REPORT TO:	**SUPERANNUATION INVESTMENT SUB-COMMITTEE OF THE POLICY AND RESOURCES COMMITTEE - 25 JUNE 2007**
REPORT ON:	**SOCIALLY RESPONSIBLE INVESTMENT - SIX MONTHLY REPORT**
REPORT BY:	**HEAD OF FINANCE**
REPORT NO:	**312-2007**

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 2007.

3 FINANCIAL IMPLICATIONS

There are no financial implications.

4 SUSTAINABILITY POLICY 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

Alliance Bernstein have targeted a specific issue regarding biofuels. This is summarised at Appendix 1.

8 BAILLIE GIFFORD

A summary of recent engagement activity is shown at Appendix 3. This shows the wide range of topics covered and the diversity of companies approached.

9 FIDELITY

Fidelity's policy and recent engagement activity is shown at Appendix 2.

10 OVERALL CONCLUSION

The managers have continued to demonstrate a commitment to this activity and have addressed a wide variety of issues with companies.

11 BACKGROUND PAPERS

None.

MARJORY M STEWART
HEAD OF FINANCE **19 JUNE 2007**

Company Engagement: Biofuels

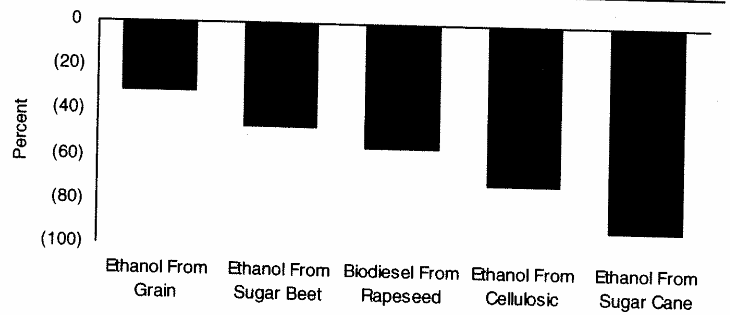
Biofuels are carbon efficient liquid fuels derived from biomass (e.g. vegetable matter)

- Biofuels have the potential to displace a substantial amount of petroleum around the world as political support* grows in countries seeking to address supply security and environmental concerns

- Global biofuel production is expected to grow from approximately 39 million tons of oil equivalent (mtoe) today to 75 mtoe by 2011

- About one percent of the world's available arable land is currently used for production of biofuels. Food demand and biodiversity concerns will constrain the growth for biofuels output

Greenhouse Gas Reductions from Biofuels**



2030: Biofuels Demand in Road Transport, by Region***

	Demand (mtoe)	Biofuels as a % of Road Transport
North America	45.7	6.4%
Europe	35.6	11.8%
Pacific	2.9	1.9%
Transition Economies	0.5	0.6%
Developing Countries	62.0	6.9%
World	**146.7**	**6.8%**

*The EU's current regulatory objective is for biofuels to comprise 5.75% by energy content of EU fuel by 2010. The US Dept of Energy has forecast that biofuels could serve 20-30% of the US transportation market by 2020. In Brazil, gasoline must contain a minimum of 25% ethanol by 2008
**This figure shows reductions in well-to-wheels (total life cycle) CO_2-equivalent GHG emissions per kilometre from various biofuel/feedstock combinations, compared to conventional-fuelled vehicles. Ethanol is compared to gasoline vehicles and biodiesel to diesel vehicles. Blends provide proportional reductions; e.g. a 10% ethanol blend would provide reductions one-tenth those shown here. Source: Biofuels for Transport – An International Perspective IEA/OECD
***Source: World Energy Outlook 2006, OECD/IEA 2006

APPENDIX 1

312-2007

Company Engagement: Biofuels

Companies in our portfolios with involvement in biofuel development

Companies	Investments
Energy	
■ **Royal Dutch Shell**	Shell has invested in Iogen and Choren Industries. Iogen, a Canadian company, is developing technology to create a product called cellulose ethanol from straw. Studies suggest cellulose ethanol offers the potential for better CO_2 performance than conventional ethanol. Choren is creating a biomass-to-liquid (BTL) plant in Germany which is due to come on-line in late 2007. This process takes a woody feedstock (e.g. wood chips), gasifies it and then converts the gas into a high-quality synthetic fuel. It is expected that at 100% concentration BTL Fuel could cut well-to-wheel CO_2 production by 90% compared with conventional diesel.
■ **British Petroleum**	BP plans to spend $500 million over the next 10 years on finding new applications for bioscience in the energy industry, including better ways to produce the biocomponents that can be blended into traditional fossil-based transport fuels. In India, they have funded a $9.4 million project to examine the possibilities of using Jatropha, a non-edible oil bearing crop which can be grown on marginal land, as a biofuels component. They have also been working with DuPont to explore new approaches to biofuels development. The first product from this collaboration will be an advanced biofuel called biobutanol.
Food	
■ **Associated British Foods**	ABF's subsidiary British Sugar has begun construction of a £20 million bioethanol plant in the UK and has signed a contract with Greenergy Fuels Ltd, to supply bioethanol-blended petrol to petrol retailers including Tesco. The plant will use locally grown sugar beet as the feedstock.
Forest & Paper	
■ **Stora Enso**	Stora Enso has signed an agreement with Nestle Oils to develop technology for producing new-generation biofuels from wood residues. The first step will be to design and build a €14 million plant in Finland. The plant, which will be owned on a 50/50 basis by the parties, is expected to start up in 2008.

Additional holdings with biofuels exposure include US consumer staples companies Archer Daniels Midland Company, Bunge Limited and Tyson.

Sources: Bernstein, Companies and Citigroup

Appendix Corporate Social Responsibility Report - Q1 2007

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 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.

Fidelity's four-stage process for CSR analysis & engagement

1. CSR Analyst identifies engagement priorities, typically focused on companies where we perceive that environmental, social and ethical issues could have a material impact on shareholder value. These engagement 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).
3. CSR Analyst holds dedicated CSR meetings with companies.
4. The findings from the meeting are reviewed by the CSR Analyst and research analyst and future engagement objectives 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	Corporate Responsibility Strategy	Environmental Management & Climate Change	Responsible Product Stewardship	Workplace	Human Rights
Agcert	UK		♦			
BMW	Germany	♦	♦	♦		
Camco	UK		♦			
DCX	Germany	♦	♦	♦		
Ecosecurities	UK		♦			
Edf	France		♦	♦		
Endesa	Spain		♦	♦		
European Renewable Energy Federation	Europe		♦			
Holcim	Switzerland		♦	♦		
Iberdrola	Spain		♦	♦		

Company	Country	Corporate Responsibility Strategy	Environmental Management & Climate Change	Resp Pr Stew
International Power	UK		♦	
PSA Peugeot	France	♦	♦	
Renault	France	♦	♦	
Rhodia	France		♦	
RWE	Germany		♦	
Saint Gobain	France	♦	♦	
Sargas	Norway		♦	
Suez	France		♦	
Veolia Environnement	France	♦	♦	

Appendix Corporate Social Responsibility Report - Q1 2007

Issue: Energy Efficiency & Environmental Stock Plays (Buildings & Autos)

__Background:__ We believe it is appropriate to adopt a proactive approach to identifying material business risks and opportunities arising from climate change.
It is widely accepted that the use of energy from fossil fuels contributes in large part to increases in greenhouse gases (GHG) associated with global warming. This will be exacerbated by the fact that global energy demands are expected to grow by 60% over the next 25 years. Yet zero growth is not the answer to the energy challenge and climate change, as energy is a vital input to economic growth and poverty reduction.
It is possible to reduce GHG emissions by implementing energy efficiency; saving energy is one of the easiest ways to reducing costs and emissions. A variety of entities (governments, regulators, companies) are also promoting low-emitting energy sources, thereby creating attractive investment opportunities, which we are keen to evaluate.
This quarter, Fidelity's CSR Analyst led an Industry Review (presented to the European and US investment teams) on energy efficiency & environmental stock plays related to the Buildings & Autos sectors. The purpose of this review was to:
- Learn about the impacts of energy and carbon on Buildings and Auto Transport in Europe
- Gain an understanding of the best route to increasing energy & carbon performance in both sectors
-Identify the stocks best positioned to provide the solutions (products/services) to meet the challenge

__Industry Review__: The EU Commission is setting performance standards for Buildings & Autos in order to limit energy demand, encourage the removal of energy-inefficient products from the market and accelerate their replacement by more efficient solutions. Buildings account for over 40% of the EU's energy consumption, and so offer the largest single potential for energy efficiency. According to research undertaken by the EU Commission, one-fifth of the present energy consumption and up to 30-45 million tonnes of CO2 a year could be saved by 2010 by applying more ambitious energy-saving standards to new buildings and when refurbishing existing buildings. The Energy Performance of Buildings Directive (EPBD) and the Energy Saving Directive (ESD) are being applied in order to achieve this. We expect the additional requirements under the EPBD to result in a significant increase in consumption of insulation products, with those likely to be impacted positively including Rockwool, Kingspan, SIG, and Sto AG. A company with diverse building activities that has particularly strong exposure to energy and emissions issues is Saint Gobain. It receives about 25% of its sales from products and distribution services directly linked to generating energy savings in buildings.

The ESD Directive is aimed at energy end-use suppliers, making it obligatory for them to offer energy audits and energy-efficiency measures to customers. There is an associated benefit to them in doing so; each time a customer reduces energy consumption, the energy supplier is awarded an 'energy saving certificate', which has a monetary value. The Directive is set to be transposed into the national law of Member States by 2008, with early movers such as EDF already communicating to its customers regarding the benefits of insulation in reducing energy costs and carbon emissions.
Housebuilders will face the extra cost pressures of the new standards, estimated by Bellway at around £1per square foot, or an average £1,000K per house. Bovis recently indicated that they do not believe they will be able to pass on these costs to the contractor or the customer in relation to new-builds. In order to reach the existing housing market (retro-fit), a number of Member States have begun establishing financial incentives for householders to undertake energy efficiency measures. For example, in France 25% tax credits are available for the use of energy-efficient materials, such as insulation for old buildings; Credit Agricole offers interest-free loans of 6000 for insulation renovation. There should also be long-term cost savings from making buildings more energy efficient.
A recognised role of policy and regulation is to internalise environmental costs into the cost structure of the polluter. In relation to climate change, the European auto sector could conceivably be the most cost-affected sector globally, within a 2-3 year investment timetable. Transport accounts for 21% of GHG emissions in Europe, of which road transport accounts for 93%. As a result, car makers are now subject to various external regulations in Europe, obliging them to lower emissions. Our Industry Review highlighted that the profitability of European automakers will suffer in the short term, as, for any scenario in which environmental regulation is being set, they will incur additional costs. Fuel economy costs are likely to divert consumer demand towards smaller and more fuel-efficient cars, benefiting the mass producers of compact cars, such as PSA Peugeot, Renault and Fiat. Certain suppliers are also likely to benefit, most notably, manufacturers of particulate filters and exhaust-treatment systems, such as Faurecia.
However, our Industry Review further identified that, longer term, the winners are likely to be those involved in powertrain development technology. Improved performance in engines and combustion chambers can reduce emissions considerably. From our discussions with BMW and DCX, we were encouraged by their longer term focus on propulsion and transmission technologies, which could potentially bring down emissions to a level where exhaust gas treatments are no longer needed. This technological leadership is a competitive advantage, as we believe environmental innovation will become a key competitive differentiator in the industry.

__Future Engagement Objectives__: The outcome of this two-month review of the impact of EU environmental regulation on these two key sectors was presented to Fidelity's investment teams in order to highlight opportunities and risks arising from climate change and air-pollution quality. It represented an important milestone regarding how our CSR research can add value to the performance of the portfolios we manage. Our CSR Analyst will continue to provide input to potential new investment areas arising from environmental and social issues. As our efforts gather momentum, it is anticipated that this research will move from a separate function to an integral part of the research undertaken by all of our equity analysts when there are environmental and social issues that are material to performance.

Issue: Water, The New Liquid Gold

__Background__: CSR issues are already being identified within the financial analysis. For example, a recent review undertaken by Fidelity's Utility Analyst highlighted that water scarcity will be one of the major political and economic issues over the coming years. Water covers two-thirds of the planet, but just 1% of this is available as freshwater. It is widely believed that this figure is likely to decline further as a result of urbanisation, population growth, climate change and contamination. Although problems are still most acute in the world's poorest countries, many areas of the developed world are also facing water challenges. A World Health Organisation (WHO) report estimates that a lack of clean water and sanitation affects up to 40% of the world's populations, reduces global GDP by about 1%, and attributed $13 billion in costs to Europe's economies as a result of the hot summer of 2003.
It was not the objective to identify the social and environmental issues emanating from this water scarcity; these have been comprehensively and coherently detailed in reports by the United Nations, WHO and other non-governmental organisations. Instead, we focused on potential business opportunities for those companies that appear to offer direct solutions to water-scarcity issues.

Company Engagement: As supply and demand imbalances become more severe, water-treatment technologies are expected to experience increased focus and investment. In particular, both desalination and wastewater reuse are seen as important solutions to this global challenge. Desalination involves the equipment and systems for producing fresh water from salt water. The Global Water Intelligence's (GWI) latest forecast estimates the desalination industry as currently worth $9.2 billion a year, with expected growth of 103% from 2005-2015, and projected revenues of $21.1 billion. Wastewater reuse – the treatment of sewage effluent, storm water run-off and industrial discharges – is between 20-50% cheaper than desalination, and it is an easy source to be treated. More sustainable use of our existing water resources is perhaps the greatest opportunity we have to extend the overall availability of water. Approximately 70-90% of all fresh water we use ends up as wastewater. In their report, the GWI estimates that water-reuse capacity will increase 181% over the decade, with capital investment in the sector of more than $28 billion.

Veolia Environnement and **Suez** are well positioned to continue benefiting from the ongoing boom in the need for water infrastructure. The two companies are leaders, with unparalleled know-how, global reach and experience of large and complex projects. Veolia is the world leader in designing and building technological water solutions for local government and industry. Veolia Water serves approximately 18 million of inhabitants in China, employing more than 2,000 employees and manages various municipal contracts in 14 provinces. China represents 17% of the global population but only 6% of available freshwater. Suez announced some landmark transactions in 2006, with large desalination projects, such as the Marafiq project in Saudi Arabia. It also signed a water project in Bahrain with International Power plc to acquire a water project. **International Power** has a growing portfolio of desalinisation assets in the Middle East.

In Europe, the Urban Wastewater Treatment Directive is expected to continue driving investment in this segment; this has now been augmented by last year's transposition of the European Water Framework Directive. This imposes a 'polluter pays' principle, which creates a financial incentive for industry in particular to introduce water reuse and recycling.

Future Engagement Objective: This review has focused on solutions to enhance the supply of water; further research will look at solutions to reduce demand. More efficient use of water will differentiate companies, e.g. manufacturers of consumer goods can redesign them to use less water.

Issue: Exploring Technological Solutions To Climate Change

Background: Although reducing emissions created through industrial activities is an essential first step in stabilising CO2 concentrations in the atmosphere, a step-change in global energy infrastructure will be required in the longer-term if the risks posed by climate change are to be managed. Coal currently provides 40% of the world's electricity, and will continue to play a critical role as an abundant, affordable and widely available fossil fuel. The challenge is therefore to reduce CO2 emissions from this fossil-fuel source – in general, coal generation emits twice as much carbon as a gas-fired plant. Carbon capture and storage (CCS) appears to offer the solution for coal. This approach captures the carbon dioxide from large emitters such as powerplants, and stores it away instead of releasing it into the atmosphere. Technology for capturing CO2 is already commercially available; storage of CO2, on the other hand, remains a relatively untested concept. Centrica, E.ON and RWE have all announced plans for investment in 'clean coal' stations using CCS, but their expected time of delivery is 2012-2014. Similarly, governments around the world have responded to the challenge with additional Research & Development spending. Indeed, if policymakers are serious about stabilising CO2 emissions, CCS will have to be applied to developing nations, such as China and India, which are dependent on coal-fired generation. Closer to home, the 2007 UK Budget announced a competition to build a full-scale carbon-capture plant, with details of the competition to be announced in May.

Our engagement objective was to assess the current 'state-of-play' of this Climate Change Solution.

Company Engagement: It will be some time before this technology becomes commercially available, primarily because of its significant cost. However, Sargas a privately owned Norwegian group, which cooperates with Germany's Siemens AG, claims its technology can clean more than 90 percent of carbon dioxide emissions from a coal-fired plant. Siemens have certified that its process is feasible. The company presented the costs of its technology, which it estimates are 25% higher than electricity generated with no capture. However, coal prices are cheaper than gas, so that the cost is less than with integrated gas CCGT plants. An international group of companies, including Eramet and Norsk Hydro, plan to construct a clean-coal fired power plant in Norway for completion by 2011, using Sargas's technology. A coal-fired power plant will be a radical departure in Norway where almost all electricity is generated from non-polluting hydroelectric power.

RWE presented on its CCS activities in Germany, a country that is very dependent on lignite and coal. The company has developed plans for a 1 billion power station, which is planned to start up in 2014. However, the company noted that a clear regulatory and fiscal framework will be necessary going forward, to justify CCS to shareholders. Similarly, a representative of the European Renewable Energy Federation (EREF) noted that there is a need for policy and investment instruments to drive further development of this technology. The EREF also highlighted that additional research is needed on CCS as, although the few storage projects to date indicate that CO2 can be securely stored, ongoing trials are necessary to clarify further any associated risks. Norway has one of the world's few commercial systems for carbon-capture storage in operation at Statoil's Sleipner gas field, where about a million tonnes of carbon dioxide a year is buried below the seabed.

Future Engagement Objectives: Our CSR Analyst will continue to monitor these developments, as we believe that, when CCS becomes commercially viable, it will present attractive investment opportunities.

Company	SRI Topic	
BP	Health, safety and environment	Following on from our earlier meeting with BP's Group Vice President for Safety and Operations (reported last quarter), we discussed recent developments with BP's Company Secretary. BP has been criticised by the US Chemical Safety Board (CSB), a federal agency which investigates industrial chemical accidents, for the significant weaknesses in its safety systems which caused the Texas City Refinery disaster in 2005. Two key recommendations have been made by the CSB. First, the company should appoint a non-executive director to the Board with experience in refinery operations and process safety. Second, the company should develop 'leading and lagging process safety indicators to measure and strengthen safety performance' in its refineries. BP's response to the 2005 disaster has been comprehensive and it is proposing a change to the company's safety culture which will take 5-10 years to implement. We will continue to engage with the company in the coming months on the CSB recommendations. In terms of pay, annual bonuses were halved in 2006 because of poor health, safety and environmental (HSE) performance. However, we opposed the remuneration report at the 2007 AGM because we have concerns over the significant award of performance shares to the CEO only 6 months before his departure from BP and following exceptional safety and environmental problems in the US. Following recent share price underperformance at BP because of production and safety problems we believe that the Remuneration Committee, in applying its discretion to grant a maximum performance share award to the CEO, has failed to align pay and performance. Nevertheless, the company is in the process of devising improved HSE key performance indicators which will be incorporated into annual bonuses. Given the importance of HSE issues in the oil industry this is to be welcomed.

APPENDIX 3

Company	SRI Topic	
GlaxoSmithKline	Reputation management	A pharmaceutical company's reputation is of major importance, particularly when its honesty as to the efficacy of its drugs is called into question. We met GlaxoSmithKline's Director of Corporate Responsibility to discuss the company's response to several high profile media campaigns including Panorama's programme about anti-depressant drug Seroxat. This alleged that GSK had suppressed results which indicated that the drug increased suicidal tendencies in teenagers. We were assured by the company that the data was released to the regulators as soon as trial results combined to reveal a statistical risk. The company reiterated that all components of drug development are highly regulated and that the processes are monitored and audited both internally and externally. With regards to its reputation with the general public the company is aware that it cannot afford negative publicity and is working to minimise the risk of a similar problem to that of Seroxat occurring in the future. We believe that GSK is committed to full compliance with the regulations and, as our clients are significant shareholders in the company, will continue to monitor its progress in this area with particular interest.
Lonmin	Health and safety	Lonmin is a platinum mining company with all of its operations located in South Africa. The company has mining rights over a very large ore body which should enable it to grow production volumes. We met the company's health, safety and environmental team to discuss its 2006 safety performance and the impact of AIDS on the business. First, in 2006 the company's safety performance improved significantly, with the time lost through injuries reducing by 31%. Second, the number of HIV staff taking anti-retroviral treatment (ART) has also increased. With 25% of the company's staff infected with the HIV virus, the benefits to the business of employees taking the ART is clear, therefore line managers are incentivised to encourage staff to take the ART. We welcome the company's performance in 2006, which should enhance the company's organic growth prospects particularly if the improvements are sustained.

Company	SRI Topic	
Microsoft Corporation	China and reputation management	China is a significant growth market for Microsoft and its ability to maximise business opportunities in that region are of great importance. Threatening this position are the restrictions to freedom of expression and information imposed by the Chinese authorities. We met the Director of Corporate Citizenship to discuss this issue. Several NGOs have suggested that Microsoft withdraw from China. Microsoft's position is that this is not a viable option from a growth or investment perspective and potentially more importantly, not in the best interest of advancing the freedom of information debate in China. In response to the predicament, Microsoft has introduced specific policies and procedures for dealing with requests from Chinese authorities to remove articles or blogs. In addition, they are also in discussion with Yahoo and Google with a view to producing a combined set of Principles addressing International Free Expression and Privacy Challenges. We will continue to review progress made on this very sensitive issue.
Sasol	Corporate responsibility	Sasol, a South African mining company with global operations, has many risks to manage including HIV/Aids in South Africa and China, human rights in China, site security in Nigeria and health & safety and environmental issues for all of its sites. The importance of these to its shareholders is underlined by its objective to "expand our operations in emerging markets" where environmental, social and governmental risks can be particularly significant. We had a conference call with the Head of Investor Relations to discuss the various risks and systems in place to help ensure the sustainability and future growth of the business. Sasol's approach has been to implement the principles of the United Nations Global Compact and to focus on four key "sustainability challenges" that they believe are of material significance to the group's operations. These are: the global energy challenge, the promotion of safety, ensuring access to a skilled workforce, and promoting black economic empowerment in South Africa. We discussed the management of these challenges as well as issues which were not included such as the challenges associated with a high percentage of HIV positive employees. The rationale for not including HIV is that they believe that this issue is currently well managed across the company and as such the risk is being controlled. We believe that the company is fully aware of the risks associated with its operations and is managing them in a prudent and coherent manner.

Company	SRI Topic	
Taylor Nelson Sofres	Employee management	As market research business, TNS is very reliant on its employees. As data becomes more of a commodity, the quality, timeliness and added value component - interpretation and insight, becomes a competitive advantage and employee development and training becomes a key strategic goal. We met the Head of Investor Relations and Group Head of HR to discuss employee management policies. The meeting was initiated because although TNS listed People Development as one of its four key principles there was very little information disclosed about how the principle is implemented. The company has been busy behind the scenes. The key component took the form of a global survey which has allowed management to assess the company as a whole, look at regional differences and industrial sectors, and review individual business units. Although results of the survey have not been published, we were informed that not only had the level of response been very high but the results were favourable. We have encouraged the company to disclose the results of this and future surveys and will review the 2007 report with increased expectations.

Company	Corporate Governance Topic	
Persimmon	Executive remuneration	We believe that executives should be given appropriate rewards for success and that their interests be aligned with those of shareholders. House builder Persimmon has experienced significant growth in recent years which has propelled it into the FTSE 100. In this context we met the Chairman of the Remuneration Committee (RemCom) to discuss the company's revised remuneration proposals. The company is proposing the introduction of a new Long Term Incentive Plan (LTIP) in 2007 which will include total shareholder return targets against the FTSE 100 and return on capital targets. We are encouraged that the company has toughened the performance conditions. In addition, the company plans to bring executives' remuneration in line with the median of its peer group, and place greater emphasis on the long term incentives and less on the annual bonus. We welcome the opportunity to discuss these important changes with the RemCom Chairman which we believe will help ensure that management is incentivised to achieve sustainable improvements in shareholder value.
Royal Bank of Scotland Group	Executive remuneration	We believe that it is important for the management of Royal Bank of Scotland to be incentivised to achieve strong share price and earnings per share performance, in line with the interests of shareholders. Following discussions with the Remuneration Committee Chairman we are pleased that the new Executive Share Option Plan, which will be introduced at the 2007 AGM, will contain performance targets that are suitably challenging. They incorporate prospects for the group as a whole and analysts' forecasts. This represents a significant improvement over the current share option plan. Despite a period of impressive operational performance and capital generation, we feel the current share price materially undervalues the group's businesses. Therefore, we continue to believe that share options represent an important and appropriate part of the group's remuneration strategy.

Company	Corporate Governance Topic	
Samsung Electronics Co	Corporate governance and board structure	Good disclosure of Corporate Governance (CG) practices for emerging markets companies can provide confidence in management and an indication that there are appropriate internal controls leading to investors placing a higher value on the shares. We met representatives from Samsung Electronics' Investor Relations team prior to the AGM to discuss the company's CG practices and the AGM agenda. There were two issues where the company does not conform with international best practice. The first was bundling the re-election of directors. The ability to approve or oppose individual directors is an important shareholder right which bundling removes. Secondly, the company has a combined chairman/CEO and no appointed senior independent non-executive director. When the roles of chairman and CEO are combined, a senior non-executive director provides shareholders with a communication channel to non-executive directors and ensures non-executive directors' views are given due consideration. However, given that more than 50% of the board consists of independent non-executive directors who have significant and relevant experience we believe that this deviation from best practice is not of major concern. In addition the company has stated that it will consider the two points at future board meetings and will report any conclusion. We will keep the issues under review.
Vodafone Group	Executive remuneration	A key objective is to ensure that remuneration policies are aligned with business strategy and with the interests of shareholders. Vodafone updated its business strategy in May 2006 to include objectives such as strong growth in emerging markets and total communication revenues. We met the Reward & Recognition Director and HR Director to discuss the company's remuneration policy for 2007. The performance measures will be split evenly between operational efficiency and growth, with increased focus on revenues that generate profit. The recent acquisition of Hutchison Essar in India will be incorporated into the setting of earnings per share growth targets for executives' 2007 awards. We welcome that these will be in line with consensus estimates and growth prospects for the group.

Company	Corporate Governance Topic	
Wood, John Group	Executive remuneration	Given the booming industry background, staff retention is a particularly important issue for oil services companies such as John Wood Group. We met the Chairman of the Remuneration Committee (RemCom) to discuss its new Long Term Incentive Plan (LTIP). The key objective of the LTIP is to incentivise management to achieve exceptional earnings growth and to retain key executives in its global operations. Significant growth opportunities exist from a favourable market backdrop reflecting the high oil price and following years of under-investment in the oil industry in both exploration and infrastructure. Therefore, the RemCom believes that a revised remuneration strategy is important if the company is to take full advantage of the market opportunities. We welcome the LTIP, particularly as it represents a significant improvement over its current long term incentive scheme.