

**2008 Preliminary Results
Friends Provident plc
17 March 2009**

Slide 1 - Title

Slide 2 - Cautionary Statement

Slide 3 – Trevor Matthews

Good morning ladies and gentlemen, and welcome to this presentation of our 2008 financial results.

Slide 4 - Agenda

We know that in these very turbulent times, focus is understandably on capital strength and dividend rather than operational metrics, so I propose to cover these important issues right up front in my opening remarks. I shall then hand over to Charles Bellringer to walk us through the key financials, after which I will briefly comment on our 2009 priorities, before opening up the meeting to your questions. As usual, a number of my colleagues are on hand to help ensure we answer your questions as fully as possible, including Simon Clamp and Rocco Sepe, Managing Directors of our UK and International businesses respectively, together with Richard Everett, Managing Director of Finance, and Andy Carr, Director of Actuarial Services.

Slide 5 - Against a tumultuous financial backdrop

I won't start by describing how difficult the economic environment is – that is well understood. But I do want to say that Friends Provident continues to be in good financial shape. The most commonly accepted measure of capital strength is the Insurance Groups Directive surplus capital figure. At the close of 2008, this was an estimated healthy £ .85 billion, with our Group resource requirement covered 1.9 times. Charles will take you through the make-up of this IGD surplus, but it is a strong figure. There has been a serious deterioration in the markets since the end of 2008 but as at the end of February, we estimate that our IGD surplus has reduced only slightly to £ .8 billion, indicating its strength.

Another concern in the industry is the quality of investments held. Ours are very high quality. Charles will give you a comprehensive breakdown of our investment ratings, but the headline is that 98% of our corporate bonds are investment grade.

Without stealing too much of Charles' thunder, I also want to highlight that our year-end EEV per share is 128p and our IFRS Net Asset Value excluding goodwill per share is 77p. You can draw your own conclusions as to how these compare with the current market sentiment reflected in share prices.

Friends Provident is a company that is going through a turnaround to become cash positive, a turnaround that we expect to take a small number of years, and in spite of the deterioration in our markets we are making good progress on that journey.

The new dividend policy that we announced in January 2008 continues. To recap, we planned to halve the cost of our dividend to approximately £90 to £100 million per annum. The final dividend we intend to pay is 2.6 pence per share, bringing the full annual dividend up to 3.9 pence per share, which falls within this range, at the bottom end. The cost of the final dividend is £60 million, representing just 7% of our IGD surplus. The Board of course will make a judgment on future dividend levels, taking account of future developments and the circumstances then prevailing.

You will have seen that, for technical reasons primarily associated with our demerger of F&C, we have to delay the dividend payment for a number of weeks, but this is a one-off, technical issue; it does not change our policy of normally paying interim dividends at the end of November and final dividends at the end of May.

Finally, although the economic environment has dominated all the headlines, we have been very active in implementing our change programme. Much good work has been done to reshape the business to make it right for the times. Let me briefly recap the key elements.

Slide 6 - 2008 strategic priorities – restructure the company

We had three main strategic priorities last year. The first was to restructure the company and this has been done. This affected the UK-facing business, which we have reorganised to align with the customers we serve, be they individuals or corporate clients.

We have implemented a new management structure, flatter than before, and seeking to remove unnecessary bureaucracy and simplify decision-making. We have also provided clarity as to personal accountability.

As for the leadership team, I was delighted to take up my appointment at the end of July, joined by Charles a few days later. I am also very pleased to have recruited Evelyn Bourke to take over from Charles as CFO on 1 May. In addition I have appointed Tony Brown as Managing Director, People and Change and we have made some further changes at operational director level. We recruited Sue Kean as our Chief Risk Officer and Rob Beattie as our Director of Internal Audit, two professionals with excellent industry experience. We also appointed two very experienced non-executive directors last year, David Rough and Robin Phipps, and announced this morning a further non-executive appointment, Rodger Hughes. So it's a new team, and I believe a strong team to take us forward.

We took decisive action on the future of Pantheon Financial, Lombard and F&C. In May we announced that we would retain Pantheon Financial. In October we stated that we would retain Lombard and proceed with the demerger of F&C. Lombard is a unique business and will make a significant contribution to our international presence going forward.

Slide 7 - 2008 strategic priorities – change our trading focus

The second strategic priority was to change our trading focus. Over recent years, we have demonstrated significant expertise in pensions and protection, and our UK focus is now built around these strengths. We withdrew from or scaled down our activities in the market segments we considered less profitable, and we introduced new terms for pensions and protection, most notably ceasing to offer unfunded initial commission on new group pension schemes. These were significant changes that deliberately downsized our activities in the UK market. Inevitably they take some time to implement, to bed down, and to adjust to.

We also decided to prioritise international development, where over the medium to longer term by applying our winning international business model we can see the potential for higher growth and higher returns. Last year we moved to larger premises in Dubai to accommodate our growing presence in that region; we enhanced our product suite for our new presence in the Singaporean market, and we established a foothold in Malaysia through taking a stake in AmLife. This is a modest investment but it provides us with an exciting and profitable growth opportunity.

Slide 8 - 2008 strategic priorities – reduce costs

The third strategic priority was to reduce our costs to a level appropriate for our new trading focus. We set a target of reducing annual operational costs, mainly in the UK, by £40 million by the end of 2009 and to reduce development costs by £20 million per annum. We successfully locked-down £25 million of those annual savings by the end of 2008 and we achieved savings of £14 million in development spend.

In 2008 we cut staff numbers by 10% by resizing and reorganising our sales, marketing and customer service functions. We have entered into two IT outsourcing agreements, one a ten-year deal for IT operations that will save some £6 million per annum, and the second a more recent agreement with our offshore partner, Wipro, likely to save a further £3 million annually for IT development. The IT operations outsourcing was implemented on 1 March this year and, together with other actions, has enabled us to reduce our staffing levels by a further 5% so far this year.

As planned, our deliberate reduction in business volumes has occurred faster than we can cut expenses so our financial metrics for our UK business have deteriorated in the short term. As the cost reductions come through, mainly from 2010 onwards, they will help to restore our profits to acceptable levels.

We are confident we will achieve our £40 million target by the end of this year and we have changed our culture so that cost control is now an important part of our ongoing strategy.

Slide 9 - Business results

We made an IFRS underlying loss of £190 million in 2008 after suffering the impact of credit default reserves of £217 million because of our conservative valuation basis. These figures compare to a loss of £46 million in 2007 when the impact of credit default reserves was £90 million.

I am pleased to report that our EEV underlying profit of £420 million returned to more of a 'business as usual' figure, whereas the 2007 figure of £16 million was significantly negatively impacted by non-recurring assumption changes.

Our overall contribution from new business was down significantly because of the factors I just described, although the contribution from International new business was maintained at 2007 levels, which is a strong result. Our International business was not part of our reorganisation last year and so was not disrupted in the same way. Its progress in such difficult circumstances reflects the strength of our international diversity in terms of geography, products and customer segmentation.

The UK contribution shows the combined effect of the worsening trading conditions, the reduction in volumes from those market segments from which we withdrew, and the lag between writing less new business, in line with our strategic change of direction, and bringing expenses down.

Much the same factors have led to the internal rate of return on new business falling to 12.9%. International IRR continues to be strong relative to UK business.

I will now hand over to Charles.

Slide 10 – Charles Bellringer

Slide 11– Strength in challenging times

Good Morning.

As Trevor said, these are turbulent and challenging times and my focus today will be on 3 issues: Capital, Cash and Control.

Our Capital strength is secured by the conservative approach that we take to financial management in general. In particular, our prudent reserving bases and our prudent financial reporting bases are pillars of strength when making comparisons in the sector.

The new strategic direction we announced in early 2008 focussed on cash and cash generation: setting ourselves the objective of funding our dividend from our operating cash in the near term. You will recall that we set out to reduce the level of new business strain in the UK by exiting unprofitable product segments and by withdrawing from the unfunded commission segments of the UK Group Pensions market. We have made good progress in 2008 and UK new business strain has reduced significantly. I will go into detail later.

Our focus on cash management has led us to adopt a much more rigorous approach to expense control. As a result, we are well on track to deliver the £40m p.a. reduction in UK operating costs by the end of 2009 in addition to the £20m reduction in development expenditure. The remaining £15m annualised operating cost savings will be delivered in 2009 and the full year of benefit will be seen for the first time in 2010.

Slide 12 – Financial summary

Turning now to the financial headlines. There is a lot happening in our results this year and you will recall that this was the same in 2007. This makes comparison between the two years rather difficult. I shall take you through the headlines and then explain some of the detail so you can see the underlying position and trends.

The IFRS underlying profit for the year, before allowing for credit default reserving in our annuity business, was £27m. This is after a one-off charge of £70m for increased claims expense reserves for income protection business and increased lapses on our protection business in general.

Total operating cash outflow is £12m with a net £40m of cash committed to new business by our international operation as it sold a large volume of its market leading Premier product in Hong Kong in the first half of the year.

IFRS net asset value per share, excluding goodwill, is 77p.

EEV underlying profit before tax has increased to £420m. This represents a more normal level of profitability than in 2007, when we recorded operating assumption changes for the reclassification of development expenses into maintenance and persistency changes totalling approximately £360m.

Finally, embedded value per share is 128p. I will now go into the detail.

Slide 13 – We maintain a strong IGD surplus

Let me start with Capital.

The IGD surplus is our key measure of solvency.

At the end of 2008, we estimated the IGD surplus was £0.85bn, with 1.9 times coverage of the Capital Resource Requirement. That's a strong position.

This is a conservative measure of solvency, based on regulatory requirements and it excludes the shareholders surplus capital held within the long-term funds of approximately £0.6bn. Our shareholder funds that make up the IGD surplus are invested primarily in gilts, bonds and cash. We sold the shareholders equities in 2007, well before equity markets collapsed.

At the end of December, the surplus was resilient to further market movements. The very low level of equities held makes a sensitivity rather pointless, but for avoidance of doubt, a 30% fall from year end levels would have NO impact. A 100 basis point widening of corporate bond spreads would reduce the IGD surplus by less than £0.1bn.

Since the end of the year, investment markets have continued to fall and the long-term funds of our insurance companies have absorbed further unrealised investment losses.

At the end of February 2009, the IGD surplus was estimated at £0.8bn. We estimate no material effect from a 30% fall in equities and £0.1bn gross effect for 100 basis points of spread widening and £0.2bn for 150 basis points, and by gross I mean before allowing any offset from the very prudent margins in our annuity reserving basis. In reality the sensitivity would be lower than the gross figures I have just mentioned because of the scope to reconsider reserving bases.

The surplus has decreased by £0.45bn in 2008 due to the payment of dividends and interest on our debt of around £0.2 billion. We also injected around £0.1 billion into the long-term funds of the two companies that write our pensions and protection business to fund their growth.

In addition, the investment in our Malaysian joint venture, AmLife, and the F&C investment in their Real Estate Investment Trust business REIT produced intangible assets on acquisition that are not admissible in the IGD calculation. These items totalled about £0.1bn. The balance reflects net investment losses in shareholder funds.

Movements in IGD surplus during 2009 are expected to include an increase of £0.2 billion on distribution of Friends Provident's stake in F&C.

Slide 14 – Credit default reserve for corporate bonds

Our default assumption on bonds backing the annuity business is for 50% of the spread over gilts, to be treated as provided for default. This is equivalent to a 290 basis point deduction from yield for defaults.

There is approximately £2.7 billion of bonds backing the annuity business, of which £0.6 billion are government backed. The default allowance creates a provision of £500m, well above the standard life company allowance so far reported.

As a reminder, some £2.0 billion of annuities are within the main with profits fund, with profits and losses on this business shared 40% to policyholders and 60% to shareholders.

Slide 15 – FPLP With Profits Fund (WPF)

I want to say a few words to provide some further information on our main With Profits Fund.

The fund has been very resilient to market falls in 2008. It withstood significant equity market falls, commercial property market falls and around 300 basis points of corporate bond spread widening.

We manage the fund on a realistic basis and the fund has continued to cover its Risk Capital Margin without additional shareholder support. The risk capital margin increased in the year to £291m, as a result of increased volatility in markets, and the increased cost of guarantees.

Our dynamic hedging approach has been effective in managing this position. And we took action to hedge exposure to £2.25 billion of equities in the autumn at market levels substantially higher than the year-end close. That has been good for policyholders.

The regulatory surplus in the fund, after covering the capital resource requirement, was £0.3 billion at the end of 2008, down from £1.6 billion at the end of the previous year. In addition to reflecting the fall in investment values in the year, this also reflects our very prudent reserving basis for Annuities.

Despite further falls in both equity and bond markets since the end of the year, the With Profits Fund continues to meet both its realistic and regulatory capital requirements

Slide 16 – Investing in a high quality portfolio

In these turbulent times asset quality is an important issue for life assurers. The disclosure of other companies in the sector varies, but none so far reporting has disclosed as high a share in investment grade assets – 98%, both in mainstream bonds and ABS.

The financial assets on the balance sheet are £44.3 billion. In addition, we hold investment properties of £1.5bn split between our unit linked and with profit funds and cash of £5.2 bn.

The overwhelming majority of our financial assets are valued at a mark-to-market fair value. £28.9bn of these assets are held in policyholder unit linked funds, where the policyholder bears the market risk.

In the With Profits Fund, there are £11.3bn of financial assets. Around 35% are UK government securities and a further £4.1bn is in high quality corporate bonds. Please note the equity exposure of £2.6bn is before £2.1bn of hedges. The net position is £0.6bn.

Non-linked corporate bond assets include £1.6bn for the reinsurance asset arising from our collateralised 2007 deal with Swiss Re. That is considered to be AA-rated.

I made a point about asset quality and now I'm going to give you more detail.

Slide 17 – Invest in high quality corporate debt & ABS

The credit ratings of our bonds are very strong overall.

In funds with shareholder exposure, over 98% of corporate debt is investment grade. The same percentage applies to ABS.

Unit linked unrated bonds are by and large Lombard wrapped instruments to which there is no shareholder exposure.

At the end of 2008, within the corporate debt portfolio, we held £145 million of UK bank tier 1 debt spread across the with profits fund, non-linked business and shareholders funds. At 28 February, this debt was valued at £134 million. More detail is provided in the RNS.

Slide 18 – We manage cash to deliver our strategy

Cash, the return of the King.

The expected outcome from implementing our revised strategy is a self-funding Group meeting the cost of its dividend from underlying cash generation. The dividend capacity was estimated at £90 to £100 million per annum at the time of our strategic review. We have assessed our progress and the Board has agreed that the stated dividend policy remains appropriate. This analysis has enabled us to provide the intended dividend, which represents approximately 7% of our prudently based IGD surplus.

I will take you through the operating cash result in some detail in a moment, but before doing so let me cover the non-operating items.

Reported in one-off items of £119m, we set aside prudent reserves in 2008 to cover claims management expenses on income protection products, the costs of implementing our strategic changes, including future costs, and additional reserves for lower persistency on protection business. These more than offset the benefit we obtained from implementing the last part of the PS06/14 reserving changes.

The movement in bond spreads in the year was approximately 290 basis points and under our very prudent reserving basis we set aside an additional £410m of default reserves. As we announced in our Q4 new business statement, we reassessed our annuity default reserving basis at the end of the year to take 50% of the spread over gilts into the valuation basis. That compares to the previous approach where a maximum of 40 basis points was taken in to the valuation basis. This change in the basis released £193m of the default reserves that I spoke about earlier.

This is still a very prudent approach compared to most of our competitors and we held approximately £500m of default reserves at the end of 2008 on a portfolio of £2.1 billion of corporate debt backing our annuity business.

Because we assess our cash resources on an EEV consistent approach, we also include the mark to market on our own debt. In 2008, this amounted to an increase in resources of £206m as the market value of our debt fell.

Slide 19 – Improving the operating cash flow

I will take you through each element of the operating cash flow in turn and describe the change since 2007 and the outlook for cash generation as we manage the business for cash and complete our strategic change.

Slide 20 – Improving the operating cash flow - UK In force Surplus

That is largely in-line with our expectations, following from £186m to £131m. Some £20m of the fall relates to the inclusion of development expenses in the maintenance cost base. That really is only a presentational issue.

The acceleration of surplus release due to the PS06/14 reserving changes has reduced the ongoing level of in-force surplus by around £10million p.a., but has been included in one-offs.

£10m of the decrease relates to the run off of the with-profits business and the final element is due to lower management charges on the savings and investments business.

Slide 21 – Improving the operating cashflow - UK new business strain

New business strain in the UK is £60m lower than in 2007.

This shows the benefits of adopting the new strategy. Commission has fallen £58m, caused by the move away from unfunded commission in the corporate pensions business and acquisition costs have fallen. Volumes are down.

Slide 22 – Improving the operating cash flow- International outflow

A different set of influences in International. As the in-force grows we are seeing increased AMC's (£14m), and the benefit of surplus coming through on FPI's Premier products that I referred to in Hong Kong.

Both commission and Acquisition costs have risen reflecting growth in volumes and a move towards regular premium business, in more challenging times.

Slide 23 – Improving the operating cash flow - summary

The anticipated trends that we see are in the components of operating cash flow are:

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UK In-force surplus should gradually grow as in-force volumes and values increase, whereas New Business Strain will continue to contract as New Business becomes less dependent on unfunded schemes in Group pensions and the drag of unfunded increments falls away. The continued success of FPI and Lombard will see a significant build of in-force surplus. As we focus on capital light products, and importantly incentivise management to focus on capital and cash we expect International New Business strain to be constrained despite the expected growth in New Business, both in FP International and Lombard. We are working in all 3 areas to deliver the cash generation required for the dividend policy to which we are committed.

Slide 24 – 12 month rolling UK expenses

I have now covered Capital and Cash and I turn attention now to Costs.

We have developed a Zero Based Budgeting Project that includes a database of nearly 300 ideas for cost reduction. Each is evaluated and a go/no go decision is taken. Each initiative is tracked and re-evaluated as it progresses. £25m of savings net of identified increases has been achieved by year-end. This methodology gives us the ability to lever out more than £40m of costs if the recession is worse than we anticipate.

Aside from the control exercised in Finance, our expense control is overseen by a manager who reports to me with the formal title of Cost Tsar.

To show you the progress we're making, the 12 month run rate of costs is tracked and now clearly shows a pronounced downward trend in UK expenses.

Slide 25 – IFRS income statement

Turning now to IFRS income. You will see the same pattern of reduced new business strain and lower in-force surplus in 2008 as you did in our cash flow. However, IFRS permits the deferring of acquisition costs and this produces the overall life and pensions surplus of £51m before one-off items. This is lower than in 2007 due to lower in-force surplus for the same reasons discussed in the cash section.

Investment return and other income last year included the £34m Resolution break fee.

The one-off items this year of £70m include additional reserves for income protection claims expenses and protection persistency. You will recall that the largest item last year was the reclassification of development expenses to maintenance.

Our IFRS reserving basis for corporate bond defaults is the same, very prudent, basis that we use for regulatory reserving. Therefore, we have recorded a net £217m loss under IFRS for the additional default reserves within underlying profit. That is the driver of the increase in the underlying loss in the year.

Slide 26 – IFRS non-underlying statement

We focus on underlying profit as a better indicator of the profitability of the business over the longer term. A number of items fall outside of underlying profit that are not related to underlying trading.

The most significant is the impairment of the goodwill of our investment in F&C.

The market value of F&C declined considerably in 2008 from £499m at the end of 2007 to £150m approximately. As we intend to demerge the investment in 2009, we have written the investment down to its market value at year end and recorded an impairment charge of £216m. F&C itself impaired the investment management agreement intangible assets carried on its balance sheet by £48m to reflect lower expected future earnings in respect of these contracts.

Other items in non underlying include the implementation costs of the strategic change programme and the costs related to F&C's own change programme. We also added back the £154m loss attributable to minority interests principally in the F&C Commercial Property Trust. The £154m is deducted again lower down the income statement as being allocated to minority equity holders.

Slide 27 – EEV income statement

Turning now to EEV.

Our Return on embedded value has increased in the year to 7.9% and we aim to improve this further in the future. Notably International business produced a return of 19.4%.

Contribution from new business has fallen to £139m. The contribution from our international business has remained at the same as last year reflecting a strong performance in difficult markets.

The UK VNB has fallen by £68m to £28m. £58 million of the decrease relates to decisions we made in January 2008 to refocus our UK business and to capitalise development expenses into maintenance. The remainder of the decrease relates to lower individual protection sales and lower reported annuity profits. Acquisition expenses take time to adjust to the revised scale of the UK business, so only partially offset in the year.

The in-force profits have increased by £48m as our international business grows. There is also a large number of small experience variances in both the UK and International netting to a small total.

Operating assumption changes include around £50m for changes to persistency assumptions for protection, pensions and bonds, with some offset for expense assumption changes.

We have set persistency assumptions with respect to recent experience. We have not sought to anticipate potential future impacts from the current recession.

Other life and pension profits have increased; £42m UK development spend in last year's result has reduced and the amount incurred has been charged to New Business or in-force.

Slide 28 – EEV non underlying items

Non underlying items include impairment of the F&C goodwill and intangible assets I discussed earlier. In addition there is the regular amortisation of the other intangible assets on the EEV balance sheet.

Strategic change costs are the one-off costs of implementing the Friends Provident programme incurred in the year together with equivalent costs incurred by F&C on their own change programme, the same as in IFRS.

Investment return variances of £611m represent the difference between the expected return in the year and actual investment returns. In IFRS the variance to expectation for shareholders (including those in the long term fund) is allocated to non underlying. Hence a smaller balance is reported in IFRS for this line.

Slide 29 – European Embedded Value

The after-tax loss on the EEV reporting basis is the key driver in the reduction in embedded value in 2008.

Shareholder invested net assets have reduced by £268m largely due to unrealised investment losses and transfers into to long term funds to fund future growth.

The value of the in-force business has decreased by £139m. The value of new business added in the period and the benefit of exchange gains on the international business in-force have been offset by negative annuity value driven by the gilt basis of valuation. Adverse investment markets and implementing the final part of PS06/14 reserving changes (now in NAV) have both also reduced the VIF, as the benefit moves into NAV.

F&C is held at its market value in our group embedded value and this has decreased by £349m in the year.

In arriving at this embedded value, we have not implemented any of the changes proposed in the CFO forum's new MCEV principles. We continue to use a gilt rate of return throughout in our EEV methodology to represent the risk free rate. The diversity of bases used by other companies provided no justification for moving to any one alternative basis. We will move once guidance from the forum is finalised.

There has been much deliberation about how much of the yield spread to allocate as default risk in the EV calculations.

Slide 30 – Reporting basis and annuity profits

I will now try to demonstrate the impact of the various interest rate bases on the reported profitability of our annuity business. Given our smaller scale annuity operation compared to other offices, the impact is obviously lower.

Fundamentally, the profitability of annuities depends upon the yield we actually achieve in excess of that assumed in our pricing. This is demonstrated by the first column of the chart.

In terms of Cash / IFRS, the key relationship here is between the reserving interest rate and that used in pricing. We set the reserving interest rate at around 50% of the spread over gilts. Where the pricing basis is below this level, the premium received will be more than sufficient to cover the reserving requirements; in isolation this leads to a day one profit. Future profits will be made if, as we expect, the yield we actually achieve, net of defaults, is greater than the reserving basis.

In terms of the EEV profit, the new business value depends crucially on the relationship between the pricing basis and that assumed to be earned in the future. Our approach to EEV assumes an earned rate based on gilts. To the extent that this rate is below that used to price the business, the value of new business will be negative. However, as we earn a rate of return in excess of gilts, future profits will emerge through time. Our reporting methodology does not change the actual level of profits, merely the timing of when these profits are recognised.

Despite recording a loss under our EEV basis, we believe that there is a good profit to be made from writing annuity business and we continue to provide annuities to our maturing pensions savings business.

Finally, I have provided sensitivities for the value of new business to the earned rate and discount rate assumptions underlying our EEV

Slide 31 – Strength in challenging times

- Capital remains strong, backed by high quality assets
- Cash generation is a fundamental metric going forward and we have made good progress in the key initiatives to achieve our goals
- Control of costs will be critical to delivering profitability. Our methodology for delivering cost savings is embedded in the business and is succeeding
- 2008 was a year we set off to achieve our new strategy and the results are now being delivered

I will now hand back to Trevor.

Slide 32 – Trevor Matthews

Thank you Charles.

Slide 33 - 2009 strategic priorities – complete the repositioning of the Group

Turning now to this year, these are our strategic priorities. We are half way through our two year cost-reduction programme and have achieved about two thirds of our target savings. We need to complete what we started and deliver a further £15 million of savings by the end of the year. I am very confident we will do that.

The demerger of F&C is progressing well and should be completed around mid-year. The technical hoops we have to go through are fairly complex, but the end result will enable our shareholders to hold their own stakes in F&C, a fine investment manager.

Slide 34 - 2009 strategic priorities – focus on quality business

Our second priority is to focus on quality business.

We are already very much 'back in business' with the vast majority of Employee Benefit Consultants and Consulting Actuaries for group pensions in the UK. We have regained good sales momentum and are optimistic about continuing to strengthen our presence in this key market. Last year the number of members on our pensions platform increased from 682,000 to over 750,000 and our pensions assets under management reduced only fractionally from £7.6 billion to £7.3 billion. This was a good result because the movement in investment markets was a negative £1.8 billion but we almost countered that by a net inflow of £1.5 billion. We continue to accumulate evidence that, because of our technology, our group pensions operation is efficient and were pleased to see an increase in our market share in the fourth quarter of 2008. We are keen to expand our activities in the group pensions arena in due course. This is a long-term growth market on which we are focussing closely and in which I am confident we can grow profitably.

We are also determined to maintain our market share in individual protection in the UK and again were pleased to see a small increase in market share in the fourth quarter of last year after losing share in prior quarters. We have refocused our specialist sales force and strengthened our overall proposition, and we are working hard to increase our distribution reach. This is a market where we have earned very strong credentials, and we are confident that there will be opportunities for future profitable growth.

The group protection market remains very competitive, but through pricing and policy features, we will look to establish a stronger market presence. We also intend to launch a group life proposition later this year.

Our international business model provides us the opportunity to expand our business effectively and at low cost. We will pursue opportunities to broaden our international reach and distribution. Our fairly recent offering of pensions into Germany has proved very successful and we plan to launch more new products into that, and other regions this year. We are also looking at how we can further increase our footprint in the Middle East, building on the success of Dubai and our full UAE licence.

Lombard is a complementary business to Friends Provident International and will increasingly focus on improving its cash generation for the Group. Following extensive system developments last year, Lombard is now equipped with a modern, scalable platform to support our long term growth ambitions.

So despite the tough times we are confident that we are making careful investments that will provide good returns for us in the years ahead.

Slide 35 - 2009 strategic priorities - maintain and improve our competitive strengths

Our third priority is to maintain and improve our competitive strengths. They are real and they do make a difference. Our service, and the systems that support this service, are very highly regarded, recognised by many industry awards last year, and this year too. This reputation is valuable and we plan to protect it by continuing to invest in our key systems to ensure they remain leading-edge. Enhancing service was also an important consideration in our new IT outsourcing arrangements.

We have a heritage that does set us apart from others and we will protect that heritage. This is behind our sensible, dare I say cautious approach to accounting that is standing us in such good stead at the moment. Our dealings are straightforward. We believe this engenders trust. We try to be as transparent as we can be, and I believe this is reflected in the figures we are announcing today.

There is room, however, for us to develop a more commercial edge. We will achieve this through the new structures, through clear accountability, and through the way we lead and encourage our staff. We are overhauling our performance management processes and our staff bonus scheme to encourage and reward success. We are also doing quite a bit of work on how we develop the culture that supports our business aspirations. We have simplified decision-making, introduced a sharper budgeting process and have generally removed bureaucracy where we can. In addition, the way we have reorganised brings us closer to our customers and to understanding what they value.

We have developed very efficient ways of handling business and we will build on our successful operational models. Our international model is very different from the norm.

Slide 36 - International 'hub & spoke' model

Our 'hub and spoke' approach is both efficient and effective, allowing us to do business in a number of regions, and extend our reach into new territories, without incurring the infrastructure overheads of separate operations in each country. We have lightly staffed sales offices in three main regions – Europe, the Middle East and Asia Pacific, supported by product development and administration in three hubs – the UK, the Isle of Man and Luxembourg. The core systems, development and administrative activities are centralised. We develop "thin layers" to tailor core products to local markets and customer segments. This ensures rapid product development, efficient processing and genuine sharing of international best practice. We are convinced it is a winning model for both Friends Provident International and Lombard.

Slide 37 - Against a tumultuous financial backdrop

But let me end where I began. These are unprecedented times but as we proceed determinedly on our turnaround journey we are weathering the storm quite well. We are maintaining our financial strength. We are maintaining our conservative approach to accounting. We are maintaining our new dividend policy. We are maintaining our focus on developing strong relationships. And we are maintaining our focus on developing a business that we believe is right for the times. Let me now open up the meeting and take your questions.