

Corporate governance

The Combined Code on Corporate Governance issued by the Financial Services Authority contains 14 principles of good governance applicable to listed companies and the paragraph below together with the Remuneration Report on pages 20 to 23 disclose how these principles are applied within the Group.

Directors The Group is controlled by a Board of Directors, the majority of whose members are Non Executive. All Directors are able to take independent professional advice in furtherance of their duties as necessary. The Board has a formal schedule of matters reserved to it and met eight times during 2000. It is responsible for the overall Group strategy, acquisition and divestment policy, approval of major capital expenditure, reorganisation projects and consideration of significant financing matters. It monitors the exposure to key business risks and reviews the strategic direction of the trading divisions, their annual budgets, their progress towards achievement of those budgets and their capital expenditure programmes. The Board also considers environmental, employee issues and key appointments. It ensures that all Directors receive appropriate training on appointment and then subsequently as appropriate. All Directors, in accordance with the Code, will submit themselves for re-election at least once every three years.

The Board has established a number of standing committees. The principal committees are the Audit Committee, Remuneration Committee and the Nomination Committee.

Relations with shareholders The Group encourages two-way communication with its institutional and private investors and responds quickly to all queries received verbally or in writing. The preliminary and interim results are presented to analysts and other meetings with shareholders are arranged as appropriate. All shareholders have at least 20 working days notice of the Annual General Meeting at which all Directors and Committee Chairmen are introduced and available for questions.

Financial reporting Reviews of the performance of the Divisions and the overall financial position of the Group are included in the Operating review and Financial review on pages 6 to 13. The Board uses this, together with the Chairman's statement on pages 2 and 3 and the Directors' report on pages 15 and 16 to present a balanced and understandable assessment of the Group's position and prospects.

Statement of internal control and risk management The Directors are responsible for the Group's system of internal control and for regularly reviewing its effectiveness. It is recognised that such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

An ongoing process for identifying, evaluating and managing the significant risks faced by the Group has been established. This process has been operational for the period from 6 September 2000 to the date of approval of the Annual Report and Accounts. The process is regularly reviewed by the Board and accords with the Internal Control Guidance for Directors on the Combined Code produced by the Turnbull working party. During the preceding part of the financial year procedures were being established to meet the requirements for the system of internal control determined by the Board.

As part of the establishment of a formal risk management infrastructure to suit the geographically dispersed nature of the Group, key individuals within each of the businesses were identified to act as risk co-ordinators. A series of risk management workshops and interviews were held with business executives to identify the key risks and evaluate them in terms of impact and likelihood. A Group risk management guidance was produced and communicated to management. This included a Group wide risk management policy, an indication of what constitutes an acceptable level of group risk and guidelines on monitoring, sustaining and enhancing the process. Steps are being taken to embed internal control 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.

A Risk Management Committee, comprising the Executive Directors, has been established, reporting directly to the Group Board. The Risk Management Committee is responsible for the co-ordination of Group wide risk management, including the regular review of management risk reports. These quarterly reports include management assertions regarding both the key risks and the effectiveness of the process.

In reviewing the effectiveness of the system of internal control, the Board has received and considered the regular risk reports, including management assertions together with the reports of internal audit.

Internal financial control The Directors are responsible for the Group's system of internal financial control and for reviewing its effectiveness. The key control procedures are described under the following five headings.

Management structure As a large, geographically dispersed multinational business, the Group operates through a divisional structure. Each Division has a board of directors or a management committee which accounts for its performance on a monthly basis through its Chief Executive to the Chairman. Management review meetings are held regularly for each Division at which the Divisions' progress is reviewed and subsequently reported to the Group Board at its next meeting.

Financial reporting There are comprehensive management reporting disciplines which involve the preparation of annual budgets by all operating units. The budgets are successively reviewed by executive management and subsequently passed to the Board for approval. Monthly results are reported against the approved budget and revised forecasts are prepared at quarterly intervals.

Investment appraisals The Group has a clearly defined framework for capital expenditure including appropriate authorisation levels beyond which such expenditure requires the approval of the Board. There is a prescribed format for capital expenditure applications which places high emphasis on the commercial and strategic logic for the investment and demands a high quality financial presentation of the business case. As a matter of routine, projects are also subject to post-investment appraisal after an appropriate period.

Functional reporting The Group has identified a number of key areas which are subject to annual reporting to the Board. These include treasury operations and corporate taxation matters. Other areas given particular emphasis are information management strategy and risk management, the latter including environmental, legal and insurance matters.

Internal audit The internal audit function is carried out by PricewaterhouseCoopers who report to the Finance Director and have access to the Audit Committee on a regular basis. The scope of internal audit covers a wide variety of operational matters and, as a minimum, ensures compliance with the Group's specified standards. The direct reporting route to the Finance Director ensures that appropriate actions are taken and can be reported back to the Audit Committee on a timely basis.

It is the view of the Board that the overall quality of internal financial control across the Group can be related directly to the controls in individual operating units. It is therefore a requirement for the managers of operating units and divisions to confirm in writing the quality of internal financial control in their area. The statements are required in respect of each financial year as part of the year end accounting process and are reported to the Audit Committee.

Audit Committee The Audit Committee, comprising of the Non Executive Directors, has specific terms of reference which set out its authorities and duties. It meets formally at least three times a year with the external and internal auditors. The Committee oversees the monitoring of the adequacy of the Group's internal financial controls, accounting policies and financial reporting and provides a forum through which the Group's external and internal auditors report to the Non Executive Directors. This forum may take place in private without the presence of an Executive Director.

Going concern basis After making enquiries, the Directors have formed a judgment that at the time of approving the financial statements, there is a reasonable expectation that the Group has sufficient resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements. This Statement also forms part of the Operating review and Financial review.

Environmental management The Group requires local management in its international businesses to take responsibility for environmental performance, within the framework of the Group's Environmental Policy, defined standards and procedures. This Policy is published on our website, together with further details of our approach to environmental management and achievements of individual businesses.

Communication networks and action groups are in place across the Group to assist implementation of the Policy, monitor issues and performance, and exchange best practice.

Units prepare an annual self-assessed audit report, covering environmental management systems (EMS), emissions, energy and resources management, compliance, targeted action plan, customer issues and external interests. These are evaluated for reliability by the Group's external auditors on a sample basis. The results, for the 92 units completing the 2000 self assessment are summarised on the Company's website. Progress has been made in achieving Group defined levels of performance in key areas of environmental management.

Five environmental incidents, leading to action by regulatory authorities, were reported to the Group. These did not result in prosecution and no significant adverse environmental effects resulted. Action has been taken to prevent reoccurrence.

This statement and a representative sample of self assessed audits, have been reviewed by Deloitte & Touche, Environmental Consultants.

Their verification opinion statement will be available on the Company's website.

Compliance statement

Throughout the year ended 31 December 2000 the Group has been in compliance with the Code provisions set out in Section 1 of the Combined Code on Corporate Governance issued by the Financial Services Authority.