24 February 2010

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Dear XXXXXX

Aviva Investors' governance letter 2010

Each year we write to chairmen and secretaries of FTSE companies with a summary of the corporate governance issues Aviva Investors will be focusing on for the forthcoming year. We hope this letter will help you understand our thinking and help us understand each other's views on important governance issues.

Whilst we have not yet made changes to our policy for 2010 pending the outcome of the review of the Combined Code, we thought it may be helpful for you to know the area of focus for us for the 2010 AGM season. Our policy will be amended to accommodate the new UK Corporate Governance Code during 2010, applicable for 2011.

In addition to the review of the Combined Code, we have also had the Walker Report for banks and other financial institutions and the FSA remuneration code for selected financial institutions. This slew of reviews and reports was because Government and other commentators felt that poor governance and a lack of shareholder scrutiny was partially to blame for the financial crisis.

As some companies continue to struggle in a recovery that is expected to be slow and gradual, a new raft of corporate governance guidelines is probably not welcome. However, the themes within the reviews are not new and revolve around requirements for effective boards and board behaviour that should be fairly familiar to many companies.

In our view, it is positive that the reviews are focusing more attention on behaviours of boards, the skills and experience of board members and on risk management. One development that may prove to be a significant change from the review of the Combined Code is the probable recommendation that all directors should stand for re-election each year.

The twist in governance this year is the establishment of a Code for investors – the Institutional Shareholder Committee's "Stewardship" Code. The significance of the ISC Code is that we expect more institutional investors to be more actively involved in engagement with companies. Many will be more likely to vote against resolutions. Institutional investors have also been encouraged to collaborate with other investors.

We hope these developments will lead to better engagement between companies and shareholders. However, we are realistic about the limitations of the engagement process. For example, It is very time-consuming for companies to see their top shareholders separately and we would advocate combined meetings with several shareholders together. Also, not all shareholders think the same way or work to the same timescales and will be very unlikely to have the resources and time to give each company its full attention every time. Despite these difficulties we do believe that better ongoing dialogue and understanding between us and our companies will be of benefit to all.

For 2010, we intend to focus on some of the potential weaknesses in corporate governance highlighted by the various reviews so we will be looking more closely at the following areas:

Board effectiveness
Board skills and experience as well as independence. This means we would like to see:

- bespoke (rather than boilerplate) disclosure on why companies believe their boards are well constructed and well placed to achieve the aims of the company. For example, we would like to see a description of the skill-sets, relevant experience and diversity brought to the board by each director and re-assurance that there is sufficient independence to facilitate optimal decision making, lead the company and achieve the company's stated strategy and objectives. This will be particularly important for nominees for election where such disclosure will influence our decision on voting.
- Reassurance that adequate succession arrangements are in place for board members and key personnel.
- Regular externally facilitated evaluations of board and director performance.

Pay
Board pay has always been a particularly high profile issue, and will continue to be so in view of the apparent disconnect there has been between executive pay inflation and the value creation for shareholders. We will continue to focus on:

- properly structured board and senior executive remuneration arrangements that are prudent, aligned to business strategy and performance over the long term and do not incentivise inappropriate or risky behaviours - one of the perceived causes of the crisis as described in the Walker and Combined Code reviews, especially in relation to financial companies. This means that we will be looking for explanations and justifications for level of pay and why the arrangements are appropriate, and the use of deferrals and claw-back. Disclosure, deferral and claw-back were the structural recommendations made in a number of the governance reviews.
- Evidence that a proper independent process is in place to make pay decisions for the board and senior executives
- How board pay is aligned with pay and conditions for the rest of the company and how sensitive the board has been to this.
- Simplicity of arrangements and disclosure. If we were to highlight just two areas of critical importance it would be a description of (1) how much was paid for the last year (salary, benefits, annual bonuses) and over the longer term (LTIPs) and for what performance, and why this was justified and appropriate and, (2) looking forward, what are the key performance conditions being attached to awards, over what time scale and what is the expected minimum and maximum pay-out for achieving that (range of) performance. If we are not able to work this out easily, we are unlikely to support the remuneration arrangements.

Risk
There was significant emphasis in the reviews on the need for companies to manage risk more effectively. Therefore, we hope to see:

- enhanced reporting of the governance of risk both at board level and operationally. We would look for articulation of the risk appetite of companies and its measurement together with how risk is managed to operate within those parameters.

Alignment with shareholders
This would include decisions companies make in capital raisings, discretion used in remunerating directors and senior managers and how pay is aligned to returns to shareholders.

Culture
Decisions that are made at companies are made on basic assumptions that guide an organisation. An erosion of organisational cultures can be a result of lack of leadership on integrity and ethics. Therefore, culture is important to us as investors. In particular, we hope to see:

- evidence of companies striving to "do the right thing" led from "the tone from the top".
- adequate disclosure on environmental, social and governance matters associated with corporate responsibility reporting (please see below)

Disclosure
In order for shareholders to assess these issues and to work towards better and more constructive engagement we believe there is a need is for more meaningful and more "personalised" reporting.

By this, we do not mean additional reporting but;

- Company specific disclosures using examples particular to the company in order to describe, for example, governance structures at the company and why they work for you and why your board is fit for purpose to meet the long-term strategy and objectives of the company.
- Any additional, non-boilerplate information as appropriate where it would help to provide shareholders with a fuller, clearer picture of how the board and the company operates.

As a general point, it may be worth pointing out that whilst we often accept explanations for non compliance within the "comply or explain" regime, it does not necessarily mean that we will accept the validity of all explanations. Explanations should address the specific fundamental issues affecting the company with justifiable reasons for departure from best practice.

Corporate Responsibility Disclosure
Aviva Investors considers that good quality disclosure of corporate responsibility (CR) performance builds a more complete picture of the quality of a company's management and their ability to return value to shareholders. Often, environmental and social issues are extremely material to a company's wellbeing. In support of this we have had a voting policy on CR reporting since 2001 where we may not support the vote on adopting the Annual Report & Accounts if reporting on CR issues is not adequately covered. In particular this policy focuses on:

- Disclosure of appropriate key performance indicators (KPIs) on material environmental and social issues.
- Consideration of corporate responsibility performance when setting the remuneration of executive directors

Please let us know if you would like to know more about our expectations in this area.

Vote on Corporate Responsibility Report
In future, rather than use the vote on the report and accounts as a surrogate in this way, we would prefer to have an advisory vote on the CR section within the Annual Report & Accounts. The mechanics of this will work in much the same way as the vote on the remuneration report. Aviva Investors would strongly encourage companies to consider adopting this practice. In this way, shareholders can understand the company's values and standards and long term approach via the report. Putting this information to the vote at the AGM then puts the onus on shareholders to provide feedback to the company on this information and the broader performance in this area, and is consistent with the principles within the Stewardship Code. Aviva plc has announced its intention to put the Corporate Responsibility section of the Annual Report & Accounts to the vote this year.

Helpful information
Our full and current corporate governance and voting policy is on our website. This can be accessed via **www.avivainvestors.com/corporate-governance**. However, our policy will be changed to reflect the new UK Corporate Governance Code when it is published together with any further good practice guidelines that emerge.

In advance of shareholder meetings, to ensure we receive your information as early as possible, it would be very helpful if you could forward a hard copy of your Annual Report & Accounts with any Notice of Meetings and attachments to us, at this address, for the attention of Kathryn Lynch.

In ending, we look forward to further developing a helpful and constructive relationship with you over 2010.

Yours truly,

A E Skipper

Anita Skipper
Corporate Governance Director