

Corporate governance

The requirements of corporate governance are set out in the Financial Services Authority (FSA) Listing Rules together with the related Principles of Good Governance and Code of Best Practice (the 'Combined Code'), now adopted by the FSA.

Directors are assisted in complying with the internal control requirements of the Combined Code by the Institute of Chartered Accountants in England and Wales' publication 'Internal Control: Guidance for Directors on the Combined Code' (the 'Turnbull guidance').

The board has reviewed the group's corporate governance policies and practice and has determined that the company complied with the provisions of the Combined Code throughout the period.

Board composition

Details of the board of directors are shown on page 13 and in the directors' report on page 31. During the year there was a clear division of responsibilities at the head of the company, with Mr J B McGrath as chairman and Mr S G Russell as chief executive of the company. Mr S G Russell ceased to be chief executive on 31st May 2003, and Mr J B McGrath will act as both chairman and chief executive until 15th September 2003. On 15th September 2003 Sir Nigel Rudd will become chairman, and Mr R Baker, the new chief executive, will join the company.

The board considers all its non-executive directors to be independent. Sir Nigel Rudd is the deputy chairman and has also been identified as the senior independent non-executive director.

The board considers that an independent director is one who is independent in character and judgement and where there are no relationships or circumstances which could affect the director's judgement. Relationships or circumstances which could affect judgement include dependence on the company for his or her primary source of income or being paid by the company in any capacity other than as a non-executive director, having been previously a senior manager of the company, or having had a material relationship with the company or participating in the company's incentive bonus schemes or pension schemes.

Conduct of board meetings

The board normally has eight regular meetings in the year plus two further meetings to deal specifically with full year and half year results. Strategy meetings are convened as required. A schedule of powers reserved to the board is maintained comprising key events and decisions.

For all board meetings an agenda is established. For regular meetings this generally comprises reports from the chief executive, chief financial officer and human resources director, reports on the performance of the businesses, major items of strategic expenditure to be approved and other significant policy issues. The board is also notified of any permissions given to directors and senior managers to deal in the shares of the company under the company's dealing code. Written reports are provided to the directors in advance of the board meeting. In addition the board considers at least annually the strategic plans of the group and individual businesses and is provided with other information as requested. From time to time directors receive presentations from management about key areas of the group's operations.

Full year and interim results are reviewed by the board audit committee and approved by the board prior to publication. Other price sensitive announcements may be published under the authority of a director.

In the furtherance of their duties, the directors have full access to the services of the company secretary and may take independent professional advice, at cost to the company, subject to a limit of £25,000 and prior notification to the chairman of the audit committee.

The group has a policy of providing corporate governance training for directors on appointment, if this is their first appointment to a public limited company board.

Board committees

There are four principal board committees, all of which operate within written terms of reference. Details of the composition and the main responsibilities of these committees are as follows:

Board nominations committee

J B McGrath (chairman)
J Bennink
Dr J G S Buchanan
F M Harrison (resigned 6th November 2002)
H Ploix
Dr M P Read
Sir Nigel Rudd

The board nominations committee meets as dictated by circumstances and met once during the year.

The main responsibility of the board nominations committee is to consider and make recommendations to the board about the appointment of directors, the standing for reappointment of directors and the structure and composition of the board generally.

Board audit committee

Dr J G S Buchanan (chairman)
 J Bennink
 F M Harrison (resigned 6th November 2002)
 H Ploix
 Dr M P Read
 Sir Nigel Rudd

The board audit committee met twice during the year.

The main responsibilities of the board audit committee are:

- to review and advise the board on the interim and annual financial statements.
- to review with the external auditors the nature and scope of their audit and the results of that audit, any control issues raised by them and management's response.
- to make recommendations as to the appointment and remuneration of the external auditors and any question of their resignation or removal.
- to review the company's systems and practices for the identification and management of risk, to set the risk assurance audit plan and to receive regular reports on internal audit matters.
- to monitor compliance with the company's policies to prevent illegal and questionable corporate conduct.
- to review the major findings of internal investigations.

The external auditors are appointed annually at the annual general meeting. The board audit committee considers the reappointment of the auditors and reports its findings to the board. The board audit committee periodically considers the performance, cost and independence of the external auditors, including a comparison of audit fees with those of other retail and FTSE100 companies and a review of the level of service provided by the audit team throughout the group. The audit committee also reviews the non-audit work carried out by the auditors to ensure that their independence is not compromised.

The audit firm may perform non-audit work for the group but only when its tender is considered superior to that of other consultants. A schedule of this non-audit work is provided annually to the board audit committee.

Board remuneration committee

Sir Nigel Rudd (chairman)
 J Bennink
 Dr J G S Buchanan
 F M Harrison (resigned 6th November 2002)
 J B McGrath
 H Ploix
 Dr M P Read

The board remuneration committee met six times during the year.

The committee, having no members who are executive directors or who have a personal financial interest in matters to be decided, is responsible to the board for determining, on behalf of the board, the remuneration, terms and conditions and bonus schemes for the executive directors, having regard to performance. A report on the remuneration of directors appears on pages 21 to 28.

Board social responsibilities committee

H Ploix (chair, appointed 26th March 2003)
 J Bennink (appointed 26th March 2003)
 Dr J G S Buchanan (appointed 26th March 2003)
 F M Harrison (resigned 6th November 2002)
 Dr M P Read
 A P Smith

The board social responsibilities committee met once during the year.

The main responsibility of the board social responsibilities committee is to keep under review and advise the board on the company's policies and practices in the areas of social responsibility including those relating to health, safety, the environment, equal opportunities, race relations, employment of the disabled and ethical matters.

Investor relations

Communications with shareholders are given a high priority. A rolling programme of meetings between institutional shareholders and executive directors is held throughout the year, and issues raised at those meetings are reported to the board, in addition to the annual and half year results presentations and the annual general meeting. In addition, a magazine for private investors is produced.

All members of the board usually attend the annual general meeting. A business presentation is given at the meeting, followed by a question and answer session. The notice of the meeting together with any related papers is sent to shareholders at least 20 working days before the meeting, or for those who have elected for electronic communication, notice is given to such shareholders of the availability of documents on the company's website. Shareholders are given the opportunity to vote on each separate issue. Postal proxy votes will be counted and summary figures are announced after the vote on show of hands on each item.

Internal control

The directors have overall responsibility for the group's system of internal control and for reviewing its effectiveness. The system of internal control is designed to manage, rather than eliminate, the risk of failure to the achievement of business objectives. Such a system can, however, provide only reasonable, and not absolute, assurance against material misstatement or loss.

Members of the board have responsibility for monitoring the conduct and operations of individual businesses within the group. This includes the review and approval of business strategies and plans and the setting of key business performance targets. The executive management responsible for each business are accountable for the conduct and performance of their business within the agreed strategies.

Business plans and budgets provide a framework from which performance commitments have been agreed between the chief executive and each business. These commitments incorporate financial and strategic targets against which business performance is monitored. This monitoring includes the examination of and changes to rolling annual and half year forecasts and monthly measurement of actual achievement against key performance targets and plans.

The group has clear requirements for the approval and control of expenditure. Strategic investment decisions involving both capital and revenue expenditure are subject to formal detailed appraisal and review according to approval levels set by the board. Operating expenditure is controlled within each business with approval levels for such expenditure being determined by the individual businesses.

Executive management are responsible for the identification, evaluation and management of the significant risks applicable to their areas of business. These risks are assessed on a regular basis and may be associated with a variety of internal or external sources. This continuous process has been in place for the year ended 31st March 2003 and up to the date of approval of the Annual Report and Accounts and accords with the Turnbull guidance.

Annually, businesses provide certified statements of compliance with the group's system of internal control, which are supported by assessments of key business risks, controls and resulting exposures.

The internal audit function works throughout the group to further develop, improve and embed risk management processes and tools in the business operations. It also provides assurance to the board that risk management practices address the key risks faced by the group including risks that could arise from social, environmental and ethical matters. Its work includes an assessment of the risks and controls throughout the group and its findings are reported to senior management responsible for the area concerned. Internal audit also reports regularly to the audit committee.

The audit committee assists the board in fulfilling its oversight responsibilities, primarily reviewing the reporting of financial and non-financial information to shareholders, the systems of internal control and risk management, and the audit process. The external auditors and the director of internal audit attend all meetings.

The group's system of internal control is monitored regularly by the board, its committees, the internal audit function, and management.

Social, environmental and ethical matters

The board recognises the importance of social, environmental and ethical matters to its business. Identifying and managing risks to the company's reputation has been described above and has a high priority, and the adoption and implementation of the company's code of ethical trading, described on page 11, has addressed one of the most important of them. Moreover, the company has for many years recognised the benefits that accrue from responsible employment, environmental and community policies which are also described elsewhere in this report. The evaluation of the company's performance in social, environmental and ethical matters is ongoing.

Going concern

Having considered group cash flow forecasts and strategic plans, the directors are satisfied that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.