FRIENDS PROVIDENT MANAGEMENT SERVICES LIMITED

COMPANY INCORPORATED IN ENGLAND AND WALES
REGISTRATION NUMBER 983330

REPORT AND ACCOUNTS

For the year ended 31 December 2011

FRIENDS PROVIDENT MANAGEMENT SERVICES LIMITED
REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2011

CONTENTS	**PAGE**

BOARD OF DIRECTORS

E B BOURKE
D E HYNAM
L. C J'AFARI-PAK
A M PARSONS

COMPANY SECRETARY

FRIENDS LIFE SECRETARIAL SERVICES LIMITED (FLSSL)

REGISTERED OFFICE

Pixham End
Dorking
Surrey
RH4 1QA

AUDITORS

Ernst & Young LLP
1 More London Place
London
SE1 2AF

FRIENDS PROVIDENT MANAGEMENT SERVICES LIMITED
REPORT OF THE DIRECTORS

PRINCIPAL ACTIVITY

Friends Provident Management Services Limited ("the Company") is a wholly owned subsidiary of Friends Life FPL Limited ("FPL") (formerly known as Friends Provident Limited) and operates as part of the Friends Life Group of companies ("the Group")

At 31 December 2011, the Company's ultimate parent and controlling company was Resolution Limited

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 the Group Annual Report and Accounts for further information and explanations

RESULTS AND BUSINESS REVIEW

The result for the year ended 31 December 2011 is set out in the profit and loss account on page 8

Trading performance and outlook

The Company provides management services to other Group undertakings The taxable profit generated in the year is mainly due to the expected return on the Friends Provident Pension Scheme ("the Scheme") assets, net of interest costs No change is foreseen in these activities

On 9 November 2011, the Company entered into an agreement with Diligenta Limited ("Diligenta") to outsource the majority of the Group's policy administration and IT operations to Diligenta The contract will provide a fixed price per unit for a significant part of the customer service operations and therefore transfer this element of cost risk out of the Group Under the terms of the agreement, the Company is committed to make payments of approximately £1,400 million to Diligenta until the end of the contract term

The agreement with Diligenta entered into by the Company includes the outsourcing of activities previously carried out by companies within the Group To the extent the Company incurs charges from Diligenta in respect of transferred operations, it will recharge these at cost to other companies within the Group

On 1 March 2012, a total of 1,622 employees within the Group were transferred to Diligenta under 'TUPE' regulations of which 903 were employed by the Company This reduced the number of in service employees post transfer with ongoing defined benefit accrual The pension valuation impact of the reduction in the proportion of active members will be taken into account in the Report and Accounts of the Company as at 31 December 2012

Financial Strength

The Company is the Statutory Employer of the Scheme and the defined benefit obligation is respect of the Scheme Provision for the pension obligation in respect of the Scheme increases volatility in the net asset position of the Company Friends Life Group plc ("FLG") (formerly Friends Provident Holdings (UK) Plc) has formally provided support to ensure that the Company has adequate resources to continue to operate as a going concern At 31 December 2011, FLG has a net current asset position with liquid assets, and it's financial statements have been produced on a going concern basis

RISKS

The Board of Directors of the Group has overall responsibility for the Group's risk management framework and for approving risk management policy and risk appetite

RESULTS AND BUSINESS REVIEW (continued)
RISKS (continued)

The Board Risk and Compliance Committee ("BRCC") has been established to oversee the risk management across the Group, including the Financial Risk Committee ("FRC") and the Operational Risk Committee ("ORC") The BRCC reviews and recommends for approval to the Board the Group detailed policies for the management of specific classes of risk, and considers quarterly reporting from the operational businesses

The FRC, which includes the Chief Finance Officer and other relevant senior managers, oversees the management of financial and insurance risks of the Company The FRC will review and recommend to the BRCC strategies and policies for market, credit, liquidity and insurance risk management All risk management policies are reviewed regularly by the relevant committee, on at least an annual basis, to ensure they remain relevant to the changing demands of the business and the regulatory environment

DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended 31 December 2011 (2010 £nil)

EMPLOYEES

The Group'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 Group so that they can contribute fully to their continued success

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 Group 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 Group continues and to provide specialised training where this is appropriate

The average number of employees (including all directors) was 2,233 (2010 2,507)

DIRECTORS AND OFFICERS

E B Bourke held office throughout the year In addition, the following changes took place during the year

D E Hynam	Appointed 12 July 2011
L C J'Afari-Pak	Appointed 12 July 2011
A M Parsons	Appointed 12 July 2011
T J Matthews	Resigned 2 June 2011

D Monger resigned as Company Secretary on 12 July 2011
Friends Life Secretarial Services Limited was appointed as Company Secretary on 12 July 2011

DIRECTORS AND OFFICERS – INDEMNITY AND INSURANCE

The Group 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) 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 2011 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/she ought to have taken as a director to make himself/herself 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 auditor annually and Ernst & Young LLP ("E&Y") 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 2011 and the amount owed to its trade creditors at 31 December 2011, was 16 days (2010 4 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 2006 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

The financial statements have been prepared on a going concern basis In assessing whether the going concern basis is appropriate, the directors have considered the information contained in the financial statements, the latest business plan profit forecasts and the latest working capital forecasts The directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future given it has a letter of support from Friends Life Group plc

Pixham End
Dorking
Surrey
RH4 1QA
22 March 2012

Registered number 983330

ON BEHALF OF THE BOARD

Lindsay H. Pak

L C J'AFARI-PAK
DIRECTOR

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 for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 22 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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 auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Report and Accounts to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Ernst & Young LLP

John Headley (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
22 March 2012

FRIENDS PROVIDENT MANAGEMENT SERVICES LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 £000	2010 £000
Turnover	3	**356,147**	341,564
Administrative expenses		**(355,935)**	(261,476)
OPERATING PROFIT		**212**	80,088
Interest receivable/(payable)		**478**	(745)
Other finance income	17(e)	**6,067**	5,325
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	4	**6,757**	84,668
Tax charge on profit on ordinary activities	5	**(3,743)**	(27,478)
PROFIT FOR THE FINANCIAL YEAR		**3,014**	57,190

All of the activities of the company are classed as continuing

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 £000	2010 £000
Profit for the financial year		**3,014**	57,190
Actuarial loss recognised in the pension scheme	17(f)	**(46,120)**	(22,571)
Deferred tax arising on pension scheme losses		**12,865**	6,988
Total recognised (losses)/gains for the financial year		**(30,241)**	41,607

The notes on pages 10 to 24 form an integral part of these financial statements

FRIENDS PROVIDENT MANAGEMENT SERVICES LIMITED
BALANCE SHEET AS AT 31 DECEMBER 2011

	Notes	2011 £000	2010 £000
FIXED ASSETS			
Tangible assets	8	**11,057**	3,231
CURRENT ASSETS			
Amounts owed by group undertakings		**144,225**	126,558
Deferred tax	9	**25,028**	39,843
Other debtors	10	**13,705**	13,913
Prepayments and accrued income		**8,911**	5,115
Total debtors		**191,869**	185,429
Cash at bank		**143**	-
Deposits with credit institutions		**154**	42,571
Cash and cash equivalents		**297**	42,571
CREDITORS: Amounts falling due within one year			
Amounts owed to group undertakings		**28,024**	42,091
Other creditors	11	**22,990**	32,902
Accruals and deferred income		**50,318**	35,012
		101,332	110,005
NET CURRENT ASSETS		**90,834**	117,995
TOTAL ASSETS LESS CURRENT LIABILITIES		**101,891**	121,226
PROVISIONS FOR LIABILITIES AND CHARGES	12	**5,767**	6,240
LOAN FROM GROUP UNDERTAKINGS	13	**75,000**	75,000
NET ASSETS EXCLUDING PENSION ASSET		**21,124**	39,986
NET PENSION ASSET	17(d)	**39,252**	48,731
NET ASSETS INCLUDING PENSION ASSET		**60,376**	88,717
CAPITAL AND RESERVES			
Called up share capital	14	**100**	100
Reserves	15	**60,276**	88,617
TOTAL SHAREHOLDER'S FUNDS	15	**60,376**	88,717

Approved and authorised for issue by the Board on 22 March 2012 and signed on its behalf by

E B Bourke

E B BOURKE
DIRECTOR

The notes on pages 10 to 24 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 have been prepared in accordance with applicable UK Accounting Standards (UK Generally Accepted Accounting Practice) and under the historical cost convention, modified by the revaluation of certain assets as required by the Companies Act 2006

The Company is a wholly owned subsidiary of Friends Life FPL Limited and is included in the consolidated financial statements of Friends Life Group plc which are publicly available The company's ultimate parent undertaking is Resolution Limited 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 Life FPL Limited

Friends Life Group 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 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 Management Limited, Walter Scott and Partners Limited, Aberdeen Unit Trust Managers Limited and Aviva Annuity UK Limited The scheme provides benefits based on final pensionable salary The assets of the scheme are held in a separate trustee administered fund

The pension asset 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 fair 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

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 tax

In accordance with FRS 19 Deferred Tax, provision is made for deferred taxation, 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, 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

FLG operates a long term incentive plan ("LTIP") for eligible employees The participants are entitled, subject to achievement of performance conditions, to a percentage share of the net value generated from the acquisition of Life companies by FLG referred to as the UK Life Project

The scheme is a cash-settled share-based payment scheme and the fair value of the awards in issue, being the relevant percentage of the gain expected to arise on completion of the UK Life Project, is measured at each reporting date, with any changes in fair value being recognised in the income statement for the period (refer note 7)

At each balance sheet date, the Company revised its estimate of the number of options that were expected to vest It recognised the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity The amount recognised in the income statement is recharged to FLG The fair value was measured using scenario based modelling techniques that took into account the terms and conditions upon which these options were granted The amount recognised as an expense was adjusted to reflect the actual number of share options that vest, except where forfeiture was only due to share prices 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 17 The carrying value of the net pension asset is £39,252,000 (2010 £48,731,000)

(b) Share options and share based payments

In assessing the cost of share options expected to vest, the key assumptions are 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 profit and loss account in respect of share based payments was £1,900,000 (2010 £4,825,606)

3. TURNOVER

Turnover comprises fees for management services provided to companies within the Group The fees for management services are recharged monthly to the relevant subsidiaries of the Group The charge represents expenses incurred by the Company on behalf of group companies excluding VAT that is recoverable by the Company

Contracts for the provision of management services exist with the main companies of the Group, providing the Company with legal recourse to recover all expenses under the terms of agreement

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

Profit on ordinary activities before tax is stated after charging

	2011 £000	2010 £000
Auditors' remuneration for audit services	13	13
Operating lease rentals		
- land and buildings	9,746	7,864
Depreciation of tangible fixed assets		
- owned assets	2,297	3,078

5. TAX

(a) Analysis of the tax charge in period

	2011 £000	2010 £000
Current taxation		
UK corporation tax @ 26 5% (2010 28%)	(11,130)	17,588
Adjustments in respect of prior periods	(7,866)	353
Total current taxation (credit)/charge	(18,996)	17,941
Deferred taxation		
Adjustments in respect of prior periods	6,404	-
Origination and reversal of timing differences	14,455	8,062
Change in tax rate	1,880	1,475
Total deferred taxation charge	22,739	9,537
Tax charge on profit on ordinary activities	3,743	27,478

5. TAX (contınued)

(b) Factors affectıng charge for perıod

	2011 £000	2010 £000
Profit on ordinary actıvıtıes before tax	**6,757**	84,668
Profit on ordınary actıvıtıes multıplıed by standard rate of corporatıon tax ın the UK of 26 5% (2010 28%)	**1,791**	23,707
Effects of		
Deductıons not allowable for tax purposes	**1,534**	1,923
Deferred tax movements	**(16,335)**	(9,537)
Change ın tax rate	**1,880**	1,475
Addıtıonal deferred tax on pensıon scheme	**-**	20
Adjustments ın respect of prıor perıods	**(7,866)**	353
Current tax (credıt)/charge for the perıod	**(18,996)**	17,941

6. EMPLOYEES

The servıce contracts for all employees wıthın the UK and Corporate segment of the Group are wıth the Company These employees provıde servıces for all companıes ın the UK and Corporate segment, wıth the cost beıng ıncluded ın the recharge made to the relevant companıes

	2011	2010
(a) The average number of employees (ıncludıng all dırectors) was		
Management servıces	**2,233**	2,507
	£000	**£000**
(b) Gross employment costs (ıncludıng all dırectors) amounted to		
Wages and salarıes	**93,420**	93,686
Socıal securıty costs	**9,730**	8,223
Pensıon costs	**8,869**	17,835
	112,019	119,744

7. SHARE BASED PAYMENTS

Description of the plans operating in 2011

Friends Life Group plc introduced a Long Term Incentive Plan ("LTIP") in 2010 to incentivise key individuals in the business by entitling them to a percentage share in the difference between the value realised on the completion of the UK Life Project and the aggregate cost of the acquisitions

The scheme is a cash-settled share-based payment scheme and the fair value of the awards in issue, being the relevant percentage of the gain expected to arise on completion of the UK Life Project, is measured at each reporting date, with any changes in fair value being recognised in the income statement for the period

The gain expected to arise has been estimated using forecasts and scenario-based modelling of likely outcomes based on varying levels of profitability of the business This is reassessed at each reporting date

The total number of units capable of being awarded is 10,000, and awards are allocated in single units of 1/10,000th of this number The number of awards issued in the period was 2,975 and 1,150 were forfeited (2010 3,525 and 25 respectively) At 31 December 2011 there were 5,325 (2010 3,500) awards in issue and a charge of £1 9 million (2010 £4 8 million) has been recognised in the income statement and a corresponding increase recognised in equity This has been recharged to FLG

8. TANGIBLE FIXED ASSETS

	Motor vehicles	Computer equipment and software	Fixtures, fittings and office equipment	Total
	£000	£000	£000	£000
Cost				
At 1 January 2011	34	49,295	4,981	54,310
Additions	-	2,888	7,430	10,318
Disposals	-	(226)	-	(226)
At 31 December 2011	34	51,957	12,411	64,402
Depreciation				
At 1 January 2011	33	47,369	3,677	51,079
Charge for the year	1	1,618	678	2,297
Disposals	-	(31)	-	(31)
At 31 December 2011	34	48,956	4,355	53,345
Net book value				
At 31 December 2010	1	1,926	1,304	3,231
At 31 December 2011	-	3,001	8,056	11,057

9. DEFERRED TAX

	2011 £000	2010 £000
Opening balance at 1 January	39,843	40,825
Charged in year to the profit and loss account	(14,815)	(982)
Closing balance as at 31 December	25,028	39,843

Details of the deferred tax asset are given below

	2011 £000	2010 £000
Capital allowances in excess of depreciation	25,028	39,843
Deferred tax asset	25,028	39,843

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 17 The deferred tax balance relating to the pension asset is not included in the analysis above

10. OTHER DEBTORS

	2011 £000	2010 £000
Other debtors	10,497	13,913
Corporation tax receivable	3,208	-
	13,705	13,913

11. OTHER CREDITORS

	2011 £000	2010 £000
Corporation tax payable	-	28,035
Other taxation and social security	2,787	973
Other creditors	20,203	3,894
	22,990	32,902

12. PROVISIONS FOR LIABILITIES AND CHARGES

	Other £000	Pension and similar obligations £000	Total £000
At 1 January 2011	5,940	300	6,240
Utilised in the year	(9,370)	(12)	(9,382)
Charge for the year	8,909	-	8,909
At 31 December 2011	5,479	288	5,767

Included in other is a provision for redundancy costs of £2 5 million and a provision for IT outsourcing of £2 8 million The redundancy costs are provided as part of the separation and integration of the businesses purchased from AXA UK plc, Bupa Investments Limited and its parent Bupa Finance plc

13. LOAN FROM GROUP UNDERTAKINGS

	2011 £000	2010 £000
At 31 December	**75,000**	75,000

The Company has loans from FPL FPL may, by giving not less than twelve months notice, require the Company to repay the loans in full The loans bear interest of 1% above the six months' LIBOR, payable in arrears by yearly instalments

14. CALLED-UP SHARE CAPITAL

	2011 £000	2010 £000
Allotted, called-up and fully paid		
100,000 ordinary shares of £1 each	**100**	100

15 RECONCILIATION OF MOVEMENT IN TOTAL SHAREHOLDER'S FUNDS

	Share capital £000	Other reserves £000	Equity Reserve £000	Total shareholder's funds £000
Balance as at 1 January 2011	100	52,910	35,707	88,717
Profit for the financial year	-	3,014	-	3,014
Capital contribution to equity	-	-	1,900	1,900
Actuarial loss recognised in the pension scheme	-	(46,120)	-	(46,120)
Deferred tax arising on pension scheme losses	-	12,865	-	12,865
Balance as at 31 December 2011	100	22,669	37,607	60,376

16. OPERATING LEASES

At 31 December 2011, the Company had the following annual commitments under operating leases

	2011 £000	2010 £000
Land and buildings which expire		
within 1 year	**812**	328
between 1 - 5 years	**1,700**	1,212
after 5 years	**4,414**	5,889

17. 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 Investment Managers for non-insured assets are F&C Management Limited, Walter Scott and Partners Limited and Aberdeen Unit Trust Managers Limited The Scheme's assets 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 2008 From 1 July 2007 the Scheme was closed to new members Existing member contributions were 6% in 2009, 2010 and first quarter of 2011, and 7% from April 2011, for benefits with a pension age of 60, and 2% for benefits with a pension age of 65 The Group increased its contributions from 20% to 25% in 2009 and paid an extra 1% in 2010 and first quarter 2011 for pension age 60 members, as their rate has been held at 6% in 2010 and first quarter 2011 and the increase to 7% delayed 15 months

An updated triennial valuation has been carried out as at 30 September 2011 and the results of this are currently being considered by the Trustee The valuation, once approved, will serve to assist the Trustee and the Group in determining future levels of funding

(a) Principal economic assumptions used by the Scheme Actuary

	2011 %	2010 %
Rate of increase in salaries*	**3.00**	1 50
Rate of increase in pensions in payment	**Relevant RPI inflation swap curve**	Relevant RPI inflation swap curve
Discount rate for active and deferred members	**5.03**	5 60
Discount rate for pensioners	**4.76**	5 42

* Fixed rate of salary increases assumed for three years of 3% (2011) and 1 5% (2010) then salary increases at National Average Earnings (assumed RPI + 1%) plus an allowance for salary scale increases

17. STAFF PENSION SCHEMES (continued)

The 2011 inflation rate assumptions for revaluation of deferred pensions in excess of Guaranteed Minimum Pensions ("GMPs") have been based on the consumer price index as the statutory inflation index In 2010, the basis for determining inflation rate assumptions for deferred pensions in excess of GMPs was amended from the retail price index to the consumer price index resulting in the recognition of a £29 million actuarial gain The inflation rate assumptions for pension payments in excess of GMPs continue to be based on the retail price index under the scheme rules subject to the relevant LPI cap and floor of zero

Mortality assumptions are a proportion of the "SAPS-All" series mortality tables published by the Continuous Mortality Investigation ("CMI"), with proportions varying by sex and by status determined from an analysis of the member's postcodes and annual pension amounts
Proportion of "SAPS-All" likelihood of death in any year -

Male pensioner	83%
Female pensioner	98%
Male non-pensioner	90%
Female non-pensioner	100%

In addition, allowance is made for future improvements in mortality according to each individual's year of birth through the use of the CMI's 2011 projection method, with a long-term trend parameter of 1 5% p a The mortality assumptions used have been updated from those used in 2010 with changes to both the initial mortality rates assumed and the rate at which longevity is expected to improve in the future

The mortality assumptions provide the following average life expectancies of future members, currently aged 45 retiring at the age of 60, and current pensioners aged 70

	2011	**2010**
Expected age at death of future male pensioner	**90**	91
Expected age at death of future female pensioner	**92**	92
Expected age at death of current male pensioner	**89**	88
Expected age at death of current female pensioner	**90**	90

The present value of providing an annuity of £1 per annum for members aged 60, based on the above assumptions, is as follows

Cost of annuities

	2011	**2010**
Male annuity	**25.36**	23 49
Female annuity	**24.72**	22 95

These rates assume a monthly payments model with a discount rate of 5 03% (2010 5 60%) The rates also assume two thirds of the members' benefit will be paid to the spouse on the death of the member A guarantee is provided for pensioners who die within five years of retiring and pensions in excess of the Guaranteed Minimum Pension accrued up to 31 December 2010 will increase in line with the LPI to a maximum 5% and accrued from 1 January 2011 will increase in line with the LPI to a maximum of 2 5%

	2011	**2010**
	% of total	**% of total**
Active members	**10**	12
Deferred members	**63**	62
Pensioners	**27**	26
	100	100

17. STAFF PENSION SCHEMES (continued)

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below

Assumption	Change in Assumption	Impact on scheme liabilities
Inflation	Increase/decrease by 0 5%	Increase/decrease by 8 5%
Salaries	Increase/decrease by 0 5%	Increase/decrease by 0 9%
Pensions	Increase/decrease by 0 5%	Increase/decrease by 7 7%
Discount rate	Increase/decrease by 0 5%	Decrease/increase by 10 7
Rate of mortality	Increase/decrease by 1 year	Increase/decrease by 2 5%

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

	2011 £000	2010 £000
Present value of obligations at 1 January	**1,046,873**	952,753
Interest cost	**57,118**	55,167
Current service cost	**6,647**	12,875
Contributions by plan participants	**439**	575
Actuarial losses	**169,175**	66,912
Benefits paid	**(37,997)**	(44,711)
Augmentation	-	2,316
Curtailments and settlements	**(593)**	(132)
Termination benefits	-	1,118
Present value of obligations at 31 December	**1,241,662**	1,046,873
Analysed		
Wholly unfunded plans	-	-
Wholly or partly funded plans	**1,241,662**	1,046,873

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

	2011 £000	2010 £000
Fair value of plan assets at 1 January	**1,113,628**	1,011,523
Actual return on plan assets	**184,308**	104,832
Employer contributions	**33,620**	41,409
Contributions by plan participants	**439**	575
Benefits paid	**(37,997)**	(44,711)
Fair value of plan assets at 31 December	**1,293,998**	1,113,628

17. STAFF PENSION SCHEMES (continued)

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

	Expected rate of return		Value	
	2011	2010	2011	2010
	%	%	£000	£000
Equities	**5.40**	6 70	**180,135**	192,213
LDI Pools	**5.03**	5 60	**397,734**	284,153
Fixed Interest (LDI In specie)	**5.03**	5 60	**172,657**	148,603
Insurance Contract	**4.76**	5 42	**513,166**	446,654
Cash	**1.90**	3 20	**30,306**	42,005
Total market value of assets			**1,293,998**	1,113,628
Present value of scheme liabilities			**(1,241,662)**	(1,046,873)
Surplus in the scheme			**52,336**	66,755
Related deferred tax			**(13,084)**	(18,024)
Net pension asset			**39,252**	48,731

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

	2011	2010
	£000	£000
Interest cost	**(57,118)**	(55,167)
Expected return on plan assets	**62,592**	60,492
Curtailments	**593**	-
Total amounts recognised in the income statement	**6,067**	5,325
Current service costs	**(6,647)**	(12,538)
Augmentation	-	(2,316)
Curtailment	-	118
Termination benefits	-	(1,117)
Total amounts recharged	**(6,647)**	(10,528)
Actual return on plan assets	**184,308**	104,832

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

	2011	2010
	£000	£000
Actuarial losses recognised in the year	**(46,120)**	(22,571)

17. STAFF PENSION SCHEMES (continued)

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

	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000
Present value of defined benefit obligation	(971,229)	(912,386)	(952,753)	(1,046,873)	**(1,241,662)**
Fair value of plan assets	976,388	1,025,640	1,011,523	1,113,628	**1,293,998**
Surplus	5,159	113,254	58,770	66,755	**52,336**
Difference between the expected and actual return on scheme assets					
Amount	13,849	(16,967)	(66,575)	44,341	**121,716**
Percentage of closing scheme assets	1%	(2)%	(7)%	4%	**9%**
Experience gains and losses on scheme liabilities					
Amount	(23,757)	(17,299)	(4,775)	3,053	**(10,952)**
Percentage of the present value of the scheme liabilities	(2)%	(2)%	(1)%	0 3%	**(1)%**
Total amount recognised in the statement of recognised income and expense					
Amount	32,235	84,651	(78,071)	(22,571)	**(46,120)**
Percentage of the present value of the scheme liabilities	3%	9%	(8)%	(2)%	**(4)%**

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 2011 are losses of £548,744,000

(h) Future funding

Following a previous review of the key employment benefits and after consultation, the Company amended the provision of defined benefits under the FPPS from 1 January 2011 as follows

- the future service accrual rate reduced from one-sixtieth to one-eightieth for each year of pensionable service,
- the inflation limit on increases to pensions in deferment and payment reduced from 5% to the statutory level of 2 5% for future service,
- final pensionable salary is being phased in to become a three year average for all pensionable service (with pensionable salary becoming fixed at 1 April each year) For past service, final pensionable salary will not be less than the rate of pensionable salary at 31 December 2010 and not less than the rate of pensionable salary as at 31 March 2011, and
- member contributions for pension age 60 benefits became 7% from 1 April 2011 and for pension age 65 benefits 2%

17. STAFF PENSION SCHEMES (continued)

The Company has reduced its future service contribution to 15% from October 2011 following the previous review, although this rate is subject to the current triennial review as at 30 September 2011

A Statement of Funding Principles was agreed by the Company and the Trustee in June 2011 That statement provides the principles around assumption setting, in particular, choosing the discount rate, future price inflation, future pension increases, rates of mortality, future pay increases, employee turnover, pension commencement age, and typical partner or dependant information and assumes

- the discounted value of the annuity contract with Aviva Annuity UK Limited ("Aviva")will exactly match the discounted liabilities for pensioners insured under the contract and pensions in payment up to 30 June 2011 have now been reassured by the Trustee to Aviva under a buy-in annuity contract where the premium progressively transfers from the Trustee to Aviva over the duration of the contract,
- the strategic allocation to matched assets will normally be maintained at around 75% of non-insured assets and provide a return equal to the yield available on swaps contracts of a tenor that matches the liability cash flows,
- the strategic allocation to return seeking assets will normally be maintained at around 25% of non-insured assets and provide a return that is 3% in excess of the return on the matched assets, and
- the discounted value of non-insured liabilities will be broadly equal to swaps plus 0 75% in excess of the yields available on swaps contracts of the appropriate tenor

In addition the Trustee has the following objectives for investments, as set out in the Statement of Investment Principles

- to achieve and maintain a minimum funding level of 100% on a long-term ongoing basis, and
- to agree the cost of providing the benefits and consult the Employer on any material changes that may be required to the agreed funding arrangements in light of experience

Amounts paid to FPPS in the past three years and expected future payments over the next three years subject to the triennial review as at 30 September 2011 are as follows

		£m
FPPS (DB) contributions paid	2009	28
	2010	41
	2011	**33**
FPPS (DB) contributions expected to be paid	2012	25
	2013	25
	2014	4

i) Other pension schemes

The Company operates a defined contribution scheme for employees who have joined since 1 July 2007 The amount the Principal Employer contributes depends on the contribution categories for the Heritage businesses Typically the Principal Employer contributes in a range between 7 3% and 13% depending on the employees' contributions and whether it is paid via salary sacrifice Contributions for the year were £3 3 million (2010 £2 8 million)

18. DIRECTORS EMOLUMENTS

The directors of the Company are also directors of the holding company and/or fellow subsidiaries The directors received total remuneration for the year of £2,654,093 all of which was paid by the holding company The directors do not believe that it is practicable to apportion this amount between their services as directors of the Company and their services as directors of the holding and fellow subsidiary companies

At 31 December 2011 four (2010 three) directors were members of the Friends Pension Plan, a defined contribution scheme for staff who joined after 1 July 2007

Highest paid director

The total of salaries, benefits in kind and result-related payments payable to directors includes £537,169 in respect of the highest paid director This is the total of the costs incurred by the Group in respect of the highest paid director due to it being impracticable to isolate the element of total remuneration relating to the Company

19. COMMITMENTS

On 9 November 2011, the Company entered into an agreement with Diligenta Limited ("Diligenta") to outsource the majority of the Group's policy administration and IT operations to Diligenta The contract will provide a fixed price per unit for a significant part of the customer service operations and therefore transfer this element of cost risk out of the Group Under the terms of the agreement, the Company is committed to make payments of approximately £1,400 million to Diligenta until the end of the contract term

The agreement with Diligenta entered into by the Company includes the outsourcing of activities previously carried out by companies within the Group To the extent the Company incurs charges from Diligenta in respect of transferred operations, it will recharge these at cost to other companies within the Group

20. POST BALANCE SHEET EVENTS

During the year legislation was enacted to bring in a phased decrease in the rate of corporation tax to 26% on 1 April 2011 and 25% on 1 April 2012 Under IFRS, deferred tax is calculated using rates substantively enacted by the balance sheet date and as such the reduction to a 25% rate has been taken into account in deferred tax balances

The Chancellor delivered his Budget on 21 March 2012, which announced a further 1% reduction in the rate of corporation tax, effective from 1 April 2012, in addition to the incremental 1% rate reductions previously announced which will take effect on 1 April 2013 and 1 April 2014 The corporation tax rate is therefore expected to be 24% from 1 April 2012, 23% from 1 April 2013 and 22% from 1 April 2014 The reduction in the company's net assets from the further 3% decrease in the rate is estimated to be approximately £1,433 thousand in total and will be recognised when the legislation is substantively enacted

21. RELATED PARTY TRANSACTIONS

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

22. ULTIMATE PARENT UNDERTAKING

The Company's ultimate parent undertaking is Resolution Limited, which is incorporated in Guernsey Copies of the Group Report and Accounts of Resolution Limited can be viewed via its website at www resolution gg

The smallest Group in which the results of the company are consolidated is that headed by Friends Life Group plc Copies of the Group Report and Accounts of Friends Life Group plc can be viewed via its website at www friendslife co uk