



Friends Provident plc

Corporate Social Responsibility

2002 Report



FRIENDS PROVIDENT

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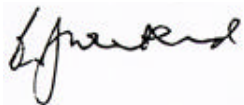
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1. Introduction

Ethical principles have been at the heart of our business since its foundation in 1832 and we believe this long-running commitment to corporate social responsibility (CSR) differentiates our business from others. We see CSR as a part of good corporate governance and as such it is woven into the way we run our business.

Last year we reported on the in-depth review we had undertaken to refresh our approach to CSR and set out our first objectives and targets. This report describes our initiatives in 2002, how we performed against our objectives and what we aim to achieve this year.

As the director responsible for CSR, I am delighted to be able to report on the solid progress we have made in meeting our responsibilities.



For the Board
Brian Sweetland
Director and Secretary

2. Our approach

Our business

The purpose of the Friends Provident Group through its two core businesses is to provide a comprehensive range of pension, protection, annuity, savings and investment products which hopefully improve the quality of life for our customers and their families. The life assurance industry generally is important from both an economic and social perspective contributing to the generation of wealth and social wellbeing.

Our strategy

Our core values and responsibilities to stakeholders are outlined in our Statement of Business Principles (SOBP) which importantly also explains how we will live up to these principles. The principles overlay a suite of bespoke CSR policies which address the key impact areas for Friends Provident. The principles and policies were developed in consultation with our stakeholders. A stakeholder matrix that matches issues against different stakeholder groups was also constructed and continues to help shape our strategy.

Integration

Throughout 2002 we have continued to develop and refine our management system. The main Board director responsible for CSR issues chairs a Group-wide CSR Steering Committee whose membership comprises senior managers from across the Group, including the full-time CSR Manager. Roles and responsibilities have been clearly defined and CSR key performance indicators have been incorporated into the annual strategic and business planning cycle with objectives and targets being set as a matter of routine. We have also developed a system of internal controls including a verification process providing assurance to the Board that key CSR risks are being properly identified, assessed and managed at all levels throughout the Group. Using our staff intranet, we began an internal programme of communication and education which aims to provide training and education for staff, advice on ways to manage environmental issues in their everyday lives and to align local initiatives with the achievement of corporate objectives.

Governance

CSR risks and opportunities are routinely identified through the Group's risk management process and relate to key strategic medium term issues as well as short term business unit objectives. With regard to the ABI disclosure guidelines on social responsibility, key CSR-related risks that have been identified and assessed include mis-selling issues; recruitment and retention of key employees; reputational issues; responsible investing; community relations; financial exclusion; human rights; bribery and corruption. We perceive the main opportunities to be the strengthening of our reputation and the expansion of the socially responsible investment (SRI) screened fund and engagement services markets.

External recognition

In recognition of the strength of our approach and performance, Friends Provident achieved a top 40 ranking (out of FTSE350 participating companies) in Business in the Community's (BitC) first Corporate Responsibility Index.

3. Promoting positive change

Friends Provident's most significant impact is the 'indirect' influence it can exert through responsible investing. Customers who choose to invest in our Stewardship range of products can be confident that their money will only be invested in companies that have been screened by an independent Committee of Reference to ensure they benefit rather than harm the world and its people. Full details of the Committee of Reference, including biographies of its members, can be found at www.isisam.com.

Launched in 1984, Stewardship was the first fund of its kind in the UK. Friends Provident remains the leader in the UK ethically screened retail investment market with £1.1 billion under management giving a market share of 32%. To further strengthen our market-leading position, in 2002 we also launched the Stewardship International Fund – a medium to high risk opportunity to invest in companies in global markets whose operations make a positive contribution to society.

Even more significant is **reo**, responsible engagement overlay, a state-of-the-art system, developed by our asset management business, to help companies in which we invest on our customers' behalf to bring about positive change. Administered by a team of 12 experts, it engages on a range of issues including:

- corporate social responsibility and governance
- environmental management and reporting
- climate change
- sustainable forestry
- labour standards
- bribery and corruption
- human rights
- access to medicines

Quarterly reports are now produced detailing **reo** activity and case studies which are available via our asset management business's web site: www.isisam.com.

Two illustrations of how **reo** can have an impact are given below:

Case Study 1: Travis Perkins

The ISIS engagement programme on sustainable forestry encourages companies that are significant users of forest products to examine their policies and practices. We encourage companies to make an explicit commitment to obtaining supplies from certified sources – such as those covered by the Forest Stewardship Council – and, where appropriate, to join the Forest Trade Network. This is a scheme led by WWF, in which member companies commit to meeting specific targets for certification.

In 2000 we invited several of our investee companies, including Travis Perkins, to a seminar with the Forest Trade Network, and have subsequently been discussing the issue of sustainable sourcing with companies in the construction industry. Travis Perkins is one of the UK's largest suppliers of materials to the building trade, with annual sales of wood and wood products approaching £300m. ISIS has been in close discussion with the company over the past two years about its wood sourcing policies, and in October 2002, we spoke at the company's annual suppliers' conference about the business benefits of managing environmental risks.

In May 2002, the Travis Perkins board made a decision to join the Forest Trade Network and to set itself targets for sustainable timber sourcing. The company aims to achieve a target of sourcing two thirds of its timber from certified sources by 2006.

Ian Goldsmith, the company's Group Planning Director with corporate responsibility for environmental issues, wrote to us: "We welcome constructive suggestions from investors about how to manage our environmental activities. ISIS has played an important role in helping us examine our timber sourcing and find ways to participate in target setting and certification. This improves our environmental performance, which in turn makes us more attractive to investors like ISIS which take into account social and environmental issues.

Case Study 2: Citigroup Inc

As one of the largest financial services companies in the world, Citigroup is often involved in financing, underwriting or providing financial advice on controversial projects with negative human rights and environmental impacts. Examples include the Camisea pipeline in Peru and indirect funding of China's Three Gorges Dam through China Development Bank bonds. The latter project has engendered intense international scrutiny, due to the forced relocation of over one million people, major environmental damage including species extinction, the destruction of antiquities, poor construction standards and corruption.

Since late 1999, ISIS Asset Management has been working with Citigroup, and fellow US-based investors, to press for stronger analysis of environmental and social impacts in the company's lending and underwriting processes. To date, Citigroup has made some notable changes. In 2000 it formed an environmental policy review committee of senior bankers and managers, and adopted the Global Corporate and Investment Businesses Environmental Policy, which states that risk assessment in underwriting and financing should "identify, quantify and control environmental and social risks". In 2001 Citigroup introduced an environmental risk module into its emerging markets training programme, and expected 1,000 employees to complete the training in 2002. The company also created a special questionnaire for project finance teams working in high-risk sectors, which becomes part of each project's audit trail. The questionnaire helps staff more carefully analyse how a proposed project may have additional, unanticipated, social, environmental and brand risks.

Finally, Citigroup is taking some steps towards improved transparency, publishing its first annual corporate citizenship report in 2001 and its second in 2002. Each time, ISIS provided Citigroup with detailed feedback and new ideas for improving its reports. We have also begun to work with major Citigroup competitors on these issues in order to create a more level playing field for leading banks. Despite its progress, ISIS looks forward to continuing its substantive engagement with the company in the coming year and encouraging further improvements.

Governance - As a major shareholder we have a responsibility to use our influence to support and encourage investee companies in their efforts to adopt effective governance systems. In pursuing this policy, we are committed, whenever practicable, to voting on all shareholdings.

Investment Properties - The acquisition of the property portfolio of RSAI has more than doubled the value of investment property portfolio to £4.6 billion (2001: £2.0 billion). The process of integrating RSAI's property investment business in relation to CSR issues has been complex and will not be fully completed until the first half of 2003.

4. Making a difference

Marketplace

In addition to our approach to socially responsible investment in the marketplace, we also impact on our customers and suppliers. In February 2002, Friends Provident was accredited under the Raising Standards quality mark scheme. This signifies that we have raised the standards of customer service and the clarity of what we publish. It shows that we use plain language, have no hidden 'small print', and that we set out information in a way that makes it easy for our customers to compare our products with others.

We have continued to work with priority suppliers to check their CSR credentials and alignment with our own business principles. For example, earlier in the year we identified an opportunity to purchase paper with a 50% recycled content (our paper is already 84% totally chlorine free, the remainder being elemental chlorine free). However, we deferred placing the order with the supplier until they achieved ISO14001.

Environment

Climate change is perhaps the biggest environmental problem facing the planet today. In addition to tackling this issue through *reoo*, we also have a direct impact through the energy we use and the emissions produced by our company cars. Using the guidelines published by the Department for Environment, Food and Rural Affairs, we have assessed our impact in these areas. This year we negotiated a contract for the supply of virtually all our electricity from renewable sources for a twenty-four month period commencing 1 October. This initiative helped us to reduce our energy-related emissions by 22% in 2002. Importantly, this has been achieved at no additional cost.

In our buildings we try and be as energy-efficient as possible and have installed automatic computerised building management systems to monitor and control heating and lighting. As a result our people can have a far bigger impact on the environment outside work. To accompany the launch of our CSR intranet site we offered all our people a free copy of *Go M.A.D!* which provides advice on how they can make a difference to the environment and their local community in their everyday lives.

Transport-related emissions result from the use of company cars especially by our sales people and from travel between our head office sites. We do not want to impede the work of our sales people, though LPG converted vehicles are now available for company cars users when replacing their existing cars. Instead, our focus is on reducing inter-office travel and during 2002 we upgraded our video-conferencing facilities and re-promoted both tele- and video-conferencing to all staff as part of a revised business travel policy.

We also impact directly on the environment as a result of the paper and water we use and the waste we produce. We aim to proactively manage these impacts through good housekeeping, which includes educating our people as to how they can make a difference.

Community

Friends Provident continues to channel its main charitable giving through the Friends Provident Charitable Foundation, a charity with wide grant-making powers. We believe that building and maintaining relationships of trust in the community are critical to the way we run our business and see such involvement as integral to our future. We partner Barnardo's in an initiative called Future Citizens, promoting citizenship to 11-14 year-old students across the country as part of the new curriculum for secondary schools.

We also seek to build relationships in the communities local to our head office sites and a major focus of our activities is the involvement of our people. Our flagship programme is the Volunteer Reading Scheme, which provides time off for staff to help primary school children aged 5 - 11 years old develop their reading and social skills. We also operate Partners in Leadership, matching senior managers with head teachers in our local communities. Both initiatives originated through our membership of BitC.

In 2002, we also joined the London Benchmarking Group (LBG) and use their internationally recognised guidelines to help us assess the totality of our community giving and compare ourselves against like-minded, forward-looking companies.

We operate a Give-As-You-Earn (GAYE) scheme allowing our staff to make donations to their favourite charities in a cost-efficient way.

Workplace

Friends Provident's commitment to diversity is articulated in its long-standing Equal Opportunities Policy which was reviewed and refreshed during the year. We monitor gender and ethnic origin on a regular basis. Our workforce is broadly representative of the gender and ethnic demographics of the geographical areas in which we operate. At each of our four head office sites, where the majority of our staff are based, the workforce profile for ethnic origin is consistent or better (i.e. higher % of ethnic minorities) than the local geographic area. The same is true for 6 of our 13 smaller regional branch offices [based on 2001 data]. We promote diversity through our support for and participation in BitC's Opportunity Now, the Equal Pay Commission and the Employers Forum on Disability.

While ensuring the needs of our customers come first, our Flexible Working Policy enables staff to agree a working pattern with their manager based around an average 35-hour working week. For example staff can work 7.00am to 3.00pm, or 35 hours over 4 days, or 70 hours over 9 days. We also offer homeworking, term-time working and job sharing to help our people achieve their optimum work-life balance.

We are one of the Sunday Times 100 Best Companies to Work For in 2001 and 2002 and one of the UK's Best Workplaces 2003. Our inclusion is based principally on a confidential survey of 250 randomly selected people and evaluates trust in management, pride in work and the company, and camaraderie. We continue to seek employees' views and opinions and assess general satisfaction via our Staff Opinion Survey. Employees are encouraged to share in our success through SAYE and incentive schemes. We recognise the union Amicus and work closely with them on employee issues.

Friends Provident was awarded the Bronze Award (2000) and Silver Award (2002) for Occupational Safety issued by the Royal Society for the Prevention of Accidents (RoSPA) recognising our commitment to health and safety.

Advocacy

We are at the forefront of developments in sustainability within the financial services industry. We were among the first companies to sign up to the Corporation of London's Sustainable Investment Principles, also known as the "the London Principles" and support and work with, the United Nations Environment Programme (UNEP) Financial Initiatives.

Separately, we also supported BitC in the development of their Corporate Responsibility Index.

5. Performance against 2002 objectives/targets and 2003 targets

Area	Objective	2002 Targets	Achieved	2003 Targets
CSR Management System	Further develop our management system	• Develop internal verification process	✓	• Improve BitC CR Index Score
		• Finalise CSR corporate governance structure	✓	
		• Increase Business in the Environment index of corporate environmental management score	✓	
Socially Responsible Investment	Use our influence to protect and enhance the wider environment	• Achieve 25 significant reo ® successes	✓	• Achieve 32 significant reo ® successes
		• Continue to vote 100% of shares held in the UK companies we invest in	✓	• Continue to vote 100% of shares held in the UK companies we invest in
Property portfolio	Manage the risks and reduce the impacts associated with our property portfolio	• Increase the Property Environment Group/Business in the Environment overall benchmark score by 5%	X	• Achieve top 3 placing in peer group in the Property Environment Group / Business in the Environment benchmark
Suppliers	Work with suppliers to improve the social and environmental performance of our supply chain	• Enhance procurement procedure	X	• Enhance procurement procedure • Ensure Supplier Statement if applied to all priority suppliers
		• Commence programme of improving the performance of the products/services we buy	✓	
Emissions	Reduce the consumption of energy and the environmental impact of inter-office travel.	• Reduce CO ² emissions associated with energy use by 3% at targeted sites	✓	• Reduce CO ² emissions associated with energy use by 80% at targeted sites • Extend existing measure to include all sites
		• Promote alternatives to inter-office travel	✓	• Develop a Green Travel Policy
Waste	Reduce waste generation at our operations and promote recycling and re-use. Seek to avoid the use of substances that may cause harm to the environment	• Establish an aggregate measure of waste generated by our operations	✓	• Further increase the % of waste recycled by 1%
		• Introduce measures to reduce paper consumption	X	• Introduce measures to reduce paper consumption by 1%
		• Remove 100% of Halon 1301 over three years	✓	• Remove all Halon 1301
Charitable Giving	Increase staff involvement in community investment			• Increase percentage of staff participating in GAYE to 10%
Turnover & Absenteeism	Continue to manage the downward trend in staff turnover and absenteeism.			• Staff turnover not to exceed 11% in target areas • Absenteeism not to exceed 2.8 working time
Diversity	Mirror the ethnic mix of the communities from which we draw our employees.			• Continue to mirror the ethnic mix of the communities from which we draw our employees

6. Performance data 2000 - 2002

	Measure	2000	2001	2002			
MARKETPLACE							
Ethically screened funds							
Screened funds	£'b, % funds under management	1.6	6.8	1.4	7.2	1.1	5.3
Responsible engagement overlay							
Full <i>reo</i> ® service provided	£'b, % funds under management	17.2	72.6	15.5	79.9	9.7	46.9
<i>reo</i> ® provided as standalone service	£'b	0		2.1		1.7	
Companies engaged with during year	Number	136		385		792	
<i>reo</i> ® engagement successes in year	Number			20		38	
Investment properties							
Properties under management	Value £'b, number	1.9	288	2.0	266	4.6	574
Total number of tenants	Number	1525		1458		3000	
PEG/BiE overall benchmark performance	%, position in peer group	42		51	2	48	2
Legislative breaches	Number	0		0		0	
Corporate Governance - Voting							
Number of resolutions voted on during the year	Number	n/a		13976		14121	
Proportion of UK equities meetings at which voted	%	n/a		100		100	
Major governance successes achieved	Number	n/a		4		10	
ENVIRONMENT							
CO ₂ emissions from gas and electricity	Tonnes	6124		7275		5650	
CO ₂ emissions from company cars	Tonnes	7479		6074		3794	
Office paper consumption	million sheets	n/a	64		56		52
Office paper manufacture – chlorine-free	% TCF, % ECF	n/a	n/a	84	16	84	16

Total waste generated	Tonnes	n/a		1030		910	
Waste recycled	%	n/a		29.6		32.4	

Water usage	Litres/employee/day	36.4		36.8		34.8	
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COMMUNITY

Total community giving	£'000	n/a		736		tbc	
Charitable donations	£'000	173		290		302	

WORKPLACE

Number of employees	Headcount	4481		4390		4237	
Of whom - female	Headcount, %	2192	48.9	2198	50.1	2135	50.4
- from ethnic minorities	Headcount, %	116	2.6	126	2.9	115	2.7
Of whom, managers	Headcount	306		293		279	
Of those managers - female	Headcount, % of managers	63	20.6	61	20.8	64	22.9
- from ethnic minorities	Headcount, % of managers	5	1.6	5	1.7	6	2.2

Employee turnover	%	19.5		15.5		13.2	
Absenteeism (sickness)	% of working time lost	3.01		3.15		tbc	

Staff participating in annual satisfaction survey	%	76		82		81	
Staff satisfied to be working for FP	%	73		70		76	

Spend on training	£'000	1866		3541		3405	
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Health and safety fines	Number, £	0	0	0	0	0	0
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Note: n/a = not available
tbc = to be confirmed