

Corporate governance report

The Company is committed to the principles of good corporate governance contained in the Combined Code on Corporate Governance which is appended to the Listing Rules of the Financial Services Authority.

The Board undertook a complete review of its corporate governance framework following the publication of the new Combined Code in July 2003 (the new Combined Code) to ensure that it could continue to uphold the principles of good governance to enable it to fulfil the Group's corporate responsibilities and achieve its financial objectives.

This report sets out the Company's compliance with both the current and the new Combined Codes.

Statement of compliance with the Combined Code

The Company has complied with the provisions set out in Section 1 of the June 1998 Combined Code and the provisions of the new Combined Code throughout the year ended 31 March 2004 except for the period until 1 October 2003 when the roles of Chairman and Chief Executive were temporarily combined as an interim measure pending the appointment of Keith Clarke. In addition, following the retirement of Frances Heaton on 16 September 2003 and prior to the appointment of Lord Boyce and Sir Peter Williams as Non-Executive Directors on 5 May 2004, the Audit and Remuneration Committees temporarily consisted of two Non-Executive Directors.

Board and Committee structure

Board

The Board of Directors is the body responsible for corporate governance, for establishing policies and objectives and for the stewardship of the Group's resources. It is the Group's policy that the roles of Chairman and Chief Executive are separate, with their roles and responsibilities clearly defined and recorded. Currently the Board is made up of the Chairman, three Executive Directors and five Non-Executive Directors. Struan Robertson is the Senior Independent Director. The biographies of the Directors as at the date of this report are given on page 28.

It is the opinion of the Board that the Non-Executive Directors are independent of management and have no business or other relationship which could interfere materially with the exercise of their judgement.

The Board has a regular schedule of meetings together with further meetings when required. In addition, Directors meet as members of relevant Committees. There is a formal schedule of matters reserved specifically to the Board for decision and delegating specific responsibilities to Committees.

The formal schedule of matters reserved for the Board includes strategy, the approval of financial statements and shareholder circulars, treasury policy, major capital investments, risk management strategy and acquisitions and disposals.

The Non-Executive Directors meet with the Chairman separately during the year.

All Directors have access to the advice and services of the Group Company Secretary, who is responsible for ensuring that Board procedures and applicable rules and regulations are observed. There is an agreed procedure for Directors to obtain independent professional advice, paid for by the Group.

In accordance with the Company's Articles of Association, one third of the Board is required to retire by rotation each year. In addition, all those appointed during the year will stand for re-election at the next General Meeting, ensuring that each Board Member faces re-election at regular intervals.

Chairman

Michael Jeffries, the Chairman, normally spends two days per week on the business of the Group. His other significant commitments are disclosed in his biography on page 28. The Board considers that these commitments do not hinder his ability to discharge his responsibilities to the Company effectively.

Committees of the Board

The Board's Committees meet regularly to enable them to discharge their responsibilities. Each Committee has formal Terms of Reference which are reviewed annually by the Board. Copies are available on request from the Company Secretary or on the Group's website www.atkinglobal.com. Following formal decision making the Board may, on occasion, delegate authority to a committee consisting of any two Directors to facilitate final sign off for a course of action within agreed parameters.

Group Executive

The Group Executive meets regularly throughout the year, at least ten times. It is responsible for the management of the business and is chaired by the Chief Executive. Its members currently comprise the Group Finance Director, the Managing Directors of the business units, the Human Resources Director and the Group Company Secretary.

The respective roles of the Board and Group Executive are discussed further under Internal control on page 34.

Audit Committee

The Audit Committee comprises James Morley, Struan Robertson and Sir Peter Williams, all independent Non-Executive Directors. James Morley, a Chartered Accountant, is Chairman of the Committee. Sir Peter Williams was appointed as a member of the Committee on 5 May 2004. Frances Heaton was Chairman of the Committee until her retirement from the Board on 16 September 2003. The Board considers all members to have recent and relevant financial experience.

The Committee's central functions are to review the scope of the external audit, to receive direct reports from the external and internal auditors and to review the half yearly and annual financial statements before they are presented to the Board, focusing in particular on accounting policies and compliance, areas of management judgement and estimates, and the effectiveness of internal control procedures.

The key elements of processes used by the Audit Committee to review the effectiveness of the system of internal control include:

- discussion with management on risk areas identified by management and/or the audit process;
- review of internal and external audit plans;
- review of significant issues arising from internal and external audits; and
- review of significant Group risks reported by the Group Risk Committee.

The Committee is responsible for the review of the Company's written procedures for responding to the allegations of whistleblowers.

The Audit Committee's Terms of Reference address the provisions in the Combined Code in relation to audit committees and auditors. The Board and the Audit Committee monitor the cost effectiveness of audit and non-audit work performed by the external auditors and also consider the potential impact, if any, on the corporate relationship with the auditors before awarding any non-audit work. The Board and Audit Committee also review the independence of the external auditors.

The external auditors continue to operate procedures to safeguard against the possibility that the auditors' objectivity and independence could be compromised. This includes the use of independent concurring partners, use of a technical review board (where appropriate) and annual independence confirmations by all staff. The auditors report to the Audit Committee on matters including independence and non-audit fees on an annual basis. In addition, the role of the audit partner is rotated on a periodic basis.

Nomination Committee

The Nomination Committee comprises Michael Jeffries, Lord Boyce, Christopher Kemball, James Morley, Struan Robertson and Sir Peter Williams. The Committee is chaired by Michael Jeffries except when his own succession is being discussed at which time Struan Robertson chairs the Committee as Senior Independent Director. Lord Boyce and Sir Peter Williams were appointed as members of the Committee on 5 May 2004. Frances Heaton was a member of the Committee until her retirement from the Board on 16 September 2003. The Committee is responsible for nominating candidates for appointment to the Board.

During the year the Nomination Committee recommended the appointment of two new Non-Executive Directors. Lord Boyce and Sir Peter Williams were appointed on 5 May 2004. The appointments aim to widen the skill set of the Board. The Committee used an external search consultancy to assist in making recommendations. The Committee makes regular appraisals of the processes in place for succession planning in respect of both Board and senior appointments.

All Non-Executive Directors are advised of the time commitment considered necessary to enable them to fulfil their responsibilities prior to appointment.

Remuneration Committee

The Directors' Remuneration report on page 36 includes details of the Remuneration Committee and its work.

Board and Committee attendance

The following table details the number of Board and Committee meetings held during the year ending 31 March 2004 and the attendance record of each Director.

	Board meetings		Committee meetings		
	Scheduled	Committee ⁽⁶⁾	Audit	Remuneration	Nomination
Number of meetings held in year	12	25	5	8	5
Stephen Billingham	12	21	5 ⁽⁴⁾	n/a	2 ⁽⁴⁾
Keith Clarke ⁽¹⁾	6	11	3 ⁽⁴⁾	3 ⁽⁴⁾	3
Michael Jeffries	12	14	4 ⁽⁴⁾	7 ⁽⁴⁾	2
Frances Heaton ⁽²⁾	4	1	3	5	n/a
Christopher Kemball	9	n/a	1 ⁽⁴⁾	1 ⁽⁵⁾	4
Paul Marsh ⁽³⁾	n/a	n/a	n/a	n/a	n/a
James Morley	10	4	5	6	2
Struan Robertson	12	2	4	8	5

(1) Mr Clarke has attended all Board meetings since being appointed as a Director on 1 October 2003.

(2) Mrs Heaton retired from the Board on 16 September 2003.

(3) Mr Marsh resigned from the Board on 10 April 2003.

(4) Attendance for parts of the meeting was at the request of the Committee.

(5) Mr Kemball attended the meeting as Mr Morley's alternate.

(6) A committee set up by the Board to provide final sign off for a course of action agreed in a scheduled Board meeting.

Board performance evaluation and training

The Board, as part of its commitment to ensuring effectiveness and evaluating its performance together with that of its Directors and Committees, appointed external consultants to assist in a formal evaluation process. This evaluation, which in future will be carried out annually, consisted of interviews with and questionnaires of all Executive and Non-Executive Directors, the Group Company Secretary and selected key Senior Managers. All necessary actions are being implemented following a full Board appraisal of the findings. The appointments of Lord Boyce and Sir Peter Williams took place following the completion of this evaluation process.

The Non-Executive Directors have met alone to appraise the Chairman's performance.

The Company has a continuing professional development framework to assist the Chairman, Executive Directors and Non-Executive Directors in discharging their responsibilities effectively. Non-Executive Directors meet regularly with members of the Group Executive and receive regular business updates via scheduled presentations. These, coupled with site visits, ensure Non-Executive Directors gain first hand experience of developments within the Group. External training is provided as necessary.

Corporate governance report

continued

Internal control

The Board has accountability for reviewing and approving the adequacy and effectiveness of internal controls operated by the Group, including financial, operational and compliance controls and risk management. It is the role of management to implement the agreed policies on risk and control.

The system of internal financial and operational controls is designed to meet the Group's particular needs and aims to facilitate effective and efficient operations, to safeguard the Group's assets, ensure proper accounting records are maintained and ensure that the financial information used within the business and for publication is reliable. The Group's risk management process identifies the key risks facing each business and reports to the Board on how those risks are being managed.

Such a system of internal control can only be designed to manage rather than eliminate risk of failure to achieve business objectives and can provide reasonable, but not absolute, assurance against material misstatement and loss.

The Board confirms that there is a continuing process for identifying, evaluating and managing the risks faced by the Group and that the process has been in place for the year under review and remains current. This process covers subsidiaries in which the Group has an interest of 50% or more. Joint Ventures in which the Group does not have overall control are not treated, for these purposes, as part of the Group. For these Joint Ventures, systems of internal control are applied as agreed between the parties to the venture. For Metronet the Board has separately reviewed the risks faced by the Group.

The Audit Committee has reviewed the operation and effectiveness of the Group's internal controls, which operated during the period covered by the Directors' report and financial statements, up to and including the date of approval by the Board.

Key features of the system of the Group's internal control are as follows:

Group organisation and culture

By its statements and actions the Board emphasises a culture of integrity, competence, fairness and responsibility.

The Board focuses mainly on strategic issues, senior management and financial performance. The Group Executive concentrates on operational performance, operational decision making and the formulation of strategic proposals to the Board. The Managing Directors of the business units manage their businesses with the support of senior managers. The Board determines how the Group Executive and the individual businesses operate within a framework of delegated authorities and reserved powers which seek to ensure that certain transactions, significant in terms of their size or type, are undertaken only after high level review.

Control environment

The Group's operational structure has clearly documented and communicated principles of delegation of authority and segregation of duties. The Group's management systems include financial policies and procedures, corporate and business quality assurance manuals, health and safety procedures and environmental management procedures. These procedures are subject to review to ensure that improvements to enhance controls can be made.

Financial reporting

The Board approves a business plan and annual budgets for individual business units and the Group. The financial performance of individual business units is reported regularly and compared to annual budgets. The Group reports to shareholders on a half-yearly basis. Forecasts for the Group are updated and reviewed by the Board regularly.

Project and contract control

Procedures seek to ensure that risks are identified through the project lifecycle from bidding to completion. Regular review procedures are in place to ensure that issues are appropriately reported to the Board. A Commercial Risk and Audit Framework is in place which requires peer review to be carried out for all significant bids and opportunities or where significant investment decisions have to be taken.

Individual business controls

Individual businesses and central corporate functions complete an annual self-certification statement. Responsible managers personally confirm the adequacy of their systems of internal control and their compliance with Group policies. The statement also requires the reporting of any significant control issues that have emerged so that areas of Group concern may be identified, addressed and experience shared.

Functional speciality reporting

The Board assesses the risks facing the business on an ongoing basis and has identified a number of key areas which are subject to regular reporting to the Board such as human resources, health and safety, environment, equity investments and treasury.

Risk management review

The Board assesses risk management throughout the Group, aided by the Group Risk Committee and detailed reviews of internal controls and risk management. The Group Risk Management Framework requires businesses to record formally all significant risks facing their business and detail the steps being taken to avoid or mitigate those risks. A summary of the key risks facing the Group is placed on risk registers which are reviewed regularly by the Board.

The Group maintains insurance policies to provide protection from losses arising through claims from clients. The adequacy of the Group's insurance cover is reviewed by the Board annually.

Internal Audit

The Internal Audit function undertakes a programme to address internal control and risk management processes with particular reference to the Turnbull report. Its conclusions are communicated to the relevant level of management and the function has a direct reporting responsibility to the Audit Committee acting on behalf of the Board.

Investor relations

The Board gives communication with all shareholders a high priority. The Annual and Interim Reports are sent to all shareholders and all shareholders are invited to the Company's AGM, which is attended by the full Board.

The Group's website contains information on current activities, including recordings of the Annual and Interim results presentations to City analysts and institutional investors.

The Board welcomes the views of all shareholders. The Chairman maintains contact with major shareholders and recently wrote to them to set out the Company's commitment to open, on-going dialogue. Both the Chairman and the Senior Independent Director will make themselves available for the regular investor meetings held by the Chief Executive and Group Finance Director if they are requested to do so. A wide range of relevant issues are discussed at investor meetings including strategy, performance, management and corporate governance. Non-Executive Directors are kept informed of the views of shareholders by the Chairman and the Executive Directors provide reports to them on investor meetings. The Company's brokers provide briefings to the Board on shareholder opinion and compile independent feedback from investor meetings.

The annual report is designed to present a balanced and understandable view of the Group's activities and prospects. The Chairman's statement, Chief Executive's review of operations and the Financial review on pages 14 to 27 provide an assessment of the Group's affairs and position and will be supported by a presentation to be made at the AGM.

Approved by the Board of Directors and signed on its behalf



Amanda Massie
Group Company Secretary
19 July 2004