

# CORPORATE GOVERNANCE STATEMENT

## Compliance with the Combined Code

This report explains the manner in which the company has applied the principles of the Combined Code on corporate governance. The board support the principles and provisions of the Code and confirms that the company complied with the Code in full during 2005.

## The board

The board has overall responsibility to shareholders for the management of the group. The primary function of the board is to set the group's strategy and to oversee the effective implementation of that strategy. A formal schedule of matters to be considered by the board is in place and is reviewed periodically. The board meets regularly and is responsible for matters such as the annual budget (including capital expenditure), major acquisitions and disposals, succession planning, investment strategy, dividend policy, substantial property transactions, and the group's system of internal controls. Decisions on operational matters are delegated to the executive directors. There is an established agenda of items to be considered at board meetings, which provides regular updates on the group's finances, operations, strategy and development. The board also receives presentations from executive directors and from divisional management and other senior executives on specific issues. The chairman meets separately with the chief executive on a regular basis and other informal meetings and discussions take place between directors as appropriate. The board receives monthly management accounts and other financial information. The board has seven scheduled meetings per annum and meetings may be convened at other times as and when necessary; there were eight meetings in total during 2005. Details of individual attendance by directors at board and committee meetings are set out below.

	Board	Audit Committee (attendance is shown only for committee members)	Remuneration Committee
Geoff Unwin	8		
David Levin	7 (of 7)		
Charles Gregson	8		
Nigel Wilson	8		
John Botts	8	4 (of 5)	
Christopher Hyman	7 (of 8)	3 (of 5)	
Sandy Leitch	6 (of 8)		6
Jonathan Newcomb	8	5	6
Chris Powell	7 (of 8)		6
Adair Turner	8	5	6
Clive Hollick	2 (of 2)		
Malcolm Wall	1 (of 1)		

## Board committees

The board is assisted in fulfilling its responsibilities by three principal committees, the audit, remuneration and nomination committees. Details of the activities of the audit committee are set out in a separate report on page 37 while those of the remuneration committee are set out in the remuneration report on pages 24 to 33.

The terms of reference for all committees may be viewed on the company's website and copies can be obtained from the company secretary, who acts as secretary to all three committees.

## Nomination committee

The nomination committee is chaired by Geoff Unwin and its other members were John Botts and Chris Powell. In February 2006 Sandy Leitch replaced Chris Powell on the committee. The committee meets as required to review the structure, size and composition of the board and to oversee the recruitment of new board members, both executive and non-executive.

Recruitment is conducted with the assistance of external search consultants for both executive and non-executive directors.

During 2005 the nomination committee did not meet formally, but members continued to review potential candidates for non-executive directorships in order to ensure that there was an appropriate mix of skills and experience on the board.

# CORPORATE GOVERNANCE STATEMENT

## Board balance and independence

For the majority of 2005 there were ten board members, comprising the chairman (part-time), chief executive, two other executives and six non-executive directors. Clive Hollick stepped down as chief executive of UBM in April upon the appointment of David Levin, but remained as an executive director until the annual general meeting in May. Malcolm Wall, Chief Operating Officer, left the board in March 2005. John Botts is the senior independent non-executive director. The board believes that a strong presence of non-executive directors is a key aspect of effective corporate governance. The board assesses and periodically reviews the independence of its non-executive directors; in doing so it has regard to the personal qualities demonstrated by each director, particularly the nature and effectiveness of his contribution to debate at board and committee meetings. The board has taken particular note of those factors which are listed in the Combined Code as possibly affecting the independence of directors, which are relevant to two directors. In both cases the board concluded that these factors do not affect the independence of the individual director concerned. Adair Turner is a vice-chairman of Merrill Lynch Europe; this role is unconnected with the services provided by Merrill Lynch as one of the company's brokers. Chris Powell had served as a director of the company for nine years in April; as explained in last year's annual report, the company wished to retain his services during the transitional period of handover to the incoming chief executive. He was re-elected to the board at the 2005 annual general meeting and will retire at the next AGM. Biographies of all the directors currently in office are set out on pages 22 to 23 and illustrate their range of experience.

Under the company's articles of association, at each annual general meeting any director then in office who has been appointed by the board since the previous annual general meeting and any director who at the date of the notice convening the meeting had held office for more than thirty months since he was last appointed or re-appointed by the company in general meeting shall retire from office but is eligible for re-appointment. Non-executive directors' appointments are reviewed every three years.

The roles of chairman and chief executive are separate, and a summary of their respective responsibilities is set out in writing and has been approved by the board.

The chairman is responsible for overseeing the operation of the board but takes no part in the day to day running of the business. Prior to his appointment as chairman, Geoff Unwin was an independent non-executive director of the company. He is also chairman of Halma plc, Liberata plc, The Cloud Networks Limited and OmniBus Systems Limited and is a member of the advisory board of Palamon Capital Partners.

## Board evaluation

The evaluation of the performance of the board, its committees and individual directors during 2005 was undertaken by the following means:

- The chairman's performance was evaluated by means of a written questionnaire, which all directors were asked to complete, and also by the non-executive directors in a meeting led by the senior independent director.
- The chief executive, David Levin, evaluated executive directors' performance. The chief executive's performance was reviewed by the chairman who took account of views of other board members.
- To enable the board to evaluate its own performance and that of its committees, directors completed a detailed questionnaire and commentary on a confidential basis, the results being collated and reported back to the board by the company secretary. The chairman also conducted one to one discussions with other board members and with senior management regarding board performance.

## Information and professional development

A procedure exists whereby directors may seek independent professional advice if they consider it appropriate to do so in the furtherance of their duties.

All directors have access to the advice and services of the company secretary, who has primary responsibility for keeping directors updated and informed of general developments which may be of relevance to their responsibilities. The company secretary is not a board director. All directors are offered the opportunity to further their professional development by means of attendance at seminars and briefings. An induction process is in place for all directors on appointment; this includes discussions with the chairman and chief executive as well as one to one briefings and presentations from other directors and senior management on matters relating to the group's businesses and procedures. Non-executive directors are encouraged to meet with members of senior management on an individual basis and to visit the group's operations.

All board members participated in the group's annual management conference, which was held in Bangalore, India and was attended by senior divisional and head office executives. This provided a valuable opportunity for discussion of the group's strategy and its businesses as well as enabling participants to learn at first hand about the economic environment in India, where UBM has growing business interests, through visiting companies and non-governmental organisations based there.

# CORPORATE GOVERNANCE STATEMENT

## Relations with shareholders

The company's shareholders are kept informed about the activities and progress of the group primarily by means of the annual and interim reports, and by the publication of updated trading information prior to the start of each close period and at the annual general meeting. All results presentations are streamed onto the web and are accessible by all investors. Financial and other information about the company is published on its website, which has links to the websites of other businesses in the group.

In November 2005 UBM held an investor day, which enabled institutional investors and analysts to receive presentations from the executive management team about the group's businesses.

The company also maintains an ongoing dialogue with its major institutional shareholders by means of scheduled programme of meetings, which are generally undertaken by the chief executive and chief financial officer, and may be attended if appropriate by the chairman or senior independent director. In connection with the introduction during the year of new long-term incentive plans, the chairman and chairman of the remuneration committee met with the company's largest investors and took account of view expressed by them in designing those plans. The chairman is responsible for ensuring that the views of shareholders are communicated to other directors. Feedback from investor meetings is provided to all directors, as are analysts and brokers' reports. An independent survey of investors was also carried out by the company's external IR consultants and the results presented to the board.

Consultation is undertaken with bodies representing shareholders' interests on matters which the company considers appropriate. All shareholders are welcome at the annual general meeting where they have the opportunity to ask questions of all the directors, including the chairman, as well as the chairmen of the audit and remuneration committees.

## Internal control

The board is responsible for maintaining the effectiveness of the group's system of internal controls and for reviewing the effectiveness of such systems. The system is intended to enable the group to identify and manage the risks inherent in its business and accordingly can provide only reasonable and not absolute assurance against material mis-statement or loss.

A formal process is in place for identifying, evaluating and managing the key financial, operating and compliance risks faced by the group. This risk mapping process, which was in place throughout 2005 and continues in force, accords with the Turnbull guidance issued in September 1999 and is reviewed annually by the board. The process, which is undertaken at a divisional level, aims to identify and evaluate risks which are specific to each of the group's businesses. The results are co-ordinated by the internal audit department, reviewed centrally by senior management, and considered by the audit committee, which in turn reports to the board. The process established for the group includes the following:

- All staff are required to comply with a formal system of delegated authorities which is in place for all divisions and head office.
- Further guidance on group policies and procedures is set out in various manuals including the financial policies and procedures manual, group policy manual and employee handbooks.
- An anti malpractice policy is in place throughout the group which provides a mechanism for confidential reporting by staff of possible concerns about financial or other matters.
- Treasury operations and taxation matters are considered by the finance committee, a management committee which operates within specified delegated authorities and reports to the board. Meetings are customarily attended by the chief executive, chief financial officer, deputy CFO, company secretary, head of taxation and head of treasury.
- The group has a comprehensive financial reporting system, with the annual budget being approved by the board and monthly trading results, balance sheets and cashflow summaries recorded against corresponding figures for the budget and the previous year.
- The chief executive and chief financial officer are responsible for certifying the company's annual financial statements, which process is supported by certification for the individual businesses from divisional CEOs and finance directors. As part of this process the disclosure committee, chaired by the company secretary, reviews the information contained in the company's financial statements and results presentations, and the method by which such information was gathered and evaluated by senior management.
- Established procedures are in place for the evaluation of potential acquisitions and their integration into the group, including the provision of detailed business plans and monitoring of post acquisition performance against such plans.
- The internal audit department undertakes periodic reviews of individual businesses to assess their control status and makes recommendations to the audit committee. The work of the internal audit department is prioritised to concentrate on the areas of greatest risk as identified through the group risk management process. The head of internal audit attends meetings of the audit committee, which oversees the role and structure of the internal audit department and makes recommendations to management.

# CORPORATE GOVERNANCE STATEMENT

## The Audit Committee

The audit committee is chaired by Adair Turner and its other members are John Botts, Jonathan Newcomb and Christopher Hyman, all of whom are independent non-executive directors. Members of the committee have broad financial experience which has been gained in a variety of disciplines, and which the board considers appropriate to enable the committee to carry out its responsibilities. The committee meets at least four times a year; it met on five occasions during 2005 and details of individual attendance are set out in the table on page 34. The company secretary is secretary to the committee and others invited to attend committee meetings include the chief financial officer, deputy CFO, head of internal audit, head of taxation and external auditors. The committee also meets at least once a year with external auditors without management present.

The committee operates within written terms of reference, which are reviewed annually. Its responsibilities include the following:

- Review of the interim and annual financial statements and other formal announcements relating to financial performance.
- Review of the adequacy of the group's internal central and risk management processes, and to review the company's disclosure on internal controls and procedures.
- The appointment, remuneration and oversight of the external auditors, including monitoring the auditor's independence and objectivity and the effectiveness of the audit process.
- Review of the internal audit programme, ensuring that the internal audit function is adequately resourced and has appropriate standing within the company and generally monitoring its effectiveness.
- Ensure that procedures are in place to deal with complaints regarding accounting or audit matters.

To assist in ensuring auditor objectivity and independence, the audit committee has established a formal procedure regarding the undertaking of non-audit services by the external auditor, which identifies a number of categories of work where the auditors will not normally be employed, including financial due diligence on potential acquisitions and financial systems consultancy. Appointment of the external auditor for other non-audit services may only be made with the prior approval of the audit committee. Approval for projects with anticipated fees not exceeding specified limits is delegated to the chief financial officer or deputy CFO and is reported to the committee.

A review of auditor effectiveness and independence has also been conducted by executive management, following the guidelines established by the ICAEW and ICAS, and considered by the committee.