

We are committed to applying high standards of environmental and social responsibility to every area of our business.

making a difference

Last year we described the in-depth review we had undertaken to refresh our approach to corporate social responsibility (CSR) and set out our objectives and targets for 2002. This report provides a summary of our progress in 2002 and our performance against those objectives. A full CSR report is available on our website at www.friendsprovident.com along with our business principles and policies.

Our system for managing CSR has been further developed during 2002. The 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 performance targets are routinely set and reviewed annually. We also have enhanced our system of internal

control to verify our approach to key CSR-related business risks and to provide assurance to the Board that these risks are being properly identified, assessed and managed at all levels throughout the Group.

Using our staff intranet, we commenced an internal programme of communication to train and educate our staff, including advice on ways they can help the environment while at work or at home. This programme also aims to align local initiatives with our corporate objectives. We continue to advocate CSR more widely through our support for the United Nations Environment Programme and by subscribing to the London Principles.

Socially Responsible Investment

While we work hard to reduce any negative environmental impacts that may be caused

by our business operations, our greatest positive impact is made indirectly 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 screened by an independent Committee of Reference to ensure that they benefit the world and its people and keep their negative impacts low. Stewardship was the first retail fund of this kind launched in the UK in 1984 and we remain the market leader, managing approximately £1 billion of such investments. Even more significant is **reo**[®], which stands for responsible engagement overlay, a state-of-the-art system developed and operated by our Asset Management business to help companies in which we invest bring about positive change. Through **reo**[®], our team of twelve experts engage with companies on issues such as corporate social responsibility and governance, environmental management and reporting, climate change, sustainable forestry, labour standards, bribery and corruption and 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 are available via our Asset Management business's website: www.isisam.com. We also exercise our considerable influence as a major shareholder in many companies by using our votes



making a positive impact

to encourage companies to adopt effective corporate governance practice. An analysis of our voting record is also included in the **reO**® reports.

In 2002 we launched the Stewardship International Fund, a medium/high risk ethical fund, providing an opportunity to invest in companies in global markets whose operations make a positive contribution to society. Companies that appear to be harming the world, its people and its wildlife are screened out.

Marketplace

In February 2002 we were accredited under the Raising Standards quality mark scheme, recognising the quality of our customer service and the clarity of our product literature. Checking the CSR credentials of our key suppliers continues to be our practice. For example, earlier in the year we identified an opportunity to significantly increase the proportion of paper we use with a 50% recycled content; our paper is already 84% total chlorine free, the remainder being elemental chlorine free. However, we deferred placing the order with the supplier until they achieved ISO 14001 accreditation.

Community

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. 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 our Volunteer Reading Scheme, our staff are given time to visit schools to help 5-11 year-olds develop their reading skills. Through Partners in Leadership, we match senior managers to local head teachers for their mutual development.

Through our sponsorship of Southampton Football Club we continue to run the Friends Provident Fair Play Awards and in 2002 have supported a new initiative, 'Racism Just Ain't Sainly' with Southampton FC and Southampton City Council to tackle the ongoing challenge to keep racism out of football.

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, and without any form of positive discrimination, the

"Ethical principles have been at the heart of our business since its foundation. This long running commitment to corporate responsibility differentiates our business from others."

32 CORPORATE SOCIAL RESPONSIBILITY

PERFORMANCE AGAINST 2002 OBJECTIVES/TARGETS AND 2003 TARGETS

Area	Objective	<input checked="" type="checkbox"/> TARGET ACHIEVED <input checked="" type="checkbox"/> TARGET NOT ACHIEVED	
		2002 Targets	2003 Targets
CSR Management System	Further develop our management system	<input checked="" type="checkbox"/> Development of internal verification process <input checked="" type="checkbox"/> Finalise CSR corporate governance structure <input checked="" type="checkbox"/> Increase Business in the Environment index of corporate environmental management score	Improve BitC CR Index Management Score
Socially Responsible Investment	Use our influence to protect and enhance the wider environment	<input checked="" type="checkbox"/> Achieve 25 significant reo * successes <input checked="" type="checkbox"/> For the UK companies we invest in, we will always (100%) exercise our right to vote.	Achieve 32 significant reo * successes 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	<input checked="" type="checkbox"/> Increase the Property Environment Group/Business in the Environment overall benchmark score by 5%	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	<input checked="" type="checkbox"/> Enhance procurement procedure <input checked="" type="checkbox"/> Commence programme of improving the performance of the products/services we buy	Enhance procurement procedure Ensure Supplier Statement is applied to all priority suppliers
Emissions	Reduce the consumption of energy and the environmental impact of inter-office travel	<input checked="" type="checkbox"/> Reduce CO ₂ emissions associated with energy use by 3% at targeted sites <input checked="" type="checkbox"/> Promote alternatives to inter-office travel	Reduce CO ₂ emissions associated with energy use by 80% at targeted sites Extend existing measure to include all sites 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	<input checked="" type="checkbox"/> Establish an aggregate measure of waste generated by our operations <input checked="" type="checkbox"/> Introduce measures to reduce paper consumption <input checked="" type="checkbox"/> Remove 100% of Halon 1301 over three years	Further increase % of waste recycled by 1% Introduce measures to reduce paper consumption by 1% 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%. Absenteeism not to exceed 2.8% of 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

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 maintain a close relationship with the trade union, Amicus, when dealing with employee-related business issues.

We continue to provide our staff with the opportunity to participate in a final salary pension scheme and access to SAYE 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.

The environment

Climate change is perhaps the biggest environmental problem facing the planet today and we recognise that the electricity we burn and the emissions from our company cars have a direct impact.

Based on DEFRA (Department for Environment, Food and Rural Affairs) guidelines, emissions from gas and electricity at our Head Office 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 contracts to supply the majority of our electricity from renewable sources for the next two years, which will reduce our total energy-related emissions in 2003 even further.

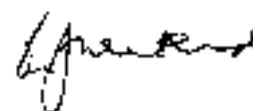
Emissions from company cars amounted to 3,794 tonnes CO₂ in 2002 (6,074 tonnes CO₂ 2001). We have now introduced a campaign to reduce inter-office travel and LPG converted vehicles are now available as an option when replacing company cars. Additionally, in 2002 we upgraded our video-conferencing facilities, promoting video/tele-conferencing to all staff as part of our policy to cut down on business travel.

Our other major direct impacts result from the paper and water we use and the waste we produce. We established a measure for plain paper use, 54 million sheets in 2002 (57 million sheets in 2001) and have set a target to reduce this amount by 1% in 2003. Our water usage at Head Office sites

was 34.8 litres per employee each day (36.8 litres/employee/day in 2001) and our aim is to reduce this consumption further through the continued operation of good housekeeping measures. We produced 910 tonnes of waste in 2002 (1,030 in 2001) of which 32.4% (29.6% in 2001), mainly paper and plastic cups, was recycled.

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 differentiates our business from others. As the director responsible for CSR, I am, therefore, delighted to be able to report such solid progress in meeting our responsibilities during 2002.

For the Board



BRIAN SWEETLAND
DIRECTOR AND SECRETARY

All figures and targets relate to Friends Provident Life and Pensions unless otherwise indicated.