

# Corporate governance

## Best practice reporting

January 2010





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## Terms used in compendium

DRRR	Directors' Remuneration Reporting Regulations 2002 now included in Schedule 8 SI 2008/410
FRC	The Financial Reporting Council
FSA	The Financial Services Authority
DTR	The Disclosure Rules and Transparency Rules
FRC review	The 2009 FRC review of the Combined Code on Corporate Governance
The Combined Code	The Combined Code on Corporate Governance issued by the FRC in June 2008
The UK Corporate Governance Code	New name for the Combined Code with effect from 29 June 2010
UKLA	United Kingdom Listing Authority
Walker	Review of corporate governance in UK banks and other financial industry entities carried out by Sir David Walker during 2009 and published 26 November 2009
Turnbull guidance	FRC Internal Control: Revised guidance for Directors on the Combined Code (October 2005)
SI 2008/410	The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008

## A – Corporate governance developments – an update

Corporate governance has continued to be a key issue for companies, investors, commentators and other stakeholders throughout 2009. At the time of our last compendium we expected reporting on going concern, risk management, internal control, board balance and directors' remuneration to be the main points of focus for the year and we follow up on the disclosures around these in the present review.

During 2009 the Walker Report and the ongoing FRC review of the effectiveness of the Combined Code, as well as a number of other reviews and reports, have together formed something of a 'taking stock' process in the world of governance. In each section of the compendium we include comments on the key governance topics discussed during the Walker and FRC reviews, as these will affect future governance requirements and disclosures by companies.

It is important to appreciate, however, that neither Walker nor the FRC review of the Combined Code applies for calendar 2009 year ends. See 'Changes and their applicability'.

PwC's own responses to the Walker Report and the FRC review discouraged any 'knee-jerk reactions' to recent events. In summary, our view is that:

- The governance framework should continue to be principles rather than rule-based
- The 'comply or explain' mechanism continues to be effective providing that there is active and challenging engagement between investors and companies
- We would not want to see the rules imposed in the banking sector being included automatically in the Combined Code with its wider applicability.

Overall, we believe that the Combined Code is not a root cause of the current economic crisis and that, intrinsically, it is fit for purpose. However we also recognise that, regardless of the quality of the Code in place, it is the culture, the tone at the top and the personal behaviours of directors that influence the direction of companies. These are very difficult to address within the existing governance framework but we believe that good disclosures of the kind included in this compendium can provide a valuable insight into the arrangements and activities within companies.

## B – Changes and their applicability

The summary below outlines the pronouncements which are and are not yet applicable for **31 December 2009** reporters. The appendices give further details of the various changes. The recommendations of the Combined Code and other relevant guidance preface each section of the compendium.

### Applicable

#### The Combined Code (2008) and the revised FSA Rules

The period of our review included the effective date of both the Combined Code (2008)<sup>1</sup> and the revisions by the FSA to the Listing Rules and the DTR<sup>2,3</sup>. Both of these apply for accounting periods commencing on or after 29 June 2008.

The practical impact of this is that relatively few examples exist of companies having reported under the 2008 Code or the DTR. As our aim is to provide examples of best practice that are applicable for the 2009 calendar year end reporting season, we have compiled guidance within Appendix 3 on an important new disclosure introduced by the DTR.

# Introduction

## Best practice corporate governance reporting

### Other pronouncements

The following have also come into force during the period of our review:

- FRC revised 'Guidance on Audit Committees' (effective for accounting periods ending on or after 30 June 2009).
- FRC 'Going concern and liquidity risk: Guidance for directors of UK companies 2009' (effective for accounting periods ending on or after 31 December 2009).<sup>4</sup>

### Not yet applicable

#### The Walker Report FRC report and consultation on the revised UK Corporate Governance Code

The Walker Report and the FRC's proposed changes to the Combined Code were published in late November/early December 2009 respectively. Comments on the specific aspects of the FRC's proposals which are under consultation are invited by 5 March 2010 with the intention that the revised Code will apply to all premium listed companies with financial years commencing on or after 29 June 2010. The first year end affected for December reporters will therefore be 2011.

The Walker Report will be implemented through the FSA and the FRC as applicable.

## C - Best practice compendium

This is the fifth edition of PwC's annual corporate governance compendium.

The compendium is a repository of best practice examples of corporate governance reporting, featuring extracts from the annual reports of FTSE 350 companies for reporting periods ending 31 December 2008 or later.

The basis for the compendium was the extensive review of 108 FTSE 350 companies' annual reports, of which 76 were FTSE 100 companies and 32 were FTSE 250 companies. From this review 54 companies were selected. The full list of companies included is provided in Appendix 5.

### Purpose

This compendium is likely to be of assistance to:

- Companies, as they plan their governance reporting
- Investors and other stakeholders looking to benchmark a company's existing reporting
- Auditors and other advisers of companies

It should be noted that the extracts selected should not be viewed as word perfect disclosure; additionally, good disclosure in one area does not mean that disclosure throughout a corporate governance report is good, and inclusion in this publication does not necessarily represent any form of endorsement of the report as a whole.

### Contents

The compendium covers all sections of the Combined Code, including, for the first time, directors' remuneration.

The structure of the compendium is as follows:

1. Putting governance into context
2. Directors
3. Accountability and audit
4. Relations with shareholders
5. Remuneration

Each section of the compendium includes a number of good practice disclosures from companies' annual reports. To put these disclosures in context we have provided within each section three blocks of information:

**Technical requirements:** the relevant principles and provisions of the Combined Code and any other key requirements are given first; these represent the technical 'must haves'. For the Code, companies should explain how they have applied the main principles and complied with the related provisions, or explain why this is not the case. For requirements under the DTR, compliance is mandatory.

**Helpful hints:** the 'helpful hints' highlighted within each section indicate specific aspects of the disclosures which we believe go beyond the basic technical requirements, and therefore differentiate the extract from the 'norm'. The helpful hints may relate to the content or the presentation of disclosures.

**Current themes:** the 'current themes' included in each section set out some of the main aspects of governance in that area which were under discussion during the year, for instance by the Walker or FRC reviews, and are intended to draw the attention of the reader to these topical issues as they work through the disclosures presented. These areas are also likely to be points of focus for disclosures in future years.

- 
- 1 A summary of the main changes introduced by the Combined Code (2008) is set out in Appendix 1
  - 2 Main changes introduced by the revised Rules are set out in Appendix 2
  - 3 Overlapping provisions between the Disclosure Rules and Transparency Rules and the Combined Code (2008) are set out in Appendix 3
  - 4 A summary of the FRC 'Going concern and liquidity risk: Guidance for directors of UK companies 2009' can be found at Appendix 4.

# Putting governance into context

## 1.1 Introductions

### Technical requirements

#### What is corporate governance?

As defined in the first version of the UK Code on Corporate Governance produced by the Cadbury Committee in 1992, corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies while the shareholders' role is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. Corporate governance covers a very wide range of issues and disciplines from company secretarial and legal, through to business strategy, executive and non-executive management and investor relations, to accounting and information systems and remuneration.

Corporate governance in the UK corporate sector is primarily concerned with:

- The procedures adopted by the board and its committees to discharge its duties (for example, membership of the board; frequency of, and procedures at, board meetings; the role of non-executive directors; constitution and terms of reference of audit and remuneration committees; and the role of the company secretary)
- The board's accountability to shareholders and other stakeholders (for example, annual reporting; use of AGMs; and shareholder voting rights)
- The manner in which the board controls the company or group (for example, management structures; group legal structure; and internal control philosophy and practice).

#### The Combined Code

The Combined Code on Corporate Governance provides principles that companies may apply to help them discharge their duties and responsibilities in the best interests of their shareholders. The Code is principles-based and not a set of rigid rules.

This compendium deals with best practice disclosures by companies of their governance arrangements and practices, to encourage others to recognise disclosure as a key part of a principles-based governance framework. The requirements for governance disclosures are set out in three places:

- 1) FSA Listing Rule 9.8.6 (which includes the 'comply or explain' requirement) (see section 1.2)
- 2) FSA Disclosure Rules and Transparency Rules Sections 7.1 and 7.2 (which set out certain mandatory disclosures)
- 3) The Combined Code (in addition to providing an explanation where they choose not to comply with a provision, companies must disclose specified information in order to comply with certain provisions).

### Current themes

The principles-based governance regime is always a source of debate, particularly internationally. Neither Walker nor the FRC review of the Code will change the current position fundamentally, except where the FSA is involved in regulating aspects of Walker in banking and other financial institutions.

The best practice examples in this section show:

- Companies getting behind the principles-based environment provided by the Combined Code
- A commitment to transparent reporting, tailored to the circumstances of the business.

### 1 Helpful hint

Apply the principles and provisions of the Code to the circumstances of the business

### 2 Helpful hint

A personalised statement reflects the 'tone at the top' and makes for more memorable messages

### 3 Helpful hint

The use of a question and answer format adds clarity

## Marks and Spencer Group plc

### Overview

#### What is our approach to governance?

Leadership and governance go hand in hand in a successful company. For both to work well you need a clear plan of what you want to achieve. There are different ways to secure good governance:

- what you achieve in practice is as important as the formal structures;
- a strong relationship between management and the Board is important, with trust, challenge, a common goal and good information flows between them; and
- it's not just about the Board - it's about how governance is understood and acted on throughout the business - 'from the boardroom to the shop floor'.

We recognise that our current Board structure is out of line with the Combined Code in that Sir Stuart Rose combines the roles of Chairman and Chief Executive. We understand the concerns of our shareholders but believe that we still can - and do - maintain robust governance while at the same time benefiting from having Stuart at the helm.

**“As Deputy Chairman I lead on governance; together with Stuart and our Board colleagues, we are guardians of the M&S brand.”**

Sir David Michels, Deputy Chairman

As long as we have robust governance and make sure that appropriate challenge to the executive is in place, we believe the right balance can be maintained.

This report sets out how we achieve this and how M&S governance adds value to the business.

**“We have one of the most trusted brands on the high street. We need a clear plan, inspired leaders and motivated employees, all focused on giving customers what they want at M&S.”**

Sir Stuart Rose, Chairman

#### 3 What does governance mean to us?

For M&S, governance is about making sure that:

- we are taking the business in the right strategic direction;
- the executives are leading and managing effectively and are accountable;
- the Group has appropriate controls in place and our risks are managed; and
- we are 'doing the right thing' for our shareholders and our wider stakeholders.

We believe that good governance has four fundamental components:

- **leadership** - clear and well-communicated;
- **challenge** - focused and effective;
- **oversight** - active and comprehensive; and
- **questioning** - rigorous and sustained.

To achieve this the Board needs to:

- demonstrate **independence** to bring fresh perspectives and hold management to account;
- seek full **information** to form views, question management and take strategic decisions; and
- act **responsibly** to make sure our governance is robust and we protect the reputation of M&S in everything we do.

#### 3 How do we make this happen?

The independent non-executive directors, led by the Deputy Chairman, keep M&S governance under review to ensure that appropriate safeguards are in place to protect shareholder interests.

# Putting governance into context

## 1.1 Introductions

### BHP Billiton Plc

#### 5.1 Governance at BHP Billiton

‘BHP Billiton’s Corporate Objective is to create long-term value through the discovery, development and conversion of natural resources and the provision of innovative customer and market-focused solutions.

In pursuing the Corporate Objective, we have committed to the highest level of governance and strive to foster a culture that values and rewards exemplary ethical standards, personal and corporate integrity and respect for others.

Our approach to governance is predicated on the belief that there is a link between high-quality governance and the creation of long-term shareholder value. Our expectations of our employees and those to whom we contract business are set out in our *Code of Business Conduct*.

This statement outlines our system of governance. Shareholders are reminded that we operate as a single economic entity under a Dual Listed Company (DLC) structure with a unified Board and management. We have primary listings in Australia and the UK and are registered with the US Securities and Exchange Commission and listed on the New York Stock Exchange (NYSE). In formulating our governance framework, the regulatory requirements in Australia, the UK and the US have been taken into account, together with prevailing standards of best practice. Where governance principles vary across these jurisdictions the Board has resolved to adopt what we consider to be the better of the prevailing standards.

It is our view that governance is not just a matter for the Board; a good governance culture must be fostered throughout the organisation.

The current economic and business environment underscores the need for continued high standards of corporate governance. There is a heightened level of interest in companies’ approaches to risk management and assurance. While the Board and the Risk and Audit Committee (RAC) are at the apex of the Group’s risk management and assurance framework, the diagram in section 5.5.1 highlights one additional aspect of BHP Billiton’s approach - the use of Customer Sector Group Risk and Audit Committees (CSG RACs), chaired by a Board RAC member. While CSG RACs are management committees, and therefore do not entail any delegation of responsibility from the Board’s RAC, the Board believes that the link back to the RAC facilitates a deeper understanding of risk management and assurance issues throughout the Group.

This is also clearly a time where engagement with shareholders is more important than ever. As representatives of shareholders accountable to them for the Group’s performance, it is a key part of the Board’s approach to governance to ensure shareholders’ views are heard and understood. The Board governs the Group consistent with our long-stated business strategy and commitment to a transparent and high-quality governance system.’

**Don Argus, Chairman**

#### Helpful hint

2

A personalised statement reflects the ‘tone at the top’ and makes for more memorable messages

# Putting governance into context

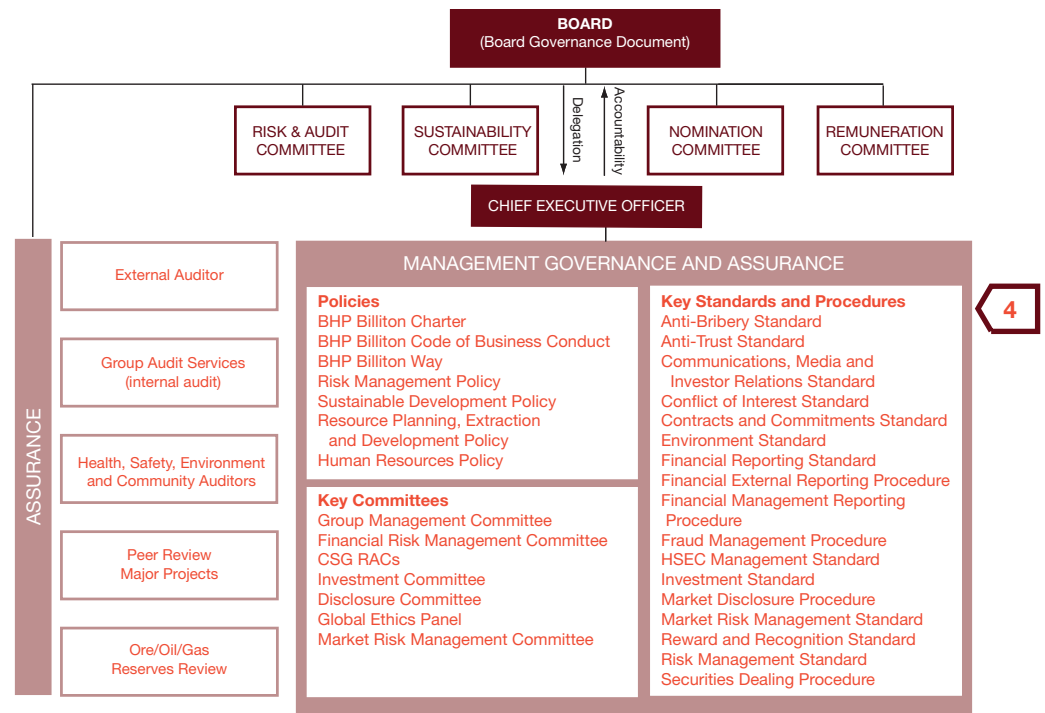
## 1.1 Introductions

### 4 Helpful hint

Diagrams and charts can convey more information, more clearly than narrative disclosures

### BHP Billiton Plc (continued)

#### BHP Billiton Governance Structure



# Putting governance into context

## 1.1 Introductions

### Severn Trent Plc

#### Review of governance framework

In 2008, we undertook a review of the Severn Trent Governance Framework. The purpose of the review was to ensure that:

- the framework accurately reflected recent changes to the Severn Trent organisation and structure;
- the framework set out and reinforced Severn Trent's values and supported the Severn Trent group in working and behaving in the right way;
- the risk and assurance processes were a robust and integral part of the framework; and
- the framework reflected best governance practices.

The review completed in November 2008. We have now embarked on a plan to embed the framework throughout Severn Trent.

**1** The Severn Trent Governance Framework has three key elements:

- the way Severn Trent is structured, our organisation is structured to allow for effective and efficient decision making with clear accountabilities;

- the way we work at Severn Trent, our Code of Conduct sets out the way in which we work at Severn Trent and comprises our vision and values. The Code of Conduct is supported by our policies, standards, procedures and processes. Our values, set out in our Code of Conduct, can be viewed in full on our website. Our values are supported by 15 high level policies which define in more detail how we will carry out our responsibilities and the general rules under which we will operate. Our policies are approved by the board; and
- the way we assure our performance, management assurance is provided by a combination of effective management processes and embedded risk and compliance activities. Independent assurance is provided primarily by internal audit, by our independent external auditors and by other external bodies.

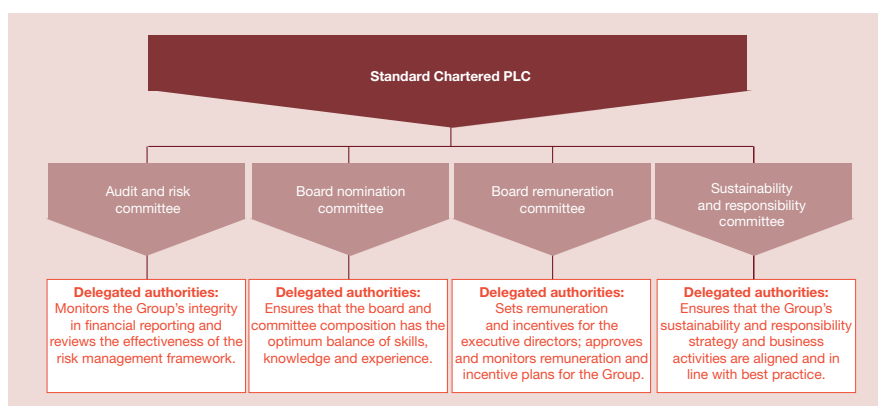
#### Helpful hint



Apply the principles and provisions of the Code to the circumstances of the business

### Standard Chartered PLC

#### Board governance structure



#### Helpful hint



Diagrams and charts can convey more information, more clearly than narrative disclosures

# Putting governance into context

## 1.2 Compliance statements

### Technical requirements

#### Listing Rules

Paragraph 9.8.6 R of the Listing Rules states that in the case of a listed company incorporated in the United Kingdom, the following items must be included in its annual report and accounts:

- a statement of how the listed company has applied the Main Principles set out in Section 1 of the Combined Code, in a manner that would enable shareholders to evaluate how the principles have been applied
- a statement as to whether the listed company has complied throughout the accounting period with all relevant provisions set out in Section 1 of the Combined Code or
- not complied throughout the accounting period with all relevant provisions set out in Section 1 of the Combined Code and if so, setting out:
  - (i) those provisions, if any, it has not complied with
  - (ii) in the case of provisions whose requirements are of a continuing nature, the period within which, if any, it did not comply with some or all of those provisions
  - (iii) the company's reasons for non-compliance.

### Note on requirements (including 'comply or explain' mechanism)

The Listing Rules require UK companies listed on the Main Market of the London Stock Exchange to describe in the annual report and accounts their corporate governance from two points of view: the first dealing generally with their adherence to the Code's main principles, and the second dealing specifically with non-compliance with any of the Code's provisions. (This is known as the 'two-part statement'). The descriptions together should give shareholders a clear and comprehensive picture of a company's governance arrangements in relation to the Code. This 'comply or explain' mechanism is an integral part of the Combined Code which has been at the heart of corporate governance since the Cadbury Report was issued in 1992. It is recognised that not all companies will be able to, or will necessarily wish to, comply with all the provisions of the Combined Code and so the 'comply or explain' mechanism allows a company to apply the main principles of the Combined Code, in the way that, in the board's opinion, is the best fit for the company and to state whether or not it complies with the Code's provisions.

If a company does not comply with any of the provisions it must state the reasons for non-compliance, the period of non-compliance and, where appropriate, the steps it is taking to ensure full compliance in the future. Whilst this mechanism has the advantage of being flexible, in particular where there are departures from the Code's provisions, it requires effective engagement on the part of both boards and investors alike.

### Current themes

Effective engagement and dialogue between investors and boards has been one of the current themes of the governance reviews in 2009.

- Where this happens the disclosures around non-compliance with specific Code provisions should not come as a surprise; it should be clear that companies have made appropriate efforts to apply the principles of the Code in the relevant area.

- The explanation of the 'exception' (and any measures taken to address it) under the 'comply or explain' mechanism should make sense and be transparently described, in the context of effective engagement.


# Putting governance into context

## 1.2 Compliance statements

### Admiral Group plc

#### The Combined Code on Corporate Governance

This report explains key features of the Group's governance structure, how it applies the principles set out in the revised Combined Code on Corporate Governance (the 'Code'), and the extent to which the Company has complied with the provisions of the Code.

 The Board complied with the Combined Code in all respects during 2008 except for Code D.1.1, which requires that the Senior Independent Director should attend meetings with a range of shareholders. The Company has a comprehensive programme of meetings and dialogue with institutional investors.

The views of investors expressed through this dialogue are communicated to the Board as a whole through the investor relations report. All Directors can, therefore, develop an understanding of issues or concerns of major shareholders should any be raised. Feedback from shareholders suggests that these arrangements for communication between the Company and its shareholders continue to be viewed by them as effective. The Senior Independent Director is always available to meet with individual shareholders on request to ensure the Board is aware of any shareholder concerns that cannot be resolved through the routine mechanisms for investor communications.

#### Helpful hint

 1

Transparent disclosure aids effective engagement and dialogue between investors and boards

# Putting governance into context

## 1.2 Compliance statements

### 2 Helpful hint

Presenting the periods of compliance and non-compliance in a tabular format adds clarity and improves transparency

### The Capita Group Plc

The Capita Group Plc and its subsidiaries (“the Group”) continue to be committed to the principles of corporate governance contained in the Combined Code Principles of Good Governance and Code of Best Practice (“the Code”) for which the Board is accountable.

The Group has complied throughout the year with the provisions of Section 1 of the Code as updated in June 2008, except in respect of the composition of the Board.

Composition of the Board (A.3.2) – During the period under review the composition of the Board changed several times. This is shown in the table below:

Period	Description of change	Balance of Board
1 January - 29 February 2008		Non-executive Chairman 4 Executive Directors 3 Non-executive Directors
1 March - 31 July 2008	Appointment of Martin Bolland - 1 March 2008	Non-executive Chairman 4 Executive Directors 4 Non-executive Directors
1 August - 30 September 2008	Appointment of Maggi Bell - 1 August 2008	Non-executive Chairman 5 Executive Directors 4 Non-executive Directors
1 October - 31 December 2008	Resignation of Peter Cawdron - 30 September 2008	Non-executive Chairman 5 Executive Directors 3 Non-executive Directors

The Board believes that the current composition, as it is led by a Non-executive Chairman, remains suitable for the nature and size of the Group. We believe that the collective skills, experience and approach to running the business are

appropriate for driving the Group forward and achieving the Group’s goals. However, we constantly review the composition of the Board to ensure that it continues to meet the needs of the Group.

# Putting governance into context

## 1.2 Compliance statements

### Scottish and Southern Energy plc

#### The Framework of Corporate Governance

The Board is accountable to the company's shareholders for the good conduct of the company's affairs. The following report sets out how the company applies the principles of the 2006 Combined Code on Corporate Governance ('the Code').

[...]

#### Combined Code Compliance


The Board continues to be committed to ensuring that the highest standards of corporate governance are maintained. The Board confirms that the company has, throughout the period under review, complied with all provisions set out in Section 1 of the Code.

#### Helpful hint

1

Transparent disclosure aids effective engagement and dialogue between investors and boards

### Centrica plc

The Board of Directors is committed to the highest standards of corporate governance and believes that such standards are  critical to overall business integrity and performance.

This report explains how the Company applies the principles of the 2006 Combined Code on Corporate Governance (the Code).

[...]

#### Compliance statement

Throughout the year ended 31 December 2008, the Company fully complied with the provisions set out in Section 1 of the Code with the exception of provision A.4.3 which currently states that no individual should be appointed to a second chairmanship of a FTSE 100 company. In July 2008, the Chairman of the Company was appointed as chairman of Cadbury plc following its demerger from Cadbury Schweppes plc. The Board believes that the Chairman's commitment and contribution to the Company will not suffer as a consequence of this appointment. This provision has been removed from the new 2008 Combined Code, which the Company will report against in 2010.

# Putting governance into context

## 1.2 Compliance statements

### Wolseley plc

#### Compliance with the Combined Code

The Board is committed to the highest standards of corporate governance. It recognises that it is accountable to the Company's shareholders for good governance, to facilitate efficient and effective management in order to deliver shareholder value over the long term, within appropriately established risk parameters. The principal governance rules applying to UK companies listed on the London Stock Exchange are contained in the Combined Code on Corporate Governance (the "Code"), as adopted by the Financial Reporting Council ([www.frc.org.uk/corporate](http://www.frc.org.uk/corporate)) and most recently revised in June 2008. This

report, together with the Directors' report and the Remuneration report, describes how the Board applied the principles of good governance, as contained in section 1 of the Code, and seeks to demonstrate how those principles have been applied, and continue to be applied, during the year under review.

[...]

#### Compliance statement

The Company applied all of the principles set out in section 1 of the Code for the period under review and has, throughout the year, complied with the detailed provisions set out therein.

### Debenhams plc

In accordance with the Listing Rules of the UK Listing Authority, the Company confirms that at 29 August 2009 and as at the date of this annual report, it was compliant with the provisions of and has applied the principles as set out in the 2008 Combined Code on Corporate Governance ("the Code") issued by the Financial Reporting Council. The Company also confirms that it was compliant throughout the year except for Code Provision A.3.2 which requires that at least half the board, excluding the Chairman, should comprise independent non-executive directors. At the start of the year the board comprised the Chairman, four executive directors, five independent non-executives and two non-independent non-executives. Following the departure of Angela Spindler as Managing Director on 30 November 2008 there remained three executive directors.

[...]

Since 1 August this year, following the resignation of Peter Long and the appointment of Martina King and Sophie Turner Laing, the board comprises the Chairman, five independent non-executive directors and three executive directors. The board is confident that it has the right balance of skills and experience appropriate for the requirements of the business, that no individual dominates the decision making and that the board operated effectively throughout the year and continues to do so.

The following section sets out how the Company has applied the principles of Section 1 of the 2008 Combined Code on Corporate Governance.

# Directors

## 2.1 Board decisions

## 2.2 Attendance at meetings

## 2.3 Role of non-executive directors

### Technical requirements

#### Combined Code (2008)

##### A.1 The Board

##### Main principle

Every company should be headed by an effective board, which is collectively responsible for the success of the company.

##### Supporting principles

The board's role is to provide entrepreneurial leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed. The board should set the company's strategic aims, ensure that the necessary financial and human resources are in place for the company to meet its objectives and review management performance. The board should set the company's values and standards and ensure that its obligations to its shareholders and others are understood and met.

All directors must take decisions objectively in the interests of the company.

As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy. Non-executive directors should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible. They are responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing, and where necessary removing, executive directors, and in succession planning.

### Code provisions

A.1.1 The board should meet sufficiently regularly to discharge its duties effectively. There should be a formal schedule of matters specifically reserved for its decision. The annual report should include a statement of how the board operates, including a high level statement of which types of decisions are to be taken by the board and which are to be delegated to management.

A.1.2 The annual report should identify the chairman, the deputy chairman (where there is one), the chief executive, the senior independent director and the chairmen and members of the nomination, audit and remuneration committees. It should also set out the number of meetings of the board and those committees and individual attendance by directors.

A.1.3 The chairman should hold meetings with the non-executive directors without the executives present. Led by the senior independent director, the non-executive directors should meet without the chairman present at least annually to appraise the chairman's performance (as described in A.6.1) and on such other occasions as are deemed appropriate.

A.1.4 Where directors have concerns which cannot be resolved about the running of the company or a proposed action, they should ensure that their concerns are recorded in the board minutes. On resignation, a non-executive director should provide a written statement to the chairman, for circulation to the board, if they have any such concerns.

A.1.5 The company should arrange appropriate insurance cover in respect of legal action against its directors.

## 2.1 Board decisions

## 2.2 Attendance at meetings

## 2.3 Role of non-executive directors

### Current themes

One of the main themes of the governance discussions during 2009 concerned the role and activity of the board and whether there was sufficient oversight from the non-executive directors. Questions were raised such as (i) was the board effective in its decision making? (ii) was sufficient attention paid to risk management or was this an area that was delegated to the audit committee? (iii) what did the board spend their time discussing at their board meetings? (iv) what role were the non-executive directors expected to fill and did they spend enough time getting to know the business?

These questions, and the response to them by Walker and the FRC review, are discussed throughout this section of the compendium. Personal behaviours by directors underpin this area and PwC continues to focus on how these relate to effective governance.

The following best practice examples show good reporting in these areas and the development of these current themes:

- enhanced disclosure of the activities of the board; what the board actually spent their time discussing
- clarity around the roles of the executive directors and the non-executive directors and the balance between them
- the company's policy on the disclosure of any conflicts or potential conflicts of interest.

# Directors

## 2.1 Board decisions

### SABMiller plc

#### 4.2 Operation of the board

The board sets the strategic objectives of the group, determines investment policies, agrees on performance criteria and delegates to management the detailed planning and implementation of those objectives and policies in accordance with appropriate risk parameters. The board monitors compliance with policies and achievement against objectives by holding management accountable for its activities through monthly and quarterly performance reporting and budget updates. In addition, the board receives regular presentations, on a rotational basis, from the divisional managing directors as well as from directors of key group functions (marketing; corporate affairs; supply chain and human resources; and legal) enabling it to explore specific issues and developments in greater detail.

**1** Board and committee meetings are held in an atmosphere of intellectual honesty of purpose, integrity and mutual respect, requiring reporting of the highest standard by management and direct, robust and constructive challenge and debate among board and committee members.

#### 4.3 Matters reserved for the board

There is a schedule of matters which are dealt with exclusively by the board. These include approval of financial statements; the group's business strategy; the annual capital expenditure plan; major capital projects; major changes to the group's management and control structure; material investments or disposals; risk management strategy; social and environmental policy; and treasury policies.

The board governs through clearly mandated board committees, accompanied by monitoring and reporting systems. Each standing board committee has specific written terms of reference issued by the board and adopted in committee. The terms of reference of the audit, remuneration and nomination committees are available on the company's website or, on request, from the Company Secretary. All committee chairmen report orally on the proceedings of their committees at the next meeting of the board, and the minutes of the meetings of all board committees are included in the papers distributed to board members in advance of the next board meeting.

#### Helpful hint

1

Acknowledge behavioural aspects of a successful board

**2 Helpful hint**

Consider using best practice guidance as an objective standard underpinning governance arrangements

**Anglo American plc****Role of the Board**

The Board of directors is responsible to shareholders for the performance of the Company. Its role includes the establishment, review and monitoring of strategic objectives, approval of major acquisitions, disposals and capital expenditure and overseeing the Group's systems of internal control, governance and risk management. A schedule of matters reserved for the Board's decision details key aspects of the Company's affairs that the Board does not delegate (including, among other things, approval of business plans and budgets, material expenditure and alterations to share capital).

**Board composition and directors' independence**

The Board is chaired by Sir Mark Moody-Stuart. The chairman is responsible for leading the Board and for its effectiveness. Cynthia Carroll is the chief executive and is responsible for the execution of strategy and the day-to-day management of the Group, supported by the Executive Committee (ExCo), which she chairs. The Company has adopted the *Statement of Division of Responsibilities between the Chairman and the Chief Executive* promulgated by the Institute of Chartered Secretaries and Administrators.

**3 Helpful hint**

Explain the board's policy and procedure for identifying and considering directors' conflicts of interest

**Marshalls plc****Conflicts of Interest**

To address the effect of Section 175 of the Companies Act 2006 (directors' conflicts of interests) which came into force in October 2008, the Company's Articles were amended to enable the Board to authorise situations that may give rise to Directors' conflicts of interest. The Board has adopted procedures for the authorisation of existing situations and for considering (and authorising where appropriate) new situations which may give rise to a conflict of interest on the part of any Director.

The procedures give guidance to Directors as to what situations may be affected and of their obligations to notify the Company, through the Chairman of the Nomination Committee, of any such situations. The Company maintains a Section 175 Conflicts Register showing those situations which have been authorised and the relevant date of such authorisation.

Since adopting the procedure, as at the date of this report, the Board has authorised a number of situations advised to it by the Directors, all of which are the holding of directorships or similar offices with companies or organisations not connected with the Company. The Board has not, in relation to any of those situations, identified any actual conflict of interest, and has authorised such situations in accordance with its powers. These authorisations are recorded in the Conflicts Register of the Company maintained by the Secretary. The Board has delegated general authority to the Nomination Committee to carry out a review of such authorisations no less than annually and to make recommendations to the Board on particular situations notified to it in future.

# Directors

## 2.1 Board decisions

### Severn Trent Plc

#### Conflicts of interests

**3** The Companies Act 2006 (the Act) rules on directors' conflicts came into force on 1 October 2008. These rules provide statutory duties:

- a duty not to accept benefits from third parties;
- a duty to disclose any interest in a proposed transaction or arrangement with the company and a separate and independent duty to disclose any interest in an existing transaction or arrangement with the company (transactional conflicts); and
- a duty to avoid conflicts of interest (situational conflicts) unless authorised.

The Act allows board authorisation of situational conflicts where the directors have the relevant powers. The shareholders of the company approved a change to the articles of association at the 2008 AGM to allow the board to authorise conflicts.

In September 2008, the directors were requested to complete a questionnaire to determine whether any actual or potential conflicts needed authorisation. The board fully reviewed the completed questionnaires and noted that no conflicts arose.

For any actual or potential conflicts that arise post 1 October (2008), the following procedure has been adopted by the board to consider and, if it sees fit, to authorise situations where a director has an interest that conflicts, or may possibly conflict, with the interests of the company:

- the director will notify the Chairman and Company Secretary of the actual or potential conflict;
- the Nominations Committee will consider the notification and determine whether it needs to be proposed to a board meeting for authorisation; and
- the conflict will be considered by the board at a scheduled board meeting.

Full details of the conflict will be sent to directors in advance of the meeting. If there is a major conflict or it is decided that authorisation should not wait until the next scheduled meeting, the board would be asked to authorise the conflict by way of written resolution.

In addition to reviewing any conflicts notified and proposing them for authorisation by the board, the Nominations Committee monitors changes to previously notified conflicts and any conditions imposed. Half yearly reports are made to the board of all directors' conflicts and directors are reminded from time to time of their obligations. An annual review of conflicts is carried out and this is incorporated into the year end process of verifying directors' interests.

#### Helpful hint

**3**

Explain the board's policy and procedure for identifying and considering directors' conflicts of interest

**4 Helpful hint**

Describe the actual activities undertaken by the board as well as matters reserved for it

**5 Helpful hint**

Ensure all board activities are described, not just scheduled meetings

**Barclays PLC****Activities in 2008**

Typically, at each meeting, the Group Chief Executive and Group Finance Director report to the Board and one or two of the main businesses or functions also presents an update on the progress of implementing the strategy. The Board also receives reports from each of the principal Board Committees and may also receive reports from the Company Secretary on any relevant corporate governance matters.

**4** The Board allocated its time at scheduled Board meetings during 2008 as follows:

- received reports from the Group Chief Executive on strategic progress, matters considered by the Executive Committee and competitor activity;
- received reports from the Group Finance Director on the financial position of the Group, which included capital management and liquidity updates throughout 2008;
- received reports from each of the Board Committees;
- received reports from the Group Risk Director on risk management and from the Group General Counsel on legal risk;
- received reports from businesses or functions on progress against strategy, including Barclays Wealth, Barclays Capital, Barclaycard, Brand & Marketing, UK Retail Banking, Investment Banking and Investment Management in Asia Pacific and GRCB – Emerging Markets;
- approved the full year and half-year results for the Group;
- received a report on the effectiveness of the Board following the performance review;
- received reports on peer group comparisons of results following the release of preliminary and half-year results;
- received reports on governance issues and updates on the changes in company law;

- approved the revised fees recommended for non-executive Directors following a benchmarking comparison against our peer group;
- received external presentations on shareholder sentiment, including institutional perceptions, Group Strategy, Global Retail and Commercial Banking, Investment Banking and Investment Management, performance, capital management and communications;
- approved the strategy and Risk Appetite for the Group;
- received reports on franchise health and the Employee Opinion Survey; and
- received reports on the economic environment.

**5** Adverse market conditions during 2008 led to the Board holding an additional 23 meetings during the year. These additional meetings discussed the impact of market conditions on performance, liquidity, the three capital raisings that were undertaken during the year and the acquisition of Lehman Brothers North American businesses. Ongoing and regular communication with the Board was vital during this period, a principle that had been established during the potential ABN AMRO acquisition in 2007. If the additional meetings relating to the capital raisings are taken into account, the Board spent 33% of its time on capital management.

The capital raising that was announced on 31st October 2008 in response to the new higher capital targets which the FSA set for all UK Banks was the subject of considerable discussion. Seven Board meetings and three Board Finance Committee meetings were held during October to discuss the new requirements and Barclays response. The Board had to take some key decisions during this period, in particular:

- whether or not to accept government money over the weekend of 11th/12th October 2008;

# Directors

## 2.1 Board decisions

### Barclays PLC (*continued*)

- the decision to accelerate the timetable for raising required capital in the light of deteriorating market conditions;
- the decision not to pursue a rights issue in the light of practical and market constraints; and
- the decision to proceed with the Capital Raising as announced.

These decisions were only taken by the Board after rigorous discussion and having sought external advice. They were taken in the long-term interests of all shareholders.

#### Helpful hint

6

Tabular format gives more information, more clearly

**Fig 1: Board allocation of time**



Figure 1 illustrates how the Board spent its time at the scheduled Board meetings during 2008.

**4 Helpful hint**

Describe the actual activities undertaken by the board as well as matters reserved for it

**5 Helpful hint**

Ensure all board activities are described, not just scheduled meetings

**Prudential plc****Board and committee meetings and attendance**

During 2008, the Board met 8 times and held a separate strategy meeting. A detailed forward agenda has been in operation for a number of years, which is continually updated to reflect not only scheduled regular items of business but also any topical matters that have arisen. Each year, at least one of the Board meetings is held at one of the Group's business operations to facilitate a fuller understanding of the business. In June 2008, a Board meeting was held at Jackson's offices in the US, where the Board met with senior members of the US management team and attended a series of presentations on the US distribution model and the challenges and opportunities facing the US business.

**4** In September 2008, the Board met at the UK business' offices in London, meeting senior members of the UK management team and receiving a presentation on the UK business. In November 2008, the Board held its annual strategy meeting in Hong Kong. Whilst they were there, the directors met senior members of the Asian management team, attended part of the Asian Leadership Meeting and received presentations on the Asian business. The Board also visited the Hong Kong offices.

The majority of directors attended all 7 scheduled Board meetings occurring during the period. There was 1 additional Board meeting, and the majority of the directors attended that meeting. Where directors were not able to attend a meeting, their views were canvassed by the Chairman prior to the meeting. The table on page 85 details the number of Board and Committee meetings attended by each director throughout the year. A **5** further 10 ad hoc Board Committee meetings took place during the year, which had been convened to finalise arrangements for matters discussed by the Board, such as final approvals of periodic financial reports or finalising transactions. The Chairman usually meets formally, at least annually, with the non-executive directors without the executive directors being present. During 2008, the Chairman held a number of meetings with non-executives individually or in groups without the executives being present. It was decided in the light of these meetings that no additional formal meeting would be required. The Chairman Designate also had a number of meetings with non-executive directors without the executives being present.

# Directors

## 2.2 Attendance at meetings

### BTG plc

Board and committee composition and attendance	Committee memberships	Independent	Board meetings	Nomination Committee	Audit Committee	Remuneration Committee
Total number of meetings			13	3	3	5
<b>Executive directors</b>						
Louise Makin (CEO)		No	13/13			
Christine Soden (CFO/COO) <sup>a</sup>		No	12/12			
Rolf Soderstrom (CFO) <sup>b</sup>		No	3/3			
<b>Non-executive directors</b>						
John Brown	Nom	No <sup>c</sup>	13/13	(Chair) 3/3		
Colin Blakemore	Aud, Rem <sup>d</sup>	Yes	13/13		3/3	5/5
Peter Chambré	Rem, Nom	Yes	9/13	2/3		2/5
Consuelo Brooke <sup>e</sup>	Rem, Nom	Yes	1/2	0/0		0/0
William Jenkins	Aud, Rem, Nom <sup>f</sup>	Yes	13/13	0/0	3/3	(Chair) 5/5
Giles Kerr	Aud, Nom <sup>g</sup>	Yes	13/13	3/3	(Chair) 3/3	
James O'Shea <sup>h</sup>	Rem, Nom	Yes	1/1			1/1
Alison Wood <sup>i</sup>	Aud, Rem	Yes	2/2		0/0	0/0

- a Christine Soden moved from Chief Financial Officer to Chief Operating Officer on 4 December 2008 and resigned as a director on 31 March 2009.
- b Rolf Soderstrom joined the Board on 4 December 2008 as Chief Financial Officer.
- c John Brown is not considered to be independent by virtue of his role as Chairman of the Company.
- d Colin Blakemore joined the Audit Committee on 16 July 2008.
- e Consuelo Brooke resigned from the Board, committees and as Senior Independent Director at the AGM on 16 July 2008.
- f William Jenkins left the Nomination Committee and joined the Remuneration Committee as Chairman on 16 July 2008.
- g Giles Kerr joined the Nomination Committee and became Senior Independent Director on 16 July 2008 following the retirement of Consuelo Brooke at the 2008 AGM.
- h James O'Shea joined the Board on 2 April 2009 and was appointed to the Remuneration and Nomination Committees on 13 May 2009.
- i Alison Wood resigned from the Board and its committees at the AGM on 16 July 2008.
- j The Chairman, CEO and CFO are usually invited to attend part or all of the Remuneration and Audit Committee meetings. The external auditor usually attends the Audit Committee meetings.

### Helpful hint

1

A tabular format gives clarity to director changes and board and committee appointments

## 2.2 Attendance at meetings

**2** Helpful hint

Show that directors attend ad hoc meetings in addition to the scheduled board meetings

**Standard Chartered PLC****Number of board meetings held in 2008**

<b>Number of meetings in 2008</b>	<b>Scheduled 8</b>	<b>Ad hoc 7</b>
J W Peace (acting chairman) <sup>1</sup>	7/8	6/7
P A Sands	8/8	7/7
R H Meddings	8/8	7/7
G R Bullock	8/8	6/7
S P Bertamini <sup>2</sup>	5/5	7/7
J F T Dundas	8/8	6/7
V F Gooding	8/8	6/7
R H P Markham	7/8	7/7
R Markland	8/8	6/7
S B Mittal	4/8	5/7
J G H Paynter <sup>3</sup>	2/2	7/7
P D Skinner	8/8	5/7
O H J Stocken	8/8	7/7
Sir CK Chow <sup>4</sup>	3/3	n/a
M B DeNoma <sup>5</sup>	3/3	n/a
Lord Turner <sup>6</sup>	5/6	n/a
Lord Davies <sup>7</sup>	8/8	7/7

<sup>1</sup> appointed acting chairman 14 January 2009

<sup>2</sup> appointed 1 June 2008

<sup>3</sup> appointed 1 October 2008

<sup>4</sup> retired 7 May 2008

<sup>5</sup> resigned 1 June 2008

<sup>6</sup> resigned 19 September 2008

<sup>7</sup> resigned 14 January 2009

# Directors

## 2.2 Attendance at meetings

### Alliance Trust plc

#### Non-executive Directors

The Company is committed to maintaining a strong representation of independent non-executives on the Board and this is demonstrated by the make up of the Board. All of the Non-executive Directors are considered to be independent. The Chairman and a Non-executive Director also sit on the Board of Alliance Trust Savings and Alliance Trust Asset Management.

### Diageo plc

#### Board of Directors

[...]

The non-executive directors, all of whom the board has determined are independent, are experienced and influential individuals from a range of industries and countries. Their mix of skills and business experience is a major contribution to the proper functioning of the board and its committees, ensuring that matters are fully debated and that no individual or group dominates the board's decision-making processes.

[...]

All directors are equally accountable for the proper stewardship of the company's affairs.

The non-executive directors have a particular responsibility for ensuring that the business strategies proposed are fully discussed and critically reviewed. This enables the directors to promote the success of the company for the benefit of its shareholders as a whole, whilst having regard to, among other matters, the interests of employees, the fostering of business relationships with customers, suppliers and others, and the impact of the company's operations on the communities in which the business operates and the environment.

In addition to attendance at Board and Committee meetings the Non-executive Directors are available to management throughout the year. They also met as a group on two occasions during the year. These meetings offer the Non-executive Directors the opportunity to discuss management succession and other business or concerns that they have in the absence of Executive Directors. In the course of the year the Non-executive Directors also met without the Chairman present to review her performance.

2

#### Helpful hint

2

Show that directors attend ad hoc meetings in addition to the scheduled board meetings

The non-executive directors also oversee the operational performance of the whole group. To do this they have full and timely access to all relevant information, with updates also provided on governance and regulatory matters affecting the company. In addition, executive committee members and other senior executives are invited, as appropriate, to board and strategy meetings to make presentations on their areas of responsibility. Non-executive directors are also invited to attend the executive committee members' senior leadership meetings to gain further insight into different aspects of the business.

[...]

The non-executive directors fulfil a key role in corporate accountability. The remits and membership of the audit, the nomination and the remuneration committees of the board are set out below. The company secretary acts as secretary to all of these committees. The terms of reference of the committees are available on the company's website at [www.diageo.com](http://www.diageo.com).

## 2.3 Role of non-executive directors

**1 Helpful hint**

Describe clearly the role and responsibilities of the non-executive directors

**Great Portland Estates plc****1****Principal activities undertaken by the Board Committees**

Month	Committee	Principal activity
January	Audit	Review of the Interim Management Statement <ul style="list-style-type: none"> <li>Meeting with the Valuers</li> </ul>
January/March	Remuneration	Review of Remuneration Policy <ul style="list-style-type: none"> <li>Remuneration structure for Executive Directors, including bonus and share-based long-term incentive plans</li> </ul>
March	Audit	Year end planning meeting <ul style="list-style-type: none"> <li>Meeting with the Auditors</li> </ul> Review of: <ul style="list-style-type: none"> <li>Audit Plan</li> <li>independence of Auditors</li> <li>audit/non-audit fees</li> </ul> <ul style="list-style-type: none"> <li>Review developments in accounting and reporting requirements</li> <li>Review of internal controls and risk management processes <ul style="list-style-type: none"> <li>Consideration of need for internal audit</li> </ul> </li> </ul>
March/April	Nomination <sup>1)</sup>	Review of Board evaluation and succession planning
April/May	Remuneration	Review of performance and remuneration <ul style="list-style-type: none"> <li>Review of: <ul style="list-style-type: none"> <li>year end appraisals of Executive Directors and Senior Managers below board level and their objectives and targets set for forthcoming year</li> <li>Senior Manager bonuses</li> <li>Senior Manager salary, bonus and long-term incentive levels for forthcoming year</li> </ul> </li> <li>Approval of: <ul style="list-style-type: none"> <li>Executive Director bonuses</li> <li>Executive Director salary, bonus and long-term incentive levels for forthcoming year</li> <li>Executive Director and employee corporate bonus plan targets</li> </ul> </li> </ul>
May	Remuneration	Approval of Remuneration Report
May	Audit	Review of year end results <ul style="list-style-type: none"> <li>Review of Annual Report/ Preliminary Announcement</li> <li>Meeting with the Valuers</li> <li>Meeting with the Auditors</li> <li>Review of internal controls and risk management process</li> </ul>
May/June	Remuneration	Review of LTIP and SMP performance and vesting of awards Approval of LTIP and SMP awards
July	Audit	Review of Interim Management Statement <ul style="list-style-type: none"> <li>Meeting with the Valuers</li> </ul>
September	Audit	Half year planning meeting <ul style="list-style-type: none"> <li>Meeting with the Auditors</li> </ul> Review of: <ul style="list-style-type: none"> <li>Audit Plan</li> <li>independence of Auditors</li> <li>audit/non-audit fees</li> </ul> <ul style="list-style-type: none"> <li>Review developments in accounting and reporting requirements</li> </ul>
October/November	Audit	Review of half year results <ul style="list-style-type: none"> <li>Review of half year result announcement</li> <li>Meeting with the Valuers</li> <li>Meeting with the Auditors</li> <li>Review of internal controls and risk management process</li> <li>Review of pension plan annual accounts</li> </ul>

<sup>1</sup> Additional Nomination Committee meetings held as appropriate where Board appointments required.

Remuneration
 Nomination
 Audit

# Directors

## 2.3 Role of non-executive directors

### WPP plc

#### Review of the Company's governance and the Nomination Committee

[...]

**2** Responsibilities of major public companies' non-executive directors have increased substantially in the past decade. Packs of WPP reading materials are distributed near-weekly; few days pass without substantive communications among your non-executive directors; fewer days still, between senior management's and our BlackBerrys' messages. Consequently, I am immensely grateful for the prompt attention and conscientious efforts of my colleagues, as well as those

at WPP who directly support the Board's work and the very able professionals who meet the seemingly endless legal, regulatory, tax, accounting and administrative demands of more than 100 jurisdictions and 2,400 offices.

#### Helpful hint

**2**

Acknowledge importance of tone and behaviour in role of non-executives

## 2.4 Chairman and chief executive

### 2.5 Chairman's independence

#### Technical requirements

##### Combined Code (2008)

##### A.2 Chairman and Chief Executive

###### Main principle

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.

###### Supporting principle

The chairman is responsible for leadership of the board, ensuring its effectiveness on all aspects of its role and setting its agenda. The chairman is also responsible for ensuring that the directors receive accurate, timely and clear information. The chairman should ensure effective communication with shareholders. The chairman should also facilitate the effective contribution of non-executive directors in particular and ensure constructive relations between executive and non-executive directors.

#### Code provisions

A.2.1 The roles of chairman and chief executive should not be exercised by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established, set out in writing and agreed by the board.

A.2.2 The chairman should on appointment meet the independence criteria set out in A.3.1 below. 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.

#### Current themes

Both Walker and the FRC review recognise the importance of the chairman in setting the 'tone at the top' for the rest of the board, including determining the board agenda and ensuring sufficient time for issues to be debated between executives and non-executives. The FRC review includes a new principle developing this, and annual re-election of the chairman (in case he or she is not effective) is being considered.

The current disclosures tend to focus on the division of responsibilities between chairman and chief executive, with some good explanations of the respective roles.

# Directors

## 2.4 Chairman and chief executive

### FirstGroup plc

#### Roles of the Chairman and Chief Executive

##### The Chairman

The Chairman of the Board is Martin Gilbert. He has a written statement of responsibilities which has been approved by the Board:

**1** The Chairman is responsible for:

- leadership of the Board, ensuring its effectiveness on all aspects of its role and setting its agenda, taking into account the issues relevant to the Group and the concerns of all Board members;
- ensuring, with the Chief Executive and Company Secretary, the provision of accurate, timely and clear information to the Board;
- ensuring effective communication with shareholders and that the Board develops an understanding of the views of major investors;
- managing the Board, ensuring that sufficient time is allowed for the discussion of complex or contentious issues;
- ensuring a regular evaluation of the performance of the Board as a whole, its Committees and individual Directors;
- taking the lead in identifying and meeting the development needs of individual Directors and the Board as a whole, with a view to enhancing the overall effectiveness of the team;
- facilitating the effective contribution of Non-executive Directors and ensuring constructive relations between Executive and Non-executive Directors;

- ensuring, with the Chief Executive and Company Secretary, that new Directors receive a comprehensive induction programme to ensure their early contribution to the Board; and
- encouraging active engagement by all members of the Board.

[...]

##### The Chief Executive

The Chief Executive is Sir Moir Lockhead. The Chief Executive also has a written statement of responsibilities which has been approved by the Board:

**1** The Chief Executive is responsible for:

- running the day-to-day business of the Group, within the authorities delegated to him by the Board;
- ensuring implementation across the Group of the policies and strategy set by the Board for the Group;
- day-to-day management of the executive and senior management team;
- leading the development of senior management within the Group with the aim of assisting the training and development of suitable individuals for future Director roles;
- ensuring that the Chairman is kept apprised in a timely manner of the issues facing the Group and of any important events and developments; and
- leading the development of the Group's future strategy including identifying and assessing opportunities for the growth of its business and reviewing the performance of its existing businesses.

#### Helpful hint

**1**

Show clearly, in a manner tailored to the circumstances of the business, the division of responsibilities of the chairman and the chief executive

## 2.4 Chairman and chief executive

**1 Helpful hint**

Show clearly, in a manner tailored to the circumstances of the business, the division of responsibilities of the chairman and the chief executive

**Aviva plc****The Chairman and Group Chief Executive**

The respective roles of the Chairman and Group Chief Executive are set out in the Board's terms of reference. The Chairman's priority is the leadership of the Board and the Group Chief

Executive's priority is the management of the Company. The Chairman's commitment to the Company is two to three days per week and his main interests outside the Company are set out in his biographical details on page 84. During the year the Chairman retired as the chairman and from the board of Aegis plc.

**Serco Group plc****Chairman and Chief Executive**

**1** As Chairman, Kevin Beeston is responsible for:

- Ensuring the effective running of the Board, its agenda and processes
- Promoting the highest standards of corporate governance and ensuring appropriate communication with shareholders on these standards and the Group's overall performance
- Ensuring appropriate Director development and succession planning for the Board.

**1** The Chief Executive, Christopher Hyman, is responsible for:

- The formation and implementation of the Group's global strategy

- Delivery of the Group's business plan
- Providing motivation and leadership to the operating divisions, chairing the Global Management Board and setting its style and tone
- Setting the overall policy and direction of Serco's business operations, investments and other activities within a framework of prudent and effective risk management and ensuring that divisions and functions control those risks satisfactorily
- Providing leadership and representation of the Group with major customers and industry organisations.

# Directors

## 2.5 Chairman's independence

### Prudential plc

#### Board independence

The Company follows the Combined Code when determining the independence of its non-executive directors, and in addition to that guidance Prudential is required to affirm annually the independence of its Audit Committee members under Sarbanes-Oxley legislation. Where necessary, the Board ensures that appropriate processes are in place to manage any possible conflict of interest.

In line with the principles of the Combined Code, both the Chairman in office during the year and his successor from 1 January 2009 were independent on appointment. Throughout the year all non-executive directors were considered by the Board to be independent in character and judgement, and independent in accordance with the Combined Code.

### Scottish and Southern Energy plc

#### Independence and Experience of non-executive Directors

The Board has assessed the independence of the non-executive Directors against the criteria set out in the Code and has concluded that they are all independent in character and judgement. In line with the recommendations of the Code, at least half the Board, excluding the Chairman, are independent non-executive Directors. Lord Smith of Kelvin was also independent when appointed Chairman.

### Associated British Foods plc

#### The board of directors

[...]

#### Composition

The board currently comprises the Chairman Charles Sinclair, the Chief Executive George Weston, the Finance Director John Bason and four non-executive directors who are independent of management and have no relationships which would materially interfere with the exercise of their independent judgement. The board also includes Galen Weston, a non-executive director, who is not regarded as independent in view of his relationship with Wittington Investments Limited.

Following the retirement of Martin Adamson in April 2009, Charles Sinclair was appointed Chairman. On his appointment as Chairman, Charles Sinclair met the independence criteria set out in the Combined Code.

The board considers that the non-executive directors provide a solid foundation for good corporate governance for the group and ensure that no individual or group dominates the board's decision-making. Collectively, the non-executive directors bring a wide range of international experience and expertise to the board. They each occupy or have occupied senior positions in industry or public life and consequently contribute significantly to board decision-making.

## 2.6 Board balance and independence

### 2.7 Justification of independence

#### Technical requirements

#### Combined Code (2008)

#### A.3 Board balance and independence

##### Main principle

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 taking.

##### Supporting principles

The board should not be so large as to be unwieldy. The board should be of sufficient size that the balance of skills and experience is appropriate for the requirements of the business and that changes to the board's composition can be managed without undue disruption.

To ensure that power and information are not concentrated in one or two individuals, there should be a strong presence on the board of both executive and non-executive directors.

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.

No one other than the committee chairman and members is entitled to be present at a meeting of the nomination, audit or remuneration committee, but others may attend at the invitation of the committee.

#### Code provisions

A.3.1 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. The board should state its reasons if it determines that a director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination, including if the director:

- 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 either 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, participates in the company's share option or a performance-related pay scheme, or is a member of the company's 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
- represents a significant shareholder or
- has served on the board for more than nine years from the date of their first election.

A.3.2 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.

# Directors

## 2.6 Board balance and independence

### 2.7 Justification of independence

#### Current themes

One focus of governance discussions in 2009 has been the importance of an appropriate balance of skills, experience, independence and knowledge amongst the directors and the main principle of the Code on this has been strengthened in the FRC review.

Regarding independence, the most common reason for a director not being considered independent is currently length of tenure (i.e. serving on the board for more than nine years, due to the benefits of experience and history of the organisation that this brings with it).

Non-compliance with this provision is frequent, and PwC would not wish to see the requirement for an appropriate explanation removed.

Particular concern has been expressed where a non-executive director has served more than 9 years concurrently with an executive director.

Whilst we recognise the value to a board of retaining directors with relevant experience, it is also important to refresh board composition periodically.

## 2.6 Board balance and independence

### HSBC Holdings plc

#### Board balance and independence of Directors

**1** The Board includes a strong presence of both executive and non-executive Directors such that no individual or small group can dominate the Board's decision making. Following the 2009 Annual General Meeting, the Board

will comprise 21 Directors, 14 of whom are independent non-executive Directors. The size of the Board is appropriate given the complexity and geographical spread of HSBC's business and the significant time demands placed on the non-executive Directors, particularly those who serve as members of Board committees.

#### Helpful hint

**1**

Explain how the size of board is appropriate for the business

## 2.6 Board balance and independence

**2 Helpful hint**

Carry out a specific annual review of independence

**3 Helpful hint**

Give clear justification for the independence of a director who has served more than 9 years

**The Davis Service Group Plc****Composition of the board**

During 2008, consistent with the provisions of the 2006 Combined Code, the board comprised two executive and five non-executive directors (including the Chairman). Their biographies on page 31 reflect a suitable breadth of skills, knowledge and experience.

**Independence of the board**

**2** In December 2008, the nomination committee performed a thorough review of the independence of the non-executive directors. The committee concluded that all the non-executive directors remain independent from management and provide a strong independent element on the board, being free from any business or other relationship which could materially interfere with the exercise of their judgement.

To safeguard their independence, directors are not entitled to vote on any matter in which they have a material personal interest unless the directors unanimously decide otherwise and, where necessary, directors are required to absent themselves from a meeting of the board while such a matter is being discussed. To strengthen the independence of the non-executive directors and to enable them to discuss more freely the performance of the group's executive management, the Chairman meets formally with the non-executive directors at least once each year without the executives being present.

The independence of the directors is further supported by the work of the Company Secretary whose appointment and removal is the responsibility of the

board as a whole. The Company Secretary, who is also secretary to the audit, nomination and remuneration committees, ensures that board procedures are complied with and provides advice on corporate governance and regulatory compliance. All directors have unfettered access to the advice and services of the Company Secretary. There is also an agreed procedure by which directors can, where necessary for the discharge of their duties, obtain independent professional advice at the company's expense.

John Burns has served on the board for more than nine years and as a result the board has reviewed the extent to which he remains independent. Following this review the board are of the view that he continues to demonstrate strong independence in character and judgement, and in the manner in which he discharges his responsibilities as a director. Consequently, the board is satisfied that, despite his length of tenure, there is no association with management that could compromise his independence and that therefore he remains independent. **3**

As required by the 2006 Combined Code, the board has determined that any non-executive director who has served for more than nine years will be subject to annual re-election. John Burns will therefore be subject to re-election at the 2009 Annual General Meeting. Following a formal performance evaluation, the board has concluded that his performance as non-executive director continues to be effective. He contributes significantly as a director through his individual skills and his considerable knowledge and experience of the group.

# Directors

## 2.6 Board balance and independence

### Marks and Spencer Group plc

#### How does the Board demonstrate independence?

We are putting particular emphasis on making sure that our independent review of the executive is effective.

We have strengthened the role of the Deputy Chairman to address concerns over the combined role. He leads on all governance matters, which includes engaging shareholders on their views, chairing the Nomination and Governance Committee and conducting the review of Board performance.

The Board has a clear majority of independent directors – with six out of 10 being fully independent. All our non-executives have been appointed since 2004 and have an average tenure of less than three years each.

**4** It's also a question of mindset – our Board combines a broad range of skills, experience and personalities which secures the necessary level of challenge and insight to enhance executive performance.

We are conscious of the need to give sufficient time for questions and debate in the boardroom so discussion does not get curtailed.

The non-executives have the opportunity to influence the agenda. An ongoing timetable of executive updates is kept under review and strategic discussions were brought forward to respond to the current economic climate and changing needs of our customers.

**5** The governance committees carry out detailed independent oversight on behalf of the Board to ensure we have the appropriate processes in place for succession, remuneration and audit.

The non-executives get good, direct access to the management team through presentations at Board and committee meetings, the Board's strategic session in February and ad hoc meetings at their request.

Our Group Secretary supports both the Chairman and the Deputy Chairman in carrying out their governance accountabilities. He also makes sure the non-executives get the information and access to people they need. He is supported by the corporate governance group which makes sure that the role of governance is understood throughout M&S. On 8 July 2009 the Group Secretary, Graham Oakley, will retire and will be succeeded by Amanda Mellor, current Head of Investor Relations.

**6** **"I am constantly aware of the need to be independent and to ask the challenging question – it's in the best interests of M&S."** Steven Holliday, Non-executive Director

**"I have direct access to the Audit Committee Chairman. The Committee supports me in making sure that management responds to our findings and that internal audit is effective."** Mark Fensome, Head of Internal Audit

**4** **"I am pleased that my colleagues and I can be forthright in the boardroom. Our Board culture supports this."** Jan du Plessis, Non-executive Director

#### Helpful hint

4

Recognise importance of mindset/behaviours to the functioning of the board

#### Helpful hint

5

Describe succession planning to ensure ongoing balance is appropriate

#### Helpful hint

6

Include personal statements from non-executive directors to demonstrate commitment

## 2.6 Board balance and independence

**5 Helpful hint**

Describe succession planning to ensure ongoing balance is appropriate

**2 Helpful hint**

Carry out a specific annual review of independence

**SOCO International plc****Independence and Refreshing of the Board**

**5** The Board embraces the underlying principles of Code provisions regarding tenure and refreshing of the Board, and seeks to strike an appropriate balance between continuity of experience and succession. The Board recognises that an individual's independence cannot be determined arbitrarily on the basis of a set period of time. The Company manages a portfolio of long term, complex projects and benefits from long serving Directors with detailed knowledge of the Company's operations and with the proven commitment, experience and competence to effectively advise and oversee the Company's management on behalf of shareholders. The Company does not impose fixed term limits as this would assure a loss of experience and knowledge without assurance of increased independence. Accordingly, the Board's assessment of independence is of prime importance to ensure that retention of experience does not result in a failure to retain a sufficient contingent of independent Directors.

**2** The independence of each Non-Executive Director is assessed at least annually. To be identified as independent a Director must be determined independent in character and judgement and free from any relationships or circumstances which are likely to affect, or could appear to affect, their judgement including in particular those set out in the Code. Particular scrutiny is applied in assessing the continued independence of Directors having served over nine years, with attention to ensuring their allegiance remains clearly aligned with shareholders. Board refreshment and tenure are considered together, and weighed for relevant benefit in the foreseeable circumstances, given further that the Board should not be enlarged to a size that is unwieldy.

In conducting its current assessment the Board referred to guidance setting out criteria deemed relevant to determining whether a Director continues to exhibit those qualities and behaviours it considers essential to be considered independent. A specified set of focused criteria was applied to the assessment of long tenured Directors. Consideration was also given to the results of individual evaluation and continued satisfactory performance.

# Directors

## 2.7 Justification of independence

### Unilever PLC

#### Independence

Taking into account the role of Non-Executive Directors, which is essentially supervisory, and the fact that they make up the key Committees of the Boards, it is important that our Non-Executive Directors can be considered to be independent.

**1** Our definition of independence for Directors is set out in the document entitled 'The Governance of Unilever'. It is derived from the applicable definitions in use in the Netherlands, the UK and the US. All our current Non-Executive Directors are considered to be independent of Unilever. Our Boards reached this conclusion after conducting a thorough review of all relevant relationships of the Non-Executive Directors, and their related or connected persons. Leon Brittan has served on the Boards since 2000. The length of tenure under the Dutch Corporate Governance Code is set at a maximum of twelve years for non-executive directors.

However, the UK Combined Code on Corporate Governance suggests that length of tenure is a factor to consider when determining independence of a non-executive director. The UK Combined Code also provides that a non-executive director who serves more than nine years should be subject to annual re-election and subject to particularly rigorous review. It is our standard practice for all Directors to

**2** seek re-election annually. Moreover, our annual performance review has concluded that Leon Brittan continues to demonstrate the essential characteristics of independence expected by the Boards. His length of service, and his resulting experience and knowledge of Unilever, is viewed by the Boards as being especially valuable, particularly given the extent of the changes to the Boards in recent years.

A number of relationships, such as non-executive directorships, exist between various of our Non-executive Directors and companies that provide banking, insurance or financial advisory services to Unilever. Our Boards considered in each case the number of other companies that also provide or could readily provide such services to Unilever, the significance to those companies of the services they provide to Unilever, the roles of the Non-executive Directors within those companies and the significance of those roles to our Non-Executive Directors.

It concluded that none of these relationships impact the independence of the Non-executive Directors concerned. The Boards have formed the view that the fact that David Simon is a senior adviser of Morgan Stanley International is not material. **2** The Boards have satisfied themselves that the services provided by Paton Tupper Associates (Pty) Limited and Barloworld Limited, of which Hixonia Nyasulu is a director and shareholder and director respectively, to Unilever South Africa is not material. The Boards further concluded that Narayana Murthy's directorship of HSBC Holdings plc, one of Unilever's preferred banks, is not impacted by the banking relationship and therefore that he should be considered independent. The Boards have also satisfied themselves that Leon Brittan's position at UBS Investment Bank and UBS Securities Company Limited does not involve him in any way in its broking relationship with Unilever.

None of our Non-executive Directors are elected or appointed under any arrangement or understanding, either with any major shareholder, customer, supplier or otherwise.

#### Helpful hint

1

Define criteria used for independence judgements

#### Helpful hint

2

Disclose the reasons why the board believes that specific non-executive directors are independent

## 2.7 Justification of independence

**2 Helpful hint**

Disclose the reasons why the board believes that specific non-executive directors are independent

**3 Helpful hint**

For non-executives serving more than 9 years give indication of future plans for succession

**SABMiller plc****3. Board of directors: composition and independence**

[...]

The board continues to believe that its overall composition remains appropriate, having regard in particular to the independence of character and integrity of all of its directors, and the experience and skills which they bring to their duties.

It is now 10 years since the company listed on the London Stock Exchange. SABMiller has been fortunate to retain the services of several distinguished non-executive directors – the Chairman, Lord Fellowes, Mr Morland and Mr Ramaphosa – for the entire period. They have provided considerable stability to the board since the listing in 1999 and the board has benefited greatly from the presence of individuals who have over time gained valuable insight into the group, its markets and the industry. The provisions of the Combined Code require the board to consider, where a director has served for a period of more than nine years, whether that director continues to be independent. In respect of each of the three independent directors (Lord Fellowes,

**2** Mr Morland and Mr Ramaphosa) the board has considered specifically whether their length of service has compromised their independence. In each case the board has determined that the director concerned remained independent of character and judgment and that there were no relationships or circumstances which were likely to affect, or could appear to affect, the director's judgment, and that the independence of character and judgment of each of the directors concerned was not in any way affected or impaired by length of service. The board has also conducted a rigorous review of the performance of the Chairman, Lord Fellowes, Mr Morland and Mr Ramaphosa and considers that each of these directors brings invaluable integrity, wisdom and experience to the board and that they continue to contribute positively to board and committee deliberations.

Therefore, the board is entirely satisfied as to the performance and continued independence of judgement of each of these directors.

Under the Combined Code, directors **3** who have served for more than nine years are required to stand for annual re-election and, in line with the board's prior determination that they should do so, each of the Chairman and Lord Fellowes, Mr Morland and Mr Ramaphosa will again offer himself for re-election for a term of one year. The board does not consider it to be in the interests of the company or shareholders to require all directors who have served for nine years or longer to retire at the same time and strongly favours ensuring continuity and stability through orderly succession. As noted, Lord Renwick retired from the board on 31 July 2008 following nine year's service to the board. With the recent and unexpected resignation of Ms Ramos and her replacement having been recruited very recently, the board considered that the retirement of another experienced long-serving director this year would be undesirable and would not be in the interests of the company or its shareholders.

While recognising the benefits of the experience and stability brought by its long-standing directors, the board remains committed to the progressive renewal of board membership, having acted during the year to bring about the appointment of Ms Ramos, Mr Pieterse and Dr Moyo.

# Directors

## 2.7 Justification of independence

### Tesco PLC

#### Non-executive Directors

The Non-executive Directors bring a wide range of skills and experience, as well as independent judgement on strategy, risk and performance to the Company.

**3** Both Charles Allen and Harald Einsmann have served on the Board for ten years. The Chairman has conducted a thorough review with each Director to assess his independence and contributions to the Board and confirmed that they both continue to be effective independent Non-executive Directors.

Charles Allen brings extensive corporate operational experience and knowledge of the media industry and provides leadership for the Remuneration Committee. Through his wealth of business experience Harald Einsmann contributes a valued dimension to the Board in terms of international marketing, brand building and human resource development. Both Charles Allen and Harald Einsmann will retire and offer themselves for re-election at this year's Annual General Meeting. Thereafter they may submit themselves for re-election each year if the Board considers them to be eligible.

### MITIE Group PLC

#### Director independence

During the year, Non-executive Director independence was considered by the Board. The Board determined that all Non-Executive Directors as at 31 March 2009, with the exception of the Deputy Chairman Ian Stewart, were independent in mind and judgement, and free from any material relationship that could interfere

with their ability to discharge their duties effectively. Specific consideration **2** was given to David Jenkins' prior role with Deloitte LLP (previously Deloitte & Touche LLP), MITIE's external auditors. The Board determined that David is independent given that he had not been involved in the provision of services to MITIE and the passage of time since his departure from Deloitte LLP.

#### Helpful hint

**3**

For non-executives serving more than 9 years give indication of future plans for succession

#### Helpful hint

**2**

Disclose the reasons why the board believes that specific non-executive directors are independent

## 2.7 Justification of independence

**2 Helpful hint**

Disclose the reasons why the board believes that specific non-executive directors are independent

**3 Helpful hint**

For non-executives serving more than 9 years give indication of future plans for succession

**SOCO International plc****Independence and Refreshing of the Board**

[...]

**2** Following assessment, Mr Martin Roberts was determined to be independent. Mr Robert Cathery was determined to be independent despite having formerly been a director of a former Company advisor. The relationships ceased more than three years ago and are not relevant to the determination of independence under the Code. Any outside links to other Directors are not considered significant and in particular do not result in reciprocal influence. Accordingly, the review of Committee memberships described below in the Succession section of this report will include a review of Mr Cathery's potential role as an independent committee member.

**3** After particular scrutiny, Mr Peter Kingston, Mr John Norton, Mr John Snyder and Mr Olivier Barbaroux, each having served on the Board for more than nine years, were determined to be independent. Each of these Directors continues to express their individual viewpoints, debate issues and objectively scrutinise and challenge management. Each seeks clarification and amplification as deemed required, including through direct access to the Group's employees and external advisors. After careful consideration of the relevant factors, the Board has determined that the tenure of these Directors has not affected their independence or their ability to bring judgement to bear in the discharge of their duties as Board and Committee members.

The Board considers that the varied and relevant experience of these independent Directors combines to provide an exceptional balance of skills and experience required for the business.

**Succession**

Due to the nature of its business, the Company's expectation of a Non-Executive Director's most appropriate term of office is generally longer than that envisioned in Code guidelines. The Company undertakes projects requiring long term cycles from licence negotiation to first production and benefits from continuity of experience throughout the process. Its Vietnam programme is of major significance to the Company. As reported in the 2007 Annual Report, the Company planned for a phased succession to allow for both refreshment and a rebalance of the skills required on the Board as it enters the production phase in Vietnam. The project reached this milestone in mid-2008, but continues with a larger, more complex development phase over the next several years. After assessment of the competencies required on the Board, the current Non-executive Directors continue to comprise an appropriate balance of skills and experience. Additionally, they have acquired, over a number of years, a sound and detailed knowledge of the Company's business and are uniquely qualified to contribute to the Company's leadership. Accordingly, a succession that allows for some refreshment while maximising continuity of experience is considered to be in the best interest of shareholders.

As set out in more detail in the Nominations Committee report, the Company has initiated a process to identify independent Non-executive Director candidates who can add value to the Board through complementary qualifications. It is intended that a successful candidate will replace the Director retiring at the 2009 AGM. An additional suitable candidate, if identified, will be added to the Board. Board roles, including Committee memberships and Chairmanships, are additionally under review as part of this process. New Directors will be placed before shareholders for election at the first AGM following their appointment.

# Directors

## 2.8 Senior independent director

### Technical requirements

#### Combined Code (2008)

##### A.3 Board balance and independence

##### Code provisions

A.3.3 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.

### Current themes

The FRC review of the Code has adopted the recommendation in Walker to expand the role of the senior independent director to “provide a sounding board for the chairman and to serve as an intermediary for the other directors when necessary”.

### HSBC Holdings plc

#### Board balance and independence of Directors

[...]

The Board has appointed S M Robertson as the senior independent non-executive Director. The principal role of the senior independent non-executive Director is to support the Group Chairman in his

role, to lead the non-executive Directors in the oversight of the Group Chairman and to ensure there is a clear division of responsibility between the Group Chairman and Group Chief Executive. The senior independent non-executive Director is also available to shareholders to express concerns which the normal channels have failed to resolve or would be inappropriate.

## 2.8 Senior independent director

**Tesco PLC****Senior Independent Director**

The Board has appointed one Non-executive Director, Rodney Chase, to act as Senior Independent Director. The Senior Independent Director is available to shareholders to assist in resolving concerns, should the alternative

channels be inappropriate. The Senior Independent Director is also required to lead the discussion in relation to assessing the effectiveness of the Chairman's performance.

**1 Helpful hint**

Explain clearly why senior independent director is suitable for the role including, as here, any explanations around independence

**WPP plc****Review of the Company's governance and the Nomination Committee**

[...]

A worldwide enterprise of WPP's scale and range of commercial activities benefits enormously from long-term directors who are actively engaged in the Group's governance. I continue to submit, on behalf of the Board, that "independence" should be determined not by such an arbitrary standard as tenure, but on a case-by-case basis, with full disclosure to share owners of any appearance of conflict with published guidelines.

**1** Any share owner who could observe the contributions of our senior independent director, Bud Morten, for example, would attest that his experience, judgment and commitment of time constitute an invaluable asset

of the Group. Only such a dedicated veteran can routinely comprehend important implications and connections in WPP's worldwide operations. Regularly provocative challenges to opinions and assumptions expressed in Board presentations would be welcome only from a respected colleague with such a longstanding record of diligence and discernment. Bud will, at some point, elect to devote less time to the Group, and our Board will then appoint a new senior independent director. Until then, my fellow directors and I appreciate the extent to which his efforts exceed customary board workloads and reiterate our conviction that share owners are well served by his genuine independence. We continue to require, nevertheless, that non-executive directors who have served on the Board for nine years or more submit themselves for re-election annually.

# Directors

## 2.9 Board appointments

### Technical requirements

#### Combined Code (2008)

##### A.4 Appointments to the Board

###### Main principle

There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.

###### Supporting principles

Appointments to the board should be made on merit and against objective criteria. Care should be taken to ensure that appointees have enough time available to devote to the job. This is particularly important in the case of chairmanships.

The board should satisfy itself that plans are in place for orderly succession for appointments to the board and to senior management, so as to maintain an appropriate balance of skills and experience within the company and on the board.

###### Code provisions

A.4.1 There should be a nomination committee which should lead the process for board

appointments and make recommendations to the board. A majority of members of the nomination committee should be independent non-executive directors. The chairman or an independent non-executive director should chair the committee, but the chairman should not chair the nomination committee when it is dealing with the appointment of a successor to the chairmanship. The nomination committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.

A.4.2 The nomination committee should evaluate the balance of skills, knowledge and experience on the board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment.

[...]

A.4.6 A separate section of the annual report should describe the work of the nomination committee, including the process it has used in relation to board appointments. 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.

### Current themes

The nomination committee is responsible for board composition, new appointments and succession planning; it therefore fulfils a vital role in effectively creating a board which is able to achieve the goals set out in the earlier sections of this publication.

The FRC review proposes a supporting principle to encourage appointments of directors from outside the 'traditional' talent pool.

Non-executives in banks and other financial institutions are likely to face tougher scrutiny in the future under the FSA authorisation process.

**1 Helpful hint**

A tabular format adds clarity as to composition of nomination committee

**2 Helpful hint**

Describe the responsibilities of the nomination committee in relation to board balance, time commitment and succession planning

**Kingfisher plc**

**Nomination Committee**

The members of the Nomination Committee and the record of their attendance at the meetings they were eligible to attend during the year are set out below:

	Meetings attended
Peter Jackson, Chairman	2/2
Phil Bentley	1/2
<b>1</b> Daniel Bernard	2/2
Michael Hepher	1/2
Janis Kong	1/2
Hartmut Krämer	1/2
John Nelson	2/2

The primary purpose of the Nomination Committee is to lead the process for Board appointments and to make recommendations for maintaining an appropriate balance of skills on the Board. The Nomination Committee:

- 2** • reviews the structure, size and composition of the Board and makes recommendations to the Board, as appropriate;
- identifies the balance of skills, knowledge and experience on the Board and nominates candidates to fill Board vacancies;
- reviews the time required from a non-executive director;

- considers succession planning, taking into account the challenges and opportunities facing the Group and the future skills and expertise needed on the Board; and
- reviews the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace.

The Nomination Committee meets periodically when required and external advisers may be invited to attend. Following the termination of Duncan Tatton-Brown’s service agreement, the Nomination Committee conducted a rigorous search and selection process with the assistance of specialist recruitment consultants, which identified Kevin O’Byrne as the most suitable candidate for the role of Group Finance Director. In addition, and with the support of specialist recruitment consultants, Committee members were also involved in the assessment and interview of potential successors to the Chairman, a process which identified Daniel Bernard as successor to Peter Jackson. The Committee’s activities during the year also included considering the appointments of Euan Sutherland and Peter Hogsted as CEO UK and CEO International respectively.

# Directors

## 2.9 Board appointments

### Rentokil Initial plc

#### Nomination committee

The main purpose of the nomination committee is to assist the board by keeping the composition of the board under review and conducting a rigorous and transparent process when making or renewing appointments of directors to the board. In 2008, the committee took on the additional responsibility of advising the board over concerning directors' conflicts of interest and independence.

**3** At the beginning of the year a special nomination committee, led by the senior independent director, Peter Long, conducted the process which led to recommendations being made to the board over the appointment of John McAdam, Alan Brown and Andy Ransom, following the resignations of Brian McGowan as chairman and Doug Flynn as chief executive in March 2008.

In the second half of the year the membership of the committee was reviewed and now comprises: the chairman, John McAdam, the senior independent director, Peter Long and the next two longest serving non-executive directors, Duncan Tatton-Brown and Alan Giles. The nomination committee met on three occasions in 2008. A meeting early in the year concerned the then search for a chairman to succeed Brian McGowan. Thereafter the special nomination committee referred to above dealt with matters relating to the change in the leadership of the company. Later in the year the nomination committee reviewed proposals concerning the appointment of Michael Murray as chief financial officer and reviewed its existing terms of reference and effectiveness. In the light of the current board membership, there were no succession planning issues on which the committee was required to give attention. In carrying out its duties the committee and the special nomination committee utilised the services of a specialist firm of search consultants.

#### Helpful hint

**3**

The setting up of a specialised nomination committee brings benefits for making key appointments

### 2 Helpful hint

Describe the responsibilities of the nomination committee in relation to board balance, time commitment and succession planning

## DSG international plc

### Nominations Committee Report

[...]

#### Key matters considered

2 The principal matters considered by the Committee during the period included the following:

- the recruitment of an additional director to assume the position of Chairman following the announcement that Sir John Collins will retire at the AGM in September 2009. The recruitment process was led by the Senior Independent Director, Andrew Lynch, with the assistance of the recruitment consultancy The Zygos Partnership. The Committee believes John Allan is independent in character and judgement on appointment and meets the independence criteria as set out in the Combined Code. Sir John Collins was not involved in the selection and approval of the Chairman designate;
- the appointment of Nicholas Cadbury as Group Finance Director;
- further consideration of succession planning in relation to Board members and senior executives within the Group;
- the evaluation of the Board undertaken during the year which confirmed the Committee's opinion that the Board's size, composition and structure and the present Board Committee structure were appropriate to the present needs of the Group. The Committee is also satisfied that the present structure offers strong leadership for the Company, but does not concentrate authority in one or two key individuals. As part of the evaluation, the Committee benchmarked the Board against a peer group of companies;
- the evaluation of the time commitment required from each non-executive director and the Chairman in fulfilling their respective roles, recognising

the need for availability outside the scheduled Board timetable;

- review of the Committee's terms of reference following changes arising from the Companies Act 2006 and other relevant legislation;
- consideration of the terms of appointment of Rita Clifton, Andrew Lynch and John Whybrow and the recommendation to the Board that those terms be extended for a further period of three years; and
- a review of the policy for external appointments for both non-executive and executive directors following changes implemented by the Companies Act 2006 for recommendation to the Board.

The Committee is satisfied that the Board keeps abreast of developments within the industry through a mixture of private research and presentations from internal and external advisors on key areas of importance to the Company.

The Committee is satisfied that the directors retiring in accordance with the Articles of Association at the forthcoming AGM (John Browett, Rita Clifton and John Allan) are properly qualified for reappointment by virtue of their skills and experience and their contribution of guidance and time to the Board's deliberations.

Following the announcement that Count Emmanuel d'André will be retiring at the AGM in September 2009, the Committee has begun the search for an additional non-executive director and details regarding this process will be reported in the Committee's report in 2010.

#### Sir John Collins

Chairman of the Nominations Committee

# Directors

## 2.9 Board appointments

### Severn Trent Plc

#### Succession planning

The board plans for its own succession with the assistance of the Nominations Committee. In doing this, the board:

- considers the skills, knowledge and experience necessary to allow it to meet the strategic vision for the business;
  - assesses the skills, knowledge and experience currently represented;
  - identifies any skills, knowledge and experience not adequately represented and agrees the process necessary to ensure a candidate is selected who brings those qualities; and
  - reviews how board performance might be enhanced, both at an individual director level and for the board as a whole.
- a proven track record of creating shareholder value;
  - unquestioned integrity;
  - a commitment to the highest standards of governance;
  - having the required time available to devote to the job;
  - strategic mind set, an awareness of market leadership, outstanding monitoring skills;
  - a preparedness to question, challenge and openly assess; and
  - an independent point of view.

Newly appointed directors must submit themselves to shareholders for election at the first AGM following their appointment.

**4** When considering new appointments to the board, the Nominations Committee oversees the preparation of a position specification that is provided to an independent recruitment organisation retained to conduct a global search. In addition to the specific skills, knowledge and experience deemed necessary, the specification contains criteria such as:

#### Helpful hint

4

Define the skills and experience criteria for new board appointments

## 2.10 Directors' time commitments

**Technical requirements****Combined Code (2008)****A.4 Appointments to the Board****Code provisions**

A.4.3 For the appointment of a chairman, the nomination committee should prepare a job specification, including an assessment of the time commitment expected, recognising the need for availability in the event of crises. A 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 their impact explained in the next annual report.

A.4.4 The terms and conditions of appointment of non-executive directors should be made available for inspection. The letter of appointment should set out the expected time commitment. Non-executive directors should undertake that they will have sufficient time to meet what is expected of them. Their other significant commitments should be disclosed to the board before appointment, with a broad indication of the time involved and the board should be informed of subsequent changes.

A.4.5 The board should not agree to a full time executive director taking on more than one non-executive directorship in a FTSE 100 company nor the chairmanship of such a company.

**Current themes**

The FRC review has steered away from stipulating a minimum time commitment for non-executive directors, but there is widespread recognition that non-executive directors need to be able to play a more significant role when required.

As shown in the disclosures around board appointments above, time commitment remains a real focus for companies.

**1 Helpful hint**

Give the expected time commitment for new non-executive directors

**Great Portland Estates plc****The Board of directors**

[...]

**1** On appointment, new Non-executive Directors, who are expected to provide a time commitment to the Company of at least 24 days a year,

are provided with a detailed induction programme on the Company's operations, including social, ethical and environmental matters, and meet with senior management as part of a guided tour of the Group's main properties.

# Directors

## 2.10 Directors' time commitments

### Prudential plc

#### Other commitments and conflicts of interest

##### Other commitments

**2** The Board was satisfied during 2008 that the Chairman's other commitments did not interfere with the day-to-day performance of his duties for the Group, and that he had the commitment and capability to make himself available under unforeseen circumstances, should the need arise. The Board remains satisfied in this respect as regards his successor. The major commitments of the current Chairman, including changes during the year where applicable are detailed in his biography on page 81.

[...]

Our non-executive directors may serve on a number of other boards, provided that they are able to demonstrate satisfactory time commitment to their role at Prudential, and that they discuss any new appointment with the Chairman prior to accepting. This ensures that they do not compromise their independence and that any potential conflicts of interest and any possible issues arising out of the time commitments required by the new role can be identified and addressed appropriately. The major commitments of our non-executive directors are detailed in their biographies set out on pages 81 and 82.

#### Helpful hint

**2**

Show that the chairman is able to commit sufficient time to the role

### FirstGroup plc

[...]

The Chairman's other significant business commitments, which remain unchanged from last year, are described in his biography on page 33.

**2** The Board performance evaluation process confirmed that the other Board members are satisfied that Martin Gilbert has the necessary time available to devote to the proper performance of his duties as Chairman.

### International Personal Finance plc

#### Policy on other board appointments

The board has approved a policy on other directorships, any request for an exception to which is considered on its merits. A full-time executive director will be permitted to hold one non-executive directorship (and to retain the fees from that appointment) provided that the board considers that this will not adversely affect his executive responsibilities.

The Company's policy is that the Chairman and the non-executive directors should have sufficient time to fulfil their duties as such, including chairing a board committee as appropriate.

**3** A non-executive director should not hold more than four other material non-executive directorships. If he holds an executive role in another FTSE 350 company, he should not hold more than two other material non-executive directorships.

#### Helpful hint

**3**

Disclose whether company has a policy restricting the number of other directorships held by non-executive directors

## 2.11 Information and professional development

**Technical requirements****Combined Code (2008)****A.5 Information and professional development****Main principle**

The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.

**Supporting principles**

The chairman is responsible for ensuring that the directors receive accurate, timely and clear information. Management has an obligation to provide such information but directors should seek clarification or amplification where necessary.

The chairman should ensure that the directors continually update their skills and the knowledge and familiarity with the company required to fulfil their role both on the board and on board committees. The company should provide the necessary resources for developing and updating its directors' knowledge and capabilities.

Under the direction of the chairman, the company secretary's responsibilities include ensuring good information flows within the board and its committees and between senior management and non-executive directors, as well as facilitating induction and assisting with professional development as required.

The company secretary should be responsible for advising the board through the chairman on all governance matters.

**Code provisions**

A.5.1 The chairman should ensure that new directors receive a full, formal and tailored induction on joining the board. As part of this, the company should offer to major shareholders the opportunity to meet a new non-executive director.

**Current themes**

A current theme of this year's governance discussions has been the extent of the induction, training and on-going professional development given to non-executive directors. If the non-executive directors are expected to challenge constructively and question sensibly, they need to have sufficient knowledge and understanding of the business and its issues. Furthermore, they need to have access to the right information at the right time to be able to make informed decisions.

In the FRC review, a new provision suggests that the chairman should agree personalised training and development programmes for each director and a supporting principle has been included recognising the importance of directors acquiring appropriate knowledge of the company.

# Directors

## 2.11 Information and professional development

### Kingfisher plc

#### Information and professional development

**1** Each member of the Board receives monthly information including financial results. The Board pack for meetings includes reports from the executive directors in respect of their areas of responsibility. The Group Chief Executive's report deals, amongst other things, with trading, management, capital, returns and the Company's 'Delivering Value' objectives. These matters are discussed at each Board meeting. Financial plans, including budgets and forecasts, are also regularly discussed at Board meetings. From time to time, the Board receives detailed presentations from non-Board members on matters of significance or on new opportunities for the Group. The non-executive directors periodically visit different Group companies and are provided with briefings and information to assist them in performing their duties.

The Board receives reports concerning meetings with institutional shareholders and addressing their issues and concerns. This process and reporting allows the directors to develop the necessary understanding of the views of the shareholders and also enables the Board to judge whether investors have a sufficient understanding of the Company's objectives.

The Chairman is responsible for ensuring that induction and training programmes are provided. Individual directors are also expected to take responsibility for identifying their individual needs and to take steps to ensure that they are adequately informed about the Group and their responsibilities as a director. The Board is confident that all its members have the knowledge, ability and experience to perform the functions required of a director of a listed company.

**2** On appointment, each director receives a tailored induction programme that includes:

- individual time with the Chairman, the Group Chief Executive, the Group Finance Director and other senior corporate executives;
- visits to the Company's stores and those of competitors;
- meetings with operating company management; and
- external training courses at the Company's expense, if required.

The Company Secretary provides a programme of ongoing briefings for the directors that cover a number of legal and regulatory changes and developments relevant to directors' areas of responsibility. Throughout their period in office, the directors are continually updated on the Group's businesses and the regulatory and industry-specific environments in which they operate. These updates are by way of written briefings and meetings with senior executives and, where appropriate, external sources.

#### Helpful hint

1

Describe the specific information board members receive

#### Helpful hint

2

Disclose specific arrangements for tailored induction and ongoing professional development for directors

## 2.11 Information and professional development

**2 Helpful hint**

Disclose specific arrangements for tailored induction and ongoing professional development for directors

**SABMiller plc****4.6 Information and training**

The board and its committees are supplied with full and timely information, including detailed financial information, to enable directors to discharge their responsibilities. All directors have access to the advice of the Company Secretary. Independent professional advice is also available to directors in appropriate circumstances, at the company's expense, and the committees have been provided with sufficient resources to undertake their duties. None of the directors has sought independent external advice through the company. The Company Secretary is responsible for advising the board, through the Chairman, on matters of corporate governance.

**2** Following the appointment of new directors to the board, directors are briefed on the duties they owe as directors to the company and tailored induction programmes are arranged which involve industry-specific training and include visits to the group's businesses

and meetings with senior management, as appropriate. New directors are briefed on internal controls at business unit level and are advised of the legal and other duties they have as directors of a listed company as well as on relevant company policies and governance-related matters. The company arranges for major shareholders to have the opportunity to meet new appointees. The company is also committed to the continuing development of directors in order that they may build on their expertise and develop an ever more detailed understanding of the business and the markets in which group companies operate. Members of board committees are encouraged to attend internal and external briefings and courses on aspects of their respective committee specialities and regular updates on relevant legal, regulatory, corporate governance and technical developments are presented to committee members and, as appropriate, to the board.

**3 Helpful hint**

Discuss opportunities provided for non-executives to understand the business more fully

**FirstGroup plc****Information and professional development of Board members**

The Board receives detailed papers on the business to be conducted at each meeting well in advance and individual Board members have direct access to senior executives should they wish to receive additional information on any of the items for discussion. The head of each operating division attends Board meetings on a

regular basis to ensure that the Board is properly informed about the performance of and current issues facing that division. Management give presentations on current issues facing the business. A number of Board meetings each year are held **3** on site at operating locations in the UK and US allowing the Directors to visit the Group's operations and to discuss key issues with local operational management and stakeholders.

# Directors

## 2.11 Information and professional development

### Rolls-Royce Group plc

#### Directors' induction, training and information

**2** Newly appointed directors participate in a structured induction programme and receive a comprehensive data pack providing detailed information on the Group.

**3** An existing executive director acts as a mentor to each newly appointed non-executive director, giving guidance and advice as required. As part of their briefing, non-executive directors

visit key sites and meet a cross-section of managers and employees to gain a better understanding of the Group and its operations. Ongoing training is available for all the directors, including presentations by the executive team on particular aspects of the business.

There is a procedure for directors to take independent professional advice at the Company's expense. This is in addition to the access every director has to the General Counsel and Company Secretary.

#### Helpful hint

2

Disclose specific arrangements for tailored induction and ongoing professional development for directors

### Smiths Group plc

#### Information and professional development

The Board is provided with detailed information several days in advance on matters to be considered at its meetings and non-executive directors have ready access to the executive directors.

**3** Regular site visits are arranged and non-executive directors are encouraged to visit sites independently. During site visits, briefings are arranged and the Board is free to discuss aspects of the business with employees at all levels.

**2** Newly-appointed directors undergo an induction programme to ensure that they have the necessary knowledge and understanding of the Company and

its activities. They undertake briefing sessions on corporate governance, strategy, stakeholder issues, finance and risk management and HR strategy, as well as meetings and site visits to business locations in the UK and overseas. Each director's individual experience and background is taken into account in developing a programme tailored to his or her own requirements.

Ongoing training is provided as and when necessary. The suitability of external courses is kept under review by the Company Secretary who is charged with facilitating the induction of new directors and with assisting in the ongoing training and development of directors.

#### Helpful hint

3

Discuss opportunities provided for non-executives to understand the business more fully

## 2.11 Information and professional development

**2 Helpful hint**

Disclose specific arrangements for tailored induction and ongoing professional development for directors

**1 Helpful hint**

Describe the specific information board members receive

**3 Helpful hint**

Discuss opportunities provided for non-executives to understand the business more fully

**Barclays PLC****Director Development and Business Awareness**

A comprehensive development and awareness programme is in place for Directors. This comprises:

- an induction programme, when they join the Board;
- briefings on the business of Barclays; and
- briefings on external technical matters.

**Induction**

**2** All new Directors receive an induction presentation, which explains their responsibilities as a Director of a global, listed company and provides an overview of the Group and its businesses. An information pack, that gives details of the disclosures that Directors are obliged to make to the Company to comply with various laws and regulations, is also provided to each new Director. A personal induction programme is scheduled with each new Director so that they can further acquaint themselves with the Group and its businesses. Each new Director attends sessions with each of the executive Directors and the heads of the main Group functions, which includes opportunities to visit operational sites to meet with senior management and employees. The second part of their induction programme includes additional sessions with the executive Directors and senior managers from each of the Group's main business units to provide the new Director with detailed and in-depth understanding of those businesses. The sessions focus on the challenges, opportunities and risks that are faced by each business unit. Sir Michael Rake and Patience Wheatcroft undertook their induction programmes during 2008.

In 2008, non-executive Directors were asked to complete a questionnaire and give feedback on topics on which they would like to receive additional briefings. Two in-depth briefing sessions were arranged during 2008 on impairment recognition and forecasting and on Barclays Capital's traded products, including asset-backed securities,

credit default swaps and collateralised debt obligations.

The Board and the Board Audit and Board Risk Committees received further briefings to ensure they were kept up to date with the changing global economic conditions, including updates on capital management, presentations on asset-backed securities and liquidity risk, mark-to-market valuations and briefing material to support the various capital raising proposals and acquisition of the Lehman Brothers North American businesses. **1**

**Barclays businesses and operations**

During 2008, one Board meeting was held off-site. The Board met in China in September and received presentations on the economic and political outlook in China and met key Barclays staff working in the Asia-Pacific region.

Group Chief Executive, John Varley, helped to launch UK National Branch Week by visiting the Coventry High Street branch. During the course of the week, around 400 senior executives from the Group went back to the floor to experience first hand the successes and challenges colleagues in the branches are facing. Each day had a theme including raising the profile of Barclays product range, employee benefits, the importance of customer service, personal development and charity fundraising. A number of Directors participated and worked alongside cashiers, personal bankers and co-ordinators for the day. **3**

John Varley also spent time giving presentations to colleagues on the Group's capital raising proposals. He kept colleagues up to date on how market conditions were affecting Barclays and the decisions the Board was taking in respect of the capital raising options that were available. All colleagues were invited to attend the presentations in person or via conference call and John Varley answered questions raised by colleagues from around the world.

# Directors

## 2.11 Information and professional development

### Barclays PLC (continued)

#### External matters

Directors are regularly briefed on market opinion and receive copies of analyst research and press commentary. Further briefing material on market conditions was sent to Directors during 2008 and Directors

continue to receive relevant publications to keep them up to date with changing market opinion. Directors are invited to attend results presentations to meet with analysts and investors to enhance their awareness of market sentiment.

### National Grid plc

#### Director development

**2** The Chairman, with the support of the Company Secretary & General Counsel, is responsible for the induction of new directors and for the ongoing development of Directors. Upon appointment to the Board, new Non-executive Directors receive a tailored induction programme including the provision of recent Board materials and presentations, visits to businesses, one-to-one meetings with Executive Directors and other senior management, and a directors' information pack to provide background reference information on the Company's businesses and operations including issues relating to corporate responsibility. Board meetings are regularly held at the Company's sites and additional site visits are organised in order for the Directors to develop their understanding of the business.

Particular ongoing development attention is given to current issues including, for example, the economic and regulatory environment, the Company's businesses and governance best practice, emerging developments and director effectiveness. This includes, for Non-executive Directors:

- informing them at each Board meeting of the latest training courses which may be of interest;

- attendance at key site visits;
- informing Directors of legal and corporate governance updates and best practice; and
- management presentations.

For Executive Directors, coaching and development programmes include:

- internal and external mentoring;
- attendance at external courses and business schools; and
- experience of other boardrooms through non-executive appointments.

Accordingly as part of their development and with the agreement of the Board; the Chief Executive, Steve Holliday, is a Non-executive Director of Marks and Spencer Group plc, Steve Lucas, Finance Director, is a Non-executive Director of Compass Group plc and Nick Winsor, Executive Director, Transmission, is a Non-executive Director of Kier Group plc. As part of her development, the Company Secretary & General Counsel is a Non-executive Director of Aga Rangemaster Group plc. The fees for these positions are retained by the Directors and the Company Secretary & General Counsel respectively.

#### Helpful hint

2

Disclose specific arrangements for tailored induction and ongoing professional development for directors

#### Helpful hint

3

Discuss opportunities provided for non-executives to understand the business more fully

#### Helpful hint

4

Disclose how executive directors take on non-executive roles to enhance their experience and development

## 2.12 Access to independent advice

### Technical requirements

#### Combined Code (2008)

##### A.5 Information and professional development

###### Code provisions

A.5.2 The board should ensure that directors, especially non-executive directors, have access to independent professional advice at the company's expense where they judge it necessary to discharge their responsibilities as directors. Committees should be provided with sufficient resources to undertake their duties.

A.5.3 All directors should have access to the advice and services of the company secretary, who is responsible to the board for ensuring that board procedures are complied with. Both the appointment and removal of the company secretary should be a matter for the board as a whole.

### Current themes

The Walker Review has recommended a dedicated support for non-executives of banks and financial institutions and has clarified that the chairman and board members should decide how best this should be done.

The FRC review proposes no changes to the existing provisions set out above.

# Directors

## 2.12 Access to independent advice

### International Personal Finance plc

#### Company Secretary and independent advice

All directors are able to consult with the Company Secretary. The appointment and removal of the Company Secretary is a matter for the board. The Company

Secretary is secretary to the five principal board committees. There is a formal procedure by which any director may take independent professional advice at the Company's expense relating to the performance of his duties.

### National Grid plc

#### Director development

[...]

The Company Secretariat is available to provide assistance and information on governance, corporate administration and legal matters to Directors as appropriate. Directors may also seek advice on such

matters, or on other business related matters, directly from independent professional advisors should they so wish. This is in addition to the advice provided by independent advisors to the Board Committees. No requests for external professional advice were received during the year.

## 2.13 Performance evaluation

**Technical requirements****Combined Code (2008)****A.6 Performance evaluation****Main principle**

The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.

**Supporting principle**

Individual evaluation should aim to show whether each director continues to contribute effectively and to demonstrate commitment to the role (including commitment of time for board and committee meetings and any other duties). The chairman should act on the results

of the performance evaluation by recognising the strengths and addressing the weaknesses of the board and, where appropriate, proposing new members be appointed to the board or seeking the resignation of directors.

**Code provision**

A.6.1 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.

**Current themes**

Performance evaluation is an effective way of assessing the board's performance and bringing issues to light where remedial action can be taken. Best practice currently recommends that an external evaluation should be carried

out every three years with an internal assessment being carried out each year. The FRC review has followed Walker by including a provision requiring an externally facilitated evaluation every three years.

# Directors

## 2.13 Performance evaluation

### British American Tobacco p.l.c.

#### Evaluation of Board performance

The Board conducts a critical evaluation of its activities on an annual basis. A questionnaire-based peer review of the performance of the Chairman, the Executive Directors, the Non-executive Directors, the Board and its Committees is conducted by the Company Secretary. In 2008, this was followed by separate interviews between the Company Secretary and each Director to allow a further opportunity to explore particular areas in more detail:

- the results of the review of the Committees and the Board are discussed with the Chairman and presented to the Board;
- the results of the review of the individual performance of each Director (excluding the Chairman) are raised by the Chairman with that Director, as appropriate; and
- the results of the review of the Chairman's performance are discussed by the Non-executive Directors without the Chairman present and feedback is given by the Senior Independent Director on a one-to-one basis.

The Chairman also discusses the effectiveness and performance of Directors immediately before they make themselves available for reappointment and, in addition, the Remuneration Committee evaluates the effectiveness of the Chairman and the Chief Executive annually.

The process in 2008 confirmed that all Directors considered the Board to be working well, to be efficient and effective, and to have a good balance of the necessary skills required, although there was a general consensus that, with the forthcoming retirement of Thys Visser, a further Non-executive Director should be appointed in due course (this is currently being pursued – see above). The decision to split membership of the Audit and CSR Committees (see above) was also universally welcomed, and a review was suggested in 12 months' time to see how the new structures are working. The Non-executive Directors were highly supportive of the Executive team and expressed their appreciation of the culture of openness and transparency within the Group. In particular, they welcomed their access to management below the level of the Management Board, most frequently at the regional audit and CSR committee meetings.

The Notice for this year's Annual General Meeting confirms that the performance of the Directors being proposed for reappointment continues to be effective and that they continue to show commitment to their role.

#### Helpful hint

1

Giving details of the outcome of the evaluation and any follow up action proposed indicates commitment to improvement and transparency

## 2.13 Performance evaluation

**2 Helpful hint**

Consider extending board evaluation to include the views of other relevant parties

**1 Helpful hint**

Giving details of the outcome of the evaluation and any follow up action proposed indicates commitment to improvement and transparency

**Anglo American plc****Board effectiveness**

A formal evaluation of the performance of the Board, its committees and individual directors is carried out annually by means of detailed questionnaires and / or interviews. The most recent evaluation was carried out by Dr Long of Boardroom

**2** Review and presented to the Board. For the first time the scope of the evaluation was widened to include the views of senior executives below board level and the Deloitte partner responsible for the audit. The aim is to ensure continuous improvement in the functioning of the Board. Arising from the review carried out in 2008, the Board has agreed **1** to certain changes and ongoing development in the following areas:

- Strategy planning
- Communications with major shareholders

- Talent management and succession planning
- Committee composition
- Submission of information to the Board and scheduling of meetings

As in past years, the evaluation process also included a review, chaired by the senior independent non-executive director (without the chairman present), of the performance of the chairman. It is the Board's current intention to continue to engage an external reviewer for the Board effectiveness evaluation process from time to time.

**Debenhams plc****Performance Evaluation**

A formal evaluation of the performance of the board, its committees, the individual directors and the Chairman was conducted during the year in order to review past performance and to develop future performance. The performance of the internal and external auditors was also evaluated.

Use of an external body to manage the performance evaluation process was considered. However the board concluded that the approach followed last year remained appropriate and cost efficient for the Company. Consequently, as in previous years, a confidential questionnaire was completed by all directors in relation to the board and any committee of which they were a member. In addition, the Chairman completed questionnaires on each individual director. The questionnaires seek to establish whether the group or individual was contributing effectively to their role and to also determine their commitment

to the role. The senior independent director appraised the Chairman's performance.

The results of the evaluations were collated by the Company Secretary and analysed in detail by the Chairman, the chairman of the relevant committee, the senior independent non-executive director and the Company Secretary. The Chairman led the full board in a discussion about the results of the evaluation and a similar session took place in respect of each committee led by the committee chairman.

**1** The evaluation concluded that the board operates well and that the board committees operate effectively. In particular, the structure of the board is now more suitable for that of a public company. The discussions have led to further adjustments to the method of agenda setting, allocation of more time on the board agenda for non-operational matters and for a more structured follow up of action items arising from board meetings.

# Directors

## 2.13 Performance evaluation

### Barclays PLC

#### Board Effectiveness

#### Performance Review

**3** The Code recommends that an evaluation of the effectiveness of the Board and its Committees is conducted annually. The evaluation in 2007 was independently facilitated by Egon Zehnder International. All Directors were sent a questionnaire to complete and return to Egon Zehnder International and these were discussed in individual interviews, which included peer review. The following actions were agreed for 2008:

- minor enhancements around the form and content of Board papers and presentations; and
- refining the Board calendar of business.

The 2008 evaluation was again independently facilitated by Egon Zehnder International and took the form of detailed questionnaires, which were completed by each Director, individual interviews and peer evaluation of fellow Directors. As in previous years, the evaluation covered the following areas:

- Group performance;
- Strategy and performance objectives;
- Reporting to shareholders/stakeholders;
- Structure, people, succession planning and remuneration;
- Decision-making process;
- Information flows;
- Board structure and composition;
- Board roles and responsibilities;
- Board and Management relationships;
- Board meetings; and
- Board Committees.

The results of the evaluation were presented to the Board in December 2008. The results from the overall review showed a continuation of the five-year trend of improving scores and the Board concluded that the Board and the principal Board Committees continue to operate effectively in terms of communication, information

flows and Directors' participation and engagement, particularly during the period of difficult market conditions in 2008. The Directors recognised however, and were disappointed, that Group performance has not met shareholder expectations and acknowledged that they are accountable to shareholders for their stewardship of the Group during the exceptional events of 2008.

From the results of the 2008 evaluation, action points and issues that were discussed included:

- continued focus on the Board's calendar of business to ensure that non-critical items are removed or kept to a minimum, thereby ensuring that sufficient time can be allocated to items fundamental to the success of the Group;
- refinements to the Board's calendar of business, including additional time to be spent on items such as compensation strategy and succession planning;
- the overall size and composition of the Board; and
- refinements to the process for evaluating the performance of individual Directors.

The Board Corporate Governance and Nominations Committee has agreed an action plan to progress improvements in 2009.

In terms of individual Director performance, the Group Chairman held private meetings with non-executive Directors in early 2009 so that individual and general results could be discussed. Development plans relating to their own individual performance were agreed. The Senior Independent Director met privately with the other non-executive Directors and the Group Chief Executive to discuss feedback he received on the Group Chairman's performance. These results were then shared with the Group Chairman.

#### Helpful hint

3

Successive evaluations show commitment to improved performance and progress made

#### Helpful hint

1

Giving details of the outcome of the evaluation and any follow up action proposed indicates commitment to improvement and transparency

## 2.13 Performance evaluation

**1 Helpful hint**

Giving details of the outcome of the evaluation and any follow up action proposed indicates commitment to improvement and transparency

**The Davis Service Group Plc****Board and committee evaluations**

In the last quarter of 2008 the board carried out a comprehensive evaluation of the performance of the board, its committees and each of its individual directors. The process was led by the Chairman and supported by the Company Secretary. As in previous years, the views of all directors were canvassed in respect of the performance of the board as a whole and of its committees. Each director was also asked to assess the strengths and weaknesses of his individual contribution to the board's performance. This year, the board also engaged the services of Lintstock, an independent governance consultancy, to assist in the design and distribution of the questionnaires and to help in the collation and analysis of the results.

**1** Amongst other things, the assessment focused on the board's effectiveness in the following areas:

- Its contribution to the testing and development of group strategy;
- Its understanding of, and contribution to, the group's risk management;
- Its ability to directly observe and assess the performance of the business units' managing directors;
- The quality of the relationships between the board and senior management;
- Its oversight of the risks and opportunities inherent in the management of group subsidiaries; and

- Its maintenance of a close alignment between shareholders' interests and executive remuneration.

This process was then complemented by separate meetings between each director and the Chairman where feedback was discussed. The evaluation of the Chairman himself was undertaken by the Senior Independent Director, through consultation with the other directors and the Chief Executive.

In addition to the exercise described above, the executive directors are evaluated in respect of their executive duties through a separate process whereby the Chairman and the non-executive directors assess the Chief Executive and the Chief Executive assesses the Finance Director and the Executive Board.

The full results of the board evaluation were initially discussed at the non-executive directors' meeting in November 2008 and then presented to the board in December 2008. The directors have concluded that following this comprehensive review, the board and its committees operate effectively and also consider that each director is contributing to the overall effectiveness and success of the group. Nevertheless, in light of the evaluation, the board has identified a number of areas in which it would like to see further improvement. These include furthering its knowledge of markets and key customer requirements, encouraging the business units to work more closely together, particularly in procurement, as well as increased focus on risk management in the current economic climate.

# Directors

## 2.13 Performance evaluation

### National Grid plc

#### Performance evaluation

Directors are encouraged to challenge Board and Committee processes and procedures as part of the continual development of best practice. As part of this process, in each financial year since 2003/04, the Board has undertaken a formal evaluation of its performance and that of its Committees and individual Directors. The Board considers annually whether to use an external body to manage the performance evaluation process. It concluded this year that the approach used by the Company remained appropriate and robust.

Accordingly, the Chairman, assisted by the Company Secretary & General Counsel, led the evaluation process, which was in the form of a confidential survey completed by all Directors in relation to the Board and any Committee of which they were a member. In addition, meetings were held between the Chairman and each Director. Regular attendees at specific Committee meetings were also asked to complete surveys in relation to the relevant Committee.

**3** The Company Secretary & General Counsel collated the evaluation results and these were considered by the Board and each Committee. Comparison was made to the prior year's report as a result of which a number of actions had been implemented including: a review of the rolling business agenda to include a greater emphasis on strategic external factors such as climate change; increasing the number of informal meetings of Board members; and consideration of the interaction between Committees. In accordance with established practice, the Board and each of the Committees separately review the matters highlighted by the evaluation and a formal response and action plan is produced as appropriate and approved by the Board.

Overall the results showed an improvement from the previous year indicating that the Directors considered that no major changes were required to Board and Committee processes and procedures. The Chairman's performance was reviewed and his leadership and performance were considered to have been of a high standard. Areas highlighted by the Board and Committees for consideration following the latest review included:

- to review the agendas to include, for example, inclusion and diversity issues and strategic business trends analysis;
- to consider further development of the use of video conferencing for Committee meetings; and
- to provide a brief overview (including career history) of each presenter to the Board.

In addition, the meeting held by the Non-executive Directors further suggested:

- receipt of Board and Committee papers normally five business days in advance of the meeting in order to enable more opportunity for discussions with Executive Directors prior to the meeting;
- arranging for potential successors to the Executive Directors to receive sufficient visibility by the Board; and
- holding an additional meeting annually for Non-executive Directors chaired by the Senior Independent Director with the Chairman and Chief Executive to attend by invitation.

#### Helpful hint

3

Successive evaluations show commitment to improved performance and progress made

**Technical requirements****Combined Code (2008)****A.7 Re-election****Main principle**

All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance. The board should ensure planned and progressive refreshing of the board.

**Code provisions**

A.7.1 All directors should be subject to election by shareholders at the first annual general meeting after their appointment, and to re-election thereafter at intervals of no more than three years. The names of directors submitted for election or re-election should be accompanied by sufficient biographical details and any other relevant information to enable shareholders to take an informed decision on their election.

A.7.2 Non-executive directors should be appointed for specified terms subject to re-election and to Companies Acts provisions relating to the removal of a director. The board should set out to shareholders in the papers accompanying a resolution to elect a non-executive director why they believe an individual should be elected. The chairman should confirm to shareholders when proposing re-election that, following formal performance evaluation, the individual's performance continues to be effective and to demonstrate commitment to the role. Any term beyond six years (e.g. two three-year terms) for a non-executive director should be subject to particularly rigorous review, and should take into account the need for progressive refreshing of the board. Non-executive directors may serve longer than nine years (e.g. three three-year terms), subject to annual re-election. Serving more than nine years could be relevant to the determination of a non-executive director's independence (as set out in provision A.3.1).

**Current themes**

The FRC is consulting on whether the chairman or all the directors should be subject to annual re-election by shareholders. PwC has expressed its concern that annual re-election of the

whole board may lead to instability and that re-election could become a routine step, to be taken without due consideration.

# Directors

## 2.14 Re-election

### Scottish and Southern Energy plc

#### Director Appointments

In accordance with the Code and the company's Articles of Association, all Directors are required to stand for re-appointment by shareholders at the first AGM following appointment to the Board. Thomas Andersen, who was appointed as an independent non-Executive Director during the year, will stand for re-appointment at the forthcoming AGM. In addition, all Directors are required to retire by rotation and stand for re-appointment at least every three years. Susan Rice and Gregor Alexander will stand for re-appointment at this year's AGM. The Board evaluation process confirmed that the performance of the Directors

standing for re-appointment continued to be effective and that they continue to demonstrate commitment in their respective roles. The Code states that any length of service beyond six years for a non-executive Director should be subject to particularly rigorous review and should take into account the need for progressive refreshing of the Board. It is confirmed that Susan Rice as Senior Independent Director continues to have the appropriate experience, knowledge and independence to remain in this role. Biographical details for all the Directors are set out on pages 64 and 65.

### Associated British Foods plc

#### The board of directors

[...]

#### Re-election

Under the Articles, both now and as they are proposed to be amended at the forthcoming annual general meeting, all directors seek election at their first annual general meeting following appointment. The Articles also require all directors who held office at the time of the two

preceding annual general meetings, and in any event not less than one third of the directors, to submit themselves for re-election. In accordance with the Combined Code, all non-executive directors who have served for more than nine years must also submit themselves for re-election on an annual basis. Accordingly, Galen Weston, Lord Jay, Javier Ferrán and Tim Clarke will be required to seek re-election at the forthcoming annual general meeting.

#### Helpful hint

1

Confirm that non-executive directors who serve more than nine years are subject to annual re-election

**Technical requirements****Combined Code (2008)****C.1 Financial reporting****Main principle**

The board should present a balanced and understandable assessment of the company's position and prospects.

**Supporting principle**

The board's responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators as well as to information required to be presented by statutory requirements.

**Code provisions**

[...]

C.1.2 The directors should report that the business is a going concern, with supporting assumptions or qualifications as necessary.

**FRC guidance: Going concern and liquidity risk: Guidance for directors of UK companies 2009**

The FRC guidance is principles-based, with supporting detailed information bringing together the requirements of company law, accounting standards and the Listing Rules on going concern, and providing further information on their application. The three principles are:

**1 Assessing going concern**

Directors should make and document a rigorous assessment of whether the company is a going concern when preparing annual and half-yearly financial statements. The process carried out by the directors should be proportionate in nature and depth depending upon the size, level of financial risk and complexity of the company and its operations.

**2 The review period**

Directors should consider all available information about the future when concluding whether the company is a going concern at the date they approve the financial statements. Their review should usually cover a period of at least twelve months from the date of approval of annual and half-yearly financial statements.

**3 Disclosures**

Directors should make balanced, proportionate and clear disclosures about going concern for the financial statements to give a true and fair view. Directors should disclose if the period that they have reviewed is less than twelve months from the date of approval of annual and half-yearly financial statements and explain their justification for limiting their review period.

**FRC guidance: Challenges for audit committees arising from current economic conditions**

The FRC guidance sets out key questions for audit committees to consider when reviewing corporate reports particularly as significant economic risks remain that will present challenges for audit committees during the 2009/10 reporting season. There are four areas of focus:

1. Assessing and communicating specific risks and uncertainties
2. Reliance on assumptions and models for cash flow and valuation information
3. Liquidity risk and going concern
4. Year-end planning considerations

# Accountability and audit

## 3.1 Going concern

### Current themes

In the current economic climate, the assessment of going concern has proved challenging for directors and audit committees. As noted above, the FRC has issued guidance on going concern and liquidity risk which provides a framework to assist directors of all sizes of company, in determining whether it is appropriate to adopt the going concern basis for preparing financial statements (both annual and half-yearly). The guidance is principles-based and emphasises the importance of balanced, proportionate and clear disclosures about going concern issues and the key assumptions being made in one place in the annual report (which may not be in the governance statement itself). Along with the withdrawal of the 'boilerplate'

language for the going concern confirmation statement, this should result in a more meaningful confirmation statement by companies.

Updated guidance has been issued by the FRC for audit committees when preparing for the 2009/10 reporting season. In addition to going concern and liquidity risk issues, the guidance addresses year end planning, reliance on models for year end cash flow and valuation information and significant accounting and reporting judgements.

The following best practice examples were produced before the new guidance on going concern for directors was effective.

### Great Portland Estates plc

#### Going concern

The Group's business activities, together with the factors affecting its performance, position and future development are set out in the Annual review on page 1 to 43. The finances of the Group, its liquidity position, borrowing facilities and applicable covenants are described in Our financial position on pages 26 to 29 and in note 14 of the accounts on pages 79 to 81.

The current economic conditions have created a number of risks and uncertainties for the Group, these are set out in Risk management on pages 32 and 33. In particular, there is uncertainty over future market-driven valuation movements which may affect the Group's ability to remain within its bank covenants.

**1** The directors have reviewed the current and projected financial position of the Group, making reasonable assumptions about future trading performance, valuation projections and debt requirements. In making this

assessment, we have taken into account available market information, consulted with our advisers and applied our own knowledge and experience to the Group's property portfolio and markets. We have considered the potential to achieve further property disposals should valuations fall significantly ahead of market expectations from the 31 March 2009 position and on 19 May 2009, the Company announced a fully underwritten Rights Issue which is expected to raise additional equity of £166.4 million after expenses providing further financial flexibility.

On the basis of this review, and after making due enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and accounts.

### Helpful hint

1

Provide balanced, proportionate and clear disclosures, avoiding purely 'boilerplate' statements

**1 Helpful hint**

Provide balanced, proportionate and clear disclosures, avoiding purely 'boilerplate' statements

**Old Mutual plc****Going concern**

The Group's business activities, together with factors likely to affect its future development, performance and position are set out in the Business Review. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Group Finance Director's Statement. In addition, notes 47 and 48 to the financial statements include the Group's objectives, policies and processes for managing its capital and set out details of the risks related to financial instruments and insurance risks taken on by the Group.

**1** The Group continues to meet Group and individual entity capital requirements, and day-to-day liquidity needs through the Group's available credit facilities. The Company's existing revolving current facility of £1.25 billion does not mature until September 2012.

The current economic conditions create uncertainty particularly over the future levels of world equity markets, defaults in corporate bond portfolios, particularly in the United States, currency fluctuations, demand for the Group's products and other

economic factors. These uncertainties have been considered individually and in combination in the Group's forecasts and projections, taking account of reasonably possible changes in trading performance and economic conditions in the markets in which the Group operates. The results show that the Group should be able to operate within the level of its available credit facilities and with an adequate level of capital, both at a Group level and within each of its major regulated Group entities. To the extent that changes in trading performance and economic conditions prove to be more severe than thought reasonably possible, the Group has evaluated and concluded on feasible management actions that would be possible in such circumstances so as to ensure adequate levels of liquid and capital resources are maintained.

After making enquiries, the Board of Directors has a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and accounts.

# Accountability and audit

## 3.2 Internal control

### Technical requirements

#### Combined Code (2008)

##### C.2 Internal control

##### Main principle

The board should maintain a sound system of internal control to safeguard shareholders' investment and the company's assets.

##### Code provision

C.2.1 The board should, at least annually, conduct a review of the effectiveness of the group's system of internal controls and should report to shareholders that they have done so. The review should cover all material controls, including financial, operational and compliance controls and risk management systems.

##### Internal control: Revised guidance for directors on the Combined Code (2005) (Turnbull)

The Turnbull guidance outlines broad principles on internal control requiring directors to use their judgement to decide whether or not they have complied. It does not set out prescriptive procedures that will fit all companies as the 'right' procedures will be those that support the individual business. The framework of the Turnbull guidance is that companies adopt a risk-based approach to setting and managing their internal control processes.

### FSA Disclosure Rules and Transparency Rules (DTR)

DTR 7.2.5 R requires that the corporate governance statement must include a description of the main features of the company's internal control and risk management systems in relation to the financial reporting process. Although there is some overlap between the mandatory disclosures required under the DTR and those expected under the Combined Code, this requirement differs from the Combined Code provision C.2.1 above. Directors need to take care to ensure their disclosures meet the DTR requirement otherwise they will be in breach of the Listing Rules.

DTR 7.2.10 R requires an entity which is required to prepare a group directors' report to include in that report a description of the main features of the group's internal control and risk management systems in relation to the process for preparing consolidated accounts.

This requirement is not covered by the extracts in this section but we have provided guidance on appropriate content for such disclosures in Appendix 3.

### Current themes

The majority of the processes on risk outlined in the Walker Report are specific to banks and other financial institutions. However, respondents to the FRC consultation process did state that there was a need for boards to take greater responsibility for assessing the company's risk profile, tolerance of risk and oversight of risk management systems. Concerns were also expressed about the quality of risk reporting. PwC is therefore in favour

of the proposal that companies should include a short description of the business model and overall financial strategy, linked to the disclosure of risks and uncertainties in the Annual Report. As can be seen, current best practice examples already tend to incorporate these concepts, with companies taking a properly risk-based approach in setting and managing their internal control processes as Turnbull suggests.

**1 Helpful hint**

Give a tailored description of the company's internal control and risk management framework

**BTG plc****Financial reporting and internal control**

[...]

The Board has overall responsibility for ensuring that the Group maintains an adequate system of internal control and risk management and for reviewing its effectiveness. The Audit Committee on behalf of the Board undertakes the detailed monitoring of the controls and reports to the Board on its findings. The Board has reviewed the system of internal controls including financial controls for the year under review and up to the date of approval of this Annual Report and Accounts. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The criteria applied by the directors in judging the effectiveness of these controls are that they allow the maximisation of shareholder value by exploiting business opportunities whilst ensuring that risks are properly identified and managed. The controls are regularly reviewed to ensure that they enable the proper management of business risks without so restricting efficiency and entrepreneurial nature that they inhibit proper running of the business.

BTG has a management structure with clear lines of responsibility and accountability, staffed by appropriate personnel. The Board is responsible for setting the overall strategy and reviewing the performance of the Group.

The day to day running of BTG's operations is managed by the Company's Senior Leadership Team, chaired by the CEO. Other members include the CFO and senior staff members from the business. This team is also responsible for the recommendation to the Board of the Company's strategy and its subsequent implementation, for ensuring that

appropriate internal controls are in place to manage and assess risk and that they are fully complied with.

The Company set up an Integration Committee, at the time of the acquisition, to manage all aspects of bringing the two businesses together. This committee has continued to operate until the year-end.

The review of risk and risk management is embedded throughout the Group. Following the acquisition of Protherics a senior team, chaired by the CFO and including staff from all sections of the enlarged business, was set up to review the risks of the enlarged Group and to identify and evaluate risks which may impact on the Group's strategic and business objectives. The risk team has developed a risk management plan that identifies the key risks. The plan is designed to assess the probability of those risks occurring, the impact should they occur, how such risks may be mitigated and monitored and the actions and individuals responsible for managing the risks. Having completed the risk review the new team will also be responsible for the continual monitoring of risk and the progress of actions designed to mitigate such risks. The risk team meets quarterly to review progress and reports its findings twice-yearly through the Audit Committee to the Board.

The Board has reviewed the risk management process and confirms that ongoing processes and systems ensure that BTG continues to be compliant with the Turnbull guidance as contained in 'Internal Control: Guidance for Directors on the Combined Code'.

**1** The fundamental elements of the Group's internal control and risk management framework are described below.

# Accountability and audit

## 3.2 Internal control

### BTG plc (continued)

#### Structure and reporting

Under the operating guidance of the Senior Leadership Team, BTG is organised into a number of business and operating units and within these there are defined management structures and processes for acquisition, assessment and evaluation of technology opportunities, and development and execution of commercialisation strategies.

**2** The Group has two committees containing senior members of staff who review all stages of its development operations; a committee responsible for the review and recommendation of potential acquisitions or in-licensing of new drug programmes and a committee responsible for the review and proactive management of all projects in BTG's development portfolio. These committees report regularly to the Senior Leadership Team and are able to call on the expertise of various internal and external experts to ensure the programmes are developed effectively and meet commercial and market needs.

BTG actively monitors its revenue streams from partnered products and from time to time audits its major licensees to ensure compliance with the terms of agreements. BTG also has a system for supporting the protection and maintenance of patents.

The Senior Leadership Team meets formally at least once each month to review business performance measured against annual budgets and longer-term plans and an agreed set of objectives and performance criteria for each business unit. Reporting to the Board is based on these monthly reviews including non-financial as well as financial information and a review of development progress within the portfolio.

#### Approval procedures

BTG has delegated authority structures that ensure that decisions are taken at an appropriate level, with an appropriate level

of input by internal and external expert advisers. The delegated authority structure prescribes financial limits of approval at each level and requires decisions with significant financial, legal or reputational impact for BTG to be approved by the Board.

#### Corporate policies, values and compliance

A statement of corporate values and a guidance booklet on ethics, business practices and compliance are distributed throughout the Group. Relevant employees meet regularly to discuss external changes in the regulatory, legal and financial environments in which BTG operates to ensure it remains fully compliant with new legislation and best practice.

The Board, through the Audit Committee, has reviewed the effectiveness of the internal controls of the Group. The controls described above operate and are embedded within the day to day business. There is an ongoing process for identifying, evaluating and managing significant risks faced by the Group. A reporting structure has been in place throughout the year and up to the date of approval of the financial statements and is regularly reviewed by the directors in accordance with the Code.

As required by the Code, the Board has considered whether it would be appropriate to have a dedicated internal audit function within the Group and has concluded that, taking into account its relatively small size, and the way the business is run, this is not appropriate at present. This decision will be reviewed on an annual basis. The internal audit process is under review. The finance function of each office will monitor and review controls on a regular basis. Each office will also be visited once a year by head office finance staff. Internal audit work will focus on reviewing and testing key internal controls in the most important areas of expenditure, revenue and business processes. The results are reported to the Board, via the Audit Committee, twice a year.

#### Helpful hint

2

Explain the roles and remit of other committees within the internal control framework

**BTG plc** *(continued)***Related parties and conflicts of interest**

BTG maintains robust procedures to ensure that related party transactions and potential conflicts of interest are identified, disclosed and managed. These procedures include: directors declare interests in other businesses on appointment to the Board and annual self-certification by directors. Where it is identified that a related party relationship exists, the Board agrees specific additional procedures to ensure the effective management of potential conflicts of interest.

[...]

**Market abuse directive**

As required by the Market Abuse Directive, the Company has set up a Disclosure Committee, comprising the CEO, CFO and one other senior member of staff. The Committee meets quarterly and on an ad hoc basis in between as required. The Committee reviews all significant items of business within the Group on a regular basis and maintains an Insider List recording both those employed within the Group and at external advisers who may have access to inside information. Whenever individuals are placed on or removed from the List they are notified accordingly and advised of their responsibilities.

# Accountability and audit

## 3.2 Internal control

### British Airways Plc

#### Internal control

The directors are responsible for, and for reviewing the effectiveness of, the Company's system of internal control, including internal financial control, which is designed to provide reasonable, but not absolute, assurance regarding (a) the safeguarding of assets against unauthorised use or disposition and (b) the maintenance of proper accounting records and the reliability of financial information used within the business or for publication. These controls are designed to manage rather than eliminate the risk of failure to achieve business objectives due to circumstances which may reasonably be foreseen and can only provide reasonable and not absolute assurance against material misstatement or loss.

#### Standing instructions

The Company has a Statement of Business Principles applicable to all employees. The Company also has a Code of Business Conduct and Ethics which applies to all employees. These are two of a number of Standing Instructions to employees of the Group designed to enhance internal control. Along with the Finance Standing Instructions, these are regularly updated and made available to staff through the Company's intranet.

1

#### Organisation structure

A clear organisational structure exists, detailing lines of authority and control responsibilities. The professionalism and competence of staff is maintained both through rigorous recruitment policies and a performance appraisal system which establishes targets, reinforces accountability and awareness of controls, and identifies appropriate training requirements. Action plans are prepared and implemented to ensure that staff develop and maintain the required skills to fulfil their responsibilities, and that the Company can meet its future management requirements.

#### Information systems

Information systems are developed to support the Company's long-term objectives and are managed by a professionally staffed Information Management team within the Chief Financial Officer's organisation. Appropriate policies and procedures are in place covering all significant areas of the business.

#### Strategic plan

The business agenda is determined by the strategy (pages 24 to 28) setting out the agreed targets for financial return and service standards, and identifying and prioritising improvement opportunities to deliver those targets. The strategic planning process confirms that the targeted results can be achieved, satisfies departments that their plans are robust and establishes performance indicators against which departments can be evaluated. The Board on an annual basis approves the strategy, which is supported by a detailed financial plan for the year ahead. Progress against the plan is monitored each month.

#### Management accounting system

A comprehensive management accounting system is in place providing management with financial and operational performance measurement indicators. Detailed management accounts are prepared monthly to cover each major area of the business. Variances from plan and previous forecast are analysed, explained and acted on in a timely manner. As well as regular Board discussions, monthly meetings are held by the Management Board to discuss performance with specific projects being discussed as and when required. Throughout 2008/09, the Capital Investment Committee, chaired by the Chief Financial Officer, was instrumental in maintaining tight control of capital and major contract expenditure and headcount. All major corporate projects are audited regularly.

#### Helpful hint

1

Give a tailored description of the company's internal control and risk management framework

**3 Helpful hint**

Link clearly between business and industry risks and the system of internal control

**4 Helpful hint**

Recognise and explain how the judgements and inherent uncertainties underlying risk management systems are handled

**British Airways Plc (continued)****Internal control framework**

Effective corporate governance remains key to the business. The Company continues to review its internal control framework to ensure it maintains a strong and effective internal control environment. The effectiveness of the framework has been under regular review by the Management Board. The Group will continue to comply with the Combined Code on corporate governance and the UK Listing Authority rules.

**3** Business controls are reviewed on an ongoing basis by the internal control function which operates internationally and to a programme based on risk assessment. Professionally qualified personnel manage the department with experience gained from both inside and outside the industry. A risk-based audit plan, which provides assurance over key business processes and commercial and financial risks facing the Company, is approved by the Audit Committee quarterly.

The Audit Committee considers significant control matters raised by management and both the internal and external auditors and reports its findings to the Board. Where weaknesses are identified, the Audit Committee ensures that management takes appropriate action. No significant failings or weaknesses were identified during 2008/09.

**Risk management**

The Company has a structure and process to help identify, assess and manage risks. This process has been in place throughout the year to which these statements apply and up to the date of their approval.

The Risk Group consists of the Management Board and the Head of Corporate Risk and Internal Control. Meeting quarterly, it reviews the Company's key risks contained in the corporate risk register and ensures that all new and emerging risks are appropriately evaluated and any further actions identified. The Risk Group also provides policy and guidance to those responsible for managing the individual risks and to the departmental risk leaders.

The management of each major area of corporate risk is subject to review by an appropriate 'assurance body'. This includes a review of the controls in place to mitigate the risks and the further actions being taken by management. The Risk Group reports quarterly to the Audit Committee to assist the Board in the management of risk in accordance with the October 2005 Revised Guidance for Directors on the Combined Code.

The risk management process includes multiple opportunities for rigorous discussion and debate to assess the relative profile of each risk to the other. The outcome includes a heat map which plots each critical risk on an impact and likelihood scale. For each critical risk, mitigating actions exist and are actively managed. This process is iterative and refreshed on an ongoing basis. This report does not include the mapped results and mitigating actions for the principal risks because of the sensitive commercial nature of some of management's plans.

# Accountability and audit

## 3.2 Internal control

### Galliford Try plc

#### Internal control and risk management

**3** The board has reviewed in detail the major areas of risk that the Group faces in its business and operations and the management controls and processes that are in place to manage those risks. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against misstatement or loss. A high-level register is maintained which is reviewed and updated annually. This comprises risks specific to the divisional activities of the business, as well as environmental, social, governance, financial and human resources risks. During the year it was revised to recognise the planned growth of the Group's overseas activities.

The Group operates under an established internal control framework which applies to all its operations including its involvement in all material joint ventures.

**Organisational structure** – The Group is organised into a number of divisions, under which there are clearly defined business units. Each division has its own management board and each business unit is run by a managing director and board. Clear reporting lines and delegated authorities are in place. Accordingly, the management of performance and monitoring and reporting of risk occurs at different levels within the Group with key issues being escalated through management to the board.

**Contractual commitments** – There are clearly defined policies and procedures for entering into contractual commitments that are in place throughout the relevant business units. These include detailed requirements that are required to be completed prior to submitting proposals and/or tenders for construction work both in respect of the commercial, control and risk management aspects of the obligations being entered into.

#### Investment in land and development –

There are clearly defined policies and procedures for the purchase of land and for expenditure on development opportunities. These include detailed pre-commitment due diligence procedures together with detailed appraisal and review requirements that have to be complied with and are subject to rigorous review and authorisation.

**Operational activity** – There are established frameworks managing and controlling all site operations that take account of the specific requirements of the type of site that is being operated. This includes extensive health, safety and environmental procedures, regular performance monitoring and accountability to clients or customers as relevant.

#### Operational and financial reporting –

The Group updates its business plan on an annual basis, and prepares a detailed annual budget for each financial year that is considered and approved by the board. A rigorous profit and cash reporting and forecasting regime is in place across the Group with reports prepared and reviewed on a monthly basis. The performance of each business is reviewed monthly by divisional and Group management and subsequently reported to the board against both budget and forecast. As well as the emphasis placed on cash flow, income and balance sheet reporting, health, safety and environmental matters form part of the key operating issues included within the monthly reports.

**Internal audit** – The Company's internal audit function is responsible for ensuring that all Group financial controls, as laid down in the corporate, finance and IT control manuals are operating effectively. It reports to the audit committee on its findings.

**Whistleblowing policy** – The Company's whistleblowing policy, which puts in place a confidential channel of communication for employees to bring matters of concern,

#### Helpful hint

3

Link clearly between business and industry risks and the system of internal control

**5 Helpful hint**

Deal openly with any specific risk management or internal control issues in the business, as part of a transparent two way communication process

**Galliford Try plc (continued)**

whether operational or personal, to the attention of senior management, to enable the Company to investigate fully and take whatever corrective action is deemed to be appropriate. The audit committee has responsibility for reviewing these arrangements and during the year a revised version of the policy was approved. It also has responsibility for ensuring independent investigation of such matters and appropriate follow-up action where necessary.

**5 Competition policy** – The Group has a comprehensive set of policies and procedures for ensuring compliance with competition law requirements, including training for relevant employees and a regular senior management certification process.

As part of its investigations into anti competitive practices in the construction industry, The Office of Fair Trading (OFT) issued a Statement of Objections to the

Company in April 2008 alleging breaches of the 1998 Competition Act in respect of cover prices being given or taken in the Group's building division on three tenders for building work during the period from 2000 to 2004. The Company submitted formal representations on the Statement of Objections and is awaiting the OFT's decision which is expected in autumn 2009. If the Group is found to have infringed competition law it may be liable to a fine, which is currently unquantifiable. An appropriate note to this effect is included in note 34 to the financial statements on contingent liabilities.

**Annual review** – The board has reviewed the operation and effectiveness of the internal controls for the year ended 30 June 2009. They have been in place during the period under review up to the date of the approval of the Annual Report and Financial Statements.

# Accountability and audit

## 3.2 Internal control

### Rolls-Royce Group plc

#### Directors' responsibility for internal control

The directors are responsible for the Group's system of internal control and for maintaining and reviewing its effectiveness from both a financial and an operational perspective. The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and to provide reasonable but not absolute assurance against material misstatement or loss. The Group's approach to internal control is based on the underlying principle of line management's accountability for control and risk management.

In reviewing the effectiveness of the system of internal control, the Board has taken account of the results of the work carried out to audit and review the activities of the Group.

There is an ongoing process to identify, assess and manage risk, including those risks affecting the Group's reputation. This process is subject to continuous improvement and has been in place throughout the financial year to which these statements apply and up to the date

of their approval. In 2008, the effectiveness and consistency of risk management at all levels of the organisation has been measured, improved and reported via the sector and function assurance framework.

The Board has reviewed the risk management process and confirms that ongoing processes and systems ensure that the Group continues to be compliant with the Turnbull guidance as contained in 'Internal Control: Guidance for Directors on the Combined Code'.

#### Organisation structure

6 The Group has a clearly defined organisation structure within which operational management has detailed responsibilities and levels of authorisation, supported by written job descriptions and operating manuals.

#### The risk management system

4 The risk management system is an integral part of management's approach to delivering business objectives and is a systematic process designed to identify, assess, treat, manage and communicate risks.

#### Helpful hint

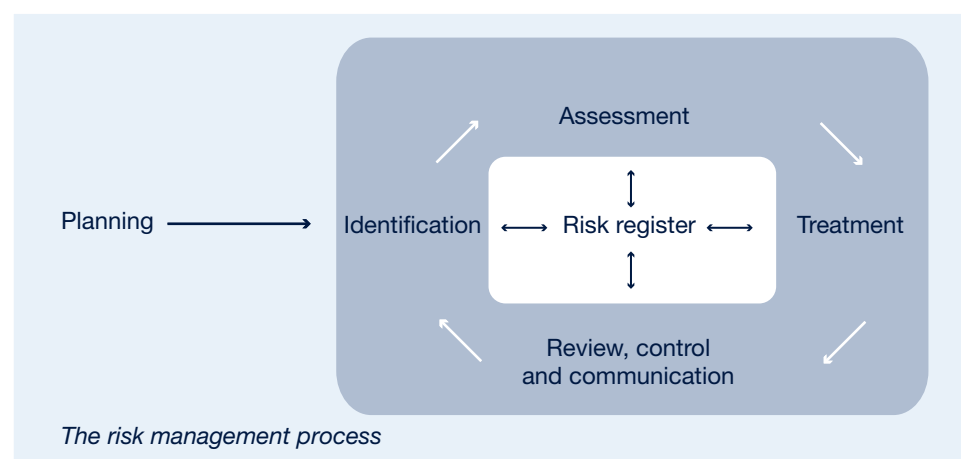
6

The use of diagrams adds clarity and allows complex concepts to be presented effectively

#### Helpful hint

4

Recognise and explain how the judgements and inherent uncertainties underlying risk management systems are handled

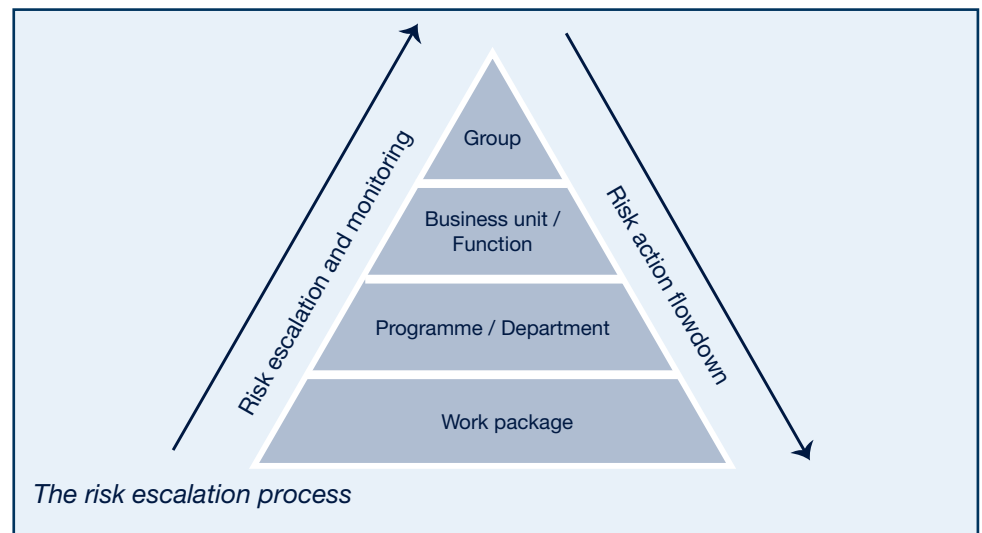


**Rolls-Royce Group plc (continued)**

Risks are recorded in regularly updated risk registers operating at all levels of the organisation and are continuously reviewed and monitored. The risk management process places significant emphasis on learning from and sharing prior

Management has continued to perform comprehensive risk reviews for all key projects, programmes and business change plans.

All the processes operated by the Group are subject to continuous improvement,



experience. The system provides methods for escalation and delegation to the appropriate levels within the organisation and ensures that actions are owned, defined, resourced and effective.

Risks may arise from a variety of internal and external sources. They may be associated with regulations, customer requirements and competitor actions, or could result from the capability of the processes used to execute the business, or from external and largely unpredictable events, such as terrorist activity or war. The principal risks and uncertainties for the Group are shown on pages 21 to 24.

Risks, irrespective of source, are managed through processes operated by business unit and functional teams. The corporate risk register is updated and reviewed by the risk committee twice a year so that the Board may then consider and review these risks in terms of their potential impact.

including the risk management process itself. Development and deployment of the process is the responsibility of a dedicated Enterprise Risk Management team. The team has created a comprehensive framework for the assessment of risk management maturity at all levels throughout the organisation that enables focused improvement actions and drives consistent application of the risk management process throughout the Group.

The risk process is underpinned by an integrated range of tools and training and education programmes. Deployment of an enterprise-wide risk management software application enables the analysis, management and communication of risks across the business. A network of risk champions, mentors and facilitators helps to develop, embed and share best practice throughout the organisation.

# Accountability and audit

## 3.2 Internal control

### Rolls-Royce Group plc *(continued)*

#### Systems of internal control

The general managers of individual businesses are aware of their responsibility to operate systems of internal control which provide reasonable assurance of effective and efficient operations, reliable financial information and compliance with laws and regulations. Financial managers are required to acknowledge in writing that their routine financial reporting is based on reliable data and that their results are properly stated in accordance with Group requirements.

The Group has a comprehensive budgeting system with an annual budget approved by the Board. Revised forecasts for the year are reported at least quarterly. Actual results are reported monthly against budget and variances reviewed.

The activities of the Group are subject to review by the Department of Risk, including business assurance and product introduction and life cycle management, and the assurance functions of Health, Safety and Environment, Quality and Engineering. These functions operate to work programmes agreed by the appropriate Board member.

The business assurance function, which works closely with the external auditors, undertakes a programme of financial and operational audits and reviews agreed by the audit committee and covering all Group activities. The programme includes independent reviews of the systems of internal control and risk management. The findings and the status of corrective actions taken to address these are reported in writing to both the audit and risk committees twice a year.

**3 Helpful hint**

Link clearly between business and industry risks and the system of internal control

**FirstGroup plc****Risks and Uncertainties**

There are a number of potential risks and uncertainties that could have an impact on the Group's long term performance.

**Competitive pressures**

All of the Group's businesses compete in the areas of pricing and service and face competition from a number of sources.

In UK Bus, the main competitor remains the car. The cost of driving a car is generally perceived as being lower than travelling by bus, especially if there is more than one person in the car. To make bus travel a viable alternative to the car the Company continues to work with local authorities to introduce bus priority measures and effect infrastructure changes promoting bus patronage.

The main competitor to the Group's UK Rail businesses is again the car, and to a lesser extent, long-distance coach operators and budget airlines. To help mitigate the risks posed by these pressures the Group is working with a number of local and national bodies to ensure that the services provided meet, or exceed, the requirements of our stakeholders.

In North America, the Group's businesses cover a wide geographic spread competing with several large companies as well as a substantial number of smaller, locally owned or government owned operators. Our competitors in the yellow school bus business can also include school districts since most school districts also operate their own school buses. Similarly, while the majority of transit and service business streams are operated by private entities, including several large companies, our First Transit and First Services businesses also compete with many municipalities. Our Greyhound coach operations face competition from a number of other coach operators in North America as well as from budget airlines. In North America all of our businesses continue to compete on service, quality and price.

**Rail franchise agreements**

The Group is required to comply with certain conditions as part of its rail franchise agreements. If it fails to comply with these conditions it may be liable to penalties including the potential termination of one or more of the rail franchise agreements. This would result in the Group losing the right to continue operating the affected operations and, consequently, the related revenues or cash flows. The Group may also lose some or all of the amounts set aside as security for performance bonds and the season ticket bonds.

Compliance with franchise conditions are closely managed and monitored on a monthly basis by senior management and procedures are in place to minimise the risk of non-compliance.

**Legislation and regulation**

Our businesses are subject to numerous laws regulating safety procedures, equipment specifications, employment requirements, environmental procedures, insurance coverage and other operating issues and considerations. These laws and regulations are constantly subject to change. The costs associated with complying with the adoption of new legislation, regulation or other laws could adversely impact the results of our operations.

To help mitigate the risk of legislative or regulatory changes the Group regularly lobbies both Government and transport bodies.

**Labour costs and employee relations**

Labour costs represent the largest component of the Group's operating costs. Labour shortages, or low unemployment rates, could hinder the Group's ability to recruit and retain qualified employees leading to a higher than expected increase in the cost of recruitment, training and other staff costs. In addition, it is important

# Accountability and audit

## 3.2 Internal control

### FirstGroup plc (continued)

for a labour intensive Group that good employee relations are maintained. The Group seeks to mitigate these risks by its recruitment and retention policies, training schemes and working practices.

#### Fuel costs

Fuel prices and supply levels can be influenced significantly by international, political and economic circumstances. If fuel supply shortages were to arise because of national strikes, world supply difficulties, disruption of refining capacity or oil imports, the resultant higher fuel prices and disruption to services could adversely impact the Group's operating results.

To mitigate the risks of rising fuel costs the Group regularly enters into forward contracts to buy fuel at fixed prices. In addition the Group seeks to limit the impact of unexpected fuel price rises through efficiency and pricing measures.

#### Treasury risks and insurance costs

The Board has set a comprehensive policy for the management of risks arising from treasury operations. These include risks associated with foreign exchange rate fluctuations, changes in fuel prices,

interest rate movements, and liquidity. This is set out in more detail in note 25 to the financial statements. A Group Treasury Policy has been formulated and adopted to ensure compliance with best practice and to control and monitor effectively the risks attendant upon treasury and banking operations.

The Group has three main insurable risks: automotive third party claims, employee injuries and property damage. The size of the Group's operations is such that there is a high frequency of low value claims which the Group self-insures up to certain limits, and purchases insurance above these limits from reputable global insurance firms.

Although the Group seeks to mitigate the risk of rising insurance costs through its emphasis on safety, there can be no assurance that future self-insurance and external insurance costs may not adversely impact the Group's business and results of operations. In addition, material levels of insurance cover for loss of profits and cash flows associated with business interruption events is not generally available in the insurance market for transportation businesses.

## FirstGroup plc (continued)

RISK	IMPACT	MITIGATING CONTROL
<b>Competitive pressures</b>	• Loss of business	• Focus on stakeholder requirements including service, quality and price
<b>Rail franchise agreements</b>	• Potential termination of one or more of the rail franchise agreements	• Close monitoring and management of franchise conditions
<b>Legislation and regulation</b>	• Adverse impact on our ability to operate	• Regular lobbying of both Government and transport bodies
<b>Labour costs and employee relations</b>	• Ability to recruit and retain qualified employees reduces	• Adoption of appropriate recruitment and retention, training and working practices
<b>Fuel costs</b>	• Lower operating results	• Adoption of forward contracts to buy fuel at fixed costs together with efficiency and pricing measures
<b>Treasury risks and insurance costs</b>	• Funding not achieved/adverse impact on operating results	• Comprehensive treasury management policies, monitoring and oversight, and Group emphasis on safety
<b>Pensions</b>	• Material changes to accounting cost and cash requirements	• Diversification of investments
<b>Terrorism</b>	• Reputational damage and the demand for our services	• Implementation of security measures and the training of employees
<b>Retention of key management</b>	• Ability to execute Group strategy	• Adoption of market based compensation packages
<b>Customer service and associated contract retention</b>	• Revenue levels reduce	• Intensive staff training on service requirements and close monitoring of service KPIs
<b>Environmental</b>	• Financial loss/reputational damage	• Detailed fuel handling procedures, monitoring of utilities usage and adoption of emission reduction policies
<b>Economy</b>	• Loss of business	• Organisational structure of businesses

**Pensions**

The Group has significant defined benefit pension obligations relating to its UK Bus, Rail and Greyhound businesses. Under the franchise arrangements the UK Rail business is not responsible for any residual deficit at the end of a franchise, so there is only short term cash-flow risk within this area. For both UK Bus and Greyhound the volatility of the underlying investments and liabilities can create material changes in the accounting cost and cash requirements in subsequent years. Through diversification of investments the Group seeks to mitigate these impacts although, in extreme market conditions, such as those experienced over the previous 18 months, it is not possible to completely negate these.

**Terrorism**

Terrorist acts and the public's concerns about potential attacks could adversely affect demand for our services. More particularly if we were to be perceived as not taking all reasonable precautions to guard against potential terrorist acts this could adversely affect our reputation with the public. The Group has a Head of Security who is responsible for improved security awareness, the application of good practice in the implementation of security measures, and the development and training of our employees so that they can respond effectively to any perceived threat or incident.

# Accountability and audit

## 3.2 Internal control

### FirstGroup plc (continued)

#### Retention of key management

Attracting and keeping key members of senior management is vital in ensuring that the Group continues to have the necessary expertise and continuity to execute its strategy. In order that management have diverse and challenging careers they are given autonomy, within parameters set by the Board, to run their businesses. The Group also offers market based compensation packages consisting of an appropriate mix of long and short term incentives.

#### Customer service and associated contract retention

The Group's revenues are at risk if it does not continue to provide the level of service expected by customers. This could result in contracts not being renewed in the case of our North American business and passengers no longer using our services in the UK. To mitigate this risk all staff undertake intensive training programmes to ensure they are aware of and abide by the levels of service that are required by our customers in each business. The Board also monitors in detail a series of customer service KPIs at each meeting to ensure strict targets are being met.

#### Environmental

We store and manage large quantities of fuel at our maintenance sites, which presents a potential regulatory and financial risk in the event of significant loss or spillage. To mitigate these risks our storage facilities are subject to regular inspection and all fuel handling operations are subject to detailed operating procedures.

We are subject to ongoing changes in environmental regulations. The most recent is the Carbon Reduction Commitment, which will come into force in April 2010.

We have in place programmes for monitoring the utilities usage covered by the regulations and have taken early action which will favour our ranking in the public league table. We continuously review regulatory changes through our CSR Steering Committee that reports directly to the EMB and the Board.

In line with all businesses we face the challenge of addressing climate change, both managing its impact and reducing emissions in line with the targets established in the Climate Change Act. Climate change has the potential to impact on our UK and North American operations, a risk we need to keep under review. We are seeking to reduce our own emissions in line with Government targets but are also seeking to ensure we capitalise on the opportunities the need to reduce carbon emissions brings for a business such as ours that offers low carbon solutions to people's mobility needs.

#### Economy

An economic downturn, whether at a global, regional or national level could have a negative impact on the Group's businesses and the opportunity to grow existing contracts. The level of economic activity affects the number of bus and train journeys taken by passengers in the UK and North America. Many areas of the Group's business offer a certain degree of protection against economic downturn in specific geographic markets, in particular the North American school bus business and the revenue support and profit sharing arrangements in place in certain rail franchises, the ability of most UK Bus operating companies to modify services on giving 56 days' notice and the even greater flexibility given to the Greyhound operations.

## 3.3 Audit committee responsibilities and activities

**Technical requirements****Combined Code (2008)****C.3 Audit committee and auditors****Main principle**

The board should establish formal and transparent arrangements for considering how they should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors.

**Code provisions**

C.3.1 The board should establish an audit committee of at least three, or in the case of smaller companies, two, independent non-executive directors. In smaller companies the company chairman may be a member of, but not chair, the committee in addition to the independent non-executive directors, provided he or she was considered independent on appointment as chairman. The board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience.

C.3.2 The main role and responsibilities of the audit committee should be set out in written terms of reference and should include:

- to monitor the integrity of the financial statements of the company, and any formal announcements relating to the company's financial performance, reviewing significant financial reporting judgements contained in them
- to review the company's internal financial controls and, unless expressly addressed by a separate board risk committee composed of independent directors, or by the board itself, to review the company's internal control and risk management systems
- to monitor and review the effectiveness of the company's internal audit function
- to make recommendations to the board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor

- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements
- to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm
- to report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

C.3.3 The terms of reference of the audit committee, including its role and the authority delegated to it by the board, should be made available. A separate section of the annual report should describe the work of the committee in discharging those responsibilities.

[...]

C.3.5 The audit committee should monitor and review the effectiveness of the internal audit activities. Where there is no internal audit function, the audit committee should consider annually whether there is a need for an internal audit function and make a recommendation to the board, and the reasons for the absence of such a function should be explained in the relevant section of the annual report.

**FRC Guidance on audit committees (2008)**

The FRC 'Guidance on audit committees' (sometimes known as the 'updated Smith guidance') assists company boards in making suitable arrangements for their audit committees, and directors serving on audit committees in carrying out their role.

**FSA Disclosure Rules and Transparency Rules (DTR)**

DTR 7.1.1 R requires that the audit committee should have at least one member who is independent; at least one member should have competence in accounting and/or auditing. These requirements may be satisfied by the same member.

# Accountability and audit

## 3.3 Audit committee responsibilities and activities

### Current themes

The role of the audit committee itself has not been at the centre of recent governance debates, though the roles of the individual non-executive directors and the board as a whole certainly have been, as set out in section 2.

In banks and other financial institutions the role of a separate risk committee and the need for a Chief Risk Officer have been key issues and Walker has specific recommendations around these.

The audit committee would retain responsibility for elements of risk and control, despite the existence of a separate risk committee, and therefore it will be important to review carefully terms of reference for both committees. It is expected that the audit committee chairman would be a participating member of the risk committee.

## 3.3 Audit committee responsibilities and activities

**1** Helpful hint

Describing its actual activities makes it clear to shareholders what the audit committee has dealt with

**Smith & Nephew plc****Activities of the Audit Committee for 2008**

The Audit Committee's remit, which is set out in its terms of reference, includes responsibility for:

- monitoring the integrity of the Group's accounts, ensuring that they meet statutory and associated legal and regulatory requirements and reviewing significant financial reporting judgments contained in them;
- monitoring announcements relating to the Group's financial performance;
- monitoring and reviewing the effectiveness of the Group's internal audit function;
- recommending for shareholder approval, the appointment, re-appointment and removal of the external auditors, as appropriate;
- approving the remuneration and terms of engagement of the external auditors;
- monitoring and reviewing the external auditors' independence and the effectiveness of the audit process;
- pre-approval of the external auditors to supply non-audit services;
- monitoring the effectiveness of internal financial controls and reviewing compliance with s404 of the Sarbanes-Oxley Act 2002;
- reviewing the operation of the risk management process; and
- reviewing arrangements by which staff may raise complaints against the Group regarding financial reporting or other matters.

The Group has specific policies which govern:

- the conduct of non-audit work by the external auditors which prohibits the

auditors from performing services which would result in the auditing of their own work, participating in activities normally undertaken by management, acting as advocate for the Group and creating a mutuality of interest between the auditors and the Group, for example being remunerated through a success fee structure. Each year, the Audit Committee pre-approves the budget for fees relating to audit and non-audit work, including taxation services, in accordance with a listing of particular services. In the event that limits for these services are expected to be exceeded or the Group wants the external auditors to perform services that have not been pre-approved, approval by the Chairman of the Audit Committee is required, together with a notification to the Audit Committee of the service and the fees involved. All services provided by the independent auditors during the year were pre-approved by the Audit Committee; and

- audit partner rotation, which is in accordance with the Auditing Practices Board Ethical Standards in the UK and the SEC rules in the US. Partners and senior audit staff may not be recruited by the Group unless two years has expired since their previous involvement with the Group.

The Chief Executive, the Chief Financial Officer and other members of management and the Board attend the meetings when necessary and the external auditors have unrestricted access to the Audit Committee. The Audit Committee meets without management in attendance, when appropriate, and meets with the auditors, without management present, from time to time.

**1** The principal activities of the Audit Committee during the year ended 31 December 2008 included:

# Accountability and audit

## 3.3 Audit committee responsibilities and activities

### Smith & Nephew plc *(continued)*

- consideration of the quarterly, interim and preliminary results and the annual accounts;
- consideration of the Group's compliance with s404 of the Sarbanes-Oxley Act 2002;
- consideration of compliance with accounting standards, appropriate accounting policies and practices, accounting and reporting issues and going concern assumptions;
- a review of the Group's approach to internal financial control, its processes, outcomes and disclosures;
- a review of the Internal Review department's activities for the year, together with its resource requirements and findings;
- a review of 'whistleblowing' procedures;
- a review of the reports from the auditors, Ernst & Young LLP, on their professional and regulatory compliance in order to maintain independence and objectivity, including the rotation of partners;
- a review of the audit, audit-related, tax and other services provided by Ernst & Young LLP;
- review and the pre-approval of all services provided by the auditors during the year including all non-audit work performed by the auditors together with associated fees, to ensure that the objectivity and independence of Ernst & Young LLP as auditors of the Group was not compromised. Ernst & Young LLP only provided advisory work in respect of accounting and tax related matters;
- consideration of Ernst & Young LLP's in-depth reports to the Committee on the scope and outcome of the annual audit and management's response. Their reports included accounting matters, governance and control and accounting developments;
- a review of the effectiveness of the performance of Ernst & Young LLP effected by the completion of a questionnaire by the units audited within the Group and by the members of the Committee;
- recommending the re-appointment of Ernst & Young LLP as the Group's auditors;
- confirmation that no concerns were raised with the Committee about possible improprieties in matters of financial reporting or other matters;
- reviewing the Committee's terms of reference to ensure they reflect developments in corporate governance in the UK and the US;
- consideration of the Group's risk management process; and
- an evaluation of its own performance during the year, effected by means of a questionnaire and individual discussions.

The Committee may obtain legal and other independent professional advice, at the Company's expense, as it deems necessary. During the year, no such advice was sought by the Committee.

## 2 Helpful hint

Confirm the audit committee is comprised wholly of independent non-executive directors or explain any other circumstances that apply

### British American Tobacco p.l.c.

#### Accountability and audit

[...]

#### Audit Committee

The Board's obligation to establish formal and transparent arrangements for considering how it should apply financial reporting and internal control principles, and for maintaining an appropriate relationship with the Company's external auditors, PricewaterhouseCoopers LLP, is met through the Audit Committee. The role of the Audit Committee is to monitor the integrity of the financial statements of the Company and review and, when appropriate, make recommendations to the Main Board on business risks, internal controls and compliance. The Committee satisfies itself, by means of suitable steps and appropriate information, that proper and satisfactory internal control systems are in place to identify and manage business risks and that the Company's business, and that of its subsidiaries, is conducted in a proper and economically sound manner.

2 The Audit Committee is chaired by Robert Lerwill and comprises 3 other independent Non-executive Directors – Christine Morin-Postel, Anthony Ruys and Sir Nicholas Scheele. Karen de Segundo and Ana Maria Llopis were members of the Audit Committee until 1 October 2008. At that time, membership of the Audit Committee, together with that of the CSR Committee, was revised to allow more efficient and focused debate. The Chief Operating Officer and the Finance Director regularly attend meetings of the Committee by invitation but are not members. The Committee's meetings are also regularly attended by the Head of Audit and Business Risk, the General Counsel to the Company and a representative of the external auditors. As a matter of best practice, the Committee meets alone with the external auditors at the end of every meeting.

The Audit Committee is authorised by the Board to review any activity within the business. It is authorised to seek any information it requires from, and require the attendance at any of its meetings of, any Director or member of management, and all employees are expected to cooperate with any request made by the Committee. The Committee is authorised by the Board to obtain, at the Company's expense, outside legal or other independent professional advice and secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

The Chairman of the Committee reports to the subsequent meeting of the Board on the Committee's work and the Board receives a copy of the minutes of each meeting. The papers considered by the Committee are available to any Director who is not a member, should they wish to receive them. The Committee's effectiveness is reviewed annually as part of the Board evaluation process. In 2008, the Board concluded that it continues to operate effectively.

#### Activities of the Audit Committee in 2008

The Audit Committee met 5 times during 2008, including immediately before the Company's full year results were published. It follows an agreed annual work programme comprising both regular items and areas considered to require particular focus. During 2008, it continued to monitor the integrity of the Company's financial statements and all formal announcements concerning the Company's financial performance, to review significant financial reporting judgements contained in them, and to keep under review the consistency of accounting policies applied across the Group. It met regularly with management and with the internal and external auditors to review the effectiveness of internal controls and business risk management, and received reports from the Head of Audit and Business Risk, the Head of Group Security and the Group's regional

# Accountability and audit

## 3.3 Audit committee responsibilities and activities

### British American Tobacco p.l.c. (*continued*)

audit and CSR committees and corporate audit committee. The specific items considered by the Audit Committee during 2008 included:

- a comprehensive review of Group risks in light of the current macroeconomic situation, and the risk mitigation plans in place to manage identified risks (see Key Group risk factors);
- the Group's position with regard to counterparty risks and liquidity issues in the light of volatility in the financial markets and the failure of a number of significant financial institutions;
- a revised audit and CSR committee framework, which recommended the merging of regional and (where possible) area and individual market audit and CSR committees to enhance their efficiency and effectiveness;
- compliance with the Standards of Business Conduct;
- compliance with records management procedures;
- the annual works plan for the Group's internal audit function;
- an independent review of the internal audit function and the implementation of proposals arising from the review; and
- revised Guidance on Audit Committees issued by the Financial Reporting Council.

It has satisfied itself that proper and satisfactory internal controls remain in place to identify and contain business risks, and that the Company's business, and that of its subsidiaries, is being conducted in a proper and economically sound manner.

### Helpful hint

3

Show that consideration has been given to the disclosure recommendations in the 'updated Smith guidance'

3

**4 Helpful hint**

Disclosing the qualifications and experience of the audit committee members confirms their suitability and recent and relevant financial experience

**GlaxoSmithKline plc****Committee reports**

Board Committees report regularly to the Board on the performance of the activities they have been assigned.

**Audit Committee Report**

Members	Committee member since	Attendance at meetings during 2008	
		Full meetings	Quorate meetings
Mr Tom de Swaan (Chairman from 1st September 2006)	1st January 2006	6/6	5/5
Sir Deryck Maughan	21st January 2005	6/6	4/5
Dr Daniel Podolsky	1st January 2007	6/6	5/5
Sir Ian Prosser	27th December 2000	6/6	4/5
Dr Ronaldo Schmitz	27th December 2007	6/6	5/5
Sir Robert Wilson	12th December 2003	6/6	4/5

Other attendees at Committee meetings:

- CEO
- CFO
- Chairman
- General Counsel
- Head of Global Internal Audit
- Company Secretary & Corporate Compliance Officer
- External Auditors

The Committee's main responsibilities include:

- Reviewing the corporate accounting and financial reporting process
- Monitoring the integrity of the financial statements
- Evaluating the system of internal control and management of risks
- Overseeing activities of each of the Group's compliance audit functions and overseeing compliance with laws, regulations and ethical codes of practice.

The Committee's oversight role requires it to address regularly the relationships between management and the internal and external auditors and understand and monitor the reporting relationships and tiers of accountability between them.

The Committee receives regular reports from members of the CET and senior managers covering the key compliance activities of the Group, including those concerning R&D, manufacturing, sales and marketing and Environment, Health & Safety.

**Qualifications of Audit Committee Members**

**4** Committee members, with the exception of Dr Podolsky, bring considerable financial and accounting experience to the Committee's work. Members have past employment experience in either finance or accounting roles or comparable experience in corporate activities. Dr Podolsky's background as a world renowned researcher enables him to bring scientific expertise to the Committee's deliberations.

# Accountability and audit

## 3.3 Audit committee responsibilities and activities

### GlaxoSmithKline plc (continued)

#### Financial & Accounting Experience

Financial & Accounting Experience	
Mr Tom de Swaan	<ul style="list-style-type: none"> <li>Chief Financial Officer of ABN AMRO until 31st December 2005</li> <li>Determined by the Board to be the Audit Committee Financial Expert, as defined by the Sarbanes Oxley Act of 2002 (Sarbanes-Oxley)</li> </ul>
Sir Deryck Maughan	<ul style="list-style-type: none"> <li>A Partner of Kohlberg Kravis Roberts &amp; Co. (KKR) and Chairman of KKR Japan</li> <li>Former Chairman &amp; CEO of Citigroup International and Vice Chairman of Citigroup Inc</li> <li>Former Chairman and Co-Chief Executive Officer of Salomon Smith Barney</li> <li>Former Chairman and Chief Executive Officer of Salomon Brothers Inc.</li> </ul>
Sir Ian Prosser	<ul style="list-style-type: none"> <li>Former CFO and subsequently CEO of Bass plc</li> <li>Chartered Accountant</li> </ul>
Dr Ronaldo Schmitz	<ul style="list-style-type: none"> <li>Former Member of Glaxo Wellcome plc's Audit Committee</li> <li>Former Member of Executive Board of Directors of Deutsche Bank AG</li> <li>Former Head of Investment Banking of Deutsche Bank</li> <li>Former member of the Executive Board of Directors of BASF from 1980 to 1990. CFO of BASF from 1985 to 1990</li> <li>Former Chairman of the Committee from April 2001 to September 2006</li> <li>MBA from INSEAD</li> </ul>
Sir Robert Wilson	<ul style="list-style-type: none"> <li>Economist</li> <li>Chairman of BG Group plc</li> <li>Retired from Rio Tinto in 2003 where he held Senior Management positions culminating in his appointment as Executive Chairman</li> </ul>
Scientific Expertise	
Dr Daniel Podolsky	<ul style="list-style-type: none"> <li>A world renowned researcher with advanced knowledge of underlying mechanisms of disease and new therapies for gastrointestinal disorders</li> <li>President of the University of Texas Southwestern Medical Centre</li> <li>Former Mallinkrodt Professor of Medicine and Chief of Gastroenterology at Massachusetts General Hospital and Harvard Medical School.</li> </ul>

5

#### Helpful hint

Tabular format gives more information, more clearly

5

## 3.3 Audit committee responsibilities and activities

**1 Helpful hint**

Describing its actual activities makes it clear to shareholders what the audit committee has dealt with

**Barclays PLC****Activities in 2008**

Figure 5 illustrates how the Committee allocated its time in 2008.

**1** During 2008, the Committee:

- considered the information it would require during the coming year to enable it to discharge its responsibilities;
- considered the significant changes in financial markets and economic conditions and the impact on the areas of focus for the Committee;
- reviewed the Annual Report and Accounts and half-year Results and Interim Management Statements;
- reviewed in detail the valuations of Barclays Capital's credit market exposures, reviewing mark-to-market valuations and accounting for derivatives and assessing the overall quality of earnings;
- reviewed the Group's accounting policies and, in particular, the accounting for leveraged loans;
- considered control issues of Group level significance for different areas of the business;
- received reports on the control environment in each of the following businesses or functions: Barclays Wealth, Barclays Commercial Bank, Western Europe, Global Retail and Commercial Banking IT, Barclaycard, Global Payments, Emerging Markets, BGI, Absa and Barclays Capital;
- reviewed the effectiveness and independence of the Group statutory auditor;
- approved the re-appointment, remuneration and engagement letter of the Group statutory auditor;
- considered the provision of non-audit services by the Group statutory auditor – more details can be found in the box on page 165;
- received reports from the external and internal auditors;
- monitored the performance of the Internal Audit function;
- reviewed the Global Internal Audit Plan;
- reviewed the internal control and risk management systems;
- considered the effectiveness of the Group's internal controls over financial reporting;
- received regular reports on 'Raising Concerns', including whistleblowing;
- considered the Fraud Risk Control Framework; and
- reviewed its Terms of Reference to satisfy itself that they enable the Committee to fulfil its responsibilities.

The Committee also received regular updates during 2008 on:

- Basel II
- MiFID
- Sarbanes-Oxley
- Sanctions compliance

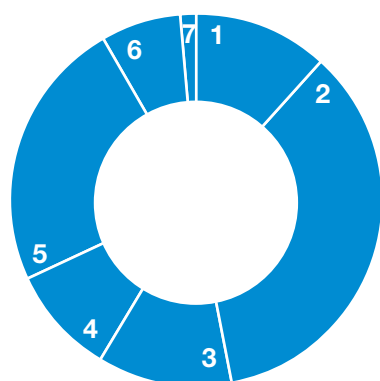
In February 2009, the Committee reviewed its activities in 2008 against its terms of reference and concluded that it had discharged the responsibilities delegated to it under those terms of reference.

# Accountability and audit

## 3.3 Audit committee responsibilities and activities

### Barclays PLC (continued)

Fig 5: Board Audit Committee allocation of time



	2008	2007
1 Control Issues	9	9
2 Financial Results	36	33
3 Internal Audit Matters	11	9
4 External Audit Matters	9	9
5 Business Control Environment	28	25
6 Governance and Compliance	6	14
7 Other	1	1

#### Helpful hint

5

Tabular format gives more information, more clearly

### Associated British Foods plc

#### Composition of the Audit committee

[...]

The Audit committee structure requires the inclusion of one financially qualified member (as recognised by the Consultative Committee of Accountancy Bodies). Currently the committee chairman fulfils this requirement. All committee members are expected to be financially literate.

The board expects Audit committee members to have an understanding of the following areas:

6

- key aspects of the Company's operations including corporate policies and the group's internal control environment;
  - matters which may influence the presentation of accounts and key figures;
  - the principles of, and developments in, company law, sector-specific laws and other relevant corporate legislation;
  - the role of internal and external auditing and risk management; and
  - the regulatory framework for the group's businesses.
- the principles of, and developments in, financial reporting including the applicable accounting standards and statements of recommended practice;

#### Helpful hint

6

Set out what is expected of audit committee members

**Technical requirements****Combined Code (2008)****C.3 Audit committee and auditors****Code provisions**

C.3.4 The audit committee should review arrangements by which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The audit

committee's objective should be to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

**1 Helpful hint**

Confirming that the facilities are operated by an independent party emphasises confidentiality

**Wolseley plc****Audit Committee**

[...]

**1** The Company's whistle-blowing policy, which is an extension of the Group-wide Code of Ethics, gives details of the international confidential telephone reporting hotlines which are operated on behalf of the Company by an independent third party. The hotlines are a confidential means for employees to notify any concerns about actual or potential breaches of law or company

policy, including in relation to accounting, risk issues, internal controls, auditing issues and related matters. All matters reported are investigated and reported to the Committee. Statistics on the volume and general nature of all disclosures made are reported to the Committee on an annual basis. A copy of the Group's Code of Ethics is available on the Company's website at [www.wolseley.com](http://www.wolseley.com).

**British American Tobacco p.l.c.****Activities of the audit committee in 2008**

[...]

The Group's whistleblowing policy and procedures enable staff, in confidence, to raise concerns about possible improprieties in financial and other matters and to do so without fear of reprisal, provided that such concerns are not raised in bad faith. Details of this policy are set out in the Company's Standards of Business Conduct. The policy is supplemented by local procedures

throughout the Group and at the Group's London headquarters, which provide staff with additional guidance and enable them to report matters in a language with which they are comfortable. The Audit Committee receives regular reports on whistleblowing incidents. It remains satisfied that the policy and the procedures in place incorporate arrangements for the proportionate and independent investigation of matters raised and for the appropriate follow-up action.

# Accountability and audit

## 3.5 External auditors

### Technical requirements

#### Combined Code (2008)

##### C.3 Audit committee and auditors

##### Code provisions

C.3.6 The audit committee should have primary responsibility for making a recommendation on the appointment, re-appointment and removal of the external auditors. If the board does not accept the audit committee's recommendation, it should include in the annual report, and in any papers recommending appointment or re-appointment, a statement from the audit committee explaining the recommendation and should set out reasons why the board has taken a different position.

C.3.7 The annual report should explain to shareholders how, if the auditor provides non-audit services, auditor objectivity and independence is safeguarded.

### British American Tobacco p.l.c.

#### External auditors

The Audit Committee assesses annually the qualification, expertise and resources, and independence of the external auditors and the effectiveness of the audit process. The Committee's assessment is made with reference to a satisfaction survey of the external auditors completed by members of senior management.

**1** PricewaterhouseCoopers LLP have been the Company's auditors since it listed on the London Stock Exchange in September 1998. The Audit Committee considers that the relationship with the auditors is working well and remains satisfied with their effectiveness. Accordingly, it has not considered it necessary to date to require the firm to tender for the audit work. The external auditors are required to rotate the audit partners responsible for the Group and subsidiary audits every 5 years and the current lead audit partner has been in place for 4 years. There are no contractual obligations restricting the Company's choice of external auditor.

The Audit Committee has an established policy aimed at safeguarding and supporting the external auditors' independence and objectivity. Pursuant to

this policy, it keeps under review the ratio of audit fees to non-audit fees charged by the external auditors to ensure that neither their independence nor their objectivity is put at risk, and takes steps to ensure that they do not audit their own work. It remains confident that the objectivity and independence of the external auditors are not in any way impaired by reason of the non-audit services which they provide to the Group. Moreover, the Committee is satisfied that such work is best handled by them, either because of their knowledge of the Group or because they have been awarded it through a competitive tendering process. A breakdown of non-audit fees charged by the auditors is disclosed in note 3(d) in the Notes on the accounts.

The Audit Committee has completed its assessment of the external auditors for the financial period under review. Having satisfied itself as to their qualification, expertise, resources and independence and the effectiveness of the audit process, it has recommended to the Board, for approval by shareholders, the reappointment of PricewaterhouseCoopers LLP as the Company's external auditors and approved their fees and terms of engagement.

#### Helpful hint

1

Discussion of the audit committee's activities in overseeing the selection of the auditors should focus on the processes, policies and conclusions reached

**2 Helpful hint**

Explain how the audit committee has implemented its policy on independence of the external auditor

**Anglo American plc****External audit**

Anglo American's policy on auditors' independence, which came into effect on 1 January 2003, is consistent with the ethical standards published by the Auditing Practices Board in December 2004.

A key factor that may impair auditors' independence is a lack of control over non-audit services provided by the external auditors. In essence, the external auditors' independence is deemed to be impaired if the auditors provide a service which:

- results in auditing of own work by the auditors;
- results in the auditors acting as a manager or employee of the Group;
- puts the auditors in the role of advocate for the Group; or
- creates a mutuality of interest between the auditors and the Group.

**2** Anglo American addresses this issue through three primary measures, namely:

- disclosure of the extent and nature of non-audit services;
- the prohibition of selected services; and
- prior approval by the Audit Committee chairman of non-audit services where the cost of the proposed assignment is likely to exceed \$50,000.

Disclosure entails reporting non-audit services to the Group's audit committees and inclusion of prescribed detail, i.e. the breakdown of fees paid to external auditors for audit and non-audit work in the Annual Reports of listed entities. The policy's definition of prohibited non-audit services corresponds with the European Commission's recommendations on auditors' independence.

Other safeguards encapsulated in the policy include:

- the external auditors are required to adhere to a rotation policy based on best practice and professional standards in the United Kingdom. The standard period for rotation of the audit engagement partner is five years and, for any key audit principal, seven years.
- any partner designated as a key audit principal of Anglo American shall not be employed by Anglo American in a key management position unless a period of at least two years has elapsed since the conclusion of the last relevant audit.
- the external auditors are required to periodically assess, in their professional judgement, whether they are independent of the Group.
- the Audit Committee ensures that the scope of the auditors' work is sufficient and that the auditors are fairly remunerated.
- the Audit Committee has primary responsibility for making recommendations to the Board on the appointment, re-appointment and removal of the external auditors.
- the Audit Committee has the authority to engage independent counsel and other advisers as they determine necessary in order to resolve issues on auditor independence.

The Audit Committee has satisfied itself that the United Kingdom professional and regulatory requirements for audit partner rotation and employment of former employees of the external auditors have been complied with.

The Audit Committee considered information pertaining to the balance between fees for audit and non-audit work for the Group in 2008 and concluded that the nature and extent of non-audit fees do not present a threat to the external auditors' independence.

# Accountability and audit

## 3.5 External auditors

### Anglo American plc (*continued*)

Furthermore, after reviewing a report from the external auditors on all their relationships with Anglo American that might reasonably have a bearing on the external auditors' independence and the audit engagement partner and staff's objectivity, and the related safeguards and procedures, the Committee has concluded that the external auditors' independence was not impaired.

The Audit Committee approved the external auditors' terms of engagement, scope of work, the process for the 2008 interim review, the annual audit and the applicable levels of materiality. Based on written reports submitted, the Committee

reviewed, with the external auditors, the findings of their work and confirmed that all significant matters had been satisfactorily resolved.

The Committee's assessment of the external auditors' performance and independence underpins its recommendation to the Board to propose to shareholders the re-appointment of Deloitte as auditors until the conclusion of the AGM in 2010. Resolutions to authorise the Board to re-appoint and determine their remuneration will be proposed at the AGM on 15 April 2009.

### Rentokil Initial plc

#### 10. Auditors' independence

**1** The company has reviewed its relationship with its auditors, PricewaterhouseCoopers LLP, and concluded that there are sufficient controls and processes in place to ensure the required level of independence and the company has no other reason to seek to re-tender the external audit role. The company has a formal policy on the provision of non-audit services provided by the company's auditors under which any such proposed expenditure of up to £250,000 must be approved by the chief financial officer and above

that level approved by the committee. In accordance with usual practice, PricewaterhouseCoopers LLP has introduced in 2008 a new audit partner to lead the group audit process who has previously had no involvement in the audit of any group company. The committee does not consider that there is any material risk of the company's auditors withdrawing from the market.

A resolution to reappoint PricewaterhouseCoopers LLP as auditors of the company will be proposed at the annual general meeting to be held on 13 May 2009.

#### Helpful hint

1

Discussion of the audit committee's activities in overseeing the selection of the auditors should focus on the processes, policies and conclusions reached

**3 Helpful hint**

Show that consideration has been given to the disclosure recommendations in the 'updated Smith guidance'

**BHP Billiton Plc****External Auditor**

**3** The RAC manages the relationship with the External Auditor on behalf of the Board. It considers the reappointment of the External Auditor each year, as well as remuneration and other terms of engagement, and makes a recommendation to the Board. The last competitive audit review was in 2003, when KPMG was appointed by the Board on the recommendation of the RAC. There are no contractual obligations that restrict the RAC's capacity to recommend a particular firm for appointment as auditor. Shareholders are asked to approve the reappointment of the auditor each year in the UK.

The RAC evaluates the performance of the External Auditor during its term of appointment against specified criteria, including delivering value to shareholders and ourselves. The RAC reviews the integrity, independence and objectivity of the External Auditor. This review includes:

- confirming that the External Auditor is, in its judgement, independent of the Group
- obtaining from the External Auditor an account of all relationships between the External Auditor and the Group
- monitoring the number of former employees of the External Auditor currently employed in senior positions

and assessing whether those appointments impair, or appear to impair, the External Auditor's judgement or independence

- considering whether the various relationships between the Group and the External Auditor collectively impair, or appear to impair, the External Auditor's judgement or independence
- determining whether the compensation of individuals employed by the External Auditor who conduct the audit is tied to the provision of non-audit services and, if so, whether this impairs, or appears to impair, the External Auditor's judgement or independence
- reviewing the economic importance of our business to the External Auditor and assessing whether that importance impairs, or appears to impair, the External Auditor's judgement or independence.

The External Auditor also certifies its independence to the RAC.

The audit engagement partner rotates every five years.

Although the External Auditor does provide some non-audit services, the objectivity and independence of the External Auditor is safeguarded through restrictions on the provision of these services.

# Relations with shareholders

## 4.1 Dialogue with institutional shareholders

### Technical requirements

#### Combined Code (2008)

##### D.1 Dialogue with institutional shareholders

###### Main principle

There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.

###### Supporting principles

Whilst recognising that most shareholder contact is with the chief executive and finance director, the chairman (and the senior independent director and other directors as appropriate) should maintain sufficient contact with major shareholders to understand their issues and concerns.

The board should keep in touch with shareholder opinion in whatever ways are most practical and efficient.

### Code provisions

D.1.1 The chairman should ensure that the views of shareholders are communicated to the board as a whole. The chairman should discuss governance and strategy with major shareholders. Non-executive directors should be offered the opportunity to attend meetings with major shareholders and should expect to attend them if requested by major shareholders. The senior independent director should attend sufficient meetings with a range of major shareholders to listen to their views in order to help develop a balanced understanding of the issues and concerns of major shareholders.

D.1.2 The board should state in the annual report the steps they have taken to ensure that the members of the board, and in particular the non-executive directors, develop an understanding of the views of major shareholders about their company, for example through direct face-to-face contact, analysts' or brokers' briefings and surveys of shareholder opinion.

### Current themes

One of the themes of governance discussions during 2009 has been that there needs to be appropriate two-way communication between the board and its investors if the 'comply or explain' mechanism of the Code is to work effectively.

Too often, both companies and shareholders have reported frustration over the quality of current engagement. Companies criticise investors for taking a box-ticking approach to engagement, while shareholders criticise companies for approaching consultation as a presentation rather than a dialogue.

The Walker Report recommends that investors are subject to a Stewardship Code and that the FRC plays a role in overseeing the operation of this in practice. The FRC has committed to developing the Stewardship Code and will delete Section E of the Combined Code if implementation is successful.

# Relations with shareholders

## 4.1 Dialogue with institutional shareholders

### 1 Helpful hint

The use of an independent third party to assist the board in obtaining investor views demonstrates commitment and encourages openness

### AMEC plc

#### Dialogue with institutional shareholders

Mr Green-Armytage, Chairman, wrote to all major shareholders in April 2008 reminding them that he and the Senior Independent Director, Ms Airey, were available for meetings or telephone calls with them if required. The Chairman attends preliminary results presentations. The Chairman and Ms Airey are available to attend, if requested, one-on-one meetings with major shareholders. The Chairman had a number of such meetings with major shareholders during 2008.

1 An in-depth annual perception study of investors' views, prepared by an independent third party, is presented to all board members, who also receive unexpurgated feedback reports following shareholder meetings or events together with all material brokers' research notes on the company.

### Cadbury plc

#### Institutional investors

Meetings with institutional investors are undertaken at Board level on a day-to-day basis by the Chief Executive and Chief Financial Officer. The Senior Independent Non-executive Director and other members of the Board are also available to meet major shareholders on request. The Chairman contacts the top 10 shareholders each year with an offer to meet them. As part of his role as the Senior Independent Non-executive Director, Guy Elliott is also available to shareholders when contact with the Executive Directors or the Chairman may not be appropriate. The Chief Executive Officer and Chief Financial Officer meet with institutional investors in the UK, the US and Continental Europe on a regular basis.

The Directors are supported by our Investor Relations department (IR), which is in regular contact with institutional investors, analysts and brokers. The IR team also undertook roadshow and one to one meetings with investors.

1 An IR report is produced for each Board meeting; this includes direct feedback from institutional investors provided by our external advisors including Goldman Sachs, UBS and Makinson Cowell. Additional feedback is also collected directly by IR, typically at the request of investors. In addition, the Board commissions an annual independent audit of institutional investors' views on our management and strategy. These measures ensure Board members develop a balanced understanding of the issues and concerns of our major shareholders.

# Relations with shareholders

## 4.1 Dialogue with institutional shareholders

### Friends Provident plc

#### Reporting to shareholders

The Company places considerable importance on communications with shareholders and responds to them on a wide range of issues.

The Company identified enhanced disclosure as a key outcome of its strategy announced in January 2008 and has taken steps to provide more meaningful and detailed information on its performance to shareholders. It has an ongoing programme of dialogue and meetings with major institutional shareholders, where a wide range of relevant issues including strategy, performance, management and governance is discussed. Further, the Chairman and the senior independent director are available to meet major shareholders and the Chairman writes annually to the 20 largest shareholders,

2

emphasising his availability should they wish to meet with him. During 2008, 48 such meetings of institutional shareholders with the Chairman took place (2007: six). The higher number in 2008 reflects the Chairman's position as an executive director for the first seven months of the year. Following his appointment as Chief Executive Officer, and after a period of familiarisation with the Company, Trevor Matthews undertook several days of meetings with investors in October and November 2008. During the year, the Chairman and the directors met with the Company's joint brokers, JPMorgan Cazenove and Goldman Sachs International, following presentations to major shareholders by executive management. This helps the non-executive directors to maintain an up-to-date understanding of the views of major shareholders.

### British Airways Plc

#### Relations with shareholders

The Company maintains regular contact with its larger institutional shareholders through its investor relations team, through meetings with the executive directors and the Chairman and through annual institutional investor events. The presentations from these events are also available to private shareholders through the Company's investor relations website, bashares.com. Seven members of the Board attended the annual investor day in March 2009.

3

Private shareholders receive the Company's shareholder magazine twice a year and are encouraged to express their views and concerns either in person at the annual general meeting or by e-mail. The main themes are reported to the Board and responded to by the Chairman in his address at the annual general meeting.

#### Helpful hint

2

Give company-specific information about two-way communication and investor relations process

#### Helpful hint

3

Recognise the importance of whole investor base, including non-institutional investors, where applicable

# Relations with shareholders

## 4.1 Dialogue with institutional shareholders

### 2 Helpful hint

Give company-specific information about two-way communication and investor relations process

### 3 Helpful hint

Recognise the importance of whole investor base, including non-institutional investors, where applicable

## Marks and Spencer Group plc

### Institutional investors

2 Our Deputy Chairman, Sir David Michels, maintains regular contact with principal investors and representative bodies and met more frequently with them during 2008/09 to keep the Board informed on their governance views. We understand shareholder concerns on the combined role of Chairman and Chief Executive, which is why we are making sure our governance is robust.

The Board also receives independent feedback on investor relations through an annual presentation by independent advisors. This contains major investor views on Company management and performance based on the results of an extensive survey undertaken in April.

Our executive directors also play a role in our relationship with institutional investors, meeting with them throughout the year. All of the executive directors also attend our full and half year results presentations.

As the focal point of contact for investors, brokers and analysts, our investor relations team met with representatives from over 250 investment institutions during 2008/09. Although many meetings were in the UK, the team also travelled extensively throughout Europe and North America.

### Private investors

3 We make special efforts to make sure communications and policies are appropriate for our private investors as they own a high percentage (c30%) of our shares.

We include a postage paid topics card with the AGM Notice of Meeting so that shareholders can make their views known to us. The three most frequently raised topics are addressed at the AGM and a summary of all comments is provided to the Board and directors of each business unit. Throughout the year shareholders can also email the Chairman with their comments, write to us or call our telephone helplines.

As many shareholders are also customers, shareholder vouchers were once again distributed with our January dividend. In addition to our registered shareholders, we saw an increased level of nominee participation this year helping us to distribute even more vouchers to indirect investors.

# Relations with shareholders

## 4.1 Dialogue with institutional shareholders

### DSG international plc

#### Relations with shareholders and other stakeholders

The Board attaches considerable importance to the maintenance of constructive relationships with shareholders and its other stakeholders. Relationships with suppliers, employees and the community are further discussed in the Corporate Responsibility Review on pages 28 to 33. Effective two way communication with institutional investors and analysts is established through regular presentations and meetings in the UK and overseas, usually by the Chief Executive, Group Finance Director and Group Communications Director.

The Chairman holds occasional meetings with major shareholders to discuss matters of mutual interest including corporate strategy and governance. Where appropriate, the Chairman of the Remuneration Committee communicates with major shareholders to canvas opinion when deciding remuneration policy. Matters arising from these presentations and meetings are communicated to the Board.

Presentations are conducted in accordance with the Financial Services Authority's Disclosure Rules on the dissemination of inside information to ensure the protection of such information that has not already been made available generally to the Company's shareholders. The Board receives and reviews an investor relations report at each of its meetings. The Senior Independent Director is available to discuss with shareholders any major issues that cannot be resolved through normal channels. Non-executive directors are offered the opportunity to attend meetings with major shareholders.

#### Helpful hint

4

Ensure awareness of insider trading issues is acknowledged in the governance statement

# Relations with shareholders

## 4.1 Dialogue with institutional shareholders

### 5 Helpful hint

Effective use of technology can enhance shareholder communications

### Royal Dutch Shell plc

#### Shareholder communications

The Board recognises the importance of two-way communication with the Company's shareholders and, as well as giving a balanced report of results and progress at each AGM, the Company meets with, and responds to questions and issues raised by institutional and retail shareholders. Shell's corporate website at [www.shell.com/investor](http://www.shell.com/investor) has information for institutional and retail shareholders alike. Shareholders seeking information may contact the Company directly throughout the year. They also have an opportunity to ask questions in person at the AGM.

5 Shareholders can contact Shell directly via dedicated shareholder email addresses or via dedicated shareholder telephone numbers as given on the inside back cover of this Report.

The Company's Registrar, Equiniti, operates an internet access facility for shareholders, providing details of their shareholdings at [www.shareview.co.uk](http://www.shareview.co.uk). Facilities are also provided for shareholders to lodge proxy appointments electronically. The Royal Dutch Shell Corporate Nominee provides a facility for investors to hold their shares in Royal Dutch Shell in paperless form.

# Relations with shareholders

## 4.2 Constructive use of the AGM

### Technical requirements

#### Combined Code (2008)

##### D.2 Constructive use of the AGM

###### Main principle

The board should use the AGM to communicate with investors and to encourage their participation.

###### Code provisions

D.2.1 At any general meeting, the company should propose a separate resolution on each substantially separate issue, and should in particular propose a resolution at the AGM relating to the report and accounts. For each resolution, proxy appointment forms should provide shareholders with the option to direct their proxy to vote either for or against the resolution or to withhold their vote. The proxy form and any announcement of the results of a vote should make it clear that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes for and against the resolution.

D.2.2 The company should ensure that all valid proxy appointments received for general meetings are properly recorded and counted. For each resolution, after a vote has been

taken, except where taken on a poll, the company should ensure that the following information is given at the meeting and made available as soon as reasonably practicable on a website which is maintained by or on behalf of the company:

- the number of shares in respect of which proxy appointments have been validly made
- the number of votes for the resolution
- the number of votes against the resolution
- the number of shares in respect of which the vote was directed to be withheld.

D.2.3 The chairman should arrange for the chairmen of the audit, remuneration and nomination committees to be available to answer questions at the AGM and for all directors to attend.

D.2.4 The company should arrange for the Notice of the AGM and related papers to be sent to shareholders at least 20 working days before the meeting.

### Current themes

Developing the two-way communication theme further, the AGM is the formal opportunity for dialogue and communication between the company and its shareholders. From the company's point of view, the AGM provides a forum for the board to inform its shareholders about what the company does and how

well it has performed during the year. For investors, it provides a forum to learn more about the business and ask questions of the directors, (particularly the chairmen of the audit, remuneration and nomination committees) and to use their votes responsibly.

**1 Helpful hint**

Ensure shareholders are aware of meeting protocol

**2 Helpful hint**

Innovative use of technology to enhance communication process

**Marks and Spencer Group plc****Annual General Meeting**

Our AGM is one of the most well attended meetings from the top 350 UK listed companies, regularly attracting over 1,500 people. Shareholders who are unable to attend are encouraged to lodge their vote in advance of the meeting electronically or by using the proxy card sent with the Notice of Meeting. In 2008 89% of the proxy votes received were lodged electronically through the CREST system. We also provide online voting for private investors at [sharevote.co.uk](http://sharevote.co.uk).

Prior to the meeting an exhibition is hosted by our senior retail and business managers. The meeting commences with a business presentation and then the Chairman, and other members of the Board, answer questions raised by shareholders. All directors attend the meeting, including the chairmen of the Nomination and Governance, Remuneration and Audit Committees.

Shareholders are then invited to vote on the resolutions by poll, using the electronic Vote Now system. This gives a more democratic result as all shares represented at the meeting and those lodged before the meeting are included on a one share, one vote basis. The indicative result is screened at the meeting with the final results announced via the London Stock Exchange.

**1** For more information on the resolutions being proposed at this year's AGM, see the enclosed Notice of Meeting booklet. This includes the Company's response to a resolution requisitioned by the Local Authority Pension Fund Forum on the combined role of Chairman and Chief Executive, which the Board recommends that shareholders vote against as it is not in the best interests of the Company.

**Electronic communication**

**2** Following consultation in January 2008, the principal method of communicating with our shareholders is via our corporate website. In recognition of this, extensive work has gone into the redesign and development of [marksandspencer.com/thecompany](http://marksandspencer.com/thecompany) which now provides increased functionality and a wealth of up-to-date and historical information.

Webcasts of both our annual results in May and our half year results in November, together with 'News Alert' emails throughout the year, allow us to communicate globally with all stakeholder groups.

# Relations with shareholders

## 4.2 Constructive use of the AGM


### Marks and Spencer Group plc (continued)


Corporate website
There is a wealth of information online, including: <a href="http://www.marksandspencer.com/thecompany">www.marksandspencer.com/thecompany</a>
A detailed account of how we have applied the Code's principles and how we comply with its provisions;
Latest M&S news and press releases;
Annual Reports and investor presentations;
Our Governance Framework which contains individual Board profiles; matters reserved to the Board and terms of reference for its Committees;
Our Auditor Engagement Policy for the external auditors;
Our Code of Ethics;
Our Articles of Association; and
Our response to the FRC's latest consultation on the effectiveness of the Combined Code.

### BHP Billiton Plc

#### 5.2 Shareholder engagement

[...]

The Dual Listed Company structure means that Annual General Meetings of BHP Billiton Plc and BHP Billiton Limited are held in the United Kingdom and Australia around late October and November, respectively, each year. Shareholders are encouraged to attend the Annual General Meetings and to use these opportunities to ask questions. Questions can be registered prior to the meeting by completing the relevant form accompanying the Notice of Meeting or by emailing the Group at [investor.relations@bhpbilliton.com](mailto:investor.relations@bhpbilliton.com). Questions that have been lodged ahead of the meeting, and the answers to them, are posted to our website. The External Auditor attends the Annual General Meetings and is available to answer questions. Shareholders may appoint proxies electronically through our website.  The Notice of Meeting describes how this can be done.

Proceedings at shareholder meetings and important briefings are broadcast live from our website.  Copies of the speeches delivered by the Chairman and CEO to the Annual General Meetings, a summary of the proceedings and the outcome of voting on the items of business are posted to our website following both meetings.

#### Helpful hint

 2

Innovative use of technology to enhance communication process

**1 Helpful hint**

Ensure shareholders are aware of meeting protocol

**Marshalls plc****Constructive use of the Annual General Meeting**

The Notice of Annual General Meeting is dispatched to shareholders, together with explanatory notes or a circular on items of special business, at least 20 working days before the meeting. It is the Company's practice to propose separate resolutions on each substantially separate issue including a resolution relating to the Report and Accounts.

A presentation is made on the progress and performance of the business prior to the formal business of the meeting.

The Chairmen of the Audit, Remuneration and Nomination Committee normally attend the Annual General Meeting and are available to answer questions. All Directors normally attend the meeting.

The Board welcomes questions from shareholders who have an opportunity to raise issues informally or formally before or at the Annual General Meeting.

**1** For each resolution the proxy appointment forms provide shareholders with the option to direct their proxy vote either for or against the resolution or to withhold their vote. The Company will ensure that the proxy form and any announcement of the results of a vote will make it clear that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes for and against the resolution.

All valid proxy appointments are properly recorded and counted. For each resolution, after the vote has been taken, information on the number of proxy votes for and against the resolution, and the number of shares in respect of which the vote was withheld, are given at the meeting and are made available on the Company's web site at [www.marshalls.co.uk](http://www.marshalls.co.uk). The Company will continue this practice and will, in future, also include information on the number of shares in respect of which proxy appointments have been validly made.

**3 Helpful hint**

Disclose the level of shareholder engagement by publishing voting levels for successive years

**BP p.l.c.****AGM**

BP's AGM enables shareholders to ask questions and hear the resulting discussion about the company's performance and the directors' stewardship of the company. Votes on all matters (except procedural issues) are taken by a poll at the AGM, meaning that every vote cast – whether by proxy or in person at the meeting – is counted.

The chairman, board committee chairmen and other directors were present during the 2008 AGM and met shareholders on an informal basis after the main business of the meeting.

**3** In 2008, voting levels at the AGM increased to 64%, compared with 61% in 2007. Last year was also the first time that the AGM was webcast. This will be repeated for the company's forthcoming meeting. The webcast, speeches and presentations given at the AGM are available to download from the BP website after the event, together with the outcome of voting on the resolutions.

# Relations with shareholders

## 4.2 Constructive use of the AGM

### Severn Trent Plc

#### Annual General Meeting

[...]

The exhibition area planned for the 2009 AGM will include informative, and some interactive, stands based around a selection of the company's operational areas of the business and approach to corporate responsibility.

At the 2008 AGM, 52 shareholders registered for Severn Trent's Shareholder Networking Programme. The programme allows a small number of shareholders the opportunity to find out first hand how the company works.

4

The 2008 site visit was fully attended and shareholders spent a day visiting one of our Customer Relations sites and a sewage treatment works in Derbyshire accompanied by two of our executive directors. Our shareholders attended a small number of presentations informing them of the business improvements being made in each of the Customer Relations, Water and Waste Water service areas and also had an opportunity to observe and speak with our employees.

We received very constructive feedback from the visits and the board encourages those shareholders attending the 2009 AGM to register for this year's visit.

#### Helpful hint

4

Encourage shareholders to take an active interest in the business of the company

### British American Tobacco p.l.c.

#### Relations with shareholders

[...]

The Annual General Meeting is the principal opportunity for the Board to meet investors and for the Chairman to explain the Company's progress and receive questions from its owners, the shareholders. At its Annual General Meetings, the Company provides for the vote on each resolution to be by poll, using its Registrar's electronic voting system, rather than by show of hands. This provides for greater transparency and allows the votes of all shareholders to be counted, including those cast by proxy. The Chairman announces the provisional voting results at the Meeting, and the final results are announced on the same day through the Regulatory News Service and on [www.bat.com](http://www.bat.com).

In 2008, for the first time, the Company appointed an independent assessor to scrutinise the Annual

5

General Meeting and to produce a report of the meeting, covering the proxy voting process, attendance and an audit of the poll procedures. The report confirmed the adequacy, accuracy and fairness of the proxy process and the voting procedures and systems. It is planned that this will be repeated at future Annual General Meetings, including in 2009.

The Company continues to engage with its shareholders in other areas. In recognition of the fact that some shareholders can find it inconvenient or uneconomical to hold a small number of shares, the Company made available (for a limited period during May and June 2008) a postal 'Commission Free Share Dealing Service' to those holding 500 or fewer shares. This initiative was well received, with a number of small shareholders taking up the offer.

#### Helpful hint

5

Appoint an independent assessor to strengthen reporting and enhance transparency

### 6 Helpful hint

Confirm the company's commitment to good governance in its role as an institutional investor

### Standard Life plc

#### Institutional investor

6 Standard Life Investments Limited (SLI), the Group's principal asset management company, recognises the importance of good governance. As a major investor, it monitors the governance of those companies in which it invests and holds regular meetings with their senior management representatives. The board of SLI maintains detailed policy guidelines on corporate governance and voting, which support its approach to engaging and voting at shareholder meetings. SLI makes voting reports available to clients

and publishes summary information on its website. The policy guidelines, which also cover social responsibility issues, are applied pragmatically, after careful consideration of all relevant information. When reviewing the Company's compliance with the principles and provisions of the Code, the Nomination and Governance Committee also considered the Company's compliance with these policy guidelines. The Committee considered that the Company complies with the guidelines.

# Remuneration

## 5.1 The level and make-up of remuneration

### Technical requirements

#### Combined Code (2008)

##### B.1 The level and make-up of remuneration

###### Main principle

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.

###### Supporting principle

The remuneration committee should judge where to position their company relative to other companies. But they should use such comparisons with caution, in view of the risk of an upward ratchet of remuneration levels with no corresponding improvement in performance. They should also be sensitive to pay and employment conditions elsewhere in the group, especially when determining annual salary increases.

###### Code provisions

###### Remuneration policy

B.1.1 The performance-related elements of remuneration should form a significant proportion of the total remuneration package of executive directors and should be designed to align their interests with those of shareholders and to give these directors keen incentives to perform at the highest levels. In designing schemes of performance-related remuneration, the remuneration committee should follow the provisions in Schedule A to this Code.

B.1.2 Executive share options should not be offered at a discount save as permitted by the relevant provisions of the Listing Rules.

B.1.3 Levels of remuneration for non-executive directors should reflect the time commitment and responsibilities of the role. Remuneration for non-executive directors should not include share options. If, exceptionally, options are granted, shareholder approval should be sought in advance and any shares acquired by exercise of the options should be held until at least one year after the non-executive director leaves the board. Holding of share options could be relevant to the determination of a non-executive director's independence (as set out in provision A.3.1).

B.1.4 Where a company releases an executive director to serve as a non-executive director elsewhere, the remuneration report should include a statement as to whether or not the director will retain such earnings and if so what the remuneration is.

###### Service contracts and compensation

B.1.5 The remuneration committee should carefully consider what compensation commitments (including pension contributions and all other elements) their directors' terms of appointment would entail in the event of early termination. The aim should be to avoid rewarding poor performance. They should take a robust line on reducing compensation to reflect departing directors' obligations to mitigate loss.

B.1.6 Notice or contract periods should be set at one year or less. If it is necessary to offer longer notice or contract periods to new directors recruited from outside, such periods should reduce to one year or less after the initial period.

### Current themes

Pay benchmarking is now commonplace but few companies explain adequately their processes. The remuneration committee's awareness of the 'wider scene' is increasingly important as economic conditions result in pay freezes.

Shareholders are concerned that the interests of directors are not sufficiently aligned with their own through exposure

to the share price. Greater deferral of bonuses into shares may increase this alignment.

*The extracts in this section are taken from the Remuneration Committee reports of the relevant companies; the extracts preceding this in sections 1-4 are from the corporate governance statements.*

## 5.1 The level and make-up of remuneration

## Use of comparisons

**1 Helpful hint**

Provide details of the comparator group and of the benchmark for each element of remuneration

**Dana Petroleum plc****1 Remuneration policy 2008 & 2009**

Base Salary	Annual Bonus Potential	Pension	Potential Total Short-Term Remuneration Available	Potential Annual Share Awards	Potential Total Compensation Value
Lower to Upper Quartile	Upper Quartile	Upper Quartile	Median to Upper Quartile	Upper Quartile	Median to Upper Quartile
The Remuneration Committee's policy is on appointment to the Board to provide a lower quartile salary which based on appropriate levels of individual and corporate performance will be increased to the upper quartile position with experience gained over time. In light of the current macro economic situation, the Remuneration Committee is changing its targeted salary policy for Executive Directors from upper quartile to median for 2009.	Maximum bonus payouts are only earned by executives for achieving exceptional performance. The Remuneration Committee assessed that performance in 2008 was exceptional and that full bonus payments were appropriate.	The Company avoids considerable cost and administrative burden by not running a corporate pension scheme. Instead it provides cash payments to Executives to supplement their personal pension arrangements.	The remuneration package will provide lower to median quartile total short-term remuneration unless bonus payments are earned by executives. Maximum bonus payments will only be earned for exceptional performance. In the current economic climate the Remuneration Committee will be mindful of the general performance of the Company when considering the level of any bonus in 2009.	The remuneration package will provide a lower quartile to median total compensation value unless executives earn their bonus payouts or satisfy the demanding performance conditions attached to their share incentives. Maximum share incentive payments will only occur for upper decile performance.	

# Remuneration

## 5.1 The level and make-up of remuneration

### Alignment of directors' interests with those of shareholders

#### Standard Life plc

##### Directors' interests in shares

The following table shows the level of share ownership of all the Directors:

	Total number of shares owned at 1/01/2008	Shares acquired/ (sold) by the Director during the period	Total number of shares owned at 31/12/2008	Shares acquired/ (sold) by the Director during the period 31/12/2008 to 09/03/2009
<b>Executive Directors</b>				
Sir Sandy Crombie	297,710	458,831	756,541	-
David Nish	16,512	42,462	58,974	160
Keith Skeoch	256,566	123,132	379,698	160
<b>Non-executive Directors</b>				
Kent Atkinson	3,651	-	3,651	-
Lord Blackwell	5,673	-	5,673	-
Colin Buchan	3,758	-	3,758	-
Crawford Gillies	32,954	-	32,954	-
Gerry Grimstone	100,827	40,400	141,227	-
Baroness McDonagh	-	2,000	2,000	-
Jocelyn Proteau	1,857	-	1,857	-

#### Helpful hint

2

The directors' interests disclosures can be used to demonstrate alignment with shareholders

## 5.1 The level and make-up of remuneration

## Alignment of directors' interests with those of shareholders

**3 Helpful hint**

Transparency over directors' exposure to the share price can assist in demonstrating alignment with shareholders

**Lonmin Plc****3 Value at risk**

Based on the shares and share options and awards held at 30 September 2009 (assuming full vesting and having accounted for any relevant exercise costs), the following table illustrates the value each executive Director has at risk and

how this component of personal wealth has fluctuated during the year, using the lowest, highest and closing share prices for the year of 527p, 1831p and 1674p respectively, for illustrative purposes:

Executive Director	Number of shares	Low (£)	High (£)	Closing (£)
Ian Farmer	58,985	310,851	1,080,015	987,409
Alan Ferguson	17,007	89,627	311,398	284,697
Executive Director	Number of options/awards	Low (£)	High (£)	Closing (£)
Ian Farmer <sup>1</sup>	109,992	566,720	1,997,431	1,824,744
Alan Ferguson	77,920	410,638	1,426,715	1,304,381

<sup>1</sup> Ian Farmer's interests comprise 2,455 shares at an exercise price of 673p

# Remuneration

## 5.1 The level and make-up of remuneration

### Alignment of directors' interests with those of shareholders

#### Standard Life plc

##### Other pay and share matters

##### Our belief in share ownership

##### Share ownership guidelines

Standard Life has adopted a set of share ownership guidelines because we believe that executives should be encouraged to hold a substantial element of their personal wealth in Standard Life shares. It aligns their interests with the shareholders.

The Group Chief Executive's guideline is 150% of salary and other executive Directors are expected to build up a holding of shares worth 100% of base salary. Group executive members are expected to build up a holding worth 50% of base salary. This is to be achieved by keeping any shares they or their family members acquire, plus at least half of the shares acquired under the LTIP on an after-tax basis, until the target has been met.

For executives who held these roles at the time of flotation (10 July 2006), we expect this guideline will be achieved within five years of that date. For all other individuals, the guidelines should be met within five years of their appointment.

In January 2009 the Remuneration Committee adopted a share ownership guideline for the Chairman. Within four years of his appointment as Chairman (i.e. 29 May 2011), it is expected that he will have a shareholding with a value equal to his annual fee. This is to promote alignment with shareholders and is not a level of ownership that will compromise his judgement. The current Chairman has voluntarily agreed to abide by this guideline.

As at 31 December 2008 the executive Directors' share ownership against the guidelines were:

Director	Target date for meeting the guideline	Share ownership as a percentage of salary/fee	Guideline already met?
Gerry Grimstone	29 May 2011	100%	Yes
Sir Sandy Crombie	10 July 2011	201%	Yes
David Nish	1 November 2011	24%	No
Keith Skeoch	10 July 2011	219%	Yes

#### Helpful hint

4

The majority of the FTSE 100 now have a shareholding policy for executive directors and it is helpful to disclose the extent to which this has been met

4

## 5.1 The level and make-up of remuneration

## Alignment of directors' interests with those of shareholders

**4 Helpful hint**

The majority of the FTSE 100 now have a shareholding policy for executive directors and it is helpful to disclose the extent to which this has been met

**Prudential plc****4 Shareholding guidelines**

As a condition of serving, all executive and non-executive directors are currently required to have beneficial ownership of 2,500 ordinary shares in the Company. This interest in shares must be acquired within two months of appointment to the Board if the director does not have such an interest upon appointment.

Non-executive directors also use a proportion of their fees to purchase additional shares in the Company on a quarterly basis.

Executive directors should have a substantial shareholding which should be build up over a period of five years. Shares earned and deferred under the annual incentive plan are included in calculating the executive director's shareholding.

Until the guideline is met, at least half the shares released from long-term incentive awards after tax should be retained by the executive director.

	Guideline Shareholding policy - after five years	Shareholding at 18 March 2009 as a % of salary*
Clark Manning	1 x salary	83
Michael McLintock†	2 x salary	597
Nick Prettejohn	1 x salary	74
Barry Stowe‡	1 x salary	82
Tidjane Thiam	1 x salary	131
Mark Tucker†	2 x salary	172

\*Based on the share price as at 31 December 2008 (£4.165)

† With an interim target of 1 x salary after three years

‡ Shareholdings for Barry Stowe include American Depositary Receipts (ADRs). One ADR is equivalent to two Prudential plc shares.

# Remuneration

## 5.1 The level and make-up of remuneration

### Non-executive directors' fees

#### Lloyds Banking Group plc

##### Independent Non-executive directors' fees

The fees of the independent non-executive directors are agreed by the board within a total amount determined by the shareholders. To accommodate a potentially larger board following the acquisition of HBOS, a resolution was passed at the General Meeting on 19 November 2008 to increase this amount to £1 million. Directors may also receive fees, agreed by the board, for membership

of board committees. The fees are designed to recognise the various responsibilities of a non-executive director's role and to attract individuals with relevant skills, knowledge and experience. The fees are neither performance related nor pensionable and are comparable with those paid by other companies. The annual fees from 1 January 2009 are unchanged and are listed below.

5

Board	£65,000
Audit committee chairmanship	£50,000
Audit committee membership	£20,000
Nomination committee membership	£5,000
Remuneration committee chairmanship	£30,000
Remuneration committee membership	£15,000
Risk oversight committee membership	£15,000

Independent non-executive directors who serve on the boards of subsidiary companies may also receive fees from the subsidiaries.

#### Helpful hint

5

Provide information on the policy for determining non-executive directors' fees

## 5.1 The level and make-up of remuneration

## External appointments

**6 Helpful hint**

Comprehensive disclosure of external appointments can provide insight into the company's commitment to corporate social responsibility

**Standard Life plc****6 Our policy on external appointments**

Subject to the Board's approval, executive Directors are able to accept a limited number of external appointments to the boards of other organisations.

During 2008, Sir Sandy Crombie was a member of the board of the Association of British Insurers (ABI), a trustee of The Stewart Ivory Foundation (to 29 May 2008), Chairman of the Edinburgh World City of Literature Trust, a director of the Royal Scottish Academy of Music and Drama, the Prince's Ambassador for Corporate Social Responsibility in Scotland (to 30 May 2008), and a member of the Chancellor of the Exchequer's High Level Group on Financial Services. He did not receive any fees for these appointments.

David Nish is a non-executive director of Northern Foods plc and received fees of £41,000 in respect of 2008. It is our policy that he can retain these fees. He was also a non-executive director of the Royal Scottish National Orchestra to 22 August 2008 and received no fees for this work.

Keith Skeoch is a member of the boards of the Association of British Insurers (ABI) and the Investment Management Association. He became a member of the Advisory Board of Reform Scotland in August 2008. He received no fees for these appointments.

# Remuneration

## 5.1 The level and make-up of remuneration

### Service contracts and Compensation

#### Imperial Tobacco Group PLC

##### Remuneration Arrangements for Former Executive Directors

###### Dr F A Rogerson

Dr F A Rogerson resigned as a director on 27 June 2007 for personal and private reasons. Under his contract of employment, Dr Rogerson was required to give 12 months' notice to terminate his employment. Dr Rogerson completed a handover period and was on compassionate leave until 27 June 2008, when his employment terminated.

**7** Dr Rogerson was excluded from the 2007/2008 bonus scheme and did not receive any bonus payment in respect of that bonus year. He was also excluded from any invitations to the LTIP and SMS from his Board resignation date.

The Remuneration Committee agreed that the awards granted to Dr Rogerson under

the LTIP and the shares awarded to him under the SMS would vest, to the extent that the applicable performance conditions were satisfied, pro rata for the period up to 31 December 2007.

No compensation has been paid to Dr Rogerson in connection with the termination of his employment.

Dr Rogerson opted out of pension fund membership as regards future service accrual as a result of registering for enhanced protection with HMRC from 6 April 2006. Dr Rogerson was in receipt of a salary supplement in lieu of future pension service accrual of 16.4 per cent of salary. This amount was a non-pensionable payment. It was agreed with Dr Rogerson that this salary supplement ceased to be paid on 30 December 2007 and that no salary supplement would be paid for the remainder of his notice period.

#### Standard Life plc

##### Policy on executive contracts

[...]

###### Trevor Matthews

Trevor Matthews tendered his resignation as a Director and as Chief Executive of UK Financial Services on 29 January 2008. He had a six-month notice period and therefore ceased to be a Standard Life employee on 28 July 2008. During

2008 he received his salary, pension allowance and benefits (with a total value of £337,912) and a cash bonus of £457,425 in respect of 2007. The 2005 LTIP vested on 12 March 2008 and at the date of exercise (13 March 2008) the total value of his options was £459,263.

Trevor will not receive an annual bonus in respect of 2008 and he was not granted an LTIP award in 2008. Further, he forfeited his 2006 and 2007 LTIP awards and no compensation was paid to him.

#### Helpful hint

7

Disclose background to termination of contract and any compensation or similar arrangements

**Technical requirements****Combined Code (2008)****B.2 Procedure****Main principle**

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.

**Supporting principles**

The remuneration committee should consult the chairman and/or chief executive about their proposals relating to the remuneration of other executive directors. The remuneration committee should also be responsible for appointing any consultants in respect of executive director remuneration. Where executive directors or senior management are involved in advising or supporting the remuneration committee, care should be taken to recognise and avoid conflicts of interest.

The chairman of the board should ensure that the company maintains contact as required with its principal shareholders about remuneration in the same way as for other matters.

**Code provisions**

B.2.1 The board should establish a remuneration committee of at least three, or in the case of smaller companies two, 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. The remuneration committee should make available its terms of reference, explaining its role and the authority delegated to it by the board. Where remuneration consultants are appointed, a statement should be made available of whether they have any other connection with the company.

B.2.2 The remuneration committee should have delegated responsibility for setting remuneration for all executive directors and the chairman, including pension rights and any compensation payments. The committee should also recommend and monitor the level and structure of remuneration for senior management. The definition of "senior management" for this purpose should be determined by the board but should normally include the first layer of management below board level.

B.2.3 The board itself or, where required by the Articles of Association, the shareholders should determine the remuneration of the non-executive directors within the limits set in the Articles of Association. Where permitted by the Articles, the board may however delegate this responsibility to a committee, which might include the chief executive.

B.2.4 Shareholders should be invited specifically to approve all new long-term incentive schemes (as defined in the Listing Rules) and significant changes to existing schemes, save in the circumstances permitted by the Listing Rules.

**Current themes**

It is increasingly common for larger companies to include a summary of the Remuneration Committee's remit in the remuneration report, bringing this to life by including details of the matters discussed at each meeting.

Although there is currently no requirement for companies to disclose details of remuneration of individuals other than for

Board members, some companies have taken the initiative to disclose details for senior management in bands. This is likely to become a requirement for banks and other financial industry entities once the recommendations of the Walker Review are enacted.

# Remuneration

## 5.2 Procedure

### Remit of remuneration committee

#### Lonmin Plc

##### Remuneration Committee

##### 1 Role of the Remuneration Committee

The Remuneration Committee is a formal committee of the Board and has powers delegated to it under the Articles of Association. Its remit is set out in terms of reference formally adopted by the Board which were last reviewed in November 2005.

A copy of the terms of reference is available on the Company's website. The Committee's main responsibilities are to:

- Make recommendations to the Board on the Company's executive remuneration policy;

- Determine individual remuneration packages within that policy for the executive Directors and certain senior executives;
- Oversee the operation of the Company's incentive schemes;
- Review Directors' expenses; and
- Oversee the Company's executive pension arrangements,

all of which it carries out on behalf of the Board.

#### British Airways Plc

##### 1 Committee and advisers

[...]

The Committee's main duties can be summarised as:

- To determine the framework or broad policy for the remuneration of the Chairman, the executive directors and the other members of the Management Team including incentive compensation plans and equity based plans;
- Within the terms of the agreed policy, to determine the total remuneration packages for the Chairman, the executive directors and the other members of the Management Team; and
- To determine the policy for and scope of pension arrangements, service agreements, termination payments and compensation commitments, undertaking direct supervision of such matters in relation to the executive directors and the other members of the Management Team.

#### Helpful hint

1

It is useful to include a concise summary of the main responsibilities of the remuneration committee in the remuneration report

**2 Helpful hint**

A summary of the cycle of regular decision-making and additional ad hoc matters discussed provides insight into the remuneration committee's approach

**Aviva plc****2 Table 2: Matters discussed by the Committee during its 2008 meetings**

Meeting	Standing agenda items	Other agenda items
January	– None	– Consideration of proposals for the creation of a "One Aviva, Twice the Value" Bonus Plan (OATTV)
February (Twice)	<ul style="list-style-type: none"> <li>– A review of EDs' basic salaries and benefits in kind</li> <li>– Consideration and approval of EDs' bonus awards for 2007 and approval of share awards under the Annual Bonus Plan (ABP)</li> <li>– A review and approval of LTIP grants to the EDs and approval of the performance conditions for the 2008 grants</li> <li>– A performance test of subsisting LTIP grants</li> <li>– A decision on the operation of the UK's All Employee Share Ownership Plan and the Hibernian's All Employee Share Scheme</li> <li>– A review of dilution limits</li> <li>– A review and approval of recommendations on contributions into the Aviva Capital Accumulation Plan (ACAP)</li> <li>– Approval of the 2007 Directors' Remuneration Report</li> </ul>	– Approval of revised proposals for the OATTV plan
April	– None	– A review and approval of grants under the OATTV plan
June	– None	– Approval of Mark Hodges' appointment terms as an ED
July	<ul style="list-style-type: none"> <li>– Approval of the performance targets for the US Long-Term Incentive Plan</li> <li>– A review of EDs' bonus targets following a rebase for exchange rates and capital assumptions</li> <li>– Approval of an invitation to UK employees to participate in a Save As You Earn scheme</li> </ul>	<ul style="list-style-type: none"> <li>– A review of the proposed Aviva Investors' reward strategy</li> <li>– Consideration of EDs' 2008 bonus targets</li> </ul>
August	– None	– Further consideration of EDs' 2008 bonus targets
September	– None	<ul style="list-style-type: none"> <li>– Review of a paper on the proposed approach to future targets given Aviva's move from an EEV to an MCEV basis for reporting results</li> <li>– A review of market practice on NED shareholding requirements</li> <li>– A review of Aviva's remuneration for its senior management below ED level</li> </ul>
December	<ul style="list-style-type: none"> <li>– Approval of the proposed 2009 financial and employee targets for the operation of the Annual Bonus Plan</li> <li>– Comment upon and noting of the EDs' personal objectives for 2009</li> <li>– A review of the proposed approach to the 2008 Directors' Remuneration report</li> <li>– An update on progress with the Committee's 2008 and proposed 2009 work plans</li> </ul>	<ul style="list-style-type: none"> <li>– Note the final Aviva Investors' Reward Strategy</li> <li>– Consideration of the findings of a review of remuneration in Aviva's US business</li> <li>– A review of the Executive Remuneration regulatory environment</li> </ul>

# Remuneration

## 5.2 Procedure

### Remuneration committee advisors

#### Anglo American plc

The Company's chief executive attends the Committee meetings by invitation and assists the Committee in its considerations, except when issues relating to her own compensation are discussed. No directors are involved in deciding their own remuneration. In 2008, the Committee was advised by the Company's Human Resources and Finance functions and, specifically, Russell King, Mervyn Walker and Chris Corrin. It also took external advice as shown in Figure 1.

Certain overseas operations within the Group are also provided with audit and non-audit related services from PwC's, Mercer's and Deloitte's worldwide member firms.

A summary of the letter from Mercer containing the conclusions of their review of the Committee's executive remuneration process for 2008 can be found on page 79, while the full letter can be found on the Company's website.

#### Helpful hint

3

It is a legislative requirement to disclose whether advisors were appointed by the remuneration committee and the other services provided by the advisor to the company. This is particularly clear in tabular format

Figure 1: External advice provided to the Remuneration Committee

Advisers	Services provided to the Committee	Other services provided to the Company
PricewaterhouseCoopers LLP (PwC)	Appointed by the Company, with the agreement of the Committee, to provide specialist valuation services	Investment advisers, actuaries and auditors for various pension schemes; advisers on internal audit projects and the adoption of International Financial Reporting Standards; taxation, payroll and executive compensation advice
Monks Partnership (a subsidiary of PwC)	Appointed by the Company, with the agreement of the Committee, to provide market remuneration data	
Linklaters LLP (Linklaters)	Appointed by the Company, with the agreement of the Committee, to provide legal advice on long-term incentives and directors' service contracts	Legal advice on certain corporate matters
Mercer Limited (Mercer)	Engaged by the Committee to review the Committee's processes on an annual basis, in order to provide shareholders with assurance that the remuneration processes the Committee has followed are in line with stated policy and that the Committee has operated within its Terms of Reference	Investment advisers and actuaries for various pension schemes
Deloitte LLP (Deloitte)		In their capacity as Group auditors, Deloitte undertakes an audit of sections 10 and 11 of the remuneration report annually. However, they provide no advice to the Committee

3

### Technical requirements

#### DRRR/Schedule 8 SI 2008/410

The DRRR/Schedule 8 SI 2008/410 contain the detailed statutory disclosure requirements for listed UK companies, with a particular focus on forward-looking policy.

#### Listing Rules of the UKLA

#### LR 9.8.6: disclosure of directors' interests in shares

This is a snapshot of each director's shareholding at the balance sheet date together with information regarding any transactions in shares between that date and a month prior to the AGM.

#### LR 9.8.8: Annual report – additional requirements

Statement of company's policy on grant of long-term incentive awards explaining and justifying any departure from the stated policy and any changes to the policy from the previous year.

Different disclosures for executive directors' benefits under defined benefit pension schemes from those required by the DRRR/Schedule 8 SI 2008/410.

### Current themes

The Walker Review of banks and other financial industry entities has increased the focus on the remuneration of the next tier of management and has recommended that companies be required to disclose (in aggregate) the remuneration of "high end" individuals (being those in positions of significant influence whose total expected remuneration exceeds £1 million).

For financial years beginning on or after 6 April 2009, listed UK companies will be required to state how the remuneration committee has taken into account pay and conditions elsewhere in the group when setting executive director remuneration.

It is a requirement of the disclosure legislation that listed companies explain the relative importance of fixed and variable remuneration for each director. This disclosure varies markedly in its usefulness but is potentially one of the most powerful in the remuneration report.

# Remuneration

## 5.3 Disclosure

### Role in senior management remuneration

#### Lonmin Plc

Senior executives and managers based in South Africa are offered a wage equating to the market norm of 'total cost to company' (TCTC), with all benefits in kind converted into a cash allowance within this structure. Participation in short and long-term incentive schemes is in addition to TCTC.

Not including the executive Directors, at the end of 2009 the remuneration of 14 other senior executives, the majority of

whom are employed in South Africa, fall within the purview of the Remuneration Committee (compared to 26 executives at the end of 2008). This reduction in numbers is as a result of the restructuring programme undertaken during 2009. The base salaries of those individuals based in the United Kingdom and the TCTC remuneration of individuals employed in South Africa fall within the following bands:

#### Helpful hint

1

Some disclosure of the remuneration of the next tier of management is desirable but for financial sector companies this will almost certainly be a requirement for 2010 reports

Salary band £000	Number of executives
£100 to £150	3
£150 to £200	3
£200 to £250	6
£250 to £300	1
£300 to £350	1

These executives also participate in the same long-term and short-term incentive arrangements as the executive Directors although with lower grant levels.

#### Imperial Tobacco Group PLC

	2009 £'000	2008 £'000
<b>Chief Executive's Committee</b>		
Base salary	1,342	906
Benefits	74	29
Pension salary supplement	99	43
Bonus	819	572
LTIP annual vesting <sup>1</sup>	285	282
SMS annual vesting <sup>2</sup>	369	215
	<b>2,988</b>	<b>2,047</b>

- Value of LTIP shares vesting in the year based on the prevailing closing share price on the day of exercise.
- Value of SMS shares vesting on maturity based on the prevailing closing share price on the day of vesting.

**1 Helpful hint**

Some disclosure of the remuneration of the next tier of management is desirable but for financial sector companies this will almost certainly be a requirement for 2010 reports

**Rio Tinto plc****Executive Remuneration**

Rio Tinto is subject to a number of different reporting requirements for the contents of this Remuneration report. Whilst UK disclosure requirements relate to the directors, the Australian Corporations Act and regulations both require disclosures for “key management personnel”. The Australian Corporations Act also requires disclosures in respect of the five highest paid executives below board level.

**1** The board has considered the definition of “key management personnel” and has decided that, in addition to the executive and non executive directors, they comprise the product group chief executives and the Group executive Business Resources.

The board also considered the definition of five highest paid executives below board level and has decided that, based on the

criteria to determine this group of senior management, these executives will be selected from a population comprising key management personnel and members of the Rio Tinto executive committee. In addition to the key management personnel, the following members of senior management are therefore included in this report: Hugo Bague, global head of Human Resources, Debra Valentine, global head of Legal and Grant Thorne, Group executive Technology and Innovation.

Throughout this report, the executive directors, product group chief executives, Group executive Business Resources and the five highest paid executives below board level will collectively be referred to as the “executives”.

# Remuneration

## 5.3 Disclosure

### Key management compensation

#### Imperial Tobacco Group PLC

##### Key management compensation for the year ended 30 September 2009 (audited)

	2009 £'000	2008 £'000
Short term employee benefits	9,427	7,609
Post-employment benefits	378	364
Other long term benefits	-	-
Termination benefits	-	-
Share-based payment	3,688	3,265
	<b>13,493</b>	<b>11,238</b>

2

#### Helpful hint

2

Under IAS 24 'Related party disclosures' companies are required to disclose the aggregate remuneration of key management personnel in specified categories as opposed to bands, as proposed by Walker

## Service contracts and Compensation

**3 Helpful hint**

Tables convey more information, more clearly than narrative disclosures

**Standard Life plc****Policy on executive contracts**

The current executive Directors' service contracts were issued in 2006 and the Remuneration Committee continues to believe that they strike the right balance

between the company's interests and those of the executive Directors. Consistent with our remuneration principles they comply with best practice.

The main terms are:

<b>3</b>	<b>Provision</b>	<b>Policy</b>								
	Notice periods	<ul style="list-style-type: none"> <li>• Six months by the Director</li> <li>• 12 months by the Company or alternatively a payment in lieu of notice can be paid</li> </ul>								
	Termination payment	<ul style="list-style-type: none"> <li>• Any payment in lieu of notice will be up to 12 months' salary, pension contributions and the value of other contractual benefits</li> <li>• A duty to mitigate applies</li> <li>• The payment may be made in phased instalments and the policy is to do this for notice periods in excess of 6 months</li> <li>• Rights to bonus and existing LTIP awards are governed by the rules of the respective plans</li> </ul>								
	Remuneration	<ul style="list-style-type: none"> <li>• Salary, pension and benefits are mentioned in the contracts and are treated as described above</li> <li>• There is no contractual entitlement to annual bonus and LTIP awards and instead individuals are told of these discretionary schemes at the beginning of each year</li> </ul>								
	Non-compete	<ul style="list-style-type: none"> <li>• Apply during the contract and for up to 6 months after leaving at the Company's choice</li> </ul>								
	Contract dates	<table> <tbody> <tr> <td>Sir Sandy Crombie</td> <td>31 March 2006</td> </tr> <tr> <td>David Nish</td> <td>31 October 2006</td> </tr> <tr> <td>Keith Skeoch</td> <td>3 April 2006</td> </tr> <tr> <td>Trevor Matthews</td> <td>9 April 2006 (but now expired)</td> </tr> </tbody> </table>	Sir Sandy Crombie	31 March 2006	David Nish	31 October 2006	Keith Skeoch	3 April 2006	Trevor Matthews	9 April 2006 (but now expired)
Sir Sandy Crombie	31 March 2006									
David Nish	31 October 2006									
Keith Skeoch	3 April 2006									
Trevor Matthews	9 April 2006 (but now expired)									

# Remuneration

## 5.3 Disclosure

### Forward-looking elements of remuneration policy

#### Unilever PLC

Element	Payment vehicle	Value determination	Plan objectives/Key drivers
<b>FIXED</b>			
Base salary	Cash	Market Median	Attraction and retention of high performing executives
Pension	Cash	All-employee pension arrangement in home country Bonus not pensionable	Attraction and retention of high performing executives
<b>VARIABLE</b>		<b>Indicative levels at face value as % of base pay</b>	
Annual incentive	Cash (75%) Shares (25%)	Executive Directors: target 87% (range 0%-150%) Chief Financial Officer: target 93% (range 0%-160%) Chief Executive Officer: target 113.3% (range of 0% - 200%)	Delivery of trading contribution (Unilever's primary internal measure of economic value added - see page 62) and top-line growth targets  Individual responsibility for key Unilever business targets
Global Share Incentive Plan	Shares	Grant level in 2008 for: Chief Financial Officer 340% Chief Executive Officer around 170%  Vesting level: 0% - 200% of grant, at end of 3 year performance period subject to the satisfaction of the performance conditions	Total shareholder return at upper half of peer group (see page 62)  Ungearred Free Cash Flow as the basic driver of Unilever's shareholder returns  Top-line revenue growth as essential to Unilever's long-term value creation
Share Matching Plan	Shares	25% of annual incentive is paid in shares, these shares are matched one for one	Alignment with shareholders' interests

3

#### Helpful hint

3

Tables convey more information, more clearly than narrative disclosures

4

#### Helpful hint

4

Clarity on the fixed:variable pay ratio emphasises link to future performance and alignment with shareholders' interests

### Relative importance of fixed and variable pay

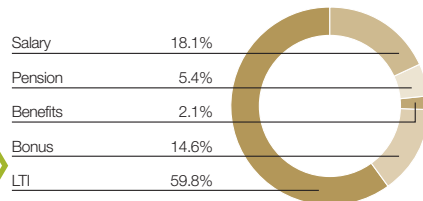
#### 4 Helpful hint

Clarity on the fixed:variable pay ratio emphasises link to future performance and alignment with shareholders' interests

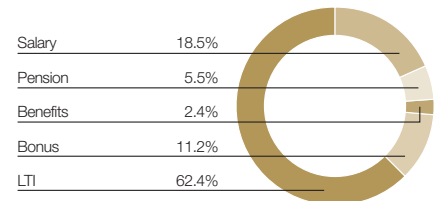
### SABMiller plc

	Salary £	Retirement £	Benefits £	Bonus £	LTI £	Total £	Fixed %	Variable %
EAG Mackay	1,100,000	330,000	129,615	888,000	3,635,505	6,083,120	25.6	74.4
MI Wyman	660,000	198,000	86,254	400,000	2,230,229	3,574,483	26.4	73.6

#### Performance-related compensation EAG Mackay



#### MI Wyman



# Remuneration

## 5.3 Disclosure

### Long-term incentive plan (LTIP) arrangements

#### Dana Petroleum plc

Feature	CEO	FD	T&C Director	Note
Maximum Annual Grant %age of Salary	400%	200%	200%	
2008 LTIP Grant:				
- Face Value	£2,748,000	£620,000	£580,000	This LTIP grant was made on 9th October 2008 based on a market price of £9.32 per share and formed part of the 2008 Executive remuneration package.
- Face Value %age of Salary	400%	200%	200%	
- Fair Market Value	£1,558,000	£351,000	£329,000	
- Fair Market Value %age of Salary	227%	113%	113%	
- Number of Executive Shares purchased by the Executive	43,490	9,812	9,179	
Shareholding to be established over five years %age of salary (year end shareholding %age of 2008 salary in brackets)	400% (1,509%)	200% (357%)	200% (111%)	The Remuneration Committee introduced a Shareholding Guideline in conjunction with the new LTIP to encourage a minimum level of shareholding amongst all the Executive Directors to further align their interests with those of shareholders.

5

#### Helpful hint

5

Clear disclosure of face and fair values of awards together with number of shares provides comprehensive explanation of LTIP grant

**6 Helpful hint**

The levels of non-executive directors' fees have risen substantially in recent years; clear disclosure of the amounts paid is important, including the breakdown for membership of committees or subsidiary boards

**Lloyds Banking Group plc**  
 2008 non-executive directors' fees (£)

	Lloyds TSB Group					LTSBS*	SW**	2008 Total fees
	Board	Audit committee	Remuneration committee	Nomination committee	Risk oversight committee	Board	Board	
W C G Berndt	65,000		30,000	5,000				100,000
Ewan Brown	65,000	30,568			15,000	11,568		122,136
J P Du Plessis	65,000	39,432		5,000	9,715			119,147
P N Green	65,000	20,000	15,000					100,000
Sir Julian Horn-Smith	65,000		15,000	5,000	15,000			100,000
Lord Leitch	65,000	20,000		5,000	15,000		60,000	165,000
Sir David Manning	43,333		10,000	3,333	10,000			66,666
C J McCall	16,250							16,250
M A Scicluna	21,666	6,667			5,000			33,333

\*Lloyds TSB Scotland plc

\*\*Scottish Widows Services Ltd

# Remuneration

## 5.3 Disclosure

### Non-executive directors' fees

#### Standard Life plc

##### 6 Policy on fees

It is Standard Life's policy to set the fees for its Chairman and the other non-executive Directors so that they reflect the time commitment in preparing and attending meetings, the responsibility and duties of the position and the contribution that is expected from them. As such regard is had to the level of fees paid to other non-executive directors in FTSE 100 financial services companies and the policy is to pay a market rate. This is reviewed annually.

For non-executive Directors, the individual fees are constructed by taking a base fee (£57,500 in 2008) and adding extra fees for chairing committees and subsidiaries where this is expected to involve a greater responsibility and time commitment.

The Board sets the fees for the Chairman and the other non-executive directors. It receives a recommendation from the Remuneration Committee, which has consulted with the Group Chief Executive,

in respect of the Chairman's fee and a recommendation from the Group Chief Executive for the fees of the other non-executive Directors. In January 2009 the Remuneration Committee reviewed the Chairman's fee taking into account the time commitment of the role, the responsibilities of the position and his personal performance. It was aware that for historical reasons that were more applicable to the Group's position prior to demutualisation, the Chairman's fee was set at a figure that did not reflect the present day role of a Chairman of a FTSE 100 financial services company. This was confirmed by third party market data. To address this anomaly the Remuneration Committee recommended to the Board an increase to the annual fee from £285,000 to £330,000. The Board accepted this recommendation. In conjunction with this the Remuneration Committee recommended, and the Board accepted, the introduction of a share ownership guideline for the Chairman, which is described below.

#### Helpful hint

6

The levels of non-executive directors' fees have risen substantially in recent years; clear disclosure of the amounts paid is important, including the breakdown for membership of committees or subsidiary boards

The fee levels are:		Additional fees are:	
Chairman's fee	£330,000	Senior Independent Director	£15,000
Non-executive director base fee	£60,000	Chairman of Audit, Risk and Compliance Committee	£25,000
		Chairman of Remuneration Committee	£15,000
		Chairman of subsidiary company	£15,000

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<b>Best practice examples</b>	<b>7</b>	4.1 Dialogue with institutional shareholders	101
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# Main changes introduced by the Combined Code (2008)

On 27 June 2008 the Financial Reporting Council (FRC) released a new version of the Combined Code on Corporate Governance. The Combined Code (2008) is applicable for accounting periods commencing on or after 29 June 2008 and contains only a small number of amendments, which are as follows:

- To remove the restriction in provision A.4.3 on an individual chairing more than one FTSE 100 company. This restriction was felt to be over-prescriptive and to focus narrowly on the holding of other company chairmanships in certain listed companies. It was also recognised that provision A.4.3 already has safeguards in place regarding the time commitment of the chairman
- For listed companies outside the FTSE 350, to amend provision C.3.1 to allow the company chairman to be a member of, but not chair, the audit committee provided that he or she was considered independent on appointment as chairman. This relaxation is intended to assist smaller companies meet the Code's recommendations on the composition of the audit committee. However, membership of the company chairman would be in addition to a minimum of two independent non-executive directors
- Schedule C to the Combined Code has been revised to acknowledge that the Financial Services Authority's Disclosure Rules and Transparency Rules (DTR) now include certain Corporate Governance disclosure requirements (also for periods commencing on or after 29 June 2008 - see Appendix 2 for further detail). Schedule C has also been amended to reflect that eight of its provisions now overlap with the DTR requirements and the overlapping provisions are set out in an Appendix to Schedule C (see Appendix 3)

- The Preamble to the Code has been revised to reflect some of the findings of the FRC's 2007 review of the impact and implementation of the Combined Code (2006), which were outlined in Appendix 1 to 'Best Practice Corporate Governance Reporting - November 2007'. In particular, the preamble now provides guidance for companies to assist them in making the statement required by Listing Rule 9.8.6 R(5) of how the Combined Code's main principles have been applied.

So A.4.3 now reads:

- For the appointment of a chairman, the nomination committee should prepare a job specification, including an assessment of the time commitment expected, recognising the need for availability in the event of crises. A 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 their impact explained in the next annual report.

And C.3.1 now reads:

- The board should establish an audit committee of at least three, or in the case of smaller companies two, independent non-executive directors. In smaller companies the company chairman may be a member of, but not chair, the committee in addition to the independent non-executive directors, provided he or she was considered independent on appointment as chairman. The board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience.

# Main changes introduced by the revised Disclosure Rules and Transparency Rules (DTR) issued by the Financial Services Authority

On 27 June 2008, the Financial Services Authority (FSA) released revisions to the Listing Rules and the Disclosure Rules and Transparency Rules (DTR) to implement amendments to the EU Company Law 4th and 8th Directives and to make other minor changes. The revisions apply for periods commencing on or after 29 June 2008.

As a result, a new section relating to corporate governance has been inserted into the DTR. The main elements are:

- Requirement to have an audit committee

Certain companies are required to have an audit committee (or a body performing equivalent functions). At least one member must be independent and at least one member (who may, but need not be, the same person) must have competence in accounting and/or auditing

- Requirement to have a corporate governance statement

Certain companies will be required to present a separate corporate governance statement. It may be included as part of the directors' report or separately issued to accompany the annual report and accounts or may be made available on the company's website, and if so, cross-references must be made to it in the directors' report.

The DTR contains a number of required disclosures in the corporate governance statement listed below:

The corporate governance statement must contain a reference to:

- any corporate governance code to which the company is subject
- any corporate governance code which the company may have voluntarily decided to apply
- where that code is publicly available

- all relevant information about the corporate governance practices applied beyond the requirements under national law
- an explanation of any departure from any corporate governance code applied.

In addition the corporate governance statement must contain:

- a description of the main features of the company's internal control and risk management systems in relation to the financial reporting process
- certain information resulting from the EU Takeover Directive relating to share capital
- a description of the composition and operation of the company's administrative, management and supervisory bodies and their committees.

It should be noted that it is technically possible to have an audit committee with one independent member but while this would satisfy the DTR requirement the company would need to explain its departure from the Combined Code.

Where a company is required to prepare a group directors' report, DTR 7.2.10 R requires that the report should include a description of the main features of the group's internal control and risk management systems in relation to the financial reporting process for consolidated accounts.

The interaction between the requirements of the DTR and other UK legislation and guidance is considered in Appendix 3.

# Overlap provisions between the DTR, the Combined Code (2008) and UK legislation

As there is some overlap between the mandatory disclosures required under the Financial Services Authority's Disclosure Rules and Transparency Rules (DTR) and those expected under the Combined Code, the DTR clarify that compliance with the relevant provisions of the Combined Code will result in compliance with the relevant Rules. However, where a company chooses to "explain" rather than "comply" with any of these overlapping provisions, then such departure from the Combined Code may result in a breach of the DTR.

The following table lists the Audit Committee and Corporate Governance disclosure requirements of the DTR and outlines the extent of overlap with existing UK legislation and guidance.

Disclosure Rules and Transparency Rules	Combined Code
<b>DTR 7.1.1 R</b>	<b>Provision C.3.1</b>
<i>Sets out minimum requirements on composition of the audit committee or equivalent body.</i>	<i>Sets out recommended composition of the audit committee.</i>
<b>DTR 7.1.3 R</b>	<b>Provision C.3.2</b>
<i>Sets out minimum functions of the audit committee or equivalent body.</i>	<i>Sets out the recommended minimum terms of reference for the committee.</i>
<b>DTR 7.1.5 R</b>	<b>Provision A.1.2</b>
	<i>The annual report should identify members of the board committees.</i>
	<b>Provision C.3.3</b>
	<i>The annual report should describe the work of the audit committee. Further recommendations on the content of the audit committee report are set out in the FRC Guidance on audit committees.</i>
<i>DTR 7.1.7 R states that compliance with Code provisions A.1.2, C.3.1, C.3.2 and C.3.3 will result in compliance with DTR 7.1.1 R to DTR 7.1.5 R.</i>	

# Overlap provisions between the DTR, the Combined Code (2008) and UK legislation

Disclosure Rules and Transparency Rules	Combined Code
<b>DTR 7.2.5 R</b>	<b>Provision C.2.1</b>
<i>The corporate governance statement must include a description of the main features of the company's internal control and risk management systems in relation to the financial reporting process.</i>	<i>The Board must report that a review of the effectiveness of the internal control system has been carried out. Further recommendations on the content of the internal control statement are set out in the Turnbull Guidance.</i>
<i>While the DTR requirement differs from the recommendation in the Combined Code, it is envisaged that both could be met by a single internal control statement.</i>	

### DTR 7.2.5 R – guidance on disclosure

While the DTR does not require a second, separate statement on internal control, it is likely to result in additional disclosures around internal control in relation to the financial reporting process.

### A - Technical requirement and background

The corporate governance statement must contain a description of the main features of the issuer's internal control and risk management systems in relation to the financial reporting process. (DTR 7.2.5 R)

Due to the small number of published examples of the disclosures related to this aspect of the DTR, we have set out below guidance on what topics might be covered to meet the requirement.

Our guidance utilises the COSO Internal Control Framework to group the main features of an entity's internal control and risk management systems in relation to the financial reporting process. Other frameworks or approaches could, however, be used. Clearly, companies will need to tailor the actual disclosures to their own circumstances.

We note that DTR 7.2.10 R requires an entity which is required to prepare a group directors' report to include in that report a description of the main features of the group's internal control and risk management systems in relation to the process for preparing consolidated accounts.

The Turnbull guidance (2005) for directors, which entities have been utilising for some years, states that "the annual report and accounts should include such meaningful, high-level information as the board considers necessary to assist shareholders' understanding of the main features of the company's risk management processes and system of internal control, and should not give a misleading impression".

In practice, the information provided in response to this guidance has generally focused on the two aspects of the guidance which are shaded below. The changes in disclosure are likely to relate largely to the remaining three aspects, which are more directly related to the financial reporting process.

# Overlap provisions between the DTR, the Combined Code (2008) and UK legislation

## B - Guidance on disclosure

The main features of the company's internal control and risk management systems in relation to the financial reporting process include:

- A control environment which sets the tone across the company, including policies and practices covering [expected standards of integrity and ethical values], [acceptable business practices], [compliance with other relevant legal and regulatory requirements], [delegation of authority], [appropriate attitudes and actions towards accounting and financial reporting including Board, Audit Committee and senior management team activities], [oversight of compensation and performance evaluation], [hiring, developing and retaining staff with the required capabilities]
- Risk assessment, business planning and financial reporting processes, including mechanisms to [identify, analyse and control the financial impact of risks to the company's objectives arising from internal and external sources], [prepare operational budgets for the following year and forecasts for subsequent years], [prepare period end financial reporting]
- Control activities including policies and practices covering [authorisation and approval of projects and transactions at the appropriate level], [accounting and financial reporting standards], [reviews of financial performance], [verifications], [reconciliations], [asset security], [segregation of duties]
- Information and communication systems and channels including established procedures to [identify and consolidate entities], [identify changes in accounting and financial reporting standards], [detect and report fraud and other improprieties], [communicate period end financial reporting deadlines], [address IT security], [respond to external communications]
- Ongoing monitoring activities and separate evaluations including [Internal Audit], [Board and Audit Committee review], [self-certification], [in-house performance reviews], [other assurance providers]

# Overlap provisions between the DTR, the Combined Code (2008) and UK legislation

Disclosure Rules and Transparency Rules	UK Legislation
<b>DTR 7.2.6 R</b>	<b>SI 2008/410 7 Sch 13</b>
<i>The corporate governance statement must contain the information required by paragraph 13(2)(c), (d), (f), (h) and (i) of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) (information about share capital required under Directive 2004/25/EC (the Takeover Directive)) where the issuer is subject to the requirements of that paragraph.</i>	<i>This paragraph applies to a company with securities carrying voting rights admitted to trading on a regulated market at the end of the reporting period.</i>
<i>These disclosure requirements are identical and all companies subject to DTR 7.2.6 R are subject to the equivalent requirement in Company Law. Note, however, that SI 2008/410 requires the information to be included within the directors' report whereas, if the corporate governance statement is not included within the directors' report, the DTR permit a cross-reference to this information in the directors' report to avoid the need for duplication.</i>	

Disclosure Rules and Transparency Rules	Combined Code
<b>DTR 7.2.7 R</b>	<b>Provision A.1.1</b>
<i>The corporate governance statement must include a description of the composition and operation of the administrative, management and supervisory bodies and their committees.</i>	<i>The annual report should include a statement of how the board operates.</i>
	<b>Provision A.1.2</b>
	<i>The annual report should identify members of the board and board committees.</i>
	<b>Provision A.4.6</b>
	<i>The annual report should describe the work of the nomination committee.</i>
	<b>Provision B.2.1</b>
	<i>A description of the work of the remuneration committee should be made available. [Note: in order to comply with DTR 7.2.7 R this information will need to be included in the corporate governance statement].</i>
	<b>Provision C.3.3</b>
	<i>The annual report should describe the work of the audit committee.</i>
<i>DTR 7.2.8 R states that compliance with Code provisions A.1.1, A.1.2, A.4.6, B.2.1 and C.3.3 will result in compliance with DTR 7.2.7 R.</i>	

# A summary of the Financial Reporting Council's guidance entitled 'Going concern and liquidity risk: Guidance for directors of UK companies 2009'

On 15 October 2009, the Financial Reporting Council (FRC) published in final form its updated Guidance on going concern for directors of UK companies to assist them with their assessment of going concern and in evaluating the nature and extent of disclosures. The final guidance, which is effective for accounting periods ending on or after 31 December 2009 is based on three principles, namely:

## Assessing going concern

- 1 Directors should make and document a rigorous assessment of whether the company is a going concern when preparing annual and half-yearly financial statements. The process carried out by the directors should be proportionate in nature and depth depending upon the size, level of financial risk and complexity of the company and its operations.

## The review period

- 2 Directors should consider all available information about the future when concluding whether the company is a going concern at the date they approve the financial statements. Their review should usually cover a period of at least twelve months from the date of approval of annual and half-yearly financial statements.

## Disclosures

- 3 Directors should make balanced, proportionate and clear disclosures about going concern for the financial statements to give a true and fair view. Directors should disclose if the period that they have reviewed is less than twelve months from the date of approval of annual and half-yearly financial statements and explain their justification for limiting their review period.

As well as these principles, the guidance provides a more detailed framework to assist directors, audit committees and finance teams, of all sizes of company, in determining whether it is appropriate to adopt the going concern basis for preparing financial statements (both annual and half-yearly) and in making balanced, proportionate and clear disclosures. As well as ISA 570, an Auditing Practices Board Bulletin (2009/4) of guidance is available to address the work of auditors in relation to going concern.

The guidance brings together, in one place, all the requirements of company law, accounting standards and the Listing Rules on going concern and liquidity risk for small, medium and large UK companies. It replaces the guidance issued in 1994 for directors of listed companies (entitled 'Going Concern and Financial Reporting: guidance for directors of listed companies registered in the UK') and the FRC material published in November 2008 entitled 'An update for directors of listed companies: going concern and liquidity risk' and 'An update for directors of companies that adopt the FRSSSE: going concern and financial reporting'.

**Admiral Group plc**

Annual report 2008  
Year ended 31/12/2008  
[www.admiralgroup.co.uk](http://www.admiralgroup.co.uk)

**Alliance Trust plc**

Report and Accounts 2009  
Year ended 31/01/2009  
[www.alliancetrust.co.uk](http://www.alliancetrust.co.uk)

**AMEC plc**

Annual report and accounts 2008  
Year ended 31/12/2008  
[www.amec.com](http://www.amec.com)

**Anglo American plc**

Annual Report 2008  
Year ended 31/12/2008  
[www.angloamerican.co.uk](http://www.angloamerican.co.uk)

**Associated British Foods plc**

Annual Report and Accounts 2009  
Year ended 12/09/2009  
[www.abf.co.uk](http://www.abf.co.uk)

**Aviva plc**

Annual Report and Accounts 2008  
Year ended 31/12/2008  
[www.aviva.com](http://www.aviva.com)

**Barclays PLC**

Annual Report 2008  
Year ended 31/12/2008  
[www.barclays.com](http://www.barclays.com)

**BHP Billiton Plc**

Annual Report 2009  
Year ended 30/06/2009  
[www.bhpbilliton.com](http://www.bhpbilliton.com)

**BP p.l.c.**

Annual Report and Accounts 2008  
Year ended 31/12/2008  
[www.bp.com](http://www.bp.com)

**British Airways Plc**

2008/09 Annual Report and Accounts  
Year ended 31/03/2009  
[www.bashares.com](http://www.bashares.com)

**British American Tobacco p.l.c.**

Annual Report 2008  
Year ended 31/12/2008  
[www.bat.com](http://www.bat.com)

**BTG plc**

Annual Report 2009  
Year ended 31/03/2009  
[www.btgplc.com](http://www.btgplc.com)

**Cadbury plc**

Annual Report & Accounts 2008  
Year ended 31/12/2008  
[www.cadbury.com](http://www.cadbury.com)

**Centrica plc**

Annual Report and Accounts 2008  
Year ended 31/12/2008  
[www.centrica.co.uk](http://www.centrica.co.uk)

**Dana Petroleum plc**

Annual Report and Accounts 2008  
Year ended 31/12/2008  
[www.dana-petroleum.com](http://www.dana-petroleum.com)

**Debenhams plc**

Annual Report and Accounts 2009  
Year ended 29/08/2009  
[www.debenhamsplc.com](http://www.debenhamsplc.com)

**Diageo plc**

Annual Report 2009  
Year ended 30/06/2009  
[www.diageo.com](http://www.diageo.com)

**DSG international plc**

Annual Report and Accounts 2008/09  
52 weeks ended 02/05/2009  
[www.dsgiplc.com](http://www.dsgiplc.com)

**FirstGroup plc**

Annual Report and Accounts 2009  
Year ended 31/03/2009  
[www.firstgroup.com](http://www.firstgroup.com)

**Friends Provident plc**

Annual Report & Accounts 2008  
Year ended 31/12/2008  
[www.friendsprovident.com](http://www.friendsprovident.com)

**Galliford Try plc**

Annual Report and Financial Statements 2009  
Year ended 30/06/2009  
[www.gallifordtry.co.uk](http://www.gallifordtry.co.uk)

**GlaxoSmithKline plc**

Annual Report 2008  
Year ended 31/12/2008  
[www.gsk.com](http://www.gsk.com)

**Great Portland Estates plc**

Annual Report 2009  
Year ended 31/03/2009  
[www.gpe.co.uk](http://www.gpe.co.uk)

**HSBC Holdings plc**

Annual Review 2008  
Year ended 31/12/2008  
[www.hsbc.com](http://www.hsbc.com)

**Imperial Tobacco Group PLC**

Annual Report and Accounts 2009  
Year ended 30/09/2009  
[www.imperial-tobacco.com](http://www.imperial-tobacco.com)

**International Personal Finance plc**

Annual Report and Financial Statements 2008  
Year ended 31/12/2008  
[www.ipfin.co.uk](http://www.ipfin.co.uk)

**Kingfisher plc**

Annual Report and Accounts 2008/09  
Year ended 31/01/2009  
[www.kingfisher.com](http://www.kingfisher.com)

**Lloyds Banking Group plc**

Annual Report and Accounts 2008  
Year ended 31/12/2008  
[www.lloydsbankinggroup.com](http://www.lloydsbankinggroup.com)

**Lonmin Plc**

Annual Report and Accounts  
Year ended 30/09/2009  
[www.lonmin.com](http://www.lonmin.com)

**Marks and Spencer Group plc**

Annual report and financial statements 2009  
Year ended 28/03/2009  
[corporate.marksandspencer.com](http://corporate.marksandspencer.com)

**Marshalls plc**

Annual Report 2008  
Year ended 31/12/2008  
[www.marshalls.co.uk](http://www.marshalls.co.uk)

**MITIE Group PLC**

Annual Report and Accounts 2009  
Year ended 31/03/2009  
[www.mitie.co.uk](http://www.mitie.co.uk)

**National Grid plc**

Annual Report and Accounts 2008/09  
Year ended 31/03/2009  
[www.nationalgrid.com](http://www.nationalgrid.com)

**Old Mutual plc**

Annual Report & Accounts 2008  
Year ended 31/12/2008  
[www.oldmutual.com](http://www.oldmutual.com)

**Prudential plc**

Annual Report 2008  
Year ended 31/12/2008  
[www.prudential.co.uk](http://www.prudential.co.uk)

**Rentokil Initial plc**

Annual report 2008  
Year ended 31/12/2008  
[www.rentokil-initial.com](http://www.rentokil-initial.com)

**Rio Tinto plc**

Annual report 2008  
Year ended 31/12/2008  
[www.riotinto.com](http://www.riotinto.com)

**Rolls-Royce Group plc**

Annual report 2008  
Year ended 31/12/2008  
[www.rolls-royce.com](http://www.rolls-royce.com)

**Royal Dutch Shell plc**

Annual Report and Form 20-F  
Year ended 31/12/2008  
[www.shell.com](http://www.shell.com)

**SABMiller plc**

Annual Report 2009  
Year ended 31/03/2009  
[www.sabmiller.com](http://www.sabmiller.com)

**Scottish and Southern Energy plc**  
Annual Report 2009  
Year ended 31/03/2009  
[www.scottish-southern.co.uk](http://www.scottish-southern.co.uk)

**Serco Group plc**  
Annual Review and Accounts 2008  
Year ended 31/12/2008  
[www.serco.com](http://www.serco.com)

**Severn Trent Plc**  
Annual Report and Accounts 2009  
Year ended 31/03/2009  
[www.severntrent.com](http://www.severntrent.com)

**Smiths Group plc**  
Annual report  
Year ended 31/07/2009  
[www.smiths.com](http://www.smiths.com)

**Smith & Nephew plc**  
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Other corporate  
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PricewaterhouseCoopers LLP

Corporate Governance and AIM  
Best practice corporate  
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(December 2009)

Best Practice Corporate  
Governance Reporting  
(December 2008)

Performance evaluation tools (for board,  
audit committee, remuneration  
committee and effectiveness of the  
external audit process)

Combined Code Disclosure Checklist

Governance Briefing (quarterly publication)

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