


Responsible Investment

Corporate Governance and SRI – Q2 2005

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NEWTON
The Power of Ideas

*A Mellon Financial Company*SM

Voting profile for Q2 2005

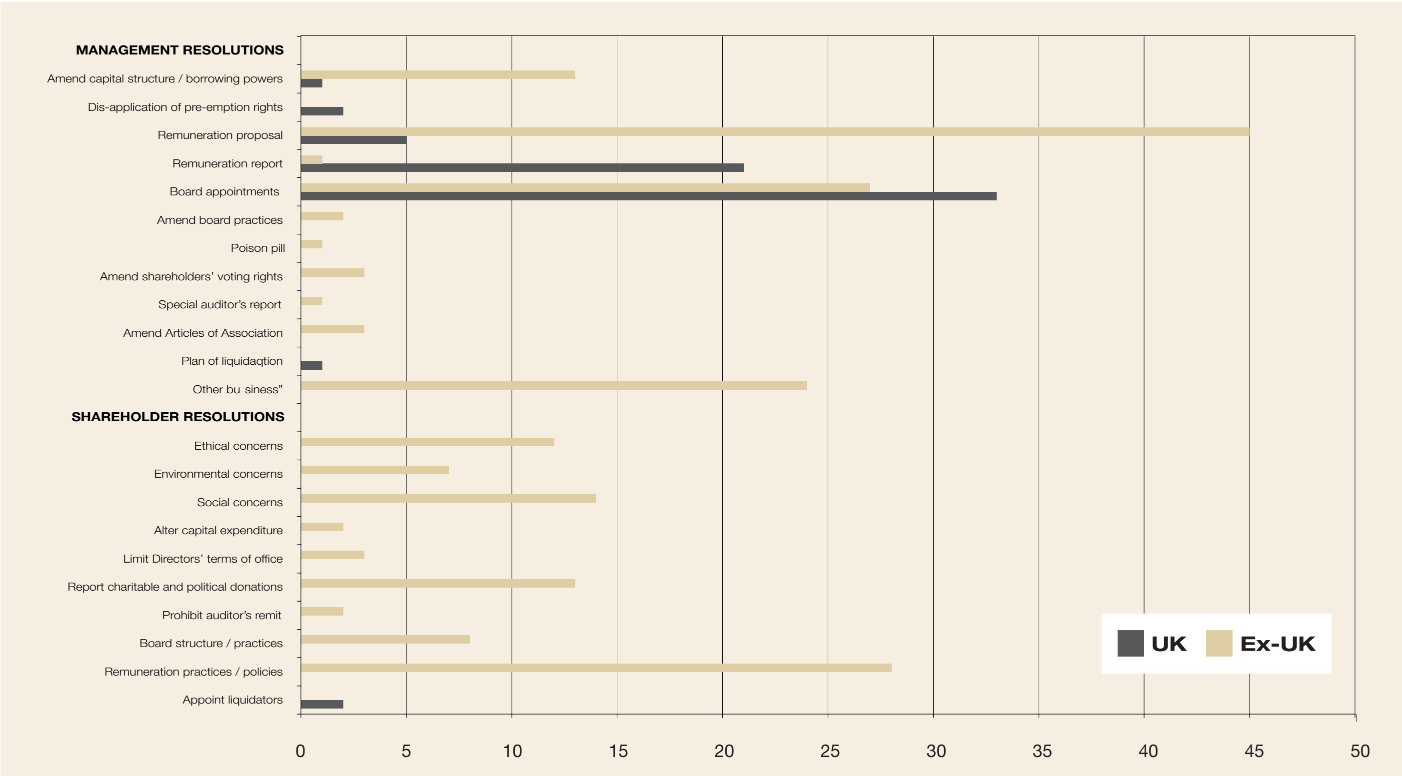
Q2 is a busy time for company meetings. Roughly half the companies held by Newton, on behalf of its clients, have AGMs during this period.

Outside of the UK, Japanese companies, and their strict interpretation of the revised Japanese Commercial Code, accounted for 37% of meetings where Newton voted against one or more resolutions. In North America and Canada, the same shareholder proposed resolutions appeared on the agendas of many company meetings. These resolutions requested the elimination of live animal testing, reports on political contributions and specific conditions for limiting or prohibiting awards to executive directors. In the UK, remuneration related proposals continued to represent the bulk of contentious issues.

The table below summarises voting activity in the last quarter. This is followed by a chart highlighting the main issues behind the casting of a vote against. The report then provides detail on the individual resolutions voted against. This is divided into UK and Ex-UK. The Ex-UK section is further subdivided into Japanese companies and those companies where Newton has only voted against a proposed resolution entitled “Other Business”.

Complete voting summary – Q2 2005	Total	UK	Ex-UK
AGM	**632**	**301**	**331**
Voted in favour of all resolutions	442	275	167
Voted against one or more resolutions	127	26	101
Took no action	63	0	63
Abstained	0	0	0
EGMs	**115**	**66**	**49**
Voted in favour of all resolutions	97	64	33
Voted against one or more resolutions	8	2	6
Took no action	10	0	10
Abstained	0	0	0
Court Meetings	**5**	**5**	**0**
Voted in favour of all resolutions	5	5	0
Voted against one or more resolutions	0	0	0
Took no action	0	0	0
Abstained	0	0	0
Total	**752**	**372**	**380**
Voted in favour	**544**	**344**	**200**
Voted against	**135**	**28**	**107**
Took no action	**73**	**0**	**73**
Abstained	**0**	**0**	**0**
Total	**752**	**372**	**380**

Breakdown of resolutions voted against during Q2 2005



UK Companies

Alizyme PLC – AGM – 17/06/2005
Votes were instructed against the resolutions seeking approval of the company's remuneration report, extension of share option awards and two members of the remuneration committee, who were seeking re-election to the board. Newton disapproved of continued use of a facility to re-test performance conditions that govern vesting of share option awards.

Arm Holdings PLC – AGM – 25/04/2005
Newton voted against the resolutions seeking approval of the remuneration report and the re-election, to the board, of three non-executive directors, who were members of the remuneration committee. No performance targets govern the award of matching shares under the deferred annual bonus arrangements. It was also understood that awards made under the Incentive Stock Option Scheme were "accelerated options". This means that options will vest seven years following the grant date, irrespective of the company's performance.

BAE Systems PLC – AGM – 04/05/2005
The company operates three long-term incentive arrangements. A share option scheme, a Performance Share Plan and a deferred annual bonus restricted share-matching scheme. Under the deferred annual bonus arrangements, Newton was concerned that, without consideration of the company's performance, participants would receive one free share for every deferred share. Newton voted against the resolution seeking approval of the remuneration report.

Barr (A.G.) PLC – AGM – 24/05/2005
In line with best practice, the company reduced its executives' service contracts to one year's notice. However, contrary to best practice, the new contracts would extend to two year's notice in the event of a change in control. Additionally, directors were compensated for agreeing to their new contracts. Newton voted against the approval of the remuneration report.

BPP Holdings PLC – AGM – 28/04/2005
A vote against was instructed in relation to the resolution seeking approval of the remuneration report. Newton's concerns centred on the single and low performance condition that would govern the vesting of awards made under the Executive Share Option Scheme. In addition, if the low performance condition is not met at the end of the performance period, the rules of the scheme allow for a further re-test in the subsequent year.

Carnival PLC – AGM – 13/04/2005
Newton voted against a total of eight resolutions at the company's AGM. Six non-executive directors, seeking re-election to the board, were voted against. Newton felt that their independence was compromised due to their receipt of share option awards. Three of these non-executive directors were members of the audit committee, two were members of the remuneration committee and one was a member of the audit and remuneration committee.

The two further resolutions that Newton voted against sought approval of the company's remuneration report and amendments to the share plan intended to incentivise non-executive directors. With regard to the remuneration report, Newton did not feel that any of the performance conditions governing vesting of long-term incentive awards were particularly challenging, especially given the potentially substantial level of awards. Indeed, the company's "Stock Plan" provides substantial awards to executives (between 2x salary – 9.2 x salary last year) with no performance conditions attached to vesting. Also, annual bonus potential is undefined. On the share plan for non-executives, Newton is not comfortable with non-executive directors, especially those who were members of the remuneration committee, being awarded share options.

Finsbury Technology Trust PLC – AGM – 26/04/2005
Newton voted against a resolution seeking to dis-apply existing shareholders' pre-emption rights over the issuance of the company's shares that were held in its treasury account. The company failed to provide an adequate explanation or comfort relating to the company's intention to re-issue these shares at a discount to their Net Asset Value.

International Power PLC – AGM – 17/05/2005
Share-based annual bonuses were awarded at a level that was in excess of the pre-determined maximum. This was because the company awarded shares at their 2003 price of 100p and not at the market price as at the time of the award, which was 178.5p. Share option incentives were also awarded. However, the company restructured and reduced the Earnings Per Share performance conditions that would govern vesting of these awards. Newton felt that the new single performance condition was not sufficiently challenging and was a step back from the historic sliding scale approach. Where a company makes significant changes to its remuneration policy, Newton prefers to be able to vote on a separate and binding resolution and not for it to be bundled within the resolution seeking approval of the remuneration report. Furthermore, Newton was disappointed by the CEO's contract providing in excess of 12 months salary in the event of termination of employment.

In addition to voting against the remuneration report, Newton also voted against two non-executive directors seeking re-election to the board, who were members of the remuneration committee.

JP Morgan Fleming Claverhouse Investment Trust PLC – AGM – 19/04/2005
Newton's concern centred on a resolution seeking shareholder approval for the company to issue treasury shares at a discount to their Net Asset Value (NAV). Whilst Newton understood the rationale for issuing shares at a discount to their NAV, it was felt that the pre-emption rights of existing shareholders should be respected and that shareholders should not be unnecessarily diluted. Newton voted against the resolution.

Jupiter Global Green Investment Trust PLC – EGM – 27/04/2005
Newton voted against both resolutions proposed at the shareholder requisitioned EGM. These resolutions were put forward by certain shareholders who wanted to realise their investment in the Fund. To achieve this realisation of monies, the shareholders required the Trust to be put into liquidation. Over the past twelve months the Net Asset Value of the Trust had grown by c.17% and the share price had risen by c.26%. Newton considered that the long-term opportunity of investment in the Trust outweighed the short-term gains of realising the investment by way of a premature liquidation.

Kiln PLC – AGM – 27/06/2005
Newton voted against the resolution seeking approval of the new co-investment plan. Under the plan, participants would be awarded matching shares depending upon the amount of annual bonus they deferred. However, it was proposed that the award of matching shares would not be subject to the achievement of any type of performance metric.

LogicaCMG PLC – AGM – 18/05/2005
The company proposed a number of changes to its articles of association. Amongst the changes was a proposal to amend the method used to calculate its borrowing potential. The company stated that shareholders should be comfortable with the proposal given that its bank imposes restrictions on the company's borrowing potential. Newton was concerned that the best interests of shareholders may not be recognised within the Bank's lending policy. Newton voted against the resolution seeking approval to adopt the company's new articles of association.

Marshalls PLC – AGM – 24/05/2005
Of concern was the company's proposal to buy-out its executives historic Long-Term Incentive Plans (LTIPs). It was argued that the plan no longer acts as an effective incentive arrangement. Newton felt that it was inappropriate to reward individuals for failing to achieve the threshold performance level that would have triggered vesting of the historic LTIP awards. This, in effect, constituted re-pricing. Additionally, Newton would have expected such a significant proposal to be put to shareholders in a separate and binding resolution and not simply incorporated within the advisory vote seeking approval of the company's remuneration report. Newton voted against the remuneration report.

MFI Furniture Group PLC – AGM – 19/05/2005
Newton voted against the approval of the remuneration report and against two members of the remuneration committee, who were seeking re-election to the board. This resulted from the decision of the remuneration committee to allow re-testing of performance conditions for a further year following the failure of the restricted share plan to vest as a result of poor performance.

NEXT PLC – AGM – 18/05/2005
Newton did not approve of the proposed new Management Share Option Plan. It was felt that the single and low Earnings Per Share performance condition of annual growth of RPI+3% did not justify the potential maximum award of 300% of base salary.

Northern Investors Company PLC – EGM – 29/06/2005
The company's articles of association required that an EGM be held to consider the voluntary winding up of the company. Given the financial performance of the company, Newton considered that it would be in shareholders' best interests for the company to continue trading. Therefore, and in line with the company's recommendation, Newton voted against the resolution to approve a plan of liquidation.

Pearson PLC – AGM – 29/04/2005
Newton was concerned at the robustness of performance targets that govern awards of annual bonuses. Bonus payments were higher this year than those awarded in the prior year, despite a deterioration trading performance. The company failed to provide adequate justification for these awards. Newton voted against the remuneration report and a non-executive director seeking re-election to the board, who was a member of the remuneration committee.

Persimmon PLC – AGM – 21/04/2005
Newton was encouraged to see the company had introduced a cap on maximum annual bonus potential. However, it was felt that the level was excessive at 4.39 times base salary for the CEO and 3.21 times base salary for the finance director. The company also decreased the mandatory deferral amount that each recipient must make. Previously any bonus earned in excess of 150% of salary would be deferred for up to two years. This level was increased to any bonus in excess of 200% of salary. Newton would have also liked to have seen a secondary financial underpin to the relative Total Shareholder Return performance condition that governs the vesting of shares awarded under the company's Long-Term Incentive Plan. Newton also felt that the balance of the board would be improved with the introduction of further independent non-executive directors.

A vote against was instructed for a long-standing non-executive director seeking re-election to the board, who was a member of the remuneration committee. Newton did not support the company's remuneration report and instructed a vote against the resolution seeking its approval.

Psion PLC – AGM – 20/05/2005
Newton voted against the resolutions requesting approval of the remuneration report and the re-election of a non-executive director, who was a member of the remuneration committee.

The structure of the company's share option scheme caused concern. It was felt that the level of option awards was excessive and performance conditions were not particularly challenging for awards that may be at 15 times an individual's base salary. Additional concern surrounded 60% of share option awards vesting for achieving median Total Shareholder Return performance and a facility to re-test performance conditions for a further two years, should targets not be met at the end of the original three-year period.

Reckitt Benckiser PLC– AGM – 05/05/2005
Newton voted against two non-executive directors seeking re-election, who were members of the remuneration committee, and against the approval of the company's remuneration report. Newton's concerns centred on the operation of the company's long-term incentive arrangements. These offered high awards for achieving relatively low performance targets and provided for a facility to re-test these performance targets in the event that they are not met at the end of the initial three-year performance period. In addition to increased pension contributions made by the company, the CEO received a special payment of 20% of salary in compensation for what the company classed as uncompetitive level of contributions to pension arrangements since the appointment of the CEO.

Schroders PLC – AGM – 19/04/2005
Various elements of the company's remuneration policy were of concern. The company's Equity Compensation Plan provides for matching of vested shares but the award of matching shares are not subject to the achievement of any performance conditions. Furthermore, equity incentive arrangements only vest for the achievement of absolute share price growth. This means that executives may be rewarded for share price uplift as a result of market momentum when the relative performance of the company may be poor. Also, special considerations, in excessive of 12 months base salary, would be made to the CEO should he resign. Newton voted against the approval of the remuneration report and two non-executive directors seeking re-election to the board, who were members of the remuneration committee.

Shire Pharmaceuticals Group PLC – AGM – 22/06/2005
Votes were instructed against the resolution seeking approval of the remuneration report. The operation of the share option scheme continued to provide for performance conditions to be re-tested should they not be achieved at the end of the initial performance period. The company provided little justification for this deviation from well established best practice.

SMG PLC – AGM – 03/06/2005

In an aim to focus remuneration packages on performance elements, the remuneration committee introduced a salary freeze until 31 December 2006. However, Newton noted that salary levels were above median versus its comparator group, while the remuneration committee introduced a guaranteed bonus of 10% of basic salary. Newton considered this to be compensation for the stated salary freeze. In addition, the executive share option scheme allows for two opportunities to re-test performance conditions should they not be achieved at the end of the initial three-year performance period. Newton voted against the resolution seeking approval of the remuneration report. A vote against was also instructed for the re-election of a non-executive director, who was a member of the remuneration committee and had been on the company's board for 12 years.

Trafficmaster PLC – AGM – 16/06/2005

Newton had two key concerns, which related to the structure of the company's remuneration policy. First, no specific cap was disclosed for the award of share options. Secondly, in the administration of the share option scheme, performance conditions may be re-tested on a rolling three-year basis. Newton voted against the remuneration report. Additionally, votes were instructed against two members of the remuneration committee, who were seeking re-election to the board. This action also partly reflected the concern that only one non-executive director was considered to be independent of the company.

TT Electronics PLC – AGM – 18/05/2005

Newton instructed a vote against the remuneration report. This was due to a feature of the 2004 Share Option scheme that allows for rolling re-testing of performance conditions. If performance conditions are not met after the initial three-year period, they may be re-tested for an additional three years. This rolling window of the performance period could provide double, triple or quadruple rewards for achieving just one period of outperformance.

Newton also instructed a vote against the company's senior non-executive director, who was seeking re-election to the board. He was a member of the remuneration committee and the audit committee. Newton did not consider him to be independent given that he had held a board position at the company for 31 years.

Wilson Bowden PLC – AGM – 27/04/2005

There were two key points that led to Newton voting against the company's remuneration report and, also, against three non-executive directors seeking re-election, who were members of the remuneration committee. First, 50% of the restricted share plan would vest for achieving median relative Total Shareholder Return and no further performance conditions would be applied. Secondly, performance conditions governing vesting of share options may be re-tested, for a further two years, if they are not achieved after the initial three-year performance period.

Woolworths Group PLC – AGM – 07/06/2005

Despite the company performing poorly, on an absolute and relative basis, annual bonus awards were made at 31% of individual's base salaries. This raised concerns over the setting of challenging performance targets. Annual bonuses are payable on the achievement of financial performance, whilst just 10% may be awarded for achieving personal performance targets. Additionally, in the event of a change in control, the remuneration committee may waive performance targets for the Chief Executive. Newton voted against the remuneration report and the three non-executive directors seeking re-election to the board, who were members of the remuneration committee.

Xstrata PLC – AGM – 09/05/2005

Newton felt that various elements of the remuneration report were contentious and decided to vote against the resolution seeking its approval. Calculation of annual bonus awards is based on the achievement of certain levels of Return On Equity (ROE) achieved. The adopted methodology provides 1% of net profits irrespective of ROE performance, which could be below the company's Weighted Average Cost of Capital. Therefore, the structure allows for rewards despite potentially deteriorating shareholder value. Furthermore, executive's service contracts provide for consideration in excess of 12 months base salary in the event of termination of employment. Finally, significant transaction bonuses were paid for the successful integration of an acquired company. Newton is generally against payment of transaction bonuses of this type because existing remuneration structures provide a medium for rewarding contributions to the success of the company. Newton voted against the remuneration report and two members of the remuneration committee, who were seeking re-election to the board.

Ex-UK Companies

Abbott Laboratories – AGM – 22/04/2005
Newton voted against four resolutions at the companies AGM, all of which were proposed by shareholders.

The first sought to prohibit any compensation, other than base salaries, to the top five executives if the company, or one of its subsidiaries, incurs government fines in excess of $15m. Despite the company's need to minimise fines imposed by the government, Newton felt that it would be inappropriate to wholly base incentivisation on such a single performance measure.

A further shareholder resolution requested the company to eliminate the use of animals in the testing of its products. The company has developed a policy that minimises the use of live animals in its product testing. However, this policy may be altered in order to comply with certain regulations and ensure consumer safety.

Newton voted against a shareholder proposed resolution that requested the company to provide a bi-annual report on its political donations. This report should disclose information relating to the amount, the business rationale and identification of the person(s) who participated in making the decision to contribute or donate. Newton felt that the requested report, which would contain a high level of disclosure, would not provide meaningful information to shareholders or be a useful employment of shareholders funds. In addition, the company's has an established policy on political donations, which is publicly available.

The final resolution that Newton voted against was a shareholder request for a report on the strategic and operational impact of the rising cases of HIV/AIDS, TB and Malaria. Newton considered that the company had taken certain steps to address these issues, especially within emerging markets, and to report to its shareholders.

Agnico-Eagles Mines Ltd – AGM – 06/05/2005
The company sought shareholder approval to reconfirm its shareholders' rights plan. This was, in effect, an anti-takeover mechanism that would allow existing shareholders, once a possible predator has acquired 20% of the issued share capital, to purchase the remaining outstanding shares at half their market value. Newton, generally, is against the adoption and use of anti-takeover mechanisms. Votes were instructed against this shareholder proposed resolution.

Altria Group Inc – AGM – 28/04/2005
Newton voted against a resolution, proposed by the management of the company, seeking to reserve one million shares for use in option awards to non-executive directors. Newton felt that the award of share incentives would undermine the independence that shareholders require of the non-executive directors.

A shareholder proposed resolution requested the company to eliminate the use of animals in the testing of its products. The company discloses its policy on animal testing and complies with applicable regulations. It should be understood that, in some cases, alternative methods of product testing may not be feasible or could fail to meet criteria established by government. Newton did not support this shareholder request.

Three further resolutions, proposed by shareholders, were also voted against. These related to the branding of cigarettes. The resolutions requested product warnings aimed at pregnant women, to cease the use of “light” and “ultra light” in cigarette marketing and the application of fire safety standards for cigarettes. Newton felt that each of these requests would be best addressed and imposed on tobacco companies through regulatory methods. It would be unfair to disadvantage Altria over other tobacco manufacturers by approving such requests.

Ameren Corp – AGM – 26/04/2005
Newton voted against two resolutions that were proposed by shareholders. The first requested a report on the risks of nuclear waste storage. The nuclear power industry is tightly regulated by the NRC. NRC also publishes detailed compliance reports of companies on its website. Ameren has existing policies, disclosures and practices relating to its operations. The company appears to be in compliance with the NRC's regulations and has implemented new safety and anti-terrorism measures. The second shareholder resolution, which Newton voted against, requested an independent director to serve as chairman of the board. In many cases, chairman of publicly listed companies are not independent. This is partly due to a chairman's need to fully understand the business and its operations. In gaining this knowledge, the chairman becomes affiliated to the company, whether it be through length of service or association in another way. It is rare to have a truly independent chairman, especially in the US. In addition, Ameren's current board structure is robust and well positioned on an independence level. Therefore, Newton did not support the shareholder proposal.

American Express Co – AGM – 27/04/2005
Newton voted against a shareholder proposed resolution. The proponent requested that the company cease the use of share options and ensure that any current share option obligations are not renewed. Newton felt that the proposal was too restrictive on the company. It is also felt that share based incentive arrangements provide a good medium for aligning the interests of management with those of shareholders. A further shareholder proposal, which requested the company to report on its political contributions, was voted against. The company outlines its policies on political contributions, which are available on its website. These policies do not appear to be inconsistent with industry standards or existing regulations on this issue.

Amgen Inc – AGM – 11/05/2005

A request was put to the company to eliminate animal testing. Newton voted against this shareholder proposal. The company has committed to a policy that uses animal testing to the least extent possible, provided it complies with regulations and does not effect consumer safety. Furthermore, the company participates in co-operative programmes to research and promote non-animal tests.

Anadarko Petroleum Corp – AGM – 12/05/2005

A shareholder proposed resolution requested the company to report, bi-annually, on its political contributions. It was requested that the report detail information on the amount of each contribution, identification of the person(s) in the company who participated in making the decision and the rationale for each contribution. Newton voted against this resolution due to the company's established disclosures and policies on this matter.

Bangkok Bank PCL – AGM – 12/04/2005

Newton voted against the company's request to issue and allocate, at its own discretion, various types of securities. It was felt that, without the company providing any rationale, a potential dilution to existing shareholders of c.55% was excessive.

Newton also voted against a resolution that sought approval of "Other Business". The unknown content of this resolution suggests that it is foolhardy to proffer support.

Bank of the Philippine Islands – AGM – 07/04/2005

The company failed to provide any detail surrounding its annual bonuses to directors. Despite being directly contacted on this point, the company declined to offer further information. Given the lack of information and an unwillingness to disclose the required information, Newton voted against the resolution seeking approval of directors' annual bonuses.

Newton also voted against a resolution entitled "Other Business". This was a request to allow the board and shareholders to raise other issues at the AGM. While such requests are often routine in certain jurisdictions, there is a possibility that certain items may be raised and approved under this resolution, which may not be in shareholders' best interests. Until further information and assurances can be provided, Newton will continue to vote against resolutions seeking approval of "other business".

BCE Inc – AGM – 25/05/2005

Newton voted against all four of the shareholder proposed resolutions at the company's AGM.

The first of these resolutions sought to prohibit the company's auditor from providing non-audit work. By approving the resolution, the company's auditor would not be allowed to carry-out audit related and tax services. It is often the case that a company's auditor is best placed to conduct such work due to its knowledge of a company's operations.

Two resolutions requested the company impose term limits on non-executive directors to ten years and to introduce cumulative voting when directors are seeking election or re-election to the board. Given the company's well-structured board and its commitment to refresh board membership, Newton felt it inappropriate to support such restrictive resolutions.

The final shareholder proposed resolution wanted the company to replace all of its Executive Share Option Plan with a restricted share plan. Newton felt that it should be at the remuneration committee's discretion to make incentive awards under its share option plan or restricted share plan. It should be noted that, under both of these incentive structures, the achievement of pre-determined performance conditions govern vesting of awards and that the company has introduced minimum shareholding requirements for its senior executive directors.

Bellsouth Corp – AGM – 25/04/2005

A shareholder proposal requested the company to report, bi-annually, on its political contributions. It was requested that the report detail information on the amount of each contribution, identification of the person(s) in the company who participated in making the decision and the rationale for each contribution. Newton voted against this resolution due to the company's established disclosures and policies on this matter.

Bristol-Myers Squibb Co – AGM – 03/05/2005

A shareholder proposed resolution requested the company to provide a report on its political contributions. If approved, the resolution would require a report covering direct and indirect contributions made over the previous year and be published in various newspapers within five days of gaining approval at the AGM. Given the short time frame, the costs associated with the publication and the questionable additional usefulness of the information, Newton voted against the resolution. The company currently discloses sufficient information on its website.

A further resolution that Newton voted against was a shareholder request for a report on the strategic and operational impact of the rising cases of HIV/AIDS, TB and Malaria. Newton considered that the company had taken certain steps to address these issues, especially within emerging markets, and to report to its shareholders.

A shareholder proposed resolution requested the company to eliminate the use of animals in the testing of its products. The company discloses its policy on animal testing and complies with applicable regulations. It should be understood that, in some cases, alternative methods of product testing may not be feasible or could fail to meet criteria established by government. Newton did not support this shareholder request.

Bunge Ltd – AGM – 27/05/2005

Newton voted against three resolutions, which sought to amend certain by-laws and act upon the new constitution. If passed, shareholders rights would be significantly reduced during the process of electing directors to the company's board.The election of directors is a very important right of shareholders.

Carnival Corp – AGM – 13/04/2005
Newton voted against a total of eight resolutions at the company's AGM. Six non-executive directors, seeking re-election to the board, were voted against. Newton felt that their independence was compromised due to their receipt of share option awards. Three of these non-executive directors were members of the audit committee, two were members of the remuneration committee and one was a member of the audit and remuneration committee.

The two further resolutions that Newton voted against sought approval of the company's remuneration report and amendments to the share plan intended to incentivise non-executive directors. With regard to the remuneration report, Newton did not feel that any of the performance conditions governing vesting of long-term incentive awards were particularly challenging, especially given the potentially substantial level of awards. Indeed, the company's "Stock Plan" provides substantial awards to executives (between 2x salary – 9.2 x salary last year) with no performance conditions attached to vesting. Also, annual bonus potential is undefined. On the share plan for non-executives, Newton is not comfortable with non-executive directors, especially those who were members of the remuneration committee, being awarded share options.

Casino Guichard-Perrachon & Cie – AGM – 26/05/2005
A total of twelve resolutions were proposed that related to the restructuring of the company's capital. If shareholders' authorisation was received for five of these resolutions, the company would be able to issue shares, or convertible securities, that could dilute existing shareholders by up to 90%. The company failed to provide an adequate explanation for the need to issue such a large amount of shares without first providing pre-emptive rights to existing shareholders. Newton voted against these five resolutions and also against the resolution seeking approval of the special auditor's report regarding related part transactions. This report was not made available to shareholders prior to the meeting. Therefore, Newton could not assess the appropriateness of the report. Similarly, the company failed to provide the details of its proposed restricted share plan, which it was seeking to use in order to make additional share-based incentive awards.

Newton considered that approval of these resolutions could have a significant negative impact on shareholder value. Despite being restricted from trading in the company's shares due to exercising voting rights, (blocking), Newton voted against the resolutions described above.

Cathay Financial Holding Co Ltd – AGM – 03/06/2005
Newton voted against the resolution item that sought shareholder approval to make amendments to the company's articles of association. No information was disclosed relating to the proposed changes. Newton also voted against a resolution entitled "other business". This would allow the board and shareholders to raise other issues at the AGM. While such requests are routine in certain jurisdictions, there is a possibility that certain items may be raised and approved under this resolution, which may not be in shareholders' best interests.

Cendant Corp – AGM – 26/04/2005
Newton did not support the re-election to the board of three members of the company's compensation committee. The company had recently settled a lawsuit that alleged the members of the board of directors were in violation of their fiduciary responsibilities by approving the terms of the CEO's employment. Newton felt that the remuneration structure for the CEO was significantly flawed in that it offered excessive rewards for less than mediocre performance. A further resolution, which Newton voted against, sought approval of share option awards to non-executive directors. Newton considers that non-executives' independence is hindered if they are awarded share options. This is especially true when the non-executive directors actually propose and administer the awards by way of their role on the compensation committee.

Finally, a shareholder resolution requested the CEO's compensation arrangements be capped and specific performance targets be imposed before payments are made. Although sympathising with the spirit of the resolution, Newton felt that the proposal was unduly restrictive. Newton voted against this shareholder proposal.

Chevron Texaco Corp – AGM – 27/04/2005
A shareholder proposed resolution sought to introduce a remuneration parameter, which would mean that at least 50% of the remuneration of each board member be in the form of restricted shares. Newton felt that the compensation committee should have discretion over the mix of share based incentive awards offered to its executive directors and voted against the resolution.

A shareholder proposed resolution requested the company to eliminate the use of animals in the testing of its products. The company discloses its policy on animal testing and complies with applicable regulations. It should be understood that, in some cases, alternative methods of product testing may not be feasible or could fail to meet criteria established by government. Newton did not support this shareholder request.

Citigroup Inc – AGM – 19/04/2005
A total of three shareholder proposed resolutions, seeking to limit or prohibit executive compensation, were voted against. It was felt that the proposed restrictions would act as a disincentive for the company's executives. Newton voted against these three proposed resolutions.

A shareholder proposed resolution requested the company to report, bi-annually, on its political contributions. It was requested that the report detail information on the amount of each contribution, identification of the person(s) in the company who participated in making the decision and the rationale for each contribution. Newton voted against this resolution due to the company's established disclosures and policies on this matter.

Colgate-Palmolive Co – AGM – 04/05/2005
Newton voted against the resolution seeking approval of a share option plan. The intended recipients were non-executive directors. Newton considers the issuance of incentive shares to non-executive directors to be inappropriate. A further resolution was voted against. This was a shareholder proposal that sought to limit executive compensation. Despite the resolution including sound recommendations on the disclosure of share-based incentive arrangements and the expensing of share options, Newton felt that a proposed cap on executive compensation would be unduly restrictive and could put the company at a competitive disadvantage.

Companhia Vale Do Rio Doce – AGM – 27/04/2005
A resolution was proposed that sought approval of directors' remuneration. However, no details of remuneration levels or structures were disclosed. Therefore, Newton voted against this resolution.

ConocoPhillips Co – AGM – 05/05/2005
Votes were cast against a shareholder proposal that sought to limit and restructure executive compensation. Newton considered the proposed introduction of additional performance based criteria as positive. However, Newton felt that imposing an arbitrary cap may not promote a correlation between executive compensation and company performance. Also, the company may have difficulty motivating and attracting senior management.

CVS Corp – AGM – 12/05/2005
Newton voted against a shareholder proposed resolution that sought to limit executive remuneration. It was felt that the proposal would not provide enough flexibility to the compensation committee in tailoring its remuneration policy and could have subsequent negative effects on attempts to recruit, attract or motivate senior executives.

Deutsche Boerse AG – AGM – 25 May 2005
A shareholder resolution sought the dismissal of the company's chairman. Newton felt that the call for the chairman's dismissal was driven by investors with short-term investment horizons. Additionally, the proposed replacement for the incumbent chairman was closely linked to the shareholders who proposed this resolution. Newton felt that the proponents were not acting in the best interests of the long-term shareholders of the company or in the best interests of the company. Management is aware of how disappointed shareholders have been over the actions of the chairman. However, Newton trusts that the board will be able to deal with the issue in a sensible manner to the benefit of long-term shareholders.

A further three resolutions were voted against. The company sought shareholders approval for an issuance of shares that would equate to 31% of its share capital. However, the issuance would not necessarily be made to existing shareholders. Newton felt that the proposed level of dilution to existing shareholders was excessive. Little reassurance was given over the intended use of the issuance. Newton was also concerned over a proposal that would provide performance-based remuneration to non-executive directors. Newton felt that the independence of the non-executive directors would be compromised by this method of reward. Further concern related to the company's proposal to revert to a staggered method of re-electing board members. Newton thought that his was a step back from the annual re-election process that was already in place.

Eli Lilly and Co – AGM – 18/04/2005
Certain shareholders submitted a proposal requesting the company to adopt a policy of limiting the supply of drugs to foreign markets in order to suppress the levels of drug re-importation to the US. Newton considers the pricing and distribution of a company's products to be at the discretion of a company's management, albeit within the confines of appropriate legislation. Newton voted against this shareholder proposal.

A shareholder proposed resolution requested the company to report, bi-annually, on its political contributions. It was requested that the report detail information on the amount of each contribution, identification of the person(s) in the company who participated in making the decision and the rationale for each contribution. Newton voted against this resolution due to the company's established disclosures and policies on this matter.

A shareholder proposed resolution requested the company to eliminate the use of animals in the testing of its products. The company discloses its policy on animal testing and complies with applicable regulations. It should be understood that, in some cases, alternative methods of product testing may not be feasible or could fail to meet criteria established by government. Newton did not support this shareholder request.

Erste Bank Der Oester Spark – AGM – 11/05/2005
Votes were instructed against the approval of a new share option plan, which was designed to reward key employees. This decision was taken due to the company's failure to disclose any of the underlying detail of the proposal.

First Data Corp – AGM – 11/05/2005
A shareholder submitted a resolution requesting that the board disclose information on job losses and the re-location of US based jobs to foreign markets. It was requested that the report cover the last five years, include information on the decision process, detail the numbers and types of jobs displaced, the cost savings made, the impact on corporate constituents and effects on executive salaries. Newton felt that the limited usefulness of such a detailed report would not be commensurate with the cost of producing it. Newton voted against this proposal.

A further resolution, proposed by shareholders, was voted against. This requested that directors should not be exempt from personal liability for monetary damages for grossly negligent conduct in the performance of their fiduciary duties. Newton considered that the laws imposed on companies domiciled in Delaware offered sufficient protection to shareholders in the event of misconduct allegations.

Freeport McMoran Copper & Gold Inc – AGM – 05/05/2005
Several shareholders proposed a resolution requesting the company to review its policy concerning payments to the Indonesian military and security forces. The company discloses information on its human rights policies and security operations in Indonesia and is monitoring its compliance with these policies through an external audit. The company states that it only provides payment to the military and police according to its own written guidelines and procedures. Historically, the company has supported and co-operated with investigations into human rights concerns by the FBI and Indonesian government. Newton voted against the shareholder proposed resolution.

General Electric – AGM – 27/04/2005
A total of four resolutions were voted against. All were proposed by shareholders.

It was requested that the company provide for cumulative voting when shareholders are approving the election of directors. Cumulative voting, for a group of related resolutions, allows the individual shareholder to group their voting rights behind one or more of the related resolutions. The company's board structure is commensurate with good corporate governance in that its members are elected annually, a majority are independent non-executive directors and the members of the corporate governance committee are all independent. Also, the board may not make certain changes to its structure without first gaining shareholder approval. Given the company's commitment to good board practices and the risks associated with cumulative voting practices, Newton did not feel that this shareholder resolution warranted approval.

A further resolution requested the company to report on the risks associated with the storage of irradiated fuel rods at the company's facilities. General Electric does not operate any nuclear power stations but it does provide a spent fuel storage depository. However, in 2002 the NRC issued tighter security regulations for the storage of nuclear waste. Given that the industry is heavily regulated and that the company does not operate any nuclear fuel power stations, Newton voted against the proposal.

Newton voted against a shareholder proposed resolution that requested the company to provide a bi-annual report on its political donations. This report should disclose information relating to the amount, the business rationale and identification of the person(s) who participated in making the decision to contribute or donate. Newton felt that the requested report, which would contain a high level of disclosure, would not provide meaningful information to shareholders or be a useful employment of shareholders funds. In addition, the company's has an established policy on political donations, which is publicly available.

A shareholder proposed resolution requested the company to eliminate the use of animals in the testing of its products. The company discloses its policy on animal testing and complies with applicable regulations. It should be understood that, in some cases, alternative methods of product testing may not be feasible or could fail to meet criteria established by government. Newton did not support this shareholder request.

Gilead Sciences Inc – AGM – 10/05/2005
Newton voted against a resolution that sought to make additional shares available for grant under the company's omnibus stock option plan. Performance conditions, governing the vesting of share awards, had not been fully established. Also, non-executive directors may receive share awards under the proposal. Lastly, the potential dilution to exiting shareholders was felt to be excessive.

Great Quest Metals Ltd – AGM – 02/06/2005
The operation of the company's share option plan would permit the discretionary inclusion of non-executive directors. Given that share option awards would be approved by the company's non-executive directors, Newton did not support the resolution seeking approval of the share option plan. Newton also voted against a request by the company for it to have unlimited authorised share capital. Generally, Newton is against the use of anti-takeover mechanisms.

Newton voted against a resolution entitled "Other Business". This was a request to allow the board and shareholders to raise other issues at the AGM. While such requests are often routine in certain jurisdictions, there is a possibility that certain items may be raised and approved under this resolution, which may not be in shareholders' best interests.

HCA Inc – AGM – 26/05/2005
The company sought approval of a new share option plan. Newton was concerned with various elements of the plan, which included awards being made to non-executive directors, dilution to existing shareholders of c.14%, the optional use of performance conditions and an ability to accelerate vesting at the compensation committees discretion. Newton voted against this resolution.

Honeywell International Inc – AGM – 25/04/2005
Newton voted against a shareholder resolution that requested the company provide a report on pay disparity between the company's executives and its lowest paid workers. The period to cover would be 10 years, starting from 1995, and should include rationale for and analysis of movements in the pay gap over the period. Newton did not feel that such a report would provide useful or meaningful information to shareholders.

Hutchison Whampoa Ltd – EGM – 19/05/2005
A single resolution was proposed at the company's EGM. This sought approval of a share option scheme for one of the company's subsidiaries. Newton had a number of concerns relating to the structure of the proposal. First, non-executive directors would be recipients of share options. Secondly, the full board, including executive directors, would administer the share option scheme. Thirdly, options would vest irrespective of the performance of the company. Fourthly, dilution limits of 10% for the scheme, together with an overall dilution of 30% for all share-based incentive arrangements, was felt to be excessive. Newton voted against the resolution seeking approval of the share option scheme.

International Business Machines Corp – AGM – 26/04/2005
Newton voted against one of the resolutions proposed by shareholders of the company. If passed, the resolution would require the company to establish an independent committee to evaluate and report to shareholders on the risks to IBM's brand name as a result of outsourcing jobs to off-shore locations. Newton believes that outsourcing to overseas markets is a decision that should be taken by management. Newton is confident that the company is dedicated to reducing its costs whilst maintaining its reputation and, therefore, increasing shareholder value.

International Paper Co – AGM – 10/05/2005
Newton felt that the shareholder proposed resolution, seeking to limit executive compensation to 100 times that of the lowest paid worker, would not be constructive in promoting a correlation between executive compensation and company performance. It was felt that the proposed arbitrary cap would not provide enough flexibility to the compensation committee in tailoring its remuneration policy. Newton voted against the shareholder resolution seeking to limit executive remuneration.

JPMorgan Chase & Co – AGM – 17/05/2005
Newton voted against the company's proposal to increase the shares available under its long-term incentive arrangements. Newton felt that the proposed dilution to existing shareholders of 20.5% was excessive. In addition, performance conditions, governing vesting of awards, had not been established and non-executive directors would participate in the scheme.

A vote against was cast in relation to a shareholder proposed resolution that sought to fix a maximum wage ceiling for senior employees. It was also requested that the board consider reducing the CEO's compensation in the event of any unusual reduction in the company's workforce resulting from outsourcing or other factors. Newton felt that, by setting such arbitrary limits, the company could have difficulty in retaining, attracting and motivating its senior employees.

A separate shareholder proposed resolution requested the company to limit the tenure of non-executive directors to ten years. Newton voted against this resolution. It was felt that imposing such a limit would be too restrictive on the company. Newton prefers all members of the remuneration and audit committees to be independent. However, when evaluating corporate strategy, companies can enjoy the value of experience, at little cost, through the continued tenure of non-independent non-executive directors.

Lehman Brothers Holdings Inc – AGM – 05/04/2005
Newton voted against two resolutions. The first sought approval of a share-based incentive plan and the other resolution, proposed by a shareholder, sought to limit executive compensation.

Newton's concerns over the proposed share-based incentive plan centred on the potentially massive dilution to existing shareholders of up to 39.4%. In addition, non-executive directors would receive awards and vesting of awards would be entirely at the discretion of the administrators of the plan, who would themselves be in receipt of share options.

Newton felt that the shareholder proposed resolution, seeking to limit executive compensation to 100 times that of the lowest paid worker, would not be constructive in promoting a correlation between executive compensation and company performance. The proposed arbitrary cap would not provide enough flexibility to the compensation committee in tailoring its remuneration policy.

Lockheed Martin Corp – AGM – 28/04/2005
Two of the three shareholder proposed resolutions that Newton voted against concerned the operation of the company's remuneration practices. These resolutions sought to prohibit the award of share options and to limit executive compensation to 100 times that of the lowest paid worker. Newton felt that these restrictions would not offer the flexibility required by the company in order to attract, retain and motivate key executives. The other shareholder proposed resolution that Newton voted against requested the company to review its conduct and policies related to the bidding on military-based contracts. It was felt that the company's existing disclosure of such matters addressed many of the proponents concerns without divulging commercially sensitive information.

Lowe's Companies Inc – AGM – 27/05/2005
Newton voted against the resolution seeking to amend the Directors' Stock Option Plan. This was due to all the proposed recipients being non-executive directors. Newton believes that awarding share options to non-executive directors hinders their ability to make sound independent judgements.

Merck & Co Inc – AGM – 26/04/2005
Two resolutions proposed by the company's shareholders, seeking to limit or prohibit executive compensation, were voted against. It was felt that the proposed restrictions would disincentivise the company's executives and appeared as an attempt to unnecessarily interfere with the detail of the compensation committee's remuneration policy.

A shareholder proposed resolution requested the company to eliminate the use of animals in the testing of its products. The company discloses its policy on animal testing and complies with applicable regulations. It should be understood that, in some cases, alternative methods of product testing may not be feasible or could fail to meet criteria established by government. Newton did not support this shareholder request. The company has funded research on non-animal tests and been recognised for its stewardship in this area.

Newton voted against a shareholder proposed resolution that requested the company to provide a bi-annual report on its political donations. This report should disclose information relating to the amount, the business rationale and identification of the person(s) who participated in making the decision to contribute or donate. Newton felt that the requested report, which would contain a high level of disclosure, would not provide meaningful information to shareholders or be a useful employment of shareholders funds. In addition, the company's has an established policy on political donations, which is publicly available.

The final resolution that Newton voted against was a shareholder request for a report on the strategic and operational impact of the rising cases of HIV/AIDS, TB and Malaria. Newton considered that the company had taken certain steps to address these issues, especially within emerging markets and, also, to report on its progress
and policies.

Merrill Lynch & Co Inc – AGM – 22/04/2005
A vote against was cast in relation to a shareholder proposed resolution that sought to fix a maximum wage ceiling for senior employees. It was also requested that consideration be given to reducing the CEO's compensation in the event of any unusual reduction in the company's workforce resulting from outsourcing or other factors. Newton felt that by setting such arbitrary limits the company could have difficulty in retaining, attracting and motivating its senior employees. Furthermore, the creation of shareholder value, by way a sustainable reduction in costs, was to be encouraged.

Monster Worldwide Inc – AGM – 16/06/2005
The company proposed a resolution to amend its 1998 Long-Term Incentive Plan. It was proposed that non-executive directors receive an award of share options on their appointment to the board, together with subsequent annual grants. Newton considers that it is not appropriate for non-executive directors to receive remuneration that is subject to a company's performance. It is felt that this could impede upon their independence and their ability to exercise this within their role as guardians of shareholders assets.

Motorola Inc – AGM – 02/05/2005
Newton voted against a shareholder proposed resolution that sought to limit executive compensation. It was felt that in approving such a resolution it would put the company at a competitive disadvantage when attempting to attract, retain or motivate senior executives.

Nabors Industries Ltd – AGM – 07/06/2005
Newton believes non-executive directors, who are deemed to be independent, may not be able to fully exercise their independence if their remuneration is subject to the company's performance. Therefore, Newton voted against the resolution that sought to amend the 2003 Employee Stock Plan to make non-executive directors eligible for participation in the scheme.

News Corp – EGM – 30/06/2005
At its EGM, the company proposed one resolution, which sought approval of a new share option plan. Newton felt that it was unable to support such a resolution given that participants in the plan would include non-executive directors, award levels could be excessively high at $25m or 3m shares and performance conditions were not established. Newton voted against the new share option plan.

Norsk Hydro ASA – AGM – 03/05/2005
The company received a request, by way of a shareholder proposed resolution, to increase its expenditure on research and development from 0.5% to 2% of turnover. Newton believes that the setting of budgets is a strategic decision that should be taken by management who are best placed to make informed decisions of this nature. Newton voted against this shareholder proposed resolution.

Nortel Networks Corp – AGM – 29/06/2005
Of the eleven shareholder proposed resolutions at the company's AGM, Newton felt that five of them did not warrant shareholder approval.

Two separate resolutions were connected to the election of directors. It was requested that company provide 25% more nominees for election to the board than there are places available. It was also requested that company allow shareholders, who are in attendance at the AGM, to elect two additional directors to those proposed by the nomination committee. The proponents felt that shareholders should be provided with a selection of candidates rather than having the current "rubber stamping" process. Newton did not agree with the proponents. Nortel's policy for a nominee to be elected is that they must receive support from two-thirds of the votes cast. In addition, it would be costly for the company and undermine the nomination committee's recommendations if the suggested procedure were to be adopted. Finally, shareholders voting via proxy might not be made aware of the proposed nominees prior to the date of the meeting.

Shareholder support was sought for a resolution that, if passed, would require economy class tickets to be purchased for all business travel. Newton considered that the travel policy was the company's decision. Currently, any travel under six hours in duration must be in economy class.

Various allegations have been made that excessive shareholder value had been destroyed as a result of mis-management of the company's assets. This led to a shareholder proposal that the company roll-back the salary levels of all senior executives to those of January 1998. Newton felt this would be counter-productive to the company's ability to carry the business forward by attracting and motivating new senior executives.
It should be noted that the executives who were deemed responsible for the mis-statement of the financial accounts have had their employment terminated.

The final shareholder resolution that Newton voted against requested the company provide a letter to regulatory agencies, OSC and SEC. This letter would include information that the agencies should have sought from the company in order to protect the value of shareholders funds. The company stated that it is co-operating with the relevant regulatory agencies. In addition, Newton agrees with the company's argument that it is would be inappropriate for the company advise the regulatory agencies on how they should be conducting investigations.

Northern Star Mining Corp – AGM – 15/06/2005
Newton voted against two remuneration-related resolutions. The first sought shareholder approval of amendments to the company's share option plan. Newton felt that the inclusion of non-executive directors, as participants in the plan, was not appropriate. Also, there was concern over the potential dilution to existing shareholders. The company sought to move away from the traditional 10% dilution limit and incorporate a rolling10% dilution limit. Therefore, potential dilution could be very high if awarded share options vest at a rapid rate.

Newton voted against a resolution entitled "Other Business". This was a request to allow the board and shareholders to raise other issues at the AGM. While such requests are often routine in certain jurisdictions, there is a possibility that certain items may be raised and approved under this resolution, which may not be in shareholders' best interests.

Parkway Holdings Ltd – AGM – 06/04/2005
The company sought approval of the issuance of shares for use in its share option plan. Newton felt that it was inappropriate for existing shareholders to be diluted by up to 15% and for full vesting of share option awards after just one year. This resolution was voted against.

Newton also voted against a resolution that sought approval of "Other Business". The unknown content of this resolution meant that Newton had to exercise a level of prudence by voting against its approval. It cannot be expect that shareholders will blindly approve such resolutions.

Pepsico Inc – AGM – 04/05/2005
A shareholder proposed resolution requested the company to provide a report on its political contributions. If approved, the resolution would require a report covering direct and indirect contributions made over the previous year and be published in various newspapers within five days of gaining approval at the AGM. Given the short time frame, the costs associated with the publication and the questionable additional usefulness of the information, Newton voted against the resolution. The company currently discloses sufficient information on its website.

Pfizer Inc – AGM – 28/04/2005
In line with management recommendations, Newton voted against a shareholder resolution that sought to limit non-executive directors' terms of office to six years. It was felt that this request would be too restrictive on the company. In addition, shareholders are able to express their approval, or otherwise, of the individual board members given that they all seek re-election annually.

A Pfizer shareholder submitted a resolution requesting a report from the company relating to the measures it takes to keep price increases on its most prescribed drugs below the annual rate of inflation. The shareholder disputes the company's claim that price increases of its main prescribed drugs have been below the inflation rate in the US. Pfizer has implemented several programmes to assist accessibility to its drugs. The company's website provides information on discounts, subsidies and assistance programmes relating to this matter. Newton voted against this shareholder proposed resolution.

Certain shareholders submitted a proposal requesting the company to adopt a policy to not constrain prescription drug re-importation by limiting the supply of drugs in foreign markets. Newton considers the pricing and distribution of a company's products to be at the discretion of a company's management, albeit within the confines of appropriate legislation. Newton voted against this shareholder proposal.

Newton voted against a shareholder proposed resolution that requested the company to provide a bi-annual report on its political donations. This report should disclose information relating to the amount, the business rationale and identification of the person(s) who participated in making the decision to contribute or donate. Newton felt that the requested report, which would contain a high level of disclosure, would not provide meaningful information to shareholders or be a useful employment of shareholders funds. In addition, the company has an established policy on political donations, which is publicly available.

Reynolds American Inc – AGM – 06/05/2005
Three resolutions proposed by shareholders requested the company to phase out the sale of conventional cigarettes, adopt a policy on internet advertising and apply fire safety standards. Newton felt that each of these requests would be best addressed and imposed through the regulation of the tobacco industry as a whole. It would be unfair to disadvantage Reynolds over other tobacco manufacturers by approving such requests. Votes were cast against all three of the shareholder proposed resolutions.

Royal Dutch Petroleum Co – AGM – 28/06/2005
Unusually, Newton split its clients' voting rights for the AGM of Royal Dutch Petroleum. For certain clients of Newton, with Capital Gains Tax liabilities, votes were instructed against a resolution seeking unification of the shares of Royal Dutch Petroleum and Shell. The voting rights of all Newton's other clients' were voted in favour of the resolution. Generally, Newton was in favour of the proposed share unification. However, under Dutch law the only way that the proposed unification may occur is through, effectively, a sale of Royal Dutch shares and a purchase of Shell shares. Under Dutch and US law, in this situation, holders are not subject to any tax liabilities. UK law takes a different view and recognises the unification as a realisation of profits and, therefore, creates CGT liabilities. If the unified shares were taken up by less than 95% of shareholders, the company would be required to create a share stub. This stub would allow shareholders with potential CGT liabilities to avoid having to realise investments and incur tax liabilities at the point of unification.

Sistema – EGM – 29/04/2005
The company proposed to amend the regulations relating to the indemnification of its board members so that they would not be held liable for their obligations. It is Newton's opinion that directors and officers should only be eligible for indemnification and liability protection if they have been found to have acted in good faith as a representative of the company and are innocent of any civil or criminal charges made. The proposed changes did not address this issue. Therefore, Newton did not approve the resolution.

Telekom Malaysia Berhad – EGM – 17/05/2005
Newton voted against two resolutions that related to proposed changes and awards under the company's share option scheme. Concerns centred around the lack of disclosure as to the remuneration committee's members and policy, no performance conditions would govern the vesting of share option awards and awards could be made at a discount to the share price.

Time Warner Inc – AGM – 20/05/2005
Newton voted against a shareholder resolution that requested the company to provide a report on pay disparity between the company's executives and its lowest paid workers. The period to cover would be 10 years, starting from 1995, and should include rationale and analysis of movements in the pay gap over this period. Newton did not feel that such a report would provide useful or meaningful information.

Toreador Resources Corp – AGM – 19/05/2005
Votes were cast against the re-election to the board of three non-executive directors. Each appointee had strong business relationships with the company, which, in Newton's opinion, would hinder their ability to exercise independent judgements as non-executive directors. Two were vice presidents at the company and the other was co-founder and president of an acquired business. These appointments were particularly contentious given that each appointee was proposed as either a member of the Audit committee or the compensation committee, or both.

Tyhee Development Corp – EGM – 28/04/2005
Newton voted against the company's proposal to limitlessly increase its authorised share capital. Despite this being in line with the updated British Columbia Business Corporations Act, Newton felt that this reduction in shareholders rights could, if abused, have a significant negative effect on shareholder value.

The second resolution sought shareholder approval to adopt the company's new articles of association. However, the company failed to disclose the detail of its new articles. Therefore, Newton voted against this resolution.

United Technologies Corp – AGM – 13/04/2005
A shareholder proposed resolution, that Newton voted against, requested the company to review its conduct and policies relating to the bidding on military-based contracts. Newton felt that the company's disclosure of such matters addressed many of the proponents concerns without divulging commercially sensitive information.

Two further resolutions, proposed by shareholders, were voted against. These sought to limit or prohibit executive compensation. It was felt that the proposed restrictions were an attempt to micro-manage the compensation committee's remuneration policy and could disincentivise the company's executives. Newton voted against these two proposed resolutions.

UTStarcom Inc – AGM – 13/05/2005
The company proposed a new remuneration policy. This would, if approved by shareholders, provide substantial awards of share options to non-executive directors. In addition, dilution to existing shareholders would be increased to over 17%. Newton considers a routine award of share-based incentives to non-executive directors, who should demonstrate their independence, as inappropriate. Newton also considers 17% dilution as excessive. Votes were cast against the resolution seeking approval of the 2005 Equity Incentive Plan.

VeriSign Inc – AGM – 26/05/2005
Newton, generally, does not support the award of share-based incentives to non-executive directors. Newton voted against a resolution seeking approval of amendments to the non-executive share option plan. In addition, Newton was uncomfortable with potential dilution to existing shareholders of 27%.

Wal-Mart Stores Inc – AGM – 03/06/2005
A shareholder proposal requested the company to report, bi-annually, on its political contributions. It was requested that the company report detailed information on the amount of each contribution, identification of the person(s) in the company who participated in making the decision and the rationale for each contribution. Newton voted against this resolution due to the company's established disclosures and policies on this matter.

Wells Fargo & Co – AGM – 26/04/2005
Newton voted against the re-election of a non-executive director, who was chairman of the remuneration committee. Given that he was a former director of the company and his son is employed by Wells Fargo, it was felt this hindered his ability to make unbiased and independent judgements.

Three further resolutions were also voted against. These were proposed by some of the company's shareholders. The resolutions sought to limit executive pay to 100 times that of the lowest paid worker, report on predatory lending practices and limit directors compensation for practicing predatory lending. If adopted the resolutions would limit the company's flexibility in providing services to clients and negatively effect shareholder value. Also, it may make it difficult for the company to remain competitive when seeking to attract or retain senior executives. Historically, the company has faced some controversies surrounding its lending practices. However, the company has, subsequently, established and issued detailed policies and processes aimed at eliminating predatory lending within the company's operations.

Woodside Petroleum Ltd – AGM – 19/04/2005
A new executive incentive plan was put to shareholders for approval. Newton was encouraged to see the inclusion of performance targets that would govern the vesting of awards. However, Newton voted against the new incentive plan due to the facility to re-test the undisclosed performance conditions, should they not be achieved after the initial vesting period.

Wyeth Ltd – AGM – 21/04/2005
Newton voted against a shareholder proposed resolution that requested the company to provide a bi-annual report on its political donations. This report should disclose information relating to the amount, the business rationale and identification of the person(s) who participated in making the decision to contribute or donate. Newton felt that the requested report, which would contain a high level of disclosure, would not provide meaningful information to shareholders or be a useful employment of shareholders funds. In addition, the company's has an established policy on political donations, which is publicly available.

A further shareholder proposed resolution, which Newton voted against, included two separate requests. These were for the company to cease promotion of Premarin, and its related products, and to report on policies relating to the horses used for the collection of Pregnant Mare Urine (PMU). The company does not disclose significant information relating to the welfare of the animals used in its operations. However, the company has implemented certain initiatives to help address the concerns over the welfare of horses involved in the collection of PMU. In relation to the request to cease promotion of Premarin and related products, the company has taken appropriate steps to disclose the associated risks, which accords with the applicable regulations. Newton voted against this shareholder proposed resolution.

Yahoo Inc – AGM – 19/05/2005
Newton believes that it is inappropriate to award share options to non-executive directors, especially when the non-executive director is deemed to be independent. Given this, Newton voted against the proposed amendments to the non-executive director share option plan. Votes were also cast against three members of the compensation committee, who were seeking re-election to the board.

Zyxel Communications Corp – AGM – 03/06/2005
The company sought shareholder approval of amendments to its articles of association. The company failed to provide any details as to the nature of the proposed amendments. Therefore, Newton voted against the proposal.

Newton also voted against a resolution that sought approval of "Other Business". The unknown content of this resolution meant that Newton had to exercise a level of prudence by voting against its approval. It cannot be expect that shareholders will blindly approve such resolutions.

Other Business

Newton routinely votes against resolutions entitled "Other Business". These were requests to allow the board and shareholders to raise other issues at a company's AGM. While such requests are often routine in certain jurisdictions, there is a possibility that certain items may be raised and approved under this resolution, which may not be in shareholders' best interests.

Until further information and assurances can be provided, Newton will continue to exercise a level of prudence and vote against resolutions seeking approval of "Other Business".

The following is a list of companies where the only resolution that Newton voted against was seeking approval of "Other Business".

Accton Technology Corp – AGM – 13/06/2005	Inco Ltd – AGM – 20/04/2005
Bangkok Expressway PCL – AGM – 07/04/2005	Kasikorn Bank PCL – AGM – 08/04/2005
Bank of Ayudhya PCL – AGM – 21/04/2005	Land & Houses PCL – AGM – 19/04/2005
Chunghwa Telecom Co Ltd – AGM – 21/06/2005	Merrill Lynch Offshore Sterling Trust-Pacific Fund – EGM – 19/04/2005
Datang International Power Generation Co Ltd – AGM – 12/06/2005	Petrochina Co Ltd – AGM – 26/05/2005
Fubon Financial Holdings Co – AGM – 03/06/2005	PTT PCL – AGM – 12/04/2005
Hainan Meilan International Airport Co Ltd – AGM – 10/05/2005 (two resolutions)	Siam Commercial Bank PCL– AGM – 05/04/2005
High Tech Computer Corp – AGM – 13/06/2005	

Japan

The last week in June is the period when a majority of Japanese companies hold their AGMs. This is why Japanese companies have a dedicated section in this report. During this year's season, Newton often voted against the following three resolutions. These can be referenced to the list of companies shown at the end of the section.

(1) Appoint internal statutory auditor
The Japanese Commercial Code requires at least half of the internal auditors on a company's board to be independent. However, many of the proposed appointees to these independent roles would, outside Japan, be considered as affiliated to the company. Despite operating to the letter of the Commercial Code, some Japanese companies fail to appreciate its spirit. Nominees were affiliated by virtue of their connection to a company's bankers, legal advisors, brokers, major shareholders or are close relatives of company employees. Where such nominees were proposed, Newton voted against their election.

(2) Approve retirement bonuses
Shareholders are frequently asked to approve retirement bonuses for retiring directors. In a number of cases, the intended recipients include non-executive directors and independent internal auditors. Newton feels that non-executive board members, especially those that the company considers to be independent, should not be rewarded with retirement bonuses. Newton considers that the prospect of a retirement bonus would interfere with the independent oversight that these directors are expected to undertake. Newton voted against resolutions that proposed such retirement bonuses to its independent board members

(3) Increase authorised share capital
Newton voted against some resolutions that requested significant increases in a company's authorised share capital. Concerns centred on the intention of some companies to introduce anti-takeover mechanisms through this blanket authorisation. Japanese companies may issue authorised share capital without further shareholder approval and this may not necessarily be on a pre-emptive basis to existing shareholders. Where a company failed to provide adequate justification for substantially increasing its authorised share capital, Newton instructed a vote against the relevant resolution.

Key to resolutions Voted against	Company and meeting date
(2)	Alps Electric Co Ltd – AGM – 29/06/2005
(1)	CRC Solutions Corp – AGM – 21/06/2005
(1)	East Japan Railway Co Ltd– AGM – 23/06/2005
(2) (3)	Fuji Television Network – AGM – 29/06/2005
(1) (2)	Godo Steel Ltd – AGM – 29/06/2005
(1)	Hitachi Chemical Co Ltd– 28/06/2005
(2)	Japan Tobacco Inc- AGM – 24/06/2005
(1)	KDDI Corp – AGM – 24/06/2005
(1)	Kobayashi Pharmaceutical – AGM – 29/06/2005
(3)	Kuroda Electric Co – AGM – 29/06/2005
(1) (2)	Lawson – AGM – 27/05/2005
(2)	Mitsubishi Tokyo Financial Group – AGM – 29/06/2005

Key to resolutions Voted against	Company and meeting date
(2)	Nikon Corp – AGM – 29/06/2005
(2)	Nintendo Co. Ltd – AGM – 29/06/2005
(2)	Nippon Yusen – AGM – 28/02/2005
(1) (2)	NTT DoCoMo Inc – AGM – 21/06/2005
(3)	Ricoh Co – AGM – 28/06/2005
(2)	Rohm Co Ltd – AGM – 29/06/2005
(2)	Sanyo Electric Co. Ltd – AGM – 29/06/2005
(2)	Shin-Etsu Chemical Co Ltd– AGM – 29/06/2005
(1) (2)	Sumitomo Mitsui Financial Group Inc – AGM – 29/06/2005
(2)	Takeda Pharmaceutical Co Ltd – AGM – 29/06/2005
(1)	West Japan Railway Co – AGM – 23/06/2005

Tokyo Electric Power – AGM – 28/06/2005

Shareholders were asked to approve retirement bonuses for retiring directors. The intended recipients included non-executive directors and independent internal auditors. Newton feels that non-executive board members, especially those that the company considers to be independent, should not be rewarded with retirement bonuses. Newton considers that a promise of retirement bonuses would interfere with the independent oversight that these directors are expected to undertake. Newton voted against resolutions that proposed such retirement bonuses to its independent board members.

Certain shareholders requested the company to provide additional dividend payments in the hope that this would increase market capitalisation and deter a potential takeover of the company. The company's current dividend payout ratio is considerably higher than the average for Japanese companies. Newton voted against the shareholder resolution to increases the company's dividend.

A shareholder proposal requested that any holder of 300 or more shares, with voting rights, should be able to demand the appointment of an investigation committee into any "management problem, which might be detrimental to shareholders". This would be at the company's expense. The company has had a long history of opposition to its nuclear power-related activities by the proponents of the resolution, who control more than 300 voting rights. Given that the proposal could be abused to force the creation of costly and inappropriate investigation committees, Newton voted against the resolution.

Newton also voted against two further shareholder proposed resolutions. These concerned the company's operation of its Nuclear power generators. One resolution requested the shutdown of nuclear reactors built prior to 1978, and the instigation of an independent investigation before the local community gives the company the authority to restart the reactors. The other resolution sought an amendment, which would state that "nuclear generation facilities in which damages such as cracking and thinning have been confirmed shall not be operated without the local community's consent." These two resolutions stem from the shareholders attempt to restrict much needed power generation in Japan and also safety issues that the company experienced several years ago. The safety issues resulted in certain plants being closed. These were only then allowed to be re-opened once authority had been given by the local governments of the communities in which the plants were located. The shutdown of all pre-1978 reactors would be highly disruptive to the power supply in Japan. The company has assessed all its pre-1978 reactors and improved its investigation and guidelines associated to the continual inspection and maintenance of its nuclear operations. Newton voted against both of these shareholder proposed resolutions.

Examples of engagement – Corporate Governance Q2 2005

UK Media & Entertainment Company – April 2005
Contact: Chief Executive Officer

Newton was concerned that the company, having scheduled its AGM, had failed to publish its annual report and accounts with sufficient time to allow shareholders to make an informed decision on the proposed meeting resolutions. Newton had serious concerns over the company's internal controls. The company provided little by way of an explanation, other than it had been going through personnel changes. Subsequently, Newton sold its entire shareholding in the company.

Thai Bank – April 2005
Contact: Executive Vice President of Accounting

Clarification was sought of two resolutions that were raised at the company's AGM. Newton requested the details of the intended use of a potentially large issuance of shares, should shareholder approval be granted. The issuance could dilute existing shareholders' value by up to 55%. Also of concern was a resolution that was entitled "Other Business". Newton understood that the approval of "Other Business" is a routine request at Thai company AGMs. However, given that shareholders voting by way of proxy will not know the content of the resolution it may not be in our clients' best interests to support such a request. Newton sought comfort from the company that would enable shareholders, voting via proxy, to support both of these resolutions. The company stated that management would not intend to use the full issuance of shares that it requested. However, no explanation was provided as to the intended use of any of the requested issuance. The company also explained to Newton that it would not be able to delete "Other Business" from the meeting agenda. It was recommended that Newton either register an abstention or vote against the resolution item.

UK Support Services Company – April 2005
Contact: Corporate Broker

The company sought Newton's views on a press article that reported that shareholders were looking for immediate removal of the company's CEO. Historically, Newton had raised concerns over management issues at the company. However, with the recent introduction of a new finance director, Newton felt that immediate removal of the company's CEO would be inappropriate and likely to be negative for the share price. Newton restated its disappointment with the current CEO and asked for the board to be mindful of shareholders views on this matter.

UK Support Services Company – April 2005
Contact: Investor Relations

The company proposed to remove its long-term share options scheme and replace it with a deferred annual bonus arrangement. Newton was concerned that all long-term incentive awards would be driven by short-term performance. It was suggested to the company that this method of incentivisation could lead to a gap year when no or little bonus is paid and, therefore, no long-term incentive. The company stated that in such circumstances, the remuneration committee would be afforded a level of discretion in granting deferred shares. It was also stated that annual bonuses are not just awarded on overall company performance but also individual's personal objectives. Newton highlighted that the proposal could put pressure on the remuneration committee to award higher annual bonuses where, previously, it may not have done.

UK Electronic & Electrical Equipment Company – April 2005
Contacts: Chair of Remuneration Committee
Remuneration Consultant

The company proposed an additional incentive structure to aid the strategic turnaround of the business and take it to its next level of recovery. Encouragingly, performance conditions would be more challenging at the top end, than existing arrangements, and would be largely based around the company's ability to generate free cashflow. Newton was broadly supportive of the proposals. However, further clarification was required with regard to bonus payments. The letter sent to shareholders was somewhat misleading in that it stated that the additional proposed bonus would operate in the same way as the current bonus, where nothing will vest for below target performance. Newton raised a concern that, over the previous year, the company had made bonus awards for achieving a threshold level of performance, which was below the on-target performance level. Newton was assured that no vesting of special bonus awards would occur for below target performance. Newton requested that, going forward, the company provide information that would detail the performance conditions achieved in order for bonus payments to be made. To protect the commercial sensitivity of the information, Newton suggested that disclosure of historic information would be appropriate.

UK Telecommunications Company – April 2005
Contacts: Chair of Remuneration Committee
Remuneration Consultant

In a consultation with its major shareholders, the company proposed a new long-term incentive structure. The overall effect and intention of the proposal was to increase the earnings potential for senior executive directors if they achieve a significantly high level of performance. Newton sought comfort over the discretion afforded to the remuneration committee when it assesses improvements in the "underlying financial performance" of the company. This discretion would be used to underpin relative Total Shareholder Return performance. The company did provide some comfort and committed to detailing the rationale for any vesting, on a retrospective basis, within its remuneration report. However, of greater concern was the discretion provided to the remuneration committee to extend the assessment period of "improvements in achieving underlying financial performance" for a further year. Newton understood the company's argument for this discretionary re-testing. It did not want its executives making short-term decisions in order to enhance long-term incentives that are near their vesting dates. However, Newton suggested that they apply this methodology as a rule of the scheme rather than as an exception. The company also provided a chart illustrating the effects of the proposals on the current remuneration structure. The company agreed with Newton that the chart was misleading. Newton expects to be able to vote on the approval of the plan in a separate and binding resolution at its AGM in July 2005.

UK Support Services Company – April 2005
Contact: Company Secretary

Newton contacted the company in order to gain a better understanding of the circumstances surrounding the termination payments to the departed CEO. Unfortunately, following less than a year's employment, the CEO left the company. However, the employment contract, which had been agreed at the time of recruitment, provided for substantial payments in the event of termination of employment. Subject to certain mitigating circumstances within the contact, if the company is required to pay full compensation to the departed CEO, the cost would equate to c.1% of operating profits. Newton understood that the company was contractually obliged to meet this potential obligation. However, assurances were sought that similar situations would not arise for the two executives who are expected to be recruited to the company's board. The company stated that its policies and practices surrounding succession planning and contract negotiations were being reviewed but could not provide Newton with the assurances it needed at the time of questioning.

UK Media & Entertainment Company – April 2005
Contact: Compensations & Benefits Director

Newton was aware of the controversy surrounding special remuneration arrangements for the Chairman. However, of greater concern was the company's payment of significant annual bonuses in a year when performance was poor. To put it into perspective, the company's previous year's performance was greater but bonus payments were less. The company stated that it had managed to exceed the targets set by the remuneration committee at the beginning of the year. However, the company was unwilling to disclose these targets to shareholders. Newton was concerned at the robustness of the targets that govern annual bonus payments and were disappointed that the company would not provide historic information to give shareholders some level of comfort.

UK Leisure & Hotels Company – May 2005
Contact: Company Secretary

Newton contacted the company in order to better understand the setting of performance targets surrounding the company's Performance Share Plan (PSP). The remuneration report was somewhat ambiguous in that it appeared operating profit targets, which govern 50% of the PSP vesting, were not challenging. The company provided Newton with comfort on this matter. In addition, it was suggested that the company include a financial underpin to the relative Total Shareholder Return performance condition, which governs vesting of the latter half of the PSP awards. Also, Newton encouraged the company to apply a performance condition that would govern vesting of matching shares awarded as part of the company's deferred annual bonus arrangements.

Canadian Pharmaceutical & Biotech Company – May 2005
Contact: Chief Financial Officer

Newton contacted the company to raise a concern in relation to the method it uses when electing directors to its board. Rather than providing shareholders with an opportunity to vote on the appointment of each individual director, the election of the two nominees were bundled into a single resolution item. Newton did not have any major concerns with the two nominees proposed for election. However, this is not to be encouraged as a regular practice.

German Speciality & Other Finance Company – May 2005
Contact: Head of Corporate Finance

Newton discussed several matters with the company surrounding resolutions proposed at its AGM. The first was a shareholder proposal to remove the company's chairman. Newton were in agreement with the company that it would be more constructive for the company to deal with the matter internally, rather than appoint the shareholder proposed nominee as chairman. The proposed nominee was closely affiliated to the proposing shareholders.

Newton raised concerns over a proposal that would provide performance-based remuneration to non-executive directors. Newton explained that it felt the independence of the non-executive directors would be compromised if they were rewarded for the financial success of the company. Newton also raised a concern relating to the company's proposal to increase its issued share capital by 31%, whilst dis-applying the pre-emption rights that are enjoyed by the company's existing shareholders. Newton felt that, without any guidance by the company as to the intended use of the issuance, the proposed level of dilution was excessive.

UK Real Estate Company – May 2005
Contacts: Chair of Remuneration Committee
Remuneration Consultant

In February 2005, the company consulted with shareholders on its proposed changes to its remuneration structure. However, in the company's communication on the outcome of the consultation it announced further changes. The company informed Newton of enhancements to base salary levels and an increase in maximum bonus potential. Separately, these were not necessarily contentious but it removed a degree of confidence gained from the consultation process. Newton queried the company's rationale for the increase in maximum bonus potential and why this not included in the consultation carried-out earlier in the year.

UK Healthcare Company – May 2005
Contacts: Chairman
Company Secretary

Newton was consulted on the company's proposed long-term incentive arrangements. Historically, the company has had little in the way of incentive arrangements outside of modest annual bonus arrangements. However, given the growth period being entered by the company, the remuneration committee felt that it was important to retain and improve its retention of senior executives. Newton appreciated the company's need to offer long-term incentive arrangements. However, it was felt that certain elements of the proposal required further consideration. Specifically, Newton was uncomfortable with a large up-front award of nil-cost incentive shares, which would be subject to vesting after just two years', rather than the traditional and ongoing performance period of three years. Newton suggested that awards should be smoothed out in order to avoid large vesting in a single year relative to other years. Newton also questioned the rationale for the different Earnings Per Share performance conditions that govern vesting of deferred annual bonuses versus the proposed long-term incentive plan. It was also requested that the company consider adopting a threshold performance condition that would need to be satisfied before any vesting could occur and that this be based on a relative Total Shareholder Return performance condition. Additionally, various assurances were sought in regards to the operation and administration of the proposed remuneration arrangements.

UK Food & Drug Retailer – May 2005
Contact: Corporate Broker

Newton explained its concerns over the structure of the company's board and stated that it would welcome the appointment of independent non-executive directors.

UK Aerospace & Defence Company – June 2005
Contacts: Human Resources Director
Assistant Company Secretary

Newton contacted the company in order to seek further information on a proposed Deferred Annual Bonus Scheme (DABS), for which the company was seeking shareholder approval of at its AGM. There was a lack of information detailing the rationale for the proposed increase in annual bonuses and subsequent share matching arrangements. Additionally, within the AGM notice, the company proposed to state that it had consulted with its principle shareholders and that they had indicated support for the proposal. Newton had not been contacted by the company.

After receiving details of the DABS, Newton raised concerns over its structure. First, Newton sought further information in relation to the company's proposed comparator group used to set base salaries at median and, also, the comparator group used for setting upper quartile awards for excellent performance. Newton was also concerned that the granting of a large proportion of long-term incentives is reliant upon annual bonus awards being made. The heavy reliance upon short-term awards could put pressure on the company to pay greater annual bonuses than may be intended, produce lumpy incentive arrangements and could subsequently provide for an opportune resignation window for senior executives. Newton also queried the effect on the Earnings Per Share performance conditions in the event of a share buy-back by the company and also where it would propose to source the shares from in order to satisfy its potential commitments to share matching arrangements.

Russian Telecommunications Company – June 2005
Contact: Head of Capital Markets

Newton requested additional detail relating to two resolutions proposed at the company's AGM. The first of these resolutions requested approval of an amendment to the company's charter and, the second was seeking ratification of the regulation of general meetings. The company duly provided Newton with the requested information, which, Newton felt, if approved and adopted would improve corporate governance at the company.

UK Utilities Company – June 2005
Contacts: Chair of Remuneration Committee
Human Resources Director

The company consulted Newton on its proposed changes to the performance conditions that govern the vesting of its Performance Share Plan awards. The proposal was to move away from the current performance condition of Total Shareholder Return (TSR) relative to a selection of global utility companies and introduce absolute Earnings Per Share (EPS) growth and TSR relative to the FTSE 100. Each new condition would represent 50% of awards, which combined could be up to 125% of base salary. The company's main argument for the shift was that the historically selected comparator group was no longer relevant. Different timing of regulatory reviews made TSR, versus other utility companies, redundant. Newton suggested that it was an appropriate measure and urged the company to look at smoothing out anomalies caused by the timing of regulatory reviews. This could be achieved by using three or five year average TSR performance. Given that the company's Beta is less than one, it suggests that, historically, it is not closely correlated with the FTSE 100 market, therefore, making it an inappropriate comparator group. Newton also queried the definition of EPS that was proposed and suggested that EPS would be a good underpin to a relative TSR performance condition. Newton was also concerned that the company did not consider the proposal to be a significant change to its remuneration policy. Therefore, it did not propose to put the changes to shareholders in a separate and binding resolution. Instead, the changes would be incorporated within the resolution seeking approval of the remuneration report, which is an advisory vote. Newton also sought further information on the technicalities of the operation and administration of the proposals. Finally, Newton felt that the consultation was a mere information dissemination exercise given that the consultation period started just one month prior to the company's intention of making awards under the plan.

Japanese Media & Entertainment Company – June 2005
Contacts: Senior Executive Managing Director
Executive Officer

In a meeting with management, Newton raised concerns regarding the company's intention to significantly raise its authorised share capital. Newton was mindful that the company was expanding its business areas. However, assurance was sought that current shareholders would not be significantly diluted. This was felt to be a significant risk given that existing shareholders are not entitled to pre-emption rights on issued share capital and the authority could be used as an anti-takeover mechanism, which may be costly to shareholders. The company stated that its request to increase the authorised share capital was a defence measure. Newton felt that this was unacceptable.

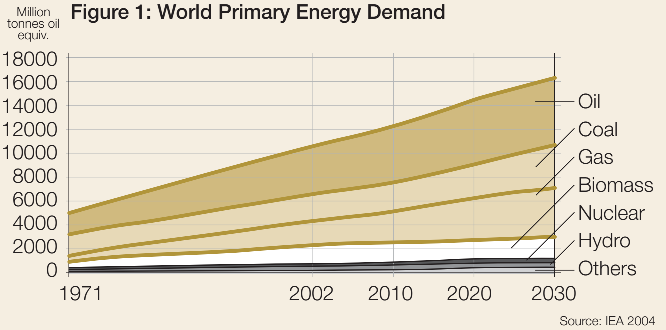
SRI Focus: Energy Supply

Introduction

A global thematic approach to investment is an integral part of Newton's investment process, philosophy and culture. Themes provide long-term orientation around global trends and patterns. One of Newton's key investment themes is "Energy Supply". This theme focuses on the implications of under-investment in energy infrastructure and the resulting structural increase in future energy prices. It also encourages consideration of the implications for alternative fuels and energy sources. Industry costs, consumption patterns and fiscal policy are aspects of the theme. With this as a backdrop, the SRI focus for this quarter takes a look at some of the aspects of energy supply, alternative sources and corporate involvement.

The world needs more energy for continued economic development. By 2030, the International Energy Agency (IEA) estimates that energy demand could be 60% higher than today (see Figure 1: World Primary Energy Demand). This is due to a growing population and the expanding economies of developing countries. Meeting this demand, while avoiding the environmental threat posed by growing fossil-fuel use, is a serious energy and sustainability challenge.

Figure 1: World Primary Energy Demand



The report is focused in four parts.

Part 1: The Energy Challenge
The main issues surrounding the energy challenge are discussed including environmental impacts, security of supply, meeting demand, and the UK's response to these issues.

Part II: Renewable Energy
Global targets, regulation and incentives are examined. This section concludes with a discussion on the debate surrounding nuclear energy.

Part III: Wind-Generated Energy
The controversy, challenges and benefits associated with the industry are outlined.

Part IV: Company Involvement
Reviews some companies with an interest in wind-generated energy. Newton, on behalf of its clients, is either a shareholder of the companies reviewed or has an interest in them. This section enables us to see what companies are doing to adapt and prepare for a low-carbon future through supporting the wind-generated energy industry.

> Over the last ten years, the world has been consuming c.28 billion barrels of oil per year (on a rising trend), while discoveries have been running at a rate of only 7.5 billion barrels per year (on a falling trend). Clearly this is unsustainable.
>
> **John Trudgian**
> *Williams Inference Quarterly Meeting*
> *June 2005*

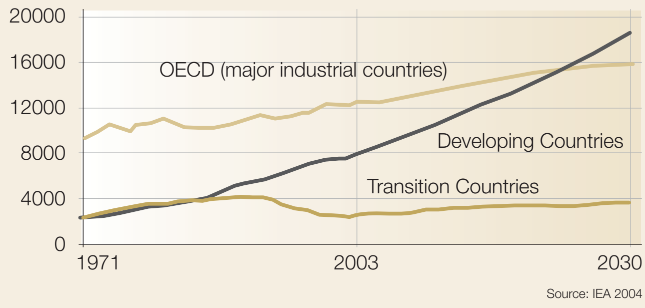
Part I: The Energy Challenge

a) Environmental impacts

Producing and using energy to meet growing demand is impacting the environment. A growing body of evidence suggests that human action is contributing to an increase in the amount of carbon in the atmosphere (See Figure 2: Carbon Emissions), mainly as the result of the burning of fossil fuels. The increasing levels of carbon are thought to be leading to warmer temperatures and greater unpredictability in weather patterns. Floods, storms and droughts in the UK and across the world show how vulnerable we are to climate extremes and how high the human, environmental and economic costs can be.

There has been wide debate over the science behind climate change. Recently, however, the debate has changed: feasibility and the cost of various solutions and strategies is now the focus, rather than whether a warming climate poses a real threat or whether the science is valid.

Figure 2: Carbon Emissions (Millions of Tonnes of CO_2)



Tackling 'climate change' requires a sustained international effort to cut harmful carbon and greenhouse gas emissions[1]. Promotion and development of low carbon-technologies is very important in this challenge. In June 1992, the Earth Summit Convention was held in Rio de Janeiro. Here, the governments of the world agreed the United Nations Framework Convention on Climate Change (UNFCCC). The convention recognised that the industrialised countries had a special responsibility to take the lead in solving the increasing problem of climate change. A united goal amongst the parties present was set: to stabilise greenhouse gas concentrations at a level that would prevent dangerous human interference with the climate system. This culminated in the adoption of the Kyoto Protocol where developed nations set targets to limit the emissions of greenhouse gases.

The Kyoto Protocol

The Kyoto Protocol came into force on 16 February 2005, after it had been ratified by industrialised countries accounting for at least 55% of global greenhouse gas emissions in the year 1990. After the United States rejected the Protocol, its adoption by Russia – which accounted for 17.4% of emissions in 1990 – became critical. The 55% threshold was reached when the Duma, Russia's lower house of parliament, ratified the protocol on 22 October 2004.

Over 140 countries have ratified the Kyoto Protocol. It is now a legally binding agreement and governments are responding to the commitment it brings. It provides the first ever framework for international action with binding targets and timetables for reducing greenhouse gas emissions. The goal is to collectively reduce emissions to a level that is 5.2% below the benchmark level of 1990. This is to be achieved by 2012. Targets under the Kyoto Protocol relate to the reduction in emissions of the six main greenhouse gases. CO_2 is the most important of the six gases as it is understood that it will be responsible for about two thirds of expected future climate change.

The Kyoto Protocol outlines three flexible mechanisms that can aid emission reductions:

1) International Emissions Trading

Countries that limit or reduce emissions by more than their agreed target are able to sell the excess emissions credits (known as Assigned Amount Units, or AAUs) to countries that find it more difficult or more expensive to meet their own targets.

2) Joint Implementation (JI)

An industrialised country can invest in an emissions reduction project in another industrialised country and receive credits for achieved emission reductions. These credits are known as Emissions Reduction Units (ERUs). For example, Country A faces high costs for reducing domestic emissions, so it invests in low emissions technologies for a new power plant in Country B. Country A gets credits for reducing emissions (at a lower cost than it could domestically) and Country B receives foreign investment and advanced technologies, while greenhouse gas emissions are reduced.

3) Clean Development Mechanism (CDM)

An industrialised country can invest in an emissions reduction project in a developing country, for example, by providing credit for financing the project. Credits can then be claimed towards reduction targets of the industrialised country. These credits are known as Certified Emissions Reduction units (CERs).

The Kyoto Protocol is only a first step in the challenge of managing climate change. The world's largest emitter, the US, and a number of other countries have made it clear that they will not participate in the Kyoto Protocol. The main reason is the current absence of developing nations within the Protocol, where emissions could outstrip those of developed countries within twenty years. The US sees this as anti-competitive. China and other developing countries have said that they will not sacrifice growth in the fight against climate change. As a result, doubts and concerns have been voiced about the effectiveness of the Protocol as a global process. The US, however, does continue to emphasise its Research & Development initiatives concerning new technologies aimed at fuel efficiency and emission reductions.

In Q2 2005, talks between government authorities were held in Bonn, in regard to action post Kyoto. Businesses are keen for early certainty and information about post-Kyoto plans. Any framework for the post 2012 era should include the United States and the two leading emerging emitters, China and India. Initiatives like those of the EU will not be enough on their own to halt climate change: At best, they can only slow the process down.

1 Greenhouse gases are the main gases thought to contribute to global warming and climate change.
There are six main greenhouse gases:
– Carbon dioxide is released to the atmosphere when solid waste, fossil fuels (oil, natural gas, and coal), and wood and wood products are burned.
– Methane is emitted during the production and transport of coal, natural gas, and oil. Methane emissions also result from the decomposition of organic wastes in municipal solid waste landfills, and the raising of livestock.
– Nitrous oxide is emitted during agricultural and industrial activities, as well as during combustion of solid waste and fossil fuels.
– Very powerful greenhouse gases that are not naturally occurring include hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulfur hexafluoride (SF6), which are generated in a variety of industrial processes.

CO_2 concentration in the atmosphere is now at a level of 380 parts per million (ppm), compared with a pre-industrial level of around 280ppm. It is generally accepted that levels in the range of 700-1000ppm would lead to very damaging impacts, possibly calling for the relocation of millions of people, as described in scenarios developed by the Intergovernmental Panel on Climate Change (IPCC). A level of 500-550ppm is expected to avoid the worst calamities. Containing the increase in CO_2 concentration within 500-550ppm will require considerable efforts. According to IPCC, such a level could be reached by 2050 unless effective action is taken.

A reduction in the production of CO_2 can be achieved in the following ways:

- Managing greenhouse gas emissions from business operations.
- Improvements in energy efficiency.
- Participation in emissions trading.
- A shift to lower carbon-emitting energy products, so the rapid rise in energy use does not bring an equally large increase in greenhouse gas emissions.
- Increase the use of biofuels, wind and solar power, and hydrogen.
- Development of efficient ways to capture and safely store CO_2 .

Carbon Sequestration

Once CO_2 has been captured, it can be stored to prevent emissions from reaching the atmosphere. The prime objective of carbon sequestration is to develop effective, verifiably safe and environmentally sound storage sites. For example, these could be underground in disused oil and gas reservoirs, or in saline aquifers.

b) Security of supply / Meeting demand

The global energy market relies on complex and sophisticated infrastructure, often involving long international supply lines. With domestic oil and natural gas supplies in most major energy-using countries declining, dependence on imported energy, especially from the Organisation of Petroleum Exporting Countries (OPEC) and Russia, will continue to grow. This means that more energy will need to cross national borders whether by ship, cross-border pipelines or power grids. A serious disruption causing failure of supply would rapidly have serious impacts on the economy, public health and security of the country affected. Many producer and transit countries suffer from poor civil, judicial and legislative frameworks, inequality, social unrest, corruption, monopolistic practice and other problems that can threaten supply. The search for oil and natural gas in more remote regions also increases pressure on ecologically sensitive areas.

Most of the extra energy required to meet growing demand will need to come from burning oil and natural gas. Renewable energy continues to face technological and cost efficiency challenges before it can provide a significant supply. Unless nuclear energy becomes more acceptable to the public, there will be an absence of new-build or life extensions to nuclear power plants, thereby creating a gap in energy supply.

Diversifying energy sources, both geographically and by type of fuel, is one way of helping to ensure security of supply. A greater diversity of energy sources raises the need for:

- Improved information pooling so key players can understand global energy issues rather than independent issues. Alliances and co-operation between countries and energy companies is needed.
- A balanced and pragmatic approach focused on what the energy industry can achieve together rather than anticipating competition between different fuels.
- Concerted action where energy resources are subject to trade barriers. This might include, for example, the removal of agricultural tariffs where these hinder access of biofuels to the world markets.
- International co-operation to help accelerate and reduce the costs of development and deployment of new low-carbon technologies.

Investment in renewable energy does help to diversify energy resources. The World Energy Council states that only 2% of the world's current primary energy supply comes from renewables (other than large hydro). Royal Dutch Shell believes these sources could grow 10% a year with strong government support. This is despite the higher costs of producing energy from renewable sources. However, the sheer size of the growth expected in global energy demand means these sources would still provide less than 10% of total world energy demand by 2025 (The Shell Report 2004). Therefore, creating a low carbon economy of the future will need a mixture of renewable energy generation as well as energy efficiency measures. Gas is expected to grow and supply some 68-75% of all electricity generated by 2020.

A briefing report on Renewable Energy, produced by The United Nations Environmental Programme Financial Initiative (UNEPFI) in 2002, estimates that the market for clean energy technologies could be worth $1.9 trillion by 2020.

Bringing the energy needed to the market at the right time, to avoid disruptions and price spikes, is also very important for the security of energy supply. If global demand rises faster than production capacity, sharp increases in global oil prices are likely. This requires a concerted effort and effective partnerships. Government policies need to support international energy markets, promote emissions reductions and energy efficiency. The energy industry needs to continue to develop and apply the necessary technologies. This will require massive investment, an estimated $16 trillion by 2030 according to the Energy Information Administration (EIA). Energy users also have the task of using energy responsibly and efficiently.

It is estimated that energy efficiency can account for 50% of emission reductions. Therefore, energy efficiency is key in achieving government targets. Ways to increase the efficiency of energy include:

- Burning cleaner fuels, for example, gas.
- Retiring and reboilering[2] older coal and oil-fired power stations.
- Increasing the use of non-fossil systems such as nuclear power and renewables.
- Finding cleaner ways to burn coal.
- Technology innovation to reduce emissions.
- More efficient or less carbon intensive energy conversion systems e.g. Combined Cycle Gas Turbines.
- Energy efficiency measures in the home, as well as in business.

"We can only meet this profound challenge by finding new ways of supplying and using energy"… "New technologies must be made competitive, particularly for developing countries. Their introduction must take account of the existing investment in long-lasting energy infrastructure."

Jeroen van der Veer, Chief Executive, Royal Dutch/Shell
Climate Change: Challenges and the Response of the Global Oil and Gas Industry
World Economic Forum Industry Views, 2005

c) The UK's response

The UK is responsible for 2.2% of global carbon emissions. The UK is currently seen as a leader in the area of combating climate change and has set tough targets in the hope of encouraging other countries to follow its example.

Supplying energy to meet increasing demand combined with slowing, and then eventually reversing, the rise in carbon emissions is a major challenge for both energy producers and users. Businesses need to adapt, to understand changing expectations and to plan for the long-term.

In 2003, the UK government committed to the long-term goal of a 60% cut in CO_2 emissions by 2050. This goal was in addition to two existing UK targets:

- The Kyoto Protocol target to reduce UK greenhouse gas emissions by 12.5% below base year (1990) levels over the period 2008-2012.
- The national goal to reduce CO_2 emissions by 20% below 1990 levels by 2010.

To meet these goals, the UK government has introduced new legislation encouraging development and use of renewable energy (discussed in Part II of this report). It has also devised ways and set targets for increasing energy efficiency. One further way of encouraging businesses to control carbon production is by participation in an Emissions Trading Scheme.

European Union Emissions Trading Scheme (EUETS)

The EUETS is a so-called cap-and-trade scheme to regulate industrial CO_2 emissions in the 25 EU member states. The scheme started in January 2005. The first phase runs from 2005-2007, while the second phase runs from 2008-2012, coinciding with the Kyoto Protocol commitment period. About half of EU CO_2 emissions are covered by the scheme[3]. As a market-based mechanism, the EUETS ensures emissions are reduced in a cost efficient manner, the cap giving effective control over total emission amounts.

Each EU country has to develop a National Allocation Plan (NAP) outlining the total number of emissions allowances allocated to individual installations covered by the scheme. According to the European Commission, the allocation of allowances should be in line with Kyoto commitments. At the end of each year, each site must surrender sufficient allowances to cover their CO_2 emissions for that year. Failure to do so will result in fines – €40 per tonne of CO_2 in the first period and €100 per tonne in 2008-2012. In addition, the excess must be compensated for in the following year.

Companies can meet their targets by implementing measures to reduce CO_2 emissions or by buying surplus allowances from other firms that have reduced emissions to below their allowance. JI and CDM credits gained under the Kyoto Protocol are able to be used within the EUETS.

This year, the UK holds the presidency of the G8. Climate change, along with poverty reduction, is at the top of the agenda. There are three broad aims for the UK's G8 presidency to tackle climate change:

- To build a solid scientific foundation in order to be in a position to reach global agreement on the urgency of the problem.
- To reach agreement on a process to speed up the science, technology and other measures necessary to meet the threat.
- To engage countries outside the G8 that have growing energy needs, like China and India, on how these needs can be met sustainably, and how they can adapt to the impacts that many argue are already inevitable.
- How to ensure companies obtain long-term value for taking action on climate change.
- How to resolve inconsistencies among various regulatory regimes.

2 Reboilering is key in enabling old coal plants to achieve thermal efficiency of over 30%.
3 Large emitters in the power and heat generation industry and selected energy-intensive industrial sectors are included in this scheme.

- How to assist emerging markets in the development of low-carbon technologies.
- How to identify common metrics that can be used to measure corporate progress.

In the second half of 2005, the UK also takes the presidency of the European Union. Climate change will be a focus here also. The UK will use the presidency to continue the development of an EU medium-term and long-term strategy for tackling climate change. This will support discussions, at the 11th Conference of the Parties to the UN Framework Convention in November 2005, on further international action to combat climate change. Another key priority will be raising the profile of the growing problem of aviation emissions.

UK Business leaders, in May, called on the government to tackle climate change urgently. In a letter to Tony Blair, the companies said that urgent action is required and new, longer-term policies need to be in place if the worst impacts of climate change are to be avoided. The businesses said they would be willing to form a partnership with the government to help strengthen domestic and international progress on reducing greenhouse gas emissions. The group includes BP, Shell, Scottish Power and HSBC. The group stated that there are serious concerns and “as business leaders, we can help bridge the gap between today’s economy and the radically different low-carbon future that will be needed”. The group suggested that the government should work to extend targets for emissions trading policies to 2025 to increase market confidence.

Also, in June, the heads of 24 multinational companies told the UK government that they want to see more and long-term market based methods to tackle climate change.

Part II: Renewable Energy

a) The incentive to develop renewable energy

Renewable energy is energy derived from resources that are not depleted with use. Renewable energy increases diversity of energy supplies and can replace finite fossil-fuel resources over the long-term. It can enhance a country’s independence from external supplies of primary fuels. The use of renewable energy sources can also substantially reduce greenhouse gas and other polluting emissions. Therefore, the future development of the renewable energy supply sector is crucial to the UK’s ability to meet its greenhouse gas and CO_2 emissions targets. Renewable energy also plays an important role in improving industrial competitiveness through development of cleaner technologies, products and processes. Tightening environmental regulation combined with high fossil-fuel based prices is creating an increasingly interesting market for the industry.

To create a level playing field for renewable technologies, there are some barriers that need to be addressed. However, the crucial starting point is a supportive and stable policy and regulatory framework. To prepare the UK for the tough challenges ahead, the Government has accepted the need to stimulate investment in environmentally sustainable technologies. Currently, these are more expensive, but over time they have the potential to become competitive.

b) Regulation

The UK has been at the forefront of developing policies to encourage development in the renewable energy industry. Alongside the reduction of carbon emissions, there are other reasons why the government is supporting the industry. These include: improving energy security of supply, promoting technological development, and creating employment in the industry. Examples of UK involvement in industry development include:

- The International Energy Strategy (2004) sets out how the UK government proposes to meet the international challenge of maintaining access to secure and affordable energy supplies, whilst mitigating the effects of climate change.
- The Renewable Energy and Energy Efficiency Partnership (REEEP) was launched by the UK, along with other partners, at the Global World Summit on Sustainable Development in August 2002. REEEP is an active global partnership that

Is the high oil price here to stay?

BP chief executive, Lord Browne, commented in a debate at the House of Lords on 8 June 2005, that he expects world oil prices to remain above US$40 per barrel until new supplies come on stream in three to four years time. Lord Browne’s comments indicate a more longer-term outlook than has been given before. BP continues to maintain a price assumption of US$20 per barrel on which it bases calculations for new investment.

Senior executives at Royal Dutch / Shell Group, also in June, said they expect oil prices to remain above US$40 per barrel for the next twenty years. Reasons included increased demand from economies such as China, worries over the security of oil supply, and the potential cost to companies of carbon emissions.

View from Newton oil analyst, Charles Whall:
"Most independent forecasts predict crude demand will be up by 50% from today's levels by 2025. I believe, with non-OPEC supply close to a peak, that OPEC would have to increase its current supply by close to 150% to meet these targets. It is highly unlikely that this will be achieved, so investments in alternative energy sources and conservation are fundamentally important if we are to preserve our living standards and allow economies to grow. The tightening situation has been captured as one of our headline investment themes "Energy Supply". Lord Browne's admission of a tight supply environment is an important signal to the market because BP has been trying to convince us that supply is sustainable. We should also treat his statement that the tight supply and high prices are of a temporary nature with caution, as we have been in a high price environment for 5 years now and have not seen a material rebound in supply."

structures policy initiatives for clean energy markets and facilitates financing for sustainable energy projects.

Government support in the form of financial incentives for the development of renewable energy is necessary in order to create a level playing field. Policies being used by the government to promote renewables include:

- Price subsidies.
- Capital grants.
- Taxes on competing forms of energy.
- Subsidies to transmission costs.
- Selective waiving of planning rules.

The main instrument of policy is the Renewables Obligation.

c) The Renewables Obligation

The Renewables Obligation was launched in April 2002. It is the UK government's main policy measure to encourage development of electricity generation capacity using renewable energy sources. It requires electricity suppliers to source a percentage of their electricity sales from eligible renewable sources. The current target is for 10.4% of electricity to be supplied from renewables by 2010, with an aspiration to double this by 2020. The government has recently announced it has extended the obligation target to 15% by 2015. The Obligation will remain in place until 2027. Scottish ministers have set even more challenging targets – 18% of electricity in Scotland is to be renewable electricity by 2010. The target rises to 40% by 2020. These targets provide comfort and support to those deciding whether to invest in renewables now. The Renewables Obligation is subject to the additional costs being acceptable to the consumer.

Monitoring compliance is the responsibility of the Office for Gas and Electricity Markets (OFGEM), which administers a system of certification called Renewables Obligation Certificates (ROCs). These are issued to qualifying renewable energy generators as evidence that a licensed electricity supplier has provided qualifying electricity to customers in Great Britain. These certificates may also be traded separately from electricity through a system of limited banking and borrowing. This gives individual suppliers more flexibility in methods to meet the demands of the Renewables Obligation.

The Renewables Obligation is underpinned by a substantial package of financial and non-financial supporting mechanisms including Renewables UK. Renewables UK is a government-backed initiative that provides help for the renewable energy industry to grow and compete internationally.

Energy sources deemed to be renewable for the purpose of achieving the 10.4% target in 2010 include landfill and sewage gas, energy from waste (if it is carbon neutral), hydro, wind, agriculture and forest residues, energy crops, wave power and solar. Existing large-scale hydro schemes have been excluded from the Renewables Obligation incentive scheme on the grounds that they are already commercially viable.

d) The Climate Change Levy

Alongside the Renewables Obligation is the Climate Change Levy (CCL). Introduced on 1 April 2001, the levy is a tax on energy use. The tax is collected at the point of energy use by the suppliers of the fuel or electricity. The CCL is a flat rate levy of 0.43p/kWh on electricity, 0.15p/kWh (equivalent) on coal and 0.15p/kWh on gas (equivalent). The levy is offset by cuts (0.3 percentage points) in employers' National Insurance Contributions. The objective of the levy is to provide additional support for energy efficiency schemes and renewable sources of energy. It entails no increase in the tax burden on industry as a whole and no net gain for the public finances. The reforms are intended to promote energy efficiency, encourage employment opportunities and stimulate investment in new technologies. The Climate Change Levy is expected to save at least 5 million tonnes of carbon a year by 2010.

e) Examples of overseas regulation

The European Union
The EU's Renewables Directive has been in place since 2001. It aims to increase the share of electricity produced from renewable energy sources in the EU to 22% by 2010. Member states have been allocated national targets. Renewable energy sources currently provide nearly 5.4% of the European Union's primary energy needs.

Australia
The Mandatory Renewable Energy Target (MRET) commenced on 1 April 2001. It requires the generation of 9,500 GWh[4] of extra renewable electricity per year by 2010. This is enough power to meet the residential electricity needs of four million people.

4 One gigawatt equals 1,000 megawatt. One gigawatt-hour represents one hour of electricity consumed at a constant rate of one gigawatt.

The United States

As of 31 December 2004, eighteen states, plus Washington DC, had adopted Renewable Portfolio Standards (RPS) or mandates aimed at increasing the share of renewable power in the energy mix. The wind power market in the US is supported by the federal wind Production Tax Credit (PTC). The PTC only applies to new-build completed in the current calendar year of the legislation.

On 28 June 2005, the US Senate passed a bipartisan energy bill. The bill includes a federal renewable portfolio standards provision that requires electricity suppliers to acquire 10% of their supplies from renewable resources, such as wind, solar, geothermal, biomass or ocean, by 2020. Tax incentives are also given in various areas.

Canada

The Canadian government has committed to providing 5% or 1,350 MW of electricity through renewable sources by 2007 and 10% or 2,700 MW by 2010. It has also committed to replacing its coal-fired generation with cleaner sources of energy. The Wind Power Production Incentive (WPPI), created in 2001, provides financial support for the installation of new wind capacity. The incentive covers approximately half the cost of the premium for wind energy in Canada. This incentive is available to electricity producers for the first ten years of a project.

India

The Indian wind market has reported strong growth over the last few years, despite concerns over financing. With the introduction of the 2003 Electricity Act, many of the barriers to industry development have been removed. Therefore, India looks set to establish itself as a significant wind market.

China

The Renewable Energy Promotion Utilisation Law takes effect on 1 January 2006. China already has a capacity of 650 MW of wind and other renewable-energy sources and plans to have 4,000 MW of capacity by 2010. This should attract investors to clean power as the law sets tariffs in favour of non-fossil energy, such as wind and solar power.

Case Study: China

China is the world's second largest emitter of greenhouse gases. The World Wildlife Fund (WWF) estimates that its emissions will overtake those of the US by 2025 if no action is taken.

Most of the growth in demand for energy is expected to come from the developing world, particularly Asia. China is leading the way. In the last decade, it has doubled its oil consumption and the size of its economy, lifting over 100 million people out of extreme poverty in the process. In only a decade, from 1993 to 2003, China's share in world trade more than doubled from 2.2% to 5.2%. Trade in China, as a percentage of GDP, more than doubled between 1999 and 2003, while it contracted in Mexico, Korea, Malaysia and Taiwan.

In 2003, according to the National Development Reform Commission, China accounted for a significant proportion of world consumption: 7% of crude oil, 25% of aluminium, 27% of steel products, 30% of iron ore, 31% of coal and 40% of the global consumption of cement. The Chinese automotive market is expected to grow from the present 20 million to 150-180 million cars before stabilising. This highlights China's huge appetite and changing role as an engine for growth.

Professor Zhou Dadi: *Director, Energy Research Institute China*

"Energy security – providing enough energy for rapid economic growth securely while protecting the environment – has become a key element of the energy strategy for China. Our dependence on imported energy, especially oil, is increasing and will continue to grow. China's integration into the global economy and oil market means its rapidly growing energy demand is an important factor impacting global energy security and efforts to control greenhouse gases.

The current model in developed countries of high energy use is not a sustainable or desirable option for China. Bringing Chinese energy use per capita to the level of OECD countries would outstrip oil and gas market capacity. To tackle energy security for the world and China, address local pollution and help slow the growth of greenhouse gas emissions, improving energy efficiency must be a main priority.

We urgently need a new model of development with dramatically lower energy consumption and lower pollution. For example, to moderate growing energy use in the transport sector, we need strong promotion of convenient public transport, tighter fuel efficiency standards and advanced vehicles. Fuel switching, efficient appliances, better heating and cooling systems will be needed in the fast growing building sector.

China also needs to diversify its energy sources, including developing nuclear, hydro, natural gas, wind power and other renewables, as well as improving the efficiency and cleanliness of coal use (still more than half our energy in 2020). With more imported energy needed, international co-operation must be stepped up and energy markets further opened."
Source: The Shell Report 2004

Greenpeace has estimated Chinese wind power potential at 1 million MW, more than twice China's current total installed power generating capacity of 440,700 MW. Coal is still delivering more than 70% of China's electricity.

f) Putting it into context

Table 1 outlines projected increases in energy consumption from 2001-2025. Table 2 highlights where the energy supply is expected to come from. It is encouraging to see that the EIA forecasts development of renewable energy supply to keep up with consumption increases. However, with finite supplies of fossil-fuels, this will clearly need to increase. Figure 3 outlines where additional investment in renewables is required on a regional basis.

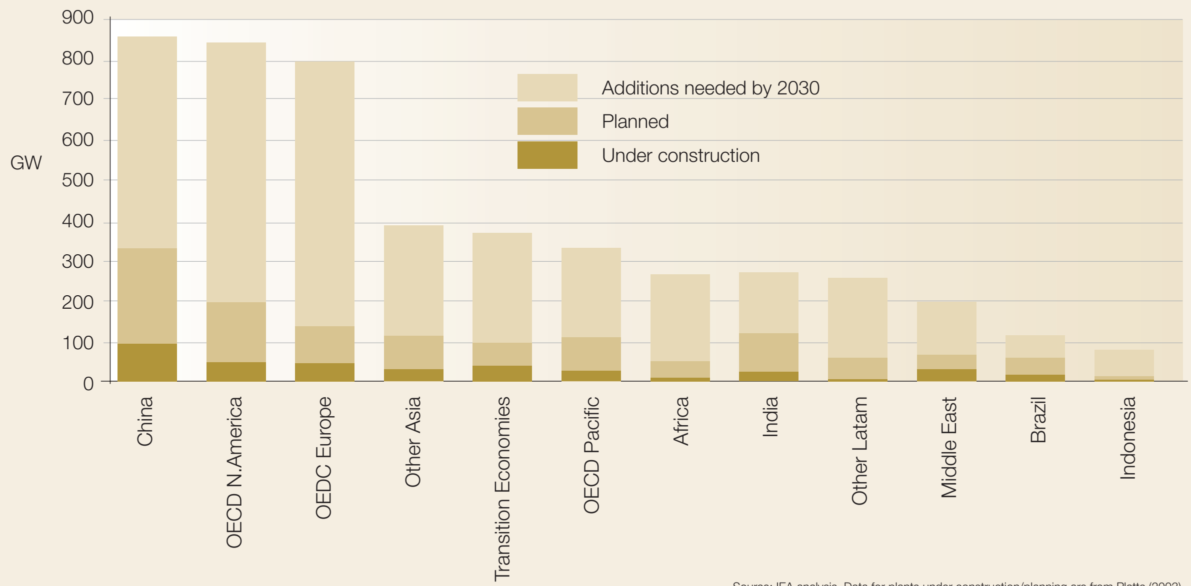
Table 1: Net Electricity Consumption by Region, 2001 – 2025 (Billion kWh)
Source: Energy Information Administration

Region	2001	2025	Average Annual % Change 2001-2025
US	3,386	5,207	1.8
Canada	500	728	1.6
Western Europe (incl. UK)	2,246	3,029	1.3
Eastern Europe	1,815	2,941	2.0
Australia / New Zealand	226	342	1.8
China	1,237	3,410	4.3
India	554	1,216	3.3
Total World	**13,290**	**23,027**	**2.3**

Table 2: World Energy Consumption for Electricity Generation by Fuel, 2001 – 2025 (Quadrillion Btu)
Source: Energy Information Administration

	2001	2001(%)	2025	2025 (%)
Oil	12.2	7.6	17.0	6.6
Natural Gas	29.6	18.4	65.2	25.2
Coal	61.1	38.0	96.7	37.4
Nuclear	26.2	16.3	30.4	11.8
Renewables	31.5	19.6	49.4	19.1
Total	**160.6**	**100.0**	**258.7**	**100.0**

Figure 3: Capacity Requirements by Region (GW)



Source: IEA analysis. Data for plants under construction/planning are from Platts (2003)

g) The Nuclear Power debate

Even with strong incentives and encouragement for the renewable energy industry, a gap in energy supply seems inevitable. This has re-opened the debate on nuclear generated power. Nuclear power is a source of low-carbon electricity. The well-known negative issue of the disposal of radioactive waste is increasingly outweighed by nuclear power's limited impacts on climate change. The UK government has not ruled out the possibility that, at some point in the future, new nuclear build might be necessary to meet emissions reduction goals and energy demand. The accelerated rundown of nuclear capacity after 2008 threatens to reverse the decline in carbon emissions that have been seen so far. Other arguments for the continued use of nuclear power include that it is a stable and reliable generating supply and therefore contributes to the security of supply. It also reduces dependence on imported gas and the chance that investment in renewables does not happen as anticipated. A need-driven stance is beginning to be pushed. However, there are key hurdles that need to be overcome to address social and political objections in developed countries and to ensure that safeguards are in place to prevent nuclear proliferation, terrorism and industrial accidents. Another factor to consider is that uranium is a finite resource.

An interesting development in nuclear power is the design of new generation nuclear fission plants, such as the 'pebble-bed' reactor. The technology behind these plants is made to minimise radioactive waste and facilitate decommissioning.

The Pebble-Bed Reactor – why is it safe?

Instead of the white-hot fuel rods that fire a conventional reactor, the pebble-bed reactor is powered by hundreds of thousands of billiards-sized graphite balls packed with tiny flecks of uranium. The small core and the dispersal of fuel among the many spheres can prevent a melt-down. Instead of water, which becomes very corrosive and highly radioactive during generation, it uses helium as the cooler. This eliminates the complex steam management system from current designs. Helium can reach much higher temperatures, which means more energy to push the turbine producing generation. Disposal of waste is easier as the fuel is sealed inside layers of graphite and an impermeable silicon carbide coating that will keep the radioactive decay products isolated for approximately a million years. Depleted balls can go straight into lead-lined steel bins rather than spent fuel rods going into a steaming pool.

Part III: Wind-Generated Energy

a) The technologically advanced option

In February 2003, the UK government published the Energy White Paper. The Paper lays out the energy policy designed to create a low carbon economy for the future. It states that renewable energy will be required to meet the challenges of present day and future energy policy. Wind is currently the most technically and economically developed renewable energy and, therefore, the one most capable of being delivered in the quantities required for the UK to meet its targets.

Wind turbines produce electricity by using the natural power of the wind to drive a generator. Wind energy technology is developing fast, turbines are becoming cheaper and more powerful, and noise levels are becoming significantly lower. Despite its progress and continued growth, the wind power industry remains surrounded by debate over issues such as cost and environmental impact.

b) Meeting the UK's targets

In the UK, wind energy is expected to supply three-quarters of the renewable energy supply target of 10% by 2010. According to the British Wind Energy Association (BWEA), at present, over 1100 wind turbines have the capacity to produce more that 885 MW of electrical power. This is enough to supply half a million homes and corresponds to only 0.8% of UK electricity demand. Therefore, much investment is needed if the UK is to meet its renewable energy target. There are several reasons why wind farm production is behind schedule:

Planning permission – Wind power development arouses strong opinions. For the general public, a high level of support nationally can contrast with opposition at the local level. Therefore, the needs of the wider environment should be assessed against local concerns. Examples of complexities to consider before any decision is made include:- intermittency issues, effects on the electricity network, noise, ecological and landscape impacts.

Attempts at establishing onshore wind farms have frequently been held-up by the refusal of planning consent. Recently the government has sought to ease the planning blockage by issuing new guidance to local authorities requiring them to set regional targets for renewable energy supply.

Aviation and radar issues have also been a major source of complaint for the wind industry. This is because wind turbines can have adverse impacts on radar systems and can represent obstructions for low-flying aircraft. These concerns have resulted in a significant number of planning objections. The Ministry of Defence now advises developers on acceptable areas for a wind farm well in advance of a formal planning application.

Intermittency – The variable nature of wind means that production does not match the daily and seasonal fluctuations of demand. There will likely be periods when demand for electricity is high and wind output is low. Therefore, a base capacity operating as a reserve and backup is required to ensure a stable and constant supply to the customer. Safe and efficient storage of electricity, and/or a more flexible 'running regime' for other renewable energy generators, is paramount to the future of renewable energy. Currently, electricity cannot be stored on an industrial scale, and generation and demand have to be balanced on the grid continuously, second by second. Once the technology that will enable energy to be stored is developed, wind power could make a more valuable contribution.

Connection costs due to remote locations – For any wind turbine, the power and energy output increases dramatically as the wind speed increases. Therefore, the most cost-effective wind turbines are located in the windiest areas, often on hilltops or near the coastline. Ensuring reliable connection to a grid is central to deciding a wind farm's viability. Connection costs can render small projects, which are far from the existing system, uneconomic. However, as technology develops to ensure that future turbines are more powerful, need less maintenance, capture more energy, are quicker to build and integrate better into grid options, more remote locations (as well as offshore wind farms) become viable.

Cost of capital / Issues for lenders – Risk mitigation is essential to ensure access to affordable financing. The most important thing that policymakers can do is create confidence in the long-term future of the renewables market. What concerns lenders is that the revenue stream of a renewable project is dependent on political support that could be withdrawn with a change of government. The additional risks to offshore wind farms are also a concern to lenders. Offshore wind capital costs are currently around 30-50% higher than onshore costs. This is due to larger machine sizes and the costs of transportation, installation and maintenance while at sea. This is partially offset by higher energy yields – as much as 30%. However, offshore prices are expected to drop as technology improves and experience is gained.

Constraints on wind capacity – As the percentage of wind generating capacity rises, so do technical and network reinforcement issues. This can have an economic cost for the wind plant if the local grid requires investment in network upgrades to enable absorption of wind capacity. It is generally considered that up to 20% wind capacity generation is possible on a large electricity network without posing serious technical or practical problems.

The economic cost can be impacted further if demand does not meet supply. For example, when peak wind output exceeds the lowest period of demand on the grid system (i.e. a windy summer night). Therefore, at times, wind capacity needs to be curtailed. Improvements in turbine technology, network reinforcement and technical innovations such as electricity storage developments, can help resolve these issues but with cost implications.

Emissions during production – Wind turbines do not produce greenhouse gas emissions when generating electricity. However, they are responsible for some 'embodied' emissions resulting from the energy used in their manufacture. Due to the current energy mix being primarily fossil-fuel based, there is an issue of energy balance, or 'payback'. However, this is not unique to wind power. All electricity generating technologies, including renewables, require energy during manufacture, construction and operation. However, the energy balance of wind power is often mentioned as a factor that limits its effectiveness. Most studies suggest that wind turbines take between 3 to 10 months to produce the electricity consumed during their lifecycle – from production and installation through to maintenance, and finally decommissioning.

The difficulties and uncertainties outlined above pose a problem with rising demand for energy in the UK. Secure generation capacity is needed to replace reduced output of coal-fired plants and the deactivation of old governmental nuclear reactors. This is in line with EU environmental legislation. There are certainly significant challenges (mostly economic) to overcome. With evidence and understanding of climate change gaining consensus and global acceptance, consumers may need to accept price increases in electricity if it will help provide a sustainable future.

c) Positive factors for the wind industry

Despite the difficulties and uncertainties, there are some positive impacts that should be considered.

- There may be income benefits to remote communities where wind resources are located. At present these come from subsidies. In future, they may come to these areas from the attraction of power-using industries.

- Economies of scale are improving as turbines get bigger and more efficient.

- Wind is both the cheapest and one of the most abundant of the UK's renewable resources. With a high oil price, increasing economies of scale, government incentives, and, if credit is given for its carbon-free status, it is becoming cost competitive as a form of energy supply.

- Wind power is likely to substitute coal-fired generation in the short-term and perhaps gas in the medium-term. This means that it will substantially reduce carbon emissions.

Biggest wind farm could power one in four London homes

Financial Times article by Fiona Harvey, Environmental Correspondent 08 June 2005.
Article summary:
On 7 June 2005, a planning application was submitted for the World's biggest wind farm – a 270 turbine London Array project. The application was submitted by a consortium of E.ON UK Renewables, Shell Wind-Energy, and CORE, a joint venture between Farm Energy and the Danish generator Energi E2.

If successful, the wind farm would generate 1000 megawatts of electricity, enough to power 750,000 homes. This is equivalent to a quarter of the homes in London. Shell expects that gaining planning permission will take between a year and eighteen months. The wind farm, which would cost £1.5bn, could be completed by 2011. The turbines would be built more that 20km offshore in the Thames Estuary, equidistant from the Kent and Essex coastlines. They would be barely visible from the shore and would connect to the national grid transmission systems in Kent.

Anti wind-farm protesters have argued that offshore units can pose a danger to birds and shipping. Shell stated that, although the Thames Estuary was a busy shipping area, the turbines would be sited away from the main routes.

Part IV: A Low-Carbon Future

a) Company involvement

Newton, on behalf of its clients, is either a current shareholder or has had a past interest in the companies in the table below. The information provided highlights how these companies are preparing for a low carbon future through investment in the wind industry.

Company	Sector	Wind interests
ABB (Switzerland)	Electronic & Electrical	ABB provides components for wind parks including generators and converters, equipment transformers, switchgear and control systems. The company also provides technology and solutions for efficient delivery of wind power from remote locations to a grid system.
Acciona (Spain)	Construction & Building Materials	In July 2003, Acciona reinforced its commitment to renewable energy by acquiring 50% of Corporacion Energia Hidroelectrica de Navarra, S.A for €383m. The resulting group is the world's third largest wind farm developer. Acciona acquired the remainder of the company in early 2004. By the end of the year, total wind power generating capacity of the company was 1,202 MW. The company's goal is to have 3,000 MW of generating capacity by 2009. Of the extra capacity required to meet this goal, approximately half is expected to come from Spain and half internationally. Acciona is also involved in research initiatives such as: – Megawind: An initiative for the development of more efficient technology for wind. – Hydrogen generation: An initiative for the development of a 1.5 MW wind generation system, which will subsequently be integrated into a hydrogen generation and storage system. The goal is to develop wind farms that produce hydrogen for transport and electricity generation. – Adcon-Demowind Project: This is a project to design six 1,500 kW wind generators. The study is of new technologies that could enable the adaptation of wind generators to cope with different wind conditions. The aim is to increase efficiency while reducing the cost per kWh.
Amec (UK)	Support Services	Amec Wind operates throughout the UK and Europe developing, operating and managing wind farms. At the end of 2004, Amec had a development portfolio of 12 projects totalling c.2,000 MW – with the potential to represent some 16% of the UK government's renewable energy target for 2010. This is split roughly half and half between onshore and offshore developments.
ANZ Bank (Australia)	Banks	ANZ Investment Bank, a division of the ANZ Banking Group, is a leader in advisory and underwriting finance solutions for the renewable energy sector in Europe, North America and Australasia. In Australia, ANZ has established a track record in renewable resources and is the principal sponsor of a number of major wind power projects. The company has established a wind power investment vehicle called the "Wind Power Investment Trust". The Trust provides money for innovative renewable energy initiatives.

Company	Sector	Wind interests
Centrica (UK)	Utilities	Centrica currently meets its renewables obligation by contracting directly with generators of renewable energy or by buying Renewable Obligation Certificates. In July 2003, Centrica announced its intention to invest in renewables development and is currently committed to an investment of £750 million over the next few years. Centrica, along with partners, plans to build generation capacity of renewable energy of c.1000 MW during the period to 2010. This will account for about half of British Gas's annual renewables obligation and roughly 5% of its overall electricity supply requirements. Investment projects are primarily offshore wind farm developments. Centrica is currently investing in six offshore wind farm developments. Three have already gained consent and are in various stages of development. The other three, which are larger projects, have yet to gain consent. Centrica has also recently invested in one onshore wind farm in Scotland.
E.ON (Germany)	Utilities	E.ON has over 755 MW of wind and biomass energy generation at various stages of development. At present, E.ON generates about 9.5% of its electricity using renewable sources of energy. E.ON has already made investments totalling some €200m into the German power transmission networks in order to be able to use and expand wind power capacity. In Germany, almost half the power generated by wind farms is fed into E.ON's transmission network. E.ON's investment activity in onshore wind parks has been relatively subdued. Offshore wind power presents an interesting opportunity due to better capacity utilisation and more accurate forecasting. Better wind conditions in the UK mean that construction of onshore and offshore wind farms is more attractive from a commercial perspective. E.ON's use of wind power currently cuts CO_2 emissions by approximately 500,000 metric tonnes per year. Numerous wind farms are in planning and approval stages. When these are completed, CO_2 emissions will be reduced by another 3 million metric tonnes.
GE (US)	Diversified Industries	GE Energy is one of the world's leading wind energy companies and wind turbine suppliers with over 7,000 worldwide wind turbine installations comprising more than 5,600 MW of capacity. The company designs and produces wind turbines ranging from 1.5 to 3.6 MW in Germany, Spain and the United States. In Florida, the company also manufactures advanced wind turbine blades. GE announced in May 2005 that it planned to double its annual investment in renewable energy technologies to $1.5bn by 2010.
Scottish & Southern Energy (UK)	Electricity	Scottish & Southern Energy owns and operates the UK's biggest renewable energy electricity generation portfolio. The company remains on course to have c.1,000 MW of Renewable Obligation Certificate qualifying wind and hydro generating capacity by 2008. The company has 22 MW of wind energy capacity already in operation and a further 142 MW due to begin generation in 2005/06. The company announced at the end of June that it is in partnership with BP, ConocoPhillips and Shell for the design of a project to produce 'decarbonised' fuel that would then be used for power generation. The process would, firstly, convert natural gas to hydrogen and carbon dioxide gases. The hydrogen gas would be used as fuel for a 350 MW power station. The CO_2 produced would be captured and exported to a North Sea oil reservoir where it would be used to displace remaining oil supplies to increase oil recovery. The reservoir could then act as a CO_2 storage area. The project would reduce the amount of carbon dioxide emitted to the atmosphere by the power generation by over 90%.

Company	Sector	Wind interests
Scottish Power (UK)	Electricity	Renewable energy development is a key part of Scottish Power's business strategy. The UK division is a leading developer of wind generation in the UK with approximately 3,000 MW of renewable energy development in its pipeline. This is in addition to the 158 MW already operational and the 142 MW currently under construction. Scottish Power plans to invest £400m to upgrade Scotland's high voltage transmission lines. The new lines are needed if the UK is to achieve its renewable production targets of 10% by 2010 and 15% by 2015. PPM Energy, Scottish Power's US energy subsidiary, controls about 830MW of operating wind energy in the US. New developments totalling 574 MW are due to be constructed in 2005. PPM's target is to have 2,300 MW of wind energy online by 2010.
Shell (UK)	Oil & Gas	Shell, in 2004, increased its global wind power capacity by c.10% to 740 MW. This is enough according to Shell, to supply over 220,000 homes. The capacity is spread over projects in both Europe and the US and makes the company one of the ten largest wind farm owners in the world. Shell's subsidiary, Shell WindEnergy, aims to achieve a portfolio of approximately 1000 MW by the end of 2005. To achieve this, the bulk of activities will be on near-term onshore opportunities on both sides of the Atlantic, but efforts will continue to execute a first phase offshore project in Europe.
Total (France)	Oil & Gas	Total is developing renewable energy projects in wind, both onshore and offshore, and solar energies. Currently the company is piloting a facility called Mardyck wind farm. It is expected to provide electricity for several decades equivalent to the domestic consumption of 15,000 people. The electricity goes to Electricitie de France (EDF) and is then distributed through the public grid. The wind farm is also being used to test different types of wind turbines to enable development for larger facilities on and off shore. In August 2004, Total and partner Shell submitted a bid in response to a tender issued by the French Industry Ministry for a planned 90 MW wind farm to be built offshore from the port zone of Dunkirk.

b) Conclusion

Capacity is increasing and government targets and legislation are providing a catalyst for action. Some companies are beginning to prepare for a low-carbon future and are taking opportunities generated by this growing market. Royal Dutch/Shell believes renewable sources of energy could grow 10% per year with governmental support. However, the sheer size of the growth expected in global energy requirements means that these sources would still only provide less than 10% of total world energy demand. The International Energy Agency estimates that, by 2030, energy demand could be 60% higher than today.

A low-carbon economy of the future will, therefore, need a mix of renewable energy generation, efficiency measures, cleaner fossil-fuel burning technology, and probably, nuclear power. Gas is expected to grow and supply 68-75% of all electricity generated by 2020.

This emphasises the need for further development of renewable energy sources as a long-term objective. Next quarter's SRI focus will continue on the Energy Supply theme with a focus on solar-generated energy.

SRI Activity Log

Please note that this activity log shows examples of SRI activity and engagement over the quarter. It is not an exhaustive list. A complete list of how Newton voted on securities during the period is available upon request.

- **Total**
  Subject: The difficult operating environment in Nigeria – April 2005
  Contact was made with the company to discuss how it manages the issues and difficulties of operating in Nigeria (outlined in last quarters SRI Review). Total operates mainly offshore, where sabotage and illegal oil bunkering are not as prolific as they are at onshore sites. For this reason, the company views the country risk as minimal. The reason for moving predominantly offshore was due to Total's expectations that future growth would be in this area – onshore sites are now mostly mature. Total's exposure to onshore operations is minimal. The company owns 10% of a joint venture with Shell and relies on Shell to run the day-to-day operations. The company does not yet publish payments (royalties, signature bonuses, taxes) made to the government. However, the group is fully supportive of the Extractive Industries Transparency Initiative (EITI). Currently the Government, NGOs and companies are participating in discussions in order to reach an agreement on who will be responsible for collecting and publishing data reported for the EITI. Once this is agreed, Total will embark on publishing payments in alignment with the EITI.

- **Hanson**
  Subject: SEE Disclosure – April 2005
  Newton contacted the company because a 2004 Corporate Social Responsibility report had not been produced, despite a 2003 report being available. The company stated that the reason was due to inadequate resources. However, the company's Social, Ethical and Environmental (SEE) policies are posted on the internet. The company recognised that this is a concern and was mindful that investors would be seeking such information. Newton outlined its approach to the monitoring and recording of disclosure levels on SEE matters by companies, and also its approach to voting at AGMs.

- **Datang International Power**
  Subject: Emissions – April 2005
  The company came into Newton. The opportunity was taken to discuss what the company is doing to control emissions of greenhouse gases. Equipment to fit sulphur oxide and nitrogen oxide scrubbing equipment to all new power plants is being undertaken.

- **Zaar**
  Subject: SEE Disclosure – April 2005
  The company currently has no disclosures on SEE matters. Newton contacted the company to find out why this was the case, to discuss the SEE issues surrounding the business and to find out if there are plans to improve this going forward. Newton outlined its approach to the monitoring and recording of disclosure levels on SEE matters by companies, and also its approach to voting at AGMs. The company stated that it would produce something for the 2006 Report and Accounts. The decision to do this is partly based around requests and comments of shareholders with regard to the importance of SEE reporting and disclosure. The company stated it is fully compliant with all legislation and regulations. Hazardous waste disposal, the main SEE issue the company faces, is contracted out to a specialist waste disposal company. The company will comply with Operating & Financial Review (OFR) requirements when they are legally binding.

- **Total**
  Subject: Operations in Myanmar – May 2005 and June 2005
  Newton contacted the company with regard to its operations in Myanmar. In the last fifteen years, businesses and governments have co-operated with the Burmese regime in the hope that reform would result. However, there is little evidence of change or progress. The military regime remains in control. Reports of human rights abuses and violations by the army continue. Newton asked the company how it could ensure that oil revenues paid to the Burmese government are not distributed inappropriately. Total's response stated that it is difficult for a company investing in a country to determine the use of its monies by the authorities. Respecting the sovereignty of a host country is a fundamental business principle. Total then mentioned its support for the Extractive Industries Transparency Initiative. Newton also visited the company in Paris in June. The company was open about the difficulties it faces in Burma but firmly believes it is doing more good than bad by operating in the area. The company believes it has better Corporate Social Responsibility (CSR) standards than other companies operating in the country. It could, therefore, be argued that it is more beneficial for Burmese society that Total, a company with strong CSR policies and procedures, remains operational there. This is as opposed to the oil being extracted by a less well-managed company. Sanctions by the US and EU have not proved to be successful in instigating change so far. The company did, however, state that it is considering exiting from Burma due to strong pressure from stakeholders.

- **Feedback on CSR reports**
  Newton was requested to, and gave, formal feedback on three CSR reports that were published over the quarter.
  The companies were Acambis, Exel and BP.

Company Meeting Log

During the quarter, Newton analysts and fund managers had individual meetings with the management of 297 companies to initiate or maintain dialogue around financial performance and/or responsible investment matters. The insights gained through this engagement are used when making investment decisions. Meeting were held with the following companies:

ABB Grain
Abbott Laboratories
ABC Learning
Aberdeen Asset Management
Acom
Actelion
Agricultural Bank of Greece
AIS
Alcoa
Alcon
Alexon
Allied Domecq
Alpha Bank
Amdocs
America Movil
Amgen
AMP
ANA
Anglo American
Anheuser-Busch
ANZ Bank
Aon
Applied Optical Technologies
Ark Therapeutics
Associated British Foods
Astro All Asia Networks
Augean
Aveva
Aviall
AWG
BAA
Bango
Bank of America
Bank of Communications
Bank of New York
BASF
Beckman Coulter
Belgacom
Bellsouth
Benfield
Bezeq
Billing Services Group
Bio-Treat
Blockshield
BOC
Bovis Homes
BPB
Brasil Telecom
Britannic
Brunswick
BT
Bursa Malaysia
Business Post
Cable & Wireless
Cairn Energy
Careforce
Carlsberg
Carpetright
Carphone Warehouse
CDW
Cemex
Centenial Coal
Centrica
Cheil Communications
China Telecom
China Unicom
Chloride
Chrysalis
Cia de Concessoes Rodoviarias
CJ
Clapham House
CLC
Clipper
CME
CNOOC
Coca-Cola Hellenic Bottling
Compass Group
COSCO
COSL
Creative Education
Cymat
Daiwa House
Danisco
DAT
Datang International Power Generation
DCA
Debt Free Direct
Detica
Deutsche Postbank
Diageo
Dignity
E.On
eAccess
EFG Eurobank Ergasias
EIRCOM
Elbit
Electrolux
Embraer
Emerson Electric
EMI
Empire Poker
Endace
Enel
Express Scripts
Fastweb
Ferrovial
Filtrona
First Choice Holidays
Firstgroup
Fortune REIT
Fresenius Medical Care
Fuji Television Network
Gallaher Group – Russia
Gas Natural
General Mills
Genting
Great Portland Estates
Halfords Group
Hamworthy
Harley Davidson
HDFC Bank
Hengan International
Henkel
High Tech Computer
Homex
Honda Motor
HSBC
Huaneng Power
Hyundai Mobis
ICAP
Imperial Chemical Industries
Imperial Tobacco
Infosys Technologies
Inspace
Intermediate Capital Group
Investor
IRSA
ITT Industries
Japan Airlines
Japan Retail Fund
Jiangxi Cooper
Joy Global
JSR
JVC
Kewill
Ki Bi
Kimberley Diamond
Kingsway
KOGAS
KT Corp
KT&G
Kuraray
Kurnia Asia
Laing
Land Co
Land Securities

Company Meeting Log (continued)

Lawson
Li & Fung
Lifestyle International
M & C Saatchi
Macquarie Bank
Man Group
Manpower
Mapeley
March Networks
Marshall & Illsley Bank
Matav
Maxis
Mears
Median Primer
Medtronic
Melexis
Mengniu Dairy
Microfocus
Midway Games
Millicom International
MM02
Molex
Monsanto
Monstermob
Morrison (WM) Supermarkets
MTC Vodafone
National Australia Bank
National Grid Transco
Neste Oil
Netmark
Next 15
Nextel
Niko Resources
Nord Anglia Education
Northern Foods
Novozymes
Old Mututal
Pacific Basin
Packaging Corp. of America
Parkway
Party Gaming
PCCW
Pennon
Pepsi Bottling
Pepsico
Pepsol
PetroCanada
Phatra Securities
Plasmon
PLDT
PLUS Expressway
Poly Fuel
Ports Design
Powerchip
Precision Cast Parts
Prelude Investment Trust
Premier Research
Premiere
Promise
Pursuit Dynamics
Radstone
Raffeisen
Raffles Medical
Ramsay Healthcare
RDF
RDF Media
Reynolds America
Rom Telecom
Rowan Drilling
RPS
RWS
Saft
Samsung Electronics
Samsung Fire & Marine
Santander
Sara Lee
Sarisu Bank
Scottish & Southern Energy
Scottish Power
Sealed Air
Severn Trent
Shanghai Electric
Shed Productions
Sigma-Aldrich
Sinopec
Sistema
SK Corp
SK Telecom
Slough Estates
Smiths
Sondex
Sovereign Bank
SPX
ST Engineering
St Georges Bank
Standard Chartered
Stericycle
Strayer Education
Swiss Life
Symantec
Synergy Healthcare
Sysco
T & F Informa
Taiwan Mobile
Taylor Nelson Sofres
Telecom Italia
Telemar
Telesp Cellular
Test Rite
Thomson Corporation
Tom Tom
Toshiba
TOTO
Towa Pharmaceutical
TPSA
Transurban
Tribune
TRL
Tyco
Ubiquity Software
Umeco
Unicredito/HVB
Uralsvy Asinform
Vedanta
Ventracor
Venture Production
Verbund
VimpelCom
Visual Defence
Vodafone
VP
VT Group
W H Smith
West Japan Railway
Whatman
WM Wrigley
Workspace
WW Grainger
Yedang
Yoshinoyra

In addition, the analysts and fund managers attended a large variety of external meetings arranged by companies themselves, brokers or other research providers.

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