Corporate Governance

UK Guidelines

STANDARD LIFE INVESTMENTS

www.standardlifeinvestments.co.uk

Exceptional investments, extraordinary world

In a diverse, dynamic world, we use our insight and intellect to seek out investment opportunities. Our ability to predict, react and adapt rapidly helps us to maintain our position as a leading investment house.

Exceptional investments, extraordinary world

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About Standard Life Investments

Standard Life Investments is a leading investment company dedicated to delivering excellent investment results. As one of the UK's major investment houses, we concentrate on understanding the individual needs of our clients and aim to maximise their investment potential through a wide range of innovative products.

By sharing our knowledge and investment expertise across all asset classes, business areas and regional offices throughout Europe, North America and Asia, we fully utilise our resources to the benefit of our clients.

This, coupled with our dedication to high levels of customer service, enables Standard Life Investments to deliver a truly exceptional investment experience.

Introduction

The Principles, the Global Policies and the Policy Guidelines which follow shall apply in respect of all relevant securities managed by Standard Life Investments unless specific and duly authorised instructions are received to override them.

They are prepared to assist our investment team in fulfilling its corporate governance responsibilities and are applied flexibly and with professional care. These guidelines have been produced by Standard Life Investments to assist our investment managers when evaluating corporate governance in companies in which Standard Life Investments is, or might be, an investor. It is emphasised that these guidelines, which have been approved by the Board of Standard Life Investments, will be used by our investment management team with due care and appropriate flexibility.

We recognise the importance of effective and constructive communication and, therefore, we hope this booklet will assist you in understanding our approach to corporate governance. In particular, as long term investors, we value having a constructive dialogue with directors, both non-executive and executive, and senior executives of companies on this subject.

In addition, we participate in the formulation of policy by the Association of British Insurers and other representative bodies. We shall have regard for their policies when using these guidelines.

The guidelines will be reviewed and refreshed at appropriate intervals to ensure they remain relevant and compatible with the prevailing corporate governance environment.

Principles

We will:

- use reasonable endeavours to enhance and improve shareholder value through constructive consultation with companies and other corporate governance initiatives

- always seek to vote our clients' shares in a manner consistent with their best interests

- use reasonable endeavours to influence the development of the corporate governance environment

- communicate our corporate governance principles, policies and guidelines to clients, intermediaries, companies and other interested parties

- within the constraints of professional confidentiality and legislative and regulatory requirements, be accountable to our clients.

Global Policies

Directors

The Board
Every company should be headed by an effective board which should lead and control the company. The board has ultimate responsibility for a company's affairs and is primarily accountable to shareholders for ensuring that appropriate and effective processes are in place for carrying out the key tasks that enable if to fulfil that responsibility. These key tasks include:

- the identification and management of the principal business risks
- the development and implementation of strategy
- the development and maintenance of management structures that are consistent with enhancing shareholder value over the long term
- the oversight of the company's operations and control structures to maintain their integrity and effectiveness.

Board Balance
The board should include a balance of executive and non-executive directors (including independent non-executive directors) such that no individual or small group of individuals can dominate or inappropriately influence a board's decision taking or the processes associated therewith. The policy on board balance should be publicly explained.

Supply of Information
The board should be supplied in a timely fashion with information in a form and of a quality appropriate to enable it to discharge its duties.

Appointments to the Board
There should be a formal and transparent procedure for the appointment of directors to the board.

Re-Election
All directors should be required to submit themselves for re-election at regular intervals and at least every three years.

Responsibility
Directors should be responsible to shareholders, present and future, and should strive continuously to improve corporate performance.

Stakeholder Relations
The board of a company run in the long-term interests of its shareholders should manage effectively the company's relationships with its employees, suppliers and customers, and have regard for the environment and society as a whole.

Directors' Remuneration

The Level and Composition of Remuneration
Levels of remuneration should be sufficient to attract and retain the directors needed to run the company successfully. The component parts of remuneration should be structured so as to link rewards to corporate and individual performance and they should be considered in the context of the remuneration policies when taken as a whole.

Procedure
Companies should have a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No executive director should be involved in fixing his or her own remuneration.

Disclosure
The company's annual report should contain an informative statement of remuneration policy and details of the remuneration of each director.

Performance Related Pay
The performance measures used to determine performance related pay should:

- incentivise participants to achieve above average performance through the use of challenging targets and reward them accordingly
- at board level, primarily reflect achievement of group targets
- seek to measure significant improvements in the underlying financial performance of the company.

Accountability and Audit

Financial Reporting

A company’s board should present a balanced and understandable assessment of the company’s position and prospects.

Internal Control

A company’s board should maintain a sound system of internal control to safeguard the company’s assets.

Relationship with the Auditors

A company’s board should have formal and transparent arrangements for maintaining an appropriate and independent relationship with the company’s auditors.

Non-audit Services

A company’s board should have processes to ensure that its audit committee or other suitable body reviews and approves/ratifies non-audit services provided by the auditors. We are concerned to ensure that the level of payments for such services, and their nature should not compromise the auditors’ independence and objectivity.

Auditors

The auditors should independently report to shareholders in accordance with statutory and professional requirements and independently assure the board on the discharge of their responsibilities in accordance with professional guidance.

As Shareholders

Voting

We will implement considered policies on voting the shares we manage.

Dialogue Between Companies and Investors

We are ready, when practicable, to enter into a dialogue about strategy, performance, quality of management and other relevant issues with companies based on the mutual understanding of objectives.

Evaluation of Governance Disclosures

When evaluating companies’ governance arrangements we shall give due weight to all relevant factors drawn to our attention.

The AGM and other Shareholder Meetings

We will attend and speak at AGMs and other shareholder meetings when in our clients’ best interests.

Communicating Principles and Policy Guidelines

We will communicate our corporate governance principles, policies, policy guidelines and, when appropriate, our decisions to our clients and others who have a legitimate interest in our behaviour.

UK Policy Guidelines

Directors

In evaluating the balance of a board we will have regard to the extent to which the chairman is or has been closely involved in running the company and the strength of the non-executive representation; in particular, whether among the non-executives there is a strong independent and recognised leader. We will generally oppose any new appointments which combine the roles of chairman and chief executive unless there is such a recognised independent non-executive leader.

A director who is influential and demonstrably independent should be accessible for communication with shareholders and capable of representing, upon request, their views in the decision making process. At some companies this function can be performed by the chairman whereas at others one of the other directors should have this role.

We strongly prefer that a board should have three or more independent non-executive directors who are independent of executive management and other conflicts. Independence should be interpreted with professional discretion but have regard to whether the director:

- is a former employee of the company or group until five years after employment (or any other material connection) has ended
- 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 a performance related pay scheme, or is a member of the company's pension scheme
- has close family ties with any of the company's advisors, 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
- has served on the board for more than nine years.

We strongly prefer that a board should have three or more executive directors.

The frequency of board meetings should be disclosed.

There should be a meaningful description in the annual report of the nominations process and a commentary to support appointments made during the year.

There should be a formal process for periodically evaluating the effectiveness of the board as a whole and the contribution made by individual directors. This process should be disclosed.

A board should review regularly and update when appropriate its Memorandum and Articles of Association.

Boards should have remuneration committees which are chaired by an independent non-executive director and comprise a majority of independent non-executive directors.

Boards should have audit committees of at least three members, who should all be independent non-executive directors. At least one member of the committee, preferably the chairman, should have significant, recent and relevant financial experience.

Directors' Remuneration

Directors' service contracts should have notice periods which do not exceed 12 months unless there is special justification and/or a well-defined and acceptable mitigation policy.

We oppose the award of unmitigated and liquidated damages in the event of early termination of directors' service contracts or a change in control of the company unless the amounts equate to 12 months salary or less.

We support exceptional levels of remuneration for the achievement of exceptional performance provided that the basis for determining performance complies with our guidelines and can be justified by the board and its remuneration committee having regard to levels of remuneration within and without the company concerned.

We oppose ex-gratia and other payments and financial awards to directors and former directors that are not within the terms of the company's stated remuneration policy, unless such payments have been the subject of prior approval by shareholders.

On share incentive schemes, we:

- support relevant ABI guidelines
- oppose provisions for early release of rewards unless the spirit of the performance condition has been or is likely to be met
- oppose retesting of performance conditions when grants of conditional awards are being made on a regular rolling basis
- encourage vesting of awards 3 years or longer after the period of grant
- encourage the staggered vesting of awards
- encourage phased granting of awards
- encourage sliding scale performance measures
- oppose the re-pricing of share incentives that have been conditionally awarded to directors.

We oppose the use of total shareholder return and other share price based performance measures if they are not underpinned by a challenging measure of underlying financial performance.

Share incentive schemes and other forms of incentive pay schemes should use challenging performance conditions that are neither too easy nor too tough to achieve having regard to a range of relevant factors including market forecasts, historical performance and the economic environment.

We encourage companies to have share ownership guidelines for directors and senior executives. The levels of share ownership should be meaningful in the context of the remuneration policies, taken as a whole.

We support all employee share save, profit participation and similar schemes provided they comply with ABI guidelines.

Accountability and Audit

We support the principle of full financial disclosure, subject to issues of commercial confidentiality and prejudice.

The annual report should include a description of the role and responsibilities of the audit committee and the action taken by committee to discharge those responsibilities.

Audit committees should recommend annually to the board the reappointment or otherwise of the auditors.

We oppose indemnification of auditors by the company or by the company providing insurance cover for that purpose.

As Investors

We will participate willingly in constructive discussions with companies about their strategy, performance, quality of management and other corporate governance issues with a view to achieving improvements that could enhance shareholder value.

We expect companies to have investor relations processes that ensure there is a regular and effective dialogue about corporate governance and other issues between boards and their significant or otherwise influential investors. The involvement of non-executive directors in that dialogue can enhance significantly its effectiveness.

We will vote all shares we manage at all shareholder meetings in the UK except when otherwise instructed by the beneficial owners of these shares.

Voting

We will generally support the voting recommendation of a company's board.

In the event we vote our clients' shares against a resolution at a shareholder meeting we will always inform the company beforehand and explain the reasons.

We will only vote against a resolution after using reasonable endeavours to seek responses from the company which address the underlying concern.

We will generally vote against resolutions to approve a company's report and accounts if disclosures or policies are unsatisfactory.

We will generally vote against the re-election of directors if:

- it is the company's policy to appoint directors with service contract notice periods that exceed 1 year and there is no well-defined and acceptable mitigation policy and/or special justification

- it is the company's policy to appoint directors with service contracts that provide for liquidated or unmitigated damages that exceed 12 months' salary unless there is special justification.

If a company has no policy for future appointments then the guideline will be interpreted by reference to the policy for existing appointments.

We will generally vote against the re-election of appropriate directors if we have serious concerns regarding the composition and balance of the company's board. This will only be done if the concerns have been properly communicated to the company and due time has been allowed to permit the improvements necessary to address our concerns.

We will generally vote our clients' shares against share schemes and other forms of remuneration for directors and other senior executives which:

- reward participants for achieving average, below average or unchallenging performance targets

- do not seek to incentivise participants to achieve significant and sustained improvements in the underlying financial performance of the company

- do not, at board level, primarily reflect achievement of group targets

- may give rise to rewards for participants that are not justified by reference to relevant comparative yardsticks

- are not consistent with the spirit of ABI guidance.

We will generally oppose resolutions that seek approval for remuneration policies that are inconsistent with our guidelines.

We will generally abstain on resolutions seeking approval to make significant EU political donations.

We will generally vote our clients' shares against other resolutions which:

- are not consistent with best interests of our clients as shareholders, present and future

- conflict with the spirit of ABI or other institutional guidance.

Investment Trust Policy Guidelines

The Board

The chairman and the majority of directors should be independent. Independence shall be evaluated having regard, when appropriate, to the following features:

- not to have been employed by the management company in an executive capacity in the last four years
- no current involvement as a professional 'adviser' to the company
- no participation in share options or performance-related remuneration schemes
- no conflicting directorships
- to have been a director of the trust for a period not exceeding nine years
- not a director and/or key executive of the management company or related thereto.

When appropriate, the board should take independent advice on issues of major significance to the trust and its shareholders.

Management Contracts

The principal terms should be disclosed. The benchmark notice period should not exceed 12 months. Longer periods of notice may be appropriate and it is for the board to justify such periods.

Cross-Shareholdings

Managers and boards should be encouraged to minimise the extent of cross-shareholdings, including shareholdings by the trust in the management company. The annual report should contain a statement of policy regarding cross-shareholdings, when appropriate.

Investment Performance Benchmark

The investment performance benchmark should be aligned to the trust's objectives. Boards should be encouraged to review and approve the benchmark at least annually.

The benchmark and relative performance over the appropriate measurement period should be disclosed, with explanations, when appropriate. If a board decides not to adopt a specified benchmark then it should clearly justify its decision.

Any significant changes to the benchmark should be approved by shareholders.

Savings Schemes

When there is a savings scheme enabling investors to acquire shares at regular intervals there should be disclosure of how the costs associated with the scheme are accounted for and the cost, if any, which is borne by the trust.

Self Managed Trusts

Self managed trusts should use best endeavours to comply with the spirit of these guidelines, exercising flexibility as appropriate. For example, it would be quite appropriate for executive directors to be represented on the board of a self managed trust.

Socially Responsible Investment

Statement of Principles and Polices

We believe that a company run in the long-term interests of its shareholders should manage its relationships with its employees, suppliers and customers, and behave responsibly towards the environment and society as a whole. Companies that demonstrate a commitment to environmental and social responsibility are likely to enjoy comparative advantage in the long run. Increasingly, companies that fail to maintain adequate processes to manage these issues risk damage to their reputation and consequent negative effects on their brand and image that can directly affect their financial performance. Because we take our responsibility as an investor seriously, we seek to use our influence to encourage the achievement of best practice standards of environmental and social management at the companies in which we invest with a view to protecting and enhancing the value of the investments held on behalf of our clients.

General Principles

We will take company policies and practices on environmental and social matters into consideration in the investment process.

We will seek to improve shareholder value through constructive engagement on environmental and social issues with the companies in which we invest.

We will seek to contribute to the development of principles and standards of corporate responsibility.

We will communicate our socially responsible investment principles and policies to customers, intermediaries, and the companies in which we invest.

Policies

We believe that companies should:

- accept responsibility for the environmental impacts of their activities and endeavour to achieve best practice standards in the management and reduction of those impacts

- respect internationally recognised labour rights and provide safe and healthy working environments for their employees

- take reasonable steps to ensure that the impact of their operations should be positive and not violate internationally recognised standards on human rights

- demonstrate a commitment to best practice standards of corporate citizenship and business ethics

- ensure their boards exercise effective oversight and direction in respect of corporate responsibility policies and practices

- inform shareholders of the policies and practices they have adopted to ensure that they meet their obligations to manage their environmental responsibilities.

We recognise that the management of environmental and social responsibilities is affected by and subject to many influences. We will consider companies in context, in relation to their peers, and with consideration for the particular circumstances, industries and locations in which they operate.

Guidelines

Our guidelines on socially responsible investment have been produced to explain how we evaluate, with flexibility and professional care, the environmental and social policies and practices of companies in which we are, or might be, an investor.

In general, we expect companies to meet internationally recognised standards or industry best practice standards, whichever are higher.

We expect companies to report to shareholders in an appropriate manner on the policies and practices that they have in place for addressing the responsibilities listed below. When we evaluate companies, we will have regards for common reporting frameworks such as the Global Reporting Initiative and the DEFRA Environmental Key Performance Indicators - Reporting Guidelines for UK Business.

Environmental Responsibility

It is generally accepted that companies are responsible for the impacts of their operations and products on the environment and should take steps to assess and reduce those impacts. Efficiencies achieved by good environmental management can also lead to cost savings. We expect that companies will:

- comply with all environmental laws and regulations

- identify, manage, and reduce their environmental impacts.

Employee Relations

Companies that respect internationally recognised labour rights and provide safe and health working environments for employees are likely to derive positive results from a good quality working environment and a more committed and productive workforce. We expect that companies will:

- comply with all employment laws and regulations

- take affirmative steps to ensure that they uphold good labour standards

- adopt health and safety policies and programmes to ensure the implementation of such policies

- adopt equal employment opportunities policies and a programme for ensuring compliance with such policies

- adopt policies and programmes for employee training and development

- adopt initiatives to attract and retain talented employees, foster higher productivity and quality, and encourage in their workforce a commitment to achieving the company's mission.

Human Rights and International Operations

Companies operating in or sourcing goods from countries with a record of human rights abuse are exposed to risk to the safety of their staff and operations and the possibility of action by consumers and non-governmental organisations that oppose commercial activities perceived by them to support oppressive regimes. We expect that companies operating in or sourcing goods from such countries will:

- take affirmative steps to ensure that they do not violate internationally recognised standards on human rights and do not benefit from or use the products of others that do

- adopt human rights policy guidelines for employees, contractors and suppliers and a programme for dissemination, training and managing compliance with such guidelines if they are operating in countries which have been rated poorly on civil and political liberties by internationally recognised authorities.

Corporate Citizenship and Business Ethics

As institutions of wealth and influence, companies have significant impacts on the prosperity of their local communities and the wider world in which they operate. At the same time, a company's community relationships can impact its reputation and image, both of which influence its competitiveness. Reputation and image may also be seriously compromised if companies fail to conform to internationally recognised standards of corporate ethics on matters such as bribery and corruption. We expect that companies will strive to achieve best practice standards of corporate citizenship and business ethics through the adoption and implementation of relevant policies and practices.

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