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Friends Provident plc

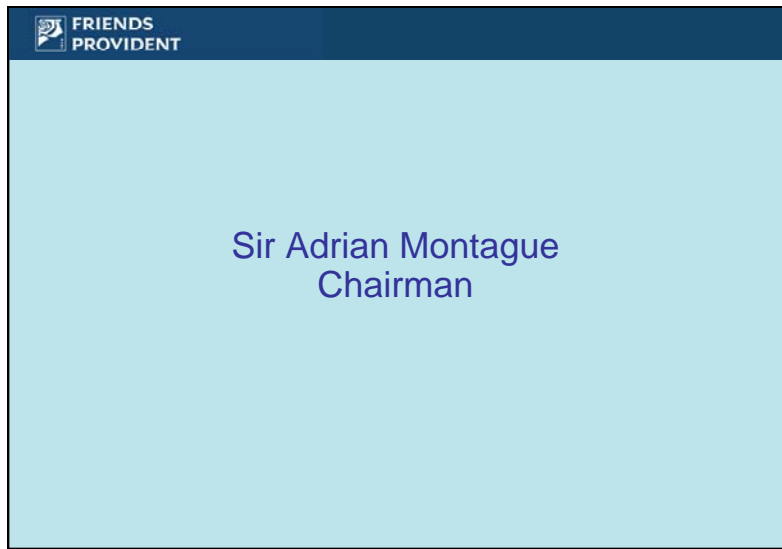
2008 Interim Results

7 August 2008

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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.

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

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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	

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The major part of today's presentation will be for Jim Smart to talk you through the financial results in some depth, in line with the greater level of transparency that we introduced at the beginning of this year. The recent difficult economic background has underscored the rationale for our new strategic direction and the importance of having a strong capital position.

Before he does that, I will say a few words about the progress we are making towards implementing the new strategy, and also comment briefly on the outlook for our company.

I am also delighted that Trevor Matthews is with us this morning. He finally joined us last week, and will be giving you his first thoughts at the end of the presentation, after which we shall take your questions. I should also introduce Charles Bellringer to you, sitting in the front row here, who will be taking over from Jim as our interim Chief Financial Officer shortly. And I'd like to wish Jim well in his future career: he has made a huge impact in his short time with us, and played a key role in defining and beginning to deliver our new strategy. So thank you Jim for all you have done.

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The slide is titled "Strategy implementation progress" and is divided into two main sections, each with a blue arrow pointing right. The first section, "1. Refocus UK on profit, not volume growth", includes a blue checkmark and three bullet points: "New terms for group and ind'l pensions introduced", "Protection product extended and enhanced", and "Unprofitable saving products replaced – wrap terminated". The second section, "2. Grow International business faster than UK", includes a blue checkmark and three bullet points: "Significant volume growth being achieved", "New business opportunities being pursued successfully", and "Profitability well ahead of UK". At the bottom left is the number "5" and at the bottom right is the "FRIENDS PROVIDENT" logo.

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

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When we announced the broad outcome of our strategic review at the end of January, we promised to report progress at the time of our interim results. Until today, we have restricted ourselves to saying little more than, “we are making good progress”, so let me now flesh that out a little more.

There are three main strands to the new strategy. The first is to refocus our UK business on our core strengths of manufacturing and administering life and pensions products, primarily protection and pensions, and prioritising profit rather than volume growth. All the key actions have now been taken to bring this about. We have introduced new terms for pensions, withdrawing from unfunded initial commission terms for new schemes and for individual pension plans. We have extended and enhanced our protection offering, we have replaced unprofitable savings products with a new range, and we have stopped the development of a wrap platform.


Rebuilding the confidence of pensions intermediaries and employee benefit consultants will take a little time. But the building blocks are now in place.

The second strand is to prioritise growth in international markets, where profitability and prospects are much better than in the UK. Again, we can put a tick against this, as evidenced by our recent results, including those announced today. Sales are increasing at a healthy rate and profitability remains attractive compared with the UK. We continue to develop and refine our product range, and to explore further opportunities to build the international business. And we are seeing a good level of success.

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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

On track

- 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

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The third strand is to become a self-funding company, able to grow without needing to borrow more – a strategy that is showing itself to be ever more sensible, given the current market conditions. There are a host of factors that impact this, but the three main ones are our ability to make the UK business more profitable, improving cashflow and reducing capital intensity. As I have just said, this is work in progress but the foundation blocks have now been put in place.

We also announced that we would be reducing the cost of the dividend to a level that reflects the dividend-paying capacity of the Life & Pensions business. The interim dividend of 1.3 pence per share that we have announced today carries a cost of £30 million and is precisely in line with the guidance we gave in January.

The third factor is to aim to reduce annual operating costs by some £40 million by the end of 2009, equivalent to 15% of 2007's costs.

We remain on track to achieve this reduction, the run rate being some £11 million at the end of June this year. Withdrawing from wrap development and closing our network of Area Offices have contributed to this, as has some early work to realign our people with our more selective approach to the UK market. As you can see, we have issued around 350 redundancy notices so far, against an estimated 600 full-time jobs likely to be affected.

Some significant savings will not emerge until towards the end of the implementation period. For example, we have announced our intention to outsource part of our IT operations. Such a transition will take some time to put into effect, and therefore the associated savings will not be realised until late 2009. There is still a way to go yet, but we are on track.

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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

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There are some associated activities, not least a comprehensive review of the way we work. A great deal of activity, behind the scenes, has been devoted to this. Fundamentally, we are introducing a 'single company' structure, enabling us to introduce a sharper focus on specific roles and responsibilities. We are reorganising our operations in a way that not only focuses on what our customers want, but also on commercial imperatives. Crucially, we have introduced a much deeper level of personal accountability, as well as introducing profit & loss accountability into a number of key senior roles. Decision-making will be more streamlined but within an enhanced framework of governance. We are also strengthening our approach to performance management.

In addition, of course, the executive committee will be almost entirely new, with Trevor joining as Chief Executive, Charles taking over from Jim as CFO, and Ben Gunn retiring at the end of the year.

Strategy implementation – associated activities

Review 'out of strategy' businesses

Decision: Pantheon Financial being retained pro tem
Process continuing for Lombard and F&C

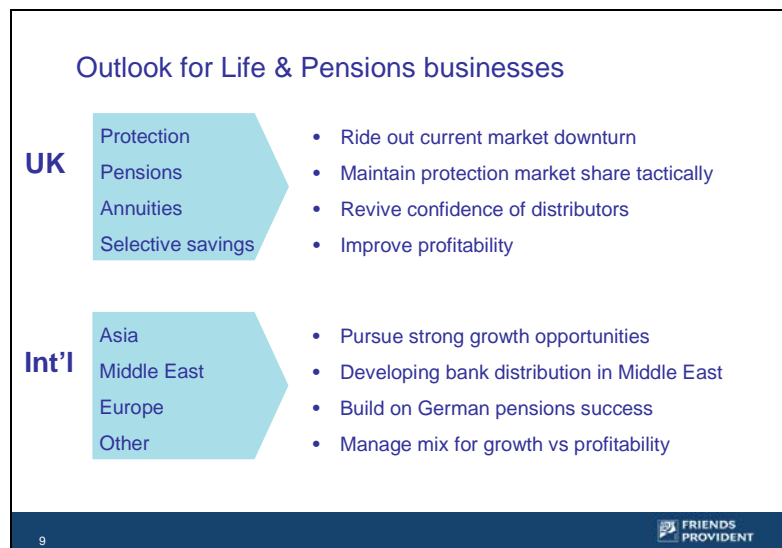
Context

- 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

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Another associated activity, and one that has attracted the most speculation, is our review of the three businesses that are no longer integral to our strategy. As you know, we have since decided that Pantheon Financial should remain under our ownership, at least for the time being, and I cannot give any further information about Lombard or F&C beyond what we have announced this morning. The process is continuing for both Lombard and F&C but the current environment that we cannot offer any certainty over the outcome. It remains the case that there is interest in both these businesses.

I think it is worth reminding ourselves of the context. We have consistently said that all three are good and profitable businesses and that our aim is to minimise any unnecessary disruption. If we did sell any of them, it was to provide value to the shareholders, and therefore we must have due regard to market conditions. Fire-sales were never on our agenda as we did not, and do not, have a need to raise capital to support the business. It's the new strategy that frees up capital to invest in the business, not the disposal programme. Whether we own these businesses or not has no impact on our strategy or on our ability to carry it through, nor does it impact our new dividend policy. Neither Lombard nor F&C are a drain on our resources. Lombard is a self-funding operation, and F&C generates a small income from its dividend.



Turning to outlook, the UK position is dominated by the market downturn and the general lack of confidence. Against this difficult economic background, we continue to focus on taking the right action to drive the business forward. In protection, we will continue to price our products tactically in order to broadly maintain our market share. Volumes will clearly be down this year but we expect volumes to recover as and when the market recovers.

In corporate pensions, we expect volumes to dip over the remainder of this year, reflecting the rundown of schemes with initial commission. It will also take some time to win back panel placements and the confidence of IFAs and EBCs, and this is our priority.

In this period of transition, lower volumes are set against still a relatively fixed cost base, negatively impacting profitability, but this will be addressed as the strategy implementation runs its course.

Internationally, the picture is much more positive, but these markets are not unaffected by prevailing economic conditions, and are generally becoming more competitive. By tactical pricing in Asia, it is likely that volume growth will moderate over the second half of the year, but we will return profitability in that region to a level consistent with last year. In the Middle East, we are very encouraged by our developing bank distribution and expect to build on this. We are also delighted with our growing business in German pensions, which we will seek to develop further. Overall, the prospects for our International business remain good. We will continue to monitor and manage the mix of business in order to maintain the right balance between growth and profit.

Jim will add some colour to these broad brushstrokes.

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Context for financial results

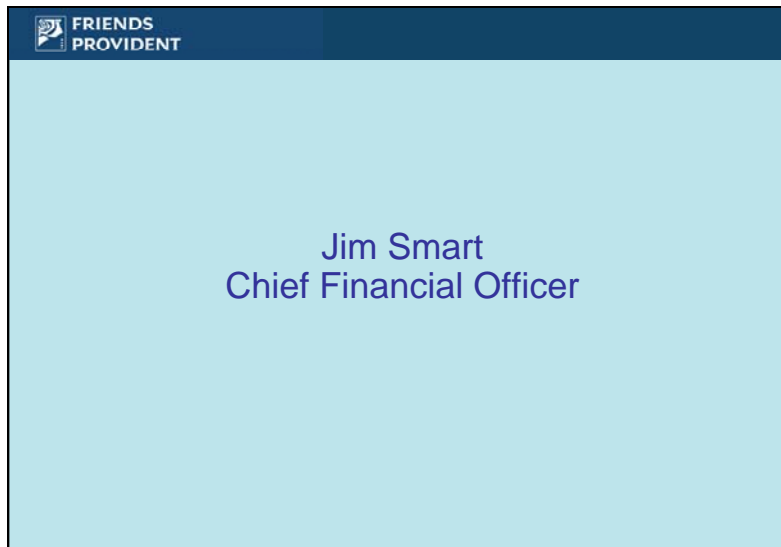
- Company in transition
- Implementation of new strategy advancing and on track
- Strength of balance sheet evident
- Results broadly in line with management's expectations

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Before I hand over to Jim, however, can I remind you of the context of these results. As you know, we are in the midst of a period of significant transition, and only partially through the implementation of our new strategy, together with all its associated changes. This makes certain year-on-year comparisons either meaningless, or at least, more difficult to interpret.

However, I believe the bigger picture reveals a set of results that are broadly where we expected them to be at this stage; a company that is making solid progress towards reorganising itself around its new strategic direction; and a balance sheet that is increasingly resilient despite the current very turbulent market conditions.

And now I'll hand over to Jim.



Good morning. The headline figures which we have presented today are, on the face of it, disappointing: all of our Key Performance Indicators have moved backwards compared with those reported at this time last year. This is largely as expected as we execute the planned changes to our business and as a result of the more conservative accounting we adopted at year end.

I can reassure you that our strategy of managing for profit rather than volume and of living within our means is unchanged. Not only is this the right strategy for our business but it is even more appropriate in the current market climate. The actions which we implemented last year to de-risk the balance sheet have proved particularly timely.


Despite investment market declines and the slow down in UK new business, we are confident that our finances are sound. Our strategy can still be delivered without recourse to debt or equity markets. Our dividend policy is exactly as announced in January. Any proceeds of asset sales will still be remitted in full to shareholders.

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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)%	

* as at 31 December 2007

- 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

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Before looking at the detail, let me present our key performance indicators.

Underlying IFRS, our preferred measure of performance, showed a profit of only £13m. The majority of the decline from last year is caused by an increase in corporate bond spreads in the annuity book. In line with the guidance I gave you at the time of our preliminary results, this produced a charge of £70m in the half year.

Shareholder operating cash saw an outflow of £121m affected by bond spreads both in the annuity book and in shareholder funds and by an additional pension fund contribution.

EEV underlying profit was down 20% driven by lower contribution from new business, and lower expected return from shareholder funds which are now in cash and bonds rather than half in equities.

Contribution from new business was down 29% reflecting the slow down in new business volumes and the more prudent basis for persistency and costs which we implemented at year end.

IRR and Cash Payback are similarly affected by these factors.

Our proforma embedded value per share is 151 pence. The reduction from December 2007 is driven by investment returns and a fall in the F&C share price.


We remain strongly capitalised with £1.0bn excess capital resources

Shareholder return was minus 34% in the half year against a sector return of minus 25%

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Life & Pensions new business - APE

£m	H1 2008	H1 2007	%	
Protection	28.9	34.6	(16)	<ul style="list-style-type: none"> • 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
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	

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Life & Pensions new business from our core operations was stable at £436.8m. A 12% decline in the UK was offset by a 57% growth in FPI.

In the UK, protection new business was down 16% as mortgage sales declined. Pensions new business was down 5% as a consequence of our withdrawal from the capital intensive Initial Commission segment.

Savings & Investments new business was down 78% as a result of the withdrawing unprofitable products.

FPI new business increased strongly benefiting from a competitive offer on regular premium savings in Hong Kong.

In line with our strategy, the faster growth in FPI was at higher profitability than in the UK, hence enhancing aggregate profitability.

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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

Underlying IFRS is our preferred measure of operating performance. On this measure, profit for the six months was £13m .

UK life & pensions recorded a profit of £19m. The 32% reduction was caused by lower profit from the with profit fund and by additional reserving on the annuity book offset by reduction in losses on Savings & Investments

Expected return on shareholder funds fell to £22m as they are invested exclusively in cash and bonds whereas last year they were 45% in equities. The switch was made when the FTSE was around 6,300. We also reduced our pension fund equity backing ratio from 60% to 20% at around the same level.


Underlying profit from the core business before one offs was down 29% at £45m. This year, however, we have suffered a £68m one off charge making a loss of £23m in the core business. £70m of the one off charge arose from additional reserving on the annuity book. The additional reserving is driven by our prudent reserving basis which takes account of 40 basis points of corporate bond spread as being an allowable liquidity premium. Any spread beyond that is deemed to be at risk of default and is ignored in the discount rate for liabilities. The mark to market decline thus drags in further reserves. The bonds are, of course, held to maturity and, unless there are further defaults, the additional reserving will be released as spreads moderate or as bonds mature. Spreads on our mix of bonds are currently at 210 basis points over gilts. This represents around 60 basis points of widening in the half year. In total, the spread above 40 basis points has led to additional reserves of £160m. Our portfolio is of high quality and we believe the majority of these reserves will re-emerge as profit in future periods. Had we not reinsured £1.6bn of annuities last year, we would have had to recognise a far larger loss.

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IFRS earnings per share

<small>£m except where stated</small>	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

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Outside underlying IFRS, we have recognised losses of £69m for investment returns. This is the main driver of the £84m loss after tax.

On an underlying basis, profit after tax was £29m giving earnings per share of 1.2 pence.

At the time of our strategic review announcement, we indicated that our dividend would be cut to a level consistent with the dividend paying capacity of the ongoing business. We continue to believe that, once the planned changes to the business are implemented, this is £90m to £100m. Accordingly, we have set the interim dividend at 1.3 pence at a cost of £30m. The final dividend will be determined by the Board early next year but, at this stage, the Board's intention is for the final dividend to be twice the cost of the interim dividend, i.e. £60m. It remains the Board's intention to return to shareholders the proceeds of any sales of non-core businesses. In that event, the number of shares will be reduced prorata. In this way, the dividend per share reduction may be less than the reduction in dividend cost.

The Board continues to believe that the strategy will allow dividend to grow with cash flow and that this offers the prospects of real terms growth in dividend per share: a prospect that this company has never before been able to offer.

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 AMCs 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 cash outflow was £244m in the six months.

In the UK, PS06/14 has substantially reduced both new business strain and in force surplus. However, the fall in investment markets means that management charges have not increased so the net cash position in the UK has not improved.

FPI recorded a small outflow to support business growth.

Investment returns were negative reflecting the effect of corporate bond spreads on annuities and shareholder funds

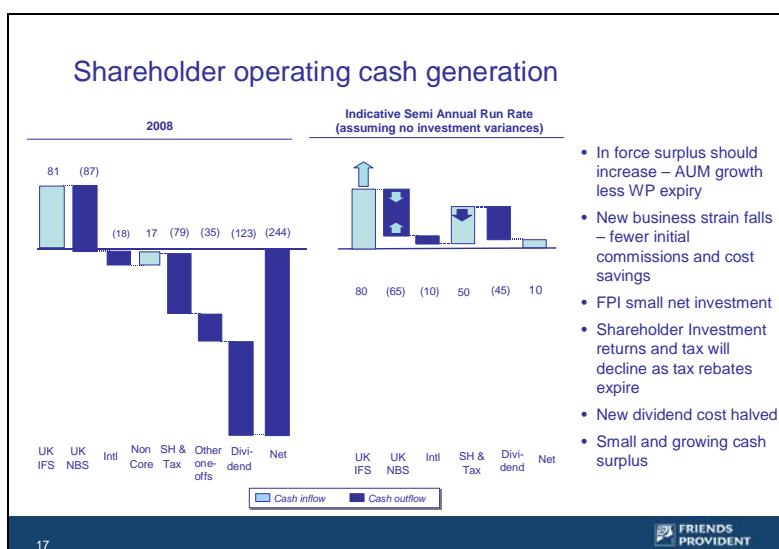
In one offs, £15m relates to access costs for the cost saving programme. We also agreed an additional £20m contribution to the pension fund in expectation of the sale of non core businesses. Given that few pension fund members are employed in those businesses, these transactions will leave the pension fund with the same liabilities but a smaller business, albeit with a superior financial covenant. A further contribution has been agreed dependent upon sale proceeds. This will be paid from surplus capital and will not affect the proceeds remitted to shareholders.

The 2007 final dividend amounting to £123m was paid in the half year.

The company's objective is to become self financing by funding the growth of the UK and FPI businesses and the annual dividend within the cash generated by those businesses. We indicated that this would be achieved by reducing the amount of initial commissions being paid, by reducing the company's cost base, by changing the mix of business towards more profitable business and by reducing the dividend cost. We indicated that this would take a few years to complete. Our objective remains unchanged.

The large cash outflow in the half year might lead one to conclude that this objective remains somewhat distant. However, we have made a number of changes in the first half which move us closer towards it.

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This can best be illustrated by looking at the run rate of cash flows coming out of the half year. You will recognise this presentation of our cash flows from the strategic review. You will also recall that I said at the time that the cash flows in any one period are quite volatile but, with that same caveat, we can see the current run rate.

The chart on the left shows the current half year cash flows again but in graphical format.

The chart on the right shows how the cash flows would look in a typical half year benefiting from the actions taken in the half year and assuming no further investment variances.

The UK in force surplus should continue at current level and going forward it should increase as higher assets under management drive higher charges and this should outweigh the reduction in the with profits book.

The UK new business strain will be lower going forward than in the first half. The first half did not benefit from the acquisition cost savings which we delivered and it also suffered from the pipeline of initial commissions on pensions business. Adjusting for these, the run rate of new business strain is around £65m. This will continue to reduce to the semi annual target rate of around £50m as further cost savings are delivered, as initial commissions reduce further and as the mix of business changes.

FPI should absorb less cash as the growth rate was exceptionally high in the first half. We intend to dispose of the non core businesses but they did not generate much cash flow. You will recall that we set the strategy to be self financing without the non core businesses. If sale of the businesses is not the most value adding solution, we can keep the businesses without any effect on the remaining businesses or on the strategy to be self financing.

Shareholder investments and tax rebates are currently yielding around £50m absent any positive or negative changes in corporate bond spreads. Within this, we are still benefiting from the tax relief on the high levels of commission paid in recent years.

The total will thus reduce towards the expected £25m semi annual run rate over the next few years.


Under the new dividend policy, each half year will on average fund a dividend of £45m.

The business is thus approaching being cash neutral and should be able to grow cash flow and hence dividend in the future.

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EEV underlying result

£m	H1 2008	H1 2007	%	
Contribution from new business	49	78	(37)	• Contribution from new business down from basis changes / volumes
Expected returns	81	95	(15)	
Operating assumptions / experience variances	8	20		• No adverse persistency or operating assumption experience
Development costs	(7)	(19)		• Development costs: UK items now capitalised, small investment in FPI for new markets
Corporate items	(7)	(6)		
Expected return on shareholder net assets	22	35		• Shareholder funds yield less owing to switch from equities to bonds in mid 2007
EEV underlying profit before non core	146	203	(28)	
F&C / Lombard	41	62		
Other items - life & pensions	(192)	98		• Other items reflect investment market and economic movements
EEV profit before tax	(5)	363	(101)	

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EEV profit on an underlying basis was down 28% at £146m. This reduction was a result of lower contribution from new business, which was down 37% and by lower expected return on shareholder funds. Investment variances caused a loss before tax of £5m.

EEV new business profitability				
	H1	H1		
	2008	2007		%
<small>£m except where stated</small>				
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

Looking at new business profitability, the UK contribution was down 56% to £27m and both IRR and payback worsened. These declines were in part caused by the more prudent year end basis for persistency and costs. I shall explain the different effects in a minute.


FPI contribution increased 38% to £22m helped by the competitive offer in Hong Kong. As a consequence, IRR was lower at 15.7% as much of the incremental business was regular premium. This was a window of opportunity which we exploited. We expect growth rate to be lower in the second half and IRR to improve as a result.

In line with our strategy, the growth in FPI was faster than the UK and the profitability was higher thus improving aggregate profitability.

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

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Let me talk about the UK new business profitability in a bit more detail. Last year at the interim stage we flagged up an acceleration of persistency experience but we did not change the basis until the year end. At year end, we also made the basis more prudent capitalising some £26m of costs which had previously been branded development and corporate.

This table shows what the reported figures would have been had we implemented these changes at the interim stage last year. Contribution would have been £43m, IRR would have been 10.9% and cash payback would have been 14 years.

When we announced our strategy, we indicated that, at first, profitability would decline before it improved. As we withdrew from low profitability, highly capital intensive new business, volumes were expected to fall. Initially we therefore expected profitability to decline as the same overheads were shared by a smaller pool of new business. This would however reverse as cost savings were realised and the mix of business shifted towards more profitable business.

As expected, profitability has indeed declined. However the decline has been greater than that driven by the strategy alone as protection volumes have fallen and its pricing has continued to become more competitive. The contribution from new business is thus £27m, IRR was 10.9% and cash payback was 16 years. Within these figures, no benefit has been taken for the delivered or the target cost savings.


In the short term, other than the effect of further exposing the overheads, the slowdown in UK new business does not materially affect the cash flows of the business as profitability and cash generation of new business is still minimal.

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Embedded value

<small>£m except where stated</small>	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>	<i>(3)</i>	
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>	<i>(6)</i>	

- 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

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EV per share is 151 pence, a reduction of 9 pence since year end. The reduction was caused by negative investment returns and the fall in F&C's share price. At today's F&C's share price, the EV would be around 146 pence.

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Operating Expenses			
<small>£m except where stated</small>	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 reclassified 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

Operating expenses are up 8% as a result of £15m of implementation costs and £9m of additional cost in FPI to support the business growth

Cost savings delivered to date amount to an annualised £11m being £9m in acquisition costs and £2m in maintenance costs.


Our target is to reduce the cost base by £40m by 2010. We expect this to be equally divided between acquisition and maintenance.

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Protection

<small>£m except where stated</small>	H1 2008	H1 2007	%	
APE	28.9	34.6	(16)	<ul style="list-style-type: none"> • 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
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	

* as at 31 December 2007

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New business is down 16% affected by the slowdown in the mortgage market. Market share is down a little as our mix of distributors is more exposed to IFAs and estate agents and competitors brought prices down. Contribution was thus down to £6m and IRR was 8.6%. Despite this, the business made a small profit and we succeeded in growing the book.

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Pensions & Annuities			
Pensions <small>£m except where stated</small>	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
<small>* as at 31 December 2007</small>			
Annuities <small>£m except where stated</small>	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

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Pension new business was down 5% as we withdrew from selling pensions on an initial commission basis. However, honouring the pipeline of such business meant that 20% of the new business is from new schemes on initial commission.

The fall in reported profitability is largely caused by the change in basis for persistency and costs made at year end. No further basis changes are required. We remain cautious however about the economic slowdown which might cause more pensions to become paid up as employers shrink their workforces. We will continue to monitor this in the second half.

The business made a £26m loss in the period as assets under management suffered a £755m fall owing to investment returns leaving assets unchanged at £7.6bn. We do however continue to grow the book and in force annual premiums are up 10% in the six months.

The annuity result is hard to read as wider corporate bond spreads require more reserving up front and better spreads increase the subsequent expected returns. In the absence of any increase in defaults, we expect profitability over the life of the contracts to be only slightly lower than in 2007.

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Friends Provident International

<small>£m except where stated</small>	H1 2008	H1 2007	%	
APE – Total	117.2	74.6	57	<ul style="list-style-type: none"> • 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.
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)	

* as at 31 December 2007


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FPI sales were up in Hong Kong. However we also recorded strong growth in German pensions and in investments in the middle east. We expect the second half to show lower sales growth and higher profitability.

The business once again made a small profit despite a fall in Assets under management. Investment markets caused a £0.2bn decline while new business was substantially regular premiums.

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

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The company continues to be well capitalised. On an IGD basis, our capital resources amount to 180% of capital resource requirements giving £1.0bn of surplus capital


The actions we have taken to derisk the balance sheet: switching out of equities in shareholder and pension funds and reinsuring annuities have together avoided a total loss of £250m. We have taken further action by reinsuring over £400m of pensions in payment from our pension fund.

Shareholder exposure to Asset Backed Securities is still high quality being 99.6% investment grade. In the six months, we have however realised a loss of £6m on one Structured Investment Vehicle. All other investments are performing.

To conserve cash, we have implemented our declared dividend cut and we have reiterated our intention to pass all proceeds of asset sales to shareholders. We intend to do this by means of a capital reduction as this gives the better tax treatment for our many private shareholders.

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

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In summary, the figures we have announced show that, in the short term, profitability is affected by lower volumes and price competition

However, profitability will improve as cost savings come through and as the mix of business moves in favour of higher return business in FPI

In the meantime, the cash flows are relatively unaffected by the slowdown in new business and balance sheet derisking has avoided significant losses

We are making good progress on repositioning business to be self-financing by cutting costs, by exiting capital intensive business segment and by cutting our dividend

Our balance sheet remains strong with surplus capital

We have also delivered the enhanced disclosure which permits investors better to understand our economics and the progress we are making in delivering the changes we have promised

In conclusion, not only is the strategy right for this business but it is also right for current market conditions.

With this strategy, we are building the foundations for profitable growth and for real terms increases in dividend per share



Thank you Jim, and good morning to you all. For me this is working day seven, I'm delighted to have joined Friends Provident, and feel it's a real privilege for me to lead the company on from here.

As you have heard from Adrian and Jim, my new colleagues have certainly not been idle over the recent weeks and months. A huge amount of thought and effort has been devoted to the implementation of the new strategy. The company is already a long way down the road.

It's a road that I haven't been able to comment on until now. I have been watching developments with interest from the outside and now I am on the inside I am delighted to say I am pleased with what I see. In my view, we are travelling down the right road. I am fully behind the new strategy, and I will do all I can to continue this good work.

Adrian talked about the building blocks now being in place. I believe these create a strong platform on which to build. I look forward to developing and strengthening our Group Pensions and our Protection businesses in the UK and to continue to grow our more profitable international operations. We will also be looking to take advantage of opportunities that arise both here and overseas.


As you might imagine for some time, I've been keen to roll up my sleeves and pitch in to help, I've had enough time in the garden! Now at last I can, and I'm delighted about that. I know already that I have a strong team around me and our determination, quite simply, is to ensure that Friends Provident is and is recognised as a leading force in financial services.

My immediate priority is to get out and about to meet the people both inside and outside our organisation and to promote the good things about FP, especially amongst those who are still reserving judgment about us. For many years now, Friends Provident has been developing good products, nurturing productive relationships with distribution partners, deploying technology in a clever way, and building on its reputation for quality customer service. All these I have admired from afar. Nothing has happened to prevent these capabilities continuing to flourish, and

it's my job to make certain that they do. They are key competitive strengths for Friends Provident, and so is the new structure and market focus. We plan to make them all work to our advantage, and I believe we are now in the right shape to enable us to do so, and to do so successfully. I'm looking forward to it.

But that's all from me for now, and I'll hand you back to Adrian, thank you.

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Questions & Answers

The slide features a dark blue header bar at the top left containing the Friends Provident logo and name. The main body of the slide is a light blue rectangle with the text "Questions & Answers" centered in a dark blue font.

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

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Lombard

<small>£m except where stated</small>	H1 2008	H1 2007	%	
APE -				
Total excluding large cases	52.9	42.4	25	• UK and Nordic up 57% to £20.0m
Large cases (greater than €10m)	17.3	22.4	(23)	• Northern Europe up 61% to £23.4m
Total including large cases	70.2	64.8	8	• Southern Europe down 16% to £22.5m
Contribution from new business	18	17	6	• Rest of World down 60% to £4.3m
IRR	17.4	23.2	(5.8)pp	
New business strain	23	19	21	• New business strain increased due to investment in business to support future growth
Cash payback	7 years	5 years	40	
Cash generation	5	4	25	
IFRS profit	9	5	80	• AuM up by £0.5bn increased by new business but also reflecting negative investment returns
AUM	10,554	10,065*	5	

* as at 31 December 2007

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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%

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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
Total UK	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
Total Int'l	187.4	139.4	1,439	1,171	40	33	2.8	2.8	16.4	23.1	7	4
Group total	507.0	501.2	3,220	3,428	67	95	2.1	2.8	12.6	13.7	11	10

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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
Total UK	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
Total Int'l	187.4	384.7	1,439	3,220	40	110	2.8	3.4	16.4	23.2	7	5
Group total	507.0	1135.5	3,220	7,662	67	189	2.1	2.5	12.6	13.8	11	10

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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

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Shareholder cash generation by product

Em	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

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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%	

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 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

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 **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