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30 July 2007

## **RESOLUTION PLC: MERGER UPDATE**

Resolution plc (“Resolution”) and Friends Provident plc (“Friends Provident”) are commencing their meetings with investors to present the merits of the merger to form Friends Financial Group plc (“Friends Financial”).

Given recent share price movements in the market and the insurance sector in particular, the Board of Resolution (the “Board”) is issuing this update on the merger and its benefits for Resolution shareholders.

The Board’s sole aim is to continue to build on its outstanding record of delivering value to shareholders by continuing its strategy of participating in the consolidation of the UK life sector. In this context the Board announced its agreed merger with Friends Provident on 25 July.

The Board believes this merger will create significant value for, and will be welcomed by, Resolution’s shareholders.

The Board believes that the value of Friends Financial includes the following components:

- the combined embedded values of Resolution and Friends Provident, and the market value of Friends Provident’s interest in F&C Asset Management plc, which, in aggregate, amount to £8,085 million (see note 1); plus
- the value of cost and financial synergies of £100 million per annum before taxes, as announced with the Friends Financial merger on 25 July 2007 less £120 million one-off implementation costs before taxes; plus
- the value of the combined new business franchise, which in 2006 would have produced approximately £250 million value of new business before tax (see note 2); plus
- the goodwill value ascribed to Resolution Asset Management (2006 operating profit before tax of £32 million), in excess of the goodwill of £135 million included in embedded value; plus
- the value ascribed to elements not included above, such as Resolution’s service company (2006 operating profit before tax of £15 million), less corporate costs; plus
- the revenue synergies and ongoing developments as set out below.

Through the combination of Friends Provident's new business capability and Resolution's cashflow generation, Friends Financial can provide shareholders with both profitable new business growth, growing dividend income and the prospect of a return of capital to shareholders in 2008.

The combined business will have a leading position in the UK in group pensions and will rank third in protection with a market share of approximately 14 per cent. Resolution has examined the group pensions market and is confident that Friends Provident's group pensions franchise is positioned to exceed a 12 per cent IRR target and to be self-financing by 2011. Friends Provident's international new business has been growing fast and had an IRR of 25.7 per cent in 2006.

In addition, Resolution and Friends Provident see specific areas to accelerate profitable new business through:

- Friends Provident's existing annuity product being made available to capture a share of the approximately £900 million p.a. of vesting pensions on Resolution's books;
- greater penetration of the Abbey bancassurance relationship, with Friends Provident's broader product suite, national sales and training network, and experience of servicing other bank distribution partners; and
- developing new business products under the Friends Provident brand for the approximately 7 million customers on Resolution's in-force books.

The Board therefore believes the current share price fundamentally undervalues the prospects for Resolution shareholders as part of Friends Financial.

The Board remains relentlessly focused on the delivery of value to Resolution Shareholders.

Note 1: £8,085 million is derived on the basis of:

- Resolution's published 31 December 2006 embedded value of £4,197 million (excluding goodwill), published embedded value uplifts in respect of further financial synergies announced with Resolution's 2006 preliminary results of £150 million, the outsourcing transaction with Capita of £56 million and the change in the UK corporation tax rate of £75 million; plus
- Friends Provident's published 31 December 2006 embedded value, excluding its holding in F&C Asset Management plc ("F&C"), of £3,126 million, plus Friends Provident's holding in F&C at market value on 27 July 2007 of £481 million.

Note 2: Based on Friends Provident's published 2006 pre-tax value of new business of £204 million and Resolution's pre-tax value of new business for the six months ended 31 December 2006 of £23 million, annualised (Resolution did not own the new business operations in the first half of 2006).

Note 3: As previously announced on 25 July 2007 under the merger agreement both of the parties have reserved the right in the event of an alternative proposal for the other party to elect to implement the merger by means of a takeover offer, such offer to be on terms no less favourable to the other party's shareholders, to be subject to a 50 per cent acceptance condition and to remain open until Day 60 under the City Code.

Under the provisions of Rule 8.3 of the Code, if any person is, or becomes, "interested" (directly or indirectly) in 1% or more of any class of "relevant securities" of Friends Provident or Resolution all "dealings" in any "relevant securities" of that company (including by means of an option in respect of, or a derivative referenced to, any such "relevant securities") must be publicly disclosed by no later than 3.30 pm (London time) on the London business day following the date of the relevant transaction. This requirement will continue until the date on which any offer becomes, or is declared, unconditional as to acceptances (or, if implemented by a scheme of arrangement, such scheme becomes effective), lapses or is otherwise withdrawn or on which the "offer period" otherwise ends. If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire an "interest" in "relevant securities" of Friends Provident or Resolution, they will be deemed to be a single person for the purpose of Rule 8.3.

Under the provisions of Rule 8.1 of the Code, all "dealings" in "relevant securities" of Resolution by Friends Provident or of Friends Provident by Resolution, or by any of their respective "associates", must be disclosed by no later than 12.00 noon (London time) on the London business day following the date of the relevant transaction. A disclosure table, giving details of the companies in whose "relevant securities" "dealings" should be disclosed, and the number of such securities in issue, can be found on the Takeover Panel's website at [www.thetakeoverpanel.org.uk](http://www.thetakeoverpanel.org.uk).

"Interests in securities" arise, in summary, when a person has long economic exposure, whether conditional or absolute, to changes in the price of securities. In particular, a person will be treated as having an "interest" by virtue of the ownership or control of securities, or by virtue of any option in respect of, or derivative referenced to, securities. Terms in quotation marks are defined in the Code, which can also be found on the Takeover Panel's website. If you are in any doubt as to whether or not you are required to disclose a "dealing" under Rule 8, you should consult the Takeover Panel.