

www.friendsprovident.com

friends

The 2002 Annual Review for Shareholders

YOU'RE IN
GOOD COMPANY
WITH **FRIENDS**

- Raising Standards quality mark achieved
- You can now do more online
- Service that's making a difference

Corporate Social Responsibility Report included



FRIENDS PROVIDENT

YOU'RE IN
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your questions answered



Friends Provident has continued to expand throughout 2002. We want to thank you for your support and answer some of the questions you may have about your dividend.

What is a dividend?

As a shareholder in Friends Provident, you own part of the business. A proportion of any accumulated profits is normally retained to develop the business and preserve its financial flexibility and a proportion is normally distributed to shareholders. This distribution is called the dividend.

How much is my dividend for 2002?

We are recommending a final dividend for 2002 of 4.8 pence per share. When combined with the interim dividend of 2.45 pence per share, paid to shareholders last November, the total dividend for 2002 amounts to 7.25 pence per share. This is an increase of 3.6% over the annualised dividend for 2001.

When will I receive the final dividend?

The final dividend for 2002 will be paid to shareholders on 30 May 2003. You can calculate the amount you will receive by multiplying the number of shares you owned on 22 April 2003 by the dividend of 4.8 pence per share that we are recommending. If you are not sure how many Friends Provident shares you currently own, you can find out by calling 0870 889 3100.

How will the dividend be paid?

If you have previously completed a dividend mandate form, your dividend will be paid straight into your bank or building society account. If not, we will send you a cheque for the full amount. Attached to your cheque will be another dividend mandate form, which you can complete and return to the address supplied if you would prefer us to pay future dividends direct to your bank or building society account.

Do I have to pay tax on my dividends?

If you are a basic or lower rate taxpayer, there is no further tax to pay on your dividends. However, if you are a higher rate taxpayer, you may have to pay additional tax. When we pay the dividend, we will send you a dividend tax voucher – this will include information you need for your tax return.

How often are dividend payments made?

We currently pay dividends in two instalments each year, known as the interim dividend and the final dividend. The interim dividend is paid in November and will normally represent about one third of the anticipated total dividend for that year. The final dividend is paid in the following May.

A whole section of our website – www.friendsprovident.com –

is devoted to you, our investors.

Next time you're online, why not visit us? At the touch of a button you can view all our company announcements plus the latest financial results, see the current share price, remind yourself of how to buy and sell Friends Provident shares, and much more. You can also download the full Annual Report & Accounts and this Annual Review online. If you would prefer to download these publications instead of receiving them through the post, simply register your contact details and we'll send you an email to let you know when they are available on the site.



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Important Notice to Shareholders:

Please note, the Summary Financial Statement is now conveniently contained within your Notice of AGM, also enclosed in this pack.



Group Chief Executive left and Chairman right

"The expansion strategy pursued has created a strong platform for Friends Provident to embrace industry change and continue to deliver excellent products and services."
David Newbigging,
Chairman

pursuing our strategy

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It has been another important year in the development of the Friends Provident Group. Your Chairman David Newbigging and Group Chief Executive Keith Satchell here present the main points from their review of 2002, in question and answer format.

How has Friends Provident performed last year?

Although the weak stock markets worldwide made trading conditions very difficult, we continued to grow our business throughout 2002. New premiums placed with our Life & Pensions operation were 11% higher than the previous year, and our Asset Management business was transformed in scale by the purchase of Royal & SunAlliance Investments. The Friends Provident Group's achieved operating profit for 2002 before amortisation of goodwill, operating exceptional items and tax was £305m and we have been able to increase your dividend in real terms. Details of your dividend are shown on the previous page.

What was the most significant development in 2002?

It was the purchase from Royal & SunAlliance of their investment business and combining it with ours to create ISIS Asset Management plc, doubling the size of our asset management operations. We believe ISIS will be a real force in the market. The size of the total investments we manage, now through ISIS, increased from £34bn at the end of 2001 to £60bn at the end of 2002, elevating ISIS into one of the largest fund management companies in the UK. Size is critical in the fund management arena for operating efficiently and attracting new investments so the new enlarged scale of ISIS is a very important factor for growing this business still further.

What about the international business you bought from Royal & SunAlliance?

The purchase of Royal & SunAlliance International Financial Services was also very important because it has transformed our international operations into one of the leading players in the offshore market,

significantly increasing our opportunity to attract business from outside the UK. Offshore business offers good prospects for profitable growth so this is a good market in which to expand our operations. We now have an enlarged sales force able to offer an expanded product range to a wider spread of geographical markets.

A further significant plus for purchasing both businesses from Royal & SunAlliance has been the many talented people who have joined us.

Please explain the partnership with Countrywide

We have entered into a 15 year agreement for mortgage-related products to be distributed through Countrywide's nationwide network of more than 700 estate agency outlets, which includes household brand names such as Bairstow Eves and Mann & Co. Under the agreement, Countrywide has taken ownership of our own estate agency business, which is in line with our strategy to focus solely on our two main businesses – Life & Pensions and Asset Management.

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two strong businesses



FRIENDS PROVIDENT

- Top 10 UK Life & Pensions provider
- Significant presence in offshore market
- Sources of revenue widened and increased



- One of the UK's largest fund management companies
- 120 specialist investment professionals
- Sources of revenue widened and increased

We are delighted to partner Countrywide in this way. The partnership opens up a new and secure source of business for us, in the strategically important 'life protection' market.

Why are you investing in Independent Financial Adviser (IFA) firms?

We strongly believe that people should have access to good quality independent financial advice and that a thriving IFA community is in the public interest. Throughout the year, we have invested some £30 million in top quality IFA operations to support their plans for growing their businesses. We believe each of them have strong strategies for

future success and therefore we believe these investments will be beneficial to our shareholders over the long term. We are also working closely with these IFA firms to help us all benefit from the likely changes to the way financial products are sold in the future.

Why did you raise £290 million more capital in 2002?

We have consistently said that we would raise capital for specific purposes when the time is right. In December the convertible bond market – the mechanism we used for raising the additional capital – offered us the opportunity to re-finance, on attractive terms, the acquisition of Royal & SunAlliance International Financial Services, the partnership agreement with Countrywide and the strategic investments in IFA operations mentioned earlier. The new capital further strengthens our financial position and enables us to take advantage of future business growth opportunities that may emerge.

Are you still financially strong?

Yes we are. The fact that the UK stock market has lost value for three consecutive years inevitably weakens the balance sheet of companies in the UK Life Assurance sector. However, since Friends Provident floated on the London Stock Exchange in 2001, we have enjoyed an 'AA-' financial strength rating from the major credit rating agency Standard & Poor's. Despite the volatile stock markets, we remain financially secure and we face the future with significant financial flexibility.

“Our two core businesses have been strengthened through targeted acquisitions and strategic partnerships, placing Friends Provident in an excellent position for sustainable growth.”
Keith Satchell, Group Chief Executive

- Two major Royal & SunAlliance acquisitions
- ISIS Asset Management plc created
- Investments managed by ISIS increased to £60bn
- New partnership with UK's biggest estate agency network
- 11% increase in new Life & Pensions business premiums

Why did your share price fall so much in 2002?

Over 2002 the whole UK Life Assurance sector, of which we are a part, fell some 41% and therefore the 40% fall in our share price is in line with the general fall in stock prices for companies in our industry.

Is the weak stock market the reason for reducing bonuses on policies?

Yes it is, although reducing bonuses shouldn't hide the fact that the holders of this type of policy are likely to continue to benefit from good returns, compared with banks or building societies for example, when their policy pays out at the end of its term. There is also the valuable feature that as bonuses are added, the value of the amount which is guaranteed under the policy increases even when stock markets have fallen so dramatically.

Are you confident about the future?

We are very confident. Despite the very difficult trading conditions, we have remained focused on developing our two main businesses – Life & Pensions and Asset Management – such that we can face the future with confidence. We have kept close to the way our industry is changing shape to ensure we can take advantage of these changes as and when they occur. We continue to attract increased levels of new life and pensions business and we now have an asset management business with the scale to make a real impact in that market.

We have established worthwhile partnerships with a number of distributors and have acquired an excellent offshore business. We will continue to build our presence in those markets that are important to our future growth.

Is there a secret to success?

There's no secret. We know we just have to ensure people prefer doing business with us rather than with other companies. And that's all about treating people the way you would like to be treated yourself. Products, prices and computer systems are all now very similar across our industry but the one area where a real difference can be felt is service. The people we employ are superb and are committed to serving all our customers better than anyone else.



David Newbigging
Chairman



Keith Satchell
Group Chief Executive

4 March 2003

Financial Highlights

- Gross premium income £3.0bn
- Achieved Operating Profit £305m*
- Earnings per share, based on achieved operating profit** 12.5p
- Embedded value of the Friends Provident Group at 31 December 2002 £2.6bn
- Dividend per share 7.25p

News of our results is regularly updated on our website:
www.friendsprovident.com

* Stated before amortisation of goodwill, operating exceptional items and tax

** Stated before amortisation of goodwill and operating exceptional items, after tax, attributable to equity shareholders

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raising our standards



Tested for
Clarity Quality
Service

“Thank you for sending me a statement of my Investment Portfolio Bond. The new-look statement is excellent and presents the information to the customer in an easily appreciated form. Whoever designed the statement deserves a pat on the back.”
Ian Lacey, Shrewsbury

Raising Standards for customers

In February 2002 we earned the right to display the Raising Standards quality mark. It signifies that we have raised the standards of customer service and the clarity of what we publish. It shows we use plain language, no hidden ‘small print’, and we set out information in a way that makes it easy for our customers to compare our products with others and to buy from us with confidence.

Since its launch in October 2000, only nine other companies have achieved this Raising Standards accreditation, and we are delighted to receive this independent recognition.

Annual statements giving you more

The annual statement of benefits can be the only communication we have with some customers each year and yet these statements often carried very little information. We could have been more helpful, and now we are!

New statements have been introduced, which should now answer many of the questions our customers may have about their policy; for example,

- who the policy covers and for what
- what you might receive in the end and what your options are

- what the product you have chosen is all about
- how to contact us if you need further help.

These new statements are being systematically introduced – virtually all the old style statements should be replaced by the end of this year. Keeping our customers better informed is yet another aspect of raising the standards of everything we do.



About FACE

FACE stands for Friends Achieving Customer Excellence – it’s a programme running right through our company to help us focus on serving our customers better than anyone else. And it’s working! We still get some complaints so we know there’s more we have to do, but our mailbag now contains many more letters of thanks than ever. We’re so pleased that our customers are seeing the difference, which is good news for the future of our business.

And Independent Financial Advisers have also recognised a distinct change for the better in

Family Protection

We can help you protect your family, home and lifestyle. You choose the type and level of cover.

- **Life Cover**
Provides your family with a cash lump sum if you were to die, giving them financial security
- **Critical Illness Cover**
Gives you a cash lump sum if you suffer from a critical illness or permanent and total disability
- **Income Protection Cover**
Gives you an income if you are unable to work due to illness or accident
- **Unemployment Cover**
Protects your mortgage payments if you are made redundant

"Thank you for the truly exceptional service I received from you...with such dedicated people on your staff I am sure Friends Provident will remain a market leader."

A M Pullinger, Oxford

"May I take this opportunity to thank you for the excellent way in which you dealt with my recent telephone enquiries...I do feel that you went the 'extra mile'."

M J Herbert, Hinckley, Leics

our service. In the prestigious 2002 Financial Adviser LIA Service Awards – the biggest survey of its kind involving more than 1,600 IFA firms – our service was awarded Four Stars, up from only Two Star service just a year ago.

Market leading products

We are continually developing and improving our product range to ensure our customers benefit from the right financial solution for them. From life cover to retirement planning, we can help give our customers and their families more financial security and peace of mind.

Investments

We can help you grow your investments for a more prosperous future.

- **Individual Savings Account (ISA)**
Gives you the opportunity for tax free growth or income
- **Bonds and Collective Investment Schemes**
Designed to maximise the growth or income from your investment

Pensions

We can help you save for a more comfortable retirement

- **Stakeholder-style Pension**
A simple, low cost and tax efficient way to boost your retirement savings

Want to find out more?

Your usual Financial Adviser will be able to give you expert advice on planning your finances and will recommend the best product for you. If you don't have a Financial Adviser, but would like more information or advice* on our products, that's no problem. You can either call us free on **0800 00 00 80** and we will be very happy to help, or visit **www.friendsprovident.com**

- Contact your usual Financial Adviser
- Call **0800 00 00 80** for more information on our **products** 8am to 8pm Monday to Friday, 9am to 5pm Saturday
- Visit **www.friendsprovident.com**
- Call **0870 607 1352** or **email customer.services@friendsprovident.co.uk** if you have any questions about your **existing policy**
- Call **0870 889 3100** if you have a question about your **shareholding**

* Any advice we give will relate only to Friends Provident products

Important Note: The value of an investment is not guaranteed and can go up and down depending on investment performance.

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new for you...

Throughout 2002 we have developed our customer website – www.friendsmilestones.com – to make it even more useful to you.

A new feature introduced in 2002 is called My Organiser, which enables you to enter details and then track the policy values of all your financial products, whether you bought them from us or not. Naturally, the site is secure so no-one else can see what you have entered. Holding all these details in one

place will also help you talk with your financial adviser, if you use one. Financial advisers need to know precisely this information about their clients to enable them to make their financial recommendations.

Other features of our customer website include the Learning Lounge where you can find out about the different financial products, and Wealth Wizards, to help you plan your finances. And of course, for those customers who choose to deal direct with us, you can buy certain products online – pensions, bonds and life assurance.



Customers can register to use My Organiser via www.friendsmilestones.com

...and for your adviser

If you use an independent financial adviser (IFA) we have developed exciting new systems for them as well, to help them help you.

More than 15,000 IFAs have now registered to use these online services, which enable them to apply for pension policies, bonds or life assurance for you, online. Once we have received your application, whether online

or through the post, your IFA can follow its progress through to completion at the touch of a button. And when your new policy or plan has been issued to you, your IFA can view its details online. With our new systems at their fingertips, IFAs will provide a level of service to you that is hard to beat.

Online services are becoming increasingly popular. Customers and their advisers are using the web more and more to transact business, which of course frees up our

people to serve customers in other ways. And our shareholders benefit too because online services generally reduce our expenses and so raise the value of the business they own.

IFAs can register on www.friendsprovident.com/ifa

www.friendsprovident.com

friends

The 2002 Corporate Social Responsibility Report

committed to making a difference

Corporate Social Responsibility (CSR) is all about the positive things Friends Provident does to meet our responsibilities to people and to the world in which we live.

Our business was founded in 1832 to alleviate the hardship of families facing misfortune. Today we offer a full range of financial products and services aimed at improving the quality of life for our customers and their families. Ethical principles have always driven the way we do business and we believe this long-established commitment to CSR sets us apart from others. For us, CSR is not treated as a fringe activity – it is woven into the way we run our business.

CSR is broad and complex but we want you to know what we do. In this report, we try to explain our approach to CSR as simply as we can.

What's on the web

Visit

www.friendsprovident.com

to access our...

- Statement of Business Principles
- Environmental Policy
- Equal Opportunities Policy
- CSR performance data
- Full 2002 CSR Report
- Supplier Statement



THE FUTURE
IS BRIGHTER WITH
FRIENDS

This document is produced on environmentally responsible paper which is elemental chlorine free.



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looking to the future



Our approach to CSR

Our business touches different groups of people. Through dialogue with these various groups, we have developed our Statement of Business Principles, which not only sets out our values and responsibilities but also how we will live up to these principles. From these principles we have developed specific policies addressing those aspects of CSR where our company has the greatest impact.

How we manage CSR within our company has been further refined during 2002, with high level responsibility resting with our Board of Directors, one of whom chairs the Group-wide CSR Steering Committee comprising senior managers from across the Group and including the full-time CSR Manager. Roles and responsibilities have been clearly defined and CSR performance targets are set and reviewed annually.

We also have a system of internal control to provide assurance to the Board that the key CSR-related business risks are being properly identified, assessed and managed at all levels throughout the Group.

We run an internal programme of communication to train and educate our staff including advice on ways they can help the environment both in work and at home. This programme also aims to align the things we do locally with our corporate objectives.

Our greatest impact

While we work hard to reduce any negative environmental impacts that may be caused by our business operations, our greatest positive impact is through 'responsible investing' and this has two main strands:

First, 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 independently 'screened' to ensure that they benefit the world and its people and limit their negative impacts. Stewardship was the first retail fund of this kind launched in the UK in 1984 and we remain the market leader, managing approximately £1bn of such investments.

Even more significant is **reo**[®], which stands for 'responsible engagement overlay' and is a state-of-the-art system, developed by our asset management business, to help other companies bring about positive change. Through **reo**[®], our team of twelve experts engage with companies on a wide range of issues including:

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

reo[®] is applied to nearly all the equity investments made on behalf of the customers of our Life & Pensions business. From 2002, quarterly reports are produced detailing **reo**[®] activity and case studies and these are available via the website of our Asset Management business – www.isisam.com. We also exercise our considerable influence as a major shareholder in many companies by using our votes to encourage companies to adopt effective corporate governance systems.

other marketplace news

For our customers...

In February 2002 we were accredited under the Raising Standards quality mark scheme – an industry-wide initiative to improve the quality of products and communications to customers. This is covered more fully in the article 'raising our standards'.

For our suppliers...

Checking the CSR credentials of our key suppliers continues to be our practice.

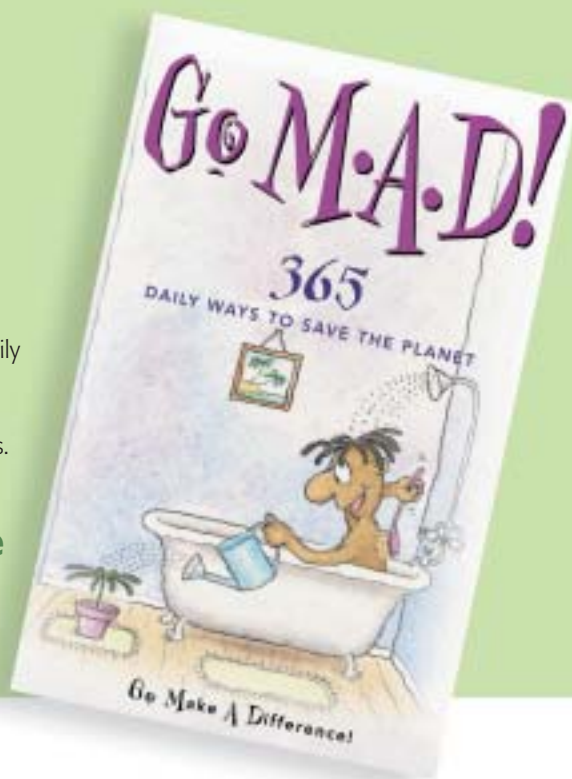




go make a difference

We co-sponsored Go M.A.D! – 365 daily ways to save the planet – and offered a free copy to all our staff. We'd like to extend this offer to our shareholders.

To request your free copy, please telephone 0800 214 657 and quote reference ST2.



community activities

- 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.
- Through Partners in Leadership, we match senior managers to local head teachers for their mutual development.
- Our main charitable giving is channelled through the Friends Provident Charitable Foundation, a charity with wide grant-making powers. We also seek to build relationships in the communities local to our offices.
- As members of the London Benchmarking Group, we use their guidelines to assess and compare the totality of our community giving.
- Through our Volunteer Reading Scheme, our staff are given time to visit schools to help 5-11 year-olds develop their reading skills.
- With Southampton Football Club – our biggest corporate sponsorship – we are involved in community initiatives to tackle racism in football and to encourage youngsters through our Fair Play Awards.



in our workplace

The culture we have created for our people made us one of the Sunday Times Best Companies to Work For in 2001 and 2002 and, this year, one of the 50 Best Workplaces in the UK.

While ensuring that the needs of our customers come first, we help our people optimise their worklife balance through homeworking, term-time working, job sharing and a flexible approach to when

and how they work their 35 hour (average) week. We are an 'equal opportunities' employer and our workforce is broadly representative of the gender and ethnic demographics of the areas in which we operate. At our four main sites and six of our thirteen smaller sites, the percentage of our staff from a minority ethnic group is higher than in the local community. We promote diversity through Business in the Community's Opportunity Now and the Equal Pay Commission and we work closely with the trade union Amicus.

We continue to provide our staff with the opportunity to participate in a final salary pension scheme and access to share save and incentive schemes through which they can share in our success. We routinely seek the views and opinions of our staff through our Staff Opinion Survey and we monitor and set improvement targets for staff turnover and absenteeism. Our commitment to health and safety is recognised through the Bronze Award (2000) and Silver Award (2002) for Occupational Safety issued by the Royal Society for the Prevention of Accidents.

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our impact on
the **environment**



Climate change is perhaps the biggest environmental problem facing the planet today and we recognise that the electricity we burn, the paper we use and the emissions from our vehicles all have a direct impact.

Based on Government guidelines, emissions from gas and electricity at our four main sites amounted to 5,650 tonnes CO₂ in 2002

(7,275 tonnes CO₂ 2001). From October 2002, and at no additional cost to our shareholders, we negotiated the supply of virtually all our electricity from renewable sources for the next two years, which will reduce our total energy-related emissions in 2003 even further.

Emissions from company cars amounted to 3,794 tonnes CO₂ in 2002 (6,074 tonnes CO₂ 2001). We have now

introduced a campaign to reduce inter-office travel and LPG-converted vehicles are now available as an option when replacing company cars. Additionally, in 2002 we upgraded our video-conferencing facilities, promoting both video-conferencing and tele-conferencing to all staff as part of our policy to reduce business travel.

Please refer to the chart below for details of how we performed against our 2002 targets.



The facts and figures

AREA	2002 TARGET	ACHIEVED	LOOKING FORWARD - 2003
System for managing CSR	<ul style="list-style-type: none"> Develop an internal verification process Finalise CSR corporate governance structure Increase our score on the Business in the Environment index of corporate environmental management 	Yes Yes Yes	At the time of going to press, the charity Business in the Community was about to publish a new Corporate Responsibility index, which we helped to develop, along with other interested companies. This new index will 'score' the CSR activities of some 120 companies and will enable us to compare our performance against these others. Our target for the coming year is to improve our position in this index by focusing still harder on any negative impacts our operations have on the environment, as well as pursuing other positive initiatives with our own staff and the communities in which we operate.
Socially Responsible Investment	<ul style="list-style-type: none"> Achieve 25 significant reo® successes For the UK companies we invest in, we will always (100%) exercise our right to vote 	Yes Yes	
Portfolio of property investments	<ul style="list-style-type: none"> Increase the Property Environment Group/Business in the Environment overall benchmark by 5% 	No	
Management of emissions	<ul style="list-style-type: none"> Reduce energy CO₂ emissions by 3% at targeted sites Promote alternatives to inter-office travel 	Yes Yes	
Waste management	<ul style="list-style-type: none"> Establish an aggregate measure of waste generated by our operations Measure the use of photocopier paper in order to target reductions from 2003 Remove 100% of Halon 1301 over three years 	Yes Yes on target	
Social & environmental performance of suppliers	<ul style="list-style-type: none"> Strengthen procurement process Commence programme of improving the performance of the products and services we buy 	No Yes	