

Corporate governance

The board is accountable to the company's shareholders for good corporate governance. Its policy is to manage the affairs of the company in accordance with the principles of Good Governance and the Code of Best Practice set out in section 1 of the Combined Code on Corporate Governance appended to the Listing Rules of the UK Listing Authority ("the Combined Code"). A copy of the Combined Code is publicly available from www.frc.org.

For the year under review the company has complied with the FRC 2006 Combined Code in all respects.

The following parts of this report describe the board's approach to corporate governance and how the principles of the Combined Code are applied.

Part A: Directors

Board balance and independence

The board currently comprises a non-executive chairman, two executive directors and three non-executive directors, who are equally responsible for the proper stewardship and leadership of the company. The directors holding office at the date of this report and their biographical details are given on page 20.

All of the non-executive directors are independent of the company's executive management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. They each meet the independence criteria set out in the Combined Code. The terms and conditions of appointment of the non-executive directors are available for inspection at the registered office of the company. The letters of appointment set out their expected time commitment to the role. Other significant commitments of non-executive directors are disclosed to the board.

Performance evaluation of individual directors regularly takes place to ensure that an individual's performance continues to be effective and commitment to the role is demonstrated. Such evaluation took place in 2008.

Terry Garthwaite is the senior independent non-executive director. He is available to shareholders if they have concerns which contact through the chairman, chief executive or finance director have failed to resolve or for which such contact is inappropriate.

All directors are supplied, in a timely manner, with all relevant documentation and financial information to assist them in the discharge of their duties. This includes information on the company's operational and financial performance. The board regularly reviews the management and financial performance of the company, as well as long term strategic planning and risk assessment. Regular reports are given to the board on matters such as pensions, health and safety and litigation. The management executive committee met with the board three times during the year.

Chairman and chief executive

The positions of chairman and chief executive are held by separate individuals and the board has clearly defined their responsibilities. The chairman is primarily responsible for the effective working of the board, ensuring that each director, particularly the non-executive directors, is able to make an effective contribution. The chief executive has responsibility for all operational matters which includes the implementation of the group strategy and policies approved by the board.

Appraisals and evaluation

During the year, the chairman held a meeting with the non-executive directors, without the executive directors being present. In addition, led by the senior independent director, the non-executive directors met in the absence of the chairman to appraise the chairman's performance.

Attendance by individual directors at meetings of the board and its committees

The attendance of directors at the board and principal board committee meetings during the year are detailed in the chart below:

	Main Board (including 1 telephone board) 9 meetings	Audit committee 3 meetings	Remuneration committee 6 meetings	Nomination committee 1 meeting
David Dunn	9	n/a	6	1
Svante Adde	5	1	4	–
Ian Fraser	9	n/a	n/a	1
Terry Garthwaite	9	3	6	1
Paul Forman	9	3	6	1
Paul Thwaite	9	n/a	n/a	n/a
Bill Whiteley	3	2	2	–

Svante Adde stepped down from the board on 30 June 2008 and was replaced by Bill Whiteley.

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Appointment and resignation of directors

On appointment, new directors receive a full, formal and tailored induction. Such induction was arranged for Bill Whiteley when he joined the board. Major shareholders are offered the opportunity to meet newly appointed non-executive directors.

Directors have the right to ensure that any concerns they have, which cannot be resolved about the running of the company or a proposed action, are recorded in the board minutes. Upon resignation a non-executive director shall be asked to provide a written statement to the chairman, for circulation to the board, if they have such concerns.

Advice for directors

A procedure has been adopted for the directors to obtain independent professional advice, in appropriate circumstances, at the company's expense. Committees are provided with sufficient resources to undertake their duties. An internal governance policy provides that directors have unrestricted access to the advice and services of the company secretary.

Delegation and working through committees

The board has a formal schedule of matters specifically reserved to it for decision which it reviews periodically. The board's main focus is on strategic and policy issues and reviewing objectives and performance. The board operates in such a way to ensure that all decisions are made by the most appropriate people in a timely manner that will not unnecessarily delay progress. The board has formally delegated specific responsibilities to board committees, including the audit committee, remuneration committee and nominations committee (see page 20). The board will also appoint committees to approve specific processes as deemed necessary.

The directors and management teams of each group company are responsible for those business entities. They are tasked with the delivery of targets approved by the board on budgets, strategy and policy.

These policies and procedures collectively enable the board to make informed decisions on a range of key issues including those relating to strategy and risk management.

Board evaluation

The board undertook a process of self-evaluation of its own performance during the year. A questionnaire was devised and approved by the board. Directors submitted their completed questionnaires to the chairman who reviewed the responses with the individual directors and the board as a whole. The exercise was viewed positively by the board and will be undertaken again during the course of the current financial year. During the year, the board carried out an evaluation of the effectiveness of the audit committee.

Retirement by rotation

Each of the directors is subject to election by shareholders at the first annual general meeting after their appointment. Thereafter all of the directors are subject to retirement by rotation at intervals of no more than three years. David Dunn and Terry Garthwaite will retire by rotation at the next annual general meeting. Bill Whiteley was appointed a director on 1 July 2008. He retires as he was appointed since the last annual general meeting and offers himself for re-election. Biographical details of these three directors are set out on page 20.

Nominations committee

The nominations committee and the board seek to maintain an appropriate balance between the executive and non-executive directors. The nominations committee is chaired by David Dunn and consists of all the non-executive directors and the chief executive. The chairman will not chair the committee when it deals with the appointment of a successor to the chairmanship. It meets periodically as required, but at least once a year.

The terms of reference of the committee were reviewed during the year and are available on the company's website at www.brammer.biz.

The committee reviews the structure, size, diversity and composition of the board and makes recommendations concerning the re-appointment of any non-executive director at the conclusion of their specified term of office and in the identification and nomination of new directors. The committee retains external search and selection consultants as appropriate. The committee also advises the board on succession planning for executive board appointments although the board itself is responsible for succession generally.

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The committee evaluates the balance of skills, knowledge and experience on the board and is responsible for board appointments. Following an evaluation, it prepares, in conjunction with the board, a detailed job description of the role with a candidate profile and the capabilities required for a particular appointment. In drafting this, consideration would be given to the existing experience, knowledge and background of board members as well as the strategic and business objectives of the group. It determines the scope of the role of a new director, the skills and time commitment required and is actively involved in the recruitment process. Short listed candidates would then be invited to interview with members of the committee and if, recommended by the committee, would be invited to meet the entire board before any decision is taken relating to the appointment. This process was followed in relation to the appointment of Mr Whiteley. The company was assisted in the appointment of Mr Whiteley by the external recruitment consultants, Copley Wall Associates.

Audit committee

The audit committee consisted during the year of all the non-executive directors save for David Dunn. David Dunn joined the audit committee with effect from 1 January 2009 as allowed by the June 2008 changes to the FRC Combined Code.

The board is satisfied that Terry Garthwaite, who chairs the committee, has recent and relevant financial experience.

The executive directors and the external auditor may attend at the invitation of the committee. However, the committee has the right to request invitees to withdraw from the meeting to enable discussions to take place in their absence.

The main role and responsibilities of the audit committee are set out in written terms of reference. These terms of reference are available on the company's website at www.brammer.biz.

The committee has primary responsibility for making recommendations to the board on the appointment, reappointment and removal of the external auditor which the board puts to shareholders for approval in general meetings. It keeps under review the scope and results of the audit, and its cost effectiveness and the independence and objectivity of the auditor. The committee keeps the nature and extent of non-audit services under review by regularly reviewing the balance of audit to non-audit fees. The committee is aware of the need to safeguard auditor objectivity and independence and this issue is discussed by the committee and periodically with the audit partner at PricewaterhouseCoopers LLP.

The committee reviews annual and interim financial statements before submission to the board and reviews the scope and effectiveness of the group's internal control functions. The committee will periodically review the scope, remit and effectiveness of the internal audit function.

The committee reviews the policy by which employees of the company may, in confidence, raise matters of concern, including possible improprieties in financial reporting or other matters.

The committee monitors the integrity of the group's financial statements and announcements relating to financial performance and reviews the significant financial reporting judgements contained in them.

Remuneration Committee

The remuneration committee is chaired by Paul Forman and consists of all the non-executive directors. Paul Forman took over as chairman of the committee from Svante Adde on 1 July 2008. Members of the committee have no personal financial interest in the company other than as shareholders and the fees paid to them as non-executive directors. They are not involved in the day-to-day running of the company.

Ian Fraser and John Miller, Group Development Director, by invitation and for matters not relating to themselves, attend meetings and are consulted by the committee on proposals relating to the remuneration of the executive directors and appropriate senior executives. They do not participate in deliberations and decisions where they have a direct personal interest.

Further details are set out in the Remuneration Report on page 36.

Part B: Directors' remuneration

Details of directors' remuneration are set out in the remuneration report. The report details the company's compliance with the Combined Code's requirements with regard to remuneration matters. The terms of reference of the remuneration committee are available on the company's website at www.brammer.biz.

Part C: Relations with shareholders

The board is accountable to shareholders for the company's continued success. The company accordingly places great emphasis on maintaining good communications with shareholders. The chairman, chief executive and finance director meet regularly with major shareholders to discuss the group's performance, strategic issues and shareholder investment objectives. Reports of these meetings, and any shareholder communications during the year, are reported to the board.

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If requested, the non-executive directors are available to attend meetings with major shareholders. The board regularly receives copies of analysts' and brokers' briefings.

The annual report together with the Brammer website are substantial means of communication with all shareholders during the year. The Interim Report together with Interim Management Statements are announced to the Stock Exchange and also published on the Brammer website.

The notice of the annual general meeting accompanies this report and accounts. The notice is dispatched to shareholders, together with explanatory notes or a circular on items of special business, at least 21 working days before the meeting. It is the company's practice to propose separate resolutions on each substantially separate issue.

The board welcomes questions from shareholders who have an opportunity to raise issues either informally or formally before or at the annual general meeting. The chairmen of the audit, remuneration and nominations committees will normally be available at the meeting to answer those questions relating to the work of these committees. The chairman generally makes a statement on current trading at the meeting. The company counts all proxy votes and the chairman will inform shareholders of the level of proxies lodged on each resolution. The votes for and against each resolution, together with the number of abstentions will be given following the show of hands for that resolution.

Part D: Accountability and audit

The respective responsibilities of the directors and auditors in connection with the financial statements are explained in the statement of directors' responsibilities and the auditors' report.

Independence of auditors

The audit committee oversees the relationship with the external auditors including (but not limited to) approving their remuneration, assessing annually their independence and objectivity, taking into account relevant professional and regulatory requirements and the relationship with the auditors as a whole, including the provision of any non-audit services.

The directors ensure the independence of the auditors by requesting annual confirmation of independence which includes the disclosure of all non-audit fees. The group policy with regard to the provision of audit and non-audit services by the external auditors is based on the principles that they should only undertake non-audit services where they are the most appropriate and cost-effective provider of the service, and where the provision of non-audit service does not impair, or is not perceived to impair, the external auditors' independence and objectivity.

The present auditors, PricewaterhouseCoopers LLP, were appointed in 2001. A review took place in 2006 leading to the continued appointment of the present auditors.

The committee regularly reviews the analysis of all services provided by the external auditors. The policy is reviewed annually by the committee and approved by the board.

Details of the amounts paid to the external auditors for audit and non-audit services in 2008 are set out in Note 4 to the accounts on page 58.

Internal control

Internal controls are designed to manage rather than eliminate risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The board is responsible for the company's system of internal control and for reviewing its effectiveness (covering all material controls including financial, operational, risk management and compliance). The directors have regularly conducted a review of the effectiveness of the group's process for identifying, evaluating and managing the significant risks faced by the company; this has operated throughout the year and into 2008. The board reviews the results of the process, which is in line with the Turnbull (2005) guidance.

Operational structure, review and compliance

Together with board reviews, there are regular review meetings to address operating performance, plans, risks and controls between the corporate team and the country managing directors and finance directors.

The corporate team takes responsibility for finance, IT, the development of pan-European supplier relationships and the development of pan-European key account activity, which complements the work done within each of the subsidiaries. The continuing importance to the business of European supplier agreements and customer contracts has made the role of this team all the more relevant. Each business already has an established enterprise resource planning ("ERP") system; the overall strategy is to enhance the communication between these systems as part of a process of continuous improvement of the management and control of the inventory and the sales order process. As part of the development and improvement of the group's reporting system, a new financial reporting and consolidation package was introduced to improve the quality and speed of financial reporting.

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Brammer has had a finance manual in place for many years; it was expanded in 2001 to become a corporate manual with a wider range of contents, reflecting the evolution in corporate governance from financial internal control to all aspects of internal control. The finance manual was finalised in 2008 to reflect accounting developments.

In addition to the group finance director, the group has senior financial managers at head office. The board regularly considers the effectiveness of the internal audit department; some subsidiaries have their own internal audit function and there is a group internal audit officer.

The businesses have instituted internal monthly self-assessment processes at subsidiary level, tailored to their respective operations; these assessments are submitted for review. Monthly financial results of each subsidiary are reviewed at group level; the monthly review includes meetings where performance and action plans are presented to the Brammer chief executive, finance director and controllers. This culminates in reports that cover operational, financial and control reviews being submitted to the board.

These control processes are under continuing review to ensure adequacy for the purpose and efficient working in furtherance of their objectives.

Work of the Audit committee

The principal work carried out by the audit committee in 2008 included the following:

- Receiving reports from the internal audit department and reviewing its plans during the year;
- Accounting policies and standards – during the year the committee reviewed the application of any new accounting policies or standards which would be applicable to the group's 2008 annual report. The committee is updated regularly on actual and pending changes to the accounting standards;
- Internal controls and risk management – in December 2008, the committee considered a report on the operation of, and issues arising from the group's internal control procedures, together with observations from the external auditors. It also monitored at its February 2008 meeting the effectiveness of the group's risk management process, which considers the key risks, both financial and non-financial, facing the group and the effectiveness of the group's controls to manage and reduce the impact of those risks;
- In December 2008, the committee reviewed its Terms of Reference and non-audit services policy;
- External auditors' work and relationship – the committee reviewed the external auditors' proposed audit plan and considered its pre-year end issues report in December 2008; reviewed the fees paid for audit and non-audit services in February 2008 and December 2008; and assessed the external auditors' independence and objectivity; and
- "Serious concerns" policy – the committee confirmed the "serious concerns" policy under which employees may in confidence notify the company of any concerns, inter alia, involving financial reporting. A copy of the company's serious concerns policy is available on the company's website.

Risk management

The subsidiaries are required to carry out periodic risk assessments of their business and submit them to the head office. Taking account of risks identified during these reviews and other processes such as the meetings described above, this is distilled into an operational "Turnbull risk assessment" that is designed to summarise the key operational risks, how those risks are evolving and how they are being mitigated. The risk assessment is presented to the board on a regular basis.

As part of the process that Brammer has in place to review the effectiveness of the internal control system, there are procedures designed to capture and evaluate failings and weaknesses. In the case of those failings and weaknesses categorised by the board as "significant", procedures exist to ensure that necessary action is taken to remedy such failings.

A separate exercise is carried out as part of an ongoing review by the board that focuses on corporate risks. These are the strategic group level risks over and above the "Turnbull" operational risks which have been reviewed and considered by the Brammer management. A risk management policy has been formulated along with a board level risk assessment register.

Brammer's insurance continues to be managed and co-ordinated centrally with the assistance of insurance brokers. This gives the group full visibility of both claims history and the insurance industry's perception of the group's overall risk via the respective insurance premiums. Brammer examines the size and trend of these premiums and the extent to which it can mitigate the risks and reduce the overall risk burden in the business by considering the appropriate level of insurance deductible and the potential benefit of self-insurance in some areas.