Friends Provident plc

Annual Report & Accounts 2007

SUMMARY

FRIENDS PROVIDENT

Executive Chairman's Statement

> "The company is refocused, with the prospect of becoming self-financing, and capable of funding further investment, particularly in profitable international territories."

A year of two halves...

2007 started with a good deal of promise. The economic environment was on an improving trend, enabling us to remove the last remaining market value reductions for our customers with unitised with-profits investments. Over the first half of the year, we extended the Group's international reach by launching our first product into the Singaporean market, and built on our recently-established foothold in the German pensions market. In the UK we were attracting record levels of new pensions business, consolidating our position as a leading provider.

We were also delighted to have secured the acquisition of two successful and profitable intermediary businesses – the Sesame Group and Pantheon Financial – representing sound financial investments as well as bringing us closer to the needs and aspirations of customers and professional financial advisers in their respective markets.

In contrast, the second half of the year could not have been more different, becoming extremely challenging for global economies in general, for financial services as a whole and for the ongoing advance of the Friends Provident Group.

In the UK, the sight of thousands of customers queuing to withdraw their savings from Northern Rock remains an enduring image of the year, epitomising the fallout from the sub-prime mortgage lending worries that surfaced in the US and reverberated around the globe. Although its impact helped to drag down stock values generally, financial services were hit the hardest. It is disappointing to report a 25% decline in the value of our shares over the year – the first annual decline since the stock market crash of 2001.

Further disappointments were the termination of our merger agreement with Resolution plc and the subsequent standing down of our Group Chief Executive, Philip Moore. This merger was absolutely the right strategy for our Board to pursue and would have created significant long-term value for customers and shareholders alike. The prospective merits of the merger were validated by the subsequent bidding battle for control of Resolution.

Strategic review

The failed merger heightened media and market speculation regarding the Friends Provident Group's future and, to restore certainty, we announced in November our undertaking of a strategic review with the aim of maximising value for shareholders. This 'root and branch' review embraced every aspect of our business and, as a result, the Board concluded that a significant change in strategic direction was the right way to create value in the Group.

We announced the new strategy at the end of January this year, together with an indication of the significant fall in profits expected for 2007, and both of these are explained in detail over the following pages.

The strategic review was necessary, albeit painful. The outcome, however, repositions Friends Provident very positively, such that we can have confidence in its future. It has enabled us to put in place a long term, sustainable, capital structure and dividend policy, supporting the Group's further growth. Not only will we be restructuring the company to reflect better its new shape and focus, but also we will rebuild our structure of financial controls to ensure future management decisions can be taken with confidence. The company is refocused, with the prospect of becoming self-financing, and capable of funding further investment, particularly in profitable international territories. We now have a strategy that, we believe, will achieve our aim of maximising value for our shareholders, and we are determined to deliver against this new strategy as swiftly as we can, recognising its urgency.

The current structure of the Friends Provident Group includes ownership of three businesses that now fit less comfortably within our new strategy. They are F&C Asset Management, in which we hold a 52% controlling stake, Lombard, based in Luxembourg, and the more-recently acquired adviser firm, Pantheon Financial. All three are very good businesses. We are actively engaged with their respective management teams to establish strategies that maximise value for our shareholders while minimising disruption to these businesses.

Dividend

Your Board is recommending a final dividend for 2007 of 5.30 pence per share, which would bring the total 2007 dividend to 8.00 pence per share, a 2% increase over 2006.

Since our stock market listing in 2001, we have increased the dividend to shareholders by around 2% each year, which is less than inflation and therefore does not represent real growth. After payment of the final dividend for 2007, we will reduce the overall cost of the dividend to a level that reflects the dividend paying capacity of the Life & Pensions business and adopt a policy of growing the dividend in line with operating cashflow in future. The Board believes that this offers the prospect of dividend growth in real terms in the years to come.

Board changes

A number of changes to the Board were addressed in our 2006 Report & Accounts. The two subsequent changes were the appointment of Gerhard Roggemann as an independent director in June 2007, and the change of my own role to Executive Chairman until our new Group Chief Executive, Trevor Matthews, joins us, which is likely to be July this year.

Alison Carnwath will be leaving the Board at the conclusion of the 2008 Annual General Meeting.

Alison has served on the Board since December 2002 and, notwithstanding her relocation to New York following her appointment as the Chairman of MF Global in July 2007, has continued to play a most effective part in the Board's proceedings. She will be much missed.

Jim Smart, our Chief Financial Officer, has notified the Board of his intention to leave the company after our interim results in August 2008. Jim had been expected to leave under the terms of our proposed merger with Resolution plc last year but, following the termination of that merger agreement, he agreed to remain with Friends Provident to help me lead our strategic review. The Board is enormously grateful to Jim for his huge contribution to this review and for his ongoing commitment to help move this programme of change even further forward over the coming months.

I want to pay tribute to those directors who have left us and joined us over the past year, for their significant contribution and commitment, and to thank all my Board colleagues for their ongoing support as we navigate the Group through this challenging period.

We are also delighted to have recruited Trevor Matthews to lead us forward from here. Trevor is a natural leader with a profound understanding of the insurance business, both internationally and in the UK. His track record is outstanding, and his decision to join us is, in itself, an important expression of confidence in the business and its new strategic direction.

All those who work for the Group have been tremendous, more than meeting the many challenges throughout 2007 and maintaining the excellent service levels that have become the hallmark of Friends Provident. I thank them all. It is a sincere regret that a consequence of our strategic review is that there will be in the region of 600 fewer people employed by Friends Provident over the next two years, and we will do all we practically can to help and support those who are affected.

Finally, our Annual General Meeting is on 22 May 2008 and I look forward to welcoming all of you who are able to attend. In any event, may I encourage you all to vote, online or by post, on the resolutions being put forward at that important meeting.

Sir Adrian Montague, Executive Chairman

Financial Key Performance Indicators summary

As part of the strategic review, a new range of financial metrics has been introduced to measure future performance. These measures focus on the Company's financial priorities – these are profitability, cash generation, dividend paying capacity, shareholder value and financial strength.

	2007	2006
IFRS underlying loss/profit before tax	-£46m	£400m
Shareholder cash generation	£177m	£340m
Contribution from new business	£206m	£204m
Internal rate of return on new business	14.4%	12.7%
Cash payback on new business	9 years	9 years
EEV underlying profit before tax	£16m	£509m
Pro forma embedded value	£3,725m	£3,660m
Group solvency excess capital resources	£1.3bn*	£1.0bn
Dividend per share	8.00p	7.85p
IFRS underlying dividend cover	-0.2 times	2.3 times
Total shareholder return	-21.5%	19.0%

*estimated

IFRS loss before tax from continuing operations is -£113m (2006: £491m profit).

Dividend rises to 8p per share

We made an interim payment to shareholders of 2.70 pence per share last November. The final dividend of 5.30 pence per share (assuming it is approved at our Annual General Meeting on 22 May 2008) will be paid to shareholders on 27 May 2008.

You can work out how much you will receive by multiplying the number of Friends Provident shares you own on 18 April 2008 by the final dividend of 5.30 pence per share that we are recommending.

Corporate Responsibility

As Friends Provident undergoes this period of considerable change, our determination to operate as a responsible business remains firm and will continue to guide the organisation during these challenging times.

The values and standards by which we expect to be judged are set out in our Statement of Business Principles. These recognise that our success depends on the trust and confidence placed in us by our customers, shareholders, business partners, employees, the communities around us and society at large. All these different groups of people have a stake in our business for different reasons and we know that we will deserve their trust and confidence only by maintaining, and living up to, the distinct values and reputation that have underpinned our business for 175 years. This focus remains at the heart of these principles.

Our approach to corporate responsibility is based on our response to six issues facing our industry. These issues are determined by, and continually validated through, research among our stakeholders. They are shown opposite.

The strength of our commitment and progress is reflected in our 'Gold' rating in The Sunday Times Top 100 Companies that Count and our sustained involvement in national and local initiatives promoting responsible business practice.

For full details of our corporate responsibility (CR) programme and performance, please refer to our 2007 Corporate Responsibility Report at www.friendsprovident.com/responsibility

You can also request a copy of our CR Review, which explores the material issues facing our business in more depth, by emailing groupcommunications@friendsprovident.co.uk

TRUST AND CONFIDENCE

For a number of reasons the life and pensions industry continues to suffer from a lack of consumer confidence. We are doing what we can to reverse this, principally by focusing on how our products are communicated, sold and paid for. We recognise that to sell long-term products we need to win the trust of consumers and we are working with the industry through initiatives such as the Financial Services Authority's *Treating Customers Fairly* and the Association of British Insurers' *Customer Impact Scheme* to help restore confidence.

RESPONSIBLE INVESTMENT

Friends Provident's most significant impact on society is the indirect influence we have through investing responsibly. We understand that investing in companies for financial return can have both positive and negative impacts on society. We aim to address the potentially negative impacts by using our influence as a major shareholder to encourage responsible business behaviour. We also provide solutions for customers who wish to invest their money responsibly through our award-winning Stewardship range of investment funds and products.

FINANCIAL CAPABILITY

As a financial services company we have a responsibility to ensure people understand our products and services. However, we recognise that many people today do not understand much at all about planning their finances. We believe this needs to start at school age and we are supporting the work of the *personal finance education group*, a leading organisation working with schools. We also work with the Life Academy to help our customers prepare for retirement and the Friends Provident Foundation, an independent charity, focuses its grant-making programme on addressing why so many people are excluded from basic financial products.

CLIMATE CHANGE

Governments, businesses and individuals are realising the potential impact of climate change, not just on the environment, but also on society and the economy. We all have a responsibility for tackling it. We operate a successful carbon management programme to reduce the emissions directly associated with our operations and last year we jointly led the development of ClimateWise, the insurance industry's response to this pressing issue.

COMMUNITY

Healthy and prosperous communities provide better trading environments for business and we have a long history of supporting communities touched by our operations. Our focus is on supporting our employees and the communities in which they live and work. Over 1,000 of our people participated last year in our community programme, Friends in the community, volunteering 4,000 hours of time and raising £600,000.

PEOPLE

Friends Provident aims to provide a working environment free from discrimination, where everyone feels valued and respected and is able to pursue a rewarding career, contributing to the success of the business. Annual surveys show a level of engagement among our people well above the industry average.

The new shape of Friends Provident

STRUCTURE PRIOR TO JANUARY 2008

UK Life & Pensions

Core propositions:

- Protection
- Group Pensions
- Individual Pensions
- Savings & Investments

Tactical:

- Annuities

Intermediary businesses:

- Sesame
- Pantheon Financial

International Life & Pensions

Dual focus:

- Friends Provident International
- Lombard

Asset Management

- F&C Asset Management (52% owned)

STRUCTURE AFTER JANUARY 2008

UK and International Life & Pensions

Core propositions:

- UK Protection
- UK Group Pensions
- UK Annuities
- Friends Provident International

Tactical:

- UK Savings & Investments
- UK Individual Pensions

Intermediary business:

- Sesame

Trading as usual but outside of long-term strategy

- Lombard
- F&C Asset Management (52% owned)
- Pantheon Financial

The change in strategy explained

PRIOR TO JANUARY 2008

Prior to January 2008, our strategy comprised six elements:

- Deliver excellent service and performance by putting customers at the centre of what we do
- Build strong relationships with key distributors to secure profitable growth
- Develop our people and culture in line with our values to focus on the customer and enhance our performance
- Apply technology to improve service, enhance distribution and reduce costs
- Grow our business profitably, targeting markets where we can achieve a leading position
- Diversify our business to improve return, improve cash generation and reduce risk concentration

AFTER JANUARY 2008

The first four elements remain unchanged. We will continue to build our reputation for good service, strong relationships, high values and leading-edge technology. But the previous strategy was too capital intensive and was not delivering profitable growth or a reasonable return to our shareholders.

THE AIM OF THE NEW STRATEGY

- **To improve cashflow and to reduce the capital intensity of the UK business**
- **To grow the related international business, which has superior returns, faster than the UK**
- **To provide improved returns for shareholders**

THE NEW STRATEGY

The new strategy builds on our proven strengths and comprises:

1. **A new trading focus**
2. **A smaller cost base**
3. **A restructured company**
4. **Better financial controls**

1 A NEW TRADING FOCUS

Our focus is on core segments of the UK and International life and pensions market based on our existing strengths in:

- **UK protection market** – continuing at least to maintain market share and to continue to enter new segments
- **UK group pensions and vesting annuity market** – enhancing profitability by ceasing to pay initial commission on new schemes and focusing on acquiring larger schemes
- **International savings & investments, pensions and protection markets through Friends Provident International** – pursuing growth in markets with attractive margins
- We will adopt a more tactical approach to the marketing of savings and investments and individual pensions in the UK, offering them only when adequate returns are available
- We will no longer seek to build a presence in the UK wealth management sector, including Wrap, other than by manufacturing and administering life and pensions products

2 A SMALLER COST BASE

- We will reduce significantly the company's cost base, expecting a 15% reduction of 2007 operating costs by the end of 2009
- In addition, development costs will be reduced by £20m

3 A RESTRUCTURED COMPANY

- We will, with their respective management teams, agree strategies for the three Friends Provident Group businesses that no longer fit within the new strategy – F&C Asset Management, Lombard and Pantheon Financial
- Any capital that may be released by these strategies will be returned to shareholders

4 BETTER FINANCIAL CONTROLS

- We have devised a range of financial metrics to provide greater disclosure to our investors enabling them to track our progress more certainly. These include Financial Key Performance Indicators for the company as a whole and at product and subsidiary level
- We will seek to grow dividends in real terms, in line with improved cashflows, from the 2008 rebased dividend level

IMPACT OF THE NEW STRATEGY

"The new strategy repositions Friends Provident towards those areas where it has true competitive advantage – protection, pensions and international life and pensions. A focus on financial rigour will result in a more selective approach to writing new business in the UK. Crucially, these measures, together with rebasing the cost of the dividend to an affordable level, will ensure that the company will be self-financing and will remain well capitalised."

Jim Smart, Chief Financial Officer

Summary and Outlook

TRADING

Our 2007 trading and financial results are in line with those reported at the end of January 2008, underlining the rationale for our full strategic review and the appropriateness of our new strategic direction. The new strategy is further supported by positive developments in our core businesses.

Annual Premium Equivalent (APE) sales increased 15% in the UK and 18% overseas, delivering an overall increase of 16%. Advances in the UK were driven by our strong position in pensions. Overseas, Friends Provident International (FPI) in particular delivered another strong performance, further cementing its position as an effective engine for growth.

The underlying economics of our 2007 UK trading were not good enough. In particular the cash generated from sales, before one-off adjustments, was less than the cost of shareholder dividends, as was ongoing underlying IFRS profits, again before one-off items.

These results reflect that our product persistency experience was worse than was being assumed, particularly for UK business, and the consequent assumption change reduced EEV profit by £158m overall. Included within this result is an adverse impact of £15m on the contribution from UK new business, which ended down 11% on 2006 levels despite the higher levels of sales. The overall UK internal rate of return (IRR) at 11.7% was helped by regulatory changes but remains at an unsatisfactory level.

NEW STRATEGY

The new strategy was announced at the end of January this year. Since then, our conversations with management at leading UK intermediary firms have been encouraging, with widespread support for our focus on protection and pensions, and broad support for our market positioning. The strength of our underlying propositions remains an attraction to these intermediaries.

The new strategy is designed to address the poor underlying economics of trading outlined above by elevating profit above volume growth. Its most direct impact is to reduce the capital intensity of the UK business, which will be achieved primarily by ceasing to write new group pension schemes where initial commission is required, and by no longer pursuing an ambition in wealth management beyond the manufacture and administration of life and pensions products. Cash consumption will be reduced further by adopting a more selective approach to individual pensions and to savings & investment products, competing only when the prospective returns make it worth doing so.

Our UK trading focus therefore centres around our established strengths in group pensions and protection business. The improved cash flows anticipated will support investment in FPI, our strategy being to grow the international business faster than the UK. FPI will pursue growth in savings & investment, pensions and protection markets with attractive margins, and this is the trading priority of the Group. The new strategy includes reducing the cost base by at least £40m by the end of 2009.

Once fully implemented, the new strategy is expected to add two percentage points to the overall IRR, with the prospect of further improvement over time. The Group will be self-financing and therefore does not expect any need to access the capital markets.

The three businesses that now fit less comfortably within the new strategy – Lombard, F&C Asset Management and Pantheon Financial – continue to develop successfully. We are working with their respective management teams to establish strategies for maximising shareholder value while minimising disruption to these good businesses.

Swift and efficient implementation of the new strategy is now our focus to ensure that the inherent benefits will emerge as soon as practicable and an update on progress can be expected at the time of interim results in August 2008. In the meantime, we can report that a senior team is in place solely to oversee implementation and good progress is already being made.

IMPACT OF ONE-OFF CHANGES AND DISCLOSURE

An important element of the new strategy is the adoption of improved financial transparency and disclosure, including the segmentation of Life & Pensions underlying profit, and analyses provided by product on both cash and IFRS bases.

Some associated decisions have had the effect of further reducing 2007 profits. In particular, the capitalisation of £20m of development expenses, reclassified as maintenance expenses, reduces IFRS profits by £112m and EEV profits by £238m. A further £68m reduction in EEV profits arises from capitalising corporate costs.

The writing off of intangibles, especially in connection with our withdrawal from Wrap, reduces both EEV and IFRS profits by some £15m. Implementation of the remaining changes arising from the FSA Policy Statement PS06/14 led to a £138m release of shareholder cash.

After a review of the estimated amortisation profile of deferred acquisition costs on protection business the net impact on IFRS profit was negative £34m.

Largely as a result of the reserving changes, the overall IRR for 2007 is 14.4% and this, together with other key metrics, is likely to fall back initially as some of the key financial aspects of the strategic review are implemented.

The 2007 underlying profit on an EEV basis is in line with our announcement of 31 January 2008 and the underlying profit on an IFRS basis is also down, due to the same factors.

DIVIDEND

The Board is recommending a final dividend for 2007 of 5.30 pence per share in line with our current dividend policy. This would bring the total 2007 dividend to 8.00 pence per share, a 2% increase over 2006.

After payment of the final dividend for 2007, we will reduce the overall cost of the dividend to a level that reflects the dividend paying capacity of the Life & Pensions business, expected to be around £90m to £100m, and adopt a policy of growing the dividend in line with operating cashflow in future. The Board believes that this offers the prospect of dividend growth in real terms in the years to come. The Board will determine the appropriate dividend per share in due course. In reaching this decision, the Board will have regard not only to the dividend paying capacity of the business but also to any capital returned to shareholders as a result of releases from businesses which do not fit the strategy.

OUTLOOK

Our new strategy plays to our strengths. Our systems, service and efficiency enable us to compete in the challenging UK marketplace. In protection, we will seek to at least maintain market share and to continue to enter new segments. Overall volumes of new pensions business will fall as a consequence of our more selective approach, but the quality of new business written will increase.

The outlook for International Life & Pensions business remains strong. FPI will benefit from its growing presence in key markets and continued strong demand for its products. We have established firm footholds in a number of territories from which to generate future sales, further supported by our new operations in Singapore, Germany and United Arab Emirates. International markets will remain competitive but developing FPI is a priority of the new strategy and we are confident that the outlook for this business remains positive.

CONCLUSION

Our core propositions are already strong and continue to be recognised by industry awards. Our belief in, and commitment to, the intermediary community remains at the heart of our strategy and we look forward to deepening our already strong relationships. The international markets will become the key drivers of profitable growth. Quality customer service and our ability to harness technology imaginatively provide competitive advantage. The outcome of the strategic review has repositioned Friends Provident positively and our focus is now firmly on growing the business both transparently and profitably, to the benefit of all key stakeholders.

Board of Directors

Sir Adrian Montague CBE, MA, Solicitor, 60.
Executive Chairman.

Appointed Chairman in May 2005, having been appointed an independent director in October 2004. Appointed non-executive director of F&C Asset Management plc on 27 November 2007. Chairman of the Investment Committee and member of the Nomination and Remuneration Committees. Currently Chairman of British Energy Group plc, Michael Page International plc and Infrastructure Investors Limited. A non-executive director of London First and CellMark Holdings AB and a member of the Supervisory Board of Skanska AB. Appointed Executive Chairman following the resignation of Philip Moore in November 2007 until Trevor Matthews takes up his appointment as Group Chief Executive.

Formerly Deputy Chairman of Network Rail and Chairman of Cross-London Rail Links Limited (Crossrail). Previously Chief Executive of the Treasury Taskforce and Deputy Chairman of Partnerships UK plc. In his early career, he was a partner of Linklaters & Paines, and subsequently the Global Head of Project Finance for Dresdner Kleinwort Benson.

Alain Grisay LLM, MA, 53.
Chief Executive, F&C Asset Management plc.

Appointed an executive director and member of the Investment Committee on 1 January 2006.

Joined the board of F&C Asset Management plc in October 2004 on completion of the merger of ISIS Asset Management plc and F&C Group (Holdings) Limited (F&CGH) where he was previously Deputy Chief Executive of F&CGH and Head of Institutional Business. Previously at JPMorgan for 20 years, as a Managing Director responsible for the investment bank's market client business in Europe.

Executive directors

Non-Executive directors

Lady Judge BA, JD, 61.
Deputy Chairman, senior independent director.

Appointed a director and Deputy Chairman in June 2001 having been an independent director of Friends' Provident Life Office from 1994 to 2001 and its Deputy Chairman from 1998 to 2001. Chairman of the Remuneration Committee, Deputy Chairman of the Investment Committee and a member of the Nomination Committee. Chairman of the UK Atomic Energy Authority, of the School of Oriental & African Studies and of LIFE IC Limited. A director of Quintain Estates and Development plc, Private Equity Investor plc, Portmeirion Group PLC, Planet Payment Inc., Magna International Inc., Massey Energy Company and Nationwide Accident Repair Services plc.

Formerly, Chairman of the Professional Standards Advisory Board of the Institute of Directors and Deputy Chairman of the Financial Reporting Council. A former commissioner of the United States Securities and Exchange Commission.

Alison Carnwath BA (Hons), ACA, 55.
Independent director.

Appointed a director in December 2002. Member of the Remuneration and Audit and Compliance Committees and, from April 2004 until November 2007, chaired the With-Profits Committees of Friends Provident's regulated wholly-owned life and pensions operating companies. Non-executive Chairman of MF Global Limited and ISIS Equity Partners LLP. Non-executive director of Land Securities Group plc and Man Group plc.

Previously a Managing Director of the US investment bank, Donaldson, Lufkin and Jenrette International, before it merged with Credit Suisse Group in 2000. Formerly a director of J Henry Schroder Wagg & Co Ltd, National Power plc, Arcadia Group plc, QA Group plc, The Vitec Group plc and Nationwide Building Society.

Will retire from the Friends Provident Board at the close of the 2008 AGM.

Ben Gunn MA, FCII, 57.
Chief Executive, Friends Provident Life and Pensions Limited.

Appointed an executive director in June 2001 having been appointed an executive director of Friends' Provident Life Office in 2000 and Managing Director, Friends Provident Life and Pensions Limited in March 2001. A non-executive director of Lombard International Assurance S.A. Member of the Life Insurance Committee of the Association of British Insurers.

Joined the Friends Provident Group in September 1998 following the acquisition of London and Manchester Group plc where he was Managing Director of London and Manchester Assurance Limited and a Group Executive Director. Joined London and Manchester in February 1996 from Hambro Countrywide plc where he was an executive director.

Jim Smart BCom, CPFA, FCCA, MBA, 48.
Chief Financial Officer.

Appointed an executive director on 1 January 2007, having joined Friends Provident in November 2006. Member of the Investment Committee. A non-executive director of F&C Asset Management plc since January 2007. Member of the Financial Regulation and Taxation Committee of the Association of British Insurers.

Previously, Chief Financial Officer at Boots Group plc. Prior to joining Boots, he was at Abbey National plc for 15 years where he held a number of senior finance and operational positions and was a director of the group's life assurance business, Scottish Mutual Assurance plc.

Will leave the Company after announcement of its interim results in August 2008.

Ray King BSc, FCA, MCT, 54.
Independent director.

Appointed a director in January 2004. Chairman of the Audit and Compliance Committee and member of the Investment and Nomination Committees. Group Finance Director for BUPA since 2001. Trustee of The Sanitas Foundation.

Formerly the Deputy Chief Executive of Parity Group plc, Director of Group Finance and Control at Diageo plc and Group Finance Director of Southern Water plc.

Sir Mervyn Pedelty FCA, FCIB, FRSA, 59.
Independent director.

Appointed a director in October 2006. Chairman of the With-Profits Committees and the Nomination Committee since November 2007. Also a member of the Audit and Compliance and Remuneration Committees. Senior independent director of Hiscox Ltd (incorporated in Bermuda), a director of Hiscox Insurance Company Ltd and Chairman of FTSE4Good Policy Committee.

Previously at The Co-operative Bank plc where he was Chief Executive from 1997 to 2004, and also Chief Executive of Co-operative Financial Services Ltd and Co-operative Insurance Society Ltd from 2002 until his retirement in 2004. Former member of the Department for Work and Pensions Employer Task Force on Pensions, a director of the Association of British Insurers from 2002 to 2004 and previous member of the Council of the British Bankers' Association and of its Chief Executive's and audit and remuneration committees. Prior to The Co-operative Bank, a partner of LEK Consulting, a senior executive of TSB Group plc and a director of TSB Bank plc.

Gerhard Roggemann 60.
Independent director.

Appointed an independent director of the Company and a non-executive director of F&C Asset Management plc in June 2007. A member of the Audit and Compliance and Investment Committees. Currently Vice Chairman of Hawkpoint Partners Europe, responsible for the development of its German business, and an independent director of Deutsche Börse AG.

Spent much of his professional career with financial services firm, JPMorgan, where his positions included Managing Director of JPMorgan's German branch in Frankfurt and Regional Treasurer Asia Pacific in the Tokyo office. Spent a total of 13 years on the management board of two German Landesbanks, joining the executive boards of Norddeutsche Landesbank in 1991, and of Westdeutsche Landesbank (WestLB AG) in 1996. Previous board appointments include AXA Lebensversicherungs AG, AXA Kapitalanlagegesellschaft mbH, Deka Bank, Fresenius AG, Hapag Lloyd AG and VHV Holdings AG.

Summary Report of the Directors

This is a summary of the report presented by directors to shareholders for the financial year ended 31 December 2007. The full Annual Report and Accounts – which includes the entirety of the Report of the Directors, the reports of the Nomination, Audit and Compliance and Remuneration Committees and the Report on Corporate Governance and the Financial Statements – will be laid before the Annual General Meeting.

These Summary Financial Statements have been prepared on the basis of accounting policies set out in the Group's Annual Report and Accounts for the year ended 31 December 2007. The financial information for the periods shown has been abridged from those accounts.

ANNUAL GENERAL MEETING

The Annual General Meeting 2008 will be held at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London, SW1P 3EE on 22 May 2008 at 11.00 am.

ACCOUNTS

The summary consolidated profit and loss account and balance sheet are presented on both the International Financial Reporting Standards as adopted by the EU (IFRS) basis and the European Embedded Value (EEV) basis.

Important Notice: These Summary Financial Statements do not contain sufficient information to give a full understanding of the results and state of affairs of Friends Provident plc. You will find more detail in the full Annual Report and Accounts, which contains an unqualified auditor's opinion. You can obtain the full Annual Report and Accounts by downloading a copy from our website at www.friendsprovident.com/reports. If you prefer to receive the full Annual Report and Accounts in future, please call the Friends Provident Annual Report Helpline on 0871 384 2942 or write to Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA.

PRINCIPAL ACTIVITIES

Friends Provident plc is the holding company of the Friends Provident Group of companies and is a constituent of the FTSE 100 Index. The strategic review announced in November 2007 concluded that the Group should focus on its core businesses of manufacturing and administering life and pensions products in the UK and related international markets. This encompasses the UK protection market, UK group pensions and vesting annuity market and international savings & investments, pensions and protection markets. Following the review, the Board is exploring the opportunities for F&C Asset Management plc and other businesses which do not fit the revised strategy with a view to maximising value for shareholders.

RESULTS

A summary of the results for the year is included within this document on pages 17 to 21.

DIVIDEND

The directors are recommending a final dividend for 2007 of 5.30 pence per share, payable on 27 May 2008 to all holders of ordinary shares on the register of members at the close of business on 18 April 2008. The dividend for the year, including the interim dividend of 2.70 pence per share paid on 23 November 2007, amounts to 8.00 pence per share (7.85 pence per share in 2006). The total cost of dividends for 2007 will amount to £181 million. The intention is for interim dividends to be paid in November and final dividends to be paid in May each year. The interim dividend will represent approximately one third of the anticipated total dividend. The Company operates a dividend re-investment plan, which enables shareholders to elect to receive shares in the Company instead of cash. Further information can be obtained from the Registrar whose contact details are at the back of these Summary Financial Statements.

SHARE CAPITAL INCLUDING TREASURY SHARES

The issued share capital of the Company as at 31 December 2007 consisted of 2,341,118,083 ordinary shares of 10p each, including 18,124,284 treasury shares. During 2007, 4,505,799 treasury shares (2006: 17,478,172) were used to fulfil obligations under the All-Employee HM Revenue & Customs Approved ShareSave Scheme, the All-Employee Share Incentive Plan, the Executive Share Option Scheme, the Deferred Share Plan and the Executive Long-Term Incentive Plan. In the period from 1 January 2008 to 18 March 2008, a further 202,732 treasury shares have been used for these purposes. Also during 2007, 169,590,604 shares were issued to satisfy the conversion and redemption rights of holders of the £290 million 5.25% Convertible Bonds which were redeemed on 11 December 2007 and 32,382,520 shares were issued in settlement of the final additional consideration for the purchase of Lombard International Assurance S.A. At 18 March 2008, 2,341,118,083 ordinary shares of 10p each are in issue including 17,921,552 treasury shares. Details of the total issued share capital of the Company and the number of treasury shares are published by the Company on its website at www.friendsprovident.com/investor

DEBTS

The Company issued £26,332,978 Floating Rate Unsecured Loan Notes 2012 on 16 April 2007 to satisfy the payment of part of the final additional consideration in respect of the acquisition of Lombard. Since the year-end, the Company has received notice that £18,030,885 Floating Rate Unsecured Loan Notes 2011 and £26,332,978 Floating Rate Unsecured Loan Notes 2012 will be redeemed in accordance with their respective terms on 31 March 2008.

DIRECTORS

Details of Board members at the date of these Summary Financial Statements are set out on pages 9 and 10. All directors must be elected at the AGM following their appointment. Gerhard Roggemann, who was appointed to the Board as a non-executive director on 19 June 2007, will offer himself for election at the AGM. In addition, one third of the Board members must retire by rotation every year and, if appropriate, seek re-election. The directors retiring by rotation at the AGM and seeking re-election are Alain Grisay, Ben Gunn and Ray King. Alison Carnwath will retire at the close of the 2008 AGM.

The Combined Code requires that Lady Judge submits to annual re-election and the Notice of AGM sent to shareholders fully deals with this and explains why the Board is recommending her re-election.

On 11 March 2008, the Company announced that Jim Smart had given notice of his intention to resign from the Board. He will leave the Company after its interim results, which are due to be announced in August 2008.

DIRECTORS AND OFFICERS – INDEMNITY AND INSURANCE

The Company maintains insurance cover with respect to 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 2007. Copies are available for inspection at the Company's registered office.

ENVIRONMENT

The Company's engagement and commitment to environmental issues are referred to on page 4.

CHARITABLE AND POLITICAL DONATIONS

The Company has a long history of supporting the communities directly affected by its operations through an employee-led programme, which benefits the Company's business and community needs. Full details of the community investment programme are available in the Corporate Responsibility Report on the website. In 2007, cash donations to charitable causes amounted to £1,548,699. During 2007, the Friends Provident Foundation, an independent grant-making charity, continued to focus its resources on financial inclusion and grants approved amounted to £878,550. Details of all aspects of the Foundation's work can be found at www.friendsprovidentfoundation.org

No political donations were made during 2007 (2006: nil).

STATEMENT OF GOING CONCERN

After making enquiries, the directors are satisfied that the Company and the Group have adequate resources to continue to operate as a going concern for the foreseeable future and have prepared the financial statements on that basis.

AUDITOR

The Company's auditor, KPMG Audit Plc, has indicated its willingness to continue in office and, on the recommendation of the Audit and Compliance Committee, a resolution to reappoint KPMG Audit Plc as auditor to the Company, and to authorise the directors to fix its remuneration, will be proposed at the AGM.

On behalf of the Board

Gordon Ellis
Company Secretary
18 March 2008

Summary Corporate Governance Report

THE BOARD

The Board provides leadership of the Group and brings an independent judgment on all issues of strategy, performance, resources and standards of conduct. The Board sets the Group's strategic aims, which it then implements through its approval and regular monitoring of a business plan and budget prepared by the executive directors. During 2007, the Board met on 21 occasions and directors also attended two off-site strategy meetings.

REPORTING TO SHAREHOLDERS

The Company places considerable importance on communications with shareholders and responds to them on a wide range of issues. It has an ongoing programme of dialogue and meetings with major institutional shareholders, where a wide range of relevant issues are discussed. The Chairman and the senior independent director are available to meet major shareholders. During 2007, six such meetings with the Chairman took place. During the year, the Board met with the Company's joint brokers, JPMorgan Cazenove and Goldman Sachs International, following presentations to major shareholders by executive management. This helps the non-executive directors to maintain an up-to-date understanding of the views of major shareholders.

At its AGM, the Company complies with the provisions of the Combined Code relating to the disclosure of proxy votes, the separation of resolutions and the attendance of directors, particularly committee chairmen. The outcome of every general meeting, including detailed voting results and votes withheld, is published on the Company's website.

In July 2007, the Company announced that terms had been agreed with Resolution plc for an all-share merger to form Friends Financial Group plc. Shareholders were kept informed of the progress and eventual termination of the merger.

STATEMENT OF COMPLIANCE WITH PROVISIONS OF THE COMBINED CODE

A formal review of the performance of the Board, its committees and individual directors was not undertaken during 2007 due to the planned merger with Resolution plc. A review will be undertaken as usual during 2008.

Following the resignation of Philip Moore on 13 November 2007, Sir Adrian Montague was appointed Executive Chairman until Trevor Matthews takes up his appointment as Group Chief Executive.

Save for the above disclosure, the directors consider that the Company has throughout 2007 and to date applied the principles and met the requirements of the Combined Code. The Board is committed to the principles of corporate governance and the code of best practice contained in the Combined Code and the above items of non-compliance will be addressed in 2008.

INTERNAL CONTROLS AND RISK MANAGEMENT

The Group seeks to take appropriate and managed risks. The Board's vision for risk management is an environment where business managers can take risks with confidence, and where consideration of risk is embedded into business planning, decision-making and everyday management.

RISK APPETITE

Risk appetite is an expression of the level of acceptable and/or unacceptable risk and is determined by the Board and senior management. The Group's willingness to take on risk is set with reference to its capacity to bear risk. The Board has set risk appetite for the Group as a whole, and has approved more detailed appetite statements for the individual businesses.

RISK GOVERNANCE AND MANAGEMENT, POLICIES AND REPORTING

The Group's governance structures for risk management are based on three lines of defence. Primary accountability for managing risk lies with the business units, and with those specialist functions that are responsible for specific operational processes, such as Human Resources, IT and Facilities Management.

Operational responsibility within the Group ultimately rests with the Group Chief Executive and is devolved through an executive structure with clearly delegated and appropriate levels of authority. In particular, the Chief Executive of F&C has operational responsibility to the board of F&C and its shareholders, reporting appropriately to the Board of the Company as controlling shareholder. Members of Group management are, therefore, accountable for the operation of the systems of internal control within the Group's core businesses.

Business unit management is responsible for putting in place the ongoing management and monitoring disciplines for risks and activities under its control. The structure is designed to provide clear responsibilities and control for key areas of the Group's business, and includes 'whistleblowing' procedures to enable staff to raise concerns in confidence. Through these mechanisms, the performance of the business is monitored, risks are identified in a timely manner, their financial implications assessed, control procedures re-evaluated and, where appropriate, corrective actions agreed and implemented.

A second line of defence is provided by specialist functions that undertake policy-setting and monitoring roles, such as Compliance, Legal and the Group's independent risk function, which is the central point for co-ordinating risk reporting around the Group. The third line of defence is provided by Internal Audit, which has responsibility for providing independent assurance over the risk management process and the internal controls environment.

The Board:

- is responsible for the risk management framework and for setting high level risk policy and risk appetite;
- has delegated to the Group Risk Committee authority to approve the risk framework of the UK Life & Pensions business and to endorse the risk frameworks of the other operating subsidiaries; and
- considers quarterly reports summarising the Group's key risks and the actions in place to control them, and receives a brief monthly update on the key risks and issues as part of its regular management information.

The Group Risk Committee:

- is normally chaired by the Group Chief Executive and is responsible for developing, sponsoring and monitoring the risk management activities and processes of the companies within the Group. It is currently being chaired by the Executive Chairman;
- approves the risk management frameworks of the Group's UK Life & Pensions business; and
- considers quarterly reporting from the operating subsidiaries.

Within the UK Life & Pensions business, the boards of the principal operating companies:

- oversee the management of strategic risk;
- have established a Financial Risk Committee and an Operational Risk Committee, which include executive directors and other senior managers; and
- consider a quarterly summary of operational and financial risk and a detailed report of strategic risk from the risk function.

Within the International business, FPI and Lombard have risk committees comprising executive directors and other relevant senior managers that oversee their risk management processes and report into their respective boards and the Group Risk Committee.

The risk management arrangements within F&C are described in detail in the F&C Annual Report and Accounts. F&C provides a quarterly summary of its key risks to the Group's risk function for reporting to the Group Risk Committee.

Friends Provident Distribution Holdings Limited, a wholly owned subsidiary of the Company, is the holding company of two businesses acquired during 2007 operating in the independent financial adviser sector, Sesame Group Limited and Pantheon Financial Limited. The risk management arrangements for these companies are appropriate to the nature, scale and complexity of their operations.

The Group's systems of internal control are designed to manage rather than eliminate the risk of failure to achieve business objectives, as no business can be successful without taking some risk. They can thus provide reasonable but not absolute assurance against material mis-statement or loss. The Board has conducted an annual review of the effectiveness of the Group's systems of internal controls and risk management and has taken into account recommendations from the Audit and Compliance Committee (ACC) following its review of the operation of the Group's risk management framework from the Group's risk management function. The ACC has also received:

- a report from the Group's independent internal audit function of the framework's effectiveness; and
- assurances from the Group Risk Committee that the risk committees within the operating subsidiaries have reviewed the effectiveness of the internal controls and risk management activities within their respective remits.

Through this process of review, the ACC was able to recommend to the Board that the systems of internal control comply with the revised Turnbull Guidance and the ABI Disclosure Guidelines on Socially Responsible Investment.

The Board recognises the disappointing financial results during 2007. The strategic review, which the Board has recently undertaken, was designed to address the issues that caused this and to maximise future value for shareholders. In implementing the results of the strategic review, the Board is committed to introducing a new streamlined organisation structure, simplified decision making and enhanced internal control processes. The Board will ensure that there is robust challenge and risk analysis and that the control processes will result in appropriate information being reported to the Board and management to allow them to monitor progress effectively and to respond when plans are not being achieved.

AUDITOR'S REPORT

The Auditor's Report on the IFRS Financial Statements and the part of the Remuneration Report of the Board to be audited for the year ended 31 December 2007 was unqualified and did not contain a statement under section 237(2) or 237(3) of the Companies Act 1985.

On behalf of the Board

Gordon Ellis
Company Secretary
18 March 2008

Summary Remuneration Report

COMPANY'S POLICY ON DIRECTORS' REMUNERATION

EXECUTIVE DIRECTORS

The Company's policy is that individual rewards and incentives should be aligned with the interests of shareholders and that the total remuneration package is positioned to attract, retain and motivate executive directors who are expected to meet challenging performance criteria. The Remuneration Committee (the Committee) sets the level for each of the executive directors, with the exception of Alain Grisay, taking account of their individual contribution to overall performance. Alain Grisay is Chief Executive of F&C Asset Management plc (F&C) and is remunerated entirely by that company.

Philip Moore ceased to be a director of the Company on 13 November 2007. Under the terms of his service contract he is entitled to 12 months' notice or 12 months' base salary and pension contributions in respect of his notice period.

In response to the recent strategic review and the appointment of a new Group Chief Executive, the Committee has committed to carry out a thorough review of executive remuneration in 2008. The outcome of the review will be detailed in the 2008 Remuneration Report.

The executive directors' remuneration package includes the following elements:

(a) Salary – determined by reference to external market research data;

(b) Performance-related annual bonus – based on combination of personal and Company performance. The maximum annual bonus opportunity for Jim Smart and Ben Gunn in 2008 will be 100% of base salary;

(c) Savings-related share schemes – two HM Revenue & Customs approved schemes with eligibility on the same basis as other eligible employees;

(d) Share incentive schemes – the Executive Long-Term Incentive Plan (LTIP) is the main long-term incentive benefit within the Company. The Committee believes that LTIP awards provide greater incentive effect, and hence value to shareholders. The Executive Share Option Scheme will only be used in future in exceptional circumstances, primarily to assist with the recruitment of senior individuals; and

(e) Benefits – Benefits comprise the taxable value of a car and private medical care.

Remuneration and performance The performance-related elements of directors' remuneration are annual bonuses and long-term incentives. Base salary is determined by reference to market conditions and individual performance and other major benefits are directly related to base salary. The performance-related elements of the executive directors' remuneration for 2007 would, for on-target performance, represent around 125% of base salary.

Service contracts The executive directors have rolling contracts of employment with notice requirements of 12 months from the employer and 6 months from the director and are subject to the same redundancy provisions as other staff.

Pensions Ben Gunn is a member of the Friends Provident Pension Scheme (FPPS), a defined benefit scheme, with additional pension provision through an unfunded unapproved pension arrangement for base salary above the Pension Scheme Cap. Jim Smart is subject to the lifetime allowance on approved pension benefits and in lieu of benefits under the pension plan, is paid a salary supplement of 20% of base salary, reviewable annually. F&C contributes to a money purchase arrangement for Alain Grisay.

The FPPS has been closed to new members since July 2007 and new employees in the UK Life & Pensions business are offered a defined contribution package of benefits in order to stabilise the cost and risks of overall pension provision.

Share options – Net gains made by executive directors on share options exercised during the year are set out below:

		Market price of share on exercise date	Gross proceeds	Income tax & NICs deductions	Net proceeds
Ben Gunn	ShareSave 2002	171.20p (01.10.07)	£11,293	-	£11,293
Keith Satchell	ShareSave 2002	219.75p (06.02.07)	£15,190	-	£15,190
	ESOS 2004	194.38p (26.03.07)	£254,051	£83,796*	£170,255
	LTIP 2005	194.38p (26.03.07)	£129,051	£42,566*	£86,485
	LTIP 2006	194.38p (26.03.07)	£95,992	£31,662*	£64,330

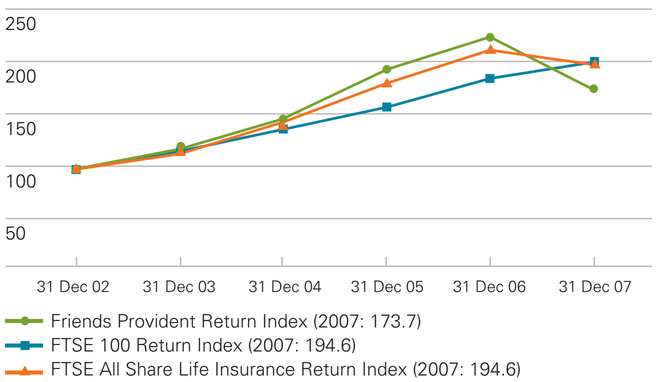
* Income tax deducted at the basic rate with remainder to be paid via self-assessment. This is the standard procedure for leavers.

PERFORMANCE GRAPH

The graph below demonstrates the performance of the Company based on total shareholder return (TSR) compared with the FTSE 100 TSR Index and the FTSE All Share Life Insurance Sector TSR Index since 31 December 2002.

Over the period, the Company's TSR has underperformed both the FTSE 100 Index and the FTSE All Share Life Insurance Index by 10.8%. For the year to 31 December 2007, the Company's TSR movement was ranked 80th (58th in 2006) when compared with the constituents of the FTSE 100 at the beginning of the year.

Total shareholder return indices – Friends Provident, FTSE 100 and FTSE All Share Life Insurance



NON-EXECUTIVE DIRECTORS

The non-executive directors are not part of any pension, bonus or share incentive scheme. None of the non-executive directors has a service contract and none is entitled to compensation on leaving the Board save that, if requested to resign, a non-executive director is entitled to one month's prior notice or fees in lieu except Lady Judge and Alison Carnwath, who are entitled to three months' prior notice or fees in lieu. The Chairman is entitled to six months' prior notice or fees in lieu.

Apart from the Chairman and Deputy Chairman, non-executive directors are paid a basic fee, currently £47,500 per annum, for their role on the Board and separately remunerated for services on Board Committees. The fees are reviewed annually by the Board and were last increased with effect from July 2006. The Deputy Chairman of the Board, who chairs the Remuneration Committee, receives an annual inclusive fee of £90,000, exclusive of VAT.

The Remuneration Committee sets the Chairman's remuneration. As non-executive Chairman Sir Adrian Montague receives an annual fee of £250,000. Following the departure of Philip Moore on 13 November 2007, Sir Adrian Montague was appointed Executive Chairman for the interim period prior to the appointment of a new Group Chief Executive. Whilst he remains in this role, an additional annualised fee of £175,000 is paid to reflect the increased responsibilities of time and commitment. In addition, Sir Mervyn Pedelty will receive an additional £12,000 in March 2008 to recognise his significant input into the strategic review.

On behalf of the Board

Lady Judge
Chairman, Remuneration Committee
18 March 2008

DIRECTORS' EMOLUMENTS AND COMPENSATION IN THE RELEVANT FINANCIAL YEAR (AUDITED) £000

	Salary and fees	Pension allowance	Benefits	Annual bonus (2007 accrued)	Compensation for loss of office	Total reported 2007	Total reported 2006
Executive							
Alain Grisay*	325	-	11	1,161	-	1,497	1,689
Ben Gunn	347	-	8	91	-	446	544
Philip Moore (left office 13.11.07)	510	81	9	141	-	741	636
Keith Satchell (retired 31.01.07)	44	-	-	-	-	44	929
Jim Smart	400	80	13	181	-	674	67
Non-executive							
Alison Carnwath	70		-	-	-	70	71
Christopher Jemmett (retired 24.05.07)	50		-	-	-	50	131
Lady Judge	90		-	-	-	90	88
Ray King	69		-	-	-	69	58
Lord MacGregor (retired 24.05.07)	25		-	-	-	25	61
Sir Adrian Montague	273		-	-	-	273	235
Sir Mervyn Pedelty	59		-	-	-	59	13
Gerhard Roggemann (appointed 19.06.07)	47		-	-	-	47	-

* Alain Grisay's emoluments and compensation are entirely paid by F&C.

IFRS Summary Financial Statements

SUMMARY CONSOLIDATED INCOME STATEMENT ON AN IFRS BASIS

For the year ended 31 December 2007	2007 £m	2006 £m
Total revenue	**2,506**	5,158
Other income	**49**	–
Total claims, benefits and expenses	**2,669**	4,668
Share of profit of associates and joint venture	**1**	1
(Loss)/profit before tax from continuing operations	**(113)**	491
Policyholder tax	**(23)**	(124)
(Loss)/profit before shareholder tax from continuing operations	**(136)**	367
Total tax credit/(charge)	**43**	(70)
Policyholder tax	**23**	124
Shareholder tax	**66**	54
(Loss)/profit for the year	**(70)**	421
Attributable to:		
Equity holders of the parent: (i)		
Ordinary shareholders	**(108)**	276
Other equity holders	**52**	52
	(56)	328
Minority interest	**(14)**	93
(Loss)/profit for the year	**(70)**	421
Earnings per share	**2007 pence**	2006 pence
Basic (loss)/earnings per share from continuing operations	**(5.0)**	13.1
Diluted basic (loss)/earnings per share from continuing operations	**(5.1)**	12.8

(i) All profit attributable to equity holders of the parent is from continuing operations

DIVIDENDS PAID AND PROPOSED ON ORDINARY SHARES

	2007 £m	2006 £m
Final dividend in respect of 2006 and paid in May 2007 of 5.2p per share (in respect of 2005 and paid in May 2006 of 5.1p per share)	**110**	108
Interim dividend in respect of 2007 and paid in November 2007 of 2.7p per share (in respect of 2006 and paid in November 2006 of 2.65p per share)	**58**	56
Total dividends paid	**168**	164

After the balance sheet date the dividends set out on page 18 were proposed by the directors. In accordance with IAS 10 these have not been provided as a liability at the balance sheet date.

DIVIDENDS PAID AND PROPOSED ON ORDINARY SHARES

(CONTINUED)

	2007 £m	2006 £m
Final dividend in respect of 2007 payable in May 2008 of 5.3p per share (in respect of 2006 and paid in May 2007 of 5.2p per share)	**123**	111

The 2007 estimated final dividend is based on 2,323m shares estimated to be in issue at the dividend payment date (excluding treasury shares). The 2006 estimated final dividend was based on 2,136m shares (excluding treasury shares).

CONSOLIDATED UNDERLYING PROFIT ON AN IFRS BASIS

For the year ended 31 December 2007	2007 £m	2006 £m
(Loss)/profit before tax from continuing operations*	**(113)**	491
Policyholder tax	**(23)**	(124)
Returns on Group-controlled funds attributable to third parties	**23**	(104)
(Loss)/profit before tax excluding profit generated within policyholder funds	**(113)**	263
Non-recurring items	**(38)**	17
Amortisation of Asset Management acquired intangible assets	**42**	43
Amortisation of acquired present value of in-force business	**26**	25
Amortisation of Life & Pensions acquired intangible assets	**11**	7
Impairment of Asset Management acquired intangible assets	**-**	58
Interest payable on Step-up Tier one Insurance Capital Securities (STICS)	**(52)**	(52)
Short-term fluctuations in investment return	**78**	39
Underlying (loss)/profit before tax*	**(46)**	400
Tax on underlying (loss)/profit	**39**	6
Minority interest in underlying (loss)/profit	**(24)**	(29)
Underlying (loss)/profit after tax attributable to ordinary shareholders of the parent	**(31)**	377

Earnings per share	2007 pence	2006 pence
Underlying (loss)/earnings per share	**(1.4)**	17.9

IFRS underlying (loss)/profit is based on longer-term investment return and excludes: (i) policyholder tax, (ii) returns attributable to minority interests in policyholder funds, (iii) non-recurring items, (iv) amortisation and impairment of acquired intangible assets and present value of acquired in-force business; and is stated after deducting interest payable on STICS. Management consider that underlying profit better reflects the performance of the Group and focus on this measure of profit in its internal monitoring of the Group's IFRS results.

* Included in (loss)/profit before tax from continuing operations, and underlying (loss)/profit before tax, are one-off items relating to basis changes and the adoption of FSA Policy Statement PS06/14 Prudential Changes for Insurers which have decreased profit by £135m in 2007 (2006: increase of £156m).

IFRS Summary Financial Statements

SUMMARY CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

For the year ended 31 December 2007	**Equity holders of the parent (ordinary shares) £m**	**Equity holders of the parent (STICS) £m**	**Total equity holders of the parent £m**	**Minority interest £m**	**Total £m**
Net income recognised directly in equity	**70**	**-**	**70**	**11**	**81**
(Loss)/profit for the year	**(108)**	**52**	**(56)**	**(14)**	**(70)**
Total recognised income and expense for the year	**(38)**	**52**	**14**	**(3)**	**11**

For the year ended 31 December 2006	Equity holders of the parent (ordinary shares) £m	Equity holders of the parent (STICS) £m	Total equity holders of the parent £m	Minority interest £m	Total £m
Net income recognised directly in equity	(18)	-	(18)	(1)	(19)
Profit for the year	276	52	328	93	421
Total recognised income and expense for the year	258	52	310	92	402

SUMMARY CONSOLIDATED BALANCE SHEET ON AN IFRS BASIS

At 31 December 2007	**2007 £m**	2006 £m
Intangible assets	**1,456**	1,405
Investment properties, property and equipment	**2,452**	2,506
Financial assets	**47,710**	45,150
Other assets	**3,801**	1,847
Cash and cash equivalents	**4,782**	3,581
Total assets	**60,201**	54,489
Insurance contracts	**13,607**	13,762
Fund for future appropriations	**481**	439
Financial liabilities	**39,615**	33,951
Other liabilities	**2,174**	2,172
Total liabilities	**55,877**	50,324
Equity attributable to ordinary shareholders – share capital	**234**	214
Equity attributable to ordinary shareholders – share premium	**2,372**	2,051
Equity attributable to ordinary shareholders – other reserves	**346**	542
Equity attributable to other equity holders	**810**	810
Minority interest	**562**	548
Total equity	**4,324**	4,165
Total equity and liabilities	**60,201**	54,489

Approved by the Board of directors on 18 March 2008.

EEV Summary Financial Statements

SUMMARY CONSOLIDATED INCOME STATEMENT ON AN EEV BASIS

For the year ended 31 December 2007	2007 £m	2006 £m
Life & Pensions underlying profit	**21**	434
Asset Management underlying profit	**78**	89
Expected return on net pension liability	**8**	9
Expected return on corporate net assets	**(9)**	(10)
Corporate costs	**(14)**	(13)
Operating assumption changes for corporate costs	**(68)**	-
Underlying profit before tax	**16**	509
Investment return variances	**(45)**	(174)
Effect of economic assumption changes	**(12)**	181
Non-recurring items	**38**	(17)
Amortisation of non-covered business acquired intangible assets	**(45)**	(43)
Impairment of Asset Management acquired intangible assets	**-**	(58)
(Loss)/profit before tax	**(48)**	398
Tax	**9**	(101)
(Loss)/profit after tax	**(39)**	297
Attributable to:		
Ordinary shareholders of the parent	**(59)**	308
Minority interest	**20**	(11)
(Loss)/profit after tax	**(39)**	297

Earnings per share	2007 pence	2006 pence
Basic (loss)/earnings per share	**(2.7)**	14.6
Diluted basic (loss)/earnings per share	**(2.8)**	14.2
Underlying (loss)/earnings per share	**(4.5)**	16.4

EEV underlying profit is based on expected investment return and excludes: (i) amortisation and impairment of non-covered business acquired intangible assets (ii) effect of economic assumption changes (iii) non-recurring items; and is stated after deducting interest payable on STICS. Management consider that underlying profit better reflects the performance of the Group and focus on this measure of profit in its internal monitoring of the Group's EEV results.

EEV Summary Financial Statements

SUMMARY CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE ON AN EEV BASIS

For the year ended 31 December 2007	2007 £m	2006 £m
Net gains/(losses) recognised directly in equity	**72**	(10)
(Loss)/profit after tax	**(39)**	297
Total recognised income and expense for the year	**33**	287
Attributable to:		
Ordinary shareholders of the parent	**2**	300
Minority interest	**31**	(13)
Total recognised income and expense for the year	**33**	287

CONSOLIDATED MOVEMENT IN ORDINARY SHAREHOLDERS' EQUITY ON AN EEV BASIS

For the year ended 31 December 2007	2007 £m	2006 £m
Total recognised income and expense for the year attributable to ordinary shareholders of the parent	**2**	300
Dividends on equity shares	**(168)**	(164)
Share based payments (impact on EEV reserves)	**10**	12
Earn-out payments	**2**	(87)
(Decrease)/increase in EEV reserves for the year	**(154)**	61
Share capital issued on conversion of convertible bonds	**276**	-
Share based payments (impact on share capital and share premium)	**5**	13
Net addition to ordinary shareholders' equity	**127**	74
At 1 January	**3,520**	3,446
At 31 December	**3,647**	3,520

SUMMARY CONSOLIDATED BALANCE SHEET ON AN EEV BASIS

At 31 December 2007	2007 £m	2006 £m
Total assets*	**60,270**	54,734
Total liabilities	**56,051**	50,666
Equity attributable to:		
Ordinary shareholders of the parent	**3,647**	3,520
Minority interest	**572**	548
Total equity	**4,219**	4,068
Total equity and liabilities	**60,270**	54,734

* The Value of in-force Life & Pensions business included in total assets at 31 December 2007 was £1,870m (2006: £2,031m).

Statement of the Independent Auditor

Statement of the Independent Auditor to the members of Friends Provident plc

pursuant to section 251 of the Companies Act 1985

We have examined the summary financial statements which comprises the Summary consolidated income statement, Summary consolidated balance sheet, Summary consolidated statement of recognised income and expense and Summary Directors' Remuneration Report set out on pages 15 to 19.

This statement is made solely to the Company's members, as a body, in accordance with section 251 of the Companies Act 1985. Our work has been undertaken so that we might state to the Company's members those matters we are required to state to them in such a statement 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 work, for this statement, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

The directors are responsible for preparing the summarised annual report in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the summarised annual report with the full annual financial statements, the Directors' Report and the Directors' Remuneration Report, and its compliance with the relevant requirements of section 251 of the Companies Act 1985 and the regulations made thereunder.

We also read the other information contained in the summarised annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

BASIS OF OPINION

We conducted our work in accordance with Bulletin 1999/6 '*The auditor's statement on the summary financial statement*' issued by the Auditing Practices Board. Our report on the Group's full annual financial statements describes the basis of our audit opinion on those financial statements and the Directors' Remuneration Report.

OPINION

In our opinion the summary financial statement is consistent with the full annual financial statements, the Directors' Report and the Directors' Remuneration Report of Friends Provident plc for the year ended 31 December 2007 and complies with the applicable requirements of section 251 of the Companies Act 1985 and the regulations made thereunder.

KPMG Audit Plc
Chartered Accountants, Registered Auditor, London
18 March 2008

Statement of the Independent Auditor to the members of Friends Provident plc

We have examined the EEV Summary Financial Statements of Friends Provident plc set out on pages 20 and 21.

This statement is made solely to the Company in accordance with our terms of engagement. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in such a statement 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 for our work, for this statement, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the EEV Summary Financial Statements within the summarised annual report.

Under the terms of our engagement, our responsibility is to report to the Company our opinion on the consistency of the EEV Summary Financial Statements with the full EEV basis supplementary information set out in the Group's Annual Report and Accounts and prepared in accordance with the European Embedded Value principles issued in May 2004 by the CFO Forum as supplemented by the Additional Guidance on European Embedded Value Disclosures issued in October 2005.

We also read the other information contained in the summarised annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the EEV Summary Financial Statements.

BASIS OF OPINION

We conducted our work in accordance with Bulletin 1999/6 '*The auditor's statement on the summary financial statement*' issued by the Auditing Practices Board. Our report on the Group's full EEV basis supplementary information describes the basis of our audit opinion on that supplementary information.

OPINION

In our opinion, the EEV Summary Financial Statements are consistent with the full EEV basis supplementary information in the Group's Annual Report and Accounts for the year ended 31 December 2007.

KPMG Audit Plc
Chartered Accountants, Registered Auditor, London
18 March 2008

Shareholder information

Registrar

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Telephone:
0871 384 2056 (UK)
+44 121 415 7109 (overseas)
(Monday to Friday 8.30 am to 5.30 pm)

Website: www.shareview.co.uk

Shareholder enquiries

You should contact the Registrar if you:

- have any questions regarding your shareholding
- have any questions regarding your dividend payments
- wish to participate in the Dividend Re-investment Plan
- have lost your Friends Provident Share Account statement or share certificate
- have changed your name or address
- wish to transfer your shares into someone else's name or joint names

The Registrar offers the following share dealing services

By post: If dealing by post, you will need to complete a form and send it to the Registrar rather than just instruct them in writing of your request. The form is available on our website www.friendsprovident.com/investor or can be requested from the postal sharedealing helpline on 0871 384 2248.

By telephone: Call Shareview Dealing, a telephone dealing service provided by the Registrar, on 0845 300 2946.

(Monday to Friday 8.00 am to 6.00 pm)

Please have your Shareholder Account Number to hand.

By internet: Shareview Dealing is also available online at www.friendsprovident.com/shareholderservices

Please have your Shareholder Account Number to hand.

Latest share price information
www.friendsprovident.com/shareprice

Important dates

Shares go ex-dividend	16 April 2008
Record date	18 April 2008
Annual General Meeting	22 May 2008
Payment date of 2007 final dividend	27 May 2008

Dividend Re-investment Plan (DRIP)
Through Equiniti, Friends Provident operates a DRIP as a simple and economic facility to enable you to grow your shareholding in Friends Provident plc. Shares are purchased using your cash dividend, through a low cost dealing arrangement. Before making a decision to join the DRIP, you should first read the terms and conditions which are available to download and view at www.friendsprovident.com/dividends or by contacting the Registrar on 0871 384 2056.

To join the DRIP, simply complete the online application form available at www.friendsprovident.com/dividends or call the Registrar on 0871 384 2056.

Calls to 0871 numbers are charged at 8p per minute from a BT landline. Other telephony provider costs may vary.

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FRIENDS PROVIDENT

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