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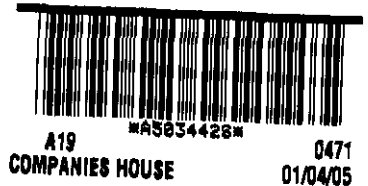
**FRIENDS PROVIDENT MANAGEMENT SERVICES LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2004**

DIRECTORS

K. SATCHELL, BSc, FIA (Chairman)
A.R.G. GUNN, MA, FCII
P.W. MOORE, TD, MA, FIA
B.W. SWEETLAND, LLB, Solicitor, ACoI

SECRETARY

R.G. ELLIS, MA, APMI, Solicitor



PRINCIPAL ACTIVITY

The principal activity of the company is the provision of management services to group companies. No change in this activity is envisaged in the future.

RESULTS AND BUSINESS REVIEW

The result for the year ended 31 December 2004 is set out in the profit and loss account on page 6.

DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended 31 December 2004 (2003: £nil).

EMPLOYEES

Friends Provident plc and its employing subsidiary undertakings, including Friends Provident Management Services Limited, are committed to a policy of encouraging employee involvement at all levels.

The primary methods of implementing this policy are:

- management briefings/presentations and discussion through the management structure;
- the issue of a full range of employee communications via the Company's intranet or other internal publications of relevant information, which inform staff of current issues/developments and progress;
- a Staff Forum in the life and pensions core business that encourages staff views and questions on a variety of subjects to be discussed with management;
- an established and regular staff opinion survey that encourages staff anonymously to present their views, thereby generating workplace and business improvements; and
- the establishment of effective working relationships with staff representative bodies.

The primary aim of all these activities is to ensure all staff know the objectives and activities of the company and the Group so that they can contribute fully to their continued success.

Additionally, staff are involved in each core businesses', and through that the Group's, performance by way of participation in Inland Revenue approved all-employee share schemes specific to each core business: ShareSave Schemes (savings-related share option schemes) and Share Incentive Plans (formerly called All-Employee Share Ownership Plans).

FRIENDS PROVIDENT MANAGEMENT SERVICES LIMITED
REPORT OF THE DIRECTORS (continued)

EMPLOYEES (continued)

The company has amongst its employees a number who are disabled. The company gives full and fair consideration to applications for employment from disabled persons. In the event of employees becoming disabled every effort is made to maintain them in employment with appropriate retraining being arranged if necessary. It is the company's policy that disabled persons should as far as possible be given the same opportunities for training, career development and promotion as other employees.

Financial and economic factors affecting the performance of Friends Provident Management Services Limited are set out in the consolidated accounts of the company's ultimate parent company, Friends Provident plc, which are available to all staff.

DIRECTORS

All directors named on page 1 held office throughout the year with the exception of G.K. Aslet who resigned as director on 31 December 2004.

DIRECTORS' INTERESTS

No directors had interests in any other company within the Friends Provident Group other than as disclosed below.

(a) Shares

	Friends Provident plc Ordinary shares 10 pence			F&C Asset Management plc Ordinary shares 0.1 pence (iii)		
	At 1	At 31	Shares	At 1	At 31	Shares
	January	December	acquired	January	December	acquired
	2004	2004	after 31	2004	2004	after 31
			December			December
			2004 (ii)			2004 (ii)
K. Satchell	61,602	62,668	231	10,000	14,326	-
A.R.G. Gunn	36,847	37,913	231	-	-	-
P.W. Moore	1,332	1,332	-	-	2,163	-
G.K. Aslet (i)	15,137	16,203	N/A	-	2,163	-
B.W. Sweetland	94,367	95,433	231	5,000	13,651	-

(i) G.K. Aslet resigned as a director on 31 December 2004.

(ii) Changes to directors' interests during the period 1 January 2005 to 17 March 2005 have been reported to the parent company. They relate to shares acquired through the Share Incentive Plan (SIP).

(iii) The number of Directors shares held within ISIS Asset Management as at 31 December 2003 have remained and been carried forward under the new entity, F&C Asset Management plc.

(b) Options over Friends Provident plc ordinary shares of 10 pence

The directors participate in two Inland Revenue approved share schemes, the ShareSave Scheme (a savings-related share option scheme) and the Partnership Share element of the SIP (formerly the All-Employee Share Ownership Plan) on the same basis as other eligible UK employees of the Group.

The directors participate in the Executive Share Option Scheme (ESOS) and the Executive Long Term Incentive Plan (LTIP) on the same terms as other eligible UK employees of the Group.

FRIENDS PROVIDENT MANAGEMENT SERVICES LIMITED
REPORT OF THE DIRECTORS (continued)

The table below provides an analysis of options under each scheme. Further details of the operation of these schemes are contained in the Group Annual Report and Accounts of Friends Provident plc.

	Options at 1 Jan 2004	Granted / (Exercised) during year	Lapsed during year	Options at 31 Dec 2004	Exercise price (pence)	Earliest exercise date	Latest exercise date
K. Satchell							
ShareSave 2002	15,358			15,358	107.76	01/10/07	01/04/08
ESOS 2002	200,000			200,000	195.00	14/03/05	14/03/12
ESOS 2003	619,719			619,719	71.00	17/03/06	17/03/13
ESOS 2004		524,884		524,884	127.00	12/08/07	12/08/14
LTIP 2002	100,000			100,000	10.00	14/03/05	14/03/12
LTIP 2003	309,859			309,859	10.00	17/03/06	17/03/13
Total	1,244,936	524,884		1,769,820			
A.R.G. Gunn							
ShareSave 2002	15,358			15,358	107.76	01/10/07	01/04/08
ESOS 2002	116,667			116,667	195.00	14/03/05	14/03/12
ESOS 2003	368,311			368,311	71.00	17/03/06	17/03/13
ESOS 2004		311,949		311,949	127.00	12/08/07	12/08/14
LTIP 2002	58,333			58,333	10.00	14/03/05	14/03/12
LTIP 2003	184,155			184,155	10.00	17/03/06	17/03/13
Total	742,824	311,949		1,054,773			
P.W. Moore							
ShareSave 2003	8,499			8,499	108.54	01/10/06	01/04/07
ESOS 2003	211,398			211,398	136.00	06/08/06	06/08/13
ESOS 2004		298,233		298,233	127.00	12/08/07	12/08/14
LTIP 2003	105,699			105,699	10.00	06/08/06	06/08/13
Total	325,596	298,233		623,829			
G.K. Aslet							
ShareSave 2002	15,358			15,358	107.76	01/01/05	30/06/05
ESOS 2002	82,051			82,051	195.00	01/01/05	31/12/05
ESOS 2003	236,619			236,619	71.00	01/01/05	31/12/05
LTIP 2002	41,025			41,025	10.00	01/01/05	31/12/05
LTIP 2003	118,309			118,309	10.00	01/01/05	31/12/05
Total	493,362			493,362			
B.W. Sweetland							
ShareSave 2002	8,815			8,815	107.76	01/10/05	01/04/06
ESOS 2002	112,821			112,821	195.00	14/03/05	14/03/12
ESOS 2003	330,988			330,988	71.00	17/03/06	17/03/13
LTIP 2002	56,410			56,410	10.00	14/03/05	14/03/12
LTIP 2003	165,494			165,494	10.00	17/03/06	17/03/13
Total	674,528			674,528			

FRIENDS PROVIDENT MANAGEMENT SERVICES LIMITED
REPORT OF THE DIRECTORS (continued)

AUDITORS

The directors appointed KPMG Audit Plc ("KPMG") to act as auditors of the company. 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, KPMG, have indicated their willingness to continue in office.

CREDITOR PAYMENT POLICY

It is the company's policy to adhere to the payment terms agreed with individual suppliers and to pay in accordance with its contractual and other legal obligations.

The ratio, expressed in days, between the amount invoiced to the company by its suppliers during 2004 and the amount owed to its trade creditors at 31 December, was seven days (2003: four days).

STATEMENT OF 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 for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 have general 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.

The directors confirm that they have complied with these requirements.

STATEMENT OF GOING CONCERN

After making enquiries and in view of the support formally provided by the company's immediate parent undertaking until 31 December 2006, the directors are satisfied that the company has adequate resources to continue to operate as a going concern for the foreseeable future and have prepared the financial statements on that basis.

Pixham End
Dorking
Surrey
RH4 1QA

17 March 2005

Registered Number 983330

ON BEHALF OF THE BOARD



R.G. ELLIS
SECRETARY

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF FRIENDS PROVIDENT MANAGEMENT SERVICES LIMITED**

We have audited the financial statements on pages 6 to 16.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4 the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by 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 Companies Act 1985. 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 with the company is not disclosed.

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 as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

17 March 2005

FRIENDS PROVIDENT MANAGEMENT SERVICES LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	2004 £000	2003 £000
<u>Continuing operations</u>			
Turnover	2	278,147	323,728
Administrative expenses		(277,225)	(320,835)
OPERATING PROFIT		922	2,893
Loss on sale of fixed assets		(906)	(2,527)
Interest receivable and similar income		952	519
Other finance income	16(iv)	7,519	5,543
Finance lease charges		(12)	(13)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3,4(b)	8,475	6,415
Tax on profit on ordinary activities	4	1,934	(6,551)
RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR		10,409	(136)

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR
THE YEAR ENDED 31 DECEMBER 2004**

	Notes	2004 £000	2003 £000
Retained profit/(loss) for the financial year		10,409	(136)
Actuarial (loss)/gain recognised in the pension scheme	16(v)	(4,269)	25,812
Deferred tax arising on pension scheme (losses)/gains		1,280	(7,744)
Total recognised gains for the financial year		7,420	17,932

There is no material difference between the results disclosed above and the results on a historical cost basis.

The notes on pages 8 to 16 form an integral part of these financial statements

FRIENDS PROVIDENT MANAGEMENT SERVICES LIMITED
BALANCE SHEET AS AT 31 DECEMBER 2004

	Notes	2004 £000	2003 £000
FIXED ASSETS			
Tangible assets	7	19,908	19,791
CURRENT ASSETS			
Amounts owed by group undertakings		13,272	41,346
Other debtors	8	68,142	31,492
Prepayments and accrued income		10,400	6,145
Deposits with credit institutions		39,530	30,515
Cash at bank and in hand		11,785	33,477
		<u>143,129</u>	<u>142,975</u>
CREDITORS: Amounts falling due within one year:			
Amounts owed to group undertakings		(90,903)	(88,571)
Other creditors	9	(49,200)	(55,883)
Accruals and deferred income		(22,932)	(21,289)
		<u>(163,035)</u>	<u>(165,743)</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>(19,906)</u>	<u>(22,768)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2</u>	<u>(2,977)</u>
PROVISIONS FOR LIABILITIES AND CHARGES	12	<u>(2,768)</u>	<u>(8,337)</u>
NET LIABILITIES EXCLUDING PENSION LIABILITY		<u>(2,766)</u>	<u>(11,314)</u>
NET PENSION LIABILITY	16(ii)	<u>(4,395)</u>	<u>(3,267)</u>
NET LIABILITIES INCLUDING PENSION LIABILITY		<u>(7,161)</u>	<u>(14,581)</u>
CAPITAL AND RESERVES			
Called up share capital	13	100	100
Profit and loss account	14	(7,261)	(14,681)
TOTAL SHAREHOLDER'S FUNDS – ALL EQUITY	14	<u>(7,161)</u>	<u>(14,581)</u>

Approved by the Board on 17 March 2005 and signed on its behalf by



K. SATCHELL
DIRECTOR

The notes on pages 8 to 16 form an integral part of these financial statements

FRIENDS PROVIDENT MANAGEMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

(a) Basis of preparation

- (i) The financial statements conform to applicable accounting standards and have been prepared under the historical cost convention, modified by the revaluation of certain assets as required by the Companies Act 1985.
- (ii) The company is a wholly owned subsidiary of Friends Provident plc, whose consolidated financial statements are publicly available. Consequently the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (Revised 1996).
- (iii) The financial statements have been prepared on the going concern basis, notwithstanding net liabilities of £7,161,000 (2003: £14,581,000) which the directors believe to be appropriate for the following reasons. The company is dependent for its working capital on funds provided to it by Friends Provident plc, the company's ultimate parent undertaking. Friends Provident plc has provided the company with an undertaking that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the company, and in particular will not seek repayment of the amounts currently made available. This should enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not.

(b) Pensions Costs

Pension schemes are in operation for employees of certain group undertakings. The principal schemes, to which the majority of employees belong, are of the funded defined benefit type with assets managed by F&C Asset Management plc, a subsidiary undertaking. The schemes provide benefits based on final pensionable pay. The assets of the schemes are held in separate trustee administered funds. The pension costs relating to the principal schemes are assessed annually by an independent, qualified actuary.

The pension liability recognised in the balance sheet is the obligation of the employer being, the present value of the schemes liabilities less the value of assets in the scheme. The resulting liability is stated net of a credit for deferred taxation.

The pension costs for the schemes are analysed into (i) current service cost, (ii) past service cost, (iii) settlements or curtailments and (iv) net expected return on pension asset. Current service cost is the actuarially calculated present value of the benefits earned by the active employees in each period. Past service costs, relating to employee service in prior periods arising in the current period as a result of the introduction of, or the improvement to, retirement benefits, are recognised in the profit and loss account on a straight-line basis over the period in which the increase in benefits vest. Settlements or curtailments are recognised in the profit and loss to the extent that they are not allowed for in the actuarial assumptions. Losses on settlements or curtailments are measured at the date on which the employer becomes demonstrably committed to the transaction. Gains on settlements or curtailments are measured at the date on which all parties whose consent is required are irrevocably committed. Net expected return on the pension asset comprises the net expected return on the pension scheme assets less interest on scheme liabilities.

The actuarial gains and losses which arise from any new valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are taken to the statement of total recognised gains and losses for the period. The attributable deferred taxation is shown separately in the statement of total recognised gains and losses.

FRIENDS PROVIDENT MANAGEMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

(c) Deferred taxation

In accordance with FRS 19, provision is made for deferred taxation liabilities, using the liability method, on all material timing differences. Deferred taxation is calculated at the rates at which it is expected that the tax will arise and discounted to take into account likely timing of payments and pattern of expected realisation of investments. Deferred taxation is recognised in the profit and loss account for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in the statement of total recognised gains and losses. In this case the attributable deferred taxation is shown separately in the statement of total recognised gains and losses. Deferred tax assets are recognised to the extent that they are regarded as recoverable and are not discounted.

(d) Tangible Assets

Tangible assets are capitalised and depreciated on a straight line basis over their estimated useful lives as follows:

Motor vehicles	4 years
Computer equipment	2 to 4 years
Fixtures and fittings, plant and machinery	3 to 10 years
Leased assets	Over the term of the lease

(e) Leases

Assets held under finance leases are capitalised at the fair value of the asset at the inception of the lease with an equivalent liability shown under creditors. Finance charges are allocated to accounting periods over the life of each lease.

Payments in respect of operating leases are charged to the profit and loss account in the period to which they relate.

2. TURNOVER

Turnover comprises fees for management services provided to, and commission received from, companies within the Friends Provident Group.

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging:

	2004	2003
	£000	£000
Auditors' remuneration for audit services	10	14
Operating lease rentals:		
- land and buildings	8,675	11,041
- others	3,520	2,788
Depreciation of tangible fixed assets:		
- owned assets	11,866	15,863
- held under finance lease contracts	43	356

Fees billed in the year by the auditors, paid initially by the company and recharged to other fellow subsidiary undertakings for non-audit services were £786,000 (2003: £771,000).

FRIENDS PROVIDENT MANAGEMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

4. TAXATION

	2004	2003
	£000	£000
(a) Analysis of the tax charge for period		
UK corporation tax @ 30%	7,085	19,834
Adjustments in respect of prior periods	(6,431)	3,006
	654	22,840
Adjustments in respect of prior periods	(211)	(3,869)
Deferred taxation – origination and reversal of timing differences	(2,377)	(12,420)
Tax on profit on ordinary activities	(1,934)	6,551
(b) Factors affecting charge for period		
Profit on ordinary activities before taxation	8,475	6,415
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30 %	2,542	1,925
Effects of:		
- Deductions not allowable for tax purposes	2,166	5,489
- Deferred tax movements	2,377	12,420
- Adjustments in respect of prior periods	(6,431)	3,006
Current tax charge for the period	654	22,840

5. DIRECTORS' EMOLUMENTS

During the year, the directors consider that their services to the company were incidental to their other duties within the Friends Provident Group and accordingly no remuneration or other benefits have been apportioned to this company.

No pension contributions, including amounts provided for in respect of unfunded pension obligations were payable in either 2004 or 2003. At 31 December 2004 all four (2003: five) directors were members of the defined benefit scheme for staff, the Friends Provident Pension Scheme.

6. EMPLOYEES

The service contracts for all employees within the Friends Provident Group are with Friends Provident Management Services Limited. These employees provide services for all companies in the Friends Provident Group, with the cost being included in the recharge made to the relevant companies.

	2004	2003
	£000	£000
(a) The average number of employees (including all directors) was:		
Management services	3,611	4,211
(b) Gross employment costs (including all directors) amounted to:		
Wages and salaries	104,567	121,752
Social security costs	9,436	9,660
Pension costs	15,655	16,647
	129,658	148,059

FRIENDS PROVIDENT MANAGEMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

7. TANGIBLE FIXED ASSETS

	Motor vehicles	Computer equipment	Fixtures, fittings and office equipment	Total
	£000	£000	£000	£000
Cost:				
At 1 January 2004	11,185	40,826	2,989	55,000
Additions	2,221	10,764	305	13,290
Disposals	(3,983)	(835)	-	(4,818)
At 31 December 2004	9,423	50,755	3,294	63,472
Depreciation:				
At 1 January 2004	5,614	28,298	1,297	35,209
Charge for the year	2,364	8,995	550	11,909
Disposals	(2,974)	(580)	-	(3,554)
At 31 December 2004	5,004	36,713	1,847	43,564
Net book value				
At 31 December 2004	4,419	14,042	1,447	19,908
At 31 December 2003	5,571	12,528	1,692	19,791

The net book value includes an amount of £453,000 (2003: £nil) in respect of computer equipment held under finance leases.

8. OTHER DEBTORS

	2004 £000	2003 £000
Other debtors	14,206	7,042
Taxation payment on account	26,100	-
Deferred taxation	27,836	24,450
	68,142	31,492

Deferred Taxation

Details of the deferred taxation asset are given below.

	2004 £000	2003 £000
Accelerated capital allowances	27,606	21,970
Other short term timing differences	230	2,480
	27,836	24,450

The pension liability is recorded net of the related deferred tax in the balance sheet and details of the deferred tax are shown in note 16. The deferred tax balance relating to the pension liability is not included in the analysis above.

FRIENDS PROVIDENT MANAGEMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

9. OTHER CREDITORS

	2004 £000	2003 £000
Corporation tax payable	2,432	13,612
Other taxation and social security	3,183	2,453
Obligations under finance leases	477	1,850
Other creditors	43,108	37,968
	49,200	55,883

10. AMOUNTS OWED TO GROUP UNDERTAKINGS

Amounts owed to group undertakings includes a loan of £75m which is repayable on demand. At 31 December 2004 £33m (2003:£37m) of other creditors represents receipts from Life and Pensions business policyholders to be allocated to the appropriate Group company.

11. FINANCE LEASES

	2004 £000	2003 £000
Future minimum payments are as follows:		
Within one year	177	138
In more than one year, but not more than five years	300	309
	477	447

Commitments under non-cancellable leases represent £489k (2003:£460k) of obligations under finance leases and £12k (2003:£13k) of prepaid finance charges.

12. PROVISIONS FOR LIABILITIES AND CHARGES

	Closure Costs £000	Pension and similar obligations £000	Total £000
At 1 January 2004	7,613	724	8,337
Utilised in the year	(7,613)	-	(7,613)
Charge for the year	1,930	114	2,044
At 31 December 2004	1,930	838	2,768

At the year end £766k of the provision for pensions and similar obligations relates to the unfunded retirement benefits of A.R.G. Gunn. The closure costs utilised during the year relate to the cessation of activities of a direct sales operation (First Call) as announced on 19 November 2003. On 10 September 2004 the company announced that it would no longer support the provision of a full financial planning service through appointed representatives, in respect of pensions and investments. The charge within closure costs relates to the expected future expense to be incurred in relation to this decision.

13. CALLED-UP SHARE CAPITAL

	2004 £000	2003 £000
Authorised	100	100
Allotted and fully paid: 100,000 ordinary shares of £1 each	100	100

FRIENDS PROVIDENT MANAGEMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

14. RECONCILIATION OF MOVEMENT IN TOTAL SHAREHOLDER'S FUNDS

	Share capital	Profit and loss account	Pension Reserve	Total shareholder's funds
	£000	£000	£000	£000
Balance as at 1 January 2004	100	(11,414)	(3,267)	(14,581)
Retained profit for the financial year	-	8,548	1,861	10,409
Pension scheme losses	-	-	(4,269)	(4,269)
Deferred tax on pension scheme losses	-	-	1,280	1,280
Balance as at 31 December 2004	100	(2,866)	(4,395)	(7,161)

15. OPERATING LEASES

At 31 December 2004, the company had the following annual commitments under operating leases:

	2004 £000	2003 £000
Land and buildings which expire:		
within 1 year	345	500
within 2 - 5 years	644	647
After 5 years	831	864
Other operating leases which expire:		
within 1 year	2,529	2,529

16. STAFF PENSION SCHEMES

i The company operates one principal scheme, the Friends Provident Pension Scheme ("FPPS"), to which the majority of the FP Group's employees belong. The scheme is a UK defined benefit scheme and its assets are administered by F&C Asset Management plc, a fellow subsidiary undertaking. A full actuarial valuation was carried out at 30 September 2004 and was updated to 31 December 2004 by the scheme Actuary.

Contributions to the scheme recommenced in January 2004. The employee contributions were 1% of pensionable salary from January 2004 rising to 2% from January 2005, and will increase to 3% from January 2006, subsequent years will be reviewed thereafter (subject to a maximum of 5%). Employer contributions recommenced at 13% of pensionable salaries from January 2004, increasing to 14% from January 2005 and rising to 15% from January 2006.

Details of the latest valuation for the FPPS are given below:

Date of last valuation	30 September 2004
Method of valuation	Projected Unit
Scheme actuary	Towers Perrin
Market value of assets at last valuation date	£636,512,000
Level of funding	91%

FRIENDS PROVIDENT MANAGEMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

The major assumptions used by the actuary were:

	2004 £000	2003 £000	2002 £000
Inflation assumption	2.90%	2.50%	2.00%
Rate of increase in salaries	*3.50%	*3.00%	*3.50%
Rate of increase in pensions in payment	2.75%	2.50%	2.00%
Discount rate	5.50%	5.50%	5.50%

* plus allowance for salary scale increases

ii. The assets in the scheme and the expected annual rate of return were:

	Expected annual long term rate of return			Value		
	2004	2003	2002	2004 £000	2003 £000	2002 £000
Fixed interest bonds	5.25%	5.25%	5.00%	95,063	52,030	46,438
Index-linked bonds	5.00%	5.00%	4.75%	95,646	35,770	39,013
Equities	7.10%	7.30%	7.50%	414,760	503,324	423,419
Derivatives	-	-	-	71,318	3,805	-
Cash	4.00%	4.00%	4.00%	23,160	9,114	18,294
Total market value of assets				699,947	604,043	527,164
Present value of scheme liabilities				(706,226)	(608,710)	(546,579)
Deficit in the scheme				(6,279)	(4,667)	(19,415)
Related deferred tax asset				1,884	1,400	5,825
Net pension liability				(4,395)	(3,267)	(13,590)

iii. Analysis of the amount charged to operating profit

	2004 £000	2003 £000
Current service cost	15,655	16,608
Total operating charge	15,655	16,608

iv. Analysis of the amount credited to other finance income

	2004 £000	2003 £000
Expected return on pension scheme assets	41,307	35,971
Interest on pension scheme liabilities	(33,788)	(30,428)
Net expected return on pension liability/asset	7,519	5,543

The expected return on pension scheme assets is calculated using the assumptions and the market value of pension scheme assets as stated in the table above for the preceding period end.

FRIENDS PROVIDENT MANAGEMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

v. Analysis of the amount recognised in statement of total recognised gains and losses (STRGL)

	2004 £000	2003 £000
Actual return less expected return on pension scheme assets	63,883	60,813
Experience gains and losses arising on the scheme liabilities	(7,700)	(10,841)
Changes in assumptions underlying the present value of the scheme liabilities	(60,452)	(24,160)
Actuarial gain/(loss) recognised in STRGL	(4,269)	25,812

vi. Movement in surplus during the period

	2004 £000	2003 £00
(Deficit)/Surplus in scheme at beginning of the year	(4,668)	(19,415)
Movement in period:		
Total operating charge	(15,655)	(16,608)
Employers contributions	10,793	-
Net expected return on pension liability	7,519	5,543
Actuarial gain/(loss)	(4,269)	25,812
Deficit in scheme at end of the period	(6,280)	(4,668)

vii. History of experienced gains and losses

	2004 £000	2003 £000	2002 £000	2001 £000	2000 £000
Difference between the expected and actual return on scheme assets:					
Amount	63,883	60,813	(189,558)	(188,514)	(139,688)
Percentage of scheme assets	9%	10.0%	(36.0%)	(26.8%)	(16.5%)
Experience gains and losses on scheme liabilities:					
Amount	(7,700)	(10,841)	4,072	(7,801)	8,591
Percentage of the present value of the scheme liabilities	(1%)	(2.0%)	0.7%	(1.6%)	1.9%
Total amount recognised in the statement of total recognised gains and losses:					
Amount	(4,269)	25,812	(213,583)	(196,315)	(104,073)
Percentage of the present value of the scheme liabilities	(1%)	4.0%	(39.1%)	(38.3%)	(21.8%)

FRIENDS PROVIDENT MANAGEMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

17. RELATED PARTY DISCLOSURES

The company is a wholly-owned subsidiary undertaking of Friends Provident plc. The results of the company are consolidated in the results of Friends Provident plc, the company's ultimate parent and controlling undertaking, whose financial statements are publicly available. Accordingly, the company is exempt from the requirements of Financial Reporting Standard 8 concerning the disclosure of transactions with other companies which qualify as related parties within the Friends Provident Group. There are no other material related party transactions.

18. ULTIMATE PARENT UNDERTAKING

The company's ultimate parent undertaking is Friends Provident plc which is incorporated in the United Kingdom. Copies of the Group Report and Accounts of Friends Provident plc can be obtained by writing to its Secretary at Pixham End, Dorking, Surrey, RH4 1QA and can be viewed via its website at www.friendsprovident.com