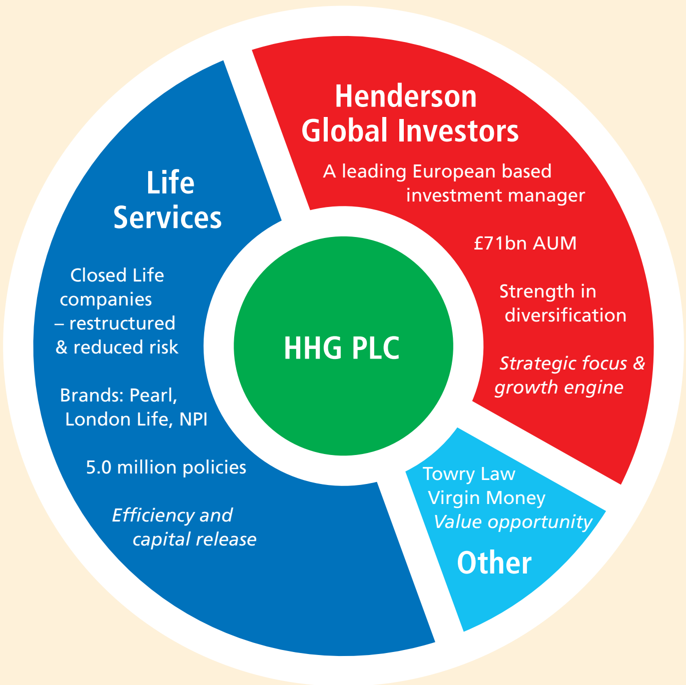
HHG PLC
Full Annual Financial Report and Accounts
For the year ended 31 December 2003

www.hhg.com

HHG PLC
Formerly A.M.P. (U.K.) PLC
Company Registration
Number: 2072534

Welcome to HHG PLC



'The new group has strong prospects for growth and value realisation

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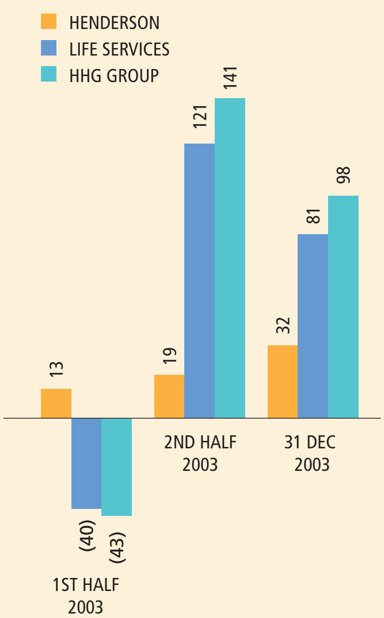
2003

The year was defined by critical strategic and capital management decisions. HHG's Demerger from AMP and the reduction in equity holdings and closure to new business for the life companies necessitated large-scale write-downs and an overall loss before tax of £864m for 2003.

Within HHG, the decisions of the first half of the year were reinforced by actions taken in the second half to build a strong balance sheet and create substantial efficiency gains.

These actions delivered solid improvements in the underlying performance of both the main businesses – Henderson and Life Services – achieving substantial uplifts in the embedded value, solvency and profitability of Life Services and a significant increase in earnings from Henderson.

Operating profit* – turnaround in second half of 2003
£m



* Operating profit represents the trading results of the combined business units excluding non-trading, exceptional items and short term investment fluctuations.

By the end of 2003 HHG had

Reduced risk in life companies

Demerged from AMP

Listed on the London and Australian Stock Exchanges

£1.7 billion net assets

£71 billion assets under management

£1.15 billion embedded value in Life Services

Substantially improved regulatory capital

and has laid solid foundations for its future'

Sir Malcolm Bates, Chairman, HHG

This is my first opportunity to report to you following the Demerger from AMP and the listing of HHG PLC on 23 December 2003. I welcome you as fellow shareholders.

Sir Malcolm Bates, Chairman, HHG

An extraordinary year

The twelve months ending December 2003 concluded an extraordinary year for all HHG PLC operations as they worked through complex Demerger and listing timetables and, at the same time, focused on operational efficiency of the underlying businesses.

In this regard, I would like to pay tribute to the management team and all our employees for their efforts. The completion of the Demerger, the successful Global Offer and the listings in London and Sydney created HHG as an independent company with a strong balance sheet and healthy prospects.

Overall financial result

Our first year financial results reflect the extensively reported challenges that we faced in 2003. The necessary actions we have had to take during the year have inevitably led to recognising a substantial overall loss before tax of £864m.

The biggest issue we had in the first half of the year was managing the regulatory capital requirements of our life companies in the face of falling investment markets. The absence of further capital required a significant reduction in equity market risk to protect policyholders and shareholders.

The life companies substantially reduced their exposure to share markets and increased investments in less volatile assets such as fixed interest securities, resulting in a significant change in their investment mixes. As a consequence, all the life companies are now closed to new business.

These actions stabilised the life companies' regulatory capital positions by removing the volatility associated with the holding of equities.

Operating result

HHG's operating profit of £98m (2002: £108m) is a product of two distinct half year performances – a first half operating loss of £43m offset by a second half operating profit of £141m. Henderson's improvement in the second half of the year reflected the rise in markets, alongside greater contributions from performance fees and higher margin products. Life Services delivered a substantial turnaround from a first half loss of £40m to a second half profit of £121m. This included a number of favourable factors, such as interest rate movements, margin releases relating to closure to new business and the cost savings associated with the restructure we completed in the first half of the year.

Regulatory environment

Like all companies operating in the financial sector, HHG faces an ever-changing regulatory environment, particularly in the life assurance area. The rate of regulatory change is unprecedented and places additional burden upon the companies to meet all of the demands of the regulators.

By way of example, in the year under review, there have been FSA consultative papers covering Principles and Practices of Financial Management and Treating Customers Fairly, the establishment of With Profit Committees for each life assurance business and a requirement to produce Realistic Balance Sheets for regulatory capital.

After implementation of all of these proposals, and others, we hope that policyholders will be even better protected and shareholders will gain greater transparency. But, in the meantime, the time and cost of satisfying all of the requirements is not insubstantial.

Corporate Social Responsibility

As a recently listed company, HHG is in the process of developing a Group-wide Corporate Social Responsibility policy. HHG's policy will outline its commitment to responsible environmental management, building partnerships with the community and our progressive approach to people management.

Our shareholders

Immediately following the listings in London and Australia, about 75% of HHG shares were held by Australian and New Zealand residents. AMP retained 11% of the issued capital, Australian retail investors held 30% and Australian institutions held some 34%. This was primarily because each AMP shareholder received one HHG share for each share in AMP Limited. HHG is now included in both the ASX 100 index and in the FTSE 250.

The Board

The composition of HHG's Board provides depth and breadth of management and financial services experience. It includes myself, five other Non-Executive Directors and three Executive Directors. Profiles of all HHG Directors are on pages 12 and 13.

Since the year-end, John Roques, a Chartered Accountant and former Senior Partner and Chief Executive of Deloitte & Touche, has joined the Board as a Non-Executive Director. He brings to the Board considerable financial and business experience which will be of great value to our Group as we move forward.

The Board operates under formal corporate governance codes, principles and processes. These are outlined in detail on pages 16 to 20.

Dividends

The HHG Board of Directors is conscious of the need for HHG to pay dividends, but has taken the view that dividends can only rightfully be paid out of surplus cash earnings. We believe that operational funds should be reserved for the sustenance and growth of the underlying businesses.

As a result of a number of factors, including the uncertainty surrounding the impact of the anticipated future regulatory capital requirement of the life companies, it is not envisaged that there will be sufficient cash earnings or transfers arising at the holding company level to facilitate the payment of a dividend in the near term. This means that a dividend is not likely to be payable in 2004 and 2005, but the Board will keep the matter under close review.

Looking ahead

There is no doubt that the year 2003 presented a challenging environment for management.

The first half of the year saw volatile equity markets, low interest rates and the changing regulatory environment referred to earlier. The second half of the year was somewhat different and produced a welcome uplift in UK equity markets, some improvement in corporate results, some favourable one-offs and signs of a slow return of consumer confidence, including in financial services.

Your Board believes HHG is well placed to face the future, notwithstanding the rigours of the regulatory and investment environment. HHG has the products, services and expertise to provide competitive and profitable solutions and our people have the energy, talent and enthusiasm to deliver the right returns to both customers and shareholders.

Chief Executive's Statement

In Henderson Global Investors and UK Life Services – the two main businesses within HHG – there exist both opportunities for growth and opportunities to realise value.

Roger Yates, Chief Executive, HHG

In 2003, HHG was established as an independent company as a consequence of the Demerger of the UK businesses from AMP. In Henderson Global Investors and Life Services – the two main businesses within HHG – there exist both opportunities for growth and opportunities to realise value.

From the beginning, the management team was determined to ensure that the Company established a solid financial position to ensure that it could make the most of these opportunities and withstand any buffeting the financial markets and the financial environment might generate.

There were several steps in this process, including the reduction of risk in the life companies given the limited shareholder capital available, the building of a strong balance sheet (including raising £190m on listing) and ensuring that provisions were adequate to cover a wide range of expected liabilities.

It was the combination of good prospects for growth and value realisation in the main businesses with our financially conservative approach, that resulted in HHG listing successfully on the London and Australian Stock Exchanges in December.

By year end 2003, the necessary and fundamental changes were complete and HHG had:

- Net assets of £1.7bn, with minimal corporate debt
- Embedded value of £1.15bn for Life Services
- Improved regulatory capital, and
- Improved profitability.

HHG entered the ASX 100 on listing and the FTSE 250 in March 2004.

Strategy

HHG intends to maximise total shareholder return by developing and realising value from each of its underlying businesses. HHG is focused on:

- Growing Henderson into a powerful and highly regarded European investment management company, with growing operations in Asia and North America. The business is well diversified and growing organically and is well positioned in both the institutional and retail sectors.
- Placing Life Services on an efficient operational and financial footing, leading to improved operating profitability and enabling the release of capital over time.
- Developing Towry Law as an effective and profitable stand alone business.
- Maximising the value of HHG's investment in Virgin Money.

2003 performance

The overall results for HHG reflect the difficult market and financial environment in 2003 and the impact of the Demerger from AMP. In particular, the life companies suffered heavy write-downs in value as a result of the closure to new business and the restructuring of the life funds themselves.

In Life Services, the focus on improving operational efficiency is beginning to bear fruit, with an improved result in the service company. Cost reduction targets to date have been met, with a reduction in full-time equivalent staff numbers from 4,917 to 1,792, being a significant driver of lower costs. At the same time, there has been an improvement in solvency on the new "realistic" basis captured in the FSA's Consultation Paper 195 – this improvement is most marked in Pearl.

As the solvency of the life companies improve, this will bring closer the prospect of release of shareholder capital from them. Finally, there has been a second half improvement in embedded value in Life Services, rising from £845m to £1,145m on a "traditional" basis and from £900m to £1,271m on a market consistent basis.

At £81m, the Life Services operating profit was strong, given the fundamental change to the business through the year. It turned around from an operating loss of £40m in the first half to a profit of £121m in the second half. While the turnaround was assisted by a number of one-off items, the result for 2003 as a whole is a better indication of the sustainable profitability of Life Services.

As regards Henderson, the first half of the year bore the full brunt of the bear market in stocks, with a marked recovery during the second half. Henderson's results reflected this, with a sharp (46%) improvement in profits in the second half compared to the first. Second half revenues benefited from rising assets under management as the market recovered, while costs were held flat. The scale of improvement in the second half reveals the operational gearing in this business.

Overall, Henderson's cost to income ratio was 84% for 2003, showing the negative effect of lower first half revenues. The ratio improved in the second half due to a combination of improving revenue and flat costs. In 2004, we expect the cost to income ratio to fall below 80% and in the medium term are targeting a ratio of around 75%, assuming benign market conditions.

The smaller businesses of Towry Law and Virgin Money were not material in the context of 2003 profits, although the achievement of a small profit by Towry Law was a notable improvement on the previous year.

Smaller businesses not core to HHG – Retirement Services and Pension Trustees – were sold and, in February 2004, Ample was also sold.

People

HHG principally comprises two very different businesses in Henderson and Life Services. In turn, the culture of each business needs to be specific and appropriate to it. Henderson must maintain a distinctive asset management culture, focused on investment excellence. Fundamental attributes are performance, teamwork and innovation with a market competitive reward structure which encourages real outperformance. In Life Services, the challenge of running a set of closed books is different, but no less testing. Here the focus has to be on operating efficiency and customer service, while developing and retaining key talent needed to manage the business in its new form.

Across the business, I see great benefit in building share ownership amongst the employees. In my experience, the senses of identity and participation this provides goes way beyond the economic value of the investment made. Therefore, we will seek to introduce a number of schemes during 2004 to achieve this objective.

Outlook

The basic structure of HHG was established at the point of Demerger from AMP. At the time, the only major complexity in structure was the ownership of most of Henderson within the Pearl shareholder fund, via an intermediate holding company called HHG Invest. The capital raising undertaken at the time of listing in December 2003 enabled us to bring out 76% of Henderson, via HHG Invest, to be owned directly by HHG PLC. This improved the solvency position of Pearl and benefited HHG's cash flow. It is our intention for HHG to gain 100% ownership of HHG Invest as soon as possible, which we will fund through a combination of external capital and internal resources.

HHG has made a sound start to 2004 with encouraging signs in both Henderson and Life Services. Henderson is benefiting from good sales of higher margin products, including property, mutual and hedge funds whose profitability is expected to be sufficient to offset further outflows of Life Services assets over time. Meanwhile, Life Services is on track to deliver further cost savings.

Longer term, we need to build on Henderson's existing market positions in both retail and institutional. Market share in both areas is increasingly flowing to a more limited number of participants – very much a "winner takes all" environment. Henderson is fortunate enough to have a number of products with outstanding performance, but we need to translate this into all the channels in which we operate if the business is to realise its full potential. In Life Services, the prospect of release of capital in the longer term as the books run off remains an enticing one.

Henderson

Henderson is a leading investment manager, operating throughout Europe, with expanding operations in North America and Asia. Henderson manufactures a broad range of actively managed investment products for institutional and retail investors, across multiple asset classes including equities, fixed income, private equity and property. It also manages the assets of Life Services' life funds.

Business strategy

The objective is for Henderson to maintain its configuration as an international, multi-asset class business and increase access to platforms and panels of the largest global and national distributors. To achieve this Henderson concentrates on:

- Building and sustaining competitive investment performance.
- Responding to the increasing commoditisation of core products by developing new and existing higher-margin products.
- Attracting and retaining the right people by providing market-competitive remuneration and effective career development programmes.
- Building scale by strengthening distribution and client servicing.

Stronger second half 2003 result – 46% up on first half

Early 2003 saw a low point in equity markets, with a marked recovery during the second half. Henderson's results reflected this, with a sharp (46%) improvement in profits in the second half compared to the first. Second half revenues benefited from rising assets under management and an improved mix of business while costs were held flat. The swift improvement in the second half demonstrates the operational gearing in this business.

The cost to income ratio for 2003 increased to 84%, up on the 2002 ratio of 72%, because of the drop in revenues. However, the ratio was 5% lower in the second half of 2003 compared to the first half, benefiting from higher second half management fees. We anticipate that this improvement will continue through 2004, and that a cost to income ratio below 80% will be attainable.

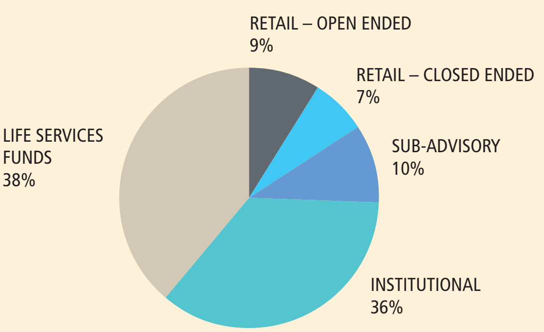
Whilst tight control has been maintained over business as usual costs, expenditure on front office IT infrastructure to support our investment professionals and on retail distribution capabilities has continued, in support of the achievement of our strategic objectives.

Henderson delivered stronger investment performance in 2003 with 68% of External Listed Asset funds* outperforming their benchmark. In particular, the performance of the Absolute Return Funds, the offshore Horizon fund range and US Retail funds has been strong, providing positive distribution opportunities for 2004.

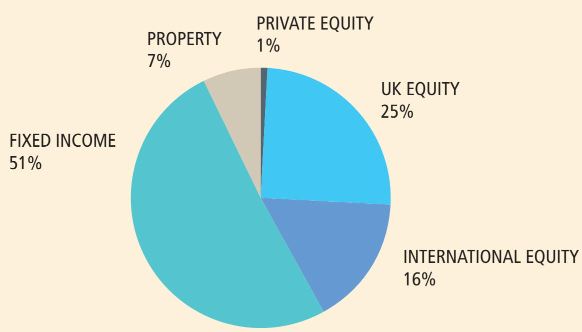
During 2003 Henderson won "The Competition" – out of 88 entrants in 12 countries – to find a new blueprint for managing pension funds in a long-term and socially responsible way. Henderson also won 20 other investment performance awards including 7 Standard & Poor's awards (e.g. Henderson Horizon Pan European Equity Fund and TR Property Fund, both in 1st place over 1 year in their respective sectors). Henderson's European Absolute Return Fund was awarded Long/Short European equity fund of the year at the EuroHedge awards.

Assets under management as at 31 Dec 2003

– by line of business
Total £70.6bn



– by asset class
Total £70.6bn



Assets under management increased £1.9bn to £70.6bn. The change reflected a £6.0bn improvement partially offset by £4.1bn of net fund outflows mainly in relation to the Life Funds and AMP withdrawals.

Outlook

Despite the volatility in the global markets in 2003, we are encouraged by the signs of recovery and believe the future of the global asset management industry is a positive one. The ageing population, increasing requirement for retirement savings and growing recognition by governments that greater proportions of the population require long-term saving and investment all bode well for the industry.

Looking ahead, Henderson will further strengthen its international distribution ties with both global and national banks in Continental Europe, Asia Pacific and North America. Given the strong performance of a number of retail and specialist property products that are suitable for distribution in each of these regions, the 2004 outlook is promising.

The investment performance improvement during 2003 also provides a stronger platform for positive flows in 2004. Cost control will remain important but this will be balanced by continuing investment in infrastructure and people which support our core objective of delivering investment excellence.

* Performance measured on External Listed assets which includes all of the listed assets managed by Henderson with the exception of the Life Services funds.

Life Services

Life Services comprises the life insurance and pensions books of Pearl, National Provident Life, NPI Limited and London life. Life Services has approximately 5.0 million policies in force and £27bn under management across annuities, pensions, savings, investment products, industrial branch business and protection policies – all of which are effectively closed to new business.

Business strategy

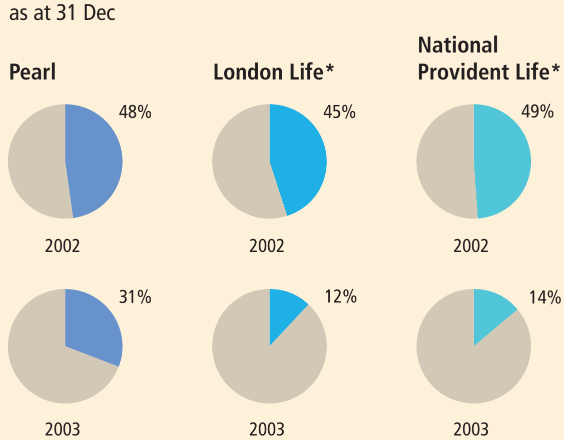
Life Services is focused on delivering shareholder value, from its closed books of business, through rigorous risk and balance sheet management and improving operational efficiency. In the longer term, we expect that significant value will be realised through the release from the life companies of capital and dividends to shareholders.

Rigorous risk management and preservation of regulatory capital

In the first half of 2003, Life Services stabilised the regulatory capital positions of the life companies by removing the risk of volatility associated with equities. As a result, the investment mix of each of the life funds changed substantially from previous years and future exposure to equity market upside and downside is limited.

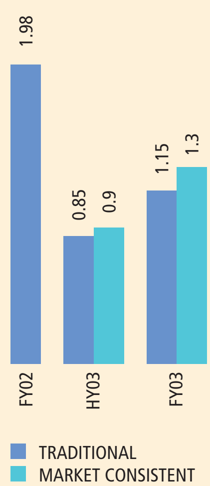
For the shareholder, significant investment losses were recognised, resulting from reductions in goodwill as new business operations were closed and the write-down in the value of shareholder capital which is likely to be required to support policyholder obligations.

Equity backing ratios of the main life companies
as at 31 Dec

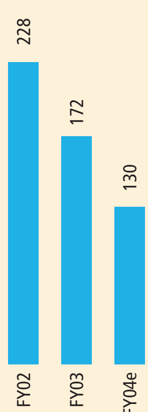


* Equity backing rates for London Life and National Provident Life reflect non-equity growth assets – primarily property and private capital

Embedded value
£bn



Life Services cost base
£m



Overall, with an operating profit of £81m, the result for Life Services is a strong one given the substantial restructuring. The stable position year on year masks the turnaround within the business which, during the year, moved from a loss in the first half of £40m to a profit in the second half of £121m.

In the second half, action taken to improve the regulatory capital position of all the Life Services companies delivered results. All the companies continue to meet the capital requirements anticipated under the FSA Consultation Paper 195 (CP195). In particular, Pearl's position has substantially improved, given the additional capital raised in December 2003 and as a result of improved market conditions in the second half of the year.

Embedded Value for Life Services grew significantly in the second half – up 36% from the half year position reflecting the additional capital raised, favourable market conditions and better than expected profitability on non-profit business and within the Service Company. The cost of capital has also reduced as a result of improved financial conditions.

Improved operational efficiency
Closure to new business, restructuring and other cost saving initiatives during 2003 reduced the cost base on a like for like comparison by 25% to £172m and full-time equivalent staff numbers were progressively reduced from 4,917 to 1,792 by year end. Life Services is on track to reach a target cost base of £130m for 2004.

Given the closure to new business and, in particular, the move to a more conservative asset mix, Life Services flagged an expected significant reduction in the in-force book during 2003/4. Despite a marked increase in customer contact and transactions, customer retention is in line with our assumptions. Surrenders spiked in the second half, as expected, and should continue to be high well into 2004 before settling at a lower level that is still above historical long-term trends.

Outlook
In 2004, Life Services will consolidate the improvements made to its businesses during 2003. In particular we expect that:

- The service company will have predominantly removed the cost overhang associated with new business and will break even.
- The profitability of the life companies should stabilise, at a lower level than would otherwise be suggested by the second half result, then settle into a consistent pattern from year to year.
- The regulatory capital position of the life companies should be reasonably stable.
- The embedded value should continue to grow as the risk discount unwinds and profit is retained to improve capital adequacy.

There are a range of regulatory changes expected, but Life Services is well positioned to cope with these. Recent industry reviews will also have an impact – for example, increased number of mortgage endowment complaints may occur but this has been anticipated.

Other Businesses

HHG's other smaller businesses focus on value realisation.

Towry Law
The independent financial advisory firm Towry Law is a leading UK based IFA with international operations in selected markets. Recovery in investor sentiment and stringent internal cost management resulted in Towry Law achieving a profit of £1m in 2003.

Virgin Money
Following a strategic review of its business in early 2003 Virgin Money began to focus on its new credit card business in international markets. The launch and success of its new Australian credit card is a testament to the potential of leveraging the Virgin brand in new financial services markets. The Virgin Money Group made its first trading profit in 2003, with the success of the credit card operations offsetting the difficulty faced by other parts of the business in a troubled UK financial services market.

In line with its stated strategy, HHG is in ongoing discussions regarding the potential sale of its stake in Virgin Money to its joint venture partner, the Virgin Group.

Divestments
During 2003, small units of the former Contemporary Financial Services operation – Trustee Services and In Retirement Services – were divested. In February 2004, the sale of the Ample online financial services business was completed.

Corporate
HHG has a small corporate office which sets policy for the Group and oversees strategic direction of the businesses. The corporate office is streamlined in terms of head count and infrastructure and undertakes the corporate functions of secretariat, corporate finance and treasury, corporate strategy, investor relations, corporate human resources, legal and regulatory affairs.

FINANCIAL REPORTING

The Group reports its performance on a Modified Statutory Solvency Basis (MSSB). In addition, for Life Services reporting, we also measure the change in its embedded value and provide detail on its regulatory capital strength through reporting free asset ratios and realistic balance sheets (calculated on the ABI basis and in accordance with the proposed FSA CP195).

MODIFIED STATUTORY SOLVENCY RESULT

HHG operating profit before amortisation of goodwill, exceptionals, interest and tax was £98m (2002: £108m). Loss on ordinary activities before tax of £864m (2002; loss of £343m) includes a series of further exceptional items in 2003 (£543m).These items arose as a result of the actions taken to preserve the regulatory capital position of the life companies – principally selling equities and the subsequent action required to restructure the Company for the Demerger from AMP. Specifically the exceptionals included the impairment in the contingent loans provided by the shareholder to the policyholder funds (£171m National Provident Life, £130m for London Life), restructuring costs associated with the decision to close Life Services companies to new business (£143m) and the impact of increased per policy expenses and mortality charges (£99m).

As part of the restructuring a full impairment review of the carrying value of the Group's goodwill was carried out which resulted in £281m of exceptional write-down of NPI Limited, Towry Law, Pearl and Virgin Money. As a consequence future annual goodwill amortisation will be significantly reduced.

In line with the Listed company recommendations of the ABI Statement of Recommended Practice, the accounting policy of the Group has been changed to account for the investment income on shareholders' funds backing both the long-term and general insurance businesses on the basis of the long-term rate of return on those funds. This has resulted in a restatement of the 2002 transfers between the general business technical account and the non-technical account but no change in the total loss on ordinary activities.

Cash flow moved from net inflow of £21m to net outflow of £18m. Main underlying movements were high levels of cash payments associated with restructuring Life Services and significant financing inflows (principally cash of £373m provided by AMP and proceeds from £190m institutional capital raising).

CAPITAL ALLOCATION AND LIQUIDITY

The liquidity position of the HHG group has improved as a result of the settlement of £1,047m debt during the Demerger process – this was the largest component of the reduction in capital employed from £2.135bn in 2002 to £1.691bn in 2003.

Shareholders' funds increased by 62% to £1,689m (2002: £1,045m). This increase reflects a loss for the year, offset by the repayment of HHG's debenture loans as part of the Demerger and the issue of 652,920,972 ordinary shares of 10p through the institutional capital raising.

Capital employed by business unit

	31 DEC 03 £M	31 DEC 02 £M
Henderson	**373**	380
Life Services	**1,177**	1,557
Other businesses	**73**	138
Corporate	**68**	60
Total	**1,691**	2,135
Financed by		
Capital & reserves	**1,689**	1,045
External loans	**2**	1,090
Total	**1,691**	2,135

LIFE SERVICES – EMBEDDED VALUE

HHG provides Embedded Values on both a traditional basis (TEV) and Market Consistent basis (MCEV) both of which are calculated by Tillinghast-Towers Perrin. Embedded Values are reported net of intra-group holdings and for TEV at a risk discount margin of 5% for the larger life companies Pearl and National Provident Life and 3% for London Life. Life Services TEV at 31 December 2003 is £1,145m, up 36% from the 30 June 2003 EV of £845m. The increase in the embedded value in the second half reflects a number of positive factors including: improved and less volatile equity markets, which reduced the capital support required by the with-profit business. Favourable interest rate movements enhanced non-profit profitability. The swap of the contingent loan from the Pearl 90:10 fund to Pacific and a reassessment of the resulting tax liabilities has reduced the expected future tax burden. Additional value has arisen from a better service company result then expected. The increase in embedded value is slightly offset by a strengthening of the mortality assumptions for NPI business. The embedded value has also increased as a result of the allocation of additional capital to Life Services, following the successful capital raising in 2003.

The MCEV allows explicitly for the cost of market-related risk, the most important of which is risk associated with the provision of policyholder financial guarantees and options and risks associated with mismatches between assets and liabilities and revenues and expenses. MCEV at 31 December was £1,271m, up 41% from £900m at 30 June 2003. The significant increase in the MCEV has arisen principally in Pearl and reflects the benefits of reduced guarantee costs as asset shares have grown relative to guaranteed benefits and favourable movements in the assumptions driving the market consistent valuation (e.g. reduction in equity volatility, consistent with more stable equity markets in the second half of 2003). Other beneficial factors for TEV will also increase the MCEV, including additional capital allocated to Life Services, changes in tax assumptions and service company profitability, again partially offset by the strengthened NPI annuity mortality assumptions. Further details on the TEV and MCEV are shown within the supplementary information on pages 87 to 89.

REGULATORY CAPITAL

Henderson

Significant regulatory changes are anticipated across the financial services industry in the coming years. This is a result of both the desire of the European Union to harmonise regulatory practices across its member states, and in response to pressure from consumer bodies. Henderson has actively participated in discussions on the potential impact of these changes through appropriate channels, including HM Treasury.

Henderson is compliant with all existing FSA regulatory capital requirements.

Life Services

As investment markets declined during 2003, it became necessary to safeguard policyholders' guaranteed benefits. Continued exposure to more volatile assets, such as equities, would have limited the protection available against further reductions in market levels and sharply increased the likelihood of a breach of regulatory capital requirements. In the first half of 2003, the AMP Board indicated that no further capital was available to support continued exposure to growth assets. This led the boards of the life companies to undertake a further reduction in the equity backing ratios of the relevant with profit funds in order to protect regulatory solvency to ensure the security of policyholder benefits.

The Free Asset Ratios (FAR) of the main life companies as at 31 December 2003 and in comparison to the 30 June 2003 position were for Pearl 2.1% (1.8%), National Provident Life 1.4% (0.4%) and London Life 1.7% (1.1%). As at the end of 2002 the FARs were 2.7%, 1.3% and 2.6% respectively, however, the reliance on implicit items in the calculation of free assets has reduced significantly from £580m (31 December 2002) to £43m (31 December 2003).

HHG welcomes regulatory moves towards more realistic assessments of life company solvency and greater consistency and transparency across life company reporting. During 2003, the FSA consultation paper ("CP195") proposed a new regulatory framework which will determine the total required capital for life insurance companies as the greater of a statutory and a realistic calculation of assets and liabilities. This is expected to become effective in 2004. Calculation of the realistic balance sheets of our life companies as defined in CP195 indicates that all would have met their regulatory capital requirements under the new realistic basis.

Under CP195 free capital for the three main life companies as at 31 December 2003 is a total of £301m compared to a 30 June 2003 total of £125m. There has been a significant improvement in the realistic balance sheet position for Pearl since that shown in the Listing Particulars at 30 June 2003. This reflects the benefit of increased equity values, lower implied volatility and therefore lower expected guarantee costs.

Calculation of the realistic balance sheets as developed by the ABI, Association of British Insurers, (a method of reporting adopted by other UK insurers) indicates that our life companies would have met their regulatory capital requirements on a realistic basis with three times coverage of risk capital margin (or one times coverage on a CP195 basis). Details of the calculated results for balance sheets under CP195 and ABI methods are shown within the supplementary information on page 89.

MANAGEMENT OF RISK

Group Treasury Operations

The key role in Treasury governance rests with the HHG PLC Board, assisted by the Board Audit Committee, which provide a control independent of group treasury management.

HHG PLC's policy on liquidity management is to ensure that it is able to fund short and long-term liabilities in an orderly and appropriate manner as and when they fall due, through active liquidity management. This entails ensuring that at all times HHG PLC has access to a variety of sources of liquidity.

HHG PLC's interest rate management policy aims to minimise the cost of borrowing through effective control and management of its interest rate risk. This may involve entering into derivative protection strategies. Derivative financial instruments are held for risk management purposes and not for speculation.

The Group's policy on foreign exchange is to protect the long-term Sterling value of the business in terms of operating margins, foreign currency earnings and overseas investments. This is managed through a combination of natural hedging methods, utilising derivative instruments such as forward FX, currency options and cross currency swaps, however, the level of currency risk is not significant. Derivative financial instruments are held for risk management purposes and not for speculation.

HHG credit policy is to safeguard its financial resources by establishing and regularly reviewing treasury credit limits and managing exposures and diversifying risks wherever practicable within these limits.

The HHG balance sheet liabilities are safeguarded by controlling the creation of contingent liabilities in the form of financial guarantees and other off balance sheet instruments.

Henderson

The Henderson risk management policy addresses how market, operational, credit, financial and derivative risks are managed within the business. Management is responsible for implementing these policies. The effectiveness of the system of internal control is reviewed by separate risk management and compliance functions. In addition, the Henderson Risk Committee provides oversight of risk management issues within the business and the Henderson Credit Risk Committee monitors adherence to the credit risk and derivative risk policies.

Life Services

During 2003, Life Services management focused heavily on understanding and managing the risks associated with the life companies and their balance sheets.

A risk and control self-assessment system has been implemented across Life Services which further strengthens the Life Services' control environment. Ongoing initiatives continue to investigate opportunities for optimising the risk:return trade-off to ensure the most efficient use of capital, while treating customers fairly. Initiatives include the continuing swap of strategic assets for admissible assets (principally HHG Invest), increasing the admissible assets in the with-profits funds and consideration of structured investment vehicles.

Investment risk

The investment policies for long-term business and other businesses have due regard to the nature of the liabilities and the guarantees and other embedded options given to policyholders. Investment policy is reviewed regularly by the relevant Investment Committee or Board of each of the Life Companies and senior HHG management, with particular attention paid to management of credit risk, market risk and interest rate risk. The interest rate risk of such liabilities is normally managed by investing in assets of similar duration, where possible. Investment policy is further managed by setting investment risk to ensure that there is sufficient capital in the business to manage the consequence of a mismatch under a number of adverse scenarios or through the use of derivatives. Asset and liability management for all insurance subsidiaries is especially important when regulatory capital is finite.

Insurance risk is controlled using delegated authorities for the limited existing product pricing and underwriting arrangements in place. Prudent reserves are held, based on assumptions for example relating to expenses, persistency and mortality, that reflect past experience and anticipated future trends.

TAXATION

The decrease in the effective rate of tax in the Group non-technical account from 11.4% to 2.0% year on year reflects the increased exceptional costs recognised in 2003 not treated as deductible for tax purposes.

The longer term effective rate of tax is used to gross up the transfer from the long-term business technical account resulting in an effective rate of 6.1% in 2003.

DIVIDEND

No ordinary dividends are proposed for the year (2002 nil).

Board of Directors

BOARD MEMBERS

At 30 March 2004, the Board consists of the Non-Executive Chairman, three Executive Directors (being the Chief Executive, the Chief Financial Officer and the Managing Director Life Services) and five other Non-Executive Directors, one of whom is nominated by AMP Limited:

NAME OF DIRECTOR	POSITION
Sir Malcolm Bates	Chairman and Non-Executive Director
Roger Yates	Chief Executive
Toby Hiscock	Chief Financial Officer
Ian Laughlin	Managing Director Life Services
Peter Costain	Non-Executive Director
Pat Handley	Non-Executive Director (AMP Limited nominee)
Anthony Hotson	Non-Executive Director
John Roques (appointed January 2004)	Non-Executive Director
Sir William Wells	Non-Executive Director

The Board is responsible for all strategic decisions regarding HHG's businesses, including approval of commercial strategy, annual budgets, interim and full year financial statements and reports, and dividend and accounting policies. It is also responsible for approving all significant capital projects, investments and disposals.

BIOGRAPHICAL INFORMATION

Details of the Directors are as follows:

CHAIRMAN

Sir Malcolm Bates, Hon.DLitt, MSc, FCIS, FRAeS, CCMI, age 69 – Chairman and Non-Executive Director.
Chairman and Non-Executive Director since March 1996. Chairman of the Board Nomination Committee since August 2003. Chairman and Non-Executive Director of Pearl Assurance PLC, National Provident Life Limited and NPI Limited.
Experience: Deputy Managing Director of GEC PLC from 1985 to 1997 after being Senior Commercial Director from 1976 to 1985. Prior to that, Sir Malcolm spent five years in merchant banking as Director and Managing Director. In recent years, he has been a Non-Executive Director of various companies including AMP Limited (Australia) until 2003 and Chairman of London Transport until 2003 and Non-Executive member of various Government panels and task forces. He has been Chairman of Premier Farnell PLC since 1997.

EXECUTIVE DIRECTORS

Roger Yates, BA (Hons) (Oxon), age 46 – Chief Executive.
Executive Director since June 2003 and Managing Director of Henderson Global Investors since 1999.
Experience: Joined AMP in October 1999 to lead the integration of Henderson Investors and AMP Asset Management Australia to form Henderson Global Investors. Mr Yates has 22 years' experience in the fund management industry as an investment professional and business manager. Previously, he was Chief Investment Officer of Invesco Global and held senior roles for fund management companies LGT and Morgan Grenfell. He was a Director of AMP Limited from December 2002 until the Demerger.

Toby Hiscock, BA (Hons) (Oxon), MA (Oxon), FCA, age 44 – Chief Financial Officer. Executive Director since August 2003.
Experience: Chief Financial Officer of HHG PLC since May 2003. Mr Hiscock is also Director of Finance and Strategy for Henderson Global Investors and was Director of Finance for Henderson Investors from July 1998, having held senior internal audit and finance roles since joining Henderson Investors in 1992.
A qualified chartered accountant with 22 years' experience in the accounting profession, prior to joining Henderson Investors, Mr Hiscock was Senior Audit Manager at Midland Bank, London for three years. From 1981 to 1988 he worked for Binder Hamlyn, Chartered Accountants in London.

Ian Laughlin, BSc, FIA, FIAA, age 53 – Managing Director, Life Services. Executive Director since January 2003.
Experience: Appointed Managing Director UK Life Services in October 2002. In the five months prior to his current appointment, Mr Laughlin was Director, Managing Director's Office of the former UK Financial Services business. Prior to that held a similar role in AMP's Australian Financial Services for over two years. He has 30 years' financial services experience and joined AMP in 1996 as Chief Manager, Life and Risk Insurance Services. He later became General Manager, Customer Solutions. Prior to joining AMP, Mr Laughlin was General Manager Retail Customer Services at Suncorp (Australia) and previously held various senior management roles in Suncorp and National Mutual (Australia). He is a qualified actuary.

1. Sir Malcolm Bates
2. Roger Yates
3. Toby Hiscock
4. Ian Laughlin
5. Peter Costain
6. Pat Handley
7. Anthony Hotson
8. John Roques
9. Sir William Wells

NON-EXECUTIVE DIRECTORS

Peter Costain, FCA, age 65.
Non-Executive Director since April 1994 and Chairman of the Board Audit Committee since October 2000. Non-Executive Director of Pearl Assurance PLC, National Provident Life Limited and NPI Limited.
Experience: Former Group Chief Executive and Deputy Chairman of international construction group, Costain Group PLC. Prior to that, Mr Costain was Managing Director of Costain Australia Limited and previously spent seven years in the accountancy profession. He is a Director of Wessex Water Services Limited.

Pat Handley, BA, MBA, age 59.
Non-Executive Director since June 2003.
Experience: Over 30 years' international financial services experience. Mr Handley was an Executive Director and Chief Financial Officer of Westpac Banking Corporation (Australia) from 1993 to 2001. Previously he was Chairman and Chief Executive Officer of County Savings Bank (USA), Chief Financial Officer of Bank One Corporation (USA) and a Director of Suncorp Metway Limited (Australia). He is Chairman of Pacific Brands Limited (Australia). Mr Handley is a Director of AMP Limited and, following the Demerger, Mr Handley became AMP's nominated Director on the HHG Board.

Anthony Hotson, M.Phil (Oxon), MA (Oxon), MA (London), age 50.
Non-Executive Director since November 2002. Non-Executive Director of Pearl Assurance PLC, National Provident Life Limited and NPI Limited. Chairman of London Life since February 2003. Chairman of Towry Law since October 2003.
Experience: Mr Hotson was formerly at the Bank of England, McKinsey & Company and Warburg. He was a Director of S.G.Warburg & Co. Ltd from 1992 to 1995 and subsequently Managing Director and Head of Financial Institutions Group, Warburg Dillon Read, the investment banking division of UBS AG.

John Roques, CA, age 65.
Joined the HHG Board as Non-Executive Director in January 2004.
Experience: Currently Chairman of the Portman Building Society, Mr Roques is also a Non-Executive Director of BBA Group PLC, Premier Farnell PLC and is a Governor of the Health Foundation. He was previously a Director of Chubb PLC and a Director of British Nuclear Fuels PLC. A member of the Institute of Chartered Accountants of Scotland, Mr Roques spent 42 years with Deloitte & Touche (formerly Touche Ross & Co.) where he served from 1990-1999 as Senior Partner and Chief Executive. He was a Member of the Financial Reporting Review Panel (1991-1994) and a Member of the Financial Reporting Council (1996-2001).

Sir William Wells, BA, FRICS, age 63.
Non-Executive Director since April 1994 and Chairman of the Board Remuneration Committee since August 2003. Appointed Senior Independent Director March 2004. Non-Executive Director of Pearl Assurance PLC, National Provident Life Limited and NPI Limited.
Experience: Sir William is currently President of international property group Chesterton International PLC, having joined Chesterton Property Consultants in 1959 and becoming a partner in 1965. In addition he is a Non-Executive Director of Exel plc. He received a Knighthood in 1997 for his services in a non-executive capacity to the National Health Service. In April 2001 was appointed Chairman of the NHS Appointments Commission, which is responsible for all non-executive National Health Service appointments in England.

Andrew Mohl was Managing Director and Chief Executive Officer of AMP Limited and a Non-Executive Director of HHG PLC from October 2002 until his resignation in February 2004.

Directors' Report

REPORT OF THE DIRECTORS

The Directors present their report to the shareholders for the year ended 31 December 2003.

Change of name

The company name was changed from A.M.P. (U.K.) PLC to HHG PLC with effect from 10 October 2003.

Principal activities

The principal activities of the Group are the provision of investment management services and the transaction of various classes of insurance business. The investment management business is undertaken through Henderson's franchise centred in London. Life Services undertakes insurance business and comprises principally the life insurance and pension books of Pearl Assurance PLC, National Provident Life Limited, NPI Limited and London Life Limited which are effectively closed to new business. Other businesses include Towry Law which provides independent financial advice, asset management and insurance broking services.

Review of the year and future developments

The Group's results for the financial period are shown in the consolidated profit and loss accounts on pages 33 to 36. A review of the financial year and future developments are covered in the Chairman's and Chief Executive's Statement and the Operational and Financial Review that precede this report.

Results and dividends

The Group made a loss after tax on ordinary activities of £847m in 2003 (2002: loss of £304m). Preference dividends of £1m (2002: £25m) have been paid during the year. The Directors do not recommend the payment of any further dividends for 2003.

Reporting

HHG PLC is Listed on both the London stock exchange and the Australian stock exchange and as such is required to comply with both sets of disclosure requirements.

Post balance sheet events

Subsequent to 31 December 2003 the following transaction has occurred:

On 27 February 2004, 100% of the issued shares in Interactive Investor Trading Limited were sold to Carruthers and Associates Limited which resulted in a loss on disposal of £0.6m.

Substantial shareholdings

At 26 March in accordance with the provision of sections 198 to 208 of the Companies Act 1985, the Company had received notification from AMP Limited of holdings in the Company's issued share capital amounting to 14.73% respectively.

Employees

During 2003, the Group continued its policy of informing and involving employees on matters which concern them and in the achievement of its business goals. The Group has comprehensive processes for consultation and communication involving regular meetings between management and employees, team briefings, opinion surveys and the issue of various bulletins and an in-house magazine for Henderson. Employee development within the Group is promoted by encouraging staff to gain appropriate professional qualifications and assisting with wider personal development. Specific HR initiatives vary by business unit to reflect business needs and their competitive environment.

The Group is committed to providing equal opportunities to all employees irrespective of their sex, sexual orientation, martial status, religion, race, or disability. It is the Group's policy to give positive consideration to disabled persons with respect to applications for employment, training, career development and promotion having regard to each individual's particular aptitudes and abilities.

Supplier payment policy

It is the policy throughout the Group that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with. In respect of Group activities, the amounts due to trade creditors at 31 December 2003 represents approximately 31 days of average daily purchases through the year (2002: 32 days). The Company has no trade creditors.

Corporate Governance

A statement on Corporate Governance appears on pages 16 to 20.

Share capital

Details of movements in authorised and allocated share capital during the year are given in note 18.

Directors
Details of the Board members at the date of this report are set out on pages 12 to 13. All of the Directors will be seeking election at the Annual General Meeting.

Directors' remuneration and interests
A Report on Directors' remuneration appears on pages 21 to 29, including details of their interests in shares and share options.

International Financial Reporting Standards
All Listed companies are required to apply International Financial Reporting Standards (IFRS) for accounting years commencing on or after 1 January 2005 for both their interim and full year accounts. To meet this requirement, HHG's opening balance sheet as at 1 January 2004 will need to be prepared under IFRS.

The most significant impact on the Group will result from the application of an IFRS to Insurance Contracts. The International Accounting Standards Board (IASB) concluded that it will be unable to produce a complete standard in time for the 2005 adoption deadline and has instead adopted a two phased approach. Phase 1 of this will be applicable for 2005 reporting. This states that contracts meeting the definition of an insurance contract should continue to be accounted for under local GAAP until development of a full standard under Phase 2. Adoption of Phase 2 is not expected until at least 2007.

A project structure is in place to ensure that HHG PLC is able to meet the requirements of IFRS. A full time project management team is dedicated to the timely implementation of IFRS.

Indemnification and insurance of Directors and officers
The Company provides a Deed of Indemnity to Directors to the extent permitted by UK law whereby the Company is able to indemnify a Director against any liability incurred in proceedings in which he is successful, and against the costs of successfully applying to the Court to be excused for breach of duty where the Director acted honestly and reasonably.

In addition, the Deed of Indemnity provides that Directors will have access to the board/committee papers of the Company for the period of their office and for seven years after ceasing to be a Director for the purpose of defending legal proceedings, and that the Company will maintain Directors' and officers' insurance cover for the Directors to the extent permitted by law for the period of their office.

During or since the end of the financial year, the Company has paid or agreed to pay premiums in respect of a contract insuring all of the officers (including all Directors) of the HHG group against certain liabilities. The insurance policy prohibits disclosure of the nature of the liability, the amount of the premium and the limit of liability.

Rounding
In accordance with the Australian Securities and Investments Commission Class Order 98/0100, amounts in this Directors' Report and other sections of this Full Annual Financial Report and Accounts have been rounded off to the nearest million pounds sterling, unless stated otherwise.

Charitable and political donations
Donations by the Company and its subsidiaries for community and charitable purposes in the United Kingdom amounted to £44,000 (2002: £360,000). This is broken down as follows: Medical and Other £19,000; Social and Welfare £17,000; and Arts and Heritage £8,000. The Company and its subsidiaries made no political donations.

Annual General Meeting
A separate document, the Notice of Annual General Meeting 2003, covering the Annual General Meeting of the Company to be held on 10 June 2004, will be sent to all shareholders and contains an explanation of the business before that meeting.

Auditors
Ernst & Young LLP have intimated their willingness to continue in office and a resolution that they be re-appointed will be proposed at the Annual General Meeting.

Signed in accordance with a resolution of the Directors

R P Yates

Roger Yates
Chief Executive
30 March 2004

Corporate Governance Statement

CODES AND PRINCIPLES

The Directors support the high standards of corporate governance contained in the Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 and annexed to the Listing Rules of the UK Listing Authority (the Combined Code) and the Principles of Good Corporate Governance and Best Practice Recommendations issued by the Australian Stock Exchange (ASX) Corporate Governance Council (the ASX Principles). The Combined Code replaced the code issued by the Hampel Committee on Corporate Governance in June 1998 (the 1998 Code). This Statement, together with the Report on Directors' Remuneration, describe the Company's corporate governance arrangements. Further details can be found within the corporate governance section of the Company's website.

The Company was not Listed until 23 December 2003 (Listing) and therefore did not have to comply with either the 1998 Code or the Combined Code until then. Although the Combined Code only applies to the Annual Report of the Company from next year, from the date of its Listing to 31 December 2003, the Company has, except as regards the matters described below, complied with the provisions of Section 1 of the Combined Code. The Company is not obliged to comment on the extent it has followed the best practice recommendations set out in the ASX Principles until after the financial year ending 31 December 2004. However, except as regards the matters described below, the Company considers its current governance practices follow the recommendations of the ASX Principles in all material respects.

The relevant exceptions are as follows:

- The terms of reference for the Audit Committee did not include a responsibility to review the Company's whistleblowing arrangements (Combined Code). This was amended on 19 February 2004.
- Certain documents were not placed on the Company's website (Combined Code and ASX Principles). Most of these documents were placed on the Company's website on 31 March 2004, thus meeting the recommendations of the Combined Code. The remainder will be placed on the Company's website during 2004 to comply with the ASX Principles.
- The number of independent Non-Executive Directors did not comprise at least half of the Board (excluding the Chairman) until 2 February 2004 (Combined Code). Although the Chairman, on appointment, met the independence criteria, the Combined Code provides that the test of independence is not appropriate thereafter. However, the Chairman is an independent Director in accordance with the ASX Principles and, following those Principles, a majority of the Board were independent Non-Executive Directors from 2 February 2004.
- The Board did not appoint a Senior Independent Director until 25 March 2004 (Combined Code).
- Due to the limited time the Board has operated together as an independent body, there was no annual evaluation of the performance of the Board, the Board Committees or individual Directors (including the Chairman) in their new roles during 2003. It is the intention of the Board to carry out such evaluations in 2004 (Combined Code and ASX Principles).
- As a result of his previous arrangements with AMP Limited (AMP), Roger Yates, Chief Executive, has a contract that allows HHG to terminate his appointment by paying a liquidated sum equivalent to 24 months' basic salary, reducing from 1 January 2004 on a sliding scale on a monthly basis, to 12 months' basic salary from 1 January 2005 (Combined Code).
- In respect of the ASX Principles only:
  – details of the remuneration of the five highest-paid (non-Director) executives are not disclosed, as proposed by ASX best practice recommendation 9.1, for the reasons stated in the Additional Remuneration Information (page 30);
  – equity based reward schemes in which the Executive Directors and other employees may participate were approved by the then shareholder, AMP, prior to the Demerger from AMP (Demerger). Full details of these schemes (which include a Long Term Incentive Plan and Sharesave Scheme) were disclosed in the Explanatory Memorandum issued to AMP's shareholders prior to the Demerger, and details are set out on pages 23 to 25 in the Report on Directors' Remuneration. Consequently, the Company does not intend to re-present these schemes to shareholders for approval as proposed by ASX best practice recommendation 9.4.

If this assessment were made against the 1998 Code rather than the Combined Code, the Company would have been non-compliant only in respect of the fourth and sixth of the matters identified above.

THE BOARD

The Board comprises a Non-Executive Chairman, a Chief Executive, two other Executive Directors and five Non-Executive Directors, four of whom the Board considers to be independent: Peter Costain, Anthony Hotson, John Roques and Sir William Wells. The Board has appointed Sir William Wells as the Senior Independent Director. The Directors consider that each of these Directors is independent on the basis that they do not have any interest or business or other relationship which could, or could reasonably be perceived to, materially interfere with their ability to act in the best interests of the Company. In addition, the Board has considered the criteria proposed by the Combined Code and the ASX Principles in assessing the independence of the Directors. Materiality, as referred to in the ASX Principles, is assessed on a case-by-case basis by reference to each Director's individual circumstances rather than general materiality thresholds. Pat Handley is not considered to be independent due to his being a Director of AMP, a major shareholder. Biographical details of the Directors are given on pages 12 and 13.

Peter Costain and Sir William Wells have both served on the Board since April 1994. Between them, they have brought a wealth of experience to the Company and they agreed to remain on the Board in order to see HHG through the Demerger and the early stages of the Company's existence as a separately listed company. The Board has concluded that the Group's interests will be best served if they remain in office during this crucial period. The Board has decided that, given their other interests (see Board of Directors section, pages 12 to 13), and the fact that they meet the other independence criteria of the Combined Code and ASX Principles, they should be considered independent in character and judgement notwithstanding their length of service. It is their intention to stand down from the Board at or before the Annual General Meeting to be held in 2005, and it is expected that they will be replaced with new independent Non-Executive Directors.

John Roques is a Director of Premier Farnell plc, a company of which Sir Malcolm Bates is Chairman. The Board has concluded that John Roques should be considered independent, given his background and experience and as this cross-directorship is not a reciprocal arrangement between the companies, and that neither of them is an Executive Director of either company.

There is a division of responsibility between the Chairman, Sir Malcolm Bates, who is responsible for the effective operation of the Board, and the Chief Executive, Roger Yates, who is responsible to the Board for the overall management and performance of the HHG Group. Having resigned as Chairman of London Regional Transport on 15 July 2003, Sir Malcolm Bates' only remaining significant commitment is as Chairman of Premier Farnell plc, a FTSE 250 company.

Non-Executive Directors are appointed for a fixed term, normally of three years, and any subsequent terms are subject to review. A summary of the remuneration payable to the Non-Executive Directors is set out in the Report on Directors' Remuneration (see page 21). The terms and conditions of appointment of the Non-Executive Directors may be viewed on the Company's website.

All newly-appointed Directors receive induction on joining the Board. Thereafter, the Company provides the necessary resources for developing and updating the knowledge and capabilities of its Directors.

With the Board and with Directors individually, the Chairman intends, during 2004, to facilitate discussions on, and evaluation of, the performance of the Board, of the Board Committees and of individual Directors. The Non-Executive Directors will appraise the Chairman's performance, after taking into account the views of the Executive Directors.

At the Annual General Meeting to be held on 10 June 2004, being the first after the Demerger, all Directors will be subject to re-appointment by shareholders. At each subsequent Annual General Meeting, approximately one-third of the Directors, and any Director who has served for more than three years without being proposed for re-appointment at an Annual General Meeting, will retire by rotation and may seek re-appointment.

OPERATION OF THE BOARD

The Directors met as a Board 21 times in 2003. Attendance by each of the Directors was:

DIRECTOR'S NAME	DATE APPOINTED	DATE RESIGNED	NUMBER OF MEETINGS HELD IN 2003 WHILE A DIRECTOR	NUMBER OF MEETINGS ATTENDED IN 2003 WHILE A DIRECTOR	PERCENTAGE OF MEETINGS ATTENDED IN 2003 WHILE A DIRECTOR
Sir Malcolm Bates	12/03/1996		21	21	100%
Peter Costain	12/05/1994		21	15	71%
Marc de Cure	14/02/2003	31/08/2003	10	3	30%
John Drabble	28/01/2003	17/09/2003	11	9	82%
Pat Handley	16/06/2003		16	11	69%
Toby Hiscock	11/08/2003		12	12	100%
Anthony Hotson	29/11/2002		21	18	86%
Ian Laughlin	28/01/2003		21	20	95%
Paul Leaming	17/10/2002	31/08/2003	10	7	70%
Colin Lever	19/05/1997	31/07/2003	9	7	78%
Andrew Mohl	17/10/2002	02/02/2004	21	7	33%
Sir William Wells	12/05/1994		21	19	90%
Roger Yates	16/06/2003		17	16	94%

The Demerger and Listing of the Company meant that the Board met frequently during the latter part of the year and, while it was the intention of every Director to attend every meeting, this was not always possible given the unprecedented level of activity. The lower attendance of Australian-based Directors, Andrew Mohl and Marc de Cure, was due to their need to focus on their executive roles for AMP in Australia during the period leading up to the Demerger. Neither remains a Director of the Company.

The Directors are scheduled to meet as a Board eight times in 2004. Additional meetings will be held as required or at the request of a Director. During 2003, the Non-Executive Directors met the Chairman without executives being present, and it is the intention that this should happen again on a number of occasions during 2004.

To enable the Directors to perform their role effectively, they are given the means and information necessary for them to make informed decisions and to follow best corporate governance practice. At each of its meetings, the Board receives detailed reports on the various aspects of the business and of any major issues affecting it.

The Board is responsible for all strategic decisions regarding HHG's business, including approval of commercial strategy, annual budgets, interim and full year financial statements and reports, dividend and accounting policies, and the approval of all significant capital projects, investments and disposals. There is a schedule of matters reserved for approval by the Board that is reviewed annually and which may be viewed on the Company's website.

The Board has approved corporate governance policies including a policy on trading in the shares of the Company by Directors and employees, a market disclosure policy and a code of conduct which together set a framework within which the Directors and other employees are expected to behave to protect the interests of shareholders, customers, employees and suppliers. Copies of these three documents may be viewed on the Company's website.

The Directors are entitled to seek independent professional advice at the Company's expense where they judge it necessary to discharge their responsibilities as Directors.

BOARD COMMITTEES

The Board has delegated specific responsibilities to three standing Committees of the Board. The membership of the Board Committees and a summary of their main duties under their terms of reference are set out below. The full terms of reference may be viewed on the Company's website.

During 2003, the Board established two Committees in addition to the three standing Committees. A Committee consisting of Sir Malcolm Bates, Pat Handley, Toby Hiscock, Ian Laughlin and Roger Yates attended to certain Demerger issues and met eight times in 2003. A Committee consisting of Sir Malcolm Bates, Toby Hiscock and Roger Yates attended to certain issues connected with the Listing on the London and Australian stock exchanges and met twice. Both of these Committees have completed their work.

AUDIT COMMITTEE

Peter Costain has chaired the Audit Committee since October 2000 and its other current members are Anthony Hotson and Sir William Wells (see Board of Directors, page 13, for details of the qualifications of the Committee members). The Committee met seven times in 2003. Attendance by each of the members was:

DIRECTOR'S NAME	DATE APPOINTED	DATE RESIGNED	NUMBER OF MEETINGS HELD IN 2003 WHILE A MEMBER	NUMBER OF MEETINGS ATTENDED IN 2003 WHILE A MEMBER	PERCENTAGE OF MEETINGS ATTENDED IN 2003 WHILE A MEMBER
Peter Costain	28/07/1998		7	7	100%
Anthony Hotson	28/08/2003		1	1	100%
Paul Leaming	07/11/2001	31/08/2003	6	6	100%
Colin Lever	28/07/1998	31/07/2003	6	6	100%
Sir William Wells	28/07/1998		7	7	100%

The Audit Committee is responsible for making recommendations to the Board on the appointment of the external auditors, the terms of engagement (including audit fees) and for reviewing the performance, independence and objectivity of the external auditors. It receives and reviews reports from management and the external auditors relating to the Company's Annual Report and Accounts and interim reports, although ultimate responsibility for reviewing and approving the Annual Report and Accounts and interim reports remains with the Board. The Audit Committee also receives formal reports from the internal auditor, who attends meetings as required.

The Audit Committee reviews compliance with legal and regulatory requirements, accounting standards and the form of the statutory accounts and accounting policies. It particularly focuses on assessing the effectiveness of the Group's systems of internal controls and risk management procedures, as well as the internal audit function. The Audit Committee also reviews arrangements for whistleblowing.

Information on the procedures for the selection and appointment of the external auditors and for the rotation of the external audit engagement partner is provided on the Company's website. The Company has adopted a Charter of Statutory Auditor Independence which requires both the Company and the external auditors to take measures to safeguard the objectivity and independence of the external auditors. In 2003, the non-audit fees paid to the Company's auditors, Ernst & Young LLP, exceeded the audit fees due to the work undertaken on the Demerger (see page 48).

NOMINATION COMMITTEE

Sir Malcolm Bates chairs the Nomination Committee and its other current members are Peter Costain and Sir William Wells. The Committee was formed on 28 August 2003 and met once in 2003. Attendance by each of the members was:

DIRECTOR'S NAME	DATE APPOINTED	DATE RESIGNED	NUMBER OF MEETINGS HELD IN 2003 WHILE A MEMBER	NUMBER OF MEETINGS ATTENDED IN 2003 WHILE A MEMBER	PERCENTAGE OF MEETINGS ATTENDED IN 2003 WHILE A MEMBER
Sir Malcolm Bates	28/08/2003		1	1	100%
Peter Costain	28/08/2003		1	1	100%
Sir William Wells	28/08/2003		1	1	100%
Roger Yates	28/08/2003	28/10/2003	1	1	100%

The Nomination Committee has responsibility for considering the size, composition and balance of the Board, retirement and appointment of additional and replacement Directors and making appropriate recommendations to the Board on these matters.

In identifying suitable candidates for recommendation for appointment to the Board, the Nomination Committee is concerned to ensure that the Board has available to it Directors with an appropriate mix of expertise and experience.

It is the Company's practice to use an external search consultancy to assist the Committee in identifying suitable candidates for Non-Executive Board positions, other than the AMP nominated Director.

REMUNERATION COMMITTEE

Sir William Wells chairs the Remuneration Committee and its other current members are Peter Costain and Anthony Hotson. The Committee was formed on 28 August 2003 and met three times in 2003. Attendance by each of the members was:

DIRECTOR'S NAME	DATE APPOINTED	DATE RESIGNED	NUMBER OF MEETINGS HELD IN 2003 WHILE A MEMBER	NUMBER OF MEETINGS ATTENDED IN 2003 WHILE A MEMBER	PERCENTAGE OF MEETINGS ATTENDED IN 2003 WHILE A MEMBER
Sir William Wells	28/08/2003		3	3	100%
Sir Malcolm Bates	28/08/2003	28/10/2003	1	1	100%
Peter Costain	28/10/2003		2	2	100%
Pat Handley	28/08/2003	28/10/2003	1	1	100%
Anthony Hotson	28/08/2003		3	3	100%

The Remuneration Committee has responsibility for making recommendations to the Board on the Company's policy for the remuneration and performance of Executive Directors and for determining, within agreed terms of reference, specific remuneration packages for each of the Executive Directors. These include pension rights, any compensation payments and the implementation of executive incentive schemes. The Chairman and the Executive Directors determine the remuneration of Non-Executive Directors, except for the Chairman whose remuneration is determined by the Remuneration Committee. The Remuneration Committee operates on the principle that members of the executive management should be provided with appropriate incentives to encourage superior performance and should, in a fair and responsible manner, be rewarded for their individual contributions to the success of the Group.

The Report on Directors' Remuneration (see page 21) provides details on how the Remuneration Committee exercises these duties. Towers Perrin, acting as remuneration consultants, advises the Remuneration Committee. It does not have any other connection with the Company other than providing compensation data and information on remuneration developments and as consulting actuaries to the HHG life company subsidiaries through its sister company, Tillinghast.

INVESTOR RELATIONS

The Company values its interaction with shareholders and welcomes the views of both retail and institutional investors and their representative bodies. HHG utilises its regularly updated website (www.hhg.com) to communicate a wide range of information about the Group and to provide online services to help shareholders manage their holding and engage with the Company. In addition, HHG offers a variety of information and feedback channels including the shareholder call centre, email access and shareholder meetings. A programme to ensure regular feedback to the Board from major investors is also in place.

In the period prior to Listing, HHG engaged proactively with institutional investors; it will continue to do so. HHG will publish results biannually and send a summary annual report to all shareholders (unless they have elected to receive a copy of the full financial Annual Report and Accounts).

All shareholders (including CDI holders) will be invited to the Annual General Meeting (AGM) where they will have the opportunity to ask questions of the Directors. At least 20 working days before the meeting, HHG will issue shareholders the notice convening the AGM which will also contain commentary on the business of the meeting and explanatory notes to help shareholders decide how to exercise their rights at the meeting. All shareholders will have the opportunity to ask questions at the AGM at which all HHG Directors intend to be present. The AGM will be held in London and, in 2004, to assist Australian shareholders, facilities will also be provided in Sydney for shareholders to attend and participate in the AGM. After the meeting, HHG will provide, on its website, a summary of the questions asked at the AGM and the answers given, together with the results of the resolutions put to the AGM.

FINANCIAL REPORTING AND GOING CONCERN

The Directors have acknowledged their responsibilities in relation to the accounts in the Statement of Directors' Responsibilities (see page 31). After making appropriate enquiries, the Directors consider that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and therefore have continued to adopt the going concern basis in preparing the accounts.

OVERSIGHT OF INTERNAL CONTROLS AND RISK MANAGEMENT

The Board has overall responsibility for the Group's system of internal controls and for reviewing its effectiveness. The system of internal controls is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurances against material misstatement or loss. The Board considers risk assessment and controls to be fundamental to achieving its corporate objectives within an acceptable risk/reward profile. Throughout 2003, and up until the date of this report, there has been in place an ongoing process for identifying, evaluating and managing significant risks within the Group's control which accords with the guidance set out in the "Turnbull Report" – internal control: Guidance for Directors on the Combined Code annexed to the Combined Code. The effectiveness of the Group's system of internal controls is reviewed at least annually by the Board. Up to the time of the Demerger, the Group's interest of 50% in Virgin Money Group Limited was reviewed by AMP's Board Audit Committee; it is now reviewed by HHG's Audit Committee.

Below Board level, the management of risk within the Company and its subsidiaries is governed by a structure of Audit Committees (the HHG Audit Committee, the role of which is described earlier and the Henderson Audit Committee, which is chaired by a Non-Executive Henderson Director, and focuses specifically on Henderson internal control issues), and Business Unit Risk Committees, which are management committees, chaired by and consisting of members of senior management.

The purpose of the Business Unit Risk Committees, which normally meet monthly, is to provide leadership and oversight of risk management, to maintain effective governance structures and to advise the relevant Board on risk management policy and risk appetite. They maintain a forum for the management and resolution of all significant regulatory and compliance issues and constructively challenge the relevant business to demonstrate that risks have been identified, prioritised and appropriately addressed and to recommend improvements as required. Their activities are overseen by the HHG Risk Committee, a management committee chaired by and consisting of members of senior management, which meets at least quarterly.

Day-to-day management of risk is the responsibility of the Group's line management. The risk management function works closely with management to maintain a risk and control self-assessment process, an incident reporting process and the provision of management information to the Audit Committees and the Business Unit Risk Committees. The compliance function works with the risk management function and the business units to ensure that all regulatory risks have been understood and are being effectively managed.

Additional assurance is provided by the internal audit function, which operates and reports independently of the other governance functions.

Report on Directors' Remuneration

1. INTRODUCTION

The Directors' Remuneration Report of HHG PLC (the Company) contains the following information:

- A description of the role of the Company's Remuneration Committee;
- A summary of the Remuneration Policy of the Company and its subsidiaries (the HHG Group) including a statement of the Company's policy on Directors' remuneration;
- Details of the terms of the service contracts and the remuneration of each Director for the preceding financial year;
- Details of the share options and awards under long-term incentive schemes held by the Directors; and
- Details of each Director's interest in Ordinary Shares in the Company.

Prior to the Demerger from the AMP group of companies (AMP Group), remuneration policy and contractual terms for senior executives of the Company were determined by the AMP Board Remuneration Committee in Australia. The Company's own remuneration policy and remuneration arrangements for its Executive Directors' have applied from the Demerger and its Listing on 23 December 2003 and were disclosed in the Listing Particulars. As a result, payments to the Executive Directors in respect of service during 2003 largely reflect the outcome of AMP Group remuneration policy and arrangements in place prior to Listing.

2. CORPORATE GOVERNANCE

This report complies with the Directors' Remuneration Report Regulations 2002 (the Regulations) under the UK Companies Act which apply to the Company for the first time following Listing. It also sets out how the principles of the Combined Code relating to Executive Directors' remuneration are applied by the Group.

A resolution will be put at the Annual General Meeting (AGM) on 10 June 2004 inviting shareholders to consider and approve this Report.

3. MEMBERSHIP AND RESPONSIBILITIES OF THE REMUNERATION COMMITTEE

3.1 Role of the Remuneration Committee

The Remuneration Committee reviews and approves, where appropriate, the HHG Group's remuneration and compensation plans, policies and practices.
Its duties are to:

- review and recommend to the Board the Company's remuneration protocols and practices, which are performance-based and aligned with the Company's vision, values and overall business objectives;
- determine annually the remuneration of the Board Chairman, the Chief Executive and his direct reports, including Executive Directors;
- approve the terms and conditions of employment and other contractual matters relating to the HHG Group's executive management team; and
- approve the policy and terms of the HHG Group's employee share incentive plans.

The full terms of reference of the Remuneration Committee are available at www.hhg.com or on request from the Company Secretary.

No Director or member of the HHG Group's executive management team is involved in any decision as to his or her own remuneration.

3.2 Membership

The Remuneration Committee consists entirely of independent Non-Executive Directors and has, since 28 October 2003, comprised Sir William Wells (Committee Chairman), Peter Costain and Anthony Hotson. The Board Chairman and the Chief Executive may attend meetings of the Remuneration Committee at the Committee's invitation, save that they are absent when their own remuneration is under consideration.

3.3 Meetings

The Remuneration Committee meets regularly and takes advice from both inside and outside the HHG Group on a range of matters, including the scale and composition of the total remuneration package payable in comparable financial institutions to people with similar qualifications, skills and experience.

Internal support is provided to the Remuneration Committee by the Company Secretary and the Group Director of Human Resources who is invited to attend and speak at meetings, except when her own remuneration is under consideration.

The Committee Chairman and the Chief Executive make recommendations on matters relating to the remuneration of the Executive Directors who report to the Chief Executive. The Board Chairman is consulted in relation to the remuneration of all Executive Directors.

The Remuneration Committee met three times in 2003, with its first meeting being in September 2003 following its establishment by the Board in August 2003.

3.4 Advisers

During the year, where considered appropriate, the Remuneration Committee took advice on technical aspects of compensation policy from independent external consultants appointed by the Committee. These were Towers Perrin, a specialist remuneration consulting firm who provided advice on executive pay and share plan issues, and Watson Wyatt who provided advice on pensions issues to the HHG Group. Towers Perrin also provided compensation data and information on remuneration developments to the Company. Tillinghast, a sister company of Towers Perrin, provided general management consulting and valuation advice to AMP in relation to Listing and continues to provide such advice to HHG and its life company subsidiaries.

4. POLICY STATEMENT

4.1 Reward policy

The Company's remuneration framework is designed to be market competitive and specifically to motivate employees to improve individual and corporate performance, retain key employees and align employee actions with the interests of shareholders.

It is based on a total reward approach designed to deliver top quartile pay for top performance. There are three key components:

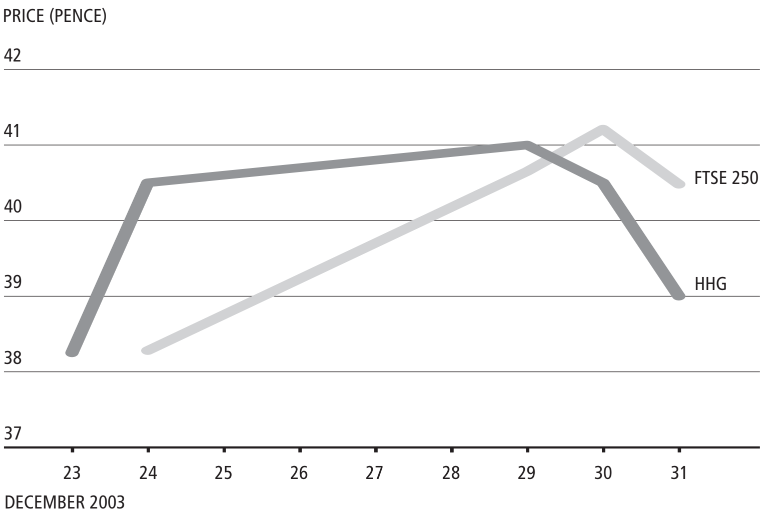
- Base salary – positioned at the middle range of the market;
- Annual bonus – paid under a short term incentive (STI) plan where individuals have the opportunity to receive a bonus based on business and individual performance against targets; and
- Long term incentive – performance-based for senior executives and certain professionals such as key senior fund managers.

This report sets out the Company's current policy on Non-Executive and Executive Directors' remuneration which came into effect on Listing. The Remuneration Committee considers that a successful remuneration policy needs to be sufficiently flexible to take account of future changes in the Company's business environment and in remuneration practice and so the policy is subject to change. Any changes in policy for years after 2004 will be described in future Directors' Remuneration Reports.

4.2 Performance graph

The Companies Act 1985 requires this report to include a performance graph comparing the Group's total shareholder return performance against that of a broad market index. The graph below shows HHG's ordinary share price movement and compares this against the movement in the FTSE 250 index. The graph starts from the date that the Group was admitted to the London Stock Exchange (LSE), 23 December 2003, and finishes at the end of 2003. The FTSE 250 was selected as the most appropriate broad market index since the Company is a constituent member and while a range of other options were considered, none were found to be more appropriate.

HHG Ordinary Shares on LSE



5. EXECUTIVE DIRECTORS' REMUNERATION: INDIVIDUAL ELEMENTS

5.1 Overall structure

Executive Directors' remuneration comprises: base salary, annual bonus, pension benefits, benefits in kind and the opportunity to participate in HHG Group-wide incentive schemes to be introduced in 2004, such as the HHG PLC Long Term Incentive Plan (LTIP), the HHG PLC Restricted Share Plan (RSP) and the HHG PLC Sharesave (SAYE) Scheme. The LTIP and the annual bonus are performance-related and the Remuneration Committee regards them as key elements in the Executive Directors' remuneration packages. The SAYE Scheme will be available to all employees and is not performance-related. Awards to Executive Directors under the RSP will only be made in exceptional circumstances and may be subject to performance conditions. As at the date of this Report, no awards have been made under the LTIP, although it is expected that awards will be made during April 2004 shortly after the announcement of the annual results for 2003. No awards have been made under the RSP to date and none are planned. The SAYE Scheme will be launched to all eligible employees during April 2004.

The total reward packages for the Chief Executive and the Chief Financial Officer (CFO) were determined following a review of a comparator group comprising both Listed asset management and Life Services companies. The Managing Director, Life Services' total reward package was determined following a review of a comparator group of Life Services companies. However, in structuring the packages, account was taken of Executive Directors' pre-existing contractual arrangements which had been implemented under the AMP Group's remuneration policy and which were a significant factor in the re-negotiation and finalisation of their service agreements.

5.2 Performance linkage

Each element of the Executive Directors' reward package supports the achievement of key business measures as illustrated in the table below:

ELEMENT	STRUCTURE	PURPOSE	PERFORMANCE MEASURE
Base Salary	Fixed	Reflects the competitive market rate for the job, the individual's contribution and prior contractual arrangements	Individual performance
Annual bonus	Variable	Rewards the delivery of operational goals and financial targets	Return on capital, operating profit pre-tax and cash balances against target and other operational objectives
Long Term Incentive	Variable	Supports superior business performance in relation to competitor companies; aligns executives with shareholders' interests	Relative total shareholder return

The Committee intends that for target levels of performance at least 60% of total compensation (excluding pension) should be performance-related. The expected value of awards to be made under the LTIP was calculated by our advisers, Towers Perrin, using a proprietary methodology. Their methodology considers the threshold TSR rank at which payment begins, payment level at this threshold, the maximum payment under the plan and the rank at which this maximum is achieved. The methodology also takes into account the correlation of the company's stock with those companies in the peer group, starting from the premise that the value of the shares awarded at the end of the performance period is correlated with the TSR ranking. The Remuneration Committee is satisfied that these schemes constitute a well considered overall plan for Executive Directors' remuneration. They are kept under regular review to take account of changing circumstances and any incentive payments will not be taken into account for pension purposes.

The remuneration arrangements have a higher proportion of fixed pay than for other investment management firms, reflecting the fact that the HHG Group is not a pure fund management business and includes the Life Services businesses, Towry Law and other interests.

5.3 Basic pay

The Committee's objective is that Executive Directors' basic salaries should be paid at an appropriate level to take account of both individual performance and of salaries within a comparator group of financial institutions, based on external independent advice. The Committee considers that exceptional performance, whether individual or corporate, should be rewarded through bonus and incentive schemes rather than basic salary.

Salaries will be reviewed annually for each Executive Director, and revised salaries took effect from Listing on 23 December 2003 as follows:

R.P. Yates	Chief Executive	£600,000 per annum
N.T. Hiscock	CFO	£300,000 per annum
I.W. Laughlin	Managing Director, Life Services	£275,000 per annum

5.4 Bonus scheme

At the discretion of the Remuneration Committee, each Executive Director may receive a cash bonus subject to the achievement of individual and corporate performance targets established by the Remuneration Committee. Payment of bonuses (if any) will be made to the relevant Executive Director annually, conditional upon achievement of the performance targets in the preceding calendar year. The bonus range is zero to a specified maximum with target being the midpoint. The maximum bonus entitlement is based on a percentage of annual basic salary. For 2004 performance, this will be 200% of salary for the Chief Executive, 150% of salary for the CFO and 150% of salary for the Managing Director, Life Services. The same percentage limits applied for 2003 performance.

For each Executive Director, the corporate performance targets relate to both Company performance measures as set out in 5.2 above and performance measures for individual businesses. The Henderson performance measures are operating profit pre-tax, net external cash flow and investment performance. The Life Services performance measures are operating profit pre-tax, embedded value, expenses and realistic free assets.

For each of the Executive Directors, the individual component is based on achievement against individual performance agreements approved by the Remuneration Committee. These agreements set out objectives relating to factors such as achievement of strategic milestones; relationships with the Board, regulators and investors; customer management; employees and risk management.

The Remuneration Committee will review the performance of each Executive Director on an annual basis against these corporate and individual targets.

5.5 Long-term incentives

Under the LTIP, the Remuneration Committee may make awards to Executive Directors over a maximum number of Ordinary Shares determined by the Committee at the date of grant. Vesting of awards will be conditional on the achievement of a performance target (see below) measured over a three year period and the Executive Director's continued employment during the performance period. The primary performance measure is total shareholder return (TSR) which the Committee believes provides executives with a strong alignment to shareholders' interests.

The Company will make awards under the LTIP to Executive Directors during the six weeks following announcement of its results for the year ending 31 December 2003. The aggregate market value of the Ordinary Shares (averaged over the three month period immediately prior to the date of grant) capable of being acquired under these awards will be equal to 250% of salary in the case of the Chief Executive and 160% of salary in the cases of the CFO and the Managing Director, Life Services.

If the Remuneration Committee is satisfied that the Company's TSR performance reasonably reflects its underlying financial performance over the performance period, these awards will be exercisable if the growth in the Company's TSR over the three year period commencing 1 January 2004, compared to that achieved over the same period by the companies in the FTSE 250 index at the date of grant, is at or above median. If the Company's TSR performance is below the 50th percentile, none of the shares awarded will vest. If the Company's TSR performance is at the 50th percentile, 35% of the shares awarded will vest and if it is at the 75th percentile, 100% of the shares awarded will vest. Vesting between these two points will be calculated on a straight line basis. An independent adviser will verify relative TSR performance.

The Remuneration Committee intends to make annual awards under the LTIP for Executive Directors in future years.

The Committee has also determined that, over time, each Executive Director should be required to acquire and maintain a target shareholding of Ordinary Shares in the Company, equivalent to 100% of base salary, in order to align the interests of Executive Directors more closely with those of shareholders. This is expected to be achieved mainly through vesting of awards under the LTIP.

All-employee share schemes

Executive Directors will be eligible to participate in the Company's all-employee share scheme on the same terms as other employees.

The SAYE Scheme, a savings-related share option scheme, will be available to all employees. This scheme operates within specific UK tax legislation (including a requirement to finance exercise of the option using the proceeds of a monthly savings contract), and exercise of the option is not subject to satisfaction of a performance target since this is an all-employee scheme.

The Company will seek approval from shareholders at the 2004 Annual General Meeting for the establishment of Share Incentive Plans (SIPs) for HHG Group companies' employees. Like the SAYE, a SIP is an all-employee scheme that operates within specific UK tax legislation. Participants may acquire Ordinary Shares out of deductions from gross salary, for which the Company may provide matching shares. A SIP also allows for annual awards of free shares. Each HHG Group company's plan may differ according to their respective commercial environments. Initially, a SIP will be established for employees of Henderson Administration Limited (HAL) and its subsidiaries. This initial SIP is intended to provide a further opportunity for Henderson employees to increase their share ownership which is an important tool in attracting and retaining staff in the asset management industry. Executive Directors, like non-HAL Group employees, will not be eligible to participate in the initial SIP.

No option or award will be granted under any equity based remuneration or incentive scheme if it would cause the number of Ordinary Shares issued or issuable pursuant to awards and options granted in the preceeding 10 years under any such scheme to exceed 10% of the Ordinary Shares at the proposed date of grant. In addition, no option or award may be issued under any discretionary share scheme (such as the LTIP), if it would cause the number of Ordinary Shares issued or issuable pursuant to awards and options granted in the previous 10 years under such schemes, to exceed 5% of the issued Ordinary Shares at the proposed date of grant.

5.6 Pensions
Retirement benefits are designed to be both market competitive and cost effective. The Company is the sponsoring employer of the AMP UK Staff Pension Scheme (the Scheme) which has both defined benefit sections (closed to new members) and defined contribution sections. As a result of the statutory cap on earnings, the Company also has unapproved pension arrangements which apply to certain current and former Group employees. In addition, the Group has pension arrangements in place for its non-UK-based employees which are in line with market conditions in these regions.

The Executive Directors participate in non-contributory sections of the Scheme providing Scheme benefits on either a defined benefit or defined contribution basis, depending on the date the Executive Director joined the Scheme. The Chief Executive is entitled to a pension accruing at 1/30th of uncapped pensionable salary, being the greater of £750,000 or his basic salary at the time of leaving pensionable service with the Company, for each year of pensionable service. The Scheme will provide the Chief Executive with a pension of 1/30th of pensionable salary in respect of pensionable salary below the "earnings cap" imposed by the Finance Act 1989 for each year of pensionable service. The earnings cap for 2003/2004 is £99,000. In addition, the Chief Executive participates in an unfunded unapproved retirement benefits scheme which will provide the balance of his pension entitlement. The CFO is entitled to a pension accruing at 1/45th of pensionable salary up to the "earnings cap" for each year of pensionable service under the Scheme. In addition, with effect from the date of the Demerger, the CFO has participated in an unfunded unapproved pension arrangement to provide benefits in respect of his pensionable earnings above the earnings cap. The Managing Director, Life Services has participated in the Money Purchase Section of the Scheme from the Demerger Date. He receives a credit to his Money Purchase account of 51% of the earnings cap which Watson Wyatt has confirmed is in line with current Inland Revenue limits and broadly comparable to the contribution rate required to fund a pension accruing at 1/30th of the earnings cap for each year of service.

5.7 Other benefits and benefits in kind
The Executive Directors are contractually entitled to a lump-sum life assurance benefit of four times salary, permanent health insurance and medical insurance. The CFO and the Managing Director, Life Services are entitled to a car allowance of £11,000 per annum.

The Executive Directors also benefit from indemnity arrangements in respect of their services as Directors, and Directors and Officers' insurance, under separate deeds of indemnity that apply from Listing.

5.8 Contracts and termination provisions
The Company's policy is to employ Executive Directors on one-year rolling contracts although, in exceptional circumstances on recruitment, longer initial terms may be approved by the Remuneration Committee. The Remuneration Committee will, consistent with the best interests of the Company, seek to minimise termination payments.

Each Executive Director is employed under a service agreement with the Company dated 14 October 2003, the terms of which have applied since Listing on 23 December 2003.

Each service agreement is terminable on not less than 12 months' written notice by the Company or on not less than six months' written notice by the relevant Executive Director. The Chief Executive's service agreement also permits the Company to terminate his appointment immediately by paying a liquidated sum equivalent to 24 months' basic salary, reducing from 1 January 2004 on a sliding scale on a monthly basis, to 12 months' basic salary from 1 January 2005. This is a negotiated run-off of his pre-existing contractual arrangements before Listing.

The service agreements allow the Company to suspend the Executive Directors from their duties at any time after notice has been given by either party, provided they continue to receive full pay. Under certain circumstances (e.g. serious misconduct), the Company may terminate employment immediately with no liability to make any further payment (other than amounts accrued to the date of termination).

5.9 Legacy arrangements

Prior to the Demerger, there were a number of other arrangements in place under AMP's remuneration policy, which are not being continued by the Company.

Certain key staff who were either critical to the Demerger process or to ensuring that business as usual was maintained participated in AMP's "Restructure and Employee Retention Arrangements". Each of the Executive Directors is entitled to a bonus under these arrangements subject to his continued employment by the HHG Group on 23 June 2004. The maximum payments which may be made under these arrangements to the Chief Executive, the CFO and the Managing Director, Life Services are £1,100,000, £300,000 and £212,600 respectively, payable in 3 equal installments in January, April and June 2004 subject to the continued employment of the relevant executive on those dates. The cost of these payments has been met by the AMP Group.

From Listing, the Executive Directors ceased to be eligible for further awards under the Henderson Bonus Award in Special Equity Plan (BASE) and the Henderson Long Term Value Sharing Incentive Plan (HLTVSIP), in which the Chief Executive and the CFO had previously participated. Under BASE, the Chief Executive and the CFO were each awarded restricted redeemable preference shares in respect of discretionary awards for 2002 in a company called Astor UK Limited carrying fixed dividend rights. These shares have now been redeemed. Under HLTVSIP, the Chief Executive and the CFO received awards of phantom equity units in substitution for part of their bonus for the year ending 31 December 2000 together with matching units, entitling them to receive cash payments on satisfaction of various performance targets relating to return on capital and continued employment. Total cash payments in respect of this plan are A$978,228 and A$278,252 for the Chief Executive and the CFO respectively, which will be paid out over three years with the first payment having been made in January 2004.

With effect from Listing, the Executive Directors ceased to be eligible to receive further options or awards under the AMP Group's bonus and share-based incentive arrangements, although they continue to hold options and performance rights granted prior to Listing. These options and performance rights continue to be subject to the achievement of specified performance criteria linked to AMP's total shareholder return as compared with a group of comparator companies and AMP's earnings per share. Any costs associated with these plans are met by AMP.

The Managing Director, Life Services has received the equivalent of a one-off payment of £50,000, in consideration of the cessation of certain expatriate benefits to which he was previously entitled when employed by the AMP Group, following the transfer of his employment from the AMP Group to the Company.

6. CHAIRMAN AND NON-EXECUTIVE DIRECTORS

The remuneration of the Board Chairman is determined by the Remuneration Committee and for other Non-Executive Directors is determined by the Board as a whole on the basis of external independent advice. The policy is to pay market competitive rates, consistent with the nature and size of the Company.
With effect from 1 September 2003:

(a) the annual fee payable to each Non-Executive Director (other than the Chairman) is £40,000;
(b) no additional fees are payable for membership of HHG board committees except that where a Non-Executive Director is Chairman of the Remuneration Committee or Audit Committee, an additional fee of £5,000 is payable to him;
(c) Anthony Hotson is paid an additional fee of £7,500 per annum as Chairman of London Life Limited and a further £7,500 per annum as Chairman of Towry Law;
(d) the Board Chairman's aggregate annual fee is £150,000.

In addition:

- Colin Lever (who resigned on 31 July 2003) received fees of £5,833 in his capacity as Chairman of the PAT (Pensions) Ltd, the Trustee for the AMP UK Staff Pension Scheme;
- Anthony Hotson received payment from the AMP Group of £12,000 for due diligence work in relation to the Demerger.

The Board Chairman and Non-Executive Directors serve the Company under letters of appointment which are terminable by the Company at any time without liability for compensation; they do not have service agreements. It is the HHG Group's policy that the Board Chairman and Non-Executive Directors do not participate in any of the HHG Group's bonus, incentive or pension schemes, nor are they entitled to any retirement benefits.

TABLES

The following tables on pages 27 to 29 provide greater detail in respect of each of the Directors' and former Directors' emoluments, pension entitlements and share interests. They are also auditable by the Independent Auditors.

Directors' emoluments in 2003

The emoluments (cash payments and benefits in kind, but not including any pension and equity incentive award) of the Directors of the Company in respect of the period for which they were in office in the relevant year, including their remuneration in respect of subsidiary undertakings, comprised:

	SALARY AND FEES £'000	BENEFITS IN KIND £'000	ANNUAL CASH BONUS £'000	2003 TOTAL £'000	2002 TOTAL £'000
Chairman					
Sir Malcolm Bates (Chairman and Non-Executive Director)	110			110	90
Executive Directors					
R.P. Yates (Chief Executive)	297	12	281	590	Nil
N.T. Hiscock	83	1	52	136	Nil
I.W. Laughlin	316	61	160	537	Nil
Former Executive Directors					
J. Drabble	322	38	40	400	Nil
P. Leaming	110	6	Nil	116	Nil
T. A. Fraser	Nil	Nil	Nil	Nil	2,200
Non-Executive Directors					
P.J. Costain	44			44	44
R.P Handley	14			14	Nil
A.C. Hotson	55			55	10
A.M. Mohl	1			1	Nil
Sir William Wells	42			42	40
Former Non-Executive Directors					
C. Lever	29			29	40
Total	1,423	118	533	2,074	2,424

Notes

1. There were no amounts paid to the Executive Directors in respect of their qualifying services by way of expenses allowance that was chargeable to UK income tax.
2. The non-cash elements of the Executive Directors' remuneration packages (disclosed in the table above as benefits in kind) consist of the provision of a company car, life assurance, permanent health insurance, a sports club loan to the Chief Executive and a season ticket loan to the CFO. The outstanding amounts of the loans have been repaid since 31 December 2003 and such loans will not be available to Executive Directors in future years. The amount disclosed in relation to Ian Laughlin includes expatriate benefits which no longer apply.
3. Emoluments of all Directors are with effect from the date of appointment.
4. In addition to the details in the table above and, as described under 5.9 legacy arrangements, certain Directors' received retention payments in respect of the Demerger which are payable by the AMP Group.

Long term Incentives
There were no awards made in 2003 under the Company's employee share incentive schemes.

Pensions
In accordance with the Regulations, the following table shows the Company's and members' contributions, the increase in accrued entitlement during the year and the accrued entitlement at the end of the year.

Directors' pension entitlements
Defined Benefit
The following table gives details of the accrued pension benefit at 31 December 2003 (or retirement, if earlier) for Directors who have participated in the defined benefits section of the UK Scheme during the year to 31 December 2003. The final column represents the Company's funding obligations for 2003.

	SERVICE AT 31/12/2003	ACCRUED BENEFIT AT 31/12/2003 £'000	ADDITIONAL PENSION EARNED DURING YEAR TO 31/12/2003 £'000	TRANSFER VALUE OF ACCRUED BENEFIT AT 31/12/2003 ("A") £'000	TRANSFER VALUE OF ACCRUED BENEFIT AT 31/12/2002 ("B") £'000	THE AMOUNT OF (A–B) LESS CONTRIBUTIONS MADE BY DIRECTORS DURING 2003 £'000
Executive Directors						
R.P. Yates (Chief Executive)	4 years 3 months	78	11	724	502	222
N.T. Hiscock	11 years 8 months	26	3	266	160	106
Total		104	14	990	662	328

Defined Contribution
The following table gives details of the pension contributions paid or payable by the Company into defined contribution arrangements for the year to 31 December 2003.

	2003 EMPLOYER CONTRIBUTIONS £'000	2002 EMPLOYER CONTRIBUTIONS £'000
Executive Directors		
I.W. Laughlin	30	
Former Executive Directors		
J. Drabble	25	
P. Leaming	16	
T. A. Fraser		21
Total	71	21

Note
1. The pension contributions and accrued benefits shown are for the full calendar year 2003.

Directors' share interests

At 31 December 2003 (or day of retirement, if earlier) and at 31 December 2002 (or day of appointment, if later) the Directors had the following beneficial interests in shares in the company.

	31 MARCH 2004 ORDINARY SHARES	31 DECEMBER 2003 ORDINARY SHARES	31 DECEMBER 2002[1] ORDINARY SHARES
Chairman			
Sir Malcolm Bates (Chairman and Non-Executive Director)	107,649	107,649	–
Executive Directors			
R.P. Yates (Chief Executive)	400,692	400,692	–
N.T. Hiscock	10,891	10,891	–
I.W. Laughlin	60,291	60,291	–
Non-Executive Directors			
P.J. Costain	102,431	102,431	–
R.P Handley	106,294	6,294	–
A.C. Hotson	45,700	45,700	–
A.M. Mohl (resigned 2 February 2004)	478,799	478,799	–
Sir William Wells	104,077	104,077	–
J. Roques (appointed 14 January 2004)	25,000	–	–
Total	1,441,824	1,316,824	–

Note

1. No Directors held shares in the Company as at 31 December 2002.

Additional Remuneration Information

Disclosure of Non-Director Executive remuneration is not required either by UK laws that apply to HHG PLC or by UK corporate governance or best practice guidelines, nor is it market practice in the UK for this information to be disclosed. The Principles of Good Corporate Governance and Best Practice Recommendations issued by the ASX Corporate Governance Council in Australia recommends certain information to be disclosed about the remuneration of the five highest paid Non-Director Executives. Details of the remuneration of each individual and the value of the component parts of their remuneration have not been disclosed to ensure that these details do not become available to HHG PLC's competitors in the UK as HHG PLC considers this information to be market sensitive and that disclosure may reduce our ability to retain these key executives.

The five highest paid Non-Director Executives are:

NAME	POSITION
Ian Buckley	Chief Investment Officer – Henderson
Mike Clare	Henderson Managing Director UK
Jonathan Moss	Finance Director – Life Services
Steven O'Brien	Group General Counsel
Anne Rein	Group Director of Human Resources and Communication

Together with the Executive Directors they form the HHG Executive management team. The aggregate annual remuneration for these five Executives was £2,054,111 in 2003. The 2003 remuneration package included:

- base salary,
- discretionary annual bonus which is dependent on stipulated company, business unit and individual performance measures,
- company non-contributory (that is, the employee does not contribute and the company bears all the costs) pension plan in either a defined benefit or defined contribution section of the plan,
- other benefits including private medical insurance, permanent health insurance, car allowance, season ticket loans and life assurance,
- in the case of the Group Director of Human Resources, expatriate benefits including company-provided housing and cost of living allowance.

As described in section 5.9 of the Report on Directors' Remuneration, each of the Executives is entitled to a retention bonus. The total payment for this group is £1,303,118 which is paid in installments, subject to his or her continued employment by the HHG Group on each installment date. The cost of these payments has been met by the AMP Group.

From 2004 the Remuneration Committee may make awards to Non-Director Executives under the LTIP as described on page 24. In 2004 the aggregate market value of the Ordinary Shares (averaged over the three month period immediately prior to the date of grant) capable of being acquired by any Non-Director Executive under these awards will be a maximum of 125% of salary depending on the role and responsibilities of the relevant executive. The vesting criteria set out on page 24 will apply to these awards.

Non-Director Executives will also be entitled to participate in the Sharesave Scheme and subject to shareholder approval, in future share incentive plans, as described on pages 24 and 25.

Non-Director Executives may also be invited to participate in the Deferred Equity Plan under which participants receive part of their annual bonus in the form of HHG PLC shares or an interest in an investment fund at the end of a specified restricted period, subject to the executive continuing to be employed with the HHG Group. The restricted period will normally be two or three years, but cannot be less than one year or more than five years. The investment fund will be either units in an UK authorised unit trust, ordinary shares in an investment trust company, shares in the capital of an open ended investment company or shares in the capital of a societe d'investissement, (in all cases the assets of which are managed by a company in the HHG Group).

The structure of the remuneration packages for Non-Director Executives is designed to support the achievement of the same key measures as for Executive Directors (as set out on pages 23 to 24), and to ensure that executive pay complies with the Board's remuneration policy (as described on page 22). The Committee intends that for target levels of performance at least 45-60% (depending on role) of total compensation (excluding pension) should be performance related (i.e. variable or "at risk").

Statement of Directors' Responsibilities in Respect of the Accounts

Company law requires the Directors to prepare accounts for each financial year, which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that year. In preparing those accounts, the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- Prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the accounts comply with the Companies Act 1985. The Directors are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report

We have audited the Group's accounts for the year ended 31 December 2003 which comprise the Consolidated Profit and Loss Account, Consolidated Statement of Total Recognised Gains and Losses, Reconciliation of Group Operating Profit to Loss on Ordinary Activities before Taxation, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Cash Flow Statement, Accounting Policies and the related notes 1 to 38. These accounts have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Report on Directors' Remuneration that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditors' Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the Annual Report, the Report on Directors' Remuneration and the accounts in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Director's Responsibilities above.

Our responsibility is to audit the accounts and the part of the Report on Directors' Remuneration to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the accounts give a true and fair view and whether the accounts and the part of the Report on Directors' Remuneration to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, 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 with the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code issued in June 1998 that are specified for our review by the Listing Rules, 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 form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited accounts. This other information comprises the Chairman's Statement, Chief Executive's Statement, Operational and Financial Review, Board of Directors, Directors' Report, Corporate Governance Statement, the unaudited part of the Report on Directors' Remuneration, Additional Remuneration Information, Supplementary Information and Shareholder Information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with United Kingdom 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 accounts and the part of the Report on Directors' Remuneration to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the accounts, 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 accounts and the part of the Report on Directors' Remuneration to be audited 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 accounts and the part of the Report on Directors' Remuneration to be audited.

OPINION

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor

London
30 March 2004

Consolidated Profit and Loss Account

TECHNICAL ACCOUNT FOR GENERAL INSURANCE BUSINESS
For the year ended 31 December 2003

	NOTES	31 DEC 03 £M	RESTATED 31 DEC 02 £M
Gross premiums written	1.1	–	1
Outward reinsurance premiums		–	1
Net premiums written		–	2
Change in the provision for unearned premiums:			
Gross amount		–	47
Reinsurers' share		–	(36)
Change in the net provision for unearned premiums		–	11
Earned premiums, net of reinsurance		–	13
Allocated investment return transferred from the non-technical account	5.2	**3**	8
Total technical income		**3**	21
Claims paid:			
Gross amount		**(45)**	(68)
Reinsurers' share		**39**	60
Net claims paid		**(6)**	(8)
Change in the provision for claims:			
Gross amount		**59**	(21)
Reinsurers' share		**(54)**	24
Change in the net provision for claims		**5**	3
Claims incurred, net of reinsurance		**(1)**	(5)
Net operating expenses	2.1	**5**	1
Change in equalisation provision	1.2	**2**	3
		7	4
Total technical credits/(charges)		**6**	(1)
Balance on the technical account – general business		**9**	20

All activities relate to discontinued operations.

TECHNICAL ACCOUNT FOR LONG-TERM BUSINESS
For the year ended 31 December 2003

	NOTES	31 DEC 03 £M	31 DEC 02 £M
Gross premiums written	4.1	**1,664**	2,136
Outward reinsurance premiums		**(6)**	(5)
Earned premiums, net of reinsurance	4.2	**1,658**	2,131
Investment income	5.1	**1,405**	1,394
Unrealised gains on investments	5.1	**979**	–
Other technical income (note 8)		**13**	87
Total technical income		**4,055**	3,612
Gross claims paid		**(4,210)**	(3,352)
Reinsurers' share		**41**	20
Net claims paid		**(4,169)**	(3,332)
Change in the gross and net provision for claims	24.3	**(42)**	(18)
Claims incurred, net of reinsurance		**(4,211)**	(3,350)
Change in gross long-term business provision (note 22.9)		**2,077**	2,368
Change in reinsurers' share		**(34)**	(218)
Change in long-term business provision, net of reinsurance		**2,043**	2,150
Change in technical provision for linked liabilities, net of reinsurance		**(440)**	765
Change in other technical provisions, net of reinsurance		**1,603**	2,915
Net operating expenses	2.1	**(350)**	(530)
Investment expenses and charges	5.1	**(1,006)**	(298)
Unrealised losses on investments	5.1	**–**	(3,545)
Other technical charges	2.2	**(144)**	(72)
Taxation (charge)/credit attributable to the long-term business	6.1	**(71)**	233
Allocated investment return transferred from the non-technical account	5.2	**8**	–
Transfer (to)/from the fund for future appropriations	21	**(85)**	981
		(1,648)	(3,231)
Total technical charges		**(4,256)**	(3,666)
Balance on the technical account – long-term business	4.8	**(201)**	(54)
Tax attributable to the balance on long-term business technical account	6.1	**(13)**	(23)
Loss on long-term business operations before tax		**(214)**	(77)

All activities relate to continuing operations.

The table below provides a reconciliation between the analysis used in the segmental information in the "Reconciliation of Group Operating Profit to Loss on Ordinary Activities Before Taxation" and in note 3 of this report and the Loss on long-term business operations before taxation above:

	NOTES	31 DEC 03 £M	31 DEC 02 £M
Operating profit before taxation based on longer term investment return before operating exceptionals, amortisation of goodwill and acquired present value of in force business ("PVIF") – Life Services	3.2	**89**	7
Amortisation of goodwill		**–**	(17)
Amortisation of acquired PVIF*	2.2	**(6)**	(9)
Impairment of acquired PVIF*	2.2	**(27)**	(58)
Other operating exceptional costs*	22.9	**(270)**	–
Loss on long-term business operations before taxation		**(214)**	(77)

* Amortisation and impairment of acquired PVIF and other operating exceptional costs have been grossed up at the longer term effective tax rate attributable to the balance on the long-term business technical account for the purpose of the reconciliation of group operating profit to loss on ordinary activities before taxation and segmental information in note 3.

NON-TECHNICAL ACCOUNT
For the year ended 31 December 2003

	NOTES	31 DEC 03 £M	RESTATED 31 DEC 02 £M
Balance on the general insurance business technical account			
Discontinued operations		**9**	20
Balance on the long-term business technical account			
Continuing operations	4.8	**(201)**	(54)
Tax charge attributable to balance on long-term business technical account	6.1	**(13)**	(23)
Shareholders' pre-tax loss from long-term business		**(214)**	(77)
Investment income	5.1	**27**	101
Allocated investment return transferred to the long-term business technical account	5.2	**(8)**	–
Unrealised losses on investments	5.1	**(148)**	(16)
Share of operating profit/(loss) in associates	13.4	**2**	(4)
Interest on loans to associates		**–**	6
Impairment of goodwill arising on acquisition of associates	13.4	**(9)**	–
(Loss)/profit from interest in associates		**(7)**	2
Investment expenses and charges	5.1	**(78)**	(92)
Allocated investment return transferred to the general business technical account	5.2	**(3)**	(8)
Other income (note 8)		**85**	45
Other charges	2.2	**(530)**	(400)
Group operating loss based on longer term investment return		**(847)**	(417)
Short term fluctuation in investment return	5.2	**(13)**	(10)
(Loss)/profit from interest in associates		**(7)**	2
Loss on ordinary activities before non-operating exceptional items and taxation		**(867)**	(425)
Non-operating exceptional items – profits on disposal of businesses	9	**3**	82
Loss on ordinary activities before taxation		**(864)**	(343)
Tax credit on loss on ordinary activities	6.1	**17**	39
Loss on ordinary activities after taxation		**(847)**	(304)
Preference dividend on non-equity shares	11	**(1)**	(25)
Retained loss for the financial year	19	**(848)**	(329)
Basic and diluted earnings per share	7	**(119.7p)**	(106.5p)

The inclusion of unrealised gains or losses in the profit and loss account to reflect the marking to market of investments in the balance sheet is deemed not to be a departure from the unmodified historical cost basis of accounting. Accordingly, a separate note of historical cost profits and losses is not given.

Consolidated Statement of Total Recognised Gains and Losses

For the year ended 31 December 2003

	31 DEC 03 £M	31 DEC 02 £M
Loss for the financial year	**(847)**	(304)
Foreign exchange losses	**(3)**	–
Total recognised losses arising in the year	**(850)**	(304)

Reconciliation of Group Operating Profit to Loss on Ordinary Activities Before Taxation

For the year ended 31 December 2003

	NOTES	31 DEC 03 £M	31 DEC 02 £M
Henderson	3.1	**32**	54
Life Services	3.2	**81**	86
Other Businesses	3.3	**(3)**	(22)
Business unit operating profit		**110**	118
Corporate costs		**(12)**	(10)
Operating profit		**98**	108
Unallocated interest costs		**(60)**	(76)
Operating profit before taxation based on longer term investment return before other operating exceptional costs, amortisation of goodwill and acquired PVIF		**38**	32
Other operating exceptional costs, excluding impairment of goodwill and acquired PVIF*	2.3	**(543)**	(124)
Amortisation and impairment of goodwill	2.2	**(307)**	(256)
Impairment of goodwill arising on acquisition of associates	2.3	**(9)**	–
Amortisation and impairment of acquired PVIF*	2.2	**(33)**	(67)
Short term fluctuation in investment return	5.2	**(13)**	(10)
Profit on disposals of businesses	9	**3**	82
Loss on ordinary activities before taxation		**(864)**	(343)

* Amortisation and impairment of acquired PVIF and other operating exceptional costs have been grossed up at the longer term effective tax rate attributable to the balance on the long-term business technical account for the purpose of the reconciliation of group operating profit to loss on ordinary activities before taxation and segmental information in note 3.

Consolidated Balance Sheet

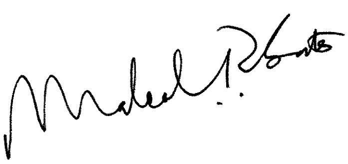
ASSETS
At 31 December 2003

	NOTES	31 DEC 03 £M	31 DEC 02 £M
Intangible assets			
Goodwill	12	**280**	585
Investments			
Land and buildings	13.1	**1,632**	2,191
Investments in joint ventures			
– Share of gross assets		**343**	366
– Share of gross liabilities		**(179)**	(133)
– Loans		**67**	27
	13.3	**231**	260
Investments in associates	13.4	**411**	413
Other financial investments	13.5	**21,506**	23,037
		23,780	25,901
Assets held to cover linked liabilities	13.5	**4,349**	3,909
Reinsurers' share of technical provisions			
Long term business provision (note 22)		**81**	115
Claims outstanding	24.2	**244**	298
		325	413
Debtors			
Debtors arising out of direct insurance operations	14.1	**31**	30
Other debtors	14.2	**426**	553
Deferred tax asset	23.1	**–**	9
		457	592
Other assets			
Tangible assets	15	**27**	41
Cash at bank and in hand		**395**	236
Present value of acquired in force long-term business	16	**10**	33
		432	310
Prepayments and accrued income			
Accrued interest and rent		**321**	258
Deferred acquisition costs	17.1	**106**	243
Other prepayments and accrued income (note 17.2)		**123**	264
		550	765
Total assets		**30,173**	32,475

LIABILITIES
At 31 December 2003

	NOTES	31 DEC 03 £M	31 DEC 02 £M
Capital and reserves			
Called up share capital	18.2	**246**	804
Share premium	19	**1,081**	5
Capital reserve	19	**292**	292
Profit and loss account	19	**70**	(56)
Equity		**1,689**	779
Non-equity		**–**	266
Shareholders' funds	20	**1,689**	1,045
Fund for future appropriations	21	**612**	527
Gross technical provisions			
Long term business provision (note 22)		**21,513**	23,590
Claims outstanding	24.1	**429**	446
Equalisation provision	1.2	**5**	7
		21,947	24,043
Technical provisions for linked liabilities		**4,349**	3,909
		26,296	27,952
Provision for other risks and charges			
Deferred taxation	23.1	**11**	–
Other provisions	28	**243**	245
		254	245
Creditors			
Creditors arising out of direct insurance operations		**2**	23
Debenture loans	27.1	**357**	1,449
Amounts owed to credit institutions	27.1	**257**	327
Other creditors including taxation and social security	29	**534**	665
		1,150	2,464
Accruals and deferred income		**172**	242
Total liabilities		**30,173**	32,475

The accounts were approved by the Board of Directors on 30 March 2004 and signed on its behalf by:



Sir Malcolm Bates
Chairman

Company Balance Sheet

At 31 December 2003

	NOTES	31 DEC 03 £M	31 DEC 02 £M
Fixed Assets			
Investments	13.6	**3,129**	3,686
Current Assets			
Debtors	14.2	**42**	39
Investments	13.6	**67**	–
Cash at bank		**11**	89
		120	128
Creditors: amounts falling due within one year	25	**(1,206)**	(1,333)
Net current liabilities		**(1,086)**	(1,205)
Total assets less current liabilities		**2,043**	2,481
Creditors: amounts falling due after more than one year	26	**(337)**	(953)
		1,706	1,528
Capital and Reserves			
Called up share capital	18.2	**246**	794
Share Premium	19	**1,081**	–
Capital reserve	19	**290**	290
Profit and loss account	19	**89**	444
Equity		**1,706**	1,262
Non-equity		**–**	266
Shareholders' funds		**1,706**	1,528

The accounts were approved by the Board of Directors on 30 March 2004 and signed on its behalf by:

Sir Malcolm Bates
Chairman

Consolidated Cash Flow Statement

For the year ended 31 December 2003

	NOTES	31 DEC 03 £M	31 DEC 02 £M
Operating activities			
Net cash outflow from operating activities	32.1	**(362)**	(223)
Returns on investments and servicing of finance			
Interest paid		**(73)**	(70)
Dividends paid to preference shareholders		**(1)**	(25)
Net cash outflow from servicing of finance		**(74)**	(95)
Tax			
Corporation tax paid		**(3)**	(45)
Capital expenditure			
Payments to acquire tangible fixed assets		**(4)**	(2)
Receipts from sales of tangible fixed assets		**8**	–
Net cash inflow/(outflow) from capital expenditure		**4**	(2)
Acquisitions and disposals			
Net cash inflow from acquisitions and disposals	32.2	**3**	82
Financing activities			
Issue of share capital		**479**	–
Share issue costs		**(6)**	–
Capital contribution		**–**	290
Proceeds from close out of swaps		**90**	–
New loans		**70**	524
Repayment of loans		**(219)**	(510)
Net cash inflow from financing activities	32.7	**414**	304
Net cash flows available for investment		**(18)**	21
Cash flows were invested as follows:			
(Decrease)/increase in cash holdings	32.6	**(99)**	199
Net purchases/(sales) of investments	32.5	**81**	(178)
Net investment of cash flows		**(18)**	21

The Cash Flow Statement does not include any amounts relating to long-term business except cash transactions between the long-term business and shareholder funds and movements in the cash held by the Pacific fund.

Notes to the Accounts

ACCOUNTING POLICIES

Basis of presentation and consolidation

The consolidated accounts of HHG PLC (previously known as "A.M.P. (U.K.) PLC") and its subsidiary undertakings, have been prepared in accordance with the special provisions for insurance groups of Section 255A of, and Schedule 9A to, the Companies Act 1985 except as noted for investment properties (see accounting policy on investments below). The consolidated accounts have also been prepared in accordance with applicable UK accounting standards and under the historical cost accounting rules, modified to include the revaluation of investments, and comply with the Statement of Recommended Practice issued by the Association of British Insurers in 1998.

The results of all material subsidiary undertakings are included in the consolidated accounts.

Principal associated undertakings (both associates and joint ventures) are accounted for by the equity method in the consolidated accounts. The profit or loss in respect of interests in associated undertakings attributable to the long-term business fund are treated as unrealised gains or losses within the technical account for long-term business. The profit or loss in respect of other investments in associated undertakings are included in the non-technical account.

On 30 June 2003 the Company issued 10 million ordinary shares with a par value of £1 each in exchange for AMP Financial Services Holdings Limited's minority interest in Pearl Group Limited, which was deemed to have a value of £15m. This transaction meets the FRS 6 definition of a group reconstruction in that it is a transfer of a shareholding in a subsidiary undertaking from one group company to another. As a result merger accounting has been applied. Consequently, the comparative financial information has been restated to include the results of the minority interest.

As part of the Demerger transaction the businesses of Henderson Global Investors (Jersey) Limited and its subsidiaries Henderson Global Investors (Japan) KK, Henderson Global Investors (Hong Kong) Limited, Henderson Global Investors (Singapore) Limited, Henderson Global Investors (Ireland) Limited and Henderson Management SA have been transferred from the AMP Group to the HHG Group. £28m has been paid for these businesses, whose net asset value at the date of transfer was £20m. This transaction meets the FRS 6 definition of a group reconstruction in that it is a transfer of a shareholding in a subsidiary undertaking from one group company to another. Consequently, the £28m consideration has been taken directly to the group profit and loss reserve and the comparative financial information has been restated to include the results of these businesses. Of these subsidiaries, Henderson Global Investors (Jersey) Limited and Henderson Global Investors (Japan) KK were sold by the HHG Group to the AMP Group in 2002. The cash received from this disposal of £26m has been taken directly to the group profit and loss reserve and the comparative financial information has been restated to exclude the resultant profit on disposal. The dividends paid by these subsidiaries to the AMP Group of £15m have also been taken directly to the group profit and loss reserve.

Subsequent to this transaction, 60% of the voting rights of Henderson Global Investors (Jersey) Limited was gifted to the Henderson Jersey 2003 Employee Benefit Trust. Whilst the HHG Group only holds 40% of the voting rights in Henderson Global Investors (Jersey) Limited and its subsidiaries it has retained the majority of the economic interest in terms of dividends and entitlement to assets on winding up. These companies therefore meet the definition of subsidiaries and have been consolidated into the Group results. Details of the effect of their inclusion in the Group accounts are set out in note 34(e).

Certain comparative figures have been restated to reflect reallocations between captions.

Prior year adjustment

The consolidated accounts have been prepared making adjustments to the results for the year ended 31 December 2002 to account for investment income on shareholders' funds backing the long-term business and the general insurance business on the basis of the long-term rate of return on those funds. The change of accounting policies creates transfers between the non-technical account and the long-term and general business technical accounts but no change in the total loss on ordinary activities. This prior year adjustment has been made to adopt recommendations for listed companies of the Statement of Recommended Practice on Accounting for Insurance Business (1998).

General business

Basis of accounting

All classes of business have been discontinued. Provision has been made for obligations that have been incurred that are not expected to be covered by the future profits of the operation, including the expected future investment return on the related assets and their disposal.

Premiums

Written premiums represent reinstatement premiums that have been earned during the year.

Unearned premiums are calculated as the proportion of written premiums, which relate to cover provided in the period after the balance sheet date. This is calculated on the 365ths method.

Claims

Full provision is made for the estimated cost of claims, including claims incurred but not reported after taking into account handling costs, anticipated inflation and settlement trends. Any difference between the estimated provision and subsequent settlement are dealt with in the technical accounts of later years.

Equalisation provisions

Equalisation provisions have been established in accordance with the requirements of the Interim Prudential Sourcebook for Insurers to mitigate exceptional high loss ratios for classes of business displaying a high degree of claims volatility.

Long term business

Premiums

Premiums and annuity considerations are credited when they become due. Premiums in respect of linked long-term business are recognised when liabilities arising from these premiums are created. Reinsurance premiums are charged when they are payable.

Funds at retirement under individual pension contracts left with HHG PLC are classified as new business single premiums and for accounting purposes are included in both claims incurred and as single premiums within gross premiums written.

Claims
Claims payable on maturity are recognised when the claim becomes due for payment and on death are accounted for on notification. Surrenders are accounted for at the earlier of the payment date or when the policy ceases to be included within the provision for unit-linked liabilities or the long-term business provision. Where claims are payable and the contract remains in force, the claim instalment is accounted for when due for payment. Claims payable include the costs of settlement.

Long-term business provision and technical provision for linked liabilities
The long-term business provision for non-linked business is determined by the Pearl, National Provident Life, NPI and London Life appointed actuaries following their annual investigations of the long-term businesses. This provision is calculated initially to comply with the reporting requirements under the Interim Prudential Sourcebook for Insurers, principally using the net premium valuation method. Each calculation represents a point within a range of possible outcomes, and the assumptions used in the calculations depend on the circumstances prevailing in each life operation. The principal assumptions are given in note 22. It includes explicit provision for vested bonuses including those relating to the current declaration. No such explicit provision is made for future reversionary and terminal bonuses. The net premium valuation method makes implicit provision for these bonuses by reducing the valuation rate of interest. The statutory solvency basis of valuation is then adjusted by eliminating the undistributed surplus carried forward together with general contingency reserves and reserves required under the insurance companies legislation. The provision, which is initially calculated on a statutory solvency basis, is adjusted to remove excessively prudent margins required for statutory solvency purposes.

The technical provision in respect of linked business is equal to the value of the assets to which the contracts are linked. An additional provision in respect of mortality and other risks on linked business is included in the long-term business provision, calculated initially to comply with the reporting requirements under the Interim Prudential Sourcebook for Insurers using a gross premium cash flow method. This is then adjusted to eliminate any undistributed surplus carried forward together with general contingency reserves and reserves required under the insurance companies legislation.

Deferred acquisition costs
Acquisition costs, comprising all direct and indirect costs arising from the conclusion of insurance contracts, are deferred as an explicit acquisition cost asset, gross of tax, and amortised over the period in which the costs are expected to be recoverable out of margins from matching revenues from related policies and in accordance with the pattern of such margins. At the end of each accounting period, deferred acquisition costs are reviewed for recoverability, by category, against future margins from the related policies in force at the balance sheet date.

Profit recognition and the fund for future appropriations
HHG PLC has adopted the modified statutory solvency basis approach in the determination of profit.

Surpluses arising from the participating long-term business, as a result of the annual actuarial valuation of the related assets and liabilities, are subject to appropriation by the Directors of the relevant life company subsidiaries to participating policyholders, by way of bonuses, and to shareholders. This determines the profit attributable to shareholders reported in respect of participating business.

Any unappropriated surplus arising in long-term funds is carried forward in the fund for future appropriations. All surplus in other business is attributable to shareholders and included in profit.

The fund for future appropriations represents all funds the allocation of which to participating policyholders and shareholders has not been determined at the balance sheet date. Transfers between the fund for future appropriations and the long-term business technical account represent the changes in these unallocated amounts between balance sheet dates.

Pacific fund
During the mid-1990s, Pearl Assurance plc undertook an exercise to identify the extent to which unattributed surplus assets held within its with-profits fund could be attributed to shareholder contributions or historical shareholder entitlements which had not been withdrawn from the fund. As a result of this exercise, £960m of assets were identified as being shareholder assets. £42m of this capital was paid to the 90:10 fund in order to acquire the rights to expected profit from the newly formed 0:100 fund. The remaining £918m of assets was formally attributed to shareholders with the agreement of the UK regulator. A component of the agreement with the regulator was the formal segmentation of the Pearl long-term fund into separate with-profits (90:10) and non-profit (0:100) components. The attributed assets, known as the Pacific fund, are an earmarked segment of the Pearl 0:100 long-term fund. Under the terms of the agreement with the Financial Services Authority ("FSA"), the attributed assets were required to remain within Pearl's long-term fund for a period of five years and could then be withdrawn subject to Pearl's appointed actuary confirming that policyholder reasonable expectations would not be affected by the withdrawal. Although this five-year period has expired, there is no current expectation that the assets will be distributed to shareholders in the medium term. As a result, the consolidated net assets represented by the Pacific fund are considered non-distributable.

Up until 27 September 2002 the Pacific fund held the Pearl Assurance plc investment in HHG Invest plc. The results of HHG Invest plc and its subsidiaries were initially recorded in the long-term business technical account as other technical income, but were then transferred to the non-technical account as investment income. The transfer to the non-technical account was included in investment expenses and charges in the long-term business technical account.

On 27 September 2002, this holding was transferred from the Pacific fund to the shareholder fund of Pearl Assurance plc and from that date the results of these companies have been included in the non-technical account.

Investment return on all other assets held by the Pacific fund is included in the balance on the technical account – long-term business.

The Cash Flow Statement includes movements in cash held by the Pacific fund.

Fees and commissions

Asset management fees are credited on an accruals basis and commissions are credited as earned. Performance fees, which include all incentive fees and gains/losses on investments that the Group holds in the funds that it manages, are only recognised once they have been "locked-in" and cannot subsequently be reversed.

Investments

i) *Company balance sheet*

Investments consist of investments in subsidiary undertakings, authorised collective investment schemes and short term deposits. Investments in subsidiary undertakings are included at cost less any provision for impairment where circumstances indicate that the carrying value may not be recoverable. Investments in authorised collective investment schemes are included at middle market value. Short term deposits are included at cost.

ii) *Group balance sheet*

Investments are stated at current value at the balance sheet date, calculated as follows:

- Freehold and leased properties have been valued at open market value. Other than for leasehold properties where the lease has less than twenty years unexpired term, no provision is made for depreciation of investment properties. The Directors consider that as these properties are held for investment, to depreciate them would not give a true and fair view. Depreciation is only one of many factors considered in the independent valuation of such properties. It is the Group's practice to maintain properties occupied by the Group in a continual state of sound repair. Accordingly the Directors consider that the economic lives of these properties and their residual values, based on prices prevailing at time of acquisition or subsequent valuation, are such that any depreciation is insignificant and is thus not provided. No depreciation is provided on properties held for own use since such depreciation is immaterial;
- Listed investments are stated at the middle market value;
- Investments in authorised collective investment schemes are included at middle market value;
- Short-term deposits are included at cost;
- Other investments are shown at Directors' estimates of market value; and
- Interests in property limited partnerships ("PLPs") within the long-term business which effect or establish policyholder's rights or otherwise held as part of the Group's investment portfolio are accounted for as joint ventures, associates or investments in land and buildings depending on the shareholdings and the terms of each partnership agreement. Where the partnership is managed by a contractual agreement such that no one party exerts control, notwithstanding the Group's partnership share in the PLP, both direct and indirect, may be greater than 50%, such PLPs have been accounted for as joint ventures. Here, the Group's share of the respective PLPs' gross assets and gross liabilities are shown on the face of the consolidated balance sheet, in accordance with the requirements of FRS 9 "Associates and joint ventures". Where the partnership is managed by a contractual agreement, such that the Group can exercise a significant influence, but one other party controls the partnership, such PLPs have been accounted for as associates. Here, the Group's share of the respective PLPs' net assets and liabilities are shown on the face of the consolidated balance sheet, in accordance with the requirements of FRS 9 "Associates and joint ventures". Where the Group holds minority stakes in PLPs, with no disproportionate influence, the relevant investments are included in land and buildings at their market value.

Investment income, realised and unrealised gains and losses on investments

Dividends are included as investment income on the date that shares become quoted ex-dividend. Interest and rents are included on an earned basis.

Realised gains and losses on investments are calculated as the difference between the net sales proceeds and original cost. Unrealised gains and losses on investments represent the difference between the valuation of investments at the balance sheet date and their original cost, or if they have been previously revalued, the valuation at the last balance sheet date. The movement in unrealised gains and losses recognised in the period also includes the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Long term business investment income and unrealised gains and losses are included in the technical account – long-term business. Investment return is allocated from the technical account – long-term business to the non-technical account so as to reflect the longer term investment return on investments directly attributable to shareholders in the balance on the technical account.

An allocation of investment return from the non-technical account to the general business technical account is made based upon the level of technical provisions and capital allocated to back these provisions.

Goodwill

Goodwill arising on acquisitions, being the difference between the fair value of the purchase consideration and the fair value of net assets acquired, is capitalised in the balance sheet and amortised over its useful economic life or twenty years if shorter. The carrying value of goodwill is tested annually for indicators of impairment.

Present value of acquired in-force business
The present value of acquired in-force business ("PVIF") is recognised in the balance sheet as an asset. To the extent that the PVIF will be recognised as profit over the remaining lifetime of the related in-force policies, it is amortised on a systematic basis, and the discount unwound, over the anticipated lives of the related contracts of the portfolios. The carrying value of the asset is tested annually for indicators of impairment. Any amortisation or impairment charge is recorded in the long-term business technical account in "Other technical charges".

Fixed assets and depreciation
All items of capital expenditure are capitalised and depreciated on a straight-line basis over their useful economic life of between 2 and 10 years.

Guarantee fund levies
Provision is made at the balance sheet date for levies declared by the Financial Services Compensation Scheme before completion of the financial statements. Provision is also made if it is more likely than not that a levy will be raised based on premium income, which has already been recognised in the financial statements.

Taxation
The Group recognises deferred tax assets and liabilities on a discounted basis to reflect the time value of money. A discount rate has been selected that reflects the yield on government bonds which have a maturity date similar to the likely average period for assets upon which deferred tax liabilities and assets arise. Deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date with the following exceptions:

- Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable; and
- Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax on changes in the fair value of investments is recognised in the profit and loss account.

The transfer from the long-term business account to the non-technical account is grossed up at the longer term effective rate of corporation tax.

Pension costs
In accordance with SSAP 24, defined benefit pension costs are recognised on a systematic basis so that the cost of providing retirement benefits to employees is evenly spread over the service lives of the employees concerned. Variations arising from actuarial surpluses are spread over the average remaining service lives of members to the extent that the resulting credit does not exceed the regular cost. The Group also operates a defined contribution scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

Operating and finance leases
Assets used by the Group which have been funded through finance leases are capitalised and the resulting lease obligations are included in creditors. Rental payments under operating leases are charged to the profit and loss account as incurred.

Borrowings
Borrowings issued at a discount are included in the balance sheet at their proceeds, net of expenses, together with any unamortised discount and issue expenses at the balance sheet date. The discount and expenses are charged to loan interest in the profit and loss account over the term of the borrowings. Interest payable and receivable related to interest rate swaps on the Group's borrowings are included within investment expenses and charges in the profit and loss account.

Limited recourse bonds
Expenditure incurred in the issue of limited recourse bonds is amortised at a constant rate over the term of the loan and the carrying value of the liability represents the par value less unamortised issue expenses. Some such liabilities are secured on a block of existing policies. When the repayment of the liability is contingent upon the emergence of the margins generated from future premiums or other income on the policies being securitised, the present value of the future margins which are expected to finance the repayment is classified as an asset in the balance sheet and included within Other Prepayments and Accrued Income. This asset is amortised in accordance with the repayment terms. The limited recourse bonds currently in issue are detailed in note 27.

Foreign currencies
Transactions in currencies other than the functional currency of the undertaking concerned are recorded at the rate appropriate at the time of accounting for the transaction. Currency balances at the year end are converted at the rate ruling at that date except where covered by an open foreign exchange contract in which case the rate specified in the contract is used. Assets and liabilities of those subsidiaries and associates which prepare accounts in currencies other than the Group's reporting currency are translated at year end rates. The results and cash flows of these undertakings are translated at average rates for the year.

Differences on exchange arising from the translation of opening balance sheets of those subsidiaries and associates whose reporting currency is not sterling, together with the differences between the results of these undertakings translated at average rates for the year and year end rates, are taken directly to reserves, together with differences on non-sterling borrowings used to hedge those investments.

All other gains and losses are taken to the profit and loss account.

1. DISCONTINUED OPERATIONS – GENERAL BUSINESS

1.1 General business – Gross premiums written

	31 DEC 03 £M	31 DEC 02 £M
Gross premiums written	**–**	1

1.2 General business – Equalisation provisions

Equalisation provisions are established in accordance with the requirements of the Interim Prudential Sourcebook for Insurers to mitigate exceptional high loss ratios for classes of business displaying a high degree of claims volatility. These provisions, which are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, are required by Schedule 9A to the Companies Act 1985 to be included within technical provisions in the balance sheet notwithstanding that they do not represent liabilities at the balance sheet date. This has had the effect of reducing shareholders' funds by £5m as at 31 December 2003 (2002: £7m). The movement in equalisation provisions during the year resulted in an increase in the general business technical account result and the profit before taxation of £2m in 2003 (2002: £3m).

2. NET OPERATING EXPENSES AND OTHER CHARGES

2.1 Net operating expenses

	TECHNICAL ACCOUNT GENERAL BUSINESS		TECHNICAL ACCOUNT LONG TERM BUSINESS	
	31 DEC 03 £M	31 DEC 02 £M	31 DEC 03 £M	31 DEC 02 £M
Acquisition costs				
Commission	**–**	–	**12**	29
Other	**–**	–	**19**	209
Change in deferred acquisition costs (note 17.1)	**–**	4	**137**	44
Administrative expenses	**(5)**	(5)	**182**	248
	(5)	(1)	**350**	530

2.2 Other technical charges and other charges

	TECHNICAL ACCOUNT LONG TERM BUSINESS		NON-TECHNICAL ACCOUNT	
	31 DEC 03 £M	31 DEC 02 £M	31 DEC 03 £M	31 DEC 02 £M
Amortisation of goodwill (note 12)	**–**	17	**35**	33
Impairment of goodwill (note 12)	**–**	–	**272**	206
Amortisation of acquired PVIF (note 16)	**4**	6	**–**	–
Impairment of acquired PVIF (note 16)	**19**	41	**–**	–
Amortisation and impairment on block of business securitised (note 17.2)	**121**	8	**–**	–
Other expenditure/charges	**–**	–	**223**	161
	144	72	**530**	400
Operating exceptional charge included above	**19**	41	**415**	330

Included in the other expenditure above is an exceptional charge in respect of the restructuring of the Life Services business. During 2002, restructuring costs of £16m were paid and a further £108m was provided principally to complete the closure of the direct sales force operations of Life Services (note 28). Further exceptional costs of £143m were incurred during 2003 in respect of the changes to the Life Services business required as a result of the Demerger and the subsequent decision to close all life companies to new business. This was in respect of £87m of restructuring costs, £41m relating to the vacation of leasehold properties and £15m of sundry other costs associated with the Demerger.

Also included in the table above are exceptional charges in respect of the impairment of the Group's purchased goodwill. These have arisen from reviews by management at 31 December 2002 and at 31 December 2003. The discount rate used to calculate the impairment of goodwill was a risk free rate of 4.37% (2002: 4.63%), plus a risk factor of 6% (2002: 5%).

Amortisation and impairment of acquired PVIF have been grossed up at the longer term effective tax rate attributable to the balance on the long-term business technical account for the purpose of the reconciliation of group operating profit to loss on ordinary activities before taxation and segmental information in note 3. The tax attributable to the amortisation of acquired PVIF is £2m (2002: £3m). The tax attributable to the impairment of acquired PVIF is £8m (2002: £17m).

2.3 Analysis of operating exceptional charges

	TECHNICAL ACCOUNT LONG TERM BUSINESS		NON-TECHNICAL ACCOUNT	
	31 DEC 03 £M	31 DEC 02 £M	31 DEC 03 £M	31 DEC 02 £M
Impairment of goodwill (note 12)	**–**	–	**272**	206
Impairment of goodwill in respect of associates (note 13.4)	**–**	–	**9**	–
Impairment of acquired PVIF (note 16)	**19**	41	**–**	–
Restructuring costs (note 2.2)	**–**	–	**143**	124
Impairment of contingent loans (note 5.1)	**–**	–	**130**	–
Charges arising from changes in actuarial assumptions (note 22.9)	**242**	–	**–**	–
	261	41	**554**	330

Impairment of acquired PVIF and other operating exceptional costs have been grossed up at the longer term effective tax rate attributable to the balance on the long-term business technical account for the purpose of the reconciliation of group operating profit to loss on ordinary activities before tax and segmental information in note 3. The tax attributable to the impairment of acquired PVIF is £8m (2002: £17m). The tax attributable to the charges arising from changes in actuarial assumptions is £28m (2002: £Nil).

2.4 Depreciation

Net operating expenses include:

	31 DEC 03 £M	31 DEC 02 £M
Depreciation of tangible fixed assets	**9**	16

2.5 Analysis of staff costs

Staff costs comprise:

	31 DEC 03 £M	31 DEC 02 £M
Salaries and wages	**204**	268
Social security costs	**16**	22
Pension costs	**2**	–
Total	**222**	290

Included within salaries and wages above are £38m (2002: £47m) of operating exceptional charges relating to the restructure of the Life Services business referred to in note 2.2 to the accounts. Social security costs also include operating exceptional restructuring costs of £2m (2002: £2m). Pension costs of £2m (2002: £Nil) comprise operating exceptional restructuring costs for pension augmentations.

2.6 Average employee numbers

The average number of employees of the Group was as follows:

	31 DEC 03 No.	31 DEC 02 No.
Henderson	**796**	1,225
Life Services	**3,404**	5,440
Other Businesses	**793**	864
Total employees	**4,993**	7,529

2.7 Auditors' remuneration

	31 DEC 03 £M	31 DEC 02 £M
Statutory audit services	**1.4**	1.6
Statutory regulatory reporting	**0.3**	0.5
Non-statutory audit of half year financial information	**0.3**	–
Further assurance services	**0.1**	1.0
Tax advisory services	**0.2**	0.2
Other non-audit services (including £2.7m on Demerger)	**2.9**	–
Total services	**5.2**	3.3

3. SEGMENTAL INFORMATION – GROUP OPERATING PROFIT AND NET ASSETS

3.1 Operating profit – Henderson

	31 DEC 03 £M	31 DEC 02 £M
Revenue		
Total fee income	**193**	219
Investment income	**3**	4
Total revenue	**196**	223
Expenses		
Operating expenses	**(157)**	(157)
Depreciation	**(7)**	(4)
Total expenses	**(164)**	(161)
Underlying operating profit	**32**	62
Transformation costs	**–**	(8)
Operating profit	**32**	54

Total fee income includes £44m (2002: £50m) from insurance companies within the group.
Transformation costs in 2002 comprise redundancy costs of £7m and product closure costs of £1m.

3.2 Operating profit before exceptional costs, amortisation of goodwill and acquired PVIF – Life Services

	31 DEC 03 £M	31 DEC 02 £M
Earned premiums, net of reinsurance	**1,658**	2,131
Claims incurred, net of reinsurance	**(4,211)**	(3,350)
Net investment return	**1,399**	(2,409)
Operating expenses and other technical charges	**(471)**	(497)
Changes in other technical provisions, net of reinsurance	**1,845**	2,915
Taxation	**(46)**	236
Transfer (to)/from the fund for future appropriations	**(85)**	981
Total from the long-term technical account	**89**	7
General insurance	**12**	19
Service company	**(8)**	16
Other shareholders' interests	**(12)**	44
Operating profit before exceptional costs, amortisation of goodwill and acquired PVIF	**81**	86

3.3 Operating profit/(loss) – Other Businesses

	31 DEC 03 £M	31 DEC 02 £M
Towry Law	**1**	(12)
Virgin Money	**2**	2
AMPLE	**(6)**	(7)
Other	**–**	(5)
Operating loss	**(3)**	(22)

	31 DEC 03 £M	31 DEC 02 £M
Towry Law		
Revenue	**48**	53
Expenses	**(47)**	(60)
Non-recurring costs	**–**	(5)
Operating profit/(loss)	**1**	(12)

3.4 Geographical analysis of operating profit/(loss)

	31 DEC 03 £M	31 DEC 02 £M
Henderson		
United Kingdom	**37**	63
Europe	**(2)**	(2)
United States	**(5)**	–
International	**2**	1
Total operating profit before transformation costs and tax	**32**	62

	31 DEC 03 £M	31 DEC 02 £M
Towry Law		
United Kingdom	**1**	(5)
International	**–**	(7)
Total	**1**	(12)

All the operating profit/(loss) in respect of other businesses arises in the United Kingdom.

3.5 Net assets by business and geographical segment

	31 DEC 03 £M	31 DEC 02 £M
Henderson		
United Kingdom	**288**	301
Europe	**64**	53
United States	**12**	13
International	**9**	13
Total Henderson	**373**	380
Life Services	**1,177**	1,557
Other Businesses	**73**	138
Corporate	**68**	60
Net assets	**1,691**	2,135
Financed by:		
Capital and reserves	**1,689**	1,045
External loans	**2**	1,090
	1,691	2,135

The net assets of Life Services, Other Businesses and Corporate are employed in the United Kingdom.

4. SEGMENTAL INFORMATION – LONG TERM BUSINESS

Almost all business is direct and written in the UK in respect of continuing operations.

4.1 Analysis of gross premiums written

	31 DEC 03 £M	31 DEC 02 £M
Premiums from individuals	**1,494**	1,891
Premiums from group contracts	**170**	245
	1,664	2,136
Life business	**353**	747
Annuity business	**193**	208
Pension business	**1,118**	1,181
	1,664	2,136

4.2 Analysis of earned premiums, net of reinsurance

	31 DEC 03 £M	31 DEC 02 £M
Premiums from individuals	**1,488**	1,886
Premiums from group contracts	**170**	245
	1,658	2,131
Life business	**347**	742
Annuity business	**193**	208
Pension business	**1,118**	1,181
	1,658	2,131

4.3 Analysis of gross premiums written by way of direct insurance split by premium type

	31 DEC 03 £M	31 DEC 02 £M
Regular premiums	**754**	789
Single premiums	**910**	1,347
	1,664	2,136

4.4 Analysis of gross premiums written by way of direct insurance split by contract type

	31 DEC 03 £M	31 DEC 02 £M
Non-profit contracts	**469**	376
With-profits contracts	**686**	1,214
Linked contracts	**509**	546
	1,664	2,136

4.5 Analysis of new gross written premiums

	31 DEC 03 £M	31 DEC 02 £M
Life business	**35**	449
Annuity business	**87**	112
Pension business	**823**	878
Direct	**945**	1,439

Industrial branch premiums of £36m in 2003 (2002: £47m) are classified as regular premium with-profits life business in the above analysis.

4.6 New business annual premium equivalent

	31 DEC 03 £M	31 DEC 02 £M
Annual premium equivalent	**126**	227

4.7 Analysis of new gross premiums written by way of direct insurance

	31 DEC 03 £M	31 DEC 02 £M
Regular premiums (annualised)	**35**	92
Single premiums	**910**	1,347
	945	1,439
Non-profit contracts	**426**	354
With-profit contracts	**206**	711
Linked contracts	**313**	374
	945	1,439

In classifying new business premiums, the basis of recognition adopted is as follows:

- Incremental increases on existing policies are classified as new business premiums.
- Rebates from the Department of Social Security are classified as new single premiums.
- Funds at retirement under individual pension contracts left with the Group are classified as new business single premiums and for accounting purposes are included in both claims incurred and as single premiums within gross written premiums.

4.8 Analysis of balance on technical account

	31 DEC 03 £M	RESTATED 31 DEC 02 £M
Non-linked:		
Life and annuity business	**20**	6
Pension business	**(52)**	(46)
Shareholders' attributable assets	**(173)**	52
Goodwill amortisation	**–**	(17)
	(205)	(5)
Linked:		
Life business	**1**	(3)
Pension business	**3**	(46)
	4	(49)
Balance on technical account – long-term business	**(201)**	(54)

5. INVESTMENT RETURN

5.1 Actual investment income

	TECHNICAL ACCOUNT LONG TERM BUSINESS		NON-TECHNICAL ACCOUNT	
	31 DEC 03 £M	31 DEC 02 £M	31 DEC 03 £M	31 DEC 02 £M
Income from land and buildings	**100**	162	**–**	–
Income from other investments	**1,305**	1,232	**27**	101
Investment income	**1,405**	1,394	**27**	101
Unrealised gains/(losses)	**979**	(3,545)	**(148)**	(16)
Investment management expenses and charges	**(27)**	(93)	**–**	(14)
Interest on bank loans and overdrafts	**(1)**	(9)	**–**	–
Other loan interest	**(53)**	(59)	**(74)**	(78)
Losses on realisation of investments	**(925)**	(137)	**(4)**	–
Investment expenses and charges	**(1,006)**	(298)	**(78)**	(92)
Total investment return	**1,378**	(2,449)	**(199)**	(7)

Included in unrealised losses in the non-technical account for the year ending 31 December 2003 is an operating exceptional charge of £130m in respect of the impairment of the contingent loan to the long-term fund of London Life Limited (note 31), which was caused by changes arising from the restructuring of Life Services resulting from the proposed Demerger of AMP Limited announced on 1 May 2003.

5.2 Longer term investment return

The longer term investment return, net of expenses, allocated to the general business technical account in 2003 was £3m (2002: £8m). The longer term investment return transferred to the long-term business technical account in 2003 was £8m (2002: £Nil).

The longer term investment return and short-term fluctuations are as follows:

	SHAREHOLDERS INTEREST IN LONG TERM BUSINESS 31 DEC 03 £M	31 DEC 02 £M	NON LONG-TERM BUSINESS 31 DEC 03 £M	31 DEC 02 £M
Total investment return before tax	**42**	37	**(199)**	(7)
Less: investment return not supporting general insurance	**–**	–	**197**	5
	42	37	**(2)**	(2)
Longer term investment return	**50**	37	**3**	8
Short term fluctuation in investment return	**(8)**	–	**(5)**	(10)
Total investment return	**42**	37	**(2)**	(2)

(i) The longer term return is calculated separately for general insurance business and certain long-term business operations. In respect of equities, properties, gilts, corporate bonds and cash the return is calculated by multiplying the opening market value of the investments by the longer term rate of investment return. The longer term rate of investment return is set by reference to the market redemption yields at the measurement date. The allocated longer term return for other investments is the actual income receivable for the year.

(ii) The principal assumptions underlying the longer term investment return are:

	31 DEC 03 %	31 DEC 02 %
Equities	**8.0**	8.0
Gilts	**5.0**	5.0
Cash	**3.7**	4.0

(iii) Comparison of longer term investment return with actual returns

The actual return on investments, before deducting investment management expenses and charges, is compared below with the aggregate longer term return over a five year period.

	01 JAN 99 TO 31 DEC 03 £M	01 JAN 98 TO 31 DEC 02 £M
Actual return attributable to shareholders:		
Long term business	**197**	331
Non long-term business	**32**	60
Longer term return credited to operating results:		
Long term business	**(308)**	(339)
Non long-term business	**(47)**	(60)
Shortfall of actual returns over longer term returns	**(126)**	(8)

(iv) The table below shows the sensitivity to changes in the longer term rates of returns:

MOVEMENT IN INVESTMENT RETURN	BY	CHANGE IN	BY
Equities	1% higher/lower	Group operating profit before tax	£1m
Gilts	1% higher/lower	Group operating profit before tax	£4m
Cash	1% higher/lower	Group operating profit before tax	£3m

6. TAXATION

6.1 Taxation

	TECHNICAL ACCOUNT LONG TERM BUSINESS		NON-TECHNICAL ACCOUNT	
	31 DEC 03 £M	31 DEC 02 £M	31 DEC 03 £M	31 DEC 02 £M
United Kingdom corporation taxation				
Current tax charge/(credit) for the year	**56**	75	**(14)**	(20)
Adjustments for previous years	**(4)**	(118)	**7**	(1)
	52	(43)	**(7)**	(21)
Overseas taxation	**2**	5	**–**	–
Double taxation relief	**–**	(1)	**–**	–
Tax attributable to the balance on long-term business technical account	**–**	–	**(13)**	(23)
Total current taxation	**54**	(39)	**(20)**	(44)
Deferred taxation				
Origination and reversal of timing differences	**(2)**	(245)	**3**	5
Adjustment to the estimated recoverable amount of deferred tax assets arising in previous periods	**20**	24	**–**	–
(Decrease)/increase in discount	**(1)**	27	**–**	–
Total deferred taxation	**17**	(194)	**3**	5
Total tax charge/(credit)	**71**	(233)	**(17)**	(39)

After taking account of reliefs to which the Group is entitled, UK corporation tax on taxable profits attributable to shareholders has been accounted for at the rate of 30% (2002: 30%). The tax rates for the life policyholders are 22% and 20% (2002: 22% and 20%).

6.2 Factors affecting tax charge for year

The tax assessed in the year is higher than the standard rate of corporation tax in the UK and the differences are explained below.

The standard rate of tax has been determined by using the UK rate enacted for the year for which the losses will be taxed.

	31 DEC 03 £M	31 DEC 02 £M
Loss on ordinary activities before taxation	**(864)**	(343)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002: 30%)	**(259)**	(103)
Effects of:		
Non-taxable book gains on sales of subsidiaries and associates	**(5)**	(20)
Non-taxable goodwill amortisation and impairment	**187**	74
Other disallowable expenses	**6**	13
Other timing differences other than on long-term business	**30**	2
Adjustment to tax charge in prior years	**7**	(1)
Lower tax rates on overseas earnings	**(1)**	–
Non-taxable income	**6**	(9)
Current tax losses surrendered for nil value	**9**	–
Current tax credit for the year	**(20)**	(44)

7. EARNINGS PER SHARE

	LOSSES		BASIC AND DILUTED EARNINGS PER SHARE	
	31 DEC 03 £M	31 DEC 02 £M	31 DEC 03 PENCE	31 DEC 02 PENCE
Loss for the financial period after tax attributable to members of the parent company	**(847)**	(304)	**(119.6)**	(98.4)
Less: Preference share dividends	**(1)**	(25)	**(0.1)**	(8.1)
Basic and diluted earnings/earnings per share	**(848)**	(329)	**(119.7)**	(106.5)
Basic and diluted weighted average number of 10p shares (millions)	**708**	309		

Basic and diluted earnings per share have been calculated on the loss for the financial year attributable to equity shareholders.

To enable fair comparison the weighted average number of shares have been calculated on the basis that the number of 10p ordinary shares that were in issue at 12 December 2003 were equivalent to the total number of £1 ordinary shares and £1 ordinary preferred shares on 26 November 2003. Further disclosure on the movements in issued share capital is given in note 18.

8. OTHER INCOME

Other technical income and other income includes elements of the profit before tax on the investment management business and commission on sales made by IFAs (Towry Law).

9. EXCEPTIONAL ITEMS

The non-operating exceptional items have arisen from the disposal of the following businesses:

	31 DEC 03 £M	31 DEC 02 £M
Cogent	**(5)**	74
Henderson private client asset management business	**8**	8
Total profits on disposal of businesses	**3**	82

Cogent

On 2 September 2002 the Group completed the sale of Cogent Investment Operations Limited, a subsidiary undertaking, which resulted in a profit of £74m. The disposal is analysed as follows:

	31 DEC 02 £M
Net assets disposed:	
Tangible fixed assets	5
Debtors	13
Cash at bank and in hand	27
Creditors	(30)
Goodwill	12
	27
Profit on disposal	74
	101
Satisfied by:	
Cash	101

The profit attributable to the Group in 2002 includes losses of £2m incurred by Cogent Investment Operations Limited up to the date of disposal on 2 September 2002.

In 2003, a further loss on disposal of £5m has been reported in the profit and loss account in respect of this sale. This consists of additional sales proceeds of £6m offset by further disposal costs and increases in provisions for related contractual obligations of £11m.

Henderson's private client asset management business

During 2002, the group disposed of its private client asset management business to Newton Investment Management resulting in £8m profit on disposal in 2002. A further £8m of profit arose during 2003 on receipt of a further tranche of proceeds from this disposal. This was not recognised during 2002 since it was contingent.

10. HHG PLC DIRECTORS' EMOLUMENTS

The information is included in the Report on Directors' Remuneration on page 21.

11. DIVIDENDS

	31 DEC 03		31 DEC 02	
	PER SHARE PENCE	TOTAL £M	PER SHARE PENCE	TOTAL £M
Non-equity dividends on 'A' preference shares	**4.6**	**1**	5.4	1
Non-equity dividends on 'B' redeemable preference shares	–	–	0.5	1
Non-equity dividends on 'C' redeemable preference shares	–	–	6.2	23
		1		25

12. GOODWILL

	TOTAL £M
Cost	
At 1 January 2003	**1,807**
Acquisition of The Bookey Isaacs Group	**2**
At 31 December 2003	**1,809**
Amortisation and impairment	
At 1 January 2003	**1,222**
Amortisation charge for the year:	
Non-technical account	**35**
Impairment charge for the year	**272**
At 31 December 2003	**1,529**
Net book value	
At 31 December 2003	**280**
At 31 December 2002	585

On 5 March 2003, one of the Company's principal subsidiaries, Towry Law plc, completed the purchase of Bookey Isaacs Limited and its subsidiaries. This resulted in goodwill of £2m.

13. INVESTMENTS

13.1 Investments – land and buildings

	FREEHOLD £M	LONG LEASEHOLD £M	SHORT LEASEHOLD £M	TOTAL £M
Group				
At 1 January 2003	**1,503**	**669**	**19**	**2,191**
Additions	**99**	**71**	**–**	**170**
Disposals	**(477)**	**(225)**	**(18)**	**(720)**
Surplus/(deficit) on revaluation	**40**	**(49)**	**–**	**(9)**
At 31 December 2003	**1,165**	**466**	**1**	**1,632**
Land and buildings at cost:				
At 31 December 2003	**1,059**	**444**	**–**	**1,503**
At 31 December 2002	1,506	473	5	1,984

All properties held by the Group were valued as at 31 December 2003 and 31 December 2002 by qualified professional valuers working for the companies DTZ Debenham Thorpe, Knight Frank LLP or CB Richard Ellis Limited.

Investment properties were valued on the basis of open market value. The properties in owner occupation for the purposes of the Group's business were valued on the basis of existing use value. All valuations were carried out in accordance with the RICS Appraisal and Valuation Manual. All such valuers are Chartered Surveyors, being members of the Royal Institution of Chartered Surveyors.

Other than for leasehold properties where the lease has less than twenty years unexpired term, no provision is made for depreciation of investment properties.

Leasehold properties include £267m (2002: £283m) property reversions arising from sales of the NPI Extra Income Plan. The reversionary interest is valued as the National Provident Life Limited proportion of the current market value, projected for the lifetime of the policyholder at the assumed future increase in house prices, then discounted back to the valuation rate of interest.

Included in the figures shown for current value is £36m (2002: £45m) in respect of buildings which are owned and occupied by the Group.

13.2 Investments in participating interests

	COST 31 DEC 03 £M	COST 31 DEC 02 £M	CARRYING VALUE 31 DEC 03 £M	CARRYING VALUE 31 DEC 02 £M
Group				
Investments in joint ventures (see note 13.3)	**137**	173	**231**	260
Investments in associates (see note 13.4)	**405**	429	**411**	413
Total	**542**	602	**642**	673

13.3 Investments in joint ventures

Movements in the Group's investments in joint ventures comprise:

	TOTAL £M
Share of result for the year after tax	**8**
(Disposals)/additions	**(37)**
Movements in investments in joint ventures	**(29)**
At 1 January 2003	**260**
At 31 December 2003	**231**

13.4 Investments in associates

	LONG TERM BUSINESS SHARE OF CAPITAL AND RESERVES £M	LONG TERM BUSINESS LOAN £M	NON LONG TERM BUSINESS SHARE OF CAPITAL AND RESERVES £M	NON LONG TERM BUSINESS LOAN £M	GOODWILL £M	TOTAL CARRYING VALUE £M
Group						
At 1 January 2003	**318**	**30**	**(42)**	**101**	**6**	**413**
Operating profit for the year after tax	**24**	**–**	**2**	**–**	**–**	**26**
(Disposals)/additions	**(27)**	**9**	**–**	**(1)**	**–**	**(19)**
Capitalisation of loans	**–**	**–**	**6**	**(9)**	**3**	**–**
Impairment of goodwill	**–**	**–**	**–**	**–**	**(9)**	**(9)**
Movements in year	**(3)**	**9**	**8**	**(10)**	**(6)**	**(2)**
At 31 December 2003	**315**	**39**	**(34)**	**91**	**–**	**411**

13.5 Other financial investments

	31 DEC 03 MARKET VALUE £M	31 DEC 03 COST £M	31 DEC 02 MARKET VALUE £M	31 DEC 02 COST £M
Group				
Shares and other variable yield securities and units in unit trusts	**3,330**	**2,638**	7,565	7,985
Debt securities and other fixed income securities	**14,345**	**13,738**	11,811	10,509
Loans secured by mortgage	**85**	**73**	80	80
Other loans	**19**	**19**	17	17
Deposits with credit institutions	**3,727**	**3,727**	3,564	3,563
	21,506	**20,195**	23,037	22,154
Listed investments included above	**17,210**	**16,449**	19,420	20,876
Assets held to cover linked liabilities	**4,349**	**5,064**	3,909	4,812

Deposits with credit institutions include a Collateral Fund of £113m (2002: £110m) (note 27.1(h))

13.6 Investments of the Company

	SHARES IN SUBSIDIARY UNDERTAKINGS £M	LOANS TO SUBSIDIARY UNDERTAKINGS £M	LOANS TO ASSOCIATED UNDERTAKINGS £M	TOTAL FIXED ASSET INVESTMENTS £M
Cost				
At 1 January 2003	**4,441**	**338**	**5**	**4,784**
Additions	**810**	**15**	**–**	**825**
Disposals	**–**	**(55)**	**(5)**	**(60)**
At 31 December 2003	**5,251**	**298**	**–**	**5,549**
Provision for impairment				
At 1 January 2003	**(1,098)**	**–**	**–**	**(1,098)**
Charge for the year	**(1,269)**	**(53)**	**–**	**(1,322)**
At 31 December 2003	**(2,367)**	**(53)**	**–**	**(2,420)**
Net book value				
At 31 December 2003	**2,884**	**245**	**–**	**3,129**
At 31 December 2002	3,343	338	5	3,686

	UNITS IN UNIT TRUSTS £M
Cost	
At 1 January 2003	**–**
Additions	**67**
At 31 December 2003	**67**
Net book value	
At 31 December 2003	**67**
At 31 December 2002	–

Investments in subsidiary undertakings are included at cost less any provision for impairment where circumstances indicate that the carrying value may not be recoverable. The requirement for any provision for impairment at 31 December 2003 has been determined by reference to the following:

- For life companies, an external valuation based on traditional embedded value techniques discounted at the risk free rate plus a risk premium of 6% to 9%; and
- For non life entities, cost has been compared to net assets at 31 December 2003 or an external valuation where available.

14. DEBTORS

14.1 Debtors arising out of direct insurance operations

	31 DEC 03 £M	31 DEC 02 £M
Group		
Amounts owed by policyholders	**31**	30

14.2 Other debtors

	GROUP		COMPANY	
	31 DEC 03 £M	31 DEC 02 £M	31 DEC 03 £M	31 DEC 02 £M
Outstanding sale of investments	**138**	308	**–**	–
Amounts due from group undertakings	**–**	3	**25**	19
Other debtors	**288**	242	**4**	–
Prepayments and accrued income	**–**	–	**–**	16
Corporation tax recoverable	**–**	–	**13**	4
	426	553	**42**	39

15. TANGIBLE ASSETS

	TOTAL £M
Cost	
At 1 January 2003	**55**
Additions	**4**
Disposals	**(17)**
At 31 December 2003	**42**
Depreciation	
At 1 January 2003	**14**
Charge for the year	**9**
On disposals	**(8)**
At 31 December 2003	**15**
Net book value	
At 31 December 2003	**27**
At 31 December 2002	41

16. PRESENT VALUE OF ACQUIRED IN FORCE LONG-TERM BUSINESS

	TOTAL £M
Cost	
At 1 January and 31 December 2003	**101**
Amortisation and impairment	
At 1 January 2003	**68**
Amortisation charge	**4**
Impairment charge	**19**
At 31 December 2003	**91**
Net book value	
At 31 December 2003	**10**
At 31 December 2002	33

The principal assumptions used to calculate the acquired PVIF are the same as those used to calculate the Long Term Business Provision (note 22).

17. PREPAYMENTS AND ACCRUED INCOME

17.1 Deferred acquisition costs

	LONG TERM BUSINESS £M
At 1 January 2003	**243**
Decrease in year	**(137)**
At 31 December 2003	**106**

17.2 Other prepayments and accrued income

Other prepayments and accrued income includes £111m (2002: £232m) of accrued income which represents the value of surpluses arising on the block of business securitised (note 27.1(h)).

18. SHARE CAPITAL

18.1 Share capital authorised

	31 DEC 03 £M	31 DEC 02 £M
4,250,000,000 ordinary shares of 10p each	**425**	–
1,000,000,000 undesignated shares of £1 each	**–**	1,000

The authorised share capital at 31 December 2002 was undesignated in accordance with the Company's Memorandum and Articles of Association.

On 23 October 2003, the existing authorised but unissued share capital of £196m was designated as 196,160,000 preferred ordinary shares of £1 each and the authorised share capital was then increased from £1,000m to £2,350m by the creation of 1,350,000,000 preferred ordinary shares of £1 each.

On 26 November 2003 the High Court of Justice confirmed a reduction in the authorised share capital from £2,350m to £27m through the cancellation and extinguishing of 759,870,000 ordinary shares of £1, all of the 16,770,000 'A' redeemable preference shares of £1 and all of the 1,546,160,000 preferred ordinary shares of £1. Subsequently on 12 December 2003, the effective date of the AMP Limited Demerger, the remaining 27,200,000 ordinary shares of £1 were sub-divided into 272,000,000 ordinary shares of 10p and the authorised share capital was then increased from £27m to £200m by the creation of 1,728,000,000 ordinary shares of 10p each.

On 17 December 2003, the authorised share capital was increased from £200m to £425m by the creation of 2,250,000,000 ordinary shares of 10p.

18.2 Share capital allotted

	31 DEC 03 £M	31 DEC 02 £M
Group		
Allotted, called up and fully paid equity shares:		
538,140,000 ordinary shares of £1 each	–	538
2,464,049,470 ordinary shares of 10p each	**246**	–
Non-equity shares:		
16,770,000 'A' non-redeemable preference shares of £1 each	–	17
248,930,000 'C' redeemable preference shares of £1 each	–	249
	246	804

On 31 January 2002 HHG PLC issued 178,070,000 'C' redeemable non-cumulative preference shares to AMP Life Limited. On the same day, HHG PLC redeemed 178,070,000 'B' redeemable non-cumulative preference shares.

On 11 December 2002 the allotted share capital of HHG PLC was increased by the creation of 184,140,000 ordinary shares of £1 each. On the same day, HHG PLC redeemed 184,140,000 'C' redeemable non-cumulative preference shares and issued 184,140,000 ordinary shares.

On 30 June 2003 the Company issued 10,000,000 ordinary shares with a par value of £1 each in exchange for AMP Financial Services Holdings Limited's minority interest in Pearl Group Limited, which was valued at £15m. As set out under the Basis of Presentation and Consolidation this transaction meets the FRS 6 definition of a group reconstruction. Accordingly, the additional share capital of £10m and share premium of £5m created by this transaction have also been included in the comparatives.

On 30 June 2003 the Company issued 248,930,000 ordinary shares with a par value of £1 each for a total consideration of £249m. On the same day the Company redeemed the 'C' class redeemable preference shares with a par value of £1 each, for a total redemption value of £249m.

On 14 November 2003 the Company issued 27,657,688 preferred ordinary shares with a par value of £1 each for a consideration of £27m and on 21 November 2003 a further 1,323,046,626 preferred ordinary shares with a par value of £1 each for a consideration of £1,323m (note 32.7).

On 26 November 2003 the High Court of Justice confirmed a reduction in the authorised share capital from £2,350m to £27m and as part of this 759,870,000 ordinary shares of £1, all of the 16,770,000 'A' redeemable preference shares of £1 and all of the 1,350,704,314 preferred ordinary shares of £1 in issue were cancelled and extinguished. Subsequently on 12 December 2003, the effective date of the AMP Limited Demerger, the remaining 27,200,000 ordinary shares of £1 were sub-divided into 272,000,000 ordinary shares of 10p each.

Also on 12 December 2003 as part of the Demerger of the Company from AMP Limited, the Company issued 1,539,128,508 ordinary shares of 10p each to the shareholders of AMP Limited for an aggregate consideration of £1,105m (note 32.7) with the balance of £951m being taken to share premium account (note 19).

On 23 December 2003 as part of an institutional capital raising, the Company issued 652,920,962 ordinary shares of 10p each for an aggregate consideration of £190m (net of expenses of £6m) (note 32.7) with the balance of £125m being taken to share premium account (note 19).

	31 DEC 03 £M	31 DEC 02 £M
Company		
Allotted, called up and fully paid equity shares:		
538,140,000 ordinary shares of £1 each	–	528
2,464,049,470 ordinary shares of 10p each	**246**	–
Non-equity shares:		
16,770,000 'A' non-redeemable preference shares of £1 each	–	17
248,930,000 'C' redeemable preference shares of £1 each	–	249
	246	794

19. RESERVES

	SHARE PREMIUM £M	CAPITAL RESERVE £M	PROFIT AND LOSS ACCOUNT £M	CAPITAL REDUCTION RESERVE* £M
Group				
At 1 January 2003	**5**	**292**	**(56)**	**–**
Consideration for acquisition of Henderson Global Investors (Jersey) Limited and its subsidiaries from the AMP Group	**–**	**–**	**(28)**	**–**
Reserve arising on cancellation of share capital	**–**	**–**	**–**	**2,127**
Application of capital reduction reserve to pay 'A' preference shares	**–**	**–**	**–**	**(17)**
Application of capital reserve to repay AMP Financial Services Holdings Limited	**–**	**–**	**–**	**(1,105)**
Premium arising on issue of ordinary shares (see note 18.2)	**951**	**–**	**–**	**–**
Premium arising on issue of ordinary shares (see note 18.2)	**125**	**–**	**–**	**–**
Transfer of balance of capital reduction reserve to profit and loss account	**–**	**–**	**1,005**	**(1,005)**
Retained loss for the year ended 31 December 2003	**–**	**–**	**(848)**	**–**
Foreign exchange rate movements	**–**	**–**	**(3)**	**–**
At 31 December 2003	**1,081**	**292**	**70**	**–**

* On 26 November 2003 the High Court of Justice confirmed a reduction in the authorised share capital from £2,350m to £27m and as part of this 759,870,000 ordinary shares of £1, all of the 16,770,000 'A' redeemable preference shares of £1 and all of the 1,350,704,314 preferred ordinary shares of £1 in issue were cancelled and extinguished. Conditional upon the Demerger of the Company from AMP Limited becoming effective, the High Court of Justice also approved the utilisation of the capital reduction reserve to:

1. Repay an amount equal to the amount paid up on the 'A' preference shares plus any arrears of dividend thereon down to the effective date of the capital reduction;
2. Repay £1,105,000,000 to AMP Financial Services Holdings Limited (conditional upon the resubscription for new ordinary shares of 10p each by the shareholders of AMP Limited pursuant to the Demerger); and
3. Credit the balance remaining to the profit and loss account to first eliminate the deficit on the accumulated profit and loss account of the Company as at 31 December 2003 with any balance remaining then being treated as realised profit capable of being distributed.

The consolidated profit and loss account includes non-distributable amounts in respect of the Pacific fund of £609m (2002: £782m).

	SHARE PREMIUM £M	CAPITAL RESERVE £M	PROFIT AND LOSS ACCOUNT £M	CAPITAL REDUCTION RESERVE £M
Company				
At 1 January 2002	–	–	1,387	–
Capital contribution received from AMP Financial Services Holdings Limited	–	290	–	–
Loss for the year	–	–	(918)	–
Dividend on non-equity shares	–	–	(25)	–
At 31 December 2002	–	290	444	–
Retained loss for the financial year	**–**	**–**	**(1,359)**	**–**
Dividend on preference shares	**–**	**–**	**(1)**	**–**
Reserve arising on cancellation of share capital	**–**	**–**	**–**	**2,127**
Application of Capital Reserve to pay preference shares	**–**	**–**	**–**	**(17)**
Application of capital reserve to repay AMP Financial Services Holdings Limited	**–**	**–**	**–**	**(1,105)**
Premium arising on issue of ordinary shares	**1,081**	**–**	**–**	**–**
Transfer of balance of capital reduction reserve to profit and loss account	**–**	**–**	**1,005**	**(1,005)**
At 31 December 2003	**1,081**	**290**	**89**	**–**

The Capital Reserve of £290m is not distributable.

20. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	31 DEC 03 £M	31 DEC 02 £M
Group		
Shareholders' funds at 1 January	**1,045**	1,073
Total recognised losses arising in the year	**(850)**	(304)
Dividend on non-equity shares	**(1)**	(25)
Redemption of £178m 'B' preference shares	**–**	(178)
Issue of £178m 'C' preference shares	**–**	178
Redemption of £184m 'C' preference shares	**–**	(184)
Issue of £184m ordinary shares	**–**	184
Redemption of £249m 'C' preference shares	**(249)**	–
Issue of £249m ordinary shares	**249**	–
Consideration for acquisition of Henderson Global Investors (Jersey) Limited and its subsidiaries from the AMP Group	**(28)**	–
Cash received on disposal of Henderson Global Investors (Jersey) Limited and Henderson Global Investors (Japan) KK to the AMP Group	**–**	26
Dividends from Henderson Global Investors (Jersey) Limited to the AMP Group	**–**	(15)
Issue of £27m preferred ordinary shares	**27**	–
Issue of £1,323m preferred ordinary shares	**1,323**	–
Capital contribution	**–**	290
Issue of £65m ordinary 10p shares at a premium of £125m	**190**	–
Application of Capital Reserve to repay preference shares	**(17)**	–
Shareholders' funds at 31 December	**1,689**	1,045

On 19 December 2002 the Company received a capital contribution of £290m from AMP Limited.

21. FUND FOR FUTURE APPROPRIATIONS

	31 DEC 03 £M	31 DEC 02 £M
At 1 January	**527**	1,508
Transfer from/(to) technical account	**85**	(981)
At 31 December	**612**	527

22. POLICYHOLDER LIABILITIES

Long term business provision

Material judgement is required in calculating the long-term business provision. In particular, there is discretion over the choice of assumptions used.

The principal assumptions used to calculate the long-term business provision for the main classes of business, excluding linked business liabilities, are:

22.1 Interest rates

	VALUATION INTEREST RATES			
	WITH-PROFITS		NON-PROFIT	
	31 DEC 03 %	31 DEC 02 %	31 DEC 03 %	31 DEC 02 %
Basic life assurance	**3.7 – 4.4**	3.4 – 4.7	**2.5 – 4.1**	2.5 – 4.7
Pension business	**3.3 – 5.45**	3.25 – 6.0	**3.3 – 5.0**	3.25 – 5.0
Pension annuity in payment	**4.7**	2 – 6	**4.75 – 4.9**	4.25 – 5.3
General annuities	**4.7**	4.5	**4.1 – 5.1**	3.9 – 4.9
Unitised with profit (life)	**3.0 – 4.26**	1.5 – 6.0	**N/a**	N/a
Unitised with profit (pension)	**3.9 – 5.45**	2.5 – 5.5	**N/a**	N/a
PHI	**N/a**	N/a	**2.3 – 3.3**	4.8

The interest rate assumptions are based upon the yields on the assets backing the liabilities as at the year-end.

22.2 Mortality rates

	31 DEC 03	31 DEC 02
Basic life assurance	AM 80 Ult, A67/70 Ult, AM/F92 and ELT 14 (M) all with adjustments	AM 80 Ult, A67/70 Ult, AM/F92 and ELT 14 (M) all with adjustments
Pension business	A67/70 Ult, AM/F92 and IM/F80 all with adjustments	A67/70 Ult, AM/F92 and IM/F80 all with adjustments
Annuity in payment	IM/IF80, IM/IF80 C2014/16, IML/IFL 92 and RMV/RF V92 Year of use all with adjustments	IM/IF80, IM/IF80 C2014/15, IML/IFL 92 and RMV/RF V92 Year of use all with adjustments
Unitised with-profits	A67/70 Ult and AM/F92 all with adjustments	A67/70 Ult, AM/F80 Ult and AM/F92 all with adjustments
PHI	100% CMIR 12 with adjustments	100% CMIR 12 with adjustments

The abbreviations above represent standard industry mortality as published by the Continuous Mortality Investigation (CMI) Bureau of the Institute of Actuaries. Adjustments are made to the standard tables to reflect the experience of the appropriate company relative to the industry standard.

The annuity mortality assumptions are based on published CMI mortality tables taking into account the results of the Group's own experience investigations.

22.3 Methodology

Conventional non-linked liabilities were valued using either a net premium method or a gross premium method with explicit allowance for future bonuses and expenses. Accumulating with-profits liabilities were valued using a gross premium valuation (allowing for any guaranteed bonus rate), subject to a minimum of the guaranteed policy benefit on surrender. The long-term business provision for linked liabilities was calculated using a gross premium cash flow method of valuing the provision in respect of mortality and other risks.

22.4 Provision for bonuses

The provision includes £180m (2002: £165m) in respect of bonuses added following the valuation at the end of each period.

The total bonuses attributable to the year are as follows:

	31 DEC 03 £M	31 DEC 02 £M
Provided declared bonuses, included in the movement in the long-term business provision	**180**	165
Interim and terminal bonuses, included in claims paid	**81**	367
	261	532

22.5 Review of mortgage endowments

The Financial Services Authority carried out a review of mortgage endowments in 1999. As a result all mortgage endowment policyholders were provided with information on the performance of their policy. These accounts include provision for the estimated costs of investigating and settling complaints associated with mortgage endowments and for the estimated cost of meeting promises given to specific policyholders. The total amount provided for at 31 December 2003 was £231m (2002: £266m).

22.6 Guaranteed annuity options

The provisions held in respect of guaranteed annuity options are a prudent assessment of the additional liability incurred under the option on a basis and method consistent with that used to value basic policy liabilities, and includes a prudent assessment of the proportion of policyholders who will choose to exercise the option. The total amount provided for at 31 December 2003 was £525m (2002: £723m).

22.7 Pension transfers and opt outs

Group companies have set up provisions for the review and possible redress relating to personal pension policies. These provisions, which have been calculated using data derived both from detailed file reviews of specific cases and from a statistical review of other outstanding cases, are included in the long-term business provision. The provision for possible redress included in the long-term business provision for Phase 1 cases is £344m (2002: £323m) and for Phase 2 cases is £12m (2002: £25m). Included in the long-term business provision are provisions for additional costs associated with the misselling of pensions policies of £18m (2002: £31m).

22.8 Other specific matters

The Financial Services Authority raises matters from time to time that impact the Group and many others in the industry. These accounts reflect those that the Directors and reporting actuary consider require provisioning based on current regulatory requirements.

22.9 Operating exceptional charge

	31 DEC 03 £M	31 DEC 02 £M
Operating exceptional charges included in change in long-term business provision	**242**	–

The change in long-term business provision for the financial year included the following exceptional charges:

(a) Increases in technical provisions in National Provident Life Limited due to the changes in equity backing ratios and other actuarial assumption changes arising from the decision to close all Life Services' life companies to new business, which have led to the impairment of the contingent loans made by Pearl Assurance plc (note 31). The shareholders' share of the write-downs is £171m; and

(b) Increases in technical provisions of £71m in Pearl Assurance plc resulting from the changes referred to in (a) above.

Other operating exceptional charges of £242m have been grossed up by £28m, being the longer term effective tax rate attributable to the balance on the long-term business technical account for the purpose of the Reconciliation of Group Operating Profit to Loss on Ordinary Activities before Taxation and segmental information in note 3.

23. DEFERRED TAXATION

23.1 Provisions for taxation

Reconciliation of movements in deferred tax:

	31 DEC 03 £M	31 DEC 02 £M
At 1 January	**(9)**	180
Charge/(release) for the year:		
Technical account – long-term business	**17**	(194)
Non-technical account	**3**	5
At 31 December	**11**	(9)

23.2 Deferred taxation provisions

The components of the net deferred tax liability/(asset) are as follows

	31 DEC 03 £M	31 DEC 02 £M
Unrealised gains in investments	**42**	39
Deferred acquisition costs	**(40)**	(60)
Capital allowances	**9**	9
Total undiscounted	**11**	(12)
Total on a discounted basis	**11**	(9)

A deferred tax asset has been recognised in respect of long-term business acquisition expenses where relief is deferred under corporation tax legislation. It has been determined that taxable income of future periods will be sufficient to enable relief for these expenses as they fall to be deductible. Due to the uncertainty of the quantum, source and timing of future taxable profits or chargeable gains no provision has been made for the following assets.

23.3 Factors that may affect future tax charges

The deferred tax assets, which have not been recognised due to the uncertainty of their recoverability in the foreseeable future, comprise:

	LONG TERM BUSINESS		NON LONG TERM BUSINESS	
	31 DEC 03 £M	31 DEC 02 £M	31 DEC 03 £M	31 DEC 02 £M
Unrealised losses on investments	**–**	25	**–**	6
Provisions and other timing differences	**6**	6	**46**	19
Capital and trading losses	**177**	66	**32**	6
	183	97	**78**	31

The unrecognised assets have not been discounted. Further analysis is as follows:

- £44m (2002: £34m) arises on realised capital losses on chargeable securities and will be available to offset against realised chargeable gains of future years.
- £Nil (2002: £31m) would arise if the chargeable securities were sold at the market values included in these accounts.
- £8m (2002: £8m) arises from the transfer in of unutilised losses with the purchase of the business of UKLS Investor 2 Limited (formerly AMP Interactive Investor Limited) and will be available for offset against future profits arising from the business purchased.
- £165m (2002: £38m) in respect of trading losses arising from ongoing activities and will be available to offset against taxable profits for future years.
- £10m (2002: £11m) arises from three year funded general insurance business and will be available to offset against the Company's taxable profits in future periods when claims are paid.
- £34m (2002: £6m) in respect of provisions and other timing differences will be available to offset against taxable profits in future periods when the timing differences reverse or provisions are utilised.

24. CLAIMS OUTSTANDING

24.1 Claims outstanding

	31 DEC 03 £M	31 DEC 02 £M
General business	**301**	360
Life business	**128**	86
	429	446

24.2 General business

2003	GROSS £M	REINSURANCE £M	NET £M
One year business:			
notified outstandings	**26**	**23**	**3**
incurred but not reported	**19**	**12**	**7**
	45	**35**	**10**
Funded business	**256**	**209**	**47**
	301	**244**	**57**

2002	GROSS £M	REINSURANCE £M	NET £M
One year business:			
notified outstandings	49	45	4
incurred but not reported	21	18	3
	70	63	7
Funded business	290	235	55
	360	298	62

In calculating the technical provisions in respect of certain long-term marine, aviation and reinsurance business, the future investment income on the assets held to cover the related provisions has been taken into account by discounting future cash flows. The average period before the liability will be settled has been estimated at 10.8 years for 2003 (2002: 9.5 years). The provision has been discounted at an interest rate of 4.00% for 2003 (2002: 4.25%).

The overall effect is to reduce the net technical provisions for those classes of business referred to above at 31 December 2003 by £14m from £50m to £36m (2002: by £14m from £50m to £36m). The total amount of the investment return which corresponds to the unwinding of the discount is £1m (2002: £1m).

The overall effect is to reduce the gross technical provisions for those classes of business referred to above at 31 December 2003 by £18m from £66m to £48m (2002: by £20m from £70m to £50m). The total amount of the investment return which corresponds to the unwinding of the discount is £2m (2002: £2m).

24.3 Life business

	GROSS AND NET 31 DEC 03 £M	31 DEC 02 £M
At 1 January	**86**	68
Increase in the year	**42**	18
At 31 December	**128**	86

25. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 DEC 03 £M	31 DEC 02 £M
Company		
Loans due to group undertakings (see note 27.2)	**138**	249
Amount owed to group undertakings	**1,058**	1,060
Other creditors	**4**	–
Accruals and deferred income	**6**	14
Corporation tax	**–**	10
	1,206	1,333

26. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	31 DEC 03 £M	31 DEC 02 £M
Company		
Loans due to group undertakings (see note 27.2)	**337**	953

27. DEBENTURE LOANS AND AMOUNTS OWED TO CREDIT INSTITUTIONS

27.1 Debenture loans and amounts owed to credit institutions

	31 DEC 03 £M	31 DEC 02 £M
Group		
DM1bn 4.875% notes due 2008[1] (note a)	**–**	355
£160m 6.375% notes due 2010[1] (note b)	**–**	159
£40m floating rate notes due 2003[1] (note c)	**–**	40
A$1,150m floating rate perpetual loan notes[1] (note d)	**–**	402
£32m 4.207% loan due 2003 (note e)	**–**	32
Floating rate guaranteed unsecured loan notes due 2004 and 2006 (note 32.7)	**2**	12
A$253m loan due 2012 (note f)	**–**	90
Debenture loans, external	2	1,090
Subordinated Guaranteed Bonds undated[2] (note g)	**130**	130
Limited Recourse Bonds 2012 7.39%[2] (note h)	**108**	112
Limited Recourse Bonds 2022 7.58%[2] (note h)	**117**	117
Total debenture loans	**357**	1,449
Bank loans (note i)	–	76
Refinancing loan (note j)	**257**	251
Total amounts owed to credit institutions	**257**	327
Total borrowings	**614**	1,776

Notes

1. Issued under a US$4bn debt securities programme of AMP Group Holdings Limited, AMP Group Finance Services Limited and A.M.P. (U.K.) Finance Services plc. The latter company was a wholly owned subsidiary of HHG PLC before it was transferred to AMP Limited as part of the Demerger. The other two companies are subsidiaries of AMP Limited, HHG PLC's ultimate parent company before the Demerger. AMP Group Holdings Limited guaranteed issues made by AMP Group Finance Services Limited and A.M.P. (U.K.) Finance Services plc. The programme is listed on the Luxembourg Stock Exchange.
2. Borrowings of National Provident Life Limited long-term fund.

(a) The DM1bn 4.875% notes due 2008 were issued at a price of 101.781%. The DM proceeds of this issue and DM fixed interest rate were immediately swapped into sterling at a floating rate linked to 3 month LIBOR. During 1998 and 1999 interest rate swaps were entered into which fixed the interest rate at an average of 5.80%. The loan was settled on 12 December 2003 (note 32.7).

(b) The loan was settled on 12 December 2003 (note 32.7).

(c) The loan matured on 17 November 2003 (note 32.7).

(d) The A$1,150m perpetual loan notes were issued on 24 October 2002 at a floating interest rate. The A$ proceeds of this issue and A$ floating rate were immediately swapped into sterling at a floating rate linked to 3 months LIBOR. This loan was with a fellow subsidiary of AMP Limited until it was settled on 12 December 2003 (note 32.7).

(e) The £32m loan was issued on 12 July 2002 at an interest rate of 4.207% and matured on 13 January 2003 (note 32.7).

(f) On 11 December 2002 a subsidiary company borrowed A$253m at a floating interest rate from AMP Life Limited. The A$ proceeds of this issue and A$ floating rate were immediately swapped into sterling at a floating rate equivalent to three month LIBOR plus 1.7% with AMP Finance Services Limited. The loan was repaid on 12 December 2003 (note 32.7).

(g) A £100m 9.625% subordinated Guaranteed Bond and a £30m 9.6257% subordinated Guaranteed Bond were both issued at par in 1996 by a wholly owned subsidiary of National Provident Institution (NPI). On 1 January 2000, NPI demutualised and these guarantees, along with the net proceeds of their issue, were transferred to National Provident Life Limited. The Bonds are repayable on a non-installment basis, on 30 June 2006 and each fifth anniversary thereafter, so long as the Bonds are outstanding.

(h) Prior to its acquisition by the Group, National Provident Institution raised £260m of capital through the securitisation of embedded value on a block of existing unit linked and unitised with-profit life and pension policies in 1998. On demutualisation, these were transferred to National Provident Life Limited. The Bonds are split between two classes, which rank pari passu. The £140m 7.39169% Class A1 Limited Recourse Bonds have an average life of 8 years maturing in 2012 and the £120m 7.5873% Limited Recourse Bonds have an average life of 18 years maturing in 2022. Amounts relating to the securitisation included within Loans represent the principal outstanding less unamortised deferred issued costs. The bonds are repaid out of margins emerging from the securitised block of business and from a Collateral fund of £113m (2002: £110m).

(i) There were a number of bank loans, which were repayable either in 2002 or 2003. Each accrued interest at a fixed rate in a range of 6.0875% – 6.17531%.

(j) The refinancing loan from Abbey National plc relates to the sale of Extra-Income Plan Policies that Abbey National plc finance to the value of the associated property reversions. As part of the arrangement, National Provident Life Limited and NPI Limited has undertaken to indemnify the Abbey National plc against profits or losses arising from mortality or surrender experience, which differs from the basis, used to calculate the reversion amount. Repayment will be on a policy-by-policy basis and is expected to occur over the next 10 to 20 years.

27.2 Time period for payment

	31 DEC 03 £M	31 DEC 02 £M
Group		
Payable as follows:		
In one year or less, or on demand	**1**	164
Between one and two years	**–**	7
Between two and five years	**131**	162
In five years or more	**482**	1,443
	614	1,776

	31 DEC 03 £M	31 DEC 02 £M
Company		
Payable as follows:		
In one year or less, or on demand	**138**	249
Between one and two years	**290**	–
Between two and five years	**–**	37
In five years or more	**47**	916
	475	1,202

27.3 Nature of borrowings

After taking account of the various interest rate and currency rate swaps entered into by the Group, the currency exposure of Group borrowings is all in sterling and the interest rate exposure is as follows:

	31 DEC 03 £M	1 DEC 02 £M
Fixed rate borrowings	**355**	981
Floating rate borrowings	**2**	544
Interest free borrowings	**257**	251
Total borrowings	**614**	1,776

28. PROVISIONS

	RESTRUCTURE £M	LEASEHOLD PROPERTIES £M	PENSIONS MISSELLING	STAFF RELATED £M	OTHER £M	TOTAL £M
At 1 January 2003	108	58	7	27	45	245
Amounts utilised	(138)	(15)	(6)	(2)	(14)	(175)
Increase in provision	87	53	–	9	24	173
At 31 December 2003	57	96	1	34	55	243

The restructuring provision of £57m (2002: £108m) has been made for costs of restructuring management and staffing across HHG principally to complete the closure of the direct sales force operations of Life Services. It is expected that most of the expenditure will be incurred in 2004.

The leasehold property provision has been made for amounts in respect of the excess of lease rentals and other payments on properties that are currently vacant or expected to become vacant over the amounts to be recovered from subletting these properties on a discounted basis at 4.1% (2002: 6.3%). The provision is expected to be utilised over the next 15 years.

The pensions misselling provision held is in respect of Advizas Limited (a subsidiary of Towry Law plc) and is the maximum amount Advizas Limited will have to pay in compensation relating to pension misselling. Any amounts in excess of this amount will be paid directly by the Financial Services Compensation Scheme.

Staff related provisions include £18m (2002: £11m) held in respect of healthcare costs for former employees and £9m (2002: £7m) relating to long-term staff incentives.

Other provisions include £11m (2002: £5m) for contractual obligations relating to the sale of Cogent Investment Operations Limited and £13m (2002: £5m) product provisions for possible claims arising from inappropriate advice which are expected to be utilised within the next five years.

29. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	31 DEC 03 £M	31 DEC 02 £M
Corporation tax	**77**	15
Obligation under finance leases (see note 30.2)	**1**	7
Other creditors	**456**	643
	534	665

30. CAPITAL COMMITMENTS

30.1 Capital commitments

	31 DEC 03 £M	31 DEC 02 £M
a) Other capital commitments for settlement after 31 December	**32**	102
b) Securities commitments	**345**	451

Securities commitments comprise commitments of Pearl Assurance plc to subscribe to private equity funds.

30.2 Obligations under finance leases

The obligations under finance leases fall due:

	31 DEC 03 £M	31 DEC 02 £M
Within one year	**–**	1
In the second to fifth years inclusive	**1**	1
In more than five years	**–**	5
Total	**1**	7

30.3 Annual commitments under non-cancellable land and building operating leases

The obligations under non-cancellable land and building operating leases fall due:

	31 DEC 03 £M	31 DEC 02 £M
Within one year	**15**	10
In the second to fifth years inclusive	**58**	30
In more than five years	**52**	40
Total	**125**	80

31. CONTINGENT LOANS

Both National Provident Life Limited and London Life Limited have received contingent loans from their respective parent undertakings, NP Life Holdings Limited and London Life Holdings Limited. The assets backing the loans are utilised to provide additional regulatory capital for the long-term funds. A full impairment review of the value of the loans made to the policyholder funds of London Life Limited and National Provident Life Limited was carried out as at 31 December 2003. The amounts below represent the best estimate of the Directors of the amounts that will be recoverable from the long-term funds following their settlement of policyholder claims by those funds. The key assumptions used in the impairment review were the same as those used in the market consistent embedded value calculations.

The intra-group contingent loans cancel on consolidation. However, since they are loans between shareholder and policyholder funds any impairment in the shareholder asset recognising non-recoverability will reduce group profit.

The Group long-term business provision is adjusted for any difference arising on consolidation between the carrying value of the contingent loan liability in the relevant life companies (which is in part determined by the approach in setting the long-term business provision in those companies, as disclosed in note 22) and the valuation of the contingent loans by the shareholder on the basis described above.

The loans provided to National Provident Life Limited are repayable in accordance with the Schedule 2c Scheme under which the business of National Provident Institution was transferred to National Provident Life Limited. The loan to London Life Limited is repayable in accordance with the Schedule 2c Scheme under which the business of AMP UK Branch was transferred to London Life Limited. The balances at 31 December are as follows:

	31 DEC 03 £M	31 DEC 02 £M
NP Life Holdings Limited	**303**	672
London Life Holdings Limited	**85**	276
	388	948

32. NOTES TO THE CASH FLOW STATEMENT

32.1 Reconciliation of loss on ordinary activities to net cash outflow from operating activities

	31 DEC 03 £M	31 DEC 02 £M
Loss on ordinary activities before non-operating exceptional items and taxation	**(867)**	(425)
Adjustments for financing expenses and items not involving movements of cash:		
Depreciation of tangible fixed assets	**9**	16
Amortisation and impairment of goodwill (note 12)	**307**	256
Amortisation and write-off of deferred issue costs	**11**	–
Decrease in debtors arising out of direct insurance operations	**–**	39
Decrease in creditors arising out of direct insurance operations	**(10)**	(22)
Decrease in technical provisions	**(7)**	(14)
Decrease in deferred acquisition costs	**–**	4
Decrease in present value of acquired in force business	**23**	47
Net loss arising on the disposal of fixed assets	**–**	1
Unrealised losses/(profits) on investments	**379**	(100)
Loss/(profit) from interest in associates	**7**	(2)
Movement in other assets	**(355)**	(85)
Movement in other liabilities	**96**	(136)
(Profits)/losses relating to long-term business funds, excluding Pacific fund	**(19)**	139
Loan interest expense	**64**	59
Net cash outflow from operating activities	**(362)**	(223)

32.2 Analysis of cashflows in respect of acquisitions and disposals

	31 DEC 03 £M	31 DEC 02 £M
Cash consideration paid to acquire associate, including loans provided to associates	**–**	(1)
Cash proceeds received on disposal of associate, including loans repaid from associates	**1**	–
Cash proceeds received on disposal of subsidiary undertakings	**14**	110
Net cash disposed of with subsidiary undertakings	**–**	(27)
Costs associated with disposal of subsidiary undertakings	**(12)**	–
Net cash inflow from acquisitions and disposals	**3**	82

32.3 Analysis of cash holdings included in Consolidated Balance Sheet

	31 DEC 03 £M	31 DEC 02 £M
Cash at bank and in hand	**395**	236
Less: cash on deposit not repayable on demand	**(191)**	(60)
Add: Deposits with credit institutions repayable on demand included within other financial investments	**26**	25
Total cash holdings (note 32.6)	**230**	201

32.4 Analysis of portfolio investments included in Consolidated Balance Sheet

	31 DEC 03 £M	31 DEC 02 £M
Other financial investments	**21,506**	23,037
Add: cash on deposit not repayable on demand (note 32.3)	**191**	60
Less: Deposits with credit institutions repayable on demand included within other financial investments (note 32.3)	**(26)**	(25)
Total portfolio investments (note 32.6)	**21,671**	23,072

32.5 Net portfolio investments (excluding long-term business)

	31 DEC 03 £M	31 DEC 02 £M
Purchase of portfolio investments	**664**	258
Sale of portfolio investments	**(583)**	(436)
	81	(178)

32.6 Movements in cash, portfolio investments and financing

	AT 01 JAN £M	CASH FLOW £M	CHANGES IN LONG-TERM BUSINESS £M	CHANGES IN MARKET VALUE AND EXCHANGE RATE EFFECTS £M	NON-CASH MOVEMENTS £M	AT 31 DEC £M
2003						
Portfolio Investments	**23,072**	**81**	**(1,103)**	**(379)**	**–**	**21,671**
Cash holdings	**201**	**(99)**	**128**	**–**	**–**	**230**
	23,273	**(18)**	**(975)**	**(379)**	**–**	**21,901**
Borrowings (note 32.7)	**(1,776)**	**59**	**74**	**–**	**1,029**	**(614)**
Total	**21,497**	**41**	**(901)**	**(379)**	**1,029**	**21,287**
2002						
Portfolio Investments	25,920	(178)	(2,787)	117	–	23,072
Cash holdings	59	199	(57)	–	–	201
	25,979	21	(2,844)	117	–	23,273
Borrowings	(1,650)	(14)	(112)	–	–	(1,776)
Total	24,329	7	(2,956)	117	–	21,497

32.7 Analysis of financing activities

Issue of share capital

The cash inflow of £479m comprises £283m from AMP in November with the balance of £196m (gross of expenses) from the institutional capital raising in December. The £283m from AMP is part of the total share issues of £1,350m in November with the balance of £1,067m being received in the form of promissory notes (p-note). These p-notes were used to acquire Henderson Global Investors (Jersey) Limited and its subsidiaries from AMP (£27m) and to repay loans owed to AMP (£1,040m) – see "repayment of loans" below. The £1,105m proceeds from the share issue to AMP in December was also received in p-note form and was then used to repay AMP in respect of the High Court approved reduction of share capital.

Proceeds from close out of swaps with AMP

As part of the Demerger, the swaps associated with the A$1,150m perpetual loan notes (see note 27.1(d)) and A$253m loan (see note 27.1(f)) were closed out giving rise to cash proceeds of £73m and £17m respectively. The A$1,150m and A$253m loans were then repaid by way of p-note – see "repayment of loans" below.

New loans

Prior to the Demerger AMP provided £70m in new loans. These loans were repaid as part of the Demerger transactions – see "repayment of loans" below.

Repayment of loans

The cash repayment of £219m comprises the following:

- £107m in respect of A$253m loan – see note 27.1(f) and "Proceeds from close out of swaps with AMP" above;
- £32m in respect of 2003 loan – see note 27.1(e);
- £10m in respect of floating rate guaranteed unsecured loan notes – see note 27.1; and
- £70m in respect of the intra year loan from AMP – see "New loans" above.

The non-cash movement on borrowings of £1,029m comprises repayment of £1,040m of loans by way of p-note – see "Issue of share capital" above reducing by £11m of unamortised issue costs written off in the profit and loss account in the year. The £1,040m of loans is made up as follows:

- £355m in respect of DM1bn loan – see note 27.1(a);
- £160m in respect of 2010 notes – see note 27.1(b);
- £40m in respect of 2003 floating rate loan notes – see note 27.1(c); and
- £485m in respect of A$1,150m perpetual loan notes – see note 27.1(d) and "Proceeds from close out of swaps with AMP" above.

33. STAFF PENSION SCHEMES

The Group has continued to account for pensions in accordance with SSAP 24 and the disclosures given under the "SSAP 24 disclosures" below are those required by that Standard. FRS 17 Retirement Benefits was issued in November 2000 requiring phased transitional disclosures. These are set out under "FRS 17 disclosures" below to the extent not already provided under "SSAP 24 disclosures".

33.1 SSAP 24 disclosures

As at 31 December 2003 the Group operated one pension scheme, the AMP UK Staff Pension Scheme ("the Scheme") for its employees. The Scheme is funded by payment of contributions to a separately administered trust fund. The Scheme's appointed investment managers are Henderson Global Investors, Fidelity Investments and Deutsche Asset Management. The Scheme is subject to regular valuations by an independent qualified actuary.

Up until 15 November 1999, the Scheme operated on a defined benefit basis for all members. From that date, a new Money Purchase Section was established for new members of the Scheme. Pearl and London Life final salary members were offered membership of this new section, on special terms, in respect of future service in April 2000 and NPI and Henderson final salary members in June 2001. If they declined they remained members of the defined benefit scheme.

At the date of the last actuarial investigation (31 December 2001) the market value of the assets of the Scheme was £1,875m and on the basis of the assumptions set out below this was sufficient to cover 120% of the value of the benefits which had accrued to members after allowing for future increases in pensionable remuneration. The excess assets were sufficient to allow the suspension of contributions until 2004.

The principal assumptions used for the purpose of assessing pensions costs before retirement under SSAP 24 for the Scheme were that the annual return on investments, after allowing for investment expenses, would be 2.5% higher than the annual increase in members' pensionable remuneration before retirement and 3.2% higher than the expected annual increase in future pensions after retirement.

Pension contributions for 2003 are £2m (2002: £Nil). The 2003 pension cost is £2m (2002: £Nil) (note 2.5). For the Scheme the excess assets are spread over the average remaining service lives of employees, estimated at 11 years, but only to the extent that the resulting credit does not exceed the regular pension cost. For the closed defined benefit schemes, under the projected unit method, the current service cost will increase as the members of the current scheme approach retirement.

33.2 FRS 17 disclosures

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation at 31 December 2001 updated by Watson Wyatt to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 December 2002 and 31 December 2003. The Scheme assets are stated at their market value at 31 December 2002 and 31 December 2003.

(i) The effect on the Group's net assets, retained profits and fund for future appropriations substituting the relevant FRS 17 pensions assets and liabilities for the corresponding SSAP 24 balance sheet items would be as follows:

	31 DEC 03 £M	31 DEC 02 £M
Net assets:		
Total Group net assets excluding pension asset	**1,689**	1,045
Pension liability	**(48)**	(6)
Total Group net assets including pension liability	**1,641**	1,039
Reserves:		
Profit and loss reserve excluding pension liability	**70**	(56)
Pension liability	**(48)**	(6)
Profit and loss reserve including pension liability	**22**	(62)

Total net assets excluding pension liability includes an £18m (2002: £11m) provision held in respect of healthcare costs for former employees. This provision has been calculated on the assumption of medical expense inflation of 10.25% (2002: 8.25%) and a valuation interest rate of 4.5% (2002: 5.6%).

33. STAFF PENSION SCHEMES (CONTINUED)

(ii) The financial assumptions used to calculate scheme liabilities under FRS 17 are:

VALUATION METHOD	31 DEC 03 PROJECTED UNIT	31 DEC 02 PROJECTED UNIT	31 DEC 01 PROJECTED UNIT
Discount rate	**5.50%**	5.70%	5.75%
Inflation rate	**2.80%**	2.00%	2.50%
Rate of increase in pensionable salaries (aged related scale in addition)	**4.30%**	3.50%	4.00%
Rate of increase in pensions in payment (in excess of GMPs)	**2.80%**	2.00%	2.50%
Rate of increase in deferred pensions	**2.80%**	2.00%	2.50%

(iii) The assets in the scheme and the expected rate of return are:

	LONG TERM RATE OF RETURN EXPECTED AT			VALUE		
	31 DEC 03 %	31 DEC 02 %	31 DEC 01 %	31 DEC 03 £M	31 DEC 02 £M	31 DEC 01 £M
Equities	**8.5**	7.9	8.0	**975**	1,061	1,348
Property	**7.1**	6.6	7.0	**136**	150	134
Bonds	**4.9**	5.0	5.0	**541**	298	369
Cash and other	**3.8**	3.5	4.0	**24**	21	11
Total market value of defined benefit assets	**7.2**	7.1	7.2	**1,676**	1,530	1,862
Money purchase assets				**28**	20	13
Total value of assets				**1,704**	1,550	1,875
Present value of scheme liabilities				**(1,773)**	(1,558)	(1,544)
(Deficit)/surplus in the scheme				**(69)**	(8)	331
Related deferred tax asset/(liability)				**21**	2	(99)
Net pension (liability)/asset				**(48)**	(6)	232

(iv) The components of the pensions cost are:

	31 DEC 03 £M	31 DEC 02 £M
Analysis of the amount charged to operating profit:		
Current service cost – final salary	**18**	30
Current service cost – money purchase	**8**	12
Past service cost	**1**	3
Total operating charge	**27**	45

The components of the pensions cost for the year are:

	31 DEC 03 £M	31 DEC 02 £M
Analysis of the amount charged to the profit and loss account:		
Loss on settlements	**1**	–
Gain on curtailments	**(37)**	–
Net gain to profit and loss account	**(36)**	–

The gain on curtailments relates to the restructuring of Life Services in 2002 and 2003.

	31 DEC 03 £M	31 DEC 02 £M
Analysis of the amount charged to other finance income:		
Interest cost	**84**	86
Expected return on pension scheme assets	**(106)**	(131)
Net return	**(22)**	(45)
Total operating credit	**(31)**	–

	31 DEC 03 £M	31 DEC 02 £M
Analysis of the amount recognised in the statement of total recognised gains and losses ("STRGL"):		
Actual (gain)/loss less expected return on pension scheme assets	**(140)**	377
Experience losses/(gains) arising on scheme liabilities	**5**	(14)
Changes in assumptions underlying the present value of the scheme liabilities	**229**	(25)
Actuarial loss recognised in the STRGL	**94**	338

33. STAFF PENSION SCHEMES (CONTINUED)

(v) The movement in the scheme deficit during the year is as follows:

	31 DEC 03 £M	31 DEC 02 £M
(Deficit)/surplus in scheme at 1 January	**(8)**	330
Movement during the year:		
Contributions paid	**2**	–
Total operating charge	**(27)**	(45)
Settlement cost	**(1)**	–
Curtailment gain	**37**	–
Net expected return on pension asset	**22**	45
Actuarial loss	**(94)**	(338)
Deficit in scheme at 31 December	**(69)**	(8)

(vi) Scheme experience gains and losses are as follows:

	31 DEC 03	31 DEC 02
(Gain)/loss on scheme assets:		
Amount (£m)	(140)	377
Percentage of present value scheme assets	(8.4%)	24.6%
Experience losses on scheme liabilities:		
Amount (£m)	5	14
Percentage of present value of scheme liabilities	0.3%	0.9%
Total loss recognised in statement of recognised gains and losses:		
Amount (£m)	94	338
Percentage of present value of scheme liabilities	5.4%	22.0%

34. SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

The principal subsidiaries and associated undertakings of the Group are as follows:

	COUNTRY OF INCORPORATION AND PRINCIPAL PLACE OF OPERATION	CLASS OF SHARES HELD (WHOLLY OWNED UNLESS OTHERWISE INDICATED)
a) Insurance companies:		
Pearl Assurance plc	UK	‘A’ ordinary shares of 5p
(subsidiary of Pearl Assurance Group Holdings Limited)		‘B’ ordinary shares of £1
Pearl Assurance (Unit Funds) Limited	UK	Ordinary shares of £1
Pearl Assurance (Unit Linked Pensions) Limited	UK	Ordinary shares of £1
National Provident Life Limited		
(subsidiaries of Pearl Assurance plc)	UK	Ordinary shares of £1
London Life Limited	UK	Ordinary shares of £1
London Life Linked Assurances Limited	UK	Ordinary shares of £1
(subsidiaries of London Life Holdings Limited)		
NPI Limited (directly held by HHG PLC)	UK	Ordinary shares of £1
NPI Annuities Limited (subsidiary of National Provident Life Limited)	UK	Ordinary shares of £1
b) Non-insurance companies:		
Pearl Group Limited (holding company)	UK	‘A’ Ordinary shares of 5p
London Life Holdings Limited (holding company)	UK	Ordinary shares of £1
UKLS Financial Services Limited (financing company)	UK	Ordinary shares of £1
(formerly AMP (UK) Financial Services Limited)		
NPI Investment Managers Limited (unit trust company)	UK	Ordinary shares of £1
NPI Asset Management Limited (investment management)	UK	Ordinary shares of £1
NPI Self Invested Personal Pensions Limited (pension management)		‘B’ Ordinary shares of £1
Premier Pensions Trustees Limited (pensioner trustee services)	UK	Ordinary shares of £1
(formerly AMP (UK) Trustees Limited)		
NPI Portfolio Managers Limited (unit trust company)	UK	Ordinary shares of £1
(formerly AMP Portfolio Managers Limited)		
Henderson Fund Management plc (investment management)	UK	Ordinary shares of £1
NPI Finances Limited (finance company)	UK	Ordinary shares of £1
(formerly AMP (NPI) Finance Limited)		
Oyster Holding Company Limited (holding company)	UK	Ordinary shares of £1
HHG Services Limited (formerly AMP (UK) Services Limited)	UK	Ordinary shares of £1
(directly held by HHG PLC)		
HHG Invest plc (holding company) (formerly AMP Invest plc)	UK	Ordinary shares of £1
76% held by HHG PLC 24% held by Pearl Assurance plc		
UKLS Investment Services 2 Limited (holding company)	UK	Ordinary shares of £1
(formerly AMP (UK) Investment Services 2 Limited)		
NPI Holdings Limited (holding company)	UK	‘A’ ordinary shares of £1
(formerly AMP (NPI) Holdings Limited)		
Pearl Invest Limited (financial services company)	UK	Ordinary shares of £1
UKLS Investor 1 Limited (financial services company)	UK	Ordinary shares of £1
(formerly AMPLE Investments Limited)		
NP Life Holdings Limited (holding company)	UK	‘A’ and ‘B’ Ordinary shares of £1
Pearl GI Limited (general insurance agent)	UK	Ordinary shares of £1
(formerly AMP (UK) PGI Limited)		
AMP Private Capital Portfolio No. 1 (private equity partnership)	UK	–
AMP Private Capital Portfolio No. 2 (private equity partnership)	UK	–
AMP Private Capital Portfolio No. 3 (private equity partnership)	UK	–
AMP Private Capital Portfolio No. 4 (private equity partnership)	UK	–
AMP Private Capital Portfolio No. 5 (private equity partnership)	UK	–
(subsidiaries of Pearl Assurance plc)		

	COUNTRY OF INCORPORATION AND PRINCIPAL PLACE OF OPERATION	CLASS OF SHARES HELD (WHOLLY OWNED UNLESS OTHERWISE INDICATED)
UKLS Investor 2 Limited (service company)	UK	Ordinary shares of £1
(formerly AMP Interactive Investor Limited)		
(subsidiary of UKLS Investment Services 2 Limited)		
HHG International Holdings Limited (holding company)	UK	Ordinary shares of £1
(formerly AMP International Holdings Limited)		
Henderson Global Investors (Holdings) plc (holding company)	UK	Ordinary shares of 25p
UKLS Financial Planning Limited (holding company)	UK	Ordinary shares of £1
(formerly AMP (UK) Financial Planning Limited)		
(subsidiaries of HHG Invest PLC)		
Towry Law plc (financial services company)	UK	Ordinary shares of £1
Towry Law Central Services Limited (management services)	UK	Ordinary shares of £1
Towry Law Financial Services Limited (financial services)	UK	Ordinary shares of £1
Towry Law Insurance Brokers Limited (insurance brokers)	UK	Ordinary shares of £1
Towry Law (Asia) Hong Kong Limited (financial services)	China	Ordinary shares of HK$1
(subsidiaries of UKLS Financial Planning Limited)		
Henderson Private Capital Limited (investment management)	UK	Ordinary shares of £1
(subsidiary of Henderson Fund Management plc)		
Henderson Administration Limited (service company)	UK	Ordinary shares of £1
Henderson Investment Funds Limited (unit trusts/oeic management)	UK	Ordinary shares of £1
Henderson Investment Management Limited (investment management)	UK	Ordinary shares of £1
Henderson Global Investors Limited (investment management)	UK	Ordinary shares of £1
Henderson Holdings Limited (holding company)		
(formerly Henderson Administration International Holding Limited)	UK	Ordinary shares of 25p
		Participating preference shares of £1
Henderson Technology Ventures Limited (holding company)	UK	Ordinary shares of £1
(formerly AMP Technology Ventures Limited)		
(subsidiaries of Henderson Global Investors (Holdings) plc)		
Henderson International Holdings Limited (holding company)	UK	Ordinary shares of £1
Henderson Global Investors (International Holdings) BV	Netherlands	Ordinary shares of 45 cents (€)
(subsidiaries of Henderson Holdings Limited)		
Henderson Global Investors (Jersey) Limited	Jersey	Ordinary shares of £1
(subsidiary of Henderson International Holdings Limited)		'A' and 'B' ordinary shares of £1
		Fixed rate preference shares of £1
Henderson International Inc	USA	Ordinary shares of 1 cent (US$)
(subsidiary of Henderson Global Investors (International Holdings) BV)		
Henderson Management SA (fund management)	Luxembourg	Ordinary shares of US$1
(subsidiary of Henderson Global Investors (Jersey) Limited)		
NPI Finances plc (finance company)	UK	Ordinary shares of £1
Mutual Securitisation plc (finance company)	Republic of Ireland	Ordinary shares of €1.26974
(subsidiaries of National Provident Life Limited)		
Pearl Unit Trusts Limited (unit trust management)	UK	Ordinary shares of £1
Pearl Assurance Group Holdings Limited (holding company)	UK	Ordinary shares of £1
Pearl ISA Limited (ISA management)	UK	Ordinary shares of £1
(subsidiaries of Pearl Group Limited)		
HHG Virgin Holdings Limited (holding company)	UK	Ordinary shares of £1
(formerly AMP Virgin Holdings Limited)		
(subsidiary of HHG International Holdings Limited)		
London Life Group Services Limited (service company)	UK	Ordinary shares of £1
(subsidiary of London Life Holdings Limited)		

	COUNTRY OF INCORPORATION AND PRINCIPAL PLACE OF OPERATION	CLASS OF SHARES HELD (WHOLLY OWNED UNLESS OTHERWISE INDICATED)
c) Joint venture undertakings:		
Property partnerships:		
The Buchanan Galleries Partnership	UK	50%
The Premier Greenford Limited Partnership	UK	50%
The Potteries Shopping Centre Limited Partnership	UK	50%
(Joint ventures held by Pearl Assurance plc)		
d) Associate undertakings:		
Virgin Money Group Limited	UK	AMP 'A' ordinary shares of 0.1p (50%)
(a unit trust management and insurance company)		Deferred shares of 0.1p (50%)
(Associate of HHG Virgin Holdings Limited)		
The Bull Ring Limited Partnership	UK	33%
The Printworks Leisure Scheme Trust	UK	38%
The Moor House Limited Partnership	UK	33%
The Covent Garden Limited Partnership	UK	23%
The Pradera European Retail Fund	UK	17%
The Henderson (UK) Retail Warehouse Fund	UK	38%
The Henderson French Property Fund BV	UK	41%
(Property partnerships of Pearl Assurance plc)		

The information disclosed above is only in respect of those undertakings, which principally affect the figures shown in the Group's accounts. There are a number of other subsidiary and associated undertakings whose business does not materially affect the Group's profits or the amount of its assets and particulars of these have been omitted in view of their excessive length.

During the year the Company disposed of its ordinary unit in the AMP Reset Preferred Securities Trust. No profit or loss was made on disposal. As part of the Demerger, AMP (UK) Finance Services plc was transferred to AMP Limited.

e) Henderson Global Investors (Jersey) Limited

The summarised combined accounts of Henderson Global Investors (Jersey) Limited and its subsidiaries are as follows:

	31 DEC 03 £M	31 DEC 02 £M
Non-technical profit and loss account:		
Investment income	**–**	7
Other income	**8**	–
Profit on ordinary activities before taxation	**8**	7
Taxation	**(1)**	(1)
Profit on ordinary activities after taxation	**7**	6

There are no recognised gains or losses other than the profits for the financial years.

	31 DEC 03 £M	31 DEC 02 £M
Balance Sheet:		
Other financial investments	**2**	2
Other debtors	**8**	5
Cash at bank and in hand	**18**	13
Total assets	**28**	20
Profit and loss account	**21**	14
Other creditors including taxation and social security	**7**	6
Total liabilities	**28**	20
Cashflow statement:		
Operating activities		
Net cash inflow from operating activities	**5**	–
Net cash flows available for investment	**5**	–
Cash flows were invested as follows		
Increase in cash holdings	**5**	–
Net investment of cash flows	**5**	–

35. RELATED PARTY TRANSACTIONS

HHG PLC has taken advantage of the exemption given by FRS 8 to subsidiary undertakings, 90% or more of whose voting rights are controlled within the Group, by not disclosing information on related party transactions with entities that are part of the Group.

The Group's pension scheme is charged on an arm's length basis with the costs of administration and investment management services, which amounted to £0.3m in 2003 (2002: £0.8m).

One Director holds a life assurance policy issued by Pearl Assurance plc in the normal course of business. The sum assured under this policy is £1,176,000 (2002: £1,176,000).

35.1 Related party transactions with AMP Limited

All related party transactions with AMP Limited and its subsidiaries are conducted on normal commercial terms.

	31 DEC 03 £M	31 DEC 02 £M
Dividends paid	**–**	(25)
Management services fees	**(9)**	(8)
Interest paid	**(33)**	(26)
Interest received	**6**	1
Investment management fees	**7**	8
Service fees	**6**	7
Other income	**2**	1
	(21)	(42)

Balances with AMP Limited and its subsidiaries are as follows:

	31 DEC 03 £M	31 DEC 02 £M
Debtors less creditors	**9**	3
Loans from AMP Limited and its subsidiaries	**–**	(492)
	9	(489)

During the year, the Group also had related party transactions with AMP Limited and its subsidiaries in relation to share capital (note 18.2) and other financing (note 32.7).

36. CONTINGENT LIABILITIES

The following contingent liabilities existed at 31 December 2003:

(a) In the normal course of business the Group is exposed to certain legal issues, which involve litigation and arbitration.

(b) Contingent liabilities, which are considered to be covered under an insurance policy, but where indemnity has not been granted yet, are not reported here, to avoid making an admission, which prejudices the insurer's rights.

(c) In the normal course of business, the Group enters into various types of investment contracts that can give rise to contingent liabilities. These include foreign exchange contracts, financial futures, interest rate derivatives and exchange traded options. These contracts are entered into in the normal management of the investment portfolio.

(d) Provision for the liabilities arising under contracts with policyholders is based on certain assumptions. The variance of actual experience from that assumed may result in such liabilities differing from the provisions made for them. Liabilities may also arise in respect of claims relating to the interpretation of such contracts, or the circumstances in which policyholders have entered into them. The extent of such liabilities is influenced by the actions and requirements of the FSA, the Ombudsman rulings, by industry compensation and by court judgements.

(e) In addition to existing claims for compensation from certain Towry Law International customers, a number of complaints have been received in respect of the performance of certain other investments made by a number of Towry Law International customers. These complaints are being fully investigated, some of which may potentially give rise to a requirement to pay appropriate compensation to the customers concerned, where legal liability is proven.

The Group is not aware of any circumstances that would result in any material future payments as a result of the above items.

37. POST BALANCE SHEET EVENTS

Subsequent to 31 December 2003 the following transaction has occurred:

On 27 February 2004 100% of the issued shares in Interactive Investor Trading Limited were sold to Carruthers and Associates Limited which resulted in a loss on disposal of £0.6m.

The financial effect of this event has not been recognised during 2003.

38. ULTIMATE PARENT UNDERTAKINGS

Up to 12 December 2003 the company's ultimate parent undertaking was AMP Limited, a Company incorporated in New South Wales, Australia. A copy of the accounts can be obtained from Level 24, 33 Alfred Street, Sydney, New South Wales 2000, Australia.

Supplementary Information

EMBEDDED VALUES

HHG provides Embedded Values on both a Traditional basis ("TEV") and a Market-Consistent basis ("MCEV"). In preparing these results, HHG has been advised by Tillinghast-Towers Perrin.

TRADITIONAL EMBEDDED VALUE

Given the extent of restructuring within Life Services during the past 18 months and the impact on the life companies, TEV has been reported for both halves to provide more meaningful analysis. The 1st half of 2003 included a significant impairment of shareholder asset values. These impairments and other operating items of £547m have been isolated. A change in methodology was also made at 30 June 2003, with the adoption of methods and assumptions more consistent with market practice. HHG also changed to report its embedded values net of intra-group holdings. Up to 30 June 2003, TEVs were shown gross of the intra-group holding. Therefore a component of the change in TEV at 30 June 2003 shown below is the removal of the £416m of such holdings.

TEVs are calculated using a prudent risk margin of 5% above the risk free rate for Pearl and NPLL (3% for London Life, unit linked, service and other companies) and economic assumptions are determined based on appropriate government bond yields at each period end. As a result of movements in bond yields, risk discount rates have increased in respect of Pearl and National Provident Life from 9.4% at 30 June 2003 to 9.9% at 31 December 2003. The corresponding move for the other Life Services business is from 7.4% to 7.9%.

	£M
Movement in Traditional Embedded Value – 31 December 2002 to 30 June 2003	
Consolidated TEV at 31 December 2002 (Source: AMP Investor Report)	1,979
Opening adjustments	(95)
Expected return	87
Assumption variances	(206)
Experience variances	(256)
Capital movements	152
Exceptional items	(291)
Unexplained	(29)
Consolidated TEV at 30 June 2003 (Source: AMP Investor Report)	1,341
Differences in assumptions	59
Differences in expense methodology	(129)
Other differences	(10)
Removal of intra-group holdings	(416)
Consolidated TEV at 30 June 2003 (Source: HHG Listing Particulars)	845
Movement in Traditional Embedded Value – 30 June 2003 to 31 December 2003	
Consolidated TEV at 30 June 2003 (Source: HHG Listing Particulars)	845
Opening adjustments	39
Expected return	41
Value created through Investment Management	94
Value created through Insurance Management	100
Capital movements	47
Other	(21)
Consolidated TEV at 31 December 2003	1,145

Second half movements in embedded value reflect a number of positive factors including: improved and less volatile equity markets, which reduced the capital support required by the with-profit business. Favourable interest rate movements enhanced non-profit profitability. The swap of the contingent loan from the Pearl 90:10 fund to Pacific and a reassessment of the resulting tax liabilities has reduced the expected future tax burden. Additional value has arisen from a better service company result then expected. The increase in embedded value is slightly offset by a strengthening of the mortality assumptions for NPI business. The embedded value has also increased as a result of the allocation of additional capital to Life Services, following the successful capital raising in 2003.

	£M
Sensitivity of TEV	
Base	1,145
Risk discount rate 1% higher	1,086
Risk discount rate 1% lower	1,211
Pre-tax investment returns on equities and property 1% lower and reduced by 0.25% on corporate bonds with bonus rates changing commensurately	1,118
Discontinuance rates increased by 25%	1,149
Annuitant mortality reduced by 5%	1,100
Non-commission expense increased by 10%	1,081

MARKET CONSISTENT EMBEDDED VALUE

MCEV allows explicitly for the cost of market-related risk, by reference to the pricing of similar risks observed in the financial markets. The most important of these are risks associated with the provision of policyholder financial guarantees and options and the risks associated with mismatches between assets and liabilities and revenues and expenses. (By comparison, the TEV allows implicitly for the pricing of market risk by the use of a risk discount rate). MCEV were first calculated by Tillinghast-Towers Perrin at 30 June 2003 for Life Services and updated results are shown at 31 December 2003.

The movement in the MCEV from 30 June 2003 to 31 December 2003 and the sensitivity of the MCEV to changes in the key assumptions are set out in the tables below. The significant increase in the MCEV has arisen principally in Pearl and reflects the benefits of reduced guarantee costs as asset shares have grown relative to guaranteed benefits and favourable movements in the assumptions driving the market consistent valuation (e.g. reduction in equity volatility, consistent with more stable equity markets in the second half of 2003). Other beneficial factors for TEV will also increase the MCEV, including additional capital allocated to Life Services, changes in tax assumptions and service company profitability, again partially offset by the strengthened NPI annuity mortality assumptions.

ILLUSTRATIVE LEVEL OF AGENCY COSTS %	0%	2.5%	5%
Market Consistent Embedded Value at 31 December 2003			
Consolidated MCEV (excluding explicit agency costs) (£m)	1,271	1,271	1,271
Agency Costs (£m)	0	(32)	(64)
Consolidated MCEV (including explicit agency costs) (£m)	1,271	1,239	1,207

	£M
Movement in Market-Consistent Embedded Value – 30 June 2003 to 31 December 2003	
Consolidated MCEV (excluding explicit agency costs) at 30 June 2003	900
Opening Adjustments	21
Expected Return	34
Value created through Investment Management	143
Value created through Insurance Management	92
Capital movements	67
Other	14
Consolidated MCEV (excluding explicit agency costs) at 31 December 2003	1,271

	£M
Sensitivity of MCEV (excluding explicit agency costs)	
Base	1,271
Equity: 20% fall	1,175
Property: 20% fall	1,160
Corporate spreads as per CP195	1,153
Fixed interest yields fall by 100 basis points	1,151
Swaption volatilities increase by 1.5 percentage points	1,253
Equity and property implied volatilities increase by 7 percentage points	1,225
Discontinuance rates increased by 25%	1,271
Annuitant mortality reduced by 5%	1,205
Non-commission expense increased by 10%	1,200

REGULATORY CAPITAL – REALISTIC SOLVENCY

HHG welcomes regulatory moves in the UK towards more realistic assessments of life company solvency and greater consistency and transparency in the reporting of life company capital adequacy.

Realistic balance sheet results for each of HHG's main with-profits life companies are set out below. In preparing these results, HHG has been advised by Tillinghast-Towers Perrin.

REALISTIC BALANCE SHEET REPORTING – CP195 BASIS

During 2003, the FSA's Consultation Paper 195 ("CP195") proposed a new regulatory framework which will determine the total required capital for life insurance companies as the greater of a statutory and a realistic calculation of assets and liabilities. This is expected to become effective later in 2004. Calculation of the realistic balance sheets of our life companies as defined in CP195 indicates that all would have met their regulatory capital requirements under the new realistic basis.

There has been a significant improvement in the realistic balance sheet position for Pearl since that shown in the Listing Particulars at 30 June 2003. This reflects the benefit of increased equity values, lower implied volatility and therefore lower expected guarantee costs. All of the three main life companies have in excess of one times coverage of RCM under the CP195 basis.

	PEARL	NATIONAL PROVIDENT LIFE	LONDON LIFE
Realistic Balance Sheet – CP195			
Admissible assets[1]	14,499	7,035	2,706
Adjustment for non-profit business	(3,319)	88	(1,044)
Available assets	11,180	7,123	1,662
Realistic liabilities	(10,383)	(6,948)	(1,640)
Assets available to cover risk capital margin	797	175	22
Risk capital margin	(559)	(112)	(22)
Free capital	238	63	0

Note

1. Admissible assets held in both the long-term and shareholder funds

REALISTIC BALANCE SHEET REPORTING – ABI BASIS

Discussions between the ABI and the FSA as to the disclosure of realistic balance sheet information have resulted in an agreed presentation at 31 December 2003 which is referred to as the ABI basis. In moving from the CP195 basis to the ABI basis, the following adjustments have been made;

- no allowance for a persistency stress test,
- a weaker set of tests for the widening of credit spreads,
- allowance for the value of non-profit business, where such value is available to support with-profits business,
- valuation of subsidiaries on an embedded value basis.

Calculation of the realistic balance sheets of our life companies as defined under the ABI basis indicates that all would have increased their coverage of regulatory capital requirements so determined. All of the three main life companies have in excess of three times coverage of RCM under the ABI basis .

	PEARL	NATIONAL PROVIDENT LIFE	LONDON LIFE
Realistic Basis Assets			
Total Statutory Assets of With-Profit Fund	10,617	6,569	1,662
Additional Statutory Assets outside With-Profit Fund backing With-Profits Business	522	213	22
Valuation Adjustments to Statutory Assets and Additional Assets arising on Realistic Basis	268	341	49
Total	11,407	7,123	1,733
Liabilities			
Policyholder Realistic Basis Liabilities	9,604	5,883	1,573
Other Liabilities	779	1,065	89
Total	10,383	6,948	1,662
Realistic Basis Assets in Excess of Total Liabilities	1,024	175	71
With-Profits Capital Requirements on a Realistic Basis	319	18	0
Realistic Basis Assets in Excess of Total Liabilities and Capital Requirements	705	157	71

Shareholder Information

TOTAL NUMBER OF HOLDERS OF ORDINARY SHARES AND THEIR VOTING RIGHTS

As at 26 March 2004, the share capital of HHG PLC consisted of 2,464,049,470 ordinary shares held by 926,585 security holders. This included 1,707,018,631 shares, held by CHESS Depositary Nominees (CDN), quoted on the Australian Stock Exchange (ASX) in the form of CHESS Depositary Interests (CDIs) and held by 869,124 CDI holders. Each registered holder of shares present in person (or by proxy, attorney or representative) at a meeting of shareholders has one vote on a vote taken by a show of hands, and one vote for each fully paid share held on a vote taken on a poll. CDI holders can instruct CHESS Depositary Nominees to appoint a proxy on their behalf and can direct the proxy how to vote on a one vote per person taken by a show of hands, and one vote per CDI on a vote taken on a poll.

TWENTY LARGEST SHARE/CDI HOLDERS AS AT 26 MARCH 2004

		ORDINARY SHARES/ CDI	% OF ISSUED CAPITAL
1	AMP Financial Services Holdings Limited	271,999,990	11.04
2	RBC Global Services Australia Nominees Pty Limited	222,791,882	9.04
3	National Nominees Limited	120,154,008	4.88
4	Citicorp Nominees Pty Limited	114,605,374	4.65
5	Westpac Custodian Nominees Limited	97,943,632	3.97
6	J P Morgan Nominees Australia Limited	64,563,202	2.62
7	ANZ Nominees Limited	60,643,592	2.46
8	AMP Life Limited	49,924,749	2.03
9	Nortrust Nominees Limited	45,943,017	1.86
10	CUIM Nominees Limited	45,498,309	1.85
11	Cogent Nominees Pty Limited	44,305,596	1.80
12	Vidacos Nominees Limited	43,305,270	1.76
13	Chase Nominees Limited	41,926,278	1.70
14	Bear Stearns International Trading Limited	38,668,678	1.57
15	Queensland Investment Corporation	33,131,858	1.34
16	HSBC Global Custody Nominees (UK) Limited	31,689,936	1.29
17	Morstan Nominees Limited	29,215,703	1.19
18	Goldman Sachs Securities Nominee Limited	28,186,935	1.14
19	NRMA Nominees Pty Limited	16,153,781	0.66
20	Westpac Financial Services Limited	16,105,996	0.65
Top 20 total		1,416,757,786	57.50
Total Shares		2,464,049,470	100.00

DISTRIBUTION OF SHARE/CDI HOLDINGS AS AT 26 MARCH 2004

CATEGORIES	NUMBER OF HOLDERS	% OF ISSUED CAPITAL
1 – 1,000	763,469	11.64
1,001 – 5,000	150,418	11.16
5,001 – 10,000	7,792	2.25
10,001 – 100,000	4,456	4.46
100,001 and over	450	70.49
Total	926,585	100.00

489,316 share/CDI holders held less than A$500 worth of shares/CDIs, i.e. fewer than 413 shares/CDIs.

STOCK EXCHANGE LISTINGS
HHG PLC is listed on the London Stock Exchange and HHG CDIs are quoted on the Australian Stock Exchange.

SUBSTANTIAL SHAREHOLDERS
As at 26 March 2004, the Company had received substantial shareholding notices, sent in accordance with ASX requirements, from AMP Limited and Perpetual Trustees Australia Limited.

AMP Limited and its associates held 362,838,319 shares/CDIs or 14.73% of HHG's issued capital, as detailed in its substantial shareholding notice sent on 30 January 2004.

Perpetual Trustees Australia Limited and its associates held 155,006,903 shares/CDIs or 6.29% of HHG's issued capital, as detailed in its substantial shareholding notice sent on 20 February 2004.

TOTAL NUMBER OF OPTIONS OVER UNISSUED SHARES AND OPTION HOLDERS
As at 26 March 2004, there were no options on issue over unissued ordinary shares in HHG PLC.

RESTRICTED SECURITIES
There are no restricted securities on issue.

BUY-BACK
There is no current on-market buy-back.

COMPANY SECRETARY
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Glossary

"annuity"	a periodic payment made for an agreed period of time (usually up to the death of the recipient) in return for a cash sum. The cash sum can be paid as one amount or as a series of premiums
"AuM"	assets under management
"closed" or **"closed book"**	a book of business with no new customers, although there are limited volumes of new business, for example, to meet contractual obligations to existing policyholders or to cater for new members to certain group schemes
"Embedded Value"	an actuarially determined estimate of the economic value of the shareholder capital in the business and the profits expected to emerge from the business in-force
"free assets"	the excess of available assets (admissible assets less total liabilities) plus implicit items over and above the RMM
"Free Asset Ratio" or **"FAR"**	this has been calculated in this document as the free assets divided by total liabilities; this is one of the key regulatory capital measures for United Kingdom life insurers
"general insurance"	non-life insurance covering risks such as motor vehicle liability, fire and damage to property
"IFA"	Independent Financial Adviser
"in-force business"	long-term business which has been written before a specified date and which has not terminated before that date
"long-term fund"	a segregated fund of assets and liabilities established and maintained by a life insurance company for the purpose of supporting a long-term business
"non-profit policy"	a policy where the value of the policy or product is either linked directly to the performance of the underlying assets (such as a unit linked policy), or is guaranteed by the insurer. Also known as a non-participating policy
"OEIC"	open-ended investment company
"PVIF"	present value of in force business. This represents the discounted future margins on an in force portfolio of long-term business. It is only recognised on the balance sheet when it has been acquired for value and is then amortised its expected life
"reinsurance"	the insuring again by an insurer of the whole or part of a risk that it has already insured for a customer with another insurer called a reinsurer. The expression "reassurance" is sometimes used to describe the same arrangements when made by a life insurance company
"RMM"	the required minimum margin, i.e. the margin of assets over and above their liabilities which all life insurers are required to keep
"run-off"	the administration of insurance portfolios that have been closed to new business
"traditional"	when used in respect of an Embedded Value or value of new business, an approach which allows for risk and uncertainty in a relatively simple way, through the choice of the rate used to discount expected profits and flows of supporting capital back to the present
"TSR"	total shareholder return
"underwriting"	the insurer's process of reviewing applications for insurance cover and the decision whether to accept all or part of the risk and determination of the applicable premiums; also refers to the acceptance of such risk
"unitised with-profits"	a policy under which the value of the benefits is measured in whole or in part by reference to the with-profits units allocated to that policy
"unit trust"	a trust in which investors (unit holders) obtain an interest. Unlisted trusts often permit investors to exit their investment by having their units purchased or redeemed at a price closely reflecting the underlying market value of the trust's investments
"with-profits policy" or **"participating policy"**	a policy under which (in addition to guaranteed benefits specified in the policy) additional bonuses may be payable. The declaration of such bonuses (usually annually) reflects, amongst other things, the overall investment performance of the fund of which the policy forms part; "without-profits policy" or "non-participating policy" means a policy where no such additional bonuses are payable
"with-profits units"	notional units whose value or number varies by reference to premiums paid, to bonuses declared or surpluses otherwise distributed for the purposes of calculating benefits payable under policies