

# CORPORATE GOVERNANCE

The Company is committed to high standards of corporate governance. This statement describes how the Board has applied the principles of good governance set out in the Combined Code ('the Code') issued by the Hampel Committee on Corporate Governance. The Code is part of the listing rules of the Financial Services Authority. It applied to the Company throughout the year.

In July 2003, the Financial Reporting Council revised the Code (the Revised Code). The Revised Code is not applicable to the Company in the year under review, but the Company has continued the process of further formalising its procedures to enable the Board to report, as required, under it in the year beginning 4th October, 2004.

The paragraphs below and in the Remuneration Report on pages 33 to 44 set out how the Company has applied the principles laid down by the Code. They also explain procedural changes that have been made in response to the Revised Code. The Company has substantially complied with the provisions of the Code, except where stated below or in the Remuneration Report.

## The Board

The membership of the Board and individual attendance by Directors in the 2003/04 financial year is set out below:

	Number of meetings held	Number of meetings attended
The Viscount Rothermere	5	5
C J F Sinclair	5	5
J P Williams	5	5
D M M Dutton	5	5
P M Dacre	5	5
P M Fallon	5	5
J G Hemingway	5	5
S M Gray	5	5
I G Park	5	5
F P Lowy	5	2
K Schwab	5	2
C W Dunstone	5	4
F P Balsemão	5	4
T S Gillespie	3	2
D J Verey	3	3
Sir Patrick Sergeant	2	2
N H Hakkarainen	2	2

The Board met five times during the year, four of which were regular meetings. Five Directors were unable to attend a special meeting, held at short notice in June.

Following the changes made on 1st December, 2004, the Board comprises seven executive Directors, including the Chairman and Chief Executive, and eight non-executive Directors. The Board believes that four non-executive Directors may be considered to be independent in the sense used in the Code, namely Messrs Lowy, Dunstone, Balsemão and Verey. This represents half of the non-executive Directors, rather than a majority as recommended by the Code. Although Mr Lowy has been a non-executive Director for longer than nine years, he has continued to demonstrate his independence in terms of character and judgement.

Messrs Hemingway, Gray, and Gillespie are not regarded by the Board as independent in terms of the Code because they have advised the Company over many years; nor is Mr Park due to his recent Group responsibilities. The Board believes that these non-executive Directors have invaluable experience of the Company, its business and its staff. The Board has not, as required by the Code, identified a senior independent non-executive Director since it believes that to identify such an individual is potentially divisive to a unitary body, as the Board is, and disruptive to the role of the Chairman.

The Company's Articles of Association require all Directors to submit themselves for the re-election at least once every three years. The Articles require that a Director appointed by the Board must stand for election at the next Annual General Meeting. Under the Companies Act, a Director is also required to stand for re-election when he first reaches the age of 70. The Board has chosen not to adopt the additional provision in the Revised Code that non-executive Directors who have served for more than nine years should be subject to annual re-election since the existing practice, which complies with Company law and with the Articles, works well.

The Board meets at least on a quarterly basis and at such other times as are necessary. There is a schedule of matters reserved to the Board which is published on the Corporate Governance section of the Company's web site at [www.dmgf.co.uk](http://www.dmgf.co.uk).

In October, 2004, the Board reviewed its performance and agreed to establish an internal procedure to enable a formal and rigorous evaluation of its individual Directors to be carried out and reported upon in next year's Annual Report. The Board also reviewed the schedule of matters reserved for it.

Procedures are established to ensure that the Board receives timely and appropriate information both for its meetings and regularly between meetings.

The Board has established Nominations, Remuneration, Audit and Risk Committees with mandates to deal with specific aspects of its business. The remits of these committees are also published on the Corporate Governance section of the Company's web site. Details of the membership of these committees are given on page 28. Each committee reports to the Board at every regular meeting. In October, 2004, the Board carried out a review of the performance of its committees and concluded that they had been effective in the year.

All Directors have access to the advice and services of the Company Secretary and are offered such training as is considered necessary, both on appointment and at any subsequent time. There is an agreed procedure for Directors to take independent professional advice at the Company's expense, if necessary.

## Nominations Committee

The Nominations Committee, which was established as a separate committee in May 2003, met three times during the year and all meetings were attended by all serving Directors. The members of the Committee are the Viscount Rothermere, its chairman, Mr Hemingway and Mr Balsemão. Mr Balsemão was appointed in November 2003, replacing Mr Gray and Mr Hakkarainen. The Deputy Finance Director, Mr Perry, acts as secretary to the Committee.

During the year the Committee nominated Mr Gillespie and Mr Verey as non-executive Directors. These Directors and others were identified as suitable candidates, and neither external advice nor advertising was required in these instances.

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The Committee continues to review succession planning for both executive and non-executive Directors. It has also assessed the most appropriate method of evaluating Directors' performance.

## Relations with shareholders

The Company maintains a regular programme of contact with its institutional shareholders. In the past year, this has included meetings in London, Scotland, Ireland, Continental Europe and the U.S. Partly to assist private shareholders, the Company posts all announcements and general presentations given to analysts and institutions on its corporate web site at [www.dmgt.co.uk](http://www.dmgt.co.uk). Shareholders and others interested in the Group are encouraged to use the site and to email questions which they might have. Questions to particular Directors should be addressed through the Company Secretary.

All shareholders are welcome to attend the Annual General Meeting, of which twenty working days' notice is given.

## Internal controls and management of risk

The Group adopts a prudent risk strategy, weighing opportunities for potential gain against threats to overall business objectives and profitability. Senior management addresses the opportunities and uncertainties relating to the business activities of the Group. The risk management process consists of the identification, evaluation and control of risks, which could threaten the achievement of the Group's strategic, operational and financial objectives, as well as the active management of opportunities.

The Group operates on a divisional basis with each of the divisions described at the front of the Annual Report having considerable autonomy as regards its operation and establishment of control systems. Overseeing the divisional structure is a central management responsible to the Board. Certain functions are undertaken centrally, notably newsprint buying, insurance, treasury, tax and pensions.

The Board of Directors has overall responsibility for the Group's system of internal control. This system is designed to provide reasonable assurance of the safeguarding of assets and shareholders' investment and the reliability of financial information. Any such system can, however, provide only reasonable, and not absolute, assurance of these matters. The Directors confirm that they have reviewed the effectiveness of the Group's system of internal control for the period up to the date of the approval of the Accounts.

The Board has delegated responsibility for the evaluation of the benefits and risks of investment opportunities and financing proposals to an executive committee, the Finance Committee. Above certain defined levels, however, the Board must approve programmes relating to acquisition and divestment proposals and capital expenditure. In 2000, the Board established a process for the management of significant risks across the Group by means of a Risk Committee which accords with the guidance provided by the Code.

## Risk Committee

Whilst the ultimate responsibility for the system of internal control and the review of its effectiveness resides with the Board, the Risk Committee assists the Board by giving assurance on risk management issues and processes. The Risk Committee is chaired by Mr Sinclair, the Chief Executive. Its other members are the Viscount Rothermere, Messrs Williams, Gray and Dutton and the legal director of the Group's largest subsidiary. Mr Gray provides a non-executive perspective to the review of risk management processes within the Group, as well as providing a

direct link to the Audit Committee. The Group's Risk Manager, Mr Brett, acts as secretary to the Committee. It met three times during the year under review.

The Risk Committee considers reports prepared by central management, by each of the divisions of the Group and by central functions, on a half-yearly basis. These reports identify business risks for the Group as a whole and within the divisions and assess the controls in place to manage those risks. The Committee operates a rotational programme of presentations by the divisions on specific risk management issues, as well as identifying topics for consideration across the Group. An example of this is Corporate Social Responsibility on which a report was given in September.

Members of the Risk Committee also maintain direct links with each of the main divisions through attendance at divisional board meetings. The Committee reports to the Board at each of its meetings on the results of these processes to enable the Board to determine the overall effectiveness of the system of internal control.

In the last year, the specific risk items addressed by the Risk Committee, which are common to all subsidiaries, were the Control of Asbestos Regulations 2002, Disability Discrimination Act 1995, health and safety risks relating to the use of mobile phones and business continuity. Other risks were also addressed by the Committee on an individual divisional basis, such as computer security.

## Audit Committee

The Audit Committee, which has been in existence since 1989, comprises four non-executive directors: Messrs Gray (its chairman), Hemingway, Park and Verey. Mr Verey joined the Committee in February. In September Mr Dunstone resigned from the Committee due to his external commitments so that only Mr Verey is considered to be independent in the sense used by the Code. Nevertheless the Board believes that the Committee operates independently. Members' qualifications are set out in their biographies on page 28. The Board is satisfied that Mr Gray, formerly senior partner of a firm of chartered accountants, has recent and relevant financial experience. The Company Secretary, Mr Jennings, is secretary to the Committee.

The Audit Committee met four times during the year and all meetings were attended by all serving Directors, except that Mr Dunstone was unable to attend two of them.

Last year, the Committee reported that it had made a number of procedural changes in response to the Smith Guidance to the revised Combined Code and had devised a policy on whistle blowing. Procedures were established to monitor the independence of the external auditors. This has been extended to include a policy on employment of former audit principals. There is also a policy on the provision of non-audit services with which the Group's head office and each division complies. The choice of firm is normally determined on the basis of professional expertise and competitiveness. The Group may engage the external auditors to perform audit-related work, accountancy advice and corporate tax services. Non-audit services in other areas are decided on their merits and are put out to tender where the amounts in question are significant. The external auditors are excluded from the following areas: where they are auditing their own work; where a mutuality of interest is created; or where the external auditor would be put in the role of advocate for the Company.

Non-audit fees payable to Deloitte & Touche LLP ('Deloitte') in 2004 amounted to £3.3 million, compared to £1.0 million the previous year. The Audit Committee regards this as an unusually

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high level due to the extent of corporate tax advice given and Deloitte's involvement in the examination of the potential acquisition of certain assets of Hollinger International. Since Deloitte's appointment in 2001, non-audit fees have been on average lower than audit fees. Excluding the 2004 audit and non-audit fees, the average as a percentage of audit fees is 58%.

In September, the Audit Committee carried out an annual review of its terms of reference and of its effectiveness and concluded that it did not need to recommend to the Board any changes to its remit or operations. In October, 2004, the Board conducted its own review of the Committee's performance and agreed that the Committee had been effective in the year under review.

The Audit Committee, on behalf of the Board, has responsibility for the review of financial risk management and of internal financial controls during the year, as these directly relate to the quality of financial reporting. In addition, the Committee reviews a summary of letters to management prepared by the Group's external auditors following their audit procedures, considers significant financial reporting issues and approves any changes to Group accounting policies, which are set centrally. During the year, the Committee received reports from the Group Accountant on the progress being made to enable the Group to implement international accounting standards in the year beginning 3rd October, 2005. Apart from these specific responsibilities, the Committee is mandated to review all announcements of results issued by the Group and to consider the appointment of external auditors and to review their remuneration.

Last year the Committee reported that a central internal audit function was being established to co-ordinate the internal audit activities carried out across the Group. In November 2003 a Group Internal Audit Manager was appointed, who joined the Company in January, to perform the functions set out in the Smith

Guidance, building on the Company's existing control and risk management process. In May, an internal audit charter and an internal audit plan were approved by the Committee. The charter covers the purposes and objectives of the Group's internal audit function, its authority and scope; independence issues; standards of professional practice and performance monitoring; planning and reporting; and the expectations of divisional management. Following each review, a formal report will be issued to divisional management with the audit findings and, where appropriate, management's response. At each Audit Committee meeting, the Internal Audit Manager reports on the internal audit activity completed, including an overview of the work done, a summary of the control assessments and any major issues or findings.

The Group does not maintain common detailed accounting or operations manuals because of the diverse operations carried out by its divisions. Where applicable, divisions maintain their own manuals. A number of the divisions also undertake regular control review work as part of their control process.

As a consequence of the Group's risk management process, the Board has taken the view that control processes in place remain adequate.

One of the Group's subsidiaries, Euromoney Institutional Investor plc, is subject to the requirements of the Code in its own right. As disclosed in its latest annual report, it has in place its own system of internal control and risk management processes.

The joint ventures and associates of the Group are also not included in the Group's system of internal control described above. The most significant associate, GWR Group plc, is also a listed company and its own processes for the identification, evaluation and management of significant risks are disclosed in its own annual report.