

# Corporate governance statement

## 1 Compliance statement

The Board remains committed to high standards of corporate governance throughout the Group and supports the main principles, supporting principles and provisions set out in the new Combined Code on Corporate Governance published in July 2003 ('the Code'). The remainder of this report explains how the Company has applied the main and supporting principles. Other than where detailed in this report, the Company has throughout the financial year complied with the provisions of the Code.

## 2 Board of Directors

### Structure

The Board consists of three Executive and five Non-Executive Directors. Three of the Non-Executive Directors, Nick Cosh, Ghislain Lescuyer and Cliff Preddy are considered by the Board to be independent in the terms as set out in the Code. Nick Cosh is the Senior Independent Non-Executive Director. Ghislain Lescuyer was appointed to the Board on 19 January 2004.

The Directors are aware that during the period under review and notwithstanding the appointment of Ghislain Lescuyer as a further independent Non-Executive Director, the structure of the Board does not comply with provision A.3.2 of the Code (which requires that at least half the Board, excluding the Chairman, should comprise independent Non-Executive Directors). The appointment of a further independent Non-Executive Director will remain under consideration during 2005.

The names of the Directors together with details of their memberships of the various Board Committees are set out in the table below and their biographies appear on pages 22 and 23.

### Structure of the Board and its Committees

Name	PLC Board	Independent	Audit Committee	Remuneration Committee	Nominations Committee
Ron Sandler	Executive Chairman	No	No	No	Chairman
Mike Norris	Executive	No	No	No	No
Tony Conophy	Executive	No	No	No	No
Nick Cosh	Senior Independent Director	Yes	Chairman	Yes	Yes
Phil Hulme	Non-Executive	No	No	No	No
Ghislain Lescuyer	Non-Executive	Yes	Yes <sup>1</sup>	Yes <sup>1</sup>	Yes <sup>1</sup>
Peter Ogden	Non-Executive	No	No <sup>2</sup>	No	No
Cliff Preddy	Non-Executive	Yes	Yes	Chairman	Yes
Alan Pottinger	Secretary		Secretary	Secretary	Secretary

<sup>1</sup> Ghislain Lescuyer was appointed on 19 January 2004.

<sup>2</sup> Prior to Ghislain Lescuyer's appointment and until the completion of his induction, Peter Ogden served as a member of this Committee. He resigned on 4 May 2004. As a result, the composition of this Committee during the early part of 2004 did not comply with provision C.3.1 of the Code.

## Decision-making

There is a clear division of responsibilities between the roles of the Chairman, who is responsible for the effective operation of the Board, and the Chief Executive, who is responsible for the management of the Group's day-to-day activities. No individual has unfettered powers of decision and no one individual or small group of individuals dominates the Board's decision-making processes. The Board believes that it oversees the Group effectively and is led by the Chairman, who is responsible for setting its agenda and ensuring its effectiveness.

The Chairman facilitates the contribution of all Directors and is responsible for ensuring that constructive relations exist between them. The Board sets strategic aims for the Company and makes sure that the necessary financial and human resources are in place to achieve its objectives. It is also responsible for reviewing the performance of management.

The Board has a documented schedule of matters reserved to it for decision, including the approval of major capital expenditure and the agreement of strategy and budgets. All Directors have access to the services of Alan Pottinger, Company Secretary, who is responsible for ensuring that Board procedures are followed, that applicable rules and regulations are complied with, and that the Board is kept advised of all governance matters. The Chairman ensures that all Directors are properly briefed on issues considered at Board meetings and, to enable them properly to discharge their duties, all Directors receive accurate and clear information in a timely manner. This includes detailed briefings on all matters where the Board is required to make a decision or give its approval, together with regular reports on such issues as the trading performance and outlook. Specific business presentations from senior management and others are given where appropriate, thereby ensuring the

Directors continually update their knowledge of, and familiarity with, the Group. Directors are entitled, at the Company's expense, to obtain independent professional advice where they believe it is important to the furtherance of their duties. Insurance cover is arranged in respect of legal action against the Directors.

The Directors set appropriate values and standards, ensuring that obligations to shareholders and others are understood and met and that a satisfactory dialogue with shareholders takes place. A framework of prudent and effective controls exists to enable risk to be assessed and managed.

Each year (excluding those Directors retiring and not seeking re-election and those retiring following their appointment during the year), the number of the Directors nearest to but not exceeding one-third retire by rotation. In addition, all Directors must retire by rotation every three years and those Non-Executive Directors who have served for more than nine years are required to offer themselves for re-election annually.

A procedure to facilitate formal performance evaluations of the Board, its Committees and individual Directors was introduced during 2004. Each Board member completed a confidential questionnaire designed to examine matters of Board and Committee structure, objectives and processes. Questionnaires were followed up by individual meetings with the Chairman to explore more fully the issues raised. The results of this process were then presented to the Board as a whole for assessment and review, and actions were agreed to address areas requiring improvement. The review of the performance of the Chairman is undertaken annually by the Remuneration Committee.

### Principal Board Committees

The Board has delegated certain duties to three Committees, the main responsibilities and composition of which are as follows:

#### Audit Committee

**Members: Nick Cosh, (Chairman), Ghislain Lescuyer and Cliff Preddy**

All of the members of this Committee are independent Non-Executive Directors. During 2004 the Audit Committee met four times and a record of each Director's attendance is set out in the table on page 26. The Chairman, Group Finance Director, Group Internal Auditor and the external auditor are invited to and attend all meetings. The Committee assists the Board in fulfilling its responsibilities by reviewing a wide range of matters including the Group's annual and interim financial statements and accompanying reports to shareholders, the preliminary announcement of results and any other announcement regarding financial performance. In addition, it reviews and advises the Board on the scope, cost-effectiveness and result of the audit and the external auditor's independence and objectivity. The volume of non-audit services provided by the external auditor is also reviewed in advance by the Committee to ensure objectivity, independence and value for money. The Committee monitors the integrity of internal financial controls and risk management systems. It also reviews reports presented by the Internal Audit Department and the Risk and Insurance Department regarding significant operational risks and controls to ensure that the latter are robust. In addition, the Committee reviews arrangements for answering staff concerns over improprieties, should these arise, ensuring that procedures are in place for appropriate investigation and follow-up.

#### Nomination Committee

**Members: Ron Sandler (Chairman), Nick Cosh, Ghislain Lescuyer and Cliff Preddy**

The Committee Chairman is Ron Sandler, the Executive Chairman of the Board, and all of the other members are independent Non-Executive Directors. Ghislain Lescuyer was appointed to the Committee on 19 January 2004. The Committee's responsibilities include leading the process for Board appointments, reviewing the Board composition, skills, knowledge and experience, and nominating candidates for both Executive and Non-Executive Directorships on the basis of merit and objective criteria. It also ensures that the procedures for the appointment of new Directors are formal, rigorous and transparent and that there is an orderly succession for appointments to the Board and senior management. In accordance with the provisions of the Code, the majority of this Committee's members are independent Non-Executive Directors. Although the Committee Chairman is not an independent Non-Executive Director, which means that there has not been full compliance with provision A.4.1 of the Code, the Board is satisfied that the chosen composition of the Committee is appropriate for the effective discharge of its duties.

When making a recommendation for the appointment of a Director, the Committee will evaluate the existing balance of skills, knowledge and experience on the Board and produce a description of the role and capabilities required for such an appointment. The Committee typically uses the services of external advisers to help identify candidates from a wide range of backgrounds who will then be considered on merit against objective criteria. This process was followed in the appointment of Ghislain Lescuyer as a Non-Executive Director on 19 January 2004.

#### Remuneration Committee

**Members: Cliff Preddy (Chairman), Ghislain Lescuyer and Nick Cosh**

All of the members of this Committee are independent Non-Executive Directors. Ghislain Lescuyer was appointed to the Committee on 19 January 2004. Philip Hulme and Peter Ogden attend the Committee meetings as requested. Ron Sandler attends meetings but absents himself when his own remuneration is considered. The Committee determines the Company's general policy on executive remuneration, the specific packages for the Executive Directors and the level and structure of remuneration for senior employees. The Committee also monitors and reviews the terms and conditions of the Executive Directors' service agreements, determines the grant of share options to them and senior employees, and appoints any consultants used in assessing their remuneration. The Committee's terms of reference are regularly reviewed by the Board to ensure that its activities comply fully with the provisions of the Code, and in particular, that there is a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors.

Throughout 2004, the terms of reference for each Committee were available from the Company Secretary on request and were posted on the Company's website from March 2005. Full compliance with the relevant provisions of the Code was therefore not achieved for the period under review.

# Corporate governance statement

continued

The attendance of the Directors at scheduled Board and Committee meetings held during 2004 was as follows:

Director	Board Meetings	Audit Committee	Remuneration Committee	Nominations Committee
Number of scheduled meetings held	8	4	2	1
<b>Executive:</b>				
Ron Sandler, Chairman	8	n/a	n/a	1
Mike Norris, Chief Executive	8	n/a	n/a	n/a
Tony Conophy, Finance Director	8	n/a	n/a	n/a
<b>Non-Executive:</b>				
Nick Cosh, Senior Independent Director	8	4	2	1
Phil Hulme	6	n/a	n/a	n/a
Ghislain Lescuyer, Independent Director	6*	2*	2	1
Peter Ogden	5	2**	n/a	n/a
Cliff Preddy, Independent Director	8	4	2	1

\* Ghislain Lescuyer was appointed to the Board and Board Committees on 19 January 2004 and was unable to attend some of the scheduled meetings due to prior commitments on the specified dates.

\*\* Peter Ogden resigned as member of the Audit Committee on 4 May 2004.

From time to time, additional meetings are required which may not necessarily demand attendance by all Directors, depending on the nature of the business to be discussed. During the year, two such meetings were required to conclude matters previously considered by the Board. Ron Sandler, Mike Norris, Tony Conophy and Cliff Preddy attended both meetings and Nick Cosh, Phil Hulme, Ghislain Lescuyer and Peter Ogden were present at one.

It is inevitable that there will be occasions when circumstances arise to prevent Directors from attending meetings. In such circumstances, the usual practice is for the absent Director to review the Board papers and to raise any considerations on specific issues with the Chairman.

In addition to the formal Board and Committee meetings, the Chairman meets with the Non-Executive Directors without the Executives present at least once a year. The Non-Executives also meet without the Chairman to appraise his performance.

### 3. Directors' remuneration

The principles and details of Directors' remuneration are contained in the Remuneration Report on pages 28 to 31.

### 4. Relations with shareholders

The Executive Directors have regular contact with institutional shareholders (except during close periods) and dialogue with shareholders generally is accorded a high priority. The Company has a programme of meetings with its major institutional shareholders and presents to analysts at least twice a year following the announcement of its interim and final results. The Chairman arranges for the Directors to receive regular reports on shareholders' views to ensure the Board develops an understanding of the matters of concern to the major shareholders. Nick Cosh, as Senior Independent Non-Executive

Director, is available to answer any shareholder concerns that are unable to be resolved through regular channels. In addition to mandatory information, a full and balanced explanation of the business of all general meetings is sent to shareholders. The Board welcomes the attendance of individual shareholders at general meetings and the opportunity to communicate with investors and address any questions they may have. Resolutions at the Company's general meetings have been passed on a show of hands, and proxies for and against each resolution (together with any abstentions) are announced at such meetings and noted in the minutes.

### 5. Accountability and audit

The Board has overall responsibility for maintaining and reviewing the Group's systems of internal control, ensuring these are prudent and robust, and enable risks to be properly assessed and managed. Systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

All systems of internal control are designed to continuously identify, evaluate and manage significant risks faced by the Group, key elements of which are as follows:

#### Management structure

The Board has overall responsibility for making significant strategic decisions. The Executive Directors, together with a number of senior managers, constitute the Group Executive Committee, which meets on a regular basis to discuss day-to-day operational matters. Separate Executive Committees have been established for each of the Group's operations in the UK, France and Germany. A flat reporting structure is maintained across the Group with clearly defined responsibilities for operational and financial management.

### Control environment

The Group operates authorisation and approval processes that are an integral part of its operations. Access controls exist where processes have been automated to ensure the security of data. Management information systems have been developed to identify risks and to enable assessment of the effectiveness of the system of internal control. Accountability is reinforced, and the further scrutiny of costs and revenues encouraged, by the linking of staff incentives to customer satisfaction and profitability.

### Budgetary process

A comprehensive budgetary process is completed annually and is subject to the approval of the Board. Performance is monitored through a rigorous and detailed reporting system through which monthly results are compared to budgets. The results and explanations for variances are regularly and routinely reported to the Board. Appropriate action is taken where variances arise.

### Risk management

Specialist departments monitor developments and ensure compliance with legislative and regulatory requirements. A comprehensive risk management programme is monitored and developed by the Risk Committee, which comprises key operational managers. Through a programme of assessment, appropriate measures and systems of control are maintained. Detailed contingency plans are in place or being developed for all key sites.

### Capital expenditure and investments

Procedures exist and authority levels are documented to ensure that capital expenditure is properly appraised and authorised. Cases for all investment projects are reviewed and approved at divisional level. Major investment projects are subject to approval by the Board.

### Centralised treasury function

All cash payments and receipts are managed by centralised accounting functions within each of the operating companies. Weekly reporting of cash balances to the Group Finance Department ensures the position of the Group as a whole is properly controlled.

### Quality and integrity of staff

The suitability of staff is determined through rigorous recruitment procedures. Management continuously monitors training requirements and annual appraisal procedures are in place to ensure that required standards are maintained. Resource requirements are identified by managers and reviewed by the relevant national Executive Committee.

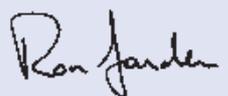
## 6. Board review of internal control

The Directors confirm that a sound system of internal control is maintained and that procedures were in place to identify, evaluate and manage significant risks faced by the Group throughout the year under review and up to the date of approval of the Annual Report and Accounts. These include:

- consideration of regular reports presented by the Internal Audit Department, external audit and operational management;
- regular review of financial and management reports and information;
- consideration of actions taken by management to address any issues identified;
- consideration of the results of reviews of Group risk and controls.

The Board, acting through the Audit Committee, has directed the work of Internal Audit towards those areas of the business that are considered to be of the highest risk. The Committee approves a rolling audit programme ensuring that all significant areas of the business are independently reviewed within a three-year period. The programme and the findings of the reviews are continually assessed to ensure they take account of the latest information and, in particular, the results of the annual review of internal control. The effectiveness of the Internal Audit Department and the Company's risk management programme is reviewed annually by the Audit Committee.

The Board conducts an annual review of the effectiveness of the system of internal control including financial, operational and compliance controls and risk management systems. In addition all major risks are reviewed by the Risk Committee and by key managers across the Group, and are recorded in a risk register, which is updated regularly. Overall, the Board is satisfied that the risks identified by the system of internal control are being managed appropriately.



RA Sandler  
Chairman