

1665500

**FRIENDS' PROVIDENT LINKED LIFE ASSURANCE LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31ST DECEMBER 2000**

DIRECTORS

K. SATCHELL, BSc, FIA (Chairman)
G.K. ASLET, MA, FIA
B.W. SWEETLAND, LLB, Solicitor, ACol

SECRETARY

B.W. SWEETLAND, LLB, Solicitor, ACol

PRINCIPAL ACTIVITY

The principal activity of the company was previously the transaction of linked long-term reinsurance business in respect of contracts issued by Friends' Provident Life Office in the United Kingdom.

On 31st August 1999 the company's entire long-term business assets and liabilities were transferred to Friends' Provident Life Office in accordance with the terms of a scheme under Schedule 2C to the Insurance Companies Act 1982. From this date the company ceased accepting linked long-term reinsurance business and on 30th December 1999 the company's authorisation to accept linked long-term reinsurance business was removed.

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 until 31st August 1999. However, the company ceased to trade when the company's entire long-term business assets and liabilities were transferred to Friends' Provident Life Office on 31st August 1999.

Information relating to the assets and liabilities transferred to Friends' Provident Life Office is given in note 6.

DIVIDEND

The directors do not recommend the payment of a dividend for the year ended 31st December 2000 (1999:£3,189,499).

DIRECTORS

The directors named above held office throughout the year. No director had any beneficial interest in shares or debentures of any company in the Friends' Provident Life Office Group during the year.



FRIENDS' PROVIDENT LINKED LIFE ASSURANCE LIMITED
REPORT OF THE DIRECTORS (continued)

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, PricewaterhouseCoopers, have signified their willingness to continue in office.

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 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 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

8 May 2001

Registered Number 1665500

ON BEHALF OF THE BOARD



B.W. SWEETLAND
SECRETARY

**AUDITORS' REPORT
TO THE MEMBER OF FRIENDS' PROVIDENT LINKED LIFE ASSURANCE LIMITED**

We have audited the financial statements on pages 4 to 12 which have been prepared in accordance with the accounting policies set out on pages 7 and 8.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report. As described on page 2, 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.

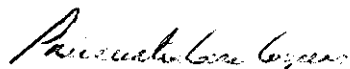
BASIS OF AUDIT OPINION

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 affairs of the company as at 31st December 2000 and of its result for the year then ended and have been properly prepared in accordance with the provisions of the Companies Act 1985.



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

8 May 2001

FRIENDS' PROVIDENT LINKED LIFE ASSURANCE LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 2000

TECHNICAL ACCOUNT - LONG TERM BUSINESS

	Notes	2000 £000	1999 £000
<u>Discontinued operations</u>			
Earned premiums, net of reinsurance			
Gross premiums written	3	-	151,522
Outward reinsurance premiums		-	316
		---	-----
		-	151,838
Investment income	4	-	15,992
Unrealised gains on investments (net)	4	-	119,363
Other technical income, net of reinsurance		-	849
		---	-----
Total technical income		-	288,042
		---	-----
Claims incurred, net of reinsurance			
Claims paid		-	70,959
Change in other technical provisions, net of reinsurance			
Other technical provisions, net of reinsurance			
Technical provisions for linked liabilities			
gross amount		-	206,324
reinsurer's share		-	(2,501)
Net operating expenses	5	-	5,618
Investment expenses and charges	4	-	422
Tax attributable to the long-term business	6	-	7,007
		---	-----
		-	13,047
		---	-----
Total technical charges		-	287,829
		---	-----
Balance on the technical account - long-term business		-	213
		==	=====

Note

The technical account includes all recognised gains and losses attributable to policyholders.

The notes on pages 7 to 12 form an integral part of these financial statements

FRIENDS' PROVIDENT LINKED LIFE ASSURANCE LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 2000

NON-TECHNICAL ACCOUNT

	Notes	2000 £000	1999 £000
<u>Discontinued operations</u>			
Balance on the Technical account - long-term business		-	213
Tax credit attributable to balance on the long-term business technical account		-	93
		---	-----
Shareholder's pre-tax profit from long-term business		-	306
Investment income	4	-	499
Unrealised gains on investments	4	-	(476)
		---	-----
Profit before exceptional item		-	329
Exceptional item - loss on transfer of the net assets of the long-term business to Friends' Provident Life Office	7	-	(2,689)
		---	-----
Loss on ordinary activities before tax		-	(2,360)
Tax on profit on ordinary activities	6	-	(215)
		---	-----
Loss for the financial year		-	(2,575)
Dividend - final		-	(3,189)
		---	-----
Retained loss for the financial year	10	-	(5,764)
		==	=====

Note


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 7 to 12 form an integral part of these financial statements

FRIENDS' PROVIDENT LINKED LIFE ASSURANCE LIMITED
BALANCE SHEET AS AT 31ST DECEMBER 2000

	Notes	2000 £000	1999 £000
ASSETS			
Debtors			
Other debtors	8	250	2,490
Other assets			
Cash at bank and in hand		-	1,071
TOTAL ASSETS		<u>250</u>	<u>3,561</u>
LIABILITIES			
Capital and reserves			
Called up share capital	9	250	250
Shareholder's funds - equity interests	9, 10	<u>250</u>	<u>250</u>
Creditors			
Other creditors including taxation	12	-	3,311
TOTAL LIABILITIES		<u>250</u>	<u>3,561</u>

Approved by the Board on 8 May 2001 and signed on its behalf by



K. SATCHELL
EXECUTIVE CHAIRMAN

The notes on pages 7 to 12 form an integral part of these financial statements

FRIENDS' PROVIDENT LINKED LIFE ASSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS

1. IMPACT OF CHANGES ON PRIOR YEAR ADJUSTMENT ARISING FROM ACCOUNTING POLICY CHANGES

The impact of the change in accounting policy arising from the adoption of Financial Reporting Standard 16 "Current Tax". In the long term business technical account the impact on the prior year is to reduce both investment income and tax attributable to long term business by £529,000.

2. ACCOUNTING POLICIES

(a) Basis of presentation

The accounts have been prepared in accordance with Section 255 and Schedule 9A to the Companies Act 1985.

The financial statements have also 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 Association of British Insurers' Statement of Recommended Practice on Accounting for Insurance Business dated December 1998.

(b) Premiums

Premium income, not being subject to contractual regular premiums, is accounted for when received within Friends' Provident Life Office.

(c) Claims and surrenders

Claims and surrenders are accounted for when they are paid. Claims payable include claims handling costs.

(d) Investment income and expenses

Investment income includes dividends, interest, rents, and gains and losses on the realisation of investments. Income from fixed interest securities together with interest, rents and expenses are accounted for in the year in which they accrue.

Investment expenses are accounted for on an accruals basis.

The Group has adopted the requirement of the Financial Reporting Standard 16 "Current Tax" in 1999. Dividends, interest or other income receivable includes any withholding tax but excludes any other taxes, such as attributable credits, not payable wholly on behalf of the group. Previously attributable tax credits were included in investment income. The tax on ordinary activities is reduced by an equal amount. The financial impact of this change is considered in note 1 on page 7 and comparatives have been restated.

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 the shareholder's investments are dealt with in the non-technical account.

FRIENDS' PROVIDENT LINKED LIFE ASSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

(e) Deferred taxation

Deferred taxation is provided on material timing differences using the liability method where the amount is reasonably expected to become payable in the foreseeable future.

Allowance is made in the technical provisions for linked liabilities for deferred taxation in respect of the unrealised gains on investments, including that relating to the deemed disposal of unit trust units which is deferred.

(f) Foreign currencies

Assets and liabilities held in foreign currencies at 31st 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 or losses are dealt with in the profit and loss accounts.

3. SEGMENTAL ANALYSIS

Premiums originated from one class of business, the transaction of investment linked life assurance long-term reinsurance business in respect of contracts issued by Friends' Provident Life Office. All business originated in the United Kingdom and comprised individual business.

(a) Gross premiums written

Gross premiums written are analysed as follows:

	2000	1999
	£000	£000
<u>Discontinued operations</u>		
Regular premiums	-	48,268
Single premiums	-	103,254
	---	-----
	-	151,522
	---	-----

(b) Assets attributable to long-term business

Of the amount of assets shown on page 6, £Nil is attributable to long-term business (1999: £Nil).

FRIENDS' PROVIDENT LINKED LIFE ASSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

4. INVESTMENT RETURN SUMMARY	2000	1999
	£000	£000
(a) Technical account		
Investment income:		
Income from other investments	-	14,216
Gains on the realisation of investments	-	1,776
	--	-----
	-	15,992
 Movement in unrealised gains on investments	-	119,363
 Investment management expenses, including interest	-	(422)
	--	-----
Net investment return	-	134,933
	--	-----
 Investment management expenses include bank interest and charges on bank loans and overdrafts amounting to £Nil (1999:£42,216).		

(b) Non-technical account	2000	1999
	£000	£000
Investment income:		
Income from investments	-	499
 Movement in unrealised gains on investments	-	(476)
	--	-----
Net investment return	-	23
	--	-----
Total investment return	-	134,956
	==	=====

5. **NET OPERATING EXPENSES**

All the company's operating expenses, including new business acquisition costs and investment management expenses were paid by Friends Provident Management Services Limited ("FPMS"). A management fee was charged to the company to cover these expenses other than new business acquisition costs.

Net operating expenses comprise administrative expenses which include auditors' remuneration for audit services of £Nil (1999: £4,000) and auditors' remuneration for non-audit services of £Nil (1999: £Nil).

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 were employed by FPMS.

FRIENDS' PROVIDENT LINKED LIFE ASSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

6. TAXATION

United Kingdom and overseas taxation has been charged in the Technical account for long-term business and the Non-technical account on assessable profits and income for the year on the bases appropriate to the class of business and the territory.

	2000		1999	
	Technical account £000	Non-technical account £000	Technical account £000	Non-technical account £000
Corporation tax	-	-	7,007	122
Tax credit attributable to balance on the long-term business Technical account	-	-	-	93
	--	--	-----	---
	-	-	7,007	215
	==	==	=====	==

7. EXCEPTIONAL ITEM

On 31st August 1999 the company's entire long-term business assets and liabilities were transferred to Friends' Provident Life Office for nil consideration. The assets and liabilities transferred and the exceptional loss arising are set out below.

Assets	£000
Assets held to cover linked liabilities	1,363,821
Reinsurers' share of technical provisions	32,764
Debtors	3,048

	1,399,633
	=====
Liabilities	
Technical provisions for linked liabilities	1,396,585
Creditors	359

	1,396,944
	=====
Net assets transferred	2,689
Consideration	-

Loss on transfer of net assets	2,689
	=====

FRIENDS' PROVIDENT LINKED LIFE ASSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

8. OTHER DEBTORS

	2000	1999
	£000	£000
Amounts falling due within one year:		
Amounts due from group undertakings	250	2,490
	<u>=====</u>	<u>=====</u>

9. CALLED-UP SHARE CAPITAL

	2000	1999
	£000	£000
Authorised:		
1,000,000 ordinary shares of £1 each	1,000	1,000
	<u>=====</u>	<u>=====</u>
Allotted and fully paid:		
250,000 ordinary shares of £1 each	250	250
	<u>=====</u>	<u>=====</u>

10. SHAREHOLDER'S FUNDS

The net assets comprising the shareholder's funds are:

	2000	1999
	£000	£000
Assets		
Amounts due from group undertakings	250	2,490
Cash at bank	-	1,071
	<u>-----</u>	<u>-----</u>
	250	3,561
	<u>-----</u>	<u>-----</u>
Liabilities		
Taxation payable	-	122
Dividend payable	-	3,189
	<u>-----</u>	<u>-----</u>
	-	3,311
	<u>-----</u>	<u>-----</u>
Shareholder's net assets	-	250
	<u>=====</u>	<u>=====</u>

FRIENDS' PROVIDENT LINKED LIFE ASSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

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

There have been no movements in total shareholders funds during the period.

12. OTHER CREDITORS INCLUDING TAXATION

	2000	1999
	£000	£000
Amounts falling due within five years:		
Taxation payable	-	122
Dividend payable	-	3,189
	-	-----
	-	3,311
	==	====

13. RELATED PARTY TRANSACTIONS

The company is a wholly owned subsidiary undertaking of FP Business Holdings Ltd. The results of both the company and FP Business Holdings Ltd. 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.

14. ULTIMATE PARENT UNDERTAKING

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