Guardian Royal Exchange plc

2000 Report and Accounts

Registered Office: 107 Cheapside, London, EC2V 6DU
Registered Number: 1821312

Contents

Directors' Report

Directors
A K Haste
A C Homer

Secretary
I D Richardson

Auditors
PricewaterhouseCoopers

The directors of Guardian Royal Exchange plc (the Company) present their report together with the audited accounts of the Company for the year ended 31 December 2000.

Review of activities
The principal activity of the Company during the year was as a holding company for its subsidiaries which carry on general insurance and healthcare business in the United Kingdom and Ireland.

The significant loss for the year in the general business technical account is largely due to the strengthening of reserves as a result of an external review of reserves that was carried out during 2000. In addition, the UK result was impacted by reserve strengthening as a result of the judgement of the Law Commission Report 257 - Personal Injury Awards.

The general underwriting result was further depressed by weather related losses during the fourth quarter of the year.

Directors
The names of the directors of the Company at the date of this Report appear above.

Mr. J. V. F. Roberts resigned as a director on 31 July 2000 and Mr. G. M. Wood resigned as a director on 21 February 2001.

Directors Interests
As permitted by Statutory Instrument, the register of directors' interests does not include the interests of the following directors in the share capital and debentures of the Company, its ultimate holding company (AXA) or subsidiaries of the holding company as such interests are disclosed in the Directors' Report of the following company, which is the parent company of the Company.

G. M. Wood (resigned 21 February 2001)	}	
A . K. Haste	}	reported by AXA UK plc
A. C. Homer	}	

Share Capital
Details of the share capital of the Company are set out in note 18 on page 28.

Dividends
The directors do not recommend the payment of a final dividend for the year ended 31 December 2000 (1999: Nil).

Directors' Report continued

Going concern
The financial statements are prepared on a going concern basis as the directors are satisfied that, at the time of approving the financial statements, both the Company and the Group each have the resources to continue in business for the foreseeable future.

Policy relating to trade suppliers
As a holding company and for commercial convenience, the Company's purchasing is carried out through a subsidiary. Its policy is to settle balances within agreed credit terms, which vary according to trading relationships. Balances outstanding at 31 December 2000 represented a credit period of 27 days (1999: 24 days).

Employees
The Group, through each of its employing subsidiary companies, is committed to a policy of equal opportunity in recruitment, training, career development and promotion of staff, irrespective of sex, marital status, race or ethnic origin. Full and fair consideration is also given to disabled persons including the rehabilitation and retention of staff who become disabled, having regard to their particular aptitudes and abilities.

The practise of regular meetings, consulting and negotiating with the Union and staff representatives on behalf on employees has continued throughout the year. Staff affected by restructuring exercises have been counselled by joint Management/Union teams in accordance with the procedures agreed with the Union. Staff are regularly provided with information regarding group performance and development and the financial and economic factors which affect such matters.

Group policy is to encourage staff to associate themselves with Group performance and many employees have had the opportunity to participate in share option and profit sharing schemes. Training is provided to enable all employees to fulfil their potential.

Donations
Donations made by the Group during 2000 to charitable organisations within the United Kingdom amounted to £185,000 (1999: £417,268). No political donations were made during the year (1999: £Nil).

Auditors
A resolution to re-appoint the auditors, PricewaterhouseCoopers, and to authorise the directors to determine their remuneration will be proposed at the Annual General Meeting.

By order of the Board.

ID Richardson
Company Secretary
26 June 2001

Directors' Responsibilities for the Financial Statements

The directors are responsible for ensuring that reasonable steps are taken to safeguard the Company's assets and to prevent and detect fraud and other irregularities.

The directors are required to maintain proper accounting records and to prepare financial statements in respect of each accounting period 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 accordance with the provisions of the Companies Act 1985 applicable to insurance companies.

In preparing these financial statements the directors have ensured that applicable accounting standards have been followed and that suitable accounting policies have been used on a consistent basis. The directors have also ensured that where necessary the accounts are supported by reasonable and prudent judgements and estimates.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the Going Concern basis in preparing the financial statements.

Auditors' Report

Auditors' report to the members of Guardian Royal Exchange plc

We have audited the financial statements on pages 6 to 35 which have been prepared in accordance with the accounting policies set out on pages 14 to 17

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 4, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

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

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

Basis of audit opinion

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

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amount set aside at 31 December 2000, and the effect of the movement in those reserves during the year on the general business technical result and loss before tax, are disclosed in the accounting policies and pages 6 and 10 of the Financial Statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 2000 and of the result and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London

21 June 2001

Consolidated Profit and Loss Account

for the year ended 31 December 2000

General business technical account	2000 £m	2000 £m	1999 £m	1999 £m
Gross written premiums				
Continuing operations		2,603		1,908
Discontinued operations		3		661
		2,606		2,569
Outward reinsurance premiums		(123)		(239)
Net written premiums		2,483		2,330
Change in provision for unearned premiums				
- gross account	(29)		(48)	
- reinsurers' share	(24)		25	
		(53)		(23)
Earned premiums, net of reinsurance		2,430		2,307
Allocated investment return transferred from non-technical account		204		203
Other technical income		46		59
Total technical income		2,680		2,569
Claims paid				
- gross	(2,228)		(2,190)	
- reinsurers' share	98		51	
	(2,130)		(2,139)	
Change in outstanding claims provision				
- gross *(including strengthening of £309m (1999:£341m), Note 26)*	(156)		(197)	
- reinsurers' share	16		48	
	(140)		(149)	
Claims incurred, net of reinsurance		(2,270)		(2,288)
Change in other technical provisions net of reinsurance		4		(17)
Net operating expenses *(note: 1e)*		(835)		(748)
Amortisation of goodwill in acquired claims provisions		(13)		(5)
Operating result before movement in equalisation reserves		(434)		(489)
Change in equalisation reserves		(8)		46
Balance on the general business technical account		(442)		(443)

The general business operating result before movement in equalisation reserves represents:

	2000 £m	1999 £m
Operating result		
- continuing operations	(430)	(446)
- discontinued operations	(4)	(43)
	(434)	(489)

Consolidated Profit and Loss Account continued

for the year ended 31 December 2000

Long term business technical account	2000 £m	£m	Restated 1999 £m	£m
Gross written premiums				
Continuing operations		70		92
Discontinued operations		8		468
		78		560
Outward reinsurance premiums		(10)		(49)
Earned premiums, net of reinsurance		68		511
Investment income *(note: 2c)*		10		1,009
Unrealised investment gains/(losses)		28		(11)
Other technical income, net of reinsurance		1		5
Claims paid				
- gross	(59)		(648)	
- reinsurers' share	3		17	
	(56)		(631)	
Change in the provision for claims				
- gross	(2)		(2)	
- reinsurers' share	1		(1)	
	(1)		(3)	
Claims incurred, net of reinsurance		(57)		(634)
Change in other technical provisions				
Long term business provision:				
- gross	(13)		(54)	
- reinsurers' share	10		64	
	(3)		10	
Other technical provisions, net of reinsurance	(18)		(347)	
		(21)		(337)
Net operating expenses *(note: 2d)*		(13)		(92)
Investment expenses and charges *(note: 2e)*		-		(9)
Other technical charges, net of reinsurance -				
Amortisation of present value of acquired in-force business		(1)		(17)
Tax attributable to the long term business		1		(30)
Transfers to fund for future appropriations		(19)		(364)
Balance on the long term business technical account		(3)		31

Consolidated Profit and Loss Account continued

for the year ended 31 December 2000

Non-technical account	2000 £m	£m	Restated 1999 £m	£m
Balance on the general business technical account		(442)		(443)
Balance on the long term business technical account	(3)		31	
Tax credit attributable to the balance on the long term business technical account	(1)		9	
		(4)		40
Investment Income				
Income from interest in fellow subsidiary undertaking *(note: 4a)*	101		62	
Income from interests in joint venture and associated undertakings *(notes: 3a & 3b)*	1		15	
Other investment income *(note: 4a)*	427		582	
		529		659
Investment expenses and charges *(note: 4b)*	(16)		(30)	
Unrealised investment losses	(171)		(180)	
Investment return allocated to the general business technical account	(204)		(203)	
Amortisation of goodwill	(11)		(16)	
Other charges *(note: 4d)*	-		(32)	
Corporate investment loss		(402)		(461)
Operating loss comprising:				
Continuing business		(308)		(284)
Discontinued business		(3)		43
Movement in claims equalisation reserves		(8)		36
		(319)		(205)
Profit on disposal of operations *(note: 22)*		58		338
Restructuring costs		-		(75)
(Loss)/profit on ordinary activities before tax		(261)		58
Tax on loss/(profit) on ordinary activities *(note: 6)*		94		81
(Loss)/profit on ordinary activities after tax		(167)		139
Equity minority interests		20		2
Non-equity minority interests		-		(18)
(Loss)/profit for the financial year		(147)		123
Dividends		-		(280)
Retained loss for the financial year		(147)		(157)
Earnings per ordinary share		(16.4)p		13.8p
Fully diluted earnings per ordinary share		(16.4)p		13.7p

The pre-tax profit for 1999 is stated after charging restructuring costs of £75m. These costs related to the fundamental reorganisation of the business which was completed as the GRE businesses were integrated with those of AXA UK plc (formerly, Sun Life and Provincial Holdings plc). The tax relief included in the non technical account on restructuring costs in 1999 amounted to £20m.

The calculation of earnings per ordinary share is based on a loss of £147m (1999: profit £123m) and on a weighted average of 897,399,001 (1999: 893,550,469) ordinary shares after adjusting for partly paid shares.

Details of the calculation of fully diluted earnings per share are set out in note 24.

Consolidated Balance Sheet

for the year ended 31 December 2000

Assets	2000 £m	£m	1999 £m	£m
Intangible assets *(note: 16)*		**120**		144
Present value of acquired in-force business *(note: 16)*		**7**		8
Investments				
Land and Buildings *(note: 7)*	**46**		82	
Investments in group undertakings and participating interests *(notes:7 & 9)*				
Interest in fellow subsidiary undertaking	**1,682**		1,682	
Interest in joint ventures *(note: 22b)*				
Share of gross assets	**-**		101	
Share of gross liabilities	**-**		(28)	
Interest in associated undertakings	**16**		16	
Other financial investments *(notes: 7 & 9)*	**3,919**		4,203	
Deposits with ceding companies	**17**		21	
		5,680		6,077
Assets held to cover linked liabilities		**67**		161
Reinsurers' share of technical provisions				
Provision for unearned premiums	**32**		77	
Life business provision	**51**		41	
Linked liabilities	**11**		9	
Claims outstanding	**271**		304	
		365		431
Debtors				
Debtors arising out of direct insurance operations *(note: 10a)*	**747**		697	
Debtors arising out of reinsurance operations	**49**		51	
Other debtors	**522**		696	
		1,318		1,444
Other assets				
Tangible fixed assets (*note: 8*)	**37**		29	
Stocks	**1**		1	
Cash at bank and in hand	**438**		457	
		476		487
Prepayments and accrued income				
Accrued interest and rent	**40**		40	
Deferred acquisition costs	**221**		233	
Other prepayments and accrued income	**114**		76	
		375		349
Total Assets		**8,408**		9,101

Consolidated Balance Sheet

for the year ended 31 December 2000

	2000		1999	
Liabilities and reserves	**£m**	**£m**	£m	£m
Capital and reserves				
Called up share capital *(note: 18a)*		**47**		47
Share premium account *(note: 18b)*		**83**		83
Other reserves *(note: 19)*	**255**		743	
Profit and loss account *(note: 19)*	**2,096**		1,750	
		2,351		2,493
Equity shareholders' funds		**2,481**		2,623
Minority interests				
Equity minority interests		**449**		481
Fund for future appropriations		**-**		88
Technical provisions				
Provision for unearned premiums	**1,225**		1,214	
Long term business provision	**129**		305	
Claims outstanding	**3,178**		2,985	
Equalisation provision	**25**		18	
Other technical provisions	**33**		39	
		4,590		4,561
Technical provisions for linked liabilities		**78**		170
Provisions for other risks and charges *(note: 11)*		**258**		351
Deposits received from reinsurers		**1**		3
Creditors				
Creditors arising out of direct insurance operations	**63**		67	
Creditors arising out of reinsurance operations	**37**		28	
Amounts owed to credit institutions *(note: 13)*	**9**		7	
Non-convertible debenture loans *(note: 13)*	**148**		147	
Other creditors including taxation and social security *(note: 12)*	**195**		494	
		452		743
Accruals and deferred income		**99**		81
Total liabilities and reserves		**8,408**		9,101

Parent Company Balance Sheet

for the year ended 31 December 2000

	2000		1999	
	£m	£m	£m	£m
Fixed assets				
Investments				
Shares in subsidiary undertakings *(note: 25b)*	1,095		1,103	
Cash and deposits	-		1	
		1,095		1,104
Current assets				
Debtors				
Amount due from immediate parent company	134		363	
Amounts due from fellow subsidiary undertakings	2		8	
Taxation	-		3	
	136		374	
Creditors: amounts falling due within one year				
Proposed final dividend	-		280	
Amounts due to subsidiary undertakings	438		442	
Other creditors including tax and social security	6		6	
	444		728	
Net current liabilities		(308)		(354)
Total assets less current liabilities		787		750
Creditors: amounts falling due after more than one year				
Debenture loan		148		147
Net assets		639		603
Representing:				
Share capital *(note: 18a)*		47		47
Share premium *(note: 18b)*		83		83
Capital redemption reserve *(note: 19b)*		189		189
Profit and loss account *(note: 19b)*		320		284
Equity shareholders' funds		639		603

The accounts on pages 6 to 35 were approved by the directors and signed on 26 June 2001.

A C Homer
Director

Cash Flow Statement - General Insurance and Corporate

for the year ended 31 December 2000

	2000		1999	
	£m	£m	£m	£m
Operating activities				
Net cash inflow from operating activities *(note: 23a)*		42		(593)
Integration and restructuring costs paid		(25)		(23)
Returns on investments and servicing of finance				
Interest paid	(11)		(25)	
Dividends paid by subsidiaries to minorities	(10)		(18)	
		(21)		(43)
Taxation paid		34		(91)
Capital expenditure				
Purchases less sales of fixed assets		(20)		(4)
Acquisitions and disposals				
Acquisition of subsidiary undertakings	-		(280)	
Disposal of subsidiary undertakings *(note: 23e)*	71		2,304	
Investment in participating interest	72		(1,682)	
		143		342
Equity dividends paid		(280)		(38)
Financing				
Issue of ordinary share capital	-		28	
Increase/(decrease) in borrowings	2		(64)	
		2		(36)
Cash available for investment		(125)		(486)
Invested as follows:				
Increase in cash balances		(23)		160
Portfolio investments *(note: 23b)*				
Ordinary and preference shares	(274)		(452)	
Fixed income securities	93		49	
Property	12		(27)	
Deposits with credit institutions	67		(216)	
		(102)		(646)
Net cash invested		(125)		(486)

The cash flow statement does not include amounts relating to life business except cash transactions between life business and shareholders.

Statement of Total Recognised Gains and Losses

for the year ended 31 December 2000

	2000 £m	1999 £m
(Loss)/profit for the financial year	**(147)**	123
Exchange gains/(losses) on translation of overseas net assets not in profit and loss account	**5**	(35)
Total gains and (losses) relating to the year	**(142)**	**88**

Reconciliation of Movements in Group Shareholders' Funds

for the year ended 31 December 2000

	2000 £m	1999 £m
(Loss)/profit for the financial year	**(147)**	123
Dividends	**-**	(280)
Profit and loss account transfer from reserves	**(147)**	(157)
Exchange gains/(losses) on translation of overseas net assets	**5**	(35)
Issue of ordinary share capital	**-**	28
	(142)	(164)
Shareholders' funds at beginning of year	**2,623**	2,787
Shareholders' funds at end of year	**2,481**	2,623

Accounting Policies

I Basis of accounting and consolidation

a) The accounting policies adopted are in accordance with applicable United Kingdom accounting standards to the extent that they are appropriate to insurance companies and are in accordance with the Statement of Recommended Practice on accounting for insurance business (SORP) issued by the Association of British Insurers.

b) The consolidated accounts are prepared in accordance with the requirements of Section 255A of, and schedule 9A to, the Companies Act 1985 relating to insurance groups.

c) The balance sheet of the Company has been prepared in accordance with the provisions of Section 226 of, and Schedule 4 to, the Companies Act 1985. As permitted by section 230 of the Companies Act 1985, a separate profit and loss account for the Company is not presented.

d) Investments in principal associated companies and joint ventures are accounted for in accordance with the equity basis of accounting and the gross equity basis, respectively.

II General Business

a) Premiums

Premiums are accounted for in the period in which the risk commences. Unearned premiums relating to risks in future periods of account are calculated on a daily pro-rata basis.

b) Claims

Provision is made for the estimated cost of claims outstanding at the end of the year, including those incurred but not reported at that date, and for the related costs of settlement.

Claims incurred comprise amounts paid or provided in respect of claims occurring during the current year, together with the amount by which settlement or reassessment of claims from previous years differs from the provision at the beginning of the year.

c) Equalisation reserves

Equalisation reserves for United Kingdom subsidiary undertakings are calculated in accordance with the Insurance Companies (Reserves) Act 1995. Equalisation reserves for other subsidiaries are calculated by reference to local legislation where required by that legislation. These reserves are required by law to be treated as liabilities, notwithstanding the fact that they are in addition to the provisions required to meet the ultimate cost of settling claims outstanding at balance sheet date.

d) Deferred acquisition expenses

Commission and other acquisition costs relating to unearned premiums are deferred and charged in the accounting periods in which those premiums are earned.

e) Unexpired risks

Provision is made for unexpired risks when, after taking account of investment income on insurance funds, it is anticipated that unearned premiums will be insufficient to meet the future claims and expenses of business in force at the end of the year. Business which the directors consider is managed together is aggregated for this purpose.

Accounting Policies continued

f) Underwriting results

Underwriting results are recognised principally on an annual accounting basis. For that part of the business where the directors consider that information of sufficient accuracy is not available to permit a result to be determined annually, the recognition of an underwriting result is deferred for a period of one year for proportional reinsurance and for a period of two years for non-proportional reinsurance, marine and aviation business. Anticipated underwriting deficits are provided for as soon as they are foreseen.

g) Investment return

An investment return is included in the general business technical account on a basis which reflects the long term rate of return on those investments which support the general insurance business.

III Long term business

a) Premiums

Renewal premiums are accounted for in the period in which the premiums are due. Initial premiums under renewable contracts, single premiums and considerations for annuities are accounted for in the same accounting period as the related policy liabilities are included in the actuary's valuation.

b) Claims and surrenders

Claims and surrenders are accounted for in the accounting period in which: (i) for death claims, the notification of death is received, (ii) for maturity claims, the maturity date of the endowment policy occurs, and (iii) for surrenders, the surrender value of the policy is paid. Annuities are charged in the revenue account to the accounting period in which the annuity becomes due for payment.

c) Deferred acquisition expenses

The costs of acquiring new business and the renewal of existing business which relates to subsequent accounting periods are deferred, to the extent that they are considered to be recoverable out of the future profits of the business concerned.

d) Long term profit recognition

Long term business profits are calculated by the use of the "Modified Statutory" method set out in the ABI SORP. For most business, this produces a result which is very similar to that derived from the shareholders' transfer determined by actuarial valuation and which is known as the "Statutory" method. Profits in excess of the statutory result are not distributable to shareholders.

In determining the modified statutory results, the fund for future appropriations is used to account for reserves derived from long term business where the allocation of such reserves between policyholders and shareholders has not been determined.

e) Investment return

The total investment return, which includes both realised and unrealised gains, is taken to the life business technical account. An allocation is made from the life technical account to the non-technical account of the difference between the longer term rate of return and the actual return on those investments within the life funds which are directly attributable to shareholders.

f) Bonuses

Bonuses attributable to the accounting period, other than those included in claims incurred, are included within changes in the life business provision.

Accounting Policies continued

IV Investments

a) Investment income

Investment income represents interest, rents and dividends receivable for the year including, where appropriate, related overseas imputed tax credits. Investment income derived from assets supporting life business is credited to the life technical account. All other investment income is credited to the non-technical account.

b) Realised and unrealised investment gains and losses

Realised investment gains and losses are calculated by reference to the net sales proceeds and the original purchase cost. For presentation purposes, as required by legislation, net realised gains are included in investment income and net realised losses in investment expenses and charges.

c) Valuation

Investments are stated at market values for listed securities; open market valuations as appraised by external professionally qualified surveyors for properties; bid price for unit trusts; redemption values less provisions for mortgages and loans; and directors' valuations for other investments. Investment properties are not depreciated, as the directors consider that they are held for investment purposes and to depreciate them would not give a true and fair view. In the balance sheet of the Company, investments in subsidiary undertakings are stated at cost, unless their value has been impaired in which case they are valued at their realisable value or value in use as appropriate.

d) Group occupied properties

As required by the Companies Act, properties occupied by the Group are included as investments. The properties are valued on an existing use basis by external professionally qualified surveyors.

V Land for development and work in progress

Land for development and work in progress is stated at the lower of cost and net realisable value and is shown as stocks in the balance sheet.

VI Goodwill

Goodwill arising on acquisitions is capitalised and amortised on a straight line basis over a period appropriate to the business acquired but, in any case, no longer than 20 years. Goodwill arising prior to 31 December 1997 has been eliminated against reserves in accordance with the accounting policy at the date of acquisition. The gain or loss on subsequent disposal of a subsidiary will include any attributable unamortised goodwill.

Acquired general business claims provisions are stated on an undiscounted basis. The difference between this and their fair value is included as a separate component of goodwill and amortised over the anticipated run-off period of the acquired provisions.

The present value of in-force contracts (PVIF) arising on the acquisition of life business is recognised as an asset. That part of the PVIF which will be recognised as profit over the remaining lifetime of the policies is amortised and the discount unwound, over that lifetime on a systematic basis. The amortisation pattern is determined actuarially to reflect the expected pattern of emergence of profits from the acquired contracts and is stated net of any unwind in the discount rate used to calculate the asset. The PVIF carrying value is tested annually for impairment.

VII Foreign Exchange

Transactions denominated in currencies other than Sterling are recorded at the rates ruling at the date of the transaction. Assets and liabilities denominated in currencies other than Sterling are translated at year-end exchange rates. Exchange gains and losses arising from life business are taken to the life technical account. Other gains and losses are treated as part of the investment return in the profit and loss account, except for exchange gains and losses on hedging loans and overseas subsidiary undertakings which are taken to revaluation reserve.

Accounting Policies continued

Assets and liabilities of subsidiary companies and branches are translated into Sterling at year-end rates of exchange with profits and losses for the year translated at average rates. The resulting exchange gains and losses are taken to revaluation reserve.

VIII Taxation

Provision is made for deferred taxation on unrealised gains and other timing differences where it is considered that a liability will arise in the foreseeable future. No provision is made for taxation which would arise if retained earnings of overseas subsidiaries were to be remitted to the United Kingdom.

IX Fixed assets and depreciation

Major items of equipment are capitalised and depreciated over their expected useful lives after taking into account their anticipated residual value. All other items of equipment are written off in the year of purchase.

X Staff pension costs

The amount charged to the profit and loss account is the regular cost of providing the benefits accrued in the year adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future pensionable payroll.

XI Derivatives

Forward contracts used to hedge the Company's short term debt and currency exposure have been included in the financial statements, with unrealised gains and losses taken to the non technical account. Interest rate swap payments and receipts arising on swaps used to hedge the Group's debt exposure are included within interest payable and spread over the period to which they relate.

Notes on the Financial Statements

1 General insurance business

a) Geographical analysis

		2000 Net written premiums £m	2000 Underwriting result £m	2000 Pre tax result £m	1999 Net written premiums £m	1999 Underwriting result £m	1999 Pre tax result £m
United Kingdom		**2,209**	**(515)**	**(351)**	1,302	(519)	(402)
Republic of Ireland		**256**	**(93)**	**(66)**	252	(65)	(41)
Continental Europe	- continuing business	**-**	**-**	**-**	14	(1)	(1)
	- disposed business	**2**	**(1)**	**(1)**	240	(20)	(4)
The Americas	- disposed business	**-**	**-**	**-**	269	(42)	(23)
South Africa	- disposed business	**1**	**-**	**-**	55	(3)	(1)
Asia	- continuing business	**-**	**-**	**-**	4	(2)	(1)
	- disposed business	**-**	**(3)**	**(3)**	13	(1)	-
Other, including central reinsurance							
	- continuing business	**15**	**(13)**	**(13)**	181	(19)	(1)
	- disposed business	**-**	**-**	**-**	-	(15)	(15)
		2,483	**(625)**	**(434)**	2,330	(687)	(489)

The general business pre tax result comprises underwriting result and allocated investment return but excludes the movement in equalisation reserves and reorganisation costs.

The territorial results are after central reinsurance protection. The 'Other' result includes this reinsurance in respect of the following territories:-

	2000 Net written premiums £m	2000 Underwriting result £m	1999 Net written premiums £m	1999 Underwriting result £m
United Kingdom	**4**	**(14)**	161	(11)
Republic of Ireland	**-**	**(2)**	2	(1)
	4	**(16)**	163	(12)

b) Class of business analysis

	2000 Net written premiums £m	2000 Underwriting result £m	1999 Net written premiums £m	1999 Underwriting result £m
Property	**482**	**(122)**	593	(343)
Motor	**944**	**(357)**	777	(245)
Liability	**121**	**(83)**	139	(33)
Other	**283**	**(64)**	193	(46)
Total excluding healthcare	**1,830**	**(626)**	1,702	(667)
Short term healthcare	**653**	**1**	628	(20)
Total general business	**2,483**	**(625)**	2,330	(687)

c) Funded business

In accordance with accounting policy IIf the funded basis of accounting is used for inwards reinsurance, marine and aviation business. For this business, information of sufficient accuracy is not available to enable a result to be determined annually.

d) Claims Equalisation Reserve

Equalisation provisions are established in accordance with the requirements of the Insurance Companies (Reserves) Act 1995. 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 the technical provisions in the balance sheet notwithstanding that they do not represent liabilities at the balance sheet date. At 31 December 2000 claims equalisation reserves were £25m (1999:£18m).

e) Analysis of net operating expenses

	2000 £m	1999 £m
Acquisition costs	515	495
Decrease in deferred acquisition costs	2	7
Administrative expenses	318	238
Reinsurance commissions and profit participation	-	8
	835	748

2 Life business

a) Geographical analysis

	2000 Net written premiums £m	2000 Pre-tax result £m	1999 Net written premiums £m	1999 Pre-tax result £m
United Kingdom and Republic of Ireland				
Continuing business	62	(5)	103	(6)
Discontinued business	6	1	329	44
Continental Europe				
Discontinued business	-	-	73	2
Asia				
Discontinued business	-	-	6	-
	68	(4)	511	40

b) Class of business analysis

	2000 Net written premiums £m	2000 Pre-tax result £m	1999 Net written premiums £m	1999 Pre-tax result £m
Long term healthcare	62	(4)	84	(6)
Other long term business	6	-	427	46
	68	(4)	511	40

c) Investment income

	2000 £m	Restated 1999 £m
Income from property	-	42
Income from other investments	10	343
Realised investment and foreign exchange gains	-	624
	10	1,009

Income from other investments includes £8m (1999: £322m) in respect of listed investments.

Notes on the Financial Statements continued

d) Net operating expenses

	2000 £m	1999 £m
Acquisition costs	8	33
Decrease in deferred acquisition costs	-	13
Administrative expenses	5	46
	13	92

e) Investment expenses and charges

	2000 £m	1999 £m
Interest expense *(note: 4c)*	-	1
Investment management expenses	-	8
	-	9

f) Tax attributable to shareholders

Life profits have been grossed up by the effective rate of tax in the territory concerned.

g) Life business provision

The life business provision is calculated initially on a statutory basis, modified to remove certain reserves required by solvency regulations. Where applicable, a net premium valuation is used which includes an explicit provision for vested bonuses, including those vesting following the current valuation. Implicit provision is made for future reversionary bonuses by a reduction in the valuation rate of interest. The costs of writing new business are explicitly determined and deferred to the extent that they are recoverable out of future revenue margins and are disclosed as an asset in the balance sheet.

3 Income from joint venture and interests in associated undertakings

a) Income from joint venture

The pre-tax operating result arising from the PPP Columbia Hospitals joint venture was £1m (1999: £4m) with a related taxation charge of £nil (1999: £1m). The joint venture is not an insurance operation and does not, therefore, affect Group premium income.

b) Summary of income from joint venture and associates

	2000 Net written premiums £m	Underwriting result £m	Pre tax result £m	1999 Net written premiums £m	Underwriting result £m	Pre tax result £m
United Kingdom	-	-	1	-	-	9
Continental Europe	-	-	-	7	-	2
Asia	-	-	-	4	1	1
	-	-	1	11	1	12
Balance of investment return			-			3
Group share of pre-tax result			1			15

Notes on the Financial Statements continued

4 Corporate investment

a) Other investment income

	2000 £m	Restated 1999 £m
Income from property	**3**	8
Income from other investments	**220**	230
Realised investment gains	**204**	344
	427	582

The income of £101m (1999:£62m) from fellow subsidiary undertaking relates to a preference shareholding in AXA GRE Europe Investments Limited

Realised investment gains include foreign exchange losses of £2m (1999: Profit £16m).

Income from other investments includes £159m (1999: £173m) from listed investments.

b) Other expenses and charges

	2000 £m	1999 £m
Interest expense *(note: 4c)*	**11**	25
Investment management expenses	**5**	5
	16	30

c) Interest expense

	General insurance and corporate 2000 £m	1999 £m	Life 2000 £m	1999 £m
On loans repayable within five years:				
Bank loans and overdrafts	**-**	7	**-**	-
Other loans	**1**	8	**-**	1
On loans repayable beyond five years:				
Non bank loans	**10**	10	**-**	-
	11	25	**-**	1

d) Other charges

Other charges of £nil (1999: £32m) represent the costs of the corporate centre. The1999 charges included £12m exceptional bid defence costs. The costs of the corporate centre are not material following the acquisition in 1999 by AXA UK plc (formerly, Sun Life and Provincial Holdings plc).

Notes on the Financial Statements continued

5 Investment return allocation between technical and non-technical accounts

a) Longer term investment returns

The longer term investment return is based on historical real rates of return and current inflation expectations, adjusted for economic and investment forecasts. The return is calculated by applying the long term rate to a notional portfolio deemed to support the insurance operations.

The principal rates used are:

	Equities				Fixed Interest			
	2000	1999	1998	1997	**2000**	1999	1998	1997
	%	%	%	%	**%**	%	%	%
UK	**8.0**	8.0	9.0	9.0	**6.0**	6.0	6.5	6.5
Republic of Ireland	**10.0**	10.0	10.0	10.0	**4.5**	4.5	4.5	7.0
Germany	**8.5**	8.5	8.5	8.5	**4.5**	4.5	4.5	4.5
USA	**9.0**	9.0	9.0	9.0	**4.5**	4.5	5.5	5.5

b) Comparison of longer term return with actual returns

Actual average rates of return attributable to shareholders for the last four years are:

	Equities				Fixed Interest			
	2000	1999	1998	1997	**2000**	1999	1998	1997
	%	%	%	%	**%**	%	%	%
UK	**3.7**	23.8	9.9	23.0	**8.6**	1.5	13.8	12.0
Republic of Ireland	**3.8**	16.4	32.2	53.6	**4.8**	0.6	11.7	11.5
Germany	**-**	1.4	15.6	38.2	**-**	5.0	10.0	8.8
USA	**10.3**	21.1	23.0	29.6	**21.0**	1.7	7.9	8.1

6 Taxation

The taxation credit in the profit and loss account is detailed below:

	2000	Restated 1999
	£m	£m
Current taxation:		
United Kingdom taxation		
Corporation tax at rate of 30.00% (1999: 30.25%)	**22**	71
Prior year items	**(8)**	2
	14	73
Overseas taxation	**-**	7
	14	80
Deferred taxation	**79**	12
Taxation attributable to shareholders' life business profits	**1**	(9)
Share of associate companies' and joint venture taxation	**-**	(2)
Taxation charged in profit and loss account	**94**	81

In accordance with Financial Reporting Standard 16 (FRS 16) the figures for 1999 have been restated to remove the tax charge arising from grossing up franked investment income for the tax credit attaching. The effect of this restatement has been to reduce the investment income and tax charge of the group, for 1999, by £4m. There is no impact on profit after tax and net assets for 1999 and 2000.

Balance Sheet provisions for deferred taxation represent:

	Provided		Unprovided	
	2000	1999	**2000**	1999
	£m	£m	**£m**	£m
Unrealised investment gains	**90**	156	**74**	149
Other short term timing differences	**6**	2	**-**	(34)
Losses available for offset	**(27)**	(5)	**(25)**	(16)
Deferred taxation provisions *(note: 11)*	**69**	153	**49**	99

Deferred taxation on unrealised gains has been provided where it is considered that a liability will arise in the foreseeable future, in accordance with accounting policy VIII. Taxation relief attributable to exceptional items is £nil (1999: £22m).

The Company is not a close company within the terms of the Income and Corporation Taxes Act 1988.

Notes on the Financial Statements continued

7 Consolidated balance sheet as at 31 December 2000

	General and Corporate		Life		Consolidated	
	2000	1999	**2000**	1999	**2000**	1999
	£m	£m	**£m**	£m	**£m**	£m
Intangible assets	**120**	144	**-**	-	**120**	144
Present value of acquired in-force business	**7**	8	**-**	-	**7**	8
Land and buildings						
Company occupied	**45**	51	**-**	-	**45**	51
Other	**1**	7	**-**	24	**1**	31
	46	58	**-**	24	**46**	82
Investment in fellow subsidiary undertaking	**1,682**	1,682	**-**	-	**1,682**	1,682
Associated undertakings and joint venture	**16**	89	**-**	-	**16**	89
Other financial investments						
British Government Securities	**943**	1,222	**44**	49	**987**	1,271
Overseas Government, municipal and public boards	**565**	465	**1**	99	**566**	564
Debentures and debenture stocks	**504**	191	**17**	36	**521**	227
	2,012	1,878	**62**	184	**2,074**	2,062
Preference and guaranteed stocks and shares	**72**	51	**-**	-	**72**	51
Ordinary stocks and shares	**1,479**	1,744	**-**	123	**1,479**	1,867
	1,551	1,795	**-**	123	**1,551**	1,918
Mortgages and loans	**128**	123	**-**	1	**128**	124
Deposits with credit institutions	**166**	99	**-**	-	**166**	99
Deposits with ceding companies	**17**	20	**-**	1	**17**	21
Total Investments	**5,618**	5,744	**62**	333	**5,680**	6,077
Assets held to cover linked liabilities	**-**	-	**67**	161	**67**	161
Reinsurers' share of technical provisions	**303**	380	**62**	51	**365**	431
Debtors	**1,318**	1,444	**12**	18	**1,318**	1,444
Other assets	**458**	472	**18**	15	**476**	487
Prepayments and accrued income	**371**	331	**4**	18	**375**	349
TOTAL ASSETS	**8,195**	8,523	**225**	596	**8,408**	9,101
Capital and Reserves						
Share capital	**47**	47	**-**	-	**47**	47
Share premium	**83**	83	**-**	-	**83**	83
Other reserves	**2,351**	2,493	**-**	-	**2,351**	2,493
Equity shareholders' funds	**2,481**	2,623	**-**	-	**2,481**	2,623
Minority interests	**449**	481	**-**	-	**449**	481
Fund for future appropriations	**-**	-	**-**	88	**-**	88
Technical provisions	**4,461**	4,252	**129**	309	**4,590**	4,561
Technical provisions for linked liabilities	**-**	-	**78**	170	**78**	170
Other liabilities and provisions	**804**	1,167	**18**	29	**810**	1,178
Total liabilities and shareholders' funds	**8,195**	8,523	**225**	596	**8,408**	9,101

8 Fixed assets

	Cost £m	Depreciation £m	Net book value £m
At 31 December 1999	89	(60)	29
Purchases	22	-	22
Sales	(10)	8	(2)
Provision for depreciation	-	(12)	(12)
At 31 December 2000	101	(64)	37

Fixed assets are primarily computer equipment, fixtures and fittings.

9 Investments

The cost price of investments held at 31 December 2000 was £3,333m (1999: £3,509m). The cost price of investments held to cover linked liabilities was £60m (1999: £114m).

Investments totalling £3,588m (1999: £3,888m) are listed on a recognised stock exchange. Of these £2,698m (1999: £3,456m) are listed on the London Stock Exchange.

Land and buildings includes £7m (1999: £9m) in respect of leasehold properties of which £nil (1999: £1m) related to land held on short lease.

All properties in the UK and Ireland are subject to external valuation, by CB Hillier Parker and Jones Lang LaSalle respectively, as at 31 December 2000.

Principal interests in associated undertakings at 31 December 2000 were as follows:

	Holding	Country
Aviation and General Insurance Company Limited	36%	United Kingdom
Earlyweigh Limited	100%	United Kingdom
PanEuroRe Limited	20%	Luxembourg

The country shown is that of incorporation and principal operation.
All holdings are in equity share capital except Earlyweigh Ltd where the investment is in preference share capital.

Aviation and General Insurance Company Limited is an insurance company.

Earlyweigh Limited is the holding company of Layton Blackham insurance brokers and PanEuroRe is a reinsurance operation.

The investment in fellow subsidiary undertaking relates to a preference shareholding in AXA GRE Europe Investments Limited.

10 a) Debtors arising out of direct insurance operations

	General and Corporate		Life		Consolidated	
	2000	1999	**2000**	1999	**2000**	1999
	£m	£m	**£m**	£m	**£m**	£m
Due from policyholders	**440**	424	**10**	14	**450**	438
Due from intermediaries	**297**	259	**-**	-	**297**	259
	737	683	**10**	14	**747**	697

b) Other Debtors

Included within other debtors are amounts due from intermediate parent undertaking of £223m (1999: £383m).

c) Other prepayments and accrued income

Included within other prepayments and accrued income are amounts due from fellow subsidiary undertakings of £101m (1999:£62m).

Notes on the Financial Statements continued

11 Provisions for other risks and charges

	Pensions	Deferred Taxation	Other	Total
	£m	£m	£m	£m
At 1 January 2000	43	153	155	351
Acquisitions and disposals	-	(5)	(1)	(6)
Utilised	(3)	-	(80)	(83)
Profit and loss account	9	(79)	66	(4)
At 31 December 2000	49	69	140	258

Other includes provisions for liabilities arising from the reorganisation of the business, vacant property and general insurance related costs.

12 Other creditors

	General and Corporate		Life		Consolidated	
	2000	1999	2000	1999	2000	1999
	£m	£m	£m	£m	£m	£m
Amounts due to intermediate parent undertaking	-	13	-	-	-	13
Amounts due to fellow subsidiary undertaking	9	-	-	-	9	-
Proposed final dividend	-	280	-	-	-	280
Taxation	67	55	-	1	67	56
Other creditors	118	146	13	17	119	145
	194	494	13	18	195	494

13 Loans

	General and Corporate		Life		Consolidated	
	2000	1999	2000	1999	2000	1999
	£m	£m	£m	£m	£m	£m
Non-Bank Loans						
6 5/8% Company bonds repayable 2023	148	147	-	-	148	147
Loans from bankers						
Unsecured	9	7	-	-	9	7
	157	154	-	-	157	154
Repayment periods loans other than from bankers						
Over 5 years	148	147	-	-	148	147
	148	147	-	-	148	147
Repayment periods loans from bankers						
1 year or less	9	7	-	-	9	7
	9	7	-	-	9	7

14 Capital expenditure commitments

At 31 December 2000, capital expenditure on equipment amounting to £0.6m (1999: £10m) had been authorised but had not been provided for in the accounts. Contracts had been placed for £0.1m (1999: £0.2m) of the authorised expenditure.

15 Auditors' remuneration

	2000 £000	1999 £000
Remuneration, including expenses, of the auditors of the Company and its subsidiaries for statutory work. This includes £73,000 (1999: £115,000) in respect of the audit of the Company.	1,162	1,534

Remuneration for taxation advice and other non audit services provided by the Company's auditors to the Company and its United Kingdom subsidiaries amounted to £586,000 (1999: £2,532,000).

16 Intangible assets and Present value of acquired in-force business

	Goodwill £m	Negative Goodwill £m	Goodwill in acquired claims provisions £m	Total £m	Present value of acquired in-force business £m
Cost					
At 1 January 2000	169	(51)	44	162	8
At 31 December 2000	169	(51)	44	162	8
Amortisation					
At 1 January 2000	18	-	-	18	-
Charged in year	14	(3)	13	24	1
At 31 December 2000	32	(3)	13	42	1
Net book value at 31 December 2000	137	(48)	31	120	7
Net book value at 31 December 1999	151	(51)	44	144	8

17 Staff

a) Staff pensions costs

The Group operates three main schemes of which the majority of employees are members. The GRE and Provincial schemes cover UK employees and are both funded defined benefit schemes, although the former has a defined contribution section. New staff join the money purchase arrangement for the period of service up to the age of 30 and have the option to join the existing defined benefit scheme for service thereafter. The AXA Ireland scheme is a funded defined benefit scheme covering the Group's employees in Ireland. The assets of these schemes are held in separate trustee administered funds.

Following a detailed review of the pension arrangements within the AXA group in the UK, the GRE and Provincial schemes were merged in the AXA UK Group Pension Scheme with effect from 31 October 2000. The Trustees of the schemes approved the merger and all members were informed in September 2000. There are no changes to benefits for the members of the merging schemes for past or future service and their benefits will be provided by new benefit sections to be created in the AXA UK Group Pension Scheme with effect from the merger date. The transfer of assets and liabilities took place throughout November 2000.

An actuarial analysis of the merging schemes, carried out by Watson Wyatt, showed that at 31 December 1999 the total assets of the merging schemes had a market value of approximately £2,600m and that the combined funding level at that date would have been 109%. The actuaries to the various schemes reviewed the position in September 2000 based on experience from the date of the initial analysis and concluded that the funding position had not altered materially at the point of merger. It was agreed that employer contributions in force at the point of merger would be maintained until a full valuation of the merged scheme is carried out on 31 March 2001.

Notes on the Financial Statements continued

The total pension cost for the Group in 2000 was £19 million (1999: £ 31million). The analysis of provisions for other risks and charges in note 11 includes an amount of £49 million (1999 £43 million) in respect of staff pension schemes.

The main assumptions adopted and details of the most recent valuations are shown below:

	GRE	AXA Provincial	AXA Ireland
Valuation date	31 March 2000	1 April 1998	31 March 1999
Actuarial Methodology	Projected unit	Projected unit	Projected unit
Key assumptions per annum			
Investment return	5.00%	8.25%	7.00%
Dividend growth	N/A	4.75%	N/A
Increase in salaries	4.00%	5.50%	3.00%
Pension payments growth	2.50%	3.75%	3.00%
Asset value as percentage of liabilities	112.2%	103.0%	207.0%
Market value of scheme assets at valuation date	£1,479.9.m	£234.7.m	£128.0.m

Pension costs and contributions are assessed in accordance with the advice of qualified actuaries who are not employees of the Group. Actuarial advice confirms that the current levels of contributions payable into each scheme, together with existing assets, are adequate to secure members' benefits over the expected remaining service lives of participating employees.

b) Staff numbers and cost

	2000 £m	1999 £m
Wages and salaries	**188**	235
Social security costs	**17**	36
Other pension costs	**19**	31
	224	302

The average weekly number of employees, including executive directors, was comprised as follows:

	2000	1999
United Kingdom insurance operations	**7,227**	7,081
United Kingdom investment and corporate centre	**70**	383
Ireland	**793**	801
Continental Europe	-	792
The Americas	-	1,016
South Africa	-	453
Asia	**99**	245
Other	**5**	9
	8,194	10,780

Notes on the Financial Statements continued

18 Share capital and share premium

a) Share capital

		2000 Authorised £m	2000 Paid-up £m	1999 Authorised £m	1999 Paid-up £m
Authorised	1,142,859,044 ordinary shares of 5.25p each and	60		60	
	931,707,318 non-cumulative redeemable preference shares of 20.5p each	191		191	
		251		251	
Issued	897,399,001(1999: 897,399,001) ordinary shares of 5.25p		47		47

b) Share premium

	£m
Balance at 1 January 2000 and 31 December 2000	83

19 a) Reserves

	Profit and loss account £m	Capital reserve £m	Other reserves £m	Total £m
Balance at 31 December 1999	1,750	104	639	2,493
Adjustment for unrealised investment gains	493	-	(493)	-
Revised balance at 31 December 1999	2,243	104	146	2,493
Transfer to profit and loss account	(147)	-	-	(147)
Exchange on translation of overseas net assets	-	-	5	5
Balance at 31 December 2000	2,096	104	151	2,351

The capital reserve represents the share premium in respect of ordinary shares of AXA Insurance plc (formerly, Guardian Royal Exchange Assurance plc) which were acquired by the Company under the Scheme of Arrangement in 1984 and acquired since that date on options being exercised to subscribe for ordinary shares under employee share option schemes.

Other reserves are non-distributable. They include the capital redemption reserve of the Company of £189m which was created in 1998 on the redemption of B shares. The balance arises from exchange gains/(losses) from the translation of overseas net assets to Sterling.

During 1999 Guardian Royal Exchange plc received £30m from the issue of shares arising from the exercise of options awarded under employee share option schemes. Of this amount £28m was paid by employees and the balance was paid by subsidiary undertakings through a Qualifying Employee Share Trust.

The adjustment to opening reserves relates to the reclassification of cumulative unrealised investment gains/(losses), net of tax. This is consistent with the recognition of gains through the profit and loss account.

The cumulative amount of goodwill written off against reserves is £199m (1999:£199m).

Notes on the Financial Statements continued

b) Company

	Profit and loss account £m	Capital Redemption Reserve £m	Total £m
Balance at 1 January 2000	284	189	473
Transfer from profit and loss account	36	-	36
Balance at 31 December 2000	320	189	509

Profit and loss reserves are all distributable.

20 Geographical Analysis of Net Assets

	2000 £m	1999 £m
United Kingdom	**811**	873
Ireland	**111**	94
	922	967
Asia	**2**	-
Others, including corporate centre	**1,414**	1,415
	2,338	2,382
Net assets of joint venture and associates	**16**	89
Intangible assets and Present value of acquired in-force business	**127**	152
	2,481	2,623

21 Contingent liabilities

With the approval of HM Treasury certain wholly owned United Kingdom subsidiaries have entered into a mutual guarantee whereby each company guarantees payment of all liabilities incurred by the others in respect of general insurance business.

22 Acquisitions & Disposals

a) Disposal of Irish Life Businesses

By an agreement dated 3 November 1999 between the Company and Royal Liver Assurance Limited("Royal Liver"), Royal Liver agreed to acquire the entire issued share capital of Caledonian Insurance Company and GRE Life Ireland, subsidiary undertakings of the Group.
This agreement was conditional, inter alia, receipt by the Royal Liver of regulatory approvals within the UK and the Republic of Ireland. These approvals were obtained, and the sale completed, on 28 April 2000. The consideration received was £76m and the profit on disposal was £56m.

b) Disposal of PPP Columbia Hospitals

On 10 May 2000 the Group's subsidiary, PPP Healthcare announced that it had reached an agreement to sell its holding in the PPP/Columbia joint venture to its partner in that joint venture, an affiliate of Columbia/HCA Healthcare Corporation, for £73m. The sale of PPP/Columbia was completed on 19 May 2000 and the sale of Harley Street Cancer Clinic was completed on 21 August 2000. The loss on disposal was £1m.

c) Disposal of Trustee Business

During 2000 the Group's subsidiary, Royal Exchange Trustee Company Limited disposed of its Corporate trusts business and Private trusts business. The consideration received and profit on disposal was £3m. The Corporate trusts business was sold to IRG plc on 7 February 2000 and the the Private trusts business to Killik & Co on 28 February 2000.

Notes on the Financial Statements continued

d) Acquisition of AXA Insurance UK plc

On 23 December 1999 AXA Insurance plc acquired AXA Insurance UK plc for £317m satisfied by the issue of 26,480,467 ordinary shares of 25p each (valued at £11.98p per share).

e) Acquisition of business from long term funds

On 1 January 1999 £313m was transferred from shareholder to policyholder funds to acquire non participating business written through Guardian Linked Life Assurance Limited and Guardian Pensions Management Limited, companies owned by the with-profit life funds of Guardian Assurance plc. The acquisition comprised in force business valued at £218m, together with investments and other life fund assets of £95m. Goodwill was nil.

f) 1999 Disposals

On 10 May 1999 the Group sold GRE-USA Corporation and Guardian Royal Exchange Holdings Inc., inclusive of debt owing to Liberty Mutual for a consideration of £896m. The loss on disposal was £74m.

On 10 May 1999 the Group sold its other overseas businesses, inclusive of debt (excluding Ireland and certain overseas branches) to AXA SA for a consideration of £919m. The major subsidiary undertaking disposed of was Albingia Versicherungs-Aktiengesellschaft and the total profit on disposal was £112m.

The Group disposed of its UK life business (excluding PPP Lifetime) to Aegon on 7 Oct 1999 for £709m and the profit on disposal was £300m.

The amount of goodwill previously eliminated against reserves in respect of the above disposals is not material.

Notes on the Financial Statements continued

23 Notes on cash flow statements

a) Reconciliation of loss before tax to net cash inflow from operating activities

	2000 £m	1999 £m
Operating loss	**(319)**	(205)
Exclude:		
Interest expense	**11**	25
Share of associates' results	**(1)**	(15)
Investment gains	**(47)**	(185)
Loss before taxation (excluding investment gains and interest)	**(356)**	(380)
Increase in insurance funds, net of reinsurance	**274**	374
Increase/(decrease) in equalisation reserves	**8**	(48)
Goodwill written off	**24**	21
Net increase/(decrease) in debtors and creditors	**80**	(592)
Depreciation and fixed asset write offs	**12**	32
Net cash inflow / (outflow) from operations	**42**	(593)

b) Purchases and sales of portfolio investments

	2000 £m	2000 £m	1999 £m	1999 £m
Purchases of ordinary and preference shares	376		1,482	
Sales of ordinary and preference shares	(650)		(1,934)	
		(274)		(452)
Purchases of fixed income securities	1,231		2,441	
Sales of fixed income securities	(1,138)		(2,392)	
		93		49
Purchases of properties	16		2	
Sales of properties	(4)		(29)	
		12		(27)
Net sales of portfolio investments		**(169)**		(430)
Increase/(decrease) in deposits with credit institutions		**67**		(216)
Movements in portfolio investments arising from cash flows		**(102)**		(646)

c) Movement in portfolio investments, net of financing

	2000 £m	2000 £m	1999 £m	1999 £m
Decrease/(increase) in cash balances	**(23)**		160	
Cash flow:				
Decrease in portfolio investments	**(102)**		(646)	
(Increase)/decrease in borrowings	**(2)**		65	
Movement arising from cash flows		**(127)**		(421)
Changes in market values and impact of exchange rate movements		**54**		27
Movement in life business balances		**(266)**		(8,622)
Acquisitions and disposals of subsidiary undertakings		**(3)**		(2,067)
Movement in portfolio investments, net of financing		**(342)**		(11,083)
Portfolio investments, net of financing, at 1 January		**4,588**		15,671
Portfolio investments, net of financing, at 31 December		**4,246**		4,588

Notes on the Financial Statements continued

d) Movement in cash, portfolio investments and financing

	At 01-Jan 2000 £m	Acquired and disposed operations £m	Cash Flow £m	Changes in Life Business £m	Changes in market values and currencies £m	At 31-Dec 2000 £m
Cash	457	-	(23)	4	-	438
Ordinary and preference shares	1,918	(3)	(274)	(123)	33	1,551
Fixed income securities	2,186	-	93	(123)	46	2,202
Properties	82	-	12	(24)	(24)	46
Deposits with credit institutions	99	-	67	-	-	166
Loans due within one year	(7)	-	(2)	-	-	(9)
Loans due later than one year	(147)	-	-	-	(1)	(148)
	4,588	(3)	(127)	(266)	54	4,246

e) Disposal of subsidiaries

	£m
Net assets disposed of:	
Portfolio investments	3
Technical provisions	-
Other net assets	10
Profit on disposal	58
Cash inflow in respect of disposal of subsidiaries, net of expenses	71

24 Fully diluted earnings per share

The fully diluted earnings per share is based on a loss of £147m (1999: profit of £123m) and on a weighted average of 897,399,001 ordinary shares (1999: 898,778,601). This makes full allowance for all dilutive shares outstanding under the various share option schemes.

25 Guardian Royal Exchange plc

a) Profit for the year

The profit attributable to shareholders which was dealt with in the profit and loss account of Guardian Royal Exchange plc for the year ended 31 December 2000, including paid and proposed dividends from subsidiaries, was £36m (1999: £252m). As permitted by section 230 of the Companies Act 1985, the profit and loss account of the Company is not included in these accounts.

b) Investments

Shares in subsidiary undertakings	£m
Balance as at 1 January 2000	1,103
Reductions represent the write down of carrying value of Medical & Industrial Services Ltd to net asset value	(8)
Balance as at 31 December 2000	1,095

26 Claims Reserves Strengthening

On 10 May 1999, the acquisition of GRE by AXA UK plc (formerly, Sun Life and Provincial Holdings plc) was declared unconditional in all respects. As a result of this technical provisions for general insurance business were increased following a detailed actuarial review.

As a result of further external actuarial reviews in 2000 technical provisions, for business written in prior years, were increased by £235m and £74m in the UK and Ireland respectively. The UK strenghtening related to motor, household, employers and public liability whilst the increases in Ireland principally related to motor

27 Directors' Emoluments

	2000 £	1999 £
Non-executive directors		
Fees	-	124,191
Executive directors		
Salaries and other emoluments	**414,345**	1,138,121
Contributions to money purchase pension schemes	-	71,341
Gains arising from the exercise of share options	**100,625**	1,728,164
Gains arising under long term incentive plan	**318,438**	-
	833,408	3,061,817

Amounts attributable to the highest paid director

Aggregate emoluments, including share option gains of £100,625 (1999: £541,440)	**833,408**	652,842
Accrued pension at end of year	**26,583**	135,112

Notes:

i) No fees waived in 2000 or 1999.
ii) In 2000, only one director received remuneration in respect of services to the Company and its subsidairies.
iii) Payments totalling £1,855,962 were made to 5 directors as compensation for loss of office in 1999.
iv) Remuneration, pension and incentive plan details in respect of Messrs Wood, Haste, Homer and Roberts are provided in the accounts of the immediate parent company, AXA UK plc.

28 Ultimate parent

In the opinion of the directors, the Company's ultimate parent and controlling company is AXA, a company incorporated in France. The parent undertaking of the smallest and largest group which includes the Company and for which group financial statements are prepared is AXA. Copies of the group financial statements of AXA are available from that company at 23 avenue Matignon, 75008, Paris, France.

Notes on the Financial Statements continued

29 Related Parties

Reinsurance arrangements

Reinsurance arrangements with other AXA Group companies comprise the ceding of certain general and life business written by the Group to other members of AXA and inward reinsurance under arms length reinsurance arrangements. The amounts of gross written premium ceded were £14m (1999 - £52m).

Group services

AXA Group companies provided advice to the Company and its subsidiaries, on such matters as human resources, training, communications, treasury, mergers and acquisitions and IT advice. The charge to the Company and its subsidiaries for these services is calculated on an arms-length basis and is subject to the approval of the independent non-executive directors of the intermediate parent company AXA UK plc. The cost incurred, or provided for, in 2000 amounted to £6m (1999 - £1m).

Notes on the Financial Statements continued

30 Group Companies

	Country of incorporation	Holdings of ordinary shares	
Insurance Companies			
AXA Insurance plc	England	84.87%	(Parent)
AXA Insurance UK plc	England	100%	
The Royal Exchange Assurance	England	100%	
Atlas Assurance Company Limited	England	100%	
AXA Direct Insurance Limited	England	100%	
Guardian Health Limited	England	100%	
AXA General Insurance Limited	England	100%	
Orion Personal Insurances Limited	England	100%	
AXA PPP healthcare limited	England	100%	
PPP lifetime care plc	England	100%	
AXA PMPA Insurance Limited	Ireland	100%	
Other Companies			
Bruton Property Holdings Limited	England	100%	(Parent)
Denplan Limited	England	100%	
Guardian Investment Holdings Limited	England	100%	(Parent)
Guardian Asset Management Limited	England	100%	
Guardian Properties Limited	England	100%	
AXA Services Limited	England	100%	(Parent)
The Metropolitan Trust Company Limited	England	100%	
AXA PPP healthcare group plc	England	100%	
PPP Healthcare Administration Services Limited	England	100%	
Royal Exchange Trust Company Limited	England	100%	
AXA Holdings Ireland Limited	Ireland	100%	
AXA Ireland Limited	Ireland	100%	
Guardian Royal Exchange International (Holdings) B.V.	Netherlands	100%	

Notes:

1 The country of principal operation for each of the above companies is the country of incorporation.

2 Information regarding other subsidiaries is submitted with the annual return.

3 All holdings of ordinary shares are held by a subsidiary unless otherwise stated.