



Lloyds Chambers
1 Portsoken Street
London E1 8HZ

Tel: (020) 7702 0888

Fax: (020) 7702 9452

www.hermes.co.uk

Dirección General de Mercados
Comisión Nacional del Mercado de Valores
Serrano, 47
28001 Madrid
Spain

London, 30 November 2007

Dear Sirs,

Response to the consultation on the revised template of the Annual Corporate Governance Report for listed companies.

Hermes appreciates the opportunity to take part in the consultation on the proposed new template of the CNMV's Annual Corporate Governance Report for listed companies. We are supportive of the recommendations of Spain's new Unified Code of Corporate Governance. We believe that such guidelines will encourage greater transparency and ultimately lead to more effective corporate governance structure which should help companies to create value in the long-term. In our response to this consultation, we would like to share our experience with the existing annual corporate governance reports which you may find useful in the final drafting of the new template.

By way of background, Hermes Pensions Management Limited is owned by the BT (British Telecom) Pension Scheme, the UK's largest. Hermes manages the portfolios of over 200 other clients including many major pension schemes. In total, Hermes manages approximately €100 billion (30 June 2007). As part of its Equity Ownership Service (EOS), Hermes also advises non-investment clients on environmental, social and governance matters in respect of about €40 billion of equities (30 September 2007). These clients include the British Coal Staff Superannuation Scheme (BCSSS), the BBC's Pension Fund, the Irish National Pensions Reserve Fund (NPRF) and Pensionskassernes Administration A/S, one of the largest administration companies for occupational pension funds in Denmark.

Hermes is an acknowledged global leader in the field of corporate governance and shareholder responsibility. We actively exercise our clients' rights and responsibilities as shareowners worldwide, which includes but is not limited to voting at general meetings of their portfolio companies and engaging with companies to promote long term value.

In preparation of our dialogue with Spanish companies, we have looked at many corporate governance reports over the years. In our experience, they are very thorough and provide disclosure of information that is not readily available in other European countries. We welcome the corporate governance transparency the reports provide. The compulsory template also facilitates comparability between companies in the market and - we understand - statistical analysis at the regulatory level. However, as result of the standardised template, we sometimes find that the information provided on specific issues is of little use for our dialogue with companies. In other cases, noteworthy information is buried in the very detailed

disclosure. The boilerplate disclosure by companies seems to be their response to the rather detailed and standardised disclosure requirements. We regard this as a significant problem with the current approach to corporate governance disclosure.

While we understand the reasons for the format of the corporate governance report, it would be helpful for investors if companies were encouraged to provide some succinct information on the key corporate governance challenges that they are facing and how they are addressing them. For example, it would be of great interest to investors to understand why voting right limitations have been put in place and what other measures could be taken to address the underlying issue, or why a particular board composition is deemed appropriate for a company. In all this, investors play an important part and we understand and accept that the company's owners have a role in seeking and verifying the information that they require. Indeed, we believe that without investors willing to vet the reasons for non-compliance with recommendations, the "comply or explain" system cannot work.

We trust that you will carefully consider our comments and suggestions and where appropriate take them as constructive input to the strengthening of corporate governance reporting. If you would like to discuss our views in further detail, or if we can be of any further assistance, please do not hesitate to contact us. In the meantime, we attach our Global and Spanish Corporate Governance Principles.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Dr. Hans-Christoph Hirt', with a horizontal line extending to the right.

Dr. Hans-Christoph Hirt