

Report on the Group's management of risk, health and safety and the environment

THE COMPANY'S APPROACH TO RISK MANAGEMENT:

Every business faces a variety of risks which may compromise its performance and its ability to meet its strategic objectives.

The Board is ultimately responsible for identifying and managing these risks. Management of key risks, health and safety and the environment remains a key item on the Board agenda. Management of various categories of risks also forms an integral part of the activities of the Group Executive Management and the Group Risk Management Committee (the "RMC") who report to the Board via the Group Chief Executive and the Audit Committee respectively.

The Board identifies, evaluates and reviews key Group risks that could have a material adverse effect on the Group relating to issues concerning the Group's portfolio strategy and its level of gearing. The Board also monitors and reviews the investment performance and funding level of the Company's defined benefit schemes.

The Group Executive Management consists of the Group Chief Executive, the Group Finance Director, the two Divisional Managing Directors and the Director of New Business. The Group Executive Management meets on a regular basis and identifies, evaluates and monitors risks relating to, amongst others, financial deliverability and control, raw materials and failure to deliver the anticipated benefits on high capital expenditure projects.

The RMC reviews and monitors Group risks, principally relating to health and safety issues, legal and operational compliance, supply continuity, employee related issues and product liability. The RMC also seeks to focus and co-ordinate operational risk management activities throughout the Group.

The RMC was established by the Board in 2000 and comprises the Group Chief Executive, the Group Finance Director, the Divisional Managing Director of both Floors and Technical Textiles, the Director of New Business, the Group Internal Auditor, the Group Risk Manager and three Senior Operations Managers representing all businesses and the Group Company Secretary. The RMC meets on a regular basis and at least four times a year.

Throughout the year the Group has focused on controlling both existing risks and identifying new risks both in existing operations and in the newly acquired businesses. During the year the RMC completed a major review of the standards and expectations covering all significant aspects of risk identification and control which has culminated in a new risk manual being produced and circulated throughout the Group. The Group Risk Manual contains the Group's policies regarding risk and health and safety issues detailing specific expectations and agreed good practices.

MANAGEMENT OF ENVIRONMENTAL ISSUES

One of the main objectives of the Group's environmental policy is to ensure that our manufacturing operations worldwide are managed responsibly, in materially full compliance with all relevant laws and regulations, and that environmental damage or nuisance does not occur as a result of our activities. The Group continually reviews and evaluates its processes and practices and, where possible, takes action to reduce any potential impact of its operations on the environment. As a consequence of this ongoing programme of evaluation, the following action has been taken.

- A full environmental self-auditing programme was completed by all of the Group's operations in 2005. Although no material issues were identified from the environmental self-auditing programme, an action plan was prepared based on the responses. The environmental self-auditing programme is now included as a policy document in the Group Risk Manual. The self audit will be modified on a regular basis to ensure that continuous progression of standards is maintained and that emerging issues are fully addressed.
- The Group has undertaken and completed a review to identify asbestos within all of its locations. In some of the Group's locations this has resulted in the controlled removal of asbestos containing material deemed to be in an unsuitable condition for leaving *in situ*.
- Recycling programmes for both process and general waste are actively encouraged throughout the Group to maximise the efficient use of raw material. Our Floors operations at Ripely, Telford and Chateau Renault have substantially increased the recycling capabilities of their in-process waste systems thereby reducing not only waste to landfill but their use of virgin raw materials. The Group remains a member of the Valpak packaging scheme for its UK subsidiaries, and fully meets the requirement of the packaging waste obligations.
- We are continuing to assess the use of hazardous substances with the aim of replacing these with safer alternatives where appropriate.
- Colbond has launched a unique non-woven backing for the carpet manufacturing industry, Colback SMR, made of 100% post-consumer recycled polyester (PET). The PET, former bottle scrap, is sourced locally to the factory in order to reduce the environmental impact of transport.

Report on the Group's management of risk, health and safety and the environment continued

The Group's disaster contingency plans, which include the effective control of any potential environmental incidents, are reviewed and updated on a regular basis.

The Group retains, from the sale of its North American packaging operations in 2000, some responsibility for the remediation of known environmental contamination in the vicinity of one of the facilities in Burlington, Ontario. Further details are provided in note 32 to the accounts.

As stated in previous reports, the Group agreed remedial action with local environmental authorities in respect of historical gas oil pollution of the soil and groundwater at its site in Lokeren, Belgium. The contamination resulted from leakage from large gas oil tanks that were removed from the site prior to its acquisition by the Group in 1996. The cleaning programme agreed with the authorities was successfully completed in April 2006 and management was sent the final full report by the authorities in October 2006. The final sign-off from the authorities that all pollution has now been successfully remediated is currently expected to be received by the end of April 2007.

Investigation of the environmental controls of businesses continues to be a part of the due diligence process of all potential acquisitions with surveys being conducted at an early stage in the assimilation of acquisitions to ensure the Group's high expectations are met. Detailed environmental due diligence was undertaken prior to the acquisitions of Geo-Tiptex and Colbond. Colbond actively supports the Responsible Care® program.

The Group considers environmental aspects when developing new products. The environmental properties of products we manufacture will be considered at each stage of the introduction and manufacture of new products.

MANAGEMENT OF HEALTH AND SAFETY

The health and safety of our employees and others who may be affected by Group operations forms an integral part of line management responsibility. In each location nominated personnel are identified to ensure that health and safety issues are given proper attention. The communication of health and safety matters with our employees remains key to ensuring that standards continue to improve within the Group. Management recognises the need to embed a health and safety culture across the Group.

The Board and the RMC review and monitor detailed statistical performance from individual sites detailing any accidents and incidents to identify trends and focus on areas where improvements are required. In some cases this review has led to an in-depth health and safety audit at specific sites involving on-site management and external specialists. Where appropriate action plans were developed during the year from these audits which have already resulted in improvements to accident rates and risk control performance. It is the intention that these audits will be extended throughout 2007 to all operating sites. Details of accidents and incidents are communicated between locations as appropriate in order that preventative action can be taken.

We have also focused specifically on improving health and safety performance at Ostend, our Bonar Xirion facility, acquired in 2005, with the assistance of external specialists and we have invested in achieving improvements.

Over one hundred employees in our Floors UK businesses have now attended a nationally approved training course on health and safety. The Floors Division has reviewed its occupational health arrangements for its UK businesses and during the year introduced a service for its employees which not only includes assistance for employees with any work related issues but also extends to stress management and counselling, whether related to work issues or to other external factors. During the year, our Bonar Yarns & Fabrics business in Dundee introduced smoking controls in advance of the Scottish ban on smoking in enclosed public spaces. Our Bonar Technical Fabrics sites in Belgium at Zele and Lokeren have also introduced a ban on smoking.

Other actions taken by our business during the year were:

- Assessments on the potential risks of dangerous substances and explosive atmospheres continued in order to meet the new regulations introduced under DSEAR (UK) and ATEX (European). In Floors the potential explosion risk of the flocking process used during the manufacturing of Flotex was tested using external resources, proving that the flock is outside the scope of the regulations. This assessment process will be ongoing during 2007.
- Fire risk assessments were conducted at all our UK sites in order to meet the new fire regulations which has resulted in some procedural changes although no physical structural changes were required in order to comply with the regulations.
- Detailed risk audits, using the sections of the new Group Risk Manual, have commenced at our sites in Ostend, Lokeren and Ripley. These audits will assist management in setting new targets for improvement for the following year.
- A capital expenditure proposal has been approved for Bonar Floors, France to install a system during 2007 at its facility in Chateau-Renault to eliminate volatile organic compounds and fumes that are produced during some of the manufacturing processes. The installation of this system will ensure that the site is in full compliance with the French atmospheric emissions regulations introduced from European directives 84/360/EC (struggle against atmospheric pollution) and 2004/42/EC (reduction of VOC emissions) and their subsequent modifications which become legally mandatory during 2007.

Risk management and health and safety issues are also reviewed by a rolling programme of visits by the Group Risk Manager. The Group Risk Manager works closely with the Group's insurance risk surveyors and the Group's insurance brokers, Willis, and their recommendations form part of the internal audit reviews. The insurers' surveyors have visited all major sites with no additional action being mandated by the surveyors.

The Group values its partnership with its insurers' risk specialist and its insurance brokers and works in partnership with them to develop agreed steps for the continuing improvement of the potential risk controls.

Further information on how the Group manages risk is provided in the Internal Control section on pages 23 and 24.