

News Release

31 January 2008

Friends Provident 2007 trading update

Total life and pensions new business (on a PVNBP¹ basis) for 2007 increased by 8% to £7,662 million (2006: £7,074m). The 2007 figure was reduced by persistency assumption changes, discussed in today's announcement of strategic review results, with a net negative impact of £75 million.

UK life and pensions highlights:

- Total UK new business up 7% to £4,442 million (2006: £4,162m)
- Group pensions up 14% to £2,611 million (2006: £2,298m)
- Protection down 4% to £413 million (2006: £432m)
- Investment down 27% to £501 million (2006: £687m)
- Individual pensions (excluding DWP rebate premiums) up 50% to £504 million (2006: £336m)

International life and pensions highlights:

- Total international new business up 11% to £3,220 million (2006: £2,912m)
- Lombard down 5% to £1,985 million (2006: £2,089m)
- Friends Provident International (FPI) up 50% to £1,235 million (2006: £823m)

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

"The fourth quarter saw mixed results across our Life and Pensions operations.

In the UK there were headwinds in the key protection market reflecting an uncertain housing market, but our leading group pensions business continued to drive an increase in sales for the year.

Friends Provident plc

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FPI continued its excellent momentum with full year sales up by nearly half on last year, driven by success of savings products in Asia. Lombard sales were slower than expected in the key fourth quarter as fewer large cases from the pipeline were completed, so the overall result was lower year-on-year."

- 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 2008
F&C Asset Management plc Preliminary Results	6 March 2008
Friends Provident plc Group Preliminary Results	11 March 2008
F&C Asset Management plc Quarter 1 Funds Under Management	25 April 2008
Friends Provident plc Interim Management Statement and Quarter 1 New Business Announcement	29 April 2008
F&C Asset Management plc Annual General Meeting	13 May 2008
Friends Provident plc Annual General Meeting	22 May 2008
F&C Asset Management plc Interim Results (provisional)	6 August 2008
Friends Provident plc Group Interim Results	7 August 2008
Friends Provident plc Interim Management Statement and Quarter 3 New Business Announcement	31 October 2008
F&C Asset Management plc Quarter 3 Funds Under Management	31 October 2008
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.

Dealing Disclosure Requirements

Under the provisions of Rule 8.3 of the Takeover Code (the 'Code'), if any person is, or becomes, 'interested' (directly or indirectly) in 1% or more of any class of 'relevant securities' of Friends Provident, all 'dealings' in any 'relevant securities' of that company (including by means of an option in respect of, or a derivative referenced to, any such 'relevant securities') must be publicly disclosed by no later than 3.30pm (London time) on the London business day following the date of the relevant transaction.

This requirement will continue until the date on which the offer becomes, or is declared, unconditional as to acceptances, lapses or is otherwise withdrawn or on which the 'offer period' otherwise ends. If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire an 'interest' in 'relevant securities' of Friends Provident, they will be deemed to be a single person for the purpose of Rule 8.3.

Under the provisions of Rule 8.1 of the Code, all 'dealings' in 'relevant securities' of Friends Provident by an offeror or Friends Provident, or by any of their respective 'associates', must be disclosed by no later than 12.00 noon (London time) on the London business day following the date of the relevant transaction.

A disclosure table, giving details of the companies in whose 'relevant securities' 'dealings' should be disclosed, and the number of such securities in issue, can be found on the Takeover Panel's website at www.thetakeoverpanel.org.uk.

'Interests in securities' arise, in summary, when a person has long economic exposure, whether conditional or absolute, to changes in the price of securities. In particular, a person will be treated as having an 'interest' by virtue of the ownership or control of securities, or by virtue of any option in respect of, or derivative referenced to, securities.

Terms in quotation marks are defined in the Code, which can also be found on the Panel's website. If you are in any doubts as to whether or not you are required to disclose a 'dealing' under Rule 8, you should consult the Panel.

About Friends Provident:

Friends Provident Life and Pensions Limited is part of the Friends Provident Group of companies. The holding company Friends Provident plc is a member of the FTSE 100. Now in its 176th year, the business was founded 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.friends Provident.com/media

Commentary and tables

UK life and pensions

New UK life and pensions business increased by 7% to £4,442m (2006: £4,162m). The impact of persistency changes is £87 million, consisting of a £99 million decrease in group pensions and a £12 million increase in protection.

Life business

New protection business decreased by 4% to £413 million for the year (2006: £432m). The slowing market for mortgage-related products has affected sales, with a 17% reduction on a like-for-like basis between the third and fourth quarters. We expect to have lost market share in critical illness products (32% of 2007 sales) but maintained our share in life business (38%), the remainder of our sales being income protection business. Through the year, our pricing strategy has been to identify and target less competitive price points in the market.

New investment business was down by 27% to £501 million (2006: £687m) with fourth quarter sales down 35% at £100 million (2006: £155m). The market for insurance bonds was impacted in the latter part of the year by uncertainty surrounding proposals for capital gains tax changes. We believe we have also lost ground to competitors who are established in the guaranteed product market. Our focus has been to develop and launch new products to address the poor persistency of our existing insurance bond products. To this end the existing investment product was withdrawn in October and the newer products have not achieved comparable sales. We expect the overall 2007 margin to be close to zero, with the profitable, recently-introduced products not yet contributing significantly.

Pensions business

Group pensions sales were up 14% for the year. Before the impact of higher lapse assumptions, which will also reduce margins in this product, sales were up 18%. We remain one of the leaders in this market. The main development in the final quarter was implementation of a SIPP option for Group schemes. This feature is required to compete effectively for many better quality schemes, so the aim of the development is to protect our position in the market rather than drive growth in new business volumes. As a result of uncertainty surrounding our strategic review, some advisor panels put Friends Provident on hold in the last quarter of the year. Due to the lead-time to complete the sales process for new schemes, this has not affected 2007 sales but will have an effect in 2008.

New individual pensions business (excluding DWP rebate premiums) was up 50% to £504 million (2006: £336m). The product has now reached a steady level of market penetration among intermediaries and quarterly sales growth has moderated, with the fourth quarter up 10% year-on-year and down 11% on the third quarter. DWP rebate premiums were down by 9% to £140 million (2006: £154m), in line with the expected direction of travel.

New annuity business was up by 7% at £273 million (2006: £255m). We have maintained a consistent approach to this business, reflecting risk in the pricing of products. In 2007 business was weighted more to the start of the year than would usually be expected. We expect the 2007 margin to be down on the first half level, which was supported by interest rate movements.

International life and pensions

New international life and pensions business increased 11% to £3,220 million (2006: £2,912m). The FPI result includes a £14 million increase due to adjusted persistency assumptions.

Friends Provident International (FPI)

PVNBP by region	2007	2006
	£m	£m
Asia	593	350
UK	184	143
Middle East	116	71
Europe (excluding UK)	214	168
Rest of World	128	91
Total FPI	1,235	823

FPI sales were up 50% for the full year and 91% year-on-year in the final quarter. Increased regular premium savings business in Asia and the Middle East is the key driver of this result, supported by pensions in Germany.

The Hong Kong market for offshore products has remained very active through the year. As a result of our focus on promoting and refining the key savings product, FPI increased Hong Kong market share measured against its peer group. Our understanding of intermediaries and customers in this market means we believe this position is sustainable. Our new Singapore office will transact more business in 2008, but from a very low base in 2007.

FPI's UK insurance bond sales have been impacted in the latter part of the year by uncertainty surrounding capital gains tax, and this may impact UK sales in 2008, which tend in any event to be at a lower margin than other territories.

We have continued to develop our product range in the Middle East but further development will be needed to capitalise fully on the UAE licence granted in 2007.

2007 was our first full year in the German pensions market, with FPI products and electronic new business capabilities, based on the UK platform, gaining positive market feedback. £46 million of FPI sales in 2007 were from this source and we are well positioned in this market.

Lombard International (Lombard)

PVNBP by region	2007	2006
	£m	£m
UK and Nordic	284	320
Northern Europe	583	576
Southern Europe	974	731
Rest of World	144	462
Total including large cases	1,985	2,089
Of which: Large cases (greater than €10m)	(784)	(908)
Total excluding large cases	1,201	1,181

Lombard full year sales were 5% down on 2006, with final quarter sales 38% lower than in 2006. Some £0.3 billion of 2006 sales (mainly large cases of greater than €10 million) were in the Mexican market, where the outcome of tax changes announced late in 2006 was to close the opportunity. Southern European territories have performed strongly. UK sales were lower, mainly due to an especially strong 2006 result, and in part reflecting uncertainty caused by potential changes to tax rules. Lombard continues to write niche, value-added business in this territory.

Sales in the nine months to September 2007 were running well ahead of the 2006 comparative due to the timing of a number of large cases in the third quarter. However the value of large cases written in the final quarter was significantly lower than in 2006 at £169 million (2006: £578m), and as a result across the full year 40% of sales consisted of large cases (2006: 44%). Results in any period will continue to be subject to variation from timing of large cases.

Lombard has increased sales at a compound annual growth rate of 15% across the last three years. Lombard's revenues are derived mainly from fees charged on funds under management. Funds under management at the end of 2007 were €13.7 billion, an increase of 19%. Over the past 3 years funds under management have grown at a compound annual rate of 32%. We believe that Lombard has very strong prospects from both existing markets and planned developments, including the ongoing development of Swiss private banking relationships.

Friends Provident New Life and Pensions Business

12 months to 31 December 2007 vs 12 months to 31 December 2006

	12 months 2007			12 months 2006			% 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	68.3	0.0	413	72.0	0.0	432	-5	n/a	-4
Investment	1.4	493.1	501	1.6	676.8	687	-13	-27	-27
	69.7	493.1	914	73.6	676.8	1,119	-5	-27	-18
Pensions									
Individual Pensions	25.6	392.3	504	16.9	263.1	336	51	49	50
DWP Rebates	0.0	140.0	140	0.0	154.3	154	n/a	-9	-9
Group Pensions	447.2	784.8	2,611	354.8	737.4	2,298	26	6	14
Annuities	0.0	273.1	273	0.0	254.7	255	n/a	7	7
	472.8	1,590.2	3,528	371.7	1,409.5	3,043	27	13	16
UK Life and Pensions	542.5	2,083.3	4,442	445.3	2,086.3	4,162	22	0	7
International Operations									
Lombard	0.0	1,985.3	1,985	0.0	2,089.0	2,089	n/a	-5	-5
Friends Provident International	131.1	551.3	1,235	71.1	456.2	823	84	21	50
Total International Life and Pensions	131.1	2,536.6	3,220	71.1	2,545.2	2,912	84	0	11
Total Group Life and Pensions	673.6	4,619.9	7,662	516.4	4,631.5	7,074	30	0	8

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:

	2007	2006 (as reported)	Change
	£m	£m	%
Lombard	1,947	2,089	-7
Friends Provident International	1,288	823	57
Total International Life and Pensions	3,235	2,912	11

Friends Provident New Life and Pensions Business

3 months to 31 December 2007 vs 3 months to 31 December 2006

	Q4 2007			Q4 2006			% Change		
	Regular Premiums £m	Single Premiums £m	PVNBP £m	Regular Premiums £m	Single Premiums £m	PVNBP £m	Regular Premiums %	Single Premiums %	PVNBP %
UK Operations									
Life									
Protection	15.3	0.0	102	18.1	0.0	110	-15	n/a	-7
Investment	0.4	98.0	100	0.4	153.4	155	0	-36	-35
	15.7	98.0	202	18.5	153.4	265	-15	-36	-24
Pensions									
Individual Pensions	6.7	90.8	117	5.7	84.4	106	18	8	10
DWP Rebates	0.0	13.2	13	0.0	19.0	19	n/a	-31	-32
Group Pensions	124.4	188.3	623	87.4	281.5	665	42	-33	-6
Annuities	0.0	63.1	63	0.0	67.7	68	n/a	-7	-7
	131.1	355.4	816	93.1	452.6	858	41	-21	-5
UK Life and Pensions	146.8	453.4	1,018	111.6	606.0	1,123	32	-25	-9
International Operations									
Lombard	0.0	702.3	702	0.0	1,134.0	1,134	n/a	-38	-38
Friends Provident International	43.3	127.6	360	17.3	83.7	188	150	52	91
Total International Life and Pensions	43.3	829.9	1,062	17.3	1,217.7	1,322	150	-32	-20
Total Group Life and Pensions	190.1	1,283.3	2,080	128.9	1,823.7	2,445	47	-30	-15

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 2007	Q4 2006 (as reported)	Change
	£m	£m	%
Lombard	663	1,134	-42
Friends Provident International	370	188	97
Total International Life and Pensions	1,033	1,322	-22

PVNBP by operations

12 months to 31 December 2007 vs 12 months to 31 December 2006

	12 months 2007		12 months 2006	
	£m	%	£m	%
UK	4,442	58	4,162	59
Lombard	1,985	26	2,089	29
Friends Provident International	1,235	16	823	12
International	3,220	42	2,912	41

3 months to 31 December 2007 vs 3 months to 31 December 2006

	Q4 2007		Q4 2006	
	£m	%	£m	%
UK	1,018	49	1,123	46
Lombard	702	34	1,134	46
Friends Provident International	360	17	188	8
International	1,062	51	1,322	54

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 2007 vs 12 months to 31 December 2006

	2007 £m	2006 £m	change %
UK Operations			
Life			
Protection	68.3	72.0	-5
Investment	50.7	69.3	-27
	119.0	141.3	-16
Pensions			
Individual Pensions	64.8	43.2	50
DWP Rebates	14.0	15.4	-9
Group Pensions	525.7	428.5	23
Annuities	27.3	25.5	7
	631.8	512.6	23
UK Life and Pensions	750.8	653.9	15
International Operations			
Lombard	198.5	208.9	-5
Friends Provident International	186.2	116.7	60
Total International Life and Pensions	384.7	325.6	18
Total Group Life and Pensions	1,135.5	979.5	16

3 months to 31 December 2007 vs 3 months to 31 December 2006

	Q4 2007 £m	Q4 2006 £m	change %
UK Operations			
Life			
Protection	15.3	18.1	-15
Investment	10.2	15.8	-36
	25.5	33.9	-25
Pensions			
Individual Pensions	15.8	14.1	12
DWP Rebates	1.3	1.9	-32
Group Pensions	143.2	115.5	24
Annuities	6.3	6.8	-7
	166.6	138.3	20
UK Life and Pensions	192.1	172.2	12
International Operations			
Lombard	70.2	113.4	-38
Friends Provident International	56.1	25.6	119
Total International Life and Pensions	126.3	139.0	-9
Total Group Life and Pensions	318.4	311.2	2

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