ISIS

ISIS Asset Management plc

Annual report and accounts

31 December 2003


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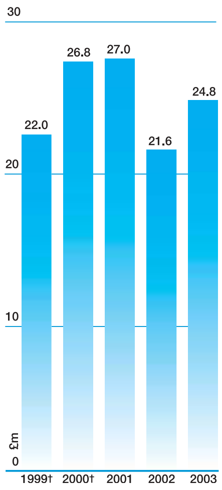
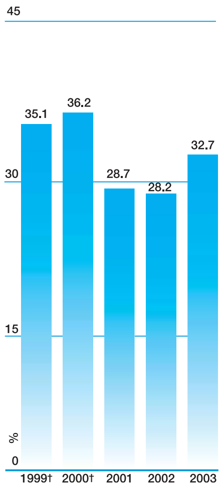
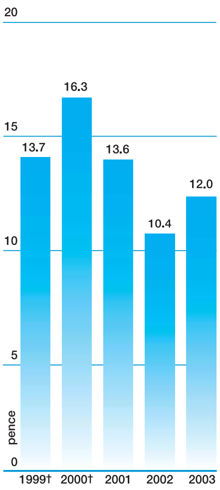
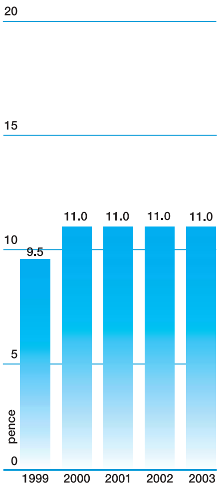
Financial and Business Highlights

for the year to 31 December 2003





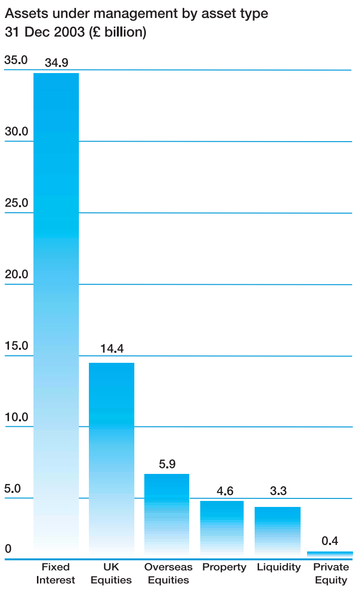


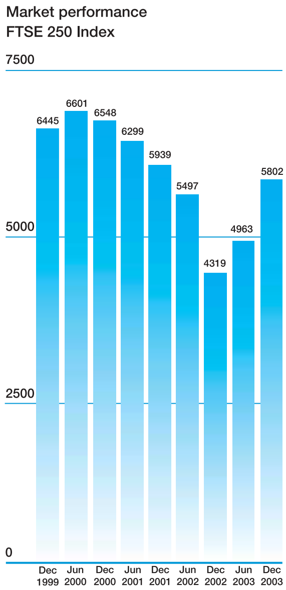


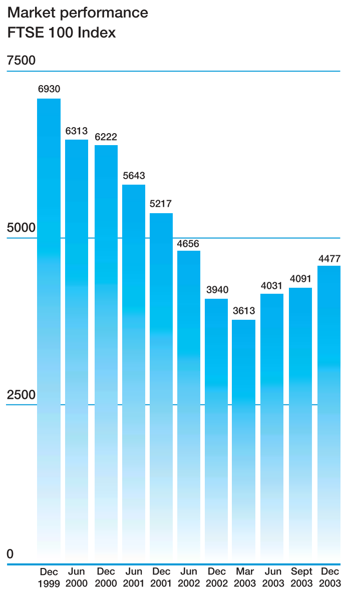
* before amortisation of goodwill and exceptional items
† as restated following the adoption of FRS17: Retirement Benefits

	31 December 2002	31 December 2003
Net revenue	£87.6m	£107.9m
Administrative expenses*	£64.1m	£73.7m
Profit on ordinary activities before taxation*	£21.6m	£24.8m
Group operating profit*	£24.7m	£35.3m
Operating margin*	28.2%	32.7%
Earnings per share*	10.4p	12.0p
Interim dividend	4.0p	4.0p
Proposed final dividend	7.0p	7.0p
Total dividends per ordinary share	11.0p	11.0p
Assets under management	£60.1bn	£63.5bn

* before amortisation of goodwill and exceptional items







Assets under management by product type

	31 Dec 2002 £ billion	31 Mar 2003 £ billion	30 Jun 2003 £ billion	30 Sep 2003 £ billion	31 Dec 2003 £ billion
Life & Pensions	52.6	51.1	52.9	53.5	54.7
Institutional Clients	4.4	4.3	4.4	4.8	4.9
Open Ended Products – Third Party	1.5	1.6	1.8	1.9	2.0
Investment Trusts	1.2	1.1	1.3	1.3	1.5
Venture Capital Trusts	0.2	0.2	0.2	0.2	0.2
Limited Partnerships	0.2	0.2	0.2	0.2	0.2
Total	60.1	58.5	60.8	61.9	63.5

Key Highlights of 2003

Since March 2003 the equity market has rebounded strongly, with the FSTE 100 Index posting a total return of 17.9% for the calendar year as a whole. The recovery in the equity markets and the improving economic climate have set an altogether more optimistic scenario for this year's report to shareholders.

Earnings per share before amortisation of goodwill and exceptional items increased by 15.4% to 12.0p.

Final dividend of 7.0p, giving an unchanged total of 11.0p for the year.

Share price rose from the start of the year by 40% to end the year at 250p.

Increased brand and name awareness created during 2003.

Operating margin before amortisation of goodwill increased from 28.2%to 32.7%.

Improving fund performance: e.g. 63% of retail funds above average for the year to 31 December 2003.

Integration of RSAI completed in all respects.

Intended strategic outsourcing partnership with JP Morgan announced for the provision of investment administration and certain other back and middle office services.

Intended controlled move into alternative asset management.

Strategy

Our strategic goal remains to become a top five active UK asset manager by 2007. Meeting this goal will require a considerable increase in assets under management but it is one we are determined to achieve both through organic growth and, should the right opportunities present themselves, through acquisition.

What the papers had to say about ISIS in 2003

"The fund management industry has suffered a hard three years but ISIS appears to be surviving better than most."

Financial Times, 29 July 2003

". . . companies such as ISIS Asset Management, who have clarity of vision and have publicly stated their strategy to grow through acquisition, are likely to prove to be the successes this time round."

Investment Week, 11 August 2003

"ISIS's revenue base has good protection against further weakness in equity markets."

Investors Chronicle, 14 March 2003

"It has helped, of course, that about half of ISIS's business is on the fixed income side. That has helped prevent the erosion of assets that has afflicted the equity-based houses."

Financial Times, 29 July 2003

Chairman's Statement

"Operating margin before amortisation of goodwill rose from 28.2 per cent. to 32.7 per cent."

"The board is recommending a final dividend of 7.0 pence per share . . . if approved the total dividend would be covered 1.1times by earnings before amortisation of goodwill and exceptional items . . ."

In my interim report to shareholders I highlighted two major themes – the then current level of stock markets and progress in terms of the integration of the Royal and SunAlliance Investment management business ('RSAI'). Both issues presented challenges and indeed opportunities for your company. It is therefore pleasing to report that from a stock market perspective the second half of 2003 saw not only a degree of stability but also a marked improvement from the equity market lows of early 2003. While it may be some time before general investor confidence returns, the current economic and stock market climate looks more positive than at any stage over the last two years.

Since the announcement of our acquistion of RSAI in 2002 much has been written about both the transaction and the integration of the businesses. I am pleased to report that not only is the integration process concluded but also it has delivered financial benefits ahead of those anticipated when the deal was concluded on 1 July 2002. Further detail is provided within the Chief Executive's Report.

UK Regulation

One of the major challenges currently facing the UK asset management industry is the volume and direction of regulation. While we fully support those measures that ensure good business practice we believe that some of the regulation now emerging is either restrictive with regard to best business practice, reduces the flexibility necessary for growth or appears to attempt to re-engineer certain aspects of the industry without a clear understanding of the implications. For example, the Capital Adequacy Directive, if implemented, will, for capital purposes, treat standalone asset management companies as if they were banks or insurance companies, even if they manage money on behalf of other parties and do not take balance sheet liability for these assets themselves. Regulators and policymakers need to recognise that for the UK asset management industry to flourish and for it to remain internationally competitive, it must not be constricted by inappropriate over-regulation.

Results

Group profit before tax, goodwill amortisation and exceptional items rose by 14.8 per cent. from £21.6 million to £24.8 million. Earnings per share (before goodwill amortisation and exceptional items) increased 15.4 per cent. from 10.4 pence to 12.0 pence. Net revenue totalled £107.9 million (2002 – £87.6 million) and administration expenses excluding goodwill amortisation were £73.7 million (2002 – £64.1 million). The operating margin before amortisation of goodwill rose from 28.2 per cent. to 32.7 per cent.

Dividend

The board is recommending a final dividend of 7.0 pence per share resulting in an unchanged total dividend of 11.0 pence per share for the year. If approved the total dividend would be covered 1.1 times by earnings before amortisation of goodwill and exceptional items.

While our dividend cover and reserves have been reduced in recent years, we have, given the changes within our business, been able to maintain our dividend during a very challenging stock market environment. Going forward we will seek to grow our dividend in a prudent manner and as such we believe it appropriate to set out our dividend policy.

Our policy is to:

- maintain and if appropriate grow the dividend;
- target over the medium term 1.5 times dividend cover, based on cash earnings before amortisation of goodwill and exceptional items; and
- review cover in light of future business and regulatory requirements and distributable reserves.

Highlights of 2003

While integration and cost control were high on the agenda in 2003, the second half of the year saw us focus on a number of initiatives to further develop the business. Cost control is important but the real test for any business is to grow its revenues.

On the distribution side we made good progress. In the retail market our corporate bond, UK and European equity, ethical and multi-manager funds were progressively added to the recommendation lists of leading Independent Financial Advisers. Strong investment performance in these areas was underpinned by focused advertising and significant profile building exercises in the media. Changes in the distribution landscape have also afforded the opportunity to build relationships with third party distributors and we have entered into discussions with a number of such parties with a view to enhancing our new business results in years to come.

We also successfully launched a new listed investment company, the ISIS Property Trust – which invests directly in UK commercial properties – and closed commitments for our first ten-year private equity limited partnership. On the institutional side we secured significant new fixed interest mandates from Hackney Borough Council and Rhondda Cynon Taf County Borough Council.

In the second half of 2003 we announced our intention to outsource our investment administration and certain other back and middle office services by entering into a strategic outsourcing partnership with JP Morgan. Your board believe that the timing of this action will not only provide the right platform for future growth but also allows us, as an early mover, the benefit of ensuring transfers for our staff while still negotiating a sound financial deal. Further comments on our progress during 2003 can be found in the Chief Executive's Report.

Investment Markets and Performance

While I have touched on the recovery in investment markets during 2003, which now present a more stable environment for businesses to plan and develop, the most pleasing aspect of our business is the degree of improvement we have experienced in investment performance during the second half of 2003. Investment performance is the lifeblood of an asset management organisation and as such our improved investment performance should stand us in good stead for 2004. This is addressed in greater detail later in this Annual Report.

"Cost control is important but the real test for any business is to grow its revenues."

"Investment performance is the lifeblood of an asset management organisation and as such our improved investment performance should stand us in good stead for 2004."

Chairman's Statement

"We have recently signed heads of agreement to acquire an equity stake in Cardinal Capital Partners . . . a new business focused on alternative investments."

Alternative Asset Management

The alternative asset management sector has grown rapidly over the last few years. We have for some time been considering how we could secure a presence in this sector in a controlled and disciplined manner. We have recently signed heads of agreement to acquire an equity stake in Cardinal Capital Partners ("Cardinal"), trading as Cardinal Asset Management, a new business focused on alternative investments. A key attraction of this investment is that we will have privileged distribution rights for the United Kingdom and continental European marketplace. Although a new company, Cardinal is being established by individuals who have previously built a substantial hedge fund operation for a major financial institution. We believe this development offers an exciting and low risk entry into a high margin, rapidly growing area of asset management while enabling us to continue to develop our existing business.

Corporate Behaviour

Last year I referred to a number of high profile collapses and scandals round the world and the impact they were having on reporting and corporate governance. In 2003 we have witnessed further examples, which is not untypical after a serious downturn in financial markets. Of course it is important that all of us adhere to the best principles of corporate governance and behaviour if we are to retain confidence in our industry. In the UK we have had both the Higgs and Smith reports and ultimately the Revised Combined Code. While these should improve corporate governance and disclosure within the UK I believe the time is approaching where we need a joined up global approach to corporate governance and disclosure that removes domestic issues and addresses the needs of global capital markets. The move to International Financial Reporting Standards by 1 January 2005 is welcomed as a first phase standardisation for capital markets, creating a common platform for all listed companies. The board believes in, and is committed to, practising the highest practicable standards of corporate governance and disclosure, a theme we have continued in this year's annual report. Following the issue of the Revised Combined Code we have made changes to our board committee structures. These are addressed within the Directors' Report on Corporate Governance.

Board & Staff

After ten years as a director and nine years as chairman, on 13 November 2003 I announced my intention to resign from the board during 2004. The Nomination Committee is currently working with executive search consultants to identify the most appropriate candidate to replace me as chairman and an announcement will be made in due course. I would like to take this opportunity to thank and pay tribute to my colleagues on the board and all staff for their support and hard work throughout 2003 and indeed my entire tenure on the board.

Outlook

With the asset management industry having experienced its first year of positive stock market returns since 1999 and the economic climate looking more positive than it has for some time, your board enters 2004 with a degree of optimism. That said, optimism for the future should not be based on the level of markets alone. As the business climate improves, those companies that have learnt from the last three years will be best placed to benefit from the opportunities that arise. While investment performance will always be a key driver of success, companies which have re-engineered their operating model, revisited their strategy and shown themselves capable of adapting to the changing environment will have a further advantage. In these respects I believe your company is well positioned.

". . . your board enters 2004 with a degree of optimism."

Sir David Kinloch
1 March 2004

Chief Executive's Report

"... I believe the firms that will be rewarded with long-term success will be those which have reassessed and adapted their business models to meet the challenges of the future."

"There is also a need to revisit investment techniques that were appropriate in the bull markets of the late 20th century but are unlikely to meet the needs of investors in the years ahead."

Market Overview – A changing environment

Last year's annual report was written against one of the toughest market backdrops experienced by the financial services industry in over two decades. As we entered 2003, investors were preoccupied by fears of imminent war in the Middle East and consequently shunned equities and other more volatile assets in favour of cash and bonds. In such a climate we were afforded some protection by the diversified nature of the underlying base of assets we manage.

Since March 2003 the equity market has rebounded strongly, with the FSTE 100 Index posting a total return of 17.9 per cent. for the calendar year as a whole. The recovery in the equity markets and the improving economic climate have set an altogether more optimistic scenario for this year's report to shareholders. However, despite the welcome improvement in financial markets, most of the structural challenges facing our industry to which I referred in my last annual report remain.

In a world of low growth and low inflation, I believe that there will be lower returns than investors became used to in the eighties and nineties. In fact, the long-term returns on equities have averaged somewhere in the 6 per cent. to 8 per cent. per annum range and the outlook is likely to be a return to more 'normal' patterns.

However, some asset managers are still operating business models designed to suit the climate of the eighties and nineties when margins were greater, new business inflows steady and strong trends in the overall market enabled weak investment managers to stay in business. While the recent bounce in equities provides some comfort, I believe the firms that will be rewarded with long-term success will be those which have reassessed and adapted their business models to meet the challenges of the future.

A major driver for change in our industry is the flow of new regulation and policy. Some of these initiatives I welcome as positive steps to help restore trust in the financial services sector, others potentially undermine the global competitiveness of the UK asset management industry. There is also little doubt that investors, as well as regulators and policymakers, want to see evidence that asset managers are using their influence with companies to encourage good corporate governance.

The distribution landscape is changing as a result of both depolarisation and the tougher business environment of the last few years. There is a strong trend towards 'open architecture' products such as wrap accounts, fund supermarkets and multi-manager funds. Likewise, we have seen further evidence of some financial services companies outsourcing their asset management functions to re-focus on core activities. In this respect, our experience in managing outsourced assets for both Friends Provident and Royal & SunAlliance leaves us in a good position to explore further opportunities.

As I stated in my last report, such costs and business pressures strengthen the case for consolidation in the asset management industry. It is an industry with too many companies, too much duplication of products and too many fixed costs. I believe that over the coming years the asset management industry will polarise between a cluster of large groups, able to extract economies of scale, and a plethora of small specialist boutiques. ISIS aims to be part of the former grouping.

There is also a need to revisit investment techniques that were appropriate in the bull markets of the late 20th century but are unlikely to meet the needs of investors in the years ahead. Consistently rising equity markets fuelled the trend to indexation, over rewarding beta and, by default, under rewarding alpha. In a world of more modest average annualised returns from equities, fund managers must focus increasingly on stock specific returns and not expect the overall market movements to 'bail them out'. In such a world I believe there will be more demand for benchmarking performance against real economy measures than relative to an index. Such moves are already well underway given the rapid expansion of the alternative investment segment of the industry, an area that we intend to participate in through our strategic stake in Cardinal Capital Partners, to which I refer later.

Suffice to say, all of these challenges are also huge opportunities for businesses which have demonstrated their adaptability. At ISIS we are determined to be a beneficiary of the changing landscape.

Strategy

Our strategic goal remains to become a top five active UK asset manager by 2007. Meeting this goal will require a considerable increase in assets under management but it is one we are determined to achieve both through organic growth and, should the right opportunities present themselves, through acquisition.

The integration of RSAI was of course a major building block in meeting our long-term strategic goal. The final stage of the integration was completed during the year with the rationalisation of our retail fund range. In terms of personnel, products, operational platform and our rebranding, we are now in a much better position to take on further assets without the need for significant extra resources.

Putting a scaleable operational platform in place is an important part of our overall growth strategy. We conducted a major review of our operational model and concluded that the way forward was to partner with a larger organisation specialising in operational administration. In November we announced that we had signed heads of agreement with JP Morgan to outsource certain back and middle office functions. This latter move will enable us to focus our future technology spend on core activities and improve the way our costs are aligned to our revenues. A key element of these discussions is that those staff impacted will be offered positions in their existing work location with JP Morgan.

Of course, a well managed company with good cost controls and a scaleable operational platform will only succeed if the underlying investment proposition meets the high standards investors rightfully expect. So, central to our ability to grow the business is the delivery of strong investment performance.

A year ago we reported that we had re-appraised our investment philosophy, which had previously had a strong 'growth' style bias in equity selection, and introduced a more flexible approach better suited to changing investment markets. We also established a three pronged resource platform around our fund managers comprising a dedicated risk management desk, an investment strategy team and an enlarged research department. At the same time we are strong believers that fund managers must take ownership of their track records so we revised our bonus structure to link individual rewards more closely with portfolio performance.

I am pleased to report that investment performance has improved across the business. As a result, 63 per cent. of our retail collective funds were above average in their respective sectors across the calendar year. This is a noticeable improvement on the three year record. We were in the second quartile in the CAPS pooled mixed fund universe and improved equity investment performance in the fourth quarter turned around a number of important institutional funds into second quartile for the year. Six out of nine of the

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Chief Executive's Report

investment trusts we manage beat their benchmark in 2003. Furthermore, where there has been a need to address performance through additional recruitment, we have done so.

Yet in the changing distribution landscape, a good performance record will not alone secure successful growth. Since the Equitable Life crisis and well-publicised problems at other providers of financial products, investors are becoming increasingly concerned about the financial strength of the companies they entrust their monies to. The asset management industry will not be immune to this, since I believe consolidation is going to be a major theme. In a survey of leading intermediaries undertaken for us by Citywire in June last year, 59 per cent. felt that the financial stability of fund groups was a 'very important' factor in their fund selection process and a further 35 per cent. felt it was an 'increasingly important' issue. It is worth noting that ISIS generated operating profits throughout the equity market downturn and we have now restructured the business to meet future challenges. Our operating margin before amortisation of goodwill has been maintained in the 28 per cent. to 37 per cent. range between 1999 and 2003, underlining the stability in our business.

A further development in our strategy is our decision to participate in the fast growing alternative investment sector. While I am convinced that the alternative investment arena will continue to expand, it is essential to find the right people with the appropriate skill sets. We have reached heads of agreement to take an equity stake in Cardinal, a new company, which is focused on alternative assets. Cardinal is being established by a group of individuals with considerable experience, who have previously developed such a business for a major European financial institution. ISIS will benefit from privileged distribution access to Cardinal's products in the UK and continental European market. This initiative will enhance our product line, has the potential to build a significant revenue stream and allows us to enter this market segment without distracting us from the development of our existing core business.

Earlier I referred to the rising pressure on asset managers to demonstrate that they are seeking to encourage companies to adopt responsible business practices and to show that they are not 'absentee landlords'. As a leader in Governance and Socially Responsible Investment ("GSRI"), ISIS is well placed to meet growing investor expectations in this field through *reo*®, our Responsible Engagement Overlay service. More recently, we announced our decision to publish our voting records for all of our retail funds each month on our website. This represents an 'industry first' for a UK asset management company. *reo*® remains a central tenet of our overall strategy and product offering.

Value Creating Activities

In my last annual report I stated that after a prolonged period of falling markets one of the major challenges facing the wider financial services industry was to regain the trust of investors. Such public confidence has continued to be dented by various high profile scandals even though a number of these problems have not emanated from the asset management sector itself.

Launching a new brand in such an environment has presented us with the opportunity to demonstrate our strong commitment to building trust with investors. Over the year much work has been undertaken to develop a brand which reflects our belief in transparency and responsibility. There are three core values which are central to the ISIS brand: to be authoritative, to demonstrate initiative and to be responsive.

"There are three core values which are central to the ISIS brand: to be authoritative, to demonstrate initiative and to be responsive."

"As a leader in Governance and Socially Responsible Investment ("GSRI"), ISIS is well placed to meet growing investor expectations . . ."

The most visible aspect of this work has been our high profile advertising campaign. Our objective has not been to generate off-the-page sales but to improve end-consumer awareness of who we are and our values. The development of a recognisable brand supports those intermediaries already recommending our products and is also an important factor in the selection process for distributors choosing which asset management companies to partner with. While the product focus and headline messages have developed over time, the common theme embodied by the strap-line "THISIS REALITY" is that we are a company which recognises we are in a new investment climate.

A further aspect of this strategy has been to significantly raise the ISIS profile through the national press and industry trade titles. During 2003 ISIS was mentioned in over 3,400 press articles of which 67 per cent. were independently rated as positive, 28 per cent. neutral and 5 per cent. negative. Our senior staff have been encouraged to provide responsible comment to the press and we have sought to develop our reputation as an opinion former within our industry.

In the retail business area a major focus of activity during the year was the reorganisation of our fund range. All former Friends Provident unit trusts were first converted to OEICs and our transfer agency was moved to International Financial Data Services. A single depository was established and new fund accounting and pricing arrangements were put in place for the entire range. The final stage of this programme came with the rationalisation of our fund range from some 55 funds down to 31 under the single ISIS brand. This was an enormous project in terms of operations, compliance and marketing and was finally completed during the year. The resulting fund range has brought clarity to our retail proposition and is already greatly enhancing our ability both to attract new clients and retain existing ones.

With a trimmed down fund range, our core strengths in the retail market are more visible. Our performance record and reputation is particularly strong in corporate bonds, UK and European equities, funds of funds and specialist areas such as ethical investment and venture capital trusts ("VCT"). High levels of sales activity amongst Independent Financial Advisers took place throughout the year including conferences, seminars and road shows. For example, over 650 IFAs attended a series of seminars we held during the last quarter of the year. A particular success has been the business levels generated through the Friends Provident sales channel, something that bodes well for our ability to service similar relationships with other distributors.

In the institutional market our focus has been on client retention and securing larger mandates, particularly in bonds and property. We are pleased to report progress, with two new major bond mandates, from Rhondda Cynon Taf County Borough Council (£134 million) and the London Borough of Hackney (£65 million). Additionally, a number of the leading consultants have upgraded their ratings and we continue to be invited to tender for further business.

Very few of our institutional clients have performance fees in place. However, we did beat the necessary performance benchmarks for two clients who did have such arrangements with us. This is further tangible evidence of our improving investment performance for the year.

A particular success was the launch in October of the ISIS Property Trust, a quoted investment company with £121 million of total assets. We were in an ideal position to launch such a vehicle given the strong institutional performance record of our subsidiary ISIS Property Asset Management and our investment trust pedigree. The ISIS Property

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Chief Executive's Report

"As the largest player in the VCT market, we are in pole position to benefit from expected growth."

". . . every aspect of the acquisition and integration of RSAI has now been concluded."

Trust has commanded a significant share price premium since launch, reflecting buoyant demand.

Our private equity division, ISIS Equity Partners, has delivered a number of successes during the year with seven exits and eight new investments. We were able to close commitments for our first ten year limited partnership and raise additional funds by way of share top ups on our range of VCT's. While VCT fund raising has shrunk dramatically since its peak in 2000/1 we continued to take a significant market share of over 20 per cent. during 2003.

Radical changes to VCT tax allowances are to be introduced in the 2004/5 tax year following a government review of equity financing for smaller companies. We believe these will revitalise this product area. As the largest player in the VCT market, we are in pole position to benefit from expected growth.

Financial Review

As previously reported, we acquired RSAI on 1 July 2002 and, as such, any high level comparison of revenue or expenses between 2002 and 2003 has limitations. I have, however, within this financial review drawn comparison where it is meaningful or helpful to do so.

At the time of writing my report last year, the FTSE 100 index was heading towards its 12 March low point of 3287, 17 per cent. down from the 2002 year end level. In my review last year I indicated that "we expect during the second half of this year our cost base will move to a position whereby our operating margin can be sustained at 30 per cent., or above, down to a FTSE 100 equivalent level of 3500." The 30 per cent. operating margin before amortisation of goodwill was achieved during the first half of this year – 31.9 per cent. – and has improved to 32.7 per cent. for the full year. This was achieved through cost control measures and helped by improved markets in the second half of the year.

Operating margin is typically a tool for controlling or measuring costs and while we will continue to adhere to sound cost disciplines, our focus is now shifting to revenue generation and organic growth.

During 2004 we will focus on net new business – the task being not only to attract new monies but also to retain the business that we currently manage. We will also pay particular attention to the fee levels that we earn on our assets under management – currently about 18 basis points. Where possible, we will seek to increase this through higher margin new business.

Finally, every aspect of the acquisition and integration of RSAI has now been concluded. In undertaking acquisitions there are basically three phases: the transaction itself; achieving cost savings through removal of duplication and overlap; and finally, creating revenue synergies from an enhanced platform. It is this latter aspect which has the potential to generate significant value. What is particularly pleasing is that we are starting to see the initial signs of revenue synergies, assisted by our improved investment performance and enhanced capabilities.

Dividend

The board has declared an unchanged final dividend of 7.0 pence per ordinary share for the year. This, when taken with the interim dividend of 4.0 pence per ordinary share, results in an unchanged dividend for 2003 of 11.0 pence.

While last year's dividend was not fully covered by earnings per share before goodwill and exceptional expenditure, it is pleasing to report that this year's dividend on a like for like basis will be fully covered by earnings before goodwill and exceptional items.

Going forward, the board will be looking to rebuild the level of dividend cover in accordance with our dividend policy.

There are a number of factors that will determine the timing of dividend cover restoration as well as future dividend declarations. Last year we highlighted stock market performance, new business momentum and cost control. Two further factors need to be added which are out of management's control; the final impact of International Financial Reporting Standards on future distributable reserves and the shape and form that any European legislation has on the capital adequacy requirements for fund management companies. This latter issue is one which I address in more detail under the section on the balance sheet.

Fund Flows

Fund inflows and outflows in a stable stock market environment are an important indicator as to business health and development. Unfortunately, the last few years have not seen a stable stock market environment. Consequently our funds flow has not only been impacted by the economic and stock market climate but also by its impact on our client base which in terms of funds under management is predominantly insurance funds.

Business Inflows and Outflows 2003

	Inflows £m	**Outflows £m**	**Net £m**
Life and Pensions	N/A	N/A	(2,237)
Institutional	429	(549)	(120)
Open Ended Products – Third Party	248	(183)	65
Investment Trusts	131	(37)	94
Venture Capital Trusts	12	0	12
Limited Partnerships	25	(18)	7
	N/A	N/A	(2,179)

Life and Pensions movements represent our insurance client activities. Some of the outflows in this area represent corporate activity and, as such, the accounts show an adjustment to goodwill of £10 million, the majority of which represents compensation for loss of business. We are hopeful that we will see a more positive trend in inflows from life and pensions during 2004, as the climate appears to be more stable.

Revenues

I have made various comments throughout my review as to the importance of building our revenues through organic growth for the future health of the business. I have also in the past emphasised the importance of having a diversified business base by client, product and indeed, asset class. The table below, showing source of gross revenues by product and client over the last two years, illustrates this diversification.

Sources of Gross Revenue

	2003 Percentage	**2002 Percentage**
By Product		
Life and Pensions	61	55
Open Ended Products – Third Party	16	17
Investment Trusts	9	13
Venture Capital/Limited Partnerships	8	8
Institutional	6	7
Total	100	100
By Client		
FP %	28	35
RSAI %	33	20
Other %	39	45

Over 65 per cent. of the assets we currently manage are in fixed interest, cash and property ("non-equity assets") – these represent approximately 50 per cent. of our annual revenues. While this asset mix provides a degree of stability to our revenues in falling markets, it also suggests that we are less geared to rising equity markets than some other asset managers. However, when the cost of servicing our debt is offset against the stable revenues derived from non-equity

"We are hopeful that we will see a more positive trend in inflows from life and pensions during 2004, as the climate appears to be more stable."

"I have also in the past emphasised the importance of having a diversified business base by client, product and indeed, asset class."

Chief Executive's Report

"... which has resulted in the integration creating a significantly enhanced business capability and operating platform with a re-launched brand and product range."

assets, it means that we are more geared to rising equity markets than would have been the case if, for example, our acquistion of RSAI had been financed by equity. We believe this flexibility to fund our development is important – a subject I address in more detail under my balance sheet update.

Given an environment of stability with gradually rising equity markets during 2004 and a modest return of confidence, we believe that fund flows and revenues should grow, allowing us to report a significant improvement in earnings during 2004.

RSAI Integration

I have previously reported on the integration activities and progress and as the project is now concluded I have restricted my review to a report on the financial outturn of the integration programme. During the year we spent £11.6 million on integration as disclosed under exceptional costs. However, a more complete position is disclosed if we look at what we have spent and achieved in terms of cost savings over the eighteen month period from 1 July 2002 to 31 December 2003.

Total integration expenditure was £30.8 million. This is broken down into the various categories as shown in note 6 to the financial statements. As with all transformational transactions there are elements of business improvement involved in the integration. We adopted a "best of both" approach to people, systems, processes and other business issues, which has resulted in the integration creating a significantly enhanced business capability and operating platform, with a re-launched brand and product range. As such, we have not so much integrated the two businesses but have combined them and re-launched a 'new company'.

In short, we have reduced headcount on a proforma basis by over 200 people, consolidated over 50 retail funds into a focused range of some 30 funds under a single brand on a single administrative platform, transitioned our systems onto a single platform (removing over 40 software applications in the process), disposed of two premises which were surplus to requirements and integrated all of the surrounding and business support functions.

In doing all this over an eighteen month period one has to recognise that the business has changed and certain costs have risen during the period (regulatory and insurance costs being two areas which have significantly outpaced inflation). It is, therefore, not possible to make direct comparisons between the historic cost base of the two companies and the current reported cost base, but we estimate on a conservative basis that we have reduced overall costs on a run rate basis by over £30 million per annum. As such, we believe the expenditure incurred in delivering these ongoing cost savings is fully justified.

Headcount

Last year we went to some lengths to detail the actions we had taken regarding headcount. This is the primary driver in relation to costs in a fund management business. Indeed, as part of our post integration review and our target of achieving a 30 per cent. operating margin as previously detailed, we undertook to manage our headcount down to 500 by 31 December 2003. This target was achieved ahead of schedule and at the year-end we had 496 personnel on the payroll. Our headcount will fall again during 2004 as we proceed with the outsourcing of our investment administration and other back and middle office services. It is anticipated that approximately 60 people will transfer to JP Morgan. While management of headcount is very important, it should not be used as a tool to stop the recruitment of new or additional talent into the organisation and towards the end of the year we selectively recruited several senior fund managers to further enhance our capabilities and product offerings. We will continue to seek to improve our capabilities via selective recruitment where appropriate.

Other Cost Items

Last year we indicated that as part of the RSAI transaction we had acquired the leases of two London properties which we subsequently vacated. It is particularly pleasing to report that during 2003 we were able to sub-let both of these properties and while there were associated costs, these have been included in the integration costs and, as such, we believe that there should be no further financial exposure. This will allow us to enjoy synergy benefits of about £3 million per annum on an ongoing basis.

On the outsourcing side we believe we will strike a deal with JP Morgan that is not only beneficial to both parties but which will create exciting opportunities for our staff transferring across. I would like to thank all these support staff for their hard work and commitment. The financial benefits of outsourcing will be seen in 2005, as there will be costs of putting in place the arrangements that neutralise the financial savings in 2004.

We have, even through the early stages of the year when the market was falling rapidly, continued to invest in our brand both in terms of advertising and other promotional activities. We believe it is fundamentally important in the current environment to continue to build on the good work that has been done and we will seek in 2004 to continue to invest in our brand commensurate with being a top 10 fund manager within the UK market.

Balance Sheet

During the year we have continued to manage our balance sheet actively and, in particular, our cash resources. The costs incurred with regard to creating the synergies required us to increase our borrowing by some £10 million to £195 million in total. We also took the opportunity to realise a long-standing investment of some £7 million in our cash unit trust that was facilitated by part of our product rationalisation exercise. With markets now trading at higher levels and the costs of integration behind us, we expect to generate excess cash that will predominantly be used to pay down debt and build our reserve position for future development of the business.

Our goodwill on the acquisition of RSAI has also been reduced by some £10 million, the majority of which relates to capital receipts in respect of the claw back mechanism for funds lost due to sale of businesses or other transfers by RSA Group.

On 22 August 2003 we received court approval to convert a further £15 million of the share premium account into a special distributable reserve and this was actioned during the year. We have now converted some £35 million of share premium that we indicated was being used to cushion the impact of the cost of achieving the RSAI integration synergies which amounted to some £31 million.

Finally, we have during the year taken the opportunity to acquire some of our own shares via our Employee Share Ownership Plan. The shares purchased act as a means of managing our financial exposure in respect of shares that will be due to be issued in future years under the company's share save scheme.

"During the year we have continued to manage our balance sheet actively and, in particular, our cash resourcer."

"On the outsourcing side we believe we will strike a deal with JP Morgan that is not only beneficial to both parties but which will create exciting opportunities for our staff transferring across."

Chief Executive's Report

"The integration of RSAI has created significant cost savings but our focus now is on revenue generation and organic growth. At the heart of this must be strong investment performance, supported by a distinctive brand."

We will continue to seek to manage our balance sheet for the benefit of our shareholders and other interested parties. In particular, we were very active in debating with the Financial Services Authority ("FSA") the issues of consolidated supervision as raised under the FSA consultation paper (now policy statement) 173 and are pleased to report a positive response from the FSA and, as detailed in the Directors' Report, we continue to seek relief under the extended waiver provisions. Capital adequacy is an issue driven out of European Directives and, along with others, we are seeking to convince the FSA that asset management companies are fundamentally different from banks and insurance companies in terms of risk profile and, as such, should be governed by a different set of rules in relation to capital requirements. Together with others in the industry, we will continue to strive for a sensible outcome that will not damage the UK fund management industry.

Conclusion

While the much improved market and economic climate is welcome, there is little an asset management company can do to impact the overall direction of markets. What is within our control is our business model, which we have transformed over the last eighteen months.

The integration of RSAI has created significant cost savings but our focus now is on revenue generation and organic growth. At the heart of this must be strong investment performance, supported by a distinctive brand.

With the recent recovery in markets, we can expect to see more corporate activity amongst asset management firms. Should suitable opportunities arise we will consider further growth by acquisition.

Finally, I would like to pay thanks to my fellow directors and all the staff who worked so hard during 2003 to complete the integration successfully and further develop the business. On a personal note I would like to record my gratitude to Sir David Kinloch for his contribution to the development of the business and for his support for me in my time as Chief Executive. I join all my colleagues in offering him our thanks and best wishes.

Howard Carter
1 March 2004

Corporate and Social Responsibility ("CSR") Report

CSR Strategy and Vision

In recent years there has been growing recognition and acceptance that the behaviour of businesses is an important factor in influencing a wide range of social, environmental, community and ethical issues. There is also evidence that a company's governance structure not only protects shareholder value, but also over time, we believe enhances its share rating and hence reduces its cost of capital.

ISIS Asset Management plc ("ISIS") is committed to operating the highest standards of governance and recognises that in addition to its responsibilities to shareholders it also has responsibilities to employees, suppliers, the environment and the wider community in which it operates.

Key 2003 CSR Highlights:

- FTSE4Good – ISIS has been a constituent of the FTSE4Good Index since its inception in 2001.
- Socially Responsible Investment Manager of the year 2003 (Global Pensions).
- Winner, Sustainable Asset Management 2003 (Corporation of London).
- Overall Winner, Liveable City Awards 2003 (Corporation of London).

ISIS's CSR Principles

The board of ISIS adopts a statement of principles in relation to all governance, corporate and social responsibility matters. This statement together with further detail on all CSR policies can be found within the CSR section on the company's website, www.isisam.com.

Areas of Influence

ISIS operates within a highly regulated industry and with all of our employees operating from offices within the UK acknowledges that our "direct impacts" on our local environment and communities are inevitably much less than our "indirect impacts". That said, ISIS recognises the requirement to ensure it has in place strong internal procedures and good housekeeping practices to promote best practice CSR activities.

As a major asset management company investing over £63 billion* on behalf of our clients, our corporate and socially responsible impacts extend far beyond our immediate stakeholders. ISIS believes that its most significant contribution by far continues to be through its ability to influence the behaviour of companies in which it invests on its clients behalf. This ability – and the associated responsibilities – are undoubtedly greatest in respect of the £22.4 billion of equity shares we manage on behalf of our clients under our responsible engagement overlay ("*reo*®") service. In this arena we continue to be a leading force for influencing the way the companies in which we invest are run and their approach to longer-term issues such as human rights and sustainability. At 31 December 2003 the ISIS Governance and Socially Responsible Investment ("GSRI") team comprised 12 staff. It was led throughout the year by Karina Litvack. Karina and her team have a total of some 76 years' experience related to socially responsible investment and, between them, have expertise in financial markets, corporate governance, environmental technology, consultancy and languages. 2003 was the fifth year that ISIS had a substantial and effective GSRI team, enabling it to build long-term relationships with investee companies. During the year the GSRI team engaged globally with 713 companies (2002 – 792 companies). For further information on the key issues ISIS engages on and practical examples of *reo*® in practice, please consult the company's website.

* Further analysis of the company's assets under management by asset class and by product type are set out in the Financial and business highlights.

Corporate and Social Responsibility ("CSR") Report

ISIS also offers a range of ethically screened funds including the top performing Stewardship Fund, further details of which are contained on the company's website.

The company's website contains further details of the company's direct and indirect impacts, all of which can be categorised within the core Economic, Environmental and Social performance indicators.

Governance Structure, Risk and Management Systems

The board is ultimately responsible for corporate governance and CSR within the company. Development of ISIS's policies on CSR and their implementatation throughout the ISIS group are co-ordinated by a CSR committee chaired by the Chief Operating Officer, Kenneth Back. The Chief Investment Officer, Robert Talbut chairs the corporate governance committee, which seeks to ensure that we expect the highest standards of corporate governance from the companies in which we invest.

ISIS operates an effective system of management of all risks, including reputational and other Social Environmental and Ethical risks, through quarterly "Turnbull" management reporting. CSR policies are reviewed annually and, where appropriate, revised to meet improving standards and to help embed them further within the organisation. All individuals responsible for managing aspects of CSR have, within their role profiles, references to reflect CSR responsibilities. This facilitates the management of CSR targets and, where relevant, is taken into account in determining performance related bonuses.

ISIS also continues to work closely with its majority shareholder, Friends Provident plc, on CSR policies and practices throughout the wider Friends Provident group.

ISIS has in place a CSR management system which complements the database currently in place for the management and reporting of ISIS's indirect impacts relating to engagement and governance of the companies in which it invests. At each meeting of the CSR committee, progress against the annual targets and objectives set by the board is reviewed with reference to key performance indicators derived from the CSR management system. Further detail of the CSR targets and objectives are contained in the CSR report published on the company's website.

Stakeholder Engagement

ISIS engages widely with its stakeholders, including shareholders, clients, non-government organisations, other asset management companies and companies in which it invests, on CSR matters.

CSR Performance Indicators

ISIS's CSR reporting framework has been designed to take account of the 2002 Global Reporting Initiative and Guidelines ("GRI"). Detailed below is a qualitative overview of our core Economic, Environmental and Social performance indicators within our indirect and direct impacts. Further detailed analysis including quantitative statistics with relevant comparable analysis and targets in each of the following areas are contained within the CSR report published on the company's website.

Financial & Economic Contributions

Included within the Directors' Remuneration Report on pages 35 to 47 is further analysis on ISIS's employee remuneration packages (salaries, pensions and other benefits). Page 22 sets out the company's payment policy and practice to suppliers and information on shareholder returns and other financial information is set out in the notes to the financial statements on pages 61 to 90.

Environmental Opportunities & Impacts

ISIS's greatest impact on the environment is through the companies with which it engages, particularly on matters of biodiversity and climate change. Details of the biodiversity and climate change programmes are contained within the *reo*® report published on the company's website.

ISIS also recognises that it has some direct impacts on the environment and subscribes to the government's environmental strategy as outlined in its Making a Corporate Commitment Campaign ("MACC 2"). ISIS has set and adhered to targets on carbon dioxide emissions and waste disposal. ISIS also subscribes to the Corporation of London's Sustainable Investment Principles.

Social Engagement

Labour practices and Human Rights

Examples of ISIS's engagement with investee companies in relation to labour standards and human rights are contained within the *reo*® report published on the company's website.

Examples of labour practices applied within ISIS are detailed below.

- ISIS is committed to training and development programmes for all staff and during the year introduced a number of web based and open learning development programmes.
- ISIS has an equal opportunities policy covering gender, race, sexual orientation etc and has provided diversity training to all managers responsible for recruiting staff across the business.
- ISIS has policies on Health & Safety practices and provides training to appropriate staff.
- ISIS undertakes annual employee opinion surveys and during 2003 66% of employees responded to the survey. In total 60% of the responses either agreed or strongly agreed with positive statements about the company and their relationship with it.
- Details of the remuneration policies applied to all staff are contained within the Directors' Remuneration Report on pages 35 to 47.

Community & Marketplace

During the year, representatives of the GSRI team participated in the creation of the Business Principles for Countering Bribery and engaged with a number of companies on governance and reporting transparency matters.

ISIS adopts a responsible approach to all external marketing and advertising. All literature issued by ISIS is reviewed and approved by the Audit & Compliance department prior to release. All staff within ISIS receive training and in 2003 were required to pass a test to ensure their understanding of the importance of general regulatory compliance and Money Laundering.

ISIS has a charities committee. The charities committee, which is a sub-committee of the CSR committee, is responsible for considering and approving any donations to charity under four key criteria for giving: Education and Young People; Health and Healthcare; Sustainability and Environment; and Community. In addition the company provides the facility for all staff to make contributions under the Give As You Earn ("GAYE") arrangements. During 2003 approximately 10 per cent. of staff participated in GAYE.

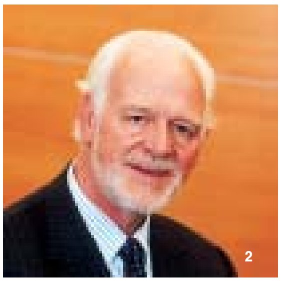
Assurance

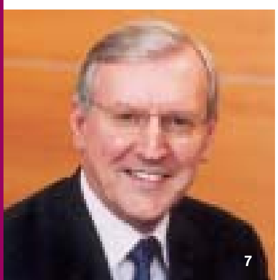
This section of the Annual Report, when read in conjunction with the CSR report published on the company's website, is in accordance with the 2002 GRI Guidelines.

During 2003 the company's CSR activities, including the 2002 CSR Report, were internally audited by representatives from the Audit & Compliance department.

Kenneth Back
1 March 2004

Howard Carter
1 March 2004





Non-executive Directors

1. Sir David Kinloch*†‡ Bt, CA Age 62

Chairman

Sir David, a chartered accountant, joined the board in September 1994 and has been its Chairman since September 1995. On 31 January 2004 Sir David retired as Deputy Chief Executive of Caledonia Investments plc, but has retained his position on the board as a non-executive director until the next AGM.

2. Christopher Jemmett† Age 67

Deputy Chairman and Senior Independent Director

Mr Jemmett joined the board in February 1998. Mr Jemmett was appointed as an independent, non-executive director of Friends Provident plc in June 2001 having been an independent, non-executive director of Friends' Provident Life Office from 1997 until 2001. He is a member of the Council of The Crown Agents Foundation and a former director and member of the executive committee of Unilever plc and Unilever NV. Mr Jemmett was appointed Deputy Chairman of ISIS Asset Management plc in May 1998.

3. Keith Bedell-Pearce*, LLB, MSc Age 58

Independent Director

Mr Bedell-Pearce, a solicitor, joined the board in December 2002. Until December 2001, Mr Bedell-Pearce was an executive director of Prudential plc with over thirty years experience in the financial services industry. He is currently non-executive chairman of Norwich & Peterborough Building Society and executive chairman of The Student Loans Company Limited (a part-time public appointment).

* Member of the Remuneration Committee

† Member of the Audit & Compliance Committee

‡ Member of the Nomination Committee

4. David Gray†‡, CA Age 52.

Independent Director

Mr Gray joined the board in May 1999. Until November 1999, he was Business Development Director of Scottish and Southern Energy plc, having previously been Finance Director of Scottish Hydro-Electric plc. He is a director of DTZ Holdings plc and Romag Holdings plc, chairman of DTZ Pieda Consulting Ltd and a board member of Scottish Water.

5. Kenneth Inglis*, FFA Age 60.

Independent Director

Mr Inglis, an actuary, joined the board in May 1999, having previously served as chairman of Fleming Investment Management Limited. He is a director of The Law Debenture Corporation plc.

6. Keith Satchell‡, BSc, FIA, Age 52.

Mr Satchell, an actuary, joined the board in February 1998. Mr Satchell was appointed Group Chief Executive and an executive director of Friends Provident plc in June 2001, having been an executive director of Friends' Provident Life Office since 1992 and its Chief Executive since 1997. He is also a member of the senior board of Banco Comercial Português SA (incorporated in Portugal) and a board member of Swiss Mobiliar Cooperative Company (incorporated in Switzerland) and European Alliance Partners AG (which is incorporated in the Netherlands).

7. Brian Sweetland, LLB, Solicitor, ACoI Age 58.

Mr Sweetland, a solicitor, joined the board in February 1998. Mr Sweetland was appointed an executive director of Friends Provident plc in June 2001, having been an executive director of Friends' Provident Life Office since 1995 and its secretary since 1983. He is a non-executive director of Benchmark Group PLC.

Executive Directors

8. Howard Carter, BA, MA Age 52.
Chief Executive
Mr Carter joined the Friends Provident Group in 1988 from Prudential-Bache Capital Funding Limited, where he was a director. He served as Chief Investment Officer from February 1998 until his appointment as Chief Executive in September 2000.
Mr Carter was appointed a non-executive director of Friends Provident plc on 5 June 2001.

9. Peter Arthur, LLB, FCIS Age 47.
Managing Director, Institutional Funds and Investment Trusts
A solicitor and chartered secretary, Mr Arthur joined the company and the board in December 1999 from Franklin Templeton Global Investors Limited where he was Chief Legal Counsel, Europe. He had previously served fourteen years with Edinburgh Fund Managers plc, latterly as Joint Managing Director.

10. Kenneth Back, BA, MA, MSc Age 48.
Chief Operating Officer
Mr Back joined the company and the board as Chief Operating Officer in July 1999 from State Street Bank & Trust Co. where he was Vice President, Director UK Business Unit.

11. Nick Criticos, FIA, B.Bus.Sc Age 45.
Managing Director, Retail Funds
An actuary, Mr Criticos joined the company and the board following the acquisition of Royal & SunAlliance Investments in July 2002 where he held the position of Managing Director of the Retail Business. He is a member of the Investment Funds Committee and a board member of the Investment Management Association.

12. Ian Paterson Brown, CA, MSI, ACIS Age 50.
Finance Director
A chartered accountant, Mr Paterson Brown joined the board following the acquisition of Royal & SunAlliance Investments in July 2002. Prior to his appointment to the board, Mr Paterson Brown was Group Company Secretary of Friends Ivory & Sime plc. He joined the company in 1982.

13. Robert Talbut, BA Age 43.
Chief Investment Officer
Mr Talbut joined the company and the board following the acquisition of Royal & SunAlliance Investments in July 2002 where he held the position of Managing Director of Investment Management. He is deputy chairman of the ABI Investment Committee.

Report of the Directors

The directors submit the Report and Accounts of the company and of the group for the year ended 31 December 2003. This report together with the Directors' Reports on Corporate Governance and Remuneration and the financial statements that follow will be laid before the Annual General Meeting on 30 April 2004.

Results, business review and dividend

The group's results for the year ended 31 December 2003 are shown in the group profit and loss account on page 51. A business review of the year ended 31 December 2003 and future developments are covered in the Chairman's Statement and Chief Executive's Report on pages 2 and 6 respectively.

The group loss for the year, after taxation, amounted to £11,821,000.

The directors recommend a final ordinary dividend of 7.0 pence per share, amounting to £10,485,000, making totals of 11.0 pence and £16,479,000 for the year respectively. Preference dividends of £19,000 were also appropriated during the year.

The final ordinary dividend, if approved, will be paid on 7 May 2004 to ordinary shareholders whose names are on the register on 19 March 2004.

	£000
Loss on ordinary activities after taxation	(11,821)
Dividends for the period from 1 January 2003 to 31 December 2003 on the variable rate cumulative preference shares appropriated during the year	(19)
Loss attributable to ordinary shareholders	(11,840)
Interim ordinary dividend of 4.0 pence per share on the ordinary shares paid on 5 September 2003	(5,994)
Proposed final ordinary dividend of 7.0 pence per share on the ordinary shares payable to ordinary shareholders whose names are on the register on 19 March 2004.	(10,485)
Retained loss for the year transferred from reserves	(28,319)

Principal activity and status

The company is registered as a Public Limited Company in terms of the Companies Act 1985 and is currently a constituent of the FTSE 250 Index.

The group's business is investment management. Details of the progress of the business during the year and of future prospects are contained in the Chairman's Statement and the Chief Executive's Report.

Fixed assets

Details of changes in fixed assets are disclosed in the notes to the financial statements.

Share capital and directors' interests

During the year the company issued 347,838 ordinary shares in respect of options granted under the 1995 Share Option Scheme.

Details of shares under option at 31 December 2003 are shown on pages 45 and 46 of the Directors' Remuneration Report. Details of shares issued during the year ended 31 December 2003, are given in note 22.

The directors who held office at the year end and their interests in the share capital of the company are shown below:

		31 December 2003 Ordinary Shares	**31 December 2002 Ordinary Shares**
Sir David Kinloch	Beneficial	**75,000**	75,000
	Non Beneficial*	**469,700**	–
Howard Carter	Beneficial	**42,850**	42,461
Peter Arthur	Beneficial	**9,389**	9,000
Kenneth Back	Beneficial	**6,308**	5,919
Keith Bedell-Pearce	Beneficial	**29,655**	–
Nick Criticos	Beneficial	**10,389**	10,000
David Gray	Beneficial	**5,000**	5,000
Kenneth Inglis	Beneficial	**10,000**	10,000
	Non Beneficial*	**469,700**	–
Christopher Jemmett	Beneficial	**14,414**	7,124
Ian Paterson Brown	Beneficial	**194,560**	194,171
	Non Beneficial†	**247,795**	401,922
Keith Satchell	Beneficial	**10,000**	10,000
Brian Sweetland	Beneficial	**5,000**	5,000
Robert Talbut	Beneficial	**20,000**	20,000

* Sir David Kinloch and Kenneth Inglis are directors of the ISIS Group ESOP Trustee Limited, a company incorporated in 1995 as a discretionary employee benefit trust to encourage and facilitate the acquisition and holding of shares in the company by employees.

† Mr I J Paterson Brown is a trustee of the Friends Ivory & Sime Staff Share Ownership Scheme.

Since 31 December 2003, Messrs Arthur, Back, Carter, Criticos and Paterson Brown have each acquired a total of 109 shares through monthly subscriptions into the company's share incentive plan.

The directors who held office at the year end and their interests in the share capital of the ultimate parent undertaking, Friends Provident plc are shown below:

		31 December 2003 Ordinary Shares	**31 December 2002 Ordinary Shares**
Peter Arthur	Beneficial	**5,110**	5,110
Kenneth Back	Beneficial	**1,180**	1,180
Howard Carter	Beneficial	**24,560**	24,560
Christopher Jemmett	Beneficial	**2,655**	2,655
Keith Satchell	Beneficial	**61,602**	60,253
Brian Sweetland	Beneficial	**94,367**	93,018

Directors' and Officers' Insurance

The company maintains insurance cover in respect of directors' and officers' liability.

Charitable and political contributions

During the year the group made contributions to charity of £58,000 (2002 – £41,000). No political donations were made during the year (2002 – £nil). Further details on the criteria for charitable giving is contained on page 17 of the Corporate and Social Responsibility Report.

Report of the Directors

Payment policy and practice

It is the company's payment policy to ensure settlement of suppliers' accounts in accordance with the stated terms. In certain circumstances, settlement terms are agreed prior to any business taking place. It is our policy to abide by those terms.

At 31 December 2003, trade creditors represented the equivalent of 10 days (2002 – 31 days) of the annual purchases invoiced by the suppliers to the company.

Substantial interests in share capital

The company has been informed of the following substantial interests as at 1 March 2004. No other person has notified an interest in the ordinary shares of the company required to be disclosed to the company in accordance with sections 198 to 208 of the Companies Act 1985.

	Ordinary Shares	**Percentage**
Friends Provident plc	100,773,458	67.1
Caledonia Investments plc	9,390,010	6.2

International Financial Reporting Standards (''IFRS'')

The company is currently undertaking its IFRS project with the assistance of KPMG. The project, under the sponsorship of the Finance Director, has been broken down into three phases – impact, preparation and implementation. The impact assessment is progressing well and within certain areas of the business, work has commenced on the preparation phase. The International Accounting Standards Board (''IASB'') has been amending and issuing new standards as part of its commitment to have a platform of high quality, improved standards in place for entities adopting IFRS in 2005. Accordingly, the impact assessment cannot be fully concluded until the IASB has published all standards expected to apply to 2005 year ends and this is not anticipated to occur before April 2004.

On conclusion of the impact phase the project team will present their findings to the audit and compliance committee, the board and the company's auditors to ensure they concur with the analysis. The board believes that to highlight specific areas at this stage in the project, before the final standards are issued or discussion and agreement of the approach has taken place with the company's auditors, could be misleading and as such have sought rather to assure the market that a duly constituted project has been established which will keep the market informed of any material issues arising out of the work to implement IFRS by the due date of 1 January 2005.

Capital Adequacy Directive (''CAD'')

In October 2003 the Financial Services Authority issued a policy statement ''Amendments to the Interim Prudential Sourcebook for Investment Businesses chapter 5 rules on consolidated supervision''. In this policy statement the FSA set out the requirements that need to be met and the procedure that needs to be followed to obtain a ''CAD waiver''. During 2003 the company issued a notification to the FSA under rule 5.7.1(4) advising that it was seeking to forego consolidated supervision and would comply with the FSA requirements which includes disclosing in the audited financial statements that it is not subject to regulatory consolidated capital requirements.

The board believes that the capital requirements of financial services companies differ greatly and consider the current capital directives emanating from Europe, whereby an asset management company is directly compared to a bank or insurance company, to be flawed. The requirement for

European regulators to review this matter and if necessary issue a directive on asset management companies and their requisite capital requirements is essential if there is to be international competition within this sector. The board have addressed the issue of capital adequacy within the business and are confident that the group continues to meet the requirements for a CAD waiver. They acknowledge, however, that, in the unlikely event that the CAD waiver is withdrawn by the FSA resulting in the company having to adhere to the CAD regulatory consolidated capital requirements, they would be required to issue equity shares or consider other appropriate means of raising other tier one capital.

Employees

At 1 February 2004 there were 468 full-time employees and 28 part-time employees within the group. (1 February 2003 – 543 full-time employees and 17 part-time employees).

Disabled employees

The group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to disabled employees wherever possible.

Employee involvement

During the year, the policy of providing employees with information about the group has been continued through internal presentations by the management committee and the internal publication of relevant information. All staff have also had the opportunity to participate in an Employee Opinion Survey in which employees have been encouraged to anonymously present their views and suggestions on the group and management's performance.

Equal opportunities

The company aims to provide equal opportunities for all, without discrimination on the grounds of race, religion, marital status, age, sex, sexual orientation or disability in all our dealings with staff. We recruit and promote those best suited for the job. The company respects the dignity of individuals and their beliefs. The company does not tolerate any sexual, racial, physical or mental harassment of staff in the work place.

Share incentive schemes

During the year employees participated directly in the business through three of the four Employee Share Schemes approved by shareholders on 20 December 2002; The ISIS Asset Management plc 2002 Executive Share Option Scheme, (the "2002 Executive Scheme"), The ISIS Asset Management plc Share Save Scheme (the "Share Save Scheme") and the ISIS Asset Management plc Share Incentive Plan (the "Share Incentive Plan"). No awards have been made under the ISIS Asset Management plc Long Term Incentive Plan (the "Long Term Incentive Plan"). Further details of each scheme is included within the Directors' Remuneration Report on pages 35 to 47.

Report of the Directors

Relationship agreement

The relationship agreement (as novated) formalises the ongoing relationship between the company and its parent undertaking, Friends Provident plc, and Friends Provident plc's subsidiaries while the Friends Provident group holds at least 30% of the company's issued ordinary share capital. The relationship agreement (as novated) contains provisions which permit the Friends Provident group to participate in future issues of equity shares by the company not made to existing shareholders in proportion to their existing holdings in order to maintain its percentage shareholding in the company. Under the UKLA's Listing Rules, such participation must be authorised by the company in general meeting and such authority must terminate within 12 months of the relevant general meeting unless renewed by shareholders. Your directors are recommending that the relationship agreement (as novated) be re-approved and the authority be renewed at this year's annual general meeting pursuant to resolution 10 in accordance with the UKLA's Listing Rules. Members of the Friends Provident group will abstain from voting on such ordinary resolution.

Power to issue ordinary shares

Special resolution 11 will be put to the Annual General Meeting to renew the present power to allot ordinary share capital for cash without first being required to offer such shares to existing shareholders. Such power will cover a maximum of £14,942.197 of unissued ordinary share capital and, if renewed, will apply to any ordinary shares issued in accordance with the relationship agreement referred to above (conditional upon the passing of the ordinary resolution referred to above), any ordinary shares issued pursuant to a rights issue or other pre-emptive offering and otherwise to ordinary shares representing 5% of the company's issued ordinary share capital as at the date of this report. The directors consider that such power is necessary in order to take advantage of opportunities as they arise and to retain flexibility.

Purchase of own shares

Special resolution 12 will be put to the Annual General Meeting to renew the present power to make market purchases of the company's own ordinary shares. Pursuant to special resolution 12 the maximum aggregate number of ordinary shares which may be purchased pursuant to the authority shall be 10% of the issued ordinary share capital of the company as at the date of the passing of the resolution (approximately 15.0 million ordinary shares as at 1 March 2004). The minimum price which may be paid for an ordinary share shall be 0.1 pence (exclusive of expenses). The maximum price for an ordinary share (again exclusive of expenses) shall be an amount equal to 105% of the average of the middle market quotations for the company's ordinary shares for the five business days immediately preceding the date of purchase. As at 1 March 2004, the company had 8,976,957 options to subscribe for ordinary shares outstanding (representing 5.97% of the issued ordinary share capital of the company as at 1 March 2004). If the outstanding amount of the existing buy-back authority is utilised in full prior to the 2004 AGM and if the buy-back authority is renewed at the 2004 AGM and is then utilised in full, the options outstanding at 1 March 2004 would represent 7.38% of the issued ordinary share capital of the company.

While the directors recognise that, due to the free float requirements, the scope for buy-backs may currently be limited, recent events have focused attention on having in place the power to take action in terms of buying back shares where circumstances exist where the board believe that future shareholder returns can be enhanced by taking such action. This authority, if renewed, will only be exercised if to do so would result in an increase in earnings per ordinary share and if it is considered to be in the best interests of shareholders generally.

During the year to 31 December 2003 no share buy-backs pursuant to this authority were undertaken by the company.

Reduction of share premium account

At the Annual General Meeting held on 25 April 2003 shareholders approved a £15 million reduction in the share premium account of the company which, was converted into a new special distributable reserve of the company to be used for the purposes of purchases of its own shares or future dividend payments. The order from the Court of Session was received by the company and lodged with the Registrar of Companies on 22 August 2003 at which time the reduction took effect.

Auditors

Ernst & Young LLP have expressed their willingness to continue in office as auditors and a resolution proposing their re-appointment and for the directors to determine their fees will be submitted at the Annual General Meeting.

Details of auditors' remuneration is provided in note 4 to the financial statements and further detail on how the board ensures the independence of the auditors is detailed on pages 33 and 34 within the Directors' Report on Corporate Governance.

By order of the board,

W Marrack Tonkin, FCCA
Secretary

80 George Street
Edinburgh EH2 3BU
1 March 2004

Directors' Report on Corporate Governance

The company believes in and is committed to practising the highest practicable standards of corporate governance. The board is accountable to the company's shareholders for good corporate governance. This statement describes how the principles of corporate governance set out in section one of the Combined Code issued in 1998 (''the Code'') have been applied.

Statement of Compliance

The company has been in compliance with the provisions set out in section one of the Code throughout the year to 31 December 2003. The company is also committed to and is working towards full compliance with the Revised Combined Code, published by the Financial Reporting Council on 23 July 2003 (the ''New Code'') and applicable to the company's accounting period which commenced on 1 January 2004.

The chairmen of the audit and compliance, remuneration and nomination committees will be available to answer questions at this year's Annual General Meeting to be held on Friday, 30 April 2004.

Going concern

The Code requires directors to report, under the terms set out in the relevant guidelines to the Code, on the appropriateness of adopting the going concern basis in preparing financial statements.

The directors consider that, the group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors consider that the business is a going concern and continue to adopt the going concern basis in preparing the financial statements.

The Board

The board of directors currently comprises six executive directors and seven non-executive directors, four (2002 – five) of whom the board have identified as independent directors. While the board has, in previous years, considered Sir David Kinloch to be an independent director, the New Code has stated that, following the year of appointment, the ongoing test of independence is no longer appropriate in relation to the chairman of the company and accordingly, Sir David Kinloch has not been identified as independent in this year's Annual Report & Accounts. Christopher Jemmett is the senior independent director. The biographies of the directors appear on pages 18 and 19. These demonstrate a range of experience, skills and personal standing sufficient to bring independent judgement on issues of strategy, performance, resources and standards of conduct which are vital to the success of the group. All directors have access to the advice and services of the company secretary, who is responsible to the board for ensuring that board procedures are followed and that applicable rules and regulations are complied with. The board meets formally on a regular basis and is responsible for the group's objectives and policies. The board focuses mainly on strategy, investment and financial performance and executive management and board succession. To enable the board to discharge its duties, all directors receive appropriate and timely information ensuring they are properly briefed on issues for consideration in advance of meetings. In addition, all directors have access to senior management and can request, either during meetings or at other appropriate times, further explanation or written papers on matters as they see fit.

The board has a detailed list of matters specifically reserved to it – the 'Board Reserved List'. This is contained in 'The Directors' Guide', a training and reference document issued to all directors on appointment and updated as appropriate. The Board Reserved List is reviewed annually and clearly sets out that authority is delegated from the board to board committees and to management. This ensures that matters of significance are overseen and reviewed by the board prior to implementation. Examples of matters reserved for the board as set out on the Board Reserved List are the approval of: the group strategy; the annual budget; the composition and terms of reference of any of the board committees; the high level organisational structure and the review of the effectiveness of the group's system of internal control.

Board composition

ISIS Asset Management plc ("ISIS") is a quoted subsidiary of Friends Provident plc ("FP"), which owns 67.1% of the company. There are, in addition to a formal agreement to manage funds on behalf of FP, various other arrangements in place between ISIS and FP, all of which are governed by independent agreements, the terms of which are approved by the minority shareholders as appropriate. New business created by FP has a direct benefit to ISIS and ISIS's investment performance has a direct impact on FP and its ability to develop its business. Because of this relationship, close co-operation and understanding of each other's businesses and strategies is very important. To facilitate this, Keith Satchell (FP Group Chief Executive) and Brian Sweetland, two of FP's executive directors are non-executive directors of ISIS and Howard Carter, ISIS's Chief Executive, is a non-executive director of FP. Howard Carter receives no remuneration or benefits from FP. In addition, Christopher Jemmett is an independent non-executive director of both FP and ISIS. The ISIS board consider Mr Jemmett to be independent in character and judgement and that this independence is demonstrated in the integrity, objectivity and professionalism displayed by Mr Jemmett's contributions to board and audit and compliance committee discussions and debates. The board acknowledge and respect that some parties may hold a different view of Mr Jemmett's independence as a consequence of his being an independent non-executive director of FP.

The other non-executive directors of ISIS are Sir David Kinloch, Keith Bedell-Pearce, David Gray and Kenneth Inglis. Messrs Bedell-Pearce, Gray and Inglis meet the criteria of independence as set out in the accepted guidance and, as previously stated, the New Code renders any ongoing test of independence relating to Sir David Kinloch as chairman no longer appropriate.

The ISIS board annually reviews the composition of the board and, while acknowledging that the composition of the board will not meet the New Code provision recommending that at least half of the board, excluding the chairman, should comprise non-executive directors determined by the board to be independent, the board believes that, in light of the strategic and structural relationship with FP, the structure and composition is both appropriate and in the best interests of all shareholders.

The Board Committees

The board has established a number of standing committees to facilitate the smooth transaction of business within the group. The terms of reference of each board committee outlining the authority and duties of each committee are reviewed and approved annually by the board and are published on the company's website or are available on written request from the company secretary. The terms of reference of each of the board committees provide the authority to take independent professional advice, if necessary, at the company's expense.

Directors' Report on Corporate Governance

(a) The Nomination Committee

The committee is chaired by Sir David Kinloch. It is responsible for evaluating the balance of skills, knowledge and experience on the board and considering and recommending to the board the appointment of all new board members and the appointment of non-executive directors to any board committee. The terms and conditions of appointment of non-executive directors set out in the standard letter of appointment can be inspected during normal working hours at the company's registered office by contacting the company secretary. The committee also annually reviews the contribution of the directors and considers each director's re-appointment prior to an appropriate resolution being put to shareholders. All directors are subject to election by shareholders at the first opportunity after their appointment, and to re-election at least every three years.

During the year Sir David Kinloch, the company's chairman announced his intention to stand down from the board at a date to be determined in 2004. Following this announcement the nomination committee engaged an executive search consultancy to identify suitable candidates to succeed Sir David as chairman. This process is ongoing and the company will make an announcement in due course.

Howard Carter, the chief executive, stood down as a member of the nomination committee on 13 November 2003 and was replaced by David Gray, an independent non-executive director on the same date. The Committee now comprises the Chairman and two non-executive directors. The board recognise that the membership of this committee does not meet the New Code's provision that a majority of members should be independent non-executive directors, however, the board consider it to be appropriate to the specific circumstances of a majority owned company.

Members of the nomination committee: Sir David Kinloch (Chairman), Keith Satchell, David Gray.

(b) The Audit and Compliance Committee

The committee is chaired by Christopher Jemmett. The committee meets at least four times a year to review the Interim Report and Accounts and the Annual Report and Accounts and other matters as appropriate. Senior management and the Group Company Secretary of Friends Provident plc, given the enlarged group's governance requirements, attend as required. These meetings are also attended by senior members of the ISIS group's auditors, Ernst & Young LLP.

In addition to reviewing issues of accounting policy and financial statements issued to shareholders, the committee considers the independence, objectivity and effectiveness of the external auditors and the operation and effectiveness of the internal audit and compliance function. The committee also considers and reviews other risk management or control documentation including the company's policy on whistleblowing and the results of internal and external audit and compliance reports or management letters. On an annual basis the committee considers and makes a recommendation to the board as to the appointment, re-appointment or removal of the external auditors.

Brian Sweetland stood down as a member of the audit and compliance committee on 13 November 2003. The Committee now comprises the Chairman of the company and two independent non-executive directors.

Members of the audit and compliance committee: Christopher Jemmett (Chairman), David Gray, Sir David Kinloch.

Two members of the committee are qualified chartered accountants and all have recent and relevant financial experience.

(c) The Remuneration Committee

The committee is chaired by Kenneth Inglis. The committee is responsible for reviewing the group's remuneration policy (as set out in the Directors' Remuneration Report on pages 35 to 47). Within that policy, the committee is responsible for determining the remuneration packages of the executive directors and making recommendations and monitoring the specific remuneration packages of senior management below board level. It is also responsible for the company's incentive schemes for employees, including the bonus scheme and the grant of share options and awards under the long term incentive plan.

The Committee comprises the Chairman of the company and two independent non-executive directors.

Members of the remuneration committee: Kenneth Inglis (Chairman), Sir David Kinloch, Keith Bedell-Pearce.

Attendance at meetings

The following table identifies the number of board and committee meetings held in 2003 and the attendance record of the individual directors as members of committees of the board.

Director	Board Meeting	Non-executive director meetings without management present	Remuneration Committee	Audit & Compliance Committee	Nomination Committee
Number of meetings held in 2003	7	2	7	4*	2
Sir David Kinloch	7	2	6	4	2
Christopher Jemmett	7	2	–	4	–
Howard Carter (1)	7	–	–	–	2
Peter Arthur	7	–	–	–	–
Kenneth Back	7	–	–	–	–
Keith Bedell-Pearce	7	2	6		
Nick Criticos	7	–	–	–	–
David Gray (2)	7	2	–	4	–
Kenneth Inglis	7	2	6	–	–
Ian Paterson Brown	7	–	–	–	–
Keith Satchell	7	2	–	–	2
Brian Sweetland (3)	7	2	–	4	–
Robert Talbut	7	–	–	–	–

* During the year the committee met formally on four occasions and informally on a number of occasions to discuss and consider business matters including the award of non-audit related consultancy work. On two occasions the committee met members of the external auditors without management present and on two occasions the committee met with the head of the internal audit and compliance department without any other members of management present.

(1) Resigned as a member of the Nomination Committee on 13 November 2003.
(2) Appointed as a member of the Nomination Committee on 13 November 2003.
(3) Resigned as a member of the Audit & Compliance Committee on 13 November 2003.

Directors' Report on Corporate Governance

Board roles

Chairman

The chairman of the company is Sir David Kinloch. As Chairman, Sir David is responsible for leadership of the board and ensuring the effective running and management of the board. The role profile of the Chairman outlines the specific responsibilities of the Chairman including the following:

- Ensuring that the board agenda for each meeting takes account of the issues and concerns of each board member and that members of the board receive accurate, timely and clear information on the company and related matters to enable them to monitor the company's performance and take sound decisions.
- Ensuring effective communication with shareholders and ensuring the board develops an understanding of the views of major investors.
- Ensuring that, in conjunction with the company secretary, a formal induction and development process exists for all directors and the board as a whole with a view to enhancing the board's effectiveness.
- Ensuring constructive relations between executive and non-executive directors and effective contribution from all directors.

Chief Executive

The chief executive of the company is Howard Carter. As Chief Executive, Howard Carter is responsible for overseeing the implementation of the strategy as set by the board, providing strategic vision and executive leadership of the business to all the group's business activities and ensuring the effective running of the business and management of the executive directors.

Non-executive Directors

Messrs Bedell-Pearce, Gray, Inglis, Jemmett, Satchell and Sweetland are the company's non-executive directors. As non-executive directors they are responsible for: providing entrepreneurial leadership and promoting the highest standards of governance within a framework of prudent and effective controls; constructively challenging and helping develop strategic proposals; ensuring that the company has in place the necessary resources to meet its strategic objectives; reviewing management performance; determining appropriate levels of executive director remuneration and taking a prime role in appointing and where necessary removing executive directors; setting the company's values and standards to ensure its obligations to its stakeholders are understood and met.

Executive directors, (The management committee)

The management committee, comprising Messrs Carter, Arthur, Back, Criticos, Paterson Brown and Talbut, being the executive directors of the company, is accountable and responsible for implementing board strategy and for the day-to-day running of the business. The management committee, in addition to overseeing the implementation of the strategy, regularly reviews business issues and matters not reserved for the board as a whole. This committee has a reserved list to assist it in carrying out its functions. Examples of matters reserved for the management committee as delegated authorities from the board are the approval of: day to day business issues linked to the strategy or the annual budget and include; the launch of new products; approval of contractual commitments; approval of expenditure; and any issue that could have a potential legal or reputational impact to the group.

Board evaluation & professional development

In the first quarter of 2004, the Company Secretary, in consultation with the chairman and the nomination committee, undertook an evaluation of the effectiveness of the performance of the board as a whole. This evaluation was performed by issuing detailed performance questionnaires to each director and analysing and discussing the responses with each board member. A succinct report was then prepared, discussed with the Chairman and presented to the nomination committee and the board. The board identified certain actions to enhance further their effectiveness and these are being acted upon. The board will review the approach adopted on an annual basis.

The company has a full and formal induction process for all new appointments to the board. The Chairman, in consultation with the Company Secretary and individual directors, is responsible for assessing the professional development needs of each director. The induction process and ongoing professional development is facilitated by the Company Secretary who, in consultation with the individual director, identifies the most appropriate method of ensuring professional development. The Company Secretary also organises attendance at internal or external courses of professional development to develop familiarity with the company's area of business operation.

Directors & Directors re-election

The directors at any time during the year ended 31 December 2003 are as shown in the Directors' Remuneration Report on page 43. Details of the executive directors' service contracts and non-executive directors' letters of appointment can be found on page 42.

Messrs Gray, Inglis and Jemmett, all of whom the board consider to be independent non-executive directors, Brian Sweetland, a non-executive director and Kenneth Back, an executive director, retire by rotation and, being eligible, offer themselves for re-election at the Annual General Meeting.

The nomination committee has reviewed the structure, size and composition of the board, and confirm that all directors offering themselves for re-election at the Annual General Meeting demonstrate commitment to their role. The nomination committee has also confirmed that all directors submitting themselves for re-election devote sufficient time to perform their roles as members of the board and any board committee and that Messrs Gray, Inglis, Jemmett and Sweetland all display the qualities expected of an effective non-executive director as set out on page 30. The nomination committee believe that all directors submitting themselves for re-election should be re-elected.

Details of the directors offering themselves for election or re-election can be found on pages 18 and 19.

Relations with shareholders

Communications with shareholders are given high priority. The company welcomes the views of shareholders and, where practicable, enters into dialogue with institutional shareholders based on the need for mutual understanding of objectives. The company's Chief Executive and Finance Director regularly meet the largest institutional shareholders and company analysts following the announcement of the year end and interim results; the senior independent director and all other non-executive directors have the opportunity to attend these meetings. The Annual General Meeting of the company provides a forum, both formal and informal, for investors to meet and discuss issues with directors and senior management of the company. Details of resolutions to be proposed at the Annual General Meeting on 30 April 2004 can be found in the notice of the meeting on pages 92 to 94.

Directors' Report on Corporate Governance

At its Annual General Meeting, the company complies with the provision of the Code relating to the disclosure of proxy votes, the separation of resolutions and the attendance of the committee chairmen. The timing of the despatch of the formal notice of the annual general meeting complies with the Code.

The non-executive directors meet twice a year without management present. At these meetings representatives from the company's significant shareholders have the opportunity to express their views about the company and consideration is given to any other relevant views expressed by other shareholders. Unattributable shareholder feedback on the company, facilitated by the company's brokers, is also presented to the board following management's year end results presentations.

Investee company corporate governance and voting policy

ISIS has established a corporate governance committee to address, amongst other things, issues and policies in respect of investee companies. The company aims, where practicable, to implement these policies on a global basis, subject to client agreement. The policies are implemented as part of the investment discipline and are carried through into the execution of the voting policy. Corporate governance principles, which are available to investee companies, are applied in a pragmatic and sensible manner that recognises that businesses are dynamic organisations. The company is therefore seeking to understand the 'governance culture' rather than merely to confirm compliance with rules and regulations which in some cases may be neither applicable nor appropriate.

Details of proxy votes cast on the retail funds managed by ISIS, together with the UK corporate governance policies applied to investee companies are published on the company's website.

Internal control

The board has overall responsibility for the group's system of internal control and for reviewing its effectiveness on a regular basis. Management's role is to implement and operate the board policies on risk and risk management. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material errors, losses or fraud.

The company, as required by the FSA Listing Rules, has complied with the Code provisions on internal control for the year ended 31 December 2003.

The procedures that the directors have established are designed to provide effective control within the group and accord with the Internal Control Guidance for directors on the Combined Code issued by the Institute of Chartered Accountants in England and Wales "Internal Control: Guidance for Directors on the Combined Code" (the "Turnbull Guidance"). Such procedures have been in place throughout the year and up to 1 March 2004, the date of approval of the Annual Report and Accounts. A high-level overview of the ongoing process for identifying, evaluating and managing significant risks including social, environmental and ethical issues is detailed below. This process is regularly reviewed by the board to ensure it complies with the Turnbull Guidance.

Control environment

The group is committed to the highest standards of business conduct and seeks to maintain these standards across all areas of the business. The group has in place appropriate procedures for the reporting and resolution of activities that do not meet the required standards of business conduct.

The group has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve group objectives. The structure is designed to provide clear responsibilities and a control framework for key areas of the group's business.

Operational responsibility rests with the Chief Executive and is devolved through a documented executive structure with clearly delegated and appropriate levels of authority. Members of group management are, therefore, accountable for the operation of the systems of internal controls within the group's business.

Business risks

The identification of major business risks is carried out in conjunction with management and procedures to control these risks, where possible, are reviewed and agreed.

Quarterly reports are prepared by each of the business units which include issues of material business risk. These reports are discussed in detail by the executive directors and form the basis of reporting to the board on a regular basis.

Monitoring and corrective action

As with other businesses operating in the financial services sector, there is a formal compliance function, which within ISIS is integrated with the internal audit function to form an audit and compliance department. The audit and compliance department conduct regular monitoring of various business areas and control procedures in line with a plan agreed annually with the audit and compliance committee. The audit and compliance committee and members of the management committee receive a formal monthly report from the audit and compliance department providing an update of the monitoring activity and other relevant regulatory or control matters. Any issues of significance are brought to the attention of the board by the audit and compliance department and through the regular reporting process. Planned corrective actions are independently monitored for timely completion and reviewed by the audit and compliance committee.

The audit and compliance committee reviews the effectiveness of the operation of this framework at least twice each year.

Independence of the auditors

The board has in place rigorous systems for ensuring the independence, objectivity and effectiveness of the group's auditors and has satisfied itself that during the year no aspect of their work was impaired on these grounds. In maintaining a clear perception of independence and balancing that with the best interests of the company, the board has a clear policy that it follows when considering awarding non-audit work to the group's auditors.

The company does not impose an automatic ban on the group's auditor undertaking non-audit work. The group's aim is always to have any non-audit work involving accountancy firms carried out in a manner that affords value for money. The accounting firm must not be in a position of conflict in respect of the work in question and must have the skill, competence and integrity to carry out the work in the best interests of the group.

Any award of work to the auditors, irrespective of value, requires the prior approval of the audit and compliance committee. The committee, in addition to considering the costs of any award, considers whether the work is:

- so closely related to the statutory audit – for example, related assurance work, which would include FRAG 21 work, regulatory reports and tax compliance work; or
- such that a detailed understanding of the group is necessary – for example, due diligence and tax advisory work and work preparatory to a shareholder circular;

that, in the absence of any conflict of interest, it is considered in the best interests of the group to have the work carried out by the auditors.

It is also recognised that audit firms have an internal control process that aims to eliminate conflict and ensure objectivity in dealing with clients. The auditors are specifically excluded from undertaking any assignment or work that would involve them either in auditing or reviewing their own work or in providing services that would require them to function as part of the management of the business.

The award of any other type of non-audit work will be the subject of a short list of appropriate providers if in excess of £30,000 and the subject of a formal tender process wherever appropriate. Irrespective of the value of the contract, such work will always be awarded to the accounting firm who has the necessary skill, competence and integrity and offers the best value for money in the best interests of the group.

The performance, independence, competence and cost of auditors are reviewed annually by the audit and compliance committee. When the committee considers it appropriate, the provision of audit services will be formally market-tested through a tender process involving those audit firms judged competent to meet the needs of the group. The frequency of this market-testing will depend on the needs of the group and prevailing leading practice.

During the year, Deloitte & Touche, KPMG, and PricewaterhouseCoopers, who are independent of the external auditors, provided non-audit related services to the group. Details of fees paid to accounting firms during 2003 are disclosed in note 4 on pages 62 and 63 of the notes to the financial statements.

Future developments

The board believes that the controls in place during 2003 have been appropriate to the needs of the group. Nevertheless, it is committed to the highest standards of governance and business conduct and will ensure that those controls continue to develop in line with the requirements of the Financial Services Authority (''FSA'') and leading practice. The principles, supporting principles and provisions published in the New Code have been considered in detail by the board and any necessary changes in 2004 will be made so as to ensure that the interests of the group's clients and the company's shareholders continue to be protected.

By order of the board

W Marrack Tonkin, FCCA
Secretary

80 George Street
Edinburgh EH2 3BU
1 March 2004

Directors' Remuneration Report

It is intended that this report should comply with the provisions of the Combined Code issued in 1998 (''the Code''), Schedule 7A to the Companies Act 1985 and the FSA Listing Rules. An ordinary resolution for the approval of this report will be put to shareholders at the forthcoming Annual General Meeting.

Legislation requires the group's auditors to audit certain disclosures within this report. Where disclosures have been audited they are indicated as such.

Introduction and objectives

The remuneration committee is a standing committee of the board, chaired by Kenneth Inglis, an independent non-executive director. Its other members are Sir David Kinloch, the company's chairman and Keith Bedell-Pearce, an independent non-executive director.

The committee, which has detailed written terms of reference that are reviewed annually and published on the company's website or available on request from the company secretary, has been established by the board to:

(a) recommend to the board the company's policy on directors' remuneration;

(b) ensure that the company's executive directors and senior employees are fairly rewarded and that a significant proportion of executive directors' remuneration is linked to the group's corporate, and their individual, performance;

(c) demonstrate to shareholders that the remuneration of executive directors and senior employees of the company is determined by a committee of board members who have no personal interest in the level of remuneration of the company's executive directors or senior employees and who will pay due regard to the interests of shareholders and to the financial and commercial health of the company; and

(d) ensure that full consideration has been given to Section 1B of the Code's best practice provisions as annexed to the Listing Rules.

During the year the remuneration committee was provided with independent remuneration research undertaken by Mclagan & Partners, Towers Perrin and DLAMCG Consulting, leading firms of executive remuneration consultants appointed by the committee to assess comparability of the company's remuneration policies to the marketplace and in particular the remuneration policies of the company's competitors.

Statement of the company's policy on directors' remuneration

The board's remuneration policy relating to the forthcoming financial year and subsequent financial years is that individual rewards and incentives should be aligned with the performance of the company and with the interests of shareholders. Within this policy the board has put in place a number of remuneration and employment policies which apply to all employees, including executive directors. These policies enable the company to recruit, retain and motivate high-calibre individuals who, in turn, will facilitate the company's pursuit of its corporate goals. The policies are designed to ensure that individual rewards and incentives are aligned with the performance of the company and reflect the company's financial and fiduciary responsibilities to its shareholders, clients and employees.

In framing the policies, the board takes full account of the various codes and guidelines outlining leading practice, the industry environment in which the company operates and the company's requirements in terms of its operating plan, longer term strategic goals and its position within its industry peer group.

Directors' Remuneration Report

In designing schemes of performance-related remuneration and in preparing this report the board and the remuneration committee have complied with the provisions of the Combined Code issued in 1998 (''the Code'') and the FSA Listing Rules.

Within these policies, and with the aid of independent research, the remuneration committee determine on behalf of the board the remuneration of executive directors and certain senior employees such that they are fairly rewarded for their contribution to overall performance. Such remuneration will comprise basic salary, pension provision, annual bonus and any awards under the long term incentive plan or grants under the option scheme.

Policies on the individual elements of remuneration and employment:

(a) Salaries

The salaries of all employees, including executive directors, are reviewed annually and are determined by reference to external market research. The company's policy is to pay salaries which, when taken together with other benefits, will provide a remuneration package that is competitive in the asset management sector.

(b) Bonus

The size and distribution of the bonus pool is recommended by the remuneration committee to the board for consideration and approval. In considering the size and in determining the distribution of the bonus pool, the committee considers the performance of the business, the need to recruit, motivate and retain high-calibre individuals, the arrangements operated by the company's competitors and the need to maintain an appropriate balance between salary and performance-related remuneration that ensures the achievement of objectives is rewarded.

A revised discretionary bonus scheme for investment professionals was put in place for 2003. The purpose of this scheme is to reward investment professionals with superior fund performance relative to peer group benchmarks and indices, and their contribution to the broader business and strategic objectives of the company. Individual awards under this scheme are set according to the degree of outperformance of the fund against benchmarks but are not contractual and are still ultimately subject to the size of the bonus pool approved annually by the board. The element of any payments exceeding £100,000, or 100% of base salary, whichever is the greater, is deferred for a period of 12 months.

Bonus awards to all non-investment professionals and the executive directors are made under the discretionary bonus scheme. The purpose of this scheme is to reward non-investment professionals and the executive directors for superior performance relative to agreed targets.

(c) Deferred bonus

As at 1 March 2004 the following deferred bonus arrangements are in place for all executive directors in respect of the financial years ending in December 2003 and December 2004. The payment of all deferred bonuses is conditional upon the director being employed by ISIS and not under notice of termination of contract where such notice has been given by the director at the due date of payment.

Executive director	Deferred bonus for 2003[1] £000	Deferred bonus for 2004[2] £000
Peter Arthur	125	125
Kenneth Back	100	100
Howard Carter	200	200
Nick Criticos	100	100
Ian Paterson Brown	100	100
Robert Talbut	100	100

[1] financial period 1 Jan 2003 to 31 Dec 2003 payable in April 2004.
[2] financial period 1 Jan 2004 to 31 Dec 2004 payable in April 2005.

(d) Savings-related share schemes

On 20 December 2002 shareholders approved the adoption of two Inland Revenue approved savings related share schemes, the ISIS Asset Management plc Share Save Scheme and the ISIS Asset Management plc Share Incentive Plan. The savings-related share schemes were introduced to replace the Staff Share Ownership Scheme following its closure on 31 December 2002 and were activated following the announcement of the 2002 year end results in March 2003. Both schemes are ''all employee share schemes'' and all employees including executive directors who meet certain criteria are eligible to participate. Details of all ''options'' held by directors under the ISIS Asset Management plc Share Save Scheme are contained on page 45.

During the year 259 employees participated in the Share Save Scheme and 115 employees participated in the Share Incentive Plan. At 31 December 2003 a total of 945,599 shares were under option within the Share Save Scheme at an exercise price of 114 pence (391,699 of which are under a three year option and 553,900 of which are under a five year option). 36,031 shares were held in trust for employees within the Share Incentive Plan. Both ''all employee share schemes'' seek to buy shares in the market to remove any possible impact of dilution.

In addition to the Employee Share Schemes, at 31 December 2003 The Staff Share Ownership Scheme (an approved profit sharing scheme closed to new members on 31 December 2002) owned 247,795 ordinary shares (31 December 2002 – 401,922 ordinary shares). At 31 December 2003 110 employees (31 December 2002 – 120 employees) owned shares in the company through the Staff Share Ownership Scheme. Approved profit sharing schemes were phased out by the Inland Revenue following the introduction of share incentive plans within the Finance Act 2000.

(e) Share incentive schemes

On 20 December 2002 shareholders approved the adoption of a share option scheme, the ISIS Asset Management plc 2002 Executive Share Option Scheme (the ''2002 Executive Scheme'') and a share award scheme, the ISIS Asset Management plc Long Term Incentive Plan (''LTIP''). In both cases participation is entirely at the discretion of the board based on an assessment of individual contribution to the group during the year. The board believes that the share incentive schemes increase the potential for greater importance to be placed upon the performance related element of total remuneration.

Directors' Remuneration Report

By combining grants and awards under the share incentive schemes and by using appropriate performance criteria, the remuneration committee will ensure that the schemes' usage is part of a balanced and well thought out remuneration policy. The quantum of the combined award can be influenced by the desired positioning relative to the market in terms of overall package value, the desired mix between the elements of remuneration within a given package value, the limitations of best practice on award levels for executive directors, the strength of the performance conditions applied in the schemes, and dilution limits to protect shareholder value.

Participation in both the 2002 Executive Scheme and the Long Term Incentive Plan is entirely at the discretion of the board acting on the recommendation of the remuneration committee.

In order to ensure that the assessment of performance conditions detailed on pages 38 to 40 is independent, Ernst & Young LLP will report to the remuneration committee as to whether the performance criteria under both the 2002 Executive Scheme and the LTIP have been met.

The share incentive schemes were introduced to replace the 1995 Executive Share Option Scheme, details of which can be found on page 46. Following the introduction of the 2002 Executive Scheme no awards will be made under the 1995 Executive Option Scheme.

Policy on grants and awards under the Share incentive schemes

The company's policy for the granting of options under the 2002 Executive Scheme and awards under the LTIP is that grants and awards are based on an assessment of individual contribution to the business and independent advice obtained on current remuneration practices. Each year the remuneration committee will recommend to the board the individuals to whom options should be granted or LTIPs awarded.

Participation under the 2002 Executive Scheme and Long Term Incentive Plan is limited so that the market value of shares over which a participant may be granted options or awarded LTIPs annually does not exceed an amount equal to 2.5 times and 2 times respectively the participant's base salary at the relevant grant or award date. The current intention is, however, that following any initial grant or award (such as for the purposes of his or her recruitment), the board will only make annual grants or awards up to, in aggregate, a maximum of one times the participant's base salary. In the event that exceptional circumstances exist that require the board to exceed the annual grant or award of one times annual base salary any excess will be subject to more challenging performance conditions.

The board intend that participation in the LTIP will be limited to the senior management team.

No options or awards will be granted at a discount and no re-testing will be performed under either scheme.

2002 Executive Scheme

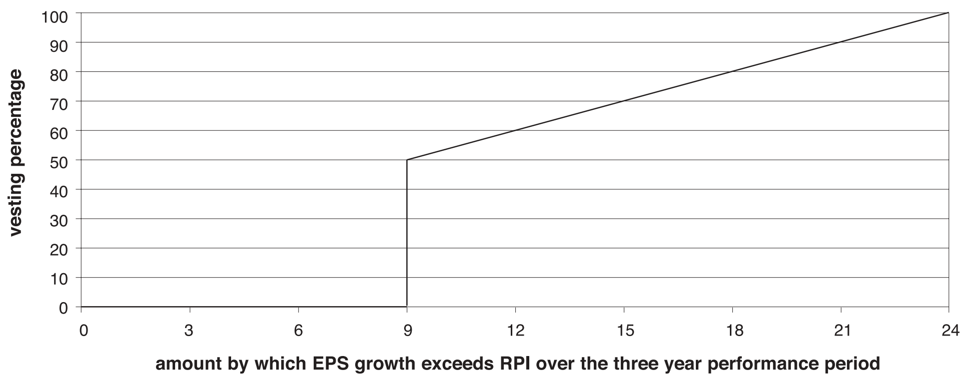
The exercise of options granted under the 2002 Executive Scheme will be dependent on the achievement by the company of specified thresholds of earnings per share before amortisation of goodwill and exceptional costs ("EPS"), growth in excess of the growth in the Retail Price Index ("RPI") over a three year performance period commencing on the first day of the accounting period in which the grant was made.

An option will not become exercisable unless the growth in the EPS of the company over the period exceeds the growth in the RPI over the same period by 9%. Where that 9% target is achieved, one half of the number of ordinary shares forming the option will become exercisable.

For an option to become exercisable in full, the growth in the EPS of the company over the period must exceed the growth in the RPI over the same period by a minimum of 24%. The number of ordinary shares the subject of an option which will become exercisable will increase on a sliding scale as illustrated below if the growth in the EPS exceeds the growth in the RPI by between 9% and 24% over the performance period. The EPS measure is chosen because it is designed to enable the 2002 Executive Scheme to reward sustained improvement in the group's underlying financial performance.

During the year a total of 5,238,907 options were awarded to 94 staff under the 2002 Executive Scheme at an exercise price of 139 pence per option.

2002 Executive Scheme
Illustration of vesting schedule for EPS growth



During 2003 the growth in the company's EPS exceeded the growth in the RPI by 12.5%.

Long Term Incentive Plan

Vesting of the ordinary shares that are the subject of an award under the LTIP will be dependent upon the total shareholder return ("TSR") of the company compared to the TSR of the other companies who formed the FTSE 250 Index at the start of each performance period (the "comparator companies") over a three year performance period commencing on the first day of the accounting period in which the award was made. In order to determine how much of an award will vest, the remuneration committee will compare the TSR of the company with that of the companies that constituted the FTSE 250 Index published by the London Stock Exchange plc immediately before the date of the award. At the end of the performance period, the company and each of the comparator companies (the "comparator list") will be listed and ranked in accordance with the growth in their TSR over the performance period. The number of ordinary shares which will vest will depend upon the ranking of the company in the comparator list in accordance with the vesting table below, described as follows. For below median TSR performance no awards will vest; for TSR performance between the median and twenty-fourth centile (125th and 60th position in the index) awards will vest on a straight-line basis between 35% for median and 100% for twenty-fourth centile. The TSR measure reflects the movement in the value of shares plus any dividends declared during the relevant period. It is, therefore, chosen as the performance measure for the LTIP as it is directly related to movements in shareholder value.

Directors' Remuneration Report

No awards were made under the Long Term Incentive Plan in the year to 31 December 2003.

Long Term Incentive Plan – vesting table

Position of company in Order of Ranking	**per cent. of number of Shares subject to an Award which vest**
Below Median	0 per cent.
Median	35 per cent.
Between Median and Twenty-fourth Centile	Pro-rata between 35 per cent. and 100 per cent. on a straight line basis
Twenty-fourth Centile and above	100 per cent.

Performance Graph

The graph below compares the performance of the company for the five financial periods ending 31 December 2003 based on the TSR for each period (assuming all dividends are reinvested) to ordinary shareholders compared with the TSR for each period on a notional investment made up of shares of the group of companies from which the FTSE 250 Index of companies is calculated. The FTSE 250 Index has been chosen as the comparator index as it is the index that includes the company and is considered an appropriate benchmark as there are very few comparable listed asset management businesses. It is therefore the group against which the LTIP is measured.

Source: ISIS Asset Management plc

(f) Policy on other benefits

The company provides all staff with life assurance cover. The company's policy in relation to cars is to provide cars only to employees where the use of a car is essential to the fulfilment of their role and to provide a car cash allowance in all other instances. During 2003, the board resolved, in a three stage process, to consolidate car allowance payments into base salary.

(g) Policy on pension

The company's policy on pension provision is to provide a means whereby each employee either receives a pension at retirement age or funding to operate a money purchase pension plan. New employees are provided with funding to enable them to operate a money purchase pension plan. The funding rate varies according to the age of the employee.

Pension payments are based on basic salary and no other cash payments or benefits are pensionable.

(h) Policy on non-executive directors' remuneration

Non-executive directors' fees for the year to 31 December 2003 are set out on page 43. None of the non-executive directors have service contracts. Letters of appointment provide for an initial period of three years, subject to review. Non-executive directors must submit to re-election at least every three years and are not eligible for bonuses or participation in savings related share schemes or share incentive schemes. Non-executive directors are not eligible to join any of the company's pension schemes. No pension contributions are made on their behalf and no non-executive director receives a salary from the company. The remuneration of non-executive directors is determined by the board as a whole within the limits stipulated in the company's Articles of Association.

Non-executive directors are paid a basic fee of £26,000 (2002: £25,000) for their services as directors and additional fees are payable for chairing or being a member of the audit and compliance committee and the remuneration committee. The Chairman of the audit and compliance committee receives £6,500 (2002: £6,000) per annum and the Chairman of the remuneration committee receives £4,500 (2002: £4,000) per annum. Members of the audit and compliance committee receive £5,000 (2002: £5,000) per annum and members of the remuneration committee receive £3,500 (2002: £3,000) per annum. The Chairman of the company is paid an all inclusive fee of £68,000 (2002: £67,000) and receives no additional fees for serving on board committees.

(i) Policy on contracts of employment

The company's policy regarding contracts of employment is that all senior employees, including executive directors, should be offered rolling contracts of no longer than twelve months. Where it is commercially appropriate to protect the company by entering into a longer-term contract with any employee, including an executive director, it will be for a longer initial period, reverting to align with the company's policy thereafter. The remuneration committee, in considering contracts, has regard to compensation commitments in respect of termination and believes that these are best addressed by restricting the term of the contract. In the event of a termination, the remuneration committee would consider all the relevant factors and seek a just solution.

Directors' Remuneration Report

Statement on executive directors' service contracts and non-executive directors' letters of appointment

Messrs Carter, Arthur, Back, Criticos, Paterson Brown and Talbut have current service contracts with the company that are for a rolling period of one year, details of which are summarised below.

Executive directors	Date of Contract	Notice Period	Unexpired term	Provision for compensation payable by the company on early termination £000
Peter Arthur	1 Dec 2000	Twelve months	rolling twelve months	219
Kenneth Back	1 Dec 2000	Twelve months	rolling twelve months	196
Howard Carter	1 Oct 2000	Twelve months	rolling twelve months	361
Nick Criticos	1 Jul 2002	Twelve months	rolling twelve months	230
Ian Paterson Brown	1 Feb 1995	Twelve months	rolling twelve months	171
Robert Talbut	1 Jul 2002	Twelve months	rolling twelve months	238

Chairman and Non-executive directors	Date of Contract	Notice Period	Unexpired term	Provision for compensation payable by the company on early termination £000
Sir David Kinloch	25 Apr 2003	None	Twenty five months	Nil
Keith Bedell-Pearce	25 Apr 2003	None	Twenty five months	Nil
David Gray	12 Mar 2002	None	Twelve months	Nil
Kenneth Inglis	12 Mar 2002	None	Twelve months	Nil
Christopher Jemmett	7 Mar 2001	None	One month	Nil
Keith Satchell	25 Apr 2003	None	Twenty five months	Nil
Brian Sweetland	7 Mar 2001	None	One month	Nil

No employee of the group has a service contract that cannot be brought to an end within one year.

No additional liabilities are payable by the company to any director on early termination other than any payments falling due under the deferred bonus arrangements set out on page 37 and benefit entitlement for Ian Paterson Brown and Howard Carter under the ISIS Asset Management plc pension fund.

Directors retiring and seeking election/re-election

The names of those directors proposed for election or re-election are contained in the Directors' Report on Corporate Governance on page 31.

Statement on directors' remuneration (audited)

The remuneration of the chairman and the other directors who held office during the year ended 31 December 2003 is set out below:

	Salary and fees 2003 £000	Bonus 2003‡ £000	Benefits and allowances 2003 £000	Total 2003 (excluding pension contribution) £000	Total 2002 (excluding pension contribution) £000	Pension Contributions 2003 £000	Total 2003 £000	Total 2002 £000
Executive directors								
Howard Carter	272	450†	10	732	463	65*	797	515
Peter Arthur	182	215	19	416	279	24	440	293
Kenneth Back	162	180	17	359	265	24	383	287
Nick Criticos(1)	182	240	22	444	163	22	466	174
Ian Paterson Brown(1)	152	220	9	381	181	–	381	181
Robert Talbut(1)	202	270	11	483	180	24	507	192
Chairman and Non-executive directors								
Sir David Kinloch (Chairman)	68	–	–	68	67	–	68	67
Keith Bedell-Pearce(2)	30	–	–	30	1	–	30	1
David Gray	31	–	–	31	28	–	31	28
K W B Inglis	30	–	–	30	26	–	30	26
Christopher Jemmett	32	–	–	32	28	–	32	28
Keith Satchell	26	–	–	26	23	–	26	23
Brian Sweetland	31	–	–	31	30	–	31	30
	1,400	1,575	88	3,063	1,734	159	3,222	1,845

* Howard Carter's pension contributions represent a contribution to a Funded Unapproved Retirement Benefit Scheme in relation to the element of his salary above the earnings cap. Howard Carter is a member of the ISIS Asset Management plc Pension Fund set out on page 44 which provides pension benefits on his salary below the earning cap.

† Howard Carter received a deferred bonus payment of £4,000 (2002 – £8,000) from FP under the former FP Asset Management Bonus Scheme.

‡ Includes the deferred bonus for 2003 details of which are shown on page 37.

(1) Appointed a director on 1 July 2002

(2) Appointed a director on 18 December 2002

Under the outstanding terms of his contract, Mr Sanjana, a previous director, received £247,000 in 2003. No further amounts are payable to Mr Sanjana.

No sums were paid to third parties in respect of any executive director's services.

The company received £Nil (2002 – £Nil) in fees payable to executive directors in respect of any external directorships held. No executive director receives any fees in respect of external appointments.

The non-executive directors' fees of Brian Sweetland and Keith Satchell were paid to Friends Provident plc. The non-executive director's fees of Sir David Kinloch were paid to Caledonia Investments plc.

Statement on directors' pensions (audited)

The number of directors who held office during the year and to whom retirement benefits are accruing is set out below:

	2003 Number	2002 Number
Members of money purchase pension scheme	4	5
Members of defined benefit scheme	2	2

	2003 £000	2002 £000
Company contributions paid to money purchase pension schemes		
– Peter Arthur	24	14
– Kenneth Back	24	22
– Nick Criticos (2002 – from date of appointment on 1 July 2002)	22	11
– Robert Talbut (2002 – from date of appointment on 1 July 2002)	24	12

During the year, the company paid a widow's pension of £79,000 (2002 – £77,000) in respect of the pension benefits which had accrued to a former chairman.

The pension entitlements of the directors who are members of ISIS Asset Management plc Pension Fund as detailed in note 26, are set out below.

	(1) Gross increase in accrued pension	(2) Increase in accrued pension net of inflation	(3) Total accrued pension at 31/12/2003	(4) Transfer value of net increase in accrual over period	(5) Total change in transfer value during period	(6) Transfer value of accrued pension at 31/12/2003	(7) Transfer value of accrued pension at 31/12/2002
Howard Carter	£1,800	£1,600	£12,100	£18,200	£29,800	£141,600	£111,800
Ian Paterson Brown	£11,600	£10,100	£65,700	£121,000	£158,500	£755,400	£596,900

Notes

(a) Pension accruals shown are the amounts which would be paid annually on retirement based on service to the end of the year.

(b) Transfer values have been calculated in accordance with version 8.1 of the Actuarial Guidance Notes GN11 issued by the Faculty and Institute of Actuaries.

(c) The value of net increase (4) represents the incremental value to the director of his service during the year, calculated on the assumption that service terminated at the year-end. It is based on the accrued pension increase (2) excluding any increase for inflation.

(d) The transfer values disclosed under (6) and (7) above do not represent a sum paid or payable to the individual director. Instead they represent a liability of the company via the pension fund.

(e) The change in transfer value (5) (calculated as (6) less (7)) includes the effect of fluctuations in the transfer value due to factors beyond the control of the company and directors, such as stockmarket movements. These factors can influence the transfer value quoted significantly. The resulting disclosed change in value may therefore be subject to a large degree of volatility and could even be negative.

(f) Pensionable salary for Ian Paterson Brown is not subject to the earnings cap. Pensionable salary for Howard Carter is subject to the earnings cap.

Statement on directors' share options (audited)

The directors who held office during the year and their share options at 31 December 2003 are shown below.

	31 December 2003	31 December 2002	31 December 2003 Share Save*	31 December 2002 Share Save*
Sir David Kinloch	–	–	–	–
Howard Carter	**525,423**	363,553	**6,915**	–
Peter Arthur	**413,608**	284,112	**6,915**	–
Kenneth Back	**386,205**	271,098	**6,915**	–
Keith Bedell-Pearce	–	–	–	–
Nick Criticos	**323,740**	–	**3,978**	–
David Gray	–	–	–	–
Kenneth Inglis	–	–	–	–
Christopher Jemmett	–	–	–	–
Ian Paterson Brown	**322,170**	239,256	**6,915**	–
Keith Satchell	–	–	–	–
Brian Sweetland	–	–	–	–
Robert Talbut	**359,711**	–	**6,915**	–

* Options held at an exercise price of 114 pence by saving up to £120 per month in the ISIS Asset Management plc Share Save Scheme for either three years (3,978) or five years (6,915)

There have been no changes to directors' options between 31 December 2003 and 1 March 2004.

Options granted under the 1995 & 2002 Executive Share Option Schemes

Date of Grant	Peter Arthur	Kenneth Back	Howard Carter	Nick Criticos†	Ian Paterson Brown*	Robert Talbut†	Option price
1995 Executive Share Option Scheme							
13 October 1995	–	–	–	–	25,000	–	230.7p
9 June 1998	–	–	194,036	–	55,331	–	203.8p
16 July 1999	–	150,538	48,437	–	83,095	–	232.5p
28 April 2000	284,112	120,560	76,580	–	47,830	–	214.0p
1 March 2001	–	–	44,500	–	3,000	–	455.8p
2002 Executive Scheme							
19 March 2003	129,496	115,107	161,870	323,740	107,914	359,711	139.0p

* All of Ian Paterson Brown's options granted under the 1995 Executive Option Scheme were awarded prior to his appointment as a director on 1 July 2002. Accordingly at 31 December 2003 and 1 March 2004 Ian Paterson Brown had received 107,914 options for "qualifying services" as a director.

† The options granted to Nick Criticos and Robert Talbut during the year represent initial grants under the 2002 Executive Share Option Scheme.

The earliest date on which all options can be exercised, assuming the performance criteria have been satisfied, is three years after the date of grant. All options expire on the tenth anniversary of the date of grant or, in respect of the 2002 scheme, after three years if the performance criteria has not been achieved.

No directors exercised any options held under either the 1984,1995 or 2002 Executive Share Option Schemes during the year.

On 16 July 2003, due to the directors being in possession of price sensitive information, 25,000 Options granted to Ian Paterson Brown under the 1984 Executive Share Option Scheme lapsed. During the year 208,078 options awarded to Barry Sanjana, a former executive director, lapsed. No other options granted to directors lapsed in 2003.

Directors' Remuneration Report

1984 Executive Share Option Scheme

Under the 1984 Executive Share Option Scheme the board held at its discretion the power to grant options over Ordinary Shares (up to a maximum of 2,500,000) to executive directors and other executives. This scheme was closed for future grants of options during 1994. On 16 July 2003 all remaining outstanding options within the 1984 Executive Share Option Scheme expired unexercised as detailed above.

1995 Executive Share Option Scheme

Options granted under the 1995 Executive Share Option Scheme have a ten year life and cannot be exercised until both (a) a period of three years has elapsed from the date of grant; and (b) the performance goal of growth in earnings per share at a rate of 2% above the rate of inflation in respect of each year cumulatively has been met. Once both these criteria have been achieved up to one-third can be exercised, up to two-thirds after a period of six years from the date of grant and the total or any outstanding amount after a period of eight years.

Following the introduction of the 2002 Executive Share Option Scheme no further grants will be made under the 1995 Executive Share Option Scheme. During the year no options were granted under the 1995 Executive Share Option Scheme. During the year 347,838 options were exercised at prices of between 203.83 pence and 232.50 pence. 1,611,619 options expired in the year which had been granted under the 1995 Scheme.

At 31 December 2003 the following options granted under the 1995 Executive Share Option Scheme to acquire Ordinary Shares were outstanding:

No. of Ordinary Shares	Exercisable before	Exercise Price(p)
80,000*	13 October 2005	230.67
876,029	9 June 2008	203.83
1,199,911	16 July 2009	232.50
1,153,231	28 April 2010	214.00
47,891	20 October 2010	320.17
656,000	1 March 2011	455.83
19,051	13 December 2011	249.33

* The outstanding options granted in October 1995 have not and will not meet the three year cumulative performance criteria before they expire in October 2005 and as such are only exercisable if the option holder is deemed a "good leaver" by the company.

All outstanding options granted under the 1995 Executive Share Option Scheme have yet to meet the three year cumulative performance criteria and as such the earliest exercise date is following the announcement of the 2005 year end results.

2002 Executive Share Option Scheme

Details of the 2002 Executive Share Option Scheme can be found on pages 38 and 39.

Under the 2002 Executive Share Option Scheme the board holds at its discretion the power to grant options over Ordinary Shares (up to a maximum of 10% of the then outstanding issued share capital) to executive directors and other executives. During the year 5,238,907 options were granted under the 2002 Executive Share Option Scheme and 294,063 options expired.

At 31 December 2003 the following options granted under the 2002 Executive Share Option Scheme to acquire Ordinary Shares were outstanding:

No. of Ordinary Shares	Earliest Exercise Date (assuming performance criteria satisfied)	Exercisable before	Exercise Price(p)
4,944,844	19 March 2006	19 March 2013	139.00

The share price at 31 December 2003 was 250.00 pence. During the year the highest price was 260.00 pence per share and the lowest price was 114.00 pence.

Other senior executives

There are a number of senior executives who make a significant contribution to the group. These senior executives directly support the company's executive directors. The remuneration committee has regard to the remuneration of members of this group whose total remuneration including salary, bonus and benefits but excluding pension contributions and share scheme participation is summarised below. These numbers have been prepared on a comparable basis with the figures shown in the column headed "Total 2003 (excluding pension contributions)" within the statement on directors' remuneration on page 43.

The table below covers the total remuneration of all senior executives who served at any time during the year.

Total Remuneration £000	Number of senior executives (excluding executive directors) 2003	Number of senior executives (excluding executive directors) 2002
100-125	**35**	31
126-150	**21**	13
151-175	**16**	7
176-200	**6**	2
201-225	**1**	–
226-250	**1**	–
251-300	**3**	1
301-400	**8**	2
401-500	**1**	1

By order of the board,

W Marrack Tonkin, FCCA
Secretary
80 George Street
Edinburgh EH2 3BU
1 March 2004

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the Independent Auditors' Report set out on pages 49 to 50, is made with a view to distinguishing for members the respective responsibilities of the directors and of the auditors in relation to the financial statements.

The directors are required by the Companies Act 1985 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 group as at the end of the financial year and of the profit or loss of the group for the financial year.

The directors consider that in preparing the financial statements on pages 51 to 90, the company and the group have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed (subject to any material departures disclosed and explained in the notes to the financial statements).

The directors have responsibility for ensuring that the company and the group keep accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and which enable them to ensure that the financial statements comply with the Companies Act 1985. They also have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and the group and to prevent and detect fraud and other irregularities.

Independent Auditors' Report to the Members of ISIS Asset Management plc

We have audited the group's financial statements for the year ended 31 December 2003 which comprise the Group Profit and Loss Account, Group and Company Balance Sheets, Group Cash Flow Statement, Notes to the Group Cash Flow Statement, Group Statement of Total Recognised Gains and Losses, Reconciliation of Group Shareholders' Funds, Accounting Policies and the related Notes to the Financial Statements 1 to 34. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Statement of Directors' Responsibilities in relation to the financial statements.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors 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 or the Listing Rules regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Financial and Business Highlights, Key Highlights of 2003, Chairman's Statement, Chief Executive's Report, Corporate and Social Responsibility Report, Non-executive Directors, Executive Directors, Report of the Directors, Directors' Report on Corporate Governance, unaudited part of the Directors' Remuneration Report, Five Year Record, Notice of Annual General Meeting and Corporate Information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

Independent Auditors' Report to the Members of ISIS Asset Management plc

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 and the part of the Directors' Remuneration Report to be audited. 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 group'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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 December 2003 and of the loss of the group for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

ERNST & YOUNG LLP
Registered Auditor
Edinburgh

1 March 2004

Financial Statements 2003

Group Profit and Loss Account

for the year ended 31 December 2003

	Notes	2003 £000	2002 £000
Turnover			
Group and share of joint venture	1	**110,629**	90,041
Share of joint venture	1	**–**	(721)
Group turnover – continuing operations	1	**110,629**	89,320
Selling expenses	2	**(2,735)**	(1,744)
Net revenue		**107,894**	87,576
Administrative expenses – excluding goodwill amortisation		**(73,656)**	(64,101)
Administrative expenses – goodwill amortisation	13	**(22,153)**	(15,280)
Total administrative expenses		**(95,809)**	(79,381)
Other operating income	3	**1,081**	1,241
Group operating profit – continuing operations		**13,166**	9,436
Share of operating loss in joint venture		**(15)**	(33)
Total operating profit: group and share of joint venture	4	**13,151**	9,403
Exceptional items – continuing operations			
– Reorganisation costs post acquisition of Royal & SunAlliance Investments	6(a)	**(11,621)**	(19,169)
– Restructuring: Operations outsourcing	6(b)	**(713)**	–
– Gain on disposal of subsidiary undertaking	7	**1,000**	–
Other finance (expenditure)/income	26(iv)	**(174)**	351
Interest and investment income receivable	8	**1,006**	2,473
Interest payable	9	**(11,359)**	(5,924)
Loss on ordinary activities before taxation		**(8,710)**	(12,866)
Tax on loss on ordinary activities	10	**(3,111)**	(286)
Loss on ordinary activities after taxation		**(11,821)**	(13,152)
Dividend on Cumulative Preference Shares	11	**(19)**	(26)
Loss attributable to ordinary shareholders		**(11,840)**	(13,178)
Interim dividend	11	**(5,994)**	(5,996)
Proposed final dividend	11	**(10,485)**	(10,494)
Retained loss for the year transferred from reserves	25	**(28,319)**	(29,668)
Earnings per Ordinary Share before amortisation of goodwill and exceptional items	12	**11.98p**	10.36p
Loss per Ordinary Share	12	**(7.90)p**	(8.80)p
Diluted loss per Ordinary Share	12	**(7.90)p**	(8.80)p
Interim dividend per Ordinary Share	11	**4.00p**	4.00p
Proposed final dividend per Ordinary Share	11	**7.00p**	7.00p
		11.00p	11.00p

All activities relate to continuing operations.

The accounting policies on pages 57 to 60, together with the notes on pages 61 to 90, form part of these financial statements.

Balance Sheets

at 31 December 2003

	Notes	Group 31 December 2003 £000	Group 31 December 2002 £000	Company 31 December 2003 £000	Company 31 December 2002 £000
Fixed assets					
Intangible fixed assets	13	303,898	335,932	–	–
Tangible fixed assets	14	8,585	7,932	4,293	2,337
Investments in joint venture:					
Share of gross assets		–	168	–	–
Share of gross liabilities		–	(80)	–	–
		–	88	–	–
Other investments	15	932	6	296,252	304,293
Insurance assets attributable to unit-linked policyholders	16	848,905	952,878	–	–
		1,162,320	1,296,836	300,545	306,630
Current assets					
Stock of units and shares		495	740	–	–
Investments	15(d)	–	6,714	–	–
Debtors	17	46,387	35,951	34,562	39,984
Cash at bank and in hand	29(i)	25,770	30,242	8,523	147
		72,652	73,647	43,085	40,131
Creditors (amounts falling due within one year)					
UK corporation tax		(545)	(1,360)	–	–
Proposed ordinary dividend		(10,485)	(10,494)	(10,485)	(10,494)
Other creditors	18	(55,602)	(58,637)	(17,381)	(13,408)
		(66,632)	(70,491)	(27,866)	(23,902)
Net current assets		6,020	3,156	15,219	16,229
Total assets less current liabilities		1,168,340	1,299,992	315,764	322,859
Creditors (amounts falling due outwith one year)	18	(180,002)	(180,002)	(2,234)	(2,485)
Provisions for liabilities and charges	19	(4,004)	(3,637)	(2,319)	(651)
Insurance liabilities attributable to unit-linked policyholders	16	(848,905)	(952,878)	–	–
Net assets excluding pension deficit		135,429	163,475	311,211	319,723
Pension deficit	26(ii)	(5,459)	(5,972)	(5,459)	(5,972)
Net assets including pension deficit		129,970	157,503	305,752	313,751
Capital and reserves					
Called up Preference Share capital	22	390	390	390	390
Called up Ordinary Share capital	22	150	150	150	150
Share premium account	23	2,795	17,060	2,795	17,060
Other reserves	24	125,922	133,459	284,160	285,638
Profit and loss account	25	713	6,444	18,257	10,513
Shareholders' funds					
Equity		129,580	157,113	305,362	313,361
Non-equity		390	390	390	390
Total Shareholders' Funds		129,970	157,503	305,752	313,751

Sir David Kinloch, Chairman

1 March 2004

The accounting policies on pages 57 to 60, together with the notes on pages 61 to 90, form part of these financial statements.

Group Cash Flow Statement

for the year ended 31 December 2003

	Notes	2003 £000	2002 £000
Net cash inflow from operating activities	a	**11,465**	7,569
Returns on investments and servicing of finance	b	**(10,314)**	(1,866)
Taxation		**(2,797)**	(5,392)
Capital expenditure and financial investment	c	**(4,610)**	2,535
Acquisitions and disposals	d	**958**	(209,749)
Equity dividends paid		**(16,488)**	(16,463)
Cash outflow before use of liquid resources and financing		**(21,786)**	(223,366)
Management of liquid resources	e	**6,829**	–
Financing	f	**10,485**	185,824
Decrease in cash in the year	g	**(4,472)**	(37,542)
Reconciliation of net cash flow to movement in net debt			
Decrease in cash in the year	g	**(4,472)**	(37,542)
Cash inflow from increase in debt	g	**(9,750)**	(185,000)
Cash inflow from sale of current asset investments	g	**(6,829)**	–
		(21,051)	(222,542)
Other non-cash changes	g	**115**	151
Movement in net debt in the year		**(20,936)**	(222,391)
Net (debt)/funds at 1 January		**(148,294)**	74,097
Net debt at 31 December	g	**(169,230)**	(148,294)

The accounting policies on pages 57 to 60, together with the notes on pages 61 to 90, form part of these financial statements.

Notes to the Group Cash Flow Statement

	Notes	2003 £000	2002 £000
(a) Reconciliation of group operating profit to operating cash flows			
Group operating profit		**13,166**	9,436
Amortisation of goodwill	13	**22,153**	15,280
Depreciation charge	14	**3,103**	2,131
Gain on disposal of tangible fixed assets		**(180)**	(3)
Gain on sale of investments		**(29)**	(735)
Increase in debtors		**(6,756)**	(531)
Decrease in creditors		**(8,389)**	(7,489)
Decrease in stock of units and shares		**245**	70
Pension contributions paid less pension operating profit charge		**(154)**	–
Increase in provision for liabilities and charges (excluding exceptional costs)		**399**	1,905
Amortisation of Investment in Own Shares	15	**101**	–
Cash outflow related to exceptional costs*		**(12,194)**	(12,495)
Net cash inflow from operating activities		**11,465**	7,569
(b) Returns on investments and servicing of finance			
Interest and dividends received		**1,006**	2,646
Interest paid		**(118)**	(104)
Interest paid on Friends Provident loans		**(11,179)**	(4,381)
Preference dividends paid		**(23)**	(27)
Net cash outflow from returns on investments and servicing of finance		**(10,314)**	(1,866)
(c) Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		**(3,883)**	(3,492)
Receipts from sale of tangible fixed assets		**300**	22
Purchase of fixed asset investments		**(1,027)**	–
Receipts from sales of fixed asset investments		**–**	6,005
Net cash (outflow)/inflow from capital expenditure and financial investment		**(4,610)**	2,535
(d) Acquisition and disposals			
Payment to acquire subsidiary undertaking		**–**	(235,688)
Payments for expenses of acquisition		**(42)**	(4,462)
Receipts from sale of subsidiary undertaking		**1,000**	30
Net cash acquired with subsidiary undertakings		**–**	30,371
Net cash inflow/(outflow) from acquisitions and disposals		**958**	(209,749)

*The cash outflow in respect of exceptional costs relates to:

	2003 £000	2002 £000
Fundamental restructuring of the group following acquisition of Royal & SunAlliance Investments (see note 6)	**11,815**	12,248
Restructuring: Operations outsourcing (see note 6)	**379**	–
Closure of the offices in New York and Japan	**–**	247
	12,194	12,495

Notes to the Group Cash Flow Statement

	Notes	2003 £000	2002 £000
(e) Management of liquid resources			
Receipt from sale of current asset investments		**6,829**	–
Net cash inflow from management of liquid resources		**6,829**	–
(f) Financing			
Issue of ordinary share capital	22,23	**735**	824
Fixed term loan from Friends Provident group		**–**	180,000
Drawdown under the revolving credit facility from Friends Provident group		**10,000**	20,000
Repayment of revolving credit facility to Friends Provident group		**–**	(15,000)
Repayment of subordinated loan to Friends Provident group		**(250)**	–
Net cash inflow from financing		**10,485**	185,824

(g) Analysis of net debt

	As at 31 December 2002 £000	Cash flow £000	Other non-cash movements £000	As at 31 December 2003 £000
Cash at bank and in hand	30,242	(4,472)	–	**25,770**
Loans within 1 year	(5,250)	(9,750)	–	**(15,000)**
Loans outwith 1 year	(180,000)	–	–	**(180,000)**
Current asset investment	6,714	(6,829)	115	**–**
Total	(148,294)	(21,051)	115	**(169,230)**

The company considered its current asset investment to be a liquid resource. The current asset investment comprised a holding in an open-ended sterling deposit fund, which was converted into cash during the year.

The accounting policies on pages 57 to 60, together with the notes on pages 61 to 90, form part of these financial statements.

Group Statement of Total Recognised Gains and Losses (“STRGL”)

for the year ended 31 December 2003

	Notes	2003 £000	2002 £000
Loss on ordinary activities after taxation		**(11,821)**	(13,152)
Exchange loss arising on consolidation	25	**(476)**	(435)
Actuarial gain/(loss) relating to the defined benefit pension scheme	26(v)	**753**	(8,012)
Deferred tax effect on actuarial (gain)/loss for year		**(226)**	2,404
Actuarial gain/(loss) recognised in STRGL		**527**	(5,608)
Total recognised gains and losses relating to the year		**(11,770)**	(19,195)

Reconciliation of Group Shareholders’ Funds

	Notes	2003 £000	2002 £000
Shareholders’ funds at 1 January		**157,503**	192,390
Loss on ordinary activities after taxation		**(11,821)**	(13,152)
Dividends and other appropriations		**(16,498)**	(16,516)
		129,184	162,722
Share capital allotted on exercise of options	22, 23	**735**	824
Other recognised gains and losses of the year	25	**(476)**	(435)
Actuarial gain/(loss) recognised in the statement of total recognised gains and losses		**527**	(5,608)
Shareholders’ funds at 31 December		**129,970**	157,503

The accounting policies on pages 57 to 60, together with the notes on pages 61 to 90, form part of these financial statements.

Accounting Policies

Basis of preparation

The financial statements are prepared under the historical cost convention, modified to include the revaluation of insurance assets attributable to unit-linked policyholders, and in accordance with applicable accounting standards in the United Kingdom. The financial statements comply with Schedule 4 to the Companies Act 1985, with the exception of the treatment of Limited Partnerships. The directors have invoked the true and fair override provisions of the Companies Act 1985, as described in 'Basis of consolidation' below and note 32.

Basis of consolidation

The group balance sheet includes the financial statements of subsidiary undertakings and the group profit and loss account includes the results of subsidiary undertakings, except for private equity limited partnerships in which the group is a general partner (see note 32).

In accordance with Section 230 of the Companies Act 1985 a separate profit and loss account for the company is not shown.

Turnover

Turnover represents income from investment management services and the net profit derived from selling or buying open-ended investment products ("OEIC's").

Goodwill

Goodwill arising on acquisitions made after 17 February 1998 is capitalised and amortised over its useful economic life up to a maximum of 20 years. Goodwill arising on acquisitions prior to 17 February 1998 has been written off against reserves in the accounting period in which it arises. Goodwill is reviewed where it is believed that impairment may have occurred. Any impairment arising from such a review would be charged to profit and loss in the period in which it arose. Where goodwill previously written off to reserves has been permanently impaired an appropriate amount is charged to profit and loss in the period in which the impairment is recognised. In the event of subsequent disposal of the business to which it related, goodwill would be charged or credited to the profit and loss account.

Tangible fixed assets

All tangible fixed assets are shown at cost less aggregate depreciation. Depreciation is calculated to write off assets over their expected useful lives by equal annual instalments, as follows:

Leasehold improvements	–	over 10 years
Motor vehicles	–	over 3 years
Office furniture & equipment	–	over 3-5 years
Computer equipment	–	over 3 years

The carrying value of tangible fixed assets is reviewed where it is believed that impairment may have occurred. Any impairment arising from such a review would be charged as depreciation in the period in which it arose.

Investments

Listed investments are carried at the lower of cost and market value. Unlisted investments are carried at the lower of cost and directors' valuation. The insurance assets attributable to unit-linked policyholders are valued at market value.

Stock of units and shares

The stock of units and shares held is valued at the lower of cost and net realisable value.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay less or receive more tax, with the following exceptions:

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, or gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a commitment to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.
- Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable.
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Insurance activities

The "insurance assets attributable to unit-linked policyholders" are held to meet the liabilities to policyholders invested in unit-linked insurance products. Other assets and liabilities attributable to the insurance business are consolidated on a line by line basis within the balance sheet.

The results attributable to this insurance activity are accounted for as "other operating income".

Leasing

Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Lease incentives are recognised by the group as a reduction of the rental expense, allocated on a straight line basis, over the shorter of the lease term and a period ending on a date from which it is expected the prevailing market rental will be payable.

Business development costs

Costs incurred to develop additional sources of revenue and to secure continuing revenues from existing clients are charged as incurred and included in selling expenses.

Accounting Policies

Accounting for ESOP Trusts and the cost of share awards

Details of the various schemes can be found on pages 46 and 47.

The company recognises the following profit and loss costs of its Share Based Payment Schemes:

(i) *Employee Share Option Schemes*
No costs are recognised through the profit and loss account as the options are granted at the market price of the shares at the date of grant and the options are settled by the issue of new shares by the company.

(ii) *Share Incentive Plan*
There is no cost to the company as shares are bought monthly on behalf of employees at market prevailing prices and financed by monthly deductions from employee salaries. The rights to the purchased shares are transferred unconditionally to the employee at the date of purchase.

(iii) *Share Save Scheme*
Employees are offered the opportunity to save over a period of time. The savings will entitle the employees to buy shares at an option price determined before the savings period begins.

The cost to the company of the Share Save Scheme is determined by the following criteria:

(i) Where shares have been bought by the ESOP for the purpose of satisfying Share Save Scheme options:

The purchase price of shares bought to satisfy options less the exercise price. The resulting cost is amortised on a straight-line basis over the savings period.

(ii) Where shares have not been bought by the ESOP:

The market value of shares at any balance sheet date less the exercise price. The resulting charge will be spread over the savings period.

The company's ESOP Trust owns shares in the company to enable it to satisfy future exercises of Share Save Scheme options. These shares are included in the financial statements of the company as fixed asset investments until such times as the employees' interest in the shares is transferred unconditionally to the employee.

Shares held by the ESOP Trust are excluded from the calculation of earnings per share. The Trustees of the ESOP have waived their right to dividend entitlement.

Pension costs

In accordance with best accounting practice, ISIS has adopted the Financial Reporting Standard ''FRS17: Retirement Benefits''.

The company operates a pension scheme providing benefits on final pensionable salary (The ISIS Asset Management plc Pension Fund). The pension scheme assets are measured using market value. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Past service costs arise when ISIS makes a commitment to provide a higher level of benefit than previously promised. Past service costs are recognised in the profit and loss account on a straight-line basis over the period in which the increases in benefit vest.

Pension costs (cont'd)

The surplus/(deficit) in a defined benefit scheme is the excess/(shortfall) of the value of the assets in the scheme compared against the present value of the scheme liabilities and is recognised as an asset/(liability) of the company and group.

Any scheme asset reflects the amount that can be recovered through reduced contributions in the future, being the present value of the liability expected to arise from future service by current scheme members less the present value of future employee contributions. The present value of the reduction in future contributions is determined using the discount rate applied to measure the defined benefit liability. The deferred tax relating to the defined benefit asset or liability is offset against the defined benefit asset or liability and not included with other deferred tax assets or liabilities.

The increase in the present value of the liabilities of the company's defined benefit pension scheme expected to arise from employee service in the period is charged to operating profit. The expected return on the scheme assets and the increase during the period in the present value of the scheme liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

The final salary pension scheme was closed to new entrants on 31 December 1995 and a group personal pension plan has been established. The group has created a defined contribution scheme, with greater certainty in relation to future cost to the company. Contributions made to this scheme are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

Joint ventures

Joint ventures are accounted for under the gross equity method. The share of the results and net assets of the joint ventures are shown in the consolidated results of the group.

Foreign currencies

Fees are translated at rates of exchange ruling when payment is received. Monetary assets and liabilities are translated at year-end exchange rates and exchange differences are taken to the profit and loss account.

The accounts of foreign registered subsidiary undertakings have been translated at year-end exchange rates and exchange differences are taken directly to reserves.

Rates of exchange to sterling	**31 December 2003**	**31 December 2002**
US Dollars	**1.79**	1.61
Japanese Yen	**191.85**	191.05
Hong Kong Dollars	**13.90**	12.55
Euro	**1.42**	1.53
Australian Dollars	**2.38**	2.86
Irish Punts	**1.12**	1.21

Notes to the Financial Statements

1. Turnover and segmental analysis

	2003 £000	2002 £000
Investment management fees	110,097	89,996
Net profit from OEIC and unit trust trading	532	45
	110,629	90,041

	2003 £000	2002 £000
Turnover was earned from clients in:		
United Kingdom	108,393	87,022
Rest of Europe	2,102	2,060
North America	108	143
Far East	26	95
Group turnover	110,629	89,320
Joint venture:		
Far East	–	721
Group and share of joint venture turnover	110,629	90,041

	2003 £000	2002 £000
Turnover was earned by operations in:		
United Kingdom	110,629	89,320
Group turnover	110,629	89,320
Joint venture:		
Far East	–	721
Group and share of joint venture turnover	110,629	90,041

2. Selling expenses

	2003 £000	2002 £000
Expenditure incurred relates to:		
Development of additional sources of revenue	170	54
Continuing revenues from existing clients*	2,565	1,690
	2,735	1,744

* Included in continuing revenues from existing clients is £1,488,000 (2002 – £802,000) relating to renewal commission on the open-ended investment products.

All selling expenses relate to continuing operations.

3. Other operating income

Other operating income reflects the surplus on the Technical Account of the insurance business (ISIS Managed Pension Funds). Details of the assets and liabilities of this business are given in note 16.

The major components of the surplus are:

	2003 £000	2002 £000
Revenue arising from policy and fund charges	**3,337**	4,229
Investment and management expenses	**(1,964)**	(2,393)
Net investment surplus for the year	**147**	127
Other movements	**(11)**	(42)
Tax on trading profit	**(428)**	(680)
	1,081	1,241

4. Group operating profit

	Note	2003 £000	2002 £000
This is stated after charging/(crediting):			
Depreciation of owned fixed assets	14(a)	**3,103**	2,131
Auditors' remuneration – audit services – UK		**190**	216
Auditors' remuneration – non-audit services – UK		**457**	362
Operating lease rentals – vehicles		**301**	244
Operating lease rentals – land and buildings		**5,272**	3,479
Rentals receivable – operating leases		**(111)**	(69)
Gain on disposal of tangible fixed assets		**(180)**	(3)
Gain on sales of investments		**(29)**	(735)
(Gain) / loss on exchange		**(508)**	248
Amortisation of Investment in Own Shares	15	**101**	–

During the year to 31 December 2003 non-audit fees of nil (year ended 31 December 2002 – £361,000) were paid to the auditors for services relating to acquisitions. These fees have been capitalised and are included within expenses of acquisition (see note 15(c)). In addition £281,000 (2002 – £532,000) of non-audit fees were paid to the auditors relating to the fundamental reorganisation of the business, and are included within non-operating exceptional costs (see note 6).

During the year to 31 December 2003 the company paid £25,000 in respect of audit fees (year ended 31 December 2002 – £25,000). This is included within Auditors' remuneration for the group, as recorded above.

The summary of the total fees paid to the group's auditors, Ernst & Young LLP, is summarised as follows:

	2003 £000	2002 £000
Statutory audit services*	**235**	258
Further assurance services	**158**	434
Tax advisory services	**86**	100
Other non-audit services	**449**	679
Total non-audit fees	**693**	1,213
Total Ernst & Young LLP fees	**928**	1,471
*Statutory audit services can be split as follows:		
Annual audit fees	**190**	216
Audit of regulatory returns	**45**	42
	235	258

Notes to the Financial Statements

4. Group operating profit (cont'd)

The group policy on the award of non-audit services to accountancy firms is outlined in the Directors' Report on Corporate Governance.

During the year the fees paid by ISIS to other accountancy firms for non-audit services were as follows:

	2003 £000	2002 £000
PricewaterhouseCoopers	**222**	260
KPMG	**81**	18
Deloitte & Touche	**25**	164
Andersen	**–**	15

In addition to the above, during the year the following fees were paid by OEICs and unit trusts, for which group companies are the Authorised Corporate Director or Manager, for services provided directly to them:

	2003 £000	2002 £000
PricewaterhouseCoopers	**414**	228
Deloitte & Touche	**5**	–
	419	228

5. Staff costs

	2003 £000	2002 £000
Salaries	**32,767**	32,360
Bonus	**8,245**	5,259
Social Security costs	**4,246**	3,799
Pension costs	**3,102**	6,863
	48,360	48,281

Included within the above staff costs are £4,596,000 (2002 – £11,908,000) related to exceptional items as disclosed within note 6.

The monthly average number of employees for the group was 519 (2002 – 493).

The company's monthly average number of employees (including executive directors) during the year was 30 (2002 – 134). During the year the company's employment contracts were transferred to ISIS Asset Management Services Limited, the group's sole employee company.

The above table includes remuneration of the executive directors.

Details of directors' remuneration are as follows:

	2003 £000	2002 £000
Aggregate emoluments	**3,063**	1,840
Company contributions paid to money purchase pension scheme	**94**	63

	2003 Number	2002 Number
Members of money purchase pension scheme	**4**	5
Members of defined benefits pension scheme	**2**	2

6. Exceptional costs

(a) Integration, rationalisation and reorganisation of the business on acquisition of Royal & SunAlliance Investments

Following the acquisition of Royal & SunAlliance Investments on 1 July 2002 the board undertook a substantial integration, rationalisation and reorganisation of the business in order to integrate the two former businesses. This rationalisation, which is now complete, had a material impact on the management and operational structure of the enlarged group and as such the directors consider it appropriate to disclose the following integration and restructuring costs as non-operating exceptional expenditure relating to continuing operations:

	2003 £000	2002 £000
Redundancy and other related staff costs	4,753	12,139
Premises costs	1,996	2,830
Information Technology and related costs	892	1,104
Re-branding, retail administration and client servicing	2,680	1,665
Consultancy and other costs supporting the restructuring process	1,300	1,431
Exceptional costs	11,621	19,169
Taxation credit in respect of exceptional costs	(3,486)	(5,751)
Net effect of exceptional costs	8,135	13,418

(b) Restructuring: Operations outsourcing

In November 2003 the company announced that it had signed heads of agreement with JP Morgan to outsource certain back and middle office functions. A significant amount of work has been conducted in re-engineering processes and procedures across the group to reflect this fundamental re-structuring of the business. While the outsourcing agreement is not yet signed, it is anticipated that around 60 ISIS staff will transfer to JP Morgan during 2004 and continue to provide the current services they perform for ISIS. The directors consider that the restructuring costs should be disclosed as non-operating exceptional expenditure relating to continuing operations. Further expenditure relating to this project will be incurred in 2004.

	2003 £000	2002 £000
Consultancy and other costs supporting the restructuring process	713	–
Taxation credit in respect of exceptional costs	(214)	–
Net effect of exceptional costs	499	–

7. Gain on disposal of subsidiary undertaking

	2003 £000	2002 £000
Deferred consideration on sale of Ivory & Sime Asset Management Limited	1,000	–

As the performance criteria for the deferred consideration were satisfied, the company received further consideration from Aberdeen Asset Management plc in respect of the sale of Ivory & Sime Asset Management Limited to Aberdeen Asset Management plc in 2001.

Notes to the Financial Statements

8. Interest and investment income

	2003 £000	2002 £000
Bank interest receivable	852	2,270
Income from investments	116	202
Other interest	38	1
	1,006	2,473

9. Interest payable

	2003 £000	2002 £000
Bank interest and charges	118	88
Interest payable to Friends Provident plc group – £180 million term loan	10,619	5,453
Interest payable to Friends Provident plc – £50 million revolving credit facility	621	361
Interest payable to Friends Provident plc group – subordinated loans	1	13
Other interest	–	9
	11,359	5,924

10. Tax on loss on ordinary activities

	Note	2003 £000	2002 £000
UK corporation tax			
UK corporation tax on taxable profits for the year		3,620	1,564
Adjustments in respect of previous periods		(443)	85
Total current tax charge for the year		3,177	1,649
Deferred tax			
Originating on reversal of timing differences		(99)	(1,363)
Changes in estimation amounts of deferred tax		33	–
	21	(66)	(1,363)
Total tax charge for the year		3,111	286

Factors affecting the tax charge for the year

The tax assessed for the year is higher than the standard rate of corporation tax in the UK.

The differences are explained below.

	2003 £000	2002 £000
Loss on ordinary activities before tax	(8,710)	(12,866)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30.00% (2002 – 30.00%)	(2,613)	(3,860)
Goodwill amortisation	6,646	4,584
Disallowed expenses	487	1,634
Non-taxable income	(689)	(736)
Depreciation in excess of capital allowances	(261)	(203)
Short-term timing differences	19	761
Adjustments in respect of previous periods	(443)	85
Unrelieved tax losses	31	–
Tax losses utilised	–	(382)
Overseas tax not at 30%	–	(234)
Current tax charge for the year	3,177	1,649

10. Tax on loss on ordinary activities (cont'd)

Factors that may affect future tax charges

There is an unrecognised deferred tax asset at 31 December 2003 arising from tax losses carried forward of £1,392,000 (31 December 2002 – £2,253,000) within the group. The unrecognised deferred tax asset will be recovered if the companies which have the tax losses generate sufficient taxable profits in the future.

11. Dividends

	2003 £000	2002 £000
Equity dividends on ordinary shares		
Interim paid – 4.00p (2002 – 4.00p)	**5,994**	5,996
Final proposed – 7.00p (2002 – 7.00p)	**10,485**	10,494
	16,479	16,490

The group ESOP has waived its entitlement to receive dividends on its holding of ISIS shares. This has resulted in £3,000 (2002 – £nil) of the interim dividend and £33,000 (2002 – £nil) of the final proposed dividend being waived.

	2003 £000	2002 £000
Non-equity dividends on Cumulative Preference Shares		
Accrued at 1 January	**(15)**	(16)
31 December paid	**12**	15
30 June paid	**11**	12
Accrued at 31 December	**11**	15
	19	26

12. Earnings per Ordinary Share

Reconciliation of Earnings per Share

	2003		2002	
	Basic	**Diluted**	**Basic**	**Diluted**
Loss attributable to ordinary shareholders	**(7.90)p**	**(7.90)p**	(8.80)p	(8.80)p
Amortisation of goodwill	**14.78p**		10.20p	
Exceptional items net of tax				
– Reorganisation post acquisition of RSAI	**5.43p**		8.96p	
– Restructuring: Operations outsourcing	**0.34p**		–	
– Gain on disposal of subsidiary	**(0.67)p**		–	
Profit before amortisation of goodwill and exceptional items	**11.98p**		10.36p	

In the opinion of the directors the profit before amortisation of goodwill and exceptional items more accurately reflects the earnings performance of the group for the year ended 31 December 2003.

Notes to the Financial Statements

12. Earnings per Ordinary Share (cont'd)

The earnings and share capital used in the calculation of the Earnings per Share above are as follows:

Earnings

	2003 £000	2002 £000
Loss attributable to ordinary shareholders	**(11,840)**	(13,178)
Amortisation of goodwill	**22,153**	15,280
Exceptional items net of tax		
– Reorganisation post acquisition of RSAI (note 6)	**8,135**	13,418
– Restructuring: Operations outsourcing (note 6)	**499**	–
– Gain on disposal of subsidiary (note 7)	**(1,000)**	–
Profit before amortisation of goodwill and exceptional items	**17,947**	15,520

Share capital

	31 December 2003 Number	31 December 2002 Number
Basic weighted average number of Ordinary Shares	**149,849,196**	149,764,724
Dilutive potential Ordinary Shares:		
Weighted average number of 1984 Executive Share Options exercisable	**2,882**	8,272
Weighted average number of 1995 Executive Share Options exercisable	**–**	4,831
Weighted average number of 2002 Executive Share Options exercisable	**8**	–
	149,852,086	149,777,827

Shares held by the ESOP Trust are excluded from the calculation of earnings per share.

The 1984 Executive Share Options have been treated as dilutive until they lapsed because the option prices were below the average share price for the year, the effect of which is shown above.

Certain employees, who have left the group, are entitled to exercise their 1995 or 2002 Executive Share Options for a defined period in accordance with Scheme rules. These options have, where the option prices are below the average share price for the year, been treated as dilutive. The remaining 1995 and 2002 Executive Share Options have not been treated as dilutive because the performance criteria have not yet been achieved to enable the options to be exercised.

13. Intangible fixed assets – goodwill

	Note	Group 2003 £000	Group 2002 £000
Cost:			
At 1 January		**362,327**	142,902
Adjustment to goodwill on RSAI acquisition	15(c)	**(9,881)**	–
Acquisition of subsidiary undertakings	15(c)	**–**	219,425
At 31 December		**352,446**	362,327
Amortisation:			
At 1 January		**26,395**	11,115
Adjustment in respect of 2002 amortisation		**(417)**	–
Provided during the year		**22,570**	15,280
Total amortisation charge for the year		**22,153**	15,280
At 31 December		**48,548**	26,395
Net book value at 31 December		**303,898**	335,932

13. Intangible fixed assets – goodwill (cont'd)

Goodwill arising on the following acquisitions is being amortised on a straight-line basis as follows:

	Directors' estimate of useful economic life
Friends Ivory & Sime Portfolio Management Limited	20 years
London and Manchester Property Asset Management Limited	20 years
Friends' Provident Unit Trust Managers Limited	20 years
ISIS Managed Pension Funds Limited	20 years
Royal & SunAlliance Investments	
– retail business	20 years
– insurance business	10 years

The goodwill associated with the management of the insurance business of Royal & SunAlliance Insurance Group plc is being amortised over 10 years, in line with the period of the underlying Investment Management Agreements.

The total cost of goodwill at 31 December can be split as follows:

	2003 £000	2002 £000
Amortised over 10 years	**98,951**	105,743
Amortised over 20 years	**253,495**	256,584
	352,446	362,327

14. Tangible fixed assets

(a) Group	Leasehold improvements £000	Motor vehicles £000	Office furniture and equipment £000	Computer equipment £000	Total £000
Cost:					
At 31 December 2002	4,375	85	2,772	11,546	18,778
Additions	2,163	–	269	1,444	3,876
Disposals	–	(44)	(116)	(26)	(186)
At 31 December 2003	**6,538**	**41**	**2,925**	**12,964**	**22,468**
Depreciation:					
At 31 December 2002	761	23	1,304	8,758	10,846
Provided during the year	632	59	552	1,860	3,103
Disposals	–	(41)	–	(25)	(66)
At 31 December 2003	**1,393**	**41**	**1,856**	**10,593**	**13,883**
Net book amounts:					
At 31 December 2003	**5,145**	**–**	**1,069**	**2,371**	**8,585**
At 31 December 2002	3,614	62	1,468	2,788	7,932

Notes to the Financial Statements

14. Tangible fixed assets (cont'd)

(b) Company	Leasehold improvements £000	Office furniture and equipment £000	Computer equipment £000	Total £000
Cost:				
At 31 December 2002	729	328	2,963	4,020
Additions	2,154	254	789	3,197
Disposals	–	(116)	(12)	(128)
At 31 December 2003	**2,883**	**466**	**3,740**	**7,089**
Depreciation:				
At 31 December 2002	–	120	1,563	1,683
Provided during the year	269	63	793	1,125
Disposals	–	–	(12)	(12)
At 31 December 2003	**269**	**183**	**2,344**	**2,796**
Net book amounts:				
At 31 December 2003	**2,614**	**283**	**1,396**	**4,293**
At 31 December 2002	729	208	1,400	2,337

15. Investments

(a) Other Investments – Group

	Own shares £000	Participating interests £000	Other investments £000	Total £000
Cost:				
At 31 December 2002	–	4	2	6
Additions	1,026	1	–	1,027
At 31 December 2003	**1,026**	**5**	**2**	**1,033**
Amounts written off:				
At 31 December 2002	–	–	–	–
Provided during the year	(101)	–	–	(101)
At 31 December 2003	**(101)**	**–**	**–**	**(101)**
Net book amounts:				
At 31 December 2003	**925**	**5**	**2**	**932**
At 31 December 2002	–	4	2	6

The cost of listed investments as at 31 December 2003 was £1,028,000 (31 December 2002 – £2,000). The valuation of listed investments as at 31 December 2003 was £1,177,000 (31 December 2002 –£2,000).

15. Investments (cont'd)

(b) Other Investments – Company

	Own shares £000	Other investments £000	Joint venture £000	Subsidiary undertakings £000	Total £000
Cost:					
At 31 December 2002	–	2	414	306,653	307,069
Additions	1,026	–	–	–	1,026
Return of capital from subsidiary	–	–	–	(8,966)	(8,966)
Disposals	–	–	(414)	–	(414)
At 31 December 2003	**1,026**	**2**	**–**	**297,687**	**298,715**
Amounts written off:					
At 31 December 2002	–	–	(414)	(2,362)	(2,776)
Provided during the year	(101)	–	–	–	(101)
Released on disposal	–	–	414	–	414
At 31 December 2003	**(101)**	**–**	**–**	**(2,362)**	**(2,463)**
Net book amounts					
At 31 December 2003	**925**	**2**	**–**	**295,325**	**296,252**
At 31 December 2002	–	2	–	304,291	304,293

Details of subsidiary undertakings are set out in note 31.

Following the decision to close the Hong Kong office in 2001, the joint venture, Friends Ivory & Sime Asia Limited, was placed into members' voluntary liquidation during 2003.

The cost of listed investments as at 31 December 2003 was £1,028,000 (31 December 2002 – £2,000). The valuation of listed investments as at 31 December 2003 was £1,177,000 (31 December 2002 – £2,000).

The investment in own shares reflects the purchase of ISIS Asset Management plc shares by ISIS Group ESOP Trustee Limited ("ESOP"). The investment held by the ESOP is reflected in the accounts of the sponsoring company, ISIS Asset Management plc.

These own shares are held to satisfy the exercise of options granted under the ISIS Asset Management plc Share Save Scheme. The shares purchased by the ESOP have been assigned to cover options granted under the 3-year or 5-year Share Save Scheme. The purchase cost of buying shares less the option price forms the cost of the shares, which is amortised from the cost of the investment over the savings period. At 31 December 2003 the ESOP held 469,700 (31 December 2002 – nil) own shares. At 31 December 2003, the nominal value of these shares was £470 and their market value was £1,174,000. The shares will be assigned unconditionally to the employees if they choose to exercise their options at the end of the savings period.

(c) Acquisition of Royal & SunAlliance Investments ("RSA Investments")

Full details of the acquisition of RSA Investments were disclosed in 2002's Group Report & Accounts. In accordance with FRS7 – Fair Values in Acquisition Accounting, ISIS assigned provisional fair values to the net assets of RSA Investments, acquired on 1 July 2002, until the Completion Accounts review process had been completed. The review process is now complete and the results are reflected in the table below. In addition, the amendments to the initial Consideration have been made in accordance with The Sale and Purchase Agreement ("SPA").

Notes to the Financial Statements

15. Investments (cont'd)

The revised consideration, fair values of net assets acquired and goodwill arising on acquisition are shown in the table below:

	Provisional fair value to the group at acquisition* £000	Fair value adjustments 2003 £000	Fair value to the group at acquisition £000
Net assets of subsidiaries acquired can be summarised as follows:			
Tangible fixed assets	595	–	595
Stock of units and shares	430	–	430
Cash & bank	30,371	–	30,371
Debtors	17,047	356	17,403
Deferred tax asset	1,421	174	1,595
Creditors	(20,173)	927	(19,246)
Net assets of acquired companies	29,691	1,457	31,148
Goodwill arising on acquisition (revised)			209,544
			240,692
Discharged by:			
Cash payment			235,688
Initial settlement of inter-company balances			4,191
Initial consideration			239,879
Further settlement of inter-company balances			202
Expenses of acquisition			4,504
Rebate on consideration			(3,893)
Revised consideration			**240,692**

*As disclosed in the 31 December 2002 Financial Statements

The following specific adjustments have been made in 2003 to reflect the fair value of assets acquired on acquisition:

(a) Certain debtors, provided for in the 2002 fair value adjustments, were subsequently recovered in 2003.

(b) Creditors, considered to be obligations at 1 July 2002, are no longer considered to be creditors of the group.

(c) Adjustments have been made to the taxation balances of the companies acquired following completion of the tax provisions for 2002.

(d) Taxation adjustments have been made to the balances on acquisition to reflect the taxation effect of the non-taxation fair value adjustments.

Under the terms of the SPA, the consideration has been finalised, following agreement of the Completion Accounts. The £3,737,000 estimated further consideration (less £202,000 settled in respect of additional inter-company balances) accrued in the 2002 Financial Statements is no longer payable and has been released.

15. Investments (cont'd)

In addition, ISIS Treasury Limited is entitled to a consideration rebate which is directly linked to the extent of certain assets under management which are lost in the five year period following the date of the acquisition of RSA Investments. The rebate of £3,893,000 represents the rebate in respect of the assets under management lost during the year ended 30 June 2003. Further reviews to the consideration price (as detailed in the SPA) will be made for assets under management lost during the remainder of the five year period from the date of acquisition.

Acquisition expenses of £1,038,000 were accrued at 31 December 2002. Of this accrual £996,000 has been released in 2003. The final total for acquisition expenses was £4,504,000.

Details of the amended goodwill arising on the RSA Investments acquisition are detailed below:

	£000
Goodwill as at 31 December 2002	219,425
less: reduction in goodwill	(9,881)
Goodwill as at 31 December 2003	209,544

Details of the amortisation of goodwill is shown in note 13.

During the year ended 31 December 2003, exceptional costs of £11,621,000 (2002 – £19,169,000) have been incurred in reorganising, restructuring and integrating the business post acquisition of RSA Investments (see note 6). For 2003, as in 2002, the directors consider the exceptional costs, which relate to a fundamental reorganisation of the business, to be non-operating in nature.

Movement on provisions and accruals of exceptional costs in relation to acquisitions:

	£000
Balance as at 31 December 2002	6,921
Amounts utilised for the specific purpose created	(2,610)
Additional provisions/accruals created during the year	2,416
Balance as at 31 December 2003	6,727

(d) Current Asset Investments – Group

	2003 £000	2002 £000
At 1 January	**6,714**	6,563
Additions in the year	**86**	151
Disposals in the year	**(6,800)**	–
At 31 December	**–**	6,714

16. Insurance assets and liabilities attributable to unit-linked policyholders

The assets of the long-term insurance business are held to meet liabilities to unit-linked policyholders. The market value of these assets is summarised as follows:

	Group	
	31 December 2003 £000	31 December 2002 £000
Equity shares – quoted	657,721	730,416
UK government securities	84,367	148,494
Other fixed interest securities	62,578	32,297
Short-term deposits	22,934	31,284
Index linked gilts	13,574	–
OEIC's	1,797	1,943
Other net current assets	5,934	8,444
	848,905	952,878
The Technical provisions for linked liabilities at 31 December were:		
Insurance liabilities attributable to unit-linked policyholders	848,905	952,878

Analysis of the long-term insurance business fund for the year ended 31 December:

	2003 £000	2002 £000
Premium income	86,447	145,424
Investment income and investment gains/(losses)	138,304	(281,663)
Surrenders	(325,924)	(280,988)
Investment expenses and charges, taxation and administration expenses	(2,800)	(4,165)
Decrease in fund	(103,973)	(421,392)
Fund at 1 January	952,878	1,374,270
Fund at 31 December	848,905	952,878

17. Debtors

	Group		Company	
	31 December 2003 £000	31 December 2002 £000	31 December 2003 £000	31 December 2002 £000
Amounts due within one year				
Trade debtors	5,403	5,620	741	637
Accrued income	15,272	12,726	1,553	1,337
Amounts owed by fellow subsidiary undertakings	–	–	22,385	33,647
Loan to subsidiary undertaking	–	–	5,600	–
Amounts owed by joint venture	–	–	–	2,153
Prepayments	2,783	1,247	1,191	662
VAT	–	–	328	158
Group relief receivable	–	–	1,520	989
Other debtors	19,674	13,092	344	207
	43,132	32,685	33,662	39,790
Amounts due outwith one year				
Deferred tax (note 21)	3,255	3,266	900	194
	46,387	35,951	34,562	39,984

18. Other creditors

	Group		Company	
	31 December 2003 £000	31 December 2002 £000	31 December 2003 £000	31 December 2002 £000
Amounts due within one year				
Trade creditors	**1,191**	3,518	**371**	506
Accruals	**22,613**	25,630	**2,016**	5,567
Amounts owed to parent undertaking	**2,194**	6,166	**–**	–
Amounts owed to fellow subsidiary undertakings	**–**	–	**4,025**	4,897
Loans from subsidiary undertakings	**–**	–	**9,275**	–
Amounts owed to joint venture	**–**	27	**–**	–
VAT	**639**	803	**–**	–
Social Security and PAYE	**998**	1,224	**–**	201
Other creditors	**12,967**	16,019	**1,694**	2,237
Loans (note 20)	**15,000**	5,250	**–**	–
	55,602	58,637	**17,381**	13,408
Amounts due outwith one year				
Loans (note 20)	**180,000**	180,000	**2,234**	2,485
Other creditors	**2**	2	**–**	–
	180,002	180,002	**2,234**	2,485

19. Provision for liabilities and charges

(a) Group	Deferred Tax £000	Provision for Share Save Schemes £000	Provision for NIC on Share Options £000	Premises – onerous contracts £000	Total £000
Balance at 31 December 2002	369	–	–	3,268	3,637
Provided during the year	–	86	56	2,811	2,953
Provision utilised during the year	(77)	–	–	(2,509)	(2,586)
Balance at 31 December 2003	**292**	**86**	**56**	**3,570**	**4,004**

(b) Company	Provision for NIC on Share Options £000	Premises – onerous contracts £000	Total £000
Balance at 31 December 2002	–	651	651
Transfer from another group company	–	2,454	2,454
Provided during the year	56	257	313
Provision utilised during the year	–	(1,099)	(1,099)
Balance at 31 December 2003	**56**	**2,263**	**2,319**

A provision for onerous premises contracts has been made in relation to the surplus leased accommodation. The provision represents the estimated shortfall of any rental income receivable under sub-lease arrangements compared with rental obligations under head-lease arrangements (as disclosed in note 27). The provision is subject to uncertainties over time including market rent reviews and break-options within the lease arrangements.

Notes to the Financial Statements

19. Provision for liabilities and charges (cont'd)

A provision is made in respect of share save options where no ISIS shares have been purchased by the group ESOP to meet the groups obligations. The provision is accumulated over the savings period and is calculated by reference to the year-end share price and the proportion of the savings period which has elapsed. The provision is subject to uncertainties in respect of share price movements and the extent to which options lapse.

The provision for National Insurance Contributions ("NIC") on share options represents the potential NIC liability of ISIS upon exercise of certain Share Options in the 1995 Employee Share Option Scheme. The provision is subject to uncertainties in respect of share price movements and the extent to which options lapse.

The deferred tax provision relates to short-term timing differences, which have originated but not reversed at the balance sheet date. The provision is subject to uncertainties in respect of the timing of the reversal of the timing differences.

20. Loans

(i) Group	31 December 2003 £000	31 December 2002 £000
Wholly repayable within five years:		
£180,000,000 term loan at a fixed rate of 5.9125%, wholly repayable on 1 November 2006	**180,000**	180,000
£50,000,000 revolving credit facility, £15,000,000 drawn down, at 3 month Sterling LIBOR plus 0.6% margin; 3 month terms ending 30 May 2007	**15,000**	5,000
£250,000 subordinated loan at LIBOR plus 1% margin, wholly repayable on 15 December 2004	**–**	250
	195,000	185,250

The £180,000,000 term loan is with Friends Provident Life and Pensions Limited, a subsidiary of Friends Provident plc.

The £50,000,000 revolving credit facility is with Friends Provident plc, the group's parent undertaking. Any drawdown under this facility is repayable within 3 months but can be rolled over by the borrower into a subsequent drawdown. This option remains until 30 May 2007.

The £250,000 subordinated loan with FP Business Holdings Limited (a subsidiary of Friends Provident plc) was repaid on 3 February 2003, having first obtained permission from the Financial Services Authority.

	Note	31 December 2003 £000	31 December 2002 £000
Amounts repayable:			
In one year or less, or on demand	18	**15,000**	5,250
In more than one year but not more than two years		**–**	–
In more than two years but not more than five years	18	**180,000**	180,000
In more than five years		**–**	–
		195,000	185,250

20. Loans (cont'd)

(ii) Company	31 December 2003 £000	31 December 2002 £000
Wholly repayable within five years:		
$4,000,000 loan at mid-term Applicable Federal Rate wholly repayable on 5 October 2005	**2,234**	2,485
	2,234	2,485

The $4,000,000 loan is due to Friends Ivory & Sime North America, Inc, an overseas subsidiary. The loan may be repaid by ISIS by giving ten banking days' notice in writing to Friends Ivory & Sime North America Inc.

	Note	31 December 2003 £000	31 December 2002 £000
Amounts repayable:			
In more than one year but not more than two years		**2,234**	–
In more than two years but not more than five years		**–**	2,485
	18	**2,234**	2,485

21. Deferred taxation

	Note	Group £000	Company £000
Balance at 31 December 2002		2,897	194
Adjustments in respect of previous periods		95	500
Provided during the year		(29)	206
	10	66	706
Balance at 31 December 2003		**2,963**	**900**

	Group		Company	
	31 December 2003 £000	31 December 2002 £000	31 December 2003 £000	31 December 2002 £000
Deferred taxation provided in the accounts is as follows:				
Short-term timing differences	**1,712**	1,301	**878**	93
Depreciation in advance of capital allowances	**1,251**	1,596	**22**	101
	2,963	2,897	**900**	194
Disclosed in the accounts as follows:				
Debtors (note 17)	**3,255**	3,266	**900**	194
Provision for liabilities and charges (note 19)	**(292)**	(369)	**–**	–
	2,963	2,897	**900**	194
Non-discounted net deferred tax asset	**2,963**	2,897	**900**	194

The directors believe it is appropriate to recognise a deferred tax asset because it is considered that it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

Notes to the Financial Statements

22. Share capital

	31 December 2003 Number of shares	31 December 2003 £000	31 December 2002 Number of shares	31 December 2002 £000
Authorised:				
Equity interests				
Ordinary Shares of 0.1p	**180,000,000**	**180**	180,000,000	180
Non-equity interests				
Cumulative Preference Shares of £1	**390,000**	**390**	390,000	390
		570		570
Allotted, issued and fully paid:				
Equity interests				
Ordinary Shares of 0.1p	**150,256,675**	**150**	149,908,837	150
Non-equity interests				
Cumulative Preference Shares of £1	**390,000**	**390**	390,000	390
		540		540

During the year the following Share Options were exercised, in line with the rules of the appropriate scheme, and ordinary shares allotted:

Exercise Date	Executive Share Option Scheme	No. of Ordinary Shares	Exercise Price (p)
18 Aug 2003	1995	60,000	203.83
27 Aug 2003	1995	9,749	214.00
29 Aug 2003	1995	7,514	214.00
29 Aug 2003	1995	12,586	232.50
3 Sept 2003	1995	10,000	232.50
8 Sept 2003	1995	94,926	203.83
8 Sept 2003	1995	9,536	232.50
8 Sept 2003	1995	9,536	214.00
24 Sept 2003	1995	17,471	232.50
29 Sept 2003	1995	45,321	203.83
29 Sept 2003	1995	34,597	214.00
23 Oct 2003	1995	22,602	214.00
17 Nov 2003	1995	14,000	232.50
		347,838	

Details of the 1984, 1995 and 2002 Executive Share Option Schemes are contained on pages 46 and 47 of the Directors' Remuneration Report.

Dividends on the Cumulative Preference Shares are paid in priority to any payment of dividend on any other class of shares. On a return of assets on liquidation, the assets of the company available for distribution shall be applied first in repaying the holders of the Cumulative Preference Shares the amounts paid up or credited as paid up on such shares, together with any arrears of the fixed dividend. Holders of Cumulative Preference Shares are entitled to one vote in instances where the fixed dividend is six months in arrears or in the event that a resolution put to the meeting varies or impacts the rights and privileges attached to these shares.

The terms of the Cumulative Preference Shares confer the right to receive a variable rate dividend on the amount paid up or credited as paid up on the Cumulative Preference Shares at the rate of 2% per annum above the London Inter-Bank Offer Rate (LIBOR) expressed as a rate per annum at the commencement of each half-yearly dividend payment period.

23. Share premium account

Group and Company	£000
Balance at 31 December 2001	36,236
Reduction in share premium account	(20,000)
Share premium on issue of 381,615 Ordinary Shares	824
Balance at 31 December 2002	17,060
Reduction of share premium account (note 24)	(15,000)
Share premium on issue of 347,838 Ordinary Shares (note 22)	735
Balance at 31 December 2003	**2,795**

At the AGM on 25 April 2003 the shareholders approved a £15,000,000 reduction in the share premium account and its conversion into a Special Distributable Reserve from which the board was authorised to buy back the company's own shares or fund future dividend payments. The Court of Session approved this transfer on 22 August 2003 and accordingly £15,000,000 was transferred to the Special Distributable Reserve (see note 24).

24. Other reserves

	Note	Special Distributable Reserve £000	Merger Reserve £000	Total Other Reserves £000
Group				
Balance at 31 December 2002		9,506	123,953	133,459
Realised element of merger reserve to offset goodwill amortisation	25	–	(6,059)	(6,059)
Transfer resulting from reduction of share premium account	23	15,000	–	15,000
Transferred to profit and loss account	25	(16,478)	–	(16,478)
Balance at 31 December 2003		**8,028**	**117,894**	**125,922**
Company				
Balance at 31 December 2002		9,506	276,132	285,638
Transfer resulting from reduction of share premium account	23	15,000	–	15,000
Transferred to profit and loss account	25	(16,478)	–	(16,478)
Balance at 31 December 2003		**8,028**	**276,132**	**284,160**

The Special Distributable Reserve may be used by the company for the purposes of purchases of its own shares or funding future dividend payments. Accordingly an amount of £16,478,000 (2002 – £10,494,000) has been transferred to the profit and loss account in relation to the interim and proposed final dividends for 2003.

The cumulative amount of goodwill written off against the merger reserve in the consolidated accounts at 31 December 2003 was £133,287,000 (31 December 2002 – £133,287,000).

Notes to the Financial Statements

25. Profit and loss account

		Group		Company	
		31 December	31 December	31 December	31 December
		2003	2002	2003	2002
	Note	£000	£000	£000	£000
Profit and loss reserve excluding pension liability		**6,172**	12,416	**23,716**	16,485
Pension reserve	26(ii)	**(5,459)**	(5,972)	**(5,459)**	(5,972)
Profit and loss reserve		**713**	6,444	**18,257**	10,513

		Group		Company	
		2003	2002	2003	2002
	Note	£000	£000	£000	£000
Balance at 1 January		**6,444**	17,741	**10,513**	8,103
Retained loss for the year		**(28,319)**	(29,668)	**(9,261)**	(2,476)
Actuarial gain/(loss) recognised in the STRGL		**527**	(5,608)	**527**	(5,608)
Transfer from Special Distributable Reserve in relation to the dividends	24	**16,478**	10,494	**16,478**	10,494
Realised element of merger reserve to offset goodwill amortisation	24	**6,059**	13,920	**–**	–
Exchange loss on consolidation		**(476)**	(435)	**–**	–
Balance at 31 December		**713**	6,444	**18,257**	10,513

The cumulative amount of goodwill written off to the profit and loss account at 31 December 2003 was £6,558,000 (31 December 2002 – £6,558,000).

The company's profit for the year before ordinary dividends was £7,218,000 (2002 – £14,014,000).

26. Pension commitments

Since 1 January 1996, ISIS has operated a defined contribution scheme which all new employees are eligible to join and to which current employees may elect to transfer. This scheme provides greater certainty in relation to future costs to the company and also offers employees competitive rates of contribution.

The company continues to operate a defined benefits scheme (''The ISIS Asset Management plc Pension Fund'') in the UK which provides benefits based on final pensionable salary. This scheme was closed to new entrants from 31 December 1995. The assets of the scheme are held separately from those of the company but are managed by the company. The contributions are determined by an independent qualified actuary on the basis of triennial valuations using the attained age method since the scheme is now closed to new members. The most recent triennial valuation was at 31 March 2002.

The results of the full actuarial valuation carried out at 31 March 2002 were updated to 31 December 2003 by a qualified independent actuary for the purposes of FRS17: Retirement Benefits.

The ISIS Asset Management plc Pension Fund

Date of last actuarial valuation	31 March 2002
Scheme Actuary	Mercer Human Resource Consulting Limited
Method of valuation	Projected Unit
Market value of assets at last valuation date	£31,900,000
Level of funding	112%

26. Pension commitments (cont'd)

A contribution schedule was agreed by the company and trustees in May 2003. The company has paid contributions of £100,000 per month from May 2003 with a payment of £400,000 in May 2003. The company has agreed to pay monthly contributions of one-twelfth of the annual amount of 25% of basic salaries until April 2008. These contributions are subject to review at future actuarial valuations, the next one of which is due no later than 31 March 2005.

As the ISIS Asset Management plc Pension Fund is a closed scheme, under the projected unit method the current service cost will tend to increase as a percentage of pensionable salaries as the average age of members increases.

The major assumptions used by the Actuary for the purposes of FRS 17 were:

	As at 31 December 2003	As at 31 December 2002	As at 31 December 2001
Rate of increase in salaries	**4.00%**	4.00%	4.50%
Rate of increase of pensions in payment	**3.50%**	3.50%	3.50%
Discount rate	**5.40%**	5.50%	5.75%
Inflation assumption	**2.50%**	2.25%	2.50%

The assets in the scheme and the expected rates of return were:

(i) Expected long-term rates of return

	As at 31 December 2003	As at 31 December 2002	As at 31 December 2001
Equities	**7.00%**	7.00%	7.00%
Gilts	**5.00%**	5.00%	5.00%
Corporate Bonds	**5.40%**	5.50%	N/A
Cash	**4.00%**	4.00%	4.00%

(ii) Value of assets and liabilities in the scheme

	As at 31 December 2003	As at 31 December 2002	As at 31 December 2001
Equities	**23,201**	19,748	29,911
Gilts	**3,172**	2,180	1,912
Corporate Bonds	**3,053**	2,850	–
Cash	**229**	55	157
Total market value of assets	**29,655**	24,833	31,980
Actuarial value of scheme liabilities	**(37,453)**	(33,364)	(31,416)
(Deficit)/recoverable surplus in the scheme	**(7,798)**	(8,531)	564
Deferred tax asset/(liability) on (deficit)/surplus	**2,339**	2,559	(170)
Net pension (deficit)/asset	**(5,459)**	(5,972)	394

26. Pension commitments (cont'd)

(iii) Analysis of the amount charged to operating profit

	Note	2003 £000	2002 £000
Current service cost	26(vi)	**1,046**	1,314
Past service cost	26(vi)	**–**	120
Total operating charge		**1,046**	1,434

(iv) Analysis of net (interest cost)/return on pension scheme

	2003 £000	2002 £000
Expected return on pension scheme assets	**1,684**	2,189
Interest on pension liabilities	**(1,858)**	(1,838)
Net (interest cost)/return on pension scheme	**(174)**	351

(v) Analysis of amount recognised in statement of total recognised gains and losses ("STRGL")

		2003 £000	%	2002 £000	%
Actual return less expected return on assets	(a)	**2,168**	**7**	(9,116)	(37)
Experience gains and losses on liabilities	(b)	**22**	**–**	1,265	4
Changes in assumptions		**(1,437)**		(161)	
Actuarial gain/(loss) recognised in STRGL	(c)	**753**	**2**	(8,012)	(24)

The percentages shown for each year are calculated as follows:

(a) Percentage of the scheme assets at the balance sheet date.

(b) Percentage of the present value of the scheme liabilities at the balance sheet date.

(c) Percentage of the present value of the scheme liabilities at the balance sheet date.

(vi) Movement in deficit during the year

	Note	2003 £000	2002 £000
(Deficit)/surplus in scheme at 1 January		**(8,531)**	564
Movements in year:			
Current service costs	26(iii)	**(1,046)**	(1,314)
Contributions		**1,200**	–
Past service costs	26(iii)	**–**	(120)
Net (interest cost)/return on pension scheme	26(iv)	**(174)**	351
Actuarial gain/(loss)	26(v)	**753**	(8,012)
Deficit in scheme at 31 December		**(7,798)**	(8,531)

26. Pension commitments (cont'd)

(vii) History of experience gains and losses

	2003	2002	2001	2000
Difference between the expected and actual return on scheme assets:				
amount (£000)	**2,168**	(9,116)	(5,879)	(1,311)
percentage of scheme assets	**7%**	(37%)	(18%)	(5%)
Experience gains and losses on scheme liabilities:				
amount (£000)	**22**	1,265	(600)	(768)
percentage of the present value of the scheme liabilities	**0%**	4%	(2%)	(4%)
Total amount recognised in statement of total recognised gains and losses:				
amount (£000)	**753**	(8,012)	(4,904)	(1,716)
percentage of the present value of the scheme liabilities	**2%**	(24%)	(16%)	(9%)

(viii) Summary of pension schemes profit and loss charge

	Note	2003 £000	2002 £000
Defined benefit scheme			
ISIS Asset Management plc Pension Fund:			
Operating charge	26(iii)	**1,046**	1,434
Net interest cost/(return) on pension scheme	26(iv)	**174**	(351)
		1,220	1,083
Defined contribution scheme			
Group personal pension plan		**1,962**	1,586
Exceptional costs*		**94**	3,843
Total charged to profit and loss account		**3,276**	6,512

The group personal pension plan had no outstanding or prepaid contributions as at 31 December 2003 (2002 – £nil).

*The exceptional costs shown in 2002 include the group's obligation (under the SPA) to contribute towards enhanced pension costs arising as a result of the redundancy of certain ex-RSA Investments employees. This cost was recognised in 2002 as part of the non-operating exceptional expenditure arising from the restructuring of the group's operations.

Notes to the Financial Statements

27. Financial commitments

The group and company had at 31 December 2003 the following annual commitments in respect of non-cancellable operating leases and other contracts:

	Premises		Other	
	31 December 2003 £000	31 December 2002 £000	31 December 2003 £000	31 December 2002 £000
Group				
Commitments expiring within one year	**392**	1,288	**–**	–
Commitments expiring within two to five years	**–**	–	**178**	39
Commitments expiring outwith five years	**5,523**	5,546	**–**	–
	5,915	6,834	**178**	39
Company				
Commitments expiring within one year	**370**	1,001	**–**	–
Commitments expiring within two to five years	**–**	–	**–**	39
Commitments expiring outwith five years	**3,296**	3,422	**–**	–
	3,666	4,423	**–**	39

The premises financial commitments disclosed above do not include any sub-leasing arrangements which ISIS may have in place. The amounts shown reflect gross commitments at the balance sheet dates.

28. Capital commitments

The amounts contracted for in terms of capital expenditure, but not provided for in the accounts at 31 December 2003, amount to £568,000 (31 December 2002 – £3,592,000).

29. Treasury management and financial instruments

ISIS, as a fund management group, requires to have sufficient regulatory capital to meet the capital adequacy requirement of its regulators. ISIS, therefore, adopts a low-risk approach to treasury management and financial instruments, endeavouring to ensure that its regulatory capital is managed and preserved appropriately and other financial exposures, to the extent they exist, are managed or hedged where appropriate.

Group treasury operations are managed by the Finance function within parameters defined by the board. The regulatory capital and treasury position of the group is regularly reported to the board.

The policy is designed to manage risk and recognises that treasury management operations are specifically not treated as a profit centre. The key aspects of this policy and its implementation are detailed below:

- The Board Reserved List prohibits the establishment of borrowing facilities without the prior approval of the board.
- Placing of funds on deposit will be short term (maximum term 90 days) to ensure such balances are eligible for inclusion as regulatory capital.
- Deposits may only be placed with counterparties approved by the ISIS Credit Committee and the board set the appropriate limit of exposure to any one counterparty.
- The Board Reserved List prohibits the use of derivatives including futures, options and forward contracts, in respect of own funds, without prior board approval.
- Foreign currency exposure is managed to reduce the risk and impact of movement in exchange rates.

29. Treasury management and financial instruments (cont'd)

ISIS introduced an "all-employee" Share Save Scheme during 2003. ISIS faces a potential profit and loss account exposure from the margin between the ISIS current share price and the option price (the "intrinsic" value). In order to mitigate some of this risk ISIS has bought 469,700 shares in 2003 through its ESOP. The shares were bought in the marketplace and this allows ISIS to know with certainty the profit and loss account impact of the Share Save Scheme. There is an exposed element of 475,899 options at 31 December 2003. If circumstances permit and it is considered appropriate, the board will consider further acquisitions of shares by the ESOP in future to further reduce the financial exposure to ISIS.

ISIS has two loans with Friends Provident group at 31 December 2003. These loans were used for the purpose of funding the RSAI acquisition and integration costs. The most significant loan for £180,000,000 is a fixed-rate term loan, which ensures no downside exposure from increases in interest rates. In addition, there is a £50,000,000 floating-rate revolving credit facility which has been used to fund the exceptional costs incurred during the integration period. This facility allows ISIS flexibility in its debt capacity. The on-going interest costs of servicing the debt require to be charged to the profit and loss account in each financial year.

(i) Interest Rate Risk

Financial Liabilities:

(a) Loans

	31 December 2003 £000	31 December 2002 £000
Sterling fixed term loan	180,000	180,000
Sterling revolving credit facility drawn down	15,000	5,000
Sterling subordinated loan	–	250
	195,000	185,250

Details of the above loans are shown in note 20.

(b) The interest rate risk profile of non-equity shares is dealt with in note 22.

Financial Assets:

The group held the following financial assets at 31 December:

	31 December 2003 £000	31 December 2002 £000
Non-Interest bearing:		
Fixed asset investments – Sterling	932	6
Investment in joint venture – Hong Kong Dollars	–	88
Current asset investments – Sterling	–	6,714
Stock of units and shares – Sterling	495	740
	1,427	7,548
Interest bearing:		
Sterling cash and deposits	25,471	29,691
US Dollar cash and deposits	295	496
Euro cash and deposits	4	55
	25,770	30,242
Total financial assets	27,197	37,790

Notes to the Financial Statements

29. Treasury management and financial instruments (cont'd)

Cash and deposits are placed on short-term maturities up to a maximum of 90 days at the appropriate market rates for the maturity concerned.

Current asset investments comprised a holding in an open-ended sterling deposit fund. Regular distributions were received from this fund. The holding was converted into cash during 2003.

(ii) Currency Risk

The group's objective is to minimise the impact of exchange rate movement by repatriation of excess funds to sterling.

The following monetary assets and liabilities of the group were exposed to currency movement at 31 December.

	Net foreign currency monetary assets/(liabilities)						
Function currency of Group operations	**US Dollar £000**	**Australian Dollar £000**	**Euro £000**	**Yen £000**	**Hong Kong Dollar £000**	**Irish Punts £000**	**Total £000**
2003 Sterling	353	–	473	79	74	60	1,039
2002 Sterling	520	72	433	50	88	–	1,163

(iii) Maturity of Financial Liabilities

The profile of the group's financial liabilities (loans) at 31 December was as follows:

	31 December 2003 £000	**31 December 2002 £000**
In one year or less, or on demand	**15,000**	5,250
In more than one, but not more than two years	**–**	–
In more than two, but not more than five years	**180,000**	180,000
In more than five years	**–**	–
	195,000	185,250

Details of the loans are shown in note 20.

(iv) Borrowing Facilities

The group has various borrowing facilities available to it. The undrawn committed facilities available at 31 December in each year in respect of which all conditions precedent had been met at that date are as follows:

	31 December 2003 £000	**31 December 2002 £000**
Expiring in one year or less:		
Revolving credit facility with Friends Provident	**35,000**	45,000
Bank overdraft facilities	**1,100**	1,100
	36,100	46,100

29. Treasury management and financial instruments (cont'd)

(v) Fair Values

Set out below is a comparison by category of book values and fair values of all the group's financial assets, financial liabilities and non-equity shares as at 31 December:

	31 December 2003		31 December 2002	
	Book Value £000	Fair Value £000	Book Value £000	Fair Value £000
Investment in joint venture	–	–	88	88
Fixed asset investments (excluding ESOP shares)	7	637	6	6
Current asset investments	–	–	6,714	6,726
Stock of units and shares	495	495	740	740
Cash and short-term deposits	25,770	25,770	30,242	30,242
Subordinated loan	–	–	(250)	(250)
Revolving credit facility	(15,000)	(14,250)	(5,000)	(5,000)
Term loan	(180,000)	(171,000)	(180,000)	(180,000)
Provisions for onerous leases	(3,570)	(3,570)	(3,268)	(3,268)
Provision for NIC on Share Options	(56)	(56)	–	–
Non-equity shares	(390)	(312)	(390)	(273)
	(172,744)	(162,286)	(151,118)	(150,989)

The fair values of listed investments are included at quoted market values.

The fair values of unlisted fixed asset investments have been valued in accordance with British Venture Capital Association Guidelines and in accordance with the underlying Limited Partnership agreements.

Stock of units and shares is valued at the lower of cost and net realisable value.

Non-equity shares, loans and revolving credit facilities have been valued at directors' estimates, having regard to the lack of liquidity of the assets and liabilities and considering the extent, or otherwise, of similar issues available in the market.

All other assets and liabilities have been valued at book value on the basis that the book value and fair value are not materially different.

Short-term debtors and creditors have been excluded from the disclosures in this note with the exception of 29(ii) Currency Risk which is required by FRS13 Derivatives and other Financial Instruments: Disclosures.

30. Related party transactions

During the year, the group had the following transactions with related parties.

Caledonia Investments plc

Sir David Kinloch's fees as Chairman of the company were paid to Caledonia Investments plc.

	2003 £000	2002 £000
Fees	68	67

Friends Provident plc Shared Services Agreement

Companies within the Friends Provident group provide, under the Shared Services Agreement, services in respect of investment accounting, information technology and other professional services. These services are paid for at an hourly rate equal to 125% of 150% of the relevant prevailing annual direct staff costs divided by 1750.

Notes to the Financial Statements

30. Related party transactions (cont'd)

Friends Provident is also providing services reasonably required by the company at cost. Friends Provident makes available to the company use of software either owned by or licensed to it. The company pays Friends Provident an agreed *pro rata* cost of software and a system charge, together with a proportion of the initial costs of any new software. Fees are paid monthly in arrears. The Shared Services Agreement is terminable on six months' written notice by either party.

	Total invoiced and accrued during the year ended 31 December 2003 £000	Outstanding at 31 December 2003 £000	Outstanding at 31 December 2002 £000	Total invoiced and accrued during the year ended 31 December 2002 £000
Shared services and administration services				
Shared service invoices billed and accrued by Friends Provident during the year	**689**	**6**	262	889
Administration service invoices billed and accrued by Friends Provident during the year	**3,023**	**493**	365	4,953
The total amount outstanding at 31 December 2003 is included within accruals and trade creditors.				
Management Fees				
Management fees invoiced to Friends Provident during the year	**30,248**	**4,197**	1,273	36,148
The amount outstanding at 31 December 2003 is included within trade debtors and accrued income.				
Other Recharges				
Other Recharges to Friends Provident during the year	**1,182**	**117**	24	978
The amount outstanding at 31 December 2003 is included within trade debtors.				
Other Recharges from Friends Provident during the year	**1,478**	**–**	2,235	1,322
The amount outstanding at 31 December 2002 is included within accruals.				
Other recharges includes charges made to or from Friends Provident group for premises, staff costs and other related expenditure.				

30. Related party transactions (cont'd)

Non-executive directors' fees

The non-executive directors' fees of K Satchell and B W Sweetland are paid to Friends Provident.

	2003 £000	2002 £000
K Satchell	26	23
B W Sweetland	31	30
	57	53

Inter-company balances with Friends Provident group

At 31 December 2003, the group owed £2,194,000 (2002 – £6,166,000) to Friends Provident and its subsidiaries.
At 31 December 2003, Friends Provident owed the group £nil (2002 – £nil).

Subordinated loans

The following loans were due to the Friends Provident group at 31 December (note 20):

	31 December 2003 £000	31 December 2002 £000
Friends Provident Life and Pensions Limited	180,000	180,000
Friends Provident plc	15,000	5,000
FP Business Holdings Limited	–	250
	195,000	185,250

Notes to the Financial Statements

31. Subsidiary undertakings

	Percentage interest and voting rights	Country of registration or incorporation	Nature of business
(i) United Kingdom			
FP Asset Management Holdings Limited*	100	England	Holding company
ISIS Asset Managers Limited‡	100	England	Investment management
FP Fund Managers Limited‡	100	England	Investment management
ISIS Property Asset Management plc‡	100	England	Property investment management
ISIS Investment Manager plc*	100	England	Investment management
ISIS Equity Partners Holdings Limited*	100	England	Holding company
ISIS Equity Partners plc†	100	England	Private Equity investment management
ISIS Equity Partners GP Limited§	100	England	Private Equity general partner
ISIS Equity Partners Founder Partner Limited§	100	England	Private Equity founder partner
Friends Ivory & Sime Portfolio Management Limited*	100	England	Investment management
Friends' Provident Unit Trust Managers Limited*	100	England	OEIC investment management
ISIS Managed Pension Funds Limited*	100	England	Insurance management
Ivory & Sime TrustLink Limited*	100	Scotland	Investment management
ISIS Asset Management Services Limited*	100	England	Employee service company
ISIS Treasury Limited*	100	England	Treasury management company
WAM Holdings Limited∅	100	England	Holding company
ISIS Investment Management Limited#	100	England	Investment management
ISIS Property Investments Limited#	100	England	Property investment management
ISIS Fund Management Limited#	100	England	OEIC investment management
ISIS Group ESOP Trustee Limited*	100	Scotland	ESOP Trustee
ISIS Aim VCT Fund Management Limited*	100	England	Investment management
Baronsmead Fund Management Limited§(a)	100	England	Private Equity investment management
Baronsmead Fund Management 2 Limited§(b)	100	England	Private Equity investment management
(ii) Overseas			
Friends Ivory & Sime North America, Inc.‡	100	USA	Holding company

* Owned by ISIS Asset Management plc

† Owned by ISIS Equity Partners Holdings Limited

‡ Owned by FP Asset Management Holdings Limited

∅ Owned by ISIS Treasury Limited

\# Owned by WAM Holdings Limited

§ Owned by ISIS Equity Partners plc

The above information has been supplied only for undertakings principally affecting the results or assets of the group.

(a) This subsidiary has an accounting date of 30 September, necessitated by alignment to the underlying client's year-end.

(b) This subsidiary has an accounting date of 31 March, necessitated by alignment to the underlying client's year-end.

32. Limited Partnerships

The group operated eight Private Equity Limited Partnerships during the year. The group manages these investments and is a general partner in these Partnerships. The Partnerships are deemed to be subsidiaries of the general partner by virtue of control; however, the directors do not consider it appropriate to consolidate the results of the Limited Partnerships in the accounts of ISIS Asset Management plc group as the group's rights are held in a fiduciary capacity. This treatment does not comply with FRS 2: Accounting for Subsidiary Undertakings or The Companies Act 1985. The directors believe that the substance of the general partner's capacity makes it appropriate to invoke this true and fair override.

Had these partnerships been consolidated the effect on the consolidated balance sheet would have been as follows:

	31 December 2003 £000	31 December 2002 £000
Investments	**(5)**	(4)
Net Assets	**52,795**	51,300
Minority Interest	**(52,790)**	(51,296)

At 31 December 2003 the ISIS group owed the Limited Partnerships £234,000 (2002 – £218,000). At 31 December 2003 the Limited Partnerships owed the ISIS group £1,045,000 (2002 – £700,000).

Group companies have invested or made commitments to Limited Partnerships. These investments represented the following proportions of the total commitments of all investors in the Partnerships:

Partnership	**Proportion of total commitments**
ISIS II 1999 L.P.	less than 0.01%
ISIS II 2000 L.P.	less than 0.01%
ISIS II 2001 L.P.	less than 0.01%
ISIS II 2002 L.P.	less than 0.01%
ISIS Equity Partners III L.P.	less than 0.01%
ISIS II 2001 L.P. & KG (formerly FIS Private Equity 2001 GMBH & CO. BETEILIGUNGS KG)	less than 0.01%
ISIS II 2002 L.P. & KG (formerly FIS Private Equity 2002 GMBH & CO. BETEILIGUNGS KG)	less than 0.01%
ISIS Equity Partners GMBH & CO. BETEILIGUNGS KG	less than 0.01%

The group received a profit share of £4,023,000 (2002 – £2,765,000) from these activities.

33. Capital Adequacy Directive

As discussed in detail on pages 22 and 23 of the Report of the Directors, the group is not subject to regulatory consolidated capital requirements.

34. Parent undertaking and controlling party

In the opinion of the directors, the company's ultimate parent undertaking and controlling party is Friends Provident plc. Friends Provident plc is incorporated in England and Wales. Copies of the Group Report and Accounts can be obtained from the Company Secretary, Pixham End, Dorking, Surrey RH4 1QA.

Five Year Record

Group profit and loss accounts	Year-ended 31 December 1999* £000	Year-ended 31 December 2000* £000	Year-ended 31 December 2001 £000	Year-ended 31 December 2002 £000	Year-ended 31 December 2003 £000
Turnover					
Group and share of joint venture	61,024	75,308	87,151	90,041	**110,629**
Share of joint venture	–	(800)	(941)	(721)	**–**
Group turnover	61,024	74,508	86,210	89,320	**110,629**
Selling expenses	(1,517)	(3,167)	(2,695)	(1,744)	**(2,735)**
Net revenue	59,507	71,341	83,515	87,576	**107,894**
Administrative expenses – excluding goodwill amortisation	(38,647)	(45,505)	(61,236)	(64,101)	**(73,656)**
Administrative expenses – goodwill amortisation	(1,985)	(1,985)	(7,145)	(15,280)	**(22,153)**
Total administrative expenses	(40,632)	(47,490)	(68,381)	(79,381)	**(95,809)**
Other operating income	–	–	1,665	1,241	**1,081**
Group operating profit	18,875	23,851	16,799	9,436	**13,166**
Share of operating loss in joint venture	–	(280)	(212)	(33)	**(15)**
Total operating profits of the group and share of joint venture	18,875	23,571	16,587	9,403	**13,151**
Exceptional costs	–	–	(2,268)	(19,169)	**(12,334)**
(Loss)/gain on disposal of subsidiary undertaking	–	–	(170)	–	**1,000**
Other finance income/(expenditure)	414	724	510	351	**(174)**
Interest and investment income receivable	1,873	2,045	3,179	2,473	**1,006**
Interest payable	(1,122)	(1,490)	(260)	(5,924)	**(11,359)**
Profit/(loss) on ordinary activities before taxation	20,040	24,850	17,578	(12,866)	**(8,710)**
Tax on profit/(loss) on ordinary activities	(6,154)	(7,774)	(7,015)	(286)	**(3,111)**
Profit/(loss) on ordinary activities after taxation	13,886	17,076	10,563	(13,152)	**(11,821)**
Dividend on Cumulative Preference Shares	(31)	(33)	(30)	(26)	**(19)**
Profit/(loss) attributable to ordinary shareholders	13,855	17,043	10,533	(13,178)	**(11,840)**
Interim dividend	(4,093)	(4,687)	(5,980)	(5,996)	**(5,994)**
Final dividend	(7,019)	(8,210)	(10,470)	(10,494)	**(10,485)**
Transferred to/(from) reserves	2,743	4,146	(5,917)	(29,668)	**(28,319)**
Earnings per Ordinary Share before amortisation of goodwill, gain on disposal of subsidiary undertaking and exceptional costs	13.71p	16.25p	13.57p	10.36p	**11.98p**
Earnings/(loss) per Ordinary Share	11.99p	14.55p	7.30p	(8.80)p	**(7.90)p**
Diluted earnings/(loss) per Ordinary Share	11.97p	14.54p	7.30p	(8.80)p	**(7.90)p**
Dividend					
Interim dividend per Ordinary Share	3.50p	4.00p	4.00p	4.00p	**4.00p**
Final dividend per Ordinary Share	6.00p	7.00p	7.00p	7.00p	**7.00p**
	9.50p	11.00p	11.00p	11.00p	**11.00p**
Dividend cover	1.25	1.32	0.64	(0.80)	**(0.72)**
Dividend cover before amortisation of goodwill, gain on disposal of subsidiary undertakings and exceptional costs	1.43	1.48	1.19	0.94	**1.09**

* The accounts for the years ended 31 December 1999 and 31 December 2000 were restated in 2001 to comply with FRS17: Retirement Benefits.

Notice of Annual General Meeting

Notice is hereby given that the twenty-fourth Annual General Meeting of ISIS Asset Management Public Limited Company will be held at 80 George Street, Edinburgh, EH2 3BU on Friday 30 April 2004 at 12 noon for the following purposes:

Ordinary Business

To be proposed as ordinary resolutions:

1 To receive the Accounts and the Reports of the Directors and the Independent Auditors for the year ended 31 December 2003.

2 To declare a final dividend of 7.0 pence per share on the ordinary shares of the company.

3 To re-elect David Gray, who retires by rotation, as a director.

4 To re-elect Kenneth Inglis, who retires by rotation, as a director.

5 To re-elect Christopher Jemmett, who retires by rotation, as a director.

6 To re-elect Brian Sweetland, who retires by rotation, as a director.

7 To re-elect Kenneth Back, who retires by rotation, as a director.

8 To approve the Directors' Remuneration Report for the year ended 31 December 2003.

9 To re-appoint Ernst & Young LLP as auditors to the company to hold office until the conclusion of the next General Meeting at which accounts are laid before the company and to authorise the directors to determine their remuneration.

Special Business

To be proposed as an ordinary resolution:

10 To re-approve and renew the authorisation of the terms of the Relationship Agreement between the company and Friends' Provident Life Office dated 17 February 1998 (as novated by way of Novation Agreement among the Company, Friends' Provident Life Office and Friends Provident plc dated 9 July 2001), such approval and renewal to expire on 30 April 2005 subject to future renewal, pursuant to the terms of paragraph 9.21 of the Listing Rules of the UK Listing Authority.

To be proposed as a special resolution:

11 THAT, in substitution for any existing power under section 95 of the Companies Act 1985 (the "Act"), but without prejudice to the exercise of any such existing power prior to the date hereof, the directors of the company be and are hereby empowered, pursuant to section 95(1) of the Act, to allot equity securities (as defined in section 94(2) of the Act) for cash, pursuant to the authority under section 80 of the Act conferred on the directors of the company and contained in sub-paragraph (iv) of the first special resolution of the company passed on 28 February 2001, as if section 89(1) of the Act did not apply to any such allotment, up to an aggregate nominal amount of £14,942.197, such power to expire on 30 July 2005 or the conclusion of the next Annual General Meeting of the company to be held in 2005 whichever is the earlier, unless previously revoked, varied or extended by the company in general meeting, provided that such power shall be limited to the allotment of equity securities:-

View of Edinburgh Castle from the 6th floor board room at 80 George Street.

Notice of Annual General Meeting

(i) in accordance with the terms of the Relationship Agreement between the company and Friends' Provident Life Office dated 17 February 1998 (as novated by way of Novation Agreement among the company, Friends' Provident Life Office and Friends Provident plc dated 9 July 2001), provided that resolution 10 relating to the re-approval and renewal of such Relationship Agreement as set out in the notice convening the Annual General Meeting of the company at which this resolution is proposed is passed;

(ii) in connection with an offer of equity securities open for acceptance for a period fixed by the directors of the company to the holders of ordinary shares in the share capital of the company on a fixed record date in proportion (as nearly as practicable) to their respective holdings of such ordinary shares (but subject to such exclusions or other arrangements as the directors of the company may consider necessary or expedient to deal with legal problems under or resulting from the application or apparent application of the laws of any territory or the requirements of any regulatory body or any stock exchange in any territory or in connection with fractional entitlements or otherwise howsoever); and

(iii) other than pursuant to sub-paragraphs (i) and (ii) of this resolution, up to an aggregate nominal amount of £7,512.83;

save that the company may, at any time prior to the expiry of such power, make an offer or enter into an agreement which would or might require equity securities to be allotted after the expiry of such power and the directors of the company may allot equity securities in pursuance of such an offer or agreement as if such power had not expired.

To be proposed as a special resolution:

12 THAT, in substitution for any existing power under section 166 of the Companies Act 1985 (the "Act"), but without prejudice to the exercise of any such power prior to the date hereof, the company be and is hereby generally and unconditionally authorised pursuant to and in accordance with section 166 of the Act, to make market purchases (within the meaning of section 163(3) of the Act) of fully paid ordinary shares of 0.1 pence each in the capital of the company ("ordinary shares"), provided that:-

(i) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 10% of the issued ordinary share capital of the company as at the date of the passing of this resolution;

(ii) the minimum price which may be paid for an ordinary share is 0.1 pence (exclusive of expenses); and

(iii) the maximum price (exclusive of expenses) which may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the ordinary shares for the five business days immediately preceding the date of purchase;

such authority to expire on the earlier of 30 October 2005 or at the conclusion of the annual general meeting of the company to be held in 2005, unless previously revoked, varied or renewed by the company in general meeting, save that the company may at any time prior to the expiry of such authority enter into a contract or contracts to purchase ordinary shares under such authority which will or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares in pursuance of any such contract or contracts.

By order of the Board

W Marrack Tonkin, FCCA
Secretary

80 George Street
Edinburgh EH2 3BU
1 March 2004

Notes

(i) A member who is entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his/her behalf. A proxy need not be a member of the company.

(ii) A Form of Proxy for use by Ordinary Shareholders in connection with the meeting is enclosed with these Accounts. To be valid, the Form of Proxy should be completed and sent, together with any power of attorney or other authority (if any) under which it is signed or an extract from the Books of Council and Session or a notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power or authority, so as to reach the company's registrars, at the address stated thereon, not later than 12 noon on 28 April 2004.

(iii) Completing and returning a Form of Proxy will not prevent an Ordinary Shareholder from attending in person at the meeting referred to above and voting should he or she wish to do so.

(iv) The Register of the directors' and their families' interests in the company's shares and a copy of the contract of service of each of the directors of the company will be available for inspection at the registered office of the company during normal business hours on any week day (Bank Holidays excepted) from the date of this Notice until the date of the meeting, and at the place of the meeting from 15 minutes prior to and during the continuance of the meeting.

(v) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the company specifies that only those Ordinary Shareholders entered on the Register of Members of the company as at 6.00 pm on 28 April 2004 or, in the event that the meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend or vote at the meeting in respect of the number of Ordinary Shares registered in their name at that time. Changes to the entries on the Register of Members after 6.00 pm on 28 April 2004 or, in the event that the meeting is adjourned, in the Register of Members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting, notwithstanding any provisions in any enactment, the articles of association of the company or other instrument to the contrary.

(vi) The holders of the variable rate cumulative preference shares of £1 each are entitled to attend the meeting referred to above but may only vote in respect of resolution 16 relating to the reduction of the company's share premium account.

Corporate Information

Directors

Sir David Kinloch, Bt, Chairman*†‡
Christopher Jemmett, Deputy Chairman and Senior Independent Non-executive†
Howard Carter, Chief Executive
Peter Arthur, Executive
Keith Bedell-Pearce, Non-executive*
Kenneth Back, Executive
Nick Criticos, Executive
David Gray, Non-executive†‡
Kenneth Inglis, Non-executive*
Ian Paterson Brown, Executive
Keith Satchell, Non-executive‡
Brian Sweetland, Non-executive
Robert Talbut, Executive

* Member of Remuneration Committee
† Member of Audit and Compliance Committee
‡ Member of Nomination Committee

Head Office

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London
EC2V 7AN

Telephone	020 7506 1100
Facsimile	020 7236 2060

Secretary and Registered Office

W Marrack Tonkin, FCCA
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Edinburgh
EH2 3BU

Telephone	0131 465 1000
Facsimile	0131 225 2375

Solicitors

Shepherd+ Wedderburn
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2ET

Principal Bankers

The Royal Bank of Scotland plc
142-144 Princes Street
Edinburgh
EH2 4EQ

Stockbrokers

Cazenove & Co
12 Tokenhouse Yard
London
EC2R 7AN

Merrill Lynch International
Merrill Lynch Financial Centre
2 King Edward Street
London
EC1A 1HQ

Auditors

Ernst & Young LLP
Ten George Street
Edinburgh
EH2 2DZ

Registrar and Transfer Offices

Lloyds TSB Registrars
PO Box 28448
Finance House
Orchard Brae
Edinburgh
EH4 1WQ

Corporate information

ISIS Asset Management plc is regulated by the Financial Services Authority

Website

Shareholders are encouraged to visit our website www.isisam.com