

Corporate governance report

Including the report of the Audit Committee

Compliance with the Combined Code

The Board is committed to the highest standards of corporate governance and recognises that it is accountable to the Company's shareholders for good governance. The principal governance rules applying to UK companies listed on the London Stock Exchange are contained in the Combined Code on Corporate Governance (the 'Code'), adopted by the Financial Reporting Council (www.frc.org.uk/corporate) and published in June 2006. The Code was most recently revised in June 2008 ('Revised Code') and the Company is already in a position to comply with this Revised Code. This report, together with the Report of the Directors and the Remuneration report, describes how the Board applied the principles of good governance, as contained in section 1 of the Code, and seeks to demonstrate how the principles of good governance have been applied, and continue to be applied, during the year under review.

The Board

The Board meets regularly during the year, as well as on an ad hoc basis as required by time critical business needs. The Board's primary role is to provide entrepreneurial leadership, necessary to enable the Group's business objectives to be met, and to review the overall strategic development of the Group as a whole. It has a formal schedule of matters reserved to it for its decision. Day-to-day operational decisions are managed by the Executive Committee, as referred to on page 46.

Board composition

As at 31 July 2008, the Board of Directors was made up of nine members consisting of the Chairman, four Executive Directors and four Non Executive Directors. The Chairman and the Non Executive Directors are each considered by the Board to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement. The Board considers that each of the Non Executive Directors brings his own senior level of experience and expertise. Biographical details of the Directors currently in office are shown on page 41. The Company's policy relating to the terms of appointment and the remuneration of both the Executive and Non Executive Directors is detailed in the Remuneration report on pages 51 and 52. The distinct roles of Chairman and Group Chief Executive are acknowledged and set out in writing. The Chairman has confirmed that he would not chair any other major company's board of directors. Gareth Davis is the Company's Senior Independent Director and is available to shareholders where communication through the Chairman or the Executive Directors would not be appropriate. Robert Walker stepped down from the Board as a Non Executive Director on 31 October 2007. The Nominations Committee, and the Board as a whole, considers succession planning and the appropriate composition of the Board.

The Company's Articles of Association provide that one third of the Directors retire by rotation each year and that each Director will seek re-election by the shareholders at the Annual General Meeting at least once every three years. Additionally, new Directors are subject to election by shareholders at the first opportunity after their appointment. It is Board policy that Non Executive Directors are normally appointed for an initial term of three years, which is then reviewed and extended for up to a further two three-year periods. It is also Board policy that Non Executive Directors should not generally serve on the Board for more than nine years and that, in cases where it is proposed to exceed this period, the Director concerned will retire annually and offer himself for re-election. Details of the Directors seeking re-election at the 2008 Annual General Meeting are given in the Notice of Meeting.

Board procedures and responsibilities

A 12-month rolling programme of items for discussion by the Board is prepared to ensure that all matters reserved and other key issues are considered at appropriate times. The Board met 10 times during the year and Director attendance for each meeting is shown in the table on page 48. Together with the Group Chief Executive and the Company Secretary, the Chairman ensures that the Board is kept properly informed and is consulted on all matters reserved to it. Board papers and other information are delivered at times to allow Directors to be properly briefed in advance of meetings.

The Board has established a procedure for Directors, if deemed necessary, to take independent professional advice at the Company's expense in the furtherance of their duties. This is in addition to the direct access that every Director has to the Company Secretary, who is charged with ensuring that Board procedures are followed and that good corporate governance and compliance is implemented throughout the Group.

Following their appointment, formal comprehensive and tailored induction is offered to all Directors. This is supplemented by meetings, as required, with major shareholders, visits to key locations within the Group and meetings with members of the Executive Committee and other key senior executives. Meetings between the Non Executive Directors, both with and without the presence of the Chairman and the Group Chief Executive, are scheduled in the Board's annual timetable. The Board has also arranged to hold at least two Board meetings each year at divisional locations to help all Board members gain a deeper understanding of the business, whilst also providing senior managers from across the Group the opportunity to present to the Board as well as to meet the Directors on more informal occasions.

During the year the Non Executive Directors reviewed the performance of both the Chairman and the Group Chief Executive and, together with the Chairman and the Group Chief Executive, reviewed the performance of each of the Executive Directors. A full evaluation of the Board's performance will be carried out during 2008. The Chairman has confirmed that should any Director have any concerns or observations which they wished to raise, these should be notified to him directly or to the Company Secretary, to be addressed appropriately. The Chairman has further confirmed there were no items which had been brought to his attention during the year.

As part of their ongoing development, the Executive Directors are encouraged to take up an external non-executive position on the board of a non-competitor company, for which they may retain payments received in respect of such appointment. In order to avoid any conflict of interest, all appointments are subject to the Board's approval and, generally, outside appointments for Executive Directors are limited to one company board. The Board monitors the extent of Directors' other interests to ensure that the effectiveness of the Board is not compromised. Details of external directorships and the fees retained are shown on page 58.