

**FRIENDS PROVIDENT MANAGEMENT SERVICES LIMITED  
REPORT OF THE DIRECTORS  
FOR THE YEAR ENDED 31 DECEMBER 2003**

**DIRECTORS**

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

**SECRETARY**

B.W. SWEETLAND, LLB, Solicitor, ACoI



**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 2003 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 2003 (2002: £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 business's, 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).

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

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

**EMPLOYEES (continued)**

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**

P.W. Moore was appointed as a director on 1 September 2003. D.M. Jackson resigned as a director on 30 September 2003, having held office throughout the year to this date. All other directors named above held office throughout the year.

**DIRECTORS' INTERESTS**

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

**a. Shares**

The interests of directors, their spouses and children under the age of eighteen in the shares of companies within the Friends Provident Group are shown in the table below:

	Friends Provident plc Ordinary shares 10 pence		ISIS Asset Management plc Ordinary shares 0.1 pence	
	At 1 January 2003*	At 31 December 2003	At 1 January 2003	At 31 December 2003
G.K. Aslet	13,788	15,137	-	-
A.R.G. Gunn	35,498	36,847	-	-
P.W. Moore	526	1,332	-	-
K. Satchell	60,253	61,602	10,000	10,000
B.W. Sweetland	93,018	94,367	5,000	5,000

\*Or date of appointment if later.

Since 31 December 2003, G K Aslet, A R G Gunn, K Satchell and B W Sweetland have each acquired a total of 266 shares through monthly subscriptions into the company's Share Incentive Plan (SIP).

**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.

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.

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

**DIRECTOR'S INTERESTS (continued)**

	Options at 1 Jan 2003	Granted / (Exercised) during year	Lapsed during year	Options at 31 Dec 2003	Exercise price (pence)	Earliest exercise date	Latest exercise date
<b>G.K. Aslet</b>							
ShareSave 2002	15,358			15,358	107.76	01/10/07	01/04/08
SIP 2002 (a)	1,059	(1,073)					
ESOS 2002	82,051			82,051	195	14/03/05	14/03/12
ESOS 2003		236,619		236,619	71	17/03/06	17/03/13
LTIP 2002	41,025			41,025	10	14/03/05	14/03/12
LTIP 2003		118,309		118,309	10	17/03/06	17/03/13
<b>Total</b>	<b>139,493</b>	<b>353,855</b>		<b>493,362</b>			
<b>A.R.G. Gunn</b>							
ShareSave 2002	15,358			15,358	107.76	01/10/07	01/04/08
SIP 2002 (a)	1,059	(1,073)					
ESOS 2002	116,667			116,667	195	14/03/05	14/03/12
ESOS 2003		368,311		368,311	71	17/03/06	17/03/13
LTIP 2002	58,333			58,333	10	14/03/05	14/03/12
LTIP 2003		184,155		184,155	10	17/03/06	17/03/13
<b>Total</b>	<b>191,417</b>	<b>551,393</b>		<b>742,824</b>			
<b>D.M. Jackson</b>							
ShareSave 2002	8,815	(3,051)	(5,764)		107.76		
SIP 2002 (a)	1,059	(1,073)					
ESOS 2002	116,667		(116,667)		195		
ESOS 2003					71		
LTIP 2002	58,333		(58,333)		10		
LTIP 2003		169,014	(169,014)		10		
<b>Total</b>	<b>184,874</b>	<b>164,890</b>	<b>(349,778)</b>				
<b>P.W Moore</b>							
ShareSave 2003		8,499		8,499	108.54	01/10/06	01/04/07
ESOS 2003		211,398		211,398	136	06/08/06	06/08/13
LTIP 2003		105,699		105,699	10	06/08/06	06/08/13
<b>Total</b>		<b>325,596</b>		<b>325,596</b>			
<b>K. Satchell</b>							
ShareSave 2002	15,358			15,358	107.76	01/10/07	01/04/08
SIP 2002 (a)	1,059	(1,073)					
ESOS 2002	200,000			200,000	195	14/03/05	14/03/12
ESOS 2003		619,719		619,719	71	17/03/06	17/03/13
LTIP 2002	100,000			100,000	10	14/03/05	14/03/12
LTIP 2003		309,859		309,859	10	17/03/06	17/03/13
<b>Total</b>	<b>316,417</b>	<b>928,505</b>		<b>1,244,936</b>			
<b>B.W. Sweetland</b>							
ShareSave 2002	8,815			8,815	107.76	01/10/05	01/04/06
SIP 2002 (a)	1,059	(1,073)					
ESOS 2002	112,821			112,821	195	14/03/05	14/03/12
ESOS 2003		330,988		330,988	71	17/03/06	17/03/13
LTIP 2002	56,410			56,410	10	14/03/05	14/03/12
LTIP 2003		165,494		165,494	10	17/03/06	17/03/13
<b>Total</b>	<b>179,105</b>	<b>495,409</b>		<b>674,528</b>			

(a) Partnership Shares in respect of the 2002 SIP scheme were purchased on 5 October 2003 at the Market Value of 139.80p and are held in the Share Incentive Plan (SIP) trust. The difference between the options held at 1 January and the options exercised at 5 October reflects the difference in share price at the two dates.

From October 2003 SIP partnership shares are purchased monthly and there is no option granted in relation to these shares.

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

**AUDITORS**

Following the conversion of PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 23 January 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors.

The Board is to recommend that on 20 May 2004 the shareholders approve the appointment of KPMG Audit Plc as the company's auditors in place of PricewaterhouseCoopers LLP. KPMG Audit Plc has indicated its willingness to be appointed from 20 May 2004.

**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 2003 and the amount owed to its trade creditors at 31 December, was four days (2002: two days).

**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 financial year.

In preparing those financial statements the directors are required to:

- select the most appropriate accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed with any material departures being disclosed and explained in the financial statements; 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 confirm that they have complied with these requirements.

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

**STATEMENT OF GOING CONCERN**

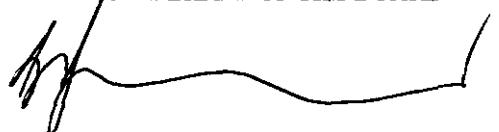
After making enquiries and in view of the support formally provided by the company's immediate parent undertaking until 31 December 2005, the directors are satisfied that the company has adequate resources to continue to operate as a going concern for the foreseeable future and have prepared the financial statements on that basis.

Pixham End  
Dorking  
Surrey  
RH4 1QA

2 March 2004

Registered Number 983330

ON BEHALF OF THE BOARD



B.W. SWEETLAND  
SECRETARY

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

We have audited the financial statements on pages 6 to 16 which have been prepared in accordance with the accounting policies set out on pages 8 to 9.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the directors' responsibilities on page 4.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This opinion has been prepared for and only for the company's members in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

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 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. The other information comprises only the Directors' Report.

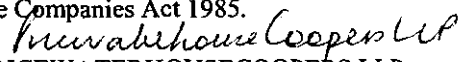
**BASIS OF AUDIT OPINION**

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 judgments 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 at 31 December 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
PRICEWATERHOUSECOOPERS LLP  
Chartered Accountants and Registered Auditors  
Southwark Towers  
32 London Bridge Street  
London  
SE1 9SY  
2 March 2004

**FRIENDS PROVIDENT MANAGEMENT SERVICES LIMITED**  
**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2003**

	Notes	2003 £000	2002 £000
<u>Continuing operations</u>			
Turnover	2	323,728	272,282
Administrative expenses		(323,375)	(269,844)
<b>OPERATING PROFIT</b>		<b>353</b>	<b>2,438</b>
Interest receivable and similar income		519	392
Other finance income	16(iv)	5,543	22,806
Interest payable and similar charges	3	-	(3,859)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	<b>5(b)</b>	<b>6,415</b>	<b>21,777</b>
Tax on profit on ordinary activities	5	(6,551)	(8,617)
<b>RETAINED (LOSS)/ PROFIT FOR THE FINANCIAL YEAR</b>		<b>(136)</b>	<b>13,160</b>

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR  
THE YEAR ENDED 31 DECEMBER 2003**

	Notes	2003 £000	2002 £000
(Loss)/Profit for the financial year		(136)	13,160
Pension scheme gains/(losses)	16(v)	25,812	(213,583)
Deferred taxation on pension scheme gains/(losses)		(7,744)	64,075
<b>Total recognised gains and (losses) for the financial year</b>		<b>17,932</b>	<b>(136,348)</b>

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 2003**

	Notes	2003 £000	2002 £000
<b>FIXED ASSETS</b>			
Tangible assets	8	19,791	26,961
<b>CURRENT ASSETS</b>			
Debtors	9	72,838	36,129
Deposits with credit institutions		30,515	72,357
Cash at bank and in hand		33,477	24,612
		136,830	133,098
<b>PREPAYMENTS AND ACCURED INCOME</b>		6,145	4,501
		142,975	137,599
<b>CREDITORS: Amounts falling due within one year</b>	10	(144,454)	(162,349)
<b>NET CURRENT LIABILITIES</b>		(1,479)	(24,750)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		18,312	2,211
<b>CREDITORS: Amounts falling due after more than one year</b>		-	(428)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	12	(8,337)	(1,853)
<b>ACCRUALS AND DEFERRED INCOME</b>		(21,289)	(18,853)
<b>NET LIABILITIES EXCLUDING PENSION LIABILITY</b>		(11,314)	(18,923)
<b>NET PENSION LIABILITY</b>	16(ii)	(3,267)	(13,590)
<b>NET LIABILITIES INCLUDING PENSION LIABILITY</b>		(14,581)	(32,513)
<b>CAPITAL AND RESERVES</b>			
Called up share capital	13	100	100
Profit and loss account	14	(14,681)	(32,613)
<b>TOTAL SHAREHOLDER'S FUNDS - ALL EQUITY</b>	14	(14,581)	(32,513)

Approved by the Board on 2 March 2004 and signed on its behalf by

  
B.W. SWEETLAND  
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).

**(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 ISIS 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 to the employer being, the value of the assets in the schemes less the present value of the schemes liabilities. 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.

**(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.



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

**1. ACCOUNTING POLICIES (continued)**

**(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. INTEREST PAYABLE AND SIMILAR CHARGES**

	<b>2003</b>	<b>2002</b>
	<b>£000</b>	<b>£000</b>
<i>Interest payable to group undertakings</i>	-	3,859
	-	3,859

**4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION**

Profit on ordinary activities before taxation is stated after charging:

	<b>2003</b>	<b>2002</b>
	<b>£000</b>	<b>£000</b>
Auditors' remuneration for audit services	14	8
Operating lease rentals:		
- land and buildings	11,041	7,418
- others	2,788	2,387
Depreciation of tangible fixed assets:		
- owned assets	15,863	17,707
- held under finance lease contracts	356	952
Loss on sale of fixed assets	2,527	1,217
Finance lease charges	13	159

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 £771,000 (2002: £755,000).

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

**5. TAXATION**

	2003 £000	2002 £000
<b>(a) Analysis of the tax charge for period</b>		
UK corporation tax @ 30%	19,834	10,235
Adjustments in respect of prior periods	3,006	366
	22,840	10,601
Adjustments in respect of prior periods	(3,869)	-
Deferred taxation – origination and reversal of timing differences	(12,420)	(1,984)
Tax on profit on ordinary activities	6,551	8,617
<b>(b) Factors affecting charge for period</b>		
Profit on ordinary activities before taxation	6,415	21,777
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30 %	1,925	6,533
Effects of:		
- Deductions not allowable for tax purposes	5,489	1,718
- Deferred tax movements	12,420	1,984
- Prior year adjustment	3,006	366
Current tax charge for the period	22,840	10,601

**6. 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 2003 or 2002. At 31 December 2003 all five (2002: five) directors were members of the defined benefit scheme for staff, the Friends Provident Pension Scheme.

**7. 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.

	2003 £000	2002 £000
<b>(a) The average number of employees (including all directors) was:</b>		
Management services	4,211	4,316
<b>(b) Gross employment costs (including all directors) amounted to:</b>		
Wages and salaries	121,752	110,263
Social security costs	9,660	9,500
Pension costs	16,647	17,828
	148,059	137,591

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

**8. TANGIBLE FIXED ASSETS**

	Motor vehicles	Computer equipment	Fixtures, fittings and office equipment	Total
	£000	£000	£000	£000
Cost:				
At 1 January 2003	13,017	74,816	4,398	92,231
Additions	2,079	10,514	657	13,250
Disposals	(3,911)	(44,504)	(2,066)	(50,481)
At 31 December 2003	11,185	40,826	2,989	55,000
Depreciation:				
At 1 January 2003	5,333	57,057	2,880	65,270
Charge for the year	2,753	12,983	483	16,219
Disposals	(2,472)	(41,742)	(2,066)	(46,280)
At 31 December 2003	5,614	28,298	1,297	35,209
Net book value				
At 31 December 2003	5,571	12,528	1,692	19,791
At 31 December 2002	7,684	17,759	1,518	26,961

The net book value includes an amount of £460,000 (2002: £1,807,000) in respect of motor vehicles held under finance leases.

**9. DEBTORS**

	2003 £000	2002 £000
Amounts owed by group undertakings	41,346	11,070
Other debtors	7,042	13,578
Deferred taxation	24,450	11,481
	72,838	36,129

**Deferred Taxation**

Details of the deferred taxation asset are given below.

	2003 £000	2002 £000
Accelerated capital allowances	21,970	11,355
Other short term timing differences	2,480	126
	24,450	11,481

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)**

**10. CREDITORS : amounts falling due within one year**

	2003 £000	2002 £000
Amounts owed to group undertakings	88,571	96,561
Corporation tax payable	13,612	11,515
Other taxation and social security	2,453	1,086
Obligations under finance leases	1,850	616
Other creditors	37,968	52,571
	<u>144,454</u>	<u>162,349</u>

Amounts owed to group undertakings includes a loan of £75m which is repayable on demand. At 31 December 2003 £37m (2002:£50m) of other creditors represents receipts from Life and Pensions business policyholders to be allocated to the appropriate Group company.

**11. FINANCE LEASES**

	2003 £000	2002 £000
Future minimum payments are as follows:		
Within one year	138	498
In more than one year, but not more than five years	309	406
	<u>447</u>	<u>904</u>

Commitments under non-cancellable leases represent £460k (2002:£1,044k) of obligations under finance leases and £13k (2002:£140k) of prepaid finance charges.

**12. PROVISIONS FOR LIABILITIES AND CHARGES**

	Closure Costs £000	Pension and similar obligations £000	Total £000
At 1 January 2003	1,388	465	1,853
Utilised in the year	(1,388)	-	(1,388)
Charge for the year	7,613	259	7,872
At 31 December 2003	<u>7,613</u>	<u>724</u>	<u>8,337</u>

At the year end £651k of the provision for pensions and similar obligations relates to the unfunded retirement benefits of the director A.R.G. Gunn. The closure costs provision relates to the cessation of activities of a direct sales operation (First Call) as announced on 19 November 2003. The closure costs utilisation relates to the cessation of activities of the OEIC administration department in April 2003.

**13. CALLED-UP SHARE CAPITAL**

	2003 £000	2002 £000
Authorised	100	100
Allotted and fully paid:		
100,000 ordinary shares of £1 each	<u>100</u>	<u>100</u>

**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 fund
	£000	£000	£000	£000
Balance as at 1 January 2003	100	(19,023)	(13,590)	(32,513)
Retained loss for the financial year	-	(136)	-	(136)
Pension scheme gains	-	-	25,812	25,812
Deferred tax on pension scheme losses	-	-	(7,744)	(7,744)
Transfers between reserves	-	7,745	(7,745)	-
Balance as at 31 December 2003	100	(11,414)	(3,267)	(14,581)

**15. OPERATING LEASES**

At 31 December 2003, the company had the following annual commitments under operating leases:

	2003 £000	2002 £000
Land and buildings which expire:		
within 1 year	500	108
within 2 - 5 years	647	839
After 5 years	864	1,088
Other operating leases which expire:		
within 1 year	2,529	2,639

**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 ISIS Asset Management plc, a fellow subsidiary undertaking. A full actuarial valuation was carried out at 30 September 2003 and was updated to 31 December 2003 by the scheme Actuary.

The employer paid no contributions to the scheme for the period ended 31 December 2003, in accordance with the schedule of contributions for the period to 30 September 2007 agreed between the employer and the scheme trustees, based on the actuarial valuation as at 30 September 2001.

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

	FPPS £000
Date of last valuation	30 September 2003
Method of valuation	Projected Unit
Scheme actuary	Towers Perrin
Market value of assets at last valuation date	£565,258
Level of funding	94%

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

The major assumptions used by the actuary were:

	2003 £000	2002 £000	2001 £000
Inflation assumption	2.50%	2.00%	2.25%
Rate of increase in salaries	*3.00%	*3.50%	*3.75%
Rate of increase in pensions in payment	2.50%	2.00%	2.25%
Discount rate	5.50%	5.50%	6.00%
* 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		
	2003	2002	2001	2003 £000	2002 £000	2001 £000
Fixed interest bonds	5.25%	5.00%	4.75%	52,030	46,438	63,154
Index-linked bonds	5.00%	4.75%	4.50%	35,770	39,013	44,731
Equities	7.30%	7.50%	8.50%	503,324	423,419	580,942
Derivatives	-	-	-	3,805	-	-
Cash	4.00%	4.00%	4.50%	9,114	18,294	12,599
Total market value of assets				604,043	527,164	701,426
Present value of scheme liabilities				(608,710)	(546,579)	(512,236)
Deficit in the scheme				(4,667)	(19,415)	189,190
Related deferred tax asset				1,400	5,825	(56,757)
Net pension liability				(3,267)	(13,590)	132,433

iii. Analysis of the amount charged to operating profit

	2003 £000	2002 £000
Current service cost	16,608	17,828
Total operating charge	16,608	17,828

iv. Analysis of the amount credited to other finance income

	2003 £000	2002 £000
Expected return on pension scheme assets	35,971	53,464
Interest on pension scheme liabilities	(30,428)	(30,658)
Net expected return on pension liability/asset	5,543	22,806

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)

	2003 £000	2002 £000
Actual return less expected return on pension scheme assets	60,813	(189,558)
Experience gains and losses arising on the scheme liabilities	(10,841)	4,072
Changes in assumptions underlying the present value of the scheme liabilities	(24,160)	(28,097)
Actuarial gain/(loss) recognised in STRGL	25,812	(213,583)

vii. Movement in surplus during the period

	2003 £000	2002 £000
(Deficit)/Surplus in scheme at beginning of the year	(19,415)	189,190
Movement in period:		
Total operating charge	(16,608)	(17,828)
Net expected return on pension liability	5,543	22,806
Actuarial gain/(loss)	25,812	(213,583)
Deficit in scheme at end of the period	(4,668)	(19,415)

viii. History of experienced gains and losses

	2003 £000	2002 £000	2001 £000	2000 £000	1999 £000
<b>Difference between the expected and actual return on scheme assets:</b>					
Amount	60,813	(189,558)	(188,514)	(139,688)	127,502
Percentage of scheme assets	10.0%	(36.0%)	(26.8%)	(16.5%)	13.6%
<b>Experience gains and losses on scheme liabilities:</b>					
Amount	(10,841)	4,072	(7,801)	8,591	(902)
Percentage of the present value of the scheme liabilities	(2.0%)	0.7%	(1.6%)	1.9%	(0.2%)
<b>Total amount recognised in the statement of total recognised gains and losses:</b>					
Amount	25,812	(213,583)	(196,315)	(104,073)	104,084
Percentage of the present value of the scheme liabilities	4.0%	(39.1%)	(38.3%)	(21.8%)	21.6%

**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.

**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](http://www.friendsprovident.com)