



**FRIENDS
PROVIDENT**

Friends Provident plc

2008 Interim Results

7 August 2008

Certain statements contained in this announcement constitute "forward-looking statements". Such forward-looking statements involve risks, uncertainties and other factors, which may cause the actual results, performance or achievements, from time to time, of Friends Provident plc, its subsidiaries and subsidiary undertakings or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and other factors include, among others, adverse changes to laws or regulations; risks in respect of taxation; unforeseen liabilities from product reviews; asset shortfalls against product liabilities; changes in the general economic environment; levels and trends in mortality, morbidity and persistency; restrictions on access to product distribution channels; increased competition; changes in customer attitudes and trends in distribution; and the ability to attract and retain personnel. These forward-looking statements are made only as at the date of this announcement and, save where required in order to comply with the Listing Rules, there is no obligation on Friends Provident plc to update such forward-looking statements.



FRIENDS
PROVIDENT

Sir Adrian Montague
Chairman

Agenda

Strategy progress and Outlook

Sir Adrian Montague

Chairman

Financial results

Jim Smart

Chief Financial Officer

First impressions

Trevor Matthews

Chief Executive Officer

Questions & Answers

Team

Strategy implementation progress

1. Refocus UK on profit, not volume growth



- New terms for group and ind'l pensions introduced
- Protection product extended and enhanced
- Unprofitable saving products replaced – wrap terminated

2. Grow International business faster than UK



- Significant volume growth being achieved
- New business opportunities being pursued successfully
- Profitability well ahead of UK

Strategy implementation progress

3. Become self-funding



- Improve profitability/cash flow of the UK business
- Rebase dividend
- Reduce 2007 cost base by 15% (£40m pa) by end 2009
- New foundations in place for UK business
- Interim dividend: 1.3 pence per share (cost: £30m)
- £11m pa savings @ 30.06.08
 - Wrap termination
 - Salesforce reduced and reorganised. 10 Area Offices closed
 - Customer Services resized and reorganised
 - Around 350 redundancy notices issued
 - Outsourcing of IT operations initiated

On track

Strategy implementation – associated activities

Restructure and redesign ‘way of working’

- Adopted ‘single company’ structure
- Introduced deeper level of personal and P&L accountability
- Simplified decision-making
- Enhanced governance
- Strengthened performance management
- New ‘top team’
- Preserved competitive strengths

Strategy implementation – associated activities

Review 'out of strategy' businesses

Decision: Pantheon Financial being retained pro tem

Process continuing for Lombard and F&C

Context

- Good, profitable businesses – avoid disruption
- Not a 'capital raising' requirement
- Disposals would take due regard of market conditions - not a 'fire sale'
- All proceeds to shareholders, mitigating reduction to dividend
- Lombard remains self-financing
- F&C generates small dividend income
- FP strategy unaffected by ongoing retention of non-core businesses

Outlook for Life & Pensions businesses

UK

Protection
Pensions
Annuities
Selective savings

- Ride out current market downturn
- Maintain protection market share tactically
- Revive confidence of distributors
- Improve profitability

Int'l

Asia
Middle East
Europe
Other

- Pursue strong growth opportunities
- Developing bank distribution in Middle East
- Build on German pensions success
- Manage mix for growth vs profitability

Context for financial results

Company in transition

Implementation of new strategy advancing and on track

Strength of balance sheet evident

Results broadly in line with management's expectations



FRIENDS
PROVIDENT

Jim Smart
Chief Financial Officer

Group financial KPIs

	H1 2008	H1 2007	%
IFRS underlying profit before tax	£13m	£111m	(88)
Shareholder cash generation	£(121)m	£175m	(169)
EEV underlying profit before tax	£211m	£264m	(20)
Contribution from new business	£67m	£95m	(29)
Internal rate of return on new business	12.6%	13.7%	(1.1)pp
Cash payback on new business	11 years	10 years	10
Embedded value per share	151p	160p*	(6)
Group solvency excess capital resources	£1.0bn	£1.3bn*	
Total shareholder return	(34)%	(15)%	

- Credit spread widening leads to £70m more reserving affecting IFRS and cash
- Negative investment returns and £20m pension fund contribution cause a cash outflow
- Contribution from new business, IRR and payback reflect more prudent year end basis and lower volumes in 2008
- EV per share reduced by investment returns and F&C share price
- Balance sheet strength maintained

* as at 31 December 2007

Life & Pensions new business - APE

£m	H1 2008	H1 2007	%
Protection	28.9	34.6	(16)
Pensions	270.8	285.5	(5)
Annuities	13.9	14.6	(5)
Saving & investments	6.0	27.1	(78)
Total UK	319.6	361.8	(12)
FPI	117.2	74.6	57
Total Life & Pensions	436.8	436.4	0
Lombard	70.2	64.8	8
Total	507.0	501.2	1

- L&P sales unchanged
- Growth in FPI offsets fall in UK
- Protection down with mortgage market
- Pension sales down from withdrawal from initial commission individual pensions
- 17% of pensions sales from new initial commission group schemes
- Lombard growth from currency movement

IFRS underlying result

£m	H1 2008	H1 2007	%
UK – New business	(63)	(34)	
UK – In Force	82	62	
Total UK life & pensions	19	28	(32)
FPI – New business	(11)	(7)	
FPI – In Force	16	10	
Total FPI	5	3	67
Shareholder funds & other	21	32	
Underlying profit before one offs & non core	45	63	(29)
One off	(68)	11	
Non core operations	36	37	
IFRS underlying profit before tax	13	111	(88)

- UK profit lower from additional reserving for annuities
- Sesame underlying profit £2m
- FPI increased strain and in force reflect higher volumes
- Shareholder funds yield less owing to switch from equities to bonds in mid 2007
- One off reflects prudent reserving for corporate bond spreads – bringing total additional reserving to £160m which will be released absent higher future defaults

IFRS earnings per share

£m except where stated

	H1 2008	H1 2007	%
IFRS profit after tax	(84)	107	(179)
IFRS underlying profit after tax	29	98	(70)
IFRS underlying earnings per share	1.2p	4.6p	(74)
IFRS basic earnings per share	(2.6)p	2.2p	(218)
Dividend cost	30	58	(48)
Dividend per share	1.3p	2.7p	(52)
Annualised dividend cover on an underlying basis	0.6x	1.1x	

- Loss after tax caused by investment returns and third party items: policyholder tax and F&C property fund
- Underlying profit after tax excludes these items
- Dividend based on new policy: cost is 1/3 of £90m annual dividend paying capacity
- DPS will be enhanced by any return of proceeds from disposals

Shareholder cash generation

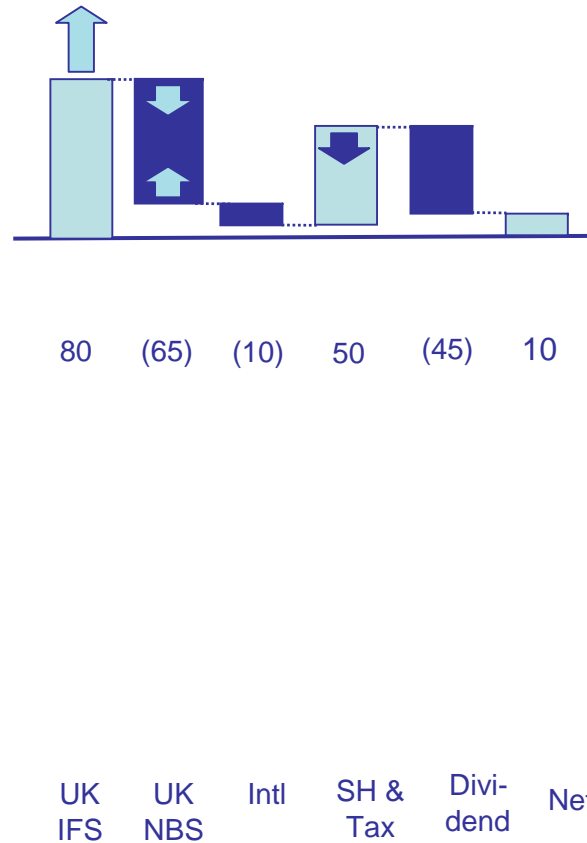
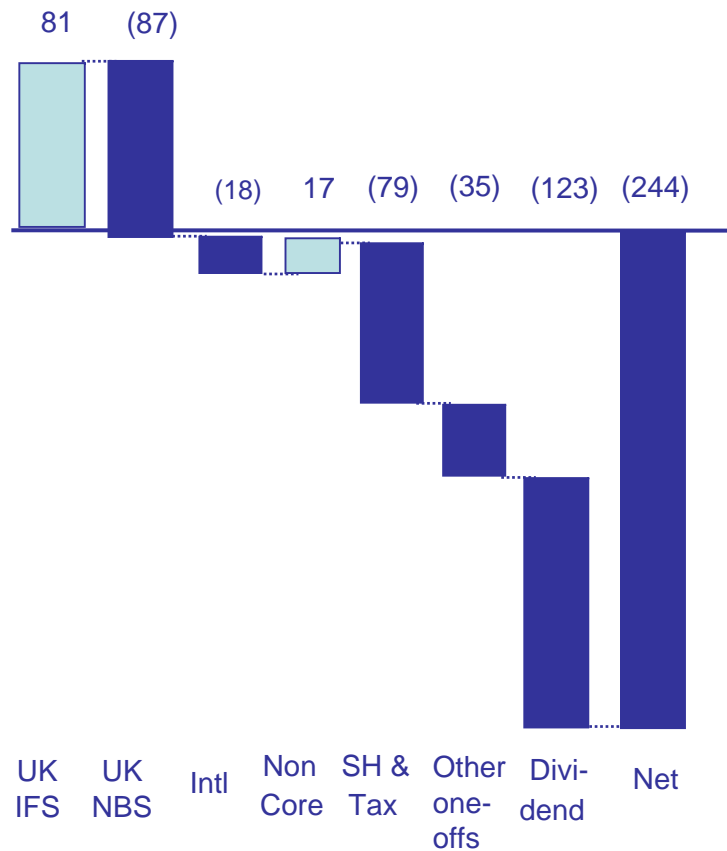
£m	H1 2008	H1 2007
UK life & pensions	(6)	1
FPI	(18)	3
Taxation	39	12
Investment return & other	(118)	81
One off items	(35)	56
Non core operations	17	22
Cash before financing items	(121)	175
Dividends paid	(123)	(110)
Total cash movement	(244)	65

- UK in force surplus and new business strain down from PS06/14. Investment falls mean AMC's did not grow.
- FPI net investment reflects new business growth
- Investment return reflects bond spreads on annuity book and shareholder funds
- One off items include £15m implementation costs and £20m pension fund contribution
- Dividend reflects final 2007 dividend on old policy

Shareholder operating cash generation

2008

Indicative Semi Annual Run Rate
(assuming no investment variances)



■ Cash inflow
 ■ Cash outflow

- In force surplus should increase – AUM growth less WP expiry
- New business strain falls – fewer initial commissions and cost savings
- FPI small net investment
- Shareholder Investment returns and tax will decline as tax rebates expire
- New dividend cost halved
- Small and growing cash surplus

EEV underlying result

£m	H1 2008	H1 2007	%
Contribution from new business	49	78	(37)
Expected returns	81	95	(15)
Operating assumptions / experience variances	8	20	
Development costs	(7)	(19)	
Corporate items	(7)	(6)	
Expected return on shareholder net assets	22	35	
EEV underlying profit before non core	146	203	(28)
F&C / Lombard	41	62	
Other items - life & pensions	(192)	98	
EEV profit before tax	(5)	363	(101)

- Contribution from new business down from basis changes / volumes
- No adverse persistency or operating assumption experience
- Development costs: UK items now capitalised, small investment in FPI for new markets
- Shareholder funds yield less owing to switch from equities to bonds in mid 2007
- Other items reflect investment market and economic movements

EEV new business profitability

£m except where stated

	H1 2008	H1 2007	%
UK			
Contribution from new business	27	62	(56)
IRR (%)	10.9	11.9	(1.0)pp
Payback (years)	16	11	45
FPI			
Contribution from new business	22	16	38
IRR (%)	15.7	23.0	(7.3)pp
Payback (years)	7	4	75
Total Life & Pensions			
Contribution from new business	49	78	(37)
IRR (%)	11.9	12.7	(0.8)pp
Payback (years)	12	11	9

- UK comparatives affected by year end basis changes, withdrawal from cash intensive segments, lower volumes across a similar cost base
- FPI benefits from a competitive offer in Hong Kong increasing growth but at lower IRR
- In line with strategy, FPI grows faster than UK at superior profitability enhancing aggregate return

Reporting basis changes to UK business

	Contribution (£m)	IRR (%)	Payback (Years)
June 2007 - as reported	62	11.9	11
Basis changes implemented at year end 2007	(11)	(0.2)	1
Capitalisation of costs	(8)	(0.8)	2
June 2007 – year end basis	43	10.9	14
Reduction in volumes	(14)	(0.9)	1
Price and mix effects	(2)	0.9	1
June 2008 actual	27	10.9	16

- Adjusting for year end basis reduces 2007 reported figure for persistency / development cost capitalisation
- 2008 has seen reduced volumes across a similar cost base
- Pricing has continued to be under pressure in Protection
- No benefit has yet been taken for £40m target cost savings
- Cost savings / business mix should improve profitability

Embedded value

£m except where stated	Jun 2008	Dec 2007	%
Shareholders' invested net assets	1,321	1,458	(9)
Value of in-force Life & Pensions business	1,452	1,485	(2)
Provision for future corporate costs	(95)	(97)	
Net pension asset	53	4	
Embedded value – core operations	2,731	2,850	
<i>Embedded value per share – core operations</i>	<i>118p</i>	<i>122p</i>	(3)
Market value of F&C	382	499	
Non-core SINA and VIF	389	376	
Embedded value	3,502	3,725	
<i>Embedded value per share</i>	<i>151p</i>	<i>160p</i>	(6)

- EV per share reduced by investment returns and F&C share price
- At latest F&C price, EV per share is c146p
- No of shares will be reduced by proceeds of any sales enhancing EV per share for core operations

Operating expenses

£m except where stated

	H1 2008	H1 2007	%
Acquisition costs	76	78	
Maintenance costs	61	44	
Life & pensions ongoing costs	137	122	
Corporate & other costs	17	9	
Development costs	7	18	
	161	149	8
Run rate of savings delivered to date			
Acquisition	9		
Maintenance	2		
Total	11		
Target savings by 2010			
Acquisition	23		
Maintenance	17		
Total	40		

- Development costs recategorised at year end increases maintenance costs
- Cost growth reflects £15m of implementation costs and FPI
- Annualised cost savings of £11m realised to date
- Target savings of £40m – remainder should come evenly from acquisition and maintenance costs
- No benefit taken in EV to date for any of the savings

Protection

£m except where stated

	H1 2008	H1 2007	%
APE	28.9	34.6	(16)
Market share (Q1)	5.7%	6.0%	(0.3)pp
Contribution from new business	6	14	(57)
IRR	8.6%	11.2%	(2.6)pp
New business strain	21	48	(56)
Cash payback	11 years	8 years	38
Cash generation	7	0	N/a
IFRS underlying profit	7	6	17
In-force premiums	318	300*	6

- Volumes down more than market owing to distributor base and competitor pricing
- Pricing remains under downward pressure
- Cost base relatively fixed reducing contribution, IRR, cash generation and profit
- No credit taken for cost savings
- Book still growing

* as at 31 December 2007

Pensions & Annuities

Pensions £m except where stated	H1 2008	H1 2007	%
APE	270.8	285.5	(5)
Contribution from new business	20	36	(44)
Group pensions IRR	7.9%	9.4%	(1.5)pp
Group pension cash payback	23 years	17 years	35
New business strain	58	75	(23)
Cash generation	(41)	(55)	(25)
IFRS underlying loss	(26)	(26)	(0)
AUM	7,626	7,595	0
In-force annual premiums	1,370	1,241	10

* as at 31 December 2007

Annuities £m except where stated	H1 2008	H1 2007	%
APE	13.9	14.6	(5)
Contribution from new business	2	9	(78)
Cash generation	0	16	(100)
IFRS underlying profit	0	17	(100)

- Contribution, IRR and payback affected by basis change at year end and by absorbing higher overheads
- New business strain starting to fall to target £65m annual run rate
- AUM increase despite 10% negative investment returns
- Book growing – in force premiums up 10%
- Strike rate maintained at 40% - slightly lower vesting
- Reported contribution, cash and profit affected by £60m additional reserving
- Profitability only slightly down absent future defaults

Friends Provident International

£m except where stated

	H1 2008	H1 2007	%
APE – Total	117.2	74.6	57
Including: Asia savings	62.1	33.1	88
Germany pensions	7.8	3.1	152
Middle East	21.5	8.1	165
Contribution from new business	22	16	38
IRR	15.7%	23.0%	(7.3)pp
New business strain	69	26	165
Cash payback	7 yrs	4 yrs	75
Cash generation	(18)	3	(700)
IFRS underlying profit	5	3	67
AUM	4,570	4,722*	(3)

- Successful competitive offer in Hong Kong
- Encouraging progress in Germany
- Middle East bank distribution producing more business
- IRR reflects Hong Kong offer. Second half will see lower volume growth at higher IRR
- New business strain and In force surplus both growing. Speed of growth leads to a small cash outflow
- AUM affected by fall in investment values.

* as at 31 December 2007

Capital and Risk

- Balance sheet strong
 - excess capital £1.0bn
 - FPLP credit rating A in line with target
- Actions taken to derisk balance sheet
 - Actions taken in 2007 to reduce equity exposure and reinsure annuities prevented a loss of £250m to date
 - £400m of Pension fund liabilities reinsured in 2008
- Shareholder exposure to Asset Backed Securities £683m, >99% are investment grade
- New dividend in line with dividend paying capacity of ongoing business
- Proceeds of asset disposals to be returned to shareholders by means of a capital reduction

Summary

- Short term profitability affected by lower volumes and price competition
- Profitability will improve as cost savings come through and as mix favours FPI
- Cash flows relatively unaffected by slowdown in new business and balance sheet derisking has avoided significant losses
- Good progress on repositioning business to be self-financing
- Balance sheet strong with surplus capital
- Enhanced disclosure delivered
- Strategy is right for the business and right for current market conditions
- Building the foundations for profitable growth and real terms increases in dividend



FRIENDS
PROVIDENT

Trevor Matthews
Chief Executive Officer
First impressions



FRIENDS
PROVIDENT

Questions & Answers

Appendices

Lombard
Asset-backed and monoline-wrapped exposure
Life & Pensions new business
IFRS underlying profit by product
Shareholder cash generation by product
Value of in-force by maturity
F&C assets under management by source
F&C asset under management by asset class

Lombard

£m except where stated

	H1 2008	H1 2007	%
APE -			
Total excluding large cases	52.9	42.4	25
Large cases (greater than €10m)	17.3	22.4	(23)
Total including large cases	70.2	64.8	8
Contribution from new business	18	17	6
IRR	17.4	23.2	(5.8)pp
New business strain	23	19	21
Cash payback	7 years	5 years	40
Cash generation	5	4	25
IFRS profit	9	5	80
AUM	10,554	10,065*	5

- UK and Nordic up 57% to £20.0m
- Northern Europe up 61% to £23.4m
- Southern Europe down 16% to £22.5m
- Rest of World down 60% to £4.3m
- New business strain increased due to investment in business to support future growth
- AuM up by £0.5bn increased by new business but also reflecting negative investment returns

* as at 31 December 2007

Asset-backed and monoline-wrapped exposure

£m	Ratings							Total
	AAA	AA	A	BBB	BB	Sub B	Unrated	
Non-linked debt securities	5953	3216	1713	448	-	29	183	11542
	51%	28%	15%	4%	0%	0%	2%	100%
Directly held ABS and Monoline Wrapped Securities								
CDO & CLO	21	-	-	-	-	-	-	21
CMBS & RMBS	235	57	35	38	-	-	-	365
Monoline Wrapped	184	272	-	16	-	-	-	472
Other ABS	255	122	157	12	6	9	4	565
Total	695	451	192	66	6	9	4	1423
	49%	32%	13%	5%	0%	1%	0%	100%
Shareholder exposure								
CDO & CLO	14	-	-	-	-	-	-	14
CMBS & RMBS	132	31	18	12	-	-	-	193
Monoline Wrapped	87	129	-	8	-	-	-	224
Other ABS	124	53	69	3	-	2	1	252
Total	357	213	87	23	-	2	1	683
	53%	31%	13%	3%	0%	0%	0%	100%

Life & Pensions new business H108 vs H107

	APE (£m)		PVNBP (£m)		Contribution (£m)		Margin (%)		IRR (%)		Payback (years)	
	H1 08	H1 07	H1 08	H1 07	H1 08	H1 07	H1 08	H1 07	H1 08	H1 07	H1 08	H1 07
Protection	28.9	34.6	169	202	6	14	3.8	7.1	8.6	11.2	11	8
Investment	6.0	27.1	58	268	-	1	(0.7)	0.5	6.1	8.6	N/a	18
Pensions	270.8	285.5	1,415	1,641	20	36	1.4	2.2	7.9	9.4	23	17
Annuities	13.9	14.6	139	146	2	9	1.6	6.4	N/a	N/a	N/a	N/a
<i>Total UK</i>	319.6	361.8	1,781	2,257	27	62	1.5	2.7	10.9	11.9	16	11
FPI	117.2	74.6	737	523	22	16	3.0	3.1	15.7	23.0	7	4
Lombard	70.2	64.8	702	648	18	17	2.6	2.7	17.4	23.2	7	5
<i>Total Int'l</i>	187.4	139.4	1,439	1,171	40	33	2.8	2.8	16.4	23.1	7	4
<i>Group total</i>	507.0	501.2	3,220	3,428	67	95	2.1	2.8	12.6	13.7	11	10

Life & Pensions new business H108 vs FY07

(after impact of changes to cost assumptions and movement to end of period economic assumptions)

	APE (£m)		PVNBP (£m)		Contribution (£m)		Margin (%)		IRR (%)		Payback (years)	
	H1 08	FY 07	H1 08	FY 07	H1 08	FY 07	H1 08	FY 07	H1 08	FY 07	H1 08	FY 07
Protection	28.9	68.3	169	413	6	25	3.8	6.1	8.6	10.2	11	10
Investment	6.0	50.7	58	501	-	1	(0.7)	0.2	6.1	7.6	N/a	29
Pensions	270.8	604.5	1,415	3,255	20	41	1.4	1.3	7.9	8.4	23	20
Annuities	13.9	27.3	139	273	2	12	1.6	4.4	N/a	N/a	N/a	N/a
<i>Total UK</i>	319.6	750.8	1,781	4,442	27	79	1.5	1.8	10.9	10.9	16	14
FPI	117.2	186.2	737	1,235	22	39	3.0	3.2	15.7	17.5	7	6
Lombard	70.2	198.5	702	1,985	18	71	2.6	3.6	17.4	29.8	7	4
<i>Total Int'l</i>	187.4	384.7	1,439	3,220	40	110	2.8	3.4	16.4	23.2	7	5
<i>Group total</i>	507.0	1135.5	3,220	7,662	67	189	2.1	2.5	12.6	13.8	11	10

IFRS underlying profit by product

£m	H1 2008			H1 2007		
	New business	In-force	Profit	New business	In-force	Profit
UK Life & Pensions						
Protection	(21)	28	7	(7)	13	6
Pensions	(35)	9	(26)	(36)	10	(26)
Annuities	(1)	1	-	17	-	17
Savings & Investments	(6)	10	4	(8)	(6)	(14)
With Profits Fund	-	34	34	-	45	45
UK Life & Pensions underlying profit before one-off items	(63)	82	19	(34)	62	28
Corporate bond spreads			(70)			-
One-off items			4			11
UK Life & Pensions underlying profit			(47)			39
International Life & Pensions						
FPI	(11)	16	5	(7)	10	3
Lombard	(17)	26	9	(14)	19	5
One-off items			(4)			-
International Life & Pensions underlying profit			10			8

Shareholder cash generation by product

£m	H1 2008			H1 2007		
	New business strain	In-force surplus	Total	New business strain	In-force surplus	Total
UK Life & Pensions						
Protection	(21)	28	7	(48)	48	-
Pensions	(58)	17	(41)	(75)	20	(55)
Annuities	(1)	1	-	14	2	16
Savings & Investments	(7)	1	(6)	(17)	3	(14)
With Profits Fund	-	34	34	-	45	45
Total before tax and other items	(87)	81	(6)	(126)	118	(8)
Tax			35			12
Other			(4)			-
Total			25			4
International Life & Pensions						
FPI	(69)	51	(18)	(26)	29	3
Tax			4			-
Other			(8)			-
Total			(22)			3

Value of in-force by maturity

30 June 2008	(£m)	Year of emergence of surplus								
	Total	1-5	6-10	11-15	16-20	21-25	26-30	31-35	36-40	41+
UK										
With Profits Fund	246	111	83	33	13	5	1	0	0	0
Protection	242	119	89	21	10	3	0	0	0	0
Investments	144	67	41	20	9	4	2	1	0	0
Pensions	464	137	130	94	57	29	12	4	1	0
Annuities	10	6	3	1	0	0	0	0	0	0
UK other	96	63	33	0	0	0	0	0	0	0
UK total	1,202	503	379	169	89	41	15	5	1	0
		42%	32%	15%	7%	3%	1%	0%	0%	0%
International										
FPI	251	133	68	32	14	4	0	0	0	0
Lombard	394	151	93	59	37	23	14	8	5	4
International total	645	284	161	91	51	27	14	8	5	4
		44%	25%	14%	8%	4%	2%	1%	1%	1%
Total VIF	1,847	787	540	260	140	68	29	13	6	4
		43%	28%	14%	8%	4%	2%	1%	0%	0%

F&C Investments **assets under management – by source**

	30 June 2008	31 Dec 2007
	£bn	£bn
Insurance funds	55.7	58.9
Institutional funds	25.4	27.3
Sub-advisory	5.6	6.5
Investment trusts	5.9	6.6
UK retail (mutual funds)	2.8	3.3
International wholesale (mutual funds)	1.1	1.0
Total	96.5	103.6

F&C Investments **assets under management – by asset class**

	30 June 2008	31 Dec 2007
	£bn	£bn
Fixed interest	55.1	53.5
Equities	31.3	37.0
Property	5.2	5.3
Other alternative investments	1.6	1.9
Money market	3.3	5.9
Total	96.5	103.6