REPORT TO: SUPERANNUATION INVESTMENT SUB-COMMITTEE OF THE FINANCE COMMITTEE - 18 MAY 2005

REPORT ON: SOCIALLY RESPONSIBLE INVESTMENT - SIX MONTHLY REPORT

REPORT BY: DEPUTE CHIEF EXECUTIVE (FINANCE)

REPORT NO: 323-2005

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 31 March 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's recent activity is shown in Appendix 3. In addition they have prepared a booklet 'Principles of Ownership' which outlines their responsibilities and policies in relation to share ownership. This is shown at Appendix 4.

10 OVERALL CONCLUSION

The submissions by the Fund Managers to show that they are continuing to progress these areas and by allowing each to use its own means of targeting companies the Fund has been able to address a wide range of issues.

11 BACKGROUND PAPERS

None

DAVID K DORWARD
DEPUTE CHIEF EXECUTIVE (FINANCE) **11 MAY 2005**

APPENDIX 1

ALLIANCE BERNSTEIN

Subject	Period	Company	Topic	Comments
Corporate Governance	4Q04	Alba	Combined Code	The nomination committee, comprising John Harris (Chairman), Sir Bill Cotton and Paul Selway-Swift, was established in March 2004. We do not consider John Harris and Sir Bill Cotton to be independent. The new combined code states that the majority of the members of nomination committees should be independent non executive directors. In respect of the old combined code, the company meets with best practice as a majority of Committee members are non executive directors. However, Sir Bill Cotton has indicated that he will step down in 2005. He will remain with the company for the time being to allow sufficient time for the nomination committee to identify and nominate a candidate to succeed him. We support this clear evidence of a move towards better corporate governance.
Corporate Governance	4Q04	Bodycote International	Combined Code	The chairman of the company was reported to also chair the company's remuneration committee. The company's CFO informed us that the chairman has now resigned from its remuneration committee.
Corporate Governance	4Q04	Computacenter	Combined Code	Company does not comply with the letter of the new combined code because, of the seven directors, only three are independent non-execs, rather than a majority. The company has informed us that they intend to move towards compliance with the code, but at an orderly pace as the three independent non execs have all been added in the last three years. In the interim, we are reassured by the fact that two non-independent non-execs are former founders and are large shareholders with considerable experience of the business.

Period	Company	Topic	Comments
1Q05	Shell	Human Rights	Shell rejected an order by Nigeria's Senate to pay USD 1.5 billion in compensation to Niger Delta communities affected by oil pollution. The petition for compensation was filed by members of the Ijaw community, who claim to have suffered widespread disease as a result of oil spills from Shell's facilities. Shell assures us that they are not ignoring this claim. They are "engaging all relevant authorities" to resolve the issue. Furthermore, they dispute this particular claim. For example they argue that they were not the cause of the spills, but rather the spills were caused by sabotage and organized stealing, which the local authorities failed to address, the claim that the spills have caused the types of health problems cited (i.e., that oil spills cause cancer) has not been proven, and has been rejected outright by independent researches. Shell also says that they did not receive due process in the deliberation of this claim. Given the very difficult operating situation in Nigeria, we are inclined to give Shell the benefit of the doubt here.
1Q05	Unilever, Intercontinental Hotels, Michells & Butler, Sainsbury, Whitbread, SAB Miller, Tate & Lyle, BP, ENI, Shell,, Total, BNP Paribas, Ciba, GlaxoSmithKline, Novartis and E.ON.	Refrigerant Usage	In the fourth quarter of 2003 we engaged with Unilever regarding their refrigerant usage. At the time, Unilever reported that it was continuing to progressively eliminate the use of refrigerants that cause ozone depletion or contribute to global warming. At the end of 2004, Unilever reported that it has committed to buy only hydrofluorocarbon (HFC) free ice cream cabinets from 2005. We welcome Unilever's initiative to reduce their dependence on HFC. We are currently engaging with a number of companies regarding their refrigerant usage. We are specifically engaging on the impacts of Regulation (EC) No 2037/2000 on their business. The Regulation is the European Union's legislative instrument to phase-out Ozone Depleting Substances (ODSs). As of 2000, CFC-equipment may be operated but may not be serviced in the EU. Additionally, companies within the EU are forbidden to use virgin HCFCs from 2010. However, they will be allowed to use recycled HCFCs to service their equipment until 2015.
1Q05	Nutreco	Environmental Issues	Nutreco is a leading player in the fish farming market, both through the provision of fish feed and through the operation of farms themselves. During the first quarter, we engaged with the company on three main environmental issues. Firstly, we raised health and safety concerns, related to the use of antibiotics in fish feed (which could increase resistance levels to antibiotics amongst disease-causing organisms, with implications for the human population). Nutreco made the point that it has decreased its use of antibiotics by 50% over the past three years. Secondly, we questioned waste discharge levels around fish farms, in the form of fish faeces and uneaten feed. The company replied that it has a series of study programmes in place to measure and control environmental impact. Thirdly, we raised the question of sustainability, highlighting the fact that significant quantities of wild fish are caught to feed farmed ones. Nutreco responded by outlining a series of research initiatives it has under way to increase the use vegetable oils in fish feed. Going forward, we are maintaining a watching brief with regard to these issues

BP

We met the Caspian Development Advisory Panel (CDAP) - the independent committee set up by BP to investigate the social, environmental, and ethical issues arising from the construction of the Baku Tbilisi Ceyhan (BTC) pipeline in Azerbaijan, Georgia and Turkey - to discuss its visit to the region in October 2004. The CDAP commended the company for the progress it has made since the last CDAP report was published in 2003: BP's focus on safety has resulted in a low accident rate at BTC; the formation of the Regional Development Initiative, which sets out a comprehensive approach to sustainable development in the region; and the development of effective working relations with its Turkish partner, BOTAS, which will help to ensure that both construction of the pipeline and ground reinstatement are finished to a high standard.

Since the pipeline construction is now at an advanced stage, the CDAP has encouraged BP to focus on several areas: the importance of adhering to high social and environmental standards when completing the pipeline; maintaining the support of local governments and populations; making sustainable investments in the region commensurate with the impact of the pipeline, such as allowing Georgian people without electricity access to the power running through the pipeline. We commend the CDAP for its comprehensive report: addressing the areas identified by the committee will enable BP to develop a best practice model for the extractive industries.

Carnival

We met the Chairman/Chief Executive and Vice Chairman to discuss the company's revised Corporate Governance Guidelines. In 2004 the Nominating and Governance Committee (NGC) reviewed governance practices in the US (Sarbanes-Oxley Act) and UK (revised Combined Code). As a dual listed company the aim of the NGC is to follow best practice in the UK where appropriate: for example, UK remuneration principles are adhered to as far as practicable unless such principles result in the company being uncompetitive in the US or other markets.

As part of the revised Guidelines, the proposed amendments to the Outside Director Plan will allow for the grant of restricted stock as an alternative to share options to non-executive directors (NED) to embrace UK practice: UK directors will only take the restricted stock alternative as part of their remuneration. In addition, the NGC adopted a new policy requiring NED to own and hold 5,000 shares within the next three years. Also, the revised Guidelines require quarterly meetings of NED in private sessions following full meetings of the board; annual performance evaluation of directors and the board, including reviews of objectivity and independence of directors.

We believe that the company's proposals represent a pragmatic approach to corporate governance differences in the UK and US: the revised Guidelines will increase the alignment of NED and shareholder interests and represent a strengthening of its corporate governance framework, which is more in line with UK best practice.

RWE

We met the Group Environmental Affairs Manager to discuss the company's carbon emissions mitigation strategy. As a utility company, RWE has had to consider carbon dioxide emissions and the impact they could have on its business risks and opportunities. The two key issues particularly relevant to German utility companies are: the large quantity of readily available lignite coal which has a high carbon content, and; nuclear power, a non-carbon emitting energy source, which is to be phased out by 2021.

To offset these risks, RWE has a medium term and a long term strategy. In the medium term, it is commissioning lignite-optimised power stations which produce more power per unit of fuel used and therefore decrease the relative amount of emitted carbon. In the long term, it has joined a consortium which is looking, through combined research and development, for technical solutions to carbon sequestration (long term storage of carbon, which reduces emissions) and other mitigation technologies. This was a good opportunity to learn more about the company's systems: Baillie Gifford is the first fund manager to discuss these issues with the company and we look forward to further engagement in future.

Travis Perkins

We met the Group Planning Director to discuss the company's timber procurement strategy. Two years ago the company - a leading supplier to the building and construction industries - was the subject of a Greenpeace campaign, which accused it of sourcing potentially illegal timber, particularly plywood, from Indonesia. We were interested to learn what processes and systems the company now has in place to ensure that timber procured is legal and certified. The percentage of certified timber procured has risen consistently since 2001, when 41% was certified with a target set for 2006 of 75%. We will continue to monitor the company to ensure that this target is met and will encourage the company to continue setting more challenging targets for the future. The company also discussed its challenges for the future which include: sustainability; chain of custody and how to overcome issues of extended supply chains; training and awareness throughout the supply chain; continuous improvement to meet increasing future targets.

Summary of Major Engagement Activity for Tayside
Quarter To 31/12/04
Baillie Gifford

Company	Area of Engagement	Main Topic	Outcome
ANZ Bank	Corporate governance	Executive remuneration	We wrote to the Chairman informing him of our intention to oppose the grant of performance shares to the Chief Executive because the performance targets were unchallenging. Although the Company Secretary responded to our letter, the company appears to have largely ignored our concerns. We note that all resolutions were passed at the AGM. We have sent a follow up e-mail to the Company Secretary.
BHP Billiton	SRI (employee care, human rights, sustainability, environment)	Health and safety and other significant SEE (social, environmental and ethical) issues.	The company is taking its responsibilities seriously and we are encouraged by the Board's frankness at the AGM when discussing its health and safety record. We are closely monitoring the results of its new policies.
BOC Group	Corporate governance	Executive remuneration	We successfully encouraged the company to introduce more stringent performance targets, which we believe will increase the alignment of management and shareholders.
Diageo	Corporate governance	Executive remuneration	Although the company did make some concessions following our extensive discussions with management, we do not believe the policy is in the best interests of shareholders and opposed the resolution to approve the new plan at the AGM.
HSBC	Corporate governance	Executive remuneration	A successful consultation with the company in which our concerns were addressed.
Imperial Tobacco	Corporate governance	Executive remuneration	A successful consultation with the company in which our concerns were addressed.

Nestle	SRI (employee care, human rights, sustainability, environment)	Purchasing objectives and the global supply chain, and development of clinical nutrition.	After a trip to its headquarters in Switzerland we have engaged extensively with management to clarify a number of issues. We intend to review some aspects of the company's corporate governance practices during 2005.
Next	SRI (employee care, human rights, sustainability, environment)	Three issues were discussed: labour standards in the supply chain, environmental regulation, and staffing issues, which included gender, diversity, and flexible working.	This gave us a valuable insight into some of the environmental and social issues faced by a retailer, and how it is managing and controlling its supply chain.
Sage Group	Corporate governance	Executive remuneration	A successful consultation with the company in which our concerns were addressed. We believe that the amendments will increase the alignment of shareholders and executives. We plan to meet with the Company Secretary in Q1 2005 to discuss SEE disclosure in the annual report.
Wolseley	Corporate governance	Executive remuneration	We had a teleconference with the Remuneration Committee Chairman. Although we have some outstanding concerns regarding the performance conditions, the Remuneration Committee is due to revisit some aspects of its policy during 2005.

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APPENDIX 3

Appendix — Corporate Social Responsibility (CSR) report – Q1 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 risks or returns.
- 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 seek to engage with the businesses in which we invest on behalf of our clients, in order to discuss these issues. We use the information gathered during these meetings both to inform our investment decisions and to encourage corporate managements to make progress with their 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. The CSR Analyst identifies priorities for engagement, typically focused on companies where we perceive that environmental, social and ethical issues could have a material impact on shareholder value. These 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 [NGOs]).
3. The CSR analyst holds meetings devoted solely to CSR issues with companies.
4. The findings from these meeting are reviewed by the CSR and research analysts and future engagement objectives are agreed.

Recent Company Engagement

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

Company	Country	Engagement issues			
		CSR Strategy	Environmental Management & Climate Change	Responsible Product Stewardship	Workplace
ACS	Spain	x			
Balfour Beatty plc	UK		x	x	x
Barratt Developments	UK	x	x		x
Blacks Group	UK				x
French Connection	UK				x
Hennes & Mauritz	Sweden				x
Matalan	UK				x
Peacocks	UK				x
Taylor Woodrow	UK	x	x	x	x
Tesco	UK				x

Issue: Key CSR Issues Facing the Media Sector

Company Engagement

It is encouraging to see that companies are taking CSR more and more seriously and are becoming increasingly proactive in their approach. Over the past twelve months, Fidelity has been approached by a significant number of companies and working groups looking for feedback with regard to their CSR strategy. For example, we were recently asked to take part in a stakeholder consultation exercise performed by KPMG on behalf of 12 members of the Media CSR Forum: **AOL UK**, **BBC**, **EMI**, **GMG**, **ITV**, **Pearsons**, **Reed Elsevier**, **Reuters**, **Sky**, **T&F Informa**, **United Business Media** and **WPP**.

Background

The main objective of the consultation was to pinpoint the core CSR issues affecting the sector. KPMG identified and consulted over 130 stakeholders. The resulting report concluded that the issues could be split into three categories, those which affect all industries; others which have particular significance for the media due to its influence on public opinion; and product-specific issues which are unique to the sector. The first group incorporates broad topics such as corporate governance, environmental impacts and supply chain management; the second lists concerns such as the digital divide, information integrity, regulatory compliance and promotion of CSR issues; and the last includes freedom of expression, balanced and impartial output, responsible and transparent editorial policy as well as the inclusion of cultural diversity in output.

Stakeholders agreed that the main CSR issues facing the industry arose from the media's positive or negative effect on society through its products, programmes and content.
After consultation, these factors were classified into the following order of importance:
•Responsible and transparent editorial policy – the use of clear standards or codes for editorial policy especially regarding politics, accuracy and impartiality
•Corporate governance – processes and systems for managing an organisation's business operations
•Integrity of information – the use of accurate and objective information, data and images
•Impartial and balanced output – the production of impartial, diverse and fair output that is both informative and reflective of public opinion. Independence for editors
•Investing in and supporting staff – training and professional development for staff. Respect for the work/life balance. Safe and supportive working environment
It is interesting to note that only two of the five points on the list are regarded as being unique to the media sector – editorial policy and impartial output – whilst one other has distinct implications for the sector – integrity of information. The other two points apply to all sectors. It is also noticeable that three of the five points relate to output, reflecting the importance of the media in informing and influencing debates. The other two relate to the way in which companies are run.

The next step of this project will involve companies looking at taking the findings of this study into account.

Future Engagement Objectives

We will monitor how companies integrate the findings of this report into their business practices.

Issue: The Carbon Trust Study on the Impact of Climate Change on Brand Value

Background

Despite increasing interest in CSR, investors have found it difficult to accurately quantify the monetary impact of companies not dealing proactively with related issues. Consequently, we were particularly interested in a study commissioned by the Carbon Trust (an independent company funded by the government, tasked with reducing greenhouse gas emissions in business and the public sector). The research attempted to assess, in quantitative terms, the brand value at risk for companies in different sectors as a result of their response to climate change issues. The analysis looked at six sectors generating varying levels of carbon emission: high (airlines and oil & gas), medium (food/beverage production and food retail) and low (banking and telecommunications).
The study looked at the importance of brand image to each sector and how customers have reacted to environmental issues in the past. It also analysed the exposure of each sector to climate change. Whilst previous studies had shown that consumers had heard of climate change and felt they knew a lot about the topic, awareness did not necessarily translate into immediate concern and dictate purchasing decisions. The study lists five factors which could alter consumer behaviour: interest in the subject, exposure to the issue, other countries taking a lead, regulation and availability of alternatives.

The report concludes that going forward some events could raise awareness of climate change as an issue:
•Increases in the incidence of severe weather and the media linking unusual meteorological conditions to climate change
•The impact of regulations, such as the labelling of white goods with energy efficiency rating
•Politics, such as the Kyoto Protocol and national targets to reduce greenhouse gases
•Companies anticipating change, such as HSBC announcing it will become carbon neutral and Toyota launching a low emission hybrid 4X4.

The results of the study are shown below:
Oil & gas companies are associated with having a high impact on climate change. However, according to the findings, brand integrity at risk from climate change only amounts to 2- 2.5% of their market value.
Airlines, a sector with obvious operational exposure, stand to lose up to 50% of their market value, in light of the importance attached to brand image in purchasing decisions. Whilst it is unlikely that consumers will stop flying, they may switch to airlines which are more energy efficient.
Food & beverage manufacturers, an industry with less obvious links to climate change, was found to have a market value risk of up to 10%. This relatively high percentage is the result of the central role played by brand image and the ease with which consumers can switch brands.
Food retailers face the lowest threat overall with less than 1% at risk, as customers tend to chose shops based on a range of diverse factors, unlikely to include climate change.
Banks faced a risk of 1 to 2%, due to their exposure through investment and lending portfolios as well as mortgages and insurance policies.
Telecommunications firms are exposed to a risk of less than 1%, through the energy use of their products.

Future Engagement Objectives

We will monitor how companies incorporate energy efficiency and other key issues influencing climate change into their operations.

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Issue: Environmental and Social Risks Facing the Construction Industry

Background
Global warming and carbon dioxide (CO_2) emissions are increasingly on the agenda for governments and businesses alike. A recent report, by Oxford University and Tyndall Centre for Climate Research, stated that 80,000 homes a year would have to be demolished over the next ten years if the government was to achieve its target of cutting CO_2 emissions from housing by 60%. Housing contributes 25% of CO_2 emissions. Consequently, local authorities are encouraging energy efficiency through demands for housing with an EcoHomes rating of good or above. The EcoHomes scale incorporates environmental factors such as energy efficiency and low CO_2 emissions, as well as social factors such as the local landscape and amenities. Therefore, companies incorporating energy efficiency in their operations and designs should enjoy a clear advantage.
Concerns over the health & safety record of construction companies have brought this issue to the fore. In the UK, increased awareness has led to a fall in the number of fatal accidents. However, the continued use of subcontractors and overseas workers to fill the current skill shortage could threaten the improvement. Hence companies with apprenticeship schemes and sound health & safety policies will benefit in the future.
Local communities may oppose new building schemes due to the impact on the local environment, especially if they feel that the consultation process is inadequate. The development of good relationships with local communities should help overcome any such opposition.
The amenity value of undeveloped land has increased in developed countries. This has made it difficult to gain planning permission for housing or commercial projects to be built on such land. The cost of development is increasing as building and construction companies are required to include social housing, meet environmental requirements or regenerate contaminated land, allowing the use of brownfield sites. Companies developing policies and expertise in this area will achieve a competitive advantage.

Company Engagement
We contacted a number of construction companies in order to review how they responded to these challenges. These included **Barratt Developments, Balfour Beatty, Taylor Woodrow** and **ACS**. A key priority for all was waste management and apprenticeship programmes. Barratt, Bovis and Taylor Woodrow discussed EcoHomes and improving community areas through providing playgrounds and pedestrian/cyclist-friendly road designs. Taylor Woodrow has priced the cost of using EcoHomes standards in all its new buildings, whilst Barratt is looking into the feasibility of bringing all its housing stock up to EcoHomes 'good' rating. Health & safety was also a common theme, with the companies seeking to implement schemes to measure and improve their performance in this respect. Health & safety is of particular concern for Balfour Beatty as the company and two of its former managers are currently facing court hearings over the Hatfield train crash. Meanwhile, ACS is currently producing its first CSR report since its merger with Dragados which will homogenise the data across the two companies.

Future Engagement Objectives
We will continue to monitor the progress of these companies with regard to energy efficiency, waste management, as well as their health & safety performance.

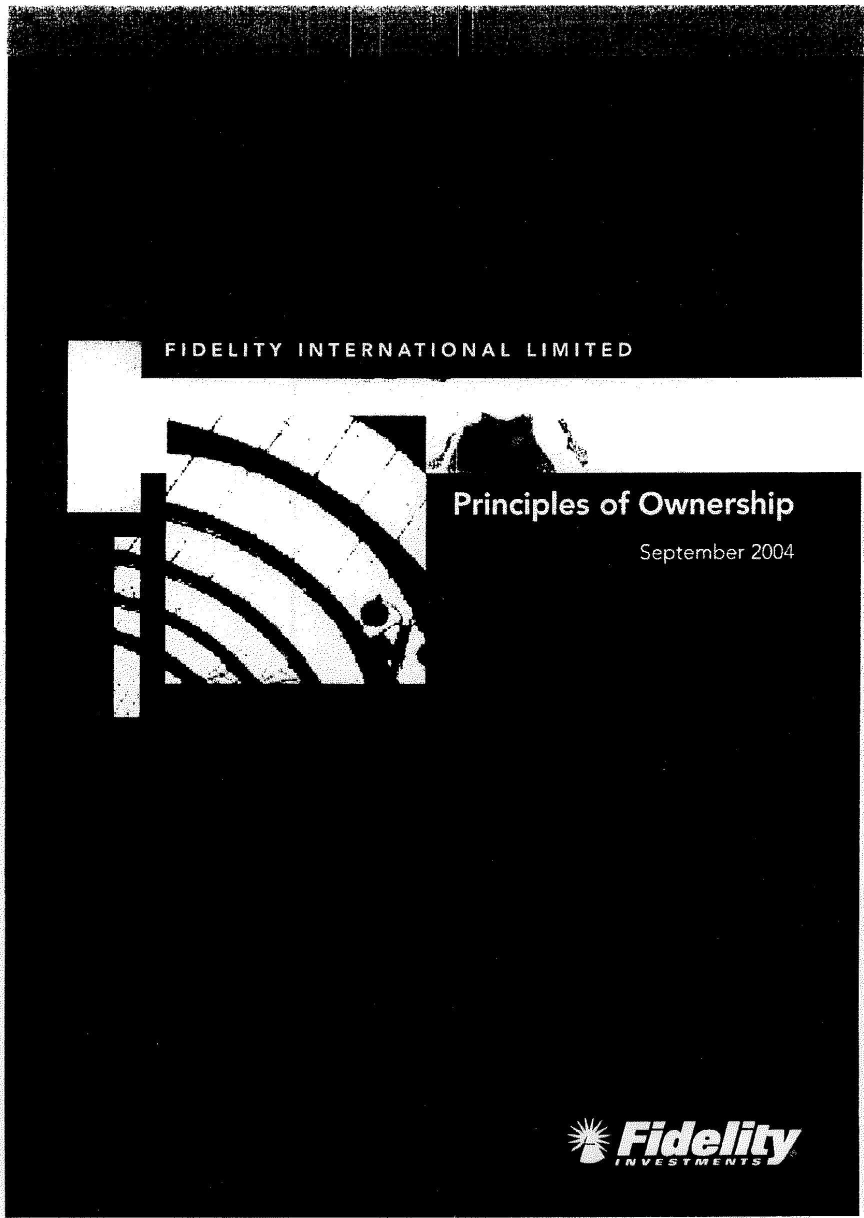
Issue: The Effect of the dissolution of the Multi-Fibre Arrangement on Retailers' sourcing strategy

Background
Since 1974, world trade in textiles and garments had been governed by the Multi-Fibre Arrangement (MFA). This provided the basis on which industrialised nations were able to restrict imports from developing countries (the labour intensive nature of this industry favoured cheaper producing nations). Every year countries agreed bilateral quotas – the quantities of specified items which can be traded between them. The exporting country then allocated licences to firms to export a certain proportion of each quota. The agreement was phased out at the end of 2004. A recent study undertaken by the Ethical Trading Initiative listed Bangladesh, Sri Lanka and Cambodia as countries likely to lose out from the end of the arrangement, whilst both China and India were expected to benefit. Other potential beneficiaries included countries with short lead times such as Eastern Europe, Mexico and North Africa.

Company Engagement
We wanted to assess the impact that this change would have on retailers' sourcing strategies and on their cost base. The industry is particularly sensitive to developments which may affect brand image and consequently it was important to ensure that any such decision had been carefully weighted. Any negative publicity relating to poor working conditions at suppliers or use of child labour could have a potentially devastating impact on companies' sales. Responsible exit strategies would also be key in terms of image. A deterioration in the quality of goods or the disruption of supply, resulting for example from labour disputes, were other major potential risks.
We spoke to the following retailers to establish whether they had changed or were planning to review their suppliers in the coming months: **Matalan, Tesco, French Connection, Blacks Group, Hennes & Mauritz** (H&M) and **Peacock Group**. The main finding was that the phasing out of the MFA had not caused any immediate or significant shift in suppliers. For example, neither Blacks or Tesco were planning to transfer production, as they have been working on developing long-term relationships with their suppliers and wanted to ensure that their names were not associated with poor working practices. It was clear from our discussions that companies were very sensitive to the risks associated with ill-judged sourcing decisions. Both Matalan and Tesco are members of the Ethical Trading Initiative (ETI), which seeks to improve the working lives of poor people by encouraging firms to implement codes of conduct for their supply chains. Whilst the others were not members, many of them followed the ETI code of conduct. Not surprisingly, some of the companies approached counted Chinese manufacturers amongst their suppliers. Both Matalan and H&M had been increasing supply from China in the past years. However, a number of companies also expressed doubts about the ability of Chinese suppliers to deliver exactly what they promised. It was felt that China still lacked infrastructure and communications and that the size of the country made logistics difficult. Other drawbacks cited included the poor quality of some of the goods produced. Companies specialising in fashionable ranges, such as French Connection, were particularly concerned about quality and logistical problems and were instead favouring manufacturers from nearby countries such as those from Europe and North Africa.

Future Engagement Objectives
We will continue to monitor companies' sourcing strategies going forward to ensure that these are responsible.

APPENDIX 4


FIDELITY INTERNATIONAL LIMITED
Principles of Ownership
September 2004
Fidelity
INVESTMENTS

CONTENTS

A. Introduction

Shareholders are the ultimate owners of companies and the basic goal of the board of directors is to ensure the long term success of companies in the collective best interests of shareholders. In addition to maximising shareholder wealth this also requires the fostering of fruitful relationships with employees, customers and suppliers, the maintenance of a sound business reputation and consideration of the company's impact on the community and the environment. We believe that high standards of corporate responsibility 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.

B. Stewardship

Fidelity International Limited ("FIL") pursues an active investment policy through portfolio management decisions, voting on resolutions at general meetings and maintaining a continuing dialogue with management. This involves holding regular meetings with companies to discuss specific results or events as well as a more informal dialogue incorporating site visits and other research initiatives. Regular access to executive management is a key part of FIL's investment process and we encourage management to provide regular trading updates to the market in order to facilitate this dialogue as much as possible.

As a general policy we are supportive of the management of the companies in which we invest but we will nonetheless form our own views on the strategy and governance of a business. This forms part of our dialogue with companies. On occasion our views will differ from those of management and where this is accompanied by a failure to achieve our reasonable expectations we will consider promoting change. Our specific response will be determined on a case by case basis and we will weigh up the relative merit of intervention or a sale of the shares. Typically we will choose to intervene to promote change when the expected benefits of intervention (through increased returns to our investors) outweigh the anticipated cost.

Where there is disagreement we will initially promote our views through discussions with the company's advisors and/or independent directors although we may also speak to other shareholders and third parties. Wherever possible we seek to achieve our objectives in a consensual and confidential manner but in extremis we will consider requisitioning an Extraordinary General Meeting to enable shareholders as a whole to vote on matters in dispute.

In instances where we own shares in more than one party to a transaction or where there are potential conflicts of interest, we will always act in the best interests of the specific funds holding the investment in question.

FIL is able to accept price sensitive information through its corporate finance group. The corporate finance group operates separately from the dealing and fund management activities and is able to discuss proposals with companies without compromising the fund managers' ability to deal. This facilitates a full and open dialogue with the companies in which we are invested and we encourage companies to consult with us at an early stage when they are contemplating major strategic or corporate initiatives. The corporate finance group also provides a focus for intervention if that is deemed necessary.

FIL supports the Statement of Principles drawn up by the Institutional Shareholders' Committee setting out the responsibilities of institutional shareholders and agents. With regard to UK public companies, subject to the guidelines set out in this statement we support the recommendations of the Combined Code on Corporate Governance as adopted by the London Stock Exchange.

C. Voting Policy

FIL votes equity securities in all markets where it is possible to do so unless the loss of liquidity as a result of attendant share blocking is deemed to outweigh the expected benefits to be gained. We have a set of proxy voting guidelines which direct our voting behaviour although we do also take account of prevailing local market best practices. Our voting guidelines are reviewed on a regular basis.

Subject to these guidelines we usually vote in favour of company proposals reflecting our broadly supportive investment philosophy although this does not preclude us from voting against management on specific occasions. In instances where we vote against a board's recommendation we seek to ensure that management understand the reasons for our opposition and whilst it is not our usual policy to attend General Meetings we will on occasion vote in person and make a statement explaining our position.

We encourage boards to consult with shareholders in advance rather than risk putting forward resolutions at General Meetings which may be voted down. In our view confrontation with boards at General Meetings represents a failure of corporate governance.

We oppose anti-takeover proposals as well as any moves which adversely affect the voting rights of existing shareholders. We generally oppose the transfer of authority from shareholders to directors and we do not favour shares with restricted or differential voting rights.

D. Remuneration Policy

It is in the interest of shareholders that boards should have the ability to attract and retain the highest quality of executive directors. In our view setting appropriate remuneration levels is the responsibility of the remuneration committee of the board and will be a market-based judgment although all remuneration arrangements should be aligned with the interests of the shareholders and proportionate to the contribution of the individuals concerned. Other than upon initial appointment in certain circumstances, we generally do not support rolling service contracts for executive directors of more than twelve months' duration.

We encourage management ownership of shares. Frequently this can be achieved through participation in appropriate long term incentive schemes and over time we expect executive directors to build a shareholding in the company which is material in the context of their remuneration.

For incentive schemes the remuneration committee should play a key role in ensuring the correct balance between the potential rewards and the dilution of shareholders' interests. Schemes should be approved and voted on by shareholders and should be designed to ensure that the rewards reflect genuine outperformance and creation of additional shareholder wealth by the executives. All relevant information should be disclosed to enable shareholders to reach an informed decision on the likely costs and benefits of the scheme and unnecessary complexity should be avoided. It is also helpful if the remuneration committee discusses how the schemes are expected to operate in practice in addition to the legal framework of the scheme itself.

FIL evaluates stock option plans and other employee share plans on a case by case basis but we generally vote against proposals if:

1. The dilution effect of the new shares authorised under the plan plus the shares reserved to be issued under all other stock option plans is greater than 10%.

2. The offering price of options is less than 100% of fair market value at the date of grant although in the case of UK employee sharesave plans we will generally support such plans provided the offering price of the shares is not less than 80% of fair market value on the date of the grant.

3. The Board may materially alter the plan without shareholder approval.

4. There is an annual performance retesting period for grants of new shares in incentive schemes. If performance targets for a given year are not met then awards for that year should be foregone.

5. The period for performance measurement and vesting is less than three years. Ideally the period used for performance measurement and vesting should be a minimum of five years with a further holding period between vesting and sale.

6. The plan allows for a meaningful portion of the award to vest for below-median performance relative to the appropriate comparator group.

7. The plan's terms expressly authorise the repricing of options. We generally oppose the repricing of options for executive directors.

We favour the use of performance driven vesting criteria and we generally prefer incentive schemes which incorporate a combination of absolute and relative return targets. Boards should not sanction reward for failure and should seek to mitigate termination costs. Ex-gratia payments to directors should always be the subject of a specific vote of approval from shareholders.

E. Take-over Bids

As stated above our general policy is to support incumbent management in good standing but we reserve the right to support hostile bids when the management have either consistently failed to achieve our reasonable expectations or where, in our judgment, the level of a bid fully recognises the future prospects of the company in question. We will always try to give a fair hearing to the arguments of both sides before determining a course of action. As a general rule we will not sign irrevocable undertakings to accept an offer.

We regard corporate acquisitions as amongst the most risky but potentially rewarding steps that a management can take and in these instances we will expect companies to have investigated both the operational and financial consequences of any acquisition in exhaustive detail. Where we are a significant shareholder and where the transaction is material in the context of our investment we encourage direct consultation at an early stage.

Management buy-outs can be an effective means of delivering value to shareholders but they also give rise to serious conflicts of interest. In these instances we look to the independent directors on a board to take control of the process at an early stage and to ensure that it is as transparent and non-exclusive as possible. Specifically, we recommend a competitive tender process before any particular financial backer is granted exclusivity and where possible we encourage boards to validate any proposal by seeking competing offers from third parties. In instances where we are a significant shareholder we once again encourage direct consultation at an early stage.

F. Returns to Investors

In circumstances where risk adjusted returns exceed a company's cost of capital we encourage companies to invest subject to maintaining appropriate controls and capital structure. Investment should also be tested against share re-purchases to determine the optimum return for shareholders. In most instances we also encourage the payment of a dividend as a validation of the cash flow of the business and this includes companies which are sustaining high growth rates and/or high internal rates of return on projects.

When a company cannot find projects generating a return which exceeds the cost of capital we favour a capital distribution either by enhanced dividend payments or by share re-purchase. In our view this does not imply any lack of strategic vision but rather reflects what is best for shareholders at a given moment in time. The taxation position of both the company and shareholders should be taken into account when determining the precise course of action in this regard.

G. Corporate Social Responsibility

FIL 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.

FIL's CSR analyst has overall charge for analysing the environmental, social and ethical performance of the companies we invest in. The CSR analyst works with FIL's equity analysts and portfolio managers to highlight any material risks or potential business opportunities so that they may be properly considered within our investment process.

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If you would like to learn more about Fidelity's approach to corporate governance, please contact either Don Cassidy on +44 (0)20 7961 4925 or Trelawny Williams on +44 (0)20 7961 4873 and if you would like more information on FIL's approach to CSR please contact Sarah Durham on +44 (0)20 7961 4976.

Appendix: Key Indicators of Corporate Social Responsibility

FIL's minimum expectation is that the companies we invest in will comply with local and national law and with internationally-recognised standards on the environment, employment standards, human rights and other related areas. In addition, when analysing a company's approach to corporate social responsibility and sustainable development we consider their performance in the following areas:

Management of corporate social responsibility and sustainable development

- Overall Board responsibility for corporate social responsibility and sustainable development and, in particular, for the management of significant social, environmental and ethical issues which could impact the company's value.
- Commitment to continuous improvement of environmental, social and ethical performance, typically through the measurement of performance against objectives and targets.
- Disclosure of environmental, social and ethical policies, procedures and performance to shareholders and other stakeholders.

Environmental management and climate change

- Operation of environmental management systems focused on minimising the risk of environmental pollution and maximising the efficient use of natural resources.
- Management of the risks and opportunities associated with climate change.

Responsible product stewardship

- Initiatives to reduce the negative impacts and maximise the positive impacts which products may have on the environment and on society, taking into consideration design, manufacture, use and disposal.
- Responsible promotion and marketing of products. While we expect all companies to promote and market their products in a responsible manner, we do not take a view on products or services which are legal but are currently deemed to be unethical by some parts of society (for example, tobacco, gambling or alcohol).

Employment policies

- Operation of management systems to ensure high health and safety standards.
- Promotion of equal opportunities and training and development within employment policies.
- Support for the principles of the International Labour Organisation, both for direct employees and also for suppliers and subcontractors.

Human rights and business ethics

- Respect for international standards on human rights as defined in the UN Declaration on Human Rights. This is particularly important for those companies operating in countries with a record of human rights abuses.

- Promotion of high standards of business ethics with procedures to eliminate and prevent bribery and corruption.

In addition to these common performance indicators, we will assess companies' performance in addressing environmental, social and ethical issues specific to their industry.