

**FRIENDS PROVIDENT PENSIONS SERVICES LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2002**

DIRECTORS

B.W. SWEETLAND LLB, Solicitor, ACol

D.MONGER, B Soc Sc (Hons), FCIS

SECRETARY

D.MONGER, B Soc Sc (Hons), FCIS



PRINCIPAL ACTIVITY

The principal activity of the company is pensions administration services. The company's administrative requirements are provided by a fellow subsidiary undertaking under a management services agreement and accordingly the company has no direct employees.

RESULTS AND BUSINESS REVIEW

The results of the company are shown in the profit and loss account on page 5.

DIVIDEND

The directors do not recommend the payment of a dividend for the year ended 31 December 2002 (2001:£127,442).

DIRECTORS

The 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 2002	At 31 December 2002	At 1 January 2002	At 31 December 2002
D. Monger	18,177	20,178	-	-
B.W. Sweetland	74,397	93,018	-	5,000

FRIENDS PROVIDENT PENSIONS SERVICES LIMITED

REPORT OF THE DIRECTORS (continued)

DIRECTORS' INTERESTS (continued)

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 Share Incentive Plan (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 Report and Accounts of Friends Provident plc.

	Options at 01/01/02	Granted / (Exercised) during year	Lapsed during year	Options at 31/12/02	Exercise price (pence)	Earliest exercise date	Latest exercise date
D. Monger							
ShareSave 2001	9,375		9,375		180.00	1 Aug 2006	1 Feb 2007
ShareSave 2002		15,358		15,358	107.76	1 Oct 2007	1 Apr 2008
SIP 2001(a)	666	(1,113)			134.75	9 Jul 2002	9 Jul 2002
SIP 2002		1,059		1,059	141.65	5 Sep 2003	5 Sep 2003
ESOS 2002		11,187		11,187	195.00	14 Mar 2005	14 Mar 2012
Total	10,041	26,491	9,375	27,604			
B.W. Sweetland							
ShareSave 2001	5,381		5,381		180.00	1 Aug 2004	1 Feb 2005
ShareSave 2002		8,815		8,815	107.76	1 Oct 2005	1 Apr 2006
SIP 2001 (a)	666	(1,113)			134.75	9 Jul 2002	9 Jul 2002
SIP 2002		1,059		1,059	141.65	5 Sep 2003	5 Sep 2003
ESOS 2002		112,821		112,821	195.00	14 Mar 2005	14 Mar 2012
LTIP 2002		56,410		56,410	10.00	14 Mar 2005	14 Mar 2012
Total	6,047	177,992	5,381	179,105			

(a) Partnership Shares in respect of the 2001 SIP scheme were purchased on 9 July 2002 at the Market Value of 134.75p and are held in the Share Incentive Plan (SIP) trust. Note that the difference between the 666 options held at 1 January and the 1,113 exercised at 9 July reflects the difference in share price at the two dates.

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 company has 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 LLP, have signified their willingness to continue in office.

FRIENDS PROVIDENT PENSIONS SERVICES 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 as at the end of the financial year and of the profit or loss of the company for that period. 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 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

29 May 2003

Registered Number 2821777

ON BEHALF OF THE BOARD



D. MONGER
SECRETARY

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF FRIENDS PROVIDENT PENSIONS SERVICES LIMITED**

We have audited the financial statements on pages 5 to 8 which have been prepared in accordance with the accounting policies set out on page 7.

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 3.

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 report, including the 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 into 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2002 and of its profit 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

20 June 2003

FRIENDS PROVIDENT PENSIONS SERVICES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2002

	Notes	2002 £000	2001 £000
<u>CONTINUING OPERATIONS</u>			
Turnover	1	125	71
Administrative expenses		-	(7)
Profit on ordinary activities before taxation	2	125	64
 Tax on profit on ordinary activities	4	(37)	(19)
Profit on ordinary activities after taxation		88	45
 Dividend		-	(127)
Retained profit/(loss)		88	(82)

Note

The above profit and loss account includes all recognised gains and losses. There is no difference between the results disclosed above and the results on a historical cost basis.

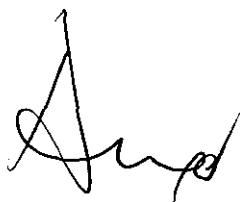
The notes on pages 7 and 8 form an integral part of these financial statements.

FRIENDS PROVIDENT PENSIONS SERVICES LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2002

	Notes	2002 £000	2001 £000
Current assets			
Debtors	5	86	55
Cash at bank and in hand		86	57
		<u>172</u>	<u>112</u>
Creditors			
Amounts falling due within one year	6	(82)	(110)
Total assets less current liabilities		<u>90</u>	<u>2</u>
Capital and reserves			
Called up share capital	7	1	1
Profit and loss account		89	1
		<u>90</u>	<u>2</u>

Approved by the board on 29 May 2003 and signed on its behalf by



D. MONGER
DIRECTOR

The notes on pages 7 and 8 form an integral part of these financial statements

FRIENDS PROVIDENT PENSIONS 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.

(ii) The company is a wholly owned subsidiary of Friends Provident Pensions Limited and is included in the consolidated financial statements of Friends Provident plc which 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) Turnover

Turnover comprises management fees receivable.

(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 tax liabilities are discounted using the gilt yield rates appropriate to the estimated year the timing difference is expected to reverse. 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.

2. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Auditors' remuneration for audit services of £1,000, were borne by Friends Provident Life and Pensions Limited (2001: £Nil).

3. DIRECTORS AND EMPLOYEES

All directors are employed by, and receive their emoluments from, another group undertaking. The directors holding office during 2002 consider that their services to the company are incidental to their other duties within the Friends Provident Group and accordingly no remuneration has been apportioned to this company. All staff were employed by Friends Provident Management Services Limited.

4. TAXATION

	2002	2001
	£000	£000
(a) Tax on profit on ordinary activities:		
Group relief	37	19
(b) Factors affecting tax for the period:		
Profit on ordinary activities before tax	125	64
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	37	19

FRIENDS PROVIDENT PENSIONS SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. DEBTORS

	2002	2001
	£000	£000
Trade debtors	86	55

6. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2002	2001
	£000	£000
Amounts owed to group companies	34	82
Taxation payable	48	28
	82	110

7. SHARE CAPITAL

	2002	2001
	£000	£000
Authorised:		
1,000 ordinary shares of £1 each	1	1
Allotted, called up and fully paid:		
1,000 ordinary shares of £1 each	1	1

8. RECONCILIATION OF MOVEMENT IN TOTAL SHAREHOLDER'S FUNDS

	Share capital	Profit and loss account	Total shareholder's funds
	£000	£000	£000
Balance at 1 January 2002	1	1	2
Retained profit/ (loss)	-	88	88
Balance at 31 December 2002	1	89	90

9. RELATED PARTY TRANSACTIONS

The results of the company are consolidated in the results of Friends Provident plc, the Company's ultimate parent and controlling company, 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.

10. 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