

# 2006 Corporate Responsibility Report



**FRIENDS PROVIDENT**

# Stakeholder viewpoint

## A comment from Forum for the Future

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In our comment in the 2005 Corporate Responsibility report, our central challenge to Friends Provident, and the wider insurance sector, was to align CR programmes with sustainability principles, ensuring that the core business facilitates rather than inhibits sustainable development – an issue that has continued to rise up political, corporate and social agendas in 2006, both in the UK and globally.

A key part of this is identifying material issues – those that are most important to stakeholders and to the business – and then developing robust management plans. We are encouraged that, for the first time, Friends Provident is now reporting on all Group businesses within an overarching framework that is aligned with Group business objectives. Core material issues across the Group have been identified and action plans in each area are being developed and implemented. This is a hallmark of a more focused and business relevant corporate responsibility programme. However, issues are dynamic and constantly shifting so understanding stakeholder views is critical. Friends Provident has significantly improved its stakeholder engagement processes over the last year and we support its commitment to an ongoing dialogue throughout 2007.

In the future, we recommend that Friends Provident underpins its strategy by developing a transparent system of performance indicators and robust targets for each material issue. On climate change, we are encouraged that Friends Provident is working to reduce direct carbon emissions and we look forward to the 3-year carbon management strategy. Trends for other direct environmental impacts such as waste show a mixed record, partly due to changes in data scope and also due to growth. We recommend Friends Provident establishes absolute and normalised performance indicators going forward.

We are encouraged that Friends Provident is also addressing its much more important role as an investor. On climate risk aspects, F&C is engaging with companies and is part of several industry-wide efforts such as the Institutional Investors Group on Climate Change. However, we recommend that this activity be brought within an overarching strategy that also explores the opportunity agenda, particularly creating investment propositions that promote the transition to a low carbon economy – either by investing in companies with lower carbon intensity or in alternative technology options. As a leader in ethical investment – which does not usually explicitly include climate change criteria – Friends Provident and F&C are well placed to be pioneers in low-carbon investing.

We would also like to see further work on financial capability, with a stronger role for the Group businesses to develop initiatives in their relevant areas and leveraging the Foundation's ability to support innovative programmes. The initiatives around access for the young should be extended to look at other underserved groups – such as ethnic minorities, migrant workers and the low-income aged.



**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 second year.**

# Introduction

Friends Provident is an international financial services company, yet the strong ethical values that underpin our operations can be traced back to our foundation in Yorkshire, 175 years ago. Our Quaker origins ensure that running our business fairly and with integrity is unquestionably the right thing to do, and has been engrained from outset. Indeed, the life and pensions industry exists to support people when they need it most, and still today plays an important role in alleviating hardship. We are proud of what we do and of the way that we do it.

Of course we have economic responsibilities, such as providing good financial returns to our customers and to our shareholders. But we also have responsibilities to society at large and the environment around us. There is much in the media today on a whole range of issues, ranging from the stranglehold of personal debt to the size of our carbon footprint. The arguments for running businesses in a responsible manner are now louder than ever, and likely to get louder still. Dare I say that it has become 'fashionable' for some, but for us, it simply reflects the values and principles that have always guided us. This was one of the things that impressed me when I joined Friends Provident – that 'values' were not just words on a wall but really did influence behaviour throughout the organisation.

This is something that I am keen to foster, not only because I believe it is right, but because I believe it gives Friends Provident a competitive edge. Now, as the new Group Chief Executive of this company, I am delighted to take over the leadership of our Corporate Responsibility (CR) strategy. For example, there is a deep need to help restore consumer confidence in our industry and to help people become more financially aware. We are determined to play our part in addressing these needs, as well as progressing the better-known community and environmental issues, as covered in this Report.

On behalf of the Board, let me assure you that the Group's CR strategy is fundamental to our future success and I am eager to drive it forward.







**Philip Moore**  
Group Chief Executive

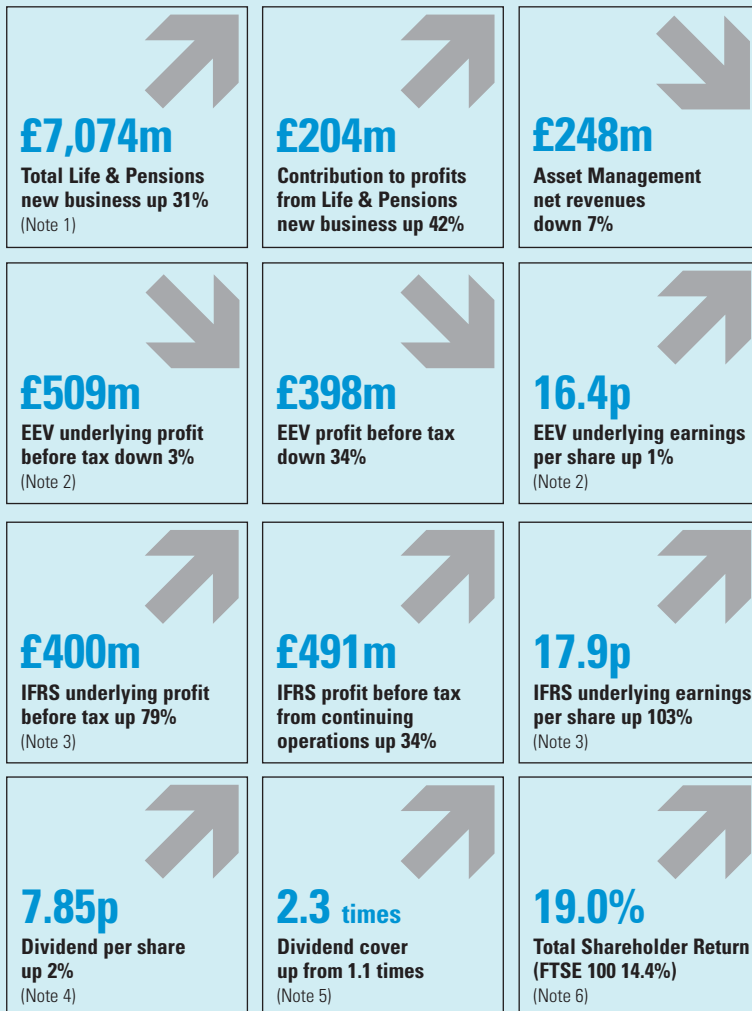


# Business context

The Friends Provident Group is made up of three core businesses – UK Life & Pensions, International Life & Pensions (Friends Provident International and Lombard) and Asset Management. This is the first year we have reported on all the businesses in the Group, which we hope will give a better perspective of the scope of Friends Provident.

Each business approaches CR in a slightly different way. However, all approaches are underpinned by an overarching strategy from the plc board and our statement of business principles. We accept that the CR programmes are more established in some parts of the Group than others, and shall continue to work with the areas of the business that need more support on these issues in 2007.

<p><b>UK Life &amp; Pensions</b></p>	 <p><b>FRIENDS PROVIDENT</b></p> <p>One of the top 10 in the UK for attracting new business, offering a comprehensive range of protection, pensions and investment products for individual and corporate clients.</p>	<p><b>Recent history</b></p> <ul style="list-style-type: none"> <li>• UK Provident, acquired 1986</li> <li>• NM Group, acquired 1993</li> <li>• London &amp; Manchester Group, acquired 1998</li> </ul>	<p><b>Staff and key locations</b></p> <p>About 3,600 staff</p> <ul style="list-style-type: none"> <li>• Dorking</li> <li>• Exeter</li> <li>• London</li> <li>• Manchester</li> <li>• Salisbury</li> <li>• 13 regional offices</li> </ul>	<p><b>Market position</b></p> <p>Selectively targeting the market segments most likely to sustain profitable growth. Looking to build on our already strong positions in pensions and protection, and to grow our presence in investments.</p>
<p><b>International Life &amp; Pensions</b></p>	 <p><b>FRIENDS PROVIDENT INTERNATIONAL</b></p> <p>A major offshore cross-border company focusing on Asia, the Middle East, Europe and the UK.</p>  <p><b>L O M B A R D</b></p> <p>The largest pan-European life assurance company of its kind.</p>	<p><b>Recent history</b></p> <p><i>Friends Provident International (FPI)</i> Royal &amp; 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><b>Staff and key locations</b></p> <p><i>FPI</i> About 360 staff</p> <ul style="list-style-type: none"> <li>• Isle of Man</li> <li>• UK</li> <li>• Guernsey</li> <li>• Hong Kong</li> <li>• Dubai</li> <li>• Singapore</li> </ul> <p><i>Lombard</i> About 315 staff</p> <ul style="list-style-type: none"> <li>• Luxembourg</li> <li>• Switzerland</li> </ul>	<p><b>Market position</b></p> <p><i>FPI</i> Already holds strong positions in savings and investments. Looking to build our presence in pensions and protection business.</p> <p><i>Lombard</i> Focusing on providing estate and tax planning solutions for High Net Worth Individuals (HNWIs) and ultra-HNWIs.</p>
<p><b>Asset Management</b></p>	 <p><b>F&amp;C Investments</b></p> <p>One of the largest asset managers in Europe in terms of funds under management, offering a diverse range of products across the major asset types.</p> <p>F&amp;C is a quoted company in its own right and is 52% owned by Friends Provident.</p>	<p><b>Recent history</b></p> <p>F&amp;C Asset Management plc was formed through the merger of ISIS Asset Management and F&amp;C Holdings in 2004.</p> <p>Previous acquisitions were:</p> <ul style="list-style-type: none"> <li>• Ivory &amp; Sime, acquired 1998</li> <li>• Royal &amp; SunAlliance Investment Management, acquired 2002</li> </ul>	<p><b>Staff and key locations</b></p> <p>770 staff</p> <ul style="list-style-type: none"> <li>• London</li> <li>• Amsterdam</li> <li>• Dublin</li> <li>• Edinburgh</li> <li>• Frankfurt</li> <li>• Lisbon</li> <li>• Paris</li> <li>• Switzerland</li> <li>• Boston, USA</li> </ul>	<p><b>Market position</b></p> <p>Focusing on the UK and Continental Europe, targeting for new business in higher margin areas.</p>



**Note 1** New business sales are reported on the Present Value of New Business Premiums (PVNBP) basis which is defined as single premiums plus the expected present value of new business regular premiums.

**Note 2** EEV underlying profit/earnings per share is based on expected investment return and excludes: (i) amortisation and impairment of Asset Management acquired intangible assets (ii) effect of economic assumption changes (iii) non-recurring items; and is stated after deducting interest payable on Step-up Tier one Insurance Capital Securities (STICS).

**Note 3** IFRS underlying profit/earnings per share is based on longer-term investment return and excludes: (i) Policyholder tax (ii) returns attributable to minority interests in policyholder funds (iii) non-recurring items (iv) amortisation and impairment of acquired intangible assets and present value of acquired in-force business; and is stated after deducting interest payable on Step-up Tier one Insurance Capital Securities (STICS).

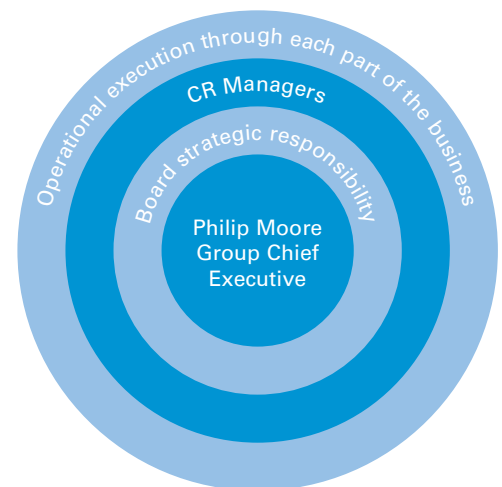
**Note 4** Dividend per share includes the interim dividend paid in November 2006 and the proposed final dividend payable in May 2007, which is subject to approval at the Annual General Meeting.

**Note 5** Dividend cover is based on IFRS underlying profit after tax and minority interests.

**Note 6** Total Shareholder Return takes account of share price movements and dividends paid during the year.

The Group has a well-developed and integrated CR management system, which includes the following:

- Main Board responsibility, led by the Group Chief Executive
- Group-wide strategy, executed at an operational level through each part of the business
- Two CR managers
- Defined roles and responsibilities across the Group
- Performance indicators for main impact areas
- An objective and target-setting mechanism built into the company's strategic and business planning process
- Internal communication tools
- An internal verification process from our Internal Audit team



CR risks and opportunities are regularly identified through the Group's risk management process. The ABI Disclosure Guidelines on Socially Responsible Investment are reviewed and reconciled by the Group CR department. Key CR-related risks have been assessed and include: recruitment and retention of key employees, responsible investment, community relations, financial capability, climate change, mis-selling issues and bribery and corruption. We will be undertaking some work to ensure we are fully complying with the guidelines. Further information on the Group's investment controls and risk management can be found in our Annual Report and Accounts at [www.friendsprovident.com/reports](http://www.friendsprovident.com/reports)

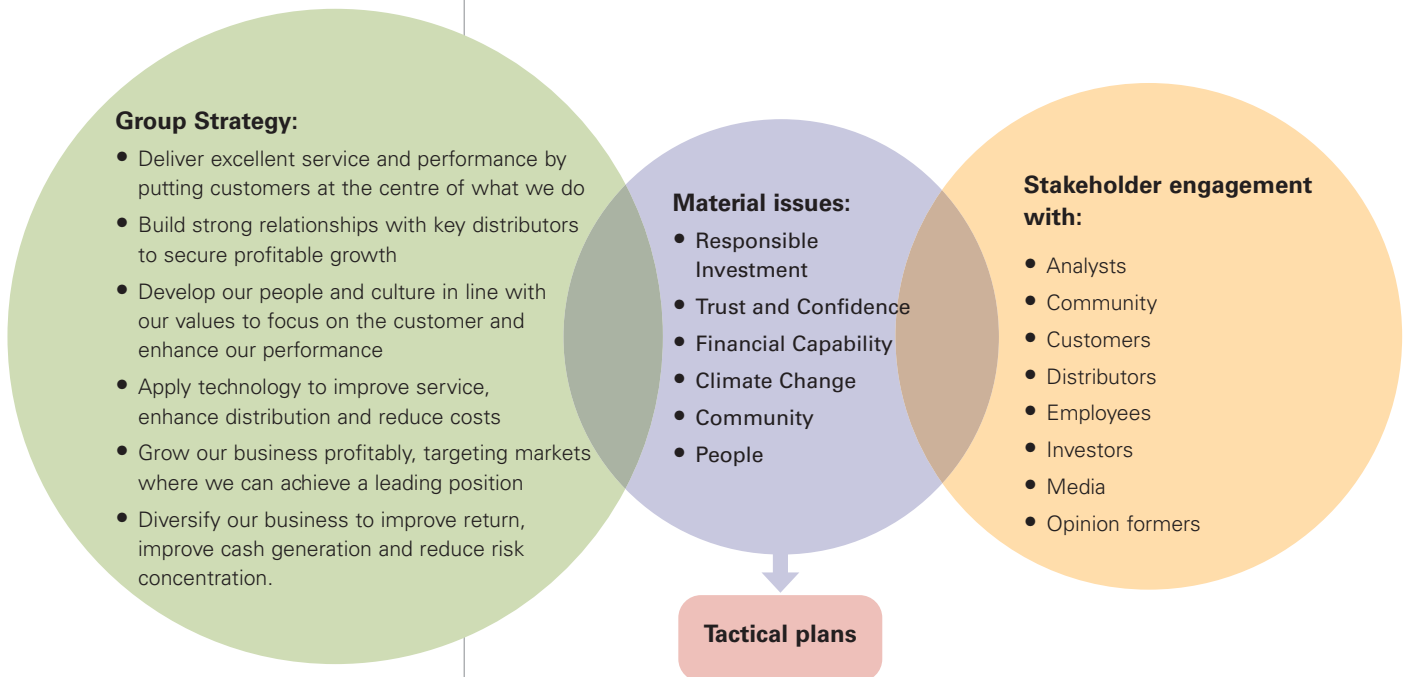
# Vision and strategic approach

Our Group vision is “to be the standard by which all other providers are judged.” To succeed we must continue to run our business responsibly; our statement of business principles is our vision for how we will do this:

“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.”

Supporting these principles is a framework of seven CR related policies: Human Rights; Environment; Community; Equal Opportunity and Diversity; Health and Safety; Working with Suppliers; and Green Travel. These can be found within the responsibility section of our website at [www.friendsprovident.com/responsibility](http://www.friendsprovident.com/responsibility)

Our strategic approach to CR is to compare our Group business strategy with those issues deemed important by our stakeholders. We classify these overlaps as ‘material issues’ and these determine our CR direction and goals.





# Stakeholder engagement and material issues

## Stakeholder engagement

We continue to engage with our stakeholders to refresh our understanding of their concerns and any change in priorities. By overlaying business strategy on to revisited stakeholder contributions we can refine and monitor the relevance of our material issues and ensure they reflect shifts in attitudes across wider society.

We have continued our work with Ipsos MORI this year, conducting research with a wide variety of CR opinion formers, including CR experts and NGOs. The research found that Friends Provident was seen as leading the life assurance and pensions sector on responsibility, although we could do better when compared with other sectors and needed to work harder on communicating what we do to reinforce our strong position.

We engage with customers at different levels throughout the business. As part of this, we are participating in the Customer Impact surveys, the Association of British Insurers' (ABI) initiative to understand how we can better meet customers' needs. More information can be found in our 'Caring for Customers' report at [www.friendsprovident.com/reports](http://www.friendsprovident.com/reports)

Life and Pensions and F&C each carry out their own annual employee satisfaction survey. The results form the basis for engaging employees on what can be done to improve employee satisfaction, at an operational and strategic level.

We have also taken part in annual syndicated surveys of the financial media, analysts and investors, and we undertake twice yearly research with our distributors.

## Our six material issues

As a pension and life insurance provider	As an investor and asset manager	As a business operator
<ul style="list-style-type: none"> <li>Trust and confidence</li> <li>Financial Capability</li> </ul>	<ul style="list-style-type: none"> <li>Responsible investment</li> </ul>	<ul style="list-style-type: none"> <li>People</li> <li>Climate change</li> <li>Community</li> </ul>

This year we have altered our reporting style to focus more on our material issues. The following pages outline our current CR activity for each of the issues.

## Memberships



FTSE4Good



During 2006, Friends Provident maintained its inclusion in both the FTSE4Good and the Dow Jones Sustainability World Indices and was again rated in The Sunday Times "Companies that Count" based on an annual assessment by the charity Business in the community. In addition, F&C is listed separately in FTSE4Good and is a member of the Property Environment Group Index and the Corporate Leaders' Group on Climate Change.

We are working with a number of CR expert bodies, such as Forum for the Future, PwC and Context, to develop our CR strategy and initiatives. We are active members of the CR community and are members of the Corporate Responsibility Group, the London Benchmarking Group and Business in the community.

# Trust and Confidence

Financial Services™  
Skills Council

Accreditation  
of Training Excellence  
for Firms

## FSSC Accreditation

In 2006 the Financial Services Skills Council awarded the Sales Learning and Development team in UK Life and Pensions an accreditation of training excellence. We are one of the UK's first life and pensions firms to receive this accreditation. It provides external recognition of the hard work we are doing to train and develop our distributors as part of our efforts to improve trust and confidence within the industry.

*"We recognise that learning and development is absolutely key to business success in the financial services sector."*

*John Hutton, Learning and Development Manager, UK Life and Pensions Sales*

Our success depends on the trust placed in us by our stakeholders and we are committed to providing our customers with the highest level of service. We recognise that issues remain around the lack of consumer trust and confidence in our industry and are committed to working to restore customers' confidence.

This commitment has been recognised externally, and at the British Insurance Awards we were voted Life Assurance Company of the Year, chosen for our response to customer needs and enhanced quality of service. We also received the Customer Care award, for which the judges were looking for evidence of the impact of an innovative customer care strategy on retention levels and client satisfaction.

We were also again recognised for our 5 star service in our life, pensions and investments businesses and 4 star service for fund management at the Practiv Financial Adviser Awards.



During 2006 two particular initiatives – Treating Customer Fairly (TCF) and Customer Impact – have helped us to ensure the customer remains at the heart of everything we do.

## Treating Customers Fairly

To help restore customers' confidence in the financial services industry, we are undertaking a project on TCF based upon a set of principles derived from the customer's perspective of what "fairness" means:

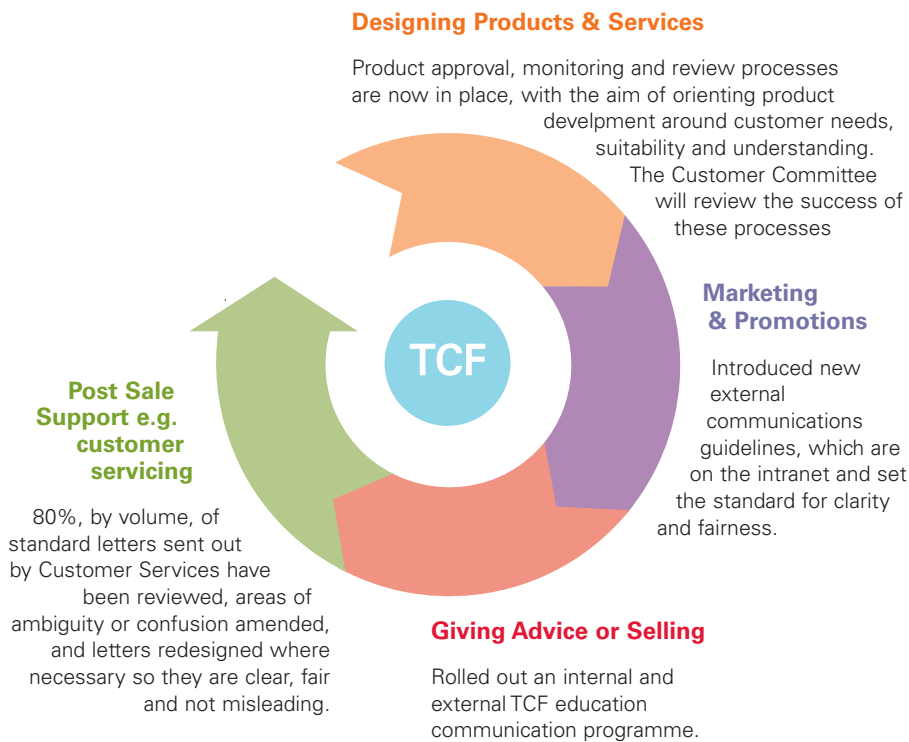
- Giving the customer what they have paid for
- Not taking advantage of the customer
- Offering the customer the best product possible
- Resolving mistakes as quickly as possible
- Showing flexibility, empathy and consideration towards customers
- Exhibiting clarity in all customer dealings.

There has been much activity across our businesses to implement the TCF principles. In 2006, UK Life & Pensions has focused on the product lifecycle, from design through to post-sales support, so that all customer-facing areas of the business focus on treating them fairly, as illustrated on page 9. We have worked hard through training, communication and performance management to embed TCF into our culture. In 2007 the TCF badge will be dropped and the work subsumed into a UK Life and Pensions Customer Committee, made up of directors and senior management, to help ensure treating customers fairly remains business as usual.

Although TCF is a UK initiative, our International business is also embracing the principles. Employees in the Isle of Man have attended a workshop on the principles, which will be rolled out across the rest of FPI in 2007. FPI also operates a risk categorisation system for countries in which we sell, based on issues such as bribery, corruption and transparency. This forces us to better understand the IFAs with which we do business and helps ensure Friends Provident products are sold in a responsible way.



## TCF and the product life cycle



F&C is integrating TCF into its working practices, cultures and thought processes. The TCF principles are:

- Incorporated into the concept, research and development stages of the product development process
- Influencing the technical sign-off process and the language used in key consumer documents
- Included in the product and technical training for customer agents
- Integrated into the customer feedback process
- The driver in monitoring persistency levels and the subsequent decision making processes
- Integrated into the complaint handling process
- Incorporated into employee role profiles and induction training.

## Customer Impact

In 2006, UK Life & Pensions signed up to support the ABI's Customer Impact initiative, alongside 28 other companies covering 80% of the industry, and has committed to:

- Developing and promoting products and services that meet the needs of our customers
- Providing customers with clear information and good service when they buy our products
- Maintaining an appropriate and effective relationship with our customers, providing them with a good service after they have bought a product.

We are working to achieve this through a number of initiatives set out in our Caring for Customers report, which can be found at [www.friendsprovident.com/reports](http://www.friendsprovident.com/reports). The report also shows results from the 2005 and 2006 Customer Impact surveys, and outlines further work we are doing to help improve customers' perceptions of Friends Provident.

**customer  
impact**

## Engagement in practice: Supermarkets

### Competition for the green pound heats up...

UK consumers have recently seen a flurry of activity among the biggest supermarkets to win their "green pound" with a raft of new environmental initiatives. Behind the new battle for customers lie two trends:

- The chink of cash tills – New commercial opportunities are emerging through customer concern about health and environmental issues.
- The clamour for accountability – To get the green light to open new stores, it helps if supermarkets are seen to contribute positively to local communities, as much true in emerging markets as home countries.

### Companies engaged

In the UK market, the sector has been the subject of intense public criticism, culminating in the announcement of a regulatory review of the UK market, and prompting F&C to step up its dialogue with the major supermarkets.

We have encouraged these companies to:

- Adopt a strategic approach to environmental, social and governance (ESG) issues
- Effectively manage ESG issues that may affect the political landscape
- Establish robust internal controls for regulated ESG areas.

### Progress since engagement

Three substantive responses from the sector to the issues raised by F&C include:

- **Prioritising consumer concerns** – for example selling Fair-trade cotton clothes and strengthening policies for sustainable food sourcing.
- **Demonstrating greater political sensitivity** – through actions such as focusing more on community consultation and building strong relationships with NGOs.
- **Tightening internal controls** – for example encouraging suppliers to act early in anticipation of the new Gangmasters Licensing Act requirements, aimed at promoting higher labour standards in agriculture and related industries.

### Outlook

F&C considers that to cash in on the green pound in the UK, supermarkets need to build the industry's green credentials through strong ESG practices and communication to customers about these. Development of common industry standards is likely to play an important role in achieving the changes that are needed, and protecting the sector from consumer and regulatory backlash.

Friends Provident's most significant impact on society is the indirect influence it can exert through investing responsibly. Friends Provident understands that investing in companies for financial return can have both positive and negative impacts on society. We seek to address the potentially negative impacts in three ways:

- Running a shareholder engagement service, **reo**<sup>®</sup>
- Voting customers' shares responsibly on their behalf
- Providing a range of ethically-screened investment funds, the Stewardship range of funds.

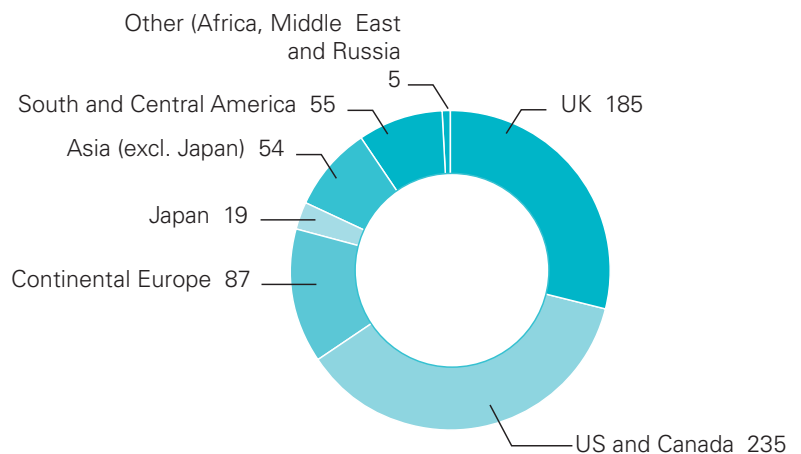
In 2006 F&C, which manages both Stewardship and **reo**<sup>®</sup>, became one of the first signatories to the UN Principles for Responsible Investment, reaffirming our commitment to being leaders in this area.



## Responsible engagement overlay – reo<sup>®</sup>

F&C operates a market leading management system, **reo**<sup>®</sup>, for engaging with companies on a range of social, environmental and governance issues. We believe that companies that change the way they operate in order to address such issues enhance their long-term shareholder value. **reo**<sup>®</sup> is applied to Friends Provident's worldwide equity portfolio, more than £21 billion in 2006, including our staff pension fund. Each year, our 15-strong team of specialists selects a number of topical issues on which to engage and target companies most exposed to the risks associated with those issues. During 2006 we engaged with 640 companies (2005: 834). The reduction in the number of companies engaged this year reflects a strategic decision to focus engagement in greater depth on a smaller number of companies, selected on the basis that there is a clear link between environmental, social and governance risks and shareholder value. We publish quarterly reports on our engagement activity, which can be found at [www.fandc.com](http://www.fandc.com)

## Companies engaged by geographical area



## Issues on which companies were engaged

Issue	Companies engaged	% of engagement
Board structure, remuneration, capital, internal controls, shareholder rights	419	32%
Transparency & Performance	242	19%
Human Rights	65	5%
Labour Standards	102	8%
Bribery & Corruption	172	13%
Environmental Management	111	9%
Climate Change	121	9%
Biodiversity	69	5%
Total		100%
Total number of companies engaged	640*	100%

(\*note: some companies were engaged over more than one issue)

More information on the specific issues on which companies were engaged can be found at [www.fandc.com/governance](http://www.fandc.com/governance)

## Ethically screened funds

Friends Provident is a pioneer of responsible investment. We recognise that many people want to support companies that make a positive contribution to society, and encourage others to cease their harmful practices. Fulfilling this responsibility is Stewardship's aim. F&C, which manages the Stewardship funds for Friends Provident, remains the largest manager of retail ethically screened funds in the UK since it created the market in 1984, topping the £3 billion mark at the end of 2006. F&C also provides a range of investment choices for institutional investors.

Stewardship funds invest in companies that make a positive contribution to society, while seeking to avoid companies whose activities include weapons manufacture, environmental damage or human rights abuses, for example. Investors 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 ethical criteria. The Committee of Reference is a body of experts, which meets quarterly to set and review the ethical policies of Stewardship and other ethically screened funds. [www.friendsprovident.com/sri](http://www.friendsprovident.com/sri)

In 2006, Friends Provident was the first ever winner of the 'Best Ethical Investment Provider' award from Investment, Life & Pensions Moneyfacts, recognising our continued strong performance in ethical investment

There is increasing interest in ethical investment from both advisers and investors. In 2006, as part of the Retail Revolution project, our SRI Marketing Manager supported UKSIF in running seminars across the country to help develop advisers' knowledge of ethical investment. We are now supporting UKSIF to produce an online ethical investment toolkit, giving advisers the opportunity to develop the necessary skills to promote green and ethical options with confidence. For more information, please go to [www.uksif.org](http://www.uksif.org)

In March Friends Provident, in association with Green Futures, a Forum for the Future magazine promoting sustainability, published a magazine supplement, 'Centres of Inspiration'. This was a guidebook celebrating environmental projects across UK and Ireland, encouraging readers to visit them and learn more about sustainable activities, from composting to wind turbines. For a copy please visit [www.greenfutures.org.uk/supplements](http://www.greenfutures.org.uk/supplements)

## Transparency in Company voting

Friends Provident fully discloses the way it votes the shares held in companies worldwide. We publish monthly reports that list the way we have voted and include a brief explanation of every vote that does not support the recommendations of the boards of those companies.

[www.friendsprovident.com/responsibility](http://www.friendsprovident.com/responsibility)



"This is now a £3 billion fund range that at its outset cynics predicted would struggle to reach even £3 million. The success of these funds firmly proves that combining ethics with sound investment performance is perfectly possible."

*Julia Dreblow, SRI Marketing Manager, Friends Provident*



"This year's winners have a great deal to shout about and have set the standards for the rest of the industry to follow."

*Richard Eagling, Editor of Investment, Life & Pensions Moneyfacts*

# Financial Capability

“Given the wide range of financial services available in the UK, it is worrying that the level of consumer financial understanding is so low. Online learning can help bridge the education gap, allowing people to learn at a level and pace that suits them.”

*Stuart Royston, Chief Executive,  
Life Academy*



- 43% of households are estimated to have no savings whatsoever (FSA, 2006)
- Nearly a third of adults would like to save at least £10 per month, but are unable to do so (Family Resources Survey, 2004/05)
- 2.8 million children live in households with incomes 60% below the national median, the government's preferred measure of relative poverty (Financial Times, 2007)
- 15% of 18–24 year olds think an ISA is an iPod accessory (BBC, 2006)
- A third of the population has no idea how much of their future income they should invest to create a worthwhile pension (The Future Laboratory).

It is clear from these statistics that access to and affordability of financial products, as well as understanding them, are real issues for the future of the life and pensions industry. As such, Friends Provident has a responsibility to help improve financial capability.

Our first duty is to ensure our customers understand their products. UK Life & Pensions has linked up with the Life Academy, an educational charity, and is offering their financial literacy training pack free to our group pension scheme members. Group pension scheme members are less likely to receive advice, and so they can use the site to learn about different aspects of personal finance, including savings and investments, tax, pensions and borrowing. A jargon buster, online retirement forecaster and investment planner are all provided. Our customer website provides links to the FSA website, money made clear, which provides a range of tools that customers can use to aid their financial planning alongside seeking advice from their IFA. We link with the FSA to ensure consistent, coherent guidance. For more information go to [www.friendsprovident.com/customer](http://www.friendsprovident.com/customer)

Philip Moore has taken a personal interest in the issue of financial capability and joined the Business in the community Education Leadership Team, which has subsequently adopted financial capability as a key theme for its work. Philip has also initiated a numeracy and financial literacy programme with a Tower Hamlets school. Tower Hamlets is the poorest borough in London, and is located next to the City, one of the richest boroughs and site of our headquarters.

In addition, numeracy programmes will also be rolled out in our main offices sites during 2007, building on our established partnerships with local schools. This initiative will begin in Manchester and Dorking.

Friends Provident has also continued its support for **pfeg**, an educational charity focused on providing financial literacy materials to schools.

The Friends Provident Foundation is one of the leading independent funders of financial capability work in the UK. It was set up as a charity in 2001 at the time of the demutualisation of Friends Provident Life Office and in 2004 was endowed with £20 million in shares from the Company. The Foundation wishes to focus its grant-making on the right use of money; how money and financial systems can contribute to social objectives as well as economic ones in society. It is run by a board of Trustees and operates independently of Friends Provident plc.

The Foundation is currently supporting programmes centred on addressing financial exclusion across the UK. A number of 2006's projects have been about equipping vulnerable young people with the tools to manage their money;

- Centrepoint has developed a set of workshops for homeless people, using their services to demystify banking products and combat financial exclusion.
- YouthNet is an online charity behind TheSite.org, providing information and advice for 16-24 year olds. Funding from the Foundation has enabled YouthNet to launch the money management section of their website on mobile phones – meaning many more young people without private internet access will be able to access sensitive information, such as personal debt advice, more easily.
- The Who Cares? Trust wanted to create an unbiased resource for young people in care to introduce them to the world of money. With the Foundation's support the Trust produced a magazine and interactive CD ROM to equip and empower young people with the knowledge and means to make well-informed and educated decisions regarding their personal finances.

Other organisations that have received grants include Citizens' Advice, Public Service Broadcasting Trust, New Philanthropy Capital, Quaker Housing Trust, Black Pear Credit Union, and CAP Life. Further details can be found on the Foundations' website at [www.friendsprovidentfoundation.org](http://www.friendsprovidentfoundation.org)

### Save yourself a fortune

'Save yourself a Fortune', run by the Public Service Broadcasting Trust, was designed to encourage viewers to save up to £100 per week by learning how to reduce the cost of their everyday household bills. It targeted people through the early evening news, inviting them to call and book a free money saving session and receive a CD-ROM to help prevent them getting into debt in the future. Over 11,000 viewers attended these sessions.



**FRIENDS PROVIDENT**  
Foundation

"We see the Foundation as a pioneer, encouraging new ways of thinking about how money is used to solve a wide range of problems. We particularly want to encourage thinking that deals with the cause of the problem."

*Brian Sweetland, Chairman  
of the Trustees*



# Climate Change

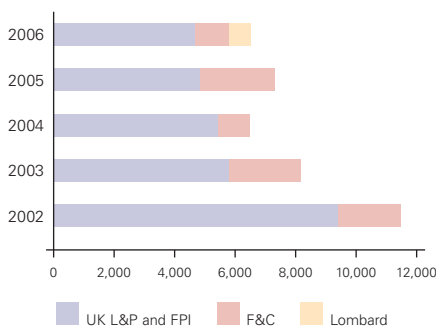
## The Carbon Trust

In September, the Group was selected as one of three Carbon Champions by The Carbon Trust in association with the Times newspaper. This involved Friends Provident working through a review of our UK operations to establish a detailed 'carbon footprint' and identify further areas for improvement. The aspiration being to become carbon neutral.

Our consultants have studied the Group's UK premises, IT services, transport policies and working practices. Recommendations have included replacing old boilers with solar panels or biomass boilers, upgrading IT systems to reduce energy consumption without compromising security; encouraging video conferencing and replacing some company cars with hybrid vehicles.

In May 2007, we intend to set out a carbon management plan for the next 3 years targeting a further reduction in carbon emissions of between 12% and 20%. Although the Carbon Trust's work only covers the UK, we will take similar actions with our international operations where possible.

### Total carbon dioxide emissions



Climate change is arguably one of the biggest issues facing the world today. Governments, businesses and individuals are realising the potential impact climate change could have on the environment, society and the economy, and that we all have a responsibility to tackle this issue. The Group's main impacts on climate change and the environment are: carbon dioxide emissions associated with its buildings, IT energy use and business travel, waste generation, recycling and resource use, primarily paper. We regularly monitor, review and report our progress on these impacts.

Friends Provident has been working with the Carbon Trust to identify ways we can reduce our emissions in the UK and will be publishing a 3-year carbon management programme based on this work in 2007. In addition, F&C have recently signed an agreement with Climate Care with the aim to be climate neutral by the end of 2007.

Friends Provident is also working with the ABI on an industry-wide set of principles to encourage all insurance companies to 'do their bit' towards tackling climate change.

Recorded carbon dioxide emissions for UK Life and Pensions and FPI have reduced by 3% over 2006. Although carbon dioxide emissions from company cars have reduced, emissions from buildings have increased by 5%. This is primarily due to an increase in the number of employees and their IT energy use. F&C's recorded emissions in the UK have reduced by 56% over 2006. F&C is encouraging the reduction of travel through increased use of video-conferencing facilities reinforced by budgetary constraints, and will be offsetting the remaining emissions. This is the first year that Lombard has collected any environmental data.

Energy from renewable sources has increased for UK Life and Pensions and FPI and now accounts for 63% of energy use at our main buildings (2005: 62%). 85% of energy use at F&C's UK offices is renewable. However, overall energy use has increased by 4% in 2006 for UK Life and Pensions and FPI. Although reducing energy use was a priority for this year, increases in employee numbers, IT equipment and subsequent impact on air conditioning have meant we have not achieved our target in 2006. We plan to maintain energy use levels in 2007 by balancing further increases in employee numbers with our carbon management plan initiatives.

## PropertyGreen

As well managing as our own environmental impact through our buildings and travel, we have a responsibility to manage our property investments sustainably. PropertyGreen is an approach to responsible property management at F&C and is applied to the Friends Provident Property Fund. The manager works in partnership with local communities, neighbours, contractors, suppliers and tenants to reduce the environmental, energy and social impacts of the property portfolios and to encourage continuous improvement in environmental performance.





## Resource use

The Group is working to reduce its paper use and the amount of waste generated as well as increasing its recycling programmes and the use of recycled materials. In 2006 UK Life and Pensions reduced its paper consumption by 4%. F&C reduced its paper use by 34%.

Friends Provident supports the recycled paper market; producing recycled paper is less energy intensive than producing virgin paper, creating fewer carbon emissions, and less waste in landfill means fewer methane emissions, which is another significant greenhouse gas.

F&C sources all office paper from recycled supplies and has implemented a printing policy encouraging employees to use less paper and ink. In addition F&C policy ensures the marketing department and outsourced administration functions source paper from recycled supplies; during 2006 F&C introduced a logo on marketing materials, stating – “If you’re not going to keep me, recycle me.”

At UK Life and Pensions, all office paper was changed in June to include 100% recycled fibre, with marketing material at least 80% recycled. The switch means that each year, on current usage rates, more than 1,000 tonnes of paper, which would have been destined for landfill, will be diverted into the recycling chain to produce paper.

## Waste

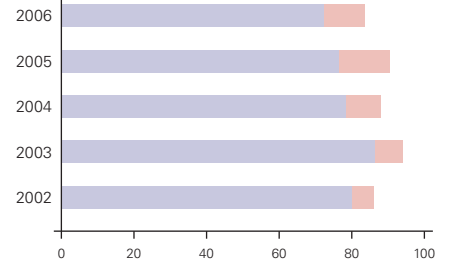
Waste streams across the Group are mainly paper based. The Group produced 1436 tonnes of waste in 2006 and recycled 43% of this, predominantly through paper recycling.

UK Life and Pensions and FPI’s waste generation has increased by 11% over 2006. This is due to an overall increase in employee numbers and the inclusion of our London office which produced 14% of our waste.

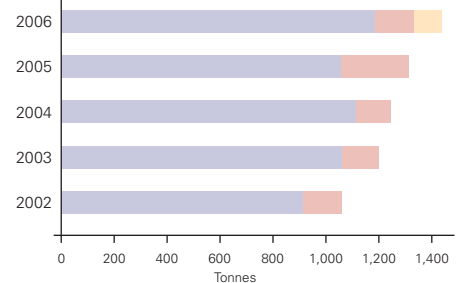
Both F&C and UK Life & Pensions and FPI have increased the amount of waste recycled. During 2006 UK Life and Pensions and FPI has sent 16 tonnes less waste to landfill than in 2005. To support this trend a new recycling and waste system was rolled out across UK Life and Pensions’ Dorking, Salisbury and Exeter Head Office sites at the end of 2006. To raise awareness, our Facilities Management team ran a Waste and Recycling awareness roadshow across Head Office sites in the autumn.

Lombard have designed a single recycling standard that can be followed by our multi-national workforce and this will be introduced in 2007.

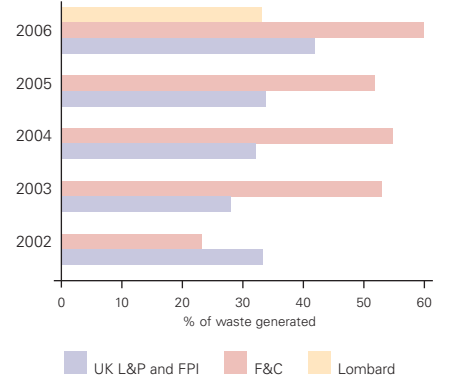
### Office paper use



### Waste generated



### Waste recycled



**Group community giving:  
£1.5 million**



Friends Provident believes that healthy and prosperous communities provide a healthy trading environment for business. We have a long history of supporting the communities directly touched by our business and have reinforced this by committing to work towards giving 1% of pre-tax profit to the community, targeting 0.5% for 2007.

Friends Provident is a member of the London Benchmarking Group and follows its guidelines when compiling the totality of its community investment.

## Employee involvement

UK Life and Pensions and FPI launched a new community investment programme, FRIENDS in the community, in October, representing a step change in our approach to charitable support. It aligns company giving with employees' interests, and encourages employees to help their communities in whichever way they choose. The programme comprises three schemes;

- **FRIENDS raise**, matching employees' fundraising up to £500/year
- **FRIENDS give**, doubling the matching of payroll giving from £10 to £20 each month
- **FRIENDS volunteer**, donating "recognition grants" of £500 to charitable organisations for which our employees volunteer and co-ordinating team challenge days for employees to give something back to their community.

FRIENDS give is an extension of our already successful Give As You Earn facility, in which 13% of our UK employees participate, and for which we have won a Gold Award from the Payroll Giving Quality Mark scheme.

Through UK Life and Pensions and FPI's Company Fundraising Days, employees raised over £17,000 in 2006, which was matched £1 for £1 by Friends Provident; doubling the amount going to charity through these events.

Our Isle of Man office, part of FPI, has a dedicated committee that arranges fundraising events and organise donations. We also have a staff association, with an annual fund of approximately £5,000 to sponsor local charities or individuals to help achieve aspirations, such as the Duke of Edinburgh award, or local improvement schemes, such as building a skate park for youngsters.

Lombard is committed to a long-term relationship with SOS Villages d'Enfant, a Luxembourg based charity operating on a global basis and offering opportunities for employee involvement. We also donate discretionary amounts to other charitable organisations that employees have been supporting, either financially or through giving their time, over the year.

F&C encourages employees to get involved in the community, and matches employee donations made through Give As You Earn (GAYE). In 2006 6% UK of employees gave to charity via GAYE. We also offer support to employees involved in charitable activities, and matched over £16,000 for employees' fundraising efforts in 2006. In 2007 this support will be extended and more employees will be encouraged to get involved.

F&C has a number of partnerships. We have a partnership with the Back-Up Trust, a UK charity supporting people with spinal chord injuries. We are also supporting the Spitalfields Centre charity, set up to preserve 19 Princes Street and to create a permanent exhibition and educational resource, exploring the history of immigration in Spitalfields and the making of multicultural Britain. [www.19princeletstreet.org.uk](http://www.19princeletstreet.org.uk)

## Local communities

UK Life & Pensions and FPI have three-year partnerships with the Surrey Wildlife Trust and the Surrey Care Trust and continue to support the Swindon and Wiltshire Community Foundation. UK Life and Pensions and FPI also support many organisations in our main office communities, promoting grassroots sports and the arts. Some examples of work we have supported include: Dorking Choral Society, Chameleon Brass, Mole Valley Sports Awards, Dorking Fun Run, Salisbury Playhouse, Salisbury Amateur Operatic Society, Salisbury City Football Club, Exeter City Football Club and Exeter Rugby Club.

We are also principal sponsors of both the Salisbury International Arts Festival and the Great West Run in Exeter.

## Education

UK Life & Pensions and FPI continue to promote the Volunteer Reading Scheme, where employees are given time out of work to visit primary schools to help young children develop their literacy and social skills. To support this scheme, we have funded visits from Life Education Centres mobile classrooms to the schools in which our employees volunteer. Life Education Centres deliver learning experiences to help children choose to lead healthy lifestyles. [www.lifeeducation.org.uk](http://www.lifeeducation.org.uk)

During 2007 we plan to broaden our involvement with local schools and introduce a numeracy scheme as well as literacy opportunities for employees and children alike.

F&C supports the UK Career Academy, contributing not only financially but also time and resources. In particular, we provide a number of trained mentors, working on a one-to-one basis with students. We take interns from the Academy each summer to expand their business experience and knowledge, enabling them to broaden the horizons of their abilities, potential and future careers.

## SOS Villages d'Enfants

After the Tsunami in South East Asia, Lombard employees wanted to take action to help children affected by the disaster. €15,000 was collected by employees, to go towards building a family home for 10 children in Phuket, Thailand. As David Steinegger, Lombard's managing director said, "the catastrophe caused by the tidal wave clearly showed the values of our personnel and their readiness to support a cause they can identify with." To support our employees, Lombard has teamed up with SOS Children's Village for three years, with the aim of taking on the costs of a family house in the new SOS Children's Village of Savannkhet in Laos. SOS Villages aims to help disadvantaged, neglected or abandoned children find a family and to help those families to build a future by building villages. At present, nearly 450 SOS Children's Villages accommodate 60,000 children and adolescents on all continents. The new village in Laos will be built in 2007 and will include 12 family houses for 120 destitute children.

"We are particularly proud that Lombard supports us. It is an exemplary initiative of a company and its employees who I would like to congratulate here."

*Sophie Mitor, managing director of  
SOS Villages d'Enfants Monde  
a.s.b.l. Luxembourg*



Life Education Centres:  
helping children make  
healthy choices

## FPI Recruitment

Unemployment on the Isle of Man is incredibly low, meaning recruitment and retention are key issues for FPI's office on the island. FPI continuously consider new initiatives to encourage people to work for, and stay with, Friends Provident. The office provides a subsidised minibus service for commuters from Douglas, an internet café for private use, and the installation of a gym and relaxation area. The office was accredited as an Investor In People for the first time in 2006 and there has been a large reduction in turnover for avoidable reasons – down from 20% in 2005 to 14% in 2006.

At Friends Provident we aim to provide a working environment where everyone feels valued and respected and is able to pursue a rewarding career, contributing to the success of our business. As such, we place great importance on developing, motivating and rewarding our people.

## Employee Welfare

Friends Provident continues to seek employees' views and opinions through annual employee surveys. F&C and Life and Pensions run separate surveys:

- The Life and Pensions survey included Lombard employees for the first time in 2006. It was completed by 86% of employees in 2006, down from 2005 (93%) but still ahead of the average for such surveys (61%). In 2006 our historical measure of general satisfaction rose to 84% (2005: 81%) and overall employee engagement rose to 75% (2005: 72%).
- F&C's 2006 survey was completed by 74% of employees. Employee satisfaction leapt from 62% in 2005 to 70% in 2006, reflecting the strong efforts we are making to change the culture.

## Wellbeing and motivation

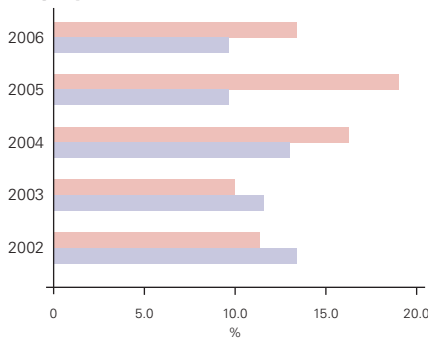
UK Life and Pensions and FPI work to give people an optimum work life balance through home working, job sharing, flexible working and good family-friendly policies. We also financially support people in gaining valuable out-of-work experience and development through our Personal Development Scheme. To enable employees to benefit from the successes of the company we have SAYE, incentive schemes and a performance-related bonus scheme.

UK Life and Pensions and FPI's turnover reduced again in 2006, to 9.6% (2005: 9.8%) for avoidable reasons, and to 12.8% (2005: 13.6%) for all reasons. We just missed our target for employee absenteeism, reaching 3.25% against a target of 3.2%. To address this, we have increased the support provided by our occupational health nurses and are rolling out a wellness management programme in 2007. UK Life and Pensions piloted the programme in 2006, the strategy being to improve overall wellbeing. The pilot proved successful and there will be a corporate rollout in 2007.

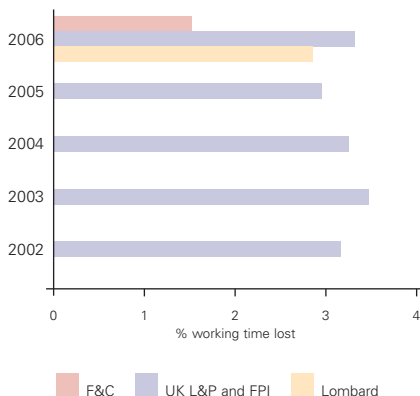
F&C employee turnover, excluding redundancies and transitional staff, fell to 13.5% in 2006 (2005: 18.4%). Absence, reported for the first time in 2006, was 1.8%. We provide an Employee Assistance Programme to improve our employees' wellbeing. This is a dedicated phone line, where employees can get personal or work-related advice from trained counsellors. During 2006 we offered both SAYE and SIP share ownership schemes to UK employees of which 321 employees participated in the share save scheme and 426 employees now participate in the share incentive plan. Such involvement aligns the financial interests of employees with that of shareholders and gives them a more direct interest in the success of F&C.

Lombard's employee absence for 2006 was 2.8%; this is the first year this has been reported. Employee wellbeing has been promoted through support to help employees stop smoking and the provision of an in-house massage service to coincide with Lombard's busiest work period. In addition, Lombard provides flu vaccines and medical check-ups for all employees.

### Employee turnover



### Absenteeism





## Development

UK Life and Pensions and FPI believe in developing our employees' to help them reach their full potential:

- We select talented managers to go through our European Management Development Programme through our alliance with companies in the European insurance sector.
- Our new internal leadership scheme, created in partnership with the University of Exeter, is again for talented managers looking to develop their business skills to help with their career development, and is now in its second year.

We maintain a close working relationship with the trade union, Amicus, with whom we liaise on employee-related business issues.

Lombard provides a number of training and development opportunities for employees, including creative thinking, personal motivation and stress management options. Personal coaching is available to managers.

F&C believes career development is important to recruiting and retaining talented people. We provide professional development and training opportunities for all employees. As part of this, we have the F&C Academy, a series of voluntary courses and talks to develop employees' workplace skills and increase their knowledge of the business.

Graduate training programmes are embedded within the Friends Provident businesses; a small number of graduates are recruited annually into each business to go through a structured programme of hands on experience as well as training and development.

## Equal Opportunities and Diversity

UK Life and Pensions and FPI seek to employ the best person for each job and aim to ensure that everyone can enjoy equal opportunities in an environment that is free from discrimination, harassment, bullying and victimisation. In 2006 we initiated equal opportunities and diversity training for all new employees, following an extensive training programme for managers in 2005. This year we have also:

- Received the silver award from Business in the Community's Opportunity Now initiative.
- Joined the Government's Exemplar Employer Initiative to support the breakdown of barriers to women's achievements in the workplace
- Secured a position in The Times Top 50 Companies "Where Women Want To Work"

Lombard is a diverse company, employing staff of 23 nationalities within its Luxembourg head office. In order to facilitate communication, workshops on intercultural communication have been held, with 20% of employees electing to participate.

F&C recognises the benefits of a diverse workforce, and so in 2007 all employees will be required to undertake equal opportunities and diversity training.



### INVESTOR IN PEOPLE

UK Life and Pensions has been re-accredited as an Investor in People, held since 1999, and our Isle of Man office has been recognised as an Investor in People for the first time in 2006. This is the national standard for training and development.

## Outsourcing and Offshoring

UK Life and Pensions and FPI will outsource operations when it is financially beneficial to do so or when outsourcing will support other strategic objectives. We have an outsourcing risk management policy, which sets out the requirements for all prospective, transitional and implemented outsourced working arrangements, and provides a framework to ensure we fully consider the risks involved in any outsourcing proposals and have proper outsourcing controls in place.

The rationale for existing offshoring is a combination of providing scalability to the business along with cost control. So far the relationship has achieved both these objectives without the need for any redundancies within the UK. We have a contract for the supply of back-office business processes with a third-party supplier in India, Wipro BPO. Some further work from FPI is currently in the process of being transferred to Wipro BPO. The number of people working on our processes offshore currently totals 300.

UK Life and Pensions and FPI have a small team to manage the relationship with Wipro BPO and to provide a suitable governance structure. A more general Outsourcing Forum had been established within the business to ensure a consistent approach to company values and the spread of best practice across all supplier relationships.

# Assurance Statement

The Internal Audit department has reviewed the Group's CR Report, interviewed key management and functional staff with responsibility for providing relevant information, and reviewed a selection of the documentation and records used to compile and support the performance data and assertions.

Following last year's review, a number of process improvements have been implemented during 2006 and additional recommendations have been proposed to drive further enhancements.

The Report has not been subject to formal external evaluation.

Keith Jones  
Group Head of Internal Audit, Friends Provident plc

## Queries and Feedback

We welcome your feedback on our report. If you have any queries or feedback, please complete our online feedback form at [www.friendsprovident.com/responsibility](http://www.friendsprovident.com/responsibility)



# Five Year Record 2002–2006

	Measure	2002	2003	2004	2005	2006	Notes					
<b>MARKETPLACE</b>												
<b>Ethically screened funds</b>												
Screened funds	£'b, % equity funds managed	1.1	5.3	1.4	6.9	1.9	1.5	2.3	5	3.2	8	
<b>Responsible engagement overlay</b>												
Full <b>reo</b> ® service provided	£'b, % equity funds managed	9.7	46.9	19.3	95.1	20.2	50.6	27	59.7	21.9	57	1
<b>reo</b> ® provided as standalone service	£'b	1.7		3.1		5.6		9		42.6		2,3
Companies engaged with during year	Number	792		713		944		834		640		
<b>reo</b> ® engagement successes in year	Number	38		39		49		127		115		4
<b>Investment properties</b>												
Properties under management	Value £'b, number	4.6	574	4.5	524	5.0	624	5.9	590	4.0	349	5
Total number of tenants	Number	3000		2710		3062		2929		1850		
PEG/BiE overall benchmark performance	%, relative to peer group mean	48	13	66	32	67	19	48	15	44	-7	
Legislative breaches	Number	0		0		0		0		0		6
<b>Corporate Governance – Voting</b>												
Number of resolutions voted on during the year	Number	14121		15253		22830		29374		36210		
Proportion of Global equities meetings at which voted	%	n/a		n/a		>99		>99		100		32
Governance successes achieved	Number	4		10		44		145		153		

	Measure	Business	2002	2003	2004	2005	2006	Notes
<b>ENVIRONMENT</b>								
CO2 emissions from gas, electricity and fuel oil	Tonnes	Group					3069	8,9,10,11
		UK L&P and FPI	5650	2356	2475	2130	2230	7,10,11
		F&C	1697	1671	853	1563	523	7,8
CO2 emissions from company cars/business travel	Tonnes	Group					3295	7,12,13,14
		UK L&P and FPI	3794	3499	3075	2710	2473	7,14
		F&C	645	696	-	982	600	7,12
Total CO2 emissions	Tonnes	Group					6363	7,8,9,10,11,12,13,14
		UK L&P and FPI	9444	5855	5550	4840	4703	7,10,11,14
		F&C	2342	2367	853	2545	1123	7,8,12,35
Total waste generated	Tonnes	Group					1436	15,33
		UK L&P and FPI	910	1070	1121	1069	1189	
		F&C	158	126	127	250	148	15,33
Waste recycled	%	Group					43	16,17,33
		UK L&P and FPI	32	28	33	34	42	17
		F&C	23	53	55	52	60	16,33
Office paper consumption	Million sheets	UK L&P and FPI	80	86	78	76	73	18
		F&C	6	7	9	15	10	19,20
Water usage	Litres/employee/day	UK L&P and FPI	34.8	36.6	37.0	42.0	41.3	21

## Five Year Record 2002–2006... *continued*

	Measure	Business	2002	2003	2004	2005	2006	Notes
<b>COMMUNITY</b>								
Total community giving	£'000	Group					1465	22,23
		UK L&P and FPI	655	710	837	961	1370	22
Charitable donations	£'000	Group					1043	23,24
		UK L&P and FPI	302	324	319	497	905	24
		F&C	41	58	85	75	95	24
Company matching of employee giving and raising other than GAYE	£'000	Group					30	23,25
		UK L&P and FPI					5	25
		F&C					16	25
Staff participating in GAYE	%	UK L&P and FPI	6.0	9.5	10.5	12.0	13.1	33,34

	Measure	Business	2002	2003	2004	2005	2006	Notes				
<b>WORKPLACE</b>												
Absenteeism	% working time lost	Group					2.95					
		UK L&P and FPI	3.1	3.43	3.22	2.96	3.25	26				
		F&C					1.58					
Staff participating in annual satisfaction survey		Group (minus F&C)					81					
		UK L&P and FPI	81	76	86	93	81					
		F&C	76	66	n/a	72	74					
Staff satisfied to be working for FP	%	Group (minus F&C)					84					
		UK L&P and FPI	76	76	73	81	83					
Staff satisfaction scores in opinion survey	%	F&C	58	60	n/a	62	70					
Number of employees	Headcount	Group					5089					
		UK L&P and FPI	4237	3947	3738	3866	3970					
		F&C	541	496	456	776	804	27,28				
Of whom - female	Headcount %	UK L&P and FPI	2135	50.4	1992	50.5	1954	52.3	2009	52.0	2053	51.7
		F&C	224	41.4	204	40.7	184	40.3	317	41.0	295	37
- from ethnic minorities	Headcount %	UK L&P and FPI	115	2.7	100	2.5	119	3.1	150	4.6	190	4.8
		F&C	18	3.3	23	4.6	25	5.4	43	6.6	74	11.0
Of whom, managers	Headcount	UK L&P and FPI	279		280		277		282		303	
		F&C	255		154		138		195		331	29
Of those managers - female	Headcount, % of managers	UK L&P and FPI	64	22.9	62	22.1	61	22.0	65	23.0	73	24.1
		F&C	47	18.4	39	26.0	58	42.0	48	25.0	76	23.0
- from ethnic minorities	Headcount, % of managers	UK L&P and FPI	6	2.2	7	2.5	5	1.8	5	2.0*	7	2.3
		F&C	8	3.1	6	3.9	10	7.2	2	1.2	29	10.0
*29 managers elected to withhold data relating to ethnic background and therefore have not been included in this number												
Employee turnover	%	UK L&P and FPI	13.2		11.3		13.0		9.8		9.6	30
		F&C	11.0		10.0		16.0		18.4		13.5	31
Spend on training	£'000	UK L&P and FPI	3405		3498		3132		4273		3421	

## General

"Group" includes data from the following businesses: UK Life and Pensions, Friends Provident International (FPI), Lombard and F&C. Group numbers are only reported for 2006 as this is the first year that Lombard has started to collect data. Individual businesses' data has been separated out where possible to show 5-year trends. Marketplace data applies to F&C only. Please note that F&C underwent a merger in 2004 and hence trend data should be viewed with this in mind.

## Specific

- 1 If the agreement to provide reo® to RSA had been finalised before 31 December 2002 the figures for 2002 would have been respectively £14.7 billion and 72.1% of equity funds managed.
- 2 This figure is a notional figure.
- 3 The 2006 figure does not include 2 mandates where the client is charged a fixed fee.
- 4 reo® engagement successes refer to milestones relating to social and environmental issues.
- 5 2002 figure includes properties developed by RSAI prior to its acquisition by F&C.
- 6 For consistency of measurement, this can only be taken as numbers of convictions under relevant legislation.
- 7 All carbon dioxide emissions have been calculated using DEFRA's guidelines at: [www.nef.org.uk/energyadvice/co2calculator](http://www.nef.org.uk/energyadvice/co2calculator)
- 8 F&C's figures are for the UK, Netherlands and Ireland offices.
- 9 Lombard electricity is for consumption from July 2005 to July 2006. Fuel oil is only recorded for in the Lombard office and is an estimation based on square metres of lease.
- 10 UK L&P and FPI CO2 emissions from gas and electricity are only recorded for the head offices. These are Dorking, Exeter, Isle of Man, London, Manchester, and Salisbury. Manchester gas emissions are not recorded.
- 11 UK L&P and FPI CO2 emissions from gas and electricity numbers, except for 2002, have been restated this year. Previously Isle of Man and London electricity use had been included as renewable energy, when it is actually non-renewable. 2002 numbers have not been restated, as do not have accurate enough records to restate numbers with confidence. Do not have accurate records of 2005 Isle of Man electricity and gas usage; the current records do not fit with trend data and usage is suspected to have been higher than what has been recorded.
- 12 Figures for F&C are for business travel only. Figures include travel from all offices except for the US and Portugal.
- 13 Lombard's petrol and diesel emissions from company cars are estimated from money spent on petrol and diesel.
- 14 Figures for UK L&P, FPI and Lombard are emissions from company cars only.
- 15 F&C's waste has been calculated by converting estimated volumes of waste in litres into weight using DEFRA's guidance of 1 litre of uncompacted office waste weighing 0.1 kilogrammes.
- 16 F&C's waste recycled is paper only.
- 17 UK L&P and FPI figures are for paper and plastic cups only.
- 18 UK L&P and FPI's paper figures have been restated. Previous figures only included plain A4 office paper use. Now figures include plain A4, A4 letterhead, A4 4-hole and A3 paper. Paper used in Marketing print in 2006 amounted to 412 tonnes.
- 19 Figures include F&C's UK, Netherlands, Portugal and Ireland offices.
- 20 F&C's "office paper" comprises all paper used in photocopiers and computer printers. Quantities of paper consumed for marketing purposes have not been measured. (All paper used for marketing purposes is 100% post consumer waste recycled paper).
- 21 Figures are based on water usage and number of employees at Dorking, Exeter and Salisbury offices only.
- 22 This includes cash contributions, hours contributed by staff during paid company time, the value of non-cash contributions and all costs associated with having the community affairs function in place.
- 23 Lombard's community spend was converted from euros to pounds sterling using conversion rate €1 = £0.673798 – the conversion rate as of 29 December 2006.
- 24 This is the gross amount of money donated as one-off or intermittent donations of cash, product, facilities, or employee time in support of local, national or international appeals, or of employees' charitable activities.
- 25 These are payments the company contributes as the matching gift including any incidental management or administration fees where met by the company.
- 26 Absence for UK L&P and FPI excludes those on income protection.
- 27 F&C's 2002 headcount includes 39 transitional staff.
- 28 F&C's 2002 figure relates almost entirely to redundancies occasioned by the acquisition of RSAI.
- 29 For the purposes of this report in 2006, managers at F&C are defined as employees earning a base salary of £50,000 or more.
- 30 UK L&P and FPI's turnover figures stated are "avoidable turnover" – i.e. turnover for reasons not including retirement, death, redundancy, temporary staff, dismissed, secondment to another company, transfer of business or resigned during disciplinary.
- 31 F&C calculation of employee turnover has excluded redundancies and transitional staff who left F&C when all integration activity following the acquisition of RSAI was completed in July 2002.
- 32 Voted at 100% of eligible meetings but 94% of meetings overall due to shareblocking in 2006.
- 33 F&C figures are for UK only
- 34 UK L&P and FPI figures are for UK only.
- 35 F&C's total CO2 emissions for 2004 did not include business travel.

# Targets for 2007

As each part of the business has its own tactical approach to CR, each part of the business has its own targets. Lombard has previously never set CR objectives or targets. In 2007 Lombard's objective is to better understand its current position and the opportunities for improvement. Lombard's target is therefore to be able to have targets in future years.

## UK L&P and FPI targets

Area	Objective	2006 target	Achieved		2007 target
CSR Management System	Further develop our management system	<ul style="list-style-type: none"> <li>Maintain BitC score (2005: 92.5%)</li> </ul>	✗ 89.5%		<ul style="list-style-type: none"> <li>Maintain 2006 BitC score</li> </ul>
Suppliers	Work with suppliers to improve the social and environmental performance of our supply chain	<ul style="list-style-type: none"> <li>Continue to work with priority suppliers on CR-related issues</li> </ul>	✓		<ul style="list-style-type: none"> <li>All print suppliers to have ISO14001 accreditation by September 2007</li> </ul>
		<ul style="list-style-type: none"> <li>70% of print work to be carried out by suppliers with ISO accreditation or audited Environmental Management Systems</li> </ul>	✓ 85%		
		<ul style="list-style-type: none"> <li>Increase recycled content in paper to 100% for office papers and 80% for printed material</li> </ul>	✓	1	
Emissions	Reduce the consumption of energy and the environmental impact of inter-office travel	<ul style="list-style-type: none"> <li>Implement individual site travel plans</li> </ul>	✗	2	<ul style="list-style-type: none"> <li>Zero increase in energy use at head office sites</li> </ul>
		<ul style="list-style-type: none"> <li>3% reduction in energy use</li> </ul>	✗		
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"> <li>10% reduction in general waste to landfill tonnage</li> </ul>	✗		<ul style="list-style-type: none"> <li>15% reduction in landfill waste from head office sites</li> <li>15% increase in paper recycling at head office sites</li> </ul>
		<ul style="list-style-type: none"> <li>Implement new paper recycling system across all sites</li> </ul>	✗	3	
		<ul style="list-style-type: none"> <li>10% increase in recycled paper tonnage</li> </ul>	✓	4	
		<ul style="list-style-type: none"> <li>10% increase in recycled plastic cup tonnage</li> </ul>	✗		
Community	Increase staff involvement in community investment	<ul style="list-style-type: none"> <li>Increase percentage of staff participating in GAYE to 13%</li> </ul>	✓		<ul style="list-style-type: none"> <li>Increase participation in volunteer reading scheme by 20%</li> <li>Achieve 20 team challenge days within Friends in the community programme</li> </ul>
Turnover and Absenteeism	Continue to manage the downward trend in staff turnover and absenteeism	<ul style="list-style-type: none"> <li>Staff turnover not to exceed 12.4%</li> </ul>	✓ 9.6%	5	<ul style="list-style-type: none"> <li>Avoidable staff turnover not to exceed 12.4%</li> </ul>
		<ul style="list-style-type: none"> <li>Absenteeism not to exceed 3.2% of working time</li> </ul>	✗ 3.25%		<ul style="list-style-type: none"> <li>Absenteeism not to exceed 3.2% of working time</li> </ul>
Diversity	Mirror the ethnic mix of the communities from which we draw our employees	<ul style="list-style-type: none"> <li>Continue to modify recruitment practices to improve diversity in selected areas</li> </ul>	✓	6,7	<ul style="list-style-type: none"> <li>Continue to modify recruitment practices to improve diversity in selected areas</li> </ul>
	Raise awareness of diversity and equal opportunity topics	<ul style="list-style-type: none"> <li>Maintain and improve upon the Business in the Community 'Opportunity Now' Silver award</li> </ul>	✓	7	<ul style="list-style-type: none"> <li>Maintain and improve upon the Business in the Community 'Opportunity Now' Silver award</li> </ul>

1 Achieved in June 2006

2 Site plans implemented in Exeter

3 Paper recycling implemented in Dorking, Exeter and Salisbury

4 Paper recycling tonnage increased from 334 tonnes in 2005 to 493 tonnes in 2006

5 Target stated "in target areas" in previous report. This should have been omitted. Target is for avoidable turnover.

6 We have introduced an equal opportunities monitoring form which is now attached to application forms, enabling us to monitor diversity of candidate applications and conversion to successful hire rates.

## F&C targets

















Area			Measure	2006 target	2006 actual	F/A*	2007 target
Energy sourcing	Energy obtained from renewable sources where markets exist	^	% total electricity	79	85	F	85
Emissions	Carbon dioxide emissions from travel	^	Tonnes/employee	1.3			
Use of other resources	Office paper sourced – recycled	^	%	100	100	F	100
	Office paper manufacture – chlorine free	^	%	100	100	F	100
Waste disposal	Paper recycled	^	%	>50	60.1	F	65
Investment properties	Tenants covered by tenants' charter	^	%	100	100	F	100
	BREEAM ratings on new office developments of "Very Good" or better		%	100	100	F	100
	Legislative breaches		Number	0	0	F	100
Staff number and diversity	Proportion of managers trained in equal opportunities	+	%	100	0	A	100
	Employee turnover		% per annum	<15	13.5	F	10–12%
Staff satisfaction	Staff participatin in annual opinion survey		%	75	74	A	75
Remuneration and benefits	Proportion of employees provided with membership of pension schemes		%	100	100	F	100
	SAYE employee share ownership	^	% total staff at year end		47.5		50
Wellbeing	Accidents		Employee days lost	0	0	F	0
	Health and safety fines		Number	0	0	F	0
	Upheld complaints alleging harassment of any sort not acted upon		Number	0	0	F	0
Customers	Number of ombudsman complaints referred and upheld			0	0	A	0
Payment of suppliers	Creditor days		Days	<30	13	F	<30
Responsible engagement overlay	<b>reo</b> <sup>®</sup> engagement milestones in year of which:						
	Corporate governance		Number	130	153	F	140
	Other ESG engagement		Number	95	115	F	100
Proportion of companies contacted following an abstention or vote against management	%		%	>99	100	F	>99
Charitable giving	Matching employee GAYE contributions	^	£'000	>18	18	F	18
	Matching employee GAYE contributions	^	% of employees participating	15	6	A	10

F Favourable result against target

A Adverse result against target

^ UK only

+ Training course due to be rolled out to all staff in Q1 2007

 <p>Dow Jones Sustainability Indexes Member 2006/07</p>	 <p>FTSE4Good</p>	 <p>Business &amp; Community CORPORATE RESPONSIBILITY INDEX 2006</p>	 <p>customer impact</p>
 <p>CARBON TRUST Making business sense of climate change</p>	 <p>Business in the Community</p>	 <p>LBG</p>	 <p>Forum for the Future</p>
 <p>FRIENDS PROVIDENT Foundation</p>	 <p>Stewardship 22 YEARS OF UK ETHICAL INVESTMENT</p>	 <p>re:o™</p>	 <p>FRIENDS in the community</p>
 <p>INVESTOR IN PEOPLE</p>	 <p>opportunitynow men   women   workplace</p>	 <p>THE TIMES TOP 50 WHERE WOMEN WANT TO WORK 2006</p>	 <p>Best Places to work in IT 07 ComputerWeekly</p>



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