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INTERNATIONAL CORPORATE GOVERNANCE PRINCIPLES

Hermes Investment Management is a fund manager wholly owned by the largest British pension fund. Hermes believes that in the long term good governance adds value to its clients' equity investments. The following principles will be used to guide Hermes' voting decisions and will apply to all publicly quoted companies in which Hermes' clients invest outside the United Kingdom. Hermes will be pragmatic in applying these principles, which are goals for strong corporate governance, and which may, at times, have to be adapted for local laws.

HERMES' CODE OF CONDUCT IN SUPPORT OF COMPANIES

1. Hermes acknowledges, on behalf of its clients, that shareholders have responsibilities as owners to participate in the stewardship of companies and that, in companies outside their home market, the primary way of achieving this is through proxy voting. Accordingly, Hermes will endeavour to lodge proxies at company general meetings, subject to excessive costs or administrative difficulties, in accordance with the principles outlined in this document. Companies, for their part, can promote good practice and system development in their own market, thus minimising the obstacles to shareholder voting. We recommend following the International Corporate Governance Network's Global Share Voting Principles to achieve this end.

2. Management of companies run in the long term interests of shareholders can be confident of Hermes' continuing support. Hermes is committed to applying its corporate governance and voting policies with thought, giving due consideration to the specific circumstances of individual companies, and will adopt a pragmatic approach where appropriate. Hermes will reconsider, at the request of a company, any company-specific circumstances that may make it inappropriate to apply Hermes' standard policies.

3. Hermes will contact companies to explain its reasons for voting against or abstaining on resolutions. Hermes prefers these discussions to be kept private. Hermes welcomes correspondence from companies in which its clients invest and where appropriate wishes to encourage discussions with company directors and executives.

CORPORATE GOVERNANCE PRINCIPLES

1. CORPORATE OBJECTIVE

The overriding objective of the corporation should be to optimise over time the returns to its shareholders. Where other considerations affect this objective, they should be clearly stated and disclosed. To achieve this objective, the corporation should endeavour to ensure the long-term viability of its business, and to manage effectively its relationships with stakeholders.

2. COMMUNICATIONS AND REPORTING

Corporations should disclose accurate, adequate and timely information, in particular meeting market guidelines where they exist, so as to allow investors to make informed decisions about the acquisition, ownership obligations and rights, and sale of shares.

3. VOTING RIGHTS

Corporations' ordinary shares should feature one vote for each share. Corporations should act to ensure the owners' rights to vote. Fiduciary investors have a responsibility to vote[1]. Regulators and law should facilitate voting rights and timely disclosure of the levels of voting.

4. CORPORATE BOARDS

The board of directors, or supervisory board, as an entity, and each of its members, as an individual, is a fiduciary for all shareholders, and should be accountable to the shareholder body as a whole. Each member should stand for election on a regular basis.

Corporations should disclose upon appointment to the board and thereafter in each annual report or proxy statement information on the identities, core competencies, professional or other backgrounds, factors affecting independence, and overall qualifications of board members and nominees so as to enable investors to weigh the value they add to the company. Information on the appointment procedure should also be disclosed annually.

Nb. These principles are based on those adopted at the 9 July 1999 meeting of the International Corporate Governance Network, a group representing the interests of major institutional investors, corporates, financial intermediaries and other parties interested in the development of global corporate governance practices. These principles are the investors' interpretation of the OECD's Principles of Corporate Governance published in May 1999.

Boards should include a sufficient number of independent non-executive members with appropriate competencies[2]. Responsibilities should include monitoring and contributing effectively to the strategy and performance of management, staff key committees of the board, and influence the conduct of the board as a whole. Accordingly, independent non-executives should comprise no fewer than three members and as much as a substantial majority. Audit, remuneration and nomination board committees should be composed wholly or predominantly of independent non-executives.

5. CORPORATE REMUNERATION POLICIES

Remuneration of corporate directors or supervisory board members and key executives should be aligned with the interests of shareholders[3]. Corporations should disclose in each annual report or proxy statement the board's policies on remuneration—and, preferably, the remuneration break up of individual board members and top executives—so that investors can judge whether corporate pay policies and practices meet that standard. Broad-based employee share ownership plans or other profit-sharing programs are effective market mechanisms that promote employee participation.

6. STRATEGIC FOCUS

Major strategic modifications to the core business(es) of a corporation should not be made without prior shareholder approval of the proposed modification. Equally, major corporate changes which in substance or effect materially dilute the equity or erode the economic interests or share ownership rights of existing shareholders should not be made without prior shareholder approval of the proposed change. Shareholders should be given sufficient information about any such proposal, sufficiently early, to allow them to make an informed judgement and exercise their voting rights.

7. OPERATING PERFORMANCE

Corporate governance practices should focus board attention on optimising over time the company's operating performance. In particular, the company should strive to excel in specific sector peer group comparisons.

8. SHAREHOLDER RETURNS

Corporate governance practices should also focus board attention on optimising over time the returns to shareholders. In particular, the company should strive to excel in comparison with the specific equity sector peer group benchmark.

9. CORPORATE CITIZENSHIP

Corporations should adhere to all applicable laws of the jurisdictions in which they operate.

Boards that strive for active co-operation between corporations and stakeholders will be most likely to create wealth, employment and sustainable economies. They should disclose their policies on issues involving stakeholders, for example workplace and environmental matters.

10. CORPORATE GOVERNANCE IMPLEMENTATION

Where codes of best corporate governance practice exist, they should be applied pragmatically. Where they do not yet exist, investors and others should endeavour to develop them.

Corporate governance issues between shareholders, the board and management should be pursued by dialogue and, where appropriate, with government and regulatory representatives as well as other concerned bodies, so as to resolve disputes, if possible, through negotiation, mediation or arbitration. Where those means fail, more forceful actions should be possible. For instance, investors should have the right to sponsor resolutions or convene extraordinary meetings.

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1. Hermes believes that in principle fiduciary investors have a responsibility to vote but also recognises that there are situations where it is in the interests of the beneficial owners not to vote.
2. Hermes' definition of independence and our views on the appropriate number of non-executive directors are available on our website (www.hermes.co.uk).
3. For instance, through share ownership schemes or performance-linked pay. Hermes does not believe that simple share options adequately align the interests of shareholders and directors. Our recommendations on remuneration are available on our website (www.hermes.co.uk).