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# **Friends Provident plc**

**2007 Preliminary Results**

**11 March 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.



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# Adrian Montague Executive Chairman

# Agenda

Introductory remarks

Adrian Montague

Executive Chairman

Financial results

Jim Smart

Chief Financial Officer

Outlook

Adrian Montague

Executive Chairman

Questions & Answers

Team

# Overview of revised strategy

## Before

- Limited resources stretched over many businesses
- Important competitive advantages – technology, service, distribution
- Unaffordable cost base
- Primarily focused on sales growth and embedded value
- Limited disclosure

## Strategic actions

Protection ⇒ Cultivate key strengths

Pensions ⇒ Focus on larger schemes, and cease to pay initial commission on new schemes

Annuities ⇒ Cultivate cross-selling from pension customers

Investments ⇒ Write business selectively  
⇒ Develop attractive new products

FPI ⇒ Expand and develop business

Cost ⇒ Pursue substantial cost reductions across the Group

## After

- Resources focused on core UK and International businesses...
- ...leveraging key competitive advantages – superior technology, service and presence in distribution
- Cost base resized to support the business
- Primarily focused on profitability and cash
- IRR enhanced by at least 2%
- Superior disclosure

# The new shape of Friends Provident

## UK and International Life & Pensions

### Core propositions



### Tactical



## Trading as usual but outside of long term strategy



(52% owned)

## New Strategy

## Progress

Grow International

Business as usual

Refocus UK on profit

Wrap terminated  
New terms for pensions introduced  
Business protection launched

Review 'out of strategy'  
businesses

Actively engaged with Lombard, F&C,  
Pantheon Financial

Reduce cost base

Employee consultations in progress

Enhance disclosure

Delivered today

Restructure to deliver  
benefits promptly

Implementation office established  
External support enlisted  
Change Manager engaged

# Friends Provident awards

Service:



Pensions:



Protection:



Investments:



Ecommerce:





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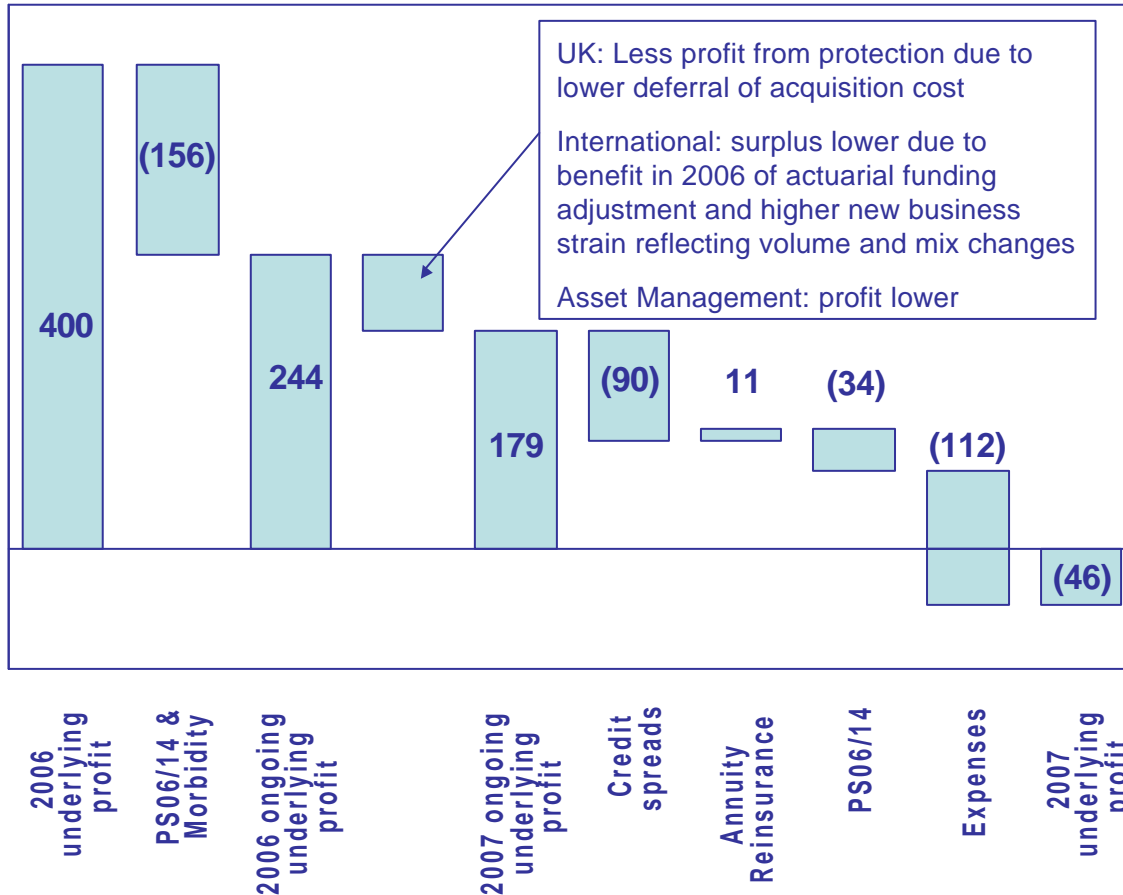
Jim Smart  
Chief Financial Officer

# Group financial KPIs

	2007	2006
IFRS underlying (loss)/profit before tax	£ (46)m	£400m
Shareholder cash generation	£177m	£340m
EEV underlying profit before tax	£16m	£509m
Contribution from new business	£206m	£204m
Internal rate of return on new business	14.4%	12.7%
Cash payback on new business	9 years	9 years
Embedded value	£3,725m	£3,660m
Group solvency excess capital resources	£1.3bn	£1.0bn
Total shareholder return	(21.5)%	19.0%

- Results in line with 31<sup>st</sup> January announcement
- Results underpin the need for the new strategy
- Impact of one-offs on IFRS £(135)m, Cash £87m, EEV £(464)m
- Cash generation positive but before one-offs is below current cost of dividend
- New business IRR improved with benefits from reserving changes and mix of business
- Balance sheet remains strong

# IFRS underlying result



- 2006 profit benefited from £123m morbidity reserve release and net benefit of £33m from PS06/14. Ongoing profit was £244m
- £90m impact of credit spreads on reserving
- Reinsurance of annuities net impact £11m
- PS06/14 net impact £(34)m
- Expense assumption change net impact £(112)m
- Acquisition costs:
 

deferred in year	£281m
amortised	£82m
accel.amortisation	£251m

# IFRS earnings per share

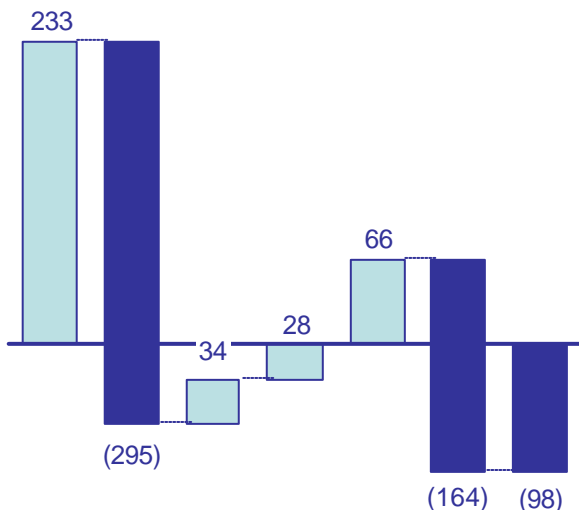
	<b>2007</b>	<b>2006</b>
IFRS (loss)/profit before tax from continuing operations	<b>£(113)m</b>	£491m
IFRS underlying earnings per share	<b>(1.4)p</b>	17.9p
IFRS basic earnings per share	<b>(5.0)p</b>	13.1p
Dividend per share	<b>8.00p</b>	7.85p
<b>Dividend cover on an underlying basis</b>	<b>(0.2) times</b>	2.3 times

- 2007 proposed final dividend 5.3p giving total dividend of 8.0p in line with current policy
- 2008 dividend cost to be cut to affordable level
- Dividend per share decision in due course will take account of affordable level and capital returned
- Future policy to increase dividend in line with cash flows, providing prospect of real terms growth

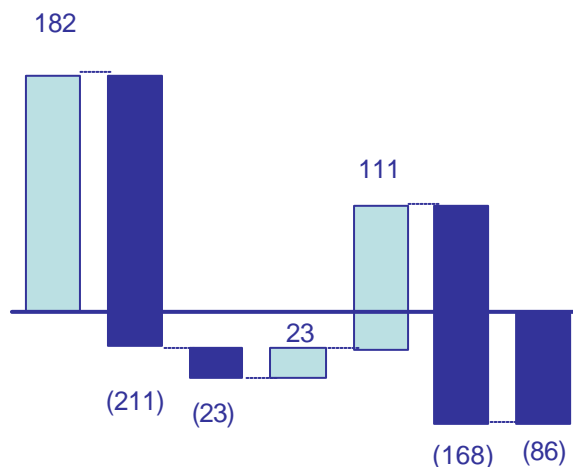
# Shareholder cash generation

Group cash flow excluding principal one-offs and finance items

2006



2007

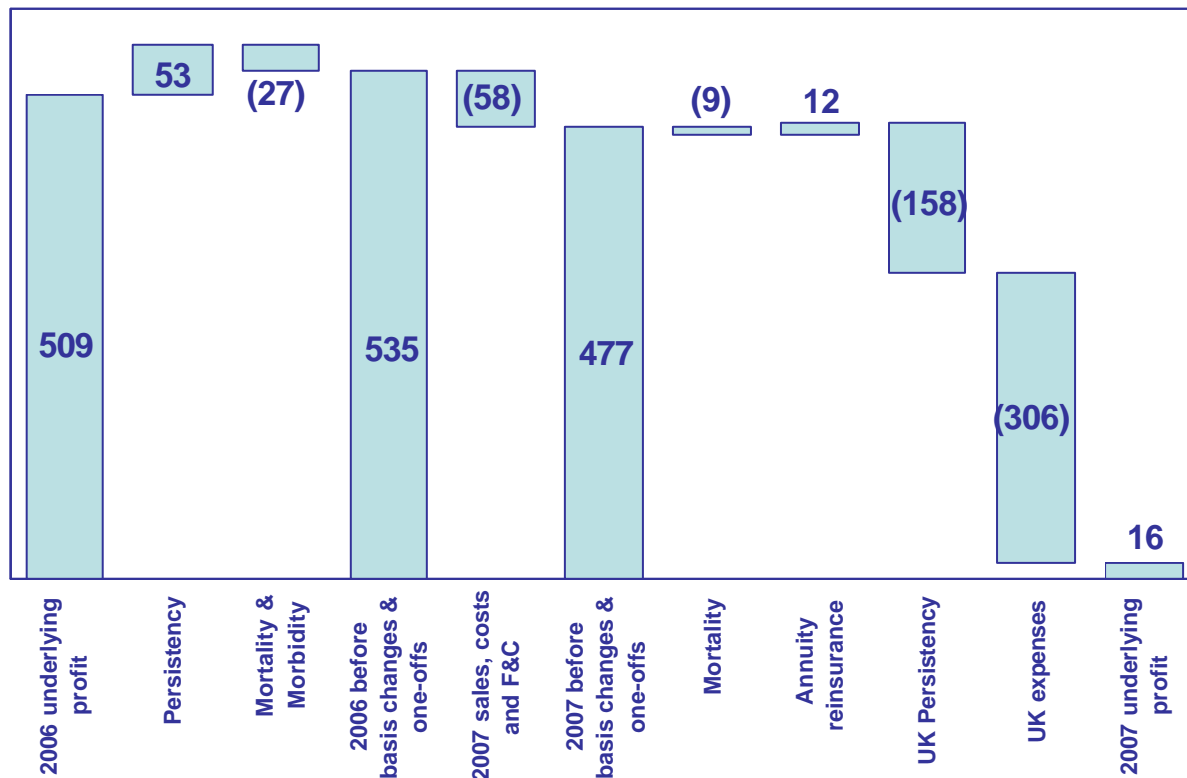


UK IFS   UK NBS   Intl   F&C   SH & Tax   Dividend   Net

■ Cash inflow   
 ■ Cash outflow

- New strategy will reduce dividend and UK new business strain to make group self-financing
- UK new business strain and surplus significantly reduced by further implementation of PS06/14 reserving changes
- International outflow from volume increase, geographic mix, special offers
- Tax credit due to new business strain expected to reduce
- In addition, one-offs of £87m in 2007 (2006: £274m)

# EEV Underlying result



- 2006 profit included £53m persistency charge and £27m morbidity credit
- UK persistency

	£m
<b>Operating assumption change</b>	<b>133</b>
- bonds	65
- pensions	53
- legacy	15
<b>New business contribution</b>	<b>15</b>
<b>Expected return</b>	<b>10</b>

- Capitalising £20m of development costs and £6m of corporate costs resulted in £306m cost

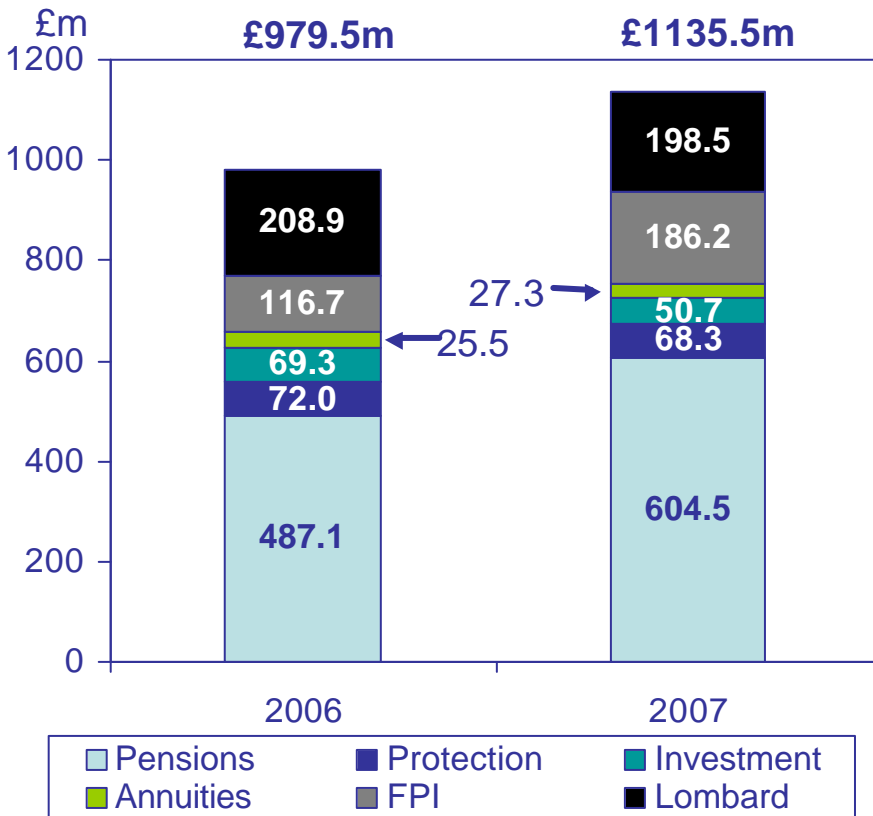
# Embedded value

	2007	2006
Shareholders' invested net assets	<b>£1,449m</b>	£1,164m
Value of in-force Life & Pensions business	<b>£1,870m</b>	£2,031m
Market value of the listed Asset Management business	<b>£499m</b>	£534m
Provision for future corporate costs	<b>£(97)m</b>	£(47)m
Net pension asset	<b>£4m</b>	£(22)m
Embedded value	<b>£3,725m</b>	£3,660m
Embedded value per share	<b>£1.60</b>	£1.73

- Embedded value benefited from £276m shares issued on convertible bond
- VIF grew by £338m from new business, less £335m charges for lapses and expenses and £70m for tax changes
- Total EV includes £874m for F&C, Lombard and Pantheon Financial
- EV per share down owing to new shares in issue

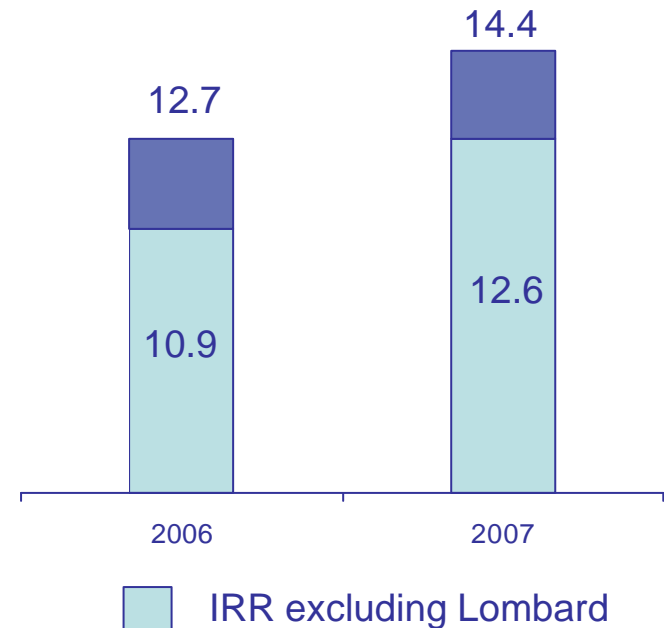
# Life & Pensions new business

## APE



## IRR

- Benefits from lower new business strain from reserving changes and growth in FPI and annuities
- New strategy is worth 2% enhancement despite loss of Lombard's contribution



# Protection

	2007	2006
<b>APE market share</b>		
Individual	<b>7.3%</b>	7.8%
Group	<b>3.0%</b>	2.6%
<b>Overall</b>	<b>6.1%</b>	6.4%
IRR	<b>13.2%</b>	9.3%
New business strain	<b>£40m</b>	£129m
Cash payback	<b>8 years</b>	9 years
Cash generation	<b>£4m</b>	£(27)m
IFRS profit	<b>£5m</b>	£31m
In-force premiums	<b>£311m</b>	£288m

- Sales down owing to housing market
- Market share – down in individual protection but group increased
- Reserving changes increase IRR
- Lower strain makes the business cash generative
- Profit lower – no longer benefiting from deferral of acquisition costs
- New business exceeded lapses and maturities so in-force premiums rose

# Pensions & Annuities

Pensions	2007	2006
APE	£604.5m	£487.1m
Group pensions IRR	8.8%	8.5%
New business strain	£145m	£126m
Cash payback	18 years	17 years
Cash generation	£(109)m	£(105)m
IFRS profit	£(40)m	£(42)m
AUM	£7,595m	£5,488m
In-force annual premiums	£1,241m	£907m

Annuities	2007	2006
APE	£27.3m	£25.5m
Cash	£15m	£17m
IFRS profit	£12m	£21m

- Sales up 24%
  - Around a quarter from new schemes with initial commission – no longer to be pursued
  - Strain increased from growth in sales
  - Strategy to reduce this to £65m through lower initial commission and acquisition costs
  - Cash generation and profit flat
  - In-force premiums increased as new business exceeded lapses
- 
- Take-up rate of internal vestings maintained over 40% by value
  - Cash generative and profitable

# Friends Provident International

	2007	2006
New business APE	<b>£186m</b>	£117m
IRR	<b>17.8%</b>	20.1%
New business strain	<b>£69m</b>	£25m
Cash payback	<b>6 years</b>	6 years
Cash (out)/inflow	<b>£(25)m</b>	£36m
IFRS profit	<b>£3m</b>	£25m
AUM	<b>£5,022m</b>	£3,882m

- 60% growth in new business
- IRR lower due to mix and special offers but remains well above UK
- Payback maintained at 6 years
- Increased strain reflecting Hong Kong growth and German pensions
- Profit down owing to growth in new business strain and £15m one-off in 2006 not repeated
- In line with strategy, faster FPI growth enhances group returns

# F&C Asset Management

	2007	2006
Net revenue	<b>£264.5m</b>	£248.2m
Underlying profit before tax	<b>£77.4m</b>	£88.7m
Assets under management	<b>£103.6bn</b>	£104.1bn
Dividend received	<b>£23m</b>	£28m

- F&C and Lombard do not fit with long term strategy
- Both trading well and have good prospects
- F&C pursuing 3 year strategy
- Revenues increased by performance fees
- Maintained assets under management despite expected institutional outflows

# Lombard

	2007	2006
APE	<b>£198.3m</b>	£208.9m
IRR	<b>29.2%</b>	29.4%
IFRS Profit	<b>£12m</b>	£13m
AUM	<b>£10,060m</b>	£7,760m

- Sales down 5% with fewer large cases
- Over last 3 years compound growth in sales is 15%
- Profitability maintained
- Assets under management continued strong growth
- Good prospects enhanced by Swiss office now opened

# Capital and Risk

- Balance sheet strong
  - excess capital £1.3bn
  - FPLP credit rating A in line with target
- Actions taken to derisk balance sheet
  - Transaction to reinsure £1.7bn annuity portfolio
  - Removed equities in shareholders' invested net assets
- Shareholder exposure to Asset Backed Securities £770m, over 98% are investment grade
  - Largely held to maturity backing annuity book
  - <£5m exposure to US sub-prime assets, £11m sub-investment grade
  - Monoline-wrapped exposure £244m
  - Additional £250m in Pension Fund's Liability Driven Investment pools – all AAA

# Summary

- 2007 results in line with 31 January indications
- New strategy builds on our strengths
  - Protection IRR and cash strain improved and group market share increased
  - Pensions assets under management grew strongly
  - Annuity take-up rate maintained
  - FPI growth faster than UK enhancing portfolio returns
- Group strategy is to be self-financing
  - UK new business strain and dividend to be addressed in 2008
  - No requirement for new debt or equity funding
- Balance sheet strong with surplus capital
  - Actions to reduce risk and new strategy will release sufficient to support further International growth
- Beginning to deliver enhanced disclosure to explain better our economics and to allow progress of strategy to be judged



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# Adrian Montague Executive Chairman

# Strategy to enhance profitability and disclosure

## Outcome of the strategic review

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- Focus on the core strengths of manufacture and administration of life and pensions products in the UK and related offshore markets
  - **Protection**
  - **Group pensions**
  - **Friends Provident International**
- Stop the wrap platform development
- Deliver substantial cost reductions across the Group
- Increase disclosure – progress already made
- F&C, Lombard and Pantheon Financial – attractive businesses, but do not fit the long-term strategy

## Impact

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- Renewed focus on core businesses, leveraging strengths in technology, service and distribution
- 15% reduction in cost base
- IRR improved by at least 2 percentage points
- Enhanced disclosure enabling shareholders to better access progress
- Prioritisation of profitability and re-based dividend cost means the Group is self-funding





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# Questions & Answers

# Appendices

Asset-backed and monoline-wrapped exposure

Life & Pensions new business

One-offs in 2007 IFRS results

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

# Asset-backed and monoline-wrapped exposure

£m	Ratings							Total
	AAA	AA	A	BBB	BB	Sub B	Unrated	
<b>Non-linked debt securities</b>	6800	2959	1787	395	23	7	133	12104
	56%	25%	15%	3%	0%	0%	1%	100%
<b>Directly held ABS and Monoline Wrapped Securities</b>								
CDO & CLO	23							23
MBS	265	57	49	43				414
Monoline Wrapped	511							511
Other ABS	284	134	202	15	6	22		663
<b>Total</b>	<b>1083</b>	<b>191</b>	<b>251</b>	<b>58</b>	<b>6</b>	<b>22</b>	<b>0</b>	<b>1611</b>
	67%	12%	16%	4%	0%	1%	0%	100%
<b>Shareholder exposure</b>								
CDO & CLO	16							16
MBS	153	30	26	14				223
Monoline Wrapped	244							244
Other ABS	131	55	87	3	1	10		287
<b>Total</b>	<b>544</b>	<b>85</b>	<b>113</b>	<b>17</b>	<b>1</b>	<b>10</b>	<b>0</b>	<b>770</b>
	71%	11%	15%	2%	0%	1%	0%	100%

# Life & Pensions new business

	APE (£m)		PVNBP (£m)		Contribution (£m)		Margin (%)		IRR (%)		Payback (years)	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Protection	68	72	413	432	31	32	7.5	7.4	13.2	9.3	8	9
Investment	51	69	501	687	1	10	0.2	1.5	7.8	8.2	24	16
Pensions	605	487	3,255	2,788	51	53	1.6	1.9	8.8	8.5	18	17
Annuities	27	26	273	255	14	13	5.0	5.3	7.8	8.2	24	16
<i>Total UK</i>	751	654	4,442	4,162	96	108	2.2	2.6	11.7	10.3	12	12
FPI	186	117	1,235	823	39	26	3.2	3.1	17.8	20.1	6	6
Lombard	199	209	1,985	2,089	71	70	3.6	3.4	29.2	29.4	4	4
<i>Total Int'l</i>	385	326	3,220	2,912	110	96	3.4	3.3	23.0	25.7	4	4
<i>Group total</i>	1,136	980	7,662	7,074	206	204	2.7	2.9	14.4	12.7	9	9

# One-offs in 2007 IFRS results

	Expense assumption changes	PS06/14 reserving changes	Reinsurance of annuity portfolio	Total
Cash	(51)	138	56	143
Deferred acquisition costs	(61)	(172)	(18)	(251)
IFRS reserving	-	-	(27)	(27)
<b>Total IFRS impact</b>	<b>(112)</b>	<b>(34)</b>	<b>11</b>	<b>(135)</b>

- £138m positive cash impact from PS06/14 reserving changes
- £284m accelerated amortisation of deferred acquisition costs and expense reserve increases
- Net £11m benefit from reinsurance of annuity portfolio
- Approximately £100m further reserving changes expected in 2008, with corresponding reduction in DAC to leave IFRS profits broadly unchanged

# IFRS underlying profit by product

£m	2007			2006		
	New business	In-force	Profit	New business	In-force	Profit
<b>UK Life &amp; Pensions</b>						
Protection	(40)	45	5	(27)	58	31
Pensions	(75)	34	(41)	(59)	17	(42)
Annuities	10	2	12	-	21	21
Savings & Investments	(20)	16	(4)	(16)	3	(13)
With Profits Fund	-	87	87	-	82	82
<b>UK Life &amp; Pensions underlying profit before one-off items</b>	<b>(125)</b>	<b>184</b>	<b>59</b>	<b>(102)</b>	<b>181</b>	<b>79</b>
Corporate bond spreads			(90)			-
One-off items			(40)			(33)
<b>UK Life &amp; Pensions underlying profit</b>			<b>(71)</b>			<b>46</b>
<b>International Life &amp; Pensions</b>						
FPI	(19)	22	3	(6)	31	25
Lombard	(26)	38	12	(22)	35	13
	(45)	60	15	(28)	66	38
One-off items	-	-	11	-	-	32
<b>International Life &amp; Pensions underlying profit</b>			<b>26</b>			<b>70</b>

# Shareholder cash generation by product

£m	2007			2006		
	New business strain	In-force surplus	Total	New business strain	In-force surplus	Total
<b>UK Life &amp; Pensions</b>						
Protection	(40)	44	4	(129)	102	(27)
Pensions	(145)	36	(109)	(126)	21	(105)
Annuities	10	5	15	(4)	21	17
Savings & Investments	(36)	14	(22)	(36)	7	(29)
With Profits Fund	-	87	87	-	82	82
<b>Total before tax and other items</b>	<b>(211)</b>	<b>186</b>	<b>(25)</b>	<b>(295)</b>	<b>233</b>	<b>(62)</b>
Tax			49			35
Other			(4)			-
<b>Total</b>			<b>20</b>			<b>(27)</b>
<b>International Life &amp; Pensions</b>						
FPI	(69)	44	(25)	(25)	61	36
Lombard	(41)	42	1	(40)	38	(2)
<b>Total before tax and other items</b>	<b>(110)</b>	<b>86</b>	<b>(24)</b>	<b>(65)</b>	<b>99</b>	<b>34</b>
Tax			6			(1)
Other			1			-
<b>Total</b>			<b>17</b>			<b>33</b>

# Value of in-force by maturity

31 December 2007	(£m)	Year of emergence of surplus								
		Total	1-5	6-10	11-15	16-20	21-25	26-30	31-35	36-40
<b>UK</b>										
<b>With Profits Fund</b>	<b>322</b>	149	105	42	18	6	2	0	0	0
<b>Protection</b>	<b>242</b>	125	82	21	10	3	1	0	0	0
<b>Investments</b>	<b>157</b>	70	46	22	11	5	2	1	0	0
<b>Pensions</b>	<b>456</b>	137	127	92	56	28	11	4	1	0
<b>Annuities</b>	<b>7</b>	2	2	2	1	0	0	0	0	0
<b>UK other</b>	<b>76</b>	29	32	15	0	0	0	0	0	0
UK total	<b>1,260</b>	<b>512</b>	<b>394</b>	<b>194</b>	<b>96</b>	<b>42</b>	<b>16</b>	<b>5</b>	<b>1</b>	<b>0</b>
		41%	31%	15%	8%	3%	1%	0%	0%	0%
<b>International</b>										
<b>FPI</b>	<b>225</b>	128	56	26	11	4	0	0	0	0
<b>Lombard</b>	<b>385</b>	148	91	58	36	22	14	8	5	3
International total	<b>610</b>	<b>276</b>	<b>147</b>	<b>84</b>	<b>47</b>	<b>26</b>	<b>14</b>	<b>8</b>	<b>5</b>	<b>3</b>
		45%	24%	14%	8%	4%	2%	1%	1%	1%
Total VIF	<b>1,870</b>	<b>788</b>	<b>541</b>	<b>278</b>	<b>143</b>	<b>68</b>	<b>30</b>	<b>13</b>	<b>6</b>	<b>3</b>
		42%	29%	15%	8%	4%	2%	1%	0%	0%

# assets under management – by source

	<b>31 Dec 2007</b>	<b>31 Dec 2006</b>
	<b>£bn</b>	<b>£bn</b>
<b>Insurance funds</b>	<b>58.9</b>	59.0
<b>Institutional funds</b>	<b>27.3</b>	28.1
<b>Sub-advisory</b>	<b>6.5</b>	7.0
<b>Investment trusts</b>	<b>6.6</b>	6.5
<b>UK retail (mutual funds)</b>	<b>3.3</b>	3.0
<b>International wholesale (mutual funds)</b>	<b>1.0</b>	0.5
<b>Total</b>	<b>103.6</b>	104.1

# assets under management – by asset class

	<b>31 Dec 2007</b>	<b>31 Dec 2006</b>
	<b>£bn</b>	<b>£bn</b>
<b>Fixed interest</b>	<b>53.5</b>	54.0
<b>Equities</b>	<b>37.0</b>	38.2
<b>Property</b>	<b>5.3</b>	5.2
<b>Other alternative investments</b>	<b>1.9</b>	1.3
<b>Money market</b>	<b>5.9</b>	5.4
<b>Total</b>	<b>103.6</b>	104.1