

A speech by Lord Sharman at The Prince's Accounting for Sustainability Forum seminar, St James's Palace

17th December 2009

Your Royal Highness, Ladies and Gentlemen I would like to begin by congratulating His Royal Highness' Accounting for Sustainability Project on the progress made since its inception. I would also like to thank HRH for inviting me here to speak. I am particularly pleased to be able to do this as this project is a subject that is very close to my heart because it provides organisations with a model of how to present organisational performance in a way which connects business strategy, financial and sustainability performance.

So why would a bean counter Accountant such as myself be so convinced that this is the right thing to do? When I was training as an accountant, and that was an awful long time ago, there was a joke that "accountants knew the cost of everything but the value of nothing". I am pleased to say that the world of accountancy has moved on a little bit since then. They've moved towards the concept of fair value, yet fair value ignores so many of the long term issues, which are either so long term they are discounted to nothing or else treated as externalities. Clearly there really is a need to reconsider how we assess and report organisational performance.

My background in accountancy stood me in good stead for my involvement in the many late night sessions in the Lords, fine tuning the Companies Act, 2006 the 1st comprehensive update of company law since 1948, through which we were seeking to maintain the essence of fuller company disclosure. This was an important turning point, as what was described as a change to the approach of enlightened shareholder value is now really changing the duties of the board of directors and their reporting requirements. And even if you want to, you are not

going to be able to get away from dealing with these issues in the future, as whilst it remains the duty of a company board to promote the success of the company for the benefit of shareholders but in so doing it must take into account the effect of its decisions on employees, shareholders, supply chain, customers and societies in which they operate. It is a significant change, and it covers many of the issues that Accounting for Sustainability will need to address. The reporting of the environmental element of this is being promoted by the newly launched Defra Voluntary GHG reporting guidelines for Companies which may be translated into mandatory reporting in April 2012.

I am also very proud to be representing Aviva here today. I encouraged Aviva to get involved in this project. Aviva was one of the first companies who helped develop the framework and has adopted it within the Annual Report and Accounts since 2007. As you will be aware the premise of the framework is that material sustainability information is set along side more conventional financial information, to give a more rounded and balanced picture of an organisation's performance. We feel that, to tackle challenges such as climate change, there is a need to report the link between sustainability, financial performance and strategic direction more explicitly within mainstream financial reports, as our development of the Connected Reporting Framework seeks to demonstrate. Unless this information is integrated into the Annual Report and Accounts, presented as a thread running through each section, investors and other stakeholders are not provided with a complete picture of a company's performance. The implications of material risks or opportunities facing a business can all too easily be obscured unless presented in a connected way. In applying the framework, we have found that it has helped our finance and sustainability teams to work together more effectively, identifying cost savings as well as providing clearer disclosure to investors and others. And I should say that it is not unconnected that the number of ethical investment funds investing in Aviva has

grown very considerably since we started doing this. It's not all about being a good corporate citizen.

Aviva's business is about providing prosperity and peace of mind to our customers. In doing so, we make long term commitments to our customers. Our relationship with individual policyholders may last up to 70 years through the savings and retirement phases of their lives. It is therefore critical to our policyholders and shareholders alike that our business model is sustainable in the long term and we promote sustainability in the manner in which we operate every day. Aviva's approach to corporate responsibility seeks not only to manage the direct impact of our operations on the environment and society, but also to influence and promote sustainable behaviour among our customers, suppliers and the companies in which we invest.

When I became the chairman of the company in January 2006, we already had an environment and then corporate responsibility programme in place for a number of years which had been growing in momentum. One of my first 'requests' on joining was that we embed sustainability into the organisation. We created a Board CR Committee to oversee this in order to show that we took this seriously and that I and my fellow board members don't consider this to be a warm and fluffy, nice-to-do subject, but core to our business. To do this, we had to convince our people that sustainable behaviour makes sense for us as a business and as a responsible corporate citizen. The Aviva businesses understand that, as the words 'targets and KPIs' ring in their ears when they leave the Board Room following their annual presentations. And to be fair, our businesses have worked hard and stepped up to the mark with the result that Aviva has received external recognition for our environmental performance, our diversity performance and have been included in key indices such as the Dow Jones Sustainability Index

World. Only the top 10% of CR performers from the biggest 2,500 companies worldwide are included in this index.

While making areas of Aviva's business more accountable internally we have also striven to make Aviva more accountable externally, but in a way that relates to the bottom line, hence our involvement in The Prince of Wales Accounting for Sustainability project. We see the connected reporting framework as a means to presenting a more rounded view of our performance to our shareholders, customers and employees. In doing so it is crucial we present the strategic business case for action by articulating the risks sustainability issues pose to the viability of our business, the cost of inaction and the value derived from action taken now.

More specifically, I believe the insurance industry has a fundamental role in the debate on climate change. It is our customers that suffer the direct consequences of extreme weather events and therefore it is our responsibility to contribute to ways of mitigating the threat of environmental change. Issues such as climate change have been embedded into the core of our business with inclusion in the group's strategic plan and risk and compliance process. In 2007 Aviva's Group Chief Executive decided that the executive team should have our annual Group CO2 reduction target of 5% included in their personal objectives which is in turn reflected in their performance bonus.

Of course while CO2 emissions are an issue common to all companies, each company has their own entity specific sustainability issues which are material to their business. For example, in the world of insurance, financial illiteracy and inadequate long term savings for retirement is a key sustainability issue for our sector, but not for other industries. The beauty of the principle-based connected

reporting framework is it provides companies with a way to discuss the sustainability issues which are material to them.

The other hat that I am wearing today for Aviva is as an investor. Aviva Investors has £236 billion funds under management and we believe we have a responsibility, moreover a duty, to encourage companies we invest in to take account of their impact on climate change and on the communities in which they operate through regular discussions, specific recommendations for change and voting practices at AGMs. We actively seek to invest for the long term in companies that will have a positive effect on the broader sustainability agenda.

On the 2nd of November, Aviva Investors presented at a major United Nations conference in New York where it urged stock exchanges around the globe to codify how they will promote more responsible business. As a result, Aviva announced on the same day its intention to put its own CR report to a shareholder vote at the 2010 AGM. We believe such a commitment will be a world first for a large cap company and should generate considerable interest. It will also sit comfortably alongside Aviva's broader CR leadership work in the area of encouraging sustainable stock exchanges.

Our CR agenda continues to form a fundamental part of our business strategy. By acting responsibly for the long term in how we do business we will meet our ambition of providing prosperity and peace of mind to our customers.

In closing, I commend the work that the Accounting for Sustainability project has done to date in building the connected reporting framework and welcome the work on the Accounting Bodies Network. It is not enough however for the accounting firms to encourage such ways of reporting, it is time for all businesses to embrace the reporting of sustainability information along side more

conventional financial information. I totally endorse The Prince of Wales' call for the establishment of an "International Connected Reporting Committee" as an essential step towards the establishment of this more connected and integrated reporting framework. I believe moreover that all CFO's and investors in the room should consider the benefits of reporting in this way and to take action to support the integration of material environmental, social and governance information into mainstream business reporting to enable a proper assessment of the sustainability of the organisation, the economy and society as a whole.

Thank you.