

2005 Corporate Responsibility Report



FRIENDS PROVIDENT

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Sustainable development and life assurance

Comment from Forum for the Future

When we at Forum for the Future refer to sustainability, we are referring to a business's ability to develop a pro-active response to a range of environmental and social issues in a way that underpins long-term value creation. Corporate responsibility (CR) is often used to describe the business response to this agenda.

Sustainability currently presents formidable challenges to business as usual within the life assurance sector. Increasing demographic change towards ageing populations combined with an emerging savings gap, lack of trust in the industry with poor consumer confidence and alarming levels of financial literacy are all issues that are currently on the sector's radar screen, but existing CR programmes rarely provide a strategic framework for understanding how these issues will affect long-term business performance.

The good news is that the long-term nature of the life assurance business has clear synergies with the concept of sustainability. Ensuring that actions today do not jeopardise the ability to deliver benefits in the future is a concern of both. Such synergies and the clear opportunities presented by future-proofing business models to deal with a whole host of environmental and social issues mean that our central challenge to Friends Provident, and the wider sector, is to align CR programmes with sustainability principles. Business strategies need to ensure that the core business should facilitate rather than inhibit sustainable development.

Friends Provident asked us to review their existing CR programme in 2005. We found many examples of good practice and a strong commitment to ethical values. Our main recommendation was that sustainability should be integrated into a forward-looking plan of action. We will be working in partnership to explore how Friends Provident can continue its pioneering tradition in ethical business into the next generation of sustainable business.



The Forum for the Future's mission is to accelerate the building of a sustainable way of life, taking a positive, solutions-oriented approach. It is a Registered Charity in the UK (number 1040519). The Forum is not an auditor or a verifier. As such these comments should not be read as verification of data or information contained within the report.

Friends Provident is one of the Forum's Corporate Partners. Through this partnership Friends Provident makes a direct financial contribution which represents less than 0.25% of the Forum's turnover. The partnership is in its first year.

Friends Provident has maintained its membership of both the FTSE4Good and the Dow Jones World Sustainability Indices and was ranked joint 22nd in The Sunday Times 'Companies that Count' survey, based on an annual assessment by the charity Business in the Community.



Introduction

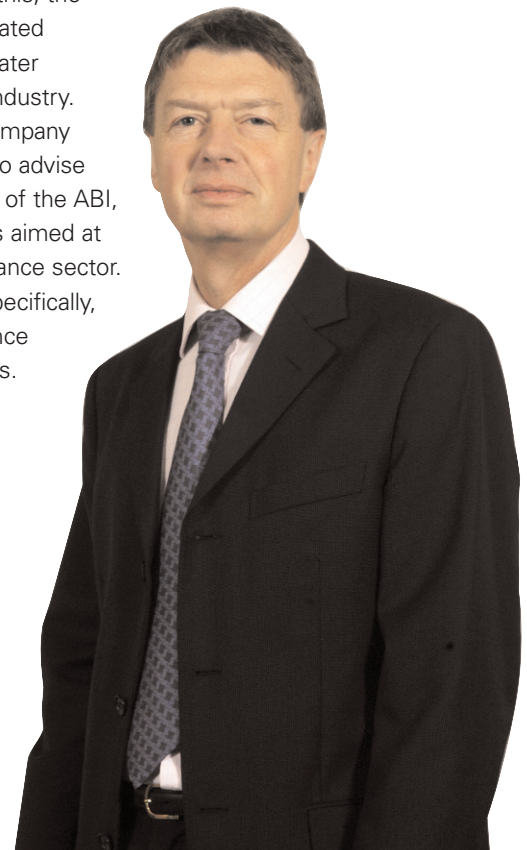
As one of the leading financial services groups based in the UK, Friends Provident recognises its responsibility to society at large and is committed to conducting business in a responsible manner, considering not only economic factors but also our impact on society and the environment. I am pleased to be directly responsible for the Group's Corporate Responsibility (CR) programme and look forward to building on the good work already done.

During 2005 we undertook a thorough review of our CR programme and put in place a challenging three-year action plan to drive it forward across the Group. We also commissioned Forum for the Future, one of the UK's leading sustainable development organisations, to review our programme. Their work confirmed the strong progress that had been made, as well as highlighting a number of further areas for improvement, most notably the need to better align our business and CR strategies within a sustainable business model. Steady progress has been made in the year, particularly on sourcing paper with recycled content and on energy management.


The life assurance industry contributes to both the generation of wealth and to the social well-being of society by providing security and alleviating the hardship of families facing misfortune. This role in society can sometimes be overlooked and in recent years issues such as irresponsible marketing and mis-selling have cast a shadow over the life assurance sector, creating a legacy of mis-trust amongst some customers. Acknowledging this, the Association of British Insurers (ABI) has initiated the Customer Impact Scheme to create greater customer confidence in the life assurance industry. This new initiative will include a series of company commitments and a new Consumer Panel to advise the ABI board. In this, my first year as Chair of the ABI, I look forward to new, challenging standards aimed at promoting trust and confidence in the Insurance sector. Within the Friends Provident Group more specifically, I am determined to make trust and confidence synonymous with our values-driven business.



Keith Satchell

For the board
Keith Satchell
Group Chief Executive



Business Context

<p>UK Life & Pensions</p>  <p>FRIENDS PROVIDENT</p>	<p>Market position</p> <p>One of the top 10 in the UK for attracting new business. Serves more than 2.5 million customers.</p>	<p>Recent history</p> <ul style="list-style-type: none"> • London & Manchester Group, acquired 1998 • Disposals effected over the last decade, relating to: <ul style="list-style-type: none"> – general insurance – industrial branch business – estate agencies 	<p>Staff and key locations</p> <p>About 3,400 staff</p> <ul style="list-style-type: none"> • Dorking • Exeter • London • Manchester • Salisbury • 13 regional offices 	<p>Market focus</p> <p>Focus selectively on the UK market segments that are most likely to sustain profitable growth.</p>
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<p>International Life & Pensions</p>  <p>FRIENDS PROVIDENT INTERNATIONAL</p>  <p>LOMBARD</p>	<p>Market position</p> <p><i>Friends Provident International (FPI)</i> One of the top five offshore life assurance companies operating in the cross-border market. <i>Lombard</i> The largest pan-European life assurance company of its kind.</p>	<p>Recent history</p> <p><i>FPI</i> Royal & SunAlliance International Financial Services was acquired by Friends Provident in 2002 and merged with our existing International division.</p> <p><i>Lombard</i> Founded in 1991 and was acquired by Friends Provident in January 2005.</p>	<p>Staff and key locations</p> <p><i>FPI</i> About 370 staff</p> <ul style="list-style-type: none"> • Isle of Man • UK • Hong Kong • Dubai <p><i>Lombard</i> About 300 staff</p> <ul style="list-style-type: none"> • Luxembourg 	<p>Market focus</p> <p><i>FPI</i> Focus on Asia, the Middle East, Continental Europe and the UK.</p> <p><i>Lombard</i> Focus on estate planning and other financial solutions to High Net Worth Individuals (HNWIs) and ultra- HNWIs</p>
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<p>Asset Management</p> 	<p>Market position</p> <p>One of the largest asset managers in Europe in terms of funds under management. Focused on the UK and Continental Europe, F&C is a quoted company in its own right and is 52% owned by Friends Provident.</p>	<p>Recent history</p> <p>F&C Asset Management plc was formed through the merger of ISIS Asset Management and F&C Holdings in 2004. Previous acquisitions were:</p> <ul style="list-style-type: none"> • Ivory & Sime, acquired 1998 • Royal & SunAlliance Investment Management, acquired 2002 	<p>Staff and key locations</p> <p>About 740 staff</p> <ul style="list-style-type: none"> • London • Amsterdam • Dublin • Edinburgh • Frankfurt • Lisbon • Paris • Boston, USA 	<p>Market focus</p> <ul style="list-style-type: none"> • Focus on UK and Continental Europe • Targeting for new business in higher margin areas.
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Vision and strategy

Our Statement of Business Principles sets out our vision for corporate responsibility and can be found within the 'responsibility' section of our website www.friendsprovident.co.uk/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 seven CR related policies which are regularly reviewed and updated: Human rights; Environment; Community Investment; Equal Opportunities; Health and Safety; Working with Suppliers and Green Travel.

Friends Provident has consolidated and reviewed its CR programme in 2005 and developed, with active participation from the Executive Directors of the Board, a challenging three-year action plan to increase the pace of change across the business. As a result we have already made significant progress on sourcing paper with a substantial 'recycled content' and reduced energy consumption through upgraded building management systems. Our 2006 initiatives to expand employee volunteering, improve waste management and increase community giving are already well underway.

Accompanying our three-year tactical action plan, and following their review, we are working with Forum for the Future to further improve our CR programme by aligning it with sustainable development principles and long-term business goals.

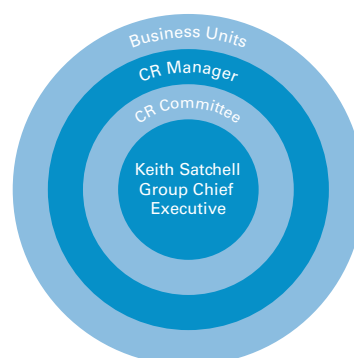
We advocate CR in the financial services industry and support work with the United Nations Environment Program Finance Initiative. We are also members of Business in the Community, the Corporate Responsibility Group, London Benchmarking Group and Forum for the Future.



Governance

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

- Main Board responsibility
- A Group-wide Steering Committee 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 communication programme
- An internal verification process



The group's CR Report has been reviewed by our Internal Audit department. Their review included an inspection of a selection of the CR documentation used to produce the Report and our internal records used to compile the performance data. A number of recommendations have been made that will enhance the process. The report has not been subject to external evaluation.

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. Seeking to comply with the ABI Disclosure Guidelines on Socially Responsible Investment, key CR-related risks have been assessed and include recruitment and retention of key employees, reputation issues, responsible investing, community relations, human rights, mis-selling issues and bribery and corruption.

Our material issues

As a pension and life insurance provider:

- Responsible marketing
- Consumer confidence and trust
- Demographic change
- Ethical investment products
- Financial education
- Access to financial products
- Money laundering

As an investor and asset manager:

- Investor engagement
- CR in property investment
- Money laundering
- Socially Responsible Investment

As a business operator:

- | | |
|--|---|
| <ul style="list-style-type: none"> ● Employee well-being ● Operational Environmental Management ● Supplier Management ● Corporate Governance ● Community Investment | <ul style="list-style-type: none"> ● Diversity and Equal Opportunities ● Offshoring / Outsourcing ● Human rights ● Responsible Lobbying ● Tax transparency |
|--|---|

Material issues for Friends Provident have been identified over five years, combining formal review work in 2001 and 2005 and input from the F&C Governance and Socially Responsible Investment team. Friends Provident considers the issues of investor engagement, socially responsible investment, consumer trust and confidence and financial education to be the most significant. All our material issues will now be considered under the headings of Marketplace, Environment, Workplace and

Communities in line with the Business in the Community categorisation followed in the Corporate Engagement Index. Data in the marketplace section relates to the Group. Sections on environment, workplace and community relate only to the UK and Isle of Man operation of the Life and Pensions business. Data for F&C can be found in their CR Report at www.fandc.com. Data collection across the Group is not complete and has been identified as a focus area for 2006.

Marketplace

We consider a key area of influence to be our business dealings in the marketplace; our investment policies and practices, our relationships with customers, treating them fairly and serving them efficiently, as well as the ethical investment market for individuals, which we have pioneered for the last 21 years.

Responsible Investment

Friends Provident's most significant impact on society is the indirect influence it can exert through responsible investing in its various forms. Investment in companies for financial return can have both a positive and negative impact on society. Friends Provident acknowledges the negative aspects of investment practices and seeks to address these impacts through the development of:

- A range of ethically-screened investment products and
- A shareholder engagement service (known as **reo®**) and voting customers' shares responsibly on their behalf.

Ethically-screened investments

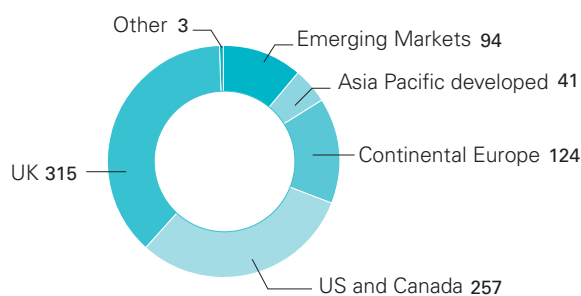
The Group is a pioneer of socially responsible investing. In 1984 we launched the UK's first ethical Unit Trust, the Stewardship Unit Trust. Our Stewardship range of products are still the market leader with 42% of the £4.3 billion screened fund market in the UK. Stewardship products invest in companies that make a positive contribution to society, while seeking to avoid companies involved in activities deemed harmful such as the manufacture and sale of weapons or manufacture of tobacco. 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 conform to Stewardship's strict criteria (www.friendsprovident.com/sri). The Committee of Reference is an external body of experts, which meets on a quarterly basis to set and also review the ethical policies of Stewardship and other screened funds.

Shareholder engagement

The Group operates, a state-of-the-art management system, known as **reo®**, for engaging with companies on a range of social and environmental issues. We seek to influence the behaviour of the companies in which we invest to address these issues and believe this will also enhance their long-term shareholder value. **reo®** is applied to Friends Provident's worldwide equity portfolio, more than £26.7 billion in 2005,

including its staff pension fund. Each year, our 14-strong team of specialists select a number of topical issues on which to engage and target companies most exposed to the risks associated with those issues. During the year we engaged with 834 companies. Quarterly reports covering those issues and companies are published by our asset management business and can be viewed on www.fandc.com.

Companies engaged by geographical area



Issues on which companies were engaged

(Note: some companies were engaged over more than one issue)

Issue	Companies engaged
Board structure, remuneration, capital, internal controls, shareholder rights	464
Transparency & Performance	291
Human Rights	73
Labour Standards	152
Bribery & Corruption	330
Environmental Management	169
Climate Change	58
Biodiversity	50
Total	834

As a measure of performance we record the number of **reo®** milestones achieved. A milestone is defined as being an event in which a company has improved its policy, performance or behaviour on Social, Environmental or Governance issues, when our participation in an issue has been a major factor. There are many occasions when we work with other businesses, non-governmental organisations and other

interested parties and where our role may have been only one of several contributing factors. During the year 272 **reo®** milestones were achieved against a target of 140. The significant over performance against target is accounted for by:

- An increase in the number of companies held and voted
- Greater scoring of the portfolios to identify milestones
- The inclusion of milestones achieved in previous years and not recorded.

Case study one: Oil & Gas

Key environmental, social and governance (ESG) issues for the sector

Although F&C monitors and acts on a wide range of issues, it focuses on five key ESG issues for the oil & gas sector:

- Corporate governance, including transparency and disclosure on ESG issues
- Health & Safety
- Environmental management, including climate change and biodiversity
- Human rights, including security, community relations and consultation, and the implications for business of operating in countries where there are human rights abuses
- Bribery & corruption, including internal controls and systems; political influence; payments transparency (the Extractive Industries Transparency Initiative – EITI)

We have undertaken our own research on several of these issues, including:

- Are Extractive Companies Compatible with Biodiversity? (February 2004)
- Investors' Statement on Payments Transparency in the Extractive Sectors (revised March 2005)

We place these ESG issues in the context of three strategic challenges for the sector:

- Difficult access to reserves
- The move to a low-carbon economy
- The emergence of 'national champions' from oil-hungry developing countries

Transparency in Company voting

Friends Provident fully discloses the way it votes the shareholdings held in other companies at those companies' meetings – worldwide. We publish monthly reports that list the way we have voted and include a brief explanation of every vote not supporting the recommendations of the boards of those companies (www.friendsprovident.com/responsibility/votingreport).

The following case study illustrates how we identify environmental issues on which to engage companies in our portfolios and the results of such engagement.

Companies engaged

As a matter of course, F&C engages all the majors:

BP, Chevron, ExxonMobil, Royal Dutch Shell and Total.

We also analyse smaller regional companies and those in emerging markets, and engage them where necessary. We view this as particularly important as these companies often face the same ESG risks as the majors, and are increasingly subject to the same reputational drivers. In addition, we closely monitor significant new projects, such as BP's BTC pipeline. We also monitor Royal Dutch Shell's Sakhalin II project in Russia and Woodside's Mauritanian field – as success or failure in these projects has a disproportionate influence on company valuations, and success is often linked to ESG issues.

Overall, we view the majors as some of the best-performing companies on ESG management relative to all other sectors. However, the goalposts are continually shifting: the media, pressure groups, banks and investors insist on best practice, policy debates are moving quickly, and performance in the global outposts often lags behind the policy set at headquarters.

Results of engagement

Examples of change in specific areas on which F&C has engaged are:

- Extractive Industries Transparency Initiative (EITI): over 20 companies have signed up to support the EITI; among those directly engaged by F&C are **Chevron, ExxonMobil, Petrobras, Premier Oil, Repsol YPF, Total, Woodside Petroleum** and **Unocal**, as well as the early leaders **BP, Shell** and **Statoil**.
- Biodiversity: companies that have improved their policies, disclosure or management practices since we published our report in February 2004 include **ExxonMobil, Cairn Energy, Repsol YPF, Total** and **BHP Billiton**.

Confidence and trust in the Life and Pensions business

Friends Provident has a lead role in two specific industry-wide initiatives set up to restore confidence and trust in the insurance industry:

- Friends Provident takes its commitment to Treating Customers Fairly (TCF), the Financial Services Authority initiative dating from 2001 and most recently updated in summer 2005, seriously with an above compliance approach. TCF has become the industry standard for ensuring a fair deal for every customer, ranging from clarity of product information to complaint handling. Friends Provident has implemented TCF initiatives in both Customer Services and Sales and Marketing, supported by Compliance and Group Risk. Representatives meet monthly and are chaired by our Managing Director of Operations, UK Life and Pensions. The TCF initiative is an opportunity to reinforce the fairness culture that already exists at Friends Provident and challenges staff to examine what they do from the customer perspective.
- As a response to low levels of customer confidence and trust in the life assurance sector following pension and mortgage issues, the Association of British Insurers (ABI) has launched a new initiative. Replacing the Raising Standards Initiative, the Customer Impact Scheme aims to improve consumer confidence and requires companies to publicly commit to set customer promises that have been endorsed by their boards. Friends Provident is keen to promote and adopt these new, challenging standards for promoting confidence and trust and to link this ABI led initiative closely to the good work already undertaken within Friends Provident's TCF project.

Ethical Investment for individuals

Friends Provident recognises that many people wish their money to be used for the well-being of people and the environment. The Stewardship Trust is an ethically-screened investment, which selects companies that make a positive contribution to society and actively avoids those that are deemed harmful. (www.friendsprovident.com/sri)

2005 marked the 21st birthday of our Stewardship Fund, and in celebration, Friends Provident commissioned research in to the public's ethical concerns. The research found top concerns include: war, provision for the elderly, pollution, human rights, child labour and immigration. Interestingly, younger participants ranked climate change in their top three. In another project, over 3,000 individuals responded to our online investor survey on attitudes towards energy, transport, animal testing, food quality and safety. The data was collected for use in our Stewardship policy reviews.

During 2005, in response to concern over lack of transparency in the retail ethical fund market, Friends Provident joined seven others as signatories to Eurosif's (European Social Investment Forum) Transparency Guidelines for SRI Retail Funds and has gone on to support further work in this area by the Ethical Investment Association (specialist ethical IFAs group) to rate SRI retail funds. www.eurosif.org

Friends Provident closed the year successfully with the news that the Stewardship Pension Fund had reached £1 billion and was officially classified the largest retail ethical fund in the UK and that Stewardship funds overall had topped £2 billion for the first time.

Promoting and providing SRI education among the financial advisor community has been identified as a key objective. An industry initiative led by Friends Provident, the 'Retail Revolution', and run by the UK Social Investment Forum, has developed an advisor 'Toolkit on Investing Responsibly' which was piloted in March and formally launched in June 2005. www.uksif.org

Friends Provident has continued its interest in promoting SRI education among professionals by sponsoring a book 'An Investor's Guide to Ethical Funds'. The book provides a guide for investors, analysts and IFAs seeking information on the ethical investment sector and includes a directory of fund management houses and ethical funds.



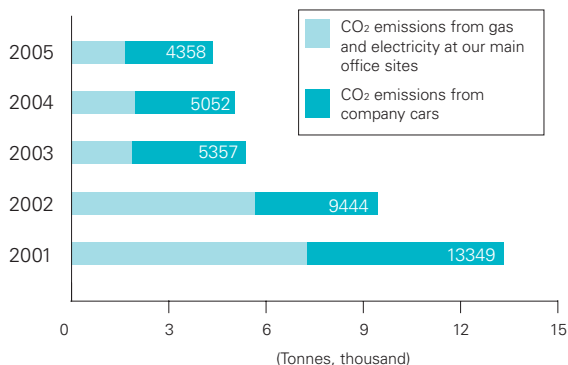
Environment

At main office sites Friends Provident continues to manage its direct impacts on the environment through a structured programme of environmental housekeeping, and to report on progress. The Group's main impacts are CO₂ emissions associated with its buildings energy use and business travel, waste generation, waste recycling and resource use, primarily water and paper.

CO₂ Emissions

Global warming is arguably the biggest issue facing society today and we all share in the responsibility to address it. Carbon dioxide emissions from total business activity, both travel and buildings energy use, have been reduced by 14% over 2005. These reductions have been achieved largely by a reduction in gas use as well as the continued switch to diesel engines in our car fleet. Energy from renewable sources now accounts for 68% of our buildings energy use, although actual energy use across our main office sites has increased by 11%.

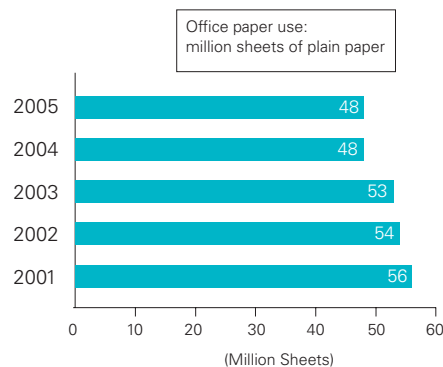
Reducing overall energy use is a priority for 2006, with investment in energy management systems centred around a large commissioned project at our Salisbury site, which commenced in February 2006.



Resource use

The Group is committed to reducing paper use and the amount of waste generated as well as increasing recycling programs and the use of recycled materials. Good progress has been made within our marketing operations in trialling the use of recycled paper stocks for marketing materials. During 2006 Friends Provident will be changing paper supplies to paper with a substantial recycled content in line with F&C.

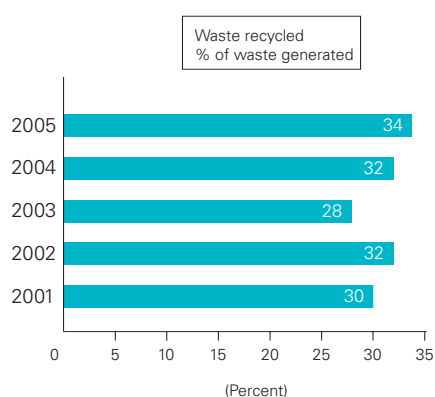
Supply chain management in the print sector has been a priority for the Group this year. Work carried out in partnership with our print broker has ensured the majority of our print work is directed to suppliers with ISO 14001 accreditation or a similar level of management systems in place.



Obsolete and unwanted computer and communications hardware is disposed of through a charitable organisation supplying both domestic and international markets. Unwanted office furniture is passed on to community organisations. Printer cartridges and toners are recycled.

Waste

Waste streams for Friends Provident are predominantly paper based. We do produce and track a small amount of hazardous waste from the use of fluorescent light bulbs. A waste management audit was carried out during the year and an improved recycling and waste minimisation scheme is planned for 2006 across all sites. Waste that is recycled is made up of paper and a small amount of plastic.



Workplace

Employee welfare

Friends Provident considers motivated employees to be a key factor in the long-term success of its business and creating the right culture is crucial to recruiting, retaining and engaging the best people.

Friends Provident continues to seek employees' views and opinions via its Opinion Survey, which is undertaken online by all employees. In 2005 we achieved a 93% response rate, which is above average for financial services organisations. In addition to measuring general satisfaction, we introduced a new employee engagement measure, which provides a good indication of employee motivation, commitment, intention to stay, advocacy and pride. We achieved a 72% engagement score for 2005. Our historical measure of general satisfaction rose from 73% to 81%.

Motivation and commitment

We believe that to ensure we provide a first class customer experience, we firstly need to offer a positive employment experience. We do this by helping our people achieve an optimum balance for their work and home life. In addition to our flexible work arrangement options, such as homeworking, job sharing and flexible working, we have also introduced holiday banking, career breaks and increased our holiday entitlement levels. We have refreshed opportunities for employees to take advantage of benefits such as 'Bikes2work', 'Home Computing' and childcare vouchers. Flexible working arrangements are only one way of achieving an effective work-life balance – we also believe that as a progressive employer we need to provide support for the overall well-being of our employees. This support includes our Personal Development Scheme, which has been running for many years. This scheme enables employees to receive £200 per year for non-work related development activity. We continue to look for ways to support well-being at both home and work and to help people reach and sustain their full potential. Issues identified as important have been financial awareness, nutritional awareness and lifestyle management. Reductions in both employee turnover

and absenteeism were achieved in 2005. Against a target of 12.4%, employee turnover fell to 9.8%. Employee absenteeism also fell to 2.9% (target 3.2%). Friends Provident believes in employees being closer to the success of the company and achieves this through SAYE, incentive schemes and a performance-related bonus scheme.

Career development is important to recruitment and retaining talented people. We have a Graduate Leadership scheme, which recruits a small number of top graduates each year to go through a three-year graduate programme. We also select a number of talented managers to go through a European Management Development Programme through our alliance with companies in the European Insurance sector (EurAPco). We introduced a new internal leadership scheme in 2006 called the Advanced Leadership Development Programme, which has been created in partnership with the University of Exeter.

Friends Provident maintains a close working relationship with the recognised trade union, **Amicus**, with whom we liaise on employee-related business issues and encourage our people to become involved.

We have been re-accredited in 2006 as an Investor In People, the national standard for training and development, which we have held since 1999. Our four learning resource centres were also re-accredited in February 2004 with the British Learning Association's Quality Mark. Friends Provident was the first financial services company to receive the award in 2000.

We have a strong track record on health and safety with Silver and Bronze awards from the Royal Society for the Prevention of Accidents.

Equal Opportunities and Diversity

Through our broad Equal Opportunities and Diversity policy we are working towards a culture that is free from unfair discrimination. We believe that the diversity in our workforce should reflect the diversity in our local communities. During 2005 we initiated a

comprehensive Equal Opportunities and Diversity training programme. Training has been delivered to the entire management group; remaining staff groups participated in the programme during the first quarter of 2006. All areas of the business have an action plan to ensure continuous improvement. We promote equal opportunities more generally through our support for Business in the Community's 'Opportunity Now', which awarded Friends Provident its Silver award, the Equal Pay Commission, the Employers' Forum on Disability and the Employers Forum on Age.

Outsourcing and Offshoring

The Friends Provident rationale for offshoring has been a combination of providing flexibility to the business, affording the ability to grow quickly when we want to, along with cost control. So far the relationship has achieved both these objectives and this has been done without the need for any redundancies in the UK.

Friends Provident has a contract for the supply of back-office business processes with a third-party supplier in India, Wipro BPO. The contract was established during 2003 following a selection and tender process and detailed analysis of a broad range of criteria that included company values, human resource matters and skills. An initial pilot covered new business processing only, which has since been extended to include some customer services work. The total number of people working on Friends Provident processes offshore currently totals 270.

Friends Provident has established a small Business Processing Offshore team to manage the relationship with Wipro BPO and to provide a suitable governance structure. They will also monitor global developments and trends in offshoring and, where appropriate, research other countries and business models. A more general Outsourcing Forum has been established within the business to ensure a consistent approach to company values and the spread of best practice across all supplier relationships.

Community

Friends Provident's community investment programme is principally channelled through the Friends Provident Foundation, although support is also offered to communities local to our main office sites encouraging our focus of healthy lifestyles and education. Friends Provident is a member of the London Benchmarking Group and follows its guidelines when compiling charitable donation figures.



Friends Provident Foundation

In support of our key corporate responsibilities the Friends Provident Foundation concentrates effort on issues surrounding financial education and literacy. The Foundation is managed by trustees, independently of the business, who are tasked with continuing Friends Provident's long-standing commitment to social responsibility and ensuring the Foundation uses its resources imaginatively to address some of the social problems facing the UK today. The Foundation was endowed with £20 million in 2004

2005 was the first full year of operation for the Friends Provident Foundation, which has begun to fund programmes initially focused on Financial Exclusion. Through this giving programme, Foundation trustees have supported a range of innovative projects such as "Bridging Two Worlds: a trust account for people of faith (UK-wide)". This project aims to establish a Sharia compliant lending window to attract Zakat (tithing) and interest-free deposits in order to offer loan finance to build social capital across all communities. They have also supported a major project with Quaker Social Action – 'Made of Money'. Project workers are working closely with low income East Londoners to develop fiscal awareness and confidence as a family unit.

Other organisations that have received grants include CentrePoint, Charity Bank, Street UK, Community First, TaxAid, Public Service Broadcasting Trust and Citizen's Advice Bureaux. Full details can be found on the website www.friendsprovidentfoundation.org

Local communities

Furthering our community involvement objective of promoting education and healthy lifestyles we have established three-year partnerships with the Surrey Wildlife Trust as well as the Surrey Cares Trust and we continue to support the Swindon and Wiltshire Community Foundation, which is local to our Salisbury site.

Friends Provident also supports numerous organisations local to our main office sites, helping our employees to achieve a healthy work-life balance by promoting grassroots sports and arts opportunities for employees and their families. Some examples of work we have supported include: Dorking Choral Society, Chameleon Brass, Dorking Cricket Club, Leith Hill Music Festival, Mole Valley Sports Awards, Dorking Fun Run, Salisbury Playhouse, Salisbury Amateur Operatic Society, Exeter City Football Club and Exeter Rugby Club.

We also have principal sponsorship relationships with both the Salisbury International Arts Festival and the Great West Run in Exeter.

Payroll Giving

Friends Provident facilitates and promotes payroll giving as a simple and cost-effective way for employees to donate to their favourite charity and receive a matched donation from the business. In recognition of the success of our main scheme (12.5% of employees participate) we are delighted to have won a Gold Award from the Payroll Giving Quality Mark scheme.

- Total number of appeals launched in schools: **395**
- Total number of pupils involved: **55,285**
- Total amount of income raised: **£167, 525**



Company Fundraising Days

Through our Company Fundraising Days, employees raised over £20,000 during 2005 and to encourage even more involvement this year, we have committed to match funds raised by staff during 2006.

Education

Education is a key focus for our community involvement programme. We continue to promote our Volunteer Reading Scheme, under which employees are given time out of work to visit primary schools to help young children develop their literacy and social skills. In our Manchester office more than 30 volunteers now take time out to visit children in four local primary schools. We believe that participating employees are building a variety of their own skills as well as helping to build the children's skills. Each of the four schools visited by Manchester employees have also received donations for a range of needs, including interactive white boards and books.

2005 sees the final year of a three-year partnership with Barnardo's in an initiative called Future Citizens, promoting citizenship to 11-14 year olds students across the country.

"We are delighted to have been supported by Friends Provident throughout the three-year sponsorship of the Future Citizens CD Rom. This long-term support allows us to plan for sustainable services for the future. The vital funds raised through school appeals in addition to the sponsorship have ensured a better start in life for thousands of vulnerable children and young people across the UK."

Stephen J. O'Connor, Director of Fundraising
Barnardo's

Performance data 2001 to 2005

	Measure	2001		2002		2003		2004		2005	
MARKETPLACE											
Ethically screened funds											
Screened funds	£'b, % equity funds managed	1.4	7.2	1.1	5.3	1.4	6.9	1.9	1.5	2.3	8.4
Responsible engagement overlay											
Full reo ® service provided	£'b, % equity funds managed	15.5	79.9	9.7	46.9	19.3	95.1	20.2	50.6	27	59.7
reo ® provided as standalone service	£'b	2.1		1.7		3.1		5.6		9	
Companies engaged with during year	Number	385		792		713		944		834	
reo ® engagement successes in year	Number	20		38		39		49		127	
Investment properties											
Properties under management	Value £'b, number	2.0	266	4.6	574	4.5	524	5.0	624	5.9	590
Total number of tenants	Number	1458		3000		2710		3062		2929	
PEG/BiE overall benchmark performance	%, relative to peer group mean	51	+16%	48	+13%	66	+32%	67	+19%	48	+15%
Legislative breaches	Number	0		0		0		0		1	
Corporate Governance – Voting											
Number of resolutions voted on during the year	Number	13976		14121		15253		22830		29374	
Proportion of Global equities meetings at which voted	%	100		100		100		>99		>99	
Governance successes achieved	Number	0		4		10		44		145	

Performance data 2001 to 2005 ...Continued

	Measure	2001		2002		2003		2004		2005	
ENVIRONMENT											
CO ₂ emissions from gas and electricity	Tonnes	7275		5650		1858		1977		1648	
CO ₂ emissions from company cars	Tonnes	6074		3794		3499		3075		2710	
Total CO ₂ emissions	Tonnes	13349		9444		5357		5052		4358	
Office paper consumption	Million sheets	56		54		53		48		48	
Total waste generated	Tonnes	1030		910		1070		1121		1069	
Waste recycled	%	29.6		32.4		28		32.6		34.0	
Water usage	Litres/employee/day	36.8		34.8		36.6		37.0		42.0	
COMMUNITY											
Total community giving	£'000	736		655		710		837		tbc	
Charitable donations	£'000	290		302		324		319		tbc	
Staff participating in GAYE	%	n/a		6		9.5		10.5		12	
Donations matched by Friends Provident in GAYE	£'000	n/a		n/a		n/a		37		44	
WORKPLACE											
Number of employees	Headcount	4390		4237		3947		3738		3866	
Of whom – female	Headcount, %	2198	50.1	2135	50.4	1992	50.5	1954	52.3%	2009	52%
– from ethnic minorities	Headcount, %	126	2.9	115	2.7	100	2.5	119	3.1%	150	4.6%
Of whom, managers	Headcount	293		279		280		277		282	
Of those managers – female	Headcount, % of managers	61	20.8	64	22.9	62	22.1	61	22%	65	23%
– from ethnic minorities	Headcount, % of managers	5	1.7	6	2.2	7	2.5	5	1.8%	5	2.0%*
Employee turnover	%	15.5		13.2		11.3		13		9.8	
Absenteeism (sickness)	% of working time lost	3.15		3.10		3.43		3.22		2.96	
Staff participating in annual satisfaction survey	%	82		81		76		86		93	
Staff satisfied to be working for FP	%	70		76		76		73		81	
Spend on training	£'000	3541		3405		3498		3132		4273	
Health and safety fines	Number, £	0	0	0	0	0	0	0	0	0	

Notes:

n/a not available

* 29 managers elected to withhold data relating to ethnic background and therefore have not been included in this number.

2005 Objectives/targets

Area	Objective	2005 targets	Achieved	2006 target
CSR Management System	Further develop our management system	<ul style="list-style-type: none"> • Maintain BitC Index Score • Evaluate benefit of ISO14001 accreditation 	<ul style="list-style-type: none"> ✓ ✓ 	<ul style="list-style-type: none"> • Maintain BitC Index score
Socially Responsible Investment	Use our influence to protect and enhance the wider environment	<ul style="list-style-type: none"> • Achieve >140 reo® successes • Continue to vote 100% of shares held in the UK companies we invest in 	<ul style="list-style-type: none"> ✓ 272 ✓ 	<ul style="list-style-type: none"> • Achieve 225 reo® engagement milestones • Proportion of Global equities meetings at which voting instructions issued to be >99%
Property portfolio	Manage the risks and reduce the impacts associated with our property portfolio	<ul style="list-style-type: none"> • BREEAM ratings on 100% of new office developments to be "very good" or better 	<ul style="list-style-type: none"> ✓ 	<ul style="list-style-type: none"> • BREEAM ratings on 100% of new office developments to be "very good" or better
Suppliers	Work with suppliers to improve the social and environmental performance of our supply chain	<ul style="list-style-type: none"> • Continue to work with priority suppliers on CR-related issues 	<ul style="list-style-type: none"> ✓ 	<ul style="list-style-type: none"> • Continue to work with priority suppliers on CR-related issues • 70% of print work to be carried out by suppliers with ISO accreditation or audited Environmental Management Systems • Increased recycled content in paper to 100% for office papers and 80% for printed material
Emissions	Reduce the consumption of energy and the environmental impact of inter-office travel	<ul style="list-style-type: none"> • Implement energy management recommendations in identified locations • Continue to identify opportunities to reduce energy use further 	<ul style="list-style-type: none"> ✓ ✓ 	<ul style="list-style-type: none"> • Implement individual site travel plans • 3% reduction in energy use
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	<ul style="list-style-type: none"> • Undertake a waste management survey and establish targets for the amount of waste generated and recycled 	<ul style="list-style-type: none"> ✓ 	<ul style="list-style-type: none"> • 10% reduction in general waste to landfill tonnage • Implement new paper recycling system across all sites • 10% increase in recycled paper tonnage • 10% increase in recycled plastic cup tonnage
Charitable Giving	Increase staff involvement in community investment	<ul style="list-style-type: none"> • Increase percentage of staff participating in GAYE to 12.5% 	<ul style="list-style-type: none"> ✓ 	<ul style="list-style-type: none"> • Increase percentage of staff participating in GAYE to 13%
Turnover & Absenteeism	Continue to manage the downward trend in staff turnover and absenteeism	<ul style="list-style-type: none"> • Staff turnover not to exceed 12.4% in target areas • Absenteeism not to exceed 3.2% of working time 	<ul style="list-style-type: none"> ✓ 9.8% ✓ 2.9% 	<ul style="list-style-type: none"> • Staff turnover not to exceed 12.4% in target areas • Absenteeism not to exceed 3.2% of working time
Diversity	<p>Mirror the ethnic mix of the communities from which we draw our employees</p> <p>Raise awareness of diversity and equal opportunity topics</p>	<ul style="list-style-type: none"> • Continue to mirror the ethnic mix of the communities from which we draw our employees 	<ul style="list-style-type: none"> ✓¹ 	<ul style="list-style-type: none"> • Continue to modify recruitment practices to improve diversity in selected areas • Maintain and improve upon the Business in the Community 'Opportunity Now' Silver award.

Notes to 2005 Objectives:

1. Once again Friends Provident has made good progress in mirroring the ethnic origin of its workplace to reflect more accurately the areas from which our employees may be

drawn. Recruitment practices have been modified to improve diversity in locations previously behind in this objective.

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