Schroders
Socially Responsible Investment Review

2007 Annual Report

In this booklet we provide general information on our asset management services.
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Executive Summary

In 2007, the Schroders SRI Team continued its focus in three key areas of activity: shareholder resolutions, engagement activities and ethical investment.

One hundred and twenty two shareholder resolutions were voted on, mostly tabled at the Annual General Meetings (AGMs) of US companies. Requests were most frequently put to management on labour standards and equal opportunities, animal welfare and animal testing issues, emissions of climate change and greenhouse gases and corporate disclosure on climate change related risks and opportunities. Just over 50% were supported by us.

Our engagement activities in 2007 culminated in a total of eighty SRI-led corporate engagements. Schroders SRI team continues to demand more consistent and output related key performance indicators from corporate responsibility programs, partly to justify corporate investment and allocation of resources to this area and to ensure that these programs add value but also to improve overall disclosure and transparency on behalf of all stakeholders. Our efforts in change facilitation continued in this respect, but we noted that requests for change, recommended in previous years, were taking more than one year to implement and so monitoring of the progress of company CR programs remains a key part of engagement.

In 2007 we also saw an increase in funds under management (FUM) restricted by ethical criteria (otherwise known as Ethical investment). Total FUM as of the 31st December 2007 equated to £9.2bn. The increase on last year from £4.2bn is partly explained by existing clients allocating more funds to ongoing ethical restrictions for example in tobacco, alcohol and gambling but is also down to the actions of the Sudan Divestment Taskforce which has led to certain clients requesting the withdrawal of funds from companies with direct and indirect operations in Sudan.

This year also saw the launch of a new investment fund by Schroders called the Global Climate Change Fund. The SRI team has actively supported the launch of the Global Climate Change Fund, utilising a comprehensive knowledge of global climate change trends and policy to evaluate the impacts of climate change on sector and company strategy. Those companies believed to benefit from climate change trends and policies have been placed in the Global Climate Change Fund Universe.

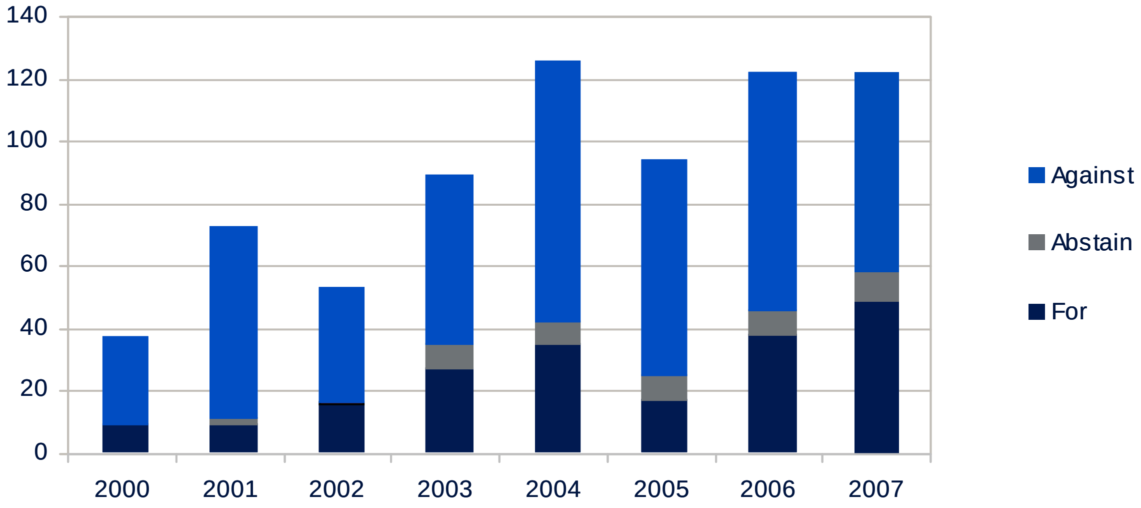
Externally, Schroders has participated in a number of industry initiatives promoting corporate disclosure and political leadership on the risks and opportunities presented by climate change. We have signed up to the UN Principles of Responsible Investment (UN PRI); were signatories to the Bali Communiqué issued by the Corporate Leadership Group on Climate Change; signed a Statement on Climate Change by the Institutional Investors Group on Climate Change (IIGCC) and become a signatory to the Carbon Disclosure Project for the next three years.

Section 1

Shareholder Resolutions Review

In 2007 Schroders continued to see the use of shareholder resolutions as a tool for engaging with company management. As in previous years, the number of shareholder resolutions is predominantly tabled at the AGM's of US companies, as putting forward resolutions is considered a more effective way of raising concerns with management than engagement in the US. This year saw the number of shareholder resolutions on which we have voted topping 100 for the third time since 2000 (see Graph 1). This underlines this method of engagement as a favoured tool for shareholders in US companies.

Graph 1: Schroders International voting record from 2000-2007 on SRI shareholder resolutions



Our voting decisions are determined by:

- <u>The quality of the resolution</u>. If the resolution is poorly or loosely worded it makes it difficult to determine the exact purpose of the resolution and hence we would be unable to support it.
- <u>The purpose of the resolution</u>. We will only support resolutions that are in the long term interests of shareholders. Some resolutions over the last year have had a distinct moral purpose which was not in the long term interest of shareholders and hence we have voted against it.
- <u>Transparency</u>. The company's public disclosure with regards to the resolution. We have noticed that some resolutions are aimed at issues which the company is already publicly reporting on, or has addressed, and have therefore not supported them.
- <u>Historical voting actions</u>. Whether the company has faced similar resolutions in the past and how we voted on them then. In some instances companies have faced similar resolutions for several years running yet the quality of their response to the issue raised by the resolution has not improved in that time. We would take this into account in determining whether to support the proponents of the resolution or company management.

Some of the reasons why we vote against a resolution include: if the nature of the resolution is not fully aligned with regulatory requirements, if the cost involved in meeting the resolution would significantly outweigh the benefits to shareholders; if the time frame proposed for meeting the resolution is unrealistic; if the wording of the resolution is not specific and the requirements of the resolution are unclear, then a conclusion on how to vote cannot be reached. Graph 2, overleaf, demonstrates how we have voted on shareholder resolutions over the last five years

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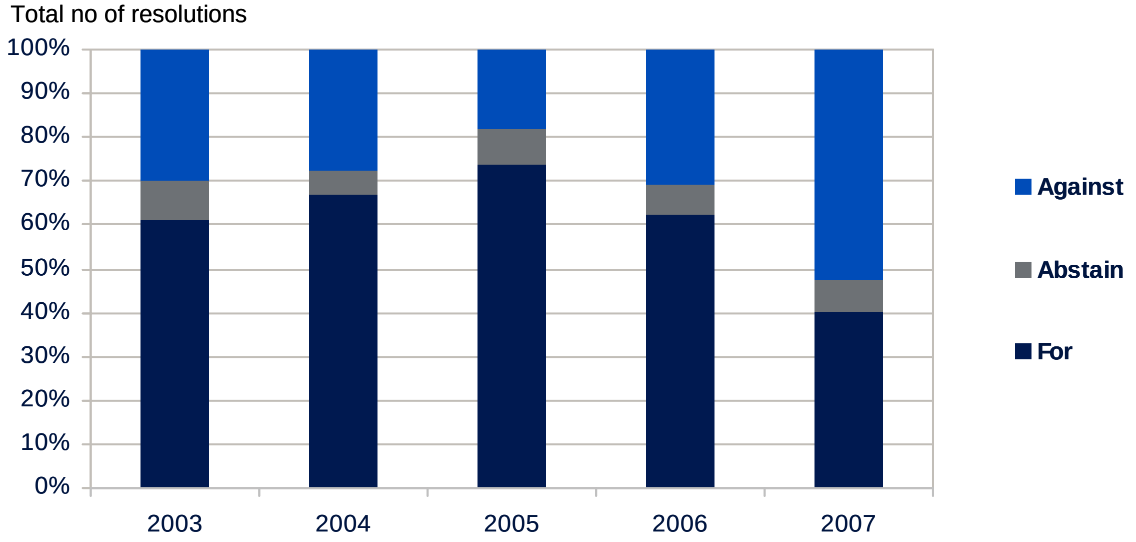


Graph 2: Schroders International voting record from 2003-2007 on SRI shareholder resolutions (please note the figures in the columns are the absolute number of shares voted, not percentage of votes)

Table 1 (over leaf) shows a break down of the more common shareholder resolutions since 2000. In creating this table we have selected information that focuses on a broad theme but acknowledge that individual resolutions may be more specific in nature. For example, resolutions focusing on board diversity, sexual orientation, workforce diversity and equal opportunities are all incorporated into the 'equal opportunity' group. This year we have re-arranged the table to create a section on 'governance' which includes shareholder resolutions on executive pay links to CSR / sustainability performance and sustainability reporting.

The popularity of different voting issues varies from year to year and is also a reflection of our shareholdings as we only vote on companies with whom we have invested. Table 1 shows that labour standards and equal opportunities remain the greatest area of concern for shareholders as reflected by the constant high number of resolutions on these topics. There also continues to be a relatively high number of resolutions focusing on animal welfare and animal testing issues, a trend which has continued since 2005, and is a direct reflection of the current use of shareholder resolutions by animal welfare campaign groups. Resolutions on climate change and greenhouse gases have doubled since 2006 to reach an all time peak in 2007, reflecting escalating public concern about climate change and increased use of shareholder resolutions to promote corporate disclosure on climate change related risks and opportunities.

There has also been an increase in the number of resolutions on nuclear power, due to concerns about the health and safety issues of nuclear waste at Japanese utility companies and an increase in resolutions requesting sustainability and CSR reporting, a number of which were linked to requests for increased reporting on how climate change is impacting their operations and how companies can mitigate and adapt to climate change. There were no resolutions on environmental policy or HIV/AIDS in 2007, perhaps reflecting progress in these areas as most companies now have an environmental policy and key multinational companies working in heavily HIV/AIDS exposed areas now operate comprehensive HIV/AIDS management programs.

Table 1: Breakdown of SEE voting issues since 2000 (by number of resolutions)

	Issues	2000	2001	2002	2003	2004	2005	2006	2007
Ethical	Animal Testing/Welfare	0	0	0	1	4	18	14	12
	Genetically Modified Organisms	3	5	5	2	5	6	6	3
	Weapons	2	3	0	4	8	5	5	5
	Tobacco	0	4	2	7	8	5	8	3
Environmental	Toxic Chemicals	0	2	2	3	5	3	2	2
	Greenhouse Gases & Climate Change	0	2	2	6	12	5	7	14
	Renewable Energy & Energy Efficiency	1	4	3	5	5	0	4	1
	Nuclear Power	1	4	3	10	11	5	7	10
	Protected Areas	2	2	3	0	3	2	3	1
	Environmental Policy (including timber)	2	3	6	3	2	2	4	1
Social	Equal Opportunities	5	9	6	11	13	9	12	15
	Labour Standards	6	14	16	14	12	16	24	22
	HIV/AIDS	0	0	0	2	8	4	1	0
	Drug Pricing/Access	4	5	4	1	5	7	0	1
Governance & Reporting	Corporate Responsibility /Sustainability Report	0	0	0	3	5	3	7	10
	Executive Pay link to environmental, social and governance	0	0	0	1	2	3	1	2
Other	Miscellaneous	11	16	1	17	19	2	18	20
Total number of resolutions voted on		**37**	**73**	**53**	**90**	**127**	**95**	**123**	**122**

Schroders

Section 2
Engagement Activity Review

As we reported in last year's annual review, there is substantial divergence over the definition of 'engagement' within the Socially Responsible Investment (SRI) community. This review refers to our SRI engagement activities only which we define as:

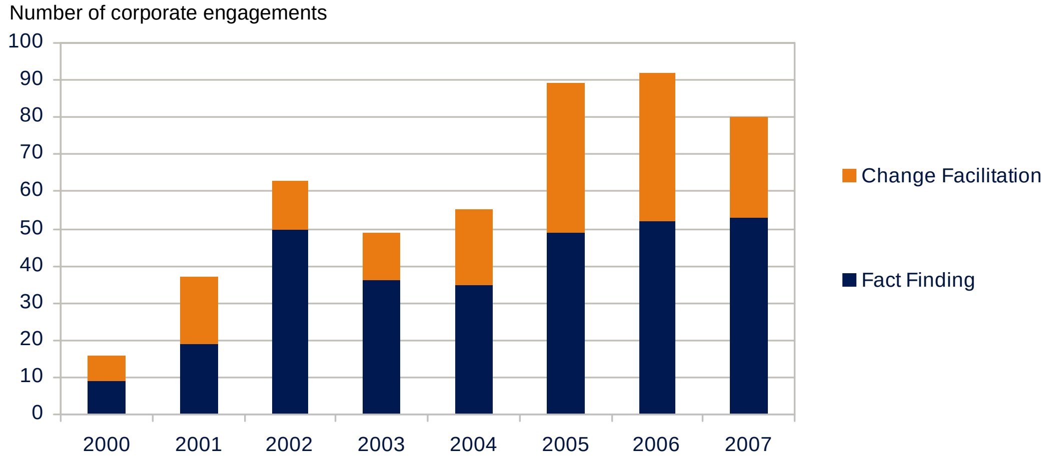
— Monitoring the ongoing Corporate Responsibility (CR) performance of a company and, or, filling in gaps in our analysis (fact finding)

— Making suggestions for change if a company's CR performance or processes are below acceptable standards

We believe that ongoing monitoring and discussion with companies on CR is a vital part of our engagement activities even if we do not recommend that the company improve its performance in certain areas. This is because it serves to demonstrate to a company investors' interest in its CR performance and hence act as an indirect means of encouraging ongoing investment in CR programmes. We utilise the information from these meetings to further develop our analysis of a company in relation to its peers, if the company is a laggard in its sector or is not addressing specific issues that could potentially damage long-term shareholder value, then we will encourage the company to improve its performance.

Schroders formalised its SRI activities and established a dedicated SRI resource in 2000. In 2000, the level of CR disclosure by companies was very poor, with few companies producing anything more than a basic environmental policy. Since 2002-03 companies have embraced CR reporting and the number of reports, and detail of information within them, has grown significantly. An increase in the use of relevant standard key performance indicators (KPIs) has also allowed better analysis and better evaluation of CR programs by investors, which has encouraged further engagement.

Graph 3: Schroders SRI Corporate Engagement records from 2000 to 2007



Graph 3, shows the growth in corporate engagement since 2000. The increase in SRI resource in Schroders in 2005 led to an expected escalation in the number of company engagement activities undertaken. To this end, companies have also faced growing investor pressure for an explanation of the business case behind their CR programs to justify the investment and allocation of resources to this area.

In 2007, the SRI team also became heavily involved in the development of the Climate Change Fund, in particular in the initial development of the investment universe. This led to the initiation of a large number of climate change meetings which have not been included in our log of SRI led corporate engagement due to the fact that many of these companies are outside of Schroders's SRI Pan European remit. These meetings also had and continue to have more of a specific climate change and financial focus than typical SRI corporate engagement, which looks at a companies overall CR programme.

Table 2 provides five year average performance information on our engagement activities from 2003-2008 and also shows breakdown of our engagement activities, the total number of companies engaged with and what proportion of this engagement has been to facilitate change (the remainder being for ongoing monitoring and fact finding).

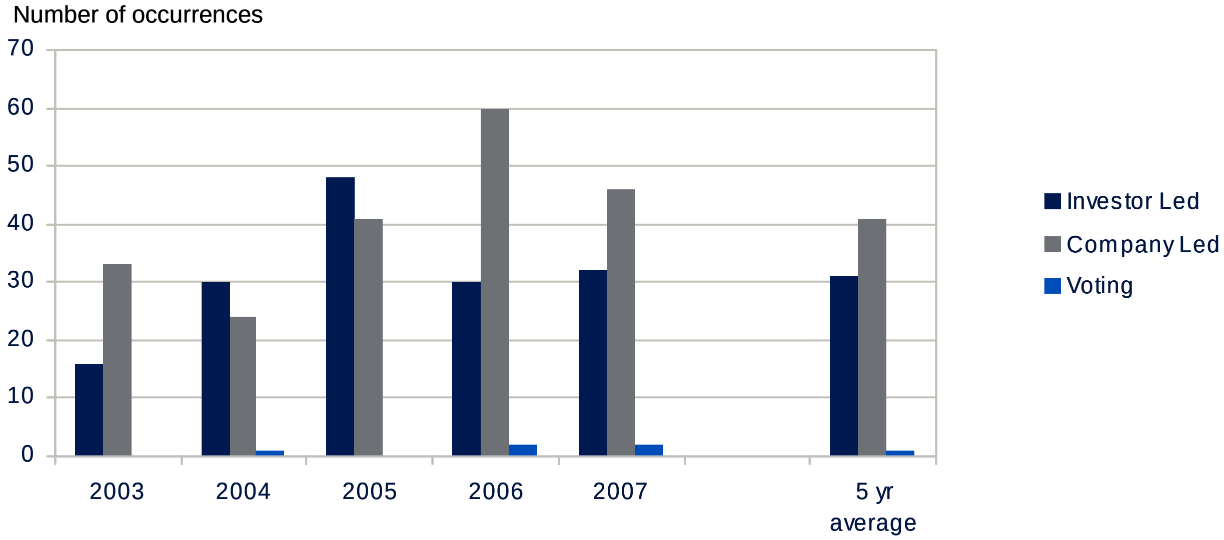
Table 2: A 5 year review of suggestions for change

Year	Engagements	Suggestions for change (absolute)	Suggestions for change (%)
2003	49	13	27
2004	55	20	36
2005	89	40	45
2006	92	40	43
2007	80	27	34
5-yr average 2003-2008	73	28	37

Graph 4 also provides a reflection of how active Schroders has been in its engagement programme. It provides a breakdown of our corporate engagement in terms of whether engagement has been initiated by us or by the company or was a result of a shareholder resolution. Some of our SRI corporate engagement is facilitated by the investor and broker community, but companies do also initiate engagement. With regards to the legend for graph 4:

- Investor Led – refers to occasions where we have instigated engagement with companies as a result of either our sector or thematic research or as a result of a one off concern.
- Company led – this refers to instances where companies have been presenting their CR performance to the market (either directly or with the assistance of brokerage houses) or have been presenting on specific issues.
- Voting – Section 1 has already reviewed the shareholder resolutions that Schroders has voted on. These are more common in the US then Europe due to different corporate governance regulations between the two regions. However there are occasional shareholder resolutions placed at the AGMs of Pan-European companies and these are included here.

Graph 4: A 5 year review of Pan-European SRI engagement activity



Between 2003 and 2006 there has been a significant rise in company led activity because more companies are ‘coming to market’ with annual CR reports, delivering SRI Roadshows and Sustainability or CR conferences. As a result of the increase in company led activity (either directly or through broker houses), we have found companies to be more proactive in organising meetings and have not needed to be as proactive ourselves. The reasons for increased corporate activity in CR are partly down to increased broker research and coverage of SRI activities but also due to increased societal awareness of environmental and social issues which are acting as a stimulus for companies to increasingly publicise their Environmental, Social and Governance (ESG) standards and of course increased societal concern over climate change, which is having a knock on effect and encouraging investment in corporate CR programmes generally, for example through energy efficiency.

Last but not least, it is worth noting that we continue to maintain our Pan European focus in corporate engagement. The number of engagements with continental European companies increased from 31% of our overall engagement activity in 2005 to 40% in 2006 and was roughly similar in 2007, at 37.5%.

Section 3

'Suggestions for Change' Performance

This section reviews the effectiveness of the engagement instances where we have recommended that a company change an aspect of its CR programme (e.g. improved disclosure, greater focus on more strategic issues). As we have noted in previous SRI annual reports, that whilst it is possible to claim participation in a process it is not always possible to claim that any change in management practice or policy is solely down to the engagement activity of the individual stakeholder, as company Boards have to take into account the considerations of a wide group of stakeholders (e.g. employees; pressure groups; local communities, government and investors) as well as legislative drivers and industrial forces.

Table 3 provides a review of our performance between 2001 and 2006. Any requests for change are reviewed on an annual basis as this tends to be the standard reporting period for most companies on CR, though we have noted that some requests for change take longer than year to fully implement. In the table the arrows indicate whether there has been an increase/decrease/no change in that category over the year.

The following subjective ratings have been used to assess the effectiveness of any suggestions for change that we have made:

- No Change – there is no obvious response to our suggestions
- Some change – the company is able to demonstrate that it has started to implement some response which would begin to satisfy the suggestions we made
- Almost there – the response by the company has gone a long way to satisfying the suggestions that we made
- Achieved – the aim of our suggestion for change has been met

Table 3: UK Engagement activity since 2001 and assessment of the effectiveness of suggestions for change. The arrows (and dashes) indicate the trend on last year's data.

Year	Total number of Suggestions for change	Current status of suggestions for change				
		No change	Some change	Almost there	Achieved	Other**
2001	19*	0 (-)	1 (↓)	0 (-)	14 (-)	Four companies have been taken over or sold. Thistle, Rank, Hilton Hotel and Pillar Properties.
2002	13	1 (-)	0 (↓)	3 (-)	8 (-)	Enterprise Oil was taken over by Royal Dutch Shell.
2003	13	1 (-)	1 (-)	2 (-)	9 (-)	
2004	20	1 (↓)	3 (↓)	5 (↑)	11 (↑)	
2005	40	3 (↓)	8 (↓)	10 (↑)	18 (↑)	EGG PLC has been sold to Citigroup
2006	40	9 (↓)	15	7	8 (↑)	Boots PLC and Alliance Unichem have merged.

*an additional engagement in 2001 has been noted from last year 2006's Annual Review.

**these refer to companies where suggestions for change no longer apply.

Table 3 demonstrates how successful our engagement activities have been over a five year period. It shows that 78% of suggestions for change were 'almost there' or 'achieved' between Jan 2001 and Jan 2003. This figure rises to 80% between Jan 2001 and Jan 2004 also between Jan 2001 and Jan 2005. An analysis of the 2005 data indicates that 70% of suggestions for change could be rated 'almost there' or 'achieved' over this one year period. However, for the most recent period of 2006, only 35% of suggestions have been 'achieved' possibly indicating the assumption that suggestions for change can be met or almost met within one year may be too optimistic.

Table 4, below, summarises companies which have demonstrated 'no change' in 2007. There are three chemical companies, reflecting our focus on this sector in 2006 and the subsequent chemicals sector report in early 2007. The quality of reporting, on the whole, was quite high in this sector with the exception of these three companies. There are also two pharmaceutical companies, Schwartz Pharma and Sanofi; two Swiss based financial companies, UBS and Zurich; Holcim (a cement company), Rio Tinto and British Energy which have noticeably not changed their reporting in response to our suggestions, to date.

Table 4: Engagement actions where 'no change' has been achieved.

Year	Company	Reason
2002	Colt Telecom	We had originally suggested that Colt could improve its CR performance by disclosing quantitative data on human capital, energy efficiency and client relations.
2003	BP	This company is recognised as one of the leaders in CR (despite an annus horribilis in 2006). Unlike financial reporting, there are no legislative standards for reporting on CR data and so we had suggested that the company report its performance against industry wide data (where possible) which would enable a better analysis of its performance with regards to its peers. To date this has not been done and there is only one other company in this sector (Shell Transport and Trading) which is beginning to make efforts to do this.
2004	House of Fraser	The company had very poor CR disclosure and we discussed the benefits of being able to demonstrate to shareholders the benefits of measuring and managing its environmental and social exposures. The company has not improved its disclosure levels, however we have no shareholdings in the company and so our influence with management will be limited.
2005	Dixons/DSG International	Since this engagement Dixons has re-named itself DSG International. Dixons had previously stated that it would publish human capital data in its Annual Report, but we have had no such statement from DSG and there is no information in its report.
	Dairy Crest	The company has not responded to our request to develop group level environmental performance targets
	Colt Telecom	Following on from our review of engagement activities last year we wrote re-iterating our suggestions that it could improve its disclosure on human capital, customer relations and energy efficiency. We have not had a response.
2006	British Energy	We encouraged British Energy to provide more information on how it encourages energy efficiency amongst its consumer base - as this would also aid BE's case in the argument over developing nuclear fuel as a future electricity source. However, the company has not enhanced its disclosure on energy efficiency to date.
	UBS	We noted that UBS still seems to lack a clear CSR strategy, including objectives and non financial performance indicators at senior management level and supporting programmes. Its not clear how the company evaluates its CSR performance currently. Reporting on customer behaviour, including retention and customer satisfaction also remains absent.
	Zurich Financial Services	Zurich reports very clearly on governance, ethics and environmental management systems but we have asked the company to report on its specialist environmental liability product range and, more crucially, to provide performance information on its 2-3 year investment in a corporate cultural change programme.
	Schwartz Pharma	We had hoped to see improved disclosure from this company from human resources, particularly on employee data, and also on the implementation of their EMS. They have no CSR report, but neither do they present this information in their annual report or on their website. Information on their business practices was obtained only from engagement.
	Rio Tinto	The company has an interesting and cutting edge project in the pipeline to improve workforce 'wellness' but has not presented a convincing business case for this investment, though they believe productivity will benefit. We have asked them to set performance indicators here and more generally in human capital.
	Sanofi Aventis	We have encouraged Sanofi to improve its reputation by demonstrating that it has improved internal product risk management processes, thereby avoiding share price falls as incurred by the rejection of Accomplia by the FDA and loss of key products to generic competition.
	Linde	Due to the merger of Linde and BOC last year the company has not yet produced a more recent CSR report since 2005. In due course we hope to see H&S and EMS targets and employee questionnaire programs rolled out in the near future across the group.
	Solvay	Solvay still reports on an irregular basis - there are no yearly CSR reports. Performance indicators and targets need to be disclosed to provide a clearer indication of company direction in its CSR programme.
	Umicore	We have encouraged more comprehensive reporting in human capital indicators, clear consistency over years, annual collation of employee satisfaction data and more explicit information on levels of investment in eco-efficiency initiatives.

In contrast, Table 5 (below) highlights those companies where, following a review of a company's publicly available information, we have rated our suggestions as having been achieved in 2007. For a full list of all company engagements in 2007 please see Appendix 1.

Table 5: 'Suggestions for change' rated as Achieved during 2006

Year	Company	Reason
2004	Standard Chartered	Ongoing engagement has confirmed that Standard Chartered has heavily invested in its environmental and social credit risk assessment process in recent years and the quality of their credit risk assessment process continues to improve, in line with peers and industry best practice. We believe this is a good proxy for the overall robustness of their credit risk management systems and dealings with all clients. We originally had concerns that the company had insufficient protection against loss of reputation and credibility from loans to corrupt governments.
2005	DNB	DNB have produced a comprehensive CSR report for 2006 which comprehensively demonstrates and reports on their CSR program.
	Lloyds TSB	Lloyds CSR program has developed more direction and includes performance indicators for human capital, customer and HSE management. We originally asked for more comprehensive reporting on material SRI issues to the bank, with greater emphasis on CSR strategy and reporting areas such as human capital and customers.
2006	Swiss Re	Swiss Re is a market leader in product management of SEE risks, but was weaker with respect to the management of its own general operations. We recommended the company develop indicators on human capital management. Swiss Re now has indicators on age range, diversity, contract type and turnover, with full descriptions of related policies and programs to drive performance in the above areas.
	Nestle	A review of the website in 2007 indicates that the company does produce consolidated data for environmental indicators, but not for the range of stakeholder issues you would expect to be disclosed. However on writing to the company on this issue we have received a written confirmation that a group level report will be produced in 2008 and annually thereafter. We therefore rate this as achieved.
	GlaxoSmithKline	As suggested, GSK has demonstrated increased focus on product risk management and continues to lead the sector in its demonstrating leading industry practice in non financial performance. The company has demonstrated excellent CSR reporting this year in its 2006 report.
	Barclays	Barclays 2006 report demonstrated leading practice on all the relevant SRI risks and opportunities to the business and a comprehensive reporting format in all these areas. The report had a slightly more strategic focus than previous years as requested.
	First Group	The company has amended its code of ethics to include reference to unionisation and the ILO principles which is what we had recommended.
	Telecom Italia	We asked TI to maintain standards of global reporting information at the level of sophistication that it has previously reported to. This was achieved in TI's 2007 report which now applies to its global operations and includes quantitative targets
	L'oreal	We asked L'oreal to improve its disclosure on supply chain management. The 2006 sustainability report provides a high level of disclosure on supply chain management, including information on the company's commitment to the labour standards, streamlining of the SCM process, audits undertaken and the results of this audit. This helps to show that the company is making efforts to ensure that it has good engagement with its supply chain an area of potential risk to sales and reputation should any negative issues over labour practices emerge. We therefore rate this engagement as achieved.
	Holcim	Has now produced a wide range of full sustainability reports for 2006.

Section 4

Sector / Thematic Reports

We produced three sector reports in 2007 on the chemical sector (Box 1), Food Retailers Sector (Box 2), and Construction Sector, (Box 3) and one thematic report on the water industry (Box 4). Full copies of each of these reports can be obtained from your Client Director.

Box 1

Chemical Sector Report

Executive Summary

This report reviews the three most important emerging environmental, social and ethical (SEE) areas of risk and opportunity to the chemical industry at present, namely: energy and carbon management, product stewardship and emerging green markets. Regulatory change, and in particular the increasing number of environmental European Directives which have a direct impact on the European chemical industry is the main influence, but there are also others. Energy management concerns are also driven by the need for energy security and to mitigate the impact of rising energy prices. Product stewardship trends are also being driven by wide public concern for the safety of chemicals both in humans and the environment. This is combined with the wider industry need to cut costs through process innovation. Finally, the European Commission, in responding to the perceived threat of climate change, is creating new green markets and a strong incentive for research and investment in low carbon technologies.

These three areas of both risk and opportunity are shaping the European and Global chemical market at all stages from raw material choice, product design, development, manufacturing, marketing, packaging, storage to final distribution of chemical substances to end market. What differentiates companies from a social, environmental and ethical investment perspective is how well a company responds to this legislation; companies that respond cost effectively, innovatively, proactively and following legislative trends will derive competitive advantage over its peers.

Companies reviewed in this report are Air Liquide and Linde, (industrial gas), Syngenta and Yara International (agrochemicals), Akzo Nobel, Bayer AG and Solvay, (hybrid chemicals), BASF (primarily commodities) Ciba, Clariant, Givaudan, ICI, Johnson Matthey, Umicore, DSM and Croda (speciality chemicals). These chemical companies represent approximately 75% of all sales in the European chemicals market, including all European chemical companies, they account for 31% of the world's chemical sales.

The results show the relative position of chemical companies as follows, with the highest ranking (a score of 12) reflecting the maximum score and highest positioned company: BASF (12), Bayer (9), Akzo Nobel (8), Johnson Matthey (8) ICI (7), Ciba (7), DSM (6), Solvay (6), Umicore (6), Syngenta (5), Air Liquide (5), Clariant (5), Yara (4), Givaudan (3), Linde (2) and Croda (1). A more detailed breakdown highlights BASF, Bayer and Clariant have the highest ranking of all companies in terms of energy management. The resource efficiencies and positioning of these companies in terms of the EU Emissions Trading Scheme (ETS) is highly favourable. Company leaders in product stewardship include BASF, Akzo Nobel and Ciba and emerging competitors in this area include DSM, Bayer and ICI. Finally, those companies with preferred positions in green markets include BASF, Johnson Matthey and Umicore (in the auto-catalyst market) and Air Liquide and Linde which are also expected to benefit from the application of their gas separation technologies to emerging green markets.

Reviewing those companies which have performed less well in our rating, it is worth noting that Linde and Syngenta’s scores are unfairly affected by their inapplicability to the EU ETS. Taking this into account, their overall scores are (5) and (7) respectively. Clariant and Givaudan have low scores due to their relatively weaker product stewardship programmes and a lack of presence in any green market. Croda also suffers an even lower score because it has also refused to disclose energy management data.

Box 2

Food Retailers Sector Report

Executive Summary

This report assesses the corporate responsibility of the 7 leading (listed) Pan-European Food retailers. In order to make it as comparable as possible it utilised data that was publicly available in 2006 that referred to the companies' performance during 2005-2006.

It found that within the food retail sector, whilst increasingly in the public eye, there is a large variance in the quality of transparency on non-financial performance indicators. It also found that there is a large amount of variance within the type of data disclosed, making meaningful quantitative comparisons difficult.

The companies were assessed based on their strategy, performance and transparency in six key areas. The areas were chosen as there is a clear link between them and the financial or reputational performance of a company. Whilst in isolation this may not be material, in aggregate there is the potential for these issues to affect corporate performance and to provide a useful proxy of management quality. The issues that were assessed were:

- Customers
- Products
- Supply Chain
- Employees
- Environment
- Community

As a result of our analysis we were able to grade the companies, based on their performance against the above issues, from 1 to 4 with 1 being the best grade. The results were as follows:

1	**2**	**3**	**4**
Tesco	Carrefour	Metro	Morrison
	Sainsbury	Ahold	Delhaize

Box 3

Construction Sector Report

Executive Summary

This report reviews the impact of the emerging trend of sustainable construction on the business practice of contractors. Sustainable construction refers to the practice of incorporating certain green and social credentials in building operations; these include demonstrating the importance of low whole life costs, reducing the use of resources, ensuring an optimal working environment and meeting customer requirements where eco-buildings are specified.

This report analyses corporate behaviour and reporting on sustainable construction from contractors in respect of four key areas: the working environment, resource management, stakeholder relations and eco-products. The European contractors reviewed are Balfour Beatty, Carillion, Kier Group, Morgan Sindall, Eiffage and Skanska. At the outset, it is noted that the corporate response to sustainable construction is still very embryonic. In part, this is because there are barriers to change such as the perceived increased cost of building green, a lack of expertise on the subject, denial of responsibility, poor communication between clients and contractors and a lack of commitment plus insufficient incentive. Levels of disclosure and transparency in reporting vary from company to company and may not reflect all of a company's activity in this area. Nonetheless, the analysis and rating(s) within this report are limited to publicly available information in 2006.

The report finds that companies are gradually responding to the 'vision' of sustainable construction and moving business practice in this direction. For clarity, companies have been rated against their commitment to sustainable construction based on a scale of 0-3: 0 indicating no disclosure, 1 poor disclosure, 2 moderate disclosure and 3 good disclosure. Ratings are relative and the maximum score for any one company is 3 for each of the four key areas, equating to 12. Balfour Beatty achieved the highest score of 10, demonstrating sector and peer leadership in three key areas: resource management capabilities, working environment and shareholder relations. However, the company lost sector leadership to Skanska in the fourth key area of eco-building performance. Skanska's expertise in eco-building and the level of integration of eco-efficiency design in 120 plus group projects is unrivalled. Unfortunately for Skanska, poor commitment and/ or transparency in other key areas led to a reduced overall score of only 6.

Apart from Balfour Beatty and Skanska its felt that other companies demonstrated relatively poor group level disclosure in 2006 with ratings given to Morgan Sindall of (5), Carillion (3), Eiffage (2.5) and Kier Group (1). If these latter companies are as inactive in these areas of sustainable construction as their reporting suggests then these companies are exposed to some risk of being outperformed by their peers, through improved quality of service, improved marketability of products and superior risk management.

Box 4

Water: Cheap and Abundant but not for long

Water is essential to life on earth, it covers two thirds of our planet and yet only 0.6% of all water on earth is available to the world's flora and fauna. Demand is driven by the combined pressures of population growth, economic development, a more protein rich global diet (70% of global water use is for agriculture), over appropriation and rural to urban human migration. Water use has increased six fold in the last 100 years and is expected to increase by 50% over the next 20 years.

Supply is being constrained due to the dwindling number of clean freshwater reserves as a result of climate change and water pollution (25-30% of all reserves are now polluted) and due to the irregular distribution of water. The impacts of increasing demand and the constraints of supply mean that global water scarcity is increasing. The UN estimates that the percentage of the global population living with water scarcity will increase from 8% in 1995 to 42% by 2050. Constraints to water availability have economic implications and business will need to demonstrate that they have assessed the long term sustainability of their business models through water risk assessments of their supply chains, their business process (and location) and future consumer demands; and have developed water management programmes to counteract these risks.

Sectors with particular exposure are those with strong reliance on agricultural inputs (e.g. Food producers); those with high levels of water use in their production process (e.g. beverages, mining and pulp & paper) and those who produce high levels of aquatic pollution (e.g. textiles and mining). The increase in global water scarcity will also offer opportunities to business in developing new sources of water (e.g. desalination and recycling); improving the supply of freshwater reserves through infrastructure upgrades (benefiting companies such as Weir and Rotork); improving the efficiency of water use (e.g. Spirax-Sarco as well as those companies producing more water efficient consumer products) and in reducing water pollution (e.g. Christ Water Technology). We would also expect a general increase in the recognition of the value of water leading to increased prices for water, benefiting water utilities in general (e.g. Veolia Environment, United Utilities and Wavin).

Section 5
Ethical Investment

In addition to shareholder advocacy Schroders also provides ethical investment services. We utilise the research of the Ethical Investment Research Service (EIRiS) to help develop screens for investment universes that would reflect our clients' values. Typically these would exclude companies based on certain moral criteria, for example tobacco, pornography or alcohol, however we are also able to develop more sophisticated screens which would reflect the materiality of a company's exposure to an issue (e.g. only excluding companies with over 10% of turnover derived from tobacco) and indeed the source of a company's exposure (e.g. is the company deriving revenue from tobacco due to be a tobacco producer or a tobacco retailer).

Table 6: Ethical FUM, using December Year End data.

Year	Ethical FUM (£bn)	Percentage of overall Group FUM
2007	6.00	4.4
2006	4.22	3.3
2005	4.47	3.6
2004	3.97	3.8

Table 6 provides data on Ethical funds under management (FUM) since 2004 and what proportion this represents of our overall FUM. Table 7 demonstrates the key ethical screens that we implement by ethical FUM and by percentage of clients with ethical screens.

Table 7: Ethical Screen breakdown by percentage of Ethical FUM and percentage of client policies.

Screen	% ETHICAL FUM	% Clients with ethical screens
No Tobacco	21.75%	50.57%
No Arms	3.42%	5.75%
No Arms and Tobacco	0.04%	3.45%
No Gambling	14.90%	3.45%
No Gambling and Alcohol	22.52%	4.60%
No Gambling, Alcohol and Tobacco	0.14%	1.15%
No Gambling, Alcohol, Tobacco and Arms	0.81%	6.90%
No Gambling, Arms, Tobacco, Biotech, Nuclear	1.52%	6.90%
No Healthcare and Pharmaceuticals	2.73%	2.30%
No investments in listed companies with direct or indirect operations in Sudan	22.77%	6.90%
Other	9.41%	8.05%
TOTAL	100.00%	100.00%

Section 6
Global Climate Change Fund

At the beginning of 2007 Schroders launched the Global Climate Change Fund. Schroders believes that there are excellent returns available to investors wishing to invest in companies that will benefit from efforts to accommodate the impact of climate change.

This view is supported by the accelerating pace of national and international policy action on climate change, which is creating a very favourable medium and long term outlook for companies involved in efforts to mitigate or adapt to climate change. It is also supported by the Stern Report (2006) which states that there is a requirement for emissions per unit of GDP to be 25% of current levels by 2050 (in order to avoid the more extreme climate change scenarios). This leaves no alternative but to completely rebuild power generation and automotive sectors with new technology and to fundamentally rethink society's land use, construction and deforestation processes. These industrial transformations will bring huge opportunity for companies, making climate change perhaps the most important investment theme of the next few decades.

The SRI team has been actively involved in the development of this Fund. In particular, through the process of researching and identifying companies that will benefit from climate change and compiling an investment universe. The main climate change impact on companies is driven by the process of mitigation. Mitigation refers to action taken to reduce greenhouse gas emissions, for example, by improving energy efficiency, switching to low carbon fuels and clean energy. Drivers of mitigation include government and consumer efforts to promote energy efficiency, and to reduce greenhouse gas emissions through mechanisms like the European Trading Scheme (EU ETS) in carbon emissions and renewable energy incentives. Increasingly though, as the impacts on the environment become more apparent, adaptation will play a larger role as companies and consumers will have to respond to the effects of climate change including rising temperatures, weather volatility and water shortages. Adaption is the response to the effects of climate change on agriculture, forestry, water resources, coastlines and other ecosystems. Schroders climate change fund is investing in both mitigation and adaptation opportunities, though the emphasis in the short term is likely to be on mitigation where the largest near term opportunities are. When assessing the significance of climate change on an investment case, we consider the impact of all these factors on expected revenue growth, operating margin and capital intensity of the company. Stocks in the universe are then classified as beneficiaries of either the mitigation process or adaptation to the effects of climate change. In general we look to invest in well positioned industries, specific technology solution providers and well positioned companies.

The Global Climate Change product utilises a bottom-up, fundamental research driven approach, and aims to significantly outperform the MSCI World over the cycle. Stock selection is the primary driver of performance, with proprietary company research key to our investment process. Schroders believes an unconstrained portfolio dedicated to investing in these well positioned industries and companies will generate very strong investment returns. As of Dec 31st 2007, the Global Climate Change Fund had £205 Million AUM (EUR 278 Million).

Section 7
Additional SRI Activities

In addition to our engagement and voting activities, the SRI team maintains its awareness of issues through participation in numerous events, and utilises its experience to help provide feedback to initiatives and to ensure Schroders has a voice in the continual development of SRI. In 2007, we signed up to the United Nations (UN) Principles for Responsible Investment (http://www.unpri.org/); we were signatories to the Bali Communiqué issued by the Corporate Leadership Group on Climate Change; we signed up to a Statement on Climate Change prepared by the Institutional Investors Group on Climate Change (http://www.iigcc.org/) and became a signatory to the Carbon Disclosure Project for the next three years. The table below provides a list of additional SRI and climate change related activities during the course of 2007.

Activities

Sector	Activity	Host Organisation	Subject
Chemical	Seminar	UK Social Investment Forum (UKSIF) and Chemical Industry Association.	REACH Seminar. Cost implications to industry and next stage administration procedures
Finance	Seminar	Schroders and UKSIF	Debt and financial exclusion in the UK
Insurance	Conference	The Fund Business	New climate change related products, natural catastrophe modelling and climate change science
Mining	Seminar	UKSIF, International Council for Metals and Mining.	The role of sustainable mining and sustainability in this sector
Forestry and Paper	Sector Review	European Social Investment Forum (EUROSIF)	Sector review of the social and environmental risks and opportunities facing the Pulp and Paper Industry
Food Producers	Sector Review	(EUROSIF)	Sector review of the social and environmental risks and opportunities facing food producers.
Pharmaceuticals	Seminar	Access to Medicine Index (AtM)	A new research project assessing how industry is going to respond to access to medicine initiatives
Pharmaceuticals	Seminar	UKSIF / Pharma Futures	Presentation of a new report on long term value in the pharmaceutical industry and the implications for access to medicine.
Utilities	Collaborative Research	Institutional Investors Group on Climate Change	Development of a disclosure framework for carbon management within utilities
Thematic			
Climate Change	Conference	UBS	Climate Change Conference(s)
Climate Change	Seminar	FTSE4Good	5th Anniversary of FTSE4Good
Climate Change	Conference	www.zerocarbonbritain.com	Zero Carbon Britain – a theoretical look at what a zero carbon Britain would look like
Climate Change	Seminar	Forum for the Future	Schroders sponsored a Forum workshop which assessed the impact of climate change on the retail sector.
Sustainable Development	Seminar	UK Sustainable Development Commission	Assessment of UK Sustainable Development Policy
Aging Population	Conference	West LB	French FAIRE Conference
Community Investment	Seminar	London Benchmarking Group	A tool for measuring community investment programmes
SRI Industry	Seminar	Pension Fund Investment Forum	A presentation on Climate Change and Pension Fund Management

Appendix 1

Glossary

AGM – Annual General Meeting
CDP – Carbon Disclosure Project (http://www.cdproject.net/)
CEO – Chief Executive Officer
CO_2 – Carbon Dioxide
CR – Corporate Responsibility (a term that is quickly eclipsing the CSR term as the preferred terminology)
CSR – Corporate Social Responsibility (see CR)
EC – European Commission
EMAS – Eco-management and Audit Scheme (www.emas.org.uk)
EMS – Environmental Management System
ESG – Environment, Social and Governance
EU – European Union
EU ETS – EU Emissions Trading Scheme
FD – Finance Director
FDA – Food and Drug Agency
FTSE – Financial Times Stock Exchange (www.ftse.com)
GHG – Green House Gases
H&S – Health and Safety
HSE- Health, Safety and the Environment (can also be SHE, EHS)
IR – Investor Relations
KPI – Key Performance Indicators
R&D – Research and Development
REACH – Registration, Evaluation and Authorisation of Chemicals
SEE – Social, Ethical and Environmental
SRI – Socially Responsible Investment
UK – United Kingdom
UKSIF – UK Social Investment Forum (www.UKSIF.org)
US – United States of America

Appendix 2

Annual Compilation of Company Engagements

Company	Engagement Activity
Basic Materials	
Chemicals	
Air Liquide	Air Liquide gave a presentation on its investments in emerging markets driven by environmental legislation and other market trends. The company highlighted the use of hydrogen in the desulphurisation of refining emissions for the generation of clean fuel; ongoing R&D in fuel cells; the use of oxygen to create cleaner emissions and the development of anaesthetic gases. The company is innovative, proactive and well positioned to grow in these niche markets.
BASF	We met with BASF to discuss its aspirations and plans for its Crop Science division, which accounts for 9.4% of company sales. BASF has identified green biotechnology and genetic engineering (GE) as one of 5 growth clusters. It has earmarked €330 million for this research, which is its largest research and development growth cluster out of a total pot of €850 million. Controversially, BASF have developed a GE potato (amflora) with altered starch composition for use as renewable raw material in paper. BASF is confident the product will be approved by the EU because it is not for human consumption. Its research focus is to develop increased yields in crops such as corn. It is also focussing on combining high yields with increased crop protection products.
Bayer	We met with Bayer to discuss its aspirations and plans for the Crop Science division, which accounted for 18% of company sales in 2006. The company is launching 26 new active ingredients between 2000 and 2011 and is hoping for a combined peak sale of €2 billion. Currently, €1 billion of sales have been achieved and it is on target for 2011. The company sees its crop science division as a growth opportunity, due to population growth and increased crop yield requirements. The focus of R&D is to improve yield strains and 'stress resistance' technology which enhance a plant's ability to withstand climatic extremes (drought, floods).This is also to be combined with enhanced crop protection.
CIBA Speciality Chemicals	We met with Ciba Investor Relations and its sustainability team. Ciba has traditionally been very technically focussed on its environmental management systems and operating efficiency but this meeting demonstrated a growing confidence in its ability to use this knowledge to sell greater customer eco-efficient solutions, particularly in the plastic additives and coating effects divisions where innovation is the key to business performance.
Croda International	Croda recently acquired Uniqema from ICI. Uniqema has strong product stewardship and responsibility systems, commensurate with ICI's strong tradition. The remaining business is less well positioned; the forthcoming REACH[1] legislation brings new product safety data requirements and an increase in animal testing, which conflicts with Croda's desire to conduct as little animal testing as possible. Croda management refuses to disclose absolute energy consumption and CO_2 consumption. UK installations have a record of good energy management, but European installations may require investment in energy efficiency as a result of the EU ETS Phase II.
ICI	ICI demonstrates excellence in CSR[2]. It has an innovative, strategic and highly respected CSR agenda which is determined by the heads of all business divisions and applied throughout the business. ICI has a long-standing record in product stewardship going back to 1998, which is a highly respected value adding system and used consistently across the business. A similar approach to resource efficiency has also yielded a very low energy intensive and efficient business.
Rhodia	We had a teleconference call with senior management to discuss the company's new production innovations in response to climate change. The company is increasingly investing in automobile energy efficiency, through the use of silica tyres, filter and catalysis additives, and polyamides (plastics), used to replace heavier weight metal. In addition, Rhodia is the most proactive chemical company with regards to greenhouse gas trading schemes and has facilities to reduce its nitrous oxide emissions creating 11-13Mt Certified Emissions Reduction (CER)/ annum and valued at approximately 14 Euros per tonne. Rhodia is therefore carving out a strong business response to climate change and is a leading sector player in terms of emission trading.
Royal DSM	DSM provided an overview of its investment in white biotechnology[3] . It aims for an increase in sales of €1bn by 2010 and hopes to generate cost efficiencies in 37 existing product processes (all product processes have been assessed to see if it is cost effective to convert the process to biotechnology). We anticipate this conversion will support targets to reduce resource consumption and further improve eco-

[1] REACH – Registration, Evaluation and Authorisation of Chemicals

[2] CSR – Corporate Social Responsibility

[3] Also known as environmental biotechnology, is the application of natural processes to the production of bio-based chemicals, materials and fuels.

	efficiency but no specifics have been given on cost savings, although these were understood to be potentially 'significant' to the processes concerned. DSM's business model is to license its biotech innovations (25 licences already exist) and to take royalties.
Umicore (Q1 & Q4)	The company's main product ranges all stand to benefit from the potential impacts of climate change and increasing environmental regulations. Umicore is ready to launch a diesel particulate catalyst for trucks/lorries to help them comply with the EURO5[4] regulation coming into force in 2008/9. This market is estimated at approximately €100million, but take-up is uncertain. Its main competitor is Johnson Matthey. Auto catalysts will need to be continually evolved to work with more efficient engines (and the End of Life Vehicle Directive means Umicore is developing expertise in recycling catalysts as well). Recycling of rare and precious metals is cheaper than processing of raw materials. Demand for rechargeable batteries will continue to grow and the recycling of waste electrical equipment (and Umicore's expertise in this area) will increasingly feed this market. Umicore is also investing in concentrated technology for solar panels and lithium batteries, which could become strong enough to power cordless domestic products and cars. Umicore also has a joint venture in fuel cell technology with Solvay to produce methane based hydrogen electrolysis units. One negative area is the zinc smelter in Belgium which will face increased energy costs due to the emissions trading scheme, however Umicore will have to absorb these costs as it competes against smelters in other markets that are not covered by an emissions trading scheme.
Yara International	Yara provided an overview of its position in relation to European carbon trading, which is seen as a business opportunity. Yara currently has a surplus of 200,000 CO_2t/annum under the EU ETS allocations. In Phase II, Yara will not include its ammonia plants in the EU ETS. Yara's ratio of greenhouse gas emissions of C02:N20 are 1:1 and the company is developing new technology to cut N20 emission by up to 90%. Yara is petitioning for the inclusion of nitrous oxide (N_20) under the EU ETS and wishes to sell the emission reduction technology to competitors. These types of products currently comprise about 3.5% of turnover and growth rates for these markets are estimated at up to 15% year on year.
Forestry and Paper	
Stora Enso	We discussed with Stora its approach to biomass, biofuel production, chain of custody of forest products and the relative merits of different certification systems. Stora intends to increase its energy production from biomass in the longer term, already the vast proportion (>50%) of its energy is produced from renewable sources. The company has set up a joint venture with Nesté oil to manufacture biodiesel and this is still in research phase but on schedule. Though Stora do provide some detailed reporting of the percentage of its wood which is covered by chain of custody we found an overall group figure hard to elicit and encouraged the company to improve the transparency of its reporting next year.
Mining	
Anglo American (Q2 & Q4)	Anglo American upholds high CR standards to ensure continued access to resources, development finance, timely project execution and reputation. This is essentially the business case for CR investment for all mining companies. Behaving responsibly equals good corporate risk management at both strategic and project level. However, the business case is still primarily about risk for Anglo, avoiding the substantial downside from events such as employee strikes and health and safety disasters which can impact share price. Ironically, the company has not managed to avoid health and safety disasters. The company currently has an unacceptable health and safety performance record, with 46 fatalities in 2005, 44 in 2006 and 27 in 2007 to date. This year, poor health and safety performance has led to product shaft closures and reduced production of refined platinum by 10,000 to 15,000 ounces, in South Africa. The company now has a new CEO, vision and a programme to improve health and safety going forwards. The company also highlighted the critical importance of good community relations and excellent water management to ensure these factors do not constrain business expansion or project delivery.
BHP Billiton	Operationally BHP's environmental management reporting represents best practice. All sites above a certain level of carbon emissions are required to have energy and greenhouse gas conservation/investment plans and products have undergone lifecycle assessments. In terms of climate change, the company sees the aluminium and carbon steel materials businesses benefiting from the light weight properties of these metals and relative energy efficiency; the uranium market is booming from zero carbon nuclear prospects and only its coal business is perhaps disadvantaged by European utility customers concerned about emission levels. This risk is managed through the bundling of coal sales with carbon credits, BHP's long established CDM trading desk and the accompanying extraction of coal bed methane.
Rio Tinto	Rio Tinto is very technologically competent in terms of its eco-efficiency programmes and also operates best practice environmental management reporting standards. Rio has also conducted extensive life cycle analysis of all its products to identify how climate change drivers impact product sales and to investigate the carbon footprint of products. The company has harnessed a competitive ability to find energy efficiencies in product processes for it and for customers concerned about life cycle impacts. The company sees opportunities for the business in aluminium (because its light weight), copper (which offers more efficient conduction) and iron ore (Rio has a proprietary energy efficient process).

[4] EURO 5 – will restrict vehicle emissions that are harmful to human health

Xstrata (Q3 & Q4)	Xstrata's own experience has led to a realisation that CSR standards are 'critical' to governments permitting access to resources. In Xstrata's view CR is also critical to reputation and to maintaining trust between all stakeholders at project and corporate level which is key to fulfilling strategy aims, accessing finance and timely project execution. Sustainable development for Xstrata is seen as managing the balance between the outward flow of resources from a country on the one hand with the flow of tax, skills and the introduction of an active local economy into the country on the other. Its CR program has a strong community consultation/investment ethic, and in this respect, demonstrates greater vision and commitment to extending the social benefits of corporate responsibility to stakeholders than some of its longer standing peers. Xstrata's Health, Safety, Environment and Community (HSEC) Assurance program represents best practice within the sector and has been a success with the heads of commodity divisions, motivated by incorporation of HSEC in annual operational metrics and therefore annual bonuses. Xstrata's challenge going forward is to manage resource constraints and pollutants in certain geographical regions, where they are key constraints to business expansion.
Consumer Goods **Automobiles & Parts**	
BMW	This meeting was a chance for BMW to update investors on its efforts to improve the environmental efficiency of its vehicles, a clear area of development for all automobile manufacturers but one which BMW views as a long term risk, as a driver for its programme was concern that at one stage it may no longer be socially acceptable to drive a BMW. BMW was able to demonstrate improving performance, however with a fleet dominated by large premium vehicles its emissions profile will always be pushing the industry's emission profile up, rather than pulling it down. The company claims to place its future in hydrogen (which would deliver zero carbon emissions) but this technology is a long way off (if at all) due to the dangers and challenges of distribution and storage. With regards to the upcoming regulations on EU fleet emissions profiles, BMW is pushing for limits based on vehicle size as opposed to all manufacturers having to meet the 130g/km average, claiming that any other approach would negatively impact jobs, and create more competition in the smaller car market. Even if the decision favours BMW, in the medium to long term BMW will have to do more to improve its emissions profile, as momentum on minimising greenhouse gas emissions continues to gather pace.
Renault	We visited Renault's test track in France for the presentation of the new 'ECO2' branding and to view, and test drive, a more efficient engine design and a biofuel powered vehicle. The 'ECO2' branding means that all production facilities will have environmental management systems in place which will improve production efficiencies and decrease wastage; that Renault will commit itself to selling 1m vehicles with emission below 140g/km and a third of these will have emissions below 120g/km by 2009 and that all vehicles will be 95% recyclable. In addition, the new engine designs have improved the efficiency of smaller engines making them competitive with larger ones. The day demonstrated that whilst Renault may have missed an opportunity when looking at the growth in sales of Toyota's Prius, it's focus on decreasing emissions and developing a greener brand image will help it to capture consumer sentiment, meet increasing regulatory constraints on engine emissions and gain voluble market share and experience in an increasingly carbon constrained car market.
Food Producers	
Associated British Foods	Our financials analyst attended a tour of British Sugar's (an ABF company) ethanol refinery. He took the opportunity to question the Finance Director (FD) on the allegations in a recent report about abuse of labour standards within the supply chain for Primark (another ABF company) and its potential reputational impact. The FD stated the company conducts regular audits that had revealed some poor labour practices at some of its suppliers. ABF no longer works with these suppliers.
Nestle (Q1 & Q2)	The CFO presented on Nestlé's latest thematic report, focusing on water management. Water plays an incredibly important role in the success of the company through its importance in the agricultural supply chain; its use in its manufacturing process, its bottled water products and with customers needing access to clean water to use many of the company's goods. The company has made significant efforts to improve its water use in its operations, but with agriculture accounting for 70% of global freshwater use, its efforts within the supply chain will have the greatest impact. Whilst it has set targets for water management within its own operations, we have suggested it develop targets for its supply chain as well. Nestle has also set up a dedicated team of agriculturalists and founded the Sustainable Agriculture Initiative to help address this. The company acknowledged that water scarcity is a serious risk to the business model, but unlikely to be a crisis in the next 5 to 10 years. There is also deep concern within the organisation over the impact of increasing biofuel demand on crop prices and the impact of climate change on this and water management. Nestle was able to demonstrate efforts to improve knowledge of, and best practice in, climate change responses within its supply chain. The company also demonstrated a clear focus on understanding the developing markets in which it is operating and creating nutritional and distributional solutions to the challenges these present.

Premier Foods	Our consumer analyst noted that the impacts of drought (potentially exacerbated by climate change), global population growth and biofuel growth were all factors causing the price of wheat to double since last year and prompting the CEO of Premier to state that we are now in a period of food inflation compared with the last 30 years of food deflation. Whilst this did not change the analysts ratings for the company it does serve to demonstrate the increasing importance of environmental issues on financial performance of companies with exposure to organic raw materials
Household goods	
Reckitt Benckiser	We met with IR and Head of Sustainability to discuss its Carbon 20 programme, which is part of a cost optimisation programme called 'Squeeze', aiming to generate £30 million/year in cost savings. Carbon 20 aims to deliver a 20% reduction in carbon footprint per unit of product. The company was strongly of the view that Carbon 20 is not about generating a new ethical product line, but about ensuring mainstream products continue to meet consumer expectations. Extensive life cycle assessment reveals that consumers have the highest carbon footprint (50-70% of product lifecycle) and raw packing the second highest (30-40%) so the programme focuses on educating the consumer to use their products efficiently (e.g. at lower temperatures) and reducing packaging among other things. This programme is unique in the industry and potentially equips Reckitt for the introduction of wider industry carbon labelling, one step ahead of its peers. However, the company could usefully provide further details of the methodology to be used to calculate its carbon footprint per unit and what performance indicators it will be using to report progress.
Consumer Services **Food & Drug Retailers**	
Metro AG	Following the publication of our Food Retailers note in Q2 2007, Metro contacted us to discuss our findings and ways in which it can improve its rating. With the increasing prominence of ethical consumers within the consumer base we were disappointed with the level of disclosure Metro had given to this area, it has since stated that it will increase disclosure on organic products, fair trade and Marine Stewardship Certifications. In addition we had criticised the company over its poor disclosure on animal welfare/rights - it has stated that it has very good systems in place (and has won awards) but had not disclosed this and will do so in its next report. We discussed climate change with the company; it claims to have a tougher challenge than its competitors as it had already implemented many of the programmes that its competitors are discussing now; in addition the company agreed that climate change could lead to an increase in food prices which would benefit the company. Metro was clearly keen to demonstrate that it does have a focussed approach to corporate responsibility, but that its transparency on this needed to improve and we should see this in next biennial CSR report.
Sainsbury	Sainsbury presented a coherent CSR strategy on five key business areas: food and health, environment, sourcing, community and employees. Sainsbury's main competitive advantage is its food and health division, where it's progressive and ethical sourcing of organic and other speciality foods, in the UK and abroad, appeals to its customers and enhances its reputation. Sainsbury's also leads the sector in resource efficiency initiatives, particularly in recycling and packaging. Sainsbury's is keen to demonstrate that its CSR strategy is integrated into its business process and to a degree it does this well, however, we still look for more quantitative data to support the rhetoric and have encouraged the development of KPIs in food and health, environment and employee CSR programmes.
Tesco (Q2 x 2 & Q4)	The company provided investors with an update on its climate change and social mobility programmes. What was very impressive were the global targets on CO_2 reduction and on energy efficiency for all new build stores, as well as the initiation of collaborative programmes with other industry players into developing carbon footprint labelling for products. The company also noted that sales of energy efficient light bulbs have increased fourfold with customers buying them increasing from 10-30% of the customer base, though this may have been driven by reducing retail prices by 50%!). It is clear that Tesco's is and wants to continue to be an industry leader in this area. The meeting also provided a clearer indication of how the company implements measures to retain its workforce and improve the level of service that customers will receive. In addition we encouraged the company to provide details on staff absenteeism and sick leave as this would provide an indication of staff moral. Tesco said that they do collate this information and would provide it to us. Finally, Tesco faced a shareholder resolution which requested the company to be independently audited, to ensure that workers in its supplier factories are guaranteed decent working conditions, a living wage, job security, freedom of association and of collective bargaining. We discussed the resolution with the company and agreed with management that the company does audit its suppliers and respects the ILO core conventions. However to guarantee decent working conditions would be an impossibility, but it could ensure that it works with all suppliers to aim to implement the best possible working conditions.

General Retailers	
Kingfisher	We met with the Director of Corporate Responsibility and the Head of Investor Relations. This was the first time in a couple of years that Kingfisher has undertaken an investor road show, and it was disappointing. In the past the company had demonstrated a good understanding of its corporate responsibility challenges and opportunities, however with the departure of one key figure it appears that the company's corporate social responsibility (CSR) programme has taken a backwards step. The company is just beginning to collate key performance indicator data across its operations for the second year running, enabling it to set targets for the future. Whilst Kingfisher was keen to stress its environmental credentials through the provision of domestic wind turbines and solar panels we pointed out that it could achieve more through focussing on the energy efficiency of other products it offers, the company said that it is measuring this but that it would take several years to undertake, we encouraged this. In conclusion it was a disappointing meeting and demonstrated the need to ensure that corporate responsibility is supported at the highest level in the organisation in order to ensure its success, though the foundations of the CSR programme that Kingfisher are re-laying look robust.
Media	
BSkyB	We met the Director of Communications and the Director of Responsibility and Reputation for the company's first presentation of its Corporate Responsibility performance. As with most media companies it is difficult to determine the materiality of corporate responsibility to the company, however we were told that it is increasingly becoming an issue in attracting and retaining talent, which for a media firm is vital, though there was little evidence to corroborate this statement. As with other programme providers Sky covers climate change to some extent in its programming, however it's the efforts it is going to with its customers that may yield increased loyalty (providing energy efficient lighting and 'power-down' technology in Sky boxes). It was also impressive to see Sky's efforts to support formal education by providing a learning function on its service. It was encouraging to see Sky addressing its responsibilities, but difficult to determine the financial benefits that are derived from these activities.
Daily Mail and General Trust	We were contacted to provide feedback on the company's CR report. The report provides an indication of the company's aspirations, but there is little quantitative information to support this and we suggested that the company develop this. In addition we suggested that the company clearly define the corporate responsibility risks and opportunities that it faces. However given that this is a media company it has a very small environmental or social impact with the key area being human capital (another area of disclosure that we suggested could be improved).
Vivendi	Vivendi's key CSR risks and opportunities are regarding the services and offering it provides its clients, it therefore has a very good employment programme reaching out to recruit from its key markets; it has put in place substantial provisions to protect minors from inappropriate content (and to provide parental control in this respect) and it has focussed on maintaining cultural diversity in its music mix in order to appeal to a wider consumer base. The challenge, which was acknowledged by the company, will be in demonstrating how these 'softer' programmes have contributed to the financial bottom line.
Travel & Leisure	
First Choice	The company's key exposures are its environmental impacts (through its aviation fleet); the impact on host communities (in which its clients holiday) and customer expectations. Due to the fact that the company's planes are charter flights and therefore tend to fly when full, First Choice has an industry leading emissions per passenger kilometre figure, it has also purchased Boeing's new Dreamliner which will reduce overall emissions from flights. The company also audits it's suppliers on environmental and social impacts in the host communities which will help to improve standards and maintain destinations as top choice holiday destinations. However the key issue is climate change, and whilst the company acknowledges that this has the potential to impact destinations of choice, it is also increasing its long haul flight service and the number of aeroplanes in its fleet which sends conflicting messages about how seriously the company is taking its responsibility to minimise its climate change impacts and how seriously it sees the risks of climate change to its business. We have encouraged the company to improve its communications on the risks of climate change to the business and to improve its disclosure on human capital management data.
First Group	We voted on a follow up resolution to the one tabled at the company's AGM in 2006 to enforce a meaningful and enforceable company wide human rights policy and that the company report on its implementation. We voted against this resolution last year as we had met with management to discuss the issue and management had responded to our concerns by integrating ILO core conventions into the company's labour standards policy. We therefore did not see any benefit in supporting this resolution this year.

Financials	
Banks	
Alliance & Leicester	Alliance and Leicester have re-affirmed their position as the UK bank that is most in touch with its customers, with high standards in ethical and responsible lending ensuring lower arrears than industry average on personal loans. Somewhat controversially, and like other banks, however, the bank maintains a significant charge for customers going into unauthorised overdraft. Aside from this, they have continued to win industry awards for their products based on their excellent value for money and for the simplicity of product marketing and presentation. The bank is also winning many new 'direct' online bankers whilst retaining its branches to build customer relationships through more value-adding products, which is a sound business model. Going forwards the bank is upgrading its branches and distribution centres and is streamlining processes to generate further value products for customers.
ABN Amro	We met with ABN AMRO, regarded as sector leaders in sustainability, to discuss how the company approach is continuing to evolve in contrast to other players in the same peer group. ABN AMRO adopt a policy of not competing with other banks on environmental and social standards in lending and encourage all peers to adopt similar standards. This is so that ABN does not disadvantage itself to customers by enforcing stricter lending policies. Despite this, environmental credit risk assessments are providing new business opportunities, encouraging a small minority of customers to come forward when having problems with environmental regulatory compliance. A minority of customers are also seeking the credibility of banks perceived to be committed to 'sustainability'. We encouraged ABN to develop a more competitive approach in this respect.
Barclays	We met with Barclays to discuss the company's corporate social responsibility (CSR) priorities (customer management, responsible lending and financial inclusion) for this year and to gain further clarity on how their program is providing competitive differentiation to the company. The company CSR program appears fairly consistent with the industry generally. Barclays believes it has a leadership position on CSR in the sector, but it cannot provide evidence to prove this position. Barclays is not the only bank to consider its position as sector leader and we have encouraged the company to conduct a market assessment to prove this position.
HBOS	We met with the CFO and Head of CSR to discuss the recently released HBOS Carbon Action Plan. Though not a sector leader, HBOS is raising its efforts in climate change to meet rising consumer expectations. Like many banks, HBOS invests in climate change to protect its reputation and minimise downside risk, but struggles to find material opportunities and potential upside. The HBOS Carbon Plan includes a sharp focus on environmental management as this has been identified as a driver for higher levels of employee engagement. The plan also involves the continued promotion of market solutions in climate change, both in mortgage and insurance divisions, such as the green mortgage and Flood Protection Commitment, though more innovation is needed here and the green mortgage has so far been unsuccessful. Investment also continues in renewable energy. The plan lacks coverage on the corporate finance side; climate change is material to many industries HBOS lends to and there are untapped opportunities here to market loans to SME's investing in managing climate change risk and wanting to reduce their carbon footprint. We encouraged more innovation in this important area.
Royal Bank of Scotland	In 2006, RBOS conducted a major stakeholder engagement programme to identify which sustainability issues to prioritise. Retail customers identified responsible lending and marketing as their most important priority, SME's identified customer relationships, whilst employees identified climate change. We have encouraged RBOS to develop a group strategy which adds value to stakeholders and therefore the business in these areas and which may differentiate the bank from its peers.
Standard Chartered	Standard Chartered has consistently improved upon its sustainability reporting and performance over the last few years. It now operates internationally competitive sustainable wholesale lending practices, customer service and human resource programs. Whilst the bank's commitment is evident and practices are internationally competitive, we have encouraged the bank to further clarify how these programs add value to the business. We have also asked for reporting to demonstrate greater consistency and evidence of industry benchmarking.
Life Insurance	
Legal and General	Legal and General's business case for CSR is its importance to employees, encouraging loyalty, satisfaction and retention and its importance to customers, driving improved quality of service, increasing customer satisfaction and sales. In practice though, there is no evidence of these & current ad hoc programs actually making any difference to either employees or customers. We have encouraged L&G to develop KPIs which are more specific and measurable in both HR and customer service, to connect these to broader business strategy and to develop coherent programmes to support them. Legal and General is currently building up this capacity in customer services and hope to have systems in place for 2008. Similar attention needs to be applied to human resources.

Old Mutual	Old Mutual (OM) has a bottom-up approach to CSR, with business divisions leading the way and dealing with quite different issues. Of greatest importance to the business is the South African focus on Black Economic Empowerment (BEE) and Transformation (as 80% of employees are based in South Africa). BEE success is considered critical to OM's social licence to operate. OM is also driving improvements in energy efficiency. We have encouraged reporting resource consumption data at group level, group targets and KPIs, which are under consideration. OM has reported increased demand in South Africa for housing and funeral policies, believed to arise from climate change concerns.
Royal & Sun Alliance	Royal & Sun Alliance demonstrated integrated thinking and their positioning of CSR within corporate strategy as a driver of brand and quality of product offering is sensible. Customer management and the concept of treating the customer fairly is the main influence for this industry and related to this is the training and education of employees. RSA showed an awareness of these issues and growing operational commitment to improving performance in both, but systems and programmes are decentralised with little performance information. RSA is starting to centralise and organise this data, as part of a broader strategic approach, driven by the CEO.
Life and Non-life Insurance	
Swiss Re	Swiss Re is the world's largest Property & Casualty (P&C) reinsurer. There is some scientific consensus that human-induced climate change is likely to increase the severity and frequency of natural events and catastrophes and, if this happens, it should give a demand boost to Swiss Re's P&C insurance products. The extent to which the company will benefit from human-induced climate change though really depends on how well it can price in human-induced climate change risk over and above natural climate variability. The company could suffer from increased volatility in returns and losses, if premiums are not appropriately risk adjusted. Swiss Re is better positioned than most reinsurers to manage this risk, with in-house climate modelling expertise, innovative weather related risk management products and a diversified business.
Munich Re	We met with the Head of Geo-Risk to understand further Munich Re's knowledge of climate change, its risk modelling abilities, natural catastrophe modelling, how it estimates losses from such disasters and how this information is incorporated into underwriting contracts and risk management. The company has a strong competence in this area and is using this skill set to sell new climate related products to primary insurers, including renewable energy insurance, natural catastrophe bonds and weather derivatives.
Real Estate	
British Land	We listened to a presentation by the CEO at the launch of the 2006 CSR report. The company has recently revised and introduced sustainability briefs to promote sustainable design and construction in development across the company. British Land also has an internal target to exceed energy efficiency legislation and requirements by 10% for all new buildings.
Land Securities	We attended a conference hosted by Land Securities on eco-design in architecture, energy efficiency in buildings and resource efficiency. Land Securities is a sector leader in terms of its green credentials. The company has produced a policy commitment which states all its new buildings will exceed energy efficiency legislation and requirements by 20%. In addition, the company proactively monitors the energy efficiency of all its sites. Certain buildings with the lowest energy efficiency have been identified for retrofitting to improve energy efficiency. Compared to other companies in the sector, Land Securities is also extremely successful at recycling the vast proportion of its waste.
Health Care **Pharmaceuticals & Biotechnology**	
Astra Zeneca	We met with Astra Zeneca for an update on its clinical trials and patient safety, diseases of the developing world and access to medicine policies. The company has commenced a restructuring programme with an expected loss of 7600 staff, which may have negative impacts on staff morale and employee satisfaction going forward. Astra Zeneca claim that the location of trials is determined by the appropriateness of markets for conducting high quality research rather than the cheapest location, however as emerging markets gain better infrastructure they may become a more appealing and cost effective option.
GSK	We listened to a presentation by European Regulatory Affairs explaining the drug regulation system in Europe and the US. The presentation focussed on the risks and benefits of a good regulatory team and outlined how GSK has a potential competitive advantage in going beyond regulatory requirements thereby hoping to improve product robustness, quality and performance.
Roche	We attended a Roche presentation on its Access to Medicines (AtM) Program. The company is clearly delivering a value adding program, but couldn't provide data on how much is invested in AtM. Existing measurements are output orientated in terms of the number of people reached rather than input orientated. Whilst the company cannot quantify the benefits of this AtM Program, it clearly feel this is an essential part of maintaining its social licence to operate, which allows it to continue building its relationships with governments and NGOs. The company doesn't see any other form of long-term value from working in these markets and offers a 'no patent' and 'no profit' policy on drugs to these areas.

Industrials	
Aerospace & Defence	
BAE Systems	We engaged with BAE to understand further the implications of the US Department of Justice (US DoJ) Investigation. BAE advised it was unable to provide details of the DoJ investigation because it was confidential and withheld from the company. The US DoJ can request any information from BAE who are obliged to comply by law. Any investigation work is likely to follow on from the UK Serious Fraud Office investigation, which was ongoing for two and a half years, before ending for reasons of national security. Despite the BAE share price collapse following the announcement of the US DoJ investigation, BAE has stated that there has been no visible impact on existing business or future business in the US.
Construction & Materials	
Balfour Beatty	We met with senior management to discuss the value of the company's CR programme. CR programmes are part of Balfour Beatty's (BB) tight quality management systems. BB believes that CR saves projects from unforeseen delays and additional costs, supports quality and timely project execution and reduces maintenance cost. Major clients, particularly government organisations which account for a large part of BB's portfolio, but also commercial contracts, increasingly rely on BB to adhere to their CR standards to protect their reputation.
Carillion	We met with Carillion for the first time. The company's standard operating procedures reflect consistent integration of CSR issues into the business. Contracts incorporate environmental and social impact assessments, community action plans, resource action plans and biodiversity assessments for effective risk management and stakeholder management and to identify the easy cost wins in effective resource management. In addition, certain buildings meet sustainability standards where contracts permit this. The company acknowledges that eco-efficiency building carries a premium (which is variable), some of which has a payback period and is recoverable from low maintenance costs and some not. We have encouraged more comprehensive disclosure of their CSR activities as Carillion is more active in this area than its reporting at first suggests.
Kingspan (Q3 &Q4)	We engaged with the CEO of Kingspan to identify how climate change and European energy efficiency legislation was impacting the market for insulation and fibre glass products. Climate change presents an opportunity to the company. Kingspan has clearly recognised this as an area of competitive advantage and estimates that its technology puts it 5-10 years ahead of the competition and has positioned itself to benefit from both the increase in demand for more efficient buildings (insulation) and from greener energy (renewables). Although the legislation itself does not re-set member state standards, Kingspan has identified that a 40% increase in insulation per home is needed for houses to be built to the latest energy efficiency standards in the UK, which along with Germany has the highest standards in Europe. Standards across Europe are expected to rise, bringing further growth to sales through the new build and retrofit market. The company acknowledges that the majority of its sales are to new builds (whilst the majority of emissions from the built environment are from old buildings). However, a shift in focus to retrofitting will only occur with increased consumer acceptance and political pressure. The company has clearly made a strong play to focus on the energy efficiency of the built environment, and will benefit from this.
Lafarge	Lafarge have one of the best CSR programs in the cement industry, second only to Holcim. However, despite its high CR profile, its commitment to climate change (reducing its carbon intensity per tonne of cement) is still conducted within normal investment parameters and is not particularly 'stretching'. The company is relying on the substitution of clinker mainly to achieve carbon intensity targets, but it also upgrading plants (which improves energy efficiency) and is increasingly using waste as a source of energy, over fossil fuels. CO_2 reduction targets through reduced clinker use may not be stretching because clinker substitutes are now as expensive to buy as the clinker itself and due to reduced economies of scale the less clinker used the more the price of cement has to rise. As an alternative strategy, the company is introducing innovative low clinker products (though these still account for much less than 5% of revenue). The company has invested in CER's to ensure that its European production volumes are not restrained by the EU ETS in Phase II. Fatality rates remain high and we have encouraged them to work to reducing these.
Saint Gobain	Saint Gobain is a leader in energy efficiency technology solutions for the construction sector. It is well positioned to benefit from energy efficiency drivers both in new houses and in renovation of existing housing stock (an estimated 60% of European housing stock is built pre 1970 and needs renovation). A large proportion of the business is exposed to increased sales in insulation, plasterboard and energy efficient glass, markets which are all responding to increasingly regulation on energy efficiency enacted due to climate change concerns. However, operationally the company has a poor fatality record with 46 fatalities in 2006 and has a launched a Serious Accident Plan to improve upon this.

Electronic & Electrical Equipment	
ABB	The CFO was presenting on the exposure that ABB has to climate change. As a company who's main activities are in power and automation it is clearly well positioned to benefit from an increasingly environmentally and carbon constrained world. ABB focuses on improving energy efficiency within the supply chain, estimating that it can reduce losses by 20-30%, automation enables increased efficiency in various industry processes.
Schneider Electric	Schneider is confident that energy efficiency drivers in the construction market will encourage sales of energy savings devices in its business. They are already experiencing increased client interest in this area and are promoting innovations that can increase customer energy efficiency by 10-30%, (depending on the level of investment by the customer). From an operational perspective, staff turnover has increased, but Schneider argues that this is due to improved reporting standards. The company has started producing Product Environmental Profiles (PEPs) but only a few clients have expressed interest. We have encouraged Schneider to promote the PEPs further.
Industrial Engineering	
Alstom	We met with Alstom Head of Strategy and IR. Alstom is a major energy supply and service provider as well as the global leader in environmental control systems. The company is progressive on post carbon sequestration (rather than pre carbon sequestration methods) and believes the technology to retrofit will be available from 2012 onwards. Group environmental management systems are being built and are due to be reported against in 2008. They should be in line with best practice once completed. The company is positioning itself to respond to new environmental regulation on coal combustion in China.
Tomkins	We met with Tomkins to discuss the company's corporate social responsibility (CSR) priorities. Tomkins consider health and safety (H&S) the most important CSR element of its program. The company has international corporate standards on H&S, equivalent to industry best practice in North America, and therefore operates beyond US regulatory requirements at all operations. Tomkins is developing energy efficient innovations for its key automobile, general industry and buildings market which offer cost savings to consumers. These currently represent a small but growing market opportunity.
Industrial Transportation	
TNT	This was the first time that we had met with TNT. With changing demographics and an increased geographical reach the company has to adjust its business model, whilst at the same time reduce its carbon footprint (partly driven by customer pressure). The company has started to implement different delivery models (e.g. next week delivery - enabling delivery en masse and cost savings; and using electric vehicles). TNT is trialling electric vehicles in London which show promise but the company wasn't able to provide any data to demonstrate the cost benefits of running electric vehicles over standard vehicles. TNT has announced its ambition to become the world's first zero carbon distribution company, but with half the emissions coming from aviation (it has said that it would pass on carbon costs to clients when aviation becomes a member of the EU Emissions Trading Scheme), and its carbon prediction models showing no signs of decreasing over the next five years (despite modelling on a best technology scenario) it is unclear how it is going to do this. The company is a recognised leader in corporate responsibility, but it needs to demonstrate greater awareness of the cost implications of becoming carbon zero, however the early initiatives the company is taken should help it manage future regulatory requirements to reduce its emissions profile.
Oil & Gas **Oil & Gas Producers**	
BG	BG has stepped up its efforts to present a climate change friendly image, with the launch of its enhanced greenhouse gas strategy, aimed at generating a material reduction in CO_2 emissions compared to business as usual projected levels by 2012. However the real commercial benefits to BG from climate change are probably yet to come, as trends towards natural gas consumption and Liquid Natural Gas (LNG) consumption continue in preference to other fuel options, due to the lower carbon intensity of natural gas relative to coal and oil.
BP (Q3 x2)	BP provided an update on its investment programmes in health safety and the environment (HSE). These implement independent recommendations contained within the Baker Report and US OSHA report on how to improve process safety. Investments also incorporate BP's own upgrading through its new HSE operating management framework and centralised HSE auditing team. All operations are expected to be brought in line with the new standards by 2010. The new HSE management framework is expected to enforce greater accountability, priority and responsibility for process safety. We also engaged with the BP corporate governance team and remuneration committee. We encouraged the committee to develop process safety indicators alongside personal safety indicators and to develop the link between HSE performance and financial remuneration in the annual bonus (currently 30% of the CEO's bonus is attributable to non financial performance, including HSE). The remuneration committee invited our views on the incorporation of HSE indicators within the longer term incentive plan, measured through total shareholder return (TSR). It was felt that TSR was and continues to reflect HSE performance and does not need additional specific HSE indicators.

Shall Transport & Trading	Shell's CSR strategy is to find new ways to make renewable energy. Shell also aims to continue leading research in hydrogen technology; investment in biomass to liquid and biofuels (1st, 2nd and 3rd generation, though Shell doesn't see a future for 1st generation); and continue embracing cleaner hydrocarbons (e.g. Liquid Natural Gas). Unlike BP, Shell has not explored voluntary carbon offsetting at retail stations which may appeal to the public. Shell has a relatively poor health and safety record and has rightly taken lessons from the BP experience seriously. Current reviews, led by the CEO, are aimed at ensuring standards are as high as possible and Shell's creating new centralised H&S[5] systems.
Total	We met with the CEO of Total to discuss the company's sustainability strategy', which is a threefold strategy of optimising recovery rates, benefiting local economies and contributing to the moderation of energy demand. Total has invested in some wind energy and 2nd generation biomass (though neither is viewed as an economic alternative to hydrocarbon). The company also leads the sector in investment in carbon sequestration technology (the latter in a joint venture with Statoil). Due to supply constraints and problems of access to resources, Total does not rule out operations in any geographical region as a result of political risk and has no plans to withdraw from Myanmar.
Technology **Technology Hardware & Equipment**	
Nokia	This was the first meeting we had had with Nokia (one of the leaders in its sector with regards to corporate responsibility). The company was seeking information on what to disclose and who to, in order to continue to develop its CR reporting capacity. As a company it has covered the major issues it faces, however as it expands into Asia (through its supply chain) it will face increasingly challenging issues over environmental and social standards in its supply chain, but its current management systems imply that it is capable of minimising environmental and social risks to its business. It is encouraging to see a company of Nokia's quality seeking further input into the development of its CR programme.
Telecommunications **Fixed Line Telecommunications**	
BT	We met with the Head of Sustainable Development who was presenting on BT's latest corporate social responsibility (CSR) review. Whilst it is clear that BT has a good grasp of issues it needs to address, it is not clear how significant these are to the company's financial performance. By the company's own admission, key CSR issues do not have a material impact on financial performance, when taken in isolation, however overall they may do (though it is unlikely that negative performance would affect all the key issues at the same time). BT is starting to recognise that a good overall impression of addressing CSR issues is becoming important with its customers base, and the work underway at the moment to identify opportunities based on sustainable development as opposed to risk will prove to be more fruitful particularly as an increasingly carbon constrained economy is likely to increase demand for telecommunication facilities.
Telecom Italia	This was the third year in a row that we had met up with the CFO and Head of Sustainability to hear about the corporate responsibility progress of the company over the year. It was encouraging to see that TI has put in place quantitative performance targets and covers its global operations within its report (both areas of weakness that we had raised with the company last year). It was encouraging to see the progress made by the firm on analysing the link between intangible value drivers and corporate performance, and the second phase of this project (to be conducted over this year) will help to determine the key drivers within TI (though the initial results point to human capital, community relations and product innovation and quality as being key drivers). We were concerned that customer satisfaction has dipped and will monitor this going forward (TI stated that it was due to a new measuring system). Finally, with 15% of Operating costs being associated with electricity, it was encouraging to see the company developing energy efficiency indicators and to see it developing alternative services which will benefit it in a carbon constrained world (e.g. teleconferencing and traffic mobility management).

[5] H&S – Health and Safety

Mobile Telecommunications	
Vodafone (Q1 & Q3)	We attended a presentation by Vodafone on the results of its analysis into the socio economic impact of mobile phones in the developing market. It was clear from the presentation that mobile communications play a valuable role in the developing world and that Vodafone has made significant efforts to understand its role in facilitating this. Whilst the market, at present, is nascent there are clear indications that it is growing and that Vodafone will benefit from first mover advantage in this. Vodafone continues to demonstrate that it is a leader with regards to corporate responsibility and as it expands its business in developing countries it is recognising new opportunities through new business models and the societal value that access to communication can present. With regards to climate change the company is making good steps to reduce its carbon footprint (engaging suppliers on energy efficiency, working with customers to decrease energy use, network sharing with other operators as well as looking at ways to demonstrate how communication can decrease energy use elsewhere in society). We encouraged the company to disclose customer churn data, but were advised that this would be unlikely due to the sensitivity of this information.
Utilities **Electricity**	
EDP	We met with the Head of Mergers and Acquisitions and the Managing Director of America to discuss the recent acquisition of Horizon Wind Energy in the US. EDP clearly sees environmental concerns as driving demand for renewable energy sources which is affecting its strategic decision making. EDP already has a substantial presence in wind energy generation in Europe and this acquisition takes it to fourth in global wind rankings (by installed capacity). With increasing state level demand for low carbon energy sources in the US this move provides a good example of environmental concerns (especially those related to climate change) increasingly influencing business strategy, and enables EDP to leverage greater influence with turbine manufacturers and diversify geographical risks.
RWE	Together with other members of the Institutional Investors Group on Climate Change, we participated in a conference call with the Head of Environmental Policy to discuss the development of a climate change disclosure framework for the utilities sector which has been developed by the IIGCC. The aim is to encourage utilities to all provide the same greenhouse gas data so that comparisons can be made effectively. This is part of an on-going series of engagement with the sector.
Gas, Water & Multiutilities	
Centrica	Centrica has increased the focus on staff training for customer management and we have seen the exodus of customers reversed (though this is more than likely due to gas and electricity price cuts) however increased focus on maintaining customer satisfaction will bear dividends. The company's energy generation portfolio has the lowest carbon intensity of all UK generators and it continues to improve on this by increasing the size of its renewable energy portfolio and investing in carbon capture technology. The impact of its energy efficiency programmes has decreased over time, and we would hope to see this improve, but the partnership with CERES power may provide the tipping point to this. Overall the company is positioned well to benefit from the shift to a low carbon economy and with the renewed focus on improving customer satisfaction should retain the revenues to help it continue on this path.
RWE	We met with the head of IR and the head of Energy to discuss the impacts that climate change will have to the business. RWE is the largest source of CO_2 emissions in Europe with over 60% of its installed capacity in coal (a further 26% is in nuclear). This means the company is heavily exposed to market initiatives to decrease CO_2 emissions (though the costs are likely to be passed on to the consumer). Carbon capture and sequestration (CCS) is the only realistic solution to reducing the company's carbon footprint, but large scale CCS facilities are unlikely to be in operation for another 10 years. In addition the company is under pressure to close down its aging nuclear power plants in Germany. It would appear that EU energy politics is stuck between a rock (reducing carbon emissions) and a hard place (growing demand) whilst not wanting to open the door to nuclear, which would be in RWE's favour.
Veolia Environnement	We met with the CEO of Veolia who provided an in depth account of the company's strategy. The CEO highlighted important areas of development/opportunity including investment in improving water leakage rates outside of the EU, investment in desalinisation options (especially in Australia), investment in biomass and a desire to see increased incineration and heat cogeneration. The CEO also expressed commitment to increasing the energy efficiency of end customers but offered no targets.