

GOVERNANCE

Directors' report on corporate governance

The Company is committed to achieving and maintaining high standards of corporate governance. The principles of good corporate governance set out in Section 1 of the 2008 Combined Code ("Code") contained in the Listing Rules of the Financial Services Authority, have been complied with throughout the year ended 31 December 2009 and this compliance has continued through to the date of this report. Details and explanations of the application of the principles of corporate governance are set out below.

The Board

Subject to the Company's Memorandum and Articles of Association, UK legislation and any directions given by special resolution, the business of the Company is managed by the Board. The Board's main roles are to provide leadership to the management of the Group, determine the Group's strategy and ensure that the agreed strategy is implemented. The Board has also reserved certain specific matters to itself for decision. These include financial policy, acquisition and disposal policy, and the approval of major capital expenditure projects. The Board appoints its members and those of its Committees, and reviews recommendations of the Board committees and the financial performance and operation of each of the Group businesses. It regularly reviews the identification, evaluation and management of the principal risks faced by the Group and the effectiveness of the Group's system of internal control.

During 2009 the Board comprised up to three executive Directors and up to four non-executive Directors. J W Newman, the Chairman, served as an executive Director until 1 September 2009 when he became a non-executive Director.

Of the remaining executive Directors, S D Dasani and G Anderson served throughout the year. T H Roberts was appointed on 26 January 2010 and therefore did not serve during the year.

The remaining non-executive Directors, D S Crowther, J C Shakeshaft and S M Watson served throughout the year. D S Crowther is the senior non-executive Director.

S M Watson is a partner at CMS Cameron McKenna LLP, one of a number of law firms which advise the Company. Prior to his appointment as a non-executive Director, the Company, in consultation with Riskmetrics and major shareholders, undertook an assessment to ascertain whether S M Watson met the criteria for independence set out in the Code. It was concluded that he did as the value of the fees charged by CMS Cameron McKenna LLP to the Company, relative to each of their respective turnovers, was not significant enough to be considered material. This continues to be the position, the Company having paid CMS Cameron McKenna LLP circa £65,000 during 2009 in respect of legal advice.

Accordingly, of the non-executive Directors, D S Crowther, J C Shakeshaft and S M Watson are considered to be independent as defined by the Code.

During the year there were seven Board meetings on scheduled dates for which full notice was given. Unscheduled supplementary meetings also take place as and when required and, during 2009, two such meetings took place. The Board has had two scheduled and three unscheduled supplementary meetings to date during 2010. Full details of each Director's Board and Committee meeting attendance are given on page 40.

Directors' biographies including the Committees on which they serve and chair are shown on page 32. In accordance with the Company's Articles of Association each Director will offer himself for re-election every three years.

The non-executive Chairman and Group Chief Executive

Up until 31 August 2009, the Company had an executive Chairman and a Group Chief Executive. However, from 1 September 2009, in line with the announcement made on 21 January 2009, J W Newman became non-executive Chairman and, as a result, the division of responsibilities between the non-executive Chairman and the Group Chief Executive has been re-defined, formalised in writing and approved by the Board:

The non-executive Chairman maintains responsibility for the leadership and effectiveness of the Board and setting its agenda; ensuring that all Directors receive accurate, timely and clear information on financial, business and corporate matters to enable them to participate effectively in Board decisions; facilitating the effective contribution of non-executive Directors in particular and ensuring constructive relations between executive and non-executive Directors; and ensuring effective communication with shareholders.

The Group Chief Executive is responsible for the operations of the Group. He is responsible for developing Group objectives and strategy having regard to the Group's responsibilities to its shareholders, customers, employees and other stakeholders and, following presentation to, and approval by, the Board, for the successful implementation and achievement of those strategies and objectives. His other areas of responsibility include managing the Group's risk profile, including its health and safety performance; ensuring that the Group's businesses are managed in line with strategy and approved business plans, and comply with applicable legislation and Group policy; and ensuring effective communication with shareholders.

Under the provisions of the Code, the Chairman should on appointment be considered independent. However, J W Newman was appointed executive Chairman in 1995 before the Company was bound by any provision as to the independence of its Chairman.

Board procedures and performance evaluation

All Directors have access to the advice and services of the Group Company Secretary and are offered training to fulfil their role as Directors, both on appointment and at any subsequent time. There is an agreed procedure for any individual Director to take independent professional advice at the Company's expense if he considers it necessary.

In accordance with the provisions on conflicts of interest in the Companies Act 2006, the Company has put in place procedures for the disclosure and review of any conflicts, or potential conflicts, of interest which the Directors may have and for the authorisation of such conflict matters by the Board. In deciding whether to authorise a conflict or potential conflict the Directors must have regard to their general duties under the Companies Act 2006. The authorisation of any conflict matter, and the terms of authorisation, may be reviewed at any time and, in accordance with best practice, a review of Directors' conflicts of interests is conducted annually.

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During the year the Board conducted an evaluation of its performance covering, among other matters:

- maintaining and improving its performance;
- developing the Group's strategy;
- maintaining the optimum mix of skills and knowledge among the Directors;
- ensuring robust and effective risk management; and
- considering full and timely information on financial and other performance.

In addition, each of the principal Committees carried out an assessment of its own performance during the year.

The performance of individual Directors is also reviewed annually and includes discussions between the Chairman and senior non-executive Director on their respective performance.

Following these detailed reviews it was considered that the Board and its Committees were performing satisfactorily, although it was noted that as the Audit Committee comprised just two members, and it was thus reliant on both members being available to be quorate, a third member would be an advantage. It is anticipated that this will be addressed during 2010.

Review of principal risks and internal controls

The Directors have overall responsibility for the Group's systems of internal control and for reviewing their effectiveness. These systems have been in place for the full financial year. The Group is committed to a policy of maintaining strict internal control over all of its activities. Controls are designed to provide the Directors with reasonable assurance that assets are safeguarded, transactions are properly authorised, and that material errors and irregularities are prevented or, failing which, are discovered on a timely basis. The systems of control are reviewed regularly and improved where necessary to meet the Group's requirements. Business risk evaluation takes place at operating company and Group level as part of the annual budget preparation. Having identified risks, each operating company then monitors, reviews and updates them regularly.

The Group Chief Executive oversees maintenance of the Group's Register of Principal Risks. Members of staff who are involved in the Group's risk management function report directly to the Group Chief Executive at a monthly Risk Committee meeting. The principal risks of the Group are subject to review by the Risk Committee, Audit Committee and the Board. Further details of the Group's exposure to risk and processes in place to manage the same are set out in the Business review on pages 28 to 29.

The risk management procedures and systems of internal control are designed to identify and assess the significant risks which the Group faces and to manage them appropriately. However, such systems can only provide reasonable and not absolute protection against material mis-statement or loss.

Principal features of the system of internal control

- The Directors meet as a Board at least every other month to monitor financial performance, give direction on significant strategic and financial issues and review the principal risks of the Group.
- The Group Chief Executive chairs a Committee ("Operating Board") consisting of the executive Directors, Divisional Chief Executives and other senior management. The Operating Board meets on a monthly basis and reviews the historical performance and the outlook for the Group as a whole and agrees and implements any actions as necessary. In addition, it is responsible for monitoring and driving delivery of the Group's key priorities and acts as a forum to raise and debate significant operational issues.
- The Group Chief Executive also chairs the Risk Committee which meets monthly. Further details on the remit and activities of the Risk Committee are set out on page 41.
- Each operating company within the Group operates within the policies, rules and procedures determined by the Directors and communicated through a Group manual. The Directors exercise control over operating companies through divisional senior executives who monitor and oversee the activities, financial performance and controls of each operating company. The directors of operating companies are held accountable for the effectiveness of the implementation and maintenance of controls within their companies. This provides constant and consistent management.
- The Group has detailed financial planning and reporting systems. Detailed management accounts are prepared monthly by each operating company comparing actual performance with budget. The financial performance of each operating company is subjected to detailed formal review at monthly meetings. One purpose of these reviews is the early identification of potential business risks and agreement on suitable and prompt courses of action. Operating companies prepare strategic plans and annual budgets which are reviewed and approved by the divisional senior executives, Group management and the Board.
- The Group has comprehensive control and approval procedures which are rigorously enforced. There are clear definitions of appropriate authorisation levels. Capital investment and other major items of expenditure are made only after compliance with detailed appraisal procedures and, if above set levels, only with the approval of the executive Directors.
- Accounting and reporting policies and practices require that the Group's accounting records are prepared consistently, accurately and in compliance with Group policy and relevant accounting standards.
- The framework for maintaining control and the adherence to procedures is reviewed by the Group Internal Controls Executive, who reports to the Group Finance Director and to the Audit Committee.
- Certain key functions, including treasury, taxation, pensions, provision of legal advice, risk and insurance are controlled at the Group's head office and are monitored by the executive Directors.

The Directors have reviewed the effectiveness of the systems of risk management and internal control during the year to 31 December 2009 and during the period since then to the date of this report. They have made improvements where necessary.

Board Committees

The Board has established a number of Committees, each with its own delegated authority defined in terms of reference. These terms are reviewed periodically and the Board receives reports and copies of minutes of Committee meetings. The Board appoints the chairmen of all principal Board Committees, having received the recommendations of the Nominations Committee.

The principal Committees and brief descriptions of their terms of reference (full details of which are available for inspection by shareholders at the Annual General Meeting and on the Group's website) and duties are as follows:

a) Audit Committee

During the year, the Audit Committee comprised two of the independent non-executive Directors: D S Crowther (Chairman) and J C Shakeshaft, the former having recent and relevant financial knowledge, as required by the Code. The Committee's duties include reviewing and advising the Board on:

- the integrity of the financial statements;
- the appointment and remuneration of external auditors;
- the effectiveness of the Auditors in line with the requirements of the Code;
- the nature and extent of non-audit services provided by the Auditors to ensure that their independence and objectivity are maintained;
- changes to accounting policies and procedures, decisions of judgement affecting financial reporting, compliance with accounting standards and with the Companies Act;
- the Auditors' assessment of internal audit and other internal controls;
- the scope, performance and effectiveness of the internal audit and other internal control functions;
- risk management (by reference to reports received regularly from the Risk Committee and the head of the internal control/audit function) and any changes to the Register of Principal Risks; and
- the Company's written procedures for responding to any allegations made by whistleblowers.

In order to fulfil its duties the Audit Committee regularly receives reports from the Risk Committee and on the findings of the Group Internal Controls Executive who is required to attend the Committee's meetings. The Committee also reviews internal audit plans and recommendations.

During 2009 the Audit Committee met five times and has had one meeting to date during 2010. Both committee members attended all the meetings. The Committee met twice with the Auditors without executives of the Company being present. The Committee also met twice with the head of the internal control function without executives of the Company being present.

The Committee reviewed the effectiveness of the external Auditors during the year. This process included seeking feedback from the finance directors of each operating subsidiary. Comments received were then analysed to identify both recurring themes and specific issues and the results were presented to the Committee. It was concluded that the Auditors' performance had been satisfactory and, where areas for improvement had been identified, these were communicated to the Auditors.

The independence of the Auditors is assessed annually by the Audit Committee. This is achieved by means of a self-assessment of independence which is completed by the Auditors and is then subject to review, analysis and query by the Audit Committee to ensure that suitable policies and procedures are in place to safeguard the Auditors' independence and objectivity. Such policies and procedures include the Company's policy regarding the provision of non-audit services which states that non-audit services may be obtained from the most appropriate source having regard to expertise, availability, knowledge and cost. Non-audit services where fees are expected to exceed a pre-determined threshold should be approved, in advance, by the Chairman of the Audit Committee or in his absence by another member of the Audit Committee. There is a restriction so that non-audit services fees will not exceed the audit service fees, paid to the same service provider, for more than two consecutive years unless specifically recommended by the Audit Committee and agreed by the Board. The preference of the Committee is not to engage the Auditors for additional non-assurance services, absent compelling reason (e.g. capability, time, cost) to the contrary.

The Committee also carried out a self assessment of its performance, based on a questionnaire completed by the members of the Committee.

b) Remuneration Committee

The Directors' remuneration report on pages 42 to 46 includes details of the Remuneration Committee and its work.

c) Nominations Committee

The Nominations Committee generally meets twice a year to make recommendations to the Board regarding the appointment of replacement or additional directors. It comprises the independent non-executive Directors and the non-executive Chairman, who also chairs the Committee. The Committee has an established procedure for recommending Board appointments and for the appointment of members to the Audit and Remuneration Committees. In 2009 the Committee met three times. All Committee members attended each meeting. The Committee also carried out an assessment of its performance in 2009.

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The Committee has had two meetings to date during 2010, following which the appointments of T H Roberts as an executive Director and S M Watson as Chairman were recommended to the Board.

T H Roberts had joined the Company in 2008, in advance of the retirement of J W Armstrong, who had previously held the post of Corporate Development Director. At the recommendation of the Nominations Committee, T H Roberts is receiving executive coaching which involves networking with other executive directors, governance training and coaching to address other identified development needs. This commenced in advance of his appointment as an executive Director.

S M Watson has been an independent non-executive Director of the Company since 2007. Before nominating him to become Chairman the Committee weighed the relative merits of appointing an internal candidate conversant with the agreed strategy and its current execution or an external candidate with different skills and experience from existing Board members. The Committee took external advice from the Company's bankers, brokers and remuneration consultants. Two members of the Board offered themselves as candidates. The Committee took soundings of all Board members and engaged recruitment consultants to interview both candidates against a set of professional competences (board leadership; influencing and collaboration; coaching and development; strategic acumen; independence and integrity; and industry and market knowledge) and also against a control group of possible external candidates. Both candidates measured well on both sets of criteria and stronger than the external set on the particular requirements of the Company. Reviewing all the assessments the Committee recommended S M Watson's nomination.

Board and Committee meeting attendance 2009

The table below shows the number of meetings held by the Board and its principal committees and the attendance of each of the Directors at those meetings.

	Board	Audit Committee	Remuneration Committee	Nominations Committee
Total meetings held	9	5	7	3
J W Newman	9	n/a	n/a	3
G Anderson	9	n/a	n/a	n/a
S D Dasani	9	n/a	n/a	n/a
D S Crowther	8 ⁽¹⁾	5	7	3
J C Shakeshaft	9	5	7	3
S M Watson	8 ⁽¹⁾	n/a	7	3

(1) D S Crowther and S M Watson were each unable to attend one unscheduled supplementary board meeting.

J W Armstrong retired on 5 January 2009. However, given that no Board or Committee meetings took place during the period 1 to 5 January 2009, he has not been included in the above table.

Corporate Governance Committee

The Corporate Governance Committee is responsible for monitoring the Group's compliance with good corporate governance. During the year it was chaired by the Chairman and included the Group Finance Director, one independent non-executive Director and the Group Company Secretary. The Committee's duties are as follows:

- to review regularly the corporate governance procedures of the Company;
- to ensure that the Company's corporate governance procedures are up-to-date and effective and that these are communicated to those employees, officers and/or Directors of the Company or its subsidiaries to whom they are relevant;
- to make recommendations to the Board from time to time on any procedures, or processes, that may need changing, in order to ensure that the Company is compliant with relevant legislation, including but not limited to, the Companies Act 2006;
- to ensure that the Company is compliant with the standards and disclosures required by the Combined Code and the Listing, Prospectus and Disclosure rules of the UK Financial Services Authority; and
- to receive reports, or any views expressed by shareholders, stakeholders, government or other regulatory bodies and any other interested parties in relation to corporate governance.

The Committee met three times during 2009.

Corporate and Social Responsibility Committee

The Corporate and Social Responsibility Committee is chaired by the Group Chief Executive and also comprises one non-executive Director, the Group Legal Counsel, and up to three senior executives from within the Group. The Committee met four times during 2009 and has had one meeting to date during 2010. The Board regularly receives reports on its activities.

Further information on the activities of the Corporate and Social Responsibility Committee is given in the Corporate responsibility section of the Business review on page 30.

Risk Committee

The Risk Committee assists the Board and the Audit Committee in fulfilling their responsibilities by:

- providing a framework for managing risks throughout the Group; and
- providing an appropriate level of reporting on the status of risk management within the Group.

This is achieved by promoting awareness of risk management, and ensuring that a risk management framework is in place to ensure that risks are identified, quantified, managed, monitored and reported.

During the year the Committee was chaired by the Group Chief Executive and included the Group Finance Director, the Group Legal Counsel, the Group Internal Controls Executive and up to four senior executives from within the Group. A representative from the Company's insurance brokers also regularly attends meetings. The Committee met 12 times during 2009 and has had three meetings to date in 2010.

Further information on the activities of the Risk Committee is given in the Principal Risks and Uncertainties section of the Business review on pages 28 to 29.

Donations

During the year the Group contributed £53,000 (2008: £50,000) for charitable purposes. Employees across the Group regularly fund-raise for charity.

There were no political contributions.

Communications with shareholders

G Anderson and S D Dasani meet institutional investors immediately after publication of the annual and interim results, as well as providing the information needed to maintain an orderly market in the Company's shares. D S Crowther, as senior independent non-executive Director, also undertakes consultation on certain matters with major shareholders. Through these Directors the Company maintains a regular dialogue with institutional shareholders and analysts and feedback received is reported to the Board so that all Directors develop an understanding of the views of major shareholders about the Company. Trading updates and press releases are issued as appropriate and the Company's brokers provide briefings on shareholder opinion and compile independent feedback from investor meetings. Information offered at the analysts' meetings together with our financial press releases are available on the Group's website. The Annual General Meeting is used by the Directors to communicate with both institutional and private investors.

Approved by the Board on 12 March 2010 and signed on its behalf by:

W J Sharp

Group Company Secretary