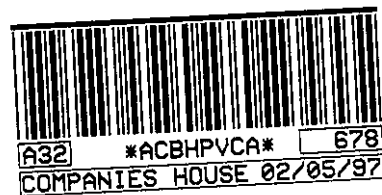




**FRIENDS' PROVIDENT MANAGED
PENSION FUNDS LIMITED**

ANNUAL REPORT AND ACCOUNTS

31ST DECEMBER 1996



Company registered number: 172756

FRIENDS' PROVIDENT MANAGED PENSION FUNDS LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31ST DECEMBER 1996

DIRECTORS

K. SATCHELL, BSc, FIA, ASA (Executive Chairman)

G.K. ASLET, MA, FIA

M.G. BARNETT, BSc, ARCS, FIA

SECRETARY

B.W. SWEETLAND, LL.B

PRINCIPAL ACTIVITY

The principal activity of the company is the transaction of long-term insurance business in connection with approved pension arrangements on a managed fund basis. The company is a member of the Personal Investment Authority.

RESULTS AND BUSINESS REVIEW

The company's results for the year are shown in the profit and loss account on pages 4 and 5. The company continued to accept reinsurance business from its ultimate parent company. Improved market conditions supported an increase in the level of reinsurance business accepted from the ultimate parent company. Premiums generated from existing direct insurance business also increased. It is expected that the company will continue to conduct its current activities.

DIVIDEND

The directors do not recommend the payment of a dividend for the year ended 31st December 1996 (1995: £Nil).

DIRECTORS

The directors named above held office throughout the year. S.C.E. Dyer resigned as a director on 31st December 1996 having held office throughout the year to this date. No director held shares beneficially in any company of the Group during the year.

AUDITORS

The directors have taken advantage of the Elective Regime, under section 386 of the Companies Act 1985, for dispensation from the annual appointment of auditors.

The auditors, Price Waterhouse, have signified their willingness to continue in office.

FRIENDS' PROVIDENT MANAGED PENSION FUNDS LIMITED

REPORT OF THE DIRECTORS (continued)

DIRECTORS' RESPONSIBILITIES

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

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

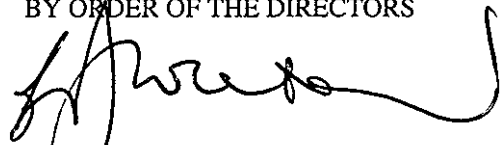
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets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

Pixham End,
Dorking,
Surrey, RH4 1QA

20th March 1997

Registered Number 172756

BY ORDER OF THE DIRECTORS



B.W. SWEETLAND
SECRETARY

AUDITORS' REPORT

TO THE MEMBERS OF FRIENDS' PROVIDENT MANAGED PENSION FUNDS LIMITED

We have audited the financial statements on pages 4 to 15 which have been prepared in accordance with the accounting policies set out on pages 8 and 9.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 2, the directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF 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 affairs of the company as at 31st December 1996 and of its profit for the year then ended and have been properly prepared in accordance with the provisions of the Companies Act 1985.



PRICE WATERHOUSE
Chartered Accountants
and Registered Auditors
Southwark Towers
32 London Bridge Street
London SE1 9SY

20th March 1997

FRIENDS' PROVIDENT MANAGED PENSION FUNDS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 1996

TECHNICAL ACCOUNT - LONG-TERM BUSINESS

	Notes	1996 £'000	1995 £'000
Earned premiums, net of reinsurance	2		
Gross premiums written		137,577	97,814
Outward reinsurance premiums		-	-
		-----	-----
		137,577	97,814
Investment income	3	108,344	68,413
Unrealised gains on investments (net)	3	59,710	102,150
Other technical income, net of reinsurance		213	59
		-----	-----
Total Technical Income		305,844	268,436
		-----	-----
 Claims incurred, net of reinsurance			
Claims paid	4	91,484	44,920
 Change in other technical provisions, net of reinsurance			
Other technical provisions, net of reinsurance			
Technical provisions for linked liabilities		207,053	216,983
 Net operating expenses	5	6,227	4,948
Investment expenses and charges	3 & 5	989	934
Tax attributable to the long-term business	6	91	651
		-----	-----
		7,307	6,533
		-----	-----
Total Technical Charges		305,844	268,436
		-----	-----
Balance on the Technical account - Long-Term Business		-	-
		=====	=====

Note

All amounts above are in respect of continuing operations. The Technical account includes all recognised gains and losses attributable to policyholders.

The notes on pages 8 to 15 form an integral part of these financial statements

FRIENDS' PROVIDENT MANAGED PENSION FUNDS LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 1996

NON-TECHNICAL ACCOUNT

	Notes	1996 £'000	1995 £'000
Balance on the Technical account - Long-Term Business		-	-
Tax credit attributable to balance on the long-term business Technical account		-	-
		-----	-----
Shareholders' pre-tax profit from long-term business		-	-
Investment income	3	38	28
Unrealised gains on investments	3	12	51
		-----	-----
Profit on ordinary activities before tax		50	79
Tax on profit on ordinary activities	6	(12)	(9)
		-----	-----
Retained profit for the financial year	11	38	70
		=====	=====

Note

All of the amounts above are in respect of continuing operations. The Non-technical account includes all recognised gains and losses attributable to shareholders. There is no difference between the results disclosed above and the results on a modified historical cost basis.

The notes on pages 8 to 15 form an integral part of these financial statements

FRIENDS' PROVIDENT MANAGED PENSION FUNDS LIMITED

BALANCE SHEET AS AT 31ST DECEMBER 1996

	Notes	1996 £'000	1995 £'000
ASSETS			
Investments			
Other financial investments	7	820	808
		-----	-----
		820	808
		-----	-----
Assets held to cover linked liabilities	8	1,299,668	1,092,615
Debtors			
Amounts due from group undertakings		269	-
Other debtors		1,740	1,284
		-----	-----
		2,009	1,284
		-----	-----
Other assets			
Cash at bank and in hand		-	83
		-----	-----
		-	83
		-----	-----
Prepayments and accrued income			
Other prepayments and accrued income		7	7
		-----	-----
		7	7
		-----	-----
TOTAL ASSETS		<u>1,302,504</u>	<u>1,094,797</u>

The notes on pages 8 to 15 form an integral part of these financial statements

FRIENDS' PROVIDENT MANAGED PENSION FUNDS LIMITED

BALANCE SHEET AS AT 31ST DECEMBER 1996

	Notes	1996 £'000	1995 £'000
LIABILITIES			
Capital and Reserves			
Called up share capital	9	500	500
Share premium account	11	25	25
Profit and loss account - distributable	11	296	270
- non-distributable	11	203	191
		-----	-----
Shareholders' funds - equity interests	10 & 11	1,024	986
		-----	-----
 Technical provisions for linked liabilities	 12	 1,299,668	 1,092,615
 Creditors			
Other creditors including taxation	13	1,812	1,196
		-----	-----
		1,812	1,196
		-----	-----
 TOTAL LIABILITIES		 ----- 1,302,504 =====	 ----- 1,094,797 =====



K. SATCHELL
EXECUTIVE CHAIRMAN

20th March 1997

The notes on pages 8 to 15 form an integral part of these financial statements

FRIENDS' PROVIDENT MANAGED PENSION FUNDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

(a) Basis of presentation

The accounts have been prepared in accordance with Section 255 of, and Schedule 9A to, the Companies Act 1985 with the exception as set out in note 1 (b)(i).

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention as modified by the revaluation of investments (see note 1(b)), and comply with the Guidance on Accounting for Insurance Business issued by the Association of British Insurers. The financial statements also include the early adoption of FRS 1 (Revised 1996) which exempts the company from preparing a cash flow statement.

(b) Investments

Investments are stated at their current market values at the balance sheet date, calculated as follows:

- (i) Land and buildings are valued each year at open market values, determined in rotation, approximately one third by independent qualified valuers Hillier Parker May & Rowden or Chesterton and two thirds by Chartered Surveyors who are employees of the Friends' Provident Life Office Group.

In accordance with Statement of Standard Accounting Practice No. 19, no depreciation is provided in respect of freehold properties or amortisation in respect of leasehold properties with over 20 years to expire. This is a departure from the requirements of the Companies Act 1985 which requires all properties to be depreciated. However, these properties are held solely for investment purposes and the directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the financial statements to give a true and fair view. Depreciation or amortisation is only one of many factors reflected in the annual valuations of properties, and the amounts which might otherwise have been shown cannot reasonably be separately identified or quantified.

- (ii) Listed investments are stated at middle market prices.

- (iii) Unit trusts are stated at prices at which the managers under the unit trust schemes would purchase the holding of units.

(c) Premiums

Premium income, not being subject to contractual regular premiums, is accounted for when received within Friends' Provident Life Office. Details relating to the classification of new business premiums are included in note 2(b).

(d) Claims and surrenders

Provision is made for outstanding surrenders notified by the balance sheet date. Claims payable include claims handling costs.

FRIENDS' PROVIDENT MANAGED PENSION FUNDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

(e) Investment income and expenses

Investment income includes dividends, interest, rents, and gains and losses on the realisation of investments. Dividends are included in the profit and loss account when the securities are listed as ex-dividend. Income from fixed interest securities together with interest, rents and expenses are accounted for in the year in which they accrue.

Realised gains and losses on investments are calculated as the difference between net sales proceeds and their original cost. Unrealised gains and losses on investments represent the difference between the valuation of investments at the balance sheet date and their original cost, or if they have been previously valued, that valuation at the last balance sheet date.

Realised and unrealised gains and losses on investments attributable to policyholders are dealt with in the Technical account. Realised and unrealised gains and losses on shareholders' investments are dealt with in the Non-technical account.

(f) Foreign currencies

Assets and liabilities held in foreign currencies at 31 December are expressed in sterling at rates ruling on that date. Income and expenditure denominated in foreign currencies are translated at rates ruling on the date on which the transaction occurs. All resulting exchange gains and losses are dealt with in the profit and loss account.

FRIENDS' PROVIDENT MANAGED PENSION FUNDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SEGMENTAL ANALYSIS

Premiums originate from one class of business, the transaction of investment linked long-term insurance business in connection with approved pension arrangements, on a managed fund basis. All business originates in the United Kingdom.

(a) Gross premiums written

	1996	1995
	£'000	£'000
Premiums written by way of direct insurance	30,146	13,056
Premiums written by way of reinsurance	107,431	84,758
	-----	-----
	137,577	97,814
	-----	-----
Individual premiums	87,365	74,766
Premiums under group contracts	50,212	23,048
	-----	-----
	137,577	97,814
	-----	-----
Regular premiums	57,002	48,933
Single premiums and transfer values	80,575	48,881
	-----	-----
	137,577	97,814
	-----	-----

(b) Gross new business premiums written by way of direct insurance

	1996	1995
	£'000	£'000
Regular premiums	655	205
Single premiums	2,044	3,182
	-----	-----
	2,699	3,387
	-----	-----
Individual premiums	-	-
Premiums under group contracts	2,699	3,387
	-----	-----
	2,699	3,387
	-----	-----

FRIENDS' PROVIDENT MANAGED PENSION FUNDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

(b) Gross new business premiums written by way of direct insurance (continued)

In classifying new business premiums the following basis of recognition is adopted:

- new recurrent single premium contracts, excluding DSS rebates on certain pensions products, are included in regular new business premiums.
- increments under existing group pension schemes are classified as new business premiums.

Where regular premiums are received other than annually, the regular new business premiums are included on an annualised basis.

(c) Assets attributable to long-term business

Of the amount of assets shown on page 6, £1,299,668,000 is attributable to long-term business (1995:£1,092,615,000).

3.	INVESTMENT RETURN SUMMARY	1996 £'000	1995 £'000
(a)	Technical account		
	Investment income:		
	Income from land and buildings	2,990	3,062
	Income from other investments	49,425	37,457
	Gains on the realisation of investments	55,929	27,894
		-----	-----
		108,344	68,413
	Unrealised gains on investments	59,710	102,150
	Investment expenses and charges including interest (see note 5)	(989)	(934)
		-----	-----
	Net investment return	167,065	169,629
		-----	-----

Investment expenses and charges included bank interest and charges on bank loans and overdrafts amounting to £256,000 (1995: £207,000).

FRIENDS' PROVIDENT MANAGED PENSION FUNDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. INVESTMENT RETURN SUMMARY (continued)

(b) Non-technical account	1996 £'000	1995 £'000
Investment income:		
Income from investments	38	28
Unrealised gains on investments	12	51
Investment expenses and charges	-	-
Net investment return	50	79
Total investment return	167,115	169,708

4. CLAIMS INCURRED

	1996 £'000	1995 £'000
Surrenders	91,078	44,385
Add: Claims handling costs	406	535
	91,484	44,920

5. NET OPERATING EXPENSES AND INVESTMENT EXPENSES AND CHARGES

All the company's operating and investment expenses with the exception of bank charges and interest are paid by Friends' Provident Life Office. A management fee is charged to the company to cover these expenses.

Net operating expenses are analysed as follows:

	1996 £'000	1995 £'000
Acquisition costs	89	84
Administrative expenses	6,138	4,864
	6,227	4,948

Administrative expenses include auditors' remuneration for audit services of £11,500 (1995:£11,500) and auditors' remuneration for non audit services of £1,005 (1995:£1,005).

The directors consider that their services to the company were incidental to their other duties within the Friends' Provident Life Office Group and accordingly no remuneration has been apportioned to this company. All staff are employed by other group companies.

FRIENDS' PROVIDENT MANAGED PENSION FUNDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. TAXATION

	1996		1995	
	Technical account £'000	Non-technical account £'000	Technical account £'000	Non-technical account £'000
Corporation tax at 33%	-	12	-	9
Foreign withholding tax on investment income	91	-	651	-
	----	----	----	----
	91	12	651	9
	===	===	===	===

7. OTHER FINANCIAL INVESTMENTS

	Current value		Cost	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Debt securities and other fixed income securities	820	808	736	736
	----	----	----	----
	820	808	736	736
	===	===	===	===

8. ASSETS HELD TO COVER LINKED LIABILITIES

	1996 £'000	1995 £'000
Current value	1,299,668	1,092,615
	=====	=====
Cost	1,108,275	961,456
	=====	=====

The current value of the company's assets held to cover linked liabilities includes £505,213,000 (1995: £481,874,000) in respect of Group Pension funds falling within Class VII of Schedule 1 to the Insurance Companies Act 1982.

9. CALLED-UP SHARE CAPITAL

	1996 £'000	1995 £'000
Authorised:		
1,000,000 Ordinary shares of £1 each	1,000	1,000
	=====	=====
Allotted and fully paid:		
500,000 Ordinary shares of £1 each	500	500
	=====	=====

FRIENDS' PROVIDENT MANAGED PENSION FUNDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. SHAREHOLDERS' FUNDS	1996	1995
	£'000	£'000
The net assets comprising the shareholders' funds are:		
Assets		
United Kingdom government securities	820	808
Debtors	1,740	1,284
Cash at bank	-	83
Investment income receivable	7	7
Amounts due from group undertakings	269	-
	-----	-----
	2,836	2,182
	-----	-----
Liabilities		
Amount due to group undertakings	-	1,171
Taxation	37	25
Bank overdraft	1,775	-
	-----	-----
	1,812	1,196
	-----	-----
Shareholders' net assets	1,024	986
	=====	=====

11. RECONCILIATION OF MOVEMENTS IN TOTAL SHAREHOLDERS' FUNDS AND STATEMENT OF MOVEMENTS ON RESERVES

	Share capital	Share premium account	Profit and loss account	Total shareholders' Funds
	£'000	£'000	£'000	£'000
Balance 1st January 1996	500	25	461	986
Profit for the year	-	-	38	38
	----	----	----	----
Balance at 31st December 1996	500	25	499	1,024
	=====	=====	=====	=====

The profit and loss account includes £203,000 (1995 £191,000) representing the unrealised appreciation in the market value of the investments in the Shareholders' Funds.

FRIENDS' PROVIDENT MANAGED PENSION FUNDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. POLICYHOLDER LIABILITIES

	Technical provision for linked liabilities £'000
At 1st January 1996	1,092,615
Movement in technical provision for the year	207,053

Balance at 31st December 1996	1,299,668
	=====

13. OTHER CREDITORS INCLUDING TAXATION

	1996 £'000	1995 £'000
Amounts falling due within five years:		
Amount due to group undertakings	-	1,171
Taxation payable	37	25
Bank overdraft	1,775	-
	-----	-----
	1,812	1,196
	=====	=====

14. RELATED PARTY TRANSACTIONS

The company is a wholly owned subsidiary undertaking of FP Business Holdings Limited. The results of both the company and FP Business Holdings Limited are consolidated in the results of Friends' Provident Life Office, the company's ultimate parent and controlling company, whose financial statements are publicly available. Accordingly, the company is exempt from the requirement to disclose transactions with other companies which qualify as related parties within the Friends' Provident Life Office Group.

There were no other material related party transactions.

15. ULTIMATE PARENT UNDERTAKING

The company's ultimate parent undertaking is Friends' Provident Life Office, which is incorporated in the United Kingdom by Act of Parliament. Copies of the Group Report and Accounts of Friends' Provident Life Office can be obtained from Pixham End, Dorking, Surrey, RH4 1QA.