

Corporate Governance

The Board is committed to maintaining the highest standard of corporate governance and supports the principles set out in the Hampel Combined Code published in 1998. The Board is currently considering the provisions of the 2003 FRC Code.

The following statement describes how the relevant principles set out in the 1998 Combined Code are applied.

Board of Directors

The Board comprises the Executive Chairman, three executive Directors and three non-executive Directors who are independent of management and free from any current direct business or other relationship with the Group other than as shareholders. The three independent non-executive Directors are Anthony E. Collins, Gillian Bowler and Richard W. Jewson and their biographies appear on page 19. The senior non-executive Director is Anthony E. Collins who is Deputy Chairman of the Board. The Board believes that it is in the interest of shareholders that the Executive Chairman, Michael Chadwick, continues to hold the combined roles of Chairman and Chief Executive.

The Board meets at least six times a year and there is contact between meetings as required in order to progress the Group's business. The Board takes the major decisions while allowing management sufficient scope to run the businesses within a centralised reporting framework. All Directors have full and timely access to all relevant information in a form appropriate to enable them to discharge their duties. The Board has a formal schedule of matters specifically reserved to it for decision, which covers the key areas of the Group's business including financial statements, budgets, acquisitions, major items of capital expenditure and the strategic development of the Group.

All Directors have access to the advice and services of the Company Secretary who is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

Board Committees

The Board is assisted by committees of Board members, which focus on specific aspects of its responsibilities.

The *Audit Committee*, which comprises only the three non-executive Directors, meets at least twice each year and assists the Board in its responsibilities for financial reporting and internal control. The Committee reviews the interim and annual financial statements including the accounting principles, policies and practices adopted. The Committee discuss the results and scope of the audit with the Group's Auditors who have direct access to the Committee Chairman at all times. The Committee also reviews the cost effectiveness, independence and objectivity of the external auditors and the scope and findings of the Group's internal audit function.

The *Nomination Committee* comprises the three non-executive Directors and the Executive Chairman. The Committee is responsible for proposing any new executive and non-executive appointments to the Board having regard to the balance and structure of the Board.

The *Remuneration Committee*, which consists solely of the three non-executive Directors, makes recommendations to the Board, within agreed terms of reference, on the Group's framework of executive remuneration and on specific remuneration packages for each of the executive Directors. The Executive Chairman is fully consulted about remuneration proposals and outside advice is sought by the Remuneration Committee when necessary. The remuneration of the non-executive Directors is determined by the Board within limits set out in the Articles of Association.

The *Finance Committee* comprises the Executive Chairman, the Managing Director, the Finance Director and the Group Financial Controller. The Committee deals with capital expenditure and treasury activities within prescribed limits and other management issues.

Internal Control

The Directors acknowledge that they have overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The Directors recognise that such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

Corporate Governance

A process for identifying, evaluating and managing significant risks faced by the Group, in accordance with the Guidance for Directors on the Combined Code, has been in place throughout the accounting period and up to the date the financial statements were approved.

Group management are responsible for implementing strategy and for the continued development of the Group's businesses within parameters set down by the Board. Similarly, day to day management of the Group's businesses is devolved to operational management within clearly defined authority limits and subject to very tight reporting of financial performance. Group and operating Company management are responsible for internal control including the identification and evaluation of significant risks and for the implementation of appropriate internal controls to manage risk. Group management report to the Board on key risks and internal control issues including the way in which these are managed.

The key features of the Group's system of internal control include:

- A clear focus on implementing the Group's strategy.
- Defined structures and authority limits for the operational and financial management of the Group and its businesses.
- A comprehensive system of reporting on trading, operational issues and financial performance incorporating results and cash flows, working capital management, return on capital employed and other relevant measures of performance.
- Board approval of capital expenditure and acquisition proposals.

The internal audit function focuses on areas of greatest risk to the Group, monitors compliance and considers the effectiveness of internal control throughout the Group. The audit committee receives reports and meets with internal and external auditors in order to satisfy itself on the adequacy of the Group's internal control system. The Chairman of the audit committee reports to the Board on significant matters considered by the committee.

The Directors confirm that they have reviewed the effectiveness of internal control. In particular, they have considered the significant risks affecting the business and the way in which these risks are managed, controlled and monitored.

Going Concern

The Directors, having made enquiries, believe that the Group has adequate resources to continue in operational existence for the foreseeable future and, on this basis, they continue to adopt the going concern basis in preparing the financial statements.

Communication with Shareholders

The Company recognises the importance of communication with shareholders. Presentations are made to both existing and prospective institutional shareholders principally after the release of Interim and Annual results. The Annual General Meeting provides individual shareholders with an opportunity to raise questions with the Directors.

The Company's website www.graftonplc.com presents information about the Group including Interim and Annual results and other announcements.

Statement of Compliance with the 1998 Combined Code

The Directors confirm that, in applying the Principles of Good Governance, the Group has complied throughout the accounting period with the Code of Best Practice as set out in the 1998 Combined Code.