

# Legal & General Group Plc

## Annual General Meeting

16 May 2007

**Sir Rob Margetts CBE**  
**Chairman, Legal & General Group Plc**

### **Review of 2006 Operations**

#### **I. Staff Engagement**

I'd like to begin my review of your company's progress in 2006 by paying tribute to the people who make Legal & General what it is today – its employees. We have over 9,000 staff working for us today: in London, in Surrey, in Cardiff, in Birmingham, Scotland, Northern Ireland, and overseas. They are the interface with our almost six million customers. For most people they are the public face of the company – our ambassadors. Collectively, they create the distinctive culture that is Legal & General: service oriented, customer focused, reliable and straightforward.

I'd like to single out one particular person who epitomises these qualities, and for many of us epitomises Legal & General. Robin Phipps. This is Robin's last AGM as a Board member, as he has decided to retire after 25 years' service with the company. He joined us in our IT department from the South Eastern Gas Board in 1982. Since then, he has headed our direct sales operations and retail distribution, and served on your Board for seven years, latterly as head of our whole UK business. He has played a huge part in our success over the last decade. As our Chief Executive, Tim, commented in the newspaper, he has been the unsung hero of Legal & General's growth story.

This slide speaks volumes. It is also Robin's favourite slide. This is our growth in market share since he joined the Board. It illustrates not just the extent and impact of his contribution, but also the extent to which your company has grown over the years to become a real, perhaps *the* market leader, and the success of the management and staff collectively in achieving that success. To just scale it for you ...that's a compound growth rate in a highly competitive mature industry of well over 20% per year.

Kate Avery and John Pollock, who report to Robin, and who both played a major part in that success, will continue to be responsible for their respective wealth management, and protection and annuities businesses, now reporting directly to Tim. This continuity and the strength of the management team that Robin helped put in place is a great credit to him. Not every senior person who retires leaves enough petrol in the tank for their successors to continue the enterprise forward successfully. One of Robin's final achievements for Legal & General has been to negotiate our partnership agreement with Nationwide, the UK's biggest building society, who will start to sell our products through its branches later this year. This is a very important partnership for us, so Robin is retiring at the top of his game.

Robin, this may be your last AGM up here on the platform, but I'm sure we will see you alongside fellow shareholders in the body of the hall in future years. Please don't ask too many difficult questions! Now, I'm sure, ladies and gentlemen, as shareholders we just want to say thank you to Robin. Will you stand up please Robin?

[Applause]

There are two other Board members I'd also like to mention today. Beverley Hodson retires from the Board having served for almost seven years as a non-executive Director. Many thanks, Beverley, for your excellent contribution over the years.

I was hoping for us to have a warm welcome to Rudy Markham, but as I mentioned, he will bring great financial expertise and experience, but I mentioned he can't be with us today, but I hope we'll take the earliest opportunity to introduce him to you next year.

This year, we celebrate the tenth anniversary of our partnership with Amicus, our trade union. And I do mean celebrate. We work closely with them to ensure that staff interests are properly represented in our business decisions, and they, in turn, help us to achieve our business and management objectives. It is a real partnership and both sides benefit from it.

## **II. Shareholder Return**

Now, let's turn to 2006. Last year when we met, Legal & General's share price was around 125p; today it's at 156p. We delivered a total shareholder return (TSR) in 2006, that is to say, earnings for you from share price gain plus dividends, of 34%. We outperformed the sector and the FTSE index. This is not for the first time. Over a 10-year period, TSR again outperformed the sector and the FTSE. This was a decade with some difficult years for markets' performance and investment returns, but one of the strengths of your company is that we manage your company on a long-term basis across stock market cycles to deliver both growth and returns for you, our shareholders.

## **III. Strategy**

Many factors contributed to the success, but I just want to focus on a few broad themes. First, our strategy was the right one. We continued to take the view that the UK was the place to be, and we were proved right because the market for our products remained strong through the year. We are overwhelmingly a UK company and over 90% of our business is here.

### **1. Joint Venture with Bank of Baroda**

You may have read recently that we are in the early stages of negotiating a joint venture with an Indian bank, the Bank of Baroda, to sell financial products there. Baroda has 26 million customers, so of course this would be a further major distribution partnership. But this is not a departure from our core strategy. We will remain highly focused on the UK and our customers, including I hope, and I do believe many of you, will continue to talk to Legal & General staff in Cardiff and Hove, or other places in the UK and not to call centres in Mumbai.

### **2. Balanced Production and Balanced Distribution**

The second strategic aspect of our success in 2006 is that we deliberately maintain a mix of products, and a right mix of distribution channels or routes to market. We don't want to become

over dependent on any single product, any single sales channel. Our commitment to balanced production and balanced distribution is at the heart of what we do and gives us the flexibility and agility to adjust to changes in markets and changes in the way customers purchase long-term savings and insurance products.

This balanced flexible approach to our business is incredibly important to us. Looking out at the market today, the only certainty is that distribution mechanisms will continue to change. Technology plays a major part, with customers running portfolios online, on platform, holding a variety of different products within a single tax-efficient wrapper. Just as we saw the demise of the industrial salesforce in insurance, we're now seeing the evolution of the post-industrial business model for our industry. Customers increasingly shop for financial products as they do for groceries, not through the corner store but at the supermarket. I am delighted that our relationship with Cofunds puts us at the forefront of these changes.

### **3. Regulation**

Regulation plays a part too. This summer we will potentially see changes arising from the FSA Review of Retail Distribution. We don't know what they will be yet, but because we balance our distribution between bank and building society partners, IFAs and direct sales, we will be ready. Just as we came through previous regulatory changes, like polarisation and then depolarisation, with flying colours, I am confident we will continue to position ourselves appropriately for any change later this year.

## **IV. Drivers for Success**

Technology and regulation drive changes in our business, and we ourselves drive change. The ethos at your company is very much about constantly trying to improve things, making sure we do things better or more efficiently in incremental changes that generate a better experience for the customer and for the shareholder. At the same time, there are several constants, prime amongst which are: value for money products, a strong balance sheet, and a commitment to good service, and ethical, not just compliant behaviour, from all our staff. These drove our success in 2006.

Record profits at £1.2 billion, as measured on a European embedded value (EEV) basis; record new worldwide business 42% up on the previous year; and continued expansion in our UK market share, which on the broad measure used by the ABI, now stands at a little over 11%. I'm delighted to tell you that this growth has continued in 2007 with a further healthy increase in the UK life and pensions new business in the first quarter.

## **V. Legal & General Investment Management**

I mentioned two things just now which in my mind hang together: our place at the heart of the UK Plc and the way we balance our business across different customers and products. Legal & General Investment Management (LGIM), our institutional asset management business, is today one of the largest investors in the UK, with almost 4% of the whole FTSE index. Quarter on quarter in 2006, and again the early part of 2007, and indeed for much of the last decade or so, it attracts new institutional funds. Over £1 billion per month, on average, of money from pension funds and other institutions is entrusted to LGIM. If this rate of growth is maintained, then some time this year LGIM is likely to pass another landmark number: a quarter of a trillion pounds in funds under management. It is a great success story, proving our ability to win in the institutional as well as in the retail markets. Well done to Peter Chambers and your team at LGIM.

## **VI. Capital Structure**

I've spoken today about some of our people. People are one of the critical ingredients in our industry. The other one you provide as shareholders is capital. 2006 saw the start of a very major project led by Andrew Palmer, our Group Director (Finance), to review the efficiency of our capital structure and our usage of capital. Insurance products require significant capital to be held against them after they're sold, and growth requires capital. Our challenge is to make sure we have the right amount of capital, and capital of the right sort, held in the right places, within our business structure. The technicalities of this are extremely complex, but the aims are relatively clear: to capitalise ourselves efficiently, balancing growth, prudence and financial strength, and the returns we produce for you, our shareholders.

We've made considerable progress already with this project, and we've told the market we will report further when we give our interim results in July. Moreover, we have said that where we're carrying excess capital, this could form the basis of a return, or returns, to shareholders later in the year. It is premature to speculate now about the size of any return – though last autumn we indicated there was around £1 billion of excess capital in the balance sheet – or about the form which a return might take. Suffice to say at this point that our progress with our capital and cash flow project has met with strong support from major shareholders and is on track.

## **VII. Share Price and Dividend**

This year's dividend for the full year was increased by 5.1%. I am pleased to tell you that our commitment to a progressive dividend policy continues, even as we consider the best way to address any potential return of capital to investors. As shareholders, you share in the success of your company, and we will make sure this is done in the most effective way.

A little while ago I mentioned some of the business factors behind the improvement in our share price since we met at the last AGM. Another important aspect has been the drive on our part to tell our story better. Legal & General has in the past displayed the cardinal virtues of reticence and modesty. We did things well and assumed the market would notice. It didn't. So last year, we decided to explain our business model more fully to the analysts who write about your company and to be rather more outgoing about our progress without losing our essential and customary humility. We have presented so far on our protection and annuities business model and on our capital structure and the review in progress. Both events were very positively received, and more presentations will take place this year.

## **VIII. Communication with Shareholders**

The way we communicate with you is also important to us. I hope the shorter form summary financial statement gave you the information you needed without the need for an ever longer, heavier, Annual Report. Next year, we intend to publish directly onto our website so as to minimise printing of paper copies. We will write to you with the interim dividend to explain how this will work and how to access a printed paper version if that is what you wish. If you have detailed questions about this today, Claire and her team will be on hand to help you with them over lunch.

## **IX. Summary**

So we had a record year in 2006. We're off to a good start in 2007. We still believe we have sound strategies in place for growth – *profitable* growth – and we are well positioned for change. We're making good progress with the capital review that will help maximise value for shareholders. Your company is in robust good health.

Now before I hand over to Tim, let me just say a few words about him. Last year, at the Annual General Meeting, he was still very new in the top job. Today, it feels as though he has been there much longer than a mere 16 months. In fact, already I think he is one of the longer serving chief executives in this particular industry. His leadership of the company has more than justified the confidence we, the Board, had in appointing him. He's leading from the front, stamping his mark on the company, and he enjoys the respect of the City, the industry, as well as that of colleagues, staff, and commentators. Over to you, Tim.

## **Financial Statement**

**Tim Breedon**

**Group Chief Executive, Legal & General Group Plc**

## **X. Introduction**

Thank you Chairman, not just for your kind words, but for another year of able chairmanship of our company. I'd also like to thank you, our shareholders, for the support and the interest you're showing in our company by attending our Annual General Meeting here today.

## **XI. Financial Highlights**

As the Chairman has said, Legal & General continues to make excellent progress. In 2006, we delivered:

- record EEV operating profits before tax;
- record worldwide new business – £1.8 billion on an APE basis;
- record profit contribution from that new worldwide new life and pension business of £418 million;
- record new fund management inflows; and
- record pre-tax profits from LGIM, which is now one of the very largest fund management companies in the UK.

## **XII. Growth in UK Market**

Our business is principally UK-based, and our long-term focus on this core market has again proved well founded. The market in the UK has indeed grown for our products as a result of the economic backdrop and demographic changes as the baby boom generation prepares for a longer retirement. In particular, the changes brought in through the Government's pensions simplification measures have continued to stimulate rapid growth in the individual pensions market, and a robust economy and strong investment markets have been supportive of sales of long-term savings products generally.

Thanks to many years of rapid growth, Legal & General is now one of the leading protection, savings and investment companies in the UK. Our scale is not just reflected in the financial numbers we report. Today, we have about six million customers. They rely on the quality of our products, the efficiency and reliability of our systems and administration, and the expertise and experience of our employees. Last year, we underwrote over 50,000 life insurance policies each month, achieving a market share for individual protection of over 20%. We price our protection products based on 12 million customer years of experience and, for annuities, three million customer years of experience. We're the partner of choice for banks and building societies which, collectively, have over 40 million customers, and LGIM is trusted by more than half of the companies in the FTSE 100 Index to invest their pension fund assets.

## **XIII. Commitment to Customers**

But growth is not sufficient of itself; even profitable growth is not enough. We are a service organisation in a service sector and our business involves asking customers to trust us with their money, to trust us to deliver on our promises, often over a long period of time. For us to continue to succeed, our customers and their advisers must have confidence that we'll be there for the long term, and financially strong, not only in the benign market conditions we are experiencing today but also in more difficult conditions. This is what underpins our brand reputation, one of our greatest assets.

This commitment to the customer is reflected also in the broader commitment to corporate social responsibility. To pick one important, topical example, we're already a low-carbon company, but we continue to work on ways not only to reduce our own carbon footprint further, but also to work positively on these issues with the companies in which we invest.

## **XIV. First Quarter 2007 Results**

The first quarter of 2007 got us off to a good very start.

- UK new life and pensions business was £303 million, up 27% on the same period last year. Growth was particularly strong in our UK pensions business.
- Non-profit and with-profit pensions was up 48% to £126 million APE.
- Unit linked bonds business grew 21% to £74 million APE.
- The non-profit annuities business grew by 27%.
- Individual protection was up 8%.

- International business – yes, we do have some international businesses – up over 11%.
- LGIM also performed strongly adding £5.1 billion of new funds under management, taking the total to about £240 billion.

## **2007 Outlook**

### **1. Building On a Position of Strength**

We remain confident that the outlook for 2007 is positive for our business and for the UK savings, protection and investment markets. There are, undoubtedly, changes ahead to the way that insurance and investment products are bought and sold; to the way customers use technology to organise their finances; and to the way in which companies invest their pension funds. With our large customer franchise, our broad product range, and our balanced distribution profile, we believe that the company is well adapted to exploit a growing and changing marketplace, and will be able to build from a position of strength and deliver value to shareholders and to customers over the coming years.

### **2. Capital Repatriation**

A major part of the Legal & General story over the next few months you will undoubtedly be reading about, revolves around our balance sheet restructure and the prospect of a return of capital to shareholders. The Board has yet to form a definitive view as to the quantum, timing or method of any capital repatriation, and as the Chairman has already made clear, we will not update the market on any return before the interim results in the summer. Let me add something though. Let me add that this exercise does not signal in any way a change of strategy, or in any way a reigning in of our growth aspirations. It is about putting in place the right balance sheet and capital structure for us to be able to continue to grow, while retaining the financial strength our business partners and customers rely on whilst generating the right returns for you, our shareholders.

## **XV. Closing Remarks**

I'm confident about our future both for 2007 and beyond, and I hope to be able to report positively once again to you when we issue our interim results and when we meet again at the Annual General Meeting in a year's time. Thank you very much.