Registered Number 2561344

# PPP LIFETIME CARE PLC

**Directors' Report and Financial Statements for the**

**year ended 31 December 2000**



Registered office: 107 Cheapside, London EC2V 6DU

**DIRECTORS**

Mr. A. K. Haste (Chairman)
Mrs. B. A. Reilly (Managing Director)
Mr. R. E. Lee
Mr. S.W. Lowther
Mr. P. J. Shelley

**APPOINTED ACTUARY**

S. P. Laurie

**SECRETARY**

I. D. Richardson

**AUDITORS**

PricewaterhouseCoopers

# DIRECTORS' REPORT

The Directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2000.

## REVIEW OF ACTIVITIES

The Company develops and markets long-term insurance products.

On the 1 April 2000, the Stratford office was closed and operations were moved to Bristol.

The overall financial position at the end of the year was satisfactory and the Directors expect that the present level of activity will continue for the foreseeable future.

## DIVIDENDS

Two interim dividends totalling £323.4 million were declared during the year (1999: £11.5 million). The Directors do not recommend the payment of a final dividend for the year (1999: £nil).

## DIRECTORS

The Directors of the Company at the date of this report are shown on page 1.

Mr. D. W. W. Torrance, Mr. J. V. F. Roberts and Mr. G. M. Wood resigned as directors on 7 July 2000, 31 July 2000 and 21 February 2001 respectively. Mr. R. E. Lee, Mr. S. W. Lowther and Mr. P. J. Shelley were appointed Directors on 2 May 2001.

## DIRECTORS' INTERESTS

According to the register of directors' interests, the interests of Directors in the share capital and debentures of the Company, its ultimate holding company (AXA) or subsidiaries of the ultimate holding company are as follows:

Interests in Shares and Units

| | **AXA SA Shares of €9.15 each** | |
|---|---|---|
| | At 1 January 2000 | At 31 December 2000 |
| Mrs. B. A. Reilly | - | 242.63 |

## DIRECTORS' INTERESTS (continued)

Interests in Options

**AXA SA**

| | At 1 January 2000 Options to subscribe for Shares | During year Options granted | During year Options exercised | At 31 December 2000 Options to subscribe for Shares |
|---|---|---|---|---|
| Mrs. B. A. Reilly | - | 941 | - | 941 |
| " | - | 10.03* | - | 10.03* |

The options outstanding at 31 December 2000 are exercisable at any time between 5 July 2002 and 11 July 2010 at a price of either €163.84 or €164.22 per share. Certain options (marked *) granted during the year, following a Scheme of Arrangement under which AXA UK plc became a wholly-owned subsidiary of AXA on 12 July 2000, are exercisable at any time between 12 July 2002 and 12 August 2002 at an aggregate price of £1.

**AXA UK plc**

| | At 1 January 2000 Options to subscribe for Ordinary Shares | During year Options exercised | During year Options lapsed | At 31 December 2000 Options to subscribe for Ordinary Shares |
|---|---|---|---|---|
| Mrs. B. A. Reilly | 5,400 | - | 5,400 | - |

As permitted by Statutory Instrument, the register of directors' interests does not include the interests of the following Directors as such interests are disclosed in the Directors' Reports of the following companies, which are parent companies of the Company.

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

Directors not referred to above had no disclosable interests

## PAYMENT OF CREDITORS

All trade purchases are dealt with through AXA Sun Life Services plc.

## AUDITORS

A resolution to reappoint the retiring auditors, PricewaterhouseCoopers, and to authorise the Directors to determine their remuneration will be proposed at the Annual General Meeting.

By Order of the Board

**I. D. Richardson**
Secretary

18th June 2001

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

## DIRECTORS' RESPONSIBILITIES

The following statement is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditors in relation to the financial statements.

The responsibilities of the auditors are set out in the audit report on page 6.

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which show a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for that period.

The Directors consider that in preparing the financial statements on pages 7 to 29, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards, which they consider to be applicable, have been followed. The Directors are required to be satisfied that it is appropriate to prepare financial statements on a going concern basis.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The Directors have responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

## AUDITORS' REPORT TO THE MEMBERS OF PPP LIFETIME CARE PLC

We have audited the financial statements on pages 7 to 29, which have been prepared in accordance with the accounting policies set out on pages 12 to 15.

### Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 5, 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 view 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 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 misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 December 2000 and of its profit 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
18th June 2001

# PPP LIFETIME CARE PLC

## PROFIT AND LOSS ACCOUNT
## TECHNICAL ACCOUNT - LONG TERM BUSINESS
## FOR THE YEAR ENDED 31 DECEMBER 2000

| | Notes | 2000 £000 | 2000 £000 | 1999 Restated £000 | 1999 Restated £000 |
|---|---|---|---|---|---|
| **Earned premiums, net of reinsurance** | | | | | |
| Gross premiums written | 2 | **69,979** | | 91,592 | |
| Outward reinsurance premiums | | **(8,110)** | | (7,796) | |
| | 3 | | **61,869** | | 83,796 |
| **Investment income** | 4 | | **6,164** | | 5,457 |
| **Unrealised gains on investments** | | | **3,016** | | - |
| **Other technical income, net of reinsurance** | | | **-** | | 12 |
| **Claims incurred, net of reinsurance** | | | | | |
| Claims paid | | | | | |
| Gross amount | | **(53,848)** | | (63,655) | |
| Reinsurers' share | | **2,068** | | 1,496 | |
| | | **(51,780)** | | (62,159) | |
| Change in the provision for outstanding claims | | | | | |
| Gross amount | | **(57)** | | (20) | |
| Reinsurers' share | | **(4)** | | 10 | |
| | | **(61)** | | (10) | |
| **Claims incurred, net of reinsurance** | | | **(51,841)** | | (62,169) |
| **Change in other technical provisions, net of reinsurance** | | | | | |
| Long term business provisions, net of reinsurance | | | | | |
| Gross amount | | **(11,919)** | | (6,167) | |
| Reinsurers' share | | **10,539** | | 2,401 | |
| | | **(1,380)** | | (3,766) | |
| Technical provisions for linked liabilities | | **(11,677)** | | (12,719) | |
| | | | **(13,057)** | | (16,485) |
| **Net operating expenses** | 5 | | **(9,618)** | | (14,456) |
| **Investment expenses and charges** | 6 | | **(115)** | | (480) |
| **Unrealised losses on investments** | | | **-** | | (1,801) |
| **Tax attributable to the long-term business** | 12 | | **1,431** | | 1,882 |
| **Balance on the long-term business technical account** | | | **(2,151)** | | (4,244) |

All of the above amounts are in respect of continuing operations.

The information on pages 12 to 29 form an integral part of these financial statements.

**PPP LIFETIME CARE PLC**

**PROFIT AND LOSS ACCOUNT**
**NON-TECHNICAL ACCOUNT**
**FOR THE YEAR ENDED 31 DECEMBER 2000**

| | Notes | 2000 £000 | 1999 Restated £000 |
|---|---|---|---|
| **Balance on the long-term business technical account** | | (2,151) | (4,244) |
| Tax attributable to the long-term business technical account | 12 | (1,431) | (1,882) |
| **Shareholders' pre-tax loss from long-term business** | | (3,582) | (6,126) |
| Investment income | 4 | 4,339 | 17,139 |
| Unrealised gains on investments | | 71 | - |
| Investment expenses and charges | 8 | (96) | - |
| Unrealised losses on investments | | - | (399) |
| Other income | 9 | 9,707 | 438 |
| Other charges | 10 | (141) | (1,154) |
| Exceptional item – Profit on disposal of subsidiaries | 11 | - | 59,495 |
| **Profit on ordinary activities before tax** | | 10,298 | 69,393 |
| Tax on profit on ordinary activities | 12 | (2,701) | (16,691) |
| **Profit on ordinary activities after tax** | | 7,597 | 52,702 |
| Dividends | 13 | (323,400) | (11,500) |
| **Retained (loss)/profit for the financial year** | | (315,803) | 41,202 |

All of the above amounts are in respect of continuing operations.

The Company had no recognised gains and losses during the year other than those recognised in the above profit and loss account.

The information on pages 12 to 29 form an integral part of these financial statements.

# PPP LIFETIME CARE PLC

## RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS FOR THE YEAR ENDED 31 DECEMBER 2000

| | **2000** | 1999 |
|---|---|---|
| | **£000** | £000 |
| Capital contribution received | **-** | 313,400 |
| Profit for the financial year | **7,597** | 41,202 |
| Dividends | **(323,400)** | - |
| Net (decrease)/increase to shareholders' funds | **(315,803)** | 354,602 |
| Shareholders' funds at 1 January | **372,606** | 18,004 |
| **Shareholders' funds at 31 December** | **56,803** | 372,606 |

The information on pages 12 to 29 form an integral part of these financial statements.

## PPP LIFETIME CARE PLC

## BALANCE SHEET
## AT 31 DECEMBER 2000

| | Notes | 2000 | | 1999 | |
|---|---|---|---|---|---|
| **Assets** | | **£000** | **£000** | £000 | £000 |
| **Investments** | | | | | |
| Land and buildings | 16 | - | | 1,150 | |
| Other financial investments | 17 | 122,911 | | 85,804 | |
| | | | 122,911 | | 86,954 |
| **Assets held to cover linked liabilities** | 18 | | 67,336 | | 55,659 |
| **Reinsurers' share of technical provisions** | | | | | |
| Long term business provision | | 50,360 | | 39,821 | |
| Claims outstanding | | 7 | | 11 | |
| Technical provision for linked liabilities | | 11,162 | | 8,839 | |
| | | | 61,529 | | 48,671 |
| **Debtors** | | | | | |
| Debtors arising out of direct insurance operations | 19 | 10,572 | | 11,964 | |
| Debtors arising out of reinsurance operations | | 1,031 | | 1,051 | |
| Other debtors | 20 | 384 | | 316,346 | |
| | | | 11,987 | | 329,361 |
| **Other assets** | | | | | |
| Tangible assets | 16 | - | | 173 | |
| Cash at bank and in hand | | 7,789 | | 64,762 | |
| | | | 7,789 | | 64,935 |
| **Prepayments and accrued income** | | | | | |
| Accrued interest and rent | | 1,323 | | 1,204 | |
| Deferred acquisition costs | | 2,339 | | 2,401 | |
| Other prepayments and accrued income | | - | | 15 | |
| | | | 3,662 | | 3,620 |
| **Total assets** | | | 275,214 | | 589,200 |

The information on pages 12 to 29 form an integral part of these financial statements.

## PPP LIFETIME CARE PLC

## BALANCE SHEET
## AT 31 DECEMBER 2000 (CONTINUED)

| | Notes | 2000 | | 1999 | |
|---|---|---|---|---|---|
| **Liabilities** | | **£000** | **£000** | £000 | £000 |
| **Capital and reserves** | | | | | |
| Called up share capital | 21 | **46,500** | | 46,500 | |
| Other reserves | 22 | - | | 313,400 | |
| Profit and loss account | 22 | **10,303** | | 12,706 | |
| Shareholders' funds - equity interests | | | **56,803** | | 372,606 |
| **Technical provisions** | | | | | |
| Long term business provision | 23 | **127,758** | | 115,839 | |
| Claims outstanding | | **79** | | 22 | |
| | | | **127,837** | | 115,861 |
| **Technical provision for linked liabilities** | 23 | | **78,498** | | 64,498 |
| **Provisions for other risks and charges** | | | | | |
| Provisions for pensions and similar obligations | 15 | **650** | | 615 | |
| Other provisions | 24 | **4,010** | | 6,798 | |
| | | | **4,660** | | 7,413 |
| **Creditors** | | | | | |
| Creditors arising out of direct insurance operations | | **441** | | 473 | |
| Creditors arising out of reinsurance operations | | **2,769** | | 2,457 | |
| Other creditors including taxation | 25 | **4,110** | | 25,253 | |
| | | | **7,320** | | 28,183 |
| **Accruals and deferred income** | | | **96** | | 639 |
| **Total liabilities** | | | **275,214** | | 589,200 |

The financial statements were approved by the Board on 18th June 2001and signed on its behalf by

**S. W. Lowther**
Director

The information on pages 12 to 29 form an integral part of these financial statements.

## 1. ACCOUNTING POLICIES

The principal accounting policies are set out below.

**Basis of presentation**

The financial statements have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985, which cover the disclosures applicable to insurance companies.

The financial statements have also been prepared in accordance with applicable UK accounting standards and with the Association of British Insurers' Statement of Recommended Practice on Accounting for Insurance Business ("ABI SORP") dated December 1998. Compliance with Statement of Accounting Practice ("SSAP") 19 "Accounting for Investment Properties" requires departure from the requirements of the Companies Act 1985 relating to depreciation and an explanation of the departure in the accounting policy note relating to investments below.

Under Financial Reporting Standard 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a subsidiary undertaking of an ultimate parent which produces a consolidated cash flow statement.

**Changes in accounting policies**

Following implementation of FRS16 'Current Tax', investment income is no longer grossed up to include tax credits on franked investment income. Prior year figures have been restated accordingly and the effect of this change in accounting policy is disclosed in notes 4 and 11. This change has no impact on the profit after tax for either the current or previous year.

**Premium income**

All premiums, including reinsurance premiums, other than those in respect of unit-linked policies, are accounted for when due. Premiums in respect of unit-linked policies are accounted for in the same period as the policy liabilities, resulting from those premiums, are created.

**Claims and surrenders**

Claims incurred comprise claims and related expenses charged in the year together with the change in provision for outstanding claims and their related expenses. Death or critical illness claims, other than those in respect of unit linked policies, are accounted for in the period of notification.

Those in respect of unit-linked business are accounted for in the period that the policy ceases to hold units in the fund. Maturity claims are recognised on the date the policy matures and regular healthcare claims from the due date of the relevant payment.

Surrenders and medical insurance claims are accounted for when paid.

Provision for claims notified but not yet admitted is held within the long-term business provision.

## 1. ACCOUNTING POLICIES (continued)

**Investment return**

Investment income and expenses include dividends, interest, rents, gains and losses on the realisation of investments, and related expenses. Dividends are recognised on the date on which shares are quoted ex-dividend. Shareholder investment income and expenses are recognised in the non-technical account. Investment income and expenses of the long term insurance business fund are recognised in the technical account.

Investment income is accounted for on an accruals basis.

Unrealised gains and losses on investments represent the difference between the valuation of the investments (including land and buildings) at the balance sheet date and their original cost. The unrealised gains and losses attributed to long-term business or held to cover linked liabilities are included in the technical account. Other unrealised gains and losses are included in the non-technical account.

Expenses incurred and interest payable in the management of investments are dealt with on an accruals basis.

**Investments**

Investments are stated at mid-market value for listed securities, open market valuations as appraised by professionally qualified staff for properties, bid price for unit trusts and Directors' valuations for other investments.

Land and buildings are stated at open market value as determined by qualified surveyors, who are either independent or employed by the Company.

Under the Companies Act 1985, land and buildings are required to be depreciated over their expected useful economic lives. In respect of investment properties this requirement conflicts with the generally accepted accounting principle set out in SSAP 19, that no depreciation should be provided in respect of such investments. The Directors consider that to depreciate the investment properties would not give a true and fair view and accordingly the provisions of SSAP 19 have been adopted. It is considered that if depreciation was charged it would not be significant on the basis of expected future residual values.

In respect of freehold properties occupied by the Company, the Directors consider that the lives of these assets and their residual values (based on prices prevailing at the time of acquisition or subsequent valuation) are such that their depreciation is insignificant and is thus not provided.

## 1. ACCOUNTING POLICIES (continued)

### Acquisition costs and their deferral

The direct and indirect costs of acquiring new business which relate to subsequent accounting periods are deferred to the extent that they are recoverable out of future revenue margins and are amortised in accordance with the pattern of revenue margins on the associated contracts. The unamortised balance of deferred acquisition costs is shown as an asset gross of tax on the balance sheet.

### Long-term business provision

The long-term business provision is computed by a Fellow of the Institute of Actuaries having due regard for the actuarial principles laid down in the Life Framework Directive (Council Directive 92/96/EEC). The provision is adjusted to reflect the modified statutory solvency basis.

In general a discounted cashflow method is employed using a multiple state model. This involves estimating the number of persons insured in each state (e.g. healthy, disabled or deceased) using transition rates derived from industry or UK data. Each in-force policy is projected using the model and the reserves are set so as to eliminate any negative cashflows. There are also two small classes of business, now closed to new business, for which a net premium valuation is employed.

A long term employee healthcare (LTEH) product was launched in 1996, providing group private medical insurance cover for employees. Premium rates are not guaranteed, though expense charges are guaranteed for 3 years. Provisions for this product comprise principally a provision for outstanding claims and a reserve for the unearned premium. Margins are included to allow for the risks associated with the business.

The valuation interest rate used is based on the yield of invested assets adjusted in accordance with the Insurance Companies Regulations 1994, together with prudent assessment of future experience of morbidity, mortality and expense inflation.

Actual renewal expenses currently exceed the assumptions used in assessing the long term business provision. The assumptions are based on a long term assessment of direct and overhead renewal costs. Allowance is made for future inflation.

## 1. ACCOUNTING POLICIES (continued)

### Depreciation

The cost or valuation of tangible assets is written off on a straight line basis over their estimated useful lives at the following rates:

| | % |
|---|---|
| Investments: | |
| Freehold land and buildings | Nil |
| | |
| Tangible assets: | |
| Motor vehicles | 25 |
| | |
| Office equipment, furniture and carpets, | |
| Plant in rented accommodation and computers | 10 to 33 |

### Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred taxation is calculated on the liability basis and is provided only where it is considered likely that a liability will arise in the foreseeable future.

The balance transferred from the long term business technical account to the non technical account is grossed up at the Shareholders' corporation tax rate applicable, being an approximation of the effective rate.

### Operating leases

Rental costs under operating leases are charged to the profit and loss technical account as incurred over the lease term.

### Pension Costs

The amount charged to the profit and loss account is the estimated 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.

## 2. GROSS WRITTEN PREMIUMS AND REINSURANCE BALANCE

All premiums are in respect of business written in the United Kingdom and relate to non-participating contracts.

| | **2000** | 1999 |
|---|---|---|
| | **£000** | £000 |
| Direct Business | | |
| Group business – periodic premiums: | | |
| Long Term Employee Healthcare | **35,606** | 59,654 |
| Other | **-** | 12 |
| Individual business | | |
| Single premiums | **21,761** | 20,328 |
| Periodic premiums | **12,581** | 11,575 |
| Total direct premiums written | **69,948** | 91,569 |
| Inwards reinsurance | **31** | 23 |
| Gross premium income | **69,979** | 91,592 |

The gross annualised value of new annual premiums and the amount of new single premiums are as follows:

| | **2000** | 1999 |
|---|---|---|
| **Periodic premiums** | **£000** | £000 |
| Direct business | | |
| Individual business | **857** | 1,598 |

| | **2000** | 1999 |
|---|---|---|
| **Single premiums** | **£000** | £000 |
| Direct business | | |
| Individual business | **21,761** | 20,328 |

Reinsurance balance amounted to a charge to the long term business account of £7,296,000 (1999: credit of £424,000)

## 3. SEGMENTAL ANALYSIS

| | Long Term Care | | Long Term Employee Healthcare | | Total | |
|---|---|---|---|---|---|---|
| | **2000** | 1999 | **2000** | 1999 | **2000** | 1999 |
| | **£000** | £000 | **£000** | £000 | **£000** | £000 |
| Net premium income | **26,263** | 24,142 | **35,606** | 59,654 | **61,869** | 83,796 |
| Net claims | **(8,201)** | (5,351) | **(43,640)** | (56,818) | **(51,841)** | (62,169) |
| Operating expenses | **(7,215)** | (10,628) | **(2,403)** | (3,828) | **(9,618)** | (14,456) |
| Movement in technical provision | **(24,807)** | (17,609) | **11,750** | 1,124 | **(13,057)** | (16,485) |
| Underwriting result | **(13,960)** | (9,446) | **1,313** | 132 | **(12,647)** | (9,314) |
| Investment income & unrealised gains net of investment expenses | | | | | **13,440** | 19,212 |
| Profit on disposal of subsidiary undertakings | | | | | **-** | 59,495 |
| Interest on loan to parent company (note 9) | | | | | **9,505** | - |
| Profit on ordinary activities before taxation | | | | | **10,298** | 69,393 |

## 3. SEGMENTAL ANALYSIS (Continued)

| | Long Term Care | | Long Term Employee Healthcare | | Total | |
|---|---|---|---|---|---|---|
| | **2000** | 1999 | **2000** | 1999 | **2000** | 1999 |
| | **£000** | £000 | **£000** | £000 | **£000** | £000 |
| Long term business provision-gross amount | **119,273** | 95,603 | **8,485** | 20,236 | **127,758** | 115,839 |
| Technical provision for linked liabilities-gross amount | **78,498** | 64,498 | - | - | **78,498** | 64,498 |
| Reinsurers' share of long term business provision | **(61,522)** | (48,660) | - | - | **(61,522)** | (48,660) |
| Net long term business provision | **136,249** | 111,441 | **8,485** | 20,236 | **144,734** | 131,677 |

The Long Term Employee Healthcare product is a long term medical insurance product, which covers corporate employees. As a long term product, it is underwritten by PPP Lifetime Care plc and administered by PPP Healthcare limited.

The Long Term Care product is a long term insurance product which covers individuals.

## 4. INVESTMENT INCOME

| | Technical Account | | Non-technical Account | |
|---|---|---|---|---|
| | **2000** | 1999 Restated | **2000** | 1999 Restated |
| | **£000** | £000 | **£000** | £000 |
| Income from other financial investments | **6,087** | 5,457 | **4,087** | 5,633 |
| Gains on realisation of investments | **77** | - | - | 6 |
| Realised gains on sale of property | - | - | **252** | - |
| Income from subsidiary undertakings | - | - | - | 231,400 |
| Write down of investment in subsidiary undertakings | - | - | - | (219,900) |
| | **6,164** | 5,457 | **4,339** | 17,139 |
| The above figures include: | | | | |
| Income from listed investments | **5,228** | 4,967 | **247** | 1,511 |

## 4. INVESTMENT INCOME (continued)

The provisions of FRS 16 'Current Tax' have been adopted and the 1999 figures restated accordingly. UK dividend income is no longer grossed up by the amount of the attributable tax credits. The restatement reduced the income in respect of other investments in the technical account and non-technical account by £85,000 and £6,000 respectively. There is, however, no impact on profit after tax in either the current or prior year

## 5. NET OPERATING EXPENSES

| | Technical Account | |
|---|---|---|
| | **2000** | 1999 |
| | **£000** | £000 |
| Acquisition costs | **6,088** | 8,737 |
| Change in deferred acquisition costs | **62** | (701) |
| Administrative expenses | **4,535** | 4,936 |
| Exceptional item – Reorganisation costs (note 24) | **(586)** | 2,963 |
| | **10,099** | 15,935 |
| Reinsurance commissions | **(481)** | (1,479) |
| Net operating expenses | **9,618** | 14,456 |

## 6. INVESTMENT EXPENSES AND CHARGES

| | Technical Account | |
|---|---|---|
| | **2000** | 1999 |
| | **£000** | £000 |
| Investment management expenses | **106** | 86 |
| Bank interest | **9** | 15 |
| Losses on realisation of investments | **-** | 379 |
| | **115** | 480 |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 7. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

| | **2000** | 1999 |
|---|---|---|
| | **£000** | £000 |
| Profit on ordinary activities before tax is stated after charging: | | |
| Depreciation of tangible assets | **63** | 357 |
| Operating lease rentals | | |
| Motor vehicles and office equipment | **63** | 331 |
| Land and Buildings | **21** | 77 |
| Auditors remuneration | | |
| Audit fees | **69** | 45 |
| Other services | **25** | 6 |
| Commissions payable in respect of direct insurance business | **3,241** | 4,113 |

### 8. INVESTMENT EXPENSES AND CHARGES

| | **Non-technical Account** | |
|---|---|---|
| | **2000** | 1999 |
| | **£000** | £000 |
| Bank interest | **55** | - |
| Losses on realisation of investments | **41** | - |
| | **96** | - |

### 9. OTHER INCOME

| | **2000** | 1999 |
|---|---|---|
| | **£000** | £000 |
| Charges in respect of the use of assets owned by the shareholders | **84** | 438 |
| Interest on loan to parent company | **9,505** | - |
| Interest on tax repayments | **118** | - |
| | **9,707** | 438 |

On 21 December 1999, the Company made a loan of £310m to its parent company, AXA Insurance plc. The interest rate on the loan was 6 month LIBOR plus 0.25% per annum. The loan matured on 21 June 2000.

NOTES TO THE FINANCIAL STATEMENTS (continued)

## 10. OTHER CHARGES

| | 2000 £000 | 1999 £000 |
|---|---|---|
| Depreciation (note 16) | **63** | 357 |
| Loss/( profit) on disposal of fixed assets | **78** | (3) |
| Amortisation of investment in subsidiary undertakings | - | 800 |
| | **141** | 1,154 |

## 11. EXCEPTIONAL ITEM

The exceptional item in 1999 relates to the profit on the disposal of the two subsidiary undertakings, Guardian Linked Life Assurance plc and Guardian Pensions Management Limited. On 7 October 1999, both subsidiaries were sold to Aegon (UK) plc for consideration of £378.8m. The net book value of the subsidiaries at the date of disposal was £311.6m. Costs of £7.7m were incurred as a result of the sale.

## 12. TAXATION

| | Technical Account | | Non-technical Account | |
|---|---|---|---|---|
| | **2000** | 1999 Restated | **2000** | 1999 Restated |
| | **£000** | £000 | **£000** | £000 |
| UK corporation tax | **1,431** | 1,882 | **(2,701)** | (2,210) |
| UK corporation tax - prior year adjustment | - | - | - | 3,121 |
| UK corporation tax relating to the profit on disposal of subsidiary undertakings | - | - | - | (17,026) |
| Deferred tax | - | - | - | (576) |
| | **1,431** | 1,882 | **(2,701)** | (16,691) |

UK corporation tax shown under the technical account is charged on the basis applicable to life assurance companies. Corporation tax in the technical and non-technical accounts has been charged at a rate of 30% (1999: 30.25%).

The provisions of FRS 16 'Current Tax' have been adopted and the 1999 figures restated accordingly. The restatement reduced the total tax charge in the technical account and non-technical account by £85,000 and £6,000 respectively. There is, however, no impact on profit after tax in either the current or prior year.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 13. DIVIDENDS

| Equity ordinary | 2000<br>£000 | 1999<br>£000 |
|---|---|---|
| Interim dividends paid | 323,400 | 11,500 |

### 14. REMUNERATION OF DIRECTORS AMD EMPLOYEES

The aggregate costs charged to the technical account for the period to 31 March 2000 (year to 31 December 1999) were:

| | 2000<br>£000 | 1999<br>£000 |
|---|---|---|
| Wages and salaries | 879 | 4,078 |
| Social security costs | 86 | 361 |
| Other pension costs | 59 | 275 |
| | 1,024 | 4,714 |

The aggregate of Directors' emoluments, excluding pension contributions amounted to £151,193 (1999:£169,909).

The pension arrangements of the Directors employed by the Company are as follows:

| | 2000 | 1999 |
|---|---|---|
| Defined benefit arrangement | 1 | 1 |

The emoluments of the highest paid Director, excluding pension contributions, amounted to £151,193 (1999: £164,909).

From 1 April 2000, following the closure of the Stratford upon Avon office, the costs of staff are borne by AXA Sun Life Services plc ("ASLS"). ASLS levies management fees on the Company based upon standard rates and volumes of business processed. It is not therefore possible to identify separately the amounts of staff costs within the management fees levied since that date. Staff costs are disclosed within the accounts of ASLS.

## 15. PENSION COSTS

Pension benefits are provided either through the GRE pension fund or through the AXA Sun Life Holdings pension fund, both of which are defined benefit arrangements.

Following a detailed review of the pension arrangements within the AXA UK group, all group pension funds 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. 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.

Particulars of the most recent valuation and the main assumptions adopted are set out in the accounts of AXA UK plc (formerly Sun Life and Provincial Holdings plc).

The total pension cost borne by the Company for the first three months of 2000 was £56,681 (full year 1999: £274,777). As from 1 April 2000, all staff were employed by AXA Sun Life Services plc("ASLS") which levies management fees on the Company based on volumes of business processed. It is not therefore possible to segregate pension costs from other charges levied by ASLS since that date.

A provision of £650,000 (1999: £615,461) is included in provisions for other risks and charges, being the excess of pension costs over contributions actually paid to the schemes.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 16. TANGIBLE ASSETS AND INVESTMENTS

| | Tangible assets Office Equipment, Computers, Fixtures and Fittings £000 | Investments Land and Buildings £000 | Total £000 |
|---|---|---|---|
| **Cost or Valuation** | | | |
| 1 January 2000 | 2,651 | 1,150 | 3,801 |
| Disposals | (2,651) | (1,150) | (3,801) |
| 31 December 2000 | - | - | - |
| **Depreciation** | | | |
| 1 January 2000 | 2,478 | - | 2,478 |
| Charge for the year | 63 | - | 63 |
| Disposals | (2,541) | - | (2541) |
| 31 December 2000 | - | - | - |
| **Net Book Value** | | | |
| 31 December 2000 | - | - | - |
| 31 December 1999 | 173 | 1,150 | 1,323 |

All fixed assets were disposed of during the year.

### 17. INVESTMENTS

| | Market Value | | Purchase Price | |
|---|---|---|---|---|
| | **2000 £000** | 1999 £000 | **2000 £000** | 1999 £000 |
| Shares and other variable yield securities and units in unit trusts listed in UK | **2,113** | 2,170 | **1,276** | 1,291 |
| Debt securities and other fixed income securities listed in UK | **64,503** | 67,159 | **60,565** | 62,364 |
| Deposits with credit institutions | **56,295** | 16,000 | **56,295** | 16,000 |
| Other: Unlisted in UK | - | 475 | - | 418 |
| | **122,911** | 85,804 | **118,136** | 80,073 |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 18. ASSETS HELD TO COVER LINKED LIABILITIES

| | 2000 £000 | 1999 £000 |
|---|---|---|
| Market value | **67,336** | 55,659 |
| Purchase price | **59,900** | 50,859 |

These consist of a portfolio of quoted authorised UK unit trusts, index linked gilts, conventional gilts and cash deposits.

### 19. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

| | 2000 £000 | 1999 £000 |
|---|---|---|
| Amounts owed by policyholders | **10,335** | 11,604 |
| Amounts owed by intermediaries | **237** | 360 |
| | **10,572** | 11,964 |

### 20. OTHER DEBTORS

| | 2000 £000 | 1999 £000 |
|---|---|---|
| Amounts owed by group undertakings | **370** | 313,942 |
| Other debtors | **14** | 2,404 |
| | **384** | 316,346 |

On 21 December 1999, the Company made a loan of £310 million to its parent company, AXA Insurance plc. The loan matured on 21 June 2000.

### 21. CALLED UP SHARE CAPITAL

| | 2000 £000 | 1999 £000 |
|---|---|---|
| **Authorised** | | |
| 65,000,000 shares (1999: 65,000,000) | **65,000** | 65,000 |
| **Allotted, called up and fully paid** | | |
| 46,500,000 shares (1999: 46,500,000) | **46,500** | 46,500 |

## 22. RECONCILIATION OF MOVEMENTS IN CAPITAL AND RESERVES

| | Share Capital | Capital Contribution | Profit and Loss Account | Total |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| At 1 January 2000 | 46,500 | 313,400 | 12,706 | **372,606** |
| Transfer to profit and loss | - | (313,400) | 313,400 | - |
| Retained loss for the financial year | - | - | (315,803) | **(315,803)** |
| At 31 December 2000 | **46,500** | - | **10,303** | **56,803** |

## 23. LONG-TERM BUSINESS PROVISION – KEY ASSUMPTIONS

A summary of the principal assumptions underlying the long-term business provision is given below:

**Assumptions at 31 December 2000**

| | |
|---|---|
| Morbidity - inception rates<br>- termination rates | Internal table based on OPCS data |
| Mortality | Based on IM80/IF80 (2010) |
| Valuation rate of interest | 3.90% - regular premiums<br>4.55% - single premiums<br>1.40% - regular premiums index linked<br>1.70% - single premiums index linked |
| Renewal expenses: | |
| -in deferment | £40.15 per annum average |
| -inflation | 3.75% |

Further provision has been made for guarantees (where appropriate) and claims expenses.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 23. LONG-TERM BUSINESS PROVISION – KEY ASSUMPTIONS (continued)

**Assumptions at 31 December 1999**

| | |
|---|---|
| Morbidity - inception rates<br>- termination rates | Internal table based on OPCS data |
| Mortality | Based on IM80/IF80 (2010) |
| Valuation rate of interest | 4.95% - regular premiums<br>5.05% - single premiums<br>1.45% - regular premiums<br>1.65% - single premiums index linked |
| Renewal expenses: | |
| -in deferment | £38.70 per annum average |
| -inflation | 3.75% |

Further provision has been made for guarantees (where appropriate) and claims expenses.

### 24. PROVISIONS FOR OTHER RISKS AND CHARGES

| | Deferred Tax £000 | Reorganisation £000 | Other £000 | Total £000 |
|---|---|---|---|---|
| At 1 January 2000 | 679 | 2,885 | 3,234 | **6,798** |
| Utilised during the year | - | (2,202) | - | **(2,202)** |
| Released during the year | - | (586) | - | **(586)** |
| At 31 December 2000 | 679 | 97 | 3,234 | **4,010** |

The re-organisation provision represents the costs of merging the business with that of the AXA Sun Life Holdings plc group of companies and the resultant closure of the Stratford upon Avon office during 2000.

Other provisions relate to pension transfers and opt-outs. They are anticipated to be fully utilised on completion of the relevant investigations.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 24. PROVISIONS FOR OTHER RISKS AND CHARGES (continued)

The balance in respect of deferred taxation can be analysed as follows:

| | Amount Provided | | Potential Liability | |
|---|---|---|---|---|
| | **2000** | 1999 | **2000** | 1999 |
| | **£000** | £000 | **£000** | £000 |
| On unrealised gains on investments | 886 | 886 | 1,415 | 1,010 |
| Other timing differences | (207) | (207) | (478) | (414) |
| | 679 | 679 | 937 | 596 |

### 25. OTHER CREDITORS INCLUDING TAX

| | **2000** | 1999 |
|---|---|---|
| | **£000** | £000 |
| Tax payable | **3,183** | 18,579 |
| Amounts owed to group undertakings | **927** | 5,424 |
| Other creditors | **-** | 1,250 |
| | **4,110** | 25,253 |

### 26. LONG-TERM INSURANCE BUSINESS FUND

At 31 December 2000 the total amount of assets representing the long-term fund valued in accordance with Schedule 9A to the Companies Act 1985 is £223 million (1999: £203 million).

### 27. RELATED PARTY TRANSACTIONS

Advantage has been taken of the exemption under FRS 8 not to disclose related party transactions with other group companies by virtue of the fact that 90% or more of their voting rights are controlled by AXA, a company whose consolidated financial statements are publicly available.

There were no related party transactions requiring disclosure under FRS 8 during the year.

## 28. IMMEDIATE AND ULTIMATE PARENT COMPANIES

The Company's immediate parent undertaking at 31 December 2000 is AXA Insurance plc (formerly Guardian Royal Exchange Assurance plc).

The Company's ultimate parent and controlling company is AXA, a company incorporated in France. The parent undertaking of the largest group which includes the Company and for which group financial statements are prepared is AXA. Copies of the AXA group financial statements can be obtained from 23 avenue Matignon, 75008 Paris, France. The parent undertaking of the smallest group which includes the Company and for which group financial statements are prepared is Guardian Royal Exchange plc, a company registered in England and Wales. Copies of the group financial statements of Guardian Royal Exchange plc are available from that Company's registered office at 107 Cheapside, London, EC2V 6DU.