

RESPONSE OF RONALD DENNY

July 8, 2002

Dear Mr Higgs

NON-EXECUTIVE DIRECTORS REVIEW

Thank you for inviting me to participate.

In my letter to you of May 1st, I explained that I retired from full-time business in 1989. During my career, I progressed through professional engineer, middle manager, general manager, executive director, managing director, non-executive director and, when I finally retired, senior non-executive director.

I stated my belief that there should not be different classes of directors but that the difference between the roles of managers and directors should be reinforced. Therefore, I take question D25 of your Consultation Paper as my starting point.

And, because I finally retired in 1995 from Boards of listed companies, I have not answered those questions which refer to later matters.

Question D25

There ought not to be two classes of director. Directors are members of a single team ie the Board. If some are **also** managers (or executives), the dual roles should be made clear in their job titles- eg 'Director and Chief Executive'; 'Director and Chief Financial Executive'. That should also be made clear in job definitions, company reports, AGMs.

Ideally, the only members of management also to be directors should be the chief executive and chief financial executive because they are directly responsible to the Board. Heads of departments ought not to be directors- not a status matter (many executives have greater business talent than many directors) but the title 'director' as a reward for executive performance blurs the separate roles and can foster adversarial attitudes within the Board.

The Chairman, as leader of the team of directors, should not also be an executive- ie Chairman of the Board **not** Chairman of the company.

Other Questions

Despite my belief that there ought not to be two classes, in answering these questions, I must use the terms executive director and non-executive director.

A

1. The Board as a whole is responsible for approving policy and ensuring that it is carried out by appointing managers capable of doing so. The Chairman is leader of the Board; the link with management through the chief executive; judge of which matters are for management or the Board.
2. Directors ought not to have individual key roles except when members of Board committees. Desirable that members of the Board come from a variety of backgrounds but within the Board they are collectively responsible.
3. -----
4. Non executive directors, regardless of roles, should be independent enough to speak freely or resign.
5. Potential conflicts of interest are misleading accounts; departure from approved policy or strategy. Board ought to have majority of non-executive directors.
6. Non executive directors one day per month for regular Board meetings plus another 6 days per annum for committees, etc. Plus continual communications. Chairman, additionally, regular one-to-one meetings with chief executive.

Need be no stipulated number of directorships- a professional should be capable of switching attention in same way as a lawyer with several clients.

7. Ought not to be a formal, continuing role of senior non-executive director because it risks conflict. Use it for occasional special tasks eg seeking a new chairman.
8. No need for statutory statement of duties.

B

9. Executive experience elsewhere; related 'culture'- eg market or technology; understand accounts (essential); computer literate.
10. Moral courage; team player; listener; objective.
11. Market; technology; financial.
12. Not difficult- adequate mechanisms exist.
13. Companies should encourage their experienced executives to become directors of other companies- constraint being to avoid conflict of interests.

14. Fees should be at a level where no single company represents a significant portion of a Director's' income and thus inhibit speaking freely or resigning. Shares are more suitable.
15. Collective responsibility as members of Board means all directors share risks- thus equal directors' insurance cover.

C

16. -----

17. Not bigger than a soccer team. Majority of non executive directors. There ought not to be an Executive Directors Committee- they should meet as 'executives'.

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21. Need for quarterly interim (short) shareholder reports. No report on performance of non-executive directors- report on Board as a whole.

22. Non- executive directors are able to challenge provided cash remuneration not so high as to inhibit. Helped if non executives are a majority of Board.

D

23. Relationship with institutional investors is already strong enough. They should not expect more information than is provided to all shareholders. More frequent interim reports would help..

24. Chairmanship varies with individuals. Better if Chairman is non-executive.

25. **Answered at start.**

26. Regular reminders by Chairman at Board meetings that Company Secretary is directly responsible to Board.

27. Non-executive directors need more than just Board meeting papers. Suggest weekly email from chief executive with one page summary of last week's highlights and a secure/password/website/ for directors to enquire deeper- especially into management accounts.

28. Institute of Directors.

29. At least one week's induction but not simply an escorted tour- director must be left to learn with individual managers.

30. Depends on Chairman.

F

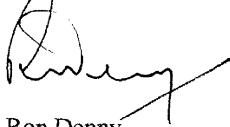
31. Smaller listed companies? If listed, principles the same. Perhaps fewer committees by combining duties.

32. International experience? Possibly two-tier Boards but not needed if UK re-establishes one class of Director.

33. -----

34. -----

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ron Denny', written over a horizontal line.

Ron Denny