



Investors' Statement on Transparency in the Extractives Sector.



As institutional investors with exposure to companies operating around the world, we believe it is in the interest of the companies in which we invest to operate in a business environment that is characterised by stability, transparency and respect for the rule of law. These factors are essential to securing economic prosperity and social cohesion, which, in turn, enable the companies in which we invest to prosper. However, they are frequently undermined by poor standards of governance and transparency, which can give rise to corrupt operating environments.



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We are concerned that extractive companies are particularly exposed to the risks posed by operating in these environments. Companies that make legitimate, but undisclosed, payments to governments may be accused of contributing to the conditions under which corruption can thrive. This is a significant business risk, making companies vulnerable to accusations of complicity in corrupt behaviour, impairing their local and global "licence to operate", rendering them vulnerable to local conflict and insecurity, and possibly compromising their long-term commercial prospects in these markets.



We believe that improved transparency about both payment and revenue flows is an important contributor to good governance by host governments, although its effectiveness will depend on the success of wider initiatives to combat corruption and the misuse of revenues.



We recognise that the root of the governance problem often lies in underdeveloped local capacity in many host countries. However, in the light of the G8 discussions on corruption and increased international attempts to create transparency about revenue flows, we believe that the corporate sector has an important opportunity to support government and multilateral institutions by taking action to protect its own long-term interests.



We acknowledge that the corporate sector cannot single-handedly reform long-standing business practices such as lack of transparency over payments to government, nor can individual companies act alone without compromising their immediate commercial interests. However, we believe that reform will give the extractive companies in which we invest an opportunity to be seen as contributors to, and not just beneficiaries of, economic development and reconstruction.





We therefore encourage the development of mechanisms to promote payments transparency that respect the following principles:



Confidentiality: to ensure that existing contractual agreements and commercially sensitive information are respected;

- Universality: to ensure that improved disclosure standards apply to all parties. This includes joint ventures, state-owned extractive companies and their host governments;
- Comprehensiveness: ensuring that all relevant payments and revenues paid to governments are captured, and
- Comparability: to enable data for different countries to be compared easily.



We commend the Extractive Industries Transparency Initiative (EITI) process led by the UK Government for seeking to develop an effective system of disclosure regarding payments in the mining, oil and gas sectors, which is supported by home and host governments, commercial and national companies, and other stakeholders.



Within the framework of the G8 discussions on payments transparency and the EITI, we are calling on the companies in which we invest to:

- Support the principles of payments disclosure developed by the EITI process;
- Work proactively with host country governments and other stakeholders, including other companies, to develop and implement payments transparency agreements within those countries that sign the principles;
- Become, or continue to be, active participants in the process to promote take-up of payments transparency agreements by host country governments that are not yet signatories to the principles.



We believe that the EITI principles may be relevant to other sectors, and welcome appropriate initiatives with similar objectives.



As institutional investors representing US\$8.3 trillion we actively support the development of international mechanisms to address payments transparency, and encourage other investors to join us in this statement.



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Investment Managers



WALDEN ASSET MANAGEMENT



For further information on this Statement or contact details for the Investors listed below, please contact Karina Litvack, Director, Head of Governance & Socially Responsible Investment, F&C Asset Management plc – karina.litvack@fandc.com or 020 7506 1219.



Payments Disclosure Group of Investors



F&C Asset Management (UK) – Karina Litvack

Baillie Gifford & Co (UK) – Kenny Bell
 Banco Fonder (Sweden) – Tonica Hirdman
 Bâtirente (Canada) – Daniel Simard
 Boston Common Asset Management (US) – Geeta Aiyer
 CalPERS (US) – Ted White
 Calvert Group Ltd (US) – Dr. Julie Gorte
 CCLA (UK) – Neville White
 Central Finance Board of the Methodist Church (UK) – Bill Seddon



Christian Brothers Investment Services (US) – John Wilson
 Co-operative Insurance Society (UK) – Jo Allen
 Deutsche Asset Management (UK) – Andrew Tusa
 Dexia Asset Management (Belgium/France) – Hugo Lasat
 Domini Social Investments (US) – Adam Kanzer

The Dreyfus Premier Third Century Fund Inc and The Dreyfus Socially Responsible Growth Fund Inc (US) – Paul Hilton
 Ethical Funds (Canada) – Robert Walker
 Ethos Investment Foundation (Switzerland) – Caroline Schum
 Fidelity Investments (UK) – Trelawny Williams
 Folksam Insurance Group (Sweden) – Carina Lundberg
 Förster AP-fonden (AP1) (Sweden) – Nadine Viel Lamare
 Frater Asset Management (South Africa) – William Frater
 Gartmore Investment Management plc (UK) – Tony Little
 Goldman Sachs Asset Management International (UK) – Alex Marshall



Henderson Global Investors (UK) – Rob Lake
 Hermes Investment Management Limited (UK) – Jennifer Morris
 Hospital of Ontario Pension Plan (HOOPP) (Canada) – Julie C. Cays
 HSBC (UK) – Ivor Godfrey-Davies
 I.D.E.A.M. – Integral Development Asset Management (France) – David Diamond





ING Investment Management (The Netherlands) – Anna Pot
 Insight Investment Management (UK) – Rachel Crossley
 JPMorgan Asset Management (US) – Amy Davidsen
 Jupiter Asset Management (UK) – Simon Abrahams
 Legal & General Investment Management (UK) – Tim Breedon
 Local Authority Pension Fund Forum (UK) – Tessa Younger
 Merrill Lynch Investment Managers (UK) – Alex Popplewell
 Morley Fund Management (UK) – Toby Belsom
 Newton Asset Management Ltd (UK) – Ian Burger
 New York State Common Retirement Fund (US) – Alan G. Hevesi
 Nottinghamshire County Council (UK)
 Ohio Public Employees Retirement System (US) – Cynthia Richson



Ontario Teachers' Pensions Plan (OTPP) (Canada) – Catherine Jackson
 PGM (The Netherlands) – Karina Litvack, F&C
 Railpen Investments (UK) – Frank Curtiss
 RCM (UK) – Bozena Jankowska
 Rio Tinto Pension Investments Ltd (UK) – Stephen Burley
 Robecco (The Netherlands) – Erik Breen
 Sarasin (Switzerland) – Eckhard Plink



Schroders Investment Management (UK) – Sue Livingston
 Services Employees International Union (SEIU) (US) – Steve Abrecht
 SNS (The Netherlands) – Theo Dijkstra
 State of Connecticut (US) – Denise L. Nappier & Donald A. Kirshbaum

State of Connecticut



State Street Global Advisors (US) – Bill Page
 Storebrand (Norway) – Stephen Williams
 Swiss Re Asset Management (Switzerland) – Paolo Sismondi
 TIAA-CREF (US) – Peter Clapman
 Trades Union Congress (UK) – Tom Powdrill
 Trillium Asset Management (US) – Steve Lippman
 UBS Global Asset Management (UK) Ltd – Ian Pitfield
 Universities Superannuation Scheme (UK) – Raj Thamotheram
 Walden Asset Management (US) – Tim Smith

Swiss Re

