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**Friends Provident Group plc**

## **Slide (Strong progress made, turnaround on track)**

The overall context for our results is that, given the unfolding recession, we are where we expect to be in the turnaround of this company, very much on track, although the results of our strategic actions have not yet flowed through to profitability, but this will follow.

These are the headline numbers of the key performance indicators, and we will be holding a telephone conference with analysts this afternoon to go through them. The top line shows our improving cash position, benefiting from the strategic actions we have taken, which have also flowed through into IFRS underlying profit. The other highlights are our strong IGD surplus, which has been further strengthened by the demerger of F&C, and an interim dividend of 1.3 pence per share, unchanged from last year.

However, the value metrics – the internal rate of return and contribution from new business - are not at all good enough, and our focus is very much on improving these.

## **Slide (Results reflect mid-point of turnaround)**

I have been in the CEO role for just over twelve months and I am very pleased with the strong progress made, and the decisive actions taken over that time. First and most importantly we have strengthened our senior management team. I think it is one of the best in the business and it is fully focused on the future success of the group.

We have reduced our expenses significantly, having now secured the targets we set ourselves for the end of this year.

We have demerged F&C, and the outcome provides us with increased financial flexibility.

We have expanded our distribution by re-establishing existing relationships, and forging some new ones.

We have improved our cash generation in line with our strategy and throughout, we have maintained strong and robust solvency.

We have also maintained our dividend in line with the dividend paying capacity range that we announced at the beginning of 2008.

Our focus can be summed up in just four words: Fix UK; Build International. This recognises the fundamental changes we are having to make to our UK business, but also the very real strengths that we have in the UK and internationally to build on. We are making good progress with both aspects.

## **Slide (Expense savings secured and actioned)**

In terms of securing our expense reduction targets, we are on track to spend no more than £215 million in 2010 compared to £275 million in 2007, a 22% reduction. We have confidence in this forecast because the necessary decisions to secure it have already been taken. These include staff numbers reduced by 22% from the end of 2007 to the end of June this year, and the outsourcing of IT infrastructure and development.

We believe the £215 million cost base anticipated for 2010 is the appropriate level for the new size and scale of our business, but bearing down on costs will remain a key feature of how we run this company.

## **Slide (Growth in UK pensions assets from strong regular contribution flows)**

Corporate pensions is our biggest market by far and, despite the recession, we can point to growth in pension assets under management to £7.7 billion at the end of June. This highlights the strong flow of regular contributions from the portfolio of over £1.2 billion per annum. Net client cash inflows of £0.4 billion were received in the first half of this year, and the total number of members on our platform has increased to approximately 765,000. The platform is certainly capable of handling much greater numbers, and that's our ambition. Thanks to the favourable investment performance in July the total assets increased to £8.2 billion at the end of last month.

A key strand to fixing the UK is expanding distribution. In corporate pensions, we have been restored to the main Employee Benefit Consultant and Consulting Actuary panels. But I want to stress how good and mutually beneficial these relationships are, with firms coming to us with their ideas and we offering help where we can. As a result, we have active discussions with a number of major advisory firms about future business models.

You may have seen our announced link up with FNZ today, certainly one of the leading platform providers, and we will be working with them to introduce a corporate platform in 2010, to maintain a leadership position in this market.

This is not an imminent development, but it is a significant and exciting one, recognising that the future in this area is much more than simply providing pensions. We envisage an online trading facility enabling monies to be moved seamlessly between different investment vehicles, providing access, for example, to corporate ISAs. We will explore how ShareSave and Share Incentive Plan proceeds can be integrated. And we will also be developing an enhanced Group SIPP and a more sophisticated individual SIPP.

## **Slide (Making progress in expanding distribution)**

In protection, we are increasing our focus on Independent Financial Advisers as well as actively exploring other distribution opportunities in addition to the new Tesco arrangement to help volume growth next year.

The Retail Distribution Review as proposed will change the landscape for financial advice, but we are well positioned for the likely outcomes as we have effectively already withdrawn from selling the retail investment products that are mostly affected by the review.

The RDR will lead to the emergence of new adviser models, and we see ourselves as an attractive partner for the distribution models likely to emerge, plus our ownership of Sesame provides us with strategic options.

Sesame is a strong and well-run intermediary business of considerable scale. Its proposed acquisition of Bankhall, assuming it completes, would create the largest UK network, with over 3,000 appointed representatives, the largest service provider, supporting over 1,500 directly regulated firms, and the largest mortgage distributor, which generated over £45 billion of applications in 2008. This would be a very significant asset of the Group.

## **Slide (International business offers higher returns and faster payback)**

Our international business offers volume growth, higher returns and faster payback than are available in the UK. We continue to face into International markets through Friends Provident International and Lombard, with AmLife also now coming on stream.

Taking each in turn FPI is a distribution-led business that leverages the expertise we have in the UK market in such things as product development and systems support. Its 'hub & spoke' model is efficient and effective, delivering growth at lower risk. Business is written from two hubs – the UK and the Isle of Man – into Europe, the Middle East and Asia Pacific.

Hong Kong is FPI's bedrock territory and we have operated there for over 20 years. However, FPI is becoming increasingly diversified, and good distribution opportunities are the key for entry to new territories, followed by opening a sales office or a full branch office as we become more established. This has been our approach to entering Dubai in 2004, Germany in 2006, and Singapore in 2007.

And late last year, you will recall that we took a 30% stake in AmLife as an appropriate gateway into Malaysia. AmLife brings additional profitable growth prospects, and I'm delighted to say, is currently growing profitably.

Lombard is a unique and well-diversified business with great prospects. It delivers high-end wealth management solutions, also operating via a 'hub & spoke' model out of Luxembourg but has complementary features to FPI and occupies a different market segment, serving wealthy investors and their families.

Distribution is by established partnerships with private banks and financial advisers, and Lombard has a rapid product renewal cycle that enables it to react swiftly to fiscal changes within regions. This is a real strength.

Of course the current financial conditions are affecting client confidence, but the fundamentals behind this business remain attractive. Its prospects are very exciting, with the number of large cases under discussion currently at record levels.

## **Slide (Strong future for Friends Provident within Resolution strategy)**

I believe there is a strong future for Friends Provident within Resolution. We are firm believers in the power of consolidation to improve returns in the life insurance sector, and Friends Provident is an excellent platform on which to build. We offer: an attractive franchise, benefiting from our repositioning; a very experienced management team, focused on success; efficient and scalable systems, capable of handling high volumes of business; and all underpinned by a strong capital position.

The Resolution team is supportive of our UK and International strategy, and, with their backing, there is a positive outlook for profitable new business.