

**VARIANCES WITH VOTING POLICY AND
CORPORATE GOVERNANCE ENGAGEMENT**

French Connection

AGM 7 May

USS vote against the report and accounts in light of the combined roles of Chairman and CEO coupled with an insufficient number of independent directors. Additionally, the board had not set up either a audit, nomination or remuneration committee, as recommended by the Combined Code. USS also voted against the remuneration committee report as the Chairman-CEO would appear to make all decisions regarding remuneration and the award of bonuses were at his discretion. Performance criteria were also seen to be unchallenging. A representative of the RI team attended the AGM.

Unilever

AGM 7 May

Although Unilever, a FTSE 100 company, has a joint Chairman-CEO, the company explained to USS that because of the unique structure of the organisation (two-tiered and unitary boards operating as one), there are currently two CEO-Chairmen – one for the Dutch part and one for the UK. The board is currently reviewing the structure and is likely to make changes in the near future. USS voted in favour of the report and accounts.

Cadbury Schweppes

AGM 8 May

USS voted against the remuneration committee report as the company's policies and practices fell short of current UK best practice. Firstly, USS was concerned about the parachute clauses in directors' contracts where in the event of termination of contract following a change of control 'twice normal remuneration' would be received. Similarly, 24 months salary would also be awarded to an executive director if he resigns for good reason. The potential for these practices was confirmed by a large termination payment made to the departing CEO in the course of the year. Finally, the performance criteria for the Executive Share Option Scheme were not deemed to be particularly challenging. USS attended the AGM to express our concerns, together with CIS.

HSBC

AGM 30 May

USS had several significant reservations regarding the contractual arrangements for a newly appointed executive director and the compensation arrangements if his contract were to be terminated early. However, following a meeting with the FD, it was apparent that the director's appointment and contractual entitlements were an essential part of a corporate acquisition made by HSBC to ensure a smooth transition and continuity. A resolution, albeit bundled, was passed at the EGM in March which approved both the acquisition and his appointment. The FD also assured USS that his contract would be reduced to one year after the initial three year period. USS subsequently abstained on the remuneration committee report and the director's appointment.

Carnival

AGM 23 June

Following P&O entering into dual listed company status with carnival in April 2003, the structure of the board and company has radically changed. In dual listed format, the company raises several issues relating to the CEO and the family control of the company. Due to the lack of a sufficient reporting period, it is not possible to make a fair assessment of the combined dual listed company. USS therefore abstained on the appointment of the combined Chairman-CEO on the assumption that an independent chairman will be appointed in the near future.