

# **LONDON LIFE LIMITED**

(Company Registration Number: 1179800)

## **REPORT AND ACCOUNTS**

**31 DECEMBER 2003**



# **LONDON LIFE LIMITED**

## **REPORT AND ACCOUNTS 2003**

<b>CONTENTS</b>	<b>PAGE</b>
Board of Directors	2
Directors' Report	3
Statement of Directors' Responsibilities	5
Independent Auditors' Report	6
Profit and Loss Account: Technical Account - Long Term Business	7
Profit and Loss Account: Non-technical Account	8
Balance Sheet – Assets	9
Balance Sheet – Liabilities	10
Notes on the Accounts	11

Registered Office:

The Pearl Centre  
Lynch Wood  
Peterborough  
PE2 6FY

Company Registration No: 1179800

# **LONDON LIFE LIMITED**

## **BOARD OF DIRECTORS**

A C Hotson  
Chairman (non executive)

I W Laughlin  
Director

J S Moss  
Director

P J Mullins  
Director

**Company Secretary**  
G A Watson

**Investment Fund Manager**  
Henderson Global Investors

# LONDON LIFE LIMITED

## DIRECTORS' REPORT

The directors have pleasure in presenting the Annual Report and Accounts of London Life Limited ("the Company") for the year ended 31 December 2003.

### ELECTIVE RESOLUTIONS

The Company has passed elective resolutions under the Companies Act 1985 to dispense with the laying of accounts and reports before general meetings, to dispense with the holding of annual general meetings, and to dispense with the annual appointment of auditors.

### PRINCIPAL ACTIVITY AND FUTURE DEVELOPMENTS

The main activity of the Company is the transaction of ordinary long term insurance business in the United Kingdom, consisting of life assurance, pension and annuity business in the form of participating, non-participating and unit-linked contracts. This will continue to be the main activity for the foreseeable future.

### BUSINESS REVIEW

Full details of the results for the year are set out in the Company accounts and the related notes on pages 7 to 25.

During the early part of 2003, the equity market fell such that the Company could not continue to bear equity market risk out of its own resources. The Director's request for additional capital support was rejected by AMP Limited, (the Company's ultimate parent undertaking at that time).

The impact of the above resulted in changes to the equity backing ratios such that:

- The London Life Holdings contingent loan liability in the Company balance sheet has been reduced to £31m at 31 December 2003 (2002: £276m) by the relative increase in the long term business provision over the value of the corresponding assets of the long term policyholder funds (see note 16). Included as other technical income in the technical account is an exceptional credit of £256m in respect of the revaluation of the contingent loan liability.
- The London Life value of in-force business (PVIF) asset which amounts to £10m at 31 December 2003 has been impaired by £23m in the year (2002: £33m). The PVIF originally arose in 1997 as part of the demutualisation of AMP and the resultant reorganisation in the UK. The impairment charge for the year reflects the impact of falling equity markets on the shareholders one-ninth share of future bonuses from the with-profits funds (see note 11).
- The sub fund support given by the shareholder fund to the policyholder funds in accordance with the terms of the Schedule 2C scheme has also been impaired by £10m from £86m to £76m.

An announcement was made in 2003 by AMP Limited to demerge from HHG PLC (formerly AMP (UK) PLC). As part of the restructuring subsequent to the demerger from AMP Limited, the Company converted its £17m interest in the preference share capital of HHG PLC (formerly AMP (UK) PLC) into a £17m loan. The terms of this loan allow HHG PLC on giving irrevocable written notice to London Life Limited of not less than one month, to repay all or any part of any outstanding amounts on any interest payment date. The loan incurs an interest rate of 6.91% and is repayable on 12 December 2010 (see note 8b).

The Company monitors its solvency position on a continuous basis. It has identified key indicators that are monitored and regular reports on its solvency position are prepared and presented to the Board. The position at the year end was that the Company met its statutory solvency requirement.

### DIVIDENDS

The directors do not recommend the payment of a dividend for the year (2002: £nil).

### DIRECTORS AND THEIR INTERESTS

The names of the directors at 31 December 2003 and as at the date of this report are set out on page 2. Additional information in relation to the changes in directors is as follows:

I W Laughlin	Appointed 20 January 2003
A C Hotson	Appointed 18 February 2003
J S Moss	Appointed 3 July 2003
I Ackerley	Resigned 24 January 2003
B J Meehan	Resigned 3 July 2003

# LONDON LIFE LIMITED

## DIRECTORS' REPORT (continued)

### DIRECTORS AND THEIR INTERESTS (continued)

The directors' shareholdings in HHG PLC (the ultimate parent undertaking) were:

Name of director	31 December 2003 No. of shares held	1 January 2003 (or date of appointment if later) No. of shares held
A C Hotson	45,700	Nil
I W Laughlin	60,291	Nil
J S Moss	Nil	Nil
P J Mullins	17,428	Nil

By order of the Board of Directors



G A Watson  
Secretary

29 March 2004

# **LONDON LIFE LIMITED**

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS**

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company 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 Company and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# LONDON LIFE LIMITED

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LONDON LIFE LIMITED

We have audited the Company's accounts for the year ended 31 December 2003 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 24. These accounts have been prepared on the basis of the accounting policies set out therein.

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

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described in the Statement of Directors' Responsibilities the Company's directors are responsible for the preparation of the accounts in accordance with United Kingdom law and accounting standards.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### BASIS OF AUDIT OPINION

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

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

### OPINION

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



Ernst & Young LLP  
Registered Auditor

29 March 2004

1 More London Place  
London  
SE1 2AF

# LONDON LIFE LIMITED

## PROFIT AND LOSS ACCOUNT

### TECHNICAL ACCOUNT – LONG TERM BUSINESS

For the year ended 31 December 2003

	Notes	2003 £'000	2002 £'000
Gross premiums written	4	126,497	166,471
Outward reinsurance premiums		41	(31,520)
<b>Earned premiums, net of reinsurance</b>		<b>126,538</b>	<b>134,951</b>
Investment income	5	130,586	139,337
Unrealised gains on investments	5	66,856	-
Other technical income	16	255,552	-
<b>Total technical income</b>		<b>579,532</b>	<b>274,288</b>
Gross claims paid		(325,797)	(374,371)
Reinsurers' share		4,459	3,640
<b>Net claims paid</b>		<b>(321,338)</b>	<b>(370,731)</b>
Change in the gross and net provision for claims		(16,701)	2,859
<b>Claims incurred, net of reinsurance</b>		<b>(338,039)</b>	<b>(367,872)</b>
Change in gross long term business provision		(60,988)	299,423
Change in reinsurers' share		29,421	(60,757)
<b>Change in long term business provision, net of reinsurance</b>		<b>(31,567)</b>	<b>238,666</b>
Change in technical provisions for linked liabilities		(51,827)	143,393
<b>Change in other technical provisions, net of reinsurance</b>		<b>(83,394)</b>	<b>382,059</b>
Net operating expenses	2	(6,397)	(20,989)
Investment expenses and charges	5	(172,134)	(109,836)
Unrealised losses on investments	5	-	(252,719)
Other technical charges, net of reinsurance	11	(23,000)	(47,000)
Taxation attributable to the long term business	7	(4,449)	7,416
Transfer from the fund for future appropriations	14	29,081	93,116
		(176,899)	(330,012)
<b>Total technical charges</b>		<b>(598,332)</b>	<b>(315,825)</b>
<b>Balance on the technical account – long term business</b>	4(c)	<b>(18,800)</b>	<b>(41,537)</b>

All activities relate to continuing operations.



# LONDON LIFE LIMITED

## PROFIT AND LOSS ACCOUNT

### NON-TECHNICAL ACCOUNT

For the year ended 31 December 2003

	Notes	2003 £'000	2002 £'000
<b>Balance on the long term business technical account</b>		(18,800)	(41,537)
Tax credit attributable to balance on the long term business technical account	7	(8,057)	(17,802)
<b>Shareholders' pre-tax loss from long term business</b>		(26,857)	(59,339)
Investment income	5	2,330	3,622
Unrealised gains on investments	5	1,882	-
Other charges		(1,868)	-
Investment expenses and charges	5	(7,651)	(219)
Unrealised losses on investments	5	-	(9,531)
<b>Loss on ordinary activities before taxation</b>		(32,164)	(65,467)
Tax on loss on ordinary activities	7	7,194	17,667
<b>Retained loss for the financial year</b>		<u>(24,970)</u>	<u>(47,800)</u>

The inclusion of unrealised gains and 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.

### Statement of total recognised gains and losses

There are no recognised gains and losses for 2002 and 2003 other than the losses on ordinary activities shown above.

# LONDON LIFE LIMITED

## BALANCE SHEET

At 31 December 2003

ASSETS	Notes	2003 £'000	Restated 2002 £'000
<b>Investments</b>			
Land and buildings	8(a)	158,770	225,322
Investments in group undertakings and participating interests	8(b)	21,995	17,590
Other financial investments	8(c)	2,043,983	2,231,819
Present value of acquired in-force business	11	10,000	33,000
		<u>2,234,748</u>	<u>2,507,731</u>
<b>Assets held to cover linked liabilities</b>	9	404,895	353,068
<b>Reinsurers' share of technical provisions:</b>			
Long term business provision	15	128,313	98,892
<b>Debtors</b>			
Debtors arising out of direct insurance operations	10	10,871	7,254
Other debtors	10	47,991	67,708
		<u>58,862</u>	<u>74,962</u>
<b>Prepayments and accrued income:</b>			
Accrued interest and rent		34,578	28,983
Other prepayments and accrued income		753	-
		<u>35,331</u>	<u>28,983</u>
<b>Total assets</b>		<u>2,862,149</u>	<u>3,063,636</u>

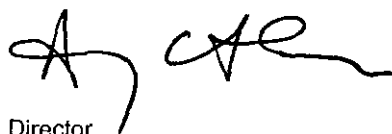
# LONDON LIFE LIMITED

## BALANCE SHEET

At 31 December 2003

LIABILITIES	Notes	2003 £'000	Restated 2002 £'000
<b>Capital and reserves:</b>			
Called up share capital	12	18,800	18,800
General reserve	13	309	309
Non-distributable reserve	13	96,283	83,928
Profit and loss account	13	(6,842)	30,483
		<hr/>	<hr/>
<b>Shareholders' funds attributable to equity interests</b>	13	108,550	133,520
		<hr/>	<hr/>
<b>Fund for future appropriations</b>	14	-	29,081
		<hr/>	<hr/>
<b>Technical provisions:</b>			
Long term business provision - gross amount	15	2,201,120	2,140,132
Claims outstanding - net of reinsurance		16,755	54
		<hr/>	<hr/>
		2,217,875	2,140,186
		<hr/>	<hr/>
<b>Technical provision for linked liabilities – gross</b>		404,895	353,068
		<hr/>	<hr/>
		2,622,770	2,493,254
		<hr/>	<hr/>
<b>Contingent loan</b>	16	30,536	275,733
		<hr/>	<hr/>
<b>Provisions for other risks and charges</b>	17	317	-
		<hr/>	<hr/>
<b>Creditors:</b>			
Creditors arising out of direct insurance operations		27	860
Other creditors including taxation and social security	18	97,937	128,373
		<hr/>	<hr/>
		97,964	129,233
		<hr/>	<hr/>
<b>Accruals and deferred income</b>		2,012	2,815
		<hr/>	<hr/>
<b>Total liabilities</b>		<u>2,862,149</u>	<u>3,063,636</u>

The accounts were approved by the Board of Directors on 29 March 2004 and signed on its behalf by:

  
Director

# LONDON LIFE LIMITED

## NOTES ON THE ACCOUNTS

### 1. ACCOUNTING POLICIES

#### a) *Basis of presentation*

The financial statements have been prepared in accordance with the special provisions for insurance companies of section 255 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 been prepared in accordance with applicable accounting standards and under historical cost accounting rules, modified to include the revaluation of investments, and comply with the Statement of Recommended Practice issued by the Association of British Insurers in 1998.

The accounts present information about the Company as an individual undertaking as it is exempt from the obligation to prepare group accounts under section 228 of the Companies Act 1985.

#### b) *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 become 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 premium 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 long-term business provision or the provision for unit-linked liabilities. Where claims are payable and the contract remains in force, the claims instalment is accounted for when due for payment. Claims payable include the costs of settlement.

Reinsurance recoveries are accounted for in the same accounting period as the related claim.

##### iii) Long term business provision

The long-term business provision for non-linked business is determined by the Company's Appointed Actuary following his annual investigation of the long-term business. The long-term business provision is calculated initially to comply with the reporting requirements under the Interim Prudential Sourcebook for Insurers, which requires the use of the net premium valuation method or some other method which can be demonstrated to give an equally prudent result. Certain product groups are valued using the net premium valuation method which makes no explicit provision for future reversionary and terminal bonuses and the remainder of business is valued using the gross premium valuation method which includes a partial allowance for future reversionary bonuses. 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.

##### iv) Technical provision for linked liabilities

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 under insurance companies legislation.

# LONDON LIFE LIMITED

## NOTES ON THE ACCOUNTS (continued)

### 1. ACCOUNTING POLICIES (continued)

#### v) Profit recognition and the fund for future appropriations

The Company has adopted the modified statutory solvency basis approach in the determination of profit.

Surpluses arising from the Company's participating long-term business, as a result of the annual actuarial valuations of the related assets and liabilities, are subject to 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 include participating business is carried forward in the fund for future appropriations. All surplus in other businesses 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.

#### c) *Investments*

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

- Freehold and leasehold properties have been valued at open market value by qualified external valuers, in accordance with guidance notes issued by the Royal Institute of Chartered Surveyors.

No provision is made for depreciation on properties held for investment purposes. The directors consider that 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 Company's practice to maintain properties occupied by the Company 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
- Units in unit trusts are included at published bid prices
- Deposits with credit institutions are included at cost
- Other investments are shown at directors' estimates of market value

Investments in group undertakings attributable to the long term business are accounted for as investments in group undertakings and participating interests. In prior years the Company's investments in group undertakings attributable to the long term business were accounted for as other financial investments. The effect of the change is shown in notes 9b and 9c and prior year comparatives have been restated accordingly.

#### d) *Investment income, realised and unrealised gains and losses on investments*

Investment return comprises investment income, realised investment gains and losses, unrealised investment gain and losses and investment expenses and charges.

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

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

Investment return on investments attributable to the long term business are included in the long term technical account with the balance being taken to the non-technical account.

# LONDON LIFE LIMITED

## NOTES ON THE ACCOUNTS (continued)

### 1. ACCOUNTING POLICIES (continued)

#### e) *Foreign currencies*

Assets and liabilities denominated mainly in a foreign currency are translated using the closing rate method.

Any gains or losses arising other than in the unit accounts are carried to the profit and loss account.

#### f) *Taxation*

The Company 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 exception:

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

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

#### g) *Present value of acquired in-force business*

The present value of acquired in-force business (PVIF) is recognised in the balance sheet as an asset. To the extent that the PVIF will be recognised as profit over the remaining lifetime of the related in-force policies, it is amortised on a systematic basis, and the discount unwound, over the anticipated lives of the related contracts of the portfolios.

The carrying value of the asset is tested annually for impairment. Any amortisation or impairment charge is recorded in the long term business technical account in 'Other technical charges, net of reinsurance'.

#### h) *Cash flow statement*

The Company has taken advantage of the exemption given by FRS 1 (revised 1996) to subsidiary undertakings where 90% or more of the voting rights are controlled within the group, by not preparing a cash flow statement. Details of the ultimate holding company are given in note 24 on the accounts.

# LONDON LIFE LIMITED

## NOTES ON THE ACCOUNTS (continued)

### 2. NET OPERATING EXPENSES

#### a) Net operating expenses:

	Technical account Long term business	
	2003	2002
	£'000	£'000
Acquisition costs	382	-
Administrative expenses	6,015	20,989
	<u>6,397</u>	<u>20,989</u>

All audit fees are borne by HHG Services Limited (formerly AMP (UK) Services Limited), another group undertaking. Non-audit services amounted to £17,962 (2002: £32,872)

The Company has no employees. Staff were provided by HHG Services Limited.

### 3. SEGMENTAL INFORMATION – OPERATING LOSS AND NET ASSETS

The Company's activities consist solely of the provision of insurance of various types in the United Kingdom.

### 4. SEGMENTAL INFORMATION – LONG TERM BUSINESS

All business arises from ordinary long term insurance business written in the UK to individual policyholders in respect of continuing operations.

a) Analysis of gross premiums written:	2003	2002
	£'000	£'000
Life business	21,005	21,098
Annuity business	3,988	1,950
Pension business	101,504	143,423
	<u>126,497</u>	<u>166,471</u>
Regular premiums	25,154	37,021
Single premiums	101,343	129,450
	<u>126,497</u>	<u>166,471</u>
Non-profit contracts	69,094	42,110
With profit contracts	34,620	98,248
Unit-linked contracts	22,783	26,113
	<u>126,497</u>	<u>166,471</u>

# LONDON LIFE LIMITED

## NOTES ON THE ACCOUNTS (continued)

### 4. SEGMENTAL INFORMATION (continued)

	2003 £'000	2002 £'000
b) Analysis of new gross premiums written:		
Life business	119	347
Annuity business	3,868	1,864
Pension business	97,761	128,531
	<u>101,748</u>	<u>130,742</u>
Regular premiums (annualised)	405	1,292
Single premiums	101,343	129,450
	<u>101,748</u>	<u>130,742</u>

New business represents new single premiums and incremental periodic premiums received in the year.

### c) Analysis of balance on technical account:

Life and annuity business	(182)	(6,479)
Pension business	(18,618)	(35,058)
	<u>(18,800)</u>	<u>(41,537)</u>

### 5. INVESTMENT RETURN

Investment income comprises:

	Technical account Long term business		Non-technical account	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
<b>Group undertakings:</b>				
Income from group undertakings	1,219	1,084	859	996
<b>Other investments:</b>				
Income from land and buildings	11,239	13,382	-	-
Income from other investments	118,128	124,871	1,471	2,626
Investment income	<u>130,586</u>	<u>139,337</u>	<u>2,330</u>	<u>3,622</u>
Unrealised gains / (losses)	<u>66,856</u>	<u>(252,719)</u>	<u>1,882</u>	<u>(9,531)</u>

Investment expenses and charges comprise:

Investment management expenses	4,449	5,047	91	171
Interest payable on contingent loan (see note 16)	10,355	17,411	-	-
Interest payable on sub fund support	859	1,169	-	-
Total investment expenses and charges	<u>15,663</u>	<u>23,627</u>	<u>91</u>	<u>171</u>
Loss on realisation of investments	156,471	86,209	7,560	48
Investment expenses and charges	<u>172,134</u>	<u>109,836</u>	<u>7,651</u>	<u>219</u>
Total investment return	<u>25,308</u>	<u>(223,218)</u>	<u>(3,439)</u>	<u>(6,128)</u>



# LONDON LIFE LIMITED

## NOTES ON THE ACCOUNTS (continued)

### 6. DIRECTORS' EMOLUMENTS

	2003 £'000	2002 £'000
Emoluments (excluding pension contributions and awards under share option schemes and other long term incentive schemes)	1,229	1,187
Awards (other than shares and share options) receivable during the year under long term incentive schemes	-	-
Contributions to money purchase pension schemes	93	53
Compensation to former directors for loss of office	-	1,690
	2003 Number	2002 Number
Number of directors who:		
- are members of a money purchase pension scheme	3	3
- exercised share options	-	-
- have received share awards during the year in the form of shares under long term incentive schemes	-	3
	2003 £'000	2002 £'000
Highest paid director's remuneration:		
Aggregate amount of emoluments and awards under long term incentive schemes (excluding pension contributions, share options gains and share awards arising from long term incentive schemes)	532	541
Contributions to money purchase schemes	30	19

The highest paid director is not a member of a defined benefit pension scheme.

The emoluments disclosed in the notes to these accounts are in respect of the directors with qualifying services for the Company and for those directors comprise their total emoluments in respect of services to the HHG group. These total emoluments have also been included in each of the other group companies for which the director has qualifying services.

# LONDON LIFE LIMITED

## NOTES ON THE ACCOUNTS (continued)

### 7. TAXATION

#### a) Tax charge

	Technical account Long term business		Non-technical account	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
UK corporation tax for the year	4,116	5,186	863	463
Adjustment for previous years	-	-	-	(2,000)
Tax attributable to balance on long term business technical account	-	-	(8,057)	(17,802)
	<u>4,116</u>	<u>5,186</u>	<u>(7,194)</u>	<u>(19,339)</u>
Overseas tax	333	1,343	-	-
	<u>4,449</u>	<u>6,529</u>	<u>(7,194)</u>	<u>(19,339)</u>
Total current tax	4,449	6,529	(7,194)	(19,339)
Deferred taxation:				
Origination and reversal of timing differences	-	(16,838)	-	1,672
Increase in discount	-	2,893	-	-
	<u>-</u>	<u>(13,945)</u>	<u>-</u>	<u>1,672</u>
Total deferred tax	-	(13,945)	-	1,672
	<u>4,449</u>	<u>(7,416)</u>	<u>(7,194)</u>	<u>(17,667)</u>

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

# LONDON LIFE LIMITED

## NOTES ON THE ACCOUNTS (continued)

### 7. TAXATION (continued)

#### b) Factors affecting tax charge for the year

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

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

	2003 £'000	2002 £'000
Loss on ordinary activities before tax	(32,164)	(65,467)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002: 30%)	(9,649)	(19,640)
Effects of:		
UK tax bases of insurance profits	-	-
Non-taxable income	(262)	(428)
Deferred tax credit/(charge) for the year	-	(1,672)
Effect of discounting on deferred tax	-	-
Non-recognition of deferred tax assets	2,717	4,401
Adjustment to tax charge in prior years	-	(2,000)
Current tax charge for the year	<u>(7,194)</u>	<u>(19,339)</u>

#### c) Analysis of deferred tax

A potential deferred tax asset of £16m has not been recognised. This relates to realised capital losses on equity and will be available to offset against realised chargeable gains of future periods.

Reconciliation of movements in deferred tax:	2003 £'000	2002 £'000
Deferred tax liability at 1 January	-	12,273
Deferred tax charged in the profit and loss account for the year	-	1,672
Deferred tax credited in the technical account for the year	-	(13,945)
Deferred tax liability at 31 December	<u>-</u>	<u>-</u>

# LONDON LIFE LIMITED

## NOTES ON THE ACCOUNTS (continued)

### 8. INVESTMENTS

#### a) Land and buildings at current market value:

	Freehold £'000	Long Leasehold £'000	Total £'000
At 1 January 2003	202,497	22,825	225,322
Additions	2,666	6,943	9,609
Disposals	(65,263)	(13,883)	(79,146)
Surplus/(deficit) on revaluation	4,470	(1,485)	2,985
At 31 December 2003	<u>144,370</u>	<u>14,400</u>	<u>158,770</u>
Land and buildings at cost:			
At 31 December 2003	<u>130,429</u>	<u>15,654</u>	<u>146,083</u>
At 31 December 2002	<u>188,430</u>	<u>22,643</u>	<u>211,073</u>

All land and buildings, including certain items acquired under finance leases, are treated as investments and are not depreciated. The requirement of the Companies Act 1985 is to depreciate all properties. This requirement conflicts with the generally accepted accounting principle set out in SSAP 19. The directors consider that as these properties are held as an investment, to depreciate them would not give a true and fair view. Therefore, in preparing these financial statements, the directors have departed from the requirements of the Companies Act 1985 and adopted SSAP 19.

All properties were valued as at 31 December 2003, by qualified professional valuers working for the firm of CB Hillier Parker, International Property Advisers, acting in the capacity of External Valuers. All such valuers were Chartered Surveyors being members of the RICS.

All properties were valued on the basis of open market value and all valuations were carried out in accordance with the RICS Appraisal & Valuation Manual.

The Company has transferred certain properties into property limited partnerships at market value. As a result, disposals include £4,200,000 (cost £8,753,000) relating to such properties which are now included within investments in group undertakings and participating interests.

#### b) Investments in group undertakings and participating interests

	Restated Shares £'000	Loans £'000	Total £'000
<b>Market value:</b>			
At 1 January 2003 – as previously reported	250	-	250
Prior year adjustment (see note 8c)	17,340	-	17,340
At 1 January 2003 – as restated	<u>17,590</u>	<u>-</u>	<u>17,590</u>
Additions	6,325	-	6,325
Transfer	(17,545)	17,545	-
Deficit on revaluation	(1,920)	-	(1,920)
At 31 December 2003	<u>4,450</u>	<u>17,545</u>	<u>21,995</u>
<b>Cost:</b>			
At 31 December 2003	<u>9,003</u>	<u>17,545</u>	<u>26,548</u>
At 31 December 2002 – as previously reported	250	-	250
Prior year adjustment (see note 8c)	16,770	-	16,770
At 31 December 2002 – as restated	<u>17,020</u>	<u>-</u>	<u>17,020</u>

# LONDON LIFE LIMITED

## NOTES ON THE ACCOUNTS (continued)

### 8. INVESTMENTS (continued)

Investments in group undertakings attributable to the long term business have been reclassified from Other financial investments to Investments in group undertakings and participating interests. The effect of the prior year adjustment has been to reduce Other financial investments for the prior year by £17,340,000 and to increase Investments in group undertakings and participating interests – shares by £17,340,000.

As part of the restructuring subsequent to the demerger from AMP Limited, the Company converted its interest in the preference share capital of HHG PLC (formerly AMP (UK) PLC) into a £17,545,000 loan. The terms of this loan allow HHG PLC on giving irrevocable written notice to London Life Limited of not less than one month, to repay all or any part of any outstanding amounts on any interest payment date. The loan incurs an interest rate of 6.91% and is repayable on 12 December 2010. The transfer value of the loan represents the original cost of the investment and the dividend capitalised as a result of non-payment of the dividend due in respect of 2003.

Additions include £5,550,000 (cost £8,753,000) and deficit on revaluation includes £1,350,000 relating to property limited partnerships which have been transferred from land and buildings at market value.

#### c) Other financial investments:

	2003		Restated 2002	
	Market value £'000	Cost £'000	Market value £'000	Cost £'000
Shares and other variable yield securities and units in unit trusts	96,221	101,963	696,324	830,647
Prior year adjustment (see note 8b)	-	-	(17,340)	(16,770)
Debt securities and other fixed income securities	1,829,794	1,837,013	1,231,819	1,195,689
Deposits with credit institutions	112,193	112,193	312,913	312,913
Other investments	5,775	5,775	8,103	8,103
	<u>2,043,983</u>	<u>2,056,944</u>	<u>2,231,819</u>	<u>2,330,582</u>
Listed investments included above	<u>1,919,175</u>	<u>1,927,087</u>	<u>1,910,803</u>	<u>2,129,490</u>

### 9. ASSETS HELD TO COVER LINKED LIABILITIES

	2003		2002	
	Market value £'000	Cost £'000	Market value £'000	Cost £'000
Assets held to cover linked liabilities	<u>404,895</u>	<u>426,100</u>	<u>353,068</u>	<u>451,261</u>

### 10. DEBTORS

	2003 £'000	2002 £'000
<b>Debtors arising out of direct insurance operations:</b>		
Amounts owed by policyholders	<u>10,871</u>	<u>7,254</u>
<b>Other debtors:</b>		
Outstanding sale of investments	41,658	16,052
Other debtors	6,333	51,656
	<u>47,991</u>	<u>67,708</u>

# LONDON LIFE LIMITED

## NOTES ON THE ACCOUNTS (continued)

### 11. PRESENT VALUE OF ACQUIRED IN-FORCE BUSINESS

	2003 £'000	2002 £'000
<b>Cost:</b>		
At 1 January and 31 December	101,473	101,473
<b>Net book value:</b>		
At 1 January	33,000	80,000
Charge for year	(4,000)	(6,000)
Additional Charge	(19,000)	(41,000)
At 31 December	10,000	33,000

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 15).

### 12. SHARE CAPITAL

	2003 £'000	2002 £'000
<b>Authorised capital:</b>		
Equity shares:		
30,000,000 ordinary shares of £1 each	30,000	30,000
<b>Allotted, called up and fully paid:</b>		
Equity shares:		
18,800,002 ordinary shares of £1 each	18,800	18,800

# LONDON LIFE LIMITED

## NOTES ON THE ACCOUNTS (continued)

### 13. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Share Capital	General Reserve	Non- distributable Reserve	Profit & Loss Account	2003 Total
	£'000	£'000	£'000	£'000	£'000
At 1 January	18,800	309	77,499	36,912	133,520
Amortisation of present value of acquired in-force business (see note 11)	-	-	(23,000)	23,000	-
Loan to long term business fund	-	-	41,784	(41,784)	-
Loss for the year	-	-	-	(24,970)	(24,970)
At 31 December	<u>18,800</u>	<u>309</u>	<u>96,283</u>	<u>(6,842)</u>	<u>108,550</u>

The transfer of £42m relates to loans made by the shareholders' fund to the policyholders' fund in accordance with Clause 21 of the Schedule 2C Scheme. The loans will be repaid in accordance with the terms of the scheme and bears interest at LIBOR.

In accordance with the terms of the Schedule 2C Scheme, dividend or returns of capital may only be made to the shareholders of the Company provided that the Appointed Actuary certifies that capital requirement conditions set out in the 2C Scheme are met.

The non-distributable reserve comprises the written down value of the present value of acquired in force business and the sub fund support.

### 14. FUND FOR FUTURE APPROPRIATIONS

	£'000
At 1 January 2003	29,081
Transfers to the long term business technical account	(29,081)
At 31 December 2003	<u>-</u>

# LONDON LIFE LIMITED

## NOTES ON THE ACCOUNTS (continued)

### 15. 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.

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

Class	2003 Interest Rate	2002 Interest Rate	2003 Mortality & Morbidity Rates	2002 Mortality & Morbidity Rates
Basic life assurance	2.5 – 4.0%	3.4 – 4.7%	A67-70 ult with adjustments	AM/F80 ult with adjustments
Pension business	3.3 – 5.2%	4.2 – 6.0%	IM/F80 with adjustments, A67-70 ult with adjustments	AM/F80 ult with adjustments, IM/F80 with adjustments
Unitised with-profits	3.4 – 4.7%	4.7 – 6.0%	A67-70 ult with adjustments	AM/F80 ult with adjustments
General annuities	3.3 – 4.1%	4.2 – 4.4%	IM/F80 with adjustments, A67-70 ult with adjustments	IM/F80 with adjustments
PHI	2.5 – 3.3%	4.8%	100% CMIR12 with adjustments	100% CMIR12 with adjustments

The total cost of bonuses attributable to the accounting period, being amounts representing the allocation of the surplus for the year, is £37.8m (2002: £54.2m)

The provisions held in respect of guaranteed annuity options are a prudent assessment of the additional liability incurred under the options on a basis and method consistent with that used to value basic policy liabilities, and include a prudent assessment of the proportion of policyholders who will choose to exercise the option.

Interest rates are based on current prevailing asset ratios. Mortality and morbidity assumptions are based on published CMI tables taking into account the results of the Company's own experience investigations.

#### b) *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.

The Company took action to ameliorate the financial impact on those policyholders who were most impacted by the reduction in expected future investment returns. Provision has been made for the expected costs of the action taken and to meet the potential costs arising from any complaints associated with mortgage endowments.



# LONDON LIFE LIMITED

## NOTES ON THE ACCOUNTS (continued)

### 16. CONTINGENT LOAN

	2003 £'000	2002 £'000
Loan from immediate parent undertaking	275,733	258,322
Interest accrued	10,355	17,411
Movement in the year	(255,552)	-
	<u>30,536</u>	<u>275,733</u>

The contingent loan was advanced to the long term business fund of the Company on 31 December 1997 in order to cover the shortfall arising as a result of prudential reserves for guaranteed benefits under the relevant policies, which is expected to disappear over time. The contingent loan is only repayable if there are sufficient assets to cover policyholders' reasonable benefit expectations, inter-fund loan amounts and solvency requirements. The contingent loan bore an interest rate of 6.74% up to 31 December 2002 after which it changed to 3 month LIBOR. Following an announcement during the year to reduce the equity backing ratio of the Company, the equity backing ratio was reduced. This contributed to a movement in the contingent loan of £256m due to an increase in the long term business provision of the Company relative to the value of the assets of the Company's long term funds.

The movement has been shown as other technical income in the technical account.

### 17. PROVISIONS

	2003 £000	2002 £000
At 1 January	-	-
Provision for void space	640	-
Provision utilised during the year	(323)	-
	<u>317</u>	<u>-</u>
At 31 December	317	-

Provision for void space 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.

### 18. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2003 £'000	2002 £'000
Investment purchases outstanding	20,386	13,800
Corporation tax	11,057	24,749
Amount owed to group undertakings	157	1,169
Other creditors	66,337	88,655
	<u>97,937</u>	<u>128,373</u>

### 19. ASSETS OF THE LONG TERM BUSINESS FUND

The total amount of assets relating to the long term business fund are £2,835m (2002: £2,919).

### 20. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

	2003 £'000	2002 £'000
Investment in properties	151	1,453
Other investments	2,132	3,219
	<u>2,283</u>	<u>4,672</u>

# LONDON LIFE LIMITED

## NOTES ON THE ACCOUNTS (continued)

### 21. PENSION TRANSFERS AND OPT-OUTS

In common with other life companies in the United Kingdom which have written pension transfer and opt out business, the Company has 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 pensions non-profit sub-fund of the long term insurance fund. The Company has used the guidelines referred to in the paragraph below to determine reasonable estimates on information available to date.

The Personal Investment Authority (PIA) issued guidelines in 1995 on the analysis of cases by priority and the method of calculation of compensation. There is no provision for possible redress included in the long term business provision for Phase 1 cases (2002: £nil).

In addition, in 1999 the Financial Services Authority (FSA) and PIA issued guidelines on the next phase of the review and redress programme dealing with Phase 2 cases. In June 2000 the guidance on phase 2 transfers, less loss calculations was finalised. This guidance was anticipated when setting the 1999 and 2000 provision and has again been used to set the 2003 provision. The provision for possible redress included in the long term business provision for Phase 2 cases is £4.2m (2002: £4.2m).

### 22. SUBSIDIARY UNDERTAKINGS

	Country of incorporation and principal place of operation	Class of shares held (all wholly owned)
<b>Trustees:</b>		
London Life Trustees Limited	UK	Ordinary shares of £1
<b>Insurance companies:</b>		
The London Life Association Limited	UK	Membership status
<b>Non insurance companies:</b>		
CLOF No 2 Jersey Limited Partnership	Jersey	

### 23. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption given by FRS 8 to subsidiary undertakings, 90% or more of whose voting rights are controlled within the group, by not disclosing information on related party transactions with entities that are part of the group, or investees of the group qualifying as related parties.

One director of the Company has five unit linked life policies for which the total premium paid in 2003 was £240. The combined total death benefit of the five policies is £4,500.

### 24. PARENT UNDERTAKINGS

The Company's immediate parent undertaking is London Life Holdings Limited. The Company's ultimate parent undertaking is HHG PLC (formerly AMP(UK) PLC). A copy of the group accounts can be obtained from its registered office 4 Broadgate, London, EC2M 2DA.

Prior to 12 December 2003, the Company's ultimate parent undertaking was AMP Limited a company incorporated in New South Wales, Australia. On that date HHG PLC was demerged from AMP Limited. A copy of the accounts of the former ultimate parent undertaking can be obtained from Level 24, 33 Alfred Street, Sydney, NSW 2000 Australia.