

## CORPORATE GOVERNANCE

The maintenance of effective corporate governance is a key priority for the Board. The statement below describes how the principles of the Combined Code on Corporate Governance, as amended in June 2008 (the 'Code'), have been adopted and implemented by the Group.

### Board of Directors

The Board is collectively responsible for corporate governance and for establishing the policies and strategies of the Group. It is supplied with information of appropriate form and quality in a timely manner. The directors are listed on page 26. The senior independent director is Mr J M Gourlay. Directors are subject to election at the first Annual General Meeting after their appointment and for re-election thereafter at intervals of not more than three years. The Board had seven scheduled meetings during the year and there was full attendance except that Mr B Wallace was absent for one meeting and Mr A S Huntley was absent for two meetings. There was one additional Board meeting held during the year which was attended by all Board members except for Mr A S Huntley and Mr P H Miller. There are three standing Board Committees: Nominations, Remuneration and Audit.

The Board uses the information contained within the Annual Report to present a balanced and understandable assessment of the Group's position and prospects. The Board has a formal schedule of matters reserved to it for decision but otherwise delegates specific responsibilities. Matters reserved for the Board include approval of the annual and interim results, dividend policy, major acquisitions and monitoring of risk.

The Board undertakes an annual evaluation of its performance, that of its committees and of individual directors through face-to-face discussions between the Chairman and individual Board members. The non-executive directors undertake an annual performance evaluation of the Chairman, taking into account the views of other directors.

The Chairman and the non-executive directors are considered independent. Dr D Hatzis has demonstrated his independence of character and judgement since joining the Board notwithstanding his relationships with significant family shareholders. Mr J M Gourlay has now completed over nine years service as a non-executive director. The Board considers him to remain independent because his long-standing appointment has not in any way affected his objectivity and his detailed knowledge of the Group allows him to provide constructive challenge where appropriate.

All directors have access to the advice and services of the Company Secretary and may seek independent professional advice and training, at the Company's expense, if required to carry out their duties. The Company has appropriate insurance cover in the event of legal action against any director.

### Nominations Committee

The Nominations Committee is chaired by Sir Brian Stewart and comprises the Group Chief Executive and the non-executive directors. The Committee has written terms of reference and recommends all new appointments to the Board. The Committee met once during the year to consider the appointment of Mr B Wallace.

### Remuneration Committee

The Remuneration Committee is chaired by Mr T Bowdler and comprises the non-executive directors. The Committee met three times during the year and there was full attendance except that Mr T Bowdler and Mr A S Huntley were each absent for one meeting. The Committee has written terms of reference and determines the remuneration of the executive directors and assists in the formulation of remuneration policy for other senior executives.

Further details of the remuneration policy are set out in the Remuneration Report. Where executive directors serve as a non-executive director elsewhere any fees earned are retained by the Group.

### Accountability and audit

We have an Audit Committee which is chaired by Mr J M Gourlay and comprises the non-executive directors. It has written terms of reference which include the review of the interim and annual accounts, review of the internal and external audit plans and the consideration of any matters raised by the internal and external auditors. During the year the Committee met on three occasions at which there was full attendance except that Mr A S Huntley and Mr B Wallace were each absent for one meeting.

The Audit Committee reviews and monitors the external auditors' independence and objectivity. During the year the external auditors provided tax compliance, tax advisory and corporate finance services. In the view of the Committee this did not compromise the auditors' independence as, where appropriate, teams from offices separate from the audit team were used. The external auditors operate their own procedures to safeguard their independence being compromised.

The Group has a whistle-blowing procedure in place which is publicised in the staff handbook and as part of the new employee induction programme. All employees are reminded periodically that they may raise concerns about malpractice, improper or illegal behaviour, in confidence, without concern about victimisation or disciplinary action.

### Internal control

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. However, such a system is 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 confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group that has been in place for the year under review and up to the date of approval of the Annual Report and accounts, and that this process is regularly reviewed by the Board. The Board has reviewed the effectiveness of the system of internal control. In particular, it has reviewed and updated the process for identifying and evaluating the significant risks affecting the business and the policies and procedures by which these risks are managed.

Management are responsible for the identification and evaluation of significant risks applicable to their areas of business together with the design and operation of suitable internal controls. These risks are assessed on a continuous basis and may be associated with a variety of internal or external sources including market changes, control breakdowns, disruption of information systems, competition and regulatory requirements.

Management provide regular updates of significant risks affecting their businesses to the Board together with details of key internal controls and risk management initiatives. This process is facilitated by internal audit who also provide assurance as to the operation and validity of the system of internal control and review corrective action plans. Management report regularly on their review of risks and how they are managed to the Audit Committee who review, on behalf of the Board, the key risks inherent in the business and the system of control necessary to manage such risks, and present their findings to the Board. Internal audit independently review the risk identification procedures and control processes implemented by management, and report to the Audit Committee on a half yearly basis. The Audit Committee reviews the assurance procedures, ensuring that an appropriate mix of techniques is used to obtain the level of assurance required by the Board.

The Group Chief Executive also reports to the Board on behalf of the Executive Team on major changes in the business and the external environment which affect significant risks.

The Group Finance Director provides the Board with monthly financial information which includes key performance and risk indicators. Where areas for improvement in the system are identified, the Board considers the recommendations made by the Executive Team and the Audit Committee.

## CORPORATE GOVERNANCE (CONTINUED)

### Relations with shareholders

The Group holds active dialogue with all its shareholders. Family shareholders are informed through a Family Council. A representative of Uberior Investments plc attends Board meetings. Employee shareholders are regularly informed via the intranet. Non-executive directors are kept informed of the views of shareholders. All members of the Board attend the Annual General Meeting. Both the Chairman and the senior non-executive director are available to meet shareholders if requested.

### Statement of compliance

The Board has reviewed its governance arrangements against the Combined Code on Corporate Governance and complies fully with the principles and provisions set out except that:

- Provision A7.2 requires that non-executive directors who serve longer than nine years be subject to annual re-election. Mr J M Gourlay was last re-appointed in May 2007 and under the Company's Articles of Association is not required to offer himself for annual re-election despite having served for over nine years. Mr J M Gourlay will be retiring at the AGM.

### Going concern

The directors have reviewed the latest annual budget and strategic plan.

They believe the Group has adequate funding resources to continue in operational existence in the foreseeable future. For this reason the accounts have been prepared on a going concern basis.

### Statement of directors' responsibilities

The directors are responsible for preparing the Report of the Directors and accounts in accordance with applicable law and regulations. Company law requires the directors to prepare accounts for each financial year. Under that law they have elected to prepare the accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice). Under Company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and Group and of the profit or loss 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 UK 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 Company and Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its accounts comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.