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Each operation is expected to adopt policies in keeping with these principles and goals which also describe the local organisation and arrangements for putting them into practice. Each operation also has a person appointed to this task who is responsible to the general manager of the operation for the implementation of these principles and goals.

Ethical, social, health, safety and environmental factors can represent risks to the Group's short and long-term value, as well as opportunities to enhance value that may arise from an appropriate response. The Board has established reporting structures to provide it with information on such risks and opportunities:

- Ethical, social, health, safety and environmental issues that represent significant business risk or opportunity are monitored and reported as part of the risk management process initiated following the Turnbull Report on corporate risk management, as described in the Report of the Directors – Corporate Governance Report. The risk management process adopted includes procedures for monitoring and verification of matters reported.
- Other important ethical, social, health, safety and environmental matters are reported to the Group Executive and the Group Board by the Group's Divisional Directors on a regular basis as part of their reports on operational matters.

The Group Chief Executive heads the ethical, social, health, safety and environmental function of the Board.

Report of the Directors – Corporate Governance Report

This Corporate Governance Report describes the manner in which the Company has applied the Principles of Good Governance set out in Section 1 of the Hampel Code of Corporate Governance and whether or not it has complied with the Hampel Code provisions.

In July 2003, the Financial Reporting Council issued a new Combined Code, known as the FRC Code, in response to the Higgs Review on Non-Executive Directors and the Smith Review on Audit Committees. The Company complies with the majority of its provisions, although the Board is not required to report on their compliance with the FRC Code until they report to shareholders in respect of the financial year ending 31 December 2004.

Application of the Principles

The Principles of Good Corporate Governance are detailed in the Hampel 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 9.

The Board meets formally on a regular basis (ten times in 2003) and in addition there were three meetings of the Audit Committee in 2003, together with two meetings of the Remuneration Committee and three meetings of the Nominations Committee. 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.

Nominations Committee

The Nominations Committee leads the process for Board appointments and supervises management development and succession plans. It makes recommendations to the Board on all new Board appointments. The composition of the Committee, which consists entirely of independent non-executive Directors, is shown on page 9, and its terms of reference may be found on the Company's website.

The appointment of new non-executive Directors to the Board is controlled by the Committee and assisted by appropriate external recruitment consultants. In conjunction with the external consultant, consideration is given to the role and the capabilities required for a particular appointment. Based on agreed criteria, the consultant then produces a shortlist of candidates, from which the Committee presents its recommendation to the Board.

During the year, the Board formalised a process to evaluate its own performance and that of its committees and individual Directors. The performance evaluation process will commence in 2004, the results of which will be used to improve Board performance and determine the training needs of the Directors.

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.

b) Directors' Remuneration

The Report of the Directors – Remuneration Report on pages 12 to 16 describes how the Board has applied itself to remuneration matters.

c) Relations with Shareholders

The Company maintains regular contact with its institutional shareholders. Each year, the Chief Executive and Finance Director undertake a series of meetings with the Company's major shareholders, following the announcement of the full year and interim results, to discuss both strategic objectives and the detailed performance of the business. During 2003, James Kerr-Muir, the Company's non-executive Chairman also attended the full year and interim results announcements to shareholders and analysts in March and August respectively. No other non-executive Director formally met with shareholders during the year. M Clark, the newly appointed Senior Independent Director, is available to attend shareholder meetings if this is requested by shareholders, so providing an alternative channel of communication between the Company and its shareholders.

The Company also makes constructive use of the Annual General Meeting to communicate with private investors. A detailed presentation of the Company's performance is given at the AGM and a copy of the presentation, along with other investor relations material, is made available on the Company's website.

All resolutions at the 2003 AGM were passed unanimously on a show of hands. Details of the proxy voting received by the Company for the 2003 AGM are set out in the table below.

Proxy voting for the 2003 AGM

Resolution	For (votes)	Against (votes)	Discretionary (votes)	Abstentions (votes)	Total (votes)
1. To adopt Report & Accounts	164,223,970	19,143	174,561	10,800	164,428,474
2. To approve Remuneration Report	119,100,863	39,831,069*	190,082	5,306,460	164,428,474
3. To declare a dividend	160,066,342	33,303	177,361	4,151,468	164,428,474
4. To re-elect M Clark as a Director	164,103,028	94,927	217,719	12,800	164,428,474
5. To re-elect G R Menzies as a Director	164,129,795	60,531	219,932	18,216	164,428,474
6. To elect M Sheppard as a Director	164,106,666	67,156	241,452	13,200	164,428,474
7. To elect R T Turner as a Director	155,261,974	90,013	223,137	8,853,350	164,428,474
8. To re-appoint Deloitte & Touche as auditors	159,967,620	70,009	207,126	4,183,719	164,428,474
9. Authority to allot shares	164,025,842	140,652	211,489	50,491	164,428,474
10. Disapplication of pre-emption rights	164,055,939	139,009	217,226	16,300	164,428,474
11. Authority to buy back shares	161,413,931	406,922	203,189	2,404,432	164,428,474

*The majority of the votes cast against Resolution 2 were received from a small number of institutional shareholders. The Company was advised that their vote was cast due to the shareholders' desire for greater disclosure in the Remuneration Report of the maximum possible awards that may be granted to executive Directors under the Company's share schemes, and the performance targets for the Executive Share Option Scheme and Long Term Incentive Plan being Earnings Per Share, rather than Total Shareholder Return, based. This year's Remuneration Report contains greater detail relating to the maximum possible awards. For options granted in future, the Remuneration Committee will take into account shareholders' views on performance targets and retesting.

The total number of proxy votes received for the 2003 AGM represented approximately 53.5% of the issued share capital of the Company. The Company is supportive of initiatives to promote greater shareholder participation and for the 2004 AGM will be offering CREST members the facility to appoint a proxy or proxies through the CREST electronic proxy appointment service. Further details of this service may be found in the enclosed Notice of the Annual General Meeting.

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 reviews the scope, cost and timing of the work of the external auditors and acts to ensure their findings are appropriately implemented. Whilst the Company does not have a policy of subjecting its external auditors to a regular fixed term rotation, the Committee remains cognisant of the importance of maintaining the objectivity of the Company's external auditors. The Committee also reviews the level and type of non-audit work carried out by the Company's external auditors. In 2003, £0.5m was paid in fees to the external auditors relating to non-audit work, principally for advice on tax compliance (£0.3m) and taxation consulting services (£0.2m). The Committee considers it is beneficial to the Company to retain Deloitte & Touche LLP for this type of work because of their expertise in this area and knowledge of the Group, however, the Committee will continue to keep the nature and extent of such services under review in order to balance the maintenance of objectivity and value for money. The composition of the Audit Committee, which consists entirely of non-executive Directors, is detailed on page 9.

Internal Control

The Company has a well-established and ongoing process, which was in place for the full year and up to the date of the Accounts, for identifying, evaluating and managing the significant risks, including non-financial risks, faced by the Group. This process is regularly reviewed by the Board and has been further improved during the year. The process continues to accord 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 it 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 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 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 and Code of Best Practice, which together comprise the Hampel Code appended to the Listing Rules of the Financial Services Authority. Prior to the publication of the FRC Code during the year, the Board did not consider the appointment of a Senior Independent Director to be beneficial to the operation of the Company's relatively small board. However, with the increased responsibilities attaching to the role of the Senior Independent Director and developments in the corporate governance field, the Company, in December 2003, appointed a senior non-executive Director as required by Code provision A.2.1 and so now fully complies with all the detailed provisions in Section 1 of the Hampel Code.

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.