ASX Announcement

7 November 2003

Manager
Company Announcement Office
Australian Stock Exchange
Level 4, 20 Bridge Street
Sydney NSW 2000

Manager
Market Information Services Section
New Zealand Stock Exchange
Level 9, ASB Tower, 2 Hunter Street
Wellington New Zealand

Announcement No: 138/03

For information only

HHG PLC UK GAAP HY03 Report and Accounts

Please find attached the following documents:

- consolidated and audited UK GAAP Report and Accounts of HHG PLC for the six months ended June 2003;
- a pro-forma, unaudited breakdown of HHG's principal business unit results for the past three years; and
- an unaudited breakdown of provisions in accordance with UKGAAP at 30 June 2003.

A summary of this information is provided in section 7.6 of the AMP Limited Proposal to Demerge Explanatory Memorandum (EM).

Along with previously audited accounts, this data will form the basis for historic financials to be included in the HHG PLC UK Listing Particulars.

An explanation of the material differences between Australian GAAP and UK GAAP is provided in section 7.6 (specifically sections 7.6.1 to 7.6.4) of the EM.

AMP Limited
Level 24, 33 Alfred Street
Sydney NSW 2000 Australia
ABN 49 079 354 519

HHG PLC

(formerly AMP (UK) PLC)

(Company Registration Number: 2072534)

UK GAAP
Report and Accounts

For the 6 months ended 30 June 2003

HHG PLC (formerly A.M.P. (UK) PLC)

REPORT AND ACCOUNTS 2003

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Registered Office:

4 Broadgate
London EC2M 2DA

Company Registration No: 2072534

HHG PLC (formerly A.M.P. (UK) PLC)

BOARD OF DIRECTORS

Sir Malcolm Bates, Hon.DLitt , MSc, FCIS, FRAeS, CCMI
Chairman (non-executive)

P J Costain, FCA
Non-executive Director

R P Handley, BA, MBA
Director (non-executive)

A C Hotson, MA, MPhil (Econ), BA (Hons) Oxon
Director (non-executive)

I W Laughlin, BSc, FIA, FIAA
Director

N T Hiscock, BA (Hons) (Oxon), MA (Hons) (Oxon), FCA
Director

A M Mohl, BEc (Hons)
Director

Sir William Wells, BA, FRICS
Non-executive Director

R P Yates, BA (Hons) (Oxon)
Director

Company Secretary

G A Watson, FCIS

Investment Fund Manager

Henderson Global Investors

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

In connection with the proposed demerger of HHG PLC ('the Company') from AMP Limited and the proposed listing of HHG PLC on the London Stock Exchange, the directors are required to prepare consolidated accounts of HHG PLC and it's subsidiary undertakings ('the Group') for the six month period ended 30 June 2003.

Although preparation of accounts as at 30 June 2003 is not a statutory requirement under the Companies Act 1985, the consolidated accounts will be prepared in accordance with the disclosure requirements of the Companies Act 1985 for statutory accounts, except that no balance sheet or notes will be included in respect of the Company.

Company law requires the directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. 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 Company 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 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors have assumed the same responsibilities in preparing these non-statutory accounts for the six month period ended 30 June 2003.

INDEPENDENT AUDITORS' REPORT TO THE DIRECTORS OF HHG PLC

We have audited the Group's non statutory financial statements for the six month period ended 30 June 2003 which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Statement of Total Recognised Gains and Losses and the related notes 1 to 33. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Company's directors. Our audit work has been undertaken so that we might state to the Company's directors 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 for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the Company's directors have assumed responsibility for the preparation of the non-statutory financial statements in accordance with applicable United Kingdom law and accounting standards

Our responsibility is to audit the non-statutory financial statements in accordance with United Kingdom Auditing Standards.

We report to you our opinion as to whether the non-statutory financial statements give a true and fair view.

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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Equalisation provision

Our evaluation of the presentation of information in the accounts has had regard to the statutory requirements for insurance companies to maintain equalisation provisions. The nature of the equalisation provisions, the amounts set aside at 30 June 2003 and the effect of the movement in those provisions during the period on the general business technical result and profit before tax, are disclosed in the accounting policies and note 2(b) to the accounts.

Opinion

In our opinion the non-statutory financial statements give a true and fair view of the state of affairs of the Group as at 30 June 2003 and of the loss of the Group for the six month period then ended.

Ernst & Young LLP Registered Auditor October 2003	1 More London Place London SE1 2AF

Notes
1 The maintenance and integrity of the HHG PLC and AMP Limited web sites is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

HHG PLC (formerly A.M.P. (UK) PLC)

CONSOLIDATED PROFIT AND LOSS ACCOUNT

TECHNICAL ACCOUNT FOR GENERAL INSURANCE BUSINESS
for the year ended 31 December 2002 and the six months ended 30 June 2003

	Notes	*31Dec 2002 £m*	*30 June 2003 £m*
Earned premiums net of reinsurance			
Gross premiums written	2(a)	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		8	3
Total technical income		21	3
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		(68)	(20)
Reinsurers' share		60	16
Net claims paid		(8)	(4)
Change in the provision for claims:			
Gross amount		(21)	35
Reinsurers' share		24	(33)
Change in the net provision for claims		3	2
Claims incurred, net of reinsurance		(5)	(2)
Net operating expenses		1	1
Change in equalisation provision	2(b)	3	1
Total technical charges		(1)	-
Balance on the technical account – general business		20	3

All activities relate to discontinued operations.

HHG PLC (formerly A.M.P. (UK) PLC)

CONSOLIDATED PROFIT AND LOSS ACCOUNT

TECHNICAL ACCOUNT FOR LONG TERM BUSINESS
for the year ended 31 December 2002 and the six months ended 30 June 2003

	Notes	*31 Dec 2002 £m*	*30 June 2003 £m*
Gross premiums written	4(a)	2,136	877
Outward reinsurance premiums		(5)	(1)
Earned premiums, net of reinsurance	4(b)	2,131	876
Investment income	5(a)	1,394	682
Unrealised gains on investments	5(a)	-	872
Other technical income	8	87	4
Total technical income		**3,612**	**2,434**
Gross claims paid		(3,352)	(1,727)
Reinsurers' share		20	13
Net claims paid		(3,332)	(1,714)
Change in the gross and net provision for claims		(18)	(21)
Claims incurred, net of reinsurance		**(3,350)**	**(1,735)**
Change in gross long term business provision *		2,368	(29)
Change in reinsurers' share		(218)	86
Change in long term business provision, net of reinsurance		2,150	57
Change in technical provision for linked liabilities, net of reinsurance		765	(408)
Change in other technical provisions, net of reinsurance		**2,915**	**(351)**
Net operating expenses	3(a)	(530)	(158)
Investment expenses and charges	5(a)	(298)	(687)
Unrealised losses on investments	5(a)	(3,545)	-
Other technical charges **	3(b)	(72)	(116)
Taxation credit / (charge) attributable to the long term business	6(a)	233	(59)
Allocated investment return transferred from the non-technical account	5(b)	-	2
Transfer from the fund for future appropriations	19	981	389
Total technical charges		(3,231)	(629)
Balance on the technical account – long term business	4(h)	(54)	(281)

All activities relate to continuing operations.

* The change in gross long term business provision includes £242m (2002: nil) of operating exceptional items. Further details are given in note 20(i).

** Other technical charges include £19m (2002: £41m) of operating exceptional items being impairment of PVIF. Further details are given in note 3(b).

HHG PLC (formerly A.M.P. (UK) PLC)

CONSOLIDATED PROFIT AND LOSS ACCOUNT

NON-TECHNICAL ACCOUNT
for the year ended 31 December 2002 and the six months ended 30 June 2003

	Notes	*31 Dec 2002 £m*	*30 June 2003 £m*
Balance on the general insurance business technical account			
Discontinued operations		20	3
Balance on the long term business technical account			
Continuing operations		(54)	(281)
Tax charge attributable to balance on long term business technical account	6(a)	(23)	(121)
Shareholders' pre-tax profit / (loss) from long term business		(77)	(402)
Investment income	5(a)	103	18
Allocated investment return transferred from the long term business technical account	5(b)	-	(2)
Unrealised losses on investments *	5(a)	(16)	(116)
Share of operating profit in associates	11(e)	(4)	(1)
Interest on loans to associates	11(e)	6	-
Impairment of goodwill arising on acquisition of associates	11(e)	-	(9)
(Loss) / profit from interest in associates		2	(10)
Investment expenses and charges	5(a)	(92)	(46)
Allocated investment return transferred to the general business technical account	5(a)	(8)	(3)
Other income	7	45	34
Other charges **	3(b)	(400)	(461)
Operating profit / (loss) based on longer term investment		(413)	(983)
Short term fluctuation in investment return	5(a)	(10)	(2)
Profit/(loss) on ordinary activities before non-operating exceptional items and taxation		(423)	(985)
Non-operating exceptional items – profits on disposal of businesses	8	82	7
Profit / (loss) on ordinary activities before taxation		(341)	(978)
Tax on profit / (loss) on ordinary activities	6(a)	39	102
Loss on ordinary activities after taxation		(302)	(876)
Preference dividend on non-equity shares		(25)	-
Retained loss for the financial year		(327)	(876)

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.

* Unrealised losses on investments include £130m (2002: nil) of operating exceptional items. Further details are given in note 5(a).

** Other charges include £379m (2002: £330m) of operating exceptional items. Further details are given in note 3(b).

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

The Group has no gains and losses other than the amounts shown in the profit and loss account.

CONSOLIDATED BALANCE SHEET
at 31 December 2002 and 30 June 2003

Assets

	Notes	*31 Dec 2002 £m*	*30 June 2003 £m*
Intangible Assets			
Goodwill	10	585	288
Investments			
Land and buildings	11(a)	2,191	1,793
Investments in joint ventures			
- Share of gross assets		366	371
- Share of gross liabilities		(133)	(136)
- Loans		27	28
	11(d)	260	263
Investments in associates	11(e)	413	406
Other financial investments	11(f)	23,035	22,730
		25,899	25,192
Assets held to cover linked liabilities	11(f)	3,909	4,317
Reinsurers' share of technical provisions			
Provision for unearned premiums		-	-
Long term business provision		115	201
Claims outstanding	22(b)	298	266
		413	467
Debtors			
Debtors arising out of direct insurance operations	12(a)	30	28
Other debtors	12(b)	593	381
Deferred tax asset	22	9	7
		632	416
Other assets			
Tangible assets	13	41	35
Cash at bank and in hand		223	151
Present value of acquired in force long term business	14	33	14
		297	200
Prepayments and accrued income			
Accrued interest and rent		258	292
Deferred acquisition costs	15(a)	243	185
Other prepayments and accrued income	15(b)	264	155
		765	632
Total assets		32,500	31,512

HHG PLC (formerly A.M.P. (UK) PLC)

CONSOLIDATED BALANCE SHEET
at 31 December 2002 and 30 June 2003

Liabilities

	Notes	*31 Dec 2002 £m*	*30 June 2003 £m*
Capital and reserves			
Called up share capital	16(b)	804	804
Share premium	17	5	5
Capital reserve	17	292	292
Profit and loss account	17	(70)	(946)
Equity		765	138
Non-equity		266	17
Shareholders' funds	18	1,031	155
Fund for future appropriations	19	527	138
Technical provisions			
Provisions for unearned premiums		-	-
Long term business provision	20	23,590	23,619
Claims outstanding	22(a)	446	434
Equalisation provision	2(b)	7	6
		24,043	24,059
Technical provisions for linked liabilities		3,909	4,317
		27,952	28,376
Provision for other risks and charges			
Other provisions	24	197	237
		197	237
Creditors			
Creditors arising out of direct insurance operations		23	-
Debenture loans	23	1,449	1,415
Amounts owed to credit institutions	23	327	258
Other creditors including taxation and social security	25	752	764
		2,551	2,437
Accruals and deferred income		242	169
Total liabilities		32,500	31,512

1. Accounting policies

a) Basis of presentation and consolidation

In connection with the proposed demerger of HHG PLC ('the Company') from AMP Limited and the proposed listing of HHG PLC on the London Stock Exchange, the directors are required to prepare consolidated accounts of HHG PLC and its subsidiary undertakings ('the Group') for the six month period ended 30 June 2003.

Although preparation of accounts as at 30 June 2003 is not a statutory requirement under the Companies Act 1985, the consolidated accounts will be prepared in accordance with the disclosure requirements of the Companies Act 1985 for statutory accounts, except that no balance sheet or notes will be included in respect of the Company.

The Group financial statements, which consolidate the financial statements of HHG Plc (previously known as 'AMP (UK) 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 financial statements 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.

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 financial statements. 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 23 April 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 £15 million. 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 for all previous periods presented.

The results for the year ended 31 December 2002 have been adjusted 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 profit / (loss) on ordinary activities.

AMP Limited announced that as part of the demerger it would repay the external debt of the Group and reimburse the costs of restructuring. It is likely that all support arrangements between the Group and AMP Limited and its subsidiaries will be removed as part of the demerger.

The material support arrangements that currently exist are as follows:

i) Keepwell Agreement
The Keepwell Agreement relates to arrangements between AMP Group Holdings Limited, AMP Finance Services Limited (the Obligors), and the Company. The agreement relates to the maintenance of the consolidated net worth of the Company, being its consolidated shareholders' equity. In calculating the consolidated net worth, insurance subsidiaries of the Company are assessed at appraisal value. The assessment of net worth deficiency only takes place at 30 June and 31 December of each year. When such a deficit exists, a certification of the deficit may be sent to the Obligors which must then subscribe (or cause a subsidiary to subscribe) for such amount of share capital as shall be necessary to restore the consolidated net worth of the company to at least £1. The Company can also request a liquidity advance from the Obligors where it is unable to meet debts as and when they fall due, and it has utilised unused credit lines for that purpose.

1. Accounting policies (continued)

a) Basis of presentation and consolidation (continued)

ii) AMP (UK) Services
AMP Group Holdings Limited has agreed to procure the provision of financial support to AMP (UK) Services Limited, an indirectly held subsidiary of the Company, to enable AMP (UK) Services Limited to meet its liabilities when due and payable.

In connection with the demerger, it is proposed that the Keepwell Agreement be terminated with effect from the date of the demerger. Before terminating the Agreement, the directors of the Company will need to be satisfied as to the recapitalisation of the Group. If they are not so satisfied then they will not give their consent to the release of the Keepwell and these existing arrangements will stay in place. Accordingly the directors of the Company approve these accounts on a going concern basis. These accounts make provision for such matters where the directors and the reporting actuary consider it appropriate.

The FSA, in its capacity as regulator of the life companies, raises matters with the group, which may be specific or of a more generic industry nature. Some of these matters are potentially material to the financial position of the life companies, as illustrated by the pensions mis-selling review. Since the period-end, discussions have included the financial arrangements for the UK life companies following the proposed demerger of AMP Limited's UK interests. The demerger proposals were approved by the FSA on 9 October 2003. It is proposed that the demerger will be effective in mid December 2003 subject to AMP Limited shareholder approval.

(b) General business

(i) 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.

(ii) Premiums

Written premiums are accounted for in the period in which the risk incepts. Estimates are included for premiums not notified by the year-end and provision is made for subsequent lapses.

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.

(iii) 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.

(iv) Deferred acquisition costs

Deferred acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts, are deferred to the extent that they are attributable to gross written premiums which are unearned at the balance sheet date.

(v) 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.

1. Accounting policies (continued)

c) Long term business

i) 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 the company 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.

ii) 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.

iii) 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

iv) 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.

1. Accounting policies (continued)

c) Long term business

v) Profit recognition and the fund for future appropriations

HHG 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 the appropriation, by the directors, to participating policyholders by way of bonuses and to shareholders, which determines their profit reported in respect of participating business.

Any unappropriated surplus arising in long-term funds, which includes participating business, 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.

vi) Terminal bonus

No explicit provision is made for non-guaranteed bonuses vesting within the long-term business provision.

d) 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.

The results of all material subsidiary undertakings held by the Pacific fund are initially recorded in the long term business technical account, but are then transferred to the non-technical account. The transfer to the non-technical account is included in investment expenses and charges. Investment return on all other assets held by the Pacific fund is included in the balance on the technical account – long term business.

1. Accounting policies (continued)

e) Investments

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.

- Listed investments are stated at the middle market value.

- Short-term deposits are included at cost.

- Other investments are shown at directors' estimates of market value.

- Interests in property limited partnerships 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 Group holds minority stakes in PLPs, with no disproportionate influence, the relevant investments are included in land and buildings at their market value.

f) 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 are reported in the profit and loss account and are calculated as the difference between net sale proceeds and the net carrying amount.

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.

g) 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 impairment. Any impairment charge is recorded in the non-technical account in 'Other charges.'

1. Accounting policies (continued)

h) Present values 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 impairment. Any amortisation or impairment charge is recorded in the long-term business technical account in 'Other charges'.

i) Fixed assets and depreciation

All items of capital expenditure are capitalised and depreciated on a straight line basis over their useful economic life.

j) 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.

k) 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;

- 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 taxation 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 effective rate of tax applicable for the year.

l) 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.

m) 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.

1. Accounting policies (continued)

n) 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.

o) Limited recourse bonds

Expenditure incurred in the issue of the 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 amortised 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.

p) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Exchange differences are taken to the profit and loss account.

2. Discontinued operations, general business gross written premiums

a) Discontinued operations gross premiums written

	31Dec 2002 £m	*30 June 2003 £m*
Motor	-	-
Property	-	-
Other	1	-
Total	1	-

b) Discontinued operations - 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 £6m as at 30 June 2003 and £7m as at 31 December 2002. 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 £1m in 2003 and £3m in 2002.

3. Net operating expenses and other charges

a) Net operating expenses

	Technical account General business		*Technical account Long term business*	
	31 Dec 2002 £m	*30 June 2003 £m*	*31 Dec 2002 £m*	*30 June 2003 £m*
Acquisition costs				
Other	-	-	209	15
Commission	-	-	29	6
Change in deferred acquisition costs (see note 15(a))	4	-	44	58
Administrative expenses	(5)	(1)	248	79
	(1)	(1)	530	158

b) Other technical charges and other charges

	Technical account Long term business		*Non-Technical account*	
	31 Dec 2002 £m	*30 June 2003 £m*	*31 Dec 2002 £m*	*30 June 2003 £m*
Amortisation of goodwill (note 10)	17	-	33	25
Impairment of goodwill (note 10)	-	-	206	272
Amortisation of present value of in force business (note 14)	6	-	-	-
Impairment of present value of in force business (note 14)	41	19	-	-
Other expenditure	8	97	161	164
	72	116	400	461
Operating exceptional charge included above	41	19	330	379

Included in the other expenditure above is an exceptional charge in respect of the restructuring of the UK Financial Services business during 2002. Restructuring costs of £16m were paid during 2002 and a further £108m was provided in 2002 to complete the closure of the direct sales force operations of Life Services. Further exceptional costs of £107m were incurred in 2003 in respect of the changes to the UK Life Services business required as a result of the proposed demerger from AMP Limited announced on 1 May 2003 and the decision to close all life companies to new business. This was in respect of £64m of restructuring costs, £34m relating to the vacation of leasehold properties and £9m of sundry other costs (see note 24).

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 30 June 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%).

3. Net operating expenses and other charges (continued)

c) Analysis of operating exceptional items

For the year ended 31 December 2002 and the six months ended 30 June 2003

	Technical account Long term business		*Non-Technical account*	
	31 Dec 2002 £m	*30 June 2003 £m*	*31 Dec 2002 £m*	*30 June 2003 £m*
Impairment of goodwill (note 10)	-	-	206	272
Impairment of present value of in force business (note 14)	41	19	-	-
Restructuring costs (note 2(b))	-	-	124	107
Impairment of contingent loans (note 5(a))	-		-	130
Charges arising from changes in actuarial assumptions (note 21(i))	-	242	-	-
	41	261	330	509

d) Depreciation

Net operating expenses include:	*31Dec 2002 £m*	*30 June 2003 £m*
Depreciation of tangible fixed assets	16	6

e) Analysis of staff costs

Staff costs comprise:	*31Dec 2002 £m*	*30 June 2003 £m*
Salaries and wages	239	103
Social security costs	22	11
Total	261	114

f) Average employee numbers

The average number of employees of the Group during each period was as follows:

	31Dec 2002 No	*30 June 2003 No*
Henderson	1,225	785
Life Services	5,440	3,255
Other	864	768
Total employees	7,529	4,808

3. Net operating expenses and other charges (continued)

g) *Auditors' remuneration*

	31 Dec 2002 £m	*30 June 2003 £m*
Statutory audit services	1.6	-
Statutory regulatory reporting	0.5	0.3
Non-statutory audit of half year financial information	-	1.5
Further assurance services	1.0	0.1
Tax advisory services	0.2	-
Other non-audit services	-	2.6
Total services	3.3	4.5

4. Segmental information – Long term business

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

a) *Analysis of gross premiums written*

	31 Dec 2002 £m	*30 June 2003 £m*
Premiums from individuals	1,891	737
Premiums from group contracts	245	140
	2,136	877
Life business	747	196
Annuity business	208	109
Pension business	1,181	572
	2,136	877

b) *Analysis of earned premiums, net of reinsurance*

	31 Dec 2002 £m	*30 June 2003 £m*
Premiums from individuals	1,886	736
Premiums from group contracts	245	140
	2,131	876
Life business	742	195
Annuity business	208	109
Pension business	1,181	572
	2,131	876

4. Segmental information – Long term business (continued)

c) *Analysis of gross premiums written by way of direct insurance split by premium type*

	31 Dec 2002 £m	30 June 2003 £m
Regular premiums	789	418
Single premiums	1,347	459
	2,136	877

d) *Analysis of gross premiums written by way of direct insurance split by contract type*

	31 Dec 2002 £m	30 June 2003 £m
Non-profit contracts	376	240
With-profits contracts	1,214	332
Linked contracts	546	305
	2,136	877

e) *Analysis of new gross written premiums*

	31 Dec 2002 £m	30 June 2003 £m
Life business	449	37
Annuity business	112	108
Pension business	878	334
Direct	1,439	479

Industrial branch premiums of £17m in 2003 and £47m in 2002 are classified as regular premium with-profits life business in the above analysis.

f) *New business annual premium equivalent*

	31 Dec 2002 £m	30 June 2003 £m
Annualised premium equivalent	227	66

4. Segmental information – Long term business (continued)

g) Analysis of new gross premiums written by way of direct insurance

	31 Dec 2002 £m	*30 June 2003 £m*
Regular premiums (annualised)	92	20
Single premiums	1,347	459
	1,439	479
Non-profit contracts	354	210
With-profit contracts	711	89
Linked contracts	374	180
	1,439	479

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 Company 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.

h) Analysis of balance on technical account

	31 Dec 2002 £m	*30 June 2003 £m*
Non-linked:		
Life and annuity business	6	(6)
Pension business	(46)	(110)
Shareholders' attributable assets – other	52	(170)
Goodwill amortisation	(17)	-
	(5)	(286)
Linked:		
Life business	(3)	-
Pension business	(46)	5
	(49)	5
	(54)	(281)

5. Investment return

a) Actual investment income

	Technical account Long Term Business		*Non-technical account*	
	31 Dec 2002 £m	*30 June 2003 £m*	*31 Dec 2002 £m*	*30 June 2003 £m*
Income from land and buildings	162	56	-	-
Income from other investments	1,232	626	103	18
Gains on the realisation of investments	-	-	-	-
Investment income	1,394	682	103	18
Unrealised (losses)/gains	(3,545)	872	(16)	(116)
Investment management expenses and charges	(93)	(15)	(14)	-
Interest on bank loans and overdrafts	(9)	-	-	-
Other loan interest	(59)	(30)	(78)	(37)
Losses on realisation of investments	(137)	(642)	-	(9)
Investment expenses and charges	(298)	(687)	(92)	(46)
Total investment return	(2,449)	867	(5)	(144)

Included in unrealised losses in the non-technical account is an operating exceptional charge in respect of the impairment of the contingent loan to the long term funds of London Life Limited (see note 27), 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.

b) Longer term investment return

i) 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 from the long term business technical account in 2003 was £2m (2002 - nil).

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

	Shareholders interest in Long term business		*Non-long term business*	
	31 Dec 2002 £m	*30 June 2003 £m*	*31 Dec 2002 £m*	*30 June 2003 £m*
Total investment return before tax	37	27	(5)	(144)
Less: investment return not supporting general insurance	-	-	3	147
	37	27	(2)	3
Longer term investment return	37	29	8	3
Short term fluctuation in investment return	-	(2)	(10)	-
	37	27	(2)	3

5. Investment return (continued)

b) Longer term investment return (continued)

iii) 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.

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

	31 Dec 2002 %	*30 June 2003 %*
Equities	8.0	7.9
Gilts	5.0	5.0
Corporate bonds	5.5	5.5
Properties	7.0	6.6
Cash	4.0	3.5

v) 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.

	1 Jan 1998 to 31 Dec 2002 £m	*1 July 1998 to 30 June 2003 £m*
Actual return attributable to shareholders:		
Long-term business	331	270
Non long-term business	60	50
Long term return credited to operating results:		
Long-term business	339	327
Non long-term business	60	55
Excess / (shortfall) of actual returns over longer term returns	(8)	(62)

6. Taxation

a) Taxation

	Technical account Long term business		*Non-Technical account*	
	31 Dec 2002 £m	*30 June 2003 £m*	*31 Dec 2002 £m*	*30 June 2003 £m*
United Kingdom corporation taxation:				
Current tax charge / (credit) for the period	75	56	(20)	6
Adjustments for previous years	(118)	2	(1)	10
	(43)	58	(21)	16
Overseas taxation	5	2	-	-
Double taxation relief	(1)	-	-	-
Tax attributable to shareholders' long term business profits	-	-	(23)	(121)
Total current taxation	(39)	60	(44)	(105)
Deferred taxation				
Origination and reversal of timing differences	(245)	(12)	5	3
Adjustment to the estimated recoverable amount of deferred tax assets arising in previous periods	24	12	-	-
Decrease / (increase) in discount	27	(1)	-	-
Total deferred taxation	(194)	(1)	5	3
Total tax (relief) / charge	(233)	59	(39)	(102)

After taking account of reliefs to which the Group is entitled, UK corporation tax on 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. Taxation (continued)

b) Factors affecting tax charge for period

The tax assessed in the period 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 period for which the profits will be taxed.

	31 Dec 2002 £m	*30 June 2003 £m*
Profit / (loss) on ordinary activities before tax	(341)	(978)
Profit / (loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002: 30%)	(103)	(293)
Effects of:		
Non-taxable book gains on sales / revaluations of subsidiaries and associates	(20)	(5)
Non-taxable goodwill amortisation and impairment	74	131
Other disallowable expenses	13	9
Other timing differences other than on long term business	2	42
Adjustment to tax charge in prior periods	(1)	10
Tax effect of allocated long term investment return	-	-
Non taxable income	(9)	1
Current tax charge / (credit) for the period	(44)	(105)

c) 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:

	31 Dec 2002 £m	*30 June 2003 £m*	*31 Dec 2002 £m*	*30 June 2003 £m*
Unrealised losses on investments	25	20	6	1
Provisions and other timing differences	6	7	19	18
Capital and Trading Losses	66	145	6	53
	97	172	31	72

7. 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).

8. Exceptional items

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

	31 Dec 2002 £m	*30 June 2003 £m*
Cogent Investment Operations Limited	74	-
Henderson UK Private client business	8	7
Total profits on disposal of businesses	82	7

Cogent Investment Operations Limited

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:

	£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

In accordance with FRS 12 the sale proceeds exclude any recognition of future instalments to which the Group may be entitled, since they are considered to be contingent. The future instalments are dependent upon certain criteria relating to the performance of the disposed entity and therefore it is not practicable to provide an estimate of their financial effect.

Henderson's UK private client business

During 2002, the group disposed of its UK Private Client Asset Management business to Newton Investment Management resulting in £8m profit on disposal in 2002. A further £7m 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 considered contingent.

9. HHG Directors' emoluments

a) HHG Directors' emoluments

	31 Dec 2002 £'000	*30 June 2003 £000*
Emoluments (excluding pension contributions and awards under share option schemes and other long term incentive schemes)	761	491
Contributions to money purchase pension schemes	19	32
Directors' and past directors' retirement benefits in excess of entitlements	32	16
Compensation to former director for loss of office	1,690	-

b) Highest paid director's emoluments

	31 Dec 2002 £'000	*30 June 2003 £000*
Emoluments (excluding pension contributions and awards under share option schemes and other long term incentive schemes)	541	165
Contributions to money purchase pension schemes	19	12
Compensation for loss of office	1,690	-

c) Number of directors

	31 Dec 2002 Number	*30 June 2003 Number*
Number of directors who:		
- are members of a money purchase pension scheme	-	2
- have received awards during the year in the form of shares under long term incentive schemes	1	-

The emoluments disclosed in the notes to these accounts are in respect of the directors with qualifying services for the Group and for those directors comprise their total emoluments in respect of services to the HHG Group.

10. Goodwill

	31 Dec 2002 £m	30 June 2003 £m
Cost		
At 1 January	1,822	1,807
Disposal of Cogent Investment Operations Limited	(15)	-
At 31 December / 30 June 2003	1,807	1,807
Amortisation and Impairment		
At 1 January	969	1,222
Amortisation charge for the year:		
Technical account - long term business	17	-
Non-technical account	33	25
Impairment charge for the year	206	272
Disposal of Cogent Investment Operations Limited	(3)	-
At 31 December / 30 June 2003	1,222	1,519
Net book value at 31 December / 30 June 2003	585	288

The goodwill relates to:

	31 Dec 2002 £m	30 June 2003 £m
Net Book Value		
Henderson	243	235
National Provident Institution	220	32
Pearl Assurance	40	-
Towry Law	82	21
	585	288

11. Investments

a) Investments - Land and building

Land and buildings at current market value	Freehold £m	Long leasehold £m	Short leasehold £m	Total £m
At 1 January 2002	1,463	822	18	2,303
Additions	351	40	-	391
Disposals	(404)	(257)	-	(661)
Surplus / (deficit) on revaluation	93	64	1	158
At 31 December 2002	**1,503**	**669**	**19**	**2,191**
At 1 January 2003	1,503	669	19	2,191
Additions	13	42	-	55
Disposals	(195)	(118)	-	(313)
Surplus / (deficit) on revaluation	(129)	(10)	(1)	(140)
At 30 June 2003	**1,192**	**583**	**18**	**1,793**
Land and buildings at cost:				
At 31 December 2002	1,506	473	5	1,984
At 30 June 2003	1,220	538	5	1,763

11. Investments (continued)

a) Investments - Land and buildings (continued)

All properties held by the Group were valued as at 30 June 2003 and 31 December 2002 by qualified professional valuers working for the company DTZ Debenham Thorpe. 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 £302m (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 £41m (2002: £45m) in respect of buildings which are owned and occupied by the Group.

b) Investments in Property Limited Partnerships

As part of their investment strategy, the UK long-term business policyholder funds have invested in a number of property limited partnerships ("PLPs") through a mix of capital and loans. The PLPs are managed by general partners ("GPs"), in which the UK long-term business shareholder companies hold equity stakes and which themselves hold nominal stakes in the PLPs.

Most of the PLPs have raised external debt, secured on their respective property portfolios. The lenders are only entitled to obtain payment, of both interest and principal, to the extent that there are sufficient resources in the respective PLPs. The lenders have no recourse whatsoever to the policyholder or shareholders' funds of any company of the Group.

Accounting for the PLPs as subsidiary undertakings, joint ventures, associates or other financial investments depends on the shareholdings in the GPs and the terms in each partnership agreement. Where the Group exerts control over a PLP, it has been treated as a subsidiary and its results, assets and liabilities have been consolidated. Where the partnership is managed by a contractual agreement such that no one party exerts control, 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 other financial investments at their market value.

c) Investments in participating interests

	Cost		*Carrying Value*	
	2002	*2003*	*2002*	*2003*
	£m	*£m*	*£m*	*£m*
Interests in associate undertakings	429	438	413	406
Interests in joint ventures	173	173	260	263
Total	602	611	673	669

11. Investments (continued)

d) *Investments in joint ventures*

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

	31 Dec 2002 £m	*30 June 2003 £m*
Share of result for the year after tax	10	5
Unrealised investment (losses) / gains after tax	(2)	(2)
Additions / (disposals)	78	-
Movements in investments in joint ventures	86	3
Balance at start of period	174	260
Balance at end of period	260	263

e) *Investments in associates*

2002	*Long term business*		*Non-long term business*			
	Share of Capital and Reserves £m	*Loan £m*	*Share of Capital and Reserves £m*	*Loan £m*	*Goodwill £m*	*Total carrying value £m*
Balance at beginning of year	319	10	(38)	94	6	391
Operating profit / (loss) for the year after tax	18	-	(4)	-	-	14
Interest on loans to associates	-	-	-	6	-	6
(Disposals)/Additions	(19)	20	-	1	-	2
Movements in year	(1)	20	(4)	7	-	22
Balance at end of year	318	30	(42)	101	6	413

2003	*Long term business*		*Non-long term business*			
	Share of Capital and Reserves £m	*Loan £m*	*Share of Capital and Reserves £m*	*Loan £m*	*Goodwill £m*	*Total carrying value £m*
Balance at beginning of year	318	30	(42)	101	6	413
Operating loss for the year after tax	(14)	-	(1)	-	-	(15)
(Disposals)/Additions	(39)	56	-	-	-	17
Capitalisation of loans	-	-	6	(9)	3	-
Impairment of goodwill	-	-	-	-	(9)	(9)
Movements in year	(53)	56	5	(9)	(6)	(7)
Balance at end of year	265	86	(37)	92	-	406

11. Investments (continued)

f) Other financial investments

	31 Dec 2002 Market Value £m	*31 Dec 2002 Cost £m*	*30 June 2003 Market Value £m*	*30 June 2003 Cost £m*
Shares and other variable yield securities and units in unit trusts	7,565	7,985	3,300	3,259
Debt securities and other fixed income securities	11,811	10,509	13,339	12,305
Loans secured by mortgage	80	80	88	88
Other loans	17	17	9	9
Deposits with credit institutions	3,562	3,561	5,994	5,948
	23,035	22,152	22,730	21,609
Listed investments included above	19,420	20,876	16,640	15,564
Assets held to cover linked liabilities	3,909	4,812	4,317	4,480

12. Debtors

a) Debtors arising out of direct insurance operations

	31 Dec 2002 £m	*30 June 2003 £m*
Amounts owed by policyholders	30	28

b) Other debtors

	31 Dec 2002 £m	*30 June 2003 £m*
Outstanding sale of investments	308	90
Amounts due from AMP Limited group undertakings	3	9
Other debtors	234	282
Corporation tax recoverable	48	-
	593	381

13. Tangible assets

	Total £m
Cost	
At 1 January 2003	55
Additions	3
Disposals	(6)
At 30 June 2003	52
Depreciation	
At 1 January 2003	14
Charge for the year	6
On disposals	(3)
At 30 June 2003	17
Net book value at 30 June 2003	35
Net book value at 31 December 2002	41

14. Present value of in force business

	31 Dec 2002 £m	*30 June 2003 £m*
Cost		
At start and end of period	101	101
Amortisation and Impairment		
Amortisation:		
At 1 January	21	68
Amortisation charge	6	-
Impairment charge	41	19
	68	87
Net book value		
At end of period	33	14
At start of period	80	33

The principal assumptions used to calculate the Present Value of In Force Business are the same as those used to calculate the Long Term Business Provision (see note 20).

15. Prepayments and Accrued Income

a) Deferred Acquisition Costs

	General business £m	*Long term business £m*	*Total £m*
At 1 January 2003	-	243	243
Decrease in year	-	(58)	(58)
At 30 June 2003	-	185	185

b) Other prepayments and accrued income

Other prepayments and accrued income includes £135m (2002: £232m) of accrued income which represents the value of surpluses arising on the block of business securitised.

16. Share capital

a) Share capital authorised

	31 Dec 2002 £m	*30 June 2003 £m*
1,000m undesignated shares of £1 each	1,000	1,000

The authorised share capital is undesignated in accordance with the Company's Memorandum and Articles of Association.

16. Share capital (continued)

b) Share capital allotted

	31 Dec 2002 £m	*30 June 2003 £m*
Allotted, called up and fully paid		
Equity shares:		
Ordinary shares of £1 each	538	787
Non-equity shares:		
'A' non-redeemable preference shares of £1 each	17	17
'B' redeemable preference shares of £1 each	-	-
'C' redeemable preference shares of £1 each	249	-
	804	804

On 23 April 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 £15 million. 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 for all previous periods presented. The additional share capital of £10m and share premium of £5m created by this transaction have also been included in the comparatives and the minority interest credit in the 2002 non-technical account has been eliminated on restatement.

On 26 June 2003 the Company issued 248,930,000 ordinary shares with a par value of £1 each for a total consideration of £248,930,000. 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 £248,930,000.

The holders of the 'A' preference shares are entitled pari-passu with the holders of the 'B' and 'C' redeemable preference shares, but in priority to the holders of any other shares, to a floating rate cumulative preference dividend at a rate of LIBOR plus 1.2% per annum per share payable half yearly on 30 June and 31 December. The holders of the 'C' redeemable preference shares are entitled pari-passu with the holders of the 'A' and 'B' preference shares, but in priority to the holders of any other shares, to a floating rate non-cumulative preference dividend at a rate of LIBOR plus 1.6% per annum per share payable half yearly on 30 June and 31 December.

On a return of capital on liquidation or otherwise, the holders of the 'A' preference and 'B' and 'C' redeemable preference shares are entitled to rateable repayment of their capital plus any arrears of their dividend in priority to all other shares but are not entitled to any further participation in assets

The 'C' redeemable preference shares are redeemable at par on 31 December 2021 and in addition at any time before then at par, plus any arrears of their dividend from the most recent dividend payment date to the date of redemption at the option of HHG providing not less than 7 days notice in writing is given to the holders of these shares.

The 'A' preference shares have no voting rights. The 'B' and 'C' preference share holders are entitled on a poll to one vote for every five 'B' or 'C' preference shares held and to one vote on a show of hands.

17. Reserves

	Share Premium £m	*Capital reserve £m*	*Profit and loss account £m*
At 1 January 2002 as previously stated	-	2	257
Retained loss for the financial year as previously stated	-	-	(324)
Restatement for acquisition of minority interest (see note 1(a))	5	-	(3)
Capital contribution	-	290	-
At 1 January 2003	5	292	(70)
Retained loss for the 6 months ended 30 June	-	-	(876)
At 30 June 2003	5	292	(946)

The consolidated profit and loss account includes non-distributable amounts in respect of the Pacific fund of £608m (2002: £ 782m).

18. Reconciliation of movement in shareholders' funds

	31 Dec 2002 £m	*30 June 2003 £m*
At 1 January as previously restated	1,050	1,031
Restatement for acquisition of minority interest (see note 1(a))	18	-
As restated	1,068	1,031
Loss for the financial year	(302)	(876)
Dividend on equity shares	-	-
Dividend on non-equity shares	(25)	-
	(327)	(876)
Redemption of £178m 'B' preference shares	(178)	-
Issue of £178m 'C' preference shares	178	-
Redemption of £255m 'B' preference shares	-	-
Issue of £255m 'C' preference shares	-	-
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
Capital contribution	290	-
Shareholders' funds at 31 December / 30 June	1,031	155

19. Fund for future appropriations

	31 Dec 2002 £m	*30 June 2003 £m*
At 1 January	1,508	527
Arising on acquisition of National Provident Institution	-	-
Transfer to technical account	(981)	(389)
Balance at 31 December / 30 June	527	138

20. 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:

a) Interest Rates

	Valuation interest rates			
	With profits		*Non profit*	
	31 Dec 2002 %	*30 June 2003 %*	*30 June 2002 %*	*30 June 2003 %*
Basic life assurance	3.4-4.7	3.1-3.5	2.5-4.7	2.9-4.0
Pension business	3.25-6.0	3.9-5.0	3.25-5.0	3.9-5.0
Pension annuity in payment	2-6	3.2-4.1	4.25-5.3	3.8-5.0
General annuities	4.5	3.25-3.8	3.9-4.9	3.25-4.2
Unitised with profit (life)	1.5-6.0	2.2-5.9	5.49	4.48
Unitised with profit (pension)	2.5-5.5	3.8-4.45	n/a	n/a
PHI	N/a	N/a	4.8	4.2

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

b) Mortality Rates

	31 Dec 2002	*30 June 2003*
Basic Life assurance	A67-70 Ult with adjustments, AM/F A92 and ELT14(M)	A67-70 Ult, AM/F 80 Ult, AM/F A92 and ELT14(M), all with adjustments
Pension Business	A67-70 Ult with adjustments, IM/ F80 C2020 with adjustments and AM/F A92	A67-70 Ult, AM/F 80 Ult and AM/F A92, all with adjustments
Annuity in payment	IM/IF80 C2013, IM/IF80 C2020, PM/F A92 C2015, IM/F 80 C2014, all with adjustments	IM/IF 80, IM/IF 80 C2014/2015, PM/F A92 Year of use, IM/F L92 Year of use, RM/F V92 Year of use, all with adjustments
Unitised with-profits	A67/70 Ult with adjustments and AM/AF92	A67-70 Ult, AM/F 80 Ult and AM/F A92, all with adjustments
PHI	CMIR12 with adjustments	CMIR12 with adjustments

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

20. Policyholder liabilities (continued)

c) 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.

d) Provision for Bonuses

The provision includes £85m (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 2002 £m	*30 June 2003 £m*
Provided declared bonuses, included in the movement in the long term business provision	165	85
Interim and terminal bonuses, included in claims paid	367	68
	532	153

e) 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 30 June 2003 was £233m (2002: £266m).

f) 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 30 June 2003 was £586m (2002: £723m).

g) 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 £373m (2002: £323m) and for Phase 2 cases is £9m (2002:£25m).

h) 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.

Included in the long term business provision are additional costs associated with the misselling of pension policies of £28m (2002: £31m).

20. Policyholder liabilities (continued)

i) Operating exceptional charge

	31 Dec 2002 £m	30 June 2003 £m
Operating exceptional charges included in change in long term business provision	-	242

The change in long term business provision for the six months 30 June 2003 included the following exceptional charges:

a) increases in technical provisions in National Provident Life Limited that have arisen as a result of the changes in equity backing ratios and other actuarial assumptions changes arising from the proposed demerger of the AMP business announced on 1 May 2003, which have lead to the impairment of the contingent loans made by Pearl Assurance plc (see note 27). The shareholders share of the write-downs is £171m.

b) increases in technical provisions of £71m Pearl Assurance plc resulting from changes in actuarial assumptions arising from the proposed demerger of the AMP businesses announced on 1 May 2003.

21. Deferred taxation

a) Provisions for taxation

Reconciliation of movements in deferred tax:	31 Dec 2002 £m	30 June 2003 £m
At 1 January	180	(9)
Release / (charge) for the year:		
Technical account – long term business	(194)	(1)
Non technical account	5	3
At end of period	(9)	(7)

b) Deferred taxation provisions

The components of the net deferred tax liability / (asset) are as follows:	31 Dec 2002 £m	30 June 2003 £m
Unrealised gains in investments	39	30
Deferred acquisition costs	(60)	(48)
Capital allowances	9	9
Short term timing differences	-	-
Total undiscounted	(12)	(9)
Total on a discounted basis	(9)	(7)

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.

22. Claims outstanding

a) Claims outstanding

	31 Dec 2002 £m	*30 June 2003 £m*
General business	360	327
Life business	86	107
	446	434

b) General business 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
- claims handling expenses	-	-	-
	70	63	7
Funded business	290	235	55
	360	298	62

General business 2003

	Gross £m	*Reinsurance £m*	*Net £m*
One year business:			
- notified outstandings	37	34	3
- incurred but not reported	19	15	4
	56	49	7
- claims handling expenses	1	-	1
	57	49	8
Funded business	270	217	53
	327	266	61

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 years for 2003 and 9.5 years for 2002. The provision has been discounted at an interest rate of 4.00% for 2003 and 4.25% for 2002.

The overall effect is to reduce the net technical provisions for those classes of business referred to above at 30 June 2003 by £13m from £51m to £38m (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 30 June 2003 by £17m from £65m 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).

22. Claims outstanding (continued)

c) Life business

	Gross and Net 31 Dec 2002 £m	30 June 2003 £m
At 1 January	68	86
Arising on acquisition of National Provident Institution	-	-
Increase in the year	18	21
At 31 December / 30 June	86	107

23. Debenture loans and amounts owed to credit institutions

	31 Dec 2002 £m	*30 June 2003 £m*
DM1bn 4.875% notes due 2008* (see note a)	355	355
£160m 6.375% notes due 2010*	159	159
£40m floating rate notes due 2003*	40	40
A$1,150m floating rate perpetual loan notes* (see note b)	402	402
£32m 4.207% loan due 2003 (see note c)	32	-
Floating rate guaranteed unsecured loan notes due 2004 and 2006	12	10
A$253m loan due 2012 (see note h)	90	90
	1,090	1,056
Subordinated Loan 9.625% undated ** (see note e)	130	130
Limited Recourse Bonds 2012 7.39% **(see note g)	112	112
Limited Recourse Bonds 2022 7.5% **(see note g)	117	117
Total debenture loans	1,449	1,415
Bank loans ** (see note d)	76	-
Interest free refinancing loan ** (see note f)	251	258
Total amounts owed to credit institutions	327	258
Total borrowings	1,776	1,673

* Issued under a US$4bn debt securities programme of AMP Group Holdings Limited, AMP Group Finance Services Limited and AMP (UK) Finance Services plc. The latter company is a wholly owned subsidiary of HHG plc. The other two companies are subsidiaries of AMP Limited, HHG plc ultimate parent company. AMP Group Holdings Limited guarantees issues made by AMP Group Finance Services Limited and AMP (UK) Finance Services plc. The programme is listed on the Luxembourg Stock Exchange.

** Borrowings of National Provident Life Limited long term fund.

23. Debenture loans and amounts owed to credit institutions (continued)

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%.

b) 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 three month LIBOR. This loan is with a fellow subsidiary of AMP Limited.

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

d) 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%.

e) The 9.625% subordinated Guaranteed bonds were issued at par in 1996 by a wholly owned subsidiary of National Provident Institution. The Bonds are repayable on a non-instalment basis, on 30 June 2006 and each fifth anniversary thereafter, so long as the Bonds are outstanding.

f) The interest free 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. The loan bears no interest. Repayment will be on a policy-by-policy basis expected to occur over the next 10 to 20 years.

g) 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. 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 £111m (2002:£110m).

h) On 11 December 2002 a subsidiary company borrowed A$253m at a floating interest rate from AMP Life Limited, a fellow group undertaking. The A$ 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, a parent undertaking.

i) 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 2002 £m	*30 June 2003 £m*
Fixed rate borrowings	981	874
Floating rate borrowings	544	541
Interest free borrowings	251	258
Total borrowings	1,776	1,673

j) Time period for payment

	31 Dec 2002 £m	*30 June 2003 £m*
Payable as follows:		
In one year or less, or on demand	164	54
Between one and two years	7	7
Between two and five years	162	162
In five years or more	1,443	1,450
	1,776	1,673

24. Provisions

2002	*Restructure*	*Leasehold Properties*	*Pensions Misselling*	*Other*	*Total*
	£m	*£m*	*£m*	*£m*	*£m*
At 1 January 2002	-	55	16	2	73
Amounts utilised	(16)	(3)	(9)	-	(28)
Increase in provision	124	6	-	22	152
At 31 December 2002	108	58	7	24	197

2003	*Restructure*	*Leasehold Properties*	*Pensions Misselling*	*Other*	*Total*
	£m	*£m*	*£m*	*£m*	*£m*
At 1 January 2003	108	58	7	24	197
Amounts utilised	(57)	(4)	(5)	(3)	(69)
Increase in provision	64	34	-	11	109
At 30 June 2003	115	88	2	32	237

The restructuring provision of £115m (2002: £108m) has been made for costs of restructuring management and staffing across the Life Services business and includes £23m (2002: £22m) for properties vacated as a result of the restructuring. It is expected that most of the expenditure will be incurred in 2003 and 2004.

The vacant 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. 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 miss-selling. Any amounts in excess of this amount will be paid directly by the Financial Services Compensation Scheme.

Other provisions above include £18m (2002: £11m) held in respect of healthcare costs for former employees.

25. Other creditors including taxation and social security

	31 Dec 2002	*30 June 2003*
	£m	*£m*
Corporation tax	60	147
Obligation under finance leases	7	1
Other creditors	685	616
	752	764

26. Capital commitments

a) Capital commitments

	31 Dec 2002	*30 June 2003*
	£m	*£m*
a) Other capital commitments for settlement after 31 December	102	62
b) Securities underwriting commitments	451	420

26. Capital commitments (continued)

b) Obligations under finance leases

The obligations under finance leases fall due:

	31 Dec 2002 £m	*30 June 2003 £m*
Within one year	1	-
In the second to fifth years inclusive	1	1
In more than five years	5	-
Total	7	1

c) Annual commitments under non-cancellable land and building operating leases

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

	31 Dec 2002 £m	*30 June 2003 £m*
Within one year	10	9
In the second to fifth years inclusive	30	30
In more than five years	40	35
Total	80	74

27. Contingent loans

Both National Provident Life Limited and London Life Limited have received contingent loans from their respective parent undertakings, Pearl Assurance plc and London Life Holdings Limited. The assets backing the loan 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 30 June 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 are the same as those used to calculate the Long Term Business Provision.

The loan provided to National Provident Life Limited is 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 2002 £m	*30 June 2003 £m*
National Provident Life Limited	672	169
London Life Holdings Limited	276	100
	948	269

28. Staff pension schemes

The Group has continued to account for pensions in accordance with SSAP 24 and the disclosures given in a) below are those required by that Standard. FRS 17 Retirement Benefits was issued in November 2000 but will not be mandatory for the Group until the year ended 31 December 2005. Prior to this, phased transitional disclosures are required and these are set out under "FRS17 disclosures" below to the extent not already provided under "SSAP 24 disclosures".

a) SSAP 24 disclosures

As at 31 December 2002 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 £nil (2002: £nil). The 2003 pension cost is £nil (2002: nil). 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.

b) FRS17 disclosures

The valuation used for FRS17 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 30 June 2003. The Scheme assets are stated at their market value at 31 December 2002 and 30 June 2003.

28. Staff pension schemes (continued)

b) FRS17 disclosures (continued)

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 2002 £m	*30 June 2003 £m*
Net assets:		
Total net assets excluding pension asset	1,031	155
Pension asset / (liability)	(6)	(47)
Total net assets including pension asset / (liability)	1,025	108
Reserves:		
Profit and loss reserve excluding pension asset / (liability)	(70)	(946)
Pension asset / (liability)	(6)	(47)
Profit and loss reserve including pension asset / (liability)	(70)	(993)
Fund for future appropriations:		
Fund for future appropriations excluding pension asset	527	138
Pension asset	-	-
Fund for future appropriations including pension asset	527	138

The allocation of the defined benefit scheme surplus between that attributable to shareholders (included in the profit and loss reserve) and that attributable to funds, the allocation of which to policyholders or to shareholders has not been determined (included in the fund for future appropriations) has been estimated to reflect the extent to which each benefits from the surplus. Under the current management services agreement pension contributions, when commenced, will be met by the shareholder owned service company.

ii) The financial assumptions used to calculate scheme liabilities under FRS17 are:

	31 Dec 2002	*30 June 2003*
Valuation method	*Projected unit*	*Projected unit*
Discount rate	5.70%	5.40%
Inflation rate	2.00%	2.30%
Rate of increase in pensionable salaries (aged related scale in addition)	3.50%	3.80%
Rate of increase in pensions in payment (in excess of GMPs)	2.00%	2.30%
Rate of increase in deferred pensions	2.00%	2.30%

28. Staff pension schemes (continued)

b) FRS17 disclosures (continued)

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

	Long term rate of return expected			*Value*
	31 Dec 2002	*30 June 2003*	*31 Dec 2002*	*30 June 2003*
	%	*%*	*£m*	*£m*
Equities	7.9	8.1	1,061	1,102
Property	6.6	6.9	150	132
Bonds	5.0	5.0	298	321
Cash and other	3.5	3.8	21	30
Total market value of defined benefit assets	7.1	7.3	1,530	1,585
Money purchase assets			20	26
Total value of assets			1,550	1,611
Present value of scheme liabilities			(1,558)	(1,678)
(Deficit) in the scheme			(8)	(67)
Related deferred tax asset			2	20
Net pension liability			(6)	(47)

iv) The components of the pensions cost are:

Analysis of the amount charged to operating profit:

	31 Dec 2002	*30 June 2003*
	£m	*£m*
Current service cost - final salary	30	14
Current service cost - money purchase	12	5
Past service cost	3	-
Total operating charge	45	19

Analysis of the amount charged to other finance income:

	31 Dec 2002	*30 June 2003*
	£m	*£m*
Interest cost	86	43
Expected return on pension scheme assets	(131)	(54)
Net return	(45)	(11)
Total operating charge / (credit)	-	(32)

28. Staff pension schemes (continued)

b) FRS17 disclosures (continued)

Analysis of the amount recognised in the statement of total recognised gains and losses ('STRGL'):

	31Dec 2002 £m	*30 June 2003 £m*
Actual return less expected return on pension scheme assets	377	(44)
Experience gains and losses arising on scheme liabilities	(14)	(5)
Changes in assumptions underlying the present value of the scheme liabilities	(25)	140
Actuarial loss recognised in the STRGL	338	91

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

	31 Dec 2002 £m	*30 June 2003 £m*
Surplus in scheme at 1 January	330	(8)
Movement during the year:		
Total operating charge	(45)	(19)
Curtailment Charge	-	40
Net expected return on pension asset	45	11
Actuarial loss	(338)	(91)
Deficit in scheme at 31 December / 30 June	(8)	(67)

vi) Scheme experience gains and losses are as follows:

	31 Dec 2002	*30 June 2003*
Loss on scheme assets:		
Amount (£ million)	377	(44)
Percentage of opening scheme assets	24.6%	2.8%
Experience gains on scheme liabilities:		
Amount (£ million)	14	5
Percentage of present value of scheme liabilities	0.9%	0.3%
Total loss recognised in statement of recognised gains and losses:		
Amount (£ million)	338	91
Percentage of present value of scheme liabilities	22.0%	5.5%

29. 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 (subsidiary of Pearl Assurance Group Holdings Limited)	UK	'A' ordinary shares of 5p '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	UK	Ordinary shares of £1
(subsidiaries of Pearl Assurance plc)		
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 (95.5%)
AMP (UK) Finance Services plc (finance company)	UK	Ordinary shares of £1
London Life Holdings Limited (holding company)	UK	Ordinary shares of £1
AMP (UK) Financial Services Limited (financing company)	UK	Ordinary shares of £1
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
AMP (UK) Trustees Limited (pensioner trustee services)	UK	Ordinary shares of £1
AMP Portfolio Managers Limited (unit trust company)	UK	Ordinary shares of £1
Henderson Fund Management plc (investment management)	UK	Ordinary shares of £1
AMP NPI Finance Limited (finance company)	UK	Ordinary shares of £1
Oyster Holding Company Limited (holding company)	UK	Ordinary shares of £1
(directly held by AMP (UK) PLC)		
AMP Reset Preferred Securities Trust	Australia	Ordinary unit
AMP Invest PLC (holding company)	UK	'A' ordinary shares of £1
AMP (UK) Services Limited	UK	Ordinary shares of £1
AMP (UK) Investment Services 2 Limited (holding company)	UK	Ordinary shares of £1
AMP (NPI) Holdings Limited (holding company)	UK	'A' ordinary shares of £1
Pearlinvest Limited (financial services company)	UK	Ordinary shares of £1
AMPLE Investments Limited (financial services company)	UK	Ordinary shares of £1
NP Life Holdings Limited (holding company)	UK	'A' and 'B' Ordinary shares of £1
Oyster Overseas Limited (holding company)	UK	Ordinary shares of £1
AMP (UK) PGI Limited (general insurance company)	UK	Ordinary shares of £1
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)		

29. Subsidiary and associated undertakings (continued)

	Country of incorporation and principal place of operation	*Class of shares held (wholly-owned unless otherwise indicated)*
b) Non-insurance companies (continued):		
AMP Interactive Investor Limited (service company)	UK	Ordinary shares of £1
Interactive Investor Trading Limited (financial services company)	UK	Ordinary shares of £1
(subsidiaries of AMP (UK) Investment Services 2 Limited)		
AMP International Holdings Limited (holding company)	UK	Ordinary shares of £1
Henderson Global Investors (Holdings) plc (holding company)	UK	Ordinary shares of 25p
AMP (UK) Financial Planning Limited (holding company)	UK	Ordinary shares of £1
(subsidiaries of AMP Invest plc)		
Towry Law plc	UK	Ordinary shares of £1
Towry Law plc (financial services company)	UK	Ordinary shares of £1
Towry Law plc Central Services Limited (management services)	UK	Ordinary shares of £1
Towry Law plc Financial Services Limited (financial services)	UK	Ordinary shares of £1
Towry Law Insurance Brokers Limited	UK	Ordinary shares of £1
Towry Law (Asia) Hong Kong Limited	China	Ordinary shares of HK$1
(subsidiaries of AMP (UK) Financial Planning Limited)		
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
(subsidiaries of Henderson Global Investors (Holdings) plc)		
NPI Finance Plc (finance company)	UK	Ordinary shares of £1
Mutual Securitisation Plc (finance company)	Republic of Ireland	Ordinary shares of IR£1
(subsidiary 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)		
AMP Virgin Holdings Limited (holding company)	UK	Ordinary shares of £1
(subsidiary of AMP International Holdings Limited)		
London Life Group Services Limited (service company)	UK	Ordinary shares of £1
(subsidiary of London Life Holdings Limited)		

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%
The Romford Brewery Trust	UK	50%
(Joint ventures held by Pearl Assurance plc)		

29. Subsidiary and associated undertakings

	Country of incorporation and principal place of operation	*Class of shares held (wholly-owned unless otherwise indicated)*
d) Associate undertakings:		
Virgin Money Group Limited (formerly known as Virgin Direct Limited - a unit trust management and insurance company) (Associate of AMP Virgin Holdings Limited)	UK	AMP 'A' ordinary shares of 0.1p (50%) Deferred shares of 0.1p (50%)
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	19%
The Pradera European Retail Fund	UK	17%
The Henderson (UK) Retail Warehouse Fund	UK	38%
Innisfree PFI	UK	25%
(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.

The ordinary unit of AMP Reset Preferred Securities Trust ('the Trust') is held by HHG and carries the rights to any residual income or capital not distributed to the holder of Reset Preferred Securities. In accordance with the Trust constitution HHG holds the right to require that its consent be obtained before any variation is made to the Trust constitution or the rights attaching to any class of units.

30. Related party transactions

a) 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 £0.1m (2002: £0.8m).

HHG 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 UK group, or investees of the group qualifying as related parties.

b) Related party transactions with AMP Limited

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

	31 Dec 2002 £m	*30 June 2003 £m*
Dividends Paid	25	-
Stewardship Fees	8	4
Interest paid	26	17
Other (income) / expenses*	(24)	(13)
	35	8

30. Related party transactions (continued)

b) Related party transactions with AMP Limited (continued)

Intercompany balances with AMP Limited and its subsidiaries are as follows:

	31 Dec 2002 £m	*30 June 2003 £m*
Intercompany debtors less creditors	3	9
Loans from AMP Limited and its subsidiaries	(492)	(493)
	(489)	(484)

c) Past and existing shadow share scheme bonus arrangements

Henderson Administration Limited operates the Bonus Award in Special Equity Plan (the "BASE Plan") for selected employees of the HHG Group. A number of executives within the HHG Group (including Mr Roger Yates and Mr Toby Hiscock) were awarded restricted redeemable preference shares in Astor UK Limited pursuant to the BASE Plan in respect of bonus awards for the 2002 financial year. During 2003, Mr Yates received fixed gross dividend payments of £74.25 and £24.75 per share in respect of 2,800 shares held by him and Mr Hiscock received fixed gross dividend payments of £74.25 and £24.75 in respect of 562 shares held by him. These shares are redeemable at a nominal value of £1 per share.

Henderson Global Investors Limited ("Henderson") operates the Henderson Long Term Value Sharing Incentive Plan (the "HLTVSIP") for selected employees. A number of executives within the HHG Group (including Roger Yates and Toby Hiscock) participate in the HLTVSIP. Employees who participate in the HLTVSIP receive an initial award of phantom equity units in substitution for part of their bonus award for the preceding financial year. Participants are entitled to receive a cash payment based on the Henderson net of tax profit achieved relative to return on capital performance targets to 31 December 2002 and an additional payment if targets based on Henderson performance to 31 December 2003 are achieved. Participants are also entitled to receive further cash payments at the end of further specified periods in respect of any matching units awarded, payment of which is subject to remaining in employment to the end of the specified period and the achievement of performance targets. Mr Yates and Mr Hiscock hold awards under the HLTVSIP in substitution for part of their bonus awards for the 2000 financial year. Based on performance targets achieved to 31 December 2002, Mr Yates and Mr Hiscock will be entitled to receive: gross cash payments of A$619,200 and A$176,128 respectively in January 2004 in respect of their initial phantom units; provided that they remain employed by the HHG Group on 31 December 2004, gross payments of A$179,514 and A$51,062 respectively in January 2005 in respect of 50% of their matching units; and provided that they remain employed by the HHG Group on 31 January 2005, gross payments of A$179,514 and $51,062 respectively in January 2006 in respect of the balance of their matching units. If Henderson achieves its return on capital hurdle for the period from 1 January 2001 to 31 December 2003, the value of initial and matching units will be increased by sharing an amount equal to 15% of Henderson's after-tax profit above the hurdle among all participants, thereby potentially increasing the amounts payable to Mr Yates and Mr Hiscock as described above. Interest is also paid for the period between a participant's entitlement to a payment arising and the date of payment.

31. Contingent Liabilities

The following contingent liabilities existed at 30 June 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) Recently a number of cases have been submitted to the Financial Ombudsman Service ('FOS') concerning a particular issue regarding the sale of certain products by the HHG Group. Whilst a number of similar cases have previously been decided in the Group's favour, in a minority of cases the decisions have been made against the Group. The Group will continue to explore various options open to contest such decisions, if appropriate. Ultimately, in the event that this issue is not resolved to the Group's satisfaction with the FOS, the situation would need to be discussed with the FSA and it may potentially give rise to a requirement to the Group to pay appropriate compensation to customers.

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

32. Post Balance Sheet Events

Subsequent to 30 June 2003, AMP Finance Services Limited (a subsidiary of AMP Limited) has loaned £60m to the Group for working capital purposes.

33. Ultimate parent undertakings

HHG's ultimate parent undertaking is AMP Limited, a company incorporated in New South Wales, Australia. A copy of the accounts can be obtained from GPO Box 4134, Sydney, New South Wales 2001, Australia.

HHG Group summary consolidated profit and loss account – UKGAAP

	31 Dec 2000 12 months	*31 Dec 2001 12 months*	*31 Dec 2002 12 months*	*30 June 2003 6 months*
	£m	*£m*	*£m*	*£m*
Henderson	114	65	54	13
Life Services	115	68	86	(40)
Other Businesses	(22)	(33)	(22)	(11)
Business unit operating profit/(loss)	207	100	118	(38)
Corporate costs	(8)	(10)	(10)	(5)
Operating profit/(loss)	199	90	108	(43)
Unallocated interest costs	(84)	(74)	(76)	(33)
Other operating exceptional charges	-	-	(124)	(580)
Amortisation and impairment of goodwill	(44)	(48)	(256)	(297)
Amortisation and impairment of PVIF	-	(9)	(67)	(27)
Short term fluctuation in investment return	(66)	(97)	(10)	(2)
Profit on disposals of businesses	-	95	82	7
Profit/(loss) before tax	5	(43)	(343)[1]	(975)[1]

1 - The (loss) on ordinary activities before tax in the non statutory published accounts are (£341m) and (£978m) for 31 Dec 2002 and 30 June 2003 respectively. This differs from the profit/(loss) shown above due to Henderson Global Investors (Jersey) Limited and Henderson Global Investors (Japan) KK which were disposed of by HHG PLC to an AMP Limited company in June 2002. It is the intention that these should be reacquired by HHG as part of the de-merger and the results for those entities have been included in the above as if the disposal had not occurred.

Henderson summary financial information – UKGAAP

Profit and loss account [1]	*31 Dec 2000 12 months £m*	*31 Dec 2001 12 months £m*	*31 Dec 2002 12 months £m*	*30 June 2003 6 months £m*
Revenue				
Total fee income	241	232	219	94
Investment income	6	5	4	1
Total revenue	247	237	223	95
Expenses				
Operating expenses	(171)	(161)	(158)	(79)
Depreciation and amortisation	(4)	(4)	(3)	(3)
Total expenses	(175)	(165)	(161)	(82)
Underlying operating profit	72	72	62	13
Transformation costs	(13)	(7)	(8)	-
Non-recurring performance fee	55	-	-	-
Operating profit	114	65	54	13

Summary of movements in assets under management [1]	*31 Dec 2000 £bn*	*31 Dec 2001 £bn*	*31 Dec 2002 £bn*	*30 June 2003 £bn*
Opening assets under management	77.9	84.4	80.6	68.7
Net fund flows	10.6	5.0	(2.8)	(1.5)
Market and currency movements	(4.1)	(8.8)	(9.1)	2.2
Closing assets under management	84.4	80.6	68.7	69.4

1 Includes the results of the Henderson private client asset management business which was disposed of in 2002.

Life Services summary profit and loss account – UKGAAP

Profit and loss account	*31 Dec 2000 12 months £m*	*31 Dec 2001 12 months £m*	*31 Dec 2002 12 months £m*	*30 June 2003 6 months £m*
Premiums	2,283	2,295	2,131	876
Claims	(3,213)	(3,182)	(3,350)	(1,735)
Net investment return	553	(1,821)	(2,409)	873
Operating expenses and other technical charges	(491)	(444)	(497)	(255)
Change in technical provisions	(416)	702	2,915	(109)
Taxation	99	142	236	(71)
Transfer from the fund for future appropriations	1,362	2,373	981	389
Total from the long term technical account	177	65	7	(32)
General insurance	15	15	19	4
Service Company	(94)	(13)	16	(18)
Shareholder interests	17	1	44	6
Operating profit/(loss)	115	68	86	(40)

Provisions under UK GAAP at 30 June 2003

At 30 June 2003 HHG held provisions for known and potential issues that may lead to future losses:

- Total UKGAAP provisions of £1,658m, of which £319 million related to shareholder funds and companies.
- The largest provisions were:

	Shareholder	*With-profits funds*	*Total*
	£m	*£m*	*£m*
Guaranteed annuity options	-	586	586
Pension mis-selling	44	368	412
Mortgage endowment [1]	-	233	233
Restructuring provisions	115	-	115
Other void properties	39	49	88

[1] *Includes provision related to mortgage endowment promise (£214m) in addition to that for mortgage endowment misselling (£19m)*