

The Combined Code

The Company is required, under the Listing Rules of the Financial Services Authority, to report on the manner in which it has applied the Principles of Good Governance set out in Section 1 of the Combined Code of Corporate Governance and whether or not it has complied with the Code provisions. The reviews undertaken by Mr Derek Higgs and Sir Robert Smith, concerning the role and effectiveness of non-executive Directors and the role of the Audit Committee respectively, are being given due consideration by the Directors.

Application of the Principles

The Principles of Good Corporate Governance are detailed in the Combined Code under four areas which have each been reviewed by the Directors and then commented upon below:

a) Directors

The Directors consider that there is in place an effective Board which leads and controls the Group with clear divisions of responsibility between running the Board and running the Group's business.

The Board is structured under a non-executive independent Chairman and currently includes three executive Directors and two other non-executive independent Directors who were selected for appointment because of their wide industrial and commercial experience. In addition there is a Group Executive Committee, chaired by the Group Chief Executive which includes, along with the executive Directors, other key executives within the Group. Brief details of the Board are included on page 10.

A Nominations Committee makes recommendations to the Board on all new Board appointments and the composition of the Committee, which consists entirely of non-executive Directors, is shown on page 10.

In accordance with the Company's Articles, Directors submit themselves for re-election at the Annual General Meeting following their appointment and thereafter at intervals of no more than three years.

The Board meets formally on a regular basis (ten times in 2002) and in addition there are generally three meetings of the Audit Committee, three meetings of the Remuneration Committee and at least one meeting of the Nominations Committee each year. Other Committees are appointed by the Board to deal with treasury matters and specific issues such as acquisitions and disposals. The minutes arising from the Committee Meetings are available to the Board.

Procedures are in place to ensure that the Directors are properly briefed so that the decisions taken by the Board are based on the fullest available information. At every Board Meeting there are reviews of operational, financial and administrative matters while social, environmental and ethical issues and other matters such as health and safety, agreement of budgets and levels of insurance cover are reviewed whenever appropriate.

There is a procedure by which all Directors can obtain independent professional advice at the Company's expense in furtherance of their duties, if required.

b) Directors' Remuneration

The Report of the Directors on Remuneration on pages 13 to 16 describes how the Board has applied itself to remuneration matters.

c) Relations with Shareholders

The Company endeavours to maintain regular contact with its institutional shareholders, through a series of group and one to one meetings to discuss both strategic objectives and the detailed performance of the business. It also makes constructive use of the Annual General Meeting to communicate with private investors and encourage their participation. The Company has a regularly updated website.

d) Accountability and Audit

Financial Reporting

The Board believes that the Annual Report properly presents a balanced and understandable assessment of the Group's position and prospects.

There is an independent internal audit function, which includes a cyclical programme of visits to all Group operations. The Group Internal Audit function also co-ordinates semi-annual Financial Integrity Declarations and self-assessment questionnaires applied on a cyclical basis and subjected to review. The results of these reviews and internal audit visits are reported to the Audit Committee, along with those from the external auditors.

The Audit Committee also reviews the scope, cost and timing of the work of the external auditors and acts to ensure their findings are appropriately implemented.

The composition of the Audit Committee, which consists entirely of non-executive Directors, is detailed on page 10.

Internal Control

There is an ongoing process in place for identifying, evaluating and managing the significant risks faced by the Group which has been fully in place during 2002 and to the date of approval of the Annual Report and Accounts. This process is regularly reviewed by the Board and accords with the Turnbull guidance on internal control.

Information on the Group's significant risks, together with the relevant control and monitoring procedures, is reviewed for completeness and accuracy by the Group's management committees. The information is presented to the Board for Directors to assess the effectiveness of the system of internal control. Whilst the Board acknowledges its overall responsibility for internal control it believes strongly that senior management within the Group's operating businesses should also contribute in a substantial way and this has been built into the process. In carrying out their review of the effectiveness of internal control in the Group the Board has taken into consideration the following key features of the risk management process and system of internal control:

- Senior management of each business have spent time identifying and assessing key business unit and Group objectives, key issues, opportunities and controls. This assessment encompassed operational, compliance, financial and business risks and is updated on an ongoing basis. A risk assessment has similarly been prepared for the Group covering central functions and strategic risks;
- A detailed system of budgeting, reporting and forecasting for the Group's operations is in place which is monitored, both locally and centrally, through a review of monthly management information;
- The Group has expanded the remit of the Internal Audit function whose audit plan is reviewed, updated and approved by the Audit Committee. The conclusions from the function's work are reported to the Audit Committee, the Chief Executive and the Finance Director; and
- There is in place a formal annual risk management sign-off process for senior management in each of the business units. This is operated in order to ensure that, as far as possible, the controls and safeguards are being operated in line with established procedures and standards.

The whole risk management process is subject to review twice a year by the Audit Committee and strengthened as appropriate. Steps are taken to embed internal controls and risk management further into the operations of the business and to deal with areas of improvement which come to management's and the Board's attention.

The Board is responsible for the effectiveness of the Group's system of internal control and for the review of its effectiveness. Such a system is designed to manage rather than to eliminate the risk of failure to achieve the Group's objectives and can only provide reasonable but not absolute assurance against misstatement or loss.

Compliance Statement

The Company has, throughout the year, consistently applied the Principles of Good Governance. It has also complied with all the detailed provisions in Section 1 of the Combined Code except, having regard to the size and composition of the Board, the Directors do not consider it appropriate to appoint a senior non-executive director as required by Code provision A.2.1.

Statement of Directors' Responsibilities

UK company law requires the Directors to prepare Accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those Accounts, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Accounts; and
- Prepare the Accounts on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group and enable them to ensure that the Accounts comply with the Companies Act 1985.