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Press Release

N.B. Includes quotes from Vodafone, Google and SAP AG.

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New report highlights core business risks facing Technology, Media and Telecoms companies

A new report from F&C Asset Management focuses on the core risks facing technology, media and telecoms (TMT) companies surrounding the issues of **Access, Security and Privacy (ASP)**. The report, *Managing Access, Security & Privacy in the Global Digital Economy*, has been produced by F&C's 15-strong governance and sustainable investment team. It highlights the conflicting pressures facing TMT companies from governments, customers and pressure groups, such as censorship requirements by governments, the growing sophistication of Internet fraud and software viruses and public concerns about privacy and safety while operating on-line. It also recommends principles of good practice for dealing with ASP concerns. Some 13 leading global companies participated in the study, including network operators, hardware manufacturers and software and service providers. (1)

Whilst these issues are set to grow in complexity, F&C warns that as a long-term investor in TMT companies, it will look for evidence they are taking the necessary steps to avoid the pitfalls of regulatory clampdowns, penalties and public relations disasters.

The complexity of ASP issues lies in the fact that they are often finely balanced, *Managing Access, Security & Privacy in the Digital Economy* concludes. For example, in terms of Access, companies are expected to

(1) Companies engaged with in the study were: BT, Deutsche Telekom, Ericsson, Google, Intel, Microsoft, Motorola, Nokia, SAP, Sony, Telecom Italia, Vodafone and Yahoo!

safeguard freedom of expression but they are also faced with the need to protect their business and that of their customers by blocking certain types of content, as well as develop protection against viruses and online predators. **Vodafone** for example, has developed a Group strategy for managing potentially offensive content that balances global standards against local cultural norms.

“We are committed to offering our customers a wide range of services. However, we recognise that this may not be appropriate for everyone, particularly young people. Where a wide range of services are available, we will limit access to age-restricted content, in a similar manner to other media platforms. This applies across our business”, affirmed Annie Mullins, Head of Content Standards for **Vodafone**.

Data disclosure versus civil liberties – two sides of the same coin

“The question of balance between civil liberties and data disclosure to authorities is a tricky one for TMT companies”, said Karina Litvack, Head of Governance and Sustainable Investment at F&C. “For instance, in February 2006 US software companies **Google, Yahoo!, Microsoft, and Cisco Systems** were called before the US Congressional Subcommittee on Global Human Rights to explain their role in limiting freedom of expression and privacy on the Internet in China. **Cisco Systems**, which sells network equipment products to Chinese authorities that are widely used in their Internet ‘Golden Shield Project’, or ‘the Great Firewall of China’, as it is known elsewhere in the world, faced a revolt when 29% of shareholders supported a proposal at the 2006 annual meeting asking the company to report on how its products are being used to limit freedom of expression. Shareholders are clearly concerned about the business and reputation impacts of doing business with certain customers, and companies need to assess these risks carefully” she said.

“Companies involved face not only reputational but considerable legal risks”, added Litvack. “For example, US telecommunication companies **AT&T, Verizon and BellSouth** are now being sued for a combined US\$200m for violating customer privacy laws, having allegedly submitted customer records to the US National Security Agency’s new anti-terrorist call-tracking programme in 2006.”

Security issues and the proliferation of viruses are another big business risk that has recently been identified among the top 10 issues for customers, according to Swedish telecoms operator **Ericsson**. **Microsoft** reported last year that “security vulnerabilities in our products could lead to reduced revenues or to liability claims”. (2)

“Given the very close interplay between Access, Security and Privacy, companies run the risk of solving

(2) Microsoft 2006 10-K

one problem only to aggravate another – all three have to be evaluated simultaneously”, continued Litvack. “There are more complications. Whereas security threats may be dealt with by straight-forward technical solutions, privacy and access issues force companies to interact with governments in a way that may not necessarily adhere to the standard rules of business. This requires careful negotiation and understanding of various associated issues, not just legal but often cultural, depending on the jurisdictions in question”.

“Companies with global operations find themselves stuck between a rock and a hard place: on the one hand, they must comply with local laws, while on the other, they are expected to meet rapidly-evolving global human rights standards. The only way out is for the industry as a whole to develop clear protocols for how to interact with governments when faced with these sensitive issues, whether in China, Europe, the US or elsewhere”, said Litvack.

Managing Access, Security & Privacy in the Global Digital Economy recommends 15 specific standards of good practice for managing ASP risks and opportunities that F&C considers important in shaping the commercial success of the TMT companies and providing reassurance to their institutional investors. (3) The report also details indicators of good practice for managing ASP issues within businesses that incorporate: policies; management systems and oversight; training and communication; transparency and disclosure; and education, empowerment and external engagement.

"At Google, we know that our users expect us to protect their privacy and security. We believe that it's our job to sort out the complexity of privacy and security challenges and to work with other players in the broader Internet ecosystem to make the Web a safer place for everyone. F&C Asset Management's report does a great job to identify these challenges and to help share best practices of how leading companies have addressed them," said Peter Fleischer, **Google's** Privacy Counsel for Europe.

ASP: turning risk into commercial opportunities

“While Access, Security and Privacy issues pose significant business risks, they also have the potential to be strongly positive business drivers and competitive differentiators,” said Litvack. “Customers of TMT companies are clearly unprepared for future ASP challenges,” added Litvack, “and TMT companies therefore have a perfect opportunity to help their customers prepare for them.” According to the 2006 Chief Information Officer Survey, approximately 30% of information executives across firms admitted that they need to be in compliance with a specific set of security and privacy laws, but have failed to take action, and the staggering 45% are not in compliance with the EU Data Privacy Directive. (4)

(3) See pages 10, 12 and 19 of *Managing Access, Security & Privacy in the Digital Economy*

(4) 15th September 2006, “The Global State of Information Security 2006”, CIO Magazine

"The rapidly-growing demand for enterprise security solutions shows that companies are starting to realise the complexity of the challenges they face in protecting their core business operations, and F&C's report shows that leading investors are catching onto this risk", said Sachar Paulus, Chief Security Officer, **SAP AG**. "The industry can't afford to wait for regulation, and SAP and other companies have joined forces to pro-actively develop a common best-practice regime for secure computing. We actively engage with the European Commission and trade organisations to make such an industry standard happen."

F&C, which manages over £106 billion of assets globally, states that it will take a pro-active stance in fostering effective ASP standards and help them to become the norm across the industry through shareholder engagement with the TMT companies in which it invests.

"Issues of Access, Security and Privacy have ceased to represent mere incremental business risks", concluded Litvack. "Companies such as computer and software manufacturers, Internet providers and telecoms need to place these issues at the core of their business strategy if they are to keep ahead of the competition, anticipate customer needs and win the trust of society at large. Information technology is of increasing importance in the lives of people around the world, in an expanding number of different jurisdictions and forms, ensuring that ASP issues are not only going to grow in importance but also in scale and complexity".

For a PDF copy of Managing Access, Security & Privacy in the Digital Economy please email sergei.cristo@fandc.com or call +44 (0) 207 011 4402

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Notes to Editors

- F&C Asset Management plc (F&C) was created on 11 October 2004 from the merger of F&C (Group Holdings) Limited and ISIS Asset Management plc.
- Shares in F&C are listed on the London Stock Exchange under the code FCAM. Friends Provident, the FTSE 100 insurance group, is F&C's majority shareholder.

- F&C is a pan-European business managing £106 billion (as at 30 September 2006) for a diverse range of institutional, insurance and retail clients. F&C has offices in eight countries: France, Germany, Ireland, Netherlands, Portugal, Switzerland, UK and United States.
- F&C is one of the largest UK fund manager by assets under management, has a major market share in the Netherlands and is a leading provider of fund services to the Portuguese and German retail markets.
- F&C has a major presence in the UK retail market with strength in corporate bonds, UK equities, US smaller companies, multi-manager and ethical funds.
- F&C is a leading force in the UK investment trust industry. The flagship Foreign & Colonial Investment Trust was the first such trust, launched in 1868.
- F&C is the leading European socially responsible investor through its **reo**® (responsible engagement overlay) service and the Stewardship suite of ethically screened funds, the oldest retail ethical funds in the UK.
- F&C, through its partnership with ISIS Equity Partners LLP, is a leading distributor of Venture Capital Trusts under the Baronsmead brand.