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**NORWICH UNION
SERVICES LIMITED**

YEAR ENDED 31 DECEMBER 1999



NORWICH UNION SERVICES LIMITED

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 1999

Registered Number 3280551

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NORWICH UNION SERVICES LIMITED

DIRECTORS AND OFFICERS

DIRECTORS

R. J. Harvey
M. N. Biggs
P. G. Scott
P.J.R. Snowball Appointed 20.10.99

COMPANY SECRETARY

P.E.M. Bournier Appointed 23.4.99

AUDITORS

Ernst & Young
Rolls House
7 Rolls Buildings
Fetter Lane
London EC4A 1NH

REGISTERED OFFICE

8 Surrey Street
Norwich
NR1 3NG

NORWICH UNION SERVICES LIMITED

DIRECTORS' REPORT

The directors present their report on the operations of the company for the year ended 31 December 1999 together with the financial statements.

Principal activity

The principal activity of the company is the provision of staff to the UK companies of the Norwich Union plc group.

Review of operations

The company started trading on 16 June 1997, the date of the Norwich Union plc flotation. There have been no significant changes in the operations during 1999.

Results and dividends

The profit after taxation was £48,711 (1998:£36,476). The results for the year are set out on page 6.

The directors recommend that no dividend be paid for the year.

Post balance sheet event

On 21 February 2000, the Board of Norwich Union plc announced that it had agreed terms for a proposed merger with CGU plc to create CGNU plc.

Year 2000

The Company's business has not been affected by the millennium date change due to the comprehensive testing of our business-critical systems well in advance of 31 December 1999. Further details of the progress to date and investment costs are to be found in the Norwich Union plc group consolidated accounts.

Employees

Disclosures relating to employees may be found in the accounts of Norwich Union plc. The following policy has been continued of:

- (a) providing information on matters of concern and interest to group staff through circulars, an in-house newspaper, intranet, videos, regular conferences and courses.
- (b) managers holding regular briefing and dissemination meetings to provide information and the opportunity for questions and discussions.
- (c) consulting with staff representative bodies on various issues including terms and conditions of employment and job security.

The company also involves employees in the group's performance by way of participation in the staff profit sharing scheme.

Equal opportunities

The companies in the group are committed to providing equal opportunities to all employees irrespective of sex, marital status, creed, colour, race, ethnic origin or disability. This commitment extends to recruitment, training, career development, promotion and performance appraisal. The group will continue to review and monitor this policy to ensure its application complies with relevant legislation and codes of practice.

Future developments

The directors do not envisage any significant change in the core business of the company during the forthcoming year.

Directors and their interests

The names of the directors are given on page 2. According to the register kept under section 325 of the Companies Act 1985, no director has any interest in any share or debenture of the company. Details of directors' interests in the shares and share options of Norwich Union plc companies are contained in note 10.

Auditors

Ernst & Young have expressed their willingness to continue in office and a resolution to re-appoint them will be put to the members at the Annual General Meeting.

On behalf of the board

Director

Date



28 MARCH 2000

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the result of the company for that period. In preparing those accounts, 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 accounts; and
- prepare the accounts 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 the above 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS

to the members of Norwich Union Services Limited

We have audited the accounts on pages 6 to 11, which have been prepared under the historical cost convention and on the basis of the accounting policies set out in note 1.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you. Our responsibilities as independent auditors are established in the United Kingdom by statute, the Auditing Practices Board, and by our own professional ethical guidance.

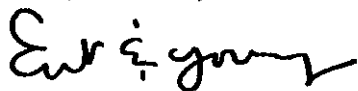
Basis of opinion

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Registered Auditor
London

Date 28 March 2000

NORWICH UNION SERVICES LIMITED

PROFIT AND LOSS ACCOUNT for the year ended 31 December 1999

	Notes	1999 £	1998 £
TURNOVER		321,731,021	244,409,582
Cost of sales		(321,652,530)	(244,353,483)
		<hr/>	<hr/>
		78,491	56,099
Administrative expenses	2	(6,000)	(5,875)
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		72,491	50,224
		<hr/>	<hr/>
Tax on profit on ordinary activities	5	(23,780)	(13,748)
		<hr/>	<hr/>
PROFIT RETAINED FOR THE YEAR		<u>48,711</u>	<u>36,476</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There are no recognised gains / losses other than the profit for the year of £48,711 (1998: £36,476).

NORWICH UNION SERVICES LIMITED

BALANCE SHEET
at 31 December 1999

	Notes	1999 £	1998 £
CURRENT ASSETS			
Debtors	6	15,853,148	4,883,231
Cash at bank		<u>4,863,583</u>	<u>6,569,434</u>
		20,716,731	11,452,665
CREDITORS: amounts falling due within one year			
	7	(20,618,481)	(11,403,126)
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<u>98,250</u>	<u>49,539</u>
CAPITAL AND RESERVES			
Called up share capital	8	2	2
Profit and loss account		<u>98,248</u>	<u>49,537</u>
Equity Shareholders' funds	9	<u>98,250</u>	<u>49,539</u>

The notes on pages 8 to 11 form an integral part of these accounts.

Director



Date

28 MARCH 2000

NORWICH UNION SERVICES LIMITED

NOTES TO THE ACCOUNTS at 31 December 1999

1. ACCOUNTING POLICIES

a) Basis of accounting

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

b) Turnover

Turnover, which excludes VAT, represents income from the provision of staff to the UK companies in the Norwich Union plc group. All turnover arises from continuing operations within the UK.

c) Cash flow statement

In accordance with FRS 1(Revised), the company has not presented a cash flow statement as the company's cash flows have been consolidated with those of its ultimate parent undertaking Norwich Union plc.

d) Staff pension plan

The group operates both defined benefit and money purchase pension schemes. The expected cost of pensions in respect of the defined benefit staff pension plan is charged to the profit and loss account so as to spread the cost of pensions over the service lives of employees in the plan. Contributions to the money purchase scheme are charged to the profit and loss account as they become payable in accordance with the rules of the plan.

e) Taxation

Tax is charged on all taxable profits arising for the year. Deferred taxation is calculated using the liability method. It is provided where the amount is likely to become payable in the foreseeable future and where future tax liabilities are known.

2. OPERATING PROFIT

This is stated after charging;

	1999 £	1998 £
Auditors' remuneration	<u>6,000</u>	<u>5,875</u>

3. DIRECTORS' EMOLUMENTS

The directors of Norwich Union Services Limited are all directors of its ultimate parent undertaking, Norwich Union plc. Their emoluments including details of the long term incentive plan and pension arrangements have been disclosed in the group accounts of Norwich Union plc.

4. STAFF COSTS

	1999 £	1998 £
Wages and salaries	291,318,183	223,604,708
Social security costs	23,498,623	17,947,415
Other pension costs	<u>6,366,624</u>	<u>2,409,338</u>
	<u>321,183,430</u>	<u>243,961,461</u>

The average number of employees during the year was as follows:

	1999 No.	1998 No.
Full time	<u>11,392</u>	<u>9,272</u>
Part time	<u>778</u>	<u>886</u>

NORWICH UNION SERVICES LIMITED

NOTES TO THE ACCOUNTS

at 31 December 1999

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

Provision for taxation on the result for the year has been made as shown below:

	1999 £	1998 £
UK corporation tax	21,959	13,748
Adjustment for prior years including deferred tax	1,821	-
	<u>23,780</u>	<u>13,748</u>

6. DEBTORS

	1999 £	1998 £
All amounts are due within one year.		
Trade debtors	-	488
Amounts owed by group undertakings	15,425,377	4,468,689
Other debtors	427,771	414,054
	<u>15,853,148</u>	<u>4,883,231</u>

7. CREDITORS : Amounts falling due within one year

	1999 £	1998 £
Bank loans and overdrafts	9,450,642	4,474,556
Amounts owed to group undertakings	466,255	274,850
UK corporation tax	21,959	13,748
Other taxes and social security costs	10,587,636	6,639,972
Other creditors	91,989	-
	<u>20,618,481</u>	<u>11,403,126</u>

8. SHARE CAPITAL

	1999 £	1998 £
Authorised:		
Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
Allotted and fully paid:		
Ordinary shares of £1 each	<u>2</u>	<u>2</u>

9. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Share capital £	Profit and loss account £	Total shareholders' funds £
At 31 December 1998	2	49,537	49,539
Profit for the year	-	48,711	48,711
At 31 December 1999	<u>2</u>	<u>98,248</u>	<u>98,250</u>

NORWICH UNION SERVICES LIMITED

NOTES TO THE ACCOUNTS at 31 December 1999

10. DIRECTORS' INTERESTS

(a) Shareholdings

The directors' interests at 31 December 1999 in the share capital of Norwich Union plc were as follows:

	<i>At 31 December 1999</i> <i>Ordinary shares</i> <i>No.</i>	<i>At 31 December 1998</i> <i>Ordinary shares</i> <i>No.</i>
R.J. Harvey	8,015	1,836
M.N. Biggs	3,445	1,658
P.G.Scott	1,841	1,054
P.J.R.Snowball	605	-

(b) Interests in options

The company has an Inland Revenue approved savings-related share option scheme by which all employees are able to subscribe for ordinary shares in Norwich Union plc. The options which have been awarded to directors are shown below:

	<i>At 31 December 1999</i> <i>Options outstanding</i> <i>No.</i>	<i>At 1 January 1999/ date of appointment</i> <i>Options outstanding</i> <i>No.</i>	<i>Exercise price (p)</i>	<i>Earliest release date</i>
R.J. Harvey	6,634	6,634	260	2002
M.N. Biggs	6,634	6,634	260	2002
P.G.Scott	6,634	6,634	260	2002
P.J.R.Snowball	6,634	6,634	260	2002

(c) Long term incentive plan

The company has a long term incentive plan for shares available to directors. The interests of directors conditionally awarded by Norwich Union plc under this plan are:

		<i>Conditional awards at 1 January 1999</i> <i>Ordinary shares</i> <i>No.</i>	<i>Conditional awards in 1999</i> <i>Ordinary shares</i> <i>No.</i>	<i>Conditional awards at 31 December 1999</i> <i>Ordinary shares</i> <i>No.</i>	<i>Earliest release date</i>
R.J. Harvey	-1998 scheme	66,141	-	66,141	2001
	-1999 scheme	-	82,137	82,137	2002
M.N. Biggs	-1998 scheme	51,968	-	51,968	2001
	-1999 scheme	-	56,833	56,833	2002
P.G.Scott	-1998 scheme	59,212	-	59,212	2001
	-1999 scheme	-	54,647	54,647	2002
P.J.R. Snowball	-1998 scheme	29,600	-	29,600	2001
	-1999 scheme	-	41,068	41,068	2002

The numbers of shares shown above are the maximum number of shares to which each director would become entitled if all performance criteria under the long-term incentive plan were met in full.

NORWICH UNION SERVICES LIMITED

NOTES TO THE ACCOUNTS at 31 December 1999

11. RELATED PARTY TRANSACTIONS

Transactions with entities which are part of the Norwich Union plc group have not been disclosed as permitted under FRS 8 - Related Party Disclosures. Disclosure of transactions with directors, all of whom are directors of Norwich Union plc, are given in the group accounts of Norwich Union plc, by reference to a de minimus limit of £10,000.

12. PARENT UNDERTAKING

The ultimate parent undertaking is Norwich Union plc registered in England. The accounts of the ultimate parent undertaking are available from its Registered Office, Surrey Street, Norwich, NR1 3NG.

The immediate parent undertaking is Norwich Union Holdings Limited registered in England .

13. PENSION COMMITMENTS

Pensions are provided by the group for eligible full and part-time employees in the UK through an occupational pension plan which has two sections. The first section is a fully-funded defined benefit plan and the second section is a contracted-in money purchase plan for new entrants to the group since 15 October 1996. The combined plan is valued by a professionally qualified actuary employed by the group.

The group generally contributes 8 per cent of salary to the money purchase section of the plan but also matches employee contribution rates of 2% or 4% made by certain senior managers. Since 1 April 1998 the employer contribution rates have been funded from the defined benefit section of the staff pension plan.

The funds of the UK defined benefit section of the staff pension plan are invested in an insurance policy with Norwich Union Pensions Management Limited. As at 30 September 1999, the date of the last actuarial valuation, the market value of net assets of the overall combined UK staff pension plan was £1,272 million and the level of funding using the market value of the assets was 126 per cent. The employer's contributions have been reduced to nil per cent in order to eliminate the surplus over 12 years, the average remaining service lives of employees.

In addition a final salary plan and a money purchase plan exist in respect of former London & Edinburgh staff. The market value of the net assets of these plans at 31 March 1999, the date of the last accounts, was £94 million. The level of funding of the final salary plan using the market value of assets was 79 per cent.

Further details are disclosed in the group accounts of Norwich Union plc.

14. POST BALANCE SHEET EVENT

On 21 February 2000, the Board of Norwich Union plc announced that it had agreed terms for a proposed merger with CGU plc to create CGNU plc.