

News Release

31 January 2007

Friends Provident reports strong 2006 sales growth

Total life and pensions new business (on a PVNBP¹ basis) for 2006 increased by 31% to £7,074 million (2005: £5,397m). New business in the fourth quarter increased year-on-year by 18% to £2,445 million (2005: £2,071m).

UK life and pensions highlights:

- Total UK new business up 30% to £4,162 million (2005: £3,192m)
- Group pensions up 46% to £2,298 million (2005: £1,577m)
- Protection up 8% to £432 million (2005: £400m)
- Investment up 2% to £687 million (2005: £672m)
- Individual pensions (excluding DWP rebate premiums) up 74% to £336 million (2005: £193m)

International life and pensions highlights:

- Total international new business up 32% to £2,912 million (2005: £2,205m)
- Lombard up 40% to £2,089 million (2005: £1,497m)
- Friends Provident International (FPI) up 16% to £823 million (2005: £708m)

Ben Gunn, chief executive of Friends Provident Life and Pensions, said:

“We have made significant progress in 2006 and performed very well in many of our key markets.

“The UK result was underpinned by the 46% increase in group pensions sales, a superb result arising from the combination of our established reputation for service and developments in the pensions market. We also continued to attract new distribution partners. Sales in both of our International businesses were up on 2005, particularly Lombard which experienced exceptional sales growth. FPI saw record sales in the first half with slower business in the second, reflecting trends in its key markets.

Friends Provident plc

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FRIENDS PROVIDENT

"These results reflect ongoing commitment to our service-led strategy across our UK and International operations. This has enabled us to raise the bar in 2006 and post strong comparatives for 2007. This sales growth positions us well towards achieving our 2008 new business profit target in the UK. We also see good prospects for further growth in our International operations."

- Ends -

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Notes to Editors:

1. New business is reported on the Present Value of New Business Premiums (PVNBP) basis, which represents new single premiums plus the expected present value of new business regular premiums. A table detailing sales on an Annualised Premium Equivalent (APE) basis (annualised new regular premiums plus 10% of single premiums) is at the back of this announcement.
2. Financial reporting dates

F&C Asset Management plc Quarter 4 Funds Under Management	31 January 2007
F&C Asset Management plc Preliminary Results and strategy presentation for analysts	15 March 2007
Friends Provident plc Group Preliminary Results	20 March 2007
F&C Asset Management plc Quarter 1 Funds Under Management	27 April 2007
Friends Provident Life & Pensions Quarter 1 New Business Announcement	27 April 2007
Friends Provident plc Annual General Meeting	24 May 2007
3. Certain statements contained in this announcement constitute 'forward-looking statements'. Such forward-looking statements involve risks, uncertainties and other factors, which may cause the actual results, performance or achievements, from time to time, of Friends Provident plc, its subsidiaries and subsidiary undertakings or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and other factors include, among others, adverse changes to laws or regulations; risks in respect of taxation; unforeseen liabilities from product reviews; asset shortfalls against product liabilities; changes in the general economic environment; levels and trends in mortality, morbidity and persistency; restrictions on access to product distribution channels; increased competition; and the ability to attract and retain personnel. These forward-looking statements are made only as at the date of this announcement and, save where required in order to comply with the Listing Rules, there is no obligation on Friends Provident plc to update such forward-looking statements.

Commentary and tables

UK life and pensions

New UK life and pensions business increased by 30% to £4,162m (2005: £3,192m).

Life business

New protection business increased by 8% to £432 million for the year (2005: £400m), and by 7% to £110 million for the fourth quarter (2005: £103m). Competition in this market remains strong. In the first half of the year we adjusted our pricing position to grow our share of the market, and in the second half we have continued to actively manage pricing to maintain position and profitability. Alongside other providers, we withdrew our pensions term assurance product following the Pre-Budget Report in December, which we expect will only slightly affect future business. Our distribution arrangements with a range of intermediaries have made an increased contribution to new business. We will continue to explore distribution opportunities. In 2007 we also intend to continue growing our share of the group protection market, which accounted for around 10% of our protection sales in 2006. Individual protection market growth will be largely determined by housing market developments and we expect to grow our market share gradually during 2007.

New investment business was up by 2% to £687 million (2005: £672m) with fourth quarter sales down 18% at £155 million (2005: £190m). Sales came under significant pressure in the latter part of the year due to aggressive competitor activity in the form of promotions and structured products. Late in the fourth quarter we began to update our offering by launching more competitive new products including a protected bond and new funds such as external ethical funds. We will also launch a Guaranteed Bond in the first quarter of 2007. Comparatives in the first quarter will be strong and we see this market remaining competitive. We expect these initiatives to contribute as 2007 progresses. In the longer term, the development of Wraps will be important to growth in this market and we are on track to launch our Wrap platform in late 2007.

Pensions business

Group pensions sales were up 46% for the year at £2,298 million (2005: £1,577m). This result was driven by our continued reputation for excellent service, reliability and product flexibility. Our pricing has become increasingly sophisticated, so we are able to identify and price the most attractive, lower risk schemes competitively to grow volume without compromising profitability. Fourth quarter sales were up 44% to £665 million (2005: £462m) reflecting the seasonal pattern in this market of strong sales in the second and fourth quarters, and the ongoing heightened activity levels in the market after pensions A-Day. First half 2007 will not benefit from last year's A-Day spike, but there is an underlying growth trend as more retirement provision moves to defined contribution arrangements. Over time, incremental business from existing schemes is expected to reduce the effect of scheme wins in our new business result, making new business figures less volatile.

New individual pensions business (excluding DWP rebate premiums) was up 74% to £336 million (2005: £193m). Distributors continued to increase take-up of the product range, which was relaunched in the first half of 2005. Over 75% of our sales are in the market for single premiums, which we believe is more profitable than that for regular premiums, where commission pressure has eroded margins to a greater extent. The outlook is for steady growth, below the level seen in 2006.

DWP rebate premiums were up by 43% to £154 million (2005: £108m) for the year as a whole, reflecting delay in receipt of some 2005 premiums. We expect a steady decline through to 2012, when the Government has indicated new rebate payments will cease.

New annuity business was up by 5% at £255 million (2005: £242m). Current market pricing levels are not attractive enough for us to seek an increase in our share of this market, but we will continue to keep the balance of risk and reward under active review.

International life and pensions

New international life and pensions business increased 32% to £2,912 million (2005: £2,205m).

Friends Provident International (FPI)

FPI sales were up 16% at £823 million (2005: £708m) for the full year. Fourth quarter sales were down by 16% on a strong 2005 comparative which included the effect of a special offer on savings plans. On a constant currency basis full year FPI sales were up 17% and fourth quarter sales down by 12%, as exchange rate movements late in the year affected sales in Asia. Available market data for our most significant market in Hong Kong, shows particularly strong sales in the second quarter followed by a sharp downward readjustment in the third quarter. The pattern of FPI sales through the year reflects this market pattern, with record sales in the first half followed by reduced business in the second half. Recovery in the UK offshore product market following unexpected changes to trust and tax rules in mid-year was also slower than expected.

The comparatives from 2006 for the first half of 2007 will be very strong and it is likely that 2007 sales will be slower for that period. However, the prospects for medium term growth remain very good. A number of enhancements to our core propositions are planned for the first half of 2007. In new markets, pensions products launched in Germany are progressing well and 2007 sales will build on the starting point established in 2006. Developments in Singapore have taken longer than anticipated but we expect the authorities to approve our first product licence in early 2007.

Lombard International (Lombard)

Lombard increased sales by 40% to £2,089 million (2005: £1,497m) and funds under management now exceed €11 billion (2005: €8 billion). Italy continued its strong performance of earlier in the year, as predicted tax changes following the change of Government were confirmed. UK new business doubled on the back of strong, stable investment markets, and more focus on distribution to higher net worth individuals. A significant amount of large case business came from Latin America, primarily Mexico, though the outlook in this territory is uncertain.

2006 was characterised by an increased proportion of large cases (which generally generate lower profits relative to premium size), and very large cases where this effect is more marked. In addition, the balance of sales between higher and lower margin territories shifted somewhat towards lower margin countries compared to previous reporting periods.

There were a number of significant adverse tax changes announced in the latter part of 2006. These included a legal change in Mexico which has significantly reduced the attractiveness of foreign life policies. Lombard is well equipped to deal with changes of this type. However we expect there to be a short term impact during 2007 leading to slower growth in that year. Growth prospects remain positive over the medium term as a result of continued penetration in European markets and the opening of our Swiss branch.

The final earn-out payment is expected to be in excess of that paid in each of the last two years (€90m and €85m) but is likely to be less than the maximum possible payment of €160m (a total payment of less than €600m, including the initial consideration of €265m).

About Friends Provident

Friends Provident plc is the holding company of the Friends Provident Group of companies and a member of the FTSE 100. With more than 2.5 million customers the Group employs nearly 5,000 staff in its three core businesses: UK Life & Pensions, International Life & Pensions and Asset Management.

The business was founded in 1832 on Quaker principles and aimed to alleviate the hardship of families facing misfortune. Friends Provident has embraced corporate governance and achieving high standards of corporate behaviour and accountability to both stakeholders and customers is at the heart of our business. In 2001 the company established the grant-making charity The Friends Provident Foundation with the aim to encourage new ways of thinking about how money can be used to solve a wide range of problems.

For more information on Friends Provident including, photos, awards, fast facts, presentations, and media contacts please visit the media section at www.friendsprovident.com/media.

Friends Provident New Life and Pensions Business

12 months to 31 December 2006 vs 12 months to 31 December 2005

	12 months 2006			12 months 2005			% Change		
	Regular Prens £m	Single Prens £m	PVNBP £m	Regular Prens £m	Single Prens £m	PVNBP £m	Regular Prens %	Single Prens %	PVNBP %
UK Operations									
Life									
Protection	72.0	0.0	432	65.8	0.1	400	9	(100)	8
Investment	1.6	676.8	687	1.8	660.3	672	(11)	2	2
	73.6	676.8	1,119	67.6	660.4	1,072	9	2	4
Pensions									
Individual Pensions	16.9	263.1	336	11.6	141.7	193	46	86	74
DWP Rebates	0.0	154.3	154	0.0	107.7	108	-	43	43
Group Pensions	354.8	737.4	2,298	235.0	474.9	1,577	51	55	46
Annuities	0.0	254.7	255	0.0	241.5	242	-	5	5
	371.7	1,409.5	3,043	246.6	965.8	2,120	51	46	44
UK Life and Pensions	445.3	2,086.3	4,162	314.2	1,626.2	3,192	42	28	30
International Operations									
Lombard	0.0	2,089.0	2,089	0.0	1,497.3	1,497	-	40	40
Friends Provident International	71.1	456.2	823	61.4	386.5	708	16	18	16
Total International Life and Pensions	71.1	2,545.2	2,912	61.4	1,883.8	2,205	16	35	32
Total Group Life and Pensions	516.4	4,631.5	7,074	375.6	3,510.0	5,397	37	32	31

Effect of currency movements

All amounts in currency other than sterling are translated into sterling at a monthly average exchange rate. The estimated new business assuming constant currency rates would be as follows:

	2006	2005	Change
	£m	(as reported) £m	%
Lombard	2,132	1,497	42
Friends Provident International	826	708	17
Total International Life and Pensions	2,977	2,205	35

Friends Provident New Life and Pensions Business

3 months to 31 December 2006 vs 3 months to 31 December 2005

	Q4 2006			Q4 2005			% Change		
	Regular Prens £m	Single Prens £m	PVNBP £m	Regular Prens £m	Single Prens £m	PVNBP £m	Regular Prens %	Single Prens %	PVNBP %
UK Operations									
Life									
Protection	18.1	0.0	110	16.0	0.0	103	13	-	7
Investment	0.4	153.4	155	0.3	187.7	190	33	(18)	(18)
	18.5	153.4	265	16.3	187.7	293	13	(18)	(10)
Pensions									
Individual Pensions	5.7	84.4	106	2.6	43.4	53	119	94	100
DWP Rebates	0.0	19.0	19	0.0	64.1	64	-	(70)	(70)
Group Pensions	87.4	281.5	665	70.6	169.8	462	24	66	44
Annuities	0.0	67.7	68	0.0	46.2	46	-	47	48
	93.1	452.6	858	73.2	323.5	625	27	40	37
UK Life and Pensions	111.6	606.0	1,123	89.5	511.2	918	25	19	22
International Operations									
Lombard	0.0	1,134.0	1,134	0.0	927.9	928	-	22	22
Friends Provident International	17.3	83.7	188	20.6	117.2	225	(16)	(29)	(16)
Total International Life and Pensions	17.3	1,217.7	1,322	20.6	1,045.1	1,153	(16)	17	15
Total Group Life and Pensions	128.9	1,823.7	2,445	110.1	1,556.3	2,071	17	17	18

Effect of currency movements

All amounts in currency other than sterling are translated into sterling at a monthly average exchange rate. The estimated new business assuming constant currency rates would be as follows:

	Q4 2006	Q4 2005	Change
	£m	(as reported) £m	%
Lombard	1,179	928	27
Friends Provident International	197	225	(12)
Total International Life and Pensions	1,376	1,153	19

PVNBP by operations

12 months to 31 December 2006 vs 12 months to 31 December 2005

	12 months 2006		12 months 2005	
	£m	%	£m	%
UK	4,162	58.8	3,192	59.1
Lombard	2,089	29.6	1,497	27.7
Friends Provident	823	11.6	708	13.1
International				
International	2,912	41.2	2,205	40.9

3 months to 31 December 2006 vs 3 months to 31 December 2005

	Q4 2006		Q4 2005	
	£m	%	£m	%
UK	1,123	45.9	918	44.3
Lombard	1,134	46.4	928	44.8
Friends Provident	188	7.7	225	10.9
International				
International	1,322	54.1	1,153	55.7

PVNBP equals new single premiums plus the expected present value of new regular premiums.

Premium values are calculated on a consistent basis with the EEV contribution to profits from new business. Start of period assumptions are used for the economic basis and end of period assumptions are used for the operating basis. A risk free rate is used to discount expected premiums in future years. The impact of operating assumption changes across a whole reporting period will normally be reflected in the PVNBP figures for the final quarter of the period that the basis changes relate to. No change in operating assumptions will be reflected in the PVNBP for the first and third quarters, when the contribution to profits from new business is not published. All amounts in currency other than sterling are translated into sterling at a monthly average exchange rate.

In classifying new business premiums the following basis of recognition is adopted:

- Single new business premiums consist of those contracts under which there is no expectation of continuing premiums being paid at regular intervals;
- Regular new business premiums consist of those contracts under which there is an expectation of continuing premiums being paid at regular intervals, including repeated or recurrent single premiums where the level of premiums is defined, or where a regular pattern in the receipt of premiums has been established;
- Non-contractual increments under existing group pensions schemes are classified as new business premiums;
- Transfers between products where open market options are available are included as new business; and
- Regular new business premiums are included on an annualised basis.

Analysis of APE

12 months to 31 December 2006 vs 12 months to 31 December 2005

	APE 2006 £m	APE 2005 £m	% change %
UK Operations			
Life			
Protection	72.0	65.8	9
Investment	69.3	67.8	2
	141.3	133.6	6
Pensions			
Individual Pensions	43.2	25.8	67
DWP Rebates	15.4	10.8	43
Group Pensions	428.5	282.5	52
Annuities	25.5	24.1	6
	512.6	343.2	49
UK Life and Pensions	653.9	476.8	37
International Operations			
Lombard	208.9	149.7	40
Friends Provident International	116.7	100.1	17
Total International Life and Pensions	325.6	249.8	30
Total Group Life and Pensions	979.5	726.6	35

3 months to 31 December 2006 vs 3 months to 31 December 2005

	Q4		
	APE 2006 £m	APE 2005 £m	% change %
UK Operations			
Life			
Protection	18.1	16.0	13
Investment	15.8	19.1	(17)
	33.9	35.1	(3)
Pensions			
Individual Pensions	14.1	6.9	104
DWP Rebates	1.9	6.4	(70)
Group Pensions	115.5	88.0	31
Annuities	6.8	4.6	48
	138.3	105.9	31
UK Life and Pensions	172.2	141.0	22
International Operations			
Lombard	113.4	92.8	22
Friends Provident International	25.6	32.3	(21)
Total International Life and Pensions	139.0	125.1	11
Total Group Life and Pensions	311.2	266.1	17

Annualised Premium Equivalent (APE) represents annualised new regular premiums plus 10% of single premiums.