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CEB(01)49x

CONSIGNIA EXECUTIVE BOARD

CORPORATE GOVERNANCE FOR SUBSIDIARY COMPANIES

PURPOSE

1. To seek Executive Board endorsement to Corporate Governance principles to apply to subsidiary companies throughout the Consignia group.

BACKGROUND

Existing Corporate Governance procedures need to be updated, and guidelines on Consignia policies introduced.

2. The existing Corporate Governance policy for subsidiary companies as written applies to UK companies which are wholly owned by Consignia plc. This policy needs to be updated to apply to overseas subsidiaries and to reflect the more complex ownership structure which now exists.
3. The definition of Corporate Governance used in this paper is 'the system by which companies are directed and controlled' (Cadbury), and refers to the system of control at Board level. In addition, there is also a need for guidelines on the application of Consignia policies to subsidiaries at a lower level.

POLICY SUMMARY

The extent to which Consignia Plc can dictate the Corporate Governance or general policy systems of a subsidiary depends on the legal relationship between the companies.

4. Consignia companies fall into three categories, based on accounting definitions, summarised below:-
 - (i) Subsidiary - where Consignia controls the majority of the voting rights over the company
 - (ii) Associate - where Consignia has a share in a company but does not control the voting rights
 - (iii) Joint Venture - where Consignia has a share over the voting rights and a veto.
5. The principle of the revised policy is that the Corporate Governance procedures should apply to all Subsidiary companies, and that Consignia should use its influence over the Board of the Associate or Joint Venture to ensure that these procedures are followed as far as possible. The revised policy is attached at Annex A.
6. The principle of the new guidelines on Consignia policies is that it is desirable for Subsidiaries to implement Consignia policies (listed in Annex B), in the interest of standardising systems and procedures. This is particularly important in respect of accounting matters for entities which will be consolidated into the Consignia plc/Consignia Holdings/Consignia Investments Ltd accounts. It is recognised that in practice this standardisation cannot be required of Associates or Joint Ventures, but it may be mutually advantageous for these companies to 'opt-in' to the policies, at the discretion

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of the Board of the company. In any event, any legal requirements which have been incorporated into Consignia policies will have to be met by all companies within the group.

7. Any Subsidiary which does not wish to apply the Corporate Governance procedures or Policy Guidelines must seek the approval of the Consignia company secretary. This approval will only be given in exceptional circumstances according to the merits of the application.
8. In principle there is no distinction between UK Subsidiaries and overseas Subsidiaries in respect of application of the Corporate Governance procedures or the Policy Guidelines, save that the requirements for overseas Subsidiaries may differ according to the legal requirements in the jurisdiction in which the company operates.
9. The Consignia Company Secretary's office will monitor compliance with the Corporate Governance procedures and the Policy Guidelines on an annual, proforma, basis.

NOMINATIONS TO BOARDS OF DIRECTORS

10. Corporate Governance best practice is for companies to make appointments to Boards of Directors of subsidiary companies through a Nominations Committee. Consignia does not have a formal Nominations Committee; instead the following procedure is recommended:
11. Where Consignia has the right to appoint Directors to a Subsidiary, Associate or Joint Venture, the nomination should be approved by the Chief Executive of Consignia plc. The process will be managed by the Consignia Company Secretary's Office, with input from Group Personnel and the Mergers & Acquisitions team as appropriate.

CONCLUSION AND RECOMMENDATIONS

12. The Consignia (Executive) Board is invited to:
 - Note the paper;
 - Endorse the Corporate Governance procedures and the Policy Guidelines as set out in Annexes A & B;
 - Note that the Corporate Governance procedures and Policy Guidelines can only be required to be implemented by Subsidiaries (not Associates or Joint Ventures)
 - Note the procedure for nominating Directors to Subsidiaries, Associates or Joint Ventures.

Jonathan Evans
September 2001

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ANNEX A

CORPORATE GOVERNANCE OF SUBSIDIARY, ASSOCIATE AND
JOINT VENTURE COMPANIES

1. Purpose

The purpose of this policy document is to set standards in Consignia plc, Consignia Holdings plc and Consignia Investments Ltd (collectively 'Consignia Group') for the Corporate Governance of all Subsidiary, Associate and Joint Venture companies. These standards are taken from legal requirements (chiefly The Companies Act 1985) and various Codes of Practice for Business Administration.

2. Link to Accountabilities

This statement sets out the Consignia Group strategy and policy on legal compliance, and ensures that its Subsidiaries, Associates and Joint Ventures comply with Corporate Governance requirements (both UK and international).

3. Policy

3.1 Introduction

Consignia Holdings plc, Consignia plc and Consignia Investments Ltd directly and indirectly own or control many Subsidiaries, and Associated Companies, and have shares in Joint Ventures operating throughout the world. The following definitions apply throughout this document:

A company is a **Subsidiary** of another company, known as its holding company, if that other company:-

- holds a majority of the voting rights in it (i.e. greater than 50%); or
- is a member of it and has the right to appoint or remove a majority of its board of directors; or
- is a member of it and controls alone, pursuant to an agreement with other shareholders or members, a majority of the voting rights in it; or
- if it is a Subsidiary of a company which is itself a Subsidiary of that other company; or
- if, regardless of whether any shares are held in the Subsidiary, the parent has the 'right to exercise a dominant influence' over it.

A company is deemed to be an **Associated** undertaking of another company if that other company exercises significant influence over its financial and operating policy decisions. It is generally assumed that if a company holds between 20 and 49% of the shares/voting rights in a company, it will have significant influence over that company, and therefore be an Associate.

A **Joint Venture** is when two or more organisations act together to control a legal entity and each has a veto over overall strategic policy.

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Where a company is (or has been) required to have more than one shareholder but is wholly owned by a single entity, a nominee shareholder(s) of the relevant company should be proposed to the Board, after consultation with the Secretary's Office. Such nominee shareholders are required to sign a declaration of nominee status and to sign a blank share transfer form on taking up the share(s).

4.2 Shareholder Meetings

Shareholder meetings need to be held in accordance with the Articles of Association of the company, or to the extent that these are not specific, in accordance with the minimum requirements of the Company Law applicable in the jurisdiction in which the company is based.

For shareholder meetings a shareholder proxy/corporate representative of the Consignia parent company will need to be appointed. It would normally be acceptable for this to be the person in Consignia to whom the Subsidiary, Associate or Joint Venture reports. Requests for appointment of a proxy/representative must be made to the company's Company Secretary's Office at least 14 days in advance of the meeting.

5. Boards of Directors**5.1 Directors**

Every company by law has to have a Board of Directors. References to 'Director' in this policy statement refer to full members (whether Executive or Non-Executive) of the Board of a company, and not to all personnel with a job title incorporating the word 'director'.

A Director has a general duty to act in good faith in the best interests of the company as a whole. It is a Director's responsibility to satisfy him/herself that the company is compliant with legislation, such as, but not limited to, company, health and safety, environmental, data protection and competition law. Consignia plc employees appointed as Directors to a Consignia Group Subsidiary, Associate or Joint Ventures will receive guidance on their role from the Consignia Company Secretary's Office, together with a copy of *Directors Duties and Responsibilities*, as part of their induction into the role.

5.2 Appointments to the Board

The composition of the Board of Directors (e.g. minimum number of Directors, detail of quorum required etc.), and the process of appointment is usually set out in the Articles of Association of a company.

Appointment of Directors who are Consignia plc employees to the Boards of any Consignia Group Subsidiary, Associate or Joint Venture should be approved by the Chief Executive of Consignia plc. The nomination and approval process will be managed by the Consignia Company Secretary's Office. Ideally, Subsidiary companies should have at least 1 non-executive Director, i.e. someone

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who is not employed by or does not work for that company itself, (although the person does not need to be from outside the Consignia Group). In all Subsidiary companies the majority of Directors should be employees of the Consignia Group. In companies where non-Consignia plc employees serve on the Board, the Articles of Association of the company should ideally require that a quorum will not be present at Board meetings unless at least one Director of the Company who is a Consignia plc employee is present.

5.3 Attendance at Board Meetings

Directors must be available to attend Board meetings and Executive Directors will be involved with the management of the company. Directors who are unable to attend three consecutive meetings should be considered for removal from the Board.

5.4 Resignation of Directors

When Directors resign the resignation letter should be filed with the Board minutes. In jurisdictions where shareholders cannot remove Directors by ordinary resolution, a Director, upon appointment, must execute an undated resignation letter or give an undertaking in writing to resign upon request of a majority of the shareholders.

5.5 Directors and Shareholding

If Consignia plc employees appointed as Directors of Consignia Group Subsidiaries, Associates or Joint Ventures are required also to hold shares in the company, they must sign share transfer forms upon appointment.

5.6 Declarations of Interest

Directors are required not to put themselves in a position where there is a conflict between their duty to the company and a duty owed to another person and are required to disclose to the Board any interest in a (proposed) contract, transaction or arrangement with the company. A proforma declaration of interests must be completed on appointment and thereafter on an annual basis. This should be obtained from the relevant company secretary.

6. Board Meetings**6.1 The Board Meeting**

The directors act collectively through Board Meetings – subject to any matters which have been properly devolved to individuals (e.g. a managing director), committees or other levels of management. Board meetings should be held as often as required to ensure the proper functioning of the company and to ensure that the Board can demonstrate management control over the company.

6.2 Notification of Board Meetings

Due notice must be given convening a meeting of directors, unless meetings are held at fixed times. If insufficient notice is given, the notice (and therefore any resolutions passed at that Board meeting) will be invalid unless all the directors are present at the Board meeting. Where there has been any such irregularity, a subsequent regularly convened Board meeting can ratify and confirm what was done irregularly.

6.3 Timing of Board Meetings

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Boards should meet regularly so that the Board can retain full and effective management control over the company and properly monitor executive management. Where a Board is unable to meet to discuss a specific issue, a Board decision evidenced by a written resolution, which must be signed by all directors, is permissible if allowed by the law applying to the company.

6.4 Transparency

There should be transparency of and support for decision making. Any issue which is to be put to the Board must be drawn to its attention with adequate information in a paper submitted to the Board in advance of the meeting. That paper should highlight the risks and opportunities of the proposal and indicate that appropriate advice has been sought, (e.g. tax, legal, group finance). Copies of all notices, papers and minutes pertaining to a Board meeting must be sent to all directors, even if a director is unable to attend the meeting. A regular performance report should be prepared by the management of trading companies and sent to the directors of the company, the company secretary and the Consignia Company Secretary's Office where regular Board meetings do not take place.

6.5 Reserved Matters

The Board for each Subsidiary, Associate Joint Venture (other than dormant companies) should have a schedule of matters reserved for Board collective decision. This schedule will be given to directors with their guidance on appointment. Other matters may be devolved to committees or individuals. The Consignia Company Secretary's Office must be provided with details of matters reserved to the shareholders and directors of companies for which they do not act as company secretary.

7. Company Secretarial Matters**7.1 The Appointment and Role of the Company Secretary**

UK law requires the appointment of a suitably qualified or experienced company secretary. This is not the case in all countries. The company secretary has specific duties, such as preparing returns to the Registrar of Companies relating to the company. Failure to notify certain matters or to file annual returns (where required) can result in fines. The company secretary is responsible for ensuring that any necessary documents are filed with the Register of Companies (or equivalent) and keeping any statutory books up to date - but he or she relies on getting the appropriate information from others.

7.1 The Role of the Consignia Company Secretary's Office

The Consignia Company Secretary's Office should provide company secretarial services to all wholly owned UK companies, unless exceptionally agreed otherwise with the Secretary's Office. Where the Consignia Company Secretary's Office does not act as company secretary to a Subsidiary, Associate or Joint Venture, the company secretary of that company has the responsibility to advise the Consignia Company Secretary's Office of key changes to the company's corporate structure.

The company secretary is responsible for giving the required notice of Board and Shareholder Meetings (with appropriate paperwork, including background papers) and circulating the Minutes of the meeting promptly thereafter. A copy of the minutes should be sent to the Consignia Company Secretary's Office.

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The Consignia company secretary or equivalent will be responsible for monitoring compliance with this policy, via completion of an annual proforma checklist.

7.3 Consignia plc Policies

Consignia plc has adopted various policies or guidance notes on matters such as the environment, health and safety, employment policies, data protection, benchmarking, business standards, and compliance with competition law.

All Subsidiaries, Associates and Joint Ventures must comply with legislation applicable in their jurisdiction, and with Group policies which seek to ensure compliance with such legislation.

It is desirable for Subsidiaries, Associates and Joint Ventures to adopt other Consignia plc policies, to ensure consistency of approach across the Group. A list of the broad policy areas and the recommended approach is attached at Appendix A.

If compliance with these policies is not possible, or is not desired by the Subsidiary, Associate or Joint Venture, the company should advise the Consignia company secretary who will respond. Consignia cannot force Associate or Joint Venture companies to adopt Consignia policies where their respective Boards do not wish to do so. If a Consignia Subsidiary elects not to adopt a Consignia policy it needs to secure the agreement of the Consignia company secretary who will consult with the relevant policy holders and Consignia plc Executive Directors.

7.4 Enquiries from or Investigations by Governmental or Regulatory Bodies

If a Subsidiary, Associate or Joint Venture company receives an enquiry from a governmental or regulatory body, (e.g. DTL, Postal Services Commission, OFT, European Commission), it must advise the Consignia Company Secretary's Office immediately and take advice on the terms of reply. Similarly, in the event of enquiries from Postcomm, the Consignia Regulation Department must be informed and will advise on the terms of reply.

7.5 Company Identification

Under English law, a company's name must appear outside every office and place of business in a conspicuous position and in legible letters. This is usually done by means of a painted sign or plaque. A company's name must also appear legibly in certain correspondence; namely in all business letters, notices and official publications, bills of exchange, promissory notes, cheque books, orders for goods and money, and also in all of its bills of parcels, invoices, receipts and letters of credit. Further particulars such as the company's place of registration, its registered number and the address of its registered office must also appear in all business letters and order forms. Where a company trades under a business name which is different to the company name, it must also state its registered company name on all business letters, written orders, invoices, receipts and demands for payment.

7.6 Liquidation

Companies which are no longer active should be regularly reviewed as candidates for liquidation or other appropriate means of disposal. Consignia Group Taxation, Legal Services, Group Finance and

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Company Secretary's Office are to be consulted. Any disposal of a company must be such that there is no ongoing liability either to the parent company or to any officers. Before deciding to liquidate a company, consideration should be given to keeping it: for example, to protect the company name. The Consignia Company Secretary's Office should co-ordinate any liquidation/disposal.

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Appendix A**CONSIGNIA POLICIES - APPLICABILITY TO SUBSIDIARIES, ASSOCIATES
AND JOINT VENTURES**

Unless otherwise specified below, Consignia plc does not have any requirement for Subsidiaries, Associates and Joint Ventures to adopt Consignia policies.

Consignia plc/Consignia Holdings plc/and Consignia Investments Ltd require that Subsidiaries adopt the following policies where they are described as Mandatory (M), Mandatory other than in Exceptional Circumstances, requiring the approval of the Consignia company secretary (E), or Recommended in line with best external corporate governance practice (R). Consignia plc employees who are Directors of Associates and Joint Ventures should use their influence to ensure the policies are adopted in the company where possible, advising the Consignia company secretary where this will not be the case.

References to Company Secretary's Office below refer to the company secretary of the Subsidiary/ Associate or Joint Venture (which may be the Consignia company secretary), unless this is otherwise specified.

Area of Responsibility and Requirement	Activity Required of Subsidiary/ Associate/Joint Venture by Consignia
<u>Company Secretarial</u> • (M) Reporting significant legal events, matters including loan covenants and other agreements, changes in share ownership, sale or purchase of shares, appointment and resignation of directors or company secretary • (M) Annual return information/filing • (M) Memorandum & Articles of Association • (M) Authority levels for decision/expenditure • (M) Reserved powers	• Notify Consignia Company Secretary's Office of any changes. An annual proforma return will be circulated to ensure that company details are correct and up to date; • Submitting all statutory returns and notifications required; • Articles and by-laws should be kept with the minute books and be kept up to date. Copies of these, and any amendments to them, must be submitted to the Consignia Company Secretary's Office; • Follow group-wide policy; • Where amount falls outside these levels seek advice from Company Secretary's Office on getting necessary (Board) authority; • Follow group-wide policy; • Where required action falls outside existing powers seek advice from Company Secretary's Office on getting necessary (Board) authority;
<u>Financial Control & Management</u> • (E) Accounting policies, conventions standards and practices	• For companies which are consolidated into Consignia accounts, adopt the group's accounting policies and make accounting estimates which are consistent with practices used by Consignia.

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• (M) Transfer Pricing • (M) Performance Reporting • (R) Forecasts • (M) Statutory Accounts • (M) Auditors	• Adopt transfer prices which are consistent with competition law, regulatory requirements, the Trading Model and ensure that there is no cross subsidy. • Provide sufficient management information to give comfort to the Consignia parent (as shareholder) on operational and financial performance periodically, preferably using a standard Consignia format. • Provide forecasts of future financial performance and outturns and measures. • For companies which are consolidated into Consignia accounts, adopt the group's standards and format for content, timing and method of submission of accounts to enable quarterly and annual statutory accounts and consolidation to be prepared. • For companies consolidated into the Consignia accounts, appointment of group approved external auditors.
<u>Treasury</u> • (M) Funding: Ensuring optimal company funding • (M) Banking: Secure appropriate local banking arrangements • (R) Currency Exposure: Ensure that material foreign currency exposures are managed. • (M) Insurance: Ensure that all statutory insurance requirements are in place and that material business assets are protected. • (M) Dividend Policy: Payment of dividend to Holding Company	• Establish intra Group funding account with Consignia Group Treasury • For Subsidiaries, agree surplus funds management/ borrowing/leasing arrangements with Consignia Group Treasury • Agree local bankers and account structure with Consignia Group Treasury • Refer any requests for parental guarantees to Consignia Group Treasury • Notify Consignia Group Treasury of material currency exposures and agree management/hedging action. • Purchase local insurance to cover statutory requirements • Provide Consignia Group Treasury with relevant information on assets and liability risks and agree appropriate cover. • Declaration and payment of dividend in accordance with Holding Company Policy.
<u>Taxation</u> • (M) Comply with tax law in respect of its own activities.	• Submitting all tax returns required in all countries of operation; • Paying all taxes due in all countries of operation; • Unless the company has tax expertise in house it must use the agreed external tax advisor to support

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• (M) Ensuring that the capital structure of the company meets local legal requirements <u>Personnel</u> • (M) Employment law • (M) Health & Safety	them in ensuring that they comply with the law; • Conform with national, and where appropriate European, employment law. • Ensure compliance with group Health & Safety policy or have an equivalent in place which must be clearly in evidence.
<u>Internal Audit</u> • (M) Consignia Internal Audit will have right of access to all documents and relevant information for companies in which Consignia has a shareholding. • (M) Provide independent assurance to the Executive management and Board of Consignia on risk and control matters across the Consignia Group.	• Risk identification and management is undertaken in each of its subsidiaries. • Highlight critical risks and include in the overall Business Unit risk profile. • Plan to mitigate the risks of the subsidiary. Ensure effective internal controls have been established along with a designated owner, to help manage and control the risks pertaining to that subsidiary. • It must be ensured by the party requesting external audit services that all formal reports and management letters regarding the subsidiary must be copied to the Consignia Director of Internal Audit
<u>Branding</u> • (M) Use of Consignia brand	• Agree all use of Consignia as an endorsement or brand with Consignia Group Communications Director. • Agree creation of a new main brand or sub-brand (not product names) with Consignia Group Communications Director.
<u>Communications</u> • (M) Press releases and external communications	• Clear all external communications that use the brand Consignia (referred to specifically or to speak on behalf of Consignia) with Consignia Group External Relations.
<u>Commercial & Business Strategy</u> • (E) Business Plan completion	• Business Plan wholly in line with Consignia Strategy • Business Plan wholly in line with legal and regulatory requirements in country of operation

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CONSIGNIA CORPORATE GOVERNANCE / POLICY COMPLIANCE PROFORMA

Consignia Company Secretary's Office will maintain a database of companies in the Consignia Group, and an associated organisation chart.

Information on each Consignia Subsidiary, Associate and Joint Venture shall be submitted to Consignia Company Secretary's Office at least once a year, using the following proforma. The summary sheet must be signed off by the company secretary (where the Consignia company secretary is not used) or a Director of each company.

<u>Consignia Group - Subsidiary details</u>	
Company name:	
Date and place of incorporation:	
Current directors and officers:	
Location of minute books and corporate documents i.e. Memorandum & Articles of Association, Company Registers, etc.	
Authorised and issued shares:	
Names of shareholders:	
Names of subsidiary companies:	
Signature of company director or officer certifying compliance with Consignia Corporate Governance procedures and Policy Guidelines (other than where identified below):	
Exceptions to the above agreed with Consignia company secretary:	

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