu of the principal amount due at the Maturity Date will be the amount (the “Amortized Face Amount”) equal to (a) the Issue Price (as defined below) plus (b) that portion of the difference between the Issue Price and the principal amount that has accrued at the Stated Yield (as defined below) (calculated using the “interest method” computed in accordance with United States generally accepted accounting principles in effect on the date as of which the Amortized Face Amount is calculated) at the date as of which the Amortized Face Amount is calculated, but in no event will the Amortized Face Amount exceed the principal amount of such Note due at the Maturity Date thereof. As used in this paragraph, the term “Issue Price” means (a) the principal amount of a Note less (b) the Original Issue Discount stated on the face thereof, and the term “Stated Yield” means the original yield to maturity specified in such Note for the period from the Original Issue Date thereof to the Maturity Date thereof on the basis of the Issue Price and principal amount.

Zero Coupon Notes will not bear interest; provided that, as from the Maturity Date or any other due date for repayment of such Notes, any overdue amount payable on such Notes shall bear interest at a rate per annum (expressed as a percentage) equal to the Stated Yield (computed on the basis of a 360-day year of twelve 30-day months) until all amounts due in respect of such Notes have been paid.

Indexed Notes

Amounts due on an Indexed Note in respect of principal, premium and interest, if any, and in the case of Original Issue Discount Notes, the Amortized Face Amount, may be determined by reference to (a) a currency exchange rate or rates, (b) a securities or commodities exchange index, (c) the value of a particular security or commodity, (d) any other index, indices or formula or (e) as otherwise provided in the applicable Pricing Supplement. The Pricing Supplement relating to an Indexed Note will set forth the index, the method by and terms on which the amount of principal (whether payable at or prior to the Maturity Date thereof) and interest, premium or the Amortized Face Amount, if any, will be determined, certain tax consequences or possible tax consequences to Holders of Indexed Notes, a description of certain risks associated with investments in Indexed Notes and other information relating to such Indexed Notes.

An investment in Notes indexed, as to principal, premium and/or interest, to one or more values of currencies (including exchange rates and swap indices between currencies), commodities, interest rate or other indices entails significant risks that are not associated with similar investments in a conventional fixed-rate debt security. If the interest rate of such a Note is so indexed, it may result in an interest rate that is less than that payable on a conventional fixed-rate debt security issued at the same time, including the possibility

that no interest will be paid, and, if the principal amount of such a Note is so indexed, the principal amount payable on the Maturity Date may be less than the original purchase price of such Note if allowed pursuant to the terms of such Note, including the possibility that no principal will be paid. The secondary market for such Notes will be affected by a number of factors, independent of the creditworthiness of the relevant Issuer or the Guarantor and the value of the applicable currency, commodity or interest rate index, including the volatility of the applicable currency, commodity or interest rate index, the time remaining to the maturity of such Notes, the amount outstanding of such Notes and market interest rates. The value of the applicable currency, commodity or interest rate index depends on a number of interrelated factors, including economic, financial and political events, over which the Issuers and the Guarantor have no control. Additionally, if the formula used to determine the principal amount, premium, if any, or interest payable with respect to such Notes contains a multiple or leverage factor, the effect of any change in the applicable currency, commodity or interest rate index may be increased. The historical experience of the relevant currencies, commodities or interest rate indices should not be taken as an indication of future performance of such currencies, commodities or interest rate indices during the term of any Note. The credit ratings assigned to the Notes are reflective of the Guarantor's credit status, and are in no way reflective of the potential impact of the factors discussed above, or any other factors, on the market value of the Notes. Accordingly, prospective investors should consult their own financial and legal advisors as to the risks entailed by an investment in such Notes and the suitability of such Notes in light of their particular circumstances.

Dual Currency Notes

General

The Issuers may from time to time offer Notes ("Dual Currency Notes") as to which the Issuer thereof has a one time option, exercisable on any one of the dates specified in the applicable Pricing Supplement (each an "Option Election Date") in whole, but not in part, with respect to all Dual Currency Notes issued on the same day and having the same terms (a "Tranche"), of thereafter making all payments of principal, premium, if any, and interest (which payments would otherwise be made in the Specified Currency of such Notes) in the optional currency specified in the applicable Pricing Supplement (the "Optional Payment Currency"). Information as to the relative value of the Specified Currency compared with the Optional Payment Currency will be set forth in the applicable Pricing Supplement.

The Pricing Supplement for each issuance of Dual Currency Notes will specify, among other things, the Specified Currency and Optional Payment Currency of such issuance and the Designated Exchange Rate for such issuance, which will be a fixed exchange rate used for converting amounts denominated in the Specified Currency into amounts denominated in the Optional Payment Currency (the "Designated Exchange Rate"). The Pricing Supplement will also specify the Option Election Dates and Interest Payment Dates for the related issuance of Dual Currency Notes. Each Option Election Date will be a certain number of days before an Interest Payment Date or the Maturity Date, as set forth in the applicable Pricing Supplement, and will be the date on which the Issuer may select whether to make all scheduled payments due thereafter in the Optional Payment Currency rather than in the Specified Currency.

If the Issuer makes such an election, the amount payable in the Optional Payment Currency shall be determined using the Designated Exchange Rate specified in the applicable Pricing Supplement. If such election is made, notice of such election shall be mailed in accordance with the terms of the applicable Tranche of Dual Currency Notes within two Business Days of the Option Election Date and shall state (i) the first date, whether an Interest Payment Date and/or the Maturity Date, on which scheduled payments in the Optional Payment Currency will be made and (ii) the Designated Exchange Rate. Any such notice by the Issuer, once given, may not be withdrawn. The equivalent value in the Specified Currency of payments made after such an election may be less, at the then current exchange rate, than if the Issuer had made such payment in the Specified Currency.

If a Note is a Dual Currency Note, the amount payable on such Note in the event of any optional redemption by the Issuer, any acceleration of the payment of the principal due on such Note or other prepayment of such Note prior to the Maturity Date of such Note may be an amount equal to the stated principal thereof *plus* accrued interest to but excluding the date of such prepayment, but *minus* an amount which reflects the value inherent in the option feature relating to such Note and which will be set forth in the applicable Pricing Supplement.

In no event will payment of principal of any Dual Currency Note upon acceleration be less than zero.

Payment of Principal and Interest; Paying Agents

No payment of principal (including premium, if any, and in the case of Original Issue Discount Notes, the Amortized Face Amount payable in respect thereof) or interest, if any, in respect to any bearer Note will be made at an office of any Issuer or the Guarantor or any agent of any Issuer or the Guarantor in the United States or by cheque mailed to any address in the United States or by transfer to an account maintained with a bank located in the United States, except as may be permitted by United States tax law in effect at the time of such payment without detriment to the relevant Issuer or the Guarantor, as the case may be. Notwithstanding the foregoing, such payments may be made in U.S. dollars at an office or agency located in the United States, if (but only if) the Specified Currency is the U.S. dollar and payment of the full amount so payable in U.S. dollars at each office of the Fiscal Agent and of each Paying Agent outside the United States appointed and maintained pursuant to the Fiscal Agency Agreement is illegal or effectively precluded by exchange controls or other similar restrictions. Any payment made under such circumstances will not constitute an Event of Default under the Notes.

The principal (including premium, if any, and in the case of an Original Discount Note, the Amortized Face Amount payable in respect thereof) and interest, if any, due in respect of any portion of a temporary Global Note will be paid in immediately available funds to each of Euroclear and Clearstream, Luxembourg with respect to that portion of such temporary Global Note held for its account but only upon receipt by the Fiscal Agent of written certification with respect to such portion from Euroclear or Clearstream, Luxembourg, as the case may be, delivered prior to each such date in the form required by the Fiscal Agency Agreement, dated no earlier than such payment date, which certificate must be based on certifications provided to it by its account holders as to beneficial ownership of interests in such temporary Global Note as required by U.S. Treasury Regulations and as set forth in the Fiscal Agency Agreement. Payments of principal (including premium, if any, and in the case of Original Issue Discount Notes, the Amortized Face Amount payable in respect thereof) and interest, if any, due in respect of any portion of a permanent Global Note will be made in immediately available funds to each of Euroclear and Clearstream, Luxembourg with respect to the portion of such permanent Global Note held for its account without certification as aforesaid. Each of Euroclear and Clearstream, Luxembourg will undertake in such circumstances to credit any such amounts received by it to the respective accounts of the persons who are the owners of such interests on the date on which such amounts are paid. Any such amounts so received by Euroclear and Clearstream, Luxembourg and not so paid shall be returned to the Fiscal Agent immediately prior to the expiration of two years after the receipt thereof.

Any interest and, in the case of Amortizing Notes, principal payments (other than principal payable at maturity or upon earlier redemption or repayment) on definitive bearer Notes (other than a permanent Global Note) of a Series shall be payable by cheque mailed to an address outside the United States or by wire transfer to an account maintained outside the United States upon surrender of any applicable Coupon, and principal of (including premium, if any, and in the case of Original Issue Discount Notes, the Amortized Face Amount payable in respect thereof) on such definitive bearer Notes of such Series shall be payable by cheque or by wire transfer upon surrender of such Notes, at such offices or agencies of the Fiscal Agent or any Paying Agent outside the United States as the Guarantor may from time to time designate, unless the Guarantor shall have otherwise instructed the Fiscal Agent, or additionally or alternatively, in such other manner as may be set forth or provided for in the bearer Notes of such Series.

Any interest and, in the case of Amortizing Notes, principal payments (other than interest and, in the case of Amortizing Notes, principal payable at maturity or upon redemption) on registered Notes of a Series shall be payable by cheque or (if a Holder in whose name such registered Notes are registered (a "Registered Holder")) shall have designated an account to which payment should be made at least 15 calendar days prior to the date on which payment is due) by wire transfer, to the Registered Holders at the close of business on the 15th calendar day (whether or not a Business Day) preceding the date such interest (or, in the case of Amortizing Notes, principal) is due and any principal (including premium, if any, and in the case of Original Issue Discount Notes, the Amortized Face Amount payable in respect thereof) and interest, if any, payable at maturity or upon redemption of registered Notes of a Series shall be payable by cheque or (subject as aforesaid) by wire transfer upon surrender of such Notes, to the Registered Holders, in each case at such offices or agencies of any Paying Agent outside the United States as the Guarantor may from time to time designate, unless the Guarantor shall have otherwise instructed the Fiscal Agent, or additionally or alternatively, in such other manner as may be set forth or provided for in the registered Notes of such Series.

The Issuers and the Guarantor will pay all stamp and other duties, if any, which may be imposed by the United Kingdom or The Netherlands or any political subdivision or taxing authority thereof with respect to the execution and delivery of the Fiscal Agency Agreement or the issuance of the Notes.

After the date specified on the final Coupon on any Coupon sheet, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent or any Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to and including the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon.

The Issuers and the Guarantor have initially designated the Fiscal Agent, acting through its principal offices in London, as its Paying Agent for the Notes outside the United States. The Paying Agent located in London is also referred to herein as the "Principal Paying Agent". The Issuers and the Guarantor have covenanted that until the Notes of a Series have been delivered to the Fiscal Agent for cancellation, or monies sufficient to pay the principal (including premium, if any, and in the case of Original Issue Discount Notes, the Amortized Face Amount payable in respect thereof) and interest, if any, on the Notes of such Series will have been made available for payment and either paid or returned to the relevant Issuer as provided in the Notes, there will, so long as United States tax law prohibits payment of principal and interest on such Notes in the United States, at all times be a Paying Agent in a Western European city and, if and for so long as the Notes of any Series are listed on the Official List of the UKLA and such exchange shall so require, a Paying Agent and Fiscal Agent in London, for the payment of principal (including premium, if any, and in the case of Original Issue Discount Notes, the Amortized Face Amount payable in respect thereof) and interest, if any, of the Notes as therein provided.

As used in the preceding paragraphs appearing under the heading "Payment of Principal and Interest; Paying Agents", the term "United States" means the United States of America (including the States and the District of Columbia) and its possessions.

Redemption and Repurchase

The Pricing Supplement relating to a Series of Notes will indicate either that such Notes cannot be redeemed prior to maturity, other than for tax reasons (as set forth in the immediately succeeding paragraph), or the terms on which the Notes will be redeemable at the option of the relevant Issuer or at the option of the Holder or at the option of either. Notice of redemption shall be provided as set forth below under "Notices".

The Notes of any Series may be redeemed, as a whole but not in part, at the option of the relevant Issuer, upon not more than 60 days' nor less than 30 days' prior notice (given as aforesaid) to the Holders thereof at a redemption price equal to 100% of the principal amount or, in the case of an Original Issue Discount Note, the Amortized Face Amount or, in the case of Indexed Notes, such redemption price set forth in the Pricing Supplement, together with interest accrued, if any, to the date fixed for redemption, if on the next succeeding Interest Payment Date, (i) such Issuer will be obligated to pay additional amounts (as described below under "Payment of Additional Amounts" and as provided in the Notes of such Series) or (ii) the Guarantor would be unable, for reasons outside its control, to procure payment by such Issuer without such additional amounts being payable and in making such payment itself would be required to pay additional amounts (as provided in the Guarantee); provided that the Notes of such Series may not be so redeemed if such obligation of such Issuer or the Guarantor to pay such additional amounts arises because of the official application or interpretation of the laws or regulations affecting taxation of the country in which such Issuer or the Guarantor is organized, or any political subdivision thereof or therein, as a result of any event referred to in (a) or (b) below, which law or regulation is in effect on the date of (a) the assumption by any wholly-owned subsidiary of the Guarantor of such Issuer's obligations under the Notes and under the Fiscal Agency Agreement and the Calculation Agency Agreement, (b) the consolidation, amalgamation or merger of such Issuer or the Guarantor with or into, or the conveyance, transfer or lease by such Issuer or the Guarantor of its properties and assets substantially as an entirety to, any person, corporation or other entity. If such Issuer or the Guarantor provides an opinion of independent counsel of recognized standing in the appropriate jurisdiction, dated as of the date of the relevant event referred to in (a) or (b) above, that no obligation to pay additional amounts arises then that opinion shall be final and binding, solely for purposes of this paragraph, on such Issuer, the Guarantor, the Fiscal Agent and the Holders of the Notes of such Series as to the law of the relevant jurisdiction at the date of such opinion.

If notice of redemption has been given in the manner set forth therein, the Notes of a Series to be redeemed shall become due and payable on the redemption date specified in such notice and upon presentation and surrender of the Notes at the place or places specified in such notice, together with all appurtenant Coupons and Talons, if any, maturing subsequent to the redemption date, the Notes shall be paid and redeemed by the Issuer thereof at the places and in the manner and currency therein specified and at the redemption price therein specified together with accrued interest, if any, to the redemption date. If any Fixed Rate Note surrendered for redemption shall not be accompanied by all appurtenant Coupons and Talons, if

any, maturing after the redemption date, such Note may be paid after deducting from the amount otherwise payable an amount equal to the face amount of all such missing Coupons and Talons, or the surrender of such missing Coupon or Coupons or Talon or Talons may be waived by the relevant Issuer, the Guarantor and the Fiscal Agent if they are furnished with such security or indemnity as they may require to save each of them and each other paying agency of such Issuer and the Guarantor harmless. If a deduction is made from the redemption price in the case of any such missing Coupon or Talon and thereafter, but prior to five years after the redemption date, the bearer of such Coupon or Talon shall surrender such Coupon or Talon at a place specified for redemption, such bearer shall be entitled to receive the amount so deducted with respect to such Coupon or Talon. Any unmatured Coupons and Talons, whether attached to or missing from any Floating Rate Note surrendered for redemption, will become void at the redemption date for such Note. From and after the redemption date, if monies for the redemption of Notes called for redemption shall have been made available at the corporate trust office of the Fiscal Agent for redemption on the redemption date, the Notes called for redemption shall cease to bear interest (and in the case of Original Issue Discount Notes, not cease to increase the Amortized Face Amount payable in respect thereof), and the only right of the Holders of such Notes shall be to receive payment of the redemption price together with accrued interest, if any, to the redemption date as aforesaid. If monies for the redemption of the Notes are not made available for payment until after the redemption date, the Notes called for redemption shall not cease to bear interest (and in the case of Original Issue Discount Notes, not cease to increase the Amortized Face Amount payable in respect thereof), until such monies have been so made available.

The Issuers may at any time purchase Notes (provided that, in the case of definitive bearer Notes, all unmatured Coupons and Talons appertaining thereto are surrendered therewith) at any price or prices in the open market or otherwise. Notes so purchased by an Issuer may be held or resold or, at the discretion of such Issuer, may be surrendered to the Fiscal Agent for cancellation.

Payment of Additional Amounts

Any amounts to be paid by an Issuer or the Guarantor, as the case may be, under the Notes or the Guarantees, as the case may be, will be paid without deduction or withholding for or on account of any present or future taxes, assessments, duties or other governmental charges of any nature whatsoever imposed, levied or collected by or on behalf of the country in which the Issuer or the Guarantor, as the case may be, is organized or any political subdivision or authority therein, unless such deduction or withholding is required by law. In such event, an Issuer or the Guarantor, as the case may be, will pay such additional amounts of principal (including premium, if any, and in the case of an Original Issue Discount Note, the Amortized Face Amount payable in respect thereof), and interest, if any, as may be necessary in order that the net amounts received by the Holder of the said Note or of any Coupon, if any, appertaining thereto, as the case may be, after such deduction or withholding will equal the respective amounts of principal (including premium, if any, and in the case of an Original Issue Discount Note, the Amortized Face Amount payable in respect thereof), and interest, if any, which would have been received had no such deduction or withholding been required; provided, however, that the foregoing obligation to pay additional amounts will not apply to any tax, assessment, duty or other governmental charge which: (a) is payable otherwise than by deduction or withholding from payments of principal of (or premium if any, and in the case of an Original Issue Discount Note, the Amortized Face Amount payable in respect thereof) or interest, if any, on such Note; (b) is payable by reason of the Holder having, or having had, some personal or business connection with the country in which such Issuer or the Guarantor is organized and not merely by reason of the fact that payments are, or for the purposes of taxation are deemed to be, from sources in, or secured in, the country in which such Issuer or the Guarantor is organized; (c) is payable by reason of a change in law or official practice of any relevant taxing authority that becomes effective more than 30 days after the Relevant Date (as defined below) for payment of principal (including premium, if any, and in the case of an Original Issue Discount Note, the Amortized Face Amount payable in respect thereof) or interest, if any; (d) is payable by reason of any estate, excise, inheritance, gift, sales, transfer, wealth, personal property tax or any similar assessment or governmental charge; (e) is payable as a result of the failure of a Holder to satisfy any statutory requirements or make a declaration of non-residence or other similar claim for exemption to the relevant tax authority if such satisfaction or making of such declaration is a statutory or regulatory precondition to relief from such tax, assessment, duty or other governmental charge; (f) is payable in respect of any Note or Coupon presented for payment in the United Kingdom; or (g) arises out of any combination of (a) through (f) above. As used herein, the "Relevant Date" is the date on which the payment of principal (including premium, if any, and in the case of an Original Issue Discount Note, the Amortized Face Amount payable in respect thereof) and interest, if any, on a Note first becomes due and payable but, if the full amount of the monies payable on such date has not been received by the relevant Paying Agent or as it shall have directed on or prior to such date,

the "Relevant Date" means the date on which such monies shall have been so received. No additional amounts will be paid as provided above with respect to any payment of principal of (including premium, if any, and in the case of an Original Issue Discount Note, the Amortized Face Amount payable in respect thereof) or interest, if any, on such Note to any Holder who is a fiduciary or partnership or other than the sole beneficial owner of any such payment to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner would not have been entitled to the additional amounts had such beneficiary, settlor, member or beneficial owner been the Holder of such Note.

Events of Default

An "Event of Default" with respect to any Note of any Issuer shall mean any one or more of the following: (a) a default in the timely payment of the principal of (including premium, if any, and in the case of Original Issue Discount Notes, the Amortized Face Amount payable in respect thereof) any Note of the Series of which such Note is a part when due (whether at maturity, upon redemption or otherwise); or (b) if default is made for a period of 14 days or more in the payment of any interest due in respect of any Note of the Series of which such Note is a part; or (c) if such Issuer or the Guarantor fails to perform or observe any of its other material obligations under the Notes of the Series of which such Note is a part and such failure continues for the period of 30 days after the date on which written notice of such failure requiring the same to be remedied shall have been given to such Issuer and the Guarantor by the Holders of at least 25% in principal amount of the Outstanding (as defined under "Meetings and Amendments" below) Notes of the Series of which such Note is a part at the time; or (d) any of the Guarantees shall cease to be in full force or effect, or the Guarantor shall deny or dis affirm the Guarantor's obligations under any of the Guarantees; or (e) if any of the Notes of the Series of which such Note is a part or any indebtedness of the Guarantor, its Principal Subsidiary (as defined below) or such Issuer for borrowed monies in an aggregate principal amount of not less than £10,000,000 (or its equivalent in any currency or currencies) becomes or is declared repayable prior to the due date for payment thereof by reason of default on the part of the Guarantor, its Principal Subsidiary or such Issuer, or if any such indebtedness is not repaid on the due date for payment thereof (or by the expiry of any applicable grace period), or any guarantee of indebtedness in an aggregate principal amount of not less than £10,000,000 (or its equivalent in any currency or currencies) given by the Guarantor, its Principal Subsidiary or such Issuer is not honored when due and called upon; or (f) if an order is made or an effective resolution passed for the winding-up of, or an administration order is made in relation to, the Guarantor, its Principal Subsidiary or the Issuer of such Note, or if the Guarantor, its Principal Subsidiary or the Issuer of such Note stops payment or threatens to stop payment or ceases or threatens to cease to carry on business, except a winding-up or a stopping of payment or a cessation of business for the purposes of a reconstruction or amalgamation the terms of which have previously been approved in writing by the Holders of the Notes of such Series in accordance with the provisions of the Fiscal Agency Agreement; or (g) if an encumbrancer takes possession or an administrative or other receiver or an administrator is appointed of the whole or any material part of the undertaking or assets of the Guarantor, its Principal Subsidiary or the Issuer of such Note, or if a distress or execution is levied or enforced upon or sued out against any material part of the chattels and property of the Guarantor, its Principal Subsidiary or the Issuer of such Note and is not removed, discharged or paid out within 60 days; or (h) if the Guarantor, its Principal Subsidiary or the Issuer of such Note is unable to pay its debts within the meaning of Section 123(1)(e) of the United Kingdom Insolvency Act 1986 or makes a general assignment for the benefit of its creditors; or (i) in the case of a Note issued by Finance Europe, if Finance Europe has filed a request for a "moratorium of payments" ("surseance van betaling") and has been granted such moratorium and such moratorium is not lifted within 90 days; or (j) if the Guarantor's Principal Subsidiary shall cease to be a subsidiary of the Guarantor within the meaning of Section 736 of the Companies Act 1985 of Great Britain, which Section shall be construed without reference to any statutory modification or reenactment thereof made after 21st December, 1990 (except pursuant to such an amalgamation or reconstruction as is referred to in sub-clause (f) above).

As used above, "Principal Subsidiary" means the Legal & General Assurance Society Limited, in the case of sub-clauses (e) to (h) inclusive and (j), for so long as it remains a subsidiary of Legal & General within the meaning of Section 736 of the Companies Act 1985 of Great Britain.

If an Event of Default shall have occurred and be continuing with respect to any Note, then the Holder of such Note may exercise any right, power or remedy permitted to it by law, and shall have, in particular, without limiting the generality of the foregoing, the right to declare the entire principal of (including premium, if any, and if such Note is an Original Issue Discount Note, the Amortized Face Amount payable in respect thereof), and all interest accrued, if any, on such Note to be, and such Note shall thereupon become, forthwith due and payable, without any presentment, demand, protest or other notice of any kind, all of which are hereby

expressly waived. No course of dealing on the part of the Holder of any Note or delay or failure on the part of such Holder to exercise any right shall operate as a waiver of such right or otherwise prejudice such Holder's rights, powers or remedies. Upon payment in full (i) of the amount of principal (including premium, if any, and if such Note is an Original Issue Discount Note, the Amortized Face Amount payable in respect thereof) and interest, if any, so declared due and payable, and (ii) of interest on any overdue principal (including premium, if any, and if such Note is an Original Issue Discount Note, the Amortized Face Amount payable in respect thereof) and overdue interest (in the latter case to the extent that the payment of such interest shall be legally enforceable) all of the relevant Issuer's and the Guarantor's obligations in respect of the payment of the principal of (including premium, if any, and if such Note is an Original Issue Discount Note, the Amortized Face Amount payable in respect thereof) and interest, if any, on such Note shall terminate.

Negative Pledge

So long as any Note remains Outstanding and unpaid, the Guarantor will not, and will not permit any Issuer to, create or permit to exist any Lien (as defined below) upon any of their respective properties (whether now owned or hereafter acquired) to secure any of its present or future Relevant Indebtedness (as defined below) (or any guarantee or indemnity in respect thereof) without making effective provision whereby all the Notes shall be directly secured equally and ratably with the Relevant Indebtedness, guarantee or indemnity secured by such Lien.

As used above, the following terms shall have the following meanings: (i) "Lien" means any mortgage, pledge, security interest, lien or other encumbrance; and (ii) "Relevant Indebtedness" means the Notes, the Guarantees, the U.S. Notes and any indebtedness for borrowed money (other than indebtedness in the form of sterling debenture stock) which is in the form of, or represented or evidenced by bonds, notes, debentures, loan stock or other securities which, with the agreement of the Guarantor or the relevant Issuer, as the case may be, are quoted, listed, dealt in or traded on a stock exchange, or an over-the-counter or other recognized securities market.

Meetings and Amendments

The Fiscal Agency Agreement contains provisions for convening meetings of Holders of Notes of a Series to consider any matter affecting their interests, including the modification by Extraordinary Resolution (as defined below) of the Notes or the provisions of the Fiscal Agency Agreement. Except as provided in the following sentence, the quorum at any such meeting for passing an Extraordinary Resolution shall be two or more persons present in person holding Notes or voting certificates or being proxies and holding or representing in the aggregate a clear majority in principal amount of the Notes of such Series for the time being outstanding, or at any adjourned meeting two or more persons being or representing Holders of Notes of such Series whatever the principal amount of the Notes of such Series for the time being Outstanding so held or represented. At any meeting the business of which includes sanctioning the exchange, substitution or conversion of the Notes for other obligations or securities, or the making of any modification to the provisions contained in the Fiscal Agency Agreement, the Notes, the Coupons or the Talons which would: (a) (i) change the due date for the payment of the principal of (including premium, if any, and in the case of Original Issue Discount Notes, the Amortized Face Amount payable in respect thereof) or any instalment of interest, if any, on any Note, (ii) reduce the principal amount of (including premium, if any, and in the case of Original Issue Discount Notes, the Amortized Face Amount payable in respect thereof) any Note, the portion of such principal amount which is payable upon acceleration of the maturity of such Note, the interest rate thereon or the premium payable upon redemption thereof, (iii) change the Specified Currency in which or the required places at which payment with respect to principal (including premium, if any, and in the case of Original Issue Discount Notes, the Amortized Face Amount payable in respect thereof) or interest, if any, in respect of Notes is payable, or (iv) amend the procedures provided for or the circumstances under which the Notes of such Series may be redeemed; or (b) modify the provisions relating to meetings of Holders of Notes concerning the quorum required at any meeting of Holders of Notes or the majority required to pass an Extraordinary Resolution; or (c) amend the special quorum requirements referred to in this sentence, the quorum shall be two or more persons present in person holding Notes or voting certificates or being proxies and holding or representing in the aggregate not less than two-thirds, or at any adjourned such meeting not less than one-third, in principal amount of the Notes of such Series for the time being Outstanding. An Extraordinary Resolution passed at any meeting of Holders of Notes will be binding on all Holders of Notes, whether or not they are present at the meeting and on all Couponholders and Talonholders.

The term "Extraordinary Resolution" means a resolution passed at a meeting of Holders of Notes duly convened and held in accordance with the provisions of the Fiscal Agency Agreement by a majority consisting

of not less than three-quarters of the votes cast and the term "Outstanding" means any Note authenticated and delivered pursuant to the Fiscal Agency Agreement except: (i) Notes theretofore cancelled by the Fiscal Agent or delivered to the Fiscal Agent for cancellation; (ii) Notes which have been called for redemption in accordance with their terms or which have become due and payable at maturity or otherwise and with respect to which monies sufficient to pay the principal thereof (including premium, if any, and in the case of Original Issue Discount Notes, the Amortized Face Amount payable in respect thereof) and interest, if any, thereon shall have been made available to the Fiscal Agent; or (iii) Notes in lieu of or in substitution for which other Notes shall have been authenticated and delivered pursuant to the Fiscal Agency Agreement; provided, however, that in determining whether the Holders of the requisite principal amount of Outstanding Notes are present at a meeting of Holders of Notes for quorum purposes or have consented to or voted in favor of any request, demand, authorisation, direction, notice, consent, waiver, amendment, modification or supplement under the Fiscal Agency Agreement, Notes owned directly or indirectly by any Issuer or the Guarantor shall be disregarded and deemed not to be Outstanding.

If and whenever Notes of two or more Series are Outstanding, the foregoing provisions shall have effect subject to the following modifications: (i) a resolution which in the opinion of the Guarantor affects one Series only of the Notes shall be deemed to have been duly passed if passed at a meeting of the Holders of the Notes of that Series; (ii) a resolution which in the opinion of the Guarantor affects more than one Series of the Notes but does not give rise to a conflict of interest between the Holders of Notes of any of the Series so affected shall be deemed to have been duly passed if passed at a single meeting of the Holders of the Notes of all the Series so affected; and (iii) a resolution which in the opinion of the Guarantor affects more than one Series of the Notes and gives or may give rise to a conflict of interest between the Holders of the Notes of one Series or group of Series so affected and the Holders of the Notes of another Series or group of Series so affected shall be deemed to have been duly passed only if in lieu of being passed at a single meeting of the Holders of the Notes of all such Series it shall be duly passed at separate meetings of the Holders of the Notes of each Series so affected.

The Guarantor, the relevant Issuer and the Fiscal Agent may agree, without the vote or consent of any Holder of Notes, Couponholder or Talonholder, to any modification of, or to any waiver or authorisation of any breach or proposed breach of, any of the terms and conditions of the Notes or any other provisions of the Fiscal Agency Agreement for the purpose of, (i) adding to the covenants of such Issuer and/or the Guarantor for the benefit of the Holders of Notes, Couponholders or Talonholders, or (ii) surrendering any right or power conferred upon such Issuer and/or the Guarantor, or (iii) securing the Notes pursuant to the requirements of the Notes or otherwise, or (iv) subject to the existence of the conditions set forth in the first paragraph of "Payment of Principal and Interest; Paying Agents" above, permitting the payment of principal (including premium, if any, and in the case of Original Issue Discount Notes, the Amortized Face Amount payable in respect thereof) and interest, if any, in respect of bearer Notes in the United States, or (v) evidencing the succession of another corporation to an Issuer or the Guarantor pursuant to "Merger or Consolidation of the Issuers and the Guarantor" below, and the assumption by such successor of the covenants and obligations of such Issuer or the Guarantor in the Fiscal Agency Agreement and in the Notes, Coupons and Talons as permitted by the Notes, or (vi) evidencing the assumption by the Guarantor of the obligations of an Issuer under the Fiscal Agency Agreement and under the Notes issued by it or the designation by the Guarantor of another of its wholly-owned Subsidiaries to be the issuer of the Notes, as provided in "Assumption of Obligations" below, or (vii) correcting or supplementing any defective provision contained in the Fiscal Agency Agreement or in the Notes, Coupons or Talons in a manner which does not adversely affect the interest of any Holders of Notes, Coupons or Talons in any material respect, or (viii) amending the certification requirements set forth in "Form, Denomination and Title" above with the approval of the Agents in order to allow the Issuers to comply with the certification requirements with respect to nationality or status as required by applicable tax laws, or (ix) making any modification, or granting any waiver or authorisation of any breach or proposed breach of, any of the terms and conditions of the Notes or any other provisions of the Fiscal Agency Agreement in any manner which the Guarantor and the Fiscal Agent may determine and which does not adversely affect the interest of any Holders of Notes, Coupons or Talons in any material respect, or (x) making any modification which is of a minor or technical nature or correcting a manifest error.

Assumption of Obligations

The Guarantor or any wholly-owned Subsidiary of the Guarantor may assume the obligations of any Issuer (or any corporation which shall have previously assumed the obligations of such Issuer as provided in the Fiscal Agency Agreement; such Issuer or such corporation being referred to herein as the "prior Issuer") for the due and punctual payment of the principal of (including premium, if any, and in the case of Original

Issue Discount Notes, the Amortized Face Amount payable in respect thereof) and interest, if any, on and any additional amount in respect of the Notes issued by it and the performance of every covenant of the Fiscal Agency Agreement, the Notes and the Calculation Agency Agreement on the part of the prior Issuer to be performed or observed, provided that: (a) the Guarantor or such Subsidiary of the Guarantor, as the case may be, shall expressly assume such obligations by an amendment or supplement to the Fiscal Agency Agreement, executed by the Guarantor and such Subsidiary, if applicable, and delivered to the Fiscal Agent for the benefit of the Holders of Notes, Coupons and Talons and, if such Subsidiary assumes such obligations, the Guarantor shall, by such amendment or supplement, confirm that its Guarantees shall apply to such Subsidiary's obligations under the Notes, Coupons and Talons and the Fiscal Agency Agreement and the Calculation Agency Agreement, as modified by such amendment or supplement; (b) the Guarantor or such Subsidiary, as the case may be, shall confirm in such amendment or supplement that the Guarantor or such Subsidiary, as the case may be, will pay to the Holders such additional amounts as provided by, and subject to the limitations set forth in, the Notes as may be necessary in order that every net payment of the principal of (including premium, if any, and in the case of Original Issue Discount Notes, the Amortized Face Amount payable in respect thereof) and interest, if any, on the Notes will not be less than the amount provided for in the Notes to be then due and payable; provided, that such obligation shall extend to any deduction or withholding for or on account of any present or future tax, assessment or governmental charge imposed upon such payment by any district, municipality or other political subdivision or taxing authority in the United Kingdom or in the country in which the Guarantor or any such Subsidiary is organized (it being understood that, except as aforesaid, neither the Guarantor nor such Subsidiary shall be obligated to make any indemnification or payments in respect of any tax consequences to any Holder of Notes or Couponholders as a result of the assumption of rights and obligations described herein and which arise as a result of the domicile or residence of such Holder in, or connection of such Holder with, or subsection of such Holder to, any jurisdiction); and (c) immediately after giving effect to such assumption, no Event of Default and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing.

Upon any such assumption, the Guarantor or such Subsidiary, as the case may be, shall succeed to, and be substituted for, and may exercise every right and power of, the prior Issuer under the Fiscal Agency Agreement, the Notes and the Calculation Agency Agreement, with the same effect as if the Guarantor or such Subsidiary, as the case may be, had been named as an Issuer in the Fiscal Agency Agreement, and the prior Issuer shall be released from all liability under the Fiscal Agency Agreement, the Notes issued by it and the Calculation Agency Agreement. As used herein, the term "Subsidiary" means a subsidiary (as defined in Section 736 of the Companies Act 1985 of Great Britain) of Legal & General.

Merger or Consolidation of the Issuers and the Guarantor

So long as any Note remains outstanding, neither any Issuer nor the Guarantor shall consolidate or amalgamate with or merge into any other corporation or convey, transfer or lease its properties and assets substantially as an entirety to any person unless: (a) the corporation formed by such consolidation or amalgamation or into which such Issuer or the Guarantor is merged or the person which acquires by conveyance or transfer, or which leases, the properties and assets of such Issuer or the Guarantor substantially as an entirety shall expressly assume, by an amendment to the Fiscal Agency Agreement executed and delivered to the Fiscal Agent, (i) in the case of a successor to an Issuer, the due and punctual payment of the principal of (including premium, if any, and in the case of Original Issue Discount Notes, the Amortized Face Amount payable in respect thereof) and interest, if any, on all of the Notes and the performance of every covenant in the Notes, the Calculation Agency Agreement and the Fiscal Agency Agreement to be performed by such Issuer and the Guarantor shall confirm that the Guarantees shall apply to the obligations of such successor under the Notes, the Calculation Agency Agreement and the Fiscal Agency Agreement, and (ii) in the case of a successor to the Guarantor, the due and punctual performance of the Guarantees and the performance of every covenant in the Fiscal Agency Agreement and the Calculation Agency Agreement on the part of the Guarantor to be performed; which assumption shall provide in each case that such corporation or person, as the case may be, shall pay to the Holder of any Note and any Couponholder or Talonholder such additional amounts as may be necessary in order that every net payment of the principal of (including premium, if any, and in the case of Original Issue Discount Notes, the Amortized Face Amount payable in respect thereof) and interest, if any, will not be less than the amount provided for in the Notes to be then due and payable; provided that such obligation shall extend to any deduction or withholding for or on account of any present or future tax, assessment or governmental charge imposed upon such payment by any district, municipality or other political subdivision or taxing authority in the United Kingdom or in the country in which any such corporation or person is organized (it being understood that except as aforesaid, no such corporation or person shall be obligated to make any indemnification or payment in respect of any tax

consequences to any individual Holder of a Note or Couponholder or Talonholder as a result of the assumption of rights and obligations described herein and which arise as a result of the domicile or residence of such Holder in, or connection of such Holder with, or subjection of such Holder to, any jurisdiction); (b) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing; and (c) a certificate, signed by a duly authorized officer of such Issuer or the Guarantor, as the case may be, and a written opinion of counsel, each stating that such consolidation, amalgamation, merger, conveyance, transfer or lease and such document evidencing the assumption by such corporation or person complies with all conditions precedent herein provided for relating to such transaction shall have been made available for inspection by Holders of the Notes at the principal offices of the Fiscal Agent.

Upon any such assumption, such corporation or person, as the case may be, shall succeed to, and be substituted for, and may exercise every right and power of, such Issuer or the Guarantor, as the case may be, under the Fiscal Agency Agreement with the same effect as if such corporation or person had been named as "Issuer" or the "Guarantor" or "Legal & General", as the case may be, under the Fiscal Agency Agreement, and thereafter, except in the case of a lease, the predecessor corporation shall be relieved of all obligations and covenants under the Fiscal Agency Agreement, the Calculation Agency Agreement, the Notes, the Coupons and the Talons.

Notices

Notices to redeem Notes in bearer form and all other notices to Holders of Notes in bearer form will be valid if published in one leading London daily newspaper (which is expected to be the Financial Times) or, if this is not practicable in the opinion of the Guarantor, in another leading English language daily newspaper which is approved by the Guarantor with circulation in Europe. Any notice published in a newspaper as aforesaid shall be deemed to have been given on the date of such publication or, if published more than once, on the date of the first such publication. Notices to redeem Notes in registered form and all other notices to Registered Holders of Notes in registered form shall (except to the extent otherwise expressly provided) be in writing and shall be addressed to such Holders at their addresses appearing in the note register maintained pursuant to the Fiscal Agency Agreement. Details of the interest rate applicable to the then current interest period in respect of any Floating Rate Notes will be published by the Calculation Agent in accordance with the provisions for giving notices to holders of Notes in bearer form.

Replacement of Notes, Coupons and Talons

Should any Note, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Fiscal Agent outside the United States (or such other place of which notice shall have been given as provided under "Notices" above) upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence and indemnity as the Guarantor may reasonably require. Mutilated or defaced Notes, Coupons or Talons must be surrendered before replacements will be issued.

Prescription

All amounts paid by an Issuer or the Guarantor to a Paying Agent for payment of the principal of or premium or interest on the Notes of any Series remaining unclaimed for two years after the principal of all Notes of such Series shall have become due and payable (whether at maturity or otherwise) shall be repaid to such Issuer or the Guarantor, as the case may be, and to the extent permitted by law, the Holder of such Note, Coupon or Talon thereafter may look only to the relevant Issuer or the Guarantor, as the case may be, for payment. Definitive bearer Notes and Coupons will become void unless presented for payment within periods of 10 years and 5 years, respectively, from the Relevant Date (as defined above). Talons will become void unless presented for exchange for a fresh Coupon sheet within a period of 5 years from the date on which all Coupons on the Coupon sheet to which the Talon appertains have matured. Registered Notes contain no provision rendering them void for non-presentation within any specified time limit. Under the State of New York's statute of limitations, any legal action upon the Notes must be commenced within 6 years after the payment thereof is due.

Governing Law; Consent to Jurisdiction

The Fiscal Agency Agreement, the Calculation Agency Agreement, the Notes, the Coupons and the Talons are governed by, and will be construed in accordance with, the laws of the State of New York.

As more fully set forth in the Fiscal Agency Agreement, the Issuers and the Guarantor have appointed CT Corporation System, 1633 Broadway, New York, N.Y. 10019, U.S.A., as their authorized agent upon which process may be served in any action arising out of or based on the Notes, Coupons or Talons which may be instituted in any State or Federal court located in the Borough of Manhattan, City and State of New York, by the Holder of a Note, and the Issuers and the Guarantor have expressly accepted the jurisdiction of any such court in respect of any such action.

Fiscal Agent

The Fiscal Agency Agreement contains provisions for the indemnification of the Fiscal Agent and for its relief from responsibility. The Fiscal Agent and the Paying Agents are entitled to enter into business transactions with the Issuers and the Guarantor without accounting for any profit resulting therefrom.

USE OF PROCEEDS

The net proceeds from the sale of the Notes issued will be used to refinance Group borrowings and to fund the business of the Group.

CAPITALISATION AND INDEBTEDNESS OF THE GROUP

The following table sets out the consolidated capitalisation and indebtedness of the Group which has been extracted without material adjustment from the audited financial statements of Legal & General Group Plc as at December 31, 1999.

	<u>December 31, 1999</u> £ millions
Shareholders' funds (Note 5)	
Called up share capital (fully paid)	128
Share premium	132
Retained profits and reserves	<u>2,825</u>
Total shareholders' funds (Note 1)	<u>3,085</u>
Indebtedness	
Unsecured	
6.75% Euro convertible subordinated bonds due 2008	3
Medium term notes due 2000/2001	123
Guaranteed PEP Bond 2001	142
Euro commercial paper	102
Bank loans due 2000	<u>56</u>
Total indebtedness	<u>426</u>
Total indebtedness at December 31, 1999 comprised the following:	
For financing mortgage lending	285
For financing other Group operations	110
Borrowing within long term funds	<u>31</u>
Total indebtedness	<u>426</u>

Notes:

1. Shareholders' funds of £3.1 billion include only £2.3 billion of the embedded value of the life and pensions business. Shareholders' funds on an Achieved Profits basis at December 31, 1999 are £5.3 billion (as detailed on pages 67 to 74).
2. Legal & General has established an employee share ownership trust (ESOT) which may purchase ordinary shares in Legal & General in the market and hold such shares for delivery to employees under the various employee share schemes. Instead of using shares purchased in the market by the ESOT, Legal & General may issue new shares.

During 1999 7.8 million shares were allocated by the ESOT to employees to settle entitlements due under share schemes for 1999. As at December 31, 1999 the ESOT held 13.5 million shares acquired at a cost of £10.3 million and with a market value of £22.8 million, of which 3.4 million shares were purchased at market rates during 1999. The ESOT's investments are included at cost in the Group's consolidated balance sheet within Other financial investments. The cost of shares acquired by the ESOT is being financed by an interest free loan from Legal & General.

The ESOT has waived its rights to the dividends payable on the shares it holds.

3. Non-sterling currency indebtedness (primarily in U.S. dollars) is translated to sterling at the London mid-market rate of exchange ruling at the close of business on December 31, 1999 (for exchange rates used see Note 8 to the Financial Statements of the Group (page 47)).
4. Save as disclosed above the Group did not have outstanding at December 31, 1999 any other borrowings, loan capital issued or created but unissued, term loans, borrowings or indebtedness in the nature of borrowing whether guaranteed or unguaranteed including bank overdrafts and liabilities under acceptances or acceptance credits, hire purchase commitments, mortgages, charges or guarantees and other contingent liabilities except those disclosed in Note 31 to the Financial Statements of the Group (see page 62).
5. As at December 31, 1999 the authorised share capital of the Guarantor was £150,000,000 divided into 6,000,000,000 ordinary shares of 2.5 pence and the issued share capital was 5,129,488,392 ordinary shares of 2.5 pence with an aggregate nominal value of £128 million (see Shareholders' funds above).
6. An ordinary resolution was passed at the AGM that, in accordance with Article 44 of the Company's Articles of Association, with effect from April 23, 1999 each of the 1,500,000,000 ordinary shares of 10p each in the capital of the Company be sub-divided into 4 ordinary shares of 2½p each.
7. There has been no material change in the consolidated capitalisation, indebtedness, contingent liabilities and guarantees of the Group, since December 31, 1999.

LEGAL & GENERAL GROUP Plc

Introduction

Legal & General is the holding company of a group of companies engaged in the transaction of life insurance and pensions business, U.K. general (property and casualty) insurance business and the provision of investment management services and financial services. Legal & General's principal subsidiary, Legal & General Assurance Society Limited, was incorporated in 1836, and Legal & General itself was established as the Group holding company in 1979. The Group is a leading insurance and financial services group based in the United Kingdom, with total worldwide life and pensions premium income net of reinsurance for the year ended December 31, 1999 of £3,513 million, and total worldwide premium income net of reinsurance for its general insurance business in 1999 of £211 million. At December 31, 1999 total worldwide funds under management amounted to £108 billion, of which £104 billion was managed in the United Kingdom. The Group has operating subsidiaries in the United Kingdom, the United States of America, France and The Netherlands.

The Business of the Group

The Group has four areas of activity: Life and Pensions, Investment Management, General Insurance and Financial Services.

Life and Pensions. The Group markets a wide variety of life assurance and pension products in the United Kingdom. It enjoys a strong presence in life assurance and pensions in the United Kingdom where its principal products include individual life policies relating to endowment mortgages, individual pension plans, group life insurance, permanent health insurance and insured pensions including bulk annuity business. The Group also conducts life insurance business in the United States of America, France and The Netherlands.

Investment Management. The Group provides investment management services to corporate pension funds, institutional investors, private individuals, via unit trust, PEP and ISA products, and the Group's U.K. companies.

General Insurance. The Group's general insurance business, which is principally in the United Kingdom, primarily relates to personal lines. General insurance business is focused upon domestic property but also includes domestic mortgage indemnity and motor insurance.

Financial Services. The Group's financial services businesses include mortgage lending, advisory services to both companies and individuals in the areas of investment management, stockbroking, pension funds, trustee services and banking, and estate agents.

Save for the figures above relating to funds under management which are derived from the unaudited management accounts of Legal & General Group Plc, all figures on this page are derived from the audited Financial Statements of Legal & General Group Plc.

The following were members of the Board of Directors of Legal & General as at 20th June 2000:

		<u>Other principal directorships</u>
Chairman	R. J. MARGETTS	Anglo American PLC ICI Pensions Trustee Limited Imperial Chemical Industries PLC
Executive Directors		
Group Chief Executive	D. J. PROSSER	—
Group Director (Finance)	A. J. HOBSON	Thames Water Plc
Group Director (Investments)	D. ROUGH	Mithras Investment Trust plc Group Trust plc Legal & General UK Select Investment Trust Plc BBA plc
Group Director (Retail Business)	R. A. PHIPPS	—
Group Director (Corporate Business)	A. W. PALMER	—
Non-Executive Directors	H. M. R. CHAPMAN	Partner of Jones Lang LaSalle
	A. E. WHEATLEY	Foreign & Colonial Special Utilities Investment Trust plc Ashtead Group plc Babcock International Group Plc
	M. E. WALL	—
	B. MORGANS	Azlan Group Plc Plasmon Plc Psion plc
	B. H. ASHER (Vice-Chairman)	Lonrho Africa Plc Talisman Plc
	LORD BURNS	Pearson Plc

The business address of each of the above is Temple Court, 11 Queen Victoria Street, London EC4N 4TP.

THE ISSUERS

Finance

General

Finance was incorporated in 1989 and is the U.K. financial trading subsidiary of, and is directly wholly-owned by, Legal & General. Finance does not have any subsidiaries. The activities of Finance encompass most aspects of the treasury operations of the Group, including the raising of funding by means of bank borrowings and commercial paper and medium term note issues.

Capitalisation

Set forth below is information regarding the capitalisation and indebtedness of Finance which has been extracted without material adjustment from the audited financial statements of Legal & General Finance Plc as at December 31, 1999:

Shareholders' funds (Note 3)	<u>December 31, 1999</u> £ (000's)
Called up share capital	13
Profit and loss account	<u>3,301</u>
Total shareholders' funds	<u>3,314</u>
 Indebtedness	
Guaranteed PEP Bonds	155,566
Euro commercial paper	101,999
Bank loans and overdraft	33,229
Amount owed to Group undertakings	459,215
Sterling commercial paper	—
Medium term notes	<u>105,587</u>
Total indebtedness	<u>855,596</u>

Notes:

1. Non-sterling currency indebtedness (primarily in U.S. dollars) is translated to sterling at the London mid-market rate of exchange ruling at the close of business on December 31, 1999.
2. Save as disclosed above Finance did not have outstanding at December 31, 1999 any borrowings, loan capital issued or created but unissued, term loans, borrowings or indebtedness in the nature of borrowing whether guaranteed or unguaranteed including bank overdrafts and liabilities under acceptances or acceptance credits, hire purchase commitments, mortgages, charges or guarantees and other contingent liabilities.
3. As at December 31, 1999 the authorised share capital of Finance was £100,000 divided into 100,000 ordinary shares of £1 and the issued share capital was 50,000 ordinary shares of £1 partly paid as to 25p each with an aggregate nominal value of £12,500.
4. There has been no material change in the capitalisation, indebtedness, contingent liabilities and guarantees of Finance since December 31, 1999.

Management

The following are members of the Board of Directors of Finance:

	<u>Other principal directorship</u>
A. J. HOBSON	Thames Water Plc
W. M. ABBOTT	—
N. L. COLLARD	—
J. D. WHORWOOD	—
J.V. MONCKTON	—

The business address of each of the above is Temple Court, 11 Queen Victoria Street, London EC4N 4TP.

Finance Europe

General

Finance Europe is the international finance subsidiary of Legal & General and is directly wholly-owned by Legal & General Netherlands Holdings B.V., Legal & General's international holding company which is itself directly wholly-owned by Legal & General Overseas Holdings Limited. Finance Europe does not have any subsidiaries. Legal & General Overseas Holdings Limited is in turn owned by Legal & General International Limited, which in turn is owned by Legal & General International Holdings Limited, which is directly wholly-owned by Legal & General. Finance Europe was incorporated in 1989 to facilitate non-U.K. borrowings denominated in currencies other than sterling, in each case guaranteed by Legal & General. Finance Europe was also formed to act as the finance company for Legal & General's non-U.K. subsidiaries.

Finance Europe has its registered office in Hilversum, The Netherlands. It is registered in the Trade Register of the Chamber of Commerce of Gooiland, The Netherlands under number 3204 6343.

Capitalisation

Set forth below is information regarding the capitalisation and indebtedness of Finance Europe which has been extracted without material adjustment from the audited financial statements of Legal & General Finance Europe B.V. as at December 31, 1999:

	<u>December 31, 1999</u>
	Dfl. (000's)
Shareholders' funds (Note 3)	
Called up share capital (fully paid)	40
Profit and loss account	<u>2,519</u>
Total shareholders' funds	<u>2,559</u>
Debt due to affiliated companies	27,996
Medium term notes	<u>91,472</u>
Total indebtedness	<u>119,468</u>

Notes:

1. Non-Dutch guilder currency indebtedness (in £ sterling) is translated to Dutch guilders at the London mid-market rate of exchange ruling at the close of business on December 31, 1999.
2. Save as disclosed above, Finance Europe did not have outstanding at December 31, 1999 any borrowings, loan capital issued or created but unissued, term loans, borrowings or indebtedness in the nature of borrowing whether guaranteed or unguaranteed including bank overdrafts and liabilities under acceptances or acceptance credits, hire purchase commitments, mortgages, charges or guarantees and other contingent liabilities.
3. As at December 31, 1999 the authorised share capital of Finance Europe was Dfl. 200,000 divided into 2,000 shares of Dfl. 100 and the issued share capital was 400 shares of Dfl. 100 with an aggregate nominal value of Dfl. 40,000.
4. There has been no material change in the capitalisation, indebtedness, contingent liabilities and guarantees of Finance Europe since December 31, 1999.

Management

The following are members of the Board of Directors of Finance Europe:

B. VAN DEN BERG
A. A. R. DE HAAN
J. D. WHORWOOD

The business address of B. van den Berg and A. A. R. de Haan is Laapersveld 68, 1213 VB Hilversum, The Netherlands. The business address of J. D. Whorwood is Temple Court, 11 Queen Victoria Street, London EC4N 4TP.

None of the directors of Finance Europe performs activities outside the Group which are significant with respect to the Group.

FINANCIAL STATEMENTS OF LEGAL & GENERAL GROUP Plc

Consolidated Profit and Loss Account

For the year ended 31 December 1999

	<u>Notes</u>	<u>1999</u>	<u>1998</u>
		£m	£m
Technical account — general business			
Continuing operations			
<i>Earned premiums, net of reinsurance</i>			
— gross premiums written (UK business)		221	209
— outward reinsurance premiums		<u>(10)</u>	<u>(9)</u>
	2(vi)	211	200
Change in the provision for unearned premiums			
— gross		17	16
— reinsurers' share		<u>1</u>	<u>(1)</u>
		229	215
Allocated investment return transferred from the non-technical account	4	<u>18</u>	<u>25</u>
		<u>247</u>	<u>240</u>
<i>Claims incurred, net of reinsurance</i>			
Claims paid			
— gross		159	158
— reinsurers' share		<u>(5)</u>	<u>(7)</u>
		154	151
Change in the provision for claims			
— gross		(15)	(11)
— reinsurers' share		<u>3</u>	<u>3</u>
		142	143
Changes in other technical provisions, net of reinsurance		(8)	(5)
Net operating expenses	5	88	83
Change in the equalisation provision		<u>5</u>	<u>5</u>
		<u>227</u>	<u>226</u>
Balance on the technical account			
— general business		<u>20</u>	<u>14</u>
comprising:			
Underwriting result		7	(6)
Change in the equalisation provision		(5)	(5)
Investment return		<u>18</u>	<u>25</u>
		<u>20</u>	<u>14</u>

References to page numbers in the Financial Statements of Legal & General Group Plc (including the Supplementary Financial Statements) are to pages of the Legal & General Annual Report and Accounts 1999 and not pages of this Information Memorandum.

Consolidated Profit and Loss Account
For the year ended 31 December 1999

	Notes	1999	1998
		£m	£m
Technical account — long term business			
Continuing operations			
<i>Premiums, net of reinsurance</i>			
— gross premiums written	2(v)	3,616	3,018
— outward reinsurance premiums		<u>(103)</u>	<u>(86)</u>
		3,513	2,932
Investment income and realised gains	4(i)	6,274	3,901
Unrealised gains on investments		7,283	6,056
Other technical income		<u>13,618</u>	<u>12,784</u>
		<u>30,688</u>	<u>25,673</u>
<i>Claims incurred, net of reinsurance</i>			
Claims paid			
— gross		6,237	5,052
— reinsurers' share		<u>(74)</u>	<u>(64)</u>
		6,163	4,988
Change in the provision for claims			
— gross		10	5
— reinsurers' share		<u>(2)</u>	<u>(2)</u>
		6,171	4,991
<i>Change in other technical provisions, net of reinsurance</i>			
Long term business provision			
— gross		1,273	3,410
— reinsurers' share		<u>(124)</u>	<u>(84)</u>
		1,149	3,326
Provisions for linked liabilities		<u>20,587</u>	<u>16,163</u>
		21,736	19,489
Net operating expenses	5	558	626
Investment expenses and charges	4(ii)	39	62
Other technical charges		(6)	12
Tax attributable to the long term business	9	67	218
Allocated investment return on shareholders' retained capital			
(SRC) transferred to the non-technical account	4	181	83
Transfers to the fund for future appropriations		<u>1,585</u>	<u>107</u>
		<u>30,331</u>	<u>25,588</u>
Balance on the technical account			
— long term business		<u>357</u>	<u>85</u>

All business in 1999 is from continuing operations; Legal and General Australia was sold on 1 July 1998 and is therefore a discontinued operation (see Note 11).

Consolidated Profit and Loss Account
For the year ended 31 December 1999

	<u>Notes</u>	<u>1999</u> £m	<u>1998</u> £m
Non-technical account			
<i>Profit from general business</i>			
Balance on the technical account — general business		20	14
<i>Profit from long term business</i>			
Balance on the technical account — long term business		357	85
Tax credit/(charge) attributable to balance on the technical account — long term business		83	(28)
	2(iv)	440	57
<i>Other operations</i>			
Investment income and realised gains	4(i)	146	163
Unrealised gains on investments		8	18
Allocated investment return on the SRC transferred from the technical account — long term business	4	181	83
Investment expenses and charges	4(ii)	(79)	(87)
Premium on repurchase of Euroconvertible bonds		—	(92)
		256	85
Allocated investment return transferred to the technical account — general business	4	(18)	(25)
		698	131
Other income		90	84
Other charges		(112)	(117)
Profit on sale of Legal & General Australia	11	—	308
Profit on ordinary activities before tax		676	406
Tax on profit on ordinary activities	9	(89)	1
Profit for the financial year		587	407
Dividends	6	(212)	(185)
Retained profit		<u>375</u>	<u>222</u>
		p	p
Earnings per share	10	11.50	8.03
Diluted earnings per share	10	11.44	7.97
Dividend per share		<u>4.13</u>	<u>3.62</u>

Consolidated Balance Sheet

As at 31 December 1999

	<u>Notes</u>	<u>1999</u> £m	<u>1998</u> £m
Assets			
<i>Investments</i>			
Land and buildings	12(i)	3,498	2,960
Other financial investments	12(ii)	30,645	28,566
		34,143	31,526
Assets held to cover linked liabilities	14	65,928	45,253
<i>Reinsurers' share of technical provisions</i>			
Provision for unearned premiums		4	3
Long term business provision		362	235
Claims outstanding		24	26
Other technical provisions		6	8
Technical provisions for unit-linked liabilities		2	—
		398	272
<i>Debtors</i>			
Debtors arising out of direct insurance operations			
— Policyholders		95	68
— Intermediaries		31	32
		126	100
Debtors arising out of reinsurance operations		17	11
Other debtors		203	202
		346	313
<i>Other assets</i>			
Tangible assets	15	43	40
Cash at bank and in hand		121	133
Purchased interests in long term business	16	51	41
		215	214
<i>Prepayments and accrued income</i>			
Accrued interest and rent		355	363
Deferred acquisition costs		674	527
Other prepayments and accrued income		147	120
		1,176	1,010
Total assets		<u>102,206</u>	<u>78,588</u>

Consolidated Balance Sheet

As at 31 December 1999

	<u>Notes</u>	<u>1999</u> £m	<u>1998</u> £m
Liabilities			
<i>Capital and reserves</i>			
Called up share capital	17	128	128
Share premium account	17	132	125
Profit and loss account	18	<u>2,825</u>	<u>2,447</u>
Shareholders' funds — equity interests		3,085	2,700
Subordinated liabilities — Euroconvertible bond	19	3	4
Fund for future appropriations		5,814	4,240
<i>Technical provisions</i>			
Provision for unearned premiums		152	169
Long term business provision		24,465	23,255
Claims outstanding		234	240
Equalisation provision		22	16
Other technical provisions		30	40
		24,903	23,720
Technical provisions for linked liabilities		65,742	45,196
<i>Provisions for other risks and charges</i>			
Provisions for taxation	20	122	201
<i>Creditors</i>			
Creditors arising out of direct insurance operations		126	126
Creditors arising out of reinsurance operations		95	80
Amounts owed to credit institutions	19	423	456
Bank customer deposits		1,031	942
Other creditors including taxation and social security	23	862	923
		<u>2,537</u>	<u>2,527</u>
Total liabilities		<u>102,206</u>	<u>78,588</u>

Reconciliation of Movements in Shareholders' Funds

	<u>1999</u> £m	<u>1998</u> £m
At 1 January	2,700	2,438
Total recognised gains and losses	590	407
Dividends	(212)	(185)
Issue of share capital	7	40
At 31 December	<u>3,085</u>	<u>2,700</u>

Company Balance Sheet
As at 31 December 1999

	<u>Notes</u>	<u>1999</u> £m	<u>1998</u> £m
Fixed assets	25	3,274	2,921
<i>Current assets</i>			
Amounts owed by Group companies		206	132
Tax		4	31
Other debtors		24	20
		234	183
<i>Creditors: amounts falling due within one year</i>			
Amounts owed to Group companies		(5)	(19)
Other creditors and accruals		(10)	(8)
Dividends	6	(146)	(127)
		(161)	(154)
Net current assets		73	29
Total assets less current liabilities		3,347	2,950
<i>Creditors: amounts falling due after more than one year</i>			
Subordinated liabilities — Euroconvertible bonds	19	3	4
Amounts owed to Group companies		259	246
		262	250
Shareholders' net assets		3,085	2,700
<i>Representing capital and reserves</i>			
Called up share capital	17	128	128
Share premium account	17	132	125
Revaluation reserve	26	2,335	2,315
Profit and loss account	26	490	132
Shareholders' funds — equity interests		3,085	2,700

The notes and statements on pages 48 to 73 form an integral part of these financial statements.

The financial statements on pages 41 to 73 and the supplementary financial statements on pages 74 to 79 were approved by the directors on 28 February 2000.

ROB MARGETTS
Chairman

DAVID PROSSER
Group Chief Executive

A J HOBSON
Group Director (Finance)

Statement of Total Recognised Gains and Losses

For the year ended 31 December 1999

	<u>1999</u>	<u>1998</u>
	£m	£m
Profit for the financial year	587	407
Exchange gains	3	0
Total recognised gains and losses	<u>590</u>	<u>407</u>

Consolidated Cash Flow Statement

For the year ended 31 December 1999

	<u>Notes</u>	<u>1999</u>	<u>1998</u>
		£m	£m
Net cash inflow from operating activities	27(i)	115	103
Interest paid on operational borrowings		(6)	(6)
Tax received (paid)		36	(20)
Sale of Legal & General Australia	27(v)	—	325
Dividends paid		(193)	(169)
Financing	27(ii)	37	30
		<u>(11)</u>	<u>263</u>
Cash flows (excluding long term business and SRC) were invested as follows:			
Cash holdings		0	(8)
Land and buildings		0	(9)
Shares, other variable yield securities and units in unit trusts		2	(7)
Debt and other fixed income securities		283	69
Deposits with credit institutions		(79)	15
Other loans and investments		(217)	203
Net portfolio (divestment) investment	27(ii)	<u>(11)</u>	<u>271</u>
		<u>(11)</u>	<u>263</u>

Notes to Financial Statements

1. Accounting Policies

Basis of preparation

Both the Group and Company financial statements conform to applicable accounting standards and have been prepared under the historical cost convention, modified by the revaluation of certain assets as required by the Companies Act 1985.

The Group's financial statements have been prepared in compliance with Section 255A of, and Schedule 9A to, the Companies Act 1985. These financial statements conform to the Association of British Insurers' (ABI) Statement of Recommended Practice on Accounting for Insurance Business (SORP) issued in December 1998.

The provisions of Financial Reporting Standard 16 (FRS 16) "Current Tax" have been adopted in these financial statements and, as a consequence, UK dividend income is now reported as the amount receivable without any addition for associated tax credits. Prior year figures have been restated accordingly. The effect of this change in accounting policy is disclosed in Note 4.

The Company financial statements have been prepared in compliance with Section 226 of, and Schedule 4 to, the Companies Act 1985 adopting the exemption of omitting the profit and loss account conferred by Section 230 of that Act.

Basis of consolidation

The consolidated financial statements incorporate the assets, liabilities and results of the Company and of its subsidiary undertakings drawn up to 31 December each year, except as disclosed in Note 33. Profits or losses of subsidiary undertakings sold or acquired during the period are included in the consolidated results up to the date of disposal or from the date of acquisition.

Goodwill

Goodwill on the acquisition of subsidiaries prior to 1998 has been charged directly to reserves. From 1998 onwards, the Group's policy is to capitalise goodwill and charge it to the profit and loss account over its anticipated life. The profit or loss on the disposal or closure of a business takes account of any goodwill previously charged to reserves.

Long term business

General

The results of long term business are reported using the modified statutory solvency (MSS) basis of accounting set out in the SORP.

Profits for overseas long term business are reported on bases consistent with the MSS basis.

Premium income

Premiums and considerations for annuities are accounted for when due for payment.

Deferral of acquisition expenses

Acquisition costs comprise direct costs, such as initial commission, and the indirect costs of obtaining and processing new business.

Acquisition costs which are incurred during a financial year, but which relate to a subsequent financial year, are deferred to the extent that they are recoverable out of future revenue margins, either by including a zillmer adjustment, or by use of an explicit asset which is amortised in accordance with the incidence of margins.

Costs in respect of linked and non-profit business are deferred as an explicit deferred acquisition cost asset, which is amortised over the period during which the costs are expected to be recoverable, and in accordance with the incidence of future related margins.

Acquisition costs in respect of the USA are deferred in accordance with US GAAP.

Notes to Financial Statements — (Continued)

Claims

Death claims are accounted for on notification of death. Surrenders for non-linked policies are accounted for when payment is made. All other claims and surrenders are accounted for when payment is due. Claims payable include the direct costs of settlement.

Long term business provision

The long term business provision is calculated on actuarial principles. In the UK, the calculation is in accordance with statutory reporting for solvency and uses the net premium method, including explicit provision for vested bonuses, including those vested as a result of the current valuation.

Fund for future appropriations (FFA)

The FFA comprises funds which have not been allocated at the balance sheet date between participating policyholders and shareholders, and contains implicit provisions for future bonuses.

Tax

The investment return on shareholders' funds within the UK long term fund is included in the balance of the technical account — long term business gross of attributable tax and is not subject to further grossing up. The remainder of the balance of the technical account — long term business is grossed up at the corporate tax rate applicable for the period.

Investments

General

The reporting of investment return, comprising investment income less related expenses, interest expense and investment gains and losses, is dependent upon whether the investments are held in long term funds (or otherwise reserved for long term policies), or whether they form part of shareholders' and general insurance funds. The former are reported in the technical account — long term business and an allocation made to the non-technical account, gross of any applicable tax, so as to derive a return based on a longer term rate of return on the SRC in the technical account. The investment return on other investments is included in the non-technical account and an allocation based on a longer term rate of investment return is made to the technical account — general business.

Investment income

Investment income includes dividends, interest and rent. Directly related investment expenses are reported separately within investment expenses and charges. Dividends are accrued on an ex-dividend basis. Interest and rent are included on an accruals basis. Investment income arising in subsidiary undertakings in France, Holland and the USA includes the amortisation of certain redeemable fixed interest securities.

Interest expense

Interest expense reflects the underlying cost of borrowing and includes profits and losses arising from various interest rate management instruments. It is reported in investment expenses and charges. Payments and receipts made under interest rate swap and option agreements are amortised over the interest period to which they relate.

Investment valuations

Listed investments are shown at market value, unlisted investments at directors' valuation and mortgages and loans at values based on current interest rates. Derivative contracts purchased to manage the mix of investments, principally futures contracts, are included at market value.

Land and buildings in the UK are valued as at the balance sheet date by external chartered surveyors at open market values in accordance with the Appraisal and Valuation Manual of The Royal Institute of Chartered Surveyors. Outside the UK, valuations are provided by local managing directors in conjunction with external qualified professional valuers in the countries concerned.

Notes to Financial Statements — (Continued)

The Companies Act requires that land and buildings are depreciated over their estimated useful lives. However, in accordance with SSAP19, no depreciation is provided on investment properties and the directors consider that this accounting policy is necessary for the accounts to give a true and fair view. Depreciation is only one of the factors reflected in the valuations and the amount which might otherwise have been shown cannot reasonably be separately identified or quantified.

Investment gains and losses

Realised gains and losses on investments are calculated as the difference between net sales proceeds and original cost.

Unrealised gains and losses on investments are calculated as the difference between the carrying valuation of investments at the balance sheet date and original cost. Movements in unrealised gains and losses on investments arising in the year are included in the profit and loss account.

Investment in subsidiary undertakings

Shares in subsidiary undertakings are stated at the Company's share of their net assets. Gains or losses arising on investments in subsidiary undertakings are taken to revaluation reserves or the profit and loss account as appropriate.

General insurance

Results of general insurance business are determined after taking account of unearned premiums, outstanding claims and unexpired risks using the annual basis of accounting.

An equalisation provision has been established in accordance with the requirements of the Insurance Companies (Reserves) Act 1995 to mitigate exceptional high loss ratios for classes of business displaying a high degree of claims volatility. The amounts provided are not liabilities because they are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date. Notwithstanding this, they are required by Schedule 9A to the Companies Act 1985 to be included within technical provisions.

Capital supporting general insurance business is based on the solvency margin appropriate for the business.

Premium income

Premiums are accounted for in the period in which the risk commences. Estimates are included for premiums not notified by the year end and provision is made for anticipated lapses of renewals not yet confirmed. Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards reinsurance business being reinsured.

Those proportions of premiums written in a year which relate to periods of risk extending beyond the end of the year are carried forward as unearned premiums.

A proportion of commission and other acquisition expenses relating to unearned premiums is carried forward as deferred acquisition expenses or, with regard to reinsurance outwards, as deferred income.

Claims

Claims and related reinsurance amounts are accounted for in respect of all incidents up to the year end. Provision is made on the basis of available information for the estimated ultimate cost including claims settlement expenses, of:

- claims reported but not settled;
- claims incurred but not yet reported.

In addition to unearned premiums and after taking account of investment return, additional amounts are set aside where necessary for unexpired risks to meet future claims on business in force at the end of the year.

Notes to Financial Statements — (Continued)

Other assets

Capital expenditure

Expenditure on computers, motor cars and large items of equipment is depreciated over periods ranging up to four years, having regard to expected residual values. All other items of capital expenditure are charged to the profit and loss account as incurred.

Purchased interests in long term business

Blocks of in-force business purchased either directly or through the acquisition of a subsidiary undertaking, are capitalised at an actuarially determined fair value. These amounts are amortised over their effective lives.

Foreign currencies

Assets, liabilities and revenue transactions in foreign currencies are translated into sterling at rates of exchange ruling at the end of the year, other than for certain minor revenue transactions which are translated into sterling at the appropriate rates prevailing during the year. The resulting exchange adjustments are dealt with through reserves, except for those arising on cash settlements which are included in the profit and loss account. Currency transactions which are covered by specific forward exchange contracts are translated into sterling at the contracted exchange rates. The interest differential reflected in forward contracts is taken to interest expense. Revaluations of investments in subsidiary undertakings less revaluations of any related borrowings are taken directly to reserves.

Deferred tax

Deferred tax is calculated on the liability method and is provided for only to the extent that it is considered, with reasonable probability, that the liability will become payable within the foreseeable future.

Pension costs

The Group charges the regular cost of its pension schemes against profits on a systematic basis over the service lives of the pensionable employees. Variation from regular cost is allocated over the expected remaining service lives of current scheme members.

Any difference between the cumulative amounts charged against profits and contribution amounts paid is included as a provision, or prepayment, in the balance sheet. Deferred tax in respect of pension costs is accounted for in accordance with the policy described above.

Notes to Financial Statements — (Continued)

2. Segmental analysis

(i) New business

	Annual 1999	Single 1999	Annual 1998	Single 1998
	£m	£m	£m	£m
<i>Life and pensions</i>				
UK				
— Life individual non-linked	59	448	45	274
— Life individual linked	67	186	48	172
— Life group non-linked	24	—	19	—
— Pensions individual non-linked	20	429	26	386
— Pensions individual linked	53	255	51	222
— Pensions group non-linked	11	643	13	348
Total UK	234	1,961	202	1,402
USA	63	1	34	5
Netherlands	5	35	4	38
France	5	71	5	66
Australia (discontinued business)	—	—	10	35
	<u>307</u>	<u>2,068</u>	<u>255</u>	<u>1,546</u>
<i>Other investment business</i>				
Unit trusts, PEPs and ISAs				
— UK	23	877	19	755
— France	—	31	—	36
— Australia (discontinued business)	—	—	—	8
Managed and segregated funds				
— UK*	—	13,098	—	11,322
— Australia (discontinued business)	—	—	—	42
	<u>23</u>	<u>14,006</u>	<u>19</u>	<u>12,163</u>

* Managed funds of £12,481m (1998: £10,683m) are reported in Other technical income of £13,618m (1998: £12,784m) within the technical account — long term business.

New annual premiums arise where the terms and conditions anticipate more than one premium being paid over the period of the policy; new single premiums comprise all premiums which do not fall to be categorised as new annual premiums.

(ii) Operating profit before tax

	1999 £m	1998 £m
Profit from continuing operations		
<i>Life and pensions</i>		
— UK (see Note 2(v))	285	261
— USA	30	24
— Netherlands	5	4
— France	1	3
	321	292
<i>Investment management</i>	43	32
<i>General insurance business (see Note 2(vi))</i>	20	14
<i>Other income</i>		
— Banking	(3)	(2)
— Estate agency	0	(8)
— Fairmount	1	2
— Shareholders' other income and unallocated corporate expenses (see Note 2(iii))	31	38
	29	30
	413	368
Profit from discontinued Australian Operations	—	7
	<u>413</u>	<u>375</u>

1998 figures have been reclassified. Healthcare is now reported as general insurance rather than as other income.

Notes to Financial Statements — (Continued)

(iii) Shareholders' other income and unallocated corporate expenses

	1999	1998
	£m	£m
<i>Shareholders' other income</i>		
— Investment return before interest expense	47	49
— Interest expense on core debt	<u>(6)</u>	<u>(6)</u>
	41	43
<i>Unallocated corporate expenses</i>		
— Corporate fees	<u>(3)</u>	<u>0</u>
— Other expenses	<u>(7)</u>	<u>(5)</u>
	<u>(10)</u>	<u>(5)</u>
	<u>31</u>	<u>38</u>

(iv) Reconciliation between operating profit and profit before tax

	Long term business 1999	General insurance 1999	Other operations 1999	Total 1999	Total 1998
	£m	£m	£m	£m	£m
Operating profit	321	20	72	413	375
Long term profit included in investment management result	40		(40)	—	—
Investment return on shareholders' retained capital in the UK long term fund (SRC)	107		181	288	224
Net capital (invested in)/released from non-profit business	126			126	(284)
Accrued transfer to shareholders in respect of non-profit business included in operating profit	<u>(154)</u>			<u>(154)</u>	<u>(135)</u>
	440	20	213	673	180
Profit on sale of Legal & General Australia				—	308
Premium on repurchase of Euroconvertible bonds				—	(92)
Variation from longer term investment return		<u>3</u>		<u>3</u>	<u>10</u>
Profit on ordinary activities before tax	<u>440</u>	<u>23</u>	<u>213</u>	<u>676</u>	<u>406</u>

(v) Turnover and operating profit — long term business

	Gross premiums written 1999	Operating profit 1999	Gross premiums written 1998	Operating profit 1998
	£m	£m	£m	£m
<i>With profits business</i>				
— Life	1,233	88	1,058	89
— Individual pensions	688	35	598	32
— Group pensions	<u>56</u>	<u>8</u>	<u>69</u>	<u>5</u>
	1,977	131	1,725	126
<i>Non-profit business</i>				
UK	<u>1,284</u>	<u>154</u>	<u>898</u>	<u>135</u>
USA	3,261	285	2,623	261
Netherlands	181	30	146	24
Netherlands	72	5	75	4
France	102	1	98	3
Australia (discontinued business)	<u>—</u>	<u>—</u>	<u>76</u>	<u>7</u>
	<u>3,616</u>	<u>321</u>	<u>3,018</u>	<u>299</u>

Gross premiums written by destination are not materially different from gross premiums written by origin.

Notes to Financial Statements — (Continued)

(vi) Analysis of general insurance result

	Net premiums written £m	Underwriting profit (loss) £m	Equalisation provision £m	Investment return £m	Operating profit (loss) £m
<i>Year ended 31 December 1999</i>					
Household	168	(4)	(5)	11	2
Healthcare	9	(3)	—	0	(3)
Motor and other	31	0	0	1	1
Mortgage indemnity	<u>3</u>	<u>16</u>	<u>0</u>	<u>4</u>	<u>20</u>
UK	211	9	(5)	16	20
Overseas	<u>0</u>	<u>(2)</u>	<u>—</u>	<u>2</u>	<u>0</u>
	<u>211</u>	<u>7</u>	<u>(5)</u>	<u>18</u>	<u>20</u>
<i>Year ended 31 December 1998</i>					
Household	163	(6)	(5)	15	4
Healthcare	3	(4)	—	0	(4)
Motor and other	30	(6)	0	2	(4)
Mortgage indemnity	<u>4</u>	<u>11</u>	<u>0</u>	<u>7</u>	<u>18</u>
UK	200	(5)	(5)	24	14
Overseas	<u>0</u>	<u>(1)</u>	<u>—</u>	<u>1</u>	<u>0</u>
	<u>200</u>	<u>(6)</u>	<u>(5)</u>	<u>25</u>	<u>14</u>

(vii) Shareholders' net assets

	SRC 1999 £m	Other 1999 £m	Total 1999 £m	Total 1998 £m
<i>Life and pensions</i>				
— UK	1,818	—	1,818	1,581
— USA		377	377	295
— Netherlands		15	15	18
— France		<u>40</u>	<u>40</u>	<u>31</u>
	1,818	432	2,250	1,925
Investment management	92	—	92	60
General insurance business	—	69	69	67
Banking	83	13	96	87
Corporate funds	<u>(12)</u>	<u>590</u>	<u>578</u>	<u>561</u>
	<u>1,981</u>	<u>1,104</u>	<u>3,085</u>	<u>2,700</u>

Shareholders' capital supporting general insurance business is based on the solvency margin appropriate for the business.

3. Auditors' remuneration

Fees paid to PricewaterhouseCoopers as auditors amounted to £1.09m (1998: £1.18m). Included in these figures are £0.08m (1998: £0.08m) in respect of the Company. The 1998 audit fee has been restated by £0.09m to include the fee for the audit of the Achieved Profits supplementary accounts, which were previously included in regulatory returns and other audit related work.

Notes to Financial Statements — (Continued)

Non audit fees comprised:

	UK 1999	Group 1999	UK 1998	Group 1998
	£'000	£'000	£'000	£'000
Regulatory returns and other audit related work	508	623	513	678
Corporate activity	567	567	60	258
Other advisory services	156	164	592	592
	<u>1,231</u>	<u>1,354</u>	<u>1,165</u>	<u>1,528</u>

Non-audit fees in 1998, as restated, comprise amounts paid to PricewaterhouseCoopers (UK £870,000; Group £1,002,000); Price Waterhouse (UK £66,000; Group — £297,000) and Coopers & Lybrand (UK/ Group £229,000).

4. Investment return

(i) Investment income and gains

	Technical account — long term business 1999	Non- technical account 1999	Technical account — long term business 1998	Non- technical account 1998
	£m	£m	£m	£m
<i>Investment income</i>				
Income in respect of land and buildings	246	1	208	1
Income in respect of other investments				
— Received from group undertakings	9	0	8	0
— Received from other sources	2,683	146	2,232	148
	<u>2,692</u>	<u>146</u>	<u>2,240</u>	<u>148</u>
Total investment income	2,938	147	2,448	149
Realised investment gains	3,336	(1)	1,453	14
	6,274	146	3,901	163
Unrealised investment gains	7,283	8	6,056	18
	<u>13,557</u>	<u>154</u>	<u>9,957</u>	<u>181</u>

(ii) Investment expenses and charges

Bank loans and overdrafts	0	(30)	(27)	(2)
Other borrowings	(17)	(47)	(12)	(84)
Total interest expense	(17)	(77)	(39)	(86)
Investment management expenses	(22)	(2)	(23)	(1)
	<u>(39)</u>	<u>(79)</u>	<u>(62)</u>	<u>(87)</u>
Total investment return	<u>13,518</u>	<u>75</u>	<u>9,895</u>	<u>94</u>
Comprising				
<i>Longer term rate of return:</i>				
General insurance	—	18	—	25
SRC	107	—	141	—
<i>Variation from longer term rate of return:</i>				
General insurance	—	3	—	10
SRC	181	—	83	—
<i>Actual investment returns on:</i>				
Other short term funds	—	54	—	59
Other long term funds	13,230	—	9,671	—
	<u>13,518</u>	<u>75</u>	<u>9,895</u>	<u>94</u>

Notes to Financial Statements — (Continued)

The provisions of FRS16 "Current Tax" have been adopted and the 1998 figures restated accordingly. UK dividend income is now shown as the amount receivable. The restatement reduced the income in respect of other investments in the technical account — long term business and the non-technical account by £109m and £1m respectively. The impact on the 1999 figures was £122m and £1m respectively.

Investment return has been allocated to/from the technical accounts in accordance with the ABI SORP using a longer term rate of investment return in relation to the respective investible funds. The investment return has been calculated by applying the longer term rates of return to the investment funds at the start of each quarter. The longer term rates used, which are consistent with the assumptions used for the expected return for Achieved Profits reporting in the Supplementary Accounts, were UK equities 7.1% pa (1998: 8.8% pa), UK gilts 4.5% pa (1998: 6.4% pa).

(iii) Comparison of longer term and actual investment return:

	1997-1999	1997-1998
	£m	£m
Actual return attributable to shareholders:		
— General insurance business	95	74
— SRC	807	519
	902	593
Longer term return included in technical accounts:		
— general insurance business	74	56
— SRC	422	315
	496	371
Cumulative excess of actual returns over longer term returns	406	222

5. Net operating expenses

	Technical account —		Technical account —	
	Long term business 1999	General business 1999	Long term business 1998	General business 1998
	£m	£m	£m	£m
Acquisition costs	411	69	328	74
Administration expenses — maintenance	151		154	
— other	163		189	
Total administration expenses	314	17	343	10
Reinsurance commissions	(21)	(1)	(9)	0
	704	85	662	84
(Increase)/decrease in deferred acquisition costs (net of reinsurance)	(146)	3	(36)	(1)
	558	88	626	83

Other administration expenses comprise the costs of strategic system developments; Year 2000; and expenses, but not claims, relating to the review of personal pensions required by the UK Financial Services Authority.

6. Dividends

	1999	1998
	£m	£m
Interim dividend paid 1 October 1999 of 1.30p (1998: 1.14p)	66	58
Proposed final dividend of 2.83p (1998: 2.48p)	146	127
	212	185

These dividends exclude those attributable to the employee share ownership trust.

Notes to Financial Statements — (Continued)

7. Profit for the financial year

The profit for the financial year includes a profit of £570m (1998: £115m) dealt with in the accounts of the parent company, for which no profit and loss account is shown as permitted by Section 230(4) of the Companies Act 1985.

8. Exchange rates

	1999	1998
Principal rates of exchange used for translation into sterling at the end of the year:		
United States dollars	1.61	1.66
Euro	1.61	1.42

9. Tax charge (credit)

	Technical account — long term business 1999	Non- technical account 1999	Technical account — long term business 1998	Non- technical account 1998
	£m	£m	£m	£m
UK corporation tax at 30.25% (1998: 31.0%)				
— Current tax for the year	176	19	110	17
— Adjustments in respect of prior periods	<u>(32)</u>	<u>(10)</u>	<u>(3)</u>	<u>(8)</u>
	144	9	107	9
— Double tax relief	<u>(20)</u>	<u>(2)</u>	<u>(22)</u>	<u>0</u>
	124	7	85	9
— Deferred tax	<u>(74)</u>	<u>(5)</u>	<u>105</u>	<u>15</u>
	50	2	190	24
Foreign tax				
— Current tax for the year	<u>17</u>	<u>4</u>	<u>28</u>	<u>3</u>
Tax on profit on ordinary activities	<u>67</u>	6	<u>218</u>	27
Tax attributable to the balance on the technical account — long term business		<u>83</u>		<u>(28)</u>
		<u>89</u>		<u>(1)</u>

The provisions of FRS16 "Current Tax" have been adopted and the 1998 figures restated accordingly. The restatement reduced the 1998 total tax in the technical account — long term business and the non-technical account by £109m and £1m respectively. The impact on the 1999 figures was £122m and £1m respectively.

	1999	1998
	£m	£m
<i>Reconciliation of actual tax charge to corporate tax rate</i>		
Tax at UK rate of 30.25% (1998: 31.0%) on profit on ordinary activities before tax	205	126
Reported tax charge	<u>89</u>	<u>(1)</u>
Difference	<u>116</u>	<u>127</u>
Difference between taxable and accounting investment gains	10	4
Lower overseas tax rates	18	1
Non taxable UK dividends	2	2
Lower tax charge on SRC investment return	72	35
Lower tax charge on sale of Legal & General Australia	—	80
Disallowable expenditure less investment allowances	(1)	(3)
Adjustments in respect of prior periods	10	8
Deferred tax released	<u>5</u>	<u>—</u>
	<u>116</u>	<u>127</u>

Notes to Financial Statements — (Continued)

10. Earnings per share

Earnings per share have been calculated in accordance with FRS14 using the weighted average number of ordinary shares in issue and the profits for the financial year. The figures for 1998 have been restated for comparative purposes to reflect the share split made on 23 April 1999. The reconciliation between the profit for the financial year and earnings per share and the diluted profit for the financial year and related earnings per share is as follows:

	1999			1998		
	Weighted number of shares	Profit	Earnings per share	Weighted number of shares	Profit	Earnings per share
	m	£m	p	m	£m	p
Operating profit after tax from continuing operations	5,104	332	6.50	5,071	267	5.26
Variation from longer term general insurance investment return		2	0.04		7	0.14
Change in SRC		253	4.96		(100)	(1.97)
Profit from discontinued Australian business		—	—		4	0.08
Profit on sale of Australian business		—	—		293	5.78
Premium on repurchase of Euroconvertible bonds		—	—		(64)	(1.26)
Profit for the financial year	5,104	587	11.50	5,071	407	8.03
Net shares under options allocable for no further consideration	21	—	—	30	—	—
Euroconvertible bonds outstanding	6	0	(0.06)	8	0	(0.06)
Diluted profit for the financial year	<u>5,131</u>	<u>587</u>	<u>11.44</u>	<u>5,109</u>	<u>407</u>	<u>7.97</u>

11. Sale of Legal & General Australia

Legal & General Australia was sold to Colonial Limited on 1 July 1998 resulting in an exceptional pre-tax profit of £308m (£293m after tax). The 1998 technical account — long term business included the following amounts in respect of this discontinued business:

	£m
Premiums written, net of reinsurance	74
Investment income and realised gains	101
Unrealised gains on investments	(40)
Other technical income	36
Claims incurred, net of reinsurance	(105)
Change in other technical provisions	(28)
Net operating expenses	(25)
Investment expenses and charges	(4)
Other technical charges	(2)
Tax attributable to the long term business	(5)
Transfer to the fund for future appropriations	<u>2</u>
Balance on the technical account — long term business	<u>4</u>

Notes to Financial Statements — (Continued)

12. Investments

	Long term business 1999	Other business 1999	Total 1999	Long term business 1998	Other business 1998	Total 1998
	£m	£m	£m	£m	£m	£m
<i>(i) Land and buildings</i>						
Leasehold properties						
— Long leaseholds	456	30	486	433	32	465
— Short leaseholds	38	3	41	34	3	37
	494	33	527	467	35	502
Freehold properties	2,805	166	2,971	2,299	159	2,458
Total land and buildings	3,299	199	3,498	2,766	194	2,960
<i>(ii) Other financial investments*</i>						
Shares and other variable yield securities and units in unit trusts						
	14,337	1,448	15,785	12,243	1,555	13,798
Debt and other fixed income securities	12,055	1,019	13,074	12,066	560	12,626
Loans secured by mortgages	13	1,009	1,022	23	950	973
Other loans						
— Policy loans	7	54	61	76	—	76
— Other loans	68	1	69	69	—	69
	75	55	130	145	—	145
Deposits with credit institutions	339	245	584	192	587	779
Other investments	25	25	50	2	243	245
Total other financial investments	26,844	3,801	30,645	24,671	3,895	28,566
Total investments	30,143	4,000	34,143	27,437	4,089	31,526
Original cost of investments:						
— Land and buildings	2,316	145	2,461	2,121	155	2,276
— Other financial investments	17,127	2,588	19,715	17,309	2,990	20,299
Included in the current values above are listed investments amounting to:	26,198	1,799	27,997	23,777	2,070	25,847

* The reported asset mix shown above does not reflect the use of derivatives. The effect of outstanding futures contracts is to change the mix as if:

- (i) for long term business, the value as reported for shares, variable yield securities and unit trusts decreased by £383m (1998: £371m), there was no effect on debt and other fixed income securities (1998: £18m increase) and
- (ii) for shareholders' and general insurance funds, the value as reported for shares, variable yield securities and unit trusts decreased by £94m (1998: £101m).

In both cases, cash and deposits would be changed by corresponding amounts. The effect of other derivatives was not considered significant enough to be separately reported.

The value of land and buildings which were occupied by the Group for its own activities, included above, was £25m (1998: £42m).

13. Goodwill resulting from acquisitions

The cumulative goodwill charged against shareholders' funds prior to 1998 arising from the acquisition of subsidiaries which are still part of the Group, amounted to £90m at 31 December 1999 (1998: £90m).

14. Assets held to cover linked liabilities

	1999	1998
	£m	£m
Managed funds	57,318	38,264
Other linked business	8,610	6,989
	65,928	45,253

Notes to Financial Statements — (Continued)

The original cost of investments held to cover linked liabilities was £42,079m (1998: £34,371m).

15. Tangible assets

Fixtures, fittings, tools and equipment (principally computer equipment and cars)	<u>1999</u>	<u>1998</u>
	<u>£m</u>	<u>£m</u>
<i>Cost:</i>		
At 1 January	114	122
— Exchange revaluation	0	(2)
— Additions	19	26
— Disposals	(14)	(32)
At 31 December	119	114
<i>Depreciation:</i>		
At 1 January	74	77
— Provided during the year	14	17
— Disposals	(12)	(20)
At 31 December	76	74
Net book value at 31 December	<u>43</u>	<u>40</u>

16. Purchased interests in long term business

	<u>1999</u>	<u>1998</u>
	<u>£m</u>	<u>£m</u>
<i>Cost:</i>		
At 1 January	158	191
— Exchange revaluation	7	(3)
— Disposal (sale of Australian business)	—	(30)
At 31 December	165	158
<i>Amortisation:</i>		
At 1 January	117	117
— Exchange revaluation	5	(1)
— Provided during the year	(8)	10
— Disposal (sale of Australian business)	—	(9)
At 31 December	114	117
Net book value at 31 December	<u>51</u>	<u>41</u>

The net book value of purchased interests in long term business represents the remaining unamortised portion of the actuarially determined fair values of purchased long term in-force business in the USA. Traditional life business is amortised over its economic life in proportion to the projected premium income from that business and interest rate sensitive business is amortised in relation to the present value of estimated gross profits.

17. Share capital and share premium

	<u>Number of shares</u>	<u>1999</u>	<u>1998</u>
		<u>£m</u>	<u>£m</u>
<i>Authorised share capital</i>			
At 31 December: ordinary shares of 2.5p each (1998: 1,500,000,000 ordinary shares of 10p each)	<u>6,000,000,000</u>	<u>150</u>	<u>150</u>

Notes to Financial Statements — (Continued)

Issued share capital

	Number of shares	Share capital £m	Share premium £m
Fully paid ordinary shares of 2.5p each			
At 1 January 1999	5,111,833,348	128	125
Options exercised under share option schemes			
— Executive share option scheme	7,243,548	0	3
— Save as you earn scheme	8,281,931	0	3
Conversions by holders of Euroconvertible bonds	2,129,565	0	1
At 31 December 1999	<u>5,129,488,392</u>	<u>128</u>	<u>132</u>

On 23 April 1999 Legal & General Group Plc split the nominal value of its shares from 10p to 2.5p, the effect of which was to increase the authorised shares from 1,500 million to 6,000 million. The above figures for number of shares has been calculated as though the share split took place on 1 January 1999.

6.75% Euroconvertible subordinated bonds due 2008

At the year end £3.3m (1998: £4.4m) nominal of these bonds were outstanding. On 1 December 1999 the Group gave bondholders notice that the bonds outstanding would be redeemed at par on 31 January 2000, if not converted prior to that date. Under the terms of the Trust Deed the trustee has ensured that all bonds which were outstanding on 31 January 2000 were converted. Conversion of the £3.3m outstanding bonds resulted in the issue of 6 million shares based on the conversion price of 55 pence per share.

Options

Options over 50,532,914 shares are outstanding under executive and savings related share option schemes at 31 December 1999 as shown below:

Number of shares	Option price pence per share	Option period ending in	Number of shares	Option price pence per share	Option period ending
7,327,752	34.4-101.0	2000	7,535,770	45.4-150.0	2004
7,739,014	34.4-147.5	2001	4,999,068	47.7-147.5	2005
9,478,771	34.4-150.0	2002	760,559	150.0-150.0	2006
3,776,884	47.5-147.5	2003	8,915,096	177.25	2009

Employee share ownership trust (ESOT)

The Company has an ESOT which purchases ordinary shares in the Company in the market and holds such shares for delivery to employees under the various employee share schemes. Instead of using shares purchased in the market by the ESOT, the Company may issue new shares.

During 1999 7.8 million shares were allocated by the ESOT to employees to settle allocations due under the 1996 RSP and PSP schemes and to trustees under the Company's share schemes for 1998. As at 31 December 1999 the ESOT held 13.5 million shares acquired at a cost of £10.3m and with a market value of £22.8m, of which 3.4 million were purchased at market rates throughout 1999. The ESOT's investments are included at cost in the Group's consolidated balance sheet within Other financial investments. The cost of shares acquired by the ESOT is being financed by an interest free loan from the Company.

The ESOT has waived its rights to the dividends payable on the shares it holds.

18. Movement in consolidated profit and loss account

	1999 £m	1998 £m
At 1 January	2,447	2,225
Retained profit	375	222
Exchange gains	3	0
At 31 December	<u>2,825</u>	<u>2,447</u>

Notes to Financial Statements — (Continued)

19. Borrowings

	Long term business 1999	Other business 1999	Long term business 1998	Other business 1998
	£m	£m	£m	£m
<i>Analysis by purpose</i>				
Mortgage related — Legal & General Bank	—	4	—	28
Mortgage related — Other	8	273	9	318
Other	31	110	28	77
Total	<u>39</u>	<u>387</u>	<u>37</u>	<u>423</u>

Reported as:

	1999	1998
	£m	£m
Subordinated liabilities	3	4
Amounts owed to credit institutions		
— repayable, otherwise than by instalments, in less than five years	423	456
	<u>426</u>	<u>460</u>

Analysis by nature

<i>Unsecured</i>		
— Guaranteed PEP Bond 2001	142	138
— Medium term notes 2000/2001	123	265
— Euro Commercial paper	102	10
— Bank loans 2000	56	43
— 6.75% Euroconvertible subordinated debt 2008 (Note 17)	3	4
	<u>426</u>	<u>460</u>

Analysis by maturity

In one year or less or on demand	253	181
Between 1 and 2 years	25	138
Between 2 and 5 years	148	137
In 5 years or more	0	4
	<u>426</u>	<u>460</u>

- i) The Group has revolving credit facilities amounting to £230m expiring between 2000 and 2004, arranged on a bilateral basis with a number of banks, which may be used to refinance existing borrowings.
- ii) The maturity profile above is calculated on the basis that a facility to refinance maturing loans should not be recognised unless the facility and loan are related. If refinancing under the Group's committed facilities were recognised, then the amount shown as repayable within one year would be reclassified as repayable after more than one year.

Analysis by currency

After taking into account interest rate and currency swaps, the Group's borrowings at 31 December 1999 were:

	Total	Floating borrowings	Fixed borrowings	Fixed borrowings weighted average interest rate	Period for which rate is fixed
	£m	£m	£m	%	years
Sterling	269	269	0		
US dollars	112	112	0		
Euro	42	33	9	6.45	1
	423	414	9		
Sterling (Euro convertible subordinated bonds)	3	—	3	6.75	1
	<u>426</u>	<u>414</u>	<u>12</u>		

Notes to Financial Statements — (Continued)

20. Provisions for other risks and charges

	<u>1999</u>	<u>1998</u>
	£m	£m
<i>Deferred tax</i>		
At 1 January	201	81
(Credit)/charge for the year	<u>(79)</u>	<u>120</u>
At 31 December	<u>122</u>	<u>201</u>
Comprising:		
Unrealised net gains on investments	106	180
Other timing differences	<u>16</u>	<u>21</u>
	<u>122</u>	<u>201</u>

	Long term business 1999	Other business 1999	Long term business 1998	Other business 1998
	£m	£m	£m	£m
<i>Potential deferred tax not provided for:</i>				
Unrealised net gains on investments	818	31	588	23
Other timing differences	<u>(34)</u>	<u>(12)</u>	<u>(32)</u>	<u>(12)</u>
	<u>784</u>	<u>19</u>	<u>556</u>	<u>11</u>

Potential deferred tax is computed at the relevant corporate tax rate according to existing law.

Of the £79m credit (1998: £120m charge), £74m (1998: £105m charge) relates to a credit (1998: charge) in the technical account — long term business. This arose from a reassessment of deferred tax in respect of corporate and government debt for which a UK tax election was available for 1996 to 1999 only. It is expected that the remaining charge will reverse in 2000. The balance of the 1999 credit, £5m, arose from a reassessment of the deferred tax provided in respect of the sale of Legal & General Australia in 1998. No deferred tax is provided, or included in potential deferred tax, in respect of any other earnings retained by overseas subsidiaries, as there is no current intention to remit them to the UK.

21. General insurance business provisions

	<u>1999</u>	<u>1998</u>
	£m	£m
Provision for unearned premiums		
— gross	152	169
— reinsurers' share	(4)	(3)
	148	166
Claims outstanding		
— gross	161	176
— reinsurers' share	(7)	(10)
	154	166
Equalisation provision	22	16
Other technical provisions (provision for unexpired risks)		
— gross	30	40
— reinsurers' share	(6)	(8)
	24	32
Deferred acquisition costs (DAC)	<u>(42)</u>	<u>(44)</u>
General insurance provisions, net of reinsurance and DAC	<u>306</u>	<u>336</u>

General insurance provisions, together with related reinsurance recoveries, are fairly stated in aggregate on the basis of available information, but the establishment of provisions can never be definitive and reassessments take place regularly. In particular, the provision required in respect of marine business written

Notes to Financial Statements — (Continued)

before 1980 through Andrew Weir Insurance Company Limited, a company now in administration, will be subject to the outcome of arbitration, the results of which are unknown. The equalisation provision is calculated in accordance with statutory formulae for the purpose of mitigating exceptionally high loss ratios in future years. This provision is in addition to those for the anticipated cost of settlement of policyholder liabilities.

22. Long term insurance funds

	<u>1999</u>	<u>1998</u>
	£m	£m
Long term business provision — gross	24,465	23,255
Technical provision for linked liabilities	65,742	45,196
Claims outstanding — gross	<u>73</u>	<u>64</u>
	90,280	68,515
Reinsurers' share of provisions	<u>(381)</u>	<u>(252)</u>
	89,899	68,263
Deferred acquisition costs	<u>(632)</u>	<u>(483)</u>
Fund for future appropriations	<u>5,814</u>	<u>4,240</u>
SRC in the UK long term fund	<u>1,981</u>	<u>1,697</u>
	<u>7,795</u>	<u>5,937</u>
Total long term insurance funds	<u>97,062</u>	<u>73,717</u>
Comprising insurance funds for:		
Society life and pensions business	37,794	33,364
UK Managed funds	57,298	38,264
Other business	<u>1,970</u>	<u>2,089</u>
	<u>97,062</u>	<u>73,717</u>

Bonuses incurred during the year were £820m (1998: £785m), of which £507m (1998: £521m) are included in the long term business provision above.

The long term insurance funds represent the total assets associated with long term business less relevant creditors, valued in accordance with the provisions of Schedule 9A to the Companies Act 1985. The fund for future appropriations primarily consists of unrealised investment appreciation within the UK with-profits fund.

The principal assumptions underlying the calculation of the UK long term business provision are:

	<u>1999</u>	<u>1998</u>
<i>Rate of interest</i>		
Life assurances	2.75-3.5%	2.75-3.25%
Bonuses on with-profits life assurances	2.25%	2.25%
Pension assurances	3.0-5.0%	3.0-5.0%
Annuities in deferment	3.0-5.2%	3.0-4.5%
Vested annuities	5.2%	4.5%
Vested annuities (RPI-linked — net rate after allowance for inflation)	1.65%	1.75%
<i>Mortality tables</i>		
Non-linked individual term assurances	A67/70 ult-3 yrs	A67/70 ult-3 yrs
Other non-linked life assurances	A67/70 ult-2 yrs	A67/70 ult-2 yrs
Annuities in deferment	A67/70 ult-3 yrs	A67/70 ult-3 yrs
Vested annuities (with allowance for secular trends according to CMI Report No.17 (1998: Attachment to CMI Report No. 16))	82-96%a(55) ult-3 yrs	88%a(55) ult-3 yrs

Other assumptions

Local generally accepted interest rates and actuarial tables are used in calculating the long term business provisions for overseas long term business operations.

Notes to Financial Statements — (Continued)

23. Other creditors

	Long term business 1999	Other business 1999	Total 1999	Long term business 1998	Other business 1998	Total 1998
	£m	£m	£m	£m	£m	£m
Tax	137	49	186	126	68	194
Dividends	—	145	145	—	127	127
Inter-fund balances	888	(888)	—	500	(500)	—
Other creditors	302	229	531	279	323	602
Total	<u>1,327</u>	<u>(465)</u>	<u>862</u>	<u>905</u>	<u>18</u>	<u>923</u>

24. Summary of Legal & General Bank balance sheet

	1999	1998
	£m	£m
Mortgages/investments	737	635
Other investments	403	458
Customer deposits	(1,031)	(942)
Borrowings	(1)	(28)
Other net liabilities	(25)	(47)
Shareholders' funds	<u>83</u>	<u>76</u>

25. Company fixed assets

	Shares in Group companies 1999	Loans to Group companies 1999	Total 1999	Total 1998
	£m	£m	£m	£m
At valuation, 1 January	2,478	443	2,921	2,566
Additions	376	5	381	34
Revaluation	396	(48)	348	321
Transfer of subsidiary	(376)	—	(376)	—
At valuation, 31 December	<u>2,874</u>	<u>400</u>	<u>3,274</u>	<u>2,921</u>
At cost, 31 December 1998	200	427	—	627
At cost, 31 December 1999	<u>576</u>	<u>432</u>	<u>1,008</u>	—

26. Movement in company reserves

	Revaluation reserve 1999	Profit and loss account 1999	Revaluation reserve 1998	Profit and loss account 1998
	£m	£m	£m	£m
At 1 January	2,315	132	2,023	202
Retained loss after tax and dividends	—	(18)	—	(70)
Increase in the net assets of subsidiaries	396	—	292	—
Realisation of profits on transfer of subsidiary	(376)	376	—	—
At 31 December	<u>2,335</u>	<u>490</u>	<u>2,315</u>	<u>132</u>

Notes to Financial Statements — (Continued)

27. Cash flow for shareholders' and general insurance funds (excluding SRC and its subsidiaries)

(i) Reconciliation of profit on ordinary activities before tax

	<u>1999</u>	<u>1998</u>
	£m	£m
Profit on ordinary activities before tax	676	406
Profits relating to long term business	(321)	(292)
Profit before tax of SRC subsidiaries	(36)	(19)
Change in SRC	(260)	195
Cash received from long term business	180	151
Sale of Legal & General Australia (see Note 27 (v))	—	(308)
Depreciation of tangible assets and purchased interests in long term business	10	31
Decrease in general insurance technical provisions	(30)	(23)
Increase in other operating debtors	(36)	(75)
(Decrease)/increase in other operating creditors	(66)	63
Interest expense on core debt	6	6
Investment gains	(8)	(32)
Net cash inflow from operating activities	<u>115</u>	<u>103</u>

(ii) Analysis of cash flows for headings netted in the cash flow

Financing

Issue of share capital	7	40
Decrease in total borrowings	(12)	(67)
Increase in mortgage related borrowings	42	57
	<u>37</u>	<u>30</u>

Portfolio investments

Cash outflows from the purchase/advances of:

Shares and other variable yield securities and units in unit trusts	84	43
Debt and other fixed income securities	458	305
Loans secured by mortgages	39	15
Other loans and investments	11	210

Cash inflows from the sale/redemption of:

Land and buildings	0	(9)
Shares and other variable yield securities and units in unit trusts	(82)	(50)
Debt and other fixed income securities	(175)	(236)
Loans secured by mortgages	(81)	(72)
Other loans and investments	(228)	(7)

Net cash (inflows)/outflows from:

Deposits with credit institutions	(79)	15
	(53)	214
Increase in mortgage loans financed by borrowings	42	57
	<u>(11)</u>	<u>271</u>

Notes to Financial Statements — (Continued)

(iii) Movement in opening and closing portfolio investments net of financing

	1999	1998
	£m	£m
Net cash inflow for the period	0	(8)
<i>Cash flow (excluding long term business and SRC)</i>		
Net (sale)/purchase of portfolio investments	(53)	214
Decrease in loans (including mortgage related)	12	67
Movement arising from cash flows	(41)	273
Movement in long term business and SRC investments net of financing	2,677	4,068
Changes in market values and exchange rate effects	3	28
Total movement in portfolio investments net of financing	2,639	4,369
Portfolio investments net of financing at 1 January	<u>31,199</u>	<u>26,830</u>
Portfolio investments net of financing at 31 December	<u>33,838</u>	<u>31,199</u>

(iv) Movement in cash and portfolio investments net of financing

	At 1 Jan 1999	Cash flow	Changes in long-term business (incl. SRC)	Changes to market and currency values	At 31 Dec 1999
	£m	£m	£m	£m	£m
Cash at bank, and in hand	133	0	(11)	(1)	121
Land and buildings	2,960	0	538	0	3,498
Shares and unit trusts	13,798	2	1,957	28	15,785
Debt and other fixed income securities	12,626	283	187	(22)	13,074
Loans secured by mortgages	973	(42)	91	0	1,022
Other loans	390	(217)	7	0	180
Deposits with credit institutions	779	(79)	(116)	0	584
	<u>31,526</u>	<u>(53)</u>	<u>2,664</u>	<u>6</u>	<u>34,143</u>
<i>Financing</i>					
Loans due within 1 year	(181)	(27)	(49)	4	(253)
Loans due after 1 year	(279)	39	73	(6)	(173)
	<u>(460)</u>	<u>12</u>	<u>24</u>	<u>(2)</u>	<u>(426)</u>
	<u>31,199</u>	<u>(41)</u>	<u>2,677</u>	<u>3</u>	<u>33,838</u>

(v) Sale of Legal & General Australia

	1998
	£m
Portfolio investments disposed of	26
Other net liabilities disposed of	(9)
Profit on sale	<u>308</u>
Net cash proceeds of sale*	<u>325</u>

* The total sale proceeds, which included a loan repayment and a pre-sale dividend, were £358 million.

Notes to Financial Statements — (Continued)

28. Directors' remuneration and share interests

The Directors' Report on Remuneration on pages 34 to 36 explains the approach to remuneration policy.

Directors' remuneration

	Salary/fees £'000	Benefits £'000	Annual Bonus		Total 1999 £'000	Total 1998 £'000	Long term incentive scheme 1999 £'000
			Cash £'000	Deferred £'000			
<i>Executive:</i>							
Anthony Hobson	280	14	100	60	454	414	412
Andrew Palmer	230	15	90	54	389	342	206
Robin Phipps	230	14	120	72	436	374	206
David Prosser	500	15	220	132	867	854	618
David Rough	330	15	180	108	633	634	412
	<u>1,570</u>	<u>73</u>	<u>710</u>	<u>426</u>	<u>2,779</u>	<u>2,618</u>	<u>1,854</u>
<i>Non-executive:</i>							
Bernard Asher	40				40	25	
Lord Burns	40				40	—	
Honor Chapman	40				40	30	
Sir Christopher Harding							
— fees	160	2			162	120	
— ex gratia payment	40				40	—	
Rob Margetts	70				70	49	
Barrie Morgans	40				40	30	
Elizabeth Wall	40				40	8	
Alan Wheatley	60				60	46	
Former non-executive directors	9				9	52	
	<u>2,109</u>	<u>75</u>	<u>710</u>	<u>426</u>	<u>3,320</u>	<u>2,978</u>	<u>1,854</u>

The fees for non-executives are non-pensionable. No fees are payable to executive directors. An ex-gratia payment of £40,000 was made to Lady Harding following her husband's untimely death on 13 December 1999.

The reimbursement of certain authorised expenses incurred by directors on Legal & General activities gives rise to tax liability, which is met by the Group. The amount of these expenses is included in Benefits.

The remuneration, excluding pension entitlement, but including the value of shares received under the long term incentive scheme, of the highest paid director in 1999 was £1,485,000; there were no gains on the exercise of share options. The remuneration of the highest paid director in 1998 was £1,184,000, including gains on the exercise of share options of £330,000.

The deferred bonus scheme operated by the Group for 1998 and 1999 was the Restricted Share Plan (RSP), which is described in the Directors' Report on Remuneration on page 34. The value of the shares awarded to directors for 1999 under the RSP is reported as part of directors' remuneration and included in beneficial share interests at the date of allocation. The deferred bonus scheme used in 1996 and 1997 was the Share Bonus Plan (SBP) and the value of shares issued under the SBP was reported as part of directors' remuneration at the date of allocation.

The long term incentive scheme in the table above is the performance share plan (PSP), for which the 1996 award matured in 1999. The Group's total shareholder return for the period 1996 to 1999 ranked it as 13th in the FTSE-100. Accordingly, the maximum number of shares under the PSP were transferred to the executives concerned, with those relating to the executive directors being shown above. There was no equivalent plan maturing in 1998.

Notes to Financial Statements — (Continued)

Pension entitlements

The five executive directors participate in the non-contributory Legal & General Senior Pension Scheme (the Scheme), for which all UK senior managers are eligible. This is a defined benefit scheme and, at the normal retirement age of 60, they will be entitled, subject to Inland Revenue limits, to a pension of two thirds of pensionable remuneration, which is the basic salary received in the twelve months prior to retirement. A reduced pension may be taken on early retirement from age 50 with the consent of the trustees of the Scheme. Post-retirement pension increases provided by the Scheme are awarded in line with inflation up to 5% p.a., but with a minimum annual increase of 3%.

On death in service, a capital sum equal to four times salary is payable, together with a spouse's pension of four ninths of the member's pensionable remuneration. For death in retirement, a spouse's pension of two thirds of the member's pre-commutation pension is payable. In the event of death after leaving service, but prior to commencement of pension, a spouse's pension of two thirds of the accrued preserved pension is payable. If the director is not survived by a spouse, but by a child under 18, or under 23 if in full-time education, a child's pension equal to the surviving spouse's pension is payable. Where a spouse or child pension is not payable, equivalent benefits may be paid to a dependant at the discretion of the Company and the Trustees. Substantial protection is also offered in the event of serious ill health; this latter benefit has no transfer value in the event of the insured leaving service.

	Age at 31 December 1999	Increase in accrued pension in 1999 £'000	Accumulated accrued pension at 31 December 1999 £'000
Anthony Hobson.....	52	24	120
Andrew Palmer.....	46	13	70
Robin Phipps.....	49	16	94
David Prosser.....	55	44	264
David Rough.....	48	18	110

The increase in accrued pension during the year excludes any increase for inflation.

Directors' share interests

The holdings of directors in force at the end of the year in the issued share capital of the Company, including shares awarded under the RSP in previous years but not vested, are shown below. These exclude shares awarded by the Company under the SBP and the PSP.

	1 January 1999*	31 December 1999
Bernard Asher.....	—	4,996
Lord Burns.....	—	3,348
Honor Chapman.....	12,660	16,008
Anthony Hobson.....	295,080	474,692
Rob Margetts.....	11,736	31,433
Barrie Morgans.....	20,000	25,348
Andrew Palmer.....	13,072	183,136
Robin Phipps.....	112,856	509,453
David Prosser.....	613,552	1,125,976
David Rough.....	495,668	706,848
Elizabeth Wall.....	—	3,348
Alan Wheatley.....	30,000	33,348

* or date of appointment if later

Notes to Financial Statements — (Continued)

Long term incentive scheme

The table below shows the directors' conditional awards for performance share plan shares —

	1997	Year of award 1998	1999	Year of vesting	
				Earliest	Latest
Anthony Hobson	36,784	21,084	48,000	2000	2002
Andrew Palmer	18,392	13,176	40,000	2000	2002
Robin Phipps	22,992	15,812	40,000	2000	2002
David Prosser	55,176	42,160	88,000	2000	2002
David Rough	36,784	26,352	60,000	2000	2002

The number of PSP shares vested will be equal to the conditional award, if the Legal & General total shareholder return (TSR) is above the median return of the FTSE-100 over the three years from the date of the award; and up to a maximum of four times the contingent award for performance at or above the twentieth position. Pro-rata awards will be made for performance between these levels.

The value on vesting of any shares received by directors under the PSP is disclosed in the Report and Accounts in the year of vesting. At 31 December 1999, the Group's TSR was 27th of the companies in the FTSE-100 during the period since May 1997.

An executive share option scheme was approved at the AGM in 1999. This is described in the Directors' Report on Remuneration on pages 34 to 36. PSP awards made to directors for 1999 onwards are made as an alternative to executive share options on the basis of one PSP share to five share options. In respect of the 1999 award, all the executive directors elected to take PSP shares in lieu of executive share options.

Share options

The previous executive share option scheme closed for new grants in 1995. Outstanding options under that scheme remain in force and are set out below, together with the Save As You Earn (SAYE) share option scheme.

	Share options 1 Jan 1999	Options (exercised) granted	Share options 31 Dec 1999	Exercise price (p)	Earliest date exercisable	Latest date exercisable
<i>Movements in year</i>						
Anthony Hobson	300,000	(120,000)	180,000	51	10.4.97	10.4.04
(SAYE)	8,620	(8,620)	0	57		
(SAYE)	6,328		6,328	77	1.5.00	31.10.00
			186,328			
Andrew Palmer	150,000	(150,000)	0	51		
	120,000	(120,000)	0	45		
			0			
Robin Phipps	100,000	(100,000)	0	51		
	120,000	(120,000)	0	45		
(SAYE)	46,008		46,008	34	1.8.01	31.1.02
(SAYE)	1,320		1,320	148	1.5.01	31.10.01
			47,328			
David Prosser	(SAYE) 31,028		31,028	38	1.6.02	30.11.02
(SAYE)	5,064		5,064	77	1.5.00	31.10.00
			36,092			
David Rough	100,000		100,000	51	10.4.97	10.4.04
(SAYE)	9,060	(9,060)	0	65		
(SAYE)	5,064		5,064	77	1.5.00	31.10.00
			105,064			

Notes to Financial Statements — (Continued)

No options lapsed during 1999. As at 31 December 1999, there were no options outstanding where the exercise price exceeded the market price. The market price of the shares at 31 December 1999 was 169p and the range during 1999 was 145p to 234p. The company's register of directors' interests, which is open to inspection, contains full details of directors' shareholdings and share options.

Gains on the exercise of share options

Gains on share options represent the difference between the market price at the date of exercise and the exercise price paid in respect of all shares under option which have been exercised by the directors during the year.

	Options exercised	Exercise price(p)	Market price at date of exercise(p)	Gain in 1999		Gain 1998
				£'000	£'000	£'000
Anthony Hobson	120,000	51	196	174		
(SAYE)	8,620	57	164	9	183	333
Andrew Palmer	150,000	51	172	182		
	120,000	45	172	152	334	138
Robin Phipps	100,000	51	164	113		
	120,000	45	164	142	255	257
David Prosser				—	—	330
David Rough	(SAYE) 9,060	65	168	9	9	532
					781	1,590

Directors' loans

At 31 December 1999 there were outstanding mortgage loans from Legal & General Bank Ltd (on terms available to all staff) amounting to £1,825 (1998: £93,876) made to 1 (1998: 2) directors/connected parties.

29. Related party transactions

There were no material transactions between directors or key managers and the Legal & General group of companies which are required to be disclosed under FRS 8 Related Party Disclosures. All transactions between the Group, its directors and key managers are on commercial terms at rates which are no more favourable than those available to staff in general.

30. Employee information

	1999	1998
Average number of staff employed by the Group during the year were:		
UK.....	7,644	6,714
Europe.....	308	316
USA.....	337	254
Australia (to date of sale).....	—	615
Worldwide employees.....	<u>8,289</u>	<u>7,899</u>

Aggregate gross remuneration

	£m	£m
Wages and salaries.....	202	178
Social security costs.....	19	18
Other pension costs.....	18	13
	<u>239</u>	<u>209</u>

Included in the UK figures are 744 (1998: 708) part time employees with an aggregate gross remuneration of £8m (1998: £7m).

Notes to Financial Statements — (Continued)

31. Contingent liabilities, guarantees and indemnities

Within the Group's long term operations there are contingent liabilities for uncalled stock exchange and other investments of £4m (1998: £4m). In addition, 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.

In 1975 the Society was required by the Institute of London Underwriters (the 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, as part of the arrangements under which it acquired Victory, 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.

32. Commitments

	<u>1999</u>	<u>1998</u>
	£m	£m
Authorised and contracted commitments not provided for in respect of investments, including property development and mortgage lending, payable after 31 December:		
Long term business	200	206
Shareholders' (including SRC) and general insurance	43	55
	<u>243</u>	<u>261</u>

Notes to Financial Statements — (Continued)

33. Principal subsidiaries

The principal subsidiaries consolidated in these financial statements, of which the Group holds all of the ordinary share capital and voting rights, except for Gresham Insurance Company Limited in which the Group holds 90% of the ordinary share capital, are listed below:

<u>Company name</u>	<u>Nature of business</u>	<u>Country of incorporation</u>
Legal & General Finance Plc*	Treasury operations	Great Britain
Legal & General Assurance Society Limited (“the Society”)	Long term and general insurance	Great Britain
Legal & General Insurance Limited	General insurance	Great Britain
Legal & General Investment Management Limited	Investment management	Great Britain
Legal & General Assurance (Pensions Management) Limited	Long term insurance	Great Britain
Legal & General Bank Limited	Deposit taking/mortgage lending	Great Britain
Legal & General Mortgage Services Limited	Provision of mortgages	Great Britain
Legal & General Property Limited	Property management	Great Britain
Legal & General (Unit Trust Managers) Limited	Unit trust management	Great Britain
Legal & General Estate Agencies Limited	Estate agency	Great Britain
Legal & General Ventures Limited	Venture capital management	Great Britain
Legal & General Direct Limited	Direct distribution	Great Britain
Fairmount Group Plc	Financial services	Great Britain
Gresham Insurance Company Limited	General insurance	Great Britain
Legal & General (France) SA	Long term insurance	France
Legal & General Bank (France) SA	Financial services	France
Legal & General Nederland Levensverzekering	Long term insurance	Netherlands
Maatschappij NV		
Banner Life Insurance Company Inc	Long term insurance	USA
William Penn Life Insurance Company of New York Inc	Long term insurance	USA

* Directly held by Legal & General Group Plc. All other subsidiaries are held through intermediate holding companies.

The principal area of operation of subsidiaries incorporated in Great Britain is in the UK. For overseas subsidiaries the principal country of operation is the same as the country of incorporation. The principal activities of the Company and its subsidiaries are:

Long term insurance business

Ordinary life and pensions business covers individual life and annuity policies, including capital redemption and permanent health insurance, individual pension arrangements and employers’ schemes (including group life and permanent health insurance benefits) and pension fund management business.

Investment management business

Provision of a fund management service for client’s funds as well as the Group’s insurance and shareholders’ funds through managed and segregated funds, unit trusts, personal equity plans and individual savings accounts.

General insurance business

Household, mortgage indemnity, motor and healthcare.

Notes to Financial Statements — (Continued)

Other

Provision of advisory services to both companies and individuals, banking, mortgage lending, stockbroking, pension fund trustee services and property agency services.

The following subsidiaries, held via limited partnerships or via intermediate holding companies, have been excluded from consolidation because the relevant limited partnership agreements impose severe long-term restrictions over the Group's ability to exercise control, except for Group Trust PLC, where part of the holding, sufficient for control, is held exclusively with a view to subsequent sale. The holdings have been included as investments.

<u>Company name</u>	<u>Country of incorporation</u>	<u>% holding</u>
Bowater Windows Limited	Great Britain	75.79
Burkhalter Holding AG	Switzerland	50.70
CIX Holdings Limited	Great Britain	67.78
EKCO Group Limited	Great Britain	62.10
Emtec Group GmbH	Germany	82.79
Tally Group GmbH	Germany	66.68
The Hay Hall Group Limited	Great Britain	50.60
Sante Finance SA	France	54.35
Trident Components Group Limited	Great Britain	53.55
Group Trust PLC	Great Britain	51.24

The aggregate capital and reserves of the above companies and the aggregate profit or loss for the relevant financial years are not material.

34. Associated undertakings

As part of an arrangement to provide household insurance to customers of Woolwich plc (Woolwich) the Group has a 10% interest in Woolwich Insurance Services Limited (WIS) and Woolwich has a 10% interest in the Group's subsidiary, Gresham Insurance Company Limited (Gresham). The Group's 10% holding in WIS is accounted for, and is included in, investments. The minority interest in Gresham has not been separately disclosed as it is not material.

The Group also has investments where its holding exceeds 20% of the equity share capital. Details of these investments have not been provided and they have not been treated as associated undertakings as either the Group does not exercise any significant influence over them, or their operations are not significant in relation to the financial statements of the Group.

35. Officers' loans

At 31 December 1999 there were loans outstanding amounting to £244,236 (1998: £76,900) made to 4 (1998: 2) officers of the Company.

36. Pension costs

The Group operates a number of pension schemes in the UK and overseas. The assets of all the defined benefit schemes are held in separate trustee administered funds and all significant schemes have been subject to regular valuation or formal reviews by qualified actuaries who were employees of the Group.

Notes to Financial Statements — (Continued)

The charges for pension costs for the schemes within the Group were:

	<u>1999</u>	<u>1998</u>
	£m	£m
Defined benefit schemes		
— Legal & General Group UK Pension and Assurance Fund (the Fund) . . .	5	5
— Legal & General Group UK Senior Pension Scheme (the Scheme)	<u>3</u>	<u>3</u>
	8	8
Being:		
Regular pension costs	13	13
Amortisation of surplus	(5)	(5)
— Other UK and Overseas schemes	<u>1</u>	<u>1</u>
	9	9
Defined contribution schemes	<u>5</u>	<u>3</u>
	<u>14</u>	<u>12</u>

From 1 January 1995, the Fund was closed to new members and subsequently relevant new staff have been eligible to participate in a group personal pension plan, a defined contribution scheme. The regular pension costs charged to the Group in respect of the main defined benefit schemes amounted to £13m (Fund £8m, Scheme £5m) (1998: £13m (Fund £8m, Scheme £5m)). The latest actuarial valuations of the Fund and the Scheme at 31 December 1999 used the projected unit method and the principal financial assumptions adopted were:

Rate of increase in pensions in payment	3.75%	Retail price index	4.0%
Rate of growth in dividend income	4.0%	Rate of return on investments	8.0%
Rate of interest applied to discount liabilities	8.0%	Rate of increase in salaries, excluding promotional increases	6.0%

The actuarial value of the combined assets of the Fund and Scheme at 31 December 1999 was £611m, which was sufficient to cover 127% of the benefits which had accrued to members. The combined market value of the assets of the Fund and Scheme at 31 December 1999 was £744m.

The surpluses disclosed by the valuations are being amortised over 13 years (the average expected remaining service lives of the members of the current schemes) using the percentage of pay amortisation method. The average contribution rate of pensionable salary in 1999 for the principal UK schemes was 10.6% (1998: 10.7%). The regular contribution rate, before amortisation of surplus, was 17% (1998: 17%).

There were no contributions prepaid or outstanding at either 31 December 1999 or 31 December 1998. The Group has no liability for retirement benefits other than for pensions.

**Report of the Auditors
to the members of
Legal & General Group Plc**

We have audited the financial statements on pages 41 to 73 which have been prepared in accordance with the accounting policies set out on pages 48 to 50.

Respective responsibilities of Directors and Auditors

The directors are responsible for preparing the Annual Report. As described on page 37, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the financial statements.

We review whether the statement on pages 32 to 33 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at December 31, 1999 and the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

London,
February 28, 2000

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors

References to page numbers in the Report of the Auditors to the members of Legal & General Group Plc and in the Financial Statements of Legal & General Group Plc (including the Supplementary Financial Statements) are to pages of the Legal & General Annual Report and Accounts 1999 (and not to pages of this Information Memorandum).

Supplementary Financial Statements

Achieved Profits Basis

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Consolidated Profit and Loss Account

Year ended 31 December 1999

<u>Profit from continuing operations</u>	<u>Note</u>	<u>1999</u>	<u>1998</u>
		£m	£m
— UK Life and Pensions	3(a)	412	352
— USA		58	38
— Netherlands		14	9
— France		15	14
	3(a)	87	61
		499	413
Investment management		99	65
General insurance business		20	14
Other income		29	30
		647	522
Profit from discontinued Australian business		—	13
Operating profit		647	535
Variation from longer term investment return		670	103
Effect of economic assumption changes		(23)	(95)
		1,294	543
Profit on sale of Australian business	4	—	180
Premium on repurchase of Euroconvertible bonds		—	(92)
Profit on ordinary activities before tax		1,294	631
Profit for the financial period		999	504
Distribution from UK long term fund (net)		198	180
Dividends payable		212	185
		p	p
Dividend per share		4.13	3.62
Earnings per share:			
— based on profit from continuing operations after tax		9.51	7.47
— based on profit for the financial period		19.57	9.94
Fully diluted earnings per share			
— based on profit from continuing operations after tax		9.46	7.42
— based on profit for the financial period		19.47	9.88
		£m	£m
Shareholders' funds		5,250	4,465
Core shareholder debt		110	77

Consolidated Balance Sheet — Achieved Profits Basis

As at 31 December 1999

	<u>Note</u>	<u>1999</u>	<u>1998</u>
		£m	£m
Assets			
Investments		100,071	76,779
Long term in-force business	1	2,216	1,806
Other assets		<u>2,084</u>	<u>1,768</u>
Total assets		<u><u>104,371</u></u>	<u><u>80,353</u></u>
Liabilities			
Shareholders' funds		5,250	4,465
Subordinated liabilities		3	4
Fund for future appropriations		5,814	4,240
Technical provisions		90,645	68,916
Creditors		<u>2,659</u>	<u>2,728</u>
Total liabilities		<u><u>104,371</u></u>	<u><u>80,353</u></u>

1. Basis of preparation

These supplementary financial statements, presented in summary form, have been audited by PricewaterhouseCoopers and prepared in conjunction with the consulting actuaries — Tillinghast Towers-Perrin (UK and the Netherlands); Milliman & Robertson (US); Befec-Price Waterhouse (France).

The basis adopted for reporting in these statements is in accordance with the draft guidance for Accounting for long term insurance business in the group accounts of proprietary companies (The Achieved Profits Method), issued in December 1999, by the Association of British Insurers. This guidance, which is still in the course of development, sets out a more realistic method for recognising shareholders' profits from long term business. These statements are supplementary to those on pages 41 to 73, which have been prepared on the modified statutory solvency (MSS) basis.

The long term in-force business is the embedded value of long term business, less the value of shareholders' net assets as reported in respect of long term business on the MSS basis, adjusted as described below.

2. Description of methodology

The Achieved Profits basis of reporting long term business recognises profit as it is earned over the lives of insurance contracts. Unlike the MSS basis, the timing of profit is not directly related to the incidence of bonus distribution to policyholders or the timing of statutory surplus, although the total profit earned over the life of each contract is the same under both methods.

The Achieved Profits basis has regard to the cashflows available for the benefit of shareholders over the lifetime of a contract. These cashflows are determined by reference to the statutory solvency accounts for a long term fund or company. The assets representing the fund or company on this basis are firstly attributed to supporting long term technical provisions or, where relevant, with-profits funds. Additional assets may be regarded as locked in to meet a target level of solvency cover. The balance of assets then represents the shareholders' net worth.

The cashflows are projected for both the in-force business and shareholders' net worth.

The present value of these cashflows represent the embedded value of the long term business. The amount of profit recognised in a period, net of tax, is the increase in the embedded value before any distributions to, or capital injections from, shareholders.

Cashflow projection

The calculation of embedded value requires the projection of cashflows over the duration of in-force policies. Actuarial modelling techniques are used, which make realistic assumptions about future economic and investment conditions, together with detailed assumptions on, inter alia, mortality, persistency, morbidity and expenses. These actuarial assumptions reflect recent operating performance and experience and are reviewed annually. Favourable changes in operating experience are not anticipated until the improvement in experience is reasonably certain.

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 method, which is used where the investments of a subsidiary are substantially all fixed interest, projects the cashflows from the current portfolio and assumes an investment return on reinvestment of surplus cashflows. The assumed rates of discount and inflation are consistent with the investment return assumptions.

For participating with-profits business, bonus rates are assumed at a level which would eventually utilise all the assets supporting that business.

The projected cashflows are discounted to present value using after tax discount rates, which include a risk margin to allow for the uncertainty of the cashflows projected. The inclusion of risk margins in discount rates and the allowance for capital locked in to supporting the business, result in a prudent recognition of profit in each period.

Analysis of profit

The contribution to operating profit in a period arises from three main sources: new business written; the management of in-force business; and from shareholders' net worth. Further profit contributions included in the profit before tax relate to variances arising from the actual investment returns differing from those assumed and to changes in the economic assumptions made.

In respect of UK life and pensions, solvency capital of with-profits new business is provided by assets backing the with-profits fund; that for non-profit business is provided by the shareholders' net worth, which is included in the embedded value at a discounted value. It is therefore not necessary to allow separately for the cost of solvency capital in the calculation of the contribution from new business. For overseas and managed funds business, the contribution from new business reflects an appropriate allowance for the cost of solvency capital.

The contribution from new business represents the value recognised as at the end of the year from new business written in the year, less the actual cost of acquiring that business and of establishing technical provisions and reserves. The risk discount rate can be regarded as the target rate of return, so that a positive contribution from new business represents the value created in excess of that required to meet the target rate.

The contribution from in-force business reflects: the increase in the value of the in-force book due to the effect of the time value of money; and the release of the risk margin in the discount rate assuming that operating experience is in line with assumptions. In practice, experience will vary from the assumptions and management's success in the administration of the in-force business will be reflected in the experience variances included in the reported profit. The effects of changes in assumptions other than changes in economic assumptions are reflected as at the end of the reporting period and are included in the contribution from in-force business. Any material contribution from this source is disclosed.

The contribution from shareholders' net worth comprises the increase in embedded value of shareholders net worth due to the effect of the time value of money and of experience variances in the period, other than investment variances, which are disclosed separately.

Tax

The projections also take into account all tax which is expected to be paid, including tax which would arise if shareholders' retained profits were eventually to be distributed.

Because the value of the new and in-force business is calculated using discounted projections of after-tax distributable profits, the profit recognised in each financial period is an after-tax result. The profit before tax is calculated by grossing up after-tax profit at the full rate of corporate tax for each country. To arrive at operating profit, the contribution from shareholders' net worth is grossed up at a rate of tax to reflect a longer term investment return. For shareholders' net worth, profit before tax has been grossed up to reflect the actual tax.

3. Segmental analysis of results

(a) Contribution from continuing long term business

	UK Life and Pensions		UK Managed Funds+		International		Total	
	1999	1998	1999	1998	1999	1998	1999	1998
	£m	£m	£m	£m	£m	£m	£m	£m
Contribution from:								
— new business	99	72	50	43	29	20	178	135
— in force business*	194	113	46	27	49	32	289	172
— shareholders' net worth	119	167	—	—	9	9	128	176
Operating profit	412	352	96	70	87	61	595	483
Variation from longer term investment return**	663	78	17	5	(13)	10	667	93
Economic assumption changes	(26)	(103)	3	2	0	6	(23)	(95)
Profit before tax	1,049	327	116	77	74	77	1,239	481
Tax	(243)	(77)	(35)	(24)	(26)	(29)	(304)	(130)
Profit after tax	806	250	81	53	48	48	935	351

+ Included in the Investment management result.

* The UK life and pensions contribution from in-force business reflects a charge of £50m (1998: £55m) relating, primarily, to the cost of investment in strategic systems.

** The variation from longer term investment return represents the effect of the investment performance in respect of shareholders' net worth and in-force business compared with embedded value assumptions at the beginning of the period.

(b) Movement in embedded value for continuing operations

	UK Life and Pensions		UK Managed Funds+		International		Total	
	1999	1998	1999	1998	1999	1998	1999	1998
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January	3,237	3,190	77	49	376	327	3,690	3,566
Exchange rate movements	—	—	—	—	(4)	5	(4)	5
	3,237	3,190	77	49	372	332	3,686	3,571
Profit after tax	806	250	81	53	48	48	935	351
Capital movement	(21)	(23)	—	—	45	—	24	(23)
Distributions	(198)	(180)	(28)	(25)	(4)	(4)	(230)	(209)
At 31 December	<u>3,824</u>	<u>3,237</u>	<u>130</u>	<u>77</u>	<u>461</u>	<u>376</u>	<u>4,415</u>	<u>3,690</u>

(c) Components of embedded value for continuing operations

Shareholders' net worth	1,457	1,287	—	—	135	128	1,592	1,415
Value of in-force business	<u>2,367</u>	<u>1,950</u>	<u>130</u>	<u>77</u>	<u>326</u>	<u>248</u>	<u>2,823</u>	<u>2,275</u>
Embedded value	<u>3,824</u>	<u>3,237</u>	<u>130</u>	<u>77</u>	<u>461</u>	<u>376</u>	<u>4,415</u>	<u>3,690</u>

For the UK life and pensions business, shareholders' net worth comprises the Shareholders' Retained Capital on the MSS basis, subject to adjustment for deferred acquisition costs, and the sub-fund, both net of allowance for tax; but excludes the net assets of £163m (1998: £116m) of long term fund operational subsidiaries. For other life and pensions operations, the shareholders' net worth comprises the shareholders' capital associated with the long term business. This is adjusted, where applicable for an amount locked-in to satisfy solvency requirements.

(d) Shareholders' net assets

	1999 £m	1998 £m
<i>Embedded value of life and pensions businesses</i>		
UK	3,824	3,237
USA	344	271
Netherlands	62	60
France	55	45
	<u>4,285</u>	<u>3,613</u>
Investment management*	222	137
General insurance business	69	67
Banking	96	87
Corporate funds	578	561
	<u>5,250</u>	<u>4,465</u>

* Including £130m (1998: £77m) embedded value of UK Managed Funds business. All other investment management subsidiaries are included at net asset value. The net assets of these UK long term fund subsidiaries and the value of the in-force UK Managed Funds business, are attributed to the investment management business. The net assets of other UK long term fund operating subsidiaries are included in Banking and Corporate funds.

4. Sale of Legal & General Australia

Legal & General Australia was sold to Colonial Limited on 1 July 1998, resulting in an exceptional pre-tax profit of £180m (£165m after tax).

5. Assumptions

UK

- i) The assumed future pre-tax return on fixed interest securities is set by reference to redemption yields available in the market at the end of the reporting period. The corresponding return on equities and property is set by reference to the gilt assumption.

Investment return

	<u>1999</u>	<u>1998</u>
	% p.a.	% p.a.
Gilts and RPI-linked	5.1	4.5
Other fixed interest	6.4	5.7
Equities and property	7.7	7.1

The assumed return on other fixed interest is net of an allowance for default risk of 0.05% p.a. (1998: 0.1% p.a.).

The corresponding return on equities and property is set by reference to this fixed interest assumption.

- ii) The methodology requires an attribution of assets identified as backing the long term contracts and the residual assets. Assets have in particular been attributed to the with-profits fund. The residual assets represent the balance of the long term fund, excluding the with-profits fund and the assets backing the statutory long term business provisions for contracts not written in the with-profits fund.
- iii) The risk discount rate has been set by reference to the assumed future investment returns, at 7.6% p.a. net of tax (1998: 7.0% p.a.). Potential transfers are discounted from the time at which they are assumed to become available for distribution to shareholders. Thus, residual capital retained in the long term fund to support the business is assumed not to be immediately available for distributions; and its value is the discounted value of future assumed distributions.
- iv) The value of the in-force business has been calculated, after allowing for the additional cost, if any, of holding solvency capital. No such additional cost exists for business written within the with-profits fund whilst the solvency capital for that business is met by that fund; nor is there any additional cost to shareholders in respect of non profit business whilst the solvency capital is provided by the residual capital.
- v) The assumed rates of inflation for both expense and earnings is 4.2% p.a. (1998: 3.4% p.a.). For indexation purposes the inflation rate has been set at 3.2% p.a. (1998: 2.4% p.a.).
- vi) Assets are valued at their market value. For the projection of investment returns, asset values are adjusted in the case of fixed interest and RPI linked investments to reflect the assumed interest and inflation rates.
- vii) The value of the subfund is the discounted value of projected investment return for a period of 20 years (1998: 20 years).
- viii) The contribution from new business has been calculated using actual acquisition costs. It reflects the profit arising at the time of sale and the profit arising from differences between actual and expected experience on these policies during the year accumulated to the year end.
- ix) The costs of investment in strategic systems, which will also be used for the acquisition and administration of future new business, have all been charged against in-force business at the beginning of the year.
- x) Future bonus rates have been set at levels which would fully utilise the assets supporting with-profits business. The proportion of profits derived from with-profits business allocated to shareholders has been assumed to be 10% throughout.
- xi) The value reflects a prudent allowance for compensation in relation to pension transfers and opt-outs.
- xii) The value of the Managed Funds in-force business limits the cashflow projection to ten years.

- xiii) Other actuarial assumptions have been set at levels which have regard to recent operating performance and experience, including those for mortality, persistency and maintenance expenses (excluding non-recurring costs). These are reviewed annually. An allowance is made for secular trends in annuitant mortality based on externally published data with the end 1999 assumptions taking into account the publication of the improvement factors contained in CMI Report No.17.
- xiv) Business in force comprises previously written single premium, regular premium and recurrent single premium contracts. For this purpose, DSS rebates have not been treated as recurrent and the value arising therefrom is included in the value of new business as the premiums are received. For Managed Funds, new business consists of monies received from new clients and incremental receipts from existing clients, and excludes the roll-up of the investment returns.
- xv) Projected tax has been determined assuming current tax legislation and rates, except where future changes have been announced.
- xvi) Achieved Profits 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. This tax on shareholders' profit is notional. The tax rate used for grossing-up results is the full rate of corporation tax of 30.25% (1998: 31%), except for the contribution from shareholders' net worth which has been grossed up at a longer term rate of tax of 10% (1998: 20%). The total investment return on shareholders' net worth bore tax at a rate of 5% (1998: 16%).

International

Key assumptions for the USA are:

	<u>1999</u>	<u>1998</u>
	% p.a.	% p.a.
Reinvestment rate	7.6	5.8
Risk discount rate (net of tax)	9.0	7.8

The assumed future pre-tax return is projected from the actual investment portfolio less specific margins for the risks associated with the investments.

7. Alternative assumptions

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

The table below shows the UK life and pensions embedded values calculated at alternative discount rates and equity/property yields.

	<u>As published</u>	<u>1% lower risk discount rate</u>	<u>1% higher risk discount rate</u>	<u>1% higher equity/ property yields</u>
Effect on embedded value at 31 December 1999 . . .	£3,824m	+£310m	-£270m	+£310m

In calculating each of these values all other assumptions have been left unchanged.

**Report of the Auditors to the directors of
Legal & General Group Plc
on the supplementary financial statements**

We have audited the supplementary financial information for the year ended 31 December 1999 on pages 74 to 79 which has been prepared in accordance with the Achieved Profits basis as set out in Note 1 on page 75 and which should be read in conjunction with the audited financial statements prepared on the modified statutory solvency basis which are on pages 41 to 73.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 37, the financial statements prepared on the modified statutory solvency basis. Our responsibilities in relation to the Annual Report, including those financial statements, are set out on page 38. The directors are also responsible for preparing the supplementary financial information on the above Achieved Profits basis.

Our responsibilities, as independent auditors, in relation to the supplementary financial information are, as set out in our letter of engagement agreed with you dated 4 February 2000, to report to you our opinion as to whether the supplementary financial information has been properly prepared in accordance with the achieved profits basis.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. Our audit included examination, on a test basis, of evidence relevant to the amounts and disclosures in the supplementary financial information. The evidence included an assessment of the significant estimates and judgements made by the directors in the preparation of the supplementary financial information, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the supplementary financial information is free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the supplementary financial information.

Opinion

In our opinion, the supplementary financial information has been properly prepared in accordance with the Achieved Profits basis set out in Note 1 on page 75.

London,
28 February 2000

PricewaterhouseCoopers
Chartered Accountants

References to page numbers in the Report of the Auditors to the members of Legal & General Group Plc and in the Financial Statements of Legal & General Group Plc (including the Supplementary Financial Statements) are to pages of the Legal & General Annual Report and Accounts 1999 (and not to pages of this Information Memorandum).

Five Year Financial Review

— modified statutory solvency basis

Consolidated profit & loss account

	1999	1998	1997	1996	1995
	£m	£m	£m	£m	£m
Long term business	321	299	273	250	220
Investment management	43	32	21	17	—
General insurance business	20	14	27	26	42
Other income	29	30	21	(2)	9
Operating profit	413	375	342	291	271
Profit on sale of discontinued operations	—	308	—	70	—
Premium on repurchase of Euroconvertible bonds	—	(92)	—	—	—
Reclassification and subsequent changes in SRC	260	(195)	260	1,576	—
Variation from longer term investment return	3	10	8	—	—
Profit on ordinary activities before tax	676	406	610	1,937	271
Tax	(89)	1	(118)	(136)	(76)
Dividends	(212)	(185)	(160)	(139)	(120)
Retained profit	375	222	332	1,662	75
New business					
Life & pensions — Annual	307	255	237	212	186
Life & pensions — Single	2,068	1,546	1,354	1,439	752
Investment business	<u>14,029</u>	<u>12,182</u>	<u>6,964</u>	<u>4,633</u>	<u>2,496</u>
Gross premium income					
Life and pensions	3,616	3,018	2,867	2,830	2,053
General insurance	<u>221</u>	<u>209</u>	<u>214</u>	<u>274</u>	<u>374</u>
Consolidated balance sheet					
Investments	100,071	76,779	57,412	44,255	36,446
Other assets	<u>2,135</u>	<u>1,809</u>	<u>1,653</u>	<u>1,626</u>	<u>1,607</u>
Total assets	<u>102,206</u>	<u>78,588</u>	<u>59,065</u>	<u>45,881</u>	<u>38,053</u>
Share capital/premium	260	253	213	177	166
Profit and loss account	<u>2,825</u>	<u>2,447</u>	<u>2,225</u>	<u>1,897</u>	<u>260</u>
Shareholders' funds	3,085	2,700	2,438	2,074	426
Subordinated liability	3	4	91	118	117
Technical provisions and FFA	96,459	73,156	54,806	42,287	36,183
Amount owed to credit institutions	423	456	619	636	532
Creditors and other provisions	<u>2,236</u>	<u>2,272</u>	<u>1,111</u>	<u>766</u>	<u>795</u>
Total liabilities	<u>102,206</u>	<u>78,588</u>	<u>59,065</u>	<u>45,881</u>	<u>38,053</u>

Share statistics

	P	P	P	P	P
Earnings per share — operating profit after tax*	6.50	5.26	4.65	4.14	3.67
Dividend per share	4.13	3.62	3.18	2.78	2.44
Market price at 31 December	169	195	133	93	67

* Earnings per share (EPS) for 1995 and 1996 have not been restated to reflect either the sale of the Australian business or FRS14. EPS and market price figures have been restated for comparative purposes to reflect the share splits in 1996 and 1999.

UNITED KINGDOM TAXATION

The comments below are of a general nature. They reflect the Guarantor's understanding of current United Kingdom taxation law and United Kingdom Inland Revenue practice and they are subject to changes therein. They are applicable to the Notes to be issued by Finance. They do not purport to constitute legal or tax advice. In addition, the comments relate only to the position of persons who are the absolute beneficial owners of Notes issued by Finance and of Coupons appertaining thereto and may not apply to certain classes of person (such as dealers in securities). These comments are not exhaustive and do not necessarily apply where the interest is for tax purposes deemed to be the income of any other person.

Holders of Notes who are in any doubt as to their tax position or who may be subject to tax in any other jurisdiction should consult their professional advisers.

Interest Bearing Notes

(A) *Quoted Eurobonds*

Under current United Kingdom taxation law and United Kingdom Inland Revenue practice, Notes issued by Finance will constitute "quoted Eurobonds" within the provisions of Section 124 Income and Corporation Taxes Act, 1988 ("ICTA") if they are in bearer form, carry a right to interest and are listed on a recognized stock exchange within the meaning of Section 841 ICTA. Payments of yearly interest on such Notes may be made without withholding or deduction for or on account of United Kingdom income tax where the payment is made:-

- (a) by or through a person outside the United Kingdom; or
- (b) by or through a person who is in the United Kingdom and either:
 - (i) the beneficial owner of the Notes and related Coupons is not resident in the United Kingdom for tax purposes; or
 - (ii) the Notes and the related Coupons are held in a "recognised clearing system" within the meaning of Section 841A ICTA. Euroclear and Clearstream, Luxembourg have each been designated as a "recognised clearing system" for this purpose,

and, except in the case of (ii) where payment is made directly to the clearing system, a declaration to that effect in the form required by law has been given to the person by or through whom the payment is made (or the Inland Revenue has issued a notice to that person directing payment of the interest without withholding or deduction in respect of United Kingdom tax) unless the Inland Revenue has issued a direction that it considers that neither of the conditions in (i) or (ii) is satisfied.

Where a person in the United Kingdom, in the course of a trade or profession, acts as a collecting agent, i.e., either:

- (a) acts as custodian of the Notes and receives interest on the Notes, or directs that interest on the Notes be paid to another person, or consents to such payment; or
- (b) collects, receives or secures, or arranges to collect, receive or secure the payment of interest on the Notes for a Holder of Notes or a Couponholder,

(except, in each case, by means of clearing a cheque or arranging for the clearing of a cheque), the collecting agent will be required to account for and will be entitled to withhold United Kingdom income tax at the lower rate (currently 20%) unless, inter alia:

- (i) the relevant Notes are held in a recognised clearing system for which the collecting agent is a depository; or
- (ii) the relevant Notes are held in a recognised clearing system and the collecting agent pays or accounts for the interest directly or indirectly to the recognised clearing system; or
- (iii) the person beneficially entitled to the interest and the related Notes is not resident in the United Kingdom; or
- (iv) the interest arises to trustees not resident in the United Kingdom of certain discretionary or accumulation trusts (where, inter alia, none of the beneficiaries of the trust is resident in the United Kingdom); or

- (v) the person beneficially entitled to the interest is eligible under specified provisions for certain relief from United Kingdom tax in respect of the interest (for example, charities or pension funds); or
- (vi) the interest falls to be treated as the income of, or of the government of, a sovereign power or of an international organization.

For exception (ii) to be available, a declaration in a specified form has to be provided (or a notice issued by the Inland Revenue) to the collecting agent if the interest is payable to, or at the direction of, the depository of the clearing system. For exception (iii) to (vi) to be available, such a declaration has to be provided (or notice issued) in all cases. The collecting agent is required to account for, and will be entitled to withhold, United Kingdom income tax at the lower rate, if the Inland Revenue issues a direction to that effect, having reason to believe that no exception applies or that the depository or collecting agent has failed to comply with certain requirements.

Proposed Abolition of Paying and Collecting Agent Rules

The Finance Bill published on April 7, 2000 contains legislation to repeal with effect from April 1, 2001 Chapter VII A of Part IV ICTA which currently imposes an obligation on United Kingdom paying and collecting agents to account for withholding tax in certain circumstances as described above. On the date such repeal becomes effective it is proposed that the withholding obligations summarised in those paragraphs will cease to apply and will be replaced by a requirement to provide information to the Inland Revenue.

The Finance Bill also provides that, with effect from April 1, 2001, the rules relating to quoted Eurobonds will be altered. In relation to payments of interest made on or after that date, the Finance Bill defines a "quoted Eurobond" as a security which (i) is issued by a company; (ii) is listed on a recognised stock exchange and (iii) carries the right to interest. Under provisions in the Finance Bill there will be no obligation upon any person by or through whom a payment of interest is made on a "quoted Eurobond" within the new definition (whether the Notes were issued before, on or after that date) to deduct United Kingdom tax at the lower rate from such a payment made on or after April 1, 2001.

It should be noted that the provisions of the Finance Bill are draft legislation and are subject to alteration until the Finance Bill receives Royal Assent.

(B) Other Interest Bearing Notes

If the Notes are not quoted Eurobonds, the interest which they bear must be paid under deduction of United Kingdom income tax, at the lower rate (currently 20%), subject to any direction to the contrary received by the Issuer from the United Kingdom Inland Revenue in respect of such relief as may be available under an applicable double taxation convention and subject to (C) below.

(C) Short Interest

Payments of interest by Finance on amounts of principal which are expressed and intended to be outstanding for less than 12 months may be made without withholding or deduction for or on account of United Kingdom income tax.

(D) Direct Assessment

Interest on the Notes will be United Kingdom source income and accordingly may be chargeable to United Kingdom tax by direct assessment. Holders of Notes may be liable to pay further United Kingdom tax on the interest received or be entitled to a refund of all or part of the tax deducted at source depending on their individual circumstances. Where the interest is paid without withholding or deduction the interest will not be assessed to United Kingdom tax in the hands of Holders of the Notes who are not resident in the United Kingdom for tax purposes unless the non-resident carries on any trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Notes are attributable, in which case (subject to exemptions for interest received by certain categories of agents) tax may be levied on that branch or agency.

Where interest has been paid under deduction of United Kingdom income tax, Holders of Notes who are not resident in the United Kingdom may be able to recover all or part of the tax deducted under an appropriate provision in an applicable double taxation treaty.

Holders of Notes should note that the provisions relating to additional amounts referred to in "Description of the Notes — Payment of Additional Amounts" above would not apply if the Inland Revenue

sought to assess directly the person entitled to the relevant interest to United Kingdom tax on income. However, exemption from, or reduction of, such United Kingdom tax liability might be available under an applicable double taxation convention.

Principal

Payments of principal in respect of Notes (other than amounts treated as interest as referred to below) are not subject to withholding or deduction for or on account of United Kingdom income tax. A premium over the amount originally subscribed for the Notes which is paid on redemption at maturity or otherwise in accordance with the terms and conditions of such Notes and which is not described as interest will not normally be regarded as interest provided that such Notes bear interest at a commercial rate. However, if a premium is treated as interest, it will be subject to the treatment as outlined above.

If the Notes are issued at a discount, no United Kingdom withholding tax will apply to any discount on such Notes unless the discount constitutes yearly interest. If any element of discount were to be treated for United Kingdom tax purposes as interest, it would be subject to the treatment outlined above.

Return on Capital and Notes

(a) Corporate Holders of Notes

Except as described below, for Holders of Notes within the charge to United Kingdom corporation tax, all profits, gains and losses arising from the Notes (whether attributable to movements in foreign currency exchange rates or otherwise) will be subject to tax and relieved as income broadly in accordance with their statutory accounting treatment. Such Holders of Notes will generally be charged in each accounting period by reference to interest and any profit or loss which in accordance with such Holder's authorised accounting method is applicable to that period.

Where the amount that must be paid to discharge the Notes is equal to the amount determined by applying to the original principal amount of the Notes the percentage change over the life of the Notes in the value of assets which are "chargeable assets" for the purposes of United Kingdom taxation of chargeable gains (or in any index of the value of such assets, but not the Retail Prices Index or any similar official general index of prices), the treatment described in the previous paragraph will apply only to interest arising in respect of the Notes. Other profits or gains on such Notes held by a Holder of Notes within the charge to United Kingdom corporation tax will not be subject to tax as income under Part IV of the Finance Act 1996 but the Notes will be treated as "chargeable assets" for the purposes of the United Kingdom taxation of capital gains so that a disposal of such Notes may give rise to a chargeable gain or allowable loss. In calculating any capital gain or capital loss on disposal of the Notes, sterling values are compared at acquisition and disposal (including redemption). Accordingly a taxable profit can arise even when the foreign currency amount received on disposal is less than or the same as the amount paid for the Notes.

Special rules apply to particular types of company, such as insurance companies and investment trusts.

(b) Other Holders of Notes

A disposal of Notes by a Holder resident or ordinarily resident for tax purposes in the United Kingdom or who carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Notes are attributable may give rise to a chargeable gain or allowable loss for the purposes of taxation of chargeable gains. Such holders should also have regard, where appropriate, to the provisions of the relevant discounted securities legislation, the accrued income scheme and the capital gains tax legislation and, in particular, should note that, under certain provisions of United Kingdom tax legislation (the relevant discounted securities legislation), the issue of Notes under a particular prospectus may, in certain circumstances, alter the tax treatment of Notes previously issued under the same prospectus.

Where the relevant discounted securities legislation applies, Holders of Notes who are subject to UK income tax may be liable to income tax on any profit (including in respect of accrued interest) and may be able to obtain relief against income tax for any loss realised on disposal (including on sale or redemption) of the Notes. As relevant discounted securities, the UK income tax rules known as the accrued income scheme would not apply to the Notes.

Stamp Duty, Stamp Duty Reserve Tax

No U.K. stamp duty or stamp duty reserve tax is generally payable on the issue or redemption of Notes although the issue of Notes into a depository or clearance system may attract stamp duty reserve tax. Limited categories of Notes may attract stamp duty or stamp duty reserve tax on transfer, in particular:—

- (a) Notes in registered form if those Notes carry a right of conversion into, or to the acquisition of, shares or other securities or (in certain cases) if they were issued at a premium;
- (b) Notes in bearer form which, were they in registered form, would be subject to stamp duty, unless the Notes in question
 - (i) are listed on a recognised stock exchange;
 - (ii) are not being transferred in contemplation of, or as part of an arrangement for, a change in control of Finance PLC; and
 - (iii) do not carry a right of conversion into, or to the acquisition of, securities which are not listed on a recognised stock exchange.

PROPOSED EUROPEAN DIRECTIVE ON THE TAXATION OF SAVINGS

In May 1998, the European Commission presented to the Council of Ministers of the European Union a proposal to oblige Member States to adopt either a “withholding tax system” or an “information reporting system” in relation to interest, discounts and premiums. It is unclear whether this proposal will be adopted and if it is adopted, whether it will be adopted in its current form. The “withholding tax systems” would require a paying agent established in a Member State to withhold tax at a minimum rate of 20 per cent. from any interest, discount or premium paid to an individual resident in another Member State unless such an individual presents a certificate obtained from the tax authorities of the Member State in which the individual is resident confirming that those authorities are aware of the payment due to that individual. The “information reporting system” would require a Member State to supply, to other Member States, details, of any payment of interest, discount or premium made by paying agents within its jurisdiction to an individual resident in another Member State. For these purposes, the term “paying agent” is widely defined and includes an agent who collects interest, discounts, or premiums on behalf of an individual beneficially entitled thereto. If this proposal is adopted, it will not apply to payments of interests, discounts and premiums made before 1 January 2001.

Holders of Notes who are individuals should note that, if this proposal is adopted in its current form, the provisions relating to additional amounts referred to in the Notes under the heading “Payment of Additional Amounts” would not apply in respect of withholding tax imposed as a result thereof.

NETHERLANDS TAXATION

Under present Netherlands law:

- (a) No registration, stamp, transfer or turnover taxes or other similar duties or taxes are payable in The Netherlands in respect of the offering and the issue of the Notes and/or the Coupons appertaining thereto by Finance Europe, or in respect of the signing and delivery of the Distribution Agreement, the Fiscal Agency Agreement, the Calculation Agency Agreements, the Guarantee, the Notes or the Coupons.
- (b) Payments of principal and/or interest in respect of the Notes and/or the Coupons and all other amounts payable under the Notes that may be issued under the Programme or payments under the Guarantee will not be subject to Netherlands withholding tax. No deduction shall be made on account of Netherlands taxation in respect of any amounts due under the Distribution Agreement, the Calculation Agency Agreements, the Guarantee and/or the Fiscal Agency Agreement.
- (c) A holder of a Note and/or a Coupon will not be subject to Netherlands taxes on income or capital gains in respect of any payment under the Notes and/or Coupons or in respect of any gain realised on the disposal of the Notes and/or Coupons provided that:
 - (i) such holder is neither resident nor deemed to be resident in The Netherlands; and
 - (ii) such holder does not have an enterprise or an interest in an enterprise which, in whole or in part, is carried on through a permanent establishment or a permanent representative in The

Netherlands and to which enterprise or part of an enterprise, as the case may be, the Notes and/or Coupons are attributable; and

- (iii) such holder does not have a substantial interest or a deemed substantial interest in Finance Europe or, in the event that such holder does have such an interest, both the Notes and/or Coupons and such interest form part of the assets of an enterprise; and
- (iv) such holder does not carry out and has not carried out employment activities in The Netherlands nor carries or carried out employment activities outside The Netherlands for which the remuneration is subject to Netherlands wage withholding tax and with which employment activities the holding of the Notes and/or Coupons is connected; and
- (v) such holder is not entitled to a share in the profits of an enterprise that is effectively managed in The Netherlands, other than by way of securities or through an employment contract, and to which enterprise the Notes and/or Coupons are attributable.

Notes and/or Coupons will generally not form part of a substantial interest or a deemed substantial interest if the holder of such Notes and/or Coupons and, such holder's spouse, registered partner, certain other relatives (including foster children) or certain persons sharing such holder's household, do not hold, alone or together, whether directly or indirectly, the ownership of, or certain other rights over, shares or rights resembling shares representing 5% or more of the total issued and outstanding capital (or the issued and outstanding capital of any class of shares) of Finance Europe.

- (d) A holder of a Note and/or a Coupon will not be subject to Netherlands net wealth tax in respect of such Note and/or Coupon, provided that such holder is not an individual or, if such holder is an individual, if:
 - (i) such holder is neither resident nor deemed to be resident in The Netherlands; and
 - (ii) such holder does not have an enterprise or an interest in an enterprise, other than as a shareholder, which, in whole or in part, is carried on through a permanent establishment or a permanent representative in The Netherlands and to which enterprise or part of an enterprise, as the case may be, the Notes and/or Coupons are attributable; and
 - (iii) such holder is not entitled to a share in the profits of an enterprise that is effectively managed in The Netherlands, other than by way of securities or through an employment contract, and to which enterprise the Notes are attributable.
- (e) No gift, estate or inheritance taxes will arise in The Netherlands with respect to an acquisition of a Note and/or a Coupon by way of a gift by, or on the death of, a holder of a Note and/or a Coupon who is neither resident nor deemed to be resident in The Netherlands, unless:
 - (i) such holder at the time of the gift has or at the time of such holder's death had an enterprise or an interest in an enterprise, other than as a shareholder, that is or was, in whole or in part, carried on through a permanent establishment or through a permanent representative in The Netherlands, and to which enterprise or part of an enterprise, as the case may be, the Note and/or Coupon is or was attributable; or
 - (ii) the Note and/or Coupon is or was attributable to the assets of an enterprise that is or was effectively managed in The Netherlands, and the donor is at the time of the gift or the deceased was at the time of his/her death entitled to a share in the profits of that enterprise other than by way of securities or through an employment contract; or
 - (iii) in the case of a gift of a Note and/or Coupon by an individual who at the date of the gift was neither resident nor deemed to be resident in The Netherlands, such individual dies within 180 days after the date of the gift, while being resident or deemed to be resident in The Netherlands.

Under Proposed New Tax Regime 2001

The Netherlands Government has announced a major tax reform to Netherlands taxes on income and capital gains which tax reform is proposed to become effective as from January 1, 2001. The parliamentary discussions have not yet been finalised. In general terms the Dutch tax consequences described above for the holder of a Note and/or Coupon will not be influenced by the proposals of the Tax Regime 2001 unless the

holder is a resident of The Netherlands or deemed to be resident of The Netherlands. Furthermore, under this proposed legislation, The Netherlands net wealth tax is to be abolished.

The foregoing is a general summary of the material Netherlands tax issues relating to holding or disposing of Notes and/or Coupons and is applicable only to the Notes to be issued by Finance Europe. It does not purport to constitute legal advice. The precise consequences to any person of holding or disposing of Notes and/or Coupons will depend upon such person's own circumstances, and such persons are advised to consult their own tax advisers as to the particular Netherlands tax consequences of any proposed transaction involving the Notes and/or Coupons.

SUBSCRIPTION AND SALE

Subject to the terms and conditions set out in the Distribution Agreement, dated as of April 29, 1992, as amended by a letter agreement dated September 14, 1992, a Second Amendment dated as of May 19, 1993, a letter agreement dated November 10, 1993, a Fourth Amendment dated as of May 20, 1994, a letter agreement dated as of May 12, 1995, a Sixth Amendment dated as of May 14, 1996, a Seventh Amendment dated as of June 12, 1998, an Eighth Amendment dated as of June 24, 1999 and a Ninth Amendment dated as of June 20, 2000 (the "Distribution Agreement"), the Notes may be offered from time to time on a continuing basis by the Issuers through Lehman Brothers International (Europe), Credit Suisse First Boston (Europe) Limited, Goldman Sachs International, Greenwich NatWest Limited (as agent for National Westminster Bank Plc), J.P. Morgan Securities Ltd. and Swiss Bank Corporation (collectively, the "Agents" or "Dealers"), which have agreed to use their reasonable efforts to solicit purchasers of the Notes. The Issuer of a Note will pay the Dealers a commission, based on the principal amounts of the Notes sold by such Issuer, depending upon maturity, for sales made through them as the Dealers.

The Issuers may also sell Notes to the Dealers as principals for their own accounts at a discount to be agreed upon at the time of sale, or the purchasing Dealer may receive from the relevant Issuer a commission or discount equivalent to that described in the preceding paragraph in the case of any such principal transaction in which no other discount is agreed. Such Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the Dealers.

The Issuers have reserved the right to accept offers to purchase, and to sell, Notes from time to time to purchasers which have been solicited by other securities firms which are not Dealers, or to sell Notes to such other firms as principal (and may pay commissions to, or sell Notes at a discount to, such firms in connection therewith), so long as such other firms agree to comply with the restrictions described in this "Subscription and Sale" section as if they were Dealers. The Issuers have also reserved the right to sell, and solicit and accept offers to purchase, Notes directly on their own behalf and have agreed with the Dealers that in such event they will comply with the restrictions described in the seventh and ninth paragraphs of this "Subscription and Sale" section as if they were a Dealer. In the case of any sale by an Issuer directly, no commissions will be payable with respect to such sale.

The Issuers and the Guarantor have agreed to indemnify the Dealers against certain liabilities and expenses in accordance with the Distribution Agreement.

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meaning given to them by Regulation S under the Securities Act.

Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

Each Dealer has severally agreed with the Issuers and the Guarantor that, except as permitted by the Distribution Agreement, it will not offer, sell or deliver the Notes, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Series of which such Notes are a part, as determined and certified to the Guarantor by such Dealer (or, in the case of a syndicated placement, by the Lead Manager (as defined in the applicable syndicated trade agreement), within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes during the restricted period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the completion of the distribution of all Notes of the Series of which such Notes are part, an offer or sale of Notes of such Series within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act.

Each issue of Indexed Notes or Dual Currency Notes will be subject to such additional U.S. selling restrictions as the Issuer of such Notes and the relevant Dealer may agree, as specified in the applicable Pricing Supplement. Each Dealer has severally agreed with the Issuers and Guarantor that it will offer, sell or deliver such Notes only in compliance with such additional U.S. selling restrictions.

Each Dealer has also severally represented and agreed with the Issuers and the Guarantor that:

- (A) in relation to Notes which have a maturity of one year or more and which are to be listed on the Official List of the UKLA, it has not offered or sold and will not offer or sell any Notes to persons in the United Kingdom prior to admission of such Notes to listing in accordance with Part IV of the Financial Services Act 1986 (the "Act") except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 or the Act; and
- (B) in relation to Notes which have a maturity of one year or more and which are not to be listed on the Official List of the UKLA, it has not offered or sold and, prior to the expiry of the period of six months from the Original Issue Date of such Notes, will not offer or sell any such Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995; and
- (C) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issue of any Notes, other than, in relation to any Notes to be listed on the Official List of the UKLA, any document which consists of or any part of listing particulars, supplementary listing particulars or any other document required or permitted to be published by listing rules under Part IV of the Act, to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended) or is a person to whom such document may otherwise lawfully be issued or passed on; and
- (D) it has complied and will comply with all applicable provisions of the Act with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom; and
- (E) except in circumstances where one of the exceptions in Article 3 of the Securities Transactions Supervision Act 1995 ("Wet toezicht affectenverkeer 1995"), (the "STSA") or one of the exemptions under Article 4 of the STSA is applicable, in respect of all Notes issued by Finance Europe with a denomination below Dfl. 100,000 (or the equivalent thereof in another currency), it has not directly or indirectly offered and will not, directly or indirectly, offer any of such Notes (including rights representing an interest in a Global Note) in or from The Netherlands to any person or entity other than persons or entities ("Professional Market Parties") which trade or invest in securities in the conduct of a profession or business within the meaning of the STSA and its implementing regulations (which includes banks, brokers, securities institutions, insurance companies, investment institutions, other institutional investors and other parties, including treasury departments of commercial enterprises and finance companies of groups which trade or invest in securities); and
- (F) in addition to (E) above and regardless of their denomination, it will not transfer or accept bearer Zero Coupon Notes or other notes issued by Finance Europe if and to the extent that the same are savings certificates ("spaarbewijzen") as defined in The Netherlands Savings Certificates Act ("Wet op de spaarbewijzen", the "SCA") unless such transfer and acceptance is done through the mediation of either Finance Europe or an admitted institution to the Amsterdam Stock Exchange. The SCA does not apply to (i) the transfer and acceptance by individuals who do not act in the conduct of a profession or business, (ii) the initial issue of such Notes to the first holders thereof, and (iii) the issue and trading of such Notes if they are physically outside The Netherlands and are

not immediately thereafter distributed in The Netherlands or to residents of The Netherlands in the course of primary trading. If the SCA is applicable, each transaction must be effected either through Finance Europe or an admitted institution to the Amsterdam Stock Exchange and must either be between Professional Market Parties or in any other case recorded in a transaction note, including the name and address of each party to the transaction, the nature of the transaction and the details and serial numbers of such Notes. The identity of the relevant counter party(ies) must be established by virtue of a document as identified in section 1 of the Identification Duties Act (“Wet op de Identificatieplicht”) or a valid driving license issued pursuant to the Traffic Regulation Act (“Wegenverkeerswet”) or as identified in section 107 of the Traffic Regulation Act 1994 (“Wegenverkeerswet 1994”); and

- (G) it has not, directly or indirectly, offered and will not, directly or indirectly, offer any Notes issued by Finance in The Netherlands as part of their initial distribution or offer any Notes issued by Finance for reoffering, directly or indirectly in The Netherlands other than to Professional Market Parties except (i) Notes with a denomination of at least Dfl. 100,000 or its equivalent in other currencies or (ii) in circumstances where one of the exceptions in Article 3 of the STSA or one of the exemptions under Article 4 of the STSA is applicable; and
- (H) the Notes have not been and will not be registered under the Securities and Exchange Law of Japan (the “Securities and Exchange Law”) and that it will not offer or sell any Notes which are denominated in Japanese Yen or repayable in Japanese Yen directly or indirectly in Japan or to residents of Japan or for the benefit of any Japanese person (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan) or to others for reoffering or resale, directly or indirectly, in Japan or to any Japanese person except under circumstances which will result in compliance with the Securities and Exchange Law and all applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities and in effect at the relevant time. Issues of Notes denominated or payable in Japanese Yen (“Yen Notes”) are subject to the prior approval of the Minister of Finance of Japan. In connection with the issue of Yen Notes, the Issuer is required to comply with all applicable laws, regulations and guidelines, as amended from time to time, of the Japanese governmental and regulatory authorities. Each Dealer has agreed to provide any necessary information pertaining to Yen Notes to the Issuer (which shall not include the names of clients) so that the Issuer may make any required reports to the Japanese Ministry of Finance through its designated agent; and
- (I) each issue of Notes denominated in Swiss francs or carrying a Swiss franc related element will be effected in compliance with the relevant regulations of the Swiss National Bank, to the extent applicable, by a bank or finance company domiciled in Switzerland which is regulated under Article 7 of the Federal Law on Banks and Savings Banks of 1934 (as amended) (which includes a branch or subsidiary located in Switzerland of a foreign bank). Under the current guidelines of the Swiss National Bank, the Swiss entity must obtain authorisation from the Swiss National Bank before carrying out the transaction.

Each Dealer has separately agreed with the Issuers and the Guarantor that it will observe all applicable laws and regulations in any country or jurisdiction in which it may offer, sell or deliver Notes and that it will not, directly or indirectly, offer, sell or deliver Notes or distribute or publish any offering material in relation to the Notes except under circumstances that will to the best of its knowledge and belief result in compliance with any applicable laws and regulations, and all offers, sales and deliveries of Notes by it will be made on the foregoing terms.

Each purchaser of Notes must observe all applicable laws and regulations in any jurisdiction in which it may offer, sell, or deliver the Notes and it may not, directly or indirectly, offer, sell, resell, reoffer or deliver any Notes or distribute this Information Memorandum or any circular, advertisement or other offering material (including, without limitation, any supplement to this Information Memorandum) or the most recently published audited financial statements of the Guarantor in any country or jurisdiction except under circumstances that will result, to the best of its knowledge and belief, in compliance with all applicable laws and regulations.

The restrictions on offerings may be modified by the agreement of the relevant Issuer and the relevant Dealer(s) following a change in a relevant law, regulation or directive. Any such modification will be set out in the applicable Pricing Supplement or in a supplement to this Information Memorandum.

A Zero Coupon Note in bearer form shall not be issued unless the relevant Issuer has received from the purchaser of such Note certification as to certain matters relating to U.S. tax laws in substantially the form set forth as an exhibit to the Fiscal Agency Agreement.

GENERAL INFORMATION

1. The Guarantor was incorporated in England and Wales on 27th February, 1979 under the Companies Acts 1948 to 1976 as a limited liability company and was re-registered as a public limited company under the Companies Acts 1948 to 1980 on 19th March, 1982. The registered office of the Guarantor is at Temple Court, 11 Queen Victoria Street, London EC4N 4TP which is also its principal place of business. Finance Europe was incorporated in The Netherlands on 23rd June, 1989; it is registered in The Netherlands with the Chamber of Commerce of Gooiland under the number 46343, its corporate seat is in Hilversum, The Netherlands and its registered office is at Laapersveld 68, 1213 VB Hilversum, The Netherlands which is also its principal place of business. Finance was incorporated in England and Wales on 24th January, 1989 under the Companies Act 1985 as a public limited company with the number 02338444 and its registered office is at Temple Court, 11 Queen Victoria Street, London EC4N 4TP which is also its principal place of business.

2. It is expected that each Series of Notes which is to be admitted to the Official List of the UKLA will be so admitted separately, subject in the case of Notes to be issued in bearer form only to the issue of the temporary Global Note in respect of such Series. The listing of the Programme in respect of the Notes is expected to be granted on or about 22nd June, 2000. The trading of a series of Notes on the London Stock Exchange will be expressed as a percentage of their principal amount (excluding accrued interest).

3. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate common codes for each issue of Notes allocated by Euroclear and Clearstream, Luxembourg will be contained in the relevant Pricing Supplement. All offers solicited by a Dealer and accepted by Legal & General will be settled on a date which is the fifth Business Day after the date such offer is accepted, unless Legal & General and the purchaser agree to settlement on any other Business Day after the acceptance of such offer.

4. **Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the relevant Issuer in the United Kingdom and which are issued pursuant to an exempt transaction under regulation 13(1) or (3) of the Banking Act 1987 (Exempt Transactions) Regulations 1997 (the "Regulations") will constitute commercial paper, shorter term debt securities or longer term debt securities (in each case as defined in the Regulations), as specified in the applicable Pricing Supplement, in each case issued in accordance with regulations made under section 4 of the Banking Act 1987.** The Issuers are not authorised institutions or European authorised institutions (as such terms are defined in the Regulations) and repayment of the principal and payment of any interest or premium in connection with such Notes will be guaranteed by the Guarantor, which is not an authorised institution or a European authorised institution.

In relation to any Notes which are issued pursuant to an exempt transaction under regulation 13(3) of the Regulations where such Notes would fall within regulation 13(4)(a) or (b) of the Regulations, the relevant Issuer confirms that:

(a) as at the date hereof, it has complied with its obligations under the relevant rules (as defined in the Regulations) in relation to the admission to and continuing listing of this programme and of any previous issues made under it and listed on the same exchange as this programme;

(b) it will have complied with its obligations under the relevant rules in relation to the admission to listing of such Notes by the time when such Notes are so admitted; and

(c) as at the date hereof, it has not, since the last publication, if any, in compliance with the relevant rules of information about this programme, any previous issues made under it and listed on the same exchange as this programme or any Notes falling within regulation 13(4)(a) or (b) of the Regulations, having made all reasonable enquiries, become aware of any change in circumstances which could reasonably be regarded as significantly and adversely affecting its ability to meet its obligations as issuer in respect of such Notes as they fall due.

In relation to Notes which are to be exempt transactions under regulation 13(3) of the Regulations and fall within regulation 13(4)(b) of the Regulations, the relevant Issuer confirms that, as at the date hereof, it has complied and will continue to comply with its obligations under the Regulations to lodge all relevant information (as defined in the Regulations) in relation to any such Notes with the UKLA.

5. Each of the Issuers is obliged under section 147 of the Financial Services Act 1986, before it issues any new Series of Notes and before the commencement of dealings in the Notes following their admission to the Official List of the UKLA, to produce supplementary listing particulars if there has been any significant change affecting any matter contained in this Information Memorandum (or any supplementary listing

particulars previously issued) whose inclusion is required by section 146 of the Financial Services Act 1986 or by the Listing rules of the UKLA or by the UKLA or any significant new matter arises which would have had to be included in the Information Memorandum if it had arisen prior to the publication of the Information Memorandum. In addition, each of the Issuers will be required by the rules of the UKLA (with which it must comply if it is to maintain the listing of its securities) to release to the Noteholders any material information affecting its ability (or its Guarantor's ability) to meet its commitments to holders of its listed debt securities.

6. (a) The accounts of the Group and of Finance for the two years ended 31st December, 1999 have been audited by PricewaterhouseCoopers, Chartered Accountants and Registered Auditors in accordance with Auditing Standards issued by the Auditing Practices Board, and have been reported upon without qualification.

(b) The accounts of the Group and of Finance for the year ended 31st December, 1997 have been audited by Price Waterhouse, Chartered Accountants and Registered Auditors in accordance with Auditing Standards issued by the Auditing Practices Board, and have been reported upon without qualification.

(c) The accounts of Finance Europe for the two years ended 31st December, 1999 have been audited in accordance with the laws of The Netherlands by PricewaterhouseCoopers N.V., Registered Accountant, and have been reported upon without qualification.

(d) The accounts of Finance Europe for the year ended 31st December, 1997 have been audited in accordance with the laws of The Netherlands by Price Waterhouse N.V., Registered Accountant, and have been reported upon without qualification.

7. Save as disclosed herein, since 31st December, 1999, the date to which the latest audited published accounts of each Issuer and the Group were made up, there has been no significant change in the financial or trading position of either of the Issuers or the Group and there has been no material adverse change in the financial position or prospects of either of the Issuers or of the Group.

8. Neither the Issuers, the Guarantor nor any other member of the Group is or has been involved in any legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this document, a significant effect on any of the Issuers', the Guarantor's or the Group's financial position nor, so far as any of the Issuers, or the Guarantor or any other member of the Group are aware, are any such proceedings pending or threatened.

9. PricewaterhouseCoopers have given, and have not withdrawn, their written consent to the inclusion in these listing particulars of their reports to the members and to the directors of the Guarantor dated 28th February, 2000 in the form and context in which they are included and have authorised the content of that part of the listing particulars for the purposes of section 152(1)(e) of the Financial Services Act 1986.

10. The Programme was authorized pursuant to resolutions of the Board of Directors of Finance Europe passed on 17th September, 1991 and of Finance passed on 9th December, 1991. The giving of the Guarantee was authorized pursuant to a resolution of the Board of Directors of the Guarantor passed on 27th February, 1991.

11. An increase in the maximum principal amount of Notes and U.S. Notes outstanding from time to time under the Programme from U.S.\$250,000,000 to U.S.\$500,000,000 was authorised pursuant to resolutions of the Board of Directors of Finance Europe passed on 14th October, 1993, of Finance passed on 2nd November, 1993 and of the Guarantor passed on 13th October, 1993.

12. A further increase in the maximum aggregate principal amount of Notes and U.S. Notes outstanding from time to time under the Programme from U.S.\$500,000,000 to U.S.\$1,000,000,000 was authorised pursuant to resolutions of the Board of Directors of Finance Europe passed 24th April, 1995, of Finance passed on 8th March, 1995 and of the Guarantor passed on 19th April, 1995.

13. Copies of the following documents may be inspected during normal business hours on any weekday (excluding Saturdays) at the registered office of each Issuer and the Guarantor and at the offices of the Fiscal Agent in London referred to below at any time throughout the duration of the Programme from the date hereof and where any of the following documents are not in the English language, translations into English will also be available for inspection:

- (a) the letter stating that the Memorandum and Articles of Association of the Guarantor and of each Issuer have not been amended since they were last submitted to the London Stock Exchange;

- (b) the most recent audited consolidated accounts of the Group and the most recent audited accounts of each Issuer (including all auditors reports), together with any subsequent published interim financial statement;
- (c) the audited consolidated accounts of the Group and the audited accounts of each Issuer (in the case of Finance Europe, with English translations thereof), including auditors reports, for each of the two years ended 31st December, 1998 and 1999;
- (d) the Fiscal Agency Agreement (which includes the forms of the Notes and the forms of the Guarantees as exhibits thereto);
- (e) the Distribution Agreement;
- (f) the Calculation Agency Agreement;
- (g) the current listing particulars;
- (h) any supplementary listing particulars; and
- (i) each Pricing Supplement.

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