

From the Office of the Chairman

Richard L Olver FREng

02 July 2007

Sir Christopher Hogg
Chairman
Financial Reporting Council
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Dear Chris,

FRC CONSULTATION PAPER – COMBINED CODE

Thank you for sending me details of your review of the impact of the Combined Code and giving us the opportunity to input to the consultation.

The provisions in the Combined Code as currently drafted do not present us with any significant issues and overall I believe the Code is working well. With regards to some of the specific questions posed in the consultation document I can provide you with the following:

1. Does the code support better board performance over time?

I believe that it should do, if properly led and applied by the chairman. The annual performance evaluation and the succession planning requirements are perhaps the most important part of the Code in this respect.

The consultation paper highlights one of the key challenges within the UK corporate governance system, based as it is on a unitary board and a mix of both executive and non-executive directors. The paper refers to the challenge “to make the monitoring role of the non-executives effective but compatible with the Board’s cohesiveness”. The monitoring/supervisory role sits a little uneasily with the board acting as a whole, hence the importance of the Code in requiring formal and informal meetings of non-executives, ie the committee structure and other less formal NED-only meetings.

Because it combines both management and supervisory roles in one body, the UK governance model is quite sophisticated and highlights the importance of factors such as practice and behaviours, as well as the complex role of the chairman in co-ordinating the whole.

2. Is the “comply or explain” approach working effectively?

I believe so - on the whole. It is flexible and not unduly burdensome for companies whilst the alternative is either “black and white” based regulation (as in the US), or no regulation which is clearly unacceptable in a post Enron/Parmalaat world.

The burden on institutional shareholders in dealing with non-compliance explanations is mentioned. However, we should not underestimate the roles of providers of voting information which are highly effective in assisting shareholders to manage “comply or explain” governance. These agencies – specifically those which are willing to have a reasoned debate with companies to test the rationale behind “explain” - make the system manageable, and demonstrates a commercial response to a market need. However if these entities slipped into box ticking mode we would have a problem.

3. Do disclosures on the Combined Code in annual reports provide useful information to shareholders at proportionate cost to companies?

The main element of cost for us concerns the processes we have in place across the group to ensure that our board is about to make the statements required by the Code on internal controls. However, these are valuable control processes and if the Code disappeared tomorrow we would keep them in place - or at least something very similar. The cost associated with the internal controls compliance activities are, no doubt, lower than the costs associated with Sarbanes-Oxley compliance processes. Also, they are arguably better value for money in that they cover a wider spectrum of controls and the Code gives us the flexibility to match compliance activity with the needs of our particular businesses.

I hope that the above is of assistance. I look forward to seeing the output from the consultation in due course.

With kind regards.

Yours sincerely,



DICK OLVER