INNOVATION GROUP

SUSTAINABILITY REPORT

2011

Yarmouth House | 1300 Parkway | Solent Business Park | Whiteley | Hampshire | PO15 7AE | United Kingdom
Tel: +44 (0) 1489 898 300 | Fax: +44 (0) 1489 579 181 | Email: info@uk.innovation-group.com | www.innovation-group.com

CONTENT

1. SUSTAINABILITY AS PART OF OUR BUSINESS STRATEGY

1.1. OUR KEY SUSTAINABILITY RISKS AND OPPORTUNITIES

The Group is aware that sustainability issues, such as climate change, have the potential to impact its long term business continuity and that associated extreme weather events, such as flooding and storm damage, will directly impact the Group's insurance clients. As a responsible company and business partner it is crucial that the Group develops a clear understanding of the potential business risks and opportunities related to sustainability issues, and that it demonstrates to our clients and other stakeholders how the Group is working to manage and reduce its environmental impact. It is also recognised that process efficiency, doing more with less, reducing energy intensity and doing things right first time, will drive both cost and carbon efficiency, with benefits for the Group, its business partners and the environment.

The Board believes that the Group's own direct sustainability impacts (driven mainly by building occupancy, business travel and IT) are less significant than those across parts of its supply chain and service partner network (environmental impacts such as waste generation, greenhouse gas and other emissions, and occupational health & safety impacts). The Group will continue to work to better understand its own environmental impact and to engage with its supply chain and service partner network to influence behaviours towards a reduction of impacts.

1.2. OUR SUSTAINABILITY STRATEGY

Launched twelve months ago, the Group's sustainability strategy framework, 'Partners in Progress', identified immediate strategic priorities and how it planned to build the foundations for effective management of its environmental, social and economic footprint, both from its direct operations and, where it could influence them, from those associated with its supply chain and service partner network.

The commitments made in this strategy enable the Group to demonstrate its intent and are reported to the UN Global Compact (UNGC).

Our strategic priorities focus on addressing the following objectives:

- Understand and reduce the Group's social and environmental impacts
- Meet all stakeholder expectations and aspire to surpass them
- Engage and influence the Group's supply chain and service partner networks

As a signatory to the United Nations Global Compact (UNGC) Innovation Group is committed to ten principles in the areas of Human Rights, Labour, Environment and Anti-corruption and will report progress against these on an annual basis. The Group made it's first annual Communication on Progress (CoP) in December 2010 and will follow this up in 2011(http://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/index.html)

2. THE BUSINESS DRIVERS

2.1. OPERATIONAL EFFICIENCY AND INNOVATIVE PROCESSES

The Group recognises that, properly embedded in a business, the principles of sustainability will promote resource efficiency, good customer and supplier relationships, employee engagement and recognition as a responsible business partner from wider stakeholders. The Board aspires to that status and intends to use the 'Partners in Progress' sustainability strategy to drive innovation across the business. To that end, the Group has spent the past year developing a better understanding of our environmental, social and economic footprint and it is now in a position to roll out examples of good practice with an overall ambition to improve performance across our global operations.

2.2. ENVIRONMENTAL AND SOCIAL REGULATION

The past year has seen the introduction of the UK Government's Carbon Reduction Commitment and Energy Efficiency Scheme, the latest example of tightening regulation in this area aimed at encouraging energy efficiency by increasing the cost of carbon emissions. The Group believes that this trend is only likely to continue, both in the UK, across Europe and in our other markets. Our focus on sustainability enables the Group to identify and anticipate regulatory developments and to apply this learning from one market to the next.

2.3. ENGAGEMENT WITH BUSINESS PARTNERS, CLIENTS, SHAREHOLDERS, EMPLOYEES AND SUPPLIERS

The Group's improved understanding of its impact on various stakeholder groups provides a platform for building enhanced relationships across the business. Insights gained over the past twelve months will be used to engage stakeholders in dialogue as the sustainability strategy is further developed.

3. GOVERNANCE FRAMEWORK

In the past year, The Innovation Group has established a new sustainability governance structure to assign responsibility for sustainability matters and to oversee the implementation of Partners in Progress. The governance structure identifies individuals, post-holders and committees at different levels of the business who have an involvement in sustainability matters and sets out the terms of reference for those committees.

Figure 1: *The Group Governance Framework*

A key component of the Governance structure has been to establish the Sustainability Committee with the purpose of providing direction to and oversight of the implementation of 'Partners in Progress' sustainability strategy, which sets out the Company's statement of core values and behaviours.

The Committee's main areas of focus are environment, health and safety, employee satisfaction, social performance and ethical conduct. It recognises that its responsibilities are to manage the Group's own direct impact from its operations. It also understands that it has an opportunity to influence the social, ethical and environmental performance of the Group's suppliers and, through its service provision, that of its customers. Hence the decision to brand this initiative 'Partners in Progress'.

3.1. PERFORMANCE AGAINST OUR COMMITMENTS

Last year our strategy set a challenging series of commitments that required the business to engage with suppliers, employees and own operations on a global scale in order to understand where the most material sustainability impacts occur and how best to improve our systems and processes to better manage those impacts.

Over the last two years, the Group has worked hard to make changes and have retained specialist external sustainability advisors to assist with the design and implementation of initiatives focused on achieving all the commitments made. This year, the Group is pleased to report that the fulfillment of most of our sustainability commitments and significant progress in those areas that are not yet complete. The following table outlines the activity undertaken during the past year against each of our commitments

Our 2011 Commitments	Activity in FY2011	Target
Environment – own operations		
Develop process to measure Group carbon footprint	Developed a global GHG emissions inventory and built an emissions calculation model to measure emissions on an ongoing basis.	By end of 2011 Achieved
Identify opportunities for reduction that deliver a return on investment	Formed a carbon abatement strategy to enable generic reduction options to inform reduction target setting.	By end of 2011 Achieved
Confirm percentage GHG emissions reduction target	Undertaken a high-level assessment of carbon abatement options. The outputs indicate the potential capacity for reducing the Group's emissions. Before committing to a reduction target, the Group will complete the base year footprint and test the abatement options at regional head offices.	By end of 2011 In progress
Social – own operations		
Develop and pilot a staff satisfaction survey to understand employee satisfaction across the Group and the extent to which the business lives our values	Due to management changes, this has been postponed to 2012 to allow time for the impact of new initiatives to be assessed.	By end of 2011 In progress
Take appropriate actions to improve employee satisfaction	Each regional managing director is encouraged to develop appropriate actions. This has ranged from employee recognition through to charity fundraising and community involvement. The company has also started 'Kairos', a management training initiative on a global basis for 28 selected employees	By end of 2012
Network supply chain		
Survey top ten suppliers for compliance with employee-related regulations, environmental performance, and IG's Code of Conduct	A survey has been undertaken of 10 key suppliers in each region including a range of sectors and business sizes to ensure a representative sample. This has provided a better understanding of supplier performance. We can now engage with our supplier network to improve performance where required.	By end of 2011 Achieved
Include environmental and social criteria in the selection of new suppliers and in service level agreements	Assessment of the key environmental and social risk areas facing the relevant supplier network sectors (including body shops, garages and property). For each risk area potential criteria requirements have been generated. Next steps will be to prioritise these criteria and integrate them within supplier selection and service level agreements.	By end of 2012 In progress

Socio-economic benefits		
Communicate in the annual report the social economic benefits from work with our top suppliers globally	Interviews conducted with regional businesses to identify programmes that benefit the socio-economic conditions of employees, suppliers and / or local communities. The output enables us to decide where to focus activity to develop monitoring systems to capture the direct and indirect economic benefits.	By end of 2011 Achieved
Governance		
Establish a new sustainability governance structure to implement the sustainability strategy	The Group has successfully implemented a new governance framework for sustainability matters. This includes the establishment of a Sustainability Committee led by the Group CFO which reports directly to the Board	By end of 2011 Achieved
Develop and pilot a Code of Conduct survey to assess compliance with the IG Code of Conduct	The Group has decided to focus on strengthening and extending our Code of Conduct over the next year. Once this is completed, we will embed the Code of Conduct in employee training and conduct the compliance survey.	By the end of 2011 In progress

The commitments described in The Innovation Group sustainability strategy are also those submitted as part of its participation in the United Nations Global Compact. As described by the UNGC, the initiative is '*a strategic platform for participants to advance their commitments to sustainability and corporate citizenship. Structured as a public–private initiative, the Global Compact offers a policy framework for the development, implementation and disclosure of sustainability principles and practices related to its four core areas: human rights, labour, the environment and anti-corruption'.* The Group intends to continue to participate in the Global Compact and as such will report progress against existing commitments and also set new commitments to further advance the implementation of the strategy to protect the environment and long-term value.

3.2. OUR ENVIRONMENTAL IMPACTS

The Directors understand that as a responsible business, the Group has a role to play in mitigating the effects of climate change and wider sustainability issues, such as resource scarcity. They also understand that waste and inefficiency cost money, so the twin objectives of playing a part and improving the bottom line go hand in hand. The priority this year has been to develop the mechanisms required to measure and monitor our environmental impacts. This has been achieved for our global energy consumption and associated greenhouse gas (GHG) emissions. Next year the plan is to extend the system to cover resource use, such as water and waste.

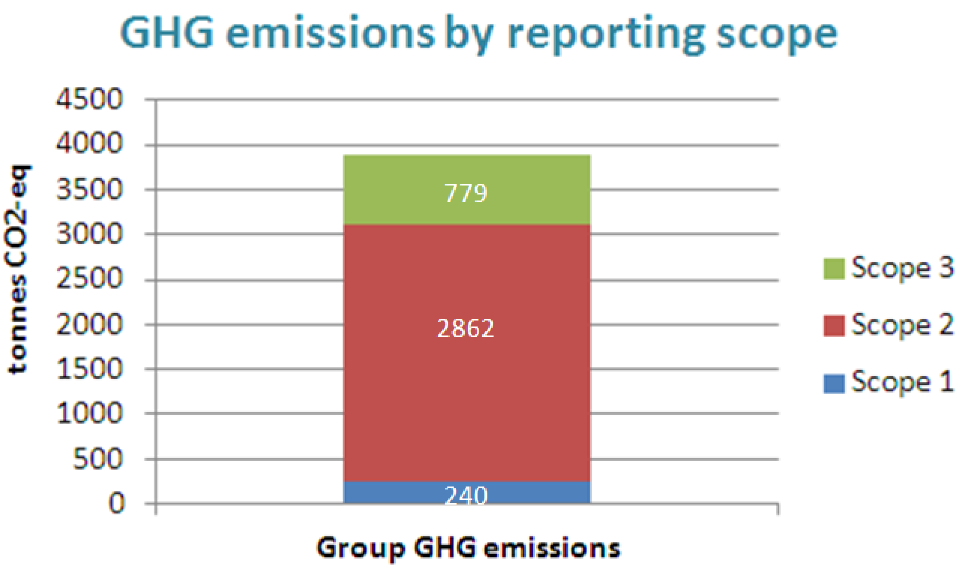
3.2.1. THE GROUP'S GHG EMISSIONS PROFILE

Over the past year, the Group has established a GHG emissions inventory that covers global operations. Our new emissions calculation model enables us to monitor our climate change impact on an ongoing basis. The purpose of the inventory is to allow opportunities to be identified that reduce our climate change impact and to respond, with confidence, to increasingly frequent enquiries from customers regarding this aspect of our business.

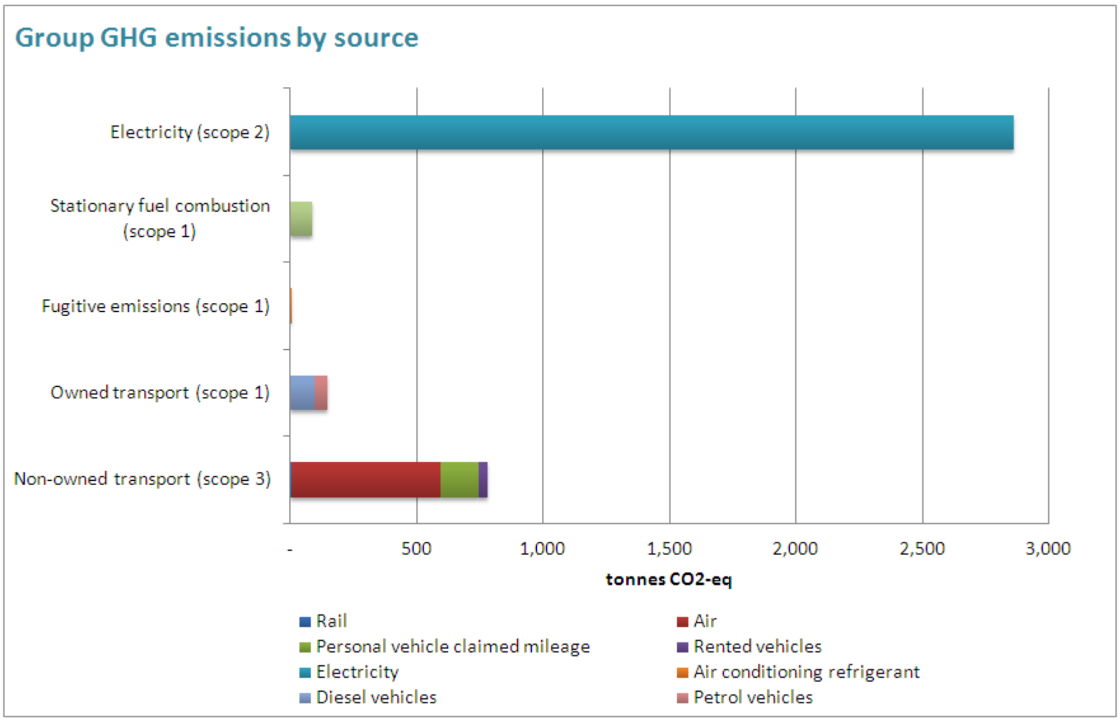
The Group's carbon footprint is estimated to be 3,880 tonnes of CO2 equivalent (tCO2-eq) over the first six months of FY2011 (October 2010 to March 2011). If the data obtained is extrapolated over one year, the projected annual carbon footprint is expected to be around 7,760 tCO2-eq. It should be noted that these estimates could be revised as the Group is only half way through its annual carbon footprint assessment cycle.

It is the intention to monitor and report GHG emissions intensity by employee numbers to account for change in emission levels driven by economic cycles and business growth. Based on an annual emissions projection for Scope 1 and 2 emissions, the estimate for the Group's emissions intensity is 2.7 tCO2e per employee. On comparing this intensity with a selection of nine FTSE350 insurance sector companies participating in the Carbon Dislcoure Project 2010, we appear to perform better than the average intensity at 3.9 tCO2-eq per employee.

The following chart shows a breakdown of emissions between the reporting scopes for the first six months of FY2011.

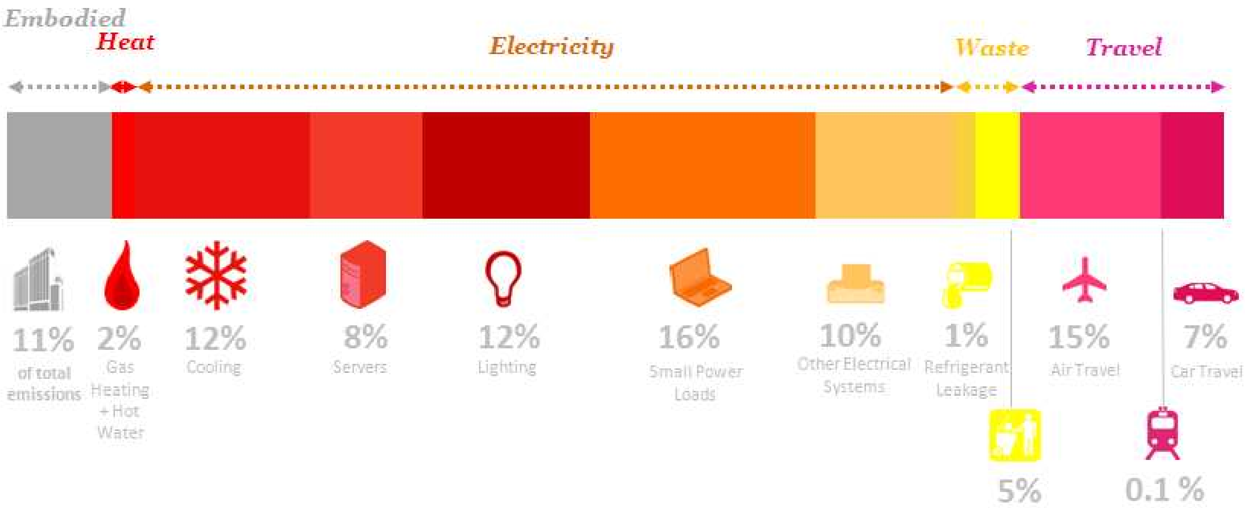


The Group's direct and indirect GHG emissions are divided into three reporting 'Scopes' in accordance with the GHG Protocol Corporate Accounting and Reporting Standard (2004). The GHG protocol requires that companies account for and report on Scopes 1 and 2 at a minimum to meet the voluntary corporate standard. It has been decided also to account for Scope 3 indirect emissions from business travel as this is a material source of emissions for the business and an area that can be influenced. These reporting scopes can be further disaggregated to compare the contribution of emissions between different emitting business activities.

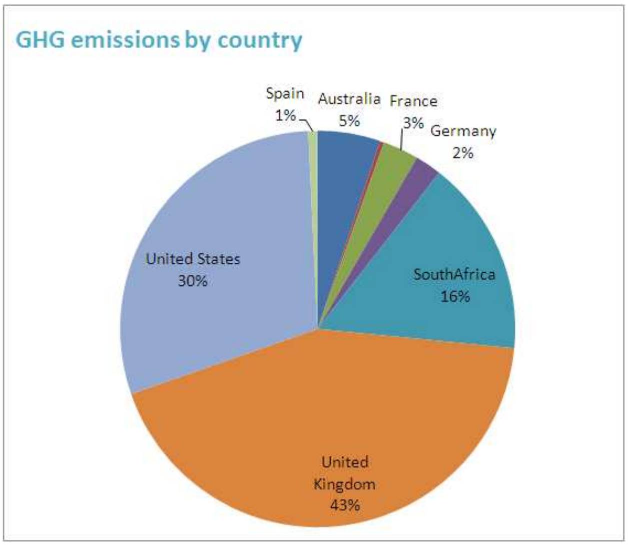


The Group's Scope 1 direct emissions occur from building fuel consumption used for heating; fugitive emissions leaked from air conditioning units; and from the fuel used to run our vehicle fleet. Collectively these Scope 1 sources form a minor portion of the footprint at 6% of the total gross emissions. Scope 2 emissions from electricity consumption in buildings represent the biggest cause of carbon emissions at 74% of total emissions. The remaining 20% of total emissions fall into Scope 3 and include non-owned transport emissions (e.g. Flights, rail, hire cars and personal mileage claims). The analysis suggests that the US is responsible for the majority of these Scope 3 emissions due to frequent air travel.

In the next illustrative chart, the actual carbon profile is overlaid with a typical split of emissions for an office building. On top of this, the estimated embodied and waste emissions have been added. It is from this activity breakdown and associated emissions profile that it is possible to plan how to reduce emissions based on a range of abatement options. Over the next year, the feasibility of these abatement options will be tested at regional locations to inform the overall Group carbon abatement action plan.



The Group has also split carbon emissions by country to understand where the majority of emissions are located and where it needs to focus reduction activities. The next chart shows the contribution of emissions from each of operating country included in the inventory scope[1].



The UK, US, South Africa and Australia operations account for 94% of our carbon footprint. Of the site-based emissions, 60% of emissions are from just five of our 19 occupied buildings in scope, namely Fourways in South Africa; Yarmouth House and Midas House in the UK; and Springfield and our Software Head Office in Farmington in the US. This understanding of our footprint will allow the Group to focus efforts on locations that can provide the greatest carbon savings whilst ensuring a return on investment over time.

3.2.2. EXAMPLES OF WHERE WE HAVE REDUCED OUR IMPACT

There are a number of examples of regional initiatives to reduce climate impacts. For example, South Africa has stipulated that its new head office is to be retrofitted with state of the art eco-efficiency measures to save on energy costs and lower emissions. The building will manage energy consumption through electric geysers used to achieve optimal energy use according to the building requirements. The South African business has also recognised the regional demand for low carbon energy solutions and is working in partnership with the Central Energy Fund in an initiative to replace conventional water heaters using solar heaters. The UK has also been introducing eco-efficiency measures in its data centres and has recently announced that UK Infront operations will be carbon neutral through carbon offset purchases.

It is intended that these emission reduction activities will be monitored and reported to ensure knowledge transfer between our operations as well as accurate capture of progress towards future carbon reduction targets.

[1] The GHG inventory scope currently excludes both India and Pakistan until these businesses are better established. In addition there are four other buildings in Spain, US and South Africa that are excluded due to a lack of available data. These are small offices and are not considered to have a material impact on the global GHG emissions total.

3.2.3. SETTING GOALS TO REDUCE OUR CLIMATE CHANGE IMPACT

By undertaking a high-level review of the opportunities for GHG abatement, the Group has been able to consider possible reduction targets. The current view is that it may be possible for Innovation Group to commit to a 20% emissions reduction per employee (against a 2012 baseline) by 2017 which would arise mainly from the adoption of abatement options that pay back within 2 to 3 years and the effective adoption of behavioural change measures that realise a GHG saving. The review also indicates that it may be possible for Innovation Group to reinforce this target for 2017 with further and more substantive longer term measures, some of which may require collaboration with office landlords, that could result in a further 5% total GHG reduction per employee by 2020.

Before a commitment can be made to a Group-wide target, the business must ensure that it is arrived at through a clear understanding of the specific locations in which reductions will be achieved and over what time periods. It is intended to focus efforts over the next year to establish a solid base year carbon footprint for FY2011 and to ensure that there are appropriate systems and processes in place to fully embed carbon management into the business. This will provide the baseline against which mitigation measures at specific locations can be assessed and thereby begin to build a confident picture of the potential to reduce the our overall global footprint.

3.3. WORKFORCE

The Group's workforce is a critical element in being able to meet sustainability commitments. The Directors believe that long-term it will be through the individual actions of employees, measured collectively, that will potentially have the biggest impact on the ability to meet targets. We intend to benchmark the Group's workforce's awareness of and ability to influence sustainability issues in the next year with a comprehensive global staff survey and the development of a dedicated sustainability intranet capability. This shall be followed up with specific programmes of awareness, championing those activities and initiatives that are being undertaken by individuals and teams.

3.4. SOCIO-ECONOMIC BENEFITS

The Group recognise that the business has a positive impact on the socio-economic conditions of the local communities in which it operates, of employees, and the Group's suppliers and business partners. These benefits occur from direct economic contribution through the generation of profits, payment of wages and suppliers; paying and collecting taxes; development of the workforce; and the development of suppliers.

In order to stay apace of the expectations of our key stakeholders and to fulfil our sustainability commitments publically, the Group has identified the inputs and activities through which it generates social and economic impacts (across the core business, value chains, social investment, philanthropic and advocacy activities) as well as the key stakeholder groups affected. The table below summarises the expected socio-economic contributions:

Ways in which IG is generating impacts

Public policy intervention

IG is a participant of the UN Global Compact and is committed to meeting the requirements of the Communication on Progress.

Social investment & philanthropy

IG at a regional level makes ad hoc social investment and philanthropic contributions:

- North America donated $5k in 2011 in response to a tornado which affected the local community and employees
- Germany sponsors 3 children in Africa through 'Plan' and donates €1-2k per year to pay for an operation for a local child
- South Africa: the company and employees jointly contributed £54k to three charities relating to animal and child welfare

Core business and value chain operations

Further impacts are generated through the following activities:

- Profit generation and distribution – *£9.8m adjusted profit in FY10*
- Supplier payments *(not quantified)*
- Direct employment and payment of wages – *2,232 staff, £64.1m costs in FY10*
- Payment and collection of taxes – *2.7m tax expense in FY10*
- People development practices – *e.g. Kairos programme*
- Enterprise development and technology transfer – *e.g. audits, software advice*
- Quality of services in the market place – *e.g. better/faster services provided*

It is evident that the Group generates a number of social and economic impacts mainly through the core business and value chain, the largest of which appear to relate to economic contribution, tax payments and employment which are normal to a business. The Group contributes to a number of social investments, public policy involvement, and enterprise and people development practices but these are tend to be localised examples that are not easily captured by the business.

The Group is currently considering approaches for measurement and indicators for reporting social and economic contributions. This will help to consolidate efforts and better understand how an initiative generates impacts, thereby supporting the business case for continued investment in the above areas.

An example of increasing investment in people development is our Kairos Programme, a training programme aimed at taking 28 high performing employees from around the world through a Cranfield University business course followed by 12 months addressing diverse business projects. The Group is now considering the development of a framework to monitor and evaluate the impacts of this programme at different points and to report these internally and externally to create a number of benefits for the business (e.g. efficiency, reputation etc).

3.5. SUPPLIERS

The Group recognises that there are sustainability risks and opportunities that occur in our supplier networks that service policy claims for vehicle damage and property subsidence. Although there is a question concerning the allocation of sustainability impacts from these networks, the Group is in a position to leverage a strong procurement position to assert positive change in supplier operations.

This year, the Group wanted to further engage with suppliers to better understand the implications of external sustainability-related factors such as regulation and standards; the impact of product use and processes; the potential impact on business reputation; and potential impacts to their licence to operate. To achieve this, the Group undertook a supplier survey within each of the operating regions to assess how representative suppliers are responding to the social and environmental challenges that they face. At the same time, the business completed a regulatory risk assessment of each key supplier network sector to understand what the minimal compliance requirements are within each operating country. This work has enabled the identification of sustainability criteria that could be incorporated into future supplier selection processes as well as service level agreements. Additionally, 12 of the existing 28 UK property subsidence supply chain companies have been assessed for their GHG emissions and reduction strategies will be developed through 2012.

The next year will be spent adapting supplier requirements and supplier audit processes to embed basic sustainability compliance into all suppliers, thereby helping to address the business risks presented by supplier networks.

4. THE FUTURE

The Group believes we have made good progress over the past two years and recognises that the goal of a sustainable business is part of core strategy. The Group achieved most of what it set out to do last year and now needs a new set of commitments to focus efforts over the next twelve months and beyond.

Sustainability area	Our 2012 sustainability objectives	Target
Strategy	Engage with key stakeholders to inform the development of our sustainable development strategy and road map	By end of 2012
Environment	Define relevant social and environmental KPIs that IG will report against and embed these into our monitoring and reporting system	By end of 2012
	Develop regional carbon abatement action plans	By end of 2012
	Deliver monitoring training to sustainability champions	By end of 2012
Socio-economic benefits	Identify socio-economic KPIs in order to measure our impact on the community, society, workforce and supply chain	By end of 2012

Supply chain	Embed sustainability criteria in the supplier audit process	By end of 2012
Workforce	Communicate our sustainability performance to our employees and develop an awareness programme to be trialled in the UK	By end of 2012