HERMES
HERMES EQUITY OWNERSHIP SERVICES LIMITED

Lloyds Chambers
1 Portsoken Street
London E1 8HZ

Tel: (020) 7702 0888
Fax: (020) 7702 9452

www.hermes.co.uk

The Swedish Corporate Governance Board
Per Lekvall
Box 160 50
103 21 Stockholm
Sweden

By email:
per.lekvall@bolagsstyrningskollegiet.se

London, 27 March 2008

Response to the revised Swedish code of corporate governance

Dear Mr Lekvall,

I am writing to give Hermes' comments on the proposed revision of the corporate governance code ("the Code") for Sweden.

Hermes is one of the largest pension fund managers in the City of London and is wholly owned by the BT Pension Scheme. We also respond to consultations such as this one on behalf of many other clients, including the BBC Pension Trust, Ireland's National Pension Reserve Fund, Pensioenfonds PNO Media and Canada's Public Sector Pension Investment Board (only those clients which have explicitly supported this response are included in this list). We have some €47 billion assets under management and over €60 billion assets under advice (31 December 2007).

Hermes takes a close interest in matters of company law and regulation because they set the context for the exercise of our clients' rights as part-owners of the companies in which they invest. We seek to safeguard our clients' current rights and also to enhance the transparency and accountability of companies and their directors to their long-term owners.

Hermes welcomed the publication of the Code in 2004 and generally endorses its principles and provisions. We acknowledge the comply-or-explain approach embedded in the Code which reflects the tradition of market-based regulation in the Swedish market.

We welcome the revisions and simplification of the revised code and have made the following three comments related to the revision.

Application of the Code to all listed companies
We strongly support the proposal to apply the Code to all companies and not only to the largest. As a voluntary standard based on the comply-or-explain principle the Code is applicable to all companies without unreasonable burden. There may be sound reasons for some companies not to comply with all recommendations. Provided that a good explanation is given this would not normally lower shareholders' trust in the company's governance arrangements.

Cont'd.../

Independence requirements for composition of the nominations committee
The Scandinavian model where the nominations committee is appointed by the shareholder meeting poses advantages. We acknowledge the benefits flowing from direct shareholder involvement as well as independence from board and management in the nomination procedure. We have however previously advocated that the committee should also be sufficiently independent from majority shareholders. It is our understanding that the revised code solves these concerns through the provisions in paragraph 2.3. We also welcome the Corporate Governance Board's view that the chairman of the board should refrain from chairing the nominations committee.

In paragraph 2.4 of the revised Code it is emphasised that members of the nominations committee are not "representatives" of certain owner groups, but like directors are appointed to consider the best interest of all shareholders. We applaud this specification.

Timely information disclosure
In paragraph 2.6 of the revised Code, the recommendation to publish the report of the nominations committee along with the meeting notice has been removed. For shareholders voting electronically well in advance of the meeting, this information is very useful in considering the candidates for election of the board. The report should therefore ideally be a part of the material which is made available at the time of the notice. The ability of shareholders to exercise their voting rights appropriately requires timely supply of adequate information on each agenda item to be considered at general meetings.

An efficient voting procedure is an additional prerequisite. According to Swedish law, shareholders must be registered by name in order to vote. Shareholders have to produce and submit powers of attorney when not attending the meeting in person. Given these onerous requirements companies must allow investors more time between information disclosure and voting. We welcome the comment in the revised paragraph 9.2 that information about the remuneration policy should be available in good time before the meeting. This should apply to all relevant material.

Additional comments
In addition to these comments on suggested revisions, we would also like to take the opportunity to make the following additional points based on our understanding of the Swedish market.

Investors should be able to vote through proxy
In 2006 Swedish company law changed allowing proxy voting. Previous legislation required physical presence at the general meeting. Investors restricted from attending had to issue powers of attorney and be represented by a third party. By amending the statutes companies can now allow investors to instruct the general meeting directly through voting forms (proxies). As a result, voting transparency is expected to improve, as the votes brought forward by attorneys are not usually disclosed. We encourage boards to propose amendments to statutes to simplify voting procedures. We believe this will lead to increased transparency and a higher level of representation.

All shares should carry equal rights
The Code does not contain recommendations regarding equal treatment of shareholders in respect of capital structure and voting rights. We believe that generally all shares of a company should carry one vote each. This principle is based

on the widely accepted view that shareholders' control and voting rights should be commensurate with their economic interest in the company so as to create appropriate incentives for shareholders to exercise oversight. We would encourage the Corporate Governance Board to promote this principle in the Code. It would subsequently be up to the company to explain shareholders why a deviation from the one-share-one-vote model is in investors' interest. In our conversations we encourage Swedish companies with a split capital structure to consider moving towards a system that respects the principle of one-share, one-vote. New listings, business spin-offs or other restructurings of such companies provide opportunities to move away from separate share classes.

At least one third of the board members should be independent of the company, its management and its major shareholders

We acknowledge that in defining board independence there is a reference to OMX listing rules. Furthermore we observe that the definition is in line with other Nordic countries. We still take the opportunity to encourage higher minimum level of board independence. The Swedish governance model ensures a clear division of responsibilities and control between the management and the board. Only one executive can be a member of the board, and that person cannot be the chair. We believe that a well balanced board with a truly independent element is more likely to direct and control a company in a way that ensures the creation of long term value for all shareholders. The listing rules - and previously the Code - define independence in relation to the company and its management. Hermes, in common with many international investors, also regards a link to a major shareholder as potentially indicating a lack of independence. We acknowledge that the major shareholder groupings in Sweden and their representatives have facilitated the growth and success of Swedish companies. On the other hand we strongly believe that a significant independent element on boards will contribute to the long-term prosperity of companies. Generally we therefore prefer that at least one third of the board members should be independent of the company, its management and major shareholders.

We trust that you will carefully consider our comments and suggestions and where appropriate take them as constructive input to the development of the Code. If you would like to discuss our views in further detail, please do not hesitate to contact me.

Yours sincerely,

Hege Sjo
Head of Nordic Governance and Engagement