

## Corporate governance statement

### 1 Compliance statement

The Board remains committed to maintaining high standards of corporate governance and supports the principles and provisions of the Combined Code on Corporate Governance (the Code), as published in June 2006. This report details how the Company has applied those principles and provisions. The Board confirms that, save as detailed below, the Company has complied with the provisions of the Code throughout the financial year.

### 2 Board of Directors

#### Structure

For the first half of the year the Board consisted of three Executive Directors: Mike Norris, Tony Conophy and Ron Sandler, and five Non-Executive Directors: Philip Hulme, Ian Lewis, Peter Ogden, John Ormerod and Cliff Preddy. In July 2007, Ron Sandler's role changed from an Executive Chairman to a Non-Executive Chairman and during the year he was appointed as Chairman of Ironshore. Subsequent to the year-end Ron Sandler resigned from the Board, effective from 18 February 2008. Details of the current Directors, including their membership of committees, are set out below and their biographies appear on pages 28 and 29. Ian Lewis, John Ormerod and Cliff Preddy are considered by the Board to be independent under the provisions of the Code. Cliff Preddy is the Senior Independent Director, and interim Chairman until a suitable replacement is found.

The Directors are aware that during 2007, the structure of the Board did not comply with provision A.3.2 of the Code, which requires at least half the Board, excluding the Chairman, to consist of independent Non-Executive Directors. During 2006 two independent Non-Executive Directors were appointed and on the advice of the Nominations Committee and taking into account size and continuity considerations, the Board decided that no further appointments were required. The effectiveness of the Board has been considered during 2007 and it is felt that the present size and composition of the Board is appropriate for the requirements of the business, subject to the appointment of a new Chairman.

#### Decision making

The roles of Chairman and Chief Executive are separate and there is a clear division of responsibilities between the two. In brief, the Chairman is responsible for the effective operation of the Board and leads the Board in determining strategy. The Chief Executive is responsible for the day-to-day management of the Group's activities. There is no individual who has unfettered powers of decision and no individual or group of individuals who dominate the Board's decision making processes. The Board believes that it oversees the Group effectively and is proactive in its approach.

The Chairman facilitates the contribution of all Directors and is responsible for ensuring constructive relations exist between them.

The Board sets the strategic aims for the Group and ensures that the necessary resources are in place to achieve these objectives. It is also responsible for reviewing the performance of management in order to ensure that they are meeting pre-agreed objectives. There is a documented schedule of matters that are reserved for the Board and these matters include the approval of major capital expenditure and the agreement of strategies and budgets. This schedule is reviewed and updated by the Board annually. All of the Directors have access to the Company Secretary, Stephen Benadé, who is responsible for ensuring that all Board procedures are followed, applicable rules and regulations are complied with and the Board is updated on regulatory and governance matters. The Chairman ensures that all Directors are properly briefed on issues considered at Board meetings, to enable them to effectively discharge their duties and the Chairman will, when applicable, ensure that all new Directors receive a tailored induction. All Directors receive relevant information in a timely manner. This includes detailed briefings on all matters where the Board is required to make a decision or to give its approval and regular reports on issues such as the trading performance and outlook. In addition, senior members of the management team are routinely invited to attend Board meetings, thereby ensuring Directors continually update their knowledge of, and familiarity with, the business and management of the Group. All of the Directors are entitled to obtain independent professional advice, at the Company's expense, where they believe it is important to the furtherance of their duties. The Company arranges insurance cover in respect of legal action against the Directors and in defined permissible instances, the Company has given an indemnity to Directors against claims brought.

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 is maintained. A framework of prudent and effective controls exists to ensure that risks are properly identified, assessed and managed.

All Directors are subject to election at the first Annual General Meeting after appointment and are required to retire by rotation, at least every three years. Those Non-Executive Directors who have served for more than nine years are obliged to offer themselves for re-election annually.

The Board has established a formal process, which is led by the Chairman, for the evaluation of the performance of the Board, its Committees and individual Directors. Individual interviews are conducted by the Chairman with each Director to explore matters of Board effectiveness. The information obtained forms the basis of a report for discussion by the Board which decides, as a whole, on the actions to be taken in respect of those areas identified as requiring improvement. The review of the performance of the Chairman is undertaken annually by the Remuneration Committee.

Name	PLC Board	Independent	Audit Committee	Remuneration Committee	Nominations Committee
Ron Sandler <sup>1</sup>	Non-Executive Chairman	No	No	Yes	Chairman
Mike Norris	Executive	No	No	No	No
Tony Conophy	Executive	No	No	No	No
Philip Hulme	Non-Executive	No	No	No	No
Ian Lewis	Non-Executive	Yes	Yes	Yes	Yes
Peter Ogden	Non-Executive	No	No	No	No
John Ormerod	Non-Executive	Yes	Chairman	Yes	Yes
Cliff Preddy	Senior Independent Director	Yes	Yes	Chairman	Yes
Stephen Benadé	Secretary	Not applicable	Secretary	Secretary	Secretary

<sup>1</sup> Ron Sandler served as the Executive Chairman until 10 July 2007, when he became a Non-Executive Chairman. On 18 February 2008 Ron Sandler resigned from the Board.

### Principal Board Committees

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

#### Audit Committee

**Members: John Ormerod (Chairman), Ian Lewis and Cliff Preddy**

Throughout 2007 the Company has been fully compliant with provision C.3.1, which states that there should be at least three independent members of the Committee. During the year, the Committee met on seven occasions and attendance at those meetings is set out on page 32. The Chairman, Group Finance Director, Group Internal Audit Manager, Group Risk Manager, Group Financial Controller and the external auditor are routinely invited to and attend the majority of meetings. Periodically, the Committee also meets privately with the external auditors and the Group Internal Audit Manager.

The Committee assists the Board in fulfilling its duties 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 all other announcements regarding financial performance. In addition, it reviews on behalf of the Board, the scope, cost effectiveness and results of external and internal audit and the external auditor's independence and objectivity. The Committee establishes and monitors the Group's policy in relation to non-audit services provided by the external auditor, with a view to ensuring objectivity, independence and cost effectiveness. The Committee monitors the integrity of internal financial controls and risk management systems, principally on the basis of reports on significant operational risks and controls, presented by the Internal Audit Department and the Risk and Insurance Department. In addition, the Committee reviews practices for answering staff concerns over improprieties and should these arise, ensures that procedures are in place for appropriate investigation and follow-up. The terms of reference for the Committee are reviewed annually.

#### Nominations Committee

**Members: Ron Sandler (Chairman), Ian Lewis, John Ormerod and Cliff Preddy**

During the year Ron Sandler served as the Committee Chairman and the other members are all independent Non-Executive Directors. Ron Sandler resigned from the Board on 18 February 2008 and Cliff Preddy is the acting Chairman. In accordance with the provisions of the Code, the majority of the Committee is made

up of independent Non-Executive Directors. The Committee convened twice during 2007, to consider the structure and composition of the Board. 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.

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.

#### Remuneration Committee

**Members: Cliff Preddy (Chairman), Ian Lewis, John Ormerod and Ron Sandler**

The majority of the members of this Committee are independent Non-Executive Directors. Throughout the year the Committee was compliant with provision B.2.1 of the Code. Philip Hulme and Peter Ogden generally attend the Committee meetings by invitation. Ron Sandler was appointed a member of the Committee in July 2007 and subsequent to the year-end has resigned.

The Committee determines the Group's general policy on executive remuneration, the specific packages for the Executive Directors and the level and structure of remuneration for senior employees in line with best practice. The Committee also monitors and reviews the terms and conditions of the Executive Directors' service agreements, determines the grant of shares or options to them and to senior employees and appoints any consultants, when relevant, 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 2007 the terms of reference for all Committees were available from the Company Secretary on request and were posted on the Company's website.

## Corporate governance

## Corporate governance statement continued

The attendance of the Directors at scheduled Board and Committee meetings held during 2007 was as follows:

Director	Board Meetings	Audit Committee	Remuneration Committee	Nominations Committee
Number of scheduled meetings held	8	4	2	2
<b>Executive:</b>				
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>				
Ron Sandler, Chairman <sup>1</sup>	8	n/a	–	2
Philip Hulme	4	n/a	n/a	n/a
Ian Lewis	8	4	2	2
Peter Ogden	8	n/a	n/a	n/a
John Ormerod	8	4	2	2
Cliff Preddy, Senior Independent Director	8	4	2	2

<sup>1</sup> Ron Sandler was appointed to the Remuneration Committee on 10 July 2007.

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, three such Board meetings were required to conclude matters previously considered. Ron Sandler, Mike Norris and Tony Conophy attended all three meetings, John Ormerod attended two and Philip Hulme, Ian Lewis, Peter Ogden and Cliff Preddy attended one. There were three additional meetings of the Audit Committee convened during the year and John Ormerod, Ian Lewis and Cliff Preddy attended all three meetings.

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. Philip Hulme notified the Board that he would be unable to attend a number of Board meetings during 2007; however, he reviewed all Board papers and minutes and raised any considerations with the Chairman. He also remained in regular contact with the Board. At Philip Hulme's request, it was agreed that his remuneration be pro-rated per meeting attended by him.

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

### 3 Directors' remuneration

The principles and details of Directors' remuneration are contained in the Remuneration Report on pages 34 to 39.

### 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 matters of concern to the major shareholders. Cliff Preddy, 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 their questions. 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, noted in the minutes, available on the Company's website and notified to the market.

### 5 Internal controls

The Board has overall responsibility for maintaining and reviewing the Group's systems of internal control, ensuring that these are prudent and robust and enabling 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.

The Board conducts an annual review of the effectiveness of the systems of internal control including financial, operational and compliance controls and risk management systems. Where material weaknesses have been identified, safeguards are implemented and monitored.

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

#### Responsibilities and authority structure

The Board has overall responsibility for making significant strategic decisions and there is a schedule of specific matters reserved for the Board. The Executive Directors, together with two 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. From 2008, the Managing Directors from France and Germany will attend the Group Executive Committee meetings, at regular intervals. 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 systems of internal control. Accountability is reinforced and further scrutiny of costs and revenues encouraged, by the linking of staff incentives to customer satisfaction and profitability.

### Planning and reporting processes

A three-year strategic plan is prepared or updated annually and reviewed by the Board. A comprehensive budgetary process is completed annually and is subject to the approval of the Board. Performance is monitored through a rigorous and detailed financial and management reporting system, by which monthly results are compared to budgets and the previous year. The results and explanations for variances are regularly and routinely reported to the Board. Appropriate action is taken where variances arise.

### Risk management

Specialists within the Risk and Insurance Department monitor developments and ensure compliance with legislative and regulatory requirements, including the Turnbull Guidelines. A comprehensive risk management programme is monitored and developed by the Risk Committee, the members of which include key operational managers, the Group Internal Audit Manager and the Group Risk Manager. Through a programme of assessment, appropriate measures and systems of control are maintained. Detailed contingency plans are in place for all key sites and these are regularly tested.

### 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 finance 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. The management of liquidity and borrowing facilities for customer specific requirements, ongoing capital expenditure and working capital of the business is undertaken by the Group Finance Director.

### 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.

### Internal audit

The Group has an internal audit function led by the Group Internal Audit Manager who reports directly to the Chairman of the Audit Committee.

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 Audit Committee approves a rolling audit programme ensuring that all significant areas of the business are independently reviewed within at least 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 Group's risk management programme are reviewed annually by the Audit Committee.

By order of the Board



### SJ Benadé

Secretary  
10 March 2008