

## Corporate Governance

This report explains how the Company complied with the provisions of the revised Combined Code on corporate governance issued by the Financial Reporting Council in July 2003. The Company is committed to maintaining high standards of corporate governance and to applying the Principles of Good Governance set out in the revised Combined Code. The Directors can confirm compliance throughout the year with the revised Combined Code except in respect of two provisions. Firstly, that until 23 February 2005 no single member of the Audit Committee fully met the requirements in respect of 'recent and relevant financial experience'. This was addressed by the appointment of Chris Littmoden. Secondly, that the constitution of the Nomination Committee does not comprise a majority of independent non-executive Directors. Whilst the Nomination Committee, which comprises the Chairman, the Senior Independent Non-executive Director and the Group Chief Executive, leads the process of Board appointments, the Chairman will consult with all the Directors on a regular basis throughout the process. In the opinion of the Board, the constitution of the Committee is therefore appropriate given the size of the Board and the process undertaken for Board appointments. Further detail of the appointment process is provided in the section on the Nomination Committee below.

### The Board

The Group is controlled through its Board of Directors. The Board's main objectives are to create value for shareholders, to approve the Group's strategic objectives and to ensure that the necessary financial and other resources are made available to enable them to meet those objectives. There is a formal schedule of matters specifically reserved to the Board for decision which include: formulation of Group strategy; the approval of the annual budget; the approval of reported financial statements and dividends; and the approval of acquisitions, divestments and significant items of capital expenditure.

### The roles of the Chairman and Group Chief Executive

The roles of the Chairman and that of the Group Chief Executive are separate and clearly defined. The Chairman is responsible for leading the Board, facilitating the effective contribution of all members and ensuring that it operates effectively in the interests of shareholders. The Group Chief Executive is responsible for leadership of the business and implementation of strategy.

### Directors and Directors' independence

The Board currently comprises the Chairman, three independent non-executive Directors and two executive Directors. The names of the Directors together with their biographical details are set out on pages 12 and 13. All of the Directors served throughout the period under review except Chris Littmoden who was appointed on 23 February 2005. A non-executive Director, Duncan Clegg, chairs the Board. The Group Chief Executive is Paul Forman and the Senior Independent Non-executive Director is Steve Hannam. The independent non-executive Directors challenge constructively and help develop proposals on strategy, and bring strong, independent judgement, knowledge and experience to the Board's deliberations. The Board believes that an effective balance of power and authority is maintained through the number and calibre of non-executive Directors. All Directors have access to the advice and services of the Company Secretary and there is an agreed procedure for Directors to take independent professional advice at the Company's expense.

Details of Duncan Clegg's professional commitments are included in the Chairman's biography. The Board is satisfied that these are not such as to interfere with the performance of the Chairman's duties of the Group, which are based around a commitment of at least one day and no more than two days per week.

The Chairman and the non-executive Directors are not employees of the Group.

The Board considers that Steve Hannam, Chris Davies, and Chris Littmoden, the non-executive Directors of the Company, are independent in character and judgement. No non-executive Director:

- ◆ has been an employee of the Group within the last five years;
- ◆ has, or had within the last three years, a material business relationship with the Group;
- ◆ receives remuneration other than a Director's fee;
- ◆ has close family ties with any of the Group's advisers, Directors or senior employees;
- ◆ holds cross-directorships or has significant links with other Directors through involvement in other companies or bodies;
- ◆ represents a significant shareholder; or
- ◆ has served on the Board for more than nine years.

All Directors are required to offer themselves for re-election at least once every three years.

### Professional development and performance evaluation

The Board has adopted a policy of providing appropriate training for all new Directors who have not previously received such training. A personal induction programme is prepared for each new Director depending on the experience and needs of the individual. On appointment, they receive information about the Group, the role of the Board and the matters reserved for its decision, the terms of reference and membership of the principal Board and management committees, and the powers delegated to those committees, and the latest financial information about the Group. This is supplemented by visits to key locations and meetings with the Divisional Managing Directors and other key senior executives.

The Board has established a process, led by the Chairman, for the annual evaluation of the performance of the Board and its principal committees. A list of questions is drawn up by the Chairman with the assistance of the Company Secretary. These questions provide a framework for the evaluation process. During the year the Chairman held meetings with the non-executive Directors without the executive Directors being present. The Senior Independent Non-executive Director conducts the annual performance evaluation of the Chairman, taking into account the views of all Directors.

#### Information and meetings

The Board meets regularly to review the performance of the Company and to formulate strategy and is supplied in advance of each meeting with an agenda and papers covering the financial and operating performance of the Group's businesses and other matters to be considered at the meeting. These papers are supplemented by information specifically requested by the Directors from time to time. The Divisional Managing Directors attend the Board meetings on a regular basis to present to the Board on the performance of their Division. The Board also receives presentations on a regular basis from the Group Head of Strategy and the Director of Management Development.

The full Board met on eight occasions during 2005 and those meetings were attended by all the Directors, except that Duncan Clegg and Chris Littmoden, subsequent to his appointment, were absent from one meeting due to conflicting commitments. Two of the meetings were held at manufacturing facilities. These meetings concentrate on strategy, financial and business performance. Additional meetings were called during the year to deal with specific matters.

#### Board Committees

The Audit Committee and the Remuneration Committee are the two principal committees of the Board. The Board also operates a Nomination Committee. The terms of reference of the Audit, Remuneration and Nomination committees are available on the Company's website on the following link [www.lowandbonar.com/wb/csr/terms](http://www.lowandbonar.com/wb/csr/terms) or on request from the Company Secretary.

#### Audit Committee

The Audit Committee currently comprises Steve Hannam, Chairman of the Committee, Chris Davies and Chris Littmoden (from 23 February 2005).

The Committee is made up entirely of independent non-executive Directors. While the Committee collectively has the skills and experience required to fully discharge its duties, and has access to independent advice at the Group's expense, the Committee determined, during a self-assessment review in 2004, that no single member fully met the requirements of the revised Combined Code in respect of 'recent and relevant financial experience'. This was addressed by the appointment of Chris Littmoden as an additional non-executive Director.

The Audit Committee, which is established with formal, written terms of reference, meets at least three times a year. The Audit Committee is responsible for assisting the Board to discharge its duties with regard to the Group's financial affairs, and for reviewing with the external auditors the adequacy of the Group's accounting and financial and operating controls. The Committee is responsible for monitoring and controlling the effectiveness of the external audit process and making recommendations to the Board in relation to the appointment and reappointment of the external auditors.

The Audit Committee is responsible for ensuring that an appropriate relationship between the Group and the external auditor is maintained, including reviewing non audit services and fees. It has developed and implemented a policy on the supply of non audit services by the external auditor to ensure continued objectivity and independence. The Committee is satisfied that the provision by KPMG LLP of non audit services currently provided does not impair their independence or objectivity. The Audit Committee has approved the range of services that may be provided by KPMG LLP. These include taxation compliance services, transaction due diligence and accountancy assistance on projects. Subject to approved authorisation limits, the services require prior authorisation from either the Group Finance Director, the Chairman of the Audit Committee or the full Audit Committee. The Committee is satisfied that the majority of the tax services supplied by KPMG LLP during the year were compliance related or related principally to foreign advisory work that required a detailed understanding of the Group and which did not impair their independence.

The Audit Committee met on four occasions during 2005 and those meetings were attended by all of the Committee members, save that Chris Davies was unable to attend on two occasions. The meetings coincide with key dates in the financial reporting and audit cycle. The external auditors, KPMG Audit Plc, and the Group Internal Auditor, who reports directly to the Audit Committee, attend these meetings regularly. The Chairman, Group Chief Executive and Group Finance Director also generally join at least part of Audit Committee meetings by invitation. The Audit Committee receives regular reports from the Group Risk Manager who may also attend meetings by invitation. The Committee Chairman may call a meeting at the request of any member, the Company's external auditors or the Group Internal Auditor. The Audit Committee meets privately with the external auditors and the Group Internal Auditor at least once a year.

## Corporate Governance continued

In 2005 the Audit Committee discharged its responsibilities by:

- ◆ reviewing the Group's draft financial statements and interim results statement prior to Board approval and reviewing the external auditor's detailed reports thereon;
- ◆ reviewing the appropriateness of the Group's accounting policies;
- ◆ reviewing and approving the audit fee and reviewing non-audit fees payable to the Group's external auditor;
- ◆ reviewing the external auditor's plan for the audit of the Group's accounts, which included key areas of extended scope work, key risks on the accounts, confirmations of auditor independence and the proposed audit fee;
- ◆ reviewing an annual report on the Group's system of internal control and its effectiveness and reporting to the Board on the results of the review;
- ◆ receiving regular reports from the Group Internal Auditor following operational audits; and
- ◆ reviewing the impact of International Financial Reporting Standards.

The Audit Committee is entitled to obtain, at the expense of the Company, such external advice as it sees fit on any matters falling within its terms of reference.

The Risk Management Committee reports to the Audit Committee. The Risk Management Committee seeks to focus and co-ordinate risk management activities throughout the Group to facilitate the identification, evaluation and management of all key business risks. Further details of the Risk Management Committee are provided in the Internal Control section below.

### Remuneration Committee

The Remuneration Committee currently comprises the following non-executive Directors of the Company, all of whom are considered by the Board to be independent: Chris Davies (Chairman of the Remuneration Committee); Steve Hannam; and (from 23 February 2005) Chris Littmoden.

The Remuneration Committee met on four occasions during 2005 and those meetings were attended by all of the Committee members.

The Committee is responsible for recommending to the Board the Company's broad policy for executive remuneration, including both short term and long term incentive arrangements, and for reviewing, at least annually, the entire remuneration packages of the executive Directors and certain other senior executives of the Company. The Committee is also responsible for recommending the Chairman's remuneration to the Board in compliance with the revised Combined Code. The Committee is entitled to obtain, at the expense of the Company, such external advice as it sees fit on any matters falling within its terms of reference. The Directors' Report on Remuneration for 2005 is on pages 22 to 27.

### Nomination Committee

The Nomination Committee comprises the Chairman, the Group Chief Executive and Steve Hannam, the Senior Independent Non-executive Director. The constitution of the Nomination Committee does not comply with the revised Combined Code as it does not comprise a majority of independent non-executive Directors. Whilst the Nomination Committee leads the process of Board appointments, the Chairman will consult with all of the Directors on a regular basis throughout the process. All appointments are also subject to the review and approval of the full Board and all Directors will be invited to meet with a candidate before their appointment is recommended to the Board. In the opinion of the Board, the constitution of the Committee is therefore appropriate given the size of the Board and the process undertaken for Board appointments.

The Committee, which is established with formal written terms of reference, is responsible for recommending to the Board candidates for appointment as both executive and non-executive Directors and for recommending to the Board all aspects of remuneration for non-executive Directors. Appointments are discussed fully before a proposal is made to the Board. The selection criteria are agreed by the Committee Chairman in conjunction with his colleagues. Use is made of independent recruitment consultants and the final appointment rests with the full Board.

During the year the Nomination Committee recruited an additional non-executive Director using external recruitment consultants to strengthen the Board further. This involved a process of identifying the skills and experience that the ideal candidate for the position requires. As a result, Chris Littmoden was appointed on 23 February 2005.

### Relations with Shareholders

The Company maintains good communications with its shareholders through its interim and annual reports and through information posted on its website at [www.lowandbonar.com](http://www.lowandbonar.com). The Company holds regular meetings throughout the year with major shareholders, analysts and the financial press, in particular following the announcements of its interim and full year results. Visits for analysts and shareholders are also arranged from time to time to operating units. The Company's annual general meeting is used as an opportunity to communicate with private investors. Shareholders attending the annual general meeting are invited to ask questions and to meet with the Directors informally after the meeting. The Company also arranges a presentation on one of its businesses to shareholders at the annual general meeting. Duncan Clegg, as Chairman of the Board and Nomination Committee, Steve Hannam as Senior Independent Non-executive Director and Chairman of the Audit Committee, and Chris Davies as Chairman of the Remuneration Committee, will answer questions, as appropriate, at the annual general

meeting. Shareholders are given the opportunity of voting separately on each proposal. The numbers of proxy votes cast in respect of each resolution are announced after the resolution has been voted on by a show of hands. Notice of the annual general meeting is sent to shareholders at least 20 working days prior to the date of the meeting.

### Internal Control

The Directors acknowledge their responsibility for the systems of internal control within the Group. The purpose of these systems is to provide reasonable assurance as to the reliability of financial information and to maintain proper control over the income, expenditure, assets and liabilities of the Group. The Board has also reviewed in detail the areas of major risk that the Group faces in its operations. It has noted and is satisfied with the current control mechanisms and reporting lines that have been in place throughout the year. However, no system of control can provide absolute assurance against material misstatement or loss. In carrying out their review, the Directors have regard to what controls in their judgement are appropriate to the Group's businesses, to the materiality and the likelihood of the risks inherent in these businesses, and to the relative costs and benefits of implementing specific controls.

The Group views the careful management of risk as a key management activity. Much of the Group's work in the area of risk management is facilitated by the Risk Management Committee, which is chaired by the Group Chief Executive and comprises the Group Finance Director together with the Divisional Managing Directors, the Group Risk Manager, the Group Internal Auditor, the Company Secretary and two Senior Operating Directors. The Risk Management Committee meets formally at least twice a year to review and analyse how business risks are being managed. The Risk Management Committee operates under formal terms of reference established by the Board of the Company and accords with Turnbull guidance. The Risk Management Committee initiates, directs, delegates and oversees all risk management activities within the Group and provides the forum to investigate the effectiveness of current control strategies and develop specific action plans for remedial work where it considers this to be necessary. The Risk Management Committee is committed to continue to develop and embed risk management process within the Group and focuses on the risk management process with the following objectives:

- ◆ to raise the level of management awareness and accountability for the business risks experienced by the Group;
- ◆ to develop risk management as part of the culture of the Group;
- ◆ to provide a mechanism for risk management issues to be discussed and disseminated to all areas of the Group; and
- ◆ to approve new Group wide tools and techniques to assist in the management of risk.

The Board receives reports on the work of the Risk Management Committee and reports from management on internal controls on a regular basis. The Group Risk Manager reports to the Risk Management Committee and works closely with both Divisional Management and the Head Office team. The Group Internal Auditor has a direct reporting line to the Audit Committee and attends Audit Committee meetings by invitation.

In addition to the risk review process and the internal audit function the Group operates within an established internal financial control framework, which can be described under three headings.

- ◆ Financial reporting. There is a comprehensive budgeting system with an annual budget approved by the Directors. Monthly actual results are reported against budget and revised forecasts for the year are prepared regularly.
- ◆ Operating unit controls. Financial controls and procedures including information system controls are detailed in the Group Finance and Accounting Manual. All operating units are required to confirm annually their compliance with policies and procedures set out in the manual (including those relating to health, safety and the environment), local laws and regulations and report any control weaknesses identified in the past year. Independent confirmation of compliance is obtained annually for selected operating units.
- ◆ Investment appraisal. The Group has clearly defined guidelines for capital expenditure which are also set out in the Group Finance and Accounting Manual. These include detailed appraisal and review procedures, levels of authority and post completion audits. Where businesses are being acquired, detailed due diligence is undertaken in advance of acquisition.

The Company is committed to ensuring that all employees comply with all anti-trust legislation. To ensure that relevant employees are aware of the issues and receive the appropriate level of training and information, the Group, together with its legal advisers, Freshfields Bruckhaus Deringer, has personalised an online anti-trust compliance training programme which all relevant personnel within the Group will be required to complete on a regular basis.

The continued development and implementation of the risk management and internal control system across the Group has allowed the Directors to comply with the revised Combined Code provisions on internal control in the course of the financial year ended 30 November 2005.