

Annual voting and engagement report  
**British Coal Staff Superannuation Scheme**

2012

# 2012

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Within the following pages, we are pleased to report on the engagement and voting work carried out on behalf of the British Coal Staff Superannuation Scheme during 2012. This covered a wide range of strategic, environmental, social and governance matters and we worked with companies to address the key risks and challenges that they faced including issues on the environment, human rights and ethics, corporate governance, strategy and risk. The report highlights an engagement case study relevant to each theme<sup>1</sup>. We have also provided systematic information on our progress in engagements against objectives.

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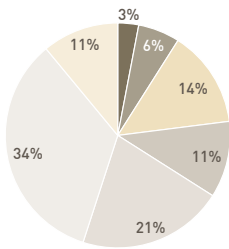
(1) EOS' usual policy is to keep engagements confidential whilst we are making progress. Where the case studies included in this report feature private actions by EOS (such as private dialogues with the senior directors), we have notified the company of our intentions to publish these.

## Engagement activity by region 2012

In the last year EOS engaged with 95 companies in BCSSS's portfolios on a range of 265 social, environmental and governance issues. EOS' holistic approach to engagement means that we will typically engage with companies on more than one issue simultaneously. The engagements included in these figures are in addition to our discussions with companies around voting matters.

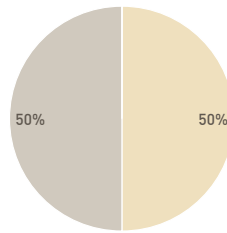
### Asia Pacific

We engaged with 12 companies over the last year.



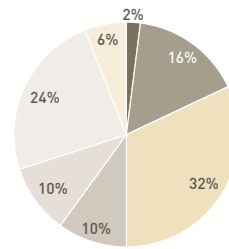
### Australia & New Zealand

We engaged with one company over the last year.



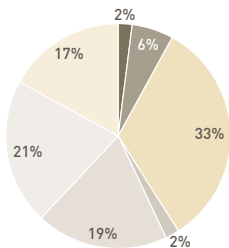
### Emerging & Frontier Markets

We engaged with 20 companies over the last year.



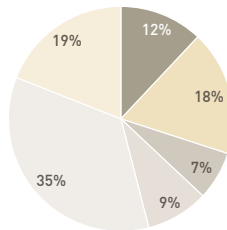
### Europe

We engaged with 22 companies over the last year.



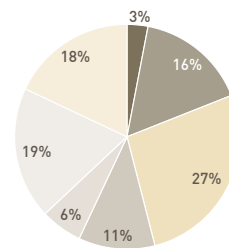
### North America

We engaged with 24 companies over the last year.



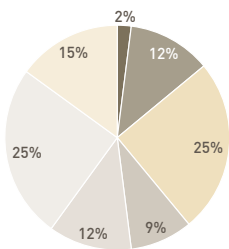
### UK

We engaged with 16 companies over the last year.



### Global

We engaged with 95 companies over the last year.



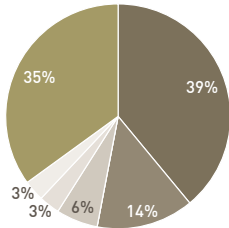
- Shareholder communications
- Environmental
- Social and ethical
- Risk management
- Business strategy
- Governance
- Remuneration

## Engagement activity by issue

A summary of the 265 issues on which we engaged with companies in Coal BCSSS's portfolio over the last year is shown below.

### Environmental

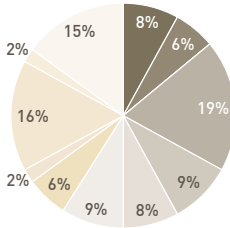
Environmental issues featured in 12% of our global engagements over the last year.



- Climate change/carbon intensity
- Water stress
- Oil sands
- Forestry
- Biodiversity
- Other environmental

### Social and ethical

Social and ethical issues featured in 25% of our global engagements over the last year.



- Employee relations
- Community relations
- Health and safety
- Supply chain (inc child/other labour issues)
- Operations in troubled areas
- Corporate culture
- Access to medicines/clinical trials
- Political risk management
- Bribery and corruption
- Licence to operate
- Other social & ethical

### Other engagement

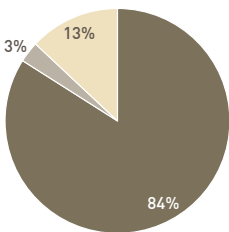
Remuneration featured in 15% of our engagements over the last year.

Risk management featured in 9% of our engagements over the last year.

Shareholder communications featured in 2% of our engagements over the last year.

### Business Strategy

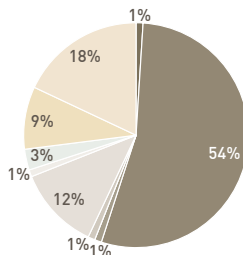
Business Strategy issues featured in 12% of our global engagements over the last year.



- Business strategy
- Returns to shareholders
- Capital structure

### Governance

Governance issues featured in 25% of our global engagements over the last year.



- Accounting or auditing issues
- Board structure
- Committee structure
- Conflicts of interest
- Succession planning
- Poison pill
- Voting rights – not 1 share 1 vote
- Separation chair/CEO
- Other governance

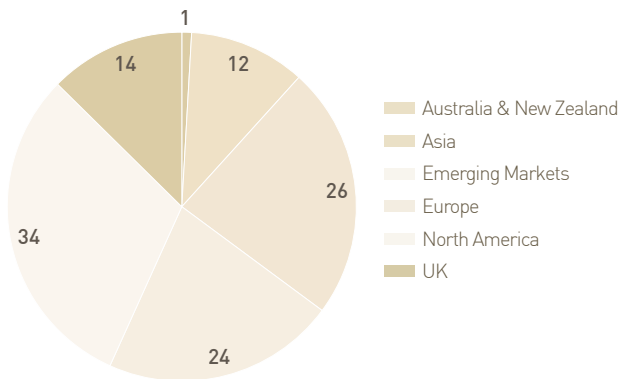
## Engagement progress in 2012

Using our proprietary milestone system, we had ongoing engagements with 111 companies and pursued 243 separate engagement objectives.

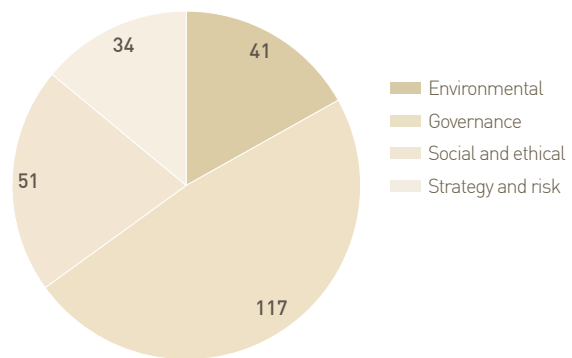
In this section we provide an overview of our global engagement activities.

### Global engagement activity

#### Company engagement by region (111)



#### Engagement objectives by theme (243)



Approximately 48% of the engagement objectives focused on governance issues. In many cases, achieving success in board change is necessary to deliver beneficial change in ethical, environmental and strategic issues.

## Engagement progress in 2012

Our proprietary milestone system allows us to track progress in our engagements relative to objectives set at the beginning of our interactions with companies. The specific milestones used to measure progress in an engagement vary depending on each concern and its related objective. They can broadly be defined as follows:

- Milestone 1 Concern raised with company at appropriate level
- Milestone 2 Acknowledgement of the issue
- Milestone 3 Development of a credible strategy or the implementation of measures to address the concern
- Milestone 4 Implementation of a strategy or measures to address the concern

The information below sets out the current status of these engagements relative to our engagement objectives, and our progress in the past year.

### Milestone status of engagement

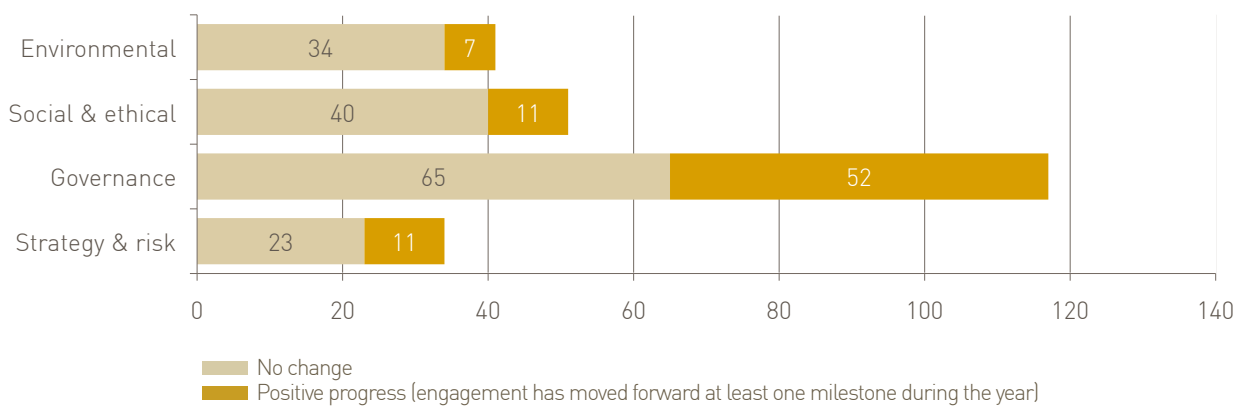
The chart below shows the current milestone status of the EOS' engagement objectives by theme.

Theme	Total engagement objectives	Engagement objective status				Completed engagement objectives	
		Milestone 0	Milestone 1	Milestone 2	Milestone 3	Milestone 4	Discontinued
Environmental	41	3	11	19	8	0	0
Social and ethical	51	11	9	14	15	1	1
Governance	117	9	37	40	27	4	0
Strategy and risk	34	5	7	11	11	0	0
<b>Total engagements</b>	<b>243</b>	<b>28</b>	<b>64</b>	<b>84</b>	<b>61</b>	<b>5</b>	<b>1</b>

Milestone 0	Milestone 1	Milestone 2	Milestone 3	Milestone 4	Discontinued
New objective	Raised concerns	Acknowledgement of issue	Develop credible strategy / set stretching targets	Strategy implemented	Objective no longer pursued

## Engagement progress in 2012

We have made solid progress in delivering engagement objectives across regions and themes. The following chart describes how much progress has been made in achieving the milestones set for each engagement.



## Environmental: Engagement progress

In 2012, 17% of our engagements included an environmental objective. In this section we summarise some of the major environmental themes on which we have engaged in 2012 and a case study illustrating a successful outcome to an engagement on environmental concerns.

### Status of environmental engagement objectives

The table below shows which milestones have been achieved in the course of related engagements.

Theme	Total engagement objectives	Engagement objective status				Completed engagement objectives	
		Milestone 0	Milestone 1	Milestone 2	Milestone 3	Milestone 4	Discontinued
Environmental	41	3	11	19	8	0	0

Milestone 0	Milestone 1	Milestone 2	Milestone 3	Milestone 4	Discontinued
New objective	Raised concerns	Acknowledgement of issue	Develop credible strategy / set stretching targets	Strategy implemented	Objective no longer pursued

### Corporate engagement

We seek disclosure of relevant environmental indicators, encourage companies to develop plans for managing one or more particular environmental concerns and set appropriate targets and then monitor and disclose progress. We encourage companies to disclose explicit and practical examples of how they are managing environmental risks. In 2012, as corporate environmental disclosure has continued to improve, we have shifted the focus of our engagement activity to challenge companies to set and deliver aspirational targets.

In 2012, many of our environmental engagements were focused on the oil and gas, mining and utilities sectors, where we encouraged more effective management of carbon emissions air pollution, and the efficient use of water. We challenged companies on their approach to preventing or mitigating oil and gas leaks, whether from pipeline breaches, tanker accidents or deepwater explosions. We also discussed approaches to land reclamation following oil extraction with relevant mining and oil and gas companies.. In the wake of the Fukushima nuclear disaster we challenged utilities companies with nuclear activities to explain and improve their disaster planning and the long-term sustainability of their current and planned nuclear plants.

Our engagement on environmental issues also extended to other industry sectors. We challenged several banks about how they consider environmental issues when funding construction and other relevant activities. We also questioned consumer goods and other companies about the environmental impact of their sourcing of materials from forested or formerly forested land.

### Public Policy and Best Practice

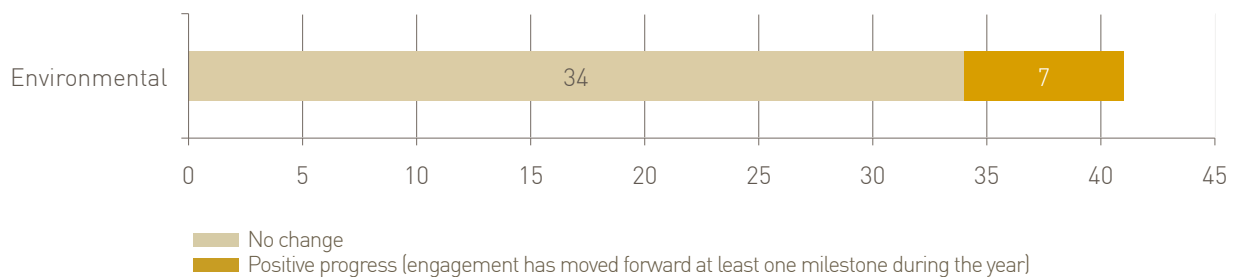
We actively contributed to various Carbon Disclosure Project (CDP) initiatives in different parts of the world. In particular, we offered input on advancing the focus of the programme from disclosure to encouraging appropriate carbon-reduction targets for the heaviest carbon emitters. We also supported CDP's efforts to educate companies about investors' desire for action on emissions through its webinar presentations.

As members of the steering committee for the Forest Footprint Disclosure Project (FFDP), we encouraged the initiative to merge with the CDP. This move has now been agreed and we believe it will significantly enhance both projects' support and influence. We also launched a PRI clearinghouse initiative to ask the 10 most problematic, non-responsive companies to answer the 2012 Forest Footprint Disclosure Project questionnaire.

Other best-practice engagements on the environment included collaborating with the Institutional Investors Group on Climate Change (IIGCC) to support a one-off setting-aside of EU Emissions Allowances to remove over-supply from the EU Emissions Trading Scheme, thereby maintaining a meaningful price aligned with the 2020 reduction target. We also attended and presented at a conference on mandatory carbon reporting in the UK. We are pleased to report that following investor engagement, from entities including EOS, the Canadian and Albertan governments are implementing a credible system to monitor the development of oil sands.



## Progress against environmental objectives



### Case Study: Petroleo Brasileiro

EOS intensified its engagement with Petrobras on sustainability matters through interactions with senior executives from the health, safety and environmental performance team and members of the corporate social responsibility department. We also visited a Petroleo Brasileiro research centre in Brazil and met with technicians responsible for monitoring risk management systems, and scientists overseeing bio-security risks. The strong growth of the company in recent years has led investors to scrutinise it hold it to higher standards. We have raised concerns about the company's approach to concerns about its treatment of the environment, and health and safety, labour, and human rights standards. Although the company prides itself on the technological resources it dedicates to risk management, we have raised concerns about the apparent lack of oversight of this technology, related processes at board level and the scope of relevant disclosure.

Given that more than 80% of the company's activities are in deep and ultra-deep sea drilling, robust risk management as well as appropriate oversight and accountability at board level are essential. We have focused on the pre-salt operations off the coast of Rio de Janeiro and questioned the risk management systems around the wells. Conditions, such as the depth of the most recent Lula-well and the high corrosion risk due to salt make such operations technically challenging. We visited the company's laboratories and took the opportunity to understand how such risks are managed on an operational level as well as discussing the

company's approach to remediation when a spill occurs. We welcomed the company's openness. However, while Petrobras has formulated its key strategic objectives, we pressed for the disclosure of specific targets and milestones to measure progress. We challenged the board's involvement in overseeing sustainability risks and discussed the objectives currently in place as well as the implementation of policies across the company's operations. We urged for more comprehensive disclosure detailing how policies are practised in Brazil and abroad. We welcome the creation of a dedicated executive sustainability committee but are of the opinion that there is still a lack of clarity as to who oversees and manages sustainability risks.

Aside from environmental risk management, we are also concerned about poor financial performance, government interference and an apparent lack of respect for minority shareholders' rights – as exemplified at the last AGM and the controversial election of directors. For this reason, it is critically important that the nomination process for these seats be conducted in a manner that is seen as credible, transparent and genuinely aligned with the interests of minorities. We engaged with the company on many occasions in 2012 on these governance matters. In preparation for the company's next AGM in March, we spoke with local investors to press for adequate board candidates to be put forward to represent the interests of minority shareholders. We will continue to intensify our engagement with Petrobras in 2013 with a particular focus on corporate governance, and will also press for further improvement in sustainability management.

## Social and ethical: Engagement progress

In 2012, 21% of our engagements with companies included a social and ethical objective. In this section we summarise some of the major social and ethical themes we engaged on and provide a case study illustrating a successful outcome to an engagement on social and ethical matters.

### Status of social and ethical engagement objectives

The table below describes which milestones have been achieved during their respective engagements.

Theme	Total engagement objectives	Engagement objective status				Completed engagement objectives	
		Milestone 0	Milestone 1	Milestone 2	Milestone 3	Milestone 4	Discontinued
Social and ethical	51	11	9	14	15	1	1

Milestone 0	Milestone 1	Milestone 2	Milestone 3	Milestone 4	Discontinued
New objective	Raised concerns	Acknowledgement of issue	Develop credible strategy / set stretching targets	Strategy implemented	Objective no longer pursued

### Corporate engagement

Focusing on reputational risk, in 2012 we had many engagements with international and local companies operating in emerging markets about labour issues. We challenged companies to provide contract workers with similar rights to permanent staff and engaged on the provision of minimum health and safety, working hours and remuneration standards. Our activities in technology, consumer goods, construction and the extractive sectors included visits to company facilities in Brazil, China and other parts of Asia.

We engaged on several other social issues particular to mining and oil and gas companies. These focused on companies attaining or retaining the social licence to operate in specific countries by working closely with and for the benefit of indigenous populations, managing relevant political risk and developing and implementing robust anti-corruption policies. Overall, we are pleased to see that standards are improving, with companies increasingly understanding the commercial importance of assessing and addressing these issues.

We also engaged with companies on specific industry-related issues. These included product safety, mis-selling and recalls amongst pharmaceutical companies. We have also actively encouraged international banks to develop appropriate risk and customer-centric cultures and behaviours and to assess the social utility of their business activities. We have taken different approaches in specific countries to address bribery and corruption issues, which remain problematic across sectors worldwide.

### Public policy and best practice

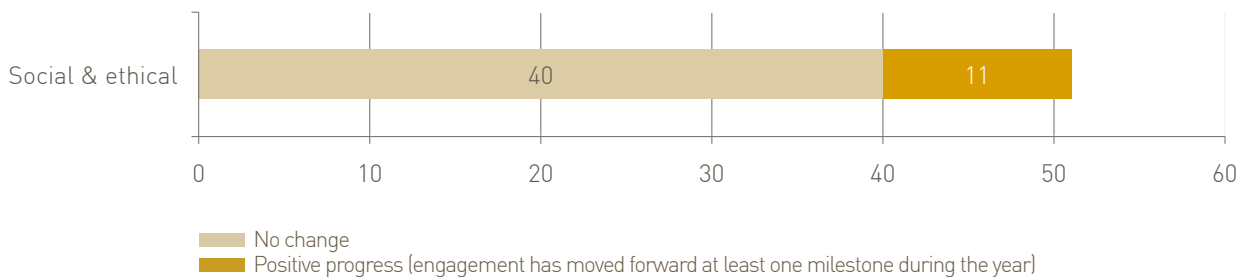
In 2012, we contributed to several collaborative investor initiatives focused on anti-corruption, sourcing minerals from the Democratic Republic of Congo and access to medicines.

We co-signed an investor statement in support of the Foreign Corrupt Practices Act. This statement is a response to the US Chamber of Commerce's call for changes or "clarifications" to the Act, which we believe would weaken its effectiveness in fighting bribery and corruption worldwide. Our participation in various anti-corruption investor forums included addressing the World Forum on Governance – Action on Bribery. We engaged with relevant institutions globally, including the Serious Fraud Office, and the Center for Anti-Corruption Research and Initiative, an arm of Transparency International Russia.

We co-signed an investor statement in support of issuing a final rule governing due diligence and reporting on conflict minerals under section 1502 of the Wall Street Reform and Consumer Protection Act (usually known as the Dodd-Frank Act). The issuance of this rule is a significant milestone in our collaborative efforts to eliminate the link between violence, human rights abuses and the mineral trade in the Democratic Republic of Congo and surrounding countries.

We attended the launch of the newest Access to Medicine index, an initiative we have consistently contributed to in the last decade. Now that enough data has been collected by the initiative, we have proposed ways of performing an impact assessment.

## Progress against social and ethical objectives



### Case Study: Kingfisher

Following previous engagement over a number of years with Kingfisher on its sustainability strategy we were delighted to be invited onto the company's stakeholder panel in 2012. This gave us an opportunity to explore in greater detail a number of sustainability initiatives the company is undertaking across its operations as part of its recently announced Net Positive strategy which aims to go beyond resource use neutrality both for the business and Kingfisher's customers by 2050. The panel sessions involved a number of presentations from and discussions with Kingfisher management and site visits and resulted in a statement released on the company's website.

Given the present low level of product commonality across its operating companies we challenged that Kingfisher will need to make a number of fundamental changes to the group's sourcing strategy and supply chains. This is being addressed through the company's new Creating the Leader business plan which looks to substantially increase the level of commonality across the ranges. It is clear that this will both take time to achieve and require cultural changes among sourcing teams to encourage longer-term thinking and decision making. We have been encouraged by the tone from the top that we have heard from the Kingfisher executive which will go a long way in reinforcing the centrality of Net Positive both internally and externally.

Another challenge is in the varying performance amongst Kingfisher's operating companies on its sustainability KPIs, a topic on which we have previously engaged with the company. As part of Net Positive all operating companies have now been asked to draw up three year plans on integrating core sustainability projects. The group now also has 2020 targets and 2015 milestones within these targets in order to articulate the journey to being Net Positive by 2050, against which all

operating companies are tested twice a year. While the process and reporting appear robust, the panel pressed that some of these targets will require further attention to bring them in line with their strategic imperatives.

A further key area of focus for the company will need to be on its marketing and the customer experience in store. We had previously discussed how to increase sales of Kingfisher's "Eco" products and as part of our engagement through the stakeholder panel we undertook a site visit to a B&Q, Kingfisher's UK retail operations, store. At the store we found the level of promotion of B&Q's sustainability aspirations and credentials disappointing and the panel challenged Kingfisher to report back on progress in this key area in six months' time. This resulted in a further store visit and presentations where we heard more about future plans for the stores, product lines and the B&Q brand which go further in incorporating the sustainability message throughout. We look forward to seeing the fruits of these plans over the coming year.

We also attended Kingfisher's 2012 SRI roadshow as well as a meeting with a number of the company's executives to explore how Net Positive is explained to the financial community. We pressed that it is essential that the messaging of the opportunities is explained in a way that allows the long-term implications of such a strategy to be meaningful in the nearer-term to analysts. Kingfisher has already put out some numbers on the savings from using only sustainable timber and is looking at ways of ascribing value to its sustainability footprint across all its operations, for which we offered our strong support.

We are impressed with Kingfisher's desire to integrate sustainability fully into its business model and strategy to such an extent and we look forward to continuing our engagement with the company as Net Positive develops and grows.

## Governance: Engagement progress

In 2012, 48% of our engagements with companies included a governance objective. In this section we summarise some of the major governance themes we engaged on in 2012 and provide a case study illustrating the successful outcome of an engagement.

### Status of governance engagement objectives

The table below describes the objectives of each engagement and the milestones reached in pursuing them.

Theme	Total engagement objectives	Engagement objective status				Completed engagement objectives	
		Milestone 0	Milestone 1	Milestone 2	Milestone 3	Milestone 4	Discontinued
Governance	117	9	37	40	27	4	0

Milestone 0	Milestone 1	Milestone 2	Milestone 3	Milestone 4	Discontinued
New objective	Raised concerns	Acknowledgement of issue	Develop credible strategy / set stretching targets	Strategy implemented	Objective no longer pursued

### Corporate engagement

In many of our company engagements, the key to achieving beneficial change is improving the quality and independence of the company's board and promoting a clear alignment between company executives and investors towards business objectives and executive remuneration. In doing so, it is critical to acknowledge that corporate governance issues differ markedly by region. They are driven by local laws and culture and the maturity of individual markets.

There is a positive trend globally to avoid concentrations of power at the top of companies by separating chair and CEO roles. In 2012 this continued to be a significant focus of our corporate engagement in the United States and parts of Europe. As a result of our efforts, we have seen a strengthening of independence and accountability at the top of many companies. We also pushed for improvements in the quality of certain boards and their oversight of executive management.

We also encouraged companies with dual voting structures, including several US technology and media companies, to move to a "one share, one vote" system. We collaborated in an initiative to encourage US healthcare companies to disclose political donations. At companies in countries ranging from Brazil, Germany, Russia and Thailand we sought better representation for minority shareholder interests on company boards.

### Public policy and best practice

In 2012 we continued to seek improvements in corporate governance standards across different regions by actively engaging with and responding to consultations from

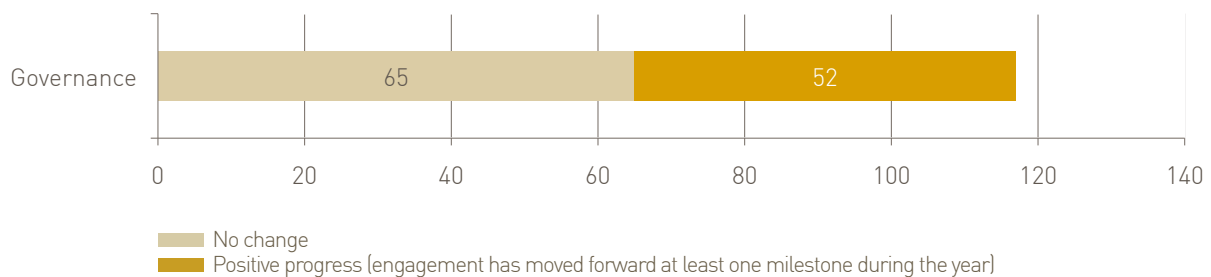
regulatory authorities, investor associations and company forums.

In Japan we held meetings with the Tokyo Stock Exchange to press for enhanced disclosure of independent directors and statutory auditors, and encourage the development of a code of corporate governance. We also held interactive seminars for Japanese executives on corporate governance and met with Keidanren, Japan's influential business federation.

In the UK, together with the National Association of Pension Funds (NAPF), we hosted a very successful seminar. It was attended by representatives of around 40 of the FTSE 100 remuneration committees, and an equivalent number of pension fund trustees and managers, and encouraged better executive compensation practices. Following the seminar, a joint paper promoting simpler pay structures which better align the interests of corporate executives with those of their long-term shareholders was published.

Other public policy and best-practice work in 2012 included participating in the OECD taskforce of Middle East and North Africa (MENA) stock exchanges to advance good corporate governance and discussions with the French securities regulator and the German Corporate Governance Commission. We also engaged with the Toronto Stock Exchange on proposed amendments to its Company Manual and held discussions on board accountability, executive remuneration and political donations with the US Securities and Exchange Commission. We had further engagement around listing rules in several countries including Hong Kong, Japan, Russia, Singapore and South Korea.

## Progress against governance objectives



### Case study: News Corporation

Continuing to intensify our engagement with Moody's, During 2012 EOS intensified its engagement with News Corporation. We continued our dialogue with the board and in October spoke at the company's high-profile annual meeting in Los Angeles. This marks a steady escalation of our programme of engagement with the company since 2010, when we began to focus on News Corp's corporate governance challenges, including succession planning, board composition and structure. In our view, these issues are magnified by the disconnect between economic and voting interests at the company as a result of its dual-class share structure. It effectively allows founder Rupert Murdoch and his family to dominate all voting decisions despite having a 12% economic stake.

In 2011 we filed our first shareholder proposal seeking enhanced transparency around the approach to succession planning. Following constructive dialogue with the board and some enhancements to the company's disclosures, we withdrew our proposal in favour of continued board-level discussions. This meant that we were well placed to engage the board following the escalation of the phone hacking scandal in the UK. Since then we have engaged in intensive discussions with the company and other major shareholders about phone hacking and our ongoing concerns about underlying corporate governance issues. In particular, we have emphasised our concerns about the results of the 2011 annual meeting, which saw the advisory vote on compensation. Five of the board's fifteen members received a majority of votes against from non-affiliated shareholders – clearly showing some of the issues created by the dual share class structure. While we

commend the board for its meaningful director refreshment in 2012, we continue to encourage further enhancements to News Corp's governance.

Throughout 2012 we offered News Corp several innovative solutions to correct the dual-class share matter and to restore its reputation following the damaging controversies at its UK subsidiaries. At the 2012 shareholder meeting we made several statements to Rupert Murdoch and the entire board to suggest the possibility of granting Class A shareholders the ability to vote on a proportion of directors elected to the board, much like other dual-class media companies such as EW Scripps and the New York Times Company. This should give some voice to the majority of the company's investor base as a potential near-term compromise on the dual-class problem.

We also invited the board to consider adopting the recommendations contained within the Woolf Report, which has become the global gold standard for companies wishing to adopt the highest levels of anti-corruption best practice and ethics. We are encouraged that shareholder proposals seeking the appointment of an independent chair as well as the elimination of the dual-class share structure both received majority support from non-affiliated shareholders. This reaffirms the message that investor concern runs much deeper than recent controversies.

We welcome and value the board's willingness to engage on these important topics. They are crucial for long-term shareholders. We look forward to ongoing, constructive discussions with the boards of the successor companies.

## Strategy and risk: Engagement progress

In 2012, 14% of our engagements with companies included a strategy and risk objective. In this section we summarise some of the major strategy and risk themes we have engaged on in 2012 and provide a case study illustrating the successful outcome to an engagement on strategy and risk issues.

### Status of strategy and risk engagement objectives

The table below describes the objectives of each engagement and the milestones reached in pursuing them.

Theme	Total engagement objectives	Engagement objective status				Completed engagement objectives	
		Milestone 0	Milestone 1	Milestone 2	Milestone 3	Milestone 4	Discontinued
Strategy and risk	34	5	7	11	11	0	0

Milestone 0	Milestone 1	Milestone 2	Milestone 3	Milestone 4	Discontinued
New objective	Raised concerns	Acknowledgement of issue	Develop credible strategy / set stretching targets	Strategy implemented	Objective no longer pursued

### Corporate engagement

Despite markedly lower merger and acquisition activity in 2012, we engaged on specific transactions to challenge prospective acquirers to demonstrate material and sustainable synergies and a credible way of limiting execution risk, which includes integrating different business cultures. Such concerns are particularly relevant for mining, oil and gas companies. We also challenged companies on their management of commercial and reputational risk in joint ventures.

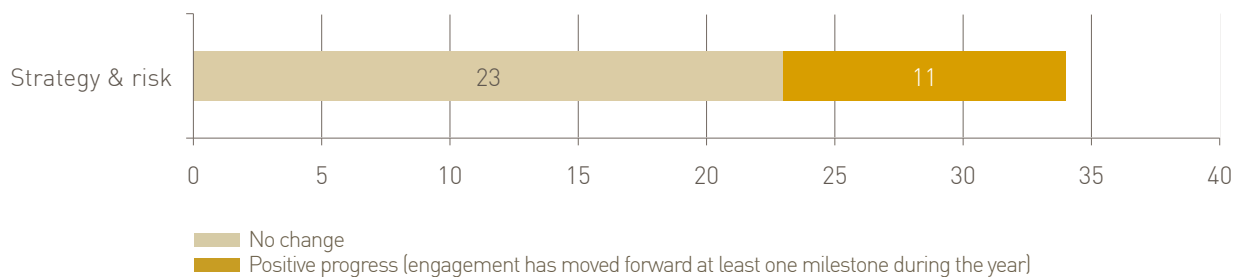
In Japan we engaged with several companies, which each have significant liquidity on their balance sheets, about their strategy for returning cash to shareholders. We also encouraged certain retail, industrial and financial services companies to focus on their existing activities and to plan expansions based on their competitive strengths. We closely monitored the evolution of the Japanese technology sector, as some participants are taking significant strategic risks by moving into different and unfamiliar parts of the value chain.

Risk management and portfolio restructuring, together with culture and executive remuneration, were significant engagement issues for banks – particularly in the US and Western Europe. Key to our conversations, especially those concerning investment banking, is the argument for a much stronger alignment between executives and investors concerning risk.

### Public policy and best practice

We were one of a handful of investor representatives included in a private sector initiative brought together by the Financial Stability Board to develop best practice standards in risk reporting by banks and financial institutions, called the Enhanced Disclosure Task Force. We participated in several occasionally contentious and difficult meetings with banks, regulators and other investors culminating in a report that has been broadly welcomed by regulators and the industry to date. We also actively pursued improvements to auditing and accounting standards and oversight, both globally and in individual markets.

## Progress against strategy and risk objectives



### Case study: Hitachi

As a representative of long-term shareholders, EOS has had the privilege to support and participate in the process of Hitachi's significant recent transformation in strategy and corporate governance. The company has historically had a highly-diversified portfolio of products and services, ranging from national social infrastructure projects to consumer goods such as household appliances. This was not delivering good returns to shareholders: Hitachi recorded a significant net loss at the end of March 2009.

Since 2008, EOS has held eight meetings with Hitachi's senior management, in addition to multiple visits and dialogues with other representatives at its Tokyo headquarters. The discussions focused on reviewing the business portfolio to define the company's strategic focuses, improving transparency and shareholder communications on financial targets and performance, and enhancing accountability and effective oversight by the board. We are pleased with the company's significant reforms in these areas. In 2009, Hitachi defined its core businesses as focusing on "social innovation and infrastructure businesses". The company has been making steady progress in restructuring and enhancing that core positioning, not least by exiting a number of under-performing businesses. As well as the LCD and plasma screens, Hitachi also decided to stop

producing hard disk drives in 2011, reinforcing its commitment to restructuring. In the meantime, the Hitachi group introduced an internal system to ensure performance and profit management in a more transparent and disciplined manner. Strengthened by these efforts, Hitachi is set to achieve its current business targets and will likely pursue further reforms through its planned "Smart Transformation Project".

Hitachi appointed additional independent directors in 2012. Most directors are now independent and three are not Japanese (two of whom are newly nominated independent directors) and have extensive and relevant international business experience. This is a significant step towards effective corporate governance standards that align with Hitachi's global growth strategies. Such diverse board composition is very rare among Japanese companies. At our meeting with the president of Hitachi prior to the 2012 AGM, we gained further assurance about the independent and objective search and nomination process for outside directors. We also spoke at length about Hitachi's global human resources management and strategies, which are positioned as an integrated and key part of its overall global business strategies. EOS applauds Hitachi's significant efforts and strong commitment from the top continuously to pursue essential changes in corporate governance and culture to support its growth and strategic development.



## Public policy work

During 2012 on behalf of clients we formally responded to 86 consultations (or a more proactive equivalent to this) and held 71 discussions to press our views with relevant regulators. The breakdown of these was:

Region	Consultations or proactive equivalent	Discussions
Global	16	13
North America	11	2
Asia	8	12
Australia/New Zealand	5	4
Emerging markets	8	8
Europe	16	13
UK	22	19

Our key activities and achievements in the quarter were:

### Empowering Owners

- Success: The ICGN Model Mandate Initiative, in whose creation EOS has taken a leading role, was ratified by ICGN members and formally launched at the organisation's mid-year conference.
- Success: Our input to the French securities regulator, the AMF, regarding active dialogue between companies and their shareholders, has been taken on board. We believe that this opens the door for changes to related party transaction rules and various voting issues, not least a vote on the remuneration report.
- Success: The guidance on acting in concert in South Africa that we have been developing over many months reached its final hurdle and has now been finalised. In a highly concentrated market that has previously faced legal challenges on shareholder activism, this clear guidance should be a powerful tool in enabling greater collaboration between institutional investors.
- Success: We participated in the first meeting of a new innovation that we cultivated with three other institutional investors and a non-"big four" auditing firm. The Centre for Audit Committee and Investor Dialogue should enhance understandings on both sides and in time lead to more effective audit committees and more effective investor challenges of those committees.
- Success: While there are elements of the report with which we disagree, and areas where we believe it could have gone further, we welcome the publication of the final Kay Review. Its focus on fiduciary duty in the investment chain and the need to develop a deeper understanding of what this duty means for the players involved is right and reflects calls that we have made. It also sets an important precedent for other markets.
- Activity: We co-hosted a meeting alongside the OECD of significant investors in the Middle East and North Africa with the aim of fostering the sense that responsible ownership is needed in these markets. This marked an encouraging beginning to establishing an appropriately engaged investment culture. We also co-hosted a similar meeting focused on the Spanish market and gained positive feedback.

### Investor protections

- Success: While there is still scope for further improvement, the new Japanese Companies Act marks a major stride forward in corporate governance. With sturdier definitions of independence and enabling a new board structure that will incentivise greater levels of independence, this should help enhance board effectiveness. Combined with listing rules changes, which we have also actively called for, we believe that a better framework is now in place.
- Success: We welcomed the announcement of the new list of global, systemically important financial institutions created by the Financial Stability Board in Basel. In particular, we welcomed the two additions that were among the three we recommended in the initial draft list.
- Success: The new Singapore Code of Corporate Governance includes some key reforms that EOS has been seeking and which mark significant enhancements.
- Progress: The Toronto Stock Exchange proposed changes to its listing rules that reflect reforms we have sought. They would make each director subject to individual election (not through a vote on a slate), majority voting for all directors and full disclosure of results. We welcomed these proposals and urged further reform.
- Activity: We responded to a consultation on the supervision of financial conglomerates issued by the Joint Forum, which brings together IOSCO and the Basel committee. We were able to promote enhanced governance and remuneration structures and improved risk management.



## Lengthen timeframes

- Success: Responding to investor engagement from entities including EOS, the Canadian and Albertan governments are implementing a credible system to monitor extractive activities in oil sands areas.
- Success: The finalisation of US SEC rules on conflict minerals under the Dodd-Frank Act marks a major stride forward in our long-running efforts, directly and through the PRI clearinghouse, to encourage consumer electronics companies to manage this major reputational risk.
- Success: The UK government published its final proposals regarding executive pay, most significantly introducing a binding vote on remuneration. These proposals closely reflect our recommendations over the course of an intensive period of dialogue to ensure that voting is placed in the right context and the result is better engagement.
- Progress: Through our membership of the steering committee of the Forest Footprint Disclosure Project, we actively encouraged the group to amalgamate with the Carbon Disclosure Project. This move was agreed and publicised and we believe it will significantly enhance its influence.
- Activity: We were one of only a handful of experts invited to present to the German Corporate Governance Commission to help it develop proposals for possible reforms to the local governance code with respect to remuneration matters. We urged change and were pleased to note that this seems to be the way the Commission is tending, pressing in particular for a more long-term approach to pay.
- Activity: We signed a key letter to the new European Systemic Risk Board asking them to consider the carbon embedded in financial markets and the scope for a market dislocation should approaches to carbon emissions change.

## Honest reporting

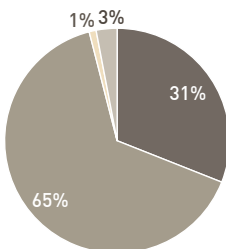
- Success: Our active participation as one of only a handful of investors on the Financial Stability Board's Enhanced Disclosure Task Force came to positive fruition with the publication of its best-practice standards for bank risk reporting. Unusually for a private sector document, it was not only welcomed by the FSB itself but also formally by the G20. By helping to combine investors' voices we have ensured that the standards are demanding and those banks disclosing in accordance with them will enjoy enhanced investor confidence.
- Success: We welcome changes to the Standard & Poor's credit rating methodology which more fully integrate environmental, social and governance factors into risk management assessments. We see this as a major step forward and believe it reflects efforts we have made in recent times, both individually and through the PRI. At our instigation, the PRI responded to an S&P consultation on its methodology.
- Success: The Hong Kong stock exchange issued its final proposals for environmental, social and governance risk reporting by companies as it plans to make such disclosures compulsory. This marks a major stride forward for transparency in the region. It is particularly important in its implications for transparency of Chinese companies given that many are listed in Hong Kong.
- Success: The International Accounting Standards Board began its first post-implementation review (of the IFRS 8 standard on segmental reporting). This is something we have long sought. Importantly, our call that the review consider not just whether the standard has been implemented effectively, but also whether that implementation has in fact delivered better financial reporting, will be acted upon.
- Progress: We welcome the recent publication by the International Integrated Reporting Council (IIRC) of a prototype Integrated Reporting Framework. We have been collaborating closely with the IIRC for some time, trying to ensure that it more fully reflects the needs of investors. Not least, we have been chairing the Investors Network which formally collects investor input for the IIRC. The next step is for the Investor Testing Group, which we have been working to establish, to start interacting directly with reporting companies to help enhance their disclosures and approach.
- Progress: We have helped shaped the debate on better auditor reports by encouraging a focus on auditing judgements alongside disclosures on going concern and accounting judgements. This was achieved through direct dialogue with members of the International Auditing and Assurance Standards Board and at a formal roundtable on its proposals for enhanced audit reporting, as well as our work on the topic at the Financial Reporting Council.

## Overview

In the last year, we voted on behalf of BCSSS at a total of 503 meetings around the world, analysing 5,348 resolutions in accordance with BCSSS's voting policies. At 247 of those meetings we opposed one or more resolutions and we abstained at eight meetings. We voted with management by exception at 11 meetings, while we supported management on all resolutions at 237 meetings.

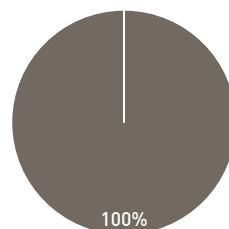
### Asia Pacific

We voted at 71 meetings  
(743 resolutions) over the last year.



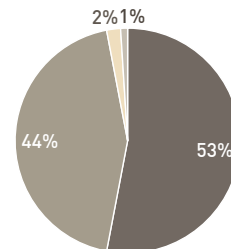
### Australia and New Zealand

We voted at three meetings  
(22 resolutions) over the last year.



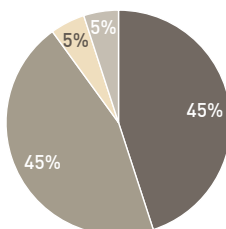
### Emerging & Frontier Markets

We voted at 250 meetings  
(2,295 resolutions) over the last year.



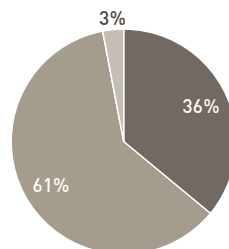
### Europe

We voted at 55 meeting  
(625 resolutions) over the last year.



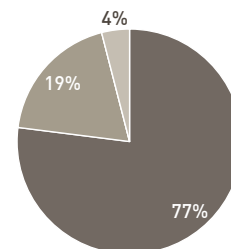
### North America

We voted at 98 meetings  
(1,159 resolutions) over the last year.



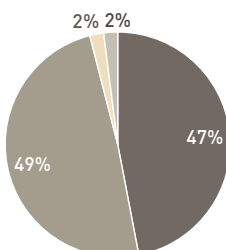
### UK

We voted at 26 meetings  
(504 resolutions) over the last year.



### Global

We voted at 503 meetings  
(5,348 resolutions) over the last year.



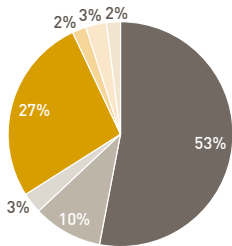
- Total meetings voted in favour
- Meetings where voted against (or voted against AND abstained)
- Meetings where abstained
- Meetings where voted with management by exception

## Voting by issue

The issues on which we voted against management or abstained on resolutions, in accordance with BCSSS's voting policies are shown below.

### Asia Pacific

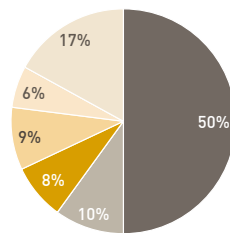
We voted against or abstained on 98 resolutions over the last year.



Board structure  
Remuneration  
Shareholder resolution  
Capital structure/dilution/mandatory bid waiver  
Amend articles  
Merger/disposal/acquisition  
Other

### Emerging & Frontier Markets

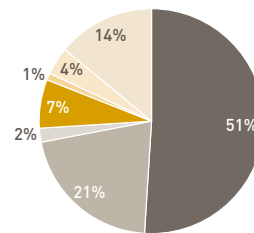
We voted against or abstained on 381 resolution over the last year.



Board structure  
Remuneration  
Shareholder resolution  
Capital structure/dilution/mandatory bid waiver  
Amend articles  
Merger/disposal/acquisition  
Other

### Europe

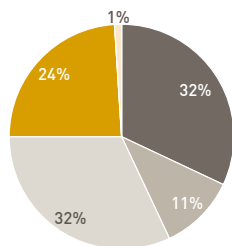
We voted against or abstained on 70 resolutions over the last year.



Board structure  
Remuneration  
Shareholder resolution  
Capital structure/dilution/mandatory bid waiver  
Amend articles  
Merger/disposal/acquisition  
Other

### North America

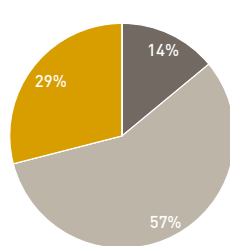
We voted against or abstained on 177 resolutions over the last year.



Board structure  
Remuneration  
Shareholder resolution  
Capital structure/dilution/mandatory bid waiver  
Merger/disposal/acquisition

### UK

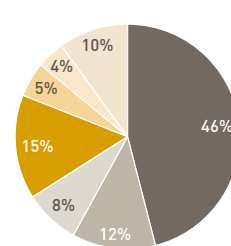
We voted against or abstained on seven resolutions over the last year.



Board structure  
Remuneration  
Capital structure/dilution/mandatory bid waiver

### Global

We voted against or abstained on 733 resolutions over the last year.



Board structure  
Remuneration  
Shareholder resolution  
Capital structure/dilution/mandatory bid waiver  
Amend articles  
Merger/disposal/acquisition  
Other

# Important information

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