

# PZ Cussons Report on Corporate Governance

August 2013

The Board is committed to meeting the standards of good corporate governance as established by the Financial Reporting Council from time to time. In respect of the year ended 31 May 2013, the UK Corporate Governance Code published in June 2010 (the Code) applied to the Company (although the Board has also been cognisant of the changes introduced by the 2012 UK Corporate Governance Code which will apply to the Company with effect from the year ending 31 May 2014). The Code is publicly available on the Financial Reporting Council's website ([www.frc.org.uk](http://www.frc.org.uk)).

This report, together with the Report on Directors' Remuneration in respect of remuneration matters, describes how the Board applied the Code during the year under review.

## Board Composition and Independence

The size of the Board allows individuals to communicate openly and to make a personal contribution through the exercise of their individual skills and experience. As at the date of this report, the Board of Directors has eight members comprising the Non-executive Chairman, the Chief Executive, two other Executive Directors and five other Non-executive Directors. The names of the Directors together with their biographical details can be found on [www.pcussons.com](http://www.pcussons.com) and in PZ Cussons Annual Report and Accounts 2013.

The Non-executive Directors have been appointed for their specific experience and expertise and are all considered to be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgment. Mr Harvey is a Non-executive Director of Jardine Lloyd Thompson Plc, which acts as insurance broker to the Company, but the level of fees payable to Jardine Lloyd Thompson Plc is not material and Mr Harvey does not participate in any way in the provision of services on which basis the Board is wholly satisfied that it is appropriate to designate Mr Harvey as independent. In addition, in order that his independence is not compromised, if at any time the Board or a Committee of the Board is considering any matter concerning Jardine Lloyd Thompson Plc, it has been agreed that Mr Harvey will withdraw from that meeting until such matters have been dealt with.

Mr Steel is the Senior Independent Non-executive Director (having assumed this role upon the retirement from the Board on 19 September 2012 of Mr Lewis) and in this capacity he is available to shareholders if they have concerns which contact through the normal channels of Chairman, Chief Executive or Chief Finance Officer has failed to resolve or for which such contact is inappropriate.

Executive Directors and Non-executive Directors may serve on the boards of other companies provided that this does not involve a conflict of interest and that the appointment does not restrict their ability to discharge their duties to the Company in any way.

The Executive Directors' service contracts and the letters setting out the terms of appointment of the Non-executive Directors are available for inspection at the Company's registered office during normal business hours and at the Annual General Meeting.

## Diversity

The Company supports the Code provision that Boards should consider the benefits of diversity, including gender, when making appointments and is committed to ensuring diversity not just at Board level but also across the Company's senior management team, not least because it believes that business benefits from the widest range of perspectives and backgrounds. The Company's aim as regards the composition of the Board is that it should have a balance of experience, skills and knowledge to enable each Director and the Board as a whole to discharge their duties effectively. Whilst the Company agrees that it is entirely appropriate that it should seek to have diversity on its Board, it does not consider that this can be best achieved by establishing specific quotas and targets and appointments will continue to be made based wholly on merit.

Further details on diversity can be found at [www.pzcussons.com](http://www.pzcussons.com) and in PZ Cussons Annual Report and Accounts 2013.

## Performance evaluation

Effectiveness reviews of the Board and its committees are carried out annually. The 2013 review has been facilitated by the Company Secretary who, in conjunction with the Chairman of the Board, prepared a detailed questionnaire relating to the composition, governance and performance of the Board for completion by the Directors. The results of the 2013 review have been reviewed by the Chairman of the Board or of the relevant Board Committee, discussed in a formal meeting and the recommendations recorded and acted upon.

The review process which was undertaken during the year concluded that all Directors continue to contribute effectively and with proper commitment, devoting adequate time to carry out their duties. The performance of the Non-executive Directors is evaluated separately by the Executive Directors. The Remuneration Committee reviews Executive Directors' performance with guidance from the Chief Executive (other than in respect of his own position).

The Board is committed to the Code principle that evaluation of the Board should be externally facilitated at least every three years. The last such external review was conducted in 2011 by Boardroom Review Limited; the Board has engaged Boardroom Review Limited to carry out a fresh review later this year and will report on the conclusions next year.

## Operation of the Board

The Board is responsible for the Group's strategic development, monitoring its business objectives and maintaining a system of effective corporate governance.

Six formal meetings of the Board were scheduled during the year and the Directors met on a number of further occasions as necessary to consider specific matters arising and to review and develop the Company's corporate strategy.

The differing roles of the Chairman and Chief Executive are acknowledged and set out in Terms of Reference which have been adopted by the Board. The Chairman is primarily responsible for the running of the Board and ensuring that it is supplied in a timely manner

with sufficient information to enable it to discharge its duties. The Chief Executive is responsible for co-ordinating the running of the business and implementing Group strategy.

All Directors communicate with each other on a regular basis and have regular and ready access to members of the Group's management team. Senior executives are invited to attend Board meetings to make presentations on specific matters or projects. Board papers are prepared and issued to all Directors in good time prior to each Board meeting to enable Directors to give due consideration to all matters in advance of the meeting. During the year, the Board has maintained an understanding of the views of major shareholders through periodic face to face meetings and briefings from the Company's brokers.

The Board has adopted formal procedures for Directors to take independent professional advice where necessary at the Company's expense and each Director has full access to the services of the Company Secretary who is also responsible for ensuring that Board procedures and all applicable rules and regulations are followed.

The Board has an approved and documented schedule of matters reserved for its decision, including approval of the Group's strategy, annual budgets, material agreements and major capital expenditure and acquisitions, the approval of financial arrangements, and the monitoring of performance, health, safety and environmental matters and risk management procedures.

The Board has also adopted a formal induction process for Directors including visits to principal sites and meetings with operating management.

Training sessions have been organised during the year for the Board on matters considered relevant to the discharge of the Directors' duties and Directors may take additional training where necessary as part of their continuing development at the expense of the Company.

### **Committees of the Board**

The Board has established a number of standing committees to which various matters are delegated according to defined Terms of Reference. Details of the principal standing Committees of the Board are set out as follows:

#### **Nomination Committee**

The Nomination Committee is responsible for regularly reviewing the structure, size and composition of the Board and identifying and recommending appropriate candidates for membership of the Board when vacancies arise. During the year ended 31 May 2013, the Committee members were Mr Harvey (Committee Chairman), Professor Arnold, Ms Edozien, Mr Heale, Mr Kanellis, Mrs Owers, Mr Steel and, until his retirement from the Board on 19 September 2012, Mr Lewis. The Company Secretary is secretary to the Committee.

During the year the Committee considered and recommended the reappointment of Mr Harvey and Professor Arnold as Non-executive Directors upon the expiry of their terms of

appointment and also considered the composition of the Board and allocation of responsibilities in the light of the retirements of Messrs Lewis and Pantelireis.

### **Remuneration Committee**

The Remuneration Committee is responsible for reviewing and recommending the framework and policy for remuneration of the Executive Directors and senior executives, which the Board as a whole is responsible for approving. The Committee members are Mr Steel (Committee Chairman), Professor Arnold, Ms Edozien, Mr Heale, Mrs Owers and, until his retirement from the Board on 19 September 2012, Mr Lewis. The Company Secretary is secretary to the Committee.

The Remuneration Committee is responsible for evaluating the performance and determining specific remuneration packages for each Executive Director, the Chairman and the Company Secretary. With the exception of the Non-executive Chairman, the fees of the Non-executive Directors are determined by the Executive Directors.

Further details of the Committee's responsibilities and activities during the year are set out in the Report on Directors' Remuneration on the PZ Cussons PLC Annual Report and Accounts 2013.

### **Audit Committee**

The Audit Committee is responsible for reviewing, on behalf of the Board, the Group's accounting and financial policies and its disclosure practices, internal controls, internal audit and risk management. It is also responsible for overseeing all matters associated with the appointment, terms, remuneration and performance of the external auditor and for reviewing the scope and results of the audit and its cost effectiveness. These responsibilities are discharged at the Audit Committee meetings and through regular reports from the internal audit function. The Audit Committee comprises Professor Arnold (Committee Chairman), Ms Edozien, Mr Heale, Mrs Owers, Mr Steel and, until his retirement from the Board on 19 September 2012, Mr Lewis. The Committee meets regularly with the external auditor. Professor Arnold, a qualified chartered accountant, brings recent and relevant financial experience to the Audit Committee. The Company Secretary is secretary to the Committee.

As indicated above, whilst the Audit Committee has not adopted a formal policy in respect of the rotation of the external auditor, one of its principal duties is to make recommendations to the Board in relation to the appointment of the external auditor. Various factors are taken into account by the Committee in this respect. These include the quality of the reports provided to the Audit Committee and the Board and the level of understanding demonstrated of the Group's business. This year, the Committee considered, as usual, whether to retain PwC as auditor and concluded that, in view of the quality of the service provided, the cost effectiveness of the work carried out and the firm's capacity to provide service across all of the Group's global operations, it was appropriate to retain them. The Committee last tendered the audit in 2008.

The Group has a policy governing the conduct of non-audit work by the auditor. The auditor is permitted to provide non-audit services which are not, and are not perceived to be, in conflict with auditor independence, providing it has the skill, competence and

integrity to carry out the work and is considered to be the most appropriate to undertake such work in the best interests of the Group. Assignments with a value of £50,000 or more must be submitted to the Audit Committee and activities which may be perceived to be in conflict with the role of the external auditor must be submitted to the Committee for approval prior to engagement, regardless of the amounts involved. All assignments are monitored by the Committee.

### **Attendance at meetings**

The number of scheduled meetings of the Board (excluding ad hoc meetings) and of each Audit, Remuneration and Nomination Committees during the year ended 31 May 2013, together with a record of the attendance of the current Directors who are their respective members, can be found in PZ Cussons Annual Report and Accounts 2013.

### **Group Risk Committee**

The Group Risk Committee is responsible for identifying, assessing and prioritising all material risks facing the Group and ensuring, where possible, that appropriate action is taken to manage and mitigate those risks. The risk areas which the Committee reviews include general business risk, including risk arising out of the external financial environment, product safety risk, physical asset risk, including factory, health and safety and environmental risks, IT and infrastructure risks.

The Group Risk Committee's principal function is one of supervision, oversight and monitoring of the Group's risk mitigation plans. The Committee is responsible for developing and supporting the activities necessary to convert an approved framework of risk limits and risk appetite policies into an effective plan for implementation across the Group. In addition, the Group Risk Committee monitor the extent to which risk related strategies, frameworks, plans and policy requirements have been embedded throughout PZ Cussons: this is achieved by regular ongoing review of the risks we face at both an Operating Unit and Group level to develop, implement and monitor plans to eliminate, reduce or transfer risk where practicable. Management and the Group Risk committee also identify emerging risks on a pro-active basis.

The Group Risk Committee comprises Professor Arnold (Committee Chairman), Ms Edozien, Mr Harvey, Mrs Owers, Mr Steel, Mr Kanellis, Mr Leigh and Mr Davis. The Company Secretary is secretary to the Committee. It reports formally to the Board after each meeting. It has authority to obtain external advice as considered appropriate and the Board has resolved that it should be provided with sufficient resources to undertake fully its responsibilities.

The Board undertakes annually a formal review of material risks, the risk management process, and the performance of the Group Risk Committee.

### **Corporate Social Responsibility (CSR) Committee**

The CSR Committee is responsible for reviewing and developing the Company's corporate strategy to ensure that CSR is an integral part of the strategy and that the Group's social, environmental and economic activities are aligned. The CSR Committee is also responsible for the development of policies on all key areas of CSR including the environment, health

and safety, consumer safety, business conduct and ethics, employees and local community and charity.

More information about CSR, the company CSR policy and terms of reference of the CSR Committee can be found at [www.pzcussons.com](http://www.pzcussons.com).

The CSR Committee comprises Mr Heale (Committee Chairman), Professor Arnold, Mr Davis, Mr Harvey, Mr Kanellis, Mr Leigh, Mrs Owers, Mr Steel, Ms Edozien and, until their retirement from the Board on 19 September 2012 and 31 March 2013 respectively, Mr Lewis and Mr Pantelireis. The Company Secretary is secretary to the CSR Committee. The Committee reports formally to the Board after each meeting. It has authority to obtain external advice as considered appropriate and the Board has resolved that it should be provided with sufficient resources to undertake fully its responsibilities.

### **Remuneration**

Details of Directors' remuneration are set out in the Report on Directors' Remuneration in PZ Cussons Annual Report and Accounts 2013.

### **Restrictions on voting**

Unless the Board decides otherwise, no member shall be entitled to vote at any meeting in respect of any shares held by that member if any call or other sum which is then payable by that member in respect of that share remains unpaid.

### **Going concern**

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out PZ Cussons Annual Report and Accounts 2013. The financial position of the Group and liquidity position are described within the Financial Review. In addition, note 18 to the financial statements in the PZ Cussons Annual Report and Accounts 2013 includes policies in relation to the Group's financial instruments and risk management and policies for managing credit risk, liquidity, market risk, foreign exchange risk, price risk and interest rate risk.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and financial statements.

### **Internal control**

The Board is responsible for the Group's system of internal control (excluding joint ventures) and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board is of the view that there is an ongoing process for identifying, evaluating and managing the Group's significant risks, that it has been in place for the year ended 31 May 2013 and up to the date of the Annual Report and financial statements, that it is regularly

reviewed by the Board and that it accords with the Turnbull guidance for Directors on the Code.

The process includes:

- frequent communication between the Board and the Group Risk Committee and subsidiary management on all critical business issues;
- regular visits to operating units by the Board, head office management and internal audit;
- a detailed system of budgeting, reporting and forecasting;
- regular review by the Board and Group Risk Committee of risk throughout the Group and the risk management processes in place; and
- taking necessary action to remedy any significant weaknesses found as part of the review of the effectiveness of the internal control system.

Throughout the year, the Board has carried out assessments of internal control by considering documentation from the Executive Directors, Audit Committee and internal audit function as well as taking into consideration events since the year end. The internal controls extend to the financial reporting process and the preparation of consolidated accounts. The basis for the preparation of consolidated accounts is as set out in note 1 to the financial statements.

The Group continues to take steps to embed internal control and risk management further into the operations of the business and to deal areas for improvement which come to the attention of management and the Board. The Group has ethical guidelines and a defined fraud reporting and whistleblowing process which are issued to all employees within the Group.

### **Relations with shareholders**

In its financial reporting to shareholders the Board aims to present a balanced and understandable assessment of the Group's financial position and prospects. The Company maintains a corporate website, [www.pzcussons.com](http://www.pzcussons.com), containing a wide range of information of interest to institutional and private investors and a subscription service is available which enables access to Company notifications and news releases.

The Company has periodic discussions with institutional shareholders on a range of issues affecting the Group's performance. The Board is also kept informed of investors' views through regular discussion of analysts' and brokers' briefings and investor opinion feedback.

All shareholders, including private investors, have an opportunity to present questions to the Board at the Annual General Meeting and the Directors make themselves available to meet informally with shareholders after the meeting.

### **General meetings of shareholders**

The business to be conducted at the Annual General Meeting of the Company is set out in the separate Notice of Annual General Meeting which accompanies the Annual Report and financial statements. Resolutions put before shareholders at the Annual General Meeting will usually include resolutions for the appointment of Directors, approval of the Report

on Directors' Remuneration, declaration of the final dividend and authorisation for the Board to allot and repurchase shares. Voting at the Annual General Meeting is on a show of hands and after each show of hands, details of all proxy votes lodged for and against each resolution and the number of abstentions are disclosed.

At each Annual General Meeting there is an update on the progress of the business over the last year and also on current trading conditions.

### **Compliance statement**

The Directors consider that the Company complied with the provisions of section 1 of the Code with the following exception:

Code Provision E.1.1: the Code specifies that the Senior Independent Director should attend sufficient meetings with a range of major shareholders to develop a balanced understanding of the issues and concerns of major shareholders. The Senior Independent Director met a limited number of shareholders during the year but shareholders are afforded the opportunity to meet or consult with him at their discretion in the event that they have any questions, comments or concerns and he is available to speak to all shareholders at the Company's Annual General Meeting.