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**FRIENDS PROVIDENT THE BLUE LINE LIMITED
REPORT OF THE DIRECTORS
FOR THE PERIOD ENDED 31ST DECEMBER 1998**

DIRECTORS

B.W. SWEETLAND, LLB

R.M. WHIFFIN, FCA

SECRETARY

B.W. SWEETLAND, LLB

PRINCIPAL ACTIVITY

The principal activity of the company is the provision of management and administrative services to Friends' Provident Life Office in respect of direct marketing and telephone sales service activities.

RESULTS AND BUSINESS REVIEW

The results of the company are shown in the profit and loss account on page 5. New business has decreased over that experienced in 1997 which results were influenced by the success of the High Income Bond launch in that year.

DIVIDEND

The directors do not recommend the payment of a dividend for the year ended 31st December 1998 (1997: £Nil).

DIRECTORS

The directors named above held office throughout the year. No director held shares beneficially in any company of the Friends' Provident Life Office Group during the period.

EMPLOYEES

Friends' Provident Life Office (the "Office") and its employing subsidiary undertakings, including Friends' Provident The Blue Line Limited, are committed to a policy of encouraging employee involvement at all levels.

The primary methods of implementing this policy are:

- management briefing and discussion through the management chain
- the issue of a full range of employee publications which inform staff of current progress
- a Staff Forum which allows staff views on a variety of subjects to be discussed with executive management
- the establishment of effective working relationships with staff and line management representative bodies

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



FRIENDS PROVIDENT THE BLUE LINE LIMITED

REPORT OF THE DIRECTORS (continued)

EMPLOYEES (continued)

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 The Blue Line Limited and other group companies are set out in the consolidated accounts of the company's ultimate parent company, Friends' Provident Life Office, which are available to all staff.

YEAR 2000

Many computer systems express dates using only the last two digits of the year and will therefore require modification to accommodate the Year 2000. The Friends Provident Group has a programme to address this issue and good progress has already been made. The programme covers computer hardware and software and also embedded systems. Information relating to the expenses of the programme is given in the Group Report and Accounts of Friends' Provident Life Office. It is not meaningful to provide this information for each subsidiary company.

Although it is not possible to guarantee that the company will not suffer any Year 2000 problems the directors are confident that adequate steps are being taken to ensure the continuity of the company's operations as the century changes.

AUDITORS

Following the merger of Price Waterhouse and Coopers & Lybrand from 1st July 1998, Price Waterhouse resigned as auditors on 17th July 1998 and the new firm PricewaterhouseCoopers were appointed by the Board to fill the casual vacancy created by the resignation.

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.

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

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

The directors confirm that they have complied with the above requirements.

Pixham End
Dorking
Surrey
RH4 1QA

29th April 1999

Registered Number 3146254

BY ORDER OF THE DIRECTORS



B.W. SWEETLAND
SECRETARY

AUDITORS' REPORT

TO THE MEMBER OF FRIENDS PROVIDENT THE BLUE LINE LIMITED

We have audited the financial statements on pages 5 to 9 which have been prepared under the historical cost convention and the accounting policies set out on page 7.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report, including as described on page 3 the financial statements. Our responsibilities, as independent auditors, are established 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 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 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 31st December 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PRICEWATERHOUSECOOPERS

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

29th April 1999

FRIENDS PROVIDENT THE BLUE LINE LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 1998

	Notes	1998 £	1997 £
<u>Continuing Operations</u>			
Turnover	2	5,004,710	5,112,968
Administrative expenses	3	(7,800,566)	(7,375,425)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(2,795,856)	(2,262,457)
Tax credit on loss on ordinary activities	6	866,873	713,831
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION AND RETAINED LOSS FOR THE FINANCIAL PERIOD	9	(1,928,983)	(1,548,626)

Note

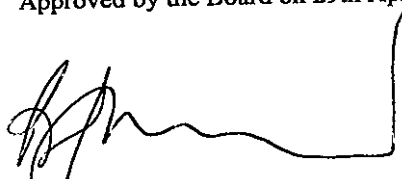
The above profit and loss account includes all recognised gains and losses. There is no difference between the results disclosed above and the results on an historical cost basis.

The notes on pages 7 to 9 form an integral part of these financial statements

FRIENDS PROVIDENT THE BLUE LINE LIMITED
BALANCE SHEET AS AT 31ST DECEMBER 1998

	Notes	1998 £	1997 £
CURRENT ASSETS			
DEBTORS: Amounts falling due within one year	7	1,579,390	1,271,248
		<u>1,579,390</u>	<u>1,271,248</u>
CREDITORS: Amounts falling due within one year			
Amounts due to group undertakings		(6,192,706)	(3,955,581)
		<u>(6,192,706)</u>	<u>(3,955,581)</u>
NET CURRENT LIABILITIES		<u>(4,613,316)</u>	<u>(2,684,333)</u>
CAPITAL AND RESERVES			
Called-up share capital	8	1	1
Profit and loss account	9	(4,613,317)	(2,684,334)
		<u>(4,613,317)</u>	<u>(2,684,334)</u>
TOTAL SHAREHOLDER'S FUNDS - EQUITY	9	<u>(4,613,316)</u>	<u>(2,684,333)</u>

Approved by the Board on 29th April 1999 and signed on its behalf by


B. W. SWEETLAND
DIRECTOR

The notes on pages 7 to 9 form an integral part of these financial statements

FRIENDS PROVIDENT THE BLUE LINE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

(b) Contribution to pension funds

Pension costs are charged to the profit and loss account so as to spread the expected cost of pensions, calculated in accordance with the advice of the Actuary of the Friends' Provident Life Office Retirement and Death Benefits Scheme (1974), over the average remaining service lives of scheme members.

2. TURNOVER

Turnover, wholly generated in the United Kingdom, comprises administration fees for services to Friends' Provident Life Office. The company has only one class of business being the provision of administrative services.

3. ADMINISTRATIVE EXPENSES

Audit fees of £5,000 (1997: £5,000) incurred for audit services to this company were borne by Friends' Provident Life Office.

4. DIRECTORS AND EMPLOYEES

- (a) All executive directors are employed by, and receive their emoluments from, another group undertaking.

During the year, 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 nor other benefits have been apportioned to this company.

- (b) The average number of employees (including all directors) during the period was:

	1998 Number	1997 Number
Functional analysis:		
Sales support	25	36
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FRIENDS PROVIDENT THE BLUE LINE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

4. DIRECTORS AND EMPLOYEES (continued)

(c) Gross employment costs (including all directors) during the period amounted to:

	1998 £	1997 £
Wages and salaries	572,029	575,134
Social Security costs	42,733	40,853
Pension costs	47,581	58,123
	<u>662,343</u>	<u>674,110</u>

5. EMPLOYEE PENSION SCHEME

Friends Provident The Blue Line Limited is a member of the Friends' Provident Life Office Retirement and Death Benefits Scheme (1974), a funded defined benefit pension scheme for employees of Friends' Provident Life Office and certain of its wholly-owned subsidiary undertakings. The funding rate for the year was determined with the advice of the Actuary of the scheme.

Details of the Friends' Provident Life Office Retirement and Death Benefits Scheme (1974) are provided in the Group Report and Accounts of Friends' Provident Life Office.

6. TAX CREDIT ON LOSS ON ORDINARY ACTIVITIES

	1998 £	1997 £
Group relief at 31% (1997: 31.5%)	<u>866,873</u>	<u>713,831</u>

7. DEBTORS: Amounts falling due within one year

	1998 £	1997 £
Amounts due from group undertakings		
- Group relief	1,579,389	1,271,247
- Other	1	1
	<u>1,579,390</u>	<u>1,271,248</u>

8. CALLED-UP SHARE CAPITAL

	1998 £	1997 £
Authorised: 10,000,000 ordinary shares of £1 each	<u>10,000,000</u>	<u>10,000,000</u>
Allotted and called-up, not fully paid: 1 ordinary share of £1	<u>1</u>	<u>1</u>

FRIENDS PROVIDENT THE BLUE LINE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

9. MOVEMENT IN TOTAL SHAREHOLDER'S FUNDS

	Share capital £	Profit and loss account £	Total shareholder's funds £
Balance as at 1st January 1998	1	(2,684,334)	(2,684,333)
Loss for the financial year	-	(1,928,983)	(1,928,983)
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Balance as at 31st December 1998	<u>1</u>	<u>(4,613,317)</u>	<u>(4,613,316)</u>

10. RELATED PARTY TRANSACTIONS

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

There were no other material related party transactions.

11. ULTIMATE PARENT COMPANY

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.