

Corporate Responsibility Report



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Following my retirement as a Director of Friends Provident plc, I am delighted that the Group Chief Executive, Keith Satchell, will take over direct responsibility for the Group’s Corporate Responsibility (CR) programme, reflecting its importance in our organisation.

I have led our programme since it was refreshed and relaunched in 2000 and I am proud of the excellent progress that has been made these last five years. We have:

- been members of the FTSE4Good Index since we listed as a plc in 2001
- achieved a top quartile placing in the Companies that Count list based on Business in the Community’s CR Index
- been voted one of the 100 Best Workplaces in the UK for the last four years
- cut our CO₂ emissions by 80%
- won the award for written CR communications at the inaugural IVCA Clarion Awards
- retained our leading position in the Socially Responsible Investment market
- established the Friends Provident Foundation to start, albeit modestly, to address some of the social issues facing the UK today

Most recently, in 2004, Friends Provident became a member of the Dow Jones World Sustainability Index, which represents the top 10% of companies across 34 countries and 60 industries assessed for their leading position in sustainability. All these achievements are set against the backdrop of Friends Provident experiencing the greatest period of change in its 170-year history.

Here, we summarise our approach and some highlights from the programme. A full report, including objectives for 2005, can be viewed on our website: www.friendsprovident.com/responsibility. 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, published on our website, sets out our vision for corporate responsibility. Our vision is based on CR being part of good corporate governance in its broadest sense. Our CR programme has been integrated into routine business planning to ensure it is balanced with other key business drivers. We encourage 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. They can then pursue opportunities to improve our social and environmental performance at little or no extra cost. We also carefully consider the relative materiality of our different social and environmental 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 FTSE100 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, which has around £125 billion of funds under management and 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 £222 million each working day in pensions and life assurance benefits. Friends Provident was originally founded 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. And the service we provide has been rated Five Star, the highest rate possible in the 2004 Financial Adviser Practiv Service Awards. We also support **pfeg** (Personal Finance Education Group), which is working 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 42% of the £4.3 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, 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.

Governance structure and management systems

Friends Provident has a well-developed and integrated CR management system that 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

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 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.

“Motivated employees are a key factor for the long-term success of any business.”

Through *reo*[®] we engage with companies on a range of social, environmental and ethical issues. *reo*[®] is applied to Friends Provident's worldwide 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.fandc.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 1,419 tonnes CO₂ in 2004 (2003: 1,300 tonnes). Emissions from company cars amounted to 3,075 tonnes CO₂ (2003: 3,499 tonnes).

We used 48 million sheets of plain paper (2003: 53 million sheets). At main office sites we used 37 litres/employee/day of water (2003: 37 litres/employee/day) and produced 1,121 tonnes of waste (2003: 1,070 tonnes) of which 32% was recycled (2003: 28%).

Our Supplier Statement outlines our progressive programme for addressing social and environmental issues in our supply chain.

Social performance indicators Workplace

Motivated employees are a key factor for the long-term success of any business and creating the right culture is crucial to recruiting and retaining the best people. We have been accredited as an Investor In People since 1999. 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 73% (2003: 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 recognise the trade union, Amicus, with whom we liaise on employee-related business issues.

Community

Our main charitable giving is channelled through the Friends Provident Foundation. The trustees of the Foundation have decided initially to focus their efforts on addressing financial exclusion and the first grants were made in October. Full details on the Foundation can be found on its website: www.friendsprovidentfoundation.org

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 that employees contribute. 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. 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 sixth year and we have again linked 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, Saints Play Soccer, for primary school children.

For the Board



B W Sweetland
Director
17 March 2005

Note: CR performance data relates to FPLP unless stated otherwise. F&C reports their CR performance separately. Our performance data procedures were improved last year so some 2003 data has been restated to enable a valid comparison with 2004.