Corporate Governance Policy and Voting Guidelines

A response by
The National Association of Pension Funds

February 2009

David Paterson: Head of Corporate Governance
National Association of Pension Funds
NIOC House
4 Victoria Street
London SW1H 0NX

NAPF
Securing the future of pensions

Contents

	Page
Introduction	4
Global Corporate Governance Principles	5
Global Remuneration Principles	7
UK Corporate Governance Principles	9
UK Voting Guidelines	11
Part 1 - Companies	
Section A: Directors	12
Section B: Remuneration	24
Section C: Accountability and Audit	28
Section D: Other Resolutions	31
Part 2 – Institutional Shareholders	
Section A: Investors' Responsibilities	35
Section B: Voting Issues	36
Part 3: - Environmental, Social and Governance	37
Appendix	39

Introduction

The members of the National Association of Pension Funds (NAPF) have a clear interest in promoting the success of the companies in which they invest either directly, in the case of pension funds, or on behalf of their pension fund clients, in the case of investment management firms. As a consequence of this, the NAPF has long considered that one of its prime functions is to represent these interests on behalf of its membership. Throughout all that the NAPF does in the area of investment there are four clear strands.

- The NAPF should assist its members in promoting the success of the companies in which they invest.
- The management of these companies should be held accountable to shareholders.
- The NAPF's efforts should be directed towards maximising the long-term benefit of its membership, irrespective of the potential for short-term discomfort.
- The NAPF Policy and Guidelines should reflect current market best practice as determined through consultation with its members and other interested parties.

The NAPF's UK Voting Guidelines are designed to assist shareholders and others in interpreting the Combined Code when considering voting decisions at company meetings. They are based solely on the Code, as issued and from time to time updated by the Financial Reporting Council, and apply only to companies whose primary listing is on the London Stock Exchange. The NAPF has also published separate guidelines for investment companies and companies listed on AIM. This publication also includes high level guidance on environmental, social and governance issues, for the first time, in recognition of their growing importance to pension funds and investors more generally.

As pension funds invest increasingly in overseas markets and are expected also to exercise the votes attaching to these investments, so it is appropriate that the NAPF should provide policy guidance which extends to markets outside the UK. The Global Corporate Governance Principles and the Global Remuneration Principles which are set out here have been prepared with this in mind. Detailed voting guidelines are the responsibility of individual schemes working with their specialist managers.

The NAPF Corporate Governance Policy and Voting Guidelines are available on the NAPF website (www.napf.co.uk).

Arno Kitts

Chairman, NAPF Investment Council, November 2007

NAPF
Securing the future of pensions

Global Corporate Governance Principles

The NAPF supports the OECD Corporate Governance Principles (published in 2004) and the ICGN Statement on Global Corporate Governance Principles (published in 2005), which provide widely accepted standards for corporate governance in many countries. It is recognised that local law and practices do vary and as a result it is not practicable to set detailed guidelines covering all markets, however investors can use these principles as benchmarks by which to judge the companies in which they invest and should use their votes in support of better compliance with them.

Full details of the OECD and ICGN principles can be found on their respective websites, but, for convenience, the OECD Principles are set out below:

- Ensuring the Basis for an Effective Corporate Governance Framework: The corporate governance framework should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities.
- The Rights of Shareholders and Key Ownership Functions: The corporate governance framework should protect and facilitate the exercise of shareholders' rights.
- The Equitable Treatment of Shareholders: The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.
- The Role of Stakeholders in Corporate Governance: The corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.
- Disclosure and Transparency: The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.
- The Responsibilities of the Board: The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.
- monitoring of management by the board, and the board's accountability to the company and the shareholders.

In addition, the NAPF believes that the informed use of votes is an obligation (although not a legal duty) of owners and an implicit fiduciary duty of Trustees and Investment Managers to whom Trustees may delegate this function. Trustees should periodically review their managers' execution of corporate governance policy and in such a review should consider among other things engagement activity, the application of voting policy and conflicts of interest. Engagement with companies is seen as a necessary part of good ownership.

The NAPF considers these overarching principles to be a sound foundation for the development of market-specific codes of best practice for funds to adopt and implement as part of their governance programmes.

Global Remuneration Principles

In July 2007, a group of leading UK institutional shareholders* prepared a set of high-level guidelines on executive remuneration, relevant to both UK and overseas markets. The NAPF supports these principles which are summarised below.

The structure of how directors and employees are rewarded for their efforts is of considerable interest to investors. It gives insights into the methods of incentive being used to reward the operators of a company. It is also important for investors to understand the cost and potential costs to their company associated with reward mechanisms that may be in operation.

Shareholders wish to be able to support the remuneration arrangements of companies in which they invest and will take into account explanations offered by a company. However, where the explanations do not appear to be reasonable, institutional investors owe a duty to their clients to express their concern. Consequently, it is helpful to investors when a company's statement of its remuneration policy is comprehensive, transparent and easily understood.

Formulation and Implementation of Policy

Investors expect companies to give a transparent, succinct and easily understood statement of the objectives of their remuneration policies.

In formulating policies and overseeing their implementation, companies should:

- Avoid paying more than is necessary;
- Use company comparisons with caution given the risk of ratcheting up pay with no corresponding improvement in performance;
- Be sensitive to pay and employment conditions elsewhere in the group;
- Avoid rewarding departing directors for poor performance.

Dialogue with Investors

There should be a dialogue between companies and their shareholders on the rewards given to executives and board members, in order to:

- Ensure that the correct alignments are set between executives and shareholders to deliver the company strategy that provides the best return to shareholders;
- Ensure that conflicts of interest are appropriately managed;

- Align the interests of senior employees with shareholders to create value in implementing the company's business strategy;
- Recognise good performance by the company and individual;
- Encourage the right behaviours to achieve good performance;
- Recruit and retain successful employees by being commercially competitive.

Factors for Consideration

The alignment of interests between Executive Directors and shareholders is greater where senior management have made a significant financial investment in the equity.

Well designed remuneration arrangements allow for both incentivisation and retention of executives. Investors are likely to look unfavourably on special one-off arrangements, in the absence of a compelling business case, as indicative of poor planning.

In formulating proposals, Remuneration Committees should be sensitive to the need for an appropriate balance between long and short-term elements of pay.

Remuneration committees will inevitably benchmark the pay of executives to what is paid in companies with whom they compete for talent. Disclosure of the benchmark group and target positioning will help investors understand the policy. Benchmarks should be used with caution. Benchmarking has been a factor behind the upward ratchet of executive pay.

The Remuneration Committee should provide a report to shareholders, explaining how it undertakes its activities. The explanation should demonstrate the steps taken in arriving at pay policy, including advice received, and the evidence that shows it takes account of the nature and development of the company's business strategy.

* institutional investors include Railpen, Newton Investment Management, JPMorgan Asset Management, Baillie Gifford, Hermes and F&C Asset Management.

NAPF
Securing the future of pensions

UK Corporate Governance Principles

- The NAPF supports the Combined Code in its entirety and wishes to add minimal requirements to that body of work.
- Engagement with Companies is a necessary part of good ownership. The NAPF and its members will engage with Companies at various levels on routine and more serious matters. In addition, the NAPF is prepared to facilitate confidential Case Committees for members who have concerns about particular issues and/or about the strategic direction of Companies. Equally, Companies should take care to ensure that their messages are clearly understood by shareholders and that the concerns of the shareholders are clearly understood by the Board. The roles of the Chairman and the Senior Independent Director in these regards are of the greatest importance.
- The NAPF expects Boards to support the Combined Code by observing its provisions wherever appropriate. Non-compliance should be accompanied by clear explanation. Shareholders should not accept "boiler-plate" explanations which provide no insights into the reasons for a Board choosing to over-ride the provisions of the Code. Equally, investors should listen to Boards which believe it is appropriate not to comply. Good corporate governance is a matter of principle and nuance, not dogma.
- The role of the Independent Non-Executive Director is a key protection for shareholders.
- Whenever a significant change is made (for example, between the roles of Executive and Non-Executive Director or to a material element of remuneration policy) the NAPF expects the matter to be brought to the attention of shareholders at the earliest opportunity and voted on where appropriate.
- The resignation of a Non-Executive Director should be announced on a regulatory information service, together with a full explanation, at the earliest opportunity.
- Nomination Committees should anticipate change by ensuring the proper planning of succession. This is part of the process of refreshing the Board to which reference is made in the Combined Code.
- The Remuneration Committee has a particular responsibility to ensure that Executive Directors and senior management are appropriately rewarded. This can best be achieved by establishing incentives which are harmonised with the stated objectives of the Company.
- The Audit Committee has arguably the most complex and demanding brief of any of the Board committees. It is important therefore that it is staffed solely by independent directors and that there is sufficient relevant experience on it to carry out its responsibilities to a high standard.

- The NAPF supports the principle underlying pre-emption rights except where a clear case is made for pre-emption rights not being applied in the context of the best interests of the owners of the company concerned. For the same reason, protecting the rights of existing shareholders and reinforcing the accountability of management to the company's owners, the NAPF will generally oppose the creation of any "poison pill" provisions.

NAPF
Securing the future of pensions

UK Voting Guidelines

For ease of reference, Section A mirrors the format of the Combined Code as much as possible.

The general structure is based around a quotation from the Code, followed by a discussion of the relevant provision and voting guidance.

The voting recommendations in this section usually pertain to the election/re-election of a Non-Executive Director or the Company Chairman. They work under the assumption that investors have evaluated explanations for non-compliance and taken account of a company's individual circumstances and should in no way be interpreted as being prescriptive.

"Comply or explain" confers a dual responsibility: it is the Company's duty to avoid "boiler-plate" explanations, providing instead a thoughtful explanation for areas of non-compliance. Conversely, investors should evaluate explanations, taking care not to adopt a mechanistic approach and should make companies aware of the reasoning behind their votes on contentious issues. An effective "comply or explain" regime will inevitably be based on regular and open dialogue between companies and shareholders, which should extend beyond voting season.

Voting decisions on a Director's election or re-election should be made in the context of a company's overall governance arrangements and any trends towards (or away from) improved standards.

Certain governance issues would not generally have voting consequences; an accumulation of minor issues, however, may be indicative of poor governance. A holistic approach should be adopted when assessing governance arrangements.

Finally, shareholders should balance the "signalling" effect of a voting sanction against the potential for it to exacerbate the situation which they seek to remedy.

PART 1 – COMPANIES

SECTION A: DIRECTORS

A.1: BOARD & COMMITTEES

Every company should be headed by an effective board, which is collectively responsible for the success of the company [Combined Code A.1]

"The board should include a balance of executive and Non-Executive directors (and in particular independent Non-Executive Directors) such that no individual or small group of individuals can dominate the board's decision making" [A.3]

The balance and structure of the Board are of critical importance and the NAPF has consistently supported the concept of a unitary Board with a balance of Executive Directors and independent Non-Executive Directors.

All the directors on a unitary Board are responsible for the strategy and governance of the company. The Executive Directors are responsible for the successful implementation of that strategy.

The independent Non-Executive Directors have a special responsibility for the oversight of the performance of the Executive Directors and have a key role in managing conflicts.

Where a company has an Executive Chairman or a combined Chairman/CEO, that individual should be classified as an executive for the purposes of assessing Board balance.

A.1.1: Balance of Board

"Except for smaller companies, at least half the board, excluding the chairman, should comprise non-executive directors determined by the board to be independent. A smaller company should have at least two independent non-executive directors" [A.3.2]

A.1.1.1: Board balance not met because of Non-Independent Non-Executive Director

Where the presence of one (or more) non-independent Non-Executive Directors impairs Board balance, the role of such Non-Executive Directors should be clarified. The Company should justify why it believes the independent element is sufficiently strong to counter the imbalance and why the continued presence of the non-independent Non-Executive Director is in the interests of the Company and its shareholders.

It may be advisable for the company to appoint additional independent Non-Executive Directors, although this should be evaluated by investors on a case-by-case basis.

Voting:
Investors may consider that a vote against a non-independent Non-Executive Director is appropriate in order to achieve Board balance.

A.1.1.2: Insufficient Independent Non-Executive Directors
Where there is insufficient independent representation, investors will require a detailed explanation as to why the company's exceptional circumstances justify the situation. Ideally a timetable for compliance should be provided.

Voting:
Investors may consider voting against the Chairman (or a member) of the Nomination Committee, whose role it is to ensure that the Board is properly constituted.

A.1.2: Committees

A.1.2.1: Committee Composition
The Combined Code stipulates that the Audit, Remuneration and Nomination Committees are constituted as follows:

- Audit and Remuneration Board Committees of FTSE 350 companies are required to have a minimum of three members each.

- Listed companies outside the FTSE 350 are required to have a minimum of two Independent Non-Executive Directors on their Audit and Remuneration Committees.

- The Audit Committee is to comprise only independent Non-Executive Directors. (but see below)

- The Remuneration Committee is to comprise independent Non-Executive Directors. In addition, the Company Chairman may also be a member of, but not chair, the Committee if he or she was considered independent on appointment as chairman.

- All Listed Companies are required to have a majority of, and a minimum of two, Independent Non-Executive Directors on their Nomination Committees. The other members of the Nomination Committee may comprise any combination of non-independent Non-Executive Directors and Executive Directors.

A.1.2.2: Non-Independent Non-Executive Director on Committees

Where a non-independent Non-Executive Director sits on the Audit or Remuneration Committee, the onus is on the Company to justify the arrangements and for investors to assess this explanation.

Voting:

Where a non-independent Non-Executive Director sits on the Audit or Remuneration Committee, investors may wish to consider voting against that individual's re-election. Where the Nomination Committee does not comprise a majority of Independent Non-Executive Directors, voting against a non-independent Non-Executive Director may be appropriate.

It is especially important that the Chairman of the Remuneration and Audit Committees be independent and investors will wish to be particularly rigorous in applying a sanction where this is not the case.

Investors might, however, wish to avoid an adverse vote where such a move would exacerbate the situation which they seek to remedy. In the case of the Audit Committee, where the sole member with recent and relevant experience did not meet the independence criteria, investors should balance the requirement for a wholly independent Committee with the need for financial expertise.

A.1.2.3: Size of Committees

If the size of the Committee does not meet the Code's recommendations, the Company should explain why this is the case and outline its plans to remedy the situation.

Voting:

If the situation is not addressed, it may be appropriate for investors to vote against the Chairman of the Committee in question, whose responsibility it is to properly staff the Committee.

A.1.2.4: Failure to Establish Committees

Voting:

Where a company has failed to establish any of the key committees and has not outlined a timetable for compliance, it might be appropriate for investors to vote against the most senior non-executive on the Board (assuming that the company has appointed non-executive directors) or to consider voting against the company's report and accounts.

A.1.2.5: Chairman on the Audit Committee

Investors would require a compelling explanation for the Board Chairman's membership of the Audit Committee. However, the NAPF recognises that at some smaller companies an exception will from time to time be appropriate and

recommends that investors are flexible in the application of this Guideline; again, an explanation should be provided in these exceptional cases.

Voting:
Given the broader consequences of a Chairman being removed, an appropriate sanction may be to abstain on the re-election of the Board Chairman, where he/she sits on/chairs the Audit Committee.

A.1.2.6: Chairman on the Remuneration Committee
The Chairman may sit on the Remuneration Committee (although not chair it) if he/she met the independence criteria on appointment and where independence has not been compromised in the interim.

Voting:
Where the Board Chairman was not independent on appointment and sits on the Remuneration Committee, investors may wish to abstain on his/her re-election. A similar sanction may be appropriate where the Board Chairman chairs the Remuneration Committee, irrespective of his/her independence on appointment.

A.1.2.7: Committee Refreshment
The principle of Committee refreshment pertains to all the key Committees, according to the Combined Code's direction that "The value of ensuring that committee membership is refreshed and that undue reliance is not placed on particular individuals should be taken into account in deciding chairmanship and membership of committees" [A.3].

It is recognised, however, that refreshment of the key Committees can prove challenging for smaller companies.

Voting:
Where it is considered that excessive responsibilities have been placed on a director, investors may wish to abstain on the re-election of the Chairman, who ultimately is responsible for the operation of the Board and its committees.

A.1.2.8: Terms of Reference of Committees
The Combined Code stipulates that the Terms of Reference of the Audit, Remuneration and Nomination Committees, including their role and the authority delegated to them by the Board, should be made available. These should be posted on the Company's website and kept updated.

A.2: CHAIRMAN & CHIEF EXECUTIVE

A.2.1: Appointment of new Chairman

If a new Chairman has been appointed or a successor to the current Chairman has been announced/proposed, the Board should provide shareholders with confirmation in the Annual Report that the past/retiring Chairman was not involved in the selection or appointment of his/her successor.

A.2.2: Chairman's other commitments /Independence on appointment

"The chairman's other significant commitments should be disclosed to the board before appointment and included in the annual report. Changes to such commitments should be reported to the board as they arise, and included in the next annual report. No individual should be appointed to a second chairmanship of a FTSE 100 company" [A.4.3]

The FRC is currently consulting on removing this restriction from the Code; there appears to be broad support for the move. It is for the Nomination Committee and the Board to determine whether there may be an issue depending on circumstances. Similar considerations should apply to "large and complex" and overseas companies, as all can place substantial demands on their Chairmen.

In cases of multiple appointments, investors will require a compelling explanation as to how the Chairman's multiple corporate responsibilities are managed with no detriment to the company. It is important to take account of the extra time commitment that would be required in periods of crisis.

"The Chairman should on appointment meet the independence criteria set" [A.3.1]

If the Chairman is not independent on appointment, the company should consult its investors and provide a detailed explanation as to why it considers the appointment desirable. Investors will wish to approach each case on its individual merits.

The calibre of the individual, the balance of the Board, and the nature of the impediment to the proposed Chairman's independence may all be factors in investors' deliberations.

The NAPF appreciates that voting against the election of a Chairman is a decision with broader implications. However, this must be balanced against the requirement for a Chairman to have sufficient time to fulfil his/her responsibilities and to be independent on appointment. These are issues which call for extensive dialogue between companies and their owners.

Voting:

In the above cases, investors may consider an actively withheld vote or a vote against the re-election of the Chairman of the Nomination Committee, or in exceptional circumstances, against the proposed Board Chairman.

A.2.3: CEO – Succession to Chairman

"A chief executive should not go on to be chairman of the same company. If exceptionally a board decides that a chief executive should become chairman, the board should consult major shareholders in advance and should set out its reasons to shareholders at the time of the appointment and in the next annual report" [A.2.2]

The succession of the CEO to Chairman is a significant issue, acceptable only on rare occasions. The company should enter into early dialogue with its investors and provide an explanation for the proposed succession. Investors would expect confirmation that external search consultants had been engaged and that external candidates of at least equivalent stature had been considered.

The complexity of the business is an insufficiently persuasive argument *ipso facto* to justify this type of succession. Given the issues posed by a former CEO assuming chairmanship of the Board, it is important for shareholder approval to be sought at the AGM coinciding with or following his/her appointment.

Voting:

Investors may consider an actively withheld vote or a vote against the re-election of the Chairman of the Nomination Committee, or in exceptional circumstances, against the incoming Board Chairman.

A.2.4: Separation of Chairman and CEO

"There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision" [A.2]

This is a cornerstone of good governance, enshrined in the Combined Code and propounded for many years by the NAPF. The contravention of this tenet, by (a) the combination of the roles; or (b) the designation of an Executive Chairman would cause significant concern.

The temporary combination of the roles may be justified, notably when a Chairman "bridges the gap" between the departure of a CEO and the appointment of his/her successor.

Voting (new):
Investors may consider an actively withheld vote or a vote against the Board Chairman in the event of the role being combined for more than one year.

A.2.5: Senior Independent Director
"The board should appoint one of the independent non-executive directors to be the senior independent director. The senior independent director should be available to shareholders if they have concerns which contact through the normal channels of chairman, chief executive or finance director has failed to resolve or for which such contact is inappropriate" [A.3.3]

Voting:
Where no Senior Independent Director has been identified, an appropriate voting sanction, taking account of the Company's circumstances, may be to vote against the re-election of the Chairman of the Nomination Committee. Where the individual designated as the Senior Independent Director is not deemed independent, voting against his/her re-election may be appropriate.

A.2.6: Continued material non-compliance with the Combined Code, without adequate explanation (new)
Investors consider that the Chairman is ultimately responsible for the maintenance and oversight of a strong governance policy. In the event of continued material non-compliance with the Principles of the Combined Code, he/she should be held accountable by investors.

Voting (new):
Investors may consider an actively withheld vote or a vote against the re-election of the Board Chairman.

A.3: NON-EXECUTIVE DIRECTORS & INDEPENDENCE

A.3.1: Criteria for Independence
"The board should identify in the annual report each non-executive director it considers to be independent. The board should determine whether the director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement" [A.3.1]

Seven such circumstances are set out in the Combined Code.

One of these contains two elements which the NAPF considers to be sufficiently distinct to be treated separately: Cross Directorships and Significant Links, which are discussed below.

The issue of director independence calls for a particularly thoughtful application of the "comply or explain" principle. The onus is on the Company to provide a detailed and considered explanation as to why it considers a director to remain independent despite the existence of one (or more) of the seven factors.

Some of the more complex impediments to independence are discussed below:

A.3.2: Length of tenure

This is an aspect of the Code that has triggered much discussion. The NAPF appreciates that nine years is a milestone, rather than a fixed date after which independence is entirely lost, and before which it is entirely present. A pragmatic approach from companies and investors is therefore required.

As an over-riding principle, the NAPF does not dismiss the possibility that a long serving Non-Executive Director can remain independent. However, independence is likely to diminish with time and the Company has a responsibility for explaining why a long-serving Non-Executive Director remains independent.

Just as the Company has a responsibility to consider independence carefully in these circumstances, equally shareholders will wish to assess the Company's explanation and may take account of some or all of the following factors:

- General Board refreshment and succession planning. This is perhaps the most important consideration.
- Overall corporate governance standards and history and wider independence on the Board.
- Evidence of independence in the Director's conduct.
- Confirmation that independence (as distinct from performance) was evaluated.

The length of service of the executives may also be a factor: should the executives have been *in situ* for a relatively short period, the likelihood of remaining independent from management is stronger (the issue of independence from the Company remains) and the stronger the argument for Board continuity.

A.3.3: Cross-Directorships

Cross-directorships may create links between Directors which are of potential concern to shareholders. They occur when two or more Directors of the Company are also Directors of another Company or a Company in the same group (which includes holding, subsidiary companies and joint venture companies).

Independence is compromised where a directly reciprocal cross-directorship is involved or created. This happens when a Non-Executive Director of "Company A" is also an Executive Director of "Company B" where an Executive Director of Company A sits on the Board as Non-Executive Director.

In these circumstances it is unlikely that investors will regard the Non-Executive Director of Company A as independent. The Chairman of the Board should look to resolve these concerns through discussion with the Directors involved in the cross-directorship and appropriate action being taken. The fact of such cross directorships should also be disclosed and explained.

Cross-directorships which are not directly reciprocal are less likely to raise concerns of independence but should be reviewed by investors in the light of each specific set of circumstances.

A.3.4: Links to a Significant Shareholder

Under UK Company Law, Directors and the Board are responsible to shareholders as a body and not any specific shareholder.

In the situation where an individual Director has been appointed to the Board as the representative of or through the contractual Board rights of a significant shareholder, other shareholders may have concerns in the following areas:

- Whether a Director who consistently faces conflicts of interest or represents the interests of one shareholder should remain on the Board – irrespective of whether or not designated by the Board as an Independent Non-Executive Director. This is an issue for the Chairman and other Directors to address.
- Whether the Director was appointed through 'a formal, rigorous and transparent procedure' as required by the Combined Code. Board appointments which are effectively controlled by, or in the gift of, or subject to the approval of a third party are unlikely to meet the requirements of a rigorous and transparent process.
- How conflicts of interest are dealt with by the Board. The NAPF considers that a Non-Executive Director 'represents' a significant shareholder if he/she is:
    - An employee of a shareholder or remunerated by a shareholder (e.g. directly or indirectly, for example through receiving consultancy income from the shareholder).
    - Appointed to the Board as a contractual right of the shareholder – for example at the time of a financing or as a result of a partial merger, acquisition or joint venture.

If such individuals are appointed to the Board, it is preferable that the Nomination Committee, Board and shareholders are consistent in the treatment of the Director as being non-independent.

A.3.5: Concurrent Tenure (new):

Where a director has served for over nine years concurrently with an executive director, that director should no longer be deemed to be independent. He/she should therefore no longer serve on those committees which should consist solely of independent directors.

Voting:

There can be no objection in principle to non-independent directors sitting on the Board. Voting sanctions against a non-independent Non-Executive Director would normally be warranted only where the composition of the key committees or the balance of the Board was compromised.

A.4: APPOINTMENTS OT THE BOARD

A.4.1: Process for Appointments

"There should be a formal, rigorous and transparent procedure for the appointment of new directors to the Board" [A.4]

The terms of appointment and service contracts for each Director should be available for inspection at the Company's registered offices, on its website and at the AGM.

Voting:

If this information is not available, investors may wish to consider voting against the re-election of the Chairman of the Nomination Committee, whose responsibility it is to make the terms of appointment available.

A.4.2: Meeting attendance

"[The Annual Report] should also set out the number of meetings of the board and those committees and individual attendance by directors" [A.1.2]

Where a director has been unable to attend a number of Board or Committee meetings, an explanation should be provided in the annual report. Low attendance rates, unaccompanied by a suitable explanation, may be a factor when shareholders consider the re-election of directors.

Voting:

Where a trend of low attendance has been identified, in the absence of a sufficient explanation and perhaps over the space of more than one year, voting against the Non-Executive concerned may be an appropriate sanction.

A.4.3: Succession Planning & Board Refreshment

"The Board should satisfy itself that plans are in place for orderly succession for appointments to the Board and to senior management" [A.4]

Succession planning is vital to ensuring the effective functioning of the Board in the long term. Policies on succession planning should be formulated and disclosed in the Company's annual report. When reaching voting decisions on contentious issues, succession planning will often be a factor in investors' deliberations.

"The Board should ensure planned and progressive refreshing of the Board" [A.7]

The Board should establish and annually review its policy for Committee and Board refreshment. As part of the implementation of the policy, the Chairman or the Nomination Committee should formally evaluate, through a structured process agreed with the Board, the balance of skills, knowledge and experience, a process which should be undertaken annually and be used to support the Board's annual review.

A.4.5: Work of the Nomination Committee

"There should be a nomination committee which should lead the process for board appointments and make recommendations to the board" [A.4.1]

The Annual Report should include a summary of the major matters dealt with by the Nomination Committee. If any appointments have been made, the process should be disclosed. In addition, "An explanation should be given if neither an external search consultancy nor open advertising has been used in the appointment of a chairman or a non-executive director" [A.4.6]

Voting:

In the absence of a satisfactory explanation, shareholders may choose to abstain on or vote against the re-election of the Chairman or a member of the Nomination Committee.

A.5: PERFORMANCE EVALUATION

"The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors" [A.6]

"The board should state in the annual report how performance evaluation of the board, its committees and its individual directors has been conducted. The non-executive directors, led by the senior independent director, should be responsible for performance evaluation of the chairman, taking into account the views of executive directors" [A.6.1]

Companies are encouraged to comment on the results of such evaluations, and any actions taken in consequence, in its annual report, avoiding boiler-plate statements. The appointment of external consultants, perhaps on a rotating basis, should be considered.

Voting:
Shareholders may choose to abstain on the re-election of the Chairman or the Senior Independent Director where there is clear evidence of shortcomings in the evaluation process.

A.6: RE-ELECTION

A.6.1: Re-election of directors
"All directors should be subject to re-election at regular intervals, subject to continued satisfactory performance" [A.7]

"The names of directors submitted for re-election should be accompanied by sufficient biographical details and other relevant information to enable shareholders to take an informed decision on the election." [A.7.1]

Sufficient biographical details should comprise a statement of a Director's other directorships and responsibilities (including any relevant previous positions held) and the contribution that the Director can make to the Board.

In all cases, the Board should explain to shareholders why it believes that the Director should be re-elected and confirm that the Director has recently been subject to formal performance evaluation and continues to be an effective member of the Board.

When the Director is an independent Non-Executive proposed for re-election beyond six or nine years, a particularly rigorous review and evaluation process will be necessary.

Voting:
Shareholders may choose to vote against the re-election of a Director in the absence of a supporting statement from the Board or where there is clear evidence of poor performance by the individual or the company.

SECTION B: REMUNERATION

B.1: REMUNERATION POLICY

The principles discussed earlier in this document, although applying globally as well as domestically, echo the Combined Code's main principles on remuneration, as set out below:

"Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but 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 rewards to corporate and individual performance." [B.1]

and;

"There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration." [B.2]

In the UK, good practice in remuneration has been set out by the Association of British Insurers (ABI) in its "Executive Remuneration – ABI Guidelines on Policies and Practice". These can be found at http://www.ivis.co.uk/. The NAPF anticipates that most institutional investors and issuers will use the ABI Guidelines as a benchmark for remuneration policies and has therefore chosen not to re-interpret them in detail here.

B1.1: Voting on the Remuneration Report

Most individual elements of remuneration policy are likely to be insufficient to trigger a voting sanction in isolation, but might warrant such a measure when coupled with other deviations from good practice. It is also important for investors to be aware of recurring trends in remuneration (for example, a basic salary increase in excess of inflation in a particular year may not cause excessive concern whereas a trend of such increases might well).

Just as the Remuneration Committee should adopt a holistic approach when designing and assessing packages, so investors should evaluate remuneration arrangements in their entirety.

Remuneration practices which would likely cause concern and may trigger a voting sanction include:

- Increases in base salary in excess of inflation, unsupported by a satisfactory explanation
- The use of inappropriate benchmarks when setting base pay
- Guaranteed, pensionable or discretionary annual bonuses
- Insufficient disclosure on the scope of annual bonuses and performance conditions (retrospective disclosure is acceptable)
- The absence of individual participation limits for long-term schemes and annual bonuses
- Transaction-related bonuses
- Grants of 'matching shares' without attendant performance conditions
- Long-term incentives featuring a performance period of less than three years
- Insufficient disclosure on performance conditions attached to long-term share schemes
- A disproportionate amount of a long-term award vesting on median or on-target performance
- Any provision for re-testing of performance conditions
- Grants of options at a discount to market value
- Breaching of the dilution guidelines
- Provisions for early vesting of share awards where pro-rating (for both time and performance) is not applied
- Ex-gratia and other non-contractual payments
- Change in control provisions triggering earlier and/or larger payments and rewards
- Extra-contractual payments on termination of employment
- Notice periods in excess of one year
- The absence of service contracts of Executive Directors
- Unwarranted use of discretion

This checklist is not exhaustive, particularly as good practice in this area continues to evolve.

No changes are proposed to the remuneration policy for 2009. However, following consultation with NAPF members and in the light of the current economic crisis investors can be expected to focus on companies' application of a few principles:

Executive pay policy should be clearly aligned with pay policies in the company as a whole (as recommended by the Combined Code).

For Executive directors:

- Base pay: increases capped at inflation, unless there are sound and compelling reasons for a different approach;

- Bonuses: aligned with profits - thus if profits fall then bonuses also fall' as a corollary, the bonus opportunity should not normally be greater than in 2007/8;
- Share Plans: we expect EPS (but nor TSR) performance targets will be reduced, reflecting recessionary conditions, but at the same time it is reasonable to expect the scale of awards to be reduced. Many awards were increased in recent years in exchange for more stretching/higher targets.

B.1.2: Voting against Chairman/Member of Remuneration Committee

The resolution on the remuneration report is generally an appropriate channel for registering concern at a company's remuneration practices.

However, where severe or persistent infringements of good practice have been identified, or there is evidence from the remuneration arrangements of a policy generally unaligned with shareholders' interests, a vote against the Chairman (or member) of the Remuneration Committee may also be appropriate.

B.2: WORK OF THE REMUNERATION COMMITTEE

B.2.1: Responsibilities of members of the Remuneration Committee

"The Remuneration Committee should have delegated responsibility for setting remuneration for all executive directors and the chairman, including pension rights and any compensation payments" [B.2.2]

The Remuneration Committee is responsible for the formulation and implementation of executive remuneration packages. While remuneration consultants may act as advisers, they should not involve themselves in the decision-making process, which is the responsibility of the Committee members.

Members of the Remuneration Committee should fully understand:

- The key parameters and structure of the remuneration policy set by the Committee
- How this has been applied to the remuneration and incentive arrangements for the Executive Directors and other senior executives falling within the Committee's responsibilities
- (a) the cost to the Company and (b) the potential end-value to each participant of the Company's remuneration schemes (with reference to a reasonable range of assumptions regarding personal and corporate performance)

B.2.2: Use of Remuneration Consultants

Consultants to the Remuneration Committee should be independently appointed by the Committee and be independent of the Company's management. Potential conflicts of interest should be scrupulously and demonstrably avoided.

The Remuneration Committee is exclusively responsible for the selection and appointment of its advisors.

"Where remuneration consultants are appointed, a statement should be made available of whether they have any other connection with the company" [B.2.1]

If any services are provided by the same Remuneration Consultants to the Company:

- They should be minimised with respect to both the scope and value of services provided to the Remuneration Committee
- Fully disclosed to the Remuneration Committee and to shareholders
- The Chairman of the Remuneration Committee should explain to shareholders why it is appropriate for the Committee to appoint the same Consultants as the Company, notwithstanding this conflict of interest.

SECTION C: ACCOUNTABILITY AND AUDIT

The Combined Code emphasises the importance of good-quality financial reporting, a sound system of internal controls and the role of the Audit Committee. The NAPF supports the appropriate application of the Turnbull and Smith guidance on internal controls and the role of the Audit Committee. Shortcomings by companies and their boards in these areas are likely to attract criticism from shareholders and potentially adverse voting decisions.

The FRC published papers on "Choice in the UK Audit Market" and "Promoting Audit Quality" in October 2007. The NAPF responded to the consultations on both and supports the FRC's work and broad conclusions. Specifically, there is scope for improvement in the accountability of boards for their auditor selection decisions. Shareholders should work with boards and the FRC to develop good practice.

C.1: Work of the Audit Committee

"The board should establish an audit committee of at least three, or in the case of smaller companies' two, members, who should all be independent non-executive directors. The board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience." [C.3.1]

C.2: External Auditors

The appointment of external auditors is a separate issue to the setting of the auditor's remuneration. This is principally because shareholders may have concerns about the balance between audit and non-audit fees which need to be considered separately, or substantially so, to the appointment of the auditor alone. Therefore separate resolutions should cover the appointment of auditors and the setting of (or the authorising of the Board to set) auditors' fees.

C.3: Periodic Tender of Audit Services and Change of External Auditors

There is a consensus among investors that periodic tendering of the audit service helps to maintain auditor objectivity. Companies are therefore encouraged to consider submitting the audit function to periodic tender and disclose their policy on this matter, including when the audit was last subject to tender.

Change of auditors should be explained to shareholders.

Where the auditors have resigned, the resignation letter should be posted on the Company's website.

C.4: Non-audit services

"The Annual Report should explain to shareholders how, if the auditor provides non-audit services, auditor objectivity and independence is safeguarded" [C.3.7]

Where the Auditors also supply a substantial volume of non-audit services to the Company, the Audit Committee should keep the nature and extent of such services under regular review, seeking to balance the maintenance of objectivity and value for money. In addition, in the Annual Report there should be full disclosure of the value of any non-audit fees. There should be a clear break-down between the types of services received, with tax compliance services differentiated from tax advisory services and non-statutory acquisition-related services separated from statutory services.

Investors are concerned about the tendency of companies to use their auditors for non-audit work. While this can on occasion be justified on grounds of cost and relevant expertise, more use should be made of third parties. We therefore propose a non-audit fee cap of 100% of audit, absent an explanation of the exceptional circumstances which apply. A company's clearly defined policy on non-audit work should form part of the Audit Committee's report to shareholders.

If non-audit fees comprise more than 20% of the audit fees disclosed in the Annual Report, investors should seek an analysis of the principal areas of non-audit fees.

Voting:
Voting sanctions may be required when a breakdown of non-audit fees is not provided (where they comprise more than 20% of the audit fee) or where there is not an adequate explanation in the Annual Report of how auditor objectivity and independence of the auditor and audit is safeguarded.

If shareholders have major concerns on auditor and/or non-audit fee issues which are not resolved by the Board or Company to their satisfaction, voting against the re-election of the Chairman of the Audit Committee, or another member of the Audit Committee or, in exceptional circumstances, the reappointment of the Auditor may be appropriate.

C.5: Disclosure on Re-Selection of Auditors

The NAPF encourages improved disclosure on the auditor re-selection decision and the disclosure of any contractual obligations to appoint audit firms, in the interests of making the criteria used for auditor selection and evaluation as explicit as possible.

C.6: Auditor Liability

Under the 2006 Companies Act, companies are for the first time allowed to agree with their auditors a limitation of their liability. Such arrangements must be agreed annually and at public companies each must be approved - either prospectively or in retrospect - by the shareholders. Companies are not obliged to enter into such agreements but we expect that most companies will seek shareholder approval on an annual basis.

The NAPF and many institutional investors support proportional liability, whereby each party is liable for a portion of the loss commensurate with their responsibility for it, in the expectation that this would lead to improved audit quality. It should be noted that the Companies Act makes it clear that liability cannot be limited below what the courts deem "fair and reasonable" in all the circumstances - in effect, proportional liability.

Voting:
Investors should consider voting against resolutions which propose any form of liability limitation other than proportional liability unless there are compelling reasons why that is not appropriate, and why the directors feel that another form of liability limitation would survive a court's judgement of what is fair and reasonable in all the circumstances.

SECTION D: OTHER RESOLUTIONS

D.1: MEMORANDUM & ARTICLES

Any changes proposed to the Company's Memorandum & Articles should be explained. In addition, Boards should regularly review the Company's Memorandum and Articles, consult with major shareholders on material amendments and make the Memorandum & Articles readily available.

Voting:
Investors will normally wish to support changes to the Company's Memorandum and Articles, provided that it is clearly demonstrated by the Board that any changes will not detract from shareholder value or materially reduce shareholder rights.

D.1.2: Non-routine changes to Memorandum & Articles not to be bundled

Changes to the Company's Memorandum and Articles should not be 'bundled' into a single resolution when they cover separate or substantially separate issues, or non-routine matters.

Voting:
Shareholders may consider voting against changes to the Memorandum & Articles if non-routine changes or changes which cover separate or substantially separate issues are included in the same resolution.

D.1.3: Borrowing Limits

Where a company seeks to increase its borrowing powers, a limit should be stated.

Voting (new):
Where a material increase in borrowing powers or no limit is proposed, it may be appropriate for investors to vote against the proposed change(s) to the Memorandum & Articles

D.1.4: Conflicts of Interest

The Companies Act 2006 includes four separate sections relating to conflicts of interest and their disclosure. These differentiate between interests in transactions and arrangements with the Company, which must be disclosed but need not be approved and all other conflicts, which will require approval.

In the second instance, the Act creates a duty to avoid a situation where a director has an interest which may conflict with the Company's interests, which would apply to the exploitation of any property, information and opportunity.

The new provisions have implications for directors with multiple Board appointments. Consideration of this issue will be required where a new director is appointed or an existing director wishes to assume a new directorship.

As the Act allows for conflicts of interest to be dealt with in the Articles of Association, it is anticipated that companies will take advantage of this provision and amend their Articles to provide for areas where conflicts are likely to arise.

D.1.5: Indemnification

Where a company seeks to provide for director indemnification in the Articles & Memorandum, auditor indemnification should be explicitly precluded.

D.1.6 (new): Dispute Resolution

The introduction or maintenance of a provision in the Company's Articles of Association which prescribes arbitration as the sole mode for settlement of all or a significant class of disputes between shareholders (whether acting in their own right or on in the name of the company, as applicable) and any one or more of the Company, its directors, executive management, or its professional advisors, should be viewed in the first instance as a material reduction in shareholder rights.

D.2: DIVIDENDS

D.2.1 Shareholder approval for final dividend

If shareholder approval is not sought for the approval of the final dividend, investors may wish to consider voting against the Company's report and accounts, except where companies can demonstrate that changing their practice to seek shareholder approval of the dividend would significantly delay payment, to the material disadvantage of shareholders.

D.2.2 Cash alternative when scrip dividend proposed

There should always be a cash dividend available as an option to a scrip dividend or other equivalent paper. If such an option is not available, shareholders may wish to vote against approval of the dividend.

D.3: SHARE ISSUES & PURCHASES

D.3.1: Shareholder approval required for issue of new shares

In accordance with Company law, companies must secure shareholder approval to be able to issue new shares. Resolutions allowing the Company to issue new shares are normally of two types known as 'Section 80' and 'Section 95' Authorities:

Sections 80 and 89 Authorities allow companies to issue new shares. The accepted limit to this authority is normally one-third of the Company's issued share capital at the time the authority is approved. If issued to this maximum, the new shares would be

equivalent to 25% of the enlarged issued share capital. Under the Principles of the Pre-Emption Group and frequently also under companies' own Articles, these shares would normally have to be first offered to existing shareholders.

Section 95 Authorities allow companies to issue shares for cash without the application of pre-emption rights. The maximum allowed under the Pre-Emption Principles is equivalent to 5% of the issued share capital at the time of the Authority. A multi-year limit also applies, typically a maximum of 7.5% of shares to be issued over three years without the application of pre-emption rights. The Principles do support flexibility in their application and, while the onus is on companies to make the case, investors "should review that case on its merits and decide on each individually, using the usual investment criteria".

When presenting such resolutions:

1. Section 80 and Section 95 Authorities should be separated into two resolutions
2. Section 80 and Section 95 Authorities should be renewed annually

Voting:
Where Section 80 and 95 Resolutions which (a) are bundled together, or with any other voting issue (b) which are not consistent with Pre-Emption Principles without a satisfactory explanation and (c) grant Authorities for more than one year, an adverse vote would usually be appropriate.

(The Pre-Emption Group comprises listed companies, investors and intermediaries. It monitors the development of practice in this area, agrees to any revisions to the Principles, and examines whether the relevant processes could operate more efficiently. The Statement of Principles can be found on the Group's website: http://www.pre-emptiongroup.org.uk.)

D.3.2: Application of Pre-emption Group guidelines
The NAPF supports the issue of shares provided, where there is a proposed disapplication of pre-emption rights, the issuer has applied the Pre-emption Group's Principles.

Voting:
If the proposed issue exceeds guidelines, investors may consider voting against the issue.

D.4: VOTE WITHHELD OPTION/VOTING DISCLOSURE

Investors may wish to register reservations on an issue without having to vote against a resolution. Companies should facilitate this by including a "vote withheld" option on proxy cards.

In general, companies should disclose on the website the voting outcome on each resolution, including the breakdown of votes in favour, against, and withheld.

D.5: POLITICAL DONATIONS

The NAPF opposes the payment of bona fide political donations. Under EU legislation, the term could potentially encompass donations to charities or educational causes. It is therefore common for authorities to be sought on a precautionary basis.
Where authority is sought, it should be specified that:

- Bona fide political donations are precluded
- A cap is set on the level of donations

It is acceptable to seek authority for a four-year period where the company has no history of making bona fide political donations. However, where the authority sought exceeds one year, the company should clarify separate authorisation will be sought at the following AGM should the authorisation be utilised.

PART 2 INSTITUTIONAL SHAREHOLDERS

SECTION A: INVESTORS' RESPONSIBILITIES

"Institutional shareholders should enter into a dialogue with companies based on the mutual understanding of objectives" [E.1]

The NAPF has consistently advocated dialogue between companies and their shareholders and facilitates such dialogue through its "Case Committees".

Investor engagement is recognised as a cornerstone of effective and responsible ownership.

"When evaluating companies' governance arrangements, particularly those relating to Board structure and composition, institutional shareholders should give due weight to all relevant factors drawn to their attention" [E.2]

The "comply or explain" principle has been positively received by all market participants and emulated in other markets. It allows for flexibility within a structure of accountability which applies to both issuers and investors.

The NAPF recognises the importance of shareholders evaluating companies' explanations and eschewing a mechanistic approach. The NAPF emphasises that corporate governance assessments and the resulting voting decisions should be made on a case-by-case basis, with regard to a company's individual circumstances and challenges. These guidelines should be viewed in that context.

In June 2007, the Institutional Shareholders' Committee (ISC), which comprises the Association of British Insurers, the Association of Investment Companies, the Investment Management Association and the NAPF, published updated guidance on the responsibilities of institutional shareholders and agents. This takes the form of a Statement of Principles highlighting the duty of institutional investors to:

- Set out their policy on how they will discharge their responsibilities
- Monitor the performance of, and enter dialogue with, investee companies
- Intervene where necessary
- Evaluate the impact of their engagement
- Report back to clients/beneficial owners
- Consider making information on voting public

The Principles are set out in full on the ISC's website:
http://institutionalshareholderscommittee.org.uk/

SECTION B: VOTING ISSUES

B.1: Voting: The Mechanics

In July 2007, the Shareholder Voting Working Group published a report, reviewing the impediments to voting UK shares.

The report highlights significantly increased voting levels at company meetings and the NAPF welcomes this trend.

However, the impediments identified in the 2004 report remain, chiefly:

- A disconnect in the voting chain, since the institutional investor does not have a contractual relationship with the custodian, in whose name the majority of UK shares are registered
- The lack of a clear audit trail whereby those issuing instructions can be assured that the instructions were received and acted on
- The inability of issuers / registrars to confirm the registration of votes until after the meeting
- The existence of "omnibus accounts" where shareholdings are pooled so that the shares of several beneficial holders are registered in the name of one nominee company. This makes over-voting difficult to analyse and prevent
- The imposition by voting agents of a deadline earlier than the registrar's cut-off, which limits the time allowed to investors to reach a decision and cast a vote.
- Voting rights being forfeited where stock is lent
- Contracts for Differences (CFDs), normally associated with hedge funds, which have complicated the system for exercising shareholder votes

The NAPF is fully cognisant of the importance of institutional shareholders exercising their fiduciary responsibilities and supports the Report's commendation to all participants in the voting chain to render the voting process as straightforward and transparent as possible.

B.2 Voting Rights

Companies are encouraged to disclose the voting structure of their share capital in the annual report.

PART 3: ENVIRONMENTAL, SOCIAL AND GOVERNANCE

3.1: Pensions Disclosure

The SRI Pensions Disclosure Regulation 2000 requires "that trustees of occupational pension funds disclose in the Statement of Investment Principles (SIP) the extent (if at all) to which social, environmental and ethical (SEE) considerations are taken into account in their investment strategies".

In fulfilment of this remit, investors may consider applying the UN Principles for Responsible Investment (UNPRI). These were launched in April 2006 following a consultation with the representatives of twenty institutional investors across twelve countries. The NAPF endorses these Principles which provide a framework for incorporating ESG issues into mainstream investment decisions. The Principles state the participants' intentions to:

1. Incorporate ESG issues into investment analysis and decision-making processes

2. Be active owners and incorporate ESG issues into ownership policies and practices

3. Seek appropriate disclosure on ESG issues by the entities in which they invest

4. Promote acceptance and implementation of the Principles within the investment industry

5. Work together to enhance effectiveness in implementing the Principles

6. Report on the activities and progress towards implementing the Principles

The NAPF recognises the importance of incorporating ESG considerations into investment decisions. As long-term investors, its members should benefit from the application of these principles in terms of

- Long-term financial performance
- Closer alignment between the objectives of institutional investors and those of society at large
- Management of reputational risk

Similarly, the NAPF is supportive of Government-sponsored initiatives such as the Extractive Industries Transparency Initiative (EITI) and the Carbon Trust's Carbon Disclosure Project (CDP).

The EITI supports improved governance in resource-rich countries, in the oil, gas and mining industries. This objective chimes with the NAPF's goal of promoting better corporate governance standards globally.

The CDP aims to create a lasting relationship between shareholders and corporations with regard to the investment risk and business implications presented by climate change. In doing so it aims to reduce greenhouse gas emissions and assist the transition to a globally carbon-sensitive economy.

Such initiatives promote the long-term interests of institutional investors by enhancing public confidence in corporations and are welcomed by the NAPF.

3.2: The Business Review

The Companies Act 2006 expands the requirements for the Business Review. Under the new provisions, the Review must include:

- The main trends and factors likely to affect the company's business and its future developments

- ESG information as discussed above

- Information on persons with whom the Company has arrangements necessary for its business

Shareholders will wish the Review to:

- Be comprehensive but succinct, signposting more detailed information in others parts of the annual report
- Take a longer-term perspective
- Contain pointers toward future development
- Be easily understandable
- Present good and bad news in an even-handed way
- Be comparable over time
- Complement the financial statements

Appendix: List of Websites Listed in Document

Combined Code: www.frc.co.uk

OECD Principles: **www.oecd.org**

ICGN Principles: **www.icgn.org**

ABI Remuneration Guidelines: www.ivis.co.uk

Pre-Emption Group: www.pre-emptiongroup.org.uk

ISC: Principles: www.institutionalshareholderscommittee.org.uk

National Association of Pension Funds Limited©
NIOC House
4 Victoria Street
London SW1H 0NX

Tel: 020 7808 1300
Fax: 020 7222 7585
Email: **napf@napf.co.uk**
www.napf.co.uk

February 2009

Disclaimer: Nothing in this guide should be treated as an authoritative statement of law on any particular aspect or in anyspecific case. Action should not be taken on the basis of this guide alone.