



From the Chairman
Sir Anthony Cleaver

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Non-executive Directors' Review
Room 2142
1 Victoria Street
London SW1H 0ET

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Dear Derek,

In response to your Review of the Role and Effectiveness of Non-executive Directors, I attach two short papers that I have developed over the past few years.

The first of these addresses the first question you ask - "what is the role of the Board?". I have found it helpful in the various companies which I have chaired or supported to have a specific discussion of this question and the definition I attach is the result of these discussions. I think agreement on this is the essential pre-requisite to determining the appropriate roles of the various different players. In particular, it is important that the appropriateness of words like 'review' and 'agree' is properly discussed.

The second item, "Board Self-Assessment", is simply a series of questions I have found useful in discussions with boards to determine how well they (we) are performing. I am sure there are many other appropriate questions but at least these cover the basic points. I have been surprised to find how few boards actually undertake self-assessment at least annually. In my experience it is almost impossible to ask and answer these questions honestly without discovering room for improvement, even when it is the third or fourth time through the process.

I am conscious that these remarks do not even begin to answer many of the questions you are asking but hope that you will, nonetheless, find them useful.

Yours ever,

ROLE OF THE BOARD

1. Strategy

The Board must determine the main aims of the company and agree on an appropriate strategy to achieve them. The Board should review this strategy regularly and agree any necessary changes.

2. Policy

The Board should review and approve policies for the successful implementation of the agreed strategy and for ensuring that action taken by the executive in the operation of the business falls within the guidelines determined by the Board.

3. Resources

The Board should approve the allocation of resources, both financial and human, and ensure that the company's resources are adequate to pursue its policies.

4. Management and Succession

The Board is responsible for the selection, monitoring, compensation and succession planning for the senior executives.

5. Performance

The board is responsible for monitoring progress against the company's strategic and financial goals and for initiating any necessary corrective measures.

6. Governance

The board is responsible for approval of key advisers, Annual Report and Accounts, dividend payments and extent of delegated authorities to the executive. The board is also responsible for compliance of the company with appropriate standards of corporate governance.

BOARD SELF-ASSESSMENT

Role of the Board

- Is the attached definition of the Board's role satisfactory?
- Is this effectively communicated within the Company?
- Does this definition provide a clear and appropriate division of responsibility between the Board and executive management?

Strategy

- Does the Board have a clear view of the Company's strategy?
- Has this been reviewed sufficiently recently?
- Has this strategy been communicated effectively both internally and externally?

Board Composition

- Is the Board agreed on its appropriate size?
- Is the mix of skills and experience correct?
- Is the executive/non-executive balance appropriate?
- Are plans in place to ensure that the right mix is maintained?

Conduct of Business

- Does the Board get the information it needs to perform properly?
- Do Board papers arrive on time?
- Are the Board papers well presented?
- Is the Board clear on its role on each agenda item?
- Does the Board review previous decisions and their outcome?
- Do Board members receive sufficient background information between meetings?
- Is the interval between board meetings right?

- Are the secretarial and administrative arrangements satisfactory?

Management Succession

- Does the Board have appropriate access to senior management?
- Does the Board see enough of senior managers to make an appropriate contribution to succession planning?
- Do Board members feel they have sufficient knowledge of the Company?
- Is the Board sufficiently involved in succession planning?
- Do the non-executives have sufficient opportunity to meet without executive directors present?

Board Committees

- Is the committee structure appropriate?
- Are committee members clear on their role and responsibilities?
- Do non-committee members feel adequately informed of the work of each committee?

Governance

- Are all Board members clear on their legal and corporate governance responsibilities?
- Do Board members feel they have appropriate opportunities to obtain external advice, if necessary?
- Is the Board confident that it meets all current requirements of the Combined Code?
- Is the Board satisfied with the assessment of risks?
- Is the Board confident that it will be well placed to meet the results of the current Company Law Review?

Sir Anthony Cleaver

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