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FRIENDS PROVIDENT MANAGEMENT SERVICES LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2008

DIRECTORS

T.J. MATTHEWS, MA, FIA, FIAA, ASA (Chairman)
C.A.J. BELLRINGER, BSc, MSc, ACA
R.G. ELLIS, MA, APMI, Solicitor
A. BROWN, BA, MBA, ACIB

SECRETARY

R.G. ELLIS, MA, APMI, Solicitor

PRINCIPAL ACTIVITY

Friends Provident Management Services Limited (the Company) is a wholly owned subsidiary of Friends Provident plc and operates as part of the Friends Provident Group (the Group).

The principal activity of the Company is the provision of management services to companies of the Group. No significant change in this activity is envisaged in the future.

The directors believe that these financial statements should be viewed from the Group perspective and where appropriate, reference has been made to Friends Provident plc's 2008 Annual Report and Accounts for further information and explanations.

RESULTS AND BUSINESS REVIEW

The result for the year ended 31 December 2008 is set out in the profit and loss account on page 6.

Trading performance and outlook

The Company provides management services to other Group undertakings and does not make a trading profit.

Financial performance

On 31 January 2008, the Group announced a change in its strategy which involved restructuring the Group and reducing its cost base by 15% from 2007 level by the end of 2009. Excluding the costs of implementing this strategic review of £42m, administrative expenses have decreased by 10% in 2008 compared to 2007. The decrease in administrative expenses is partly due to savings made as a result of the strategic review and partly due to a reduction in new business acquired, in particular the withdrawal of products carrying initial commission early in 2008 and the effect this has had on new business.

Profitability, shareholder return and underlying costs of the Group are reviewed within the 'Financial Review' section of Friends Provident plc's Annual Report and Accounts for 2008.

Financial Strength

Provision for the pension obligation in respect of the Friends Provident Pension Scheme (the Scheme) increases volatility in the net asset position of the Company; Friends Provident plc has formally provided support to ensure that the Company has adequate resources to continue to operate as a going concern. The Scheme was closed to new members from 1 July 2007 and a defined contribution scheme has been set up in its place.

Risks

The Plc Board has overall responsibility for the Group's risk management framework and for approving risk policy and risk appetite. During 2008 the Plc Board established a new committee structure, The Board Risk Committee (BRC), which has changed the way risk management activities are governed. The key operational risks facing the Group are disclosed within the 'Key Risks' section of Friends Provident plc's Annual Report and Accounts for 2008.

Risks (continued)

The Financial Risk and Operational Risk Committees, which include executive directors and other relevant senior managers of the Group, oversee the management of financial and operational risk respectively. The committees have detailed terms of reference that describe their roles in the identification, assessment and monitoring of risk.

DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended 31 December 2008 (2007: £nil).

EMPLOYEES

The Company's commitment to open collaboration and involvement with its employees continues.
The methods used to implement this policy include:

- management briefings or presentations and discussion through the management structure;
- the issue of a full range of employee communications via the Company's intranet or other internal publication of relevant information, which inform employees of current issues, developments and progress;
- an established and regular staff opinion survey that encourages employees anonymously to present their views, thereby generating workplace and business improvements; and
- the establishment of effective working relationships with employee representative bodies.

The primary aim of all of these activities is to ensure employees know the objectives and activities of the Company so that they can contribute fully to their continued success.

Additionally, all employees may participate in HM Revenue & Customs approved all-employee share schemes: a sharesave scheme (savings-related share option scheme) and a share incentive plan.

The Company is committed to providing equal opportunities for all irrespective of their gender, sexual orientation, marital status, race, religion, age, disability, nationality, ethnic origin or union membership status in all its dealings with employees. The Company is an inclusive employer and values the diversity in its employees. These commitments extend to recruitment and selection, training, career development, flexible working arrangements, promotion and performance management.

The Company respects the dignity of individuals and their beliefs. The Company does not tolerate any sexual, racial, physical or mental harassment of employees in the workplace.

The Company operates flexi-time arrangements in the UK to assist employees to manage their working hours.

The Company has amongst its employees a number who are disabled. It gives full and fair consideration to applications for employment from disabled persons. In the event of employees becoming disabled, every effort is made to ensure that their employment with the Company continues and to provide specialised training where this is appropriate.

DIRECTORS

T.J. Matthews was appointed as director and chairman on 1 September 2008 following the resignation of Sir A.A. Montague on that date. In addition, the following directors were appointed or resigned/retired:

J.R. Smart	Resigned 15 August 2008
C.A.J. Bellringer	Appointed 1 September 2008
J. Stevens	Appointed 1 September 2008, retired 13 January 2009
M.A. Hampton	Retired 1 September 2008
A.R.G. Gunn	Retired 30 November 2008
A. Brown	Appointed 10 March 2009

R.G. Ellis held office throughout the year.

DIRECTORS AND OFFICERS – INDEMNITY AND INSURANCE

The ultimate parent company, Friends Provident plc, maintains insurance cover in respect of directors' and officers' liabilities. In addition, qualifying third party indemnity arrangements (as defined in section 234 of the Companies Act 2006 and section 309B of the Companies Act 1985) are in force for the benefit of the directors within the Group and were in force for the benefit of former directors of the Group during 2008. Copies are available for inspection at the Company's registered office.

STATEMENT OF DISCLOSURE OF INFORMATION TO THE AUDITOR

Each of the directors who held office at the date of approval of this report of the directors confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

AUDITOR

In accordance with section 487 of the Companies Act 2006, the Company has dispensed with the obligation to reappoint its auditors annually and KPMG Audit Plc will therefore continue in office.

CREDITOR PAYMENT POLICY

It is the Company's policy to adhere to the payment terms agreed with individual suppliers and to pay in accordance with its contractual and other legal obligations.

The ratio, expressed in days, between the amount invoiced to the Company by its suppliers during 2008 and the amount owed to its trade creditors at 31 December 2008, was eight days (2007: fourteen days).

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE REPORT OF THE DIRECTORS' AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the report of the directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

STATEMENT OF GOING CONCERN

After making enquiries and in view of the support formally provided by Friends Provident plc for at least 12 months from the approval of these accounts, the directors are satisfied that the Company has adequate resources to continue to operate as a going concern for the foreseeable future and have prepared the financial statements on that basis.

Pixham End
Dorking
Surrey
RH4 1QA

25 March 2009

Registered Number 983330

ON BEHALF OF THE BOARD

R.G. ELLIS
SECRETARY

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FRIENDS PROVIDENT MANAGEMENT SERVICES LIMITED

We have audited the financial statements of Friends Provident Management Services Limited (the Company) for the year ended 31 December 2008, which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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 auditor's 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' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities on page 4.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the report of the directors is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the report of the directors and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Opinion
In our opinion:
- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the report of the directors is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
London
Registered Auditor
25 March 2009

FRIENDS PROVIDENT MANAGEMENT SERVICES LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	2008 £000	2007 £000
Turnover	3	334,801	326,287
Administrative expenses		(334,383)	(326,218)
OPERATING PROFIT		418	69
Profit on sale of fixed assets		65	188
Interest receivable and similar income		3,737	2,637
Other finance income	18(e)	4,232	7,812
Finance lease charges		-	(2)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	4	8,452	10,704
Tax charge on profit on ordinary activities	5	(215)	(14,932)
PROFIT/(LOSS) FOR THE FINANCIAL YEAR		8,237	(4,228)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	2008 £000	2007 £000
Profit/(loss) for the financial year		8,237	(4,228)
Actuarial gain recognised in the pension scheme	18(f)	84,716	32,235
Deferred tax arising on pension scheme gains		(23,721)	(9,026)
Total recognised gains for the financial year		69,232	18,981

There is no material difference between the results disclosed above and the results on a historical cost basis.

The notes on pages 8 to 21 form an integral part of these financial statements.

FRIENDS PROVIDENT MANAGEMENT SERVICES LIMITED
BALANCE SHEET AS AT 31 DECEMBER 2008

	Notes	2008 £000	2007 £000
FIXED ASSETS			
Tangible assets	9	11,688	19,023
CURRENT ASSETS			
Amounts owed by Group undertakings		26,837	29,578
Other debtors	10	49,655	40,307
Prepayments and accrued income		8,452	8,853
Total debtors		84,944	78,738
Deposits with credit institutions		58,697	132,714
Cash at bank and in hand		41	39
		143,682	211,491
CREDITORS: Amounts falling due within one year			
Overdrafts		4,174	12,697
Amounts owed to Group undertakings	12	79,054	82,358
Other creditors	11	19,223	82,953
Accruals and deferred income		23,110	28,153
		125,561	206,161
NET CURRENT ASSETS		18,121	5,330
TOTAL ASSETS LESS CURRENT LIABILITIES		29,809	24,353
PROVISIONS FOR LIABILITIES AND CHARGES	14	11,614	2,134
NET ASSETS EXCLUDING PENSION ASSET		18,195	22,219
NET PENSION ASSET	18(d)	81,542	3,714
NET ASSETS INCLUDING PENSION ASSET		99,737	25,933
CAPITAL AND RESERVES			
Called up share capital	15	100	100
Reserves	16	99,637	25,833
TOTAL SHAREHOLDER'S FUNDS – ALL EQUITY	16	99,737	25,933

Approved by the Board on 25 March 2009 and signed on its behalf by

T.J. MATTHEWS
DIRECTOR

The notes on pages 8 to 21 form an integral part of these financial statements.

FRIENDS PROVIDENT MANAGEMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements conform to applicable accounting standards and have been prepared under the historical cost convention, modified by the revaluation of certain assets as required by the Companies Act 1985.

The Company is a wholly owned subsidiary of Friends Provident plc, whose consolidated financial statements are publicly available. Consequently the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard (FRS) 1 Cash Flow Statements (Revised 1996).

The financial statements have been prepared on the going concern basis, which the directors believe to be appropriate for the following reasons. The Company is dependent for its working capital on funds provided to it by Friends Provident plc, the Company's ultimate parent undertaking. Friends Provident plc has provided the Company with an undertaking that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the Company, and in particular will not seek repayment of the amounts currently made available. This should enable the Company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not.

(b) Pensions costs

Pension schemes are in operation for employees of certain group undertakings. The principal scheme, to which the majority of employees belong, is of the funded defined benefit type with assets managed by F&C Asset Management plc, a fellow subsidiary undertaking. The scheme provides benefits based on final pensionable salary. The assets of the scheme are held in a separate trustee administered fund.

The pension liability recognised in the balance sheet is the present obligation of the employer, which is the estimated present value of the future benefits that employees have earned in return for their services in the current and prior years, less the value of the plan assets in the scheme. The discount rate applied to the employees' benefits is the appropriate AA Rated corporate bond yield at the balance sheet date. A qualified actuary performs the calculation annually using the projected unit credit method.

The pension cost for the scheme is charged to the profit and loss account and consists of current service cost, past service cost, interest cost on scheme liabilities, the effect of any settlements or curtailments, and the expected return on pension assets. Past service costs are recognised in the profit and loss account on a straight-line basis over the period in which the increase in benefits vest. Actuarial gains and losses are taken to the statement of total recognised gains and losses for the period.

The actuarial gains and losses, which arise from any new valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date, are taken to the statement of total recognised gains and losses for the period. The adjustment is shown net of deferred taxation.

1. ACCOUNTING POLICIES (continued)

(c) Deferred taxation

In accordance with FRS 19 Deferred Tax, provision is made for deferred taxation liabilities, using the liability method, on all material timing differences. Deferred taxation is calculated at the rates at which it is expected that the tax will arise and discounted to take into account likely timing of payments and pattern of expected realisation of investments. Deferred taxation is recognised in the profit and loss account for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in the statement of total recognised gains and losses. In this case the attributable deferred taxation is shown separately in the statement of total recognised gains and losses. Deferred tax assets are recognised to the extent that they are regarded as recoverable and are not discounted.

(d) Tangible assets

Tangible assets are capitalised and depreciated on a straight line basis over their estimated useful lives as follows:

Motor vehicles	3 to 4 years
Computer equipment	1 to 4 years
Fixtures and fittings, plant and machinery	3 to 10 years
Leased assets	Over the term of the finance lease

(e) Leases

Assets held under finance leases are capitalised at the fair value of the asset at the inception of the lease with an equivalent liability shown under creditors. Finance charges are allocated to accounting periods over the life of each lease.

Payments in respect of operating leases are charged to the profit and loss account in the period to which they relate.

(f) Share based payment schemes

Friends Provident plc offers share based payment schemes to the employees of the Company, depending on eligibility. The fair value of these equity-settled share based payments is measured at the grant date and expensed on a straight-line basis over the vesting period in the income statement.

At each balance sheet date, the Company revises its estimate of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity over the remaining vesting period. The fair value is measured using scenario based modelling techniques that take into account the terms and conditions upon which these options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest, except where forfeiture is only due to share process not achieving the threshold for vesting.

2. USE OF ACCOUNTING ESTIMATES

(a) Staff pension scheme

In assessing the pension benefit obligation, assumptions are made as to the life expectancy of all current, deferred and retired members, rates of increases of salaries and pensions, and interest and inflation rates. Material assumptions used are detailed in note 18. The carrying value of the net pension asset is £81,542,000 (2007: £3,714,000).

(b) Share options and share based payments

In assessing the cost of share options expected to vest, estimates are made of future staff leaver numbers on the basis of past experience, and of the fair value of the options using assumptions including expected future levels of share price volatility and dividend yield. The amount charged to the income statement in respect of share based payments is £4,572,000 (2007: £4,593,000).

3. TURNOVER

Turnover comprises fees for management services provided to, and commission received from, companies within the Friends Provident Group.

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging:

	2008 £000	2007 £000
Auditor's remuneration for audit services	10	10
Operating lease rentals:		
- land and buildings	8,927	9,659
- others	3,842	3,123
Depreciation of tangible fixed assets:		
- owned assets	10,055	11,771
Impairment of tangible fixed assets	-	2,252

The impairment of tangible fixed assets has been fully recharged to a fellow subsidiary undertaking.

Fees billed in the year by the auditor, paid initially by the Company and recharged to other fellow subsidiary undertakings for non-audit services were £1,481,644 (2007: £1,179,000), analysed as follows:

	2008 £000	2007 £000
Other services supplied pursuant to such legislation	418	-
Services relating to information technology	693	51
Services relating to corporate finance transactions	250	1,073
Other services	121	55
	1,482	1,179

5. TAXATION

(a) Analysis of the tax charge in period

	2008 £000	2007 £000
Current taxation		
UK corporation tax @ 28.5%/30%	1,524	13,284
Adjustments in respect of prior periods	(2,241)	300
Total current taxation	(717)	13,584
Deferred taxation		
Adjustments in respect of prior periods	(1,863)	-
Effect of tax rate change	-	2,900
Deferred taxation – origination and reversal of timing differences	2,795	(1,552)
Total deferred taxation	932	1,348
Tax on profit on ordinary activities	215	14,932

(b) Factors affecting charge for period

	2008 £000	2007 £000
Profit on ordinary activities before taxation	8,452	10,704
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28.5% (2007: 30%)	2,409	3,211
Effects of:		
Deductions not allowable for tax purposes	1,843	8,521
Deferred tax movements	(2,795)	1,552
Additional deferred tax movements in respect of 2008 effective rate of 28.5%	67	-
Adjustments in respect of prior periods	(2,241)	300
Current tax (credit)/charge for the period	(717)	13,584

6. DIRECTORS' EMOLUMENTS

During the year, the directors consider that their services to the Company were incidental to their other duties within the Group and accordingly no remuneration or other benefits have been apportioned to the Company.

At 31 December 2008 two (2007: three) directors were members of the Friends Provident Pension Scheme, a defined benefit scheme for staff who joined before 1 July 2007, and one (2007: nil) director was a member of the Friends Pension Plan, a defined contribution scheme for staff who joined after 1 July 2007. Following the retirement of one director, £1,762,000 of unfunded pension benefits have been paid during the year, see note 14.

7. EMPLOYEES

The service contracts for all employees within the UK Life and Pensions segment of the Group are with Friends Provident Management Services Limited. These employees provide services for all companies in the UK Life and Pensions segment, with the cost being included in the recharge made to the relevant companies.

	2008 £000	2007 £000
(a) The average number of employees (including all directors) was:		
Management services	3,478	3,755
(b) Gross employment costs (including all directors) amounted to:		
Wages and salaries	125,283	118,527
Social security costs	10,077	9,836
Pension costs	23,498	25,345
	158,858	153,708

8. SHARE BASED PAYMENTS

Friends Provident plc has offered the following equity-settled share based payment arrangements to the employees of the Company:

Share options

All-employee ShareSave schemes

There are two HM Revenue & Customs approved ShareSave schemes each year. These are savings related share option schemes which enable staff to save up to £250 per month over three or five years. Details of these schemes are shown below:

	Date of grant	Vesting conditions	Exercise date
ShareSave 2003 (5 year)	10 September 2003	5 years' service	1 October 2008
ShareSave 2004 (5 year)	14 September 2004	5 years' service	1 October 2009
ShareSave 2005 (3 year)	19 October 2005	3 years' service	1 November 2008
ShareSave 2005 (5 year)	19 October 2005	5 years' service	1 November 2010
ShareSave 2006 (3 year)	19 September 2006	3 years' service	1 November 2009
ShareSave 2006 (5 year)	19 September 2006	5 years' service	1 November 2011
ShareSave 2007 (3 year)	24 September 2007	3 years' service	1 November 2010
ShareSave 2007 (5 year)	24 September 2007	5 years' service	1 November 2012
ShareSave 2008 (3 year)	22 September 2008	3 years' service	1 November 2011
ShareSave 2008 (5 year)	22 September 2008	5 years' service	1 November 2013

8. SHARE BASED PAYMENTS (continued)

Executive and director share incentive schemes

Since 2005 Executive directors may participate in the Long Term Incentive Plan (LTIP), and in exceptional cases the Executive Share Option Scheme (ESOS), on the basis of grants of options of up to one times annual remuneration in aggregate. ESOS grants have an exercise price equal to market value at the date of grant, while LTIP grants have an exercise price of a nominal amount (10 pence per share). Details of these schemes are shown below:

	Date of grant	Life of options	Vesting conditions
ESOS 2002	14 March 2002	10 years	3 years' service and performance based on total shareholder return over an initial 3 year period
ESOS 2003	17 March 2003	10 years	
ESOS 2004	15 March 2004	10 years	
ESOS 2004*	12 August 2004	10 years	
LTIP 2005	29 March 2005	10 years	3 years' service and performance based on total shareholder return and the Group's pre-tax return on embedded value over a 3 year period
LTIP 2006	24 March 2006	10 years	
LTIP 2006*	9 August 2006	10 years	
LTIP 2006*	13 November 2006	10 years	
LTIP 2007	22 March 2007	10 years	
LTIP 2008	19 March 2008	10 years	3 years' service and performance based on total shareholder return and the Group's earnings per share performance on an IFRS basis over a 3 year period

*Some of these options were granted to certain executive directors after the original issue date.

Further details of the above plans are as follows:

	2008		2007	
	Number of options	Weighted average exercise price in pence	Number of options	Weighted average exercise price in pence
Outstanding at start of year	28,849,595	128.4	31,255,417	131.9
Granted	14,980,570	63.9	4,455,744	84.0
Forfeited	(6,966,007)	116.4	(776,085)	159.6
Exercised	(220,480)	88.5	(3,573,165)	112.5
Expired	(9,592,384)	129.5	(2,512,316)	107.1
Outstanding at end of year	27,051,294	95.7	28,849,595	128.4
Exercisable at end of year	4,858,103	149.3	3,394,415	155.1

Total expenses of £4,572,489 (2007: £4,592,781) were recognised in the year relating to equity-settled share based payment transactions over Friends Provident plc shares, which has been recharged at cost across the Group.

8. SHARE BASED PAYMENTS (continued)

The options outstanding at 31 December 2008 had an exercise price and a remaining contractual life as shown below:

	Number of share options	Exercise price pence per share	Earliest exercise date
ShareSave 2003 (5 year)	392,018	108.54	1 October 2008
ShareSave 2004 (5 year)	440,077	102.47	1 October 2009
ShareSave 2005 (3 year)	1,305,271	143.94	1 November 2008
ShareSave 2005 (5 year)	113,264	143.94	1 November 2010
ShareSave 2006 (3 year)	310,583	147.74	1 November 2009
ShareSave 2006 (5 year)	167,992	147.74	1 November 2011
ShareSave 2007 (3 year)	402,878	141.34	1 November 2010
ShareSave 2007 (5 year)	241,494	141.34	1 November 2012
ShareSave 2008 (3 year)	7,464,555	75.82	1 November 2011
ShareSave 2008 (5 year)	4,561,766	75.82	1 November 2013
ESOS 2002	1,935,431	195.00	14 March 2006
ESOS 2003	609,636	71.00	17 March 2006
ESOS 2004	4,765,930	153.00	15 March 2007
ESOS 2004*	249,457	127.00	12 August 2007
LTIP 2006	848,261	10.00	24 March 2009
LTIP 2006*	74,175	10.00	9 August 2009
LTIP 2007	1,107,353	10.00	22 March 2010
LTIP 2008	2,061,153	10.00	19 March 2011

*Some of these options were granted to certain executive directors after the original issue date.

The following table summarises information about options outstanding at 31 December 2008:

Range of exercise prices	Number of options outstanding	Weighted average remaining contractual life in years	Weighted average exercise price in pence
£0.10 - £0.72	4,700,578	1.31	17.91
£0.73 - £1.35	13,107,873	3.32	78.67
£1.36 - £1.98	9,242,843	0.28	159.32

The following table summarises information about options outstanding at 31 December 2007:

Range of exercise prices	Number of options outstanding	Weighted average remaining contractual life in years	Weighted average exercise price in pence
£0.10 - £0.72	5,758,425	1.32	16.67
£0.73 - £1.35	1,686,342	0.85	109.80
£1.36 - £1.98	21,404,828	1.26	159.87

The weighted average share price of share options exercised during the year was 126.10 pence.

8. SHARE BASED PAYMENTS (continued)

The fair value of services rendered in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured using binomial modelling techniques. The fair value of options granted during the year and the key assumptions used in the valuation are shown in the table below:

Scheme	Fair value pence	Exercise price pence	Share price pence	Volatility	Dividend yield	Average life	Risk-free rate
ShareSave 2008	35.60	75.82	94.90	53%	3%	3 years	4.41%
ShareSave 2008	41.60	75.82	94.90	54%	3%	3 years	4.55%
LTIP 2008 (ROEV)	112.10	10.00	116.10	55%	3%	3 years	4.41%
LTIP 2008 (TSR)	76.40	10.00	116.10	55%	3%	3 years	4.41%

The expected volatility is based on historic volatility adjusted for any expected changes to future volatility due to publicly available information.

All share options are granted under a service condition. Such conditions are not taken into account in the grant-date fair value measurement of the services received. The ESOS and LTIP schemes contain a performance condition based on total shareholder return ranked against other FTSE 100 companies. This is a market performance condition and is taken into account by scenario-based modeling in the grant-date fair value measurement of the services received.

Share awards

The awards outstanding at 31 December 2008, over Friends Provident plc shares, had a vesting date as shown below:

	Number of share awards	Vesting date
Deferred share plan 2006	1,099,254	25 March 2009
Deferred share plan 2007	1,455,278	22 March 2010
Deferred share plan 2008	734,201	19 March 2011

The fair value of the awards granted during the year and the assumptions used in the valuation are shown in the table below:

Scheme	Fair value pence	Exercise price pence	Share price pence	Volatility	Dividend yield	Average life	Risk-free rate
Deferred share plan 2008	98.70	-	116.10	55%	3%	3 years	4.41%

9. TANGIBLE FIXED ASSETS

	Motor vehicles	Computer equipment and software	Fixtures, fittings and office equipment	Total
	£000	£000	£000	£000
Cost				
At 1 January 2008	1,149	49,014	4,002	54,165
Additions	160	2,994	39	3,193
Disposals	(267)	(846)	-	(1,113)
At 31 December 2008	1,042	51,162	4,041	56,245
Depreciation				
At 1 January 2008	750	31,513	2,879	35,142
Charge for the year	178	9,538	339	10,055
Disposals	(264)	(376)	-	(640)
At 31 December 2008	664	40,675	3,218	44,557
Net book value				
At 31 December 2007	399	17,501	1,123	19,023
At 31 December 2008	378	10,487	823	11,688

10. OTHER DEBTORS

	2008	2007
	£000	£000
Corporation tax receivable	4,078	-
Deferred taxation	39,721	34,107
Other debtors	5,856	6,200
	49,655	40,307

Deferred Taxation

Details of the deferred taxation asset are given below:

	2008	2007
	£000	£000
Accelerated capital allowances	39,287	33,921
Other short term timing differences	434	186
	39,721	34,107

The pension asset is recorded net of the related deferred tax in the balance sheet and details of the deferred tax are shown in note 18. The deferred tax balance relating to the pension asset is not included in the analysis above.

11. OTHER CREDITORS INCLUDING TAX AND SOCIAL SECURITY

	2008 £000	2007 £000
Corporation tax payable	-	17,904
Other taxation and social security	4,994	3,927
Obligations under finance leases	-	119
Other creditors	14,229	61,003
	19,223	82,953

12. AMOUNTS OWED TO GROUP UNDERTAKINGS

Amounts owed to Group undertakings includes a loan of £75m (2007: £75m) which is repayable on demand. At 31 December 2008 £7m (2007: £55m) of other creditors represents receipts from Life and Pensions business policyholders to be allocated to the appropriate Group company.

13. FINANCE LEASES

	2008 £000	2007 £000
Future minimum payments are as follows:		
Within one year	-	119
	-	119

14. PROVISIONS FOR LIABILITIES AND CHARGES

	Strategic review £000	Pension and similar obligations £000	Total £000
At 1 January 2008	-	2,134	2,134
Utilised in the year	-	(1,762)	(1,762)
Charge for the year	11,042	200	11,242
At 31 December 2008	11,042	572	11,614

On 31 January 2008 the Group announced a change in its strategy. The provision above has been made for expected costs to be incurred implementing the strategic review and the resulting winding up of the business of fellow subsidiary undertaking The Asset Hub Limited.

Following the retirement of a director in the year, £1,762,000 of the provision for pension obligations has been settled.

15. CALLED-UP SHARE CAPITAL

	2008 £000	2007 £000
Authorised		
100,000 ordinary shares of £1 each	100	100
Allotted, called-up and fully paid		
100,000 ordinary shares of £1 each	100	100

16. RECONCILIATION OF MOVEMENT IN TOTAL SHAREHOLDER'S FUNDS

	Share capital £000	Profit and loss account £000	Pension reserve £000	Equity reserve £000	Total shareholder's funds £000
Balance as at 1 January 2008	100	6,624	3,714	15,495	25,933
Profit for the financial year	-	8,237	-	-	8,237
Transfer between reserves	-	(16,833)	16,833	-	-
Capital contribution to equity	-	-	-	4,572	4,572
Pension scheme gains	-	-	84,716	-	84,716
Deferred tax on pension scheme gains	-	-	(23,721)	-	(23,721)
Balance as at 31 December 2008	100	(1,972)	81,542	20,067	99,737

17. OPERATING LEASES

At 31 December 2008, the Company had the following annual commitments under operating leases:

	2008 £000	2007 £000
Land and buildings which expire		
within 1 year	239	1,422
between 1 - 5 years	1,298	1,311
after 5 years	6,852	5,847
Other operating leases which expire		
within 1 year	1,642	48
between 1 - 5 years	-	3,805

18. STAFF PENSION SCHEMES

The Company operates one UK defined benefit scheme, the Friends Provident Pension Scheme (the Scheme), to which the majority of the Group's employees belong. The Scheme's assets, which are administered by F&C, are held under the control of the Trustee and used to secure benefits for the members of the Scheme and their dependants in accordance with the Trust Deed and Rules.

The most recently completed triennial actuarial valuation was performed by an independent actuary and was carried out as at 30 September 2005. From 1 July 2007 the Scheme was closed to new members and existing members were asked to increase their contributions of 3% of basic salary by 1% per annum until 2010 if they wish to continue to retire at the age of 60, or reduce their contributions from 3% to 2% and increase their normal retirement age to 65. The employer agreed to increase its contributions from 15% to 20% of total basic salaries and in April 2008 made an additional contribution of £20m.

A Group Personal Pension Plan is in place for new employees. Contributions paid in the year in respect of the new plan were £858,565 (2007: £98,850); there are no outstanding or prepaid contributions at the balance sheet date.

18. STAFF PENSION SCHEMES (continued)

In May 2008, the Scheme entered into a bulk annuity arrangement with Norwich Union. The purchase of the annuity was partly funded by a £160m loan from a fellow subsidiary undertaking. The loan is repayable over a maximum of 1 year (from drawdown date) and incurs interest at 3 months Libor +2%. £82m of the loan was outstanding at 31 December 2008.

(a) Principal economic assumptions used by the Scheme Actuary

	2008 %	2007 %
Rate of increase in salaries*	3.50	3.50
Rate of increase in pensions in payment	2.96	3.40
Discount rate for active and deferred members	5.82	5.51
Discount rate for pensioners	6.13	5.51

*Plus allowance for salary scale increases

In 2008, inflation rate assumptions have been based on a curve of expected inflation spot rates. In 2007 a single inflation rate assumption of 3.53% was used.

Mortality assumptions for pensioners are based on the appropriate 2000 series mortality tables (2007: 2000) published by the Continuous Mortality Investigations (CMI) in 2006. In addition, allowance is made for future improvements in mortality according to each individual's year of birth through the use of the 'medium cohort' projections (with certain amendments) published by the CMI in 2002. The amendments are to allow for 75% of the medium cohort projections for females (with a minimum annual rate of improvement in future longevity of 0.75%), and 100% of the medium cohort projections for males (with a minimum annual rate of improvement in future longevity of 1.00%).

The mortality assumptions provide the following average life expectancies of future members retiring at the age of 60, and of current pensioners at the average age of current pensioners:

	2008	2007
Expected age at death of future male pensioner	89	89
Expected age at death of future female pensioner	90	90
Expected age at death of current male pensioner	88	87
Expected age at death of current female pensioner	89	89

(b) Changes in the present value of obligations of defined benefit scheme

	2008 £000	2007 £000
Present value of obligations at 1 January	971,229	942,046
Interest cost	53,729	47,917
Current service cost	21,280	25,246
Contributions by plan participants	1,034	1,309
Actuarial (gains)/losses	(101,608)	(18,386)
Benefits paid	(35,739)	(26,903)
Termination benefits	2,461	-
Present value of obligations at 31 December	912,386	971,229
Analysed		
Wholly unfunded plans	-	-
Wholly or partly funded plans	912,386	971,229

18. STAFF PENSION SCHEMES (continued)

(c) Changes in present value of defined benefit plan assets

	2008 £000	2007 £000
Fair value of plan assets at 1 January	976,388	910,983
Expected return on plan assets	57,961	55,729
Actuarial (losses)/gains	(16,892)	13,849
Employer contributions	42,888	21,421
Contributions by plan participants	1,034	1,309
Benefits paid	(35,739)	(26,903)
Fair value of plan assets at 31 December	1,025,640	976,388

(d) Assets in the defined benefit scheme and the expected rate of return

	Expected rate of return		Value	
	2008 %	2007 %	2008 £000	2007 £000
Equities	6.74	7.32	179,759	355,711
Derivatives	-	5.51	-	122
LDI Pools	5.82	5.51	591,770	459,645
Insurance Contract	6.13	-	240,164	-
Cash	3.24	3.82	13,947	160,910
Total market value of assets			1,025,640	976,388
Present value of scheme liabilities			(912,386)	(971,229)
Surplus in the scheme			113,254	5,159
Related deferred tax			(31,712)	(1,445)
Net pension asset			81,542	3,714

The expected return on net pension scheme assets is calculated using the assumptions and the market value of pension scheme assets as stated in the table above for the preceding year.

(e) Amounts recognised in the profit and loss account in respect of defined benefit scheme

	2008 £000	2007 £000
Interest cost	(53,729)	(47,917)
Expected return on plan assets	57,961	55,729
	4,232	7,812
Current service costs	(21,215)	(25,246)
Termination benefits	(2,461)	-
Total amounts recognised in the income statement	(19,444)	(17,434)
Actual return on plan assets	40,994	69,578

(f) Amounts recognised in the statement of total recognised gains and losses in respect of defined benefit scheme

	2008 £000	2007 £000
Actuarial gains recognised in the year	84,716	32,235

18. STAFF PENSION SCHEMES (continued)

(g) History of experience gains and losses of defined benefit scheme

	2004 £000	2005 £000	2006 £000	2007 £000	2008 £000
Present value of defined benefit obligation	(706,226)	(906,754)	(942,046)	(971,229)	(912,386)
Fair value of plan assets	699,947	888,203	910,983	976,388	1,025,640
Surplus/(deficit)	(6,279)	(18,551)	(31,063)	5,159	113,254
Difference between the expected and actual return on scheme assets					
Amount	63,883	156,959	(21,495)	13,849	(16,967)
Percentage of closing scheme assets	10%	18%	(2)%	1.42%	(1.65)%
Experience gains and losses on scheme liabilities					
Amount	(7,700)	(7,063)	(3,810)	(23,757)	(17,299)
Percentage of the present value of the scheme liabilities	(1)%	(1)%	-	(2.45)%	(1.90)%
Total amount recognised in the statement of recognised income and expense					
Amount	(4,269)	(6,122)	(12,507)	32,235	84,651
Percentage of the present value of the scheme liabilities	(1)%	(1)%	(1)%	3.32%	9.28%

History prior to 1 January 2005 has not been restated for the amendments to FRS 17 adopted in 2006.

The cumulative amount of actuarial gains and losses recognised in the statement of total recognised gains and losses from 1 January 2000 (the date of transition to FRS 17) to 31 December 2008 are losses of £394,171,000.

19. RELATED PARTY TRANSACTIONS

The Company is a wholly-owned subsidiary undertaking of Friends Provident plc. The results of the Company are consolidated in the results of Friends Provident plc, the Company's ultimate parent and controlling undertaking, whose financial statements are publicly available. Accordingly, the Company is exempt from the requirements of Financial Reporting Standard 8 concerning the disclosure of transactions with other companies which qualify as related parties within the Group. There are no other material related party transactions.

20. ULTIMATE PARENT UNDERTAKING

The Company's ultimate parent undertaking is Friends Provident plc which is incorporated in the United Kingdom. Copies of the Group Report and Accounts of Friends Provident plc can be viewed via its website at www.friendsprovident.com