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Dear Sir/Madam

LGIM response to proposed amendments to the German Corporate Governance Code 2016

Legal & General Investment Management (LGIM) is one of Europe's largest asset managers and a major global investor with total assets of EUR 1,027 billion (as at 30 June 2016). We work with a wide range of global clients, including pension schemes, sovereign wealth funds, fund distributors and retail investors. As a significant long term investor we are committed to good stewardship in the market.

LGIM is keen to continue to be fully engaged on changes to corporate governance best practice in Germany and would welcome the opportunity to lend our expertise and views to your considerations in addition to this submission.

As long term investors, we take an active approach to our engagement with investee companies and seek to promote good corporate governance in the market. This is because we believe that well governed companies that manage all stakeholders, including the environment, are more likely to deliver sustainable long-term returns.

Our comments relating to the German Corporate Governance Code review 2016 can be found in the Appendix that follows this letter. We look forward to hearing your response and please do not hesitate to contact us directly if you have any questions.

Yours sincerely

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Corporate Governance Manager

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Senior Analyst, Corporate Governance and Public Policy

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APPENDIX:

LGIM response to proposed changes to the German Corporate Governance Code

1. Application of the Code in organisations

LGIM supports the additional wording in the Foreword regarding the call for legitimacy of behaviour and decisions. This is because corporate behaviour and the conduct of boards is crucial to demonstrate the strength in the application of the German Corporate Governance Code. Furthermore, this feature is important to promote good corporate governance in companies through trust, transparency, and accountability.

2. Role of Shareholders

At LGIM we take our stewardship responsibilities seriously and therefore welcome the additional section 2.1.3. We take an active and impactful approach to stewardship by using our scale as a global investment manager to influence and change company and market behaviours. In doing so, LGIM believes that well governed companies that manage all stakeholders, including the environment, are more likely to deliver sustainable long-term returns. Consideration of environmental, social and governance (ESG) issues is about risk management and is therefore part of our fiduciary duty.

We devote significant resources to ensure our clients' assets are appropriately protected. This includes:

- Engaging with companies
- Using our voting rights globally
- Integrating environmental, social and governance factors into portfolio management
- Addressing systemic risks and opportunities
- Influencing governments, regulators and policy makers; and
- Collaborating with other investors and stakeholders

For more information regarding the exercise of our stewardship responsibilities, please go to: http://www.lgim.com/uk/en/capabilities/corporate-governance-responsible-investment/stewardship-integration/

3. Role and Authorities of the Chairman of the Supervisory Board

LGIM considers a core feature of good governance and long term stewardship is the Board's ability to engage with shareholders. Given the critical role of the Supervisory Board Chairman, clarification on the responsibility of this position to allow the Chairman to engage with shareholders is important. Therefore, LGIM supports the underlying objective in the proposed wording under section 5.2.

Discussions between the Chairman of the Supervisory Board and shareholders can be critically important to ensure mutual understanding of key issues or events. Additionally, it facilitates the ability of shareholders to raise concerns regarding management performance.

Many companies globally also use shareholders as a sounding board to gather market views. The company will be hearing directly from key stakeholders rather than through a third party intermediary and receive valuable informed advice at the same time.

Therefore, these conversations are also equally beneficial for other Supervisory Board members as it provides an opportunity for the company to explain their views or take action on important matters. We believe it is the Supervisory Board Chairman's responsibility to provide shareholders with access to the Supervisory Board members where this would ensure a more effective and balanced dialogue.

Whilst we support the objective for access to the Supervisory Board Chairman and for greater engagement between the Supervisory Board and shareholders, we are concerned that the proposed amendment to section 5.2 has a limitation which could hinder constructive and useful engagement.

This is where the Supervisory Board Chairman shall be prepared to engage with its investors "under appropriate conditions" and the engagement of supervisory related topics is to be "exclusively decided" by the Supervisory Board Chairman. This language implies a more one-way dialogue which we think will not be in the best interest of the company or shareholders and negates some of the benefits of engagement.

Therefore, we recommend the removal of reference to "under appropriate conditions" to reflect that the range of engagement topics are mutually agreed between the Supervisory Board and shareholders. This would promote a two-way dialogue which is good stewardship and still acknowledge that certain topics may be addressed by the Supervisory Board Chairman or the Management Board Chairman.

4. Compliance Management System

LGIM is supportive of the amendments in section 4.1.3 regarding transparency and annual publication of the basic features of a company's Compliance Management System. This is considered vital by shareholders to protect the integrity of the company and in some situations assist in avoiding large and more costly situations.

We believe companies should have a robust internal system in place which is designed to identify the level of risk taken, the process and procedures in place to manage such risk, and in which is embedded a risk–based control system for the company. LGIM also expects companies to have an effective system that takes into account new and emerging risks that will affect its business objectives.

Companies should establish an independent whistleblowing policy that is integrated into its Code of Conduct for employees and overseen at Supervisory Board level. This will assist in maintaining high standards of business ethics, honesty, openness and accountability. Reporting channels for whistleblowing should be clear and procedures should promote individual responsibility. Furthermore, the process whereby bribery and any other illegal behaviour are escalated up to Board level quickly, without being filtered through by management, should also be reported.

The company's whistleblowing process needs to be open to third parties to allow stakeholders who observe, or transact with the company to report potential areas of

concern. For example, this may be used when carrying out extensive due diligence and considering related-party transactions.

5. Formation of Committees

LGIM believes that the role of the Audit Committee is one of the most important functions on the Supervisory Board. The Audit Committee is responsible for monitoring the integrity of the financial statements of the company, appointing external auditors, monitoring their qualifications and independence as well their effectiveness and resource levels.

We support the amendments to the wording under 5.3.2 with regards to the Chairman of the Supervisory Board not being the Chairman of the Audit Committee at the same time. In addition, whilst it is essential that the Audit Committee Chairman is independent from management, we also feel they must also be independent from the audit firm being appointed. This is especially important to ensure that a fair and an effective process are undertaken when "supervising" the auditor as stated in the Code.

Additionally, to strengthen oversight, LGIM believes that the Code would benefit from providing guidance on the composition of the Audit Committee as well. We believe that the majority of the Audit Committee should also comprise solely or at least a majority of independent directors.

6. Information on the composition of Boards

Under section 5.4.1, the proposed wording regarding the matrix of competencies for the Supervisory Board and brief curriculum vitae (CV) of candidates' proposal will assist shareholders in assessing the quality of the Board. This is because the success of a board is solely down to its combined members' contribution and how the different roles work together.

LGIM also believes that a suitably diverse mix of skills, experience and perspectives is essential for a board to function and perform optimally over the long term. A good level of diversity has the ability to improve business decision making, minimise business risk, improve the sustainability of profits growth and therefore maximise long-term returns for shareholders.

Therefore, enhanced explanations by companies on these points would further aid transparency in order to provide assurance to shareholders that individual directors and the board collectively, possess and maintain the right level of knowledge, experience and skills. Furthermore, this information will assist shareholders in taking better informed voting decisions on the election of Board members.

7. Independence of Directors on the Supervisory Board

LGIM welcomes the proposed changes under section 5.4.1 to strengthen information disclosed on who is designated as being independent on the Supervisory Board. This data enables shareholders to get a better insight on the composition and functioning of the Board as well as better understand how balanced Board discussions are in considering the interests of minority shareholders. Furthermore, this disclosure is also important in assisting shareholders to make more informed voting decisions on the re-election of directors.

An area of improvement that can be made in the German Corporate Governance Code is in the 'definition' of independence and what companies should consider as a minimum level of independence required at the Board.

LGIM would consider a director to be non-independent if he or she:

- Has been an employee of the company or group within the last five years;
- Has, or has had within the last three years, a material business relationship with the company 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, such as the company's share option, performance related pay, or pension scheme;
- Has close family ties with any of the company's advisers, directors, or senior employees;
- Holds cross-directorships or has significant links with other directors through involvement in other companies or bodies;
- Has served on the board for more than nine years from the date of first election;
- Represents a significant shareholder.

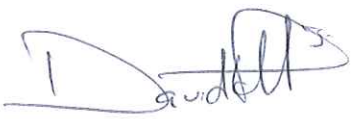
LGIM also recognises that non-independent non-executive directors can offer significant skills and sector knowledge. This can help a company to perform at its best and to maximise value. Therefore LGIM would support the company in their appointment as long as the board remains balanced. In this instance, LGIM expects the company to fully explain how the non-independent director provides valuable input into the business

8. Direction Election tenure

We note that the German Corporate Governance Code does not stipulate the duration of terms of office for a member of the Supervisory Board but that in practice it can be up to five years before individuals stand for re-election.

Board refreshment and director succession planning are key board tasks and the foundations of a well-functioning board. A board should remain relevant and diverse in terms of perspective, experience and skill sets. This ensures that the board can respond to risks and opportunities in order to sustain profit growth, maximise long term returns and guide the company successfully into the future.

In order to ensure the successful composition and functioning of the board, LGIM believes that candidates should submit themselves for re- election at regular intervals, subject to continued satisfactory performance. Regular elections can assist the Board in maintaining the high quality of its members and the effectiveness of the board as a whole.

Therefore, we believe the normal practice of five years is too long and would welcome guidance in the Code for this to be shorter, preferably three years.

Date: 15th December 2016
Signature: