REPORT TO: SUPERANNUATION INVESTMENT SUB-COMMITTEE OF THE FINANCE COMMITTEE - 16 NOVEMBER 2005

REPORT ON: SOCIALLY RESPONSIBLE INVESTMENT - SIX MONTHLY REPORT

REPORT BY: DEPUTE CHIEF EXECUTIVE (FINANCE)

REPORT NO: 673-2005

1 PURPOSE OF REPORT

This report reviews the progress by the Fund Managers regarding the positive engagement strategy approved by the Sub-Committee on 23 February 2000.

2 RECOMMENDATIONS

The Sub-Committee is asked to note the information contained within this report with regard to the activities of the Fund Managers during the six month period ended 30 September 2005.

3 FINANCIAL IMPLICATIONS

There are no financial implications.

4 LOCAL AGENDA 21 IMPLICATIONS

As part of the Fund's policy on Socially Responsible Investment, its investment managers are required to engage with companies on matters of social responsibility including Sustainability and the Environment.

5 EQUAL OPPORTUNITIES IMPLICATIONS

The Fund's Socially Responsible Investment policy requires investment managers to engage with companies regarding their performance in relation to Employee Care and Human Rights.

6 INTRODUCTION

On 23 February 2000 the Sub-Committee approved a report prepared by Hymans Robertson, the Fund's consultants that the Fund should adopt a strategy of positive engagement with the companies in which it invests. The four action areas were identified as Employee Care, Human Rights, Sustainability and the Environment. This report reviews how the individual Fund Managers have implemented this.

7 ALLIANCE BERNSTEIN

A summary of engagement activity over the last six months is shown at Appendix 1.

8 BAILLIE GIFFORD

A summary of recent engagement activity is shown at Appendix 2.

9 **FIDELITY**

Fidelity are devoting significant additional resources to Corporate Social Responsibility (CSR) to make it an integral part of their analysis process. Their objectives and plans are shown at Appendix 3 together with recent activity.

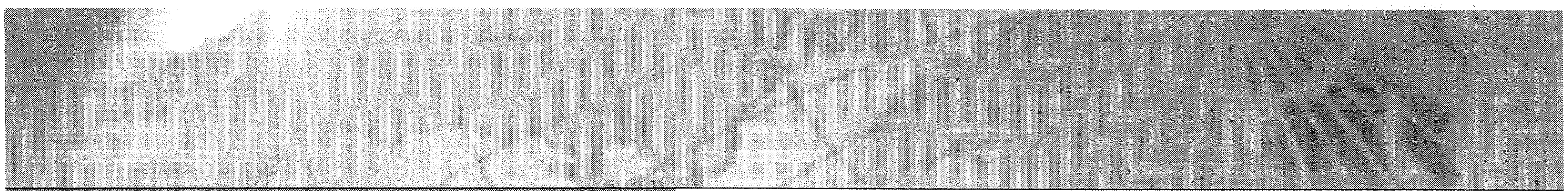
10 **OVERALL CONCLUSION**

Fidelity's approach is now to be based more strictly on a risk management basis by assessing the areas of investment where they are most exposed to SRI issues. This is a clearer means of identifying priorities and will be considered in the future development of the Fund's SRI policy.

11 **BACKGROUND PAPERS**

None.

DAVID K DORWARD
DEPUTE CHIEF EXECUTIVE (FINANCE) **9 NOVEMBER 2005**



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APPENDIX 1

Company Engagement: Refrigerant Usage

- Hydrochlorofluorocarbons (HCFCs) are used extensively in refrigeration and air conditioners
- HCFCs are ozone-depleting substances and companies within the EU are forbidden to use new HCFCs from 2010. However, they will be allowed to use recycled HCFCs to service their equipment until 2015
- Most companies we have engaged with have been eliminating HCFCs from their businesses well in advance of government requirements and directives in order to implement a smooth transition
- As far as the companies that have not started to eliminate HCFCs from their business, we have found they are currently evaluating the practical options available to them and discussing what route offers the best solution for their business
- Given the progress companies have made, the residual capital cost to comply with the future regulations is likely to be very small

Insert Tracking Code

Company Engagement: Refrigerant Usage

Ciba	The company does not produce or sell HCFCs; they use this chemical for refrigeration and they are actively seeking non-ozone depleting substitutes
InterContinental Hotels	HCFCs have been phased out except for a small number of air conditioning units. All new air-conditioning equipment they purchase uses HFCs (hydrofluorocarbons) which have zero ODP (ozone depletion potential). All new refrigeration units they purchase are specified with Hydrocarbon gas charge (HC), which also have zero ODP and negligible GWP (global warming potential)
Sainsbury	The company uses HCFCs in the refrigeration systems installed in most of its stores. They are currently evaluating the options available to them. For example, in their Clapham store they are using carbon dioxide (CO^2) as a refrigeration gas. CO^2 has a zero ODP and a GWP of one, and as such is classed as "green" from an environmental viewpoint. In addition, they are installing ammonia refrigeration systems in new distribution centres. Ammonia does not cause ozone depletion or contribute to climate change
Mitchells & Butlers	The company has been eliminating HCFCs from their pubs in line with government regulations and directives. HCFCs were present in some air conditioning units and are being steadily replaced. More prevalent historically was the use of ozone-depleting CFCs (chlorofluorocarbons) in the company's cellar cooling equipment. Companies within the EU were forbidden to use new CFCs from 1995. However, they were allowed to use recycled CFCs to service their equipment until 2000. As of 2000, CFC-equipment may be operated but may not be serviced. At this point, Mitchells & Butlers have largely replaced all CFCs from their operations
Novartis	The company uses refrigeration equipment containing HCFCs in industrial applications. The company is committed to fully support the phase out of HCFCs and will adhere to the phase out schedule as per country specific regulations. They plan, where technically feasible, to replace HCFCs with HFCs or ammonia, which have no ODP
SAB Miller	The company has been eliminating HCFCs from its European and Soft Drinks businesses and expect a complete phase out over the next two years. At the current time, the company has not established a HCFC phase out plan for their U.S. business
Whitbread	They do not use HCFCs in their products or in any parts of their manufacturing processes. Whitbread does use HFCs (hydrofluorocarbons) which have zero ODP

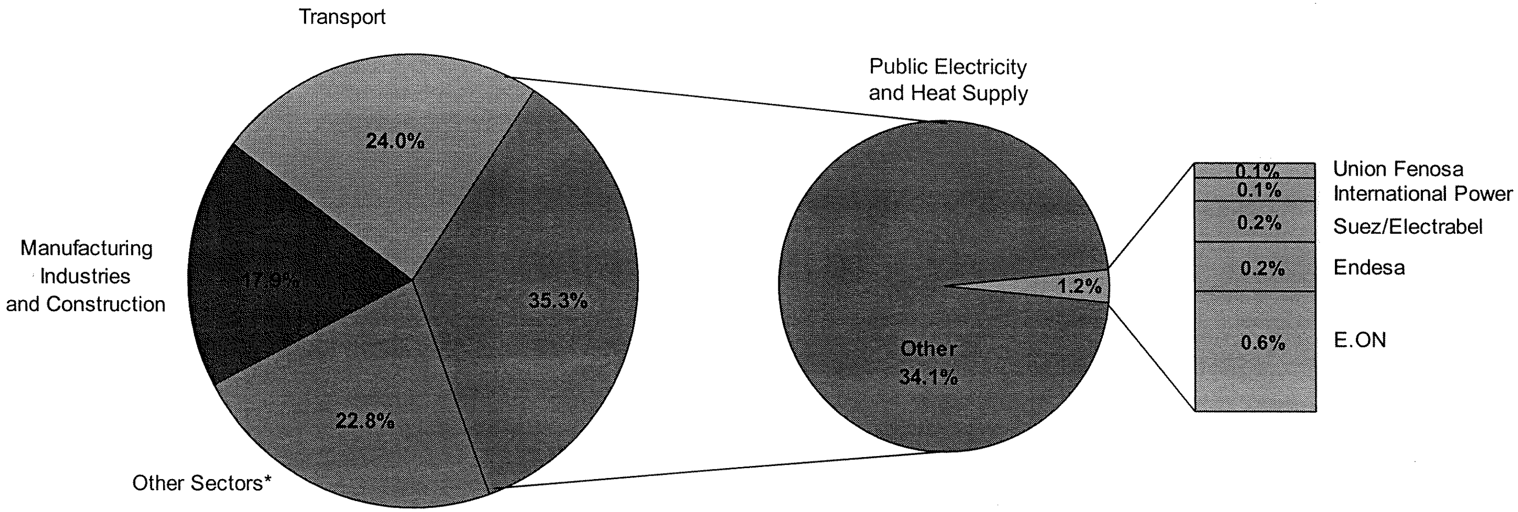
Company Engagement: Greenhouse Gas Emissions

- Climate change is one of the most financially significant environmental issues facing investors.
- Financial consequences include the costs and investments required to adapt to climate change, as well as technological and regulatory measures designed to reduce greenhouse gas emissions.
- Regulation is already having a major impact. For example, on 1 January 2005 the European Union (EU) launched an emissions trading system (ETS) for allowances of CO_2 emissions as part of its plan to meet Kyoto emissions targets.
- Under the EU ETS, each country is granted emission credits to companies or installations in the power generation industry and energy-intensive industrial sectors. These companies can trade these credits or adjust production to balance actual CO_2 output against credits.
- Additionally, a company can use UN approved greenhouse gas reduction projects – primarily in developing countries – to obtain more credits.
- With the system designed to be short on total credits – to encourage reductions – a market has developed, with credits currently trading above €20 per metric tonne.

Insert Tracking Code

Company Engagement: Global Anthropogenic CO_2 Emissions

2002 Total: 24 Billion Metric Tonnes



*Other Sectors includes unallocated auto producers, commercial, public services, agriculture and energy industries other than main activity electricity and heat supply.
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Source: Bernstein, Company Reports and International Energy Agency (IEA)

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Company Engagement: Greenhouse Gas Reduction Projects

Company	Projects	Details
Union Fenosa	Hydroelectric Power Plants, CCGT, Wind Farms	Plans to rehabilitate and enlarge two mini hydroelectric power plants in Central America, build hydroelectric power plants in Costa Rica and Panama and three combined cycle gas turbines (CCGT) in Mexico. The company is also studying the development of a wind farm and four additional hydroelectric projects in Central America.
International Power	Improve Existing Plant Energy Consumption Efficiency	Improving the efficiency of its existing plants, thereby minimising the amount of fuel used, and hence the amount of CO_2 released for each unit of electricity produced. Improvements include a gas turbine water fogging installation and combustion system overhaul, and redesigned gas turbine blading to improve design efficiency.
Suez/ Electrabel	Landfill Methane Gas Reductions	Piloting a project to earn emission credits by collecting methane gas from a landfill in Salvador de Bahia, Brasil. The project has already avoided emitting the equivalent of 40,000 metric tonnes of CO_2. Annual savings should rapidly reach 400,000 tonnes per year.
Endesa	Hydroelectric Power Plant	Has a portfolio of 20 CO_2 emission reduction projects. The project currently at the most advanced stage is the plan to repower their Callahuanca hydroelectric power plant in Peru. Work commenced in 2004, and the project is due to be registered with the UN this year.
E.ON	CO_2 Reductions in Gas Transportation	Working with Gazprom in Russia to earn emission credits by reducing the amount of CO_2 generated through the transportation of natural gas. Gas is transported in pressurised pipelines which require compressor stations at intervals of 100-150 km to maintain pressure in the pipelines. Generally, gas turbines are used for this task, but their operation results in CO_2 emissions. It is, however, possible to significantly lower these emissions by optimising the flow of gas and closely coordinating the operation of the individual compressor units. With the aid of this optimisation project E.ON estimates that it can reduce as much as 4.5 million metric tonnes of CO_2 emissions per year.

Summary of Major Engagement Activity for Tayside
Quarter To 30/06/2005
Baillie Gifford

Company	Area of Engagement	Main Topic	
Banco Popular Espanol	Corporate Governance	Directors' re-election	We wrote to the company prior to the AGM to encourage the board to seek shareholder approval for each director separately rather than bundling them together as one resolution. Subsequently the company has informed us that following our engagement it will review its AGM procedures.
Sage Group	Corporate Governance	Board structure	We have spoken to the company about the Chairman's time commitments in light of his chairmanship of two FTSE 100 companies. We are due to meet the company in Q3 2005.
BG Group	SRI	Employee care, human rights, and sustainability (management of social, environmental, ethical and political issues)	We met the company, and followed this up with further questions regarding its operations in increasingly sensitive regions of the World. We are satisfied that the company is fully aware of the risks it faces and is managing them appropriately.
Standard Chartered	SRI	Stakeholder management and environmental impacts	We met the company to discuss its Corporate Responsibility Report. It has set a wide range of targets in the 2005 report and we look forward to reviewing its progress against these targets in 2006.
Travis Perkins	SRI	Sustainability	We met the company to discuss timber procurement and certification. Although the certification process is very complex, we are satisfied that the company is endeavouring to minimise its uncertified timber.
Halma	Corporate Governance	Executive remuneration	We were consulted by the company about a new incentive plan. Although we are satisfied that the performance targets are in line with the company's prospects, we encouraged the company to introduce shareholding guidelines for directors, which it has now incorporated.

APPENDIX 2

Next	Corporate Governance	Executive remuneration	The company consulted us about its executive remuneration policy. Following engagement with Baillie Gifford the company has incorporated a retention element into its Special Bonus Scheme. These amendments bring the remuneration policy into line with best practice.
John Wood Group	Corporate Governance	Executive remuneration	Prior to the AGM the company consulted us about a new long term incentive scheme. We asked for clarification on the performance targets and are satisfied that they are appropriately aligned with shareholders' interests.
Spirent	Corporate Governance	Executive remuneration	We spoke to the company about a cash and share award to the new CEO. We are reassured that the CEO has very specific and relevant experience having worked in the US and Asia and therefore needed to be compensated for his lost benefits. We are satisfied with this explanation.
Golden West Financial Corporation	Corporate Governance	AGM proposals	We spoke to the company about the lack of disclosure on performance targets. Having considered the CEO's total remuneration for 2003 and 2004, we believe that there is a strong alignment between pay and performance. Nevertheless, we encouraged the company to improve its disclosure next year.
Jardine Lloyd Thompson	Corporate Governance	Board structure	During the year the board underwent significant change with the CEO and two independent non-executive directors resigning. As a result the current board composition does not comply with the combined code. We wrote to the company to explain our concerns. We received acknowledgement and wait to hear of any new appointments.
Nestle	Corporate Governance	Board structure	We wrote to the company following its decision to combine the roles of CEO and Chairman and the subsequent shareholder resolution to separate the positions. Although we voted in favour of management because of the very prescriptive nature of the shareholder proposal, we wrote asking that the positions be separated as soon as one of the non-executives is in a position to take up the position of Chairman and for the Chairman/CEO to step down from the remuneration committee. The Chairman/CEO subsequently confirmed to Baillie Gifford that he has left the remuneration committee.

Premier Farnell	Corporate Governance	AGM proposals	The company's share option scheme allows it to retest performance conditions, which does not meet best practice. We have written to the company encouraging it to remove the retesting and expect to hear from management in due course.

Summary of Major Engagement Activity for Tayside
Quarter To 30/09/2005
Baillie Gifford

Company	Area of Engagement	Main Topic	
BG Group	SRI	Employee Care, Health & Safety	We met the company to discuss the new procedures the company has implemented following an incident where 4 of their sub-contractors lost their lives. We believe that the company is taking the issue of employee care and health & safety very seriously and the response to this incident has been appropriate.
BP	SRI	Employee Care, Health & Safety	We met the company to discuss the company's response to the explosions at the Texas City Refinery. We believe that to-date, the company response to this incident has been appropriate and will continue to review management's response.
Diageo	SRI	SEE issues & Stakeholder Management	After participating in the UK Social Investment Forum paper on the beverage sector, we met the company to discuss the rules and regulations affecting Diageo's business. The company's code of marketing practice applies to it's global activities and we will continue to seek assurance that the code is complied with throughout the global operations. Diageo has also recently launched its global consumer information policy which will result in information such as alcohol content and serve size on all labels. We believe that Diageo is taking a positive and proactive approach to CSR issues.
William Hill	SRI	Employee care, stakeholder management, and sustainability (management of social, ethical and political issues)	We met the company to discuss the company's corporate responsibility (CR) strategy. CR reporting has increased in the last two years and we will continue to monitor the company to ensure disclosure continues to improve.

Bunzl	Corporate Governance	Board Appointment	We were consulted about the appointment of Michael Roney, a non-executive director, as the new Chief Executive. This appointment separates the combined roles of Chairman/Chief Executive which existed prior to this announcement.
Man Group	SRI	SEE issues	We were consulted by Man Group because they are looking to increase their corporate responsibility reporting and were interested to know what type and format of information was of relevance and interest to us. We found the conversation very interesting and look forward to the publication of their Corporate Responsibility Report.

Key Objectives for CSR

Our priority must be to integrate CSR into the investment process in order to:

- Demonstrate to our clients and the companies we invest in that CSR is an integral part of our research approach.
- Add value to investment research by identifying companies for which environmental and social factors might have an impact on their investment risk or return.
- Highlight trends in industries where CSR is growing in importance and may pose an investment risk.
- To emphasise the value of effective social and environment stewardship to the companies we invest in, as further evidence of Fidelity's active management approach.

APPENDIX 3

Going Forward:

- CSR will be integrated into our mainstream research process. In order to achieve this, there needs to be a close dialogue between the CSR analyst and Equity analyst, both to learn about their perspectives and to raise their awareness of CSR issues that could have a material impact on shareholder return.

- As our efforts gather momentum, and our analysts gain an understanding of CSR issues and impacts, it is anticipated that in the longer term it will move from a separate function to an integral part of the research undertaken by all of our equity analysts.

Appendix

Corporate Social Responsibility (CSR) report – Q3 2005

Fidelity's policy on Corporate Social Responsibility

- Fidelity believes that high standards of corporate social responsibility (CSR) make good business sense and have the potential to protect and enhance investment returns. Consequently, our investment process takes social, environmental and ethical issues into account when, in our view, these have a material impact on either investment risk or return.
- We recognise and support the view that social, environmental and ethical best practice should be encouraged as long as the potential for financial return is not reduced. We favour companies committed to high standards of CSR and to the principles of sustainable development.
- We do not screen out companies from our investment universe purely on the grounds of poor social, environmental or ethical performance. Instead, we adopt a positive engagement approach whereby we discuss these issues with the management of the companies in which we invest on behalf of our clients. We use the information gathered during these meetings both to inform our investment decisions and also to encourage company management to improve procedures and attitudes. We strongly believe that this is the most effective way to improve the attitude of business towards CSR.

Fidelity's four-stage process for CSR analysis & engagement

1. CSR Analyst identifies engagement priorities, typically focused on companies where we perceive that environmental, social and ethical issues could have a material impact on shareholder value. These engagement priorities are discussed with the relevant research analysts.
2. Background research is undertaken on specific issues through dialogue with brokers and other interested parties (such as non-governmental organisations).
3. CSR Analyst holds dedicated CSR meetings with companies.
4. The findings from the meeting are reviewed by the CSR Analyst and research analyst and future engagement objectives agreed.

Recent company engagement

Note: We have been in contact with the companies listed below to disc uss environmental, social and ethical issues, either through face-to-face meetings, by teleconference or in writing.

Company	Country	Corporate Responsibility Strategy	Environmental Management & Climate Change	Responsible Product Stewardship	Workplace	Human Rights
AstraZeneca	Sweden & Uk	x		x	x	
BAA	UK	x	x		x	
British Gas	UK	x	x	x	x	x
BP	UK	x	x	x	x	x
Cairn Energy	UK	x	x	x	x	x
Cosmote Mobile Telecom	Greece	x				
Deutsche Telecom (T-Mobile)	Germany	x	x	x		
Diageo	UK	x		x		
ENI	Italy	x	x	x	x	x
GlaxoSmithKline	UK	x		x	x	
London Clubs	UK	x		x	x	
Man Group	UK	x				
Millicom	Luxembourg	x				

Company	Country	Corporate Responsibility Strategy	Environmental Management & Climate Change	Responsible Product Stewardship	Workplace	Human Rights
OMV Ag	Austria	x	x	x	x	x
Orange (France Telecom)	UK	x				
Petrobras	Brazil	x				
Rank Group	UK	x		x	x	
Repsol	Spain	x	x	x	x	x
Sanofi Aventis	France	x		x	x	
Scottish & Newcastle	UK	x		x		
Shell	UK-Netherlands	x	x	x	x	x
Statoil	Norway	x	x	x	x	x
Stanley Leisure	UK	x		x	x	
Telenor	Norway	x				
Total	France	x	x	x	x	x
XStrata	UK	x	x		x	x

Issue: **CSR – an important performance indicator for the Oil & Gas industry**

Background: Oil and gas companies must increasingly seek new reserves in non-OECD countries, where projects are potentially more lucrative but also more complex in terms of social, environmental and political risks. Our engagement objective was to review CSR performance, as we believe that companies with superior social and environmental management area likely to be more successful.

Company engagement: Country analysis is a vital component at the early stages of project selection, as an effective risk evaluation system can help to reduce the level of cost over-runs and project delays. It is important that companies have robust procedures for assessing issues such as political corruption, socio-economic factors affecting host communities and the likely impact in environmentally sensitive areas, so as to develop mitigation plans for managing the risks. This analysis is also a key component to ensuring that risk is diversified within the portfolio of projects to a level that is manageable. All of the companies we spoke to undertake environmental and social impact assessments, including input from NGOs and experts on issues such as Human Rights. However, **Statoil** stood out as the leaders, with strong management and analysis systems, including country ranking based on 18 factors (e.g. government stability, sanctions, human rights, health hazards, environmental impact). Statoil also implements controls to ensure these issues are integral to the project analysis process, providing a clear line of accountability for detailed mitigation plans, including an 'issue owner' and timeline for action. They further build the associated costs into the investment, net present value (NPV), model with weightings for country risk rating and the associated probability of delays.
With a view to assessing contract delivery capabilities, we looked at performance data on recent projects. Standards of health and safety (H&S) are an indicator of quality management, with **BP**, **BG** and **Cairn** the industry leaders on injury rates. In contrast, **Shell** and **ENI** stand out for a high relative level of fatalities versus their peers in the period 2000-2004. A key H&S issue is that the industry uses a large proportion of contractors, among which 75% of the fatalities occur, a problem that they need to address to enhance their reputations. In terms of operational efficiency, all of the companies have made improvements in respect of energy and fresh water use, oil spills, waste production and GHG emissions. **BP** and **Cairn** are the most efficient energy users, while **BG, Statoil** and **Cairn** lead on reduction of water usage. **OMV** is noticeable for the overall improvement it has made in managing its environmental impacts. However, **Repsol** has endured the highest levels of accidental spills relative to the industry, while **ENI** and **Shell** lag on gas flaring intensity (an important issue in countries such as Nigeria, Angola and Kazakhstan where there is legislation to reduce the level of flaring). From our analysis, **Statoil** and **BP** are leading in terms of CSR performance, but both of these companies will see a sharp increase in their exposure to country risk. Interestingly, though **BP** and **Shell** have a similar risk profile on current production, the former will be exposed to riskier countries going forward, so the company's CSR capabilities will be tested.

Future engagement objectives: We will continue to review CSR performance, as an important management issue in this sector.

Issue: **Impact of Deregulation on UK Casino Operators**

Background: Deregulation under the 2005 Gambling Act will introduce key changes in the UK's casino industry, enabling the opening of 17 new casinos, allowing immediate access for the public (with no 24-hour joining period) and unlimited jackpots, as well as relaxing advertising restrictions. Being seen to operate responsibly in a looser regulatory environment will be a key competitive consideration for the companies applying for the 17 licences. A new industry regulatory body, the Gambling Commission, will be established in the autumn of 2005 and will 'produce codes of practice on social responsibility that every gambling operator will be required to comply with as a licence condition'. Our engagement objective was to review how companies are positioned to demonstrate responsible practices.

Company engagement: The companies we met with had a good understanding of the importance of self-regulation in order not to jeopardise their licence to operate. They partake in ongoing consultation with the regulator, peer casino operators and trade associations on responsible practices (such as the British Casino Association's Code of Practice on Gambling & Social Responsibility, and the current discussions on the Code of Conduct that will be rolled out under the new Gambling Commission). However, we identified varying standards in relation to formalisation of CSR policies, and responses to addressing problem-gambling. **London Clubs International (LCI)** does not have a formal CSR reporting structure, although such considerations are taken into account in the compliance component of the business, with reviews of 'softer' issues such as staff training, adherence to responsible policies, and the level of problem gambling leaflets and signage on display being undertaken. The compliance function is represented at Board level, and the output of regular audits is made available to Directors twice-yearly. **Stanley Leisure**, the largest operator of casinos in the UK, has a formalised plan and policies, together with a commitment to CSR disclosure. Responsibility lies with the Managing Director of the Gaming Division, with the Board receiving a report on CSR issues on an annual basis, as a minimum. Both LCI and Stanley Leisure train staff to provide a type of 'first aid' approach to problem-gambling, with instructions to spontaneously intervene in a supportive manner when they suspect a customer has a problem.
We were impressed by **Gala Group's** attempt to develop industry best practice in addressing problem-gambling. With input from the former head of Gamcare, the UK gambling charity, and a project leadership group that includes the heads of operations, compliance, security, human resources and marketing, this operator is developing a new campaign which will include staff training on how to recognise problem behaviour, skills workshops on how to promote customer control, and a call centre for customer assistance.

Future engagement objectives: We will continue to monitor for responsible business practices as the market deregulates, particularly in relation to advertising and marketing.

Issue: **Mobile phones bridging the divide**

Background: Mobile phones are a unique product, a technology with significant ability to promote development in emerging markets. They do not rely on a permanent electricity supply and can be used by people who cannot read or write. Yet they can have a dramatic impact on local economies. For example, farmers and fishermen can use mobile phones to call several markets and work out where they can get the best price for their produce.
It has been estimated that emerging markets will account for up to 80% of new mobile phone subscriptions between now and 2010. Characterised by populations with little disposable income, it is virtually impossible for operators to succeed in these countries using the same business models as in Western Europe or the United States. Service providers with experience of how to supply affordable and innovative services will have an advantage in winning licences and operating profitably in less developed countries. Our engagement objective was to begin to explore which companies might be best positioned to unlock the potential of these new markets.

Company engagement: **Cosmote Mobile Telecom** told us that pre-paid mobile phone plans have been a key factor behind growth in its operations in Romania and Albania, as it helps to overcome the credit barrier for customers. The second-hand market for handsets is also important, as highlighted by a survey by Forum for the Future (2005) which found that one in three users on prepay contracts in Bucharest is using a second-hand phone, as are one in six of all mobile users.
Telenor owns 45% of Grameen Phone, the largest operator in Bangladesh. The name of the company is derived from a local part-owner, Grameen Bank, which provides collateral-free micro-credit to help fight poverty. Together they have created a partnership known as 'Village Phone, whereby women in thousands of villages have been given loans to purchase a mobile phone, enabling them to become the villages' 'living call box'. As the fixed network in Bangladesh is poorly developed, several million people now have access to telephone services for the first time. Grameen Phone is earning profits and demonstrates that unconventional business concepts have opened new markets for Telenor.
Innovations in African markets have led to airtime becoming almost like currency, in that it can be traded for goods and services by virtue of the SMS messaging facility allowing mobile users to transfer credit to one another. **Millicom** has operations across Africa, Asia and South America. It uses an innovative business model, which seeks to emulate fast-moving consumer companies such as Coca-Cola by focusing on convenience and getting close to where customers, often in remote locations, spend money. It is currently one of the first companies to undertake a significant roll-out of ePIN to its operations, which can instantaneously credit airtime through the retailer accessing a WAP option menu on a mobile phone. Both the retailer and customer subsequently receive an SMS confirmation message.

Future engagement objectives: We will continue to monitor telecommunication companies' approaches to innovative, low-cost solutions for emerging markets, and will expand this analysis to other key players in the sector.

Issue: **Responsible marketing & advertising in the Pharmaceutical sector**

Background: Recent litigation involving the Vioxx drug has highlighted product safety as a key issue within the pharmaceutical sector. In response the industry is undergoing a reassessment of the appropriate balance in communicating the risks/benefits of its products, with due deference to responsible advertising and marketing standards. Our engagement objective was to review the new practices that companies are undertaking, to evaluate if they have the potential to promote greater trust in the industry.

Company engagement: The ability of companies to market directly to the US public - 'direct to consumer advertising' (DTC) - has resulted in patients requesting specific branded products from their doctors, based on marketing material rather than individual medical advise. This is problematic as the benefit of drugs can be diluted when usage is broadened from a specific condition to a wider range of treatments; hence the risk/benefit communication also needs to change. The prescription of heavily advertised drugs may also increase the frequency of side effects, particularly when interactions with other conditions are involved. Issues such as these have led to criticism that the advertising of such powerful products as prescription drugs needs to be responsibly designed. In response, the pharmaceutical sector has come together to introduce additional controls for DTC advertising, signing up to new guidelines by the trade association PhRMA, released in August 2005. Changes include removal of abbreviated advertisements, which simply displayed the product together with the tagline 'Ask your Doctor about'. The pharmaceutical regulator will also take on an increased monitoring role, with companies committing to submit all new DTC television advertisements to the FDA for review before they are released, replacing the previous practice of discretionary review upon first use. **GlaxoSmithKline (GSK)**, **AstraZeneca** and **Sanofi-Aventis** all outlined to us the internal control systems that monitor communication to encourage appropriate use of their products. However, we were encouraged to note that an additional level of scrutiny is likely to be introduced by this co-vigilance, to ensure that advertisements are signed-off by the FDA. Self-regulation continues to be important outside of the US, where pharmaceutical companies are not permitted to communicate directly to patients on prescription drugs, but rather marketing and sales teams target doctors and medical journals. Again all of the companies have controls over this communication, however GSK goes one step further with surveys of customers to ensure adherence to policies as well as disciplinary actions for infractions (including loss of sales bonuses). AstraZeneca has committed to disclose breaches of codes of marketing practice in its CSR reporting this year, together with target setting to minimise occurrence.

Future engagement objectives: We will continue to encourage the development of controls to ensure product information is accurate and fairly balanced.