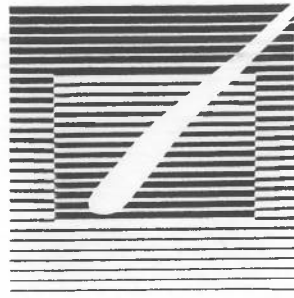


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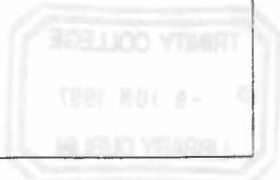


IRISH ASSOCIATION OF INVESTMENT MANAGERS



Statement of Best Practice
on the
Role and Responsibilities
of
Directors of Public Limited Companies

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GENERAL INTRODUCTION

In the last decade, the interpretation of the role and responsibilities of directors of Public Limited Companies has evolved significantly. This change has been brought about by statute law, case law and international trends in corporate governance. This process of change and some of its effects are now well documented.

In publishing a statement of best practice, the Irish Association of Investment Managers (IAIM) is seeking to give the Directors of Public Companies and their advisers a view on the expectations of institutional shareholders on:

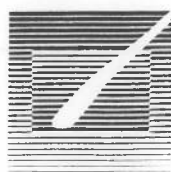
- the composition of Boards of Public Companies;
- the appointment of Directors;
- non-executive Directors;
- Audit Committees;
- Remuneration Committees;
- Boards of subsidiary companies;
- management buy-outs.

It is hoped that companies will accept the general thrust of this Statement of Best Practice and that, in the absence of special circumstances, its suggestions will be observed in company practice.

2. COMPOSITION OF BOARDS OF COMPANIES

The responsibilities of directors are well established in company law. In essence, directors have a fiduciary responsibility to act in good faith and to exercise care and skill in the short and long term interests of the company as a whole.

The Board of Directors is responsible and accountable for the performance of the company. The Board approves strategy, hires the Chief Executive and monitors and evaluates the performance of management.



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A well-balanced Board is a necessary pre-condition for good long-term corporate governance.

IAIM considers that:

- the roles of Chairman and Chief Executive should not be combined;
- there should be a majority of independent non-executive directors on the Board.

Independence is more likely to be assured when the director does not have an actual or potential conflict of interest e.g.

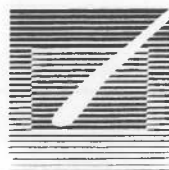
- is not retained as a professional adviser by the company;
- is not a significant supplier or customer to the company;
- has not been employed in any executive capacity by the company in the recent past;
- does not participate in any share option scheme within the company.

3. NON-EXECUTIVE DIRECTORS

Contribution of Independent Non-Executive Directors

Independent non-executive directors add considerably to all aspects of a Board's deliberations e.g.

- in presenting a detached, outside viewpoint when strategy is being debated;
- in setting or endorsing policies relating to all aspects of the business;
- in the appointment, remuneration and removal of the Chief Executive;
- in questioning the assumptions on which budgets and plans are based;
- in the choice of accounting policies and in the review and approval of all published financial statements;
- in monitoring the implementation of policy and achievement of results;
- when take-overs and mergers are being considered;
- in ensuring standards of probity in the company's dealings with all its stakeholders.



Remuneration of Non-Executive Directors

The value of non-executive directors is the independence and experience that they contribute to the deliberations of the Board. Their responsibility in law is indistinguishable from the executive director. They should receive appropriate remuneration to reflect their responsibilities and their contribution.

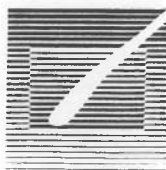
4. APPOINTMENT AND REMOVAL OF DIRECTORS

IAIM consider that, in addition to the provisions of the Companies Acts, the following should be adopted as good practice:

- all directors should retire in rotation at least every three years, and offer themselves for re-election if they so choose;
- brief biographical details of each director should be set out in the Annual Report showing the director's relevant experience and age. Information should also be given on any professional involvement that a director or his/her firm may have with the company.
- where a company's articles provide that a director may be dismissed from office by a written resolution of his/her co-directors, provision should also be made that these powers can only be exercised with the support of at least 75% of co-directors;
- in selecting non-executive directors for approval by shareholders, the Board as a whole (or a sub-committee of the Board) should be involved in the selection process.

5. AUDIT COMMITTEES

The importance of an Audit Committee has been recognised in a number of recent publications including those by the Boardroom Centre and the Report of the Financial Reporting Commission.



The Audit Committee facilitates the Board in carrying out its responsibilities primarily through:

- reviewing the accounting policies, financial statements and the financial reporting process;
- communicating with the external auditor throughout the audit process;
- reviewing the appointment of external auditors;
- reviewing the findings of the external auditors;
- reviewing the internal controls structure and the internal audit function;
- reviewing legal and other statutory obligations of the company;
- reviewing and monitoring exposures of all types e.g. financial exposures and computer systems security;
- reviewing, where appropriate, compliance with the corporate code of conduct;
- reporting back to the Board.

Composition of the Audit Committee

An effective audit committee must have the full support of the Board and must be independent of management. The IAIM considers that:

- companies should establish an audit committee comprised solely of non-executive directors;
- membership of the committee should be disclosed in the company's Annual Report.

6. REMUNERATION COMMITTEE

The IAIM considers that companies should establish a remuneration committee which should be comprised of non-executive directors and, where appropriate, the Chief Executive.



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The remuneration committee should

- determine the salaries and emoluments of executive directors, including participation in share option and profit sharing schemes and other incentivisation schemes;
- approve the service contracts of executive directors.

Disclosure in Annual Report

The IAIM considers that the following information should be disclosed in the Annual Report:

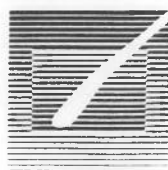
- the composition of the Remuneration Committee;
- a summary of all types of share options, profit sharing and other incentive schemes;
- details of any ex gratia payments to directors by way of compensation;
- a schedule setting out details of directors' total remuneration;
- a schedule setting out, in £5,000 bands, the total remuneration of top management.

7. SERVICE CONTRACTS

There should be an undertaking between the company and executive directors that they will not engage in, or have an interest in (except with the approval of the Board), any business similar to that carried on by any group company.

Any service contracts entered into should be approved by the Remuneration Committee.

Despite the provisions of the Companies Act, 1990 the IAIM considers that service contracts should not run for a period of more than three years and there may be circumstances where a rolling contract should be limited to a period of no more than two years.



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8. BOARDS OF SUBSIDIARY COMPANIES

The Board must at all times be conscious that it is responsible to shareholders for the activities and performance of subsidiary companies. This involves, inter alia, that the appointment of directors to the boards of subsidiary companies is the sole prerogative of the parent company Board.

9. MANAGEMENT BUY-OUTS

In the event of a Management Buy-Out, the Board should appoint a separate committee consisting wholly or mainly of non-executive directors with direct access to independent advisers.

The independent advisers should have access to all information necessary to enable them to give a fully informed opinion on the merits of the offer. The committee should be responsible for a separate statement to shareholders, giving both its views and those of the independent advisers on the bid.

Irish Association of Investment Managers
May 1992



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IAIM STATEMENT OF BEST PRACTICE AND THE CADBURY REPORT

In May 1992, the Irish Association of Investment Managers published a Statement of Best Practice on the Role and Responsibilities of Directors of Public Limited Companies. The purpose of the Statement of Best Practice was to give to the directors of Irish registered plcs and their advisers the views of institutional shareholders on corporate governance. The IAIM Statement of Best Practice preceded the publication, in the UK, of the Cadbury Report.

There are substantial points of agreement between the IAIM Statement and the Cadbury Report, most notably their emphasis on the importance of non-executive directors and the formation of audit and remuneration committees comprised of non-executive directors. There are also, however, fundamental differences between both publications, particularly in relation to the separation of the roles of chairman and chief executive and whether or not there should be a majority of non-executive directors on boards of plcs.

Separation of the roles of Chairman and Chief Executive

In its Statement of Best Practice, the IAIM stated clearly its view that these roles should not be combined. The Cadbury Report refrained from a clear statement that the roles should not be separated, stating that "where the Chairman is also the Chief Executive, there should be a strong and independent element on the board, with a recognised senior member."

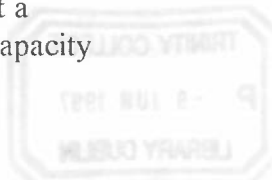
Having considered this question further, the IAIM remains of the view that it is in the interests of plcs and their shareholders that the roles of Chairman and Chief Executive be separated. It considers that the Cadbury proposal for a strong and independent element on the board is, at best, an interim measure insofar as separation of these roles is concerned.

The IAIM urges all plcs who have not yet separated the roles of Chairman and Chief Executive to do so without delay.

Majority of Independent Non-Executive Directors.

The IAIM, in its Statement, favoured a majority of independent, non-executive directors on boards of plcs. It stated that independence is more likely to be assured when the director is not retained as a professional adviser by the company; is not a significant supplier or customer to the company; has not been employed in any capacity

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by the company in the recent past and does not participate in any share option scheme within the company.

Cadbury, on the other hand, advocated a minimum of three non-executive directors, one of whom may be the chairman of the company provided he or she is not also its executive head. Cadbury also recommended that two of the three non-executive directors should be independent non-executive directors.

Following consideration of the different approaches taken by the IAIM Statement and the Cadbury Report, the IAIM remains of the view that it is preferable that Boards of Plcs have a majority of independent non-executive directors. The IAIM considers that this is necessary both to ensure a proper balance on the board and to facilitate the effective operation of audit and remuneration committees.

However, the IAIM accepts that, for some companies, there will be a time lag between implementation of the recommendations of the Cadbury Report and the IAIM Statement of Best Practice. It considers that these companies should meet the requirements of the Cadbury Report and should implement those of the IAIM Statement of Best Practice as soon as possible thereafter.

Progress on implementation of these recommendations will be monitored regularly by the IAIM.

Remuneration of Non-Executive Directors

The IAIM wishes to reiterate the views expressed in its Statement of Best Practice that the remuneration paid to non-executive directors should reflect their responsibilities and the contribution which they make to the company.

Disclosure of Remuneration of Directors

In its Statement of Best Practice, the IAIM proposed that the Annual Report should include a schedule setting out details of directors' total remuneration and a schedule setting out, in £5000 bands, the total remuneration of top management. This proposal was not unlike the disclosure requirement of UK Companies' legislation, but went further than the requirements of Irish Companies' legislation.

In considering the question of disclosure of remuneration, the Cadbury Report stated that there should be "full and clear disclosure of directors' total emoluments and those of the Chairman and highest paid UK director, including pension contributions and stock options. Separate figures should be given for salary and performance-related elements and the basis on which performance is measured should be explained".

Following discussions with various plcs, the IAIM has reconsidered its proposal for disclosure, in bands, of the total remuneration of top management.

The primary concern of the IAIM is that there should be full and clear disclosure of all emoluments paid to directors. The IAIM also considers that the Cadbury Report's proposal for a separation of fixed and performance related emoluments is to be welcomed. Accordingly, the Association has amended its proposals for disclosure of remuneration in the Annual Report. The revised disclosure proposals are as follows:

- (i) A note along the following lines should be included as part of the disclosure of Directors' emoluments in the Annual Accounts of a plc:

"Directors' remuneration shown comprises all of the fees, salaries, pension contributions and other benefits and emoluments paid to Directors.

The basis of the Executive Directors' remuneration [and the level of bonuses paid] are fixed by the Remuneration Committee of the Board which is comprised solely of non-executive directors of the company ."

- (ii) Aggregate figures for the performance element of the remuneration of executive directors should be stated separately.
- (iii) Information on share option schemes should include the following: size of scheme, number of options outstanding, number of options held by individual directors and the range of exercise prices and dates applicable to these options.
- (iv) Details of remuneration paid to directors, share options, service contracts (where appropriate) etc should be presented in one section of the Annual Report and Accounts.

Other Aspects of the IAIM's Statement of Best Practice

The views of the IAIM on other aspects of the Statement of Best Practice eg the composition and functions of audit and remuneration committees, service contracts etc remain unchanged.

New Listings

Members of the IAIM expect that companies going to the market will comply with all aspects of the Association's Statement of Best Practice.

Monitoring Implementation of IAIM Statement of Best Practice and the Cadbury Report

The IAIM will actively monitor implementation of its Statement of Best Practice and the Cadbury Report over the coming year and will seek to engage in discussions with those companies that have difficulty in meeting their recommendations.