



**CORPORATE GOVERNANCE &
RESPONSIBLE INVESTMENT POLICY.**

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UK STEWARDSHIP CODE

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INTRODUCTION

WHAT IS CORPORATE GOVERNANCE?

The Financial Reporting Council (FRC) states that “the purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the Company.” The UK Code on Corporate Governance explains corporate governance as ‘the system by which companies are directed and controlled’. According to the FRC, ‘corporate governance is about what the Board of a company does and how it sets the values of the Company, and is to be distinguished from the day to day operational management of the Company by full-time executives’.

Legal & General Investment Management (LGIM) aims to maximise shareholder value by promoting integrity in business.

LGIM is one of the largest asset managers in UK, with £320 billion in funds under management as at 30 June 2010. LGIM is a major equity investor in the UK and also a significant shareholder of equities globally. We aim to use our position as a major shareholder to help improve board practice and performance in all markets in which we invest. As such, we expect all listed investee companies and those seeking a listing, regardless of their domicile to demonstrate the highest standards of corporate governance.

We believe companies that demonstrate good corporate governance and have policies for a sustainable business model will generally deliver shareholder value.

Through our engagement and voting policies we aim to exert major influence on the companies in which we invest in order to drive best practice and reduce the risk of corporate failure. Our membership of the Association of British Insurers also gives us a better opportunity to collectively drive better standards of corporate behaviour.

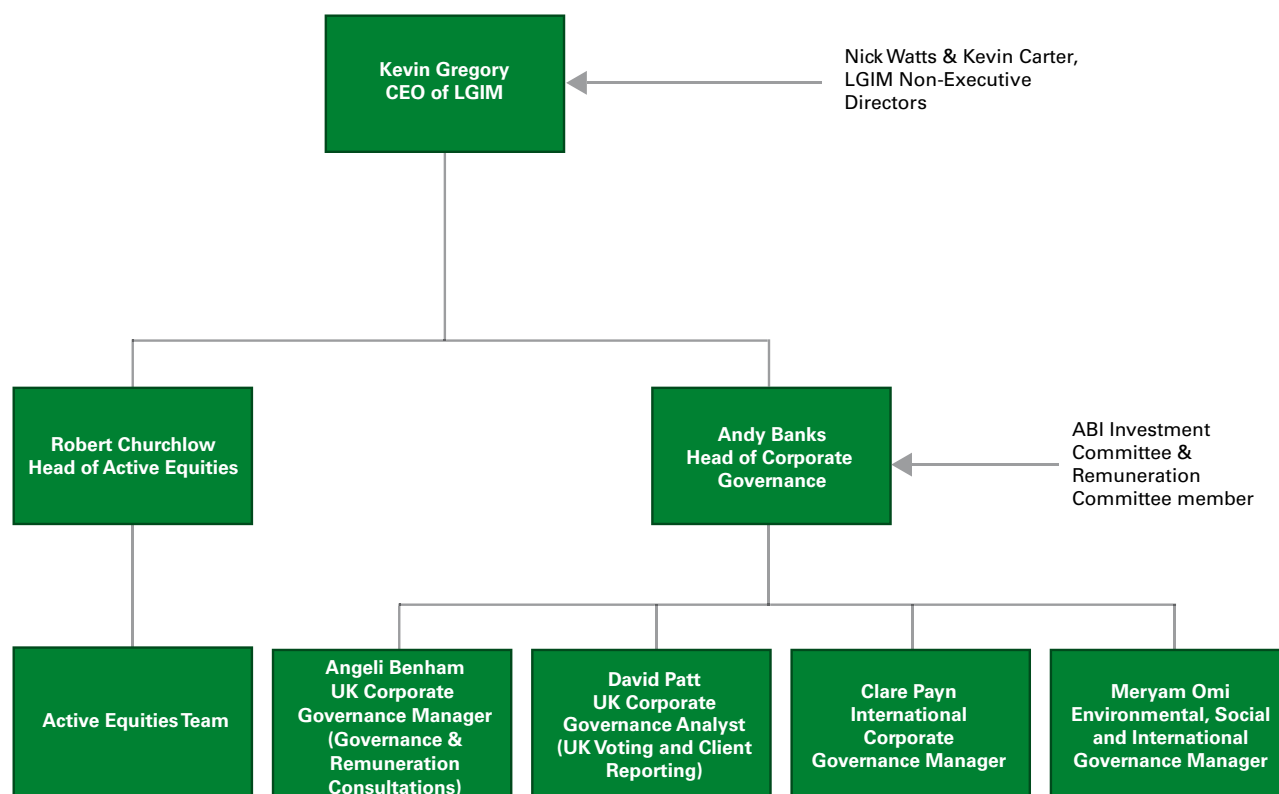
Specific to the UK market, there have recently been several reviews of existing corporate governance guidelines and publications of new guidelines in response to the financial crisis. The Combined Code has been fully reviewed and has been re-published as The UK Corporate Governance Code; In June 2010, the Financial Reporting Council issued The UK Stewardship Code - guidelines designed to aid engagement between companies and their shareholders; in 2009 The Walker Review was published which sets out certain good practice guidelines for UK banks and other financial institutions; and the Financial Services Authority has produced a code on remuneration practices.

LGIM supports all of these codes and sets of guidelines. We see these as examples of how compliance with various best practice guidelines can improve corporate governance standards over the long-term. LGIM believes the UK Corporate Governance Code is effective, well regarded and adds value. We believe that the principle of “comply or explain”, if used correctly, is a superior form of governance than a formulaic set of regulations.

In 2010, LGIM started to expand its voting beyond the UK to cover North America, Japan and some European countries. By the end of the year, we will have expanded further to cover Asia Pacific. This expansion was largely driven by our clients who were keen to see LGIM apply its corporate governance expertise globally. LGIM has decided to use the AAF01/06 Statement to provide assurance to clients and authorities that we conduct corporate governance in the manner described in this document.

Principle 1 of the UK Stewardship Code requires Institutional Investors to disclose our approach to corporate governance and how we carry out our stewardship responsibilities. The following pages provide this information.

THE CORPORATE GOVERNANCE DEPARTMENT WITHIN LGIM



THE TEAM

The Corporate Governance Department is headed by Andy Banks. Andy is responsible for monitoring and developing LGIM's Corporate Governance Policy. The team also comprises Angeli Benham, Clare Payn, David Patt and Meryam Omi who assist Andy in managing Corporate Governance globally. Collectively, the team has an average of 15 years' investment experience.

Activities in which we are involved include:

- Engagement on a broad list of topics such as:
 - Board performance
 - Succession planning
 - Remuneration
 - Environmental and social responsibility
 - Mergers and Acquisitions and other capital issues

- Weekly review of contentious voting issues raised by corporate governance bodies
- Implementation of LGIM's voting process
- Remuneration consultations
- Responding to regulatory and other industry consultations
- Generation of client reports
- The production of in-house research on corporate governance topics

The following pages cover LGIM's policy on Corporate Governance. This has been developed taking into account the UK Code on Corporate Governance, Association of British Insurers (ABI) guidelines and market knowledge.

STRUCTURE AND ACCOUNTABILITY OF THE BOARD

Every company should be headed by an effective Board, which is collectively responsible for the long-term success of the Company.

BOARD OF DIRECTORS

Members of the Board have the most important task of setting the strategy and direction for the business and ensuring the necessary financial and human resources are in place to enable their strategy to be implemented. In doing so, they should also agree on the level of risk that is sustainable and that the Board is willing to support.

All directors must comply with their local laws and statutory duties. In exercising their duty of care to all employees, contractors, customers and shareholders, they should ensure that effective controls are put in place to enable the risks to be assessed and managed. In addition, they should ensure that the core values for the business are understood throughout the Company.

The Board should comprise a number of executive and non-executive directors but should not be so large as to be unwieldy. The size of the Board should be appropriate for the size of the Company. No individual or small group of individuals should be able to dominate the board's decision taking.

The Board should meet regularly throughout the year and the Chairman should hold separate meetings with the Non-Executive Directors, who in turn should have at least one meeting per year without the Chairman present.

Every company should establish a Nomination Committee, Remuneration Committee and an Audit Committee. The Remuneration and Audit Committees should comprise independent non-executive directors. Financial Institutions and other companies in high risk sectors should also establish a Risk Committee.

We believe it is important for directors to seek outside appointments to other boards as this will help broaden their knowledge and will enable them to provide more input into board discussions. However, when taking up outside appointments they should be mindful of the time commitment required to exercise their duties both on their current board and on the outside company board.

Non-Executive Directors should have access to independent professional advice at the company's expense in order to discharge their normal duties as directors. They should also have access to the Company Secretary who is responsible for ensuring that board procedures are complied with. Under the direction of the Chairman, the Company Secretary should ensure that there is a good flow of information within the Board and the Board Committees. The Board as a whole should decide on the appointment or removal of the Company Secretary.

North American Boards

LGIM considers the principles for the board of directors in North American companies to be the same as those firmly established by the UK Corporate Governance Code. However, the North American market does have some variations on what is considered best practice, and some elements that are no longer an issue in the UK market, are still very much being debated by North American companies and their shareholders. A Classified Board means that groups of directors are elected on different cycles, which makes a change of control of a company by a proxy contest of the election of directors more difficult. A Declassified Board structure means that directors are elected on an annual basis which improves shareholder rights and also ensures the accountability of directors and is the structure we advocate.

LGIM will vote in favour of the declassification of directors so that directors must stand for election annually ensuring accountability for their actions.

We shall also abstain or vote against directors if they hold two or more directorships with one role being Chief Executive of a public company, and shall abstain or vote against directors who attend 75% or less of board meetings.

CHAIRMAN AND THE CHIEF EXECUTIVE

There should be a clear division of responsibilities at the head of the Company between running the Board and the executive responsibility for running the company's business. No single individual should have unfettered powers of decision.

The Chairman

LGIM believes that the roles of the Chairman and the Chief Executive should be separate as they require different and distinct skills and experience, and therefore should be held by two different people.

The Chairman should be independent at the time of appointment and should have the responsibility of leading the Board, setting the agenda for board meetings and ensuring the directors receive accurate and clearly written information in time for meetings. The Chairman should from time to time assess whether the Board has the necessary skills to make a positive contribution to aid the Board in the successful implementation of strategy. LGIM expects the Chairman to review and consider refreshing directors that have been on the Board for nine years unless he strongly believes that the skills and knowledge they bring to the Company are too valuable to lose. LGIM reviews concerns with tenure on a case by case basis.

LGIM believes that the Chairman should set aside sufficient time to hold regular meetings with the Non-Executive Directors to discuss the performance of the Executive Directors and the Company.

The Chairman is also responsible for ensuring that directors receive a comprehensive induction to the Company on joining the Board and that training is available on an on-going basis. LGIM supports the view that companies should hold regular briefings/

presentations from divisional directors to the Board, to ensure that all directors are kept informed of all aspects of the business.

Furthermore, the Chairman should encourage the directors to continually update their skills and knowledge, and agree with each director their training and developmental needs. LGIM expects directors' training to also include all aspects of social, environmental and ethical risks faced by the business.

In the UK, the Chairman's role has generally been part-time. However, recent events have shown that the demands of a Chairman may require more time commitment to the business. The Chairman should have the strength of character to challenge the Executive Directors, and encourage the Non-Executive Directors to actively participate in board discussions. The Chairman should be supportive of the management team, but this should not lead to complacency in allowing the management team to continue if value for shareholders is being destroyed.

Finally the Chairman should be available to meet with shareholders and should manage concerns raised by investors effectively. LGIM expects to engage with the Chairman of major investee companies on a regular basis.

The Chief Executive

The Chief Executive should have the responsibility of executing the strategy agreed by the Board and to lead the business.

We believe that the Chief Executive should not normally go on to become the Chairman, as a hands-on Chief Executive may often find it difficult to become a hands-off Chairman. This in turn may make it difficult to appoint a successor.

Where companies are looking to depart from best practice in this regard, we would expect them to enter into a meaningful dialogue with their major shareholders to explain why they think it is appropriate and in the best interests of the Company

and shareholders. This consultation should take place within a reasonable time prior to any public announcement being made. We would expect the Company to put the new Chairman up for re-appointment at the next shareholder meeting of the Company and to provide a full explanation to all shareholders in the Annual Report & Accounts .

LGIM would consider the merits of the Chief Executive becoming the Chairman or an Executive Chairman being appointed to the Company on a case by case basis. We have in exceptional circumstances supported such a change but this has been with the understanding that within a certain timeframe the roles will be separated and a strong independent Deputy Chairman is appointed for the interim. An example where an Executive Chairman may be appropriate is where a company is in distress following the removal of the entire Board.

North America

As with UK companies, there should be a clear division of responsibilities between the roles of Chairman and Chief Executive, but in North America the practice of combined roles continues to be common. In cases where the role is combined, many companies adopt a Lead Director which is the equivalent of the UK's Senior Independent Director. However, LGIM believes that companies should have a separate Chairman and Chief Executive as well as an independent Lead Director. In exceptional circumstances, we would consider a combined role on its merits and on a case by case basis.

NON-EXECUTIVE DIRECTORS

As part of their role as a member of a unitary Board, Non-Executive Directors should constructively challenge and help develop proposals on strategy.

Non-Executives should scrutinise the performance of executive management in meeting agreed goals and objectives and should ensure that adequate succession planning processes are in place. In exercising their duty of care to shareholders they

must satisfy themselves of the integrity of the financial information and risk controls that are in place. They must ensure that executive remuneration is designed to attract and motivate the right calibre of executives but avoid paying more than is necessary to safeguard shareholders' funds.

Although LGIM expects the Non-Executive Directors to be independent, we also believe that in some cases a non-independent director may prove valuable to a company. In these circumstances we expect the Company to fully explain why the Non-Executive Director is not considered independent but is considered valuable to the business. Furthermore, the Board must ensure that at least half of the Board, excluding the Chairman, is comprised of independent non-executive directors. In the case of a small company, we would expect at least two independent non-executive directors.

We support the UK Corporate Governance Code on the factors that affect a director's independence. The factors focus on whether the director:

- Has been an employee of the Company or group within the last five years;
- Has, or has had within the last three years, a material business relationship with the Company either directly, or as a Partner, Shareholder, Director or Senior Employee of a Body that has such a relationship with the Company;
- Has received or receives additional remuneration from the Company apart from a director's fee, participates in the Company's share option or performance related pay scheme, or is a member of the Company's pension scheme;
- Has close family ties with any of the Company's Advisers, Directors or Senior Employees;
- Holds cross-directorships or has significant links with other directors through involvement in other companies or bodies;
- Represents a significant shareholder; or
- Has served on the Board for more than nine years from the date of their first election.

Any Non-Executive Director looking to take up a directorship with another company should seek the consent from the Board Chairman in order to avoid the possibility of a conflict of interest. Any possible conflicts should be considered by the whole Board.

North America

In North America, the terminology differs and non-executive directors are referred to as outside directors. If these non-executives are not independent, then they are called inside directors or affiliated outside directors, but if they are independent then they are referred to as independent outside directors.

Japan

The independence of directors in Japan is still an area which requires much needed development, so when considering independence we need to be much more lenient. It is notoriously difficult for Japanese companies to recruit truly independent directors, as they often have cross directorships, family ties, or have previously worked for the company's main bank or auditor. Independence levels are slowly improving and voting by investors is having some influence. It will take time for Japanese companies to recruit more independent directors, therefore in order to give companies the opportunity to improve on their levels of

independence, we will support the election of non-independent directors only if there is at least one independent director currently on the Board.

The structure of a Japanese Board differs from UK practice in that there are directors and statutory auditors. These statutory auditors are elected by shareholders and hold a position alongside the board of directors, as non-executive directors do in the UK. These statutory auditors are often selected from among the senior management of the Company and may be considered as insiders (non-independent) or outsiders (independent).

LGIM will also vote against the re-election of the President or Chairman of the Company if they have failed to appoint independent directors to the Board. LGIM will vote in favour of the independent candidate if they were a former executive at a significant shareholder if their holding is 5% or less. However, LGIM will vote against the candidate if they belong or belonged to the company's external audit firm.

Outside directors must be fully engaged and actively participate in board debate and decision making which is the key to better governance. Most companies disclose the number of board meetings attended out of the number held during the year



and LGIM would expect outside directors to attend no less than 75% of board meetings held. Therefore, LGIM will vote against a candidate if they have attended less than 75% of board meetings.

THE SENIOR INDEPENDENT DIRECTOR

The Board should appoint one of the independent Non-Executives to the position of Senior Independent Director. The Senior Independent Director should be available to meet with shareholders.

LGIM regards the role of the Senior Independent Director to be critically important as a key contact when the normal channels of the Chairman, Chief Executive or Finance Director have failed to address our concerns or is considered inappropriate given the circumstances. Given the importance of the role, it is vital that the person is independent and has the strength of character to be able to stand up to the Executive Directors when representing the best interests of the company's shareholders. The person who holds the role of Senior Independent Director should be mindful of the time commitment when taking up outside non-executive directorships. LGIM believes the Senior Independent Director should receive additional fees for fulfilling this role.

LGIM produced a Fundamentals publication in July/August 2007 which included an article on the role and responsibilities of the Senior Independent Director. This can be viewed at: <http://www.lgim.co.uk/fundamentals.shtml>.

PERFORMANCE EVALUATION

The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.

LGIM believes that companies should adopt a broad evaluation process that includes the formal appraisal of individual board members. This should provide the Chairman with sufficient insight as to the level of skills and abilities of those people on the Board, and it should allow him to decide whether new members should be appointed to fill skills shortages or to

remove directors that do not contribute effectively or demonstrate commitment to the role. The Non-Executive Directors led by the Senior Independent Director should be responsible for evaluating the performance of the Chairman.

The Annual Report & Accounts should indicate how the performance evaluation process has been conducted and what changes have been made as a result of the previous year's evaluation process. It should also state shortcomings that have been repeatedly highlighted but not addressed, with an explanation to shareholders of why corrective action has not been taken. Evaluation of larger companies should be carried out by an independent third party at least once every three years. Any potential conflicts of interest with such a third party should be highlighted.

RE-ELECTION OF DIRECTORS

All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance. The Board should ensure planned and progressive refreshing of the Board.

The UK Corporate Governance Code requires all directors to be subject to election by shareholders at the first annual general meeting after their appointment and to re-election thereafter at intervals of no more than three years. Additionally, where there has been a material role change within the Board, major shareholders should be consulted in a timely manner.

However, directors of boards in FTSE 350 companies are now subject to annual re-election. LGIM welcomes this change to the UK Corporate Governance Code and does not believe that it will lead to any material financial hardship for these companies. Instead directors will be held more accountable for the decisions they make and shareholders will have easier means by which to express dissatisfaction of board decisions.

Where a Non-Executive Director seeks re-election after serving 9 years on the Board, LGIM would expect to see a full explanation within the Annual Report & Accounts on why the Board believes them to be valuable to the Company and so should remain on the Board.

BOARD COMMITTEES

LGIM expects all UK Listed companies to establish an Audit Committee, a Remuneration Committee and a Nomination Committee. These should comprise at least three independent non-executive directors with smaller companies having at least two independent directors as its members.

The Walker Review resulted in Banks and other Financial Institutions being required to establish a Risk Committee. However, LGIM believes that companies operating in other high risk sectors, such as Exploration, would also benefit from introducing a Risk Committee comprising independent directors. The Risk Committee's meetings should only involve the Committee members but other directors may attend by invitation only. The specific Board Committees are discussed in more detail below.

APPOINTMENTS TO THE BOARD

There should be a formal, rigorous and transparent procedure for the appointment of new directors to the Board.

The Nomination Committee should be made up of a majority of independent non-executive directors. LGIM expects the Chairman or an independent Non-Executive Director to chair the Committee. However, the Chairman should not chair the Committee when it is dealing with the appointment of a successor to the Chairmanship. The Nomination Committee's

main responsibility is to appoint directors to the Board. In doing so, the Committee must be able to demonstrate that a rigorous process had been adopted and that any appointment made was based on merit whilst taking into account the benefits of diversity, including that of gender.

The Nomination Committee should also be involved in making appointments to the next tier of directors as this is a valuable pool of talent for sourcing future board directors. This would also help to ensure that the task of adequate succession planning is fulfilled as well as ensuring that an appropriate balance of skills and experience within the Company and on the Board is maintained. The Chairman of the Nomination Committee should be answerable to shareholders if it is felt that proper succession plans were not in place with the consequence that the Board has had to operate without key directors resulting in a breach of the UK Corporate Governance Code.

When appointing non-executive directors to the Board, the candidate should be made aware of the time commitments required and this should be stated in the letter of appointment. The Committee should be satisfied that the appointee can meet these requirements. Directors then have an obligation to notify the Committee of any material change to other time commitments that may adversely affect their ability to perform on the Board.

A section within the Annual Report & Accounts should describe the process the Committee follows in making board appointments with an explanation of the methodology adopted if neither an external agency nor open advertising was used in the appointment.

REMUNERATION

REMUNERATION COMMITTEE

LGIM expects every UK listed Company to establish a Remuneration Committee that is responsible for setting and operating executive remuneration. The Remuneration Committee should comprise entirely of independent non-executive directors. FTSE 350 companies are expected to have a committee that is made up of at least three members. For smaller companies, two members are sufficient. The Chairman is permitted to be a member of the Committee if considered independent at the time of appointment, but should not chair the Committee.

LGIM will vote against the Remuneration Report if the Remuneration Committee has no independent non-executive directors or if an executive director is a member.

The Remuneration Committee should have the authority to appoint its own independent external remuneration advisors to assist them on issues by providing external data and other information. Shareholders should be alerted as to whether these consultants provide any other advisory service to the Company.

The Remuneration Committee should exercise caution when considering benchmarking information as it should not be looked at in isolation of other material facts such as geographic spread, size and profitability of the companies in the benchmark group.

When setting salaries, the Committee should, where possible, demonstrate consistency by adopting the same benchmark as used to measure relative performance. The benchmark group should not be too large or too small as both extremes would produce results that are misleading.

REMUNERATION POLICY

Remuneration levels should be sufficient to attract, retain and motivate directors of the quality required to run the Company successfully. However, a company should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link the rewards to corporate and individual performance.



The Remuneration Committee should also be mindful of the guidelines issued by the Association of British Insurers (ABI). LGIM was involved with the development of these guidelines and expects companies to comply with them when setting their remuneration policy.

LGIM expects a significant proportion of executive remuneration to comprise performance related pay which is closely aligned with the returns generated for shareholders. Directors should also be encouraged to hold a meaningful interest in the shares of the Company they manage. The level of shareholding should be linked to the size of the Company and the level of reward that directors receive.

When setting remuneration, the Committee should take into consideration not only the size of the Company but also its performance relative to its peers. Directors at underperforming companies should not expect to be remunerated as highly as those directors working at companies with outstanding performance. Therefore, the Committee should avoid the use of a wide comparator group that will cause a distortion or ratcheting in remuneration levels.

LGIM may consider a vote against a remuneration report if there is a persistent disregard to performance when remuneration levels are set and reviewed.

Non-Executive Directors' fees should reflect the level of time commitment and responsibilities of the role. They should not receive any share options or other performance related pay, but LGIM is supportive of fees being paid in the form of shares.

BASIC SALARY & BONUS

LGIM expects companies to exercise caution when setting salary levels, ensuring that the impact of a significant pay increase is considered. If such an increase is considered necessary due to a promotion, we would expect the increase to be staggered over a period of time. All increases to salary or bonus levels should be disclosed in the

Remuneration Report, with significant increases being accompanied by a full explanation.

Prior to the credit crisis, executive remuneration was rising at a rapid rate and the use of benchmark data was leading to pay ratcheting especially of the short-term bonus. The lack of disclosure for these increases triggered a concern that there was too much focus on the short term bonus and that this would in turn lead to excessive risk taking. In order to address these concerns LGIM encourages companies to select performance targets that are linked to the strategy of the business which should be meaningful and measurable. In addition, we encourage companies to disclose the targets set for the bonus earned, and to demonstrate to shareholders that these targets are challenging. The retrospective nature of this disclosure should allay any fears of market sensitivity. Most companies have now introduced a cap on bonuses but some still require prompting to introduce a cap.

Through our engagement, we have learned that a number of companies use a half yearly bonus target policy. LGIM does not support this method, except in exceptional circumstances, and believes that when adopted the annual bonus should be pro rated. The Company should fully disclose how the final bonus for the year was calculated.

LGIM does not support the payment of additional bonuses for carrying out duties which are already within the remit of the specific role.

We expect all employment contracts to contain a caveat which allows any bonus paid, and subsequently determined to have been based on erroneous financial data, to be reclaimed by the Company.

SHARE SCHEMES

In order to align a director's interests with those of long-term shareholders, it is vital that a company adopts long-term incentives. These should be structured to motivate management to build a

sustainable business which will generate positive returns to shareholders over the longer term. When setting performance conditions, the Remuneration Committee must pay due regard to the size of the potential reward. Upper quartile or decile reward structures should require similar levels of performance for the awards to vest in full.

We expect long-term remuneration to be linked to the financial performance of the business as well as to the relative performance against a defined peer group. Performance should be measured over a minimum period of three years and should not be re-tested. LGIM may not support a scheme that allows awards to partially vest for a short performance period, and we would expect some form of claw-back mechanism to be in place should performance subsequently deteriorate.

The use of for example, earnings per share or share price performance as sole measures of performance should be avoided. Additionally, the Remuneration Committee should be satisfied that the performance measure used is a genuine reflection of the company's underlying financial performance. The decision should be fully explained in the Annual Report & Accounts.

The appropriateness of targets set should be considered at the beginning of each grant and shareholders should be consulted on any significant changes. LGIM does not support retrospective changes to performance conditions.

All schemes should have an individual cap on the potential reward to a participant and this should be disclosed to shareholders in the Remuneration Report. During the bull market, individual award sizes increased at a rapid rate and Remuneration Committees were making maximum awards under incentive plans. In many cases, Remuneration Committees and the executives lost sight of the fact that the outcome of bonuses and long-term incentives should be a result of corporate performance. Instead, high levels of remuneration

were expected as the norm. Then stock market values started to fall and share prices tumbled in many cases by over 50% which posed a major problem for companies when managing directors' expectations for remuneration yet, companies continued to make grants at the maximum level. LGIM took a hard line where this was the case, and voted against a number of remuneration reports where the Board had failed to recognise that to make awards at the same level would be excessive and could be considered a reward for failure.

During the downturn, many companies reverted back to making awards under Executive Share Option Plans. LGIM supports the use of share options provided that awards are not excessive, and have stretching performance conditions attached to determine the number of options that can be exercised.

LGIM expects companies to be mindful of diluting shareholders' interests, limiting any potential dilution to 10% of the issued share capital over any ten years for all schemes, and to 5% in ten years for discretionary schemes.

LGIM will generally vote against a Scheme or the Remuneration Report where dilution limits have been breached and where there is no indication of how the Company intends to rectify the situation.

On a change of control, LGIM expects all share schemes to continue to have performance conditions attached. Awards should also be pro rated to reflect the short period of time that has elapsed. The awards of bad leavers should lapse and those of good leavers should be time pro-rated.

LGIM will oppose any scheme that permits automatic vesting on a change of control.

SERVICE CONTRACTS

Contracts should provide for a maximum notice of one year. If the Company requires a longer term for recruitment purposes we would expect the notice

period to reduce each month until the normal 12 month term is reached. LGIM does not support provisions within service contracts that enhance contractual terms for loss of office following a change of control.

LGIM will vote against any service contract that exceeds 12 months.

ONE-OFF INCENTIVES

LGIM noted a significant increase in the granting of one-off awards between 2007 and 2009, but this practice has tailed off during in 2010. Generally LGIM would not support the use of one-off awards, because it highlights a weakness in the existing remuneration structure. However, we consider each case on its own merits.

Where schemes are designed to provide directors with a share of any value created for shareholders, LGIM expects any value shared to be in excess of a threshold level of performance. Directors would also be expected to make a personal investment in the shares of the Company, an obligation which would be in addition to any existing shareholding requirement.

REMUNERATION COMMITTEE DISCRETION

Where a Committee has repeatedly exercised its discretion to increase the level of awards that would normally vest, LGIM would expect a full explanation to be provided.

In the absence of a satisfactory explanation for the exercise of discretion LGIM may vote against the Remuneration Report.

PENSIONS

Pensions are a significant cost and risk for the Company as well as an element of remuneration that is not linked to performance. Therefore, the cost of providing a pension should be taken into account when setting a remuneration package.

LGIM will not support pension enhancement payments at retirement or when a contract is terminated early.

LGIM expects pension provisions to be disclosed in full within the Annual Report & Accounts and that any changes to pension benefits be fully identified and explained. Companies should not compensate individuals for changes in tax.

The impact of any deficits should be carefully managed as this is an important factor for consideration in mergers and acquisitions.

CHAIRMAN & NON EXECUTIVE DIRECTORS' FEES

LGIM expects the Chairman and the Non-Executive Directors to be issued with a letter of appointment which should specify an initial term of service.

Directors should expect to receive a fixed fee for their services, with additional fees paid to the Chairman, the Senior Independent Director, and those directors who chair Board Committees. Fees may be paid in cash or shares but not in the form of options. Non-executive Directors should not receive any other form of performance related pay that may compromise their independence.

TERMINATION PAYMENTS

Directors should not expect compensation for the early termination of their contract and the Remuneration Committee should ensure that contracts of employment do not leave any room for payment in the event of poor performance. Furthermore, contracts should require executives to do all that is necessary to mitigate their loss.

In the event that a director's contract is terminated, LGIM would expect any compensation payment to be limited to their contractual entitlements.

In instances of serious corporate failure, we would expect executive directors to sacrifice any bonus entitlement.

SHAREHOLDING GUIDELINES

LGIM expects all FTSE All-Share companies to encourage share ownership among its directors and senior executives. We believe that this is an essential part of aligning the interests of executives with those of the Company's shareholders.

LGIM expects shareholding guidelines to be linked to the total potential reward offered by a Company. As a guideline, LGIM would expect FTSE 350 companies to have a shareholding requirement of at least 2 times base salary. Directors and senior management of FTSE 100 companies who earn a higher level of pay and have a greater opportunity to build up shares in their Company should expect to have a higher holding requirement.

Smaller companies should expect to have a holding requirement of up to one times base pay.

NORTH AMERICA

Previously, companies in North America were not required to put their remuneration policies to a shareholder vote, unlike in the UK. Disclosure requirements have evolved recently however,

and shareholders now have more opportunity and responsibility to ensure that compensation is designed to create and sustain value. One way is by voting on companies' remuneration policies, or a "say on pay" vote as it's become known, which have become more common at North American company meetings. A say on pay vote is generally proposed either by management or shareholders, and is now part of North American Company Law. This advisory vote gives shareholders a voice with which to convey their opinion about the executive compensation practices of a company.

LGIM will vote in favour of a company adopting an advisory vote to ratify named executives' compensation as this conforms to UK policy and best practice.

An element of North American compensation which is different from that in the UK, is the Company's ability to award certain executives a tax gross-up element on their employment contracts as well as parts of their compensation package such as perquisites and relocation benefits. LGIM are not in favour of such payments as they are an inefficient use of corporate assets, especially for benefits



exclusive to senior executives who are already compensated sufficiently. Many companies are phasing out tax gross-ups on executive perquisites altogether and we would welcome the move by companies to eliminate these entirely.

LGIM will vote in favour of anti tax gross-up policies and will abstain or vote against executive directors or Compensation Committee members up for re-election if tax gross-ups are awarded.

LGIM looks at various other remuneration issues on a case by case basis taking into account best practice guidelines. It is more common in North America for shareholders to put forward proposals at the Company's AGM regarding, for example, post-employment stock ownership requirements for executives. Whilst this type of proposal can be beneficial by further aligning executive and shareholder interests, it can also be too prescriptive and potentially impair the Company's ability to attract and retain senior executives. Therefore, LGIM will always consider the Company's existing stock retention policies before casting a vote.

LGIM will vote against a post-employment stock retention plan if the Company's existing retention scheme is sufficient.

Guidelines on the variable remuneration levels for Troubled Asset Relief Payment (TARP) companies have not been specified, and The Walker Review makes no proposal that levels of remuneration should be capped but instead focuses on the structure of remuneration, provisions for deferment and the appropriate linkage to performance and better disclosure. Therefore, LGIM would especially encourage TARP companies not to engage in excessive short-term risk and to set sensible variable pay levels ensuring appropriate long-term performance targets are attached, with remuneration being a mix of cash and deferred awards.

LGIM will vote in favour of TARP related compensation as we believe this to be best practice.

Some of the elements to consider when evaluating a company's stock plan are the shareholder value transfer and the burn rate. The shareholder value transfer measures the amount of shareholders' equity flowing out of the Company to employees and executives as options are issued and exercised. The burn rate is another measure of dilution that shows how rapidly the Company is depleting its shares reserved for equity compensation plans. Both these elements are becoming more important to investors as they directly affect a shareholder's stake in the Company.

LGIM will vote against an equity-based compensation plan if the shareholder value transfer exceeds the company's allowable cap or if the plan has an excessive burn rate, i.e. is greater than the industry average or is greater than 2% of the common shares outstanding.

JAPAN

Remuneration is a key issue in the UK and North American markets and has been for several years, but for Japanese companies it is only beginning to become a more important topic. Recent corporate governance improvements have led to companies now being required to disclose any directors' pay which is over ¥100m, quite a move for a culture which is not familiar or even comfortable with disclosing remuneration levels. Bonus payments are not often put to a shareholder vote as this is not legally required, although some Japanese companies voluntarily do this. LGIM considers putting remuneration to a shareholder vote a positive move and will vote in favour of remuneration put up for a vote although we consider each element of remuneration on a case by case basis.

LGIM will vote in favour of the amendment of articles to require disclosure of individual director and statutory auditor compensation.

In Japan it is quite common for companies to award special payments in connection with the abolition of a retirement bonus to directors or statutory auditors. These payments make up a significant proportion of

directors' and auditors' lifetime compensation and are normally put up for a shareholder vote. Where the retiree has served as an insider of the Company, LGIM considers these payments to be routine and will support them. However, if these payments are to an outside director or auditor, LGIM will not support them as the independence of the outsider is likely to be undermined by the expectation of receiving a sizeable lump-sum payout upon retirement. As the UK Code outlines, outside directors should not be paid bonuses as this can impair judgement when it comes to questioning management, and the

expectation of receiving a retirement bonus could act as a disincentive for outsider directors and auditors to speak out against management. Many Japanese companies are phasing out these payments altogether, a move which LGIM supports.

LGIM will vote against retirement bonuses and special payments in connection with the abolition of a retirement bonus if the recipient is an outside director or auditor, or can be held responsible for poor financial performance or corporate scandal which has led to shareholder value destruction.

ACCOUNTABILITY AND AUDIT

When preparing financial reports, the Board should present a balanced and understandable assessment of the company's position and prospects. The directors should explain their responsibility for preparing the accounts and state whether they consider the business to be a going concern.

The Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Board should maintain a sound system of internal control to safeguard shareholders' investment and the Company's assets. The effectiveness of the system of controls should be reviewed annually and should cover all material controls including financial, operational and compliance as well as risk management systems.

The Board should establish a formal and transparent arrangement for considering how they should apply these principles and for maintaining an appropriate relationship with the Company's auditors.

THE AUDIT COMMITTEE

LGIM expects every UK listed company to establish an Audit Committee. The Committee should comprise wholly of independent non-executive directors, one of whom should have recent relevant financial experience. We expect FTSE 350 companies to have 3

members, whilst 2 members is considered sufficient for smaller companies. The Board's Chairman should not be a member of the Committee but may attend the meetings by invitation.

The Audit Committee has the important task of monitoring the integrity of the financial information that is published by the Company, the effectiveness of the internal control processes and the internal audit function. The Committee should be responsible for setting the remuneration of the external Auditor, and for recommending to the Board its appointment or re-appointment. The Committee should develop a policy for appointing the external Auditor to carry out non-audit services, and this should include the process by which non-audit work is reviewed and approved. Due to the concerns of maintaining auditor independence, where possible, LGIM would prefer that the Auditor was not used to provide significant non-audit services. However, if the Auditor is appointed to provide non-audit services the Annual Report & Accounts should include an explanation of how the Auditor's objectivity and independence has been safeguarded.

DISCLOSURE

LGIM would expect the Audit Committee's role, authority and activities to be disclosed in the Annual Report & Accounts. This disclosure should include a

review of the company's whistle-blowing procedures and the independent investigation and follow up of any issues reported. If the Company has chosen not to have an internal audit function then the reasons for this decision should be explained in the Annual Report & Accounts . LGIM would expect the Committee to review its position on this annually.

NON-AUDIT FEES

Where the fees for non-audit services are very high relative to the fees incurred for audit services; we would expect a full explanation to be provided in the Accounts.

Without a satisfactory explanation, LGIM may consider voting against the Annual Report & Accounts and the re-election of the Auditor.

EXTERNAL AUDITOR

The external Auditor should independently report to shareholders and independently assure the Board on the discharge of its responsibilities.

THE RISK COMMITTEE

The Risk Committee of a Bank or other Financial Institution should be served by a Chief Risk Officer (CRO) who should participate in the risk management and oversight process at the highest level. The CRO should have an internal reporting line to the Chief Executive and the Financial Director or Chief Financial Officer, but should also report to the Chairman of the Risk Committee and should have access to the independent directors of the Board. The Risk Report should be included in the Company's Annual Report & Accounts as a separate report, and the Chairman of the Risk Committee should be present at the Annual General Meeting to answer any questions which may arise. As previously mentioned, LGIM believes that companies in high risk sectors would also benefit from having a Risk Committee.

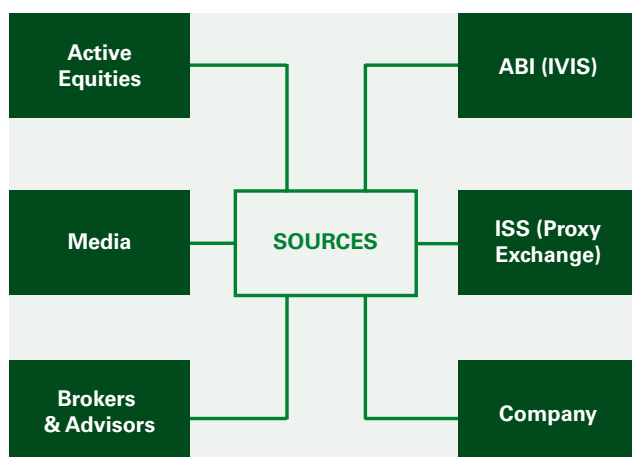
MONITORING AND ENGAGEMENT POLICY

Principle 3 of the UK Stewardship Code requires Institutional Investors to monitor its investee companies. LGIM applies its global corporate governance policy when monitoring investee companies and seeks an explanation for their departure from market best practice. After each meeting an engagement note is prepared and is held in our confidential database. A log is also maintained of all meetings held with investee companies throughout the year. Further information on how we comply with Principle 3 can be found on our voting process section. We aim to apply our global policy in all regions but accept that practices in some overseas markets vary greatly. Some of these variances and LGIM's approach have been highlighted under the relevant sections.

the explanation is inadequate and requires further explanation or the justification provided is boiler plate and does not add value, then we will contact the Company in writing for an explanation and offer to meet with the Chairman if it is felt necessary.

Depending on the issue and its significance, or if we need to register a vote in person, LGIM will attend the Annual General Meeting of an investee company.

Weekly meetings with the active equities team is used to identify companies with poor performance or corporate governance concerns and to highlight any sectors where issues may arise in the future. These meetings usually result in some form of engagement with the companies discussed.



As a significant shareholder LGIM expects companies to contact us to provide an update on corporate governance matters such as board changes, or alterations to remuneration and strategy. In accordance with the “comply or explain” regime, we expect companies to consult with us on any proposed departures from the recommendations of the UK Corporate Governance Code and best practice. We also welcome early discussions with companies that are looking to raise additional capital or are considering other corporate actions.

MONITORING

When monitoring investee companies, LGIM treats its investments: active and passive, in the same way. We expect the same high standards of corporate governance from all companies that we invest in.

However, the sources that lead to our monitoring vary widely. The ABI's Institutional Voting Information Service (IVIS) and the ISS ProxyExchange service produce reports on forthcoming meetings highlighting any areas of concern. If after considering any written explanation provided in the Annual Report & Accounts, LGIM believe that

Brokers and Advisors also contact us for our views on a possible corporate transaction or a resolution that has been tabled at a forthcoming general meeting for shareholders. LGIM expects any consultation to be a two-way engagement process.

The media is a useful source of information and can have a major impact on the reputation of a company. LGIM makes extensive use of the financial media such as Regulatory News Service for its research.

Principle 4 of the UK Stewardship Code requires Institutional Investors to have clear guidelines on how and why we would escalate engagement. **Principle 5** states that Institutional Investors should be prepared to act collectively with other investors where appropriate. The following section explains LGIM's policy regarding these requirements.

ENGAGEMENT

While the active equity team will have meetings with the Chief Executive and Finance Director, the corporate governance team will usually contact the Chairman or the Chairman of the Remuneration Committee when the matter relates to remuneration.

If initial discussions with the Chairman fail to result in improvements; and we believe that our concerns are not being addressed; or if we have concerns with the Chairman's performance then we will contact the Senior Independent Director.

If engagement with the Senior Independent Director does not deliver any changes LGIM will usually escalate its engagement by collaborating with other institutional investors either directly or via the ABI. The Corporate Governance Forum has also been useful in bringing together Institutional Investors to share concerns about investee companies.

When participating in collective engagement, due regard is placed on the guidance issued by the Takeover Panel and the Financial Services Authority. We are also mindful of our internal policy on conflicts of interest and insider dealing.

Collaborative engagement may also lead to further meetings with the other independent non-executive directors; discussions with the Company's Advisor; and or tabling a resolution at an AGM or requisitioning an EGM. Collaborative engagement is a useful medium that allows LGIM to forge better alliances with other investors, especially when dealing with companies where investor communication and engagement is limited.

During an investee meeting, the Company will usually take the first step in asking whether we wish to be made an insider. LGIM has procedures in place to deal with inside information but would only wish to be taken off-market for a short period of time. Usually, only the corporate governance team is privy to material price sensitive information and we have Chinese walls that prevent the information from being passed to the investment managers.

When discussing issues surrounding a company's environmental or social issues LGIM will either meet on a one to one basis but more usually we will collaborate with other institutions in driving improvements in performance.

ENVIRONMENTAL AND SOCIAL ISSUES

As a major global investor, LGIM has a fundamental interest in ensuring that shareholder value is not eroded by companies' failure to manage their impact on their natural and social environment. At the same time, we believe a company's value can be enhanced over time through taking advantage of opportunities which arise from developments in their operational environment.

For this reason, we engage with companies to ensure their Corporate and Social Responsibility/ Sustainability policy is applicable to their business as well as the industry and region in which they operate. We look for evidence that ambitious, yet realistic targets are set and that appropriate risk management systems are in place for identifying, managing, and mitigating any risks.

A number of examples of environmental and social issues have been provided below to demonstrate the manner in which LGIM may engage with companies:

ENVIRONMENT

Companies should identify the environmental impacts of their activities and endeavour to set their policies and procedures appropriately. It is also important that they comply with all environmental laws and regulations. Our engagement topics include:

- **Climate Change/Energy**

We expect companies to actively measure, monitor, and disclose greenhouse gas

emissions in a comparable and consistent manner. Companies in energy intensive sectors, in particular, should participate in the Carbon Disclosure Project to disclose direct and indirect emission levels.

- **Environmental Impact**

Environmental management system and life cycle assessments should be embedded into business operations, where appropriate, to identify environmental impacts as well as efficiency and opportunities for the business. Environmental Impact Assessments should be carried out when considering acquisitions. This should include biodiversity impact assessments.

SOCIAL

Companies should consider what impact their business has on society as a whole and ensure that their operations do not violate internationally recognised standards and local laws. Our engagement topics include:

- **Human Rights**

Policies and guidelines on human rights and business ethics should be developed and disseminated within the organisation.

- **Labour Standards**

Companies should respect internationally recognised labour rights and provide a safe working environment for their employees and contractors.



We recognise that companies face different challenges according to the nature of their business and their particular circumstances, and we take this into account in our evaluations.

GUIDELINES

We helped the Association of British Insurers to draw up their guidelines which were published in 2001. Since then, these guidelines have been revised, taking into account the EU Accounts Modernisation Directive and the Companies Act 2006. We continue to collaborate with such bodies to revise the latest guidelines and encourage meaningful disclosure guidelines which are beneficial to both companies and investors.

These guidelines require companies to provide the following disclosures within the Annual Report & Accounts as follows:

- Information on ESG-related risks and opportunities that may significantly affect the company's short and long term value, and how they might impact on the future of the business.
- A description of the company's policies and procedures for managing risks, the possible impact on short and long term value arising from ESG matters. If the annual report and accounts states that the Company has no such policies and procedures, the Board should provide reasons for their absence.
- Information, where appropriate, using Key Performance Indicators (KPIs), about the extent to which the Company has complied with its policies and procedures for managing material risks arising from ESG matters and about the role of the Board in providing oversight.

- Where performance falls short of the objectives, there should be an explanation on the measures the Board has taken to put it back on track.
- A description of the procedures for verification of ESG disclosures. The verification procedure should be such as to achieve a reasonable level of credibility.

With regard to the Board, the Company should state in its Remuneration Report:

- Whether the Remuneration Committee is able to consider corporate performance on ESG issues when setting remuneration of executive directors. If the report states that the committee has no such discretion, then a reason should be provided for its absence.
- Whether the Remuneration Committee has ensured that the incentive structure for senior management does not raise ESG risks by inadvertently motivating irresponsible behaviour.

In addition, we review company Corporate Social Responsibility/ Sustainability reports as well as their web content. We also have access to independent research provided by Experts in Responsible Investment Solutions (EIRIS) and Institutional Shareholder Services (ISS).

In company meetings we pay particular attention to those issues which are most relevant to the Company or the sector in which it operates. We monitor the statements made by management and question them if there is anything of concern.

Where events come to light that indicate an apparent breach in the fiduciary duties of management or a failing within risk controls, we will request a meeting with the Company to discuss our concerns.

COLLABORATIVE ENGAGEMENT

In order to most effectively engage with companies on ESG issues, we participate in a number of collaborative investor networks and initiatives.

The main initiatives LGIM has signed up to are:

- United Nations Principle of Responsible Investment (UN PRI)
- UK Sustainable Investment and Finance (UKSIF)
- Investors' Statement on Transparency in the Extractives Sector

In addition, Legal and General Group is a signatory of:

- Carbon Disclosure Project (CDP)
- ABI ClimateWise

We aim to continuously strengthen our collaboration effort, both formally and informally, with investee companies and other investors in order to promote the best practice in the handling of environmental and social matters.

INVESTMENT OPTIONS

We believe that our approach to 'responsible ownership' is beneficial to all investors, regardless of the type of investments they hold; for example, active or passive, conventional, or ethically-screened portfolios.

A strong example of LGIM's drive for sustainability within conventional funds lies in our property fund

range. The environmental and social sustainability of a portfolio of property has become increasingly linked with core business success. We recognised this trend early and were the first in the industry to provide a six-month training course on sustainable property investment to all property fund managers. We retain a keen focus on delivering the following key priorities:

- Sustainability risk management
- Climate change and energy
- Resource use and environment
- Sustainable communities

We offer a number of funds for clients who have ethical, social and environment screening criteria, a number of segregated mandates for institutional clients with customised negative screening criteria to suit their investment requirements. Similarly, for retail clients, we continuously look out for investment offerings to suit investors' requirements including sustainable and thematic funds.

In summary, we are committed to enhancing long term shareholder value by engaging with companies. We look for evidence that they are operating appropriately within the social and natural environment while maximising opportunities as they develop. We engage directly and through collaborative means with the ultimate objective of helping companies build a more sustainable model, which will be of longer term benefit to shareholders.



Principles 6 and 7 of the UK Stewardship Code require Institutional Investors to have a set of guidelines and policies in place on voting and disclosure, requiring periodical reporting on stewardship activity. The following sections illustrate LGIM's methodology on these topics.

SHAREHOLDER RIGHTS AND OTHER ISSUES

DIALOGUE WITH SHAREHOLDERS

LGIM expects the directors of a company to be available to enter into dialogue with its shareholders based on the mutual understanding of objectives.

LGIM has regular contact with companies on matters including strategy, succession, and remuneration. During the course of the year, our Equity Team will have regular contact with the Chief Executive and Finance Director of companies. In addition, the Corporate Governance Team will meet with the Chairman, Senior Independent Director, and at times the Chairman of the Board Committees as well as with key directors responsible for Social and Environmental issues.

PRE-EMPTION

Pre-emption is the right conveyed by law to shareholders to be offered any new issue of shares, pro-rata to their existing holdings, before these shares are offered to non-shareholders.

LGIM believes that pre-emption is a fundamental right for shareholders to protect their investment in a company. Its importance is such that it is incorporated in both the Companies Act 2006 and the UK Listing Rules.

A general authority for a company to issue shares with pre-emption rights, under section 551 of the Companies Act 2006, should be limited to two thirds of its issued share capital. A company whose capital requirements are greater will need to seek a new authority from shareholders, and in these circumstances shareholders would expect a full explanation.

Any company which obtains an authority to issue shares without pre-emption rights under section 570 of the Companies Act 2006 is required to use a special resolution. An authority to dis-apply pre-emption rights should be limited to 5% of the company's issued share capital; or 7.5% over a three year period. These limits were set by The Pre-emption Group and are considered market practice.

An Investment Trust may request an authority to issue up to 10% of its issued share capital so long as any issue is at a premium to the net asset value. The re-issue of treasury shares should also be at a premium to net asset value.

Any requests that exceed these guideline limits will be considered by assessing the company's business case for the issue, the size and stage of development, the sector in which it operates, its governance and other financing options open to the Company.

LGIM will oppose any resolution that would potentially have a large dilutive effect on shareholder interests.

SHARE BUY BACKS/DIVIDENDS

LGIM will support a share buy back policy that delivers shareholder value.

LGIM expects a company to have a clear dividend policy which takes into account when they consider it would be prudent to return surplus cash to shareholders.

MERGERS & ACQUISITIONS

LGIM will normally support a proposal that will create shareholder value. In a contested takeover, LGIM will aim to meet with both parties at least once before making a final decision. In a majority of cases we will support management except in circumstances of poor performance or where a full price is offered. Anti-takeover provisions (poison pills) should be avoided.

SHAREHOLDER REQUISITIONED RESOLUTIONS

LGIM will generally support management unless the resolution addresses concerns that are considered material and where discussions have failed to resolve the issue.

POLITICAL & CHARITABLE DONATIONS

LGIM will only support resolutions that authorise payments under the Political Parties, Elections and Referendums Act, and if the Company has specified that donations will not be made to political parties. The maximum amount should be appropriate for the size of the company.

As in the UK, companies in North America are affected by legislation at the Federal, State and Local level and so barring political contributions can put the Company at a competitive disadvantage. Although LGIM continues to believe that making political donations is not an appropriate use

of shareholder funds we accept this as normal North American practice. We do however, require companies to be transparent and provide detailed disclosure of all donations made.

Therefore, LGIM will support any shareholder proposal that requires a company to disclose its political donations.

In North America it is becoming more common for companies in the US to receive shareholder resolutions asking for a report on the company's charitable contributions. Many proponents claim that companies' current level of disclosure is not sufficient to allow its board and shareholders to fully evaluate the charitable use of corporate assets. However, it is not for shareholders to decide on the most worthwhile charities to which the Company should donate and unless these have not been fully disclosed or there is evidence of bad faith or gross negligence, then management should determine which contributions are in the best interests of the Company. If disclosure is satisfactory then additional disclosure would not be encouraged as this could cost the Company valuable time and resources.

PROXY CONTEST EXPENSES

In North America, where shareholders proposals are made to appoint a dissident director to the Board, shareholders may also submit proposals for the Company to reimburse their proxy solicitation



expenses. LGIM believes that if the dissident proposal is successful, this is an acceptable cost for the Company to bear.

POISON PILLS (ANTI-TAKEOVER DEVICE)

LGIM evaluates all poison pill proposals on a case by case basis. The reason for the implementation of a poison pill is that it can strengthen the Company's negotiating position in a takeover situation. However, this is only possible when the Board is more concerned with shareholder value than with protecting its own position. LGIM will look carefully at board independence as a factor in whether to vote through a company's poison pill arrangements, as a lack of independence could bring into question whether directors are acting in the best interests of shareholders. A poison pill will not be supported if there is a lack of independence on the Board.

BUNDLED RESOLUTIONS

LGIM expects unrelated matters to be tabled as separate resolutions at a company's Annual General Meeting or Extraordinary General Meeting in order to allow shareholders to consider each on its own merits.

RULE 9 WAIVER

"Rule 9 of the Takeover Code requires any person(s) who acquires an interest in shares which, when taken together with their existing shareholding and collectively with that of any concert party is in aggregate over 30% of the issued share capital but less than 50%, to make a general offer to the remaining shareholders to acquire their shares for cash at a price that is equivalent to the highest price paid during the previous twelve months prior to making the offer."

Share buy-backs can trigger Rule 9 where there is a significant shareholder. LGIM strongly opposes share buy-backs being used when there is a significant shareholder who is allowed to increase their shareholding and control over the Company without having to pay a premium to minority shareholders.

We will therefore generally oppose any requests for a Rule 9 waiver where the interested party has a holding in excess of 35% of the issued share capital.

BORROWING POWERS

Boards should consider carefully the level of debt necessary to operate the business and to maintain an efficient balance sheet. LGIM believes that in doing so, management should not ignore the importance of maintaining a healthy level of interest cover that is relevant for the business.

SHAREHOLDER RIGHTS IN NORTH AMERICA

The ability to call a special meeting should be a fundamental right for shareholders when action needs to be taken on certain matters. Sometimes this right applies only if a shareholder or group of shareholders owns a specified percentage of the outstanding shares of the Company. In the UK, acceptable practice suggests a holder(s) should hold 10% of the issued share capital but in North America, it can be as high as 30% of the outstanding capital.

Shareholder proposals requiring companies to amend their Articles to allow shareholders to call a special meeting have become quite common in the US. When assessing the merits of such proposals, LGIM will apply UK limits in approving any proposal where the shareholder(s) are expected to hold at least 10% of the Company's share capital,

Shareholders can also have the option to act by written consent which is the same as a shareholder meeting but does not involve holding a physical meeting. Consent voting forms are mailed to shareholders for their approval and signature and then delivered to management. There is no physical meeting but if a sufficient number of approvals are received the matter is deemed ratified.

Limitations on written consent are clearly contrary to shareholder interests as it would impede shareholders' ability to effect change outside of the next scheduled meeting.

Shareholder proposals to require a company to permit written consents will usually receive LGIM's support but, decisions are taken on a case by case basis taking into account existing shareholder rights and benefits supported by the Company.

A supermajority vote is one which requires more than the normal 50% of voters to support a proposal. Proposals that seek to reduce the supermajority vote requirement enhance shareholder rights as supermajority provisions violate the principle that a simple majority of voting shares is sufficient to effect change in a company and its corporate governance provisions. In relation to the election of directors, cumulative voting, which is still quite common, does not support the one share one vote ethos or the rule of the majority. It is not a transparent form of voting as it can be manipulated to force outcomes. However, a majority vote standard for the election of directors makes the voting process meaningful which LGIM will support, if elections are uncontested.

LGIM will vote in favour of any proposal to reduce the supermajority vote requirement and will vote against cumulative voting if the Company has a majority vote standard in place for the election of directors.

The issue of re-incorporation of a company into another state is an issue specific to the North American market. Shareholder proposals are put forward on this subject as asking the Company to re-incorporate into another state can improve shareholder rights. Any anticipated benefits which

come with re-incorporation must be weighed against any negative corporate governance provisions.

LGIM will vote in favour of re-incorporation into another state if it would provide shareholders with better access and benefits. However, a vote against re-incorporation would be warranted if the Company already has good shareholder access and benefits.

LGIM'S VOTING PROCESS

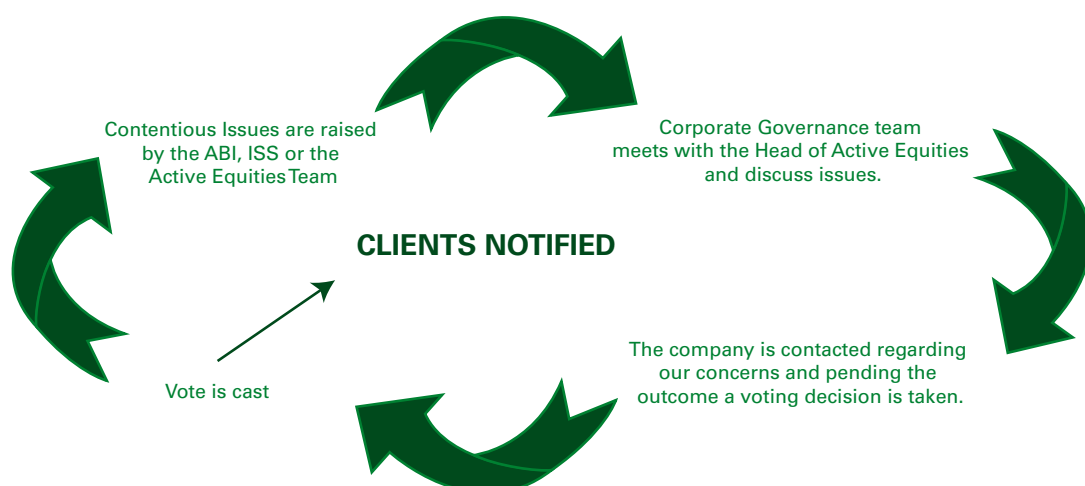
LGIM provides its clients with a valuable service in exercising their voting rights. A majority of clients allow LGIM to exercise its judgement when voting their shares, whilst others have given specific instructions for LGIM to follow the voting advice of specific voting information providers.

The Corporate Governance Team make initial voting decisions. The decisions are discussed with the Head of Active Equities and are then finalised. Any highly contentious issues will be discussed with the Chief Executive and the Non-Executive Directors of LGIM before votes are submitted. Where LGIM intends to abstain or oppose a resolution, the Company will be notified in advance to allow for further discussion.

VOTING DISCLOSURE

LGIM's clients receive quarterly reports detailing the voting and engagement activity executed on their behalf.

LGIM publicly discloses these voting decisions which can be viewed on the Corporate Governance section of the LGIM website.



Principle 2 of the UK Stewardship Code states that institutional shareholders should have a robust policy for managing conflicts of interest. The following section demonstrates LGIM's policy which has been agreed by the LGIM Board.

CONFLICTS OF INTEREST

LGIM's duty to act in the best interest of all clients/beneficiaries is at the heart of our investment activity however, conflicts may arise from time to time.

WHERE DOES IT POTENTIALLY ARISE?

- Our clients are also the companies in which LGIM invests
- The investment strategy for active equities and index funds is very different particularly in terms of the number of stocks held and the Head of Active Equities involvement in the Corporate Governance process.
- Legal & General Group plc may try to influence LGIM's thinking on Corporate Governance, rights issues, takeovers etc.

HOW DO WE MANAGE THOSE CONFLICTS?

- Any contentious issues are discussed with senior management and the Non- Executives of LGIM.
- In the event of a conflict of interest with Legal & General Group, internal procedures are in place that involve LGIMs Non-Executive Directors.
- Close engagement with the Company, including where the issue may relate to a voting matter. In this instance client account managers are also informed.



APPENDIX

1. Studies that demonstrate that companies with good corporate governance generally deliver shareholder value.
- Governance and Performance in Britain – ABI research paper 7 - 27/2/08
- Corporate Governance and Equity Prices – academic study by Paul A Gompers, Harvard University.

LINKS TO SITES DISCUSSED IN THIS DOCUMENT

2. ABI, Institutional Voting Information Service
<http://www.ivis.co.uk/>
3. Carbon Disclosure Project (CDP)
<http://www.cdproject.net>
4. ClimateWise
<http://www.climatewise.org.uk>
5. Corporate Governance Voting
<http://www.lgim.co.uk/Voting.shtml>
6. Financial Reporting Council
<http://www.frc.org.uk/>
7. Financial Services Authority
<http://www.fsa.gov.uk/>
8. Investment Management Association
<http://www.investmentuk.org/>
9. Investors' Statement on Transparency in the Extractives Sector
<http://www.eiti.org/>
10. ISS ProxyExchange (ISS)
<https://proxyexchange.riskmetrics.com/voting>
11. Institutional Voting Information Service (IVIS)
<http://www.ivis.org.uk>
12. Principles for Responsible Investment (PRI)= (UN PRI)
<http://www.unpri.org/>
13. UK Sustainable Investment and Finance (UKSIF)
<http://www.uksif.org/>





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