

We are committed to influencing environmentally and socially responsible activity at all levels of our business.

pioneering positive change

During 2001 we undertook an in-depth review of our social and environmental policies and procedures with a view to refreshing and refocusing Friends Provident's longstanding commitment to Corporate Social Responsibility (CSR). This involved interviews with staff at all levels of the business as well as external stakeholders including financial advisers, journalists, non-governmental organisations (NGOs) and community representatives.

Following the review, we broadened our internal control processes to cover significant social and environmental risks. This move echoes our long-held belief that CSR is a critical component of good corporate governance and reinforced our credentials for entry into the new FTSE4GOOD Index in 2001.

The development of Friends Provident's CSR policy is the responsibility of a Board Director, Brian Sweetland, who chairs a quarterly CSR Steering Committee. We have also appointed a CSR Manager. Further details on our approach and commitment to CSR can be found in our Statement of Business Principles and supporting policies available on our website at www.friendsprovident.com

Socially Responsible Investment

As a major institutional shareholder, one of the most powerful means we have of influencing environmentally and socially responsible activity is through socially responsible investment (SRI). Although Friends Provident's investments have always been carefully considered, in 1984 we pioneered retail ethical investment in the UK with the launch of the Stewardship Unit Trust. This paved the way for the SRI market of today in which we remain the market leader and innovator.

And we are breaking new ground again with Responsible Engagement Overlay (reo®), a pioneering approach to investment. Through reo®, our asset management subsidiary, Friends Ivory & Sime (FIS), seeks to use our influence as a shareholder to encourage the companies in which we invest to behave in a socially and environmentally responsible way – thereby, we believe, protecting and enhancing long-term shareholder value.

During 2001 FIS engaged actively with many companies, and provided reo® services in respect of £15.5 billion funds managed



We're committed to making a difference



by FIS, plus a further £2.1 billion controlled by other fund managers. Where appropriate, we work with other fund managers to combine our resources and increase our influence. We also use our vote to hold the companies' boards accountable for effective corporate governance.

Protecting the environment

Good environmental practice is an integral part of everything we do. For example, environmental considerations are built into the tendering, consultation and procurement procedures of Friends Ivory & Sime Property Asset Management plc, which manages our

property portfolio. The company participates in the Property Environment Group's Property Industry Survey and has shown rapid improvement compared against Business in the Environment's benchmark criteria.

Across our organisation mechanisms are now in place to collect data and set improvement targets for the emissions associated with energy and resource use, transport and waste management. Suppliers' environmental policies, and the environmental credentials of their products and services, are increasingly important factors in our purchasing decisions.

Our environmental efforts also extend to the wider community. In Exeter, for example, we run a tree planting scheme in conjunction with Devon County Council, while in Manchester we are working with the East Side Regeneration Scheme to benefit the local community from an environmental as well as a business perspective. Friends Provident is also a signatory to the United Nations Environment Programme.

Making a difference in the community

We recognise that we have a substantial influence within the communities in which we operate and invest, and seek to build

OBJECTIVES FOR 2002

Area	Objective	Target
CSR Management System	Further development of our management system	<ul style="list-style-type: none"> ■ Development of internal verification process ■ Finalise CSR corporate governance structure ■ Increase Business in the Environment Index of Corporate Environmental Engagement management score
Socially Responsible Investment	To use our influence to protect and enhance the wider environment	<ul style="list-style-type: none"> ■ Achieve 32 significant ICD® successes ■ Continue to vote 100% of shares held in the UK companies we invest in
Property portfolio	To manage the risks and reduce the impacts associated with our property portfolio	<ul style="list-style-type: none"> ■ Improve the Property Environment Group/Business in the Environment benchmark ranking
Suppliers	Work with suppliers to improve the social and environmental performance of our supply chain	<ul style="list-style-type: none"> ■ Enhance procurement procedure ■ Commence programme of improving the performance of the products/services we buy
Emissions	Reduce the consumption of energy and the environmental impact of inter-office travel.	<ul style="list-style-type: none"> ■ Reduce CO₂ emissions associated with energy use by 3% at targeted sites ■ Promote alternatives to inter-office travel
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"> ■ Establish an aggregate measure of waste generated by our operations ■ Introduce measures to reduce paper consumption ■ Remove 100% of Halon 1301 over 3 years
Charitable Giving	Support the operation of the Friends Provident Charitable Foundation, a grant making charity which was established as part of the demutualisation and listing of Friends Provident	
Turnover & Absenteeism	To continue to manage the downward trend in staff turnover and absenteeism. We set internal targets for these areas aligned to our annual business plans	
Diversity	To improve and expand our benchmarking activity during 2002 in order to help us implement long term strategy	

relationships based on trust. That is why we are an active member of Business in the Community (BitC), a national, non-profit-making organisation that supports social and economic regeneration.

Through BitC we are involved in two community partnership initiatives. Through the Volunteer Reading Scheme over 150 of our staff help selected primary school children develop their reading and social skills. And through Partners in Leadership, senior managers are paired with head teachers in their area to share experiences and know-how, and learn from each other.

We have also launched our own Business Incentive Scheme, which operates in around 130 UK schools helping children put their business ideas into practice while raising money for the children's charity Barnardo's.

Medical research is another important aspect of community activity. We have supported the British Heart Foundation since 1963 and currently fund a research fellowship at the Royal Brompton Hospital and Imperial College of Science, Technology and Medicine. Another research project, run in conjunction with the Cancer Research Campaign, which has recently merged with the Imperial Cancer Research Fund to form Cancer Research U.K., is looking into the effects of neuroblastoma, a cancer that affects children.

In conjunction with our sponsorship of Southampton Football Club we run the Friends Provident Fair Play Awards which recognise youngsters playing at the grass roots level and reward fair play, endeavour and hard work just as much as skill.

While some activities are organised at corporate level, the success of many of our community initiatives is due entirely to the

efforts and generosity of the people who work for us. We commend their efforts and applaud their success.

Involving our employees

Our flotation and listing gave all our employees the opportunity to become financial stakeholders in Friends Provident and many members of the staff who are customers also bought shares under the Preferential Offer. Open communication is a feature of our business. Important issues are now communicated immediately to all staff through the Friends Provident intranet. Forums, which give staff the opportunity to question executive directors, are held four times a year and we canvass employees' views and opinions through our Staff Opinion Survey.

Friends Provident has a longstanding commitment to diversity and we offer equal opportunities training to all staff through our Learning Resource Centres. We also benchmark the composition of our workforce against local communities and 83%, the highest score in our benchmark group, of our employees agree that we are an equal opportunities employer. We are an Investor in People company and listed as one of the Sunday Times Best Companies to Work For.

CSR is an increasingly important aspect of business in the twenty-first century and while we are pleased with our progress in 2001, we will set our sights still higher for the future.



For the Board

BRIAN SWEETLAND
DIRECTOR RESPONSIBLE FOR
CORPORATE SOCIAL RESPONSIBILITY

"The success of many of our community initiatives is due entirely to the efforts and generosity of the people who work for us."

