

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser authorised under the Financial Services and Markets Act 2000 immediately.**

**If you have sold or otherwise transferred all of your Friends Provident Shares, please send this Circular, together with the other accompanying documents, at once to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.**

The distribution of this Circular in certain jurisdictions may be restricted by law. No action has been or will be taken to permit the possession or distribution of this Circular (or any other publicity materials or application form(s) relating to the F&C Shares) in any jurisdiction, other than the UK, where action for that purpose may be required. Accordingly, this Circular may not be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Circular comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

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**FRIENDS PROVIDENT**

**Friends Provident plc**

*(Incorporated under the Companies Act 1985 and registered in England and Wales with registered number 4113107)*

**Recommended proposals relating to the Demerger of the Group's  
52 per cent stake in F&C Asset Management plc by means of a return of  
capital by Friends Provident Group plc**

**and**

**Notice of General Meeting**

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You should read the whole of this Circular.

Your attention is drawn to the letter from the Chairman of Friends Provident which is set out on pages 15 to 24 of this Circular and which recommends you to vote in favour of the Resolution to be proposed at the General Meeting.

Notice of the General Meeting, to be held at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE on 12 June 2009, is set out at the end of this Circular. The General Meeting will start at 11.00 a.m.

You should read the rest of this Circular and consult an independent financial adviser. If you have any further questions including in relation to the completion and return of the Form of Proxy, Form of Direction or Form of Election, please call the Shareholder Helpline on 0871 384 2012 (or +44 20 8495 4613 if you are calling from outside the UK) (open from 9.00 a.m. to 5.00 p.m., London time). For legal reasons the Shareholder Helpline will be unable to give advice on the merits of the Demerger or to provide financial advice.

Shareholders are advised that none of the F&C Shares will be, or is required to be, registered under the US Securities Act of 1933 (the "US Securities Act"). The F&C Shares may not be offered or sold in the United States absent registration under the US Securities Act or an exemption therefrom. For a description of these and certain further restrictions on

offers, sales and transfers of the F&C Shares and the distribution of this Circular, see paragraph 6 of Part II (Further Information on the Demerger).

None of the securities referred to in this Circular have been approved or disapproved by the SEC, any state securities commission in the United States or any other US regulatory authority, nor have such authorities passed upon or determined the adequacy or accuracy of this Circular. Any representation to the contrary is a criminal offence in the United States.

Goldman Sachs International is acting exclusively for Friends Provident and Friends Provident Group in connection with the Demerger and for no-one else and will not be responsible to anyone other than Friends Provident and Friends Provident Group for providing the protections afforded to the clients of Goldman Sachs International nor for providing any advice in relation to the Demerger or the contents of this Circular or any transaction, arrangement or matter referred to herein.

J.P. Morgan Cazenove Limited is acting exclusively for Friends Provident and Friends Provident Group in connection with the Demerger and for no-one else and will not be responsible to anyone other than Friends Provident and Friends Provident Group for providing the protections afforded to the clients of J.P. Morgan Cazenove Limited nor for providing any advice in relation to the Demerger or the contents of this Circular or any transaction, arrangement or matter referred to herein.

The contents of this Circular are not to be construed as legal, business, financial or tax advice. If you are in any doubt about the contents of this Circular you should consult your own legal adviser, financial adviser or tax adviser for legal, business, financial or tax advice.

#### **Notice to Canadian Investors**

This Circular constitutes an offering of the securities described herein only in those jurisdictions and to those persons where and to whom they may be lawfully offered for sale, and therein only by persons permitted to sell such securities. This Circular is not, and under no circumstances is to be construed as an advertisement or a public offering of the securities described herein. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed upon this document or the merits of the securities described herein and any representation to the contrary is an offence in Canada.

The F&C Shares will be issued in Canada pursuant to the Demerger and the issuance of the F&C Shares will be on a private placement basis only and is exempt from the requirement that Friends Provident Group prepare and file a prospectus with the relevant Canadian regulatory authorities pursuant to section 2.11 of National Instrument 45-106 – Prospectus and Registration Exemptions. Accordingly, any resale of the F&C Shares must be made in accordance with applicable securities laws which may require resale to be made in accordance with prospectus and dealer registration requirements or pursuant to exemptions from such registration and prospectus requirements. These resale restrictions may in some circumstances apply to resales of the F&C Shares outside of Canada. Shareholders who are resident in Canada are advised to seek legal advice prior to any resale of the F&C Shares.

Neither Friends Provident nor Friends Provident Group is, and nor does it intend to become, a “reporting issuer”, as such term is defined under applicable Canadian securities legislation, in any province or territory of Canada in which F&C Shares will be offered and there is currently no public market for the F&C Shares in Canada and no such market may ever develop. Under no circumstances will Friends Provident or Friends Provident Group be required to file a prospectus or similar document with any securities regulatory authority in Canada qualifying the resale of the F&C Shares to the public in any province or territory of

Canada. Shareholders resident in Canada are advised that neither Friends Provident nor Friends Provident Group currently intends to file a prospectus or similar document with any securities regulatory authority in Canada qualifying the resale of the F&C Shares to the public in any province or territory of Canada.

Any discussion of taxation and related matters contained in this Circular does not purport to be a comprehensive description of all the tax considerations that may be relevant to the Demerger and, in particular, does not address Canadian tax considerations. Shareholders resident in Canada should consult their own legal, financial and tax advisers with respect to the tax consequences of the Scheme in their particular circumstances.

Both Friends Provident and Friends Provident Group are incorporated under the laws of England and Wales. All or substantially all of the directors and officers of Friends Provident and Friends Provident Group may be located outside of Canada and, as a result, it may not be possible for Canadian investors to effect service of process within Canada upon Friends Provident or Friends Provident Group or such persons. All or a substantial portion of the assets of Friends Provident and Friends Provident Group and such other persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against Friends Provident or Friends Provident Group or such persons in Canada or to enforce a judgment obtained in Canadian courts against Friends Provident or Friends Provident Group or persons outside of Canada.

Upon receipt of this Circular, each recipient confirms that it has expressly requested that all documents evidencing or relating in any way to the sale of the securities described herein (including for greater certainty any purchase confirmation or any notice) be drawn in the English language only. *Par la réception de ce document, chaque investisseur canadien confirme par les présentes qu'il a expressément exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à la vente des valeurs mobilières décrites aux présentes (incluant, pour plus de certitude, toute confirmation d'achat ou tout avis) soient rédigés en anglais seulement.*

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### NOTE ON FORWARD-LOOKING STATEMENTS

This Circular includes forward-looking statements. All statements other than statements of historical facts included in this Circular, including, without limitation, those regarding the Group's financial position, business strategy, plans and objectives of management for future operations, are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. Among the important factors that could cause the Group's actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, the factors detailed in paragraphs 4 and 5 of Part I (Letter From the Chairman). These forward-looking statements speak only as of the date on which they are made. Save as required by the FSA, the London Stock Exchange or applicable law, including, without limitation, the Prospectus Rules, the Listing Rules and the Disclosure and Transparency Rules, Friends Provident expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in Friends Provident's or the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

<i>Event</i>	<i>Expected time/date<sup>(1)</sup></i>
Latest time for return of White Form of Proxy or Direction for the General Meeting	11.00 a.m. on 10 June 2009
Voting Record Time <sup>(2)</sup>	6.00 p.m. on 10 June 2009
Friends Provident General Meeting	11.00 a.m. on 12 June 2009
Latest time for return of Green Form of Election	4.30 p.m. on 26 June 2009
Court hearing to confirm Demerger Reduction	2 July 2009
Demerger Record Time	6.00 p.m. on 2 July 2009
Demerger Reduction becomes effective and Demerger is completed	3 July 2009
Crediting of F&C Shares to CREST accounts <sup>(3)</sup>	by 8.00 a.m. on 6 July 2009
Despatch of certificates for F&C Shares <sup>(3)</sup>	by 17 July 2009
Payment of proceeds to Friends Provident Group Shareholders for F&C Shares sold under Cash-out Procedure <sup>(4)</sup>	as soon as practicable

- (1) All times shown in this document are London times unless otherwise stated. The dates and times given are indicative only and are based on Friends Provident's current expectations and may be subject to change. If any of the times and/or dates above change the revised times and/or dates will be notified to Shareholders by announcement through the Regulatory News Service of the London Stock Exchange.
- (2) If the General Meeting is adjourned, the Voting Record Time for the adjourned meeting will be 6.00 p.m. on the day which is two days before the date of the adjourned meeting.
- (3) These dates will depend, among other things, on the date on which the Court confirms the Demerger Reduction and when the order of the Court confirming the Demerger Reduction is registered by the Registrar of Companies.
- (4) The Company intends to appoint an agent or agents to attempt to sell these F&C Shares in the market. The price at which such F&C Shares are sold will depend upon market conditions and the proceeds of sale may be less than the prevailing market price of the F&C Shares prior to the Demerger. There can be no guarantee of the time period within which the F&C Shares will be sold or that they will be able to be sold. In the case of certificated Shareholders, cheques in respect of the proceeds of sale are expected to be despatched within five business days after settlement of any sale. In the case of uncertificated Shareholders, it is expected that the proceeds of sale will also be despatched by cheque and in the same time period. If no sale can be made then such Shareholders will receive the F&C Shares to which they would otherwise have been entitled as soon as practicable.

## **ACTION TO BE TAKEN**

### **YOU NEED TO VOTE.**

For the reasons set out in this Circular, the Directors unanimously consider that the Demerger explained in this Circular is in the best interests of Shareholders. Accordingly, in order to implement the Demerger, the Directors recommend that you vote in favour of the Resolution, as the Directors intend to do in respect of their own beneficial holdings of Friends Provident Shares, and that you take the action described below.

You should read the whole of this Circular.

### **Voting at the General Meeting**

Please check you have received the following with this Circular:

#### **If you are a registered Shareholder:**

- a White Form of Proxy for use in respect of the General Meeting on 12 June 2009; and
- (if you held 2,500 Friends Provident Shares or less at 14 May 2009), a Green Form of Election for use in connection with the Cash-out Procedure.

#### **If you hold your Friends Provident Shares through the Friends Provident Share Account:**

- a White Form of Direction for use in respect of the General Meeting on 12 June 2009; and
- (if you held 2,500 Friends Provident Shares or less at 14 May 2009 and are not a US Person), a Green Form of Election for use in connection with the Cash-out Procedure.

**Please refer to the section below headed “Using the Green Form of Election” for further information on the Form of Election.**

**You are strongly encouraged to sign and return your Form of Proxy or Form of Direction in accordance with the instructions thereon as soon as possible and, in any event, so as to be received by Friends Provident’s Registrar, Equiniti of Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA by 11.00 a.m. on 10 June 2009.**

The completion and return of a Form of Proxy or a Form of Direction will not prevent you from attending and voting in person at the General Meeting or any adjournment thereof, if you so wish and are so entitled.

### **Multiple proxies**

As a registered Shareholder, you are entitled to appoint a proxy in respect of some or all of your shares. You are also entitled to appoint more than one proxy. A space has been included on the Form of Proxy to allow you to specify the number of shares in respect of which that proxy is appointed. The principles applied to multiple proxy voting instructions are detailed below.

If you wish to appoint more than one proxy in respect of your shareholding, you should contact Equiniti on 0871 384 2012 (or on +44 20 8495 4613 if calling from outside the UK) for further Forms of Proxy, or photocopy the Form of Proxy as required.

The following principles shall apply in relation to the appointment of multiple proxies:

- (a) The Company will give effect to the intentions of members and include votes wherever and to the fullest extent possible.

- (b) Where a proxy does not state the number of shares to which it applies (a “**blank proxy**”) then, subject to the following principles where more than one proxy is appointed, that proxy is deemed to have been appointed in relation to the total number of shares registered in the name of the appointing member (the “**member’s entire holding**”). In the event of a conflict between a blank proxy and a proxy which does state the number of shares to which it applies (a “**specific proxy**”), the specific proxy shall be counted first, regardless of the time it was sent or received (on the basis that as far as possible, the conflicting Forms of Proxy should be judged to be in respect of different shares) and remaining shares will be apportioned to the blank proxy (*pro rata* if there is more than one).
- (c) Where there is more than one proxy appointed and the total number of shares in respect of which proxies are appointed is no greater than the member’s entire holding, it is assumed that proxies are appointed in relation to different shares, rather than that conflicting appointments have been made in relation to the same shares. That is, there is only assumed to be a conflict where the aggregate number of shares in respect of which proxies have been appointed exceeds the member’s entire holding.
- (d) When considering conflicting proxies, later proxies will prevail over earlier proxies, and which proxy is later will be determined on the basis of which proxy is last sent (or, if the Company is unable to determine which is last sent, last received). Proxies in the same envelope will be treated as having been sent and received at the same time, to minimise the number of conflicting proxies.
- (e) If conflicting proxies are sent or received at the same time in respect of (or deemed to be in respect of) an entire holding, none of them shall be treated as valid.
- (f) Where the aggregate number of shares in respect of which proxies are appointed exceeds a member’s entire holding and it is not possible to determine the order in which they were sent or received (or they were all sent or received at the same time), the number of votes attributed to each proxy will be reduced *pro rata*.
- (g) Where the application of paragraph (f) above gives rise to fractions of shares, such fractions will be rounded down.
- (h) If a member appoints a proxy or proxies and then decides to attend the General Meeting in person and vote using his poll card, then the vote in person will override the proxy vote(s). If the vote in person is in respect of the member’s entire holding, then all proxy votes will be disregarded. If, however, the member votes at the meeting in respect of less than the member’s entire holding, then if the member indicates on his poll card that all proxies are to be disregarded, that shall be the case; but if the member does not specifically revoke proxies, then the vote in person will be treated in the same way as if it were the last received proxy and earlier proxies will only be disregarded to the extent that to count them would result in the number of votes being cast exceeding the member’s entire holding.
- (i) In relation to paragraph (h) above, in the event that a member does not specifically revoke proxies, it will not be possible for the Company to determine the intentions of the member in this regard. However, in light of the aim to include votes wherever and to the fullest extent possible, it will be assumed that earlier proxies should continue to apply to the fullest extent possible.

## **Electronic appointment of proxies by registered Friends Provident Shareholders holding shares through CREST**

Registered Shareholders who hold shares through CREST and who wish to appoint a proxy or proxies for the General Meeting or any adjournment(s) by using the CREST electronic proxy appointment service may do so by following the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a “**CREST Proxy Instruction**”) must be properly authenticated in accordance with Euroclear’s specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instructions given to a previously appointed proxy, must in order to be valid, be transmitted so as to be received by the Registrar (ID RA19) at least 48 hours prior to the General Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Applications Host) from which the Registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

CREST members and, where applicable, their CREST sponsors or voting service provider(s), should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsor or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in the Uncertified Securities Regulations 2001.

### **The Friends Provident Share Account**

If you hold your shares through the Friends Provident Share Account, you will receive a White Form of Direction for the General Meeting. You are requested to complete either Part A or Part B of the form and return it to Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA so as to reach the Registrar by 11.00 a.m. on 10 June 2009, using the pre-paid addressed envelope provided.

Complete and return Part A of the form if you do not wish to attend the General Meeting. This part of the form directs your nominee company or proxy to vote as you wish on your behalf. If you complete Part A of the form, you may change your mind and attend the General Meeting. You will be able to vote at the General Meeting if you ask the Registrar to arrange this for you on arrival at the General Meeting.

Complete and return Part B of the form if you wish to attend the General Meeting. This will enable the nominee company which is the registered holder of your Friends Provident Shares to appoint you as its proxy in respect of the Friends Provident Shares it owns on

your behalf. By completing this section of the form, you will also be able to vote and speak at the General Meeting.

If you propose to attend the General Meeting please detach and bring with you the attendance slip to assist your admission.

### **Using the Green Form of Election**

It is intended that Shareholders who are not US Persons and who hold 2,500 New Ordinary Shares or less at the Demerger Record Time and who would therefore receive 250 F&C Shares or less pursuant to the Demerger will not receive these F&C Shares unless they actively elect otherwise by completing and returning the Green Form of Election. Instead, the Company intends to appoint an agent or agents to sell these F&C Shares on such shareholders' behalf in the market and the relevant shareholders will receive the cash proceeds of such sale instead of F&C Shares. This is referred to as the Cash-out Procedure.

If however you hold (or may at the Demerger Record Time hold) 2,500 Friends Provident Shares or less and wish to elect to receive your F&C Shares, please complete and return the enclosed Green Form of Election to Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA by 4.30 p.m. on 26 June 2009 using the pre-paid addressed envelope provided.

**Shareholders (who are not US Persons) who at 14 May 2009 held 2,500 Friends Provident Shares or less will be sent a Green Form of Election. Shareholders (who are not US Persons) who prior to the Demerger Record Time reduce their shareholding in the Company (or, once the Scheme has become effective, their corresponding shareholding in Friends Provident Group) to below this threshold will also be subject to the Cash-out Procedure in respect of the F&C Shares to which they would otherwise be entitled. If such Shareholders wish to receive F&C Shares, they should contact Equiniti on 0871 384 2012 (or +44 20 8495 4613 if calling from outside the UK) to request a Green Form of Election.**

**Shareholders who at 14 May 2009 held 2,500 Friends Provident Shares or less but who prior to the Demerger Record Time increase their shareholding in the Company (or, once the Scheme has become effective, their corresponding shareholding in Friends Provident Group) to above this threshold will not be subject to the Cash-out Procedure. Shareholders who are US Persons will not in any event be subject to the Cash-out Procedure.**

All Green Forms of Election must be received by Equiniti by 4.30 p.m. on 26 June 2009. Shareholders (who are not US Persons) who at the Demerger Record Time hold 2,500 Friends Provident Group Shares or less and who have not returned a Green Form of Election by 4.30 p.m. on 26 June 2009 will have any F&C Shares to which they would otherwise be entitled sold on their behalf.

### **Assistance**

If you have any further questions, including in relation to the completion and return of the Form of Proxy, the Form of Direction or the Form of Election, please call the Shareholder Helpline on 0871 384 2012 (or +44 20 8495 4613 if you are calling from outside the UK) (open between 9.00 a.m. and 5.00 p.m., London time). For legal reasons the Shareholder Helpline will be unable to give advice on the merits of the Demerger or to provide financial advice.

## KEY QUESTIONS ANSWERED

The Demerger described in this Circular is complicated and you may have a number of questions. Set out below are some key questions and answers. You should however read the full details of the Demerger in this Circular and not just rely on the questions and answers below.

### **1 What is being proposed?**

On 5 May 2009, we wrote to you about the proposal to insert Friends Provident Group plc as the new holding company of the Group. We explained that one of the reasons for this was to provide the flexibility to engage in certain corporate transactions including the previously announced demerger of the Group's stake in F&C, a separately listed company. We are now ready to proceed with the Demerger and that is the purpose of this Circular.

The Demerger cannot however proceed unless the Reorganisation has become effective. Shareholders voted in favour of the Reorganisation at the meetings held on 21 May 2009 and the process to implement the Reorganisation is continuing. Accordingly, this Circular assumes that the Reorganisation will become effective and that Shareholders will have exchanged their Friends Provident Shares for New Ordinary Shares in Friends Provident Group before the Demerger Record Time.

Following the Demerger, Shareholders will hold F&C Shares directly. The number of F&C Shares each Shareholder will receive will be pro rated to the number of shares in Friends Provident Group they hold as follows: for every 10 New Ordinary Shares they hold, each Friends Provident Group Shareholder will receive 1 F&C Share. This does not take into account the possible application of the Cash-out Procedure. For details of the Cash-out Procedure see question 10 of this section and paragraph 3 of Part II (Further Information on the Demerger) of this Circular.

### **2 How does the Demerger fit in with the proposals relating to the insertion of Friends Provident Group as the new holding company of Friends Provident which you have previously written to us about?**

On 5 May 2009 we wrote to you to set out details of a proposed corporate reorganisation through which Friends Provident Group would be inserted as the new holding company of the Group. We explained that this was necessary to create distributable reserves to enable payment of the dividend for 2008 and future dividends, and to provide flexibility to effect other corporate transactions, including the proposed Demerger.

Shareholders voted in favour of the Reorganisation at the meetings held on 21 May 2009 and the process to implement the Reorganisation is continuing. In the meantime, we are now ready to proceed with the proposed (and previously announced) Demerger.

The Demerger is the subject of this Circular and of the Resolution to be put to Shareholders at the General Meeting to be held on 12 June 2009.

### **3 Why are you doing this?**

The strategic review announced on 31 January 2008 concluded that Friends Provident should focus on its core strengths of designing, establishing and administering life and pensions products in the UK and in related international markets. The strategic review

identified that F&C did not fit with the revised strategy. Since the Strategic Review Announcement, the Board has been exploring opportunities in relation to its holding in F&C with a view to maximising value for Friends Provident Shareholders.

The Friends Provident Board has concluded that the preferred option for the future of the F&C business is for Friends Provident to demerge the shares it owns in F&C and to distribute the F&C Shares to its own shareholders by way of the Demerger. The Board reaffirmed this view in the Annual Report and Accounts for 2008 and in the first quarter 2009 Interim Management Statement issued on 28 April 2009. This is in keeping with the Board's view (as stated in the Strategic Review Announcement) that any capital that is released as a result of the revised strategy will be returned to Friends Provident Shareholders.

**4 What do I need to do?**

Please refer to page 6 of this Circular (Action to be Taken) for details of the steps that you are required to take in relation to these proposals.

**5 Why is there a meeting and do I need to attend?**

There will be a General Meeting in respect of the Demerger, which is being called to enable Shareholders to vote on the Demerger Reduction.

You are entitled, but not required, to attend the General Meeting. If you do not attend, you are still entitled to appoint a proxy to vote at the meeting.

**6 Who is entitled to vote?**

Only Shareholders registered in the register of members of Friends Provident Group at 6.00 p.m. on 10 June 2009 are entitled to vote at the General Meeting.

**7 What will I receive and when?**

If fully implemented, the effect of the Demerger will mean that Shareholders will receive:

For every 10 New Ordinary Shares —————> 1 F&C Share

The Demerger will not proceed unless the Reorganisation has first become effective. This means that, if both the Reorganisation and Demerger become effective, Shareholders will receive:

For every 10 Friends Provident Shares —————> 10 New Ordinary Shares in Friends Provident Group and 1 F&C Share

This does not take into account the possible application of the Cash-out Procedure. For details of the Cash-out Procedure see question 10 of this section and paragraph 3 of Part II (Further Information on the Demerger) of this Circular.

It is expected that Shareholders entitled to F&C Shares in certificated form will receive their share certificates by 17 July 2009. It is expected that Shareholders entitled to F&C Shares in uncertificated form will have their accounts in CREST credited with the

relevant shares on 6 July 2009. If the F&C Shares which Shareholders would otherwise receive are able to be sold pursuant to the Cash-out Procedure, Friends Provident Group Shareholders will receive the cash proceeds to which they are entitled as soon as practicable after the Demerger. If no sale can be made then such Shareholders will receive the F&C Shares to which they would otherwise have been entitled as soon as reasonably practicable.

**8 What will my F&C Shares be worth?**

F&C is a listed company whose shares are traded on the London Stock Exchange and the F&C Shares have their own market price. Please see paragraph 5.3 of Part I (Letter from the Chairman) for more information on the market value of the F&C Shares.

**9 Will my dividend entitlement change as a result of the Demerger?**

If the Demerger becomes effective, Shareholders will be eligible to receive dividends from F&C in addition to those they may receive from Friends Provident Group. However, the success of the Demerger is no guarantee that any dividend will in fact be declared or paid by either F&C or Friends Provident Group.

**10 What is the Cash-out Procedure?**

It is intended that Shareholders who are not US Persons and who hold 2,500 New Ordinary Shares or less at the Demerger Record Time and who would therefore receive 250 F&C Shares or less pursuant to the Demerger will not receive these F&C Shares unless they actively elect to do so by completing and returning the Green Form of Election. Instead, the Company intends to appoint an agent or agents to sell these shares on such Shareholders' behalf in the market and the relevant Shareholders will, instead of F&C Shares, receive the cash proceeds of such sale as soon as reasonably practicable. The price at which such F&C Shares are sold will depend upon market conditions and the proceeds of sale may be less than the prevailing market price of the F&C Shares prior to the Demerger. There can be no guarantee of the time period within which the F&C Shares will be sold or that they will be able to be sold. The proceeds of sale are expected to be despatched within five business days after settlement of any sale. If no sale can be made then such Shareholders will receive the F&C Shares to which they would otherwise have been entitled as soon as practicable. Those Shareholders who are not US Persons and who hold 2,500 New Ordinary Shares or less at the Demerger Record Time and who do not wish to sell their F&C Shares and instead wish to elect to receive those F&C Shares, should complete and return the enclosed Green Form of Election to Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA by 4.30 p.m. on 26 June 2009 using the pre-paid addressed envelope provided.

Shareholders who are US Persons will not be subject to the Cash-out Procedure and will all receive F&C Shares pursuant to the Demerger.

The implementation and operation of the Cash-out Procedure requires a change to the Articles of Association of F&C and is therefore conditional on F&C's shareholders having approved such change by special resolution. If such approval is not obtained, Shareholders who would have been subject to the Cash-out Procedure will receive the F&C Shares to which they would otherwise have been entitled as soon as possible.

Please refer to paragraph 3 of Part II (Further Information on the Demerger) of this Circular for further details on the Cash-out Procedure and to the section entitled “Using the Green Form of Election” on page 7 of this Circular for more information on how to complete and return the Green Form of Election.

If the F&C Shares which Shareholders would otherwise receive are sold pursuant to the Cash-out Procedure, we expect that Shareholders will receive the sum to which they are entitled within five business days of settlement of the sale of such F&C Shares.

**11 I only hold a few shares in Friends Provident. Will I receive cash or shares in F&C?**

Shareholders who own more than 2,500 New Ordinary Shares at the Demerger Record Time (and who will consequently be entitled to more than 250 F&C Shares) will receive F&C Shares. Unless they elect otherwise, it is intended that Shareholders who are not US Persons and who hold 2,500 Friends Provident Shares or less at the Demerger Record Time (and who will consequently be entitled to 250 F&C Shares or less) will have the F&C Shares to which they are entitled sold under the procedure referred to in this Circular as the “Cash-out Procedure”. If you hold 2,500 New Ordinary Shares or less at the Demerger Record Time and still wish to receive F&C Shares (and you are not a US Person), you may elect to do this by completing and returning the Green Form of Election sent to you with this Circular to Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA by 4.30 p.m. on 26 June 2009 using the pre-paid addressed envelope provided.

Shareholders who are US Persons will not be subject to the Cash-out Procedure and will all receive F&C Shares pursuant to the Demerger.

The implementation and operation of the Cash-out Procedure requires a change to the Articles of Association of F&C and is therefore conditional on F&C’s shareholders having approved such change by special resolution.

**12 Will I receive fractional interests in F&C Shares in connection with the Demerger?**

You will not receive fractional interests in F&C Shares. Any fractional entitlements that arise will be aggregated and the resulting F&C Shares sold in the market, as soon as practicable, and the proceeds will be used to fund the costs of the Demerger and the Cash-out Procedure (as described in question 17 below).

**13 Do I have to pay for the F&C Shares I will receive?**

No. Any F&C Shares you receive will be free and no payment will be required.

**14 What if I am resident outside the UK?**

Shareholders resident outside the UK, or who are nationals or citizens of jurisdictions outside the UK, should read the additional information set out in paragraphs 5 and 6 of Part II (Further Information on the Demerger) of this Circular.

**15 What if I hold options and awards under the Friends Provident Share Schemes?**

Please refer to paragraph 7 of Part II (Further Information on the Demerger) for a summary of the consequences for participants in the Friends Provident Share Schemes.

**16 What are the tax consequences of the Demerger?**

Please refer to Part III (Taxation) of this Circular for a description of the UK and US tax consequences of the Demerger.

**17 How will the Company pay the expenses of the Demerger?**

In total, the Group owns 52.05 per cent of F&C. Not all of the ordinary shares in F&C which the Group owns will be demerged to Shareholders. The Group intends to retain a 5.27 per cent holding in F&C in order to sell this stake in the market and to use the proceeds of sale to fund the costs of the Reorganisation, the Demerger and the Cash-out Procedure. The proceeds of sale of aggregated fractional entitlements to F&C Shares will also be put towards these costs.

**18 What if I still have questions?**

You should read the rest of this Circular and consult an independent financial adviser. If you have any further questions, including in relation to the completion and return of the Form of Proxy, Form of Direction or Form of Election, please call the Shareholder Helpline on 0871 384 2012 (or +44 20 8495 4613 if you are calling from outside the UK) (open between 9.00 a.m. and 5.00 p.m., London time). For legal reasons the Shareholder Helpline will be unable to give advice on the merits of the Demerger or to provide financial advice.

## PART I

### LETTER FROM THE CHAIRMAN



### FRIENDS PROVIDENT

Friends Provident plc  
Pixham End, Dorking, Surrey, RH4 1QA  
*(incorporated in England and Wales with registered number 4113107)*

26 May 2009

#### To Friends Provident Shareholders

Dear Shareholder

#### Proposed demerger of the Group's stake in F&C

##### 1 Introduction

On 31 October 2008, your Board announced the proposed demerger of the Group's interest in the ordinary share capital of F&C Asset Management plc. The Board reaffirmed this view in the Annual Report and Accounts for 2008 and in the first quarter 2009 Interim Management Statement issued on 28 April 2009.

On 5 May 2009 we wrote to you about the proposed insertion of Friends Provident Group as the new holding company of the Group by means of a Scheme of Arrangement. One of the reasons for recommending this to you was that the insertion of Friends Provident Group would provide flexibility to engage in certain corporate transactions, including the proposed Demerger. We are now ready to proceed with the Demerger and that is the purpose of this Circular.

The Demerger cannot however proceed unless the Reorganisation has become effective. Shareholders voted in favour of the Reorganisation at the meetings held on 21 May 2009 and the process to implement the Reorganisation is continuing. Accordingly, this Circular assumes that the Reorganisation will become effective and that Shareholders will have exchanged their Friends Provident Shares for New Ordinary Shares in Friends Provident Group before the Demerger Record Time.

The Directors have determined that the most efficient way to distribute the F&C Shares to Friends Provident Shareholders is to structure the Demerger as a return of capital in the form of the F&C Shares. This return of capital will be effected once Friends Provident Group has become the holding company of the Group. Although Friends Provident Group will undergo a reduction of capital in connection with the Reorganisation (as described in Part II (Explanatory Statement) of the Reorganisation Circular), it is necessary that it undergo a second reduction of capital, the Demerger Reduction, in order to implement the Demerger by means of a return of capital. The Demerger Reduction and Demerger are the subject of this Circular.

As our previous Circular explained, it is also necessary to effect a reduction of capital to create distributable reserves to pay a dividend for 2008 and the Reorganisation will achieve this so as to ensure that the dividend for 2008 can be paid to you on 24 July

2009. Because we are structuring the Demerger as a return of capital in specie, it is necessary to undertake a second reduction of capital under Section 135 of the Companies Act 1985. This will enable the Group to return capital (in the form of the F&C Shares) to Shareholders pursuant to the Demerger. It is expected that the Demerger Reduction will also have the effect of creating further distributable reserves which will provide even greater future flexibility.

The purpose of this Circular is to:

- (i) explain the background to and reasons for the Demerger;
- (ii) explain why the Directors unanimously consider the Demerger to be in the best interests of the Friends Provident Shareholders as a whole; and
- (iii) recommend that you vote in favour of the Resolution to be proposed at the General Meeting.

## **2 Background to and reasons for the Demerger**

On 31 January 2008, Friends Provident announced the results of a strategic review which the Directors believed would, when implemented, transform Friends Provident into a more streamlined and more focused business.

The strategic review concluded that Friends Provident should focus on its core strengths of designing, establishing and administering life and pensions products in the UK and in related international markets. The review identified that F&C did not fit with the Group's strategy.

The Friends Provident Board has concluded that the preferred option for the future of the F&C business is for the Group to demerge the shares it owns in F&C and to distribute the F&C Shares to its own shareholders by way of a return of capital. The Board reaffirmed this view in the Annual Report and Accounts for 2008 and in the first quarter 2009 Interim Management Statement issued on 28 April 2009. This is in keeping with the Board's view (as stated in the Strategic Review Announcement) that any capital that is released as a result of the revised strategy will be returned to Friends Provident Shareholders.

In light of the considerations outlined above, Friends Provident believes that the Demerger will allow the Group to focus on the business it considers core.

## **3 Information on F&C**

The Group's asset management business is F&C, a separately listed company, in which it has a 52.05 per cent shareholding. This stake is split between Friends Provident, which holds a 47.63 per cent stake and L&M, which holds a 4.42 per cent stake.

As at 31 December 2008, the Group's stake in F&C was valued at £149 million and constituted 4.2 per cent of the Group's net assets on an IFRS basis and 4.5 per cent of the Group's net assets on an EEV basis.

F&C provides investment products to retail, insurance and institutional clients. It manages a range of active investment funds covering major asset classes such as fixed interest, equities, property and money markets. In addition it offers institutional and insurance clients asset and liability management capabilities, liability driven investment solutions and other products such as hedge funds. It manages assets for a number of investment trusts, including the Foreign and Colonial Investment Trust. In the retail market, it offers a wide range of OEICs and SICAVs including ethical and other

equities, corporate bonds and multi-manager funds. It operates both in the institutional market through investment consultants and in the retail market through IFAs. In Europe it has entered into a number of sub-advisory partnerships with local partners, where F&C is the provider of investment products.

F&C was formed in 2004 from the merger of ISIS Asset Management plc, which was then Friends Provident's 67 per cent owned and separately listed subsidiary, and F&C Group (Holdings) Limited, a major European asset manager wholly owned by Eureko BV. F&C manages funds on behalf of retail, insurance and institutional clients. In September 2008, F&C completed the merger of its UK and Irish property business with REIT Asset Management to create F&C REIT Asset Management, a standalone global property asset manager in which F&C holds a 70 per cent stake. As at 31 March 2009, F&C had £92.7 billion assets under management.

Further information about F&C is available on its website at [www.fandc.com](http://www.fandc.com)

## **4 Risks related to F&C**

### **4.1 An asset management business such as F&C faces a number of risks**

When buying investment products or selecting an investment manager, customers consider, amongst other things, the historical investment performance of the product or the manager. In the event that F&C does not provide satisfactory or appropriate investment returns in the future, underperforms its competitors or benchmark performance measures, or fails to respond to market demands (e.g. by not selling an investment product which a customer requires), existing mandates may be reduced, lost or transferred to other investment managers and the business may find it more difficult to win new mandates. If F&C fails to win new mandates and/or loses or fails to retain a significant number of existing mandates the performance of F&C may fail to achieve expectations and the business, results of operations and/or financial condition of F&C could be materially adversely affected (e.g. through a reduction in revenue received from the products sold). In addition, underperformance may result in the removal of F&C from consultants' shortlists. This would be likely to lead to a loss of business and/or a failure to win new mandates.

There are risks associated with the process of managing customer assets. For example, failure to manage the investment process or execute the trading activities properly could lead to poor investment decisions and poor asset allocation, the wrong investments being bought or sold and the incorrect monitoring of exposures. A failure to achieve competitive investment returns on customers' assets could lead to the loss of customers. Failure to meet contractual obligations to manage assets to particular standards may result in liability for F&C to pay compensation.

In addition, if F&C loses any of its key investment managers it may also lose certain investment management mandates and funds and/or be "put on hold" by consultants and other controllers of investments, making the retention and winning of mandates and funds more difficult.

### **4.2 Loss of client mandates**

Mandates which F&C has with institutional clients may be terminated or assets may be withdrawn resulting in a loss of fee revenue for F&C (and hence the Group). Although F&C has the benefit of certain long term agreements, these agreements may be terminated or assets withdrawn as a result of a failure to meet

performance targets or in other circumstances specified in the relevant agreement. One of the circumstances in which these agreements may be terminated is upon a change of control of F&C. Compensation may be payable to the manager upon termination under the relevant agreements. If an agreement is terminated or assets are withdrawn, any amount payable to F&C by way of compensation may not fully compensate it for the loss of revenues which would otherwise have been earned over the full remaining duration of the relevant agreement.

The F&C group is an active asset manager. Clients of F&C may decide that all or part of the assets managed by F&C should be managed on a passive (index tracking) basis which may mean that assets are withdrawn from F&C, with the consequence of a loss of revenue.

F&C's revenue is, to a large extent, based on the value of assets under management, and so a decline in the value of these assets for whatever reason or a withdrawal of the assets, as described above or a reallocation to lower margin products, could have a material adverse effect on F&C's business, results of operations and/or financial condition.

A trend has developed for pension funds and institutional investors to have assets arranged to a greater extent under specialist mandates rather than a limited number of generalist mandates. This trend, which has been encouraged by consultants to the industry, may have a damaging effect on F&C's business if it is unable to compete with other specialist providers.

In addition the following risks were identified in F&C's Annual Report for the financial year ended 31 December 2008:

#### **4.3 Continued deterioration in the world economies**

Further deterioration in the global economic environment is likely to adversely impact F&C's ability to attract and retain clients and maintain staff morale. Falling market levels and asset values have a direct impact on F&C's revenues.

#### **4.4 Failure of the F&C's operational platforms**

Failure in the operational platforms will, at least in the short term, adversely impact client service and the ability to manage client assets.

Following on from the in-sourcing of investment administration services from Mellon in 2007, F&C has, during 2008, run a programme to integrate the operational systems and processes. The areas covered include Reconciliations, Corporate Actions and Trade Processing. HiPortfolio, the previous in-house system, has been upgraded to version 3.5 and the first tranche of ex-Mellon portfolios transferred on to this platform at the end of January 2009.

#### **4.5 Weaknesses within the front office control processes**

Ineffective front office control processes could lead to inaccurate investment decision making and client errors.

During 2008 considerable progress has been made in automating the pre and post trade checking of compliance with F&C's clients' mandates.

#### **4.6 Risk of poor historic investment performance leading to loss of key investment mandates**

The challenges of volatile equity markets, illiquid credit conditions and a general decline in investor sentiment have impacted fund performance throughout 2008. Despite this, there is a continuing and ongoing focus on performance and the retention of key talent.

#### **4.7 Increased levels of counterparty risk arising from current market conditions**

There is an increased risk of counterparty default which could impact F&C and its clients. To address this risk, increased counterparty exposure reporting is in place and F&C treasury exposure limits have been reduced.

### **5 Risks related to the Demerger**

#### **5.1 Shareholders will face more direct exposure to risks in F&C's business if the Demerger becomes effective**

Until the Demerger has become effective, Friends Provident will operate an asset management business through its ownership of a 52.05 per cent stake in F&C, a separately listed asset management company. This stake is split between Friends Provident, which holds a 47.63 per cent stake and L&M, which holds a 4.42 per cent stake. Accordingly it will face exposure to the risks related to F&C's business described in paragraph 4 above.

Shareholders have historically been exposed to the risks faced by F&C's business (including those set out in paragraph 4 above) through their shareholding in Friends Provident. If the Demerger becomes effective, Shareholders will hold shares in F&C, and be exposed to these risks, directly.

Shareholders may not be able to face these risks in as robust a manner as the Group, given its resources and experience of operating an asset management business.

#### **5.2 Completion is subject to a number of conditions**

Completion of the Demerger is conditional upon, among other things, the approval of the Resolution by the requisite majority of the Friends Provident Shareholders and the subsequent confirmation by the Court of the Demerger Reduction. Please refer to paragraph 2 of Part II (Further Information on the Demerger) for a more detailed description of the conditions to the Demerger.

In addition, Friends Provident and Friends Provident Group reserve the right not to implement the Demerger at any time until it has become effective.

The implementation and operation of the Cash-out Procedure requires a change to the Articles of Association of F&C and is therefore conditional on F&C's shareholders having approved such change by special resolution. If such approval is not obtained, Shareholders who would have been subject to the Cash-out Procedure will receive the F&C Shares to which they would otherwise have been entitled as soon as possible.

#### **5.3 The market value of the F&C Shares may fluctuate and may not reflect the underlying asset value of F&C**

The value of an investment in F&C may go down, as well as up. The market value of the F&C Shares can fluctuate and may not always reflect the underlying asset value. A number of factors outside the control of F&C may impact on its

performance and the price of the F&C Shares. Such factors include the operating and share price performance of other companies in the industry and markets in which F&C operates, speculation about F&C's business in the press, media or investment community, changes to F&C's trading forecasts, the publication of research reports by analysts and general market conditions.

## **6 The Demerger process**

The Demerger is proposed to be effected by a return of capital to Shareholders by Friends Provident Group. This is a Court process known as a reduction of capital.

The majority of the shares in F&C which are owned by the Group are held directly by Friends Provident. A small number are currently held by L&M, a subsidiary of Friends Provident. Once Friends Provident Group has become the holding company of the Group, and before the Demerger, the shareholdings of L&M and Friends Provident in F&C will be transferred to Friends Provident Group by way of intra-group sale.

The Demerger will result in the F&C Shares being distributed to New Ordinary Shareholders on a *pro rata* basis of 1 F&C Share for every 10 New Ordinary Shares held. The individual entitlements of Shareholders to receive F&C Shares pursuant to the Demerger will be calculated by reference to their holdings of New Ordinary Shares at the Demerger Record Time. To the extent that individual fractional entitlements to F&C Shares arise on the Demerger Reduction, they will be dealt with as described under paragraph 1.3 of Part II (Further Information on the Demerger) of this Circular.

## **7 The Cash-out Procedure**

It is intended that Shareholders who are not US Persons and who hold 2,500 New Ordinary Shares or less at the Demerger Record Time and who would therefore receive 250 F&C Shares or less pursuant to the Demerger will not receive these F&C Shares unless they actively elect to do so by completing and returning the Green Form of Election. Instead, the Company intends to appoint an agent or agents to sell these shares on such shareholders' behalf in the market and the relevant shareholders will, instead of F&C Shares, receive the cash proceeds of such sale as soon as reasonably practicable. The price at which such F&C Shares are sold will depend upon market conditions and the proceeds of sale may be less than the prevailing market price of the F&C Shares prior to the Demerger. There can be no guarantee of the time period within which the F&C Shares will be sold or that they will be able to be sold. The proceeds of sale are expected to be despatched within five business days after settlement of any sale. If no sale can be made then such Shareholders will receive the F&C Shares to which they would otherwise have been entitled as soon as reasonably practicable. Those Shareholders who are not US Persons and who hold 2,500 New Ordinary Shares or less at the Demerger Record Time and who do not wish to sell their F&C Shares, and instead wish to elect to receive those F&C Shares, should complete and return the enclosed Green Form of Election to Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA by 4.30 p.m. on 26 June 2009 using the pre-paid addressed envelope provided.

Any F&C Shares sold in the market pursuant to the Cash-out Procedure will be sold at the same time and at the same price as any F&C Shares sold following the aggregation of fractional entitlements, and the retained shares in F&C sold to pay the costs of the Reorganisation, Demerger and the Cash-out Procedure, as described under paragraph 8 of Part II (Further Information on the Demerger) of this Circular.

The implementation and operation of the Cash-out Procedure requires a change to the Articles of Association of F&C and is therefore conditional on F&C's shareholders having approved such change by special resolution. If such approval is not obtained, Shareholders who would have been subject to the Cash-out Procedure will receive the F&C Shares to which they would otherwise have been entitled as soon as possible.

Shareholders who are US Persons will not be subject to the Cash-out Procedure and will all receive F&C Shares pursuant to the Demerger.

Please refer to paragraph 3 of Part II (Further Information on the Demerger) of this Circular for further details on the Cash-out Procedure and to the section entitled "Using the Green Form of Election" on page 9 of this Circular for more information on how to complete and return the Green Form of Election.

## **8 Effective Date of the Demerger**

The Demerger Reduction, and the Demerger, will become effective upon registration by the Registrar of Companies of a copy of the order of the Court confirming the Demerger Reduction, and they are expected to become effective on 3 July 2009.

Friends Provident and Friends Provident Group reserve the right not to implement the Demerger Reduction and the Demerger at any time until they have become effective.

A detailed description of the process to implement the Demerger is set out in Part II (Further Information on the Demerger) of this Circular.

## **9 Effect of the Demerger**

If fully implemented, the effect of the Demerger will be that Shareholders will receive:<sup>1</sup>

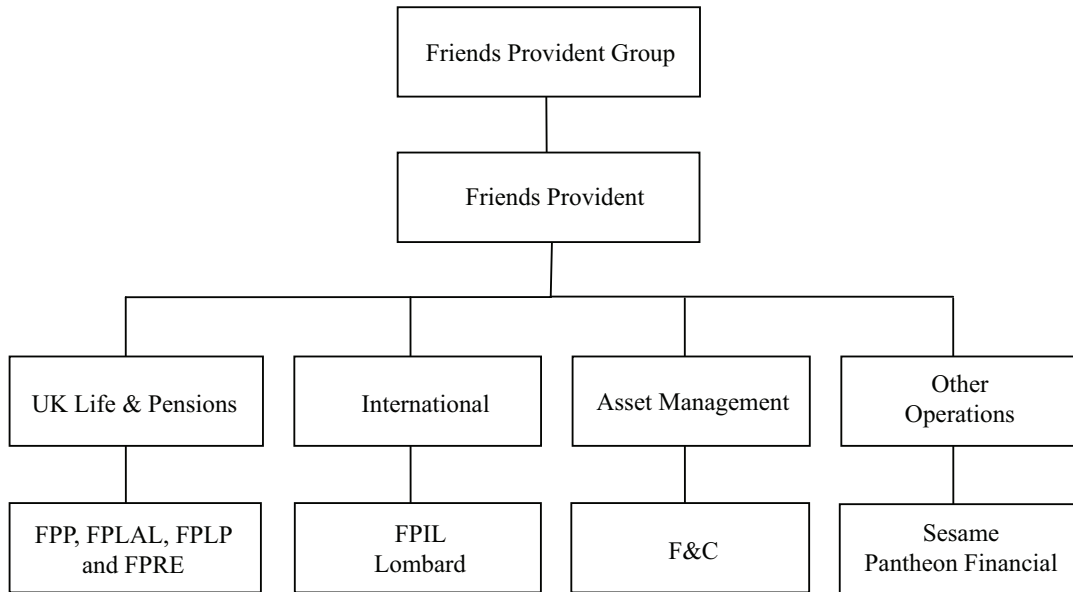
For every 10 New Ordinary Shares —————> 1 F&C Share

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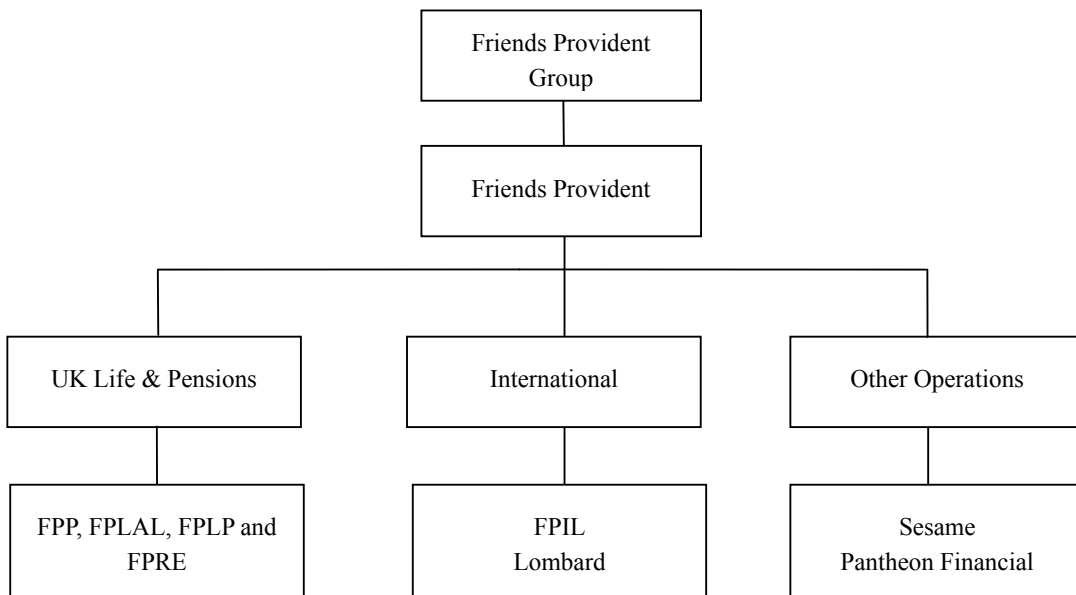
<sup>1</sup> This does not take into account the possible application of the Cash-out Procedure. For details of the Cash-out Procedure see paragraph 3 of Part II (Further Information on the Demerger) of this Circular.

The structure of the Group will change as follows:

**Structure before the Demerger has become effective:<sup>1</sup>**



**Structure after the Demerger has become effective:<sup>1</sup>**



<sup>1</sup> These diagrams show operational structure rather than legal ownership and assume that the Reorganisation has become effective.

## **10 Relationship with F&C following the Demerger**

### **10.1 Investment Management Agreements**

In July 2004 certain companies within the Group entered into investment management agreements with members of the F&C Group pursuant to which the latter provide investment management services in relation to a significant amount of the Group's assets. The terms of these agreements will continue after the Demerger has become effective.

As at 31 March 2009, the F&C Group managed approximately £22.2 billion of assets on behalf of the Group pursuant to these investment management agreements.

### **10.2 Directors**

As at the date of this document, Alain Grisay is a director of both Friends Provident and F&C. Mr. Grisay will resign as a director of Friends Provident with effect from the date of completion of the Demerger. Sir Adrian Montague and Trevor Matthews, who are directors of both Friends Provident and F&C at the date of this document, will resign as directors of F&C with effect from the date of completion of the Demerger. Gerhard Roggemann is an independent Director of Friends Provident and a non-executive director of F&C and it is intended that he will remain a Director of both companies after the Demerger is complete.

### **10.3 VAT**

As at the date of this document, F&C is part of the same group as Friends Provident for VAT purposes. Following the Demerger, F&C will cease to be part of this VAT group and will manage its own VAT affairs. In future, investment management fees paid by the Group to F&C may, therefore, be subject to VAT.

### **10.4 Preference Shares**

Friends Provident owns 100 per cent of the 800,000 variable rate cumulative preference shares issued by F&C. The preference shares have a nominal value of £1 each. The preference shares entitle Friends Provident to dividend payments twice a year in priority to any other claim of share and to priority on a return of assets or liquidation, but they confer no voting rights, save for limited circumstances (for example where the dividend is in arrears or on a return of capital or winding up).

It is intended that F&C will repurchase the preference shares from Friends Provident shortly after the Demerger has become effective. It is currently envisaged that this will be done by means of an off-market purchase contract pursuant to Section 164 of the Companies Act.

## **11 General Meeting and Action to be Taken**

Completion of the Demerger is conditional upon Shareholders' approval being obtained at the General Meeting. The Notice convening the General Meeting at which the necessary Resolution will be proposed is set out at the end of this document.

The General Meeting is being convened to enable Shareholders to consider and, if thought fit, pass the Resolution set out in the Notice of General Meeting. The purpose of the Resolution is to approve the Demerger and the Demerger Reduction needed to implement the Demerger.

The majority required for the passing the Resolution is 75 per cent or more in value of the votes cast. Voting on the Resolution will be by poll. On a poll each Shareholder present in person or by proxy will have one vote for each New Ordinary Share held.

The General Meeting will start at 11.00 a.m. on 12 June 2009 at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE.

**Friends Provident Shareholders are urged to take the action referred to on page 5 of this Circular.**

## **12 Share Schemes**

Please refer to paragraph 7 of Part II (Further Information on the Demerger) for a summary of the consequences for participants in the Friends Provident Share Schemes.

## **13 Further information**

Your attention is drawn to the further information contained in Part II (Further Information on the Demerger), Part III (Taxation) and Part IV (Additional Information) of this Circular and to the expected timetable of events set out on page 5 of this Circular.

**You are advised to read the whole of this Circular and not just rely on the summary information contained in this letter.**

If you have any further questions, including in relation to the completion and return of the Form of Proxy, Form of Direction or Form of Election call the Shareholder Helpline on 0871 384 2012 (or +44 20 8495 4613 if you are calling from outside the UK) (open between 9.00 a.m. and 5.00 p.m., London time). For legal reasons the Shareholder Helpline will be unable to give advice on the merits of the Demerger or to provide financial advice.

## **14 Financial advice**

The Board has received financial advice in relation to the Demerger from Goldman Sachs and J.P. Morgan Cazenove. In providing advice to the Board, each of Goldman Sachs and J.P. Morgan Cazenove has relied upon the Directors' commercial assessment of the terms of the Demerger.

## **15 Recommendation**

**The Board considers the Demerger and the Resolution to be in the best interests of the Company and Shareholders as a whole and accordingly unanimously recommends Shareholders to vote in favour of the Resolution, as the Directors intend to do in respect of their own beneficial holdings of Friends Provident Shares.**



Sir Adrian Montague  
Chairman  
Friends Provident plc

## PART II

### FURTHER INFORMATION ON THE DEMERGER

#### 1 The Demerger Process

This section sets out the mechanism for the Demerger in more detail.

##### 1.1 Intra-group transfers of F&C Shares

Once Friends Provident Group has become the holding company of the Group, the shareholdings of L&M and Friends Provident in F&C will be transferred to Friends Provident Group at market value by way of intra-group sale in return for a sum left outstanding on inter-company loan account. The result of these intra-group transfers will be that the Group's interest in F&C will no longer be held by Friends Provident and L&M but will be entirely held by Friends Provident Group.

##### 1.2 The Demerger

The Demerger will not proceed unless Friends Provident Group becomes the new holding company of the Group pursuant to the Scheme and the intra-group transfers of the F&C Shares have occurred.

Assuming these steps have taken place and the other conditions to the Demerger explained below have been satisfied, Friends Provident Group will undergo a Court approved reduction of capital pursuant to Section 135 of the Companies Act 1985. The capital of Friends Provident Group will be reduced by decreasing the nominal value of each New Ordinary Share from 20 pence to 5 pence. This is a legal and accounting adjustment and will not have any impact on the market value of the New Ordinary Shares. As part of the Demerger Reduction, the F&C Shares will be distributed to Shareholders *pro rata* to their holding of New Ordinary Shares, on the basis of 1 F&C Share for every 10 New Ordinary Shares. If the aggregate amount of the share capital reduced exceeds the market value of the F&C Shares, it is expected that any excess will be used to create distributable reserves of Friends Provident Group.

It should be noted that, pursuant to the Cash-out Procedure, it is intended that Shareholders (except US Persons) who hold 2,500 Friends Provident Shares or less at the Demerger Record Time and who would therefore be entitled to receive 250 F&C Shares or less as part of the Demerger will not receive these F&C Shares unless they duly complete and return the enclosed Form of Election. Please refer to paragraph 3 below for further details. The implementation and operation of the Cash-out Procedure requires a change to the Articles of Association of F&C and is therefore conditional on F&C's shareholders having approved such change by special resolution. If such approval is not obtained, Shareholders who would have been subject to the Cash-out Procedure will receive the F&C Shares to which they would otherwise have been entitled as soon as possible.

The Court hearing to confirm the Demerger Reduction is expected to be held on 2 July 2009. Shareholders will have the right, if they so choose, to attend the Court hearing to support or oppose the Demerger Reduction and to appear in person or be represented by Counsel.

The Demerger Reduction, and the Demerger, will not become effective until the registration by the Registrar of Companies of a copy of the order of the Court confirming the Demerger Reduction.

The Demerger Reduction and the Demerger are expected to become effective on 3 July 2009.

### **1.3 Fractional entitlements to F&C Shares**

Shareholders will not be entitled to any fractions of F&C Shares which may arise as a result of the Demerger. Individual fractional entitlements to F&C Shares which would otherwise have arisen will be aggregated and the resulting F&C Shares sold by an agent or agents appointed by the Company in the open market, as soon as practicable, and the proceeds will be retained by the Group and used to fund the costs of the Demerger and the Cash-out Procedure. Based on the ratio of 1 F&C Share for every 10 New Ordinary Shares and the F&C Share price of 81.25 pence as at 21 May 2009 (being the latest practicable date prior to the publication of this Circular), the value of any fractional entitlement to an F&C Share to which any individual Shareholder would otherwise have been entitled would be less than 81.25 pence.

## **2 Conditions to the Demerger and the Cash-out Procedure**

### **2.1 The Demerger**

Implementation of the Demerger is conditional upon:

- (i) the Reorganisation becoming effective;
- (ii) the transfer to Friends Provident Group of the F&C Shares held by L&M and Friends Provident;
- (iii) the passing of the Resolution set out in the Notice of General Meeting at the end of this Circular;
- (iv) approval of the Demerger Reduction by the shareholders of Friends Provident Group;
- (v) confirmation of the Demerger Reduction by the Court; and
- (vi) the registration by the Registrar of Companies of a copy of the Reduction Court Order confirming the Demerger Reduction.

The Friends Provident Group Board will only be authorised to implement the Demerger Reduction if Shareholders pass the resolution to be proposed at the General Meeting to approve the same. Accordingly, Shareholders will not be required to approve the Demerger Reduction again once they have become Friends Provident Group Shareholders pursuant to the Reorganisation.

Friends Provident and Friends Provident Group reserve the right not to implement the Demerger at any time until it has become effective.

### **2.2 The Cash-out Procedure**

The implementation and operation of the Cash-out Procedure requires a change to the Articles of Association of F&C and is therefore conditional on F&C's shareholders having approved such change by special resolution. If such approval is not obtained, Shareholders who would have been subject to the Cash-out Procedure will receive the F&C Shares to which they would otherwise have been entitled as soon as possible.

### **3 Cash-out Procedure**

It is intended that, unless they elect to keep their F&C Shares, Shareholders who are not US Persons and who hold 2,500 New Ordinary Shares or less at the Demerger Record Time and who would therefore be entitled to receive 250 F&C Shares or less as part of the Demerger will not receive these F&C Shares. Instead, the Company intends to appoint an agent or agents to sell these shares on such Shareholders' behalf in the market (through the operation of the Cash-out Procedure) and the relevant Shareholders will, instead of F&C Shares, receive the cash proceeds of such sale as soon as reasonably practicable.

The price at which such F&C Shares are sold will depend upon market conditions and the proceeds of sale may be less than the prevailing market price of the F&C Shares prior to the Demerger. There can be no guarantee of the time period within which the F&C Shares will be sold or that they will be able to be sold. The proceeds of sale are expected to be despatched within five business days after settlement of any sale. If no sale can be made then such Shareholders will receive the F&C Shares to which they would otherwise have been entitled as soon as reasonably practicable.

Shareholders who are not US Persons and who hold (or may at the Demerger Record Time hold) 2,500 New Ordinary Shares or less and who do not want to be subject to the Cash-out Procedure but instead want to elect to receive their F&C Shares should complete and return the Green Form of Election to Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA by 4.30 p.m on 26 June 2009. Shareholders (who are not US Persons) who at 14 May 2009 held 2,500 Friends Provident Shares or less will be sent a Green Form of Election. Shareholders who prior to the Demerger Record Time reduce their shareholding in the Company (or, once the Scheme has become effective, their corresponding shareholding in Friends Provident Group) to below this threshold will also be subject to the Cash-out Procedure in respect of the F&C Shares to which they would otherwise be entitled. If such Shareholders wish to receive F&C Shares, they should contact Equiniti on 0871 384 2012 (or +44 20 8495 4613 if calling from outside the UK) to request a Green Form of Election.

The implementation and operation of the Cash-out Procedure requires a change to the Articles of Association of F&C and is therefore conditional on F&C's shareholders having approved such change by special resolution. If such approval is not obtained, Shareholders who would have been subject to the Cash-out Procedure will receive the F&C Shares to which they would otherwise have been entitled as soon as possible.

Shareholders (who are not US Persons) who at the Demerger Record Time hold 2,500 New Ordinary Shares or less and who have not returned a Green Form of Election by 4.30 p.m. on 26 June 2009 will have any F&C Shares to which they would otherwise be entitled sold on their behalf.

Shareholders who are US Persons will not be subject to the Cash-out Procedure and will all receive F&C Shares pursuant to the Demerger.

### **4 Listing, settlement and share certificates**

**Please note that the dates in this section are indicative only and assume that the timetable set out on page 5 of this Circular is adhered to. If the dates in the timetable change then the settlement dates and other dates mentioned in this section will also change.**

**In addition, this section assumes that the Reorganisation has become effective in accordance with the timetable set out in the Reorganisation Circular, such that, by the Demerger Record Time, Friends Provident Group will have become the holding company of the Group and Shareholders will have exchanged their shares in Friends Provident for New Ordinary Shares in Friends Provident Group.**

#### **4.1 Entitlement to participate in the Demerger**

Until the close of business on 2 July 2009, dealings in New Ordinary Shares on the London Stock Exchange will include the entitlement to participate in the Demerger. The Demerger Record Time is 6.00 p.m. on 2 July 2009.

F&C Shares can be held in certificated or uncertificated form. It is expected that certificates for F&C Shares will be despatched by 17 July 2009. The certificates will not be renounceable.

Pending the despatch of certificates for F&C Shares, transfers of F&C Shares in certificated form will be certified against the register of F&C.

It is expected that F&C Shares will be credited to relevant CREST accounts on 6 July 2009.

#### **4.2 Settlement**

##### **(i) F&C Shares**

Where, at the Demerger Record Time, a Shareholder holds New Ordinary Shares within CREST, the F&C Shares to which such Shareholder is entitled pursuant to the Demerger will be transferred to such person in uncertificated form through CREST. F&C has agreed to procure that Euroclear is instructed to credit the appropriate stock account in CREST of such Shareholder with such Shareholder's entitlement to F&C Shares. F&C reserves the right to settle all or any part of the entitlement referred to in this paragraph to all or any Shareholders who hold New Ordinary Shares in uncertificated form at the Demerger Record Time in certificated form in the manner referred to below if, for reasons outside its reasonable control, it is not able to effect settlement in uncertificated form through CREST.

Where, at the Demerger Record Time, a Shareholder holds New Ordinary Shares in certificated form, the F&C Shares to which such Shareholder is entitled pursuant to the Demerger will be transferred to such Shareholder in certificated form. F&C has agreed that definitive certificates for F&C Shares will be despatched by first class post to Shareholders as soon as practicable after the Demerger Effective Date and, in any event, no later than 14 days after the Demerger Effective Date to the address appearing on the register of members of F&C (or, in the case of joint holders, to the address of that joint holder whose name stands first in the said register in respect of such joint holding).

Pending the despatch of certificates for F&C Shares, temporary documents of title will not be issued and transfers of F&C Shares in certificated form will be certified against the register of F&C.

(ii) **Nominee Account**

F&C has agreed that Shareholders who hold Friends Provident Shares through the Nominee Arrangement and are entitled to receive F&C Shares pursuant to the Demerger will receive their entitlement to F&C Shares in an F&C sponsored corporate nominee account (the F&CSA). The terms and conditions of the F&CSA will be despatched with the opening statement for each such holder of F&C Shares. Opening statements will be issued by Equiniti by 17 July 2009.

(iii) **Overseas Shareholders**

In the case of F&C Shares sold under the terms and conditions of the Demerger relating to Overseas Shareholders (as set out in paragraph 6 below), Friends Provident Group will (as soon as practicable after the Demerger Effective Date and in any event within 14 days thereafter) procure the despatch to the persons entitled thereto of cheques for the sums payable to them respectively.

(iv) **Fractional entitlements**

Individual fractional entitlements to F&C Shares will be aggregated and the resulting F&C Shares sold by an agent or agents appointed by the Company in the open market, as soon as practicable, and the proceeds retained by the Group to fund the costs of the Demerger and the Cash-out Procedure. This sale will be made at the same time and at the same price as the F&C Shares are sold pursuant to the Cash-out Procedure and the retained shares in F&C are sold to fund the costs of the Demerger and the Cash-out Procedure.

(v) **Cash-out Procedure**

It is intended that Shareholders who are subject to the Cash-out Procedure and who do not return a valid Green Form of Election by 4.30 p.m. on 26 June 2009 will have the F&C Shares to which they are entitled transferred to a nominee appointed by the Company for those Shareholders. That nominee will then deliver the F&C Shares as directed by the Company to an agent or agents appointed by the Company, and on settlement, cheques for the proceeds of sale will be posted to the Shareholders concerned. None of the Company, Friends Provident Group, F&C, any person appointed as nominee by the directors or any broker or agent of any of them shall have any liability save in the case of their wilful default, fraud or negligence for any loss arising as a result of the timing or terms of such sale.

In the case of F&C Shares sold pursuant to the Cash-out Procedure, Friends Provident Group will procure the despatch to the persons entitled thereto of cheques for the sums payable to them respectively. Cheques in respect of the proceeds of sale are expected to be despatched within five business days after settlement of the relevant sales.

If no sale can be made pursuant to the Cash-out Procedure then such Shareholders will receive the F&C Shares to which they would otherwise have been entitled as soon as reasonably practicable and in the manner (save as to timing) described in paragraph 4.2(i) above.

### 4.3 Risk

All documents and remittances sent to Shareholders will be sent at their own risk.

## 5 Overseas Shareholders

Overseas Shareholders may be affected by the laws of other jurisdictions in relation to the Demerger. Overseas Shareholders should inform themselves about and observe all applicable legal requirements.

It is the responsibility of any person into whose possession this Circular comes to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection with the receipt of F&C Shares pursuant to the Demerger, including the obtaining of any governmental, exchange control or other consents which may be required and/or compliance with other necessary formalities which are required to be observed and the payment of any issue, transfer or other taxes or levies due in such jurisdiction.

If the transfer of F&C Shares to any Overseas Shareholder, or to any person who is reasonably believed to be an Overseas Shareholder, would or may infringe the laws of such jurisdiction or would or may require any governmental or other consent or any registration, filing or other formality which cannot be complied with, or compliance with which would be unduly onerous, each of Friends Provident Group or F&C may in its sole discretion determine that F&C Shares be sold on behalf of such person at the price which can reasonably be obtained at the time of sale and the net proceeds of such sale be paid to the persons entitled thereto. In the absence of bad faith or wilful default, none of Friends Provident, Friends Provident Group, F&C or any person appointed to sell such shares shall have any liability for any loss or damage arising as a result of the timing or terms of such sale.

This Circular has been prepared for the purposes of complying with English law and the rules of the UKLA and the information disclosed may not be the same as that which would have been disclosed if this Circular had been prepared in accordance with the laws of jurisdictions outside the United Kingdom.

**THIS CIRCULAR DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITY, NOR SHALL THERE BE ANY SALE, ISSUANCE OR TRANSFER OF THE SECURITIES REFERRED TO IN THIS CIRCULAR IN ANY JURISDICTION IN CONTRAVENTION OF APPLICABLE LAW.**

Overseas Shareholders should consult their own legal and tax advisers with respect to the legal and tax consequences of the Demerger in their particular circumstances.

### **Canada**

The F&C Shares issued to, or for the benefit of, any resident of Canada pursuant to the Demerger will not be qualified for sale under the securities laws of any province or territory of Canada and will be subject to resale restrictions.

**Shareholders who are residents of Canada should consult their own legal and tax advisers with respect of the legal and tax consequences of the Demerger in their particular circumstances.**

## **6 Shareholders in the United States**

Shareholders are advised that none of the F&C Shares will be, or is required to be, registered under the US Securities Act. Shareholders who are affiliates (within the meaning of the US Securities Act) of Friends Provident or the Group before completion of the Demerger or who are affiliates of F&C after completion of the Demerger may not sell F&C Shares received pursuant to the Demerger without registration under the US Securities Act, except pursuant to an applicable exemption from the registration requirements of the US Securities Act or in a transaction not subject to such requirements. Whether a person is an affiliate of a company for such purposes depends upon the circumstances, but affiliates of a company can include certain officers and directors and significant shareholders. Persons who believe they may be affiliates of Friends Provident, the Group or F&C should consult their own legal advisers prior to any sale of securities received in the Demerger.

The London Stock Exchange is expected to be the primary market for F&C Shares. To the best of Friends Provident's and the Friends Provident Group's knowledge, F&C does not intend to list the F&C Shares on a US securities exchange or obtain a quotation for the F&C Shares on any inter-dealer quotation system in the United States or to take any other action to facilitate the creation of a market in F&C Shares in the United States. Consequently, it is unlikely that an active trading market in the United States will develop for the F&C Shares.

## **7 Share Schemes**

Options and awards granted under the Friends Provident Share Schemes will have been exchanged for options and awards over New Ordinary Shares, on a one for one basis, as a result of the Reorganisation. Awards under the Turnaround Plan, the Long Term Incentive Plan, the Deferred Bonus Plan and the 2009 Below Board Long Term Incentive Plan will be adjusted to reflect the loss of value due to the Demerger. No adjustments will be made to options granted under the Executive Share Option Scheme and the Sharesave Schemes. Participants in the Share Incentive Plans will hold F&C Shares outside the terms of the Share Incentive Plans.

## **8 Expenses of the Demerger**

In total, the Group owns 52.05 per cent of F&C. Not all of the ordinary shares in F&C which the Group owns will be demerged to Shareholders. The Group intends to retain a 5.27 per cent holding in F&C in order to sell this stake in the market and to use the proceeds of sale to fund the costs of the Reorganisation, the Demerger and the Cash-out Procedure. The proceeds of sale of any fractional entitlements to F&C Shares will also be put toward these costs.

## **9 Action to be taken**

Please refer to page 6 (Action to be Taken) of this Circular for details of the steps that you will need (and are encouraged) to take in connection with this Circular and the Demerger.

## **10 Further information**

Your attention is drawn to the Chairman's Letter in Part I of this Circular.

## PART III

### TAXATION

#### Part A: United Kingdom Taxation

The comments set out below are based on current United Kingdom law and currently published HM Revenue & Customs practice as at the date of this Circular, both of which are subject to change, possibly with retrospective effect. They are intended as a general guide and apply only to Shareholders resident and in the case of an individual, ordinarily resident, for tax purposes in the United Kingdom (except insofar as express reference is made to the treatment of non-United Kingdom residents), who hold New Ordinary Shares as an investment and who are the absolute beneficial owners thereof. Certain categories of shareholders, such as traders, broker-dealers, insurance companies and collective investment schemes, shareholders who are not domiciled or not ordinarily resident in the United Kingdom, shareholders who have (or are deemed to have) acquired their shares by virtue of an office or employment, and shareholders who are officers or employees of Friends Provident or a company forming part of the Group, may be subject to special rules and this summary does not apply to such shareholders. Shareholders who are in any doubt about their tax position, or who are resident or otherwise subject to taxation in a jurisdiction outside the United Kingdom, should consult their own professional advisers immediately.

#### Treatment of Demerger Reduction and Demerger

##### *(a) Part Disposal of New Ordinary Shares*

The Demerger should not be treated as a dividend for the purposes of UK tax on income and will not be treated as a reorganisation for the purposes of UK tax on chargeable gains.

Accordingly, the Demerger will constitute a part disposal by a Shareholder of his New Ordinary Shares for the purposes of the UK taxation of chargeable gains. An amount equal to the market value on the Demerger Effective Date of the F&C Shares to which a Shareholder is entitled (whether he actually receives the F&C Shares or becomes entitled to F&C Shares which are sold on his behalf under the Cash-out Procedure) will be treated as the value of the consideration for the part disposal. A Shareholder's gain or loss in respect of the part disposal will be calculated as a gain or loss by reference to a proportion of the base cost of that Shareholder's holding of the New Ordinary Shares. That proportion is determined according to the formula  $A/(A+B)$  where "A" is the market value of the F&C Shares to which the Shareholder is entitled and "B" is the market value of the Shareholder's New Ordinary Shares immediately following the Demerger.

The part disposal of New Ordinary Shares as a result of the Demerger may, depending on each Shareholder's individual circumstances (including the availability of exemptions, reliefs and allowable losses), give rise to a liability to UK taxation on chargeable gains.

In the case of corporate Shareholders, indexation allowance may be available to reduce the amount of any gain (but could not create an allowable loss).

In the case of individual Shareholders, a gain on a disposal of the New Ordinary Shares, together with other gains, less allowable losses in a tax year, is subject to tax to the extent that it exceeds the annual exempt amount, which for the tax year 2009/2010 is £10,100.

Shareholders who are individuals and who are temporarily non-resident in the UK may, under anti-avoidance legislation, still be liable to UK tax on any capital gain realised (subject to any available exemption or relief).

A Shareholder will not normally be treated as making a part disposal of his holding of New Ordinary Shares if the value of the F&C Shares to which he is entitled is small in comparison with the value of that Shareholder's holding of New Ordinary Shares, that value instead being deducted from the base cost of the Shareholder's holding of New Ordinary Shares.

Under current HM Revenue & Customs practice, any consideration with a value of £3,000 or less or which is, in any event, five per cent or less of the value of a Shareholder's holding of New Ordinary Shares, will generally be treated as small for these purposes. If the value of the consideration (being the market value of the F&C Shares to which the Shareholder is entitled on the Demerger) exceeds the base cost of the Shareholder's holding of New Ordinary Shares, however, or if the value of such consideration is not considered "small" by HM Revenue & Customs, the Shareholder will be treated as disposing of part of his or her holding of New Ordinary Shares and may, depending on circumstances, incur a liability to taxation of chargeable gains in respect of any gain thereby realised.

Shareholders who become entitled to F&C Shares which are sold on their behalf under the Cash-out Procedure are referred to paragraph (d) below.

*(b) Base Costs*

Save where the value of the F&C Shares to which a Shareholder is entitled is "small" (in which case the treatment described above will apply), after the part disposal of New Ordinary Shares pursuant to the Demerger, a Shareholder's base cost in his New Ordinary Shares for UK taxation of chargeable gains purposes will change. It will be reduced by the amount of base cost attributable to the part disposal under the formula  $A/(A+B)$  described above.

The base cost for UK taxation of chargeable gains purposes of the F&C Shares to which a Shareholder is entitled pursuant to the Demerger should be equal to the market value of the F&C Shares on the Demerger Effective Date.

*(c) Future Disposal of New Ordinary Shares*

If a Shareholder subsequently disposes of his New Ordinary Shares, the adjusted base cost (following the Demerger) will be used in the calculation of any UK taxation on chargeable gains. A disposal of New Ordinary Shares may, depending on each Shareholder's individual circumstances (including the availability of exemptions, reliefs and allowable losses), give rise to a liability to UK taxation on chargeable gains.

*(d) Disposal of F&C Shares pursuant to the Cash-out Procedure and Future Disposal of F&C Shares*

If a Shareholder disposes of the F&C Shares he receives or to which he becomes entitled, whether as a result of the Cash-out Procedure or subsequently, the base cost established on the acquisition of the F&C Shares under the Demerger will be used in the calculation of any UK taxation on chargeable gains. A disposal of F&C Shares, including as a result of the Cash-out Procedure, may therefore, depending on each Shareholder's individual circumstances (including the availability of exemptions, reliefs and allowable losses), give rise to a liability to UK taxation on chargeable gains.

*(e) Stamp duty and Stamp duty reserve tax*

No stamp duty or SDRT will be payable by Shareholders as a result of the Demerger.

**The above statements are intended as a general guide to the current law and practice in the UK. They assume that Shareholders do not hold their New Ordinary Shares and will not hold their F&C Shares in a depositary receipt scheme or a clearance service. If you are in any doubt as to your tax position, you should consult your independent professional adviser immediately.**

**Part B: United States Taxation**

**Certain US Federal Income Tax Considerations**

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS CIRCULAR IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE COMPANY IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE COMPANY OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

\* \* \* \* \*

The following is a summary of certain US federal income tax consequences to US Holders (as defined below) of receiving F&C Shares pursuant to the Demerger. It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a US Holder's participation in the Demerger. In particular, this summary does not address tax considerations applicable to holders that own or will own (directly or indirectly) 5 per cent or more of the voting stock of the Friends Provident Group or F&C; nor does this summary discuss all of the tax considerations that may be relevant to certain types of holders subject to special treatment under the US federal income tax laws (such as financial institutions, insurance companies, holders liable for the alternative minimum tax, subchapter S corporations, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, holders who acquired their New Ordinary Shares upon the exercise of employee stock options or otherwise as compensation, holders that hold their New Ordinary Shares as part of straddles, hedging transactions or conversion transactions for US federal income tax purposes or holders whose functional currency is not the US dollar). This summary assumes that US Holders hold their New Ordinary Shares as capital assets, and does not address the tax treatment of the Demerger under applicable state, local, foreign or other tax laws. In addition, this summary assumes that the Demerger will be consummated in accordance with its terms, and as further described in this document.

This summary does not discuss the US federal income tax consequences of any US Holder holding or disposing of any F&C Shares it receives in the Demerger. US Holders that receive F&C Shares in the Demerger should consult their own tax advisers regarding the US federal income tax consequences of holding and disposing of those shares.

As used herein, the term “US Holder” means a beneficial owner of New Ordinary Shares that is, for US federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States or any State thereof, (iii) an estate the income of which is subject to US federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust, or the trust has elected to be treated as a domestic trust for US federal income tax purposes.

The US federal income tax treatment of a partner in a partnership that participates in the Demerger will depend on the status of the partner and the activities of the partnership. Holders that are partnerships should consult their tax advisers concerning the US federal income tax consequences to their partners of participating in the Demerger.

The summary assumes that the Company is not and has not been, and Friends Provident Group is not, a passive foreign investment company (a “PFIC”) for US federal income tax purposes which each believes to be the case. However, a company’s status as a PFIC is a factual matter that must be determined annually and the IRS may disagree with the Friends Provident Group’s determination. US Holders should consult their own tax advisers regarding the possible materially adverse US federal income tax consequences to them of participating in the Demerger if the Company were a PFIC.

The summary is based on the US federal income tax laws, including the US Internal Revenue Code of 1986, as amended (the “Code”), its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, as well as on the income tax treaty between the US and the UK (the “Treaty”) all as currently in effect, all of which are subject to change, perhaps with retroactive effect.

**THE SUMMARY OF US FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. US HOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF PARTICIPATING IN THE REORGANISATION AND THE DEMERGER, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.**

## **1 Treatment of F&C Demerger**

Upon receipt of the F&C Shares upon the Demerger a US Holder will be treated as receiving a distribution in an amount equal to the fair market value on the date of the Demerger of the F&C Shares received. The distribution will be treated as a dividend to the extent of the US Holder’s *pro rata* share of the Friends Provident Group current and accumulated earnings and profits (as determined under US federal income tax principles), and any excess will be treated as a non-taxable return of capital to the extent of the US Holder’s basis in each New Ordinary Share, and thereafter as capital gain. However, Friends Provident Group does not maintain calculations of its earnings and profits in accordance with US federal income tax accounting principles. US Holders should therefore assume that the distribution of the F&C Shares pursuant to the Demerger will constitute ordinary dividend income. US Holders should consult their own tax advisers with respect to the appropriate US federal income tax treatment of distribution of the F&C Shares. A US Holder will have a tax basis in the F&C Shares equal to the fair market value of those shares on the date of the Demerger and will have a holding period for the F&C Share that begins on the day after the date of the Demerger. The distribution of the F&C Shares by Friends Provident Group should be

eligible for the special reduced rate of tax described under “Dividends-General” in the Taxation Section of the Prospectus, provided the US Holder meets the holding period requirements described therein. US Holders of New Ordinary Shares should consult their tax advisers concerning the applicability of the special reduced rate to the distribution of the F&C Shares as well as the applicability of the foreign tax credit and source of income rules.

## **2 Backup withholding and information reporting**

The distribution of the F&C Shares pursuant to the Demerger, by a US paying agent or other US intermediary will be reported to the IRS and to the US Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the US Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its US federal income tax returns. Certain US Holders (including, among others, corporations) are not subject to backup withholding. US Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a US Holder’s federal income tax liability, and a US Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing of the appropriate claim for refund with the US Internal Revenue Service and furnishing all required information.

## **3 US Federal Income Tax Consequences of Receiving New Ordinary Shares**

Please refer to the United States Taxation section in Part IV of the Reorganisation Circular for information in relation to certain US federal income tax consequences to US Holders of participating in the Reorganisation, including their basis and holding period in the New Ordinary Shares. US Holders should also refer to the United States Taxation section in Part XII of the Prospectus for information in relation to certain US federal income tax consequences to US Holders of owning or disposing of New Ordinary Shares.

## PART IV

### ADDITIONAL INFORMATION

#### 1 Information on the Company

Friends Provident was incorporated and registered in England and Wales on 23 November 2000 under the Companies Act 1985 as a public company limited by shares with registered number 4113107 with the name of Meritkudos plc. It changed its name to Friends Provident plc on 19 April 2001.

The registered office of Friends Provident is Pixham End, Dorking, Surrey RH4 1QA.

#### 2 Directors

The Directors and their principal functions are as follows:

<i>Name</i>	<i>Current Position</i>
<b>Executive directors</b>	
Trevor Matthews	Chief Executive Officer
Evelyn Bourke	Chief Financial Officer
Alain Grisay	Chief Executive (F&C) (until completion of the Demerger)
<b>Independent directors</b>	
Sir Adrian Montague	Chairman
Ray King	Independent Director
Gerhard Roggemann	Independent Director
Sir Mervyn Pedelty	Independent Director
Robin Phipps	Independent Director
David Rough	Senior Independent Director
Rodger Hughes	Independent Director

#### 3 Consents

- (a) Goldman Sachs has given and not withdrawn its written consent to the inclusion of its name in this Circular in the form and context in which it is included.
- (b) J.P. Morgan Cazenove has given and not withdrawn its written consent to the inclusion of its name in this Circular in the form and context in which it is included.

#### 4 Documents available for inspection

Copies of the following documents may be inspected during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the registered office of Friends Provident at Pixham End, Dorking, Surrey RH4 1QA and at the offices of Linklaters LLP, One Silk Street, London EC2Y 8HQ up to and including the date of the General Meeting:

- (a) this Circular; and
- (b) the consents referred to in paragraph 3 above.

## DEFINITIONS

The following definitions apply throughout this Circular, unless stated otherwise:

<b>Admission</b>	means the admission of the New Ordinary Shares to the Official List in accordance with the Listing Rules and to trading on the London Stock Exchange's main market for listed securities in accordance with the Admission and Disclosure Standards
<b>Admission and Disclosure Standards</b>	means the requirements contained in the publication "Admission and Disclosure Standards" (as amended from time to time) containing, among other things, the admission requirements to be observed by companies seeking admission to trading on the London Stock Exchange's main market for listed securities
<b>Board</b>	means the board of Directors of Friends Provident
<b>Cash-out Procedure</b>	means the Cash-out Procedure described in more detail in paragraph 3 of Part II (Further Information on the Demerger) of this Circular
<b>Circular</b>	means this document
<b>Companies Act</b>	means the Companies Act 1985 or, as the context requires, the Companies Act 2006, and shall be construed as a reference to the same as they may have been, or may from time to time be, amended, modified or re-enacted
<b>CREST</b>	the system for the paperless settlement of trades in securities and the holding of uncertificated securities operated by Euroclear in accordance with the Uncertificated Securities Regulations 2001
<b>Demerger</b>	means the proposed demerger of the F&C Shares to Shareholders by way of a return of capital as described in Part I (Letter From the Chairman) and Part II (Further Information on the Demerger) of this Circular
<b>Demerger Effective Date</b>	means the date on which the Demerger becomes effective which will be the date upon which the Reduction Court Order is registered by the Registrar of Companies
<b>Demerger Record Time</b>	means 6.00 p.m. on the business day immediately prior to the Demerger Effective Date
<b>Demerger Reduction</b>	means the proposed reduction of capital of Friends Provident Group to effect the Demerger
<b>Directors</b>	means the directors of Friends Provident, whose names are set out on page 37 of this Circular
<b>Euroclear</b>	means Euroclear UK & Ireland Limited, incorporated in England and Wales with registered number 2878738
<b>F&amp;C</b>	means F&C Asset Management plc

<b>F&amp;C Group</b>	means F&C and its subsidiaries
<b>F&amp;C Shares</b>	means the Group's shareholding in F&C which it is proposing to demerge
<b>Form of Proxy or Form of Direction</b>	means the White Form of Proxy or Direction
<b>Form of Election</b>	means the Green Form of Election
<b>FPIL</b>	means Friends Provident International Limited
<b>FPLAL</b>	means Friends Provident Life Assurance Limited
<b>FPLP</b>	means Friends Provident Life and Pensions Limited, the company through which the Group's UK life and pensions business operates
<b>FPP</b>	means Friends Provident Pensions Limited
<b>FPRE</b>	means Friends Provident Reinsurance Services Limited
<b>Friends Provident or the Company</b>	means Friends Provident plc
<b>Friends Provident Group</b>	means Friends Provident Group plc
<b>Friends Provident Group Board</b>	means the board of directors of Friends Provident Group
<b>Friends Provident Group Reduction</b>	means the proposed reduction of capital of Friends Provident Group explained in the Reorganisation Circular
<b>Friends Provident Group Shareholder</b>	means a holder of New Ordinary Shares
<b>Friends Provident Shareholder</b>	means a holder of Friends Provident Shares
<b>Friends Provident Shares</b>	means ordinary shares of 10p in the capital of Friends Provident
<b>Friends Provident Share Schemes</b>	means the Friends Provident Long Term Incentive Plan, the Friends Provident Executive Share Option Scheme, the Friends Provident Deferred Bonus Plan 2005, the Friends Provident Turnaround Plan, the Friends Provident 2009 Below Board Long Term Incentive Plan, the Friends Provident Revenue Approved Sharesave Schemes and the Friends Provident Share Incentive Plans
<b>FSA</b>	means the Financial Services Authority
<b>FSMA</b>	means the Financial Services and Markets Act 2000
<b>General Meeting</b>	means the general meeting of Friends Provident to be held at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE on 12 June 2009 at 11.00 a.m., notice of which is set out at the end of this Circular
<b>Goldman Sachs</b>	means Goldman Sachs International, financial adviser to Friends Provident Group and Friends Provident

<b>Green Form of Election</b>	means the Form of Election in connection with the Cash-out Procedure
<b>Group</b>	means, before the Reorganisation has become effective, Friends Provident and its subsidiaries and, after the Reorganisation has become effective, Friends Provident Group and its subsidiaries.
<b>J.P. Morgan Cazenove</b>	means J.P. Morgan Cazenove Limited, financial adviser to Friends Provident Group and Friends Provident
<b>L&amp;M</b>	means London and Manchester Group Limited
<b>London Stock Exchange</b>	means London Stock Exchange plc
<b>New Ordinary Shares</b>	means ordinary shares in the capital of Friends Provident Group
<b>Nominee</b>	Equiniti Corporate Nominees Limited
<b>Nominee Arrangement</b>	the arrangement pursuant to which certain beneficial holders of Friends Provident Shares hold their interests through the Nominee, in whose name the relevant Friends Provident Shares are registered
<b>Nominee Holder</b>	a beneficial holder of Friends Provident Shares whose interest in such shares is held under the Nominee Arrangement
<b>Official List</b>	means the official list of the UK Listing Authority
<b>Overseas Shareholders</b>	means Shareholders who are resident in, ordinarily resident in, or citizens of, jurisdictions outside the United Kingdom
<b>Pantheon Financial</b>	means Pantheon Financial Limited
<b>Prospectus</b>	means the prospectus relating to the New Ordinary Shares and Friends Provident Group published on 5 May 2009 as amended by the supplementary prospectus published on 14 May 2009 and available for viewing on the Group's website at <a href="http://www.friends Provident.com/reports">www.friends Provident.com/reports</a>
<b>Reduction Court Order</b>	means the order of the Court confirming the Demerger Reduction
<b>Registrar or Company's Registrar</b>	means Equiniti of Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA
<b>Registrar of Companies</b>	means the Registrar of Companies in England and Wales
<b>Reorganisation</b>	means the proposed insertion of Friends Provident Group as a new holding company of the Group and the Friends Provident Group Reduction, each as described in Part II (Explanatory Statement) of the Reorganisation Circular
<b>Reorganisation Circular</b>	means the circular of Friends Provident dated 5 May 2009 and available for viewing on the Group's website at <a href="http://www.friends Provident.com/reports">www.friends Provident.com/reports</a>

<b>Resolution</b>	means the resolution set out in the Notice of General Meeting at the end of this Circular
<b>Scheme</b>	means the Scheme of Arrangement set out in Part III (The Scheme of Arrangement) of the Reorganisation Circular in its present form or with or subject to any modification, addition or condition approved or imposed by the Court and agreed by the Company and Friends Provident Group
<b>SEC</b>	means the US Securities and Exchange Commission
<b>Sesame</b>	means Sesame Group Limited
<b>Shareholder</b>	means, before the Reorganisation, a holder of Friends Provident Shares and, after the Reorganisation, a holder of New Ordinary Shares, and includes (where applicable) those who hold their shares through the Nominee Arrangement
<b>Strategic Review Announcement</b>	means the announcement made by Friends Provident on 31 January 2008 relating to the results of a strategic review
<b>UK</b>	means the United Kingdom
<b>UK Listing Authority</b>	means the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part 6 of the Financial Services and Markets Act 2000
<b>US or United States or United States of America</b>	means the United States of America, its territories and possessions, any State of the United States and the District of Columbia
<b>US Person</b>	means a person with a registered address in, or who is resident or located in, the United States
<b>US Securities Act</b>	means the US Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
<b>Voting Record Time</b>	means 6.00 p.m. on the day which is two days before the date of the General Meeting or, if the General Meeting is adjourned, 6.00 p.m. on the day which is two days before the date of such adjourned meeting
<b>White Form of Proxy or Direction</b>	means the white form of proxy or direction accompanying this Circular for use by Friends Provident Shareholders in relation to the General Meeting

Unless otherwise stated, all times referred to in this Circular are references to London time. All references to legislation in this Circular are to the legislation of England and Wales unless the contrary is indicated. Any reference to any provision of any legislation shall include any amendment, modification, re-enactment or extension thereof. For the purpose of this Circular, “subsidiary” and “subsidiary undertaking” have the meanings given by the Companies Act.

# Friends Provident plc

## NOTICE OF GENERAL MEETING

(Registered in England and Wales No. 4113107)

NOTICE IS HEREBY GIVEN that a GENERAL MEETING of the Company shall be held at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE on 12 June 2009 at 11.00 a.m. for the purpose of considering and, if thought fit, passing the following resolution which shall be proposed as a special resolution:

### SPECIAL RESOLUTION

**THAT** the Demerger (as defined in the Circular of which the notice convening this General Meeting forms part (the “**Circular**”)) be approved and the Directors (or any duly authorised committee of them) be authorised to carry the same into effect (with such non-material amendments as they shall deem necessary or appropriate) and in connection therewith the proposed reduction of capital of Friends Provident Group (approved or to be approved by a special resolution of the shareholders of Friends Provident Group) to implement the Demerger (as described in Part I (Letter from the Chairman) of the Circular) be approved.

By order of the Board

26 May 2009

Gordon Ellis  
Company Secretary  
Registered office

Pixham End  
Dorking  
Surrey  
RH4 1QA

#### Notes:

- (1) A member of the Company entitled to attend and vote at the meeting is entitled to appoint another person as his proxy to exercise all or any of his rights to attend, speak and vote at the meeting. A proxy need not be a member of the Company.
- (2) A White Form of Proxy or Form of Direction is enclosed with this notice. Instructions for use are shown on the form. Lodging a Form of Proxy will not prevent the shareholder from attending and voting in person.
- (3) To be valid, an appointment of proxy must be returned using one of the following methods:
  - by sending the enclosed White Form of Proxy or Form of Direction (together, if appropriate, with the power of attorney or other written authority under which it is signed or a certified copy of such power or authority) to the offices of the Company’s Registrar, Equiniti of Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA using the pre-paid addressed envelope provided;
  - by logging onto [www.friendsprovident.com/gm](http://www.friendsprovident.com/gm), entering the voting ID, task ID and shareholder reference number printed on the enclosed White Form of Proxy or Form of Direction and following the online instructions;
  - in the case of CREST members, by utilising the CREST electronic proxy appointment;and in each case the appointment of proxy (together with any relevant power/authority) must be received (or, in the case of the appointment of a proxy through CREST, retrieved by enquiry to CREST in the manner prescribed by CREST) by the Company’s Registrar not later than 48 hours before the time appointed for holding the meeting.
- (4) The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the Company in accordance with section 146 of the Companies Act 2006 (“**nominated persons**”). Nominated persons may have a right under an agreement with the member who holds the shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights.
- (5) Friends Provident Shareholders (but not those who hold through the Friends Provident Share Account) are entitled to appoint a proxy in respect of some or all of their shares. Friends Provident Shareholders are also entitled to appoint more than one proxy, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by such shareholder. A space has been included in the White Form of Proxy to allow you to specify the number of shares in respect of which that proxy is appointed. If you return the Form of Proxy duly executed but leave this space blank you will be deemed to have appointed the proxy in respect of all of your shares. If you wish to appoint more than one proxy in respect of your shareholding you should contact the Company for further White Forms of Proxy or photocopy the White Form of Proxy as required. You should also read the section entitled “Multiple Proxy Voting Instructions” on page 6 of this Circular, and note the principles that will be applied in relation to multiple proxies.

- (6) Entitlement to attend and vote at the meeting or any adjournment thereof and the number of votes which may be cast thereat will be determined by reference to the register of members of the Company at 6.00 p.m. on the day which is two days before the date of the meeting or adjourned meeting (as the case may be). In each case, changes to the register of members of the Company after such time will be disregarded in determining the rights of any person to attend or vote at the meeting.
- (7) Holders of ordinary shares are entitled to attend and vote at general meetings of the Company. Voting on the resolutions will be by poll. On a poll vote every member who is present in person or by proxy has one vote for every ordinary share of which he is the holder.
- (8) As at 21 May 2009, the latest practical date prior to the publication of this Circular, Friends Provident's issued share capital consisted of 2,341,118,083 ordinary shares of 10 pence each and 15,747,499 shares were held in treasury. The total number of voting rights in Friends Provident as at 21 May 2009 was therefore 2,325,370,584.

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