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Solid progress was made during 2003 in Friends Provident's Corporate Responsibility (CR) programme and, in March this year, we were listed as one of The Sunday Times Top 100 'Companies That Count'.

Here, we summarise our approach and some highlights from the programme. A full report, including objectives for 2004, can be viewed on our website: www.friendsprovident.com/cr. The full CR Report and this summary have been written with reference to the Sustainability Reporting Guidelines published by the Global Reporting Initiative. The CR and Annual Reports together provide a comprehensive review of our economic, social and environmental performance.

Vision and strategy

Our Statement of Business Principles sets out our vision for corporate responsibility.

“We aspire to be one of the most successful and progressive UK financial services groups. Our success depends on the trust and confidence placed in us by our customers, shareholders, business partners, staff, the communities around us and society at large. We will win and deserve that trust and confidence by maintaining and living up to the distinct values and reputation that have underpinned our business since our foundation in 1832. We recognise that the long-term interests of our stakeholders are best served by acting in a socially responsible manner, by good corporate citizenship, and by continuous improvement in all that we do”

Underpinning these principles is a framework of CR-related policies. Two new policies have been added this year: first, to formalise Friends Provident's approach to the increasingly important

issue of Human Rights and, secondly, to develop a Green Travel Policy in line with a specific commitment in our Environmental Policy. This policy draws together various travel-related initiatives across the Group and will guide future actions by means of local travel plans.

Friends Provident's vision of its corporate responsibilities is based on CR being part of good corporate governance in its broadest sense. Our CR programme has been integrated into routine business planning and decision-making, ensuring that it is balanced with other key business drivers. We educate our people to think differently so that their everyday decisions have regard to social and environmental issues as well as, for example, cost and quality. Therefore, our people can pursue opportunities to improve our social and environmental performance at little or no extra cost.

Our vision is also based on the relative materiality of our indirect impacts, focusing our efforts where they can most make a difference.

Our areas of influence

Friends Provident is one of the leading financial services groups in the UK and in the FTSE 100 Index of leading UK companies. It has two core businesses, Life and Pensions, which markets a broadly-based range of life and pensions products, and Asset Management, managing funds exceeding £63 billion at the end of 2003 and which markets a wide range of investment products to personal and institutional customers. These core businesses are both in the top 10 of their respective sectors in the UK.

The life assurance industry is important from both an economic and social perspective, contributing to the

generation of wealth and the social wellbeing of society. It allows consumers, for example, to transfer risk, buy protection and save for retirement. The industry pays out £166 million every day in pensions and life assurance claims. Friends Provident was founded in 1832 with the aim of alleviating the hardship of families facing misfortune. Today, as we pay out millions of pounds every working day, improving the quality of life of our customers and their families remains our aim and our core social responsibility.

Buying long-term financial products can be a complicated process and we are pleased to have been re-accredited under the Raising Standards Quality Mark scheme, which aims to foster consumer confidence through improved disclosure and encourage more people to make adequate provision for their long-term financial needs. We also support **pfeg** (Personal Finance Education Group) to improve the financial literacy of future generations of customers.

In addition to assuming social responsibility towards our customers, Friends Provident has other direct and indirect impacts on society. Our direct impacts are:

- Environmental management:
 - Emissions
 - Energy efficiency
 - Waste
 - Resource use (principally paper)
- Labour practices
- Community investment

Our indirect impacts occur through:

- Responsible investment and engagement
- Supply chain management

Friends Provident's most significant environmental impact is the indirect influence it can exert through responsible investing in its various forms. The Group is a pioneer of responsible investing. In 1984 we launched the UK's first ethical Unit Trust, the Stewardship Unit Trust. Our Stewardship range of products, now partly operated through our Asset Management business, is still the market leader with 33% of the £4 billion screened fund market in the UK.

In 2000, the Group launched *reo*[®], a state-of-the-art management system for engaging with companies on a range of social and environmental issues. We believe that companies that change the way they behave to address these issues also enhance their long-term shareholder value.

Finally, from 1 January 2003, Friends Provident has fully disclosed the way it votes the shareholdings held in other companies at those companies' meetings – worldwide. We publish monthly reports which list the way we have voted and include a brief explanation of every vote not supporting the recommendations of the Boards of those companies. We feel that making this information public reflects our desire to be open and accountable to our customers, policyholders and investors alike, whose money we are investing, and will raise industry standards on this issue.

Governance structure and management systems

Friends Provident has a well-developed and integrated CR management system, which includes the following features:

- Main Board responsibility
- A Group-wide Steering Committee chaired by a main Board director which meets quarterly

- A CR manager
- Defined roles and responsibilities across the Group
- Performance indicators for all main impact areas
- An objective and target-setting mechanism built into the Company's strategic and business planning process
- An internal education and communications programme
- An internal verification process

CR risks and opportunities are routinely identified through the Group's risk management process. This process requires quarterly reports from each business unit specifically covering CR-related risks and opportunities, which embraces social, ethical and environmental issues. With regard to the ABI Disclosure Guidelines on Socially Responsible Investment, key CR-related risks that have been assessed include recruitment and retention of key employees, reputational issues, responsible investing, community relations, human rights, mis-selling issues and bribery and corruption. We will benefit, as a consequence, from the strengthening of our reputation and the growth of the responsible investment market for both screened funds and engagement services.

To establish our principles, policy framework and performance indicators, we liaised with various groups of people who have a 'stake' in our business and have developed a matrix that maps issues against different stakeholder groups. We continue to talk with our stakeholders and take opportunities to link into existing research programmes to ensure this matrix remains up-to-date.

Environmental performance indicators

Compared with some industries, the direct impact on the environment from

an office-based life and pensions or asset management company is low. However, we can exert a significant material impact indirectly through responsible investing. Customers who invest in our Stewardship range of products can be confident their money will only be invested in companies that have been screened by an independent Committee of Reference to ensure the selected investments have positive community and environmental benefits for the world and its people and minimise their negative impacts.

Through *reo*[®] we engage with companies on a range of social, environmental and ethical issues. *reo*[®] is applied to Friends Provident's entire equity portfolio, including its staff pension fund. Each year, our twelve-strong team of specialists selects a specific number of topical issues on which to engage and target companies most exposed to the risks associated with those issues. Quarterly reports covering those issues and companies, as well as case studies illustrating the engagement process, are published by our Asset Management business and can be viewed on www.isisam.com.

Despite their relatively low significance, we still have a structured programme of environmental housekeeping to manage our direct impacts. Based on DEFRA (Department for Environment, Food and Rural Affairs) guidelines, emissions from gas and electricity at our main office sites amounted to 1,149 tonnes CO₂ in 2003 (2002: 5,650 tonnes). Emissions from company cars amounted to 3,499 tonnes CO₂ (2002: 3,794 tonnes).

We used 53 million sheets of plain paper (2002: 54 million sheets). At main office sites we used 36.6 litres/employee/day of water (2002: 34.8 litres/employee/day) and produced

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855 tonnes of waste (2002: 910 tonnes) of which 28.9% was recycled (2002: 32.4%).

As a result of feedback from shareholders on our 2002 CR Report, we initiated a partnership with Future Forests and Greener Solutions to encourage people to recycle their ‘old’ mobile phones. The phones are used for parts or sold at low cost into the developing world. This generates an income, part of which flows to Future Forests to support their CarbonNeutral forestry programme – see www.futureforests.com/recyclephone.

Our Supplier Statement outlines our progressive programme for addressing social and environmental issues in our supply chain. This year we developed risk profiles for different supplier groups and tightened our procurement procedures.

Social performance indicators

Workplace

Motivated employees are a key factor in the long-term success of any business and creating the right culture is crucial to recruiting and retaining the best people. In 2003 Friends Provident was again rated as one of the UK’s Best Workplaces. We were also successfully reassessed against the Investor In People national standard for training and development. While ensuring that the needs of our customers come first, we try to help our people achieve their optimum worklife balance through homeworking, job sharing and flexible working.

We are an equal opportunities employer. Our aim is that our workforce should mirror the gender and ethnic demographics of the areas in which we operate without any form of positive discrimination. We promote equal

opportunities more generally through our support for Business in the Community’s ‘Opportunity Now’, the Equal Pay Commission and the Employers Forum on Disability.

We undertake regular employee surveys and overall satisfaction remains high at 76% (2002: 76%). We monitor employee sickness and turnover and we publicly report on our performance through our website. We have a strong track record on health and safety with Silver and Bronze awards from the Royal Society for the Prevention of Accidents. We maintain a close working relationship with the recognised trade union, Amicus, with whom we liaise on employee-related business issues and encourage our people to get involved.

Community

We have refreshed and redrafted our Community Investment Policy. Our main charitable giving is channelled through the Friends Provident Charitable Foundation, a charity with wide grant-making powers. We also facilitate and promote payroll giving as a simple and cost-effective way in which employees can donate to their favourite charity. To support them, we match the first £10 per month each employee contributes. In 2003 we re-launched our payroll giving scheme and increased the number of employees participating to 9.5% (2002: 6%). As well as being able to support the charities of their choice, employees are also given the option of using payroll giving to sponsor a child in a third world country through a unique link-up with the aid agency, World Vision.

Education is a key focus area for our community support programme. We partner Barnardo’s in an initiative called Future Citizens, promoting citizenship to 11-14 year-old students across the

country. In its first full year 283 schools signed up to use the interactive CD-Rom and dedicated website created by Barnardo’s, while around £80,000 has been raised by participating schools towards Barnardo’s childcare work. Through our Volunteer Reading Scheme, our staff are given time out of work to visit primary schools to help young children develop their literacy and social skills.

Connected with our sponsorship of Southampton Football Club, the Friends Provident Fair Play Awards are now in their fifth year and we have teamed up with Southampton FC and Southampton City Council to tackle the challenge of keeping racism out of football through the ‘Racism Just Ain’t Sain’tly’ initiative. We have also established a community trust jointly with Southampton FC to develop a football academy for primary school children.

For the Board



Brian Sweetland
Director and Company Secretary

Note: CR performance data relates to FPLP unless stated otherwise. ISIS reports separately their CR performance.