

# Corporate Governance

The Board is committed to high standards of Corporate Governance and supports the Combined Code on Corporate Governance issued by the Financial Services Authority ('the Combined Code'). The Board sets out its report below on how the Group has applied the principles and complied with the Combined Code during the year ended 31 March 2009.

## Compliance Statement

Throughout the year ended 31 March 2009, the Group has complied with all the provisions of Section I of the Combined Code.

The Remuneration and Audit Committees comprise the two independent Non-Executive Directors and the Chairman, who was deemed independent at the time of his appointment. The Board is of the view that two members are insufficient to ensure open debate and hence the Chairman is included, despite being deemed non-independent by the Code for this purpose. As a result, the remuneration of the Chairman is set by the Board, along with that of the Non-Executive Directors.

## The Board of Directors

During the year, the Board comprised a Chairman, who is non-executive, two Executive Directors and two Non-Executive Directors. All the Non-Executive Directors consider themselves to be independent and Mr M R Wall is the senior independent Non-Executive Director. Notwithstanding the fact that the Chairman has been a Director for more than nine years, the Board considers this involvement to start from January 2001 when Creston re-listed as a marketing services company. Through the Chairman's directorship of Western Selection P.L.C., a significant shareholder of Creston, the Chairman has an interest in Creston similar to that of a shareholder. Therefore his interests are aligned with those of other shareholders and are viewed by the Board as allowing the Chairman to act independently of management. As Mr D C Marshall has been a Non-Executive Director for more than nine years and in accordance with paragraph A7.2 of the Combined Code, he offers himself annually for re-election to the Board.

The Board met on 16 occasions during the year following a formal agenda. The Board is provided with monthly management account packs and other relevant information in a timely manner and in a form and quality that it considers appropriate to enable it to discharge its duties.

	No. of meetings in year	DCM	DHE	BCB	AJHD	MRW
Board	16	16	16	16	16	16
Audit Committee	4	4	4	4	4	4
Remuneration Committee	4	4	–	–	4	4
Nominations Committee	1	1	1	–	1	1

The Board is responsible for the leadership of the Company and the Group, and in discharging that responsibility it makes decisions objectively and in the best interests of the Group. The Board sets the vision, values and standards for the Group. The Board delegates day-to-day responsibility to the executive management. It determines their duties and reviews performance against agreed budgets and against the Group's objectives, values and standards, including employment, environmental and health and safety policies as set out in the Group policies and procedures.

The balance of the Board, together with the advice sought from the Executive and Divisional Boards and the Company's external advisors, ensures that no one individual has unfettered powers of decision.

The separation of the Chairman's role from the discharging of executive responsibilities has been clearly defined throughout the year. The Chairman is responsible for the effective performance of the Board through a schedule of matters reserved for approval by the Board (comprising of issues considered most significant to the Group in terms of financial impact and risk) and control of the Board agenda. The Chairman conducts Board and shareholder meetings and ensures that all Directors are properly briefed. The Chief Executive Officer, supported by the Chief Operating and Financial Officer, is responsible to the Board for running the business and implementing Group strategy.

All Directors have access to advice from the Company Secretary and independent professionals at the Company's expense. Training is available for Directors as necessary. New Directors will receive an induction programme and all the Directors are encouraged to continue professional education programmes. The Company has arranged appropriate insurance cover in respect of legal action against its Directors.

Committee meetings are held independently of Board meetings and invitations to attend are extended by the Committee Chairman to other Directors, the Group's advisors and management as appropriate.

A representative of the Company Secretary attends all Board meetings to record proceedings and is available to advise on any corporate governance issues that may arise. The Company Secretary assists the Chairman in his duties of ensuring efficient communication between all Directors, the Committees and senior management as well as the professional development of Directors. The terms of reference of the Audit Committee, the Nominations Committee and the Remuneration Committee, including their roles and the authority delegated to them by the Board, are available on request and on the investor relations section of the Group's website [www.creston.com](http://www.creston.com).

## Audit Committee

The Audit Committee comprises Mr A J H Dougal (Chairman), Mr D C Marshall and Mr M R Wall. The external auditors have direct access to the Audit Committee and are invited to attend two formal meetings at the interim and at the year end. The Audit Committee also meets to address specific issues as appropriate. It deals with the Annual Report and Accounts, the Group financial statements and important audit, accounting and taxation matters as well as compliance with legal requirements whilst monitoring the adequacy of the Group's internal controls and accounting policies.

The Chairman of the Audit Committee, Mr A J H Dougal, has recent and relevant financial experience for the purposes of the Combined Code.

The Audit Committee also considers the continuing appointment of the external auditors and their fees. It ensures the independence and objectivity of the external auditors through a careful review of their terms of engagement and scope of work. This includes reviewing the nature and extent of non-audit services supplied by the external auditors to the Group, seeking to balance objectivity and value for money. The external auditors are excluded from providing services where the threat to their independence is considered to be too great (for example, systems design and implementation, management functions or human resources).

The Audit Committee periodically reviews the arrangements by which employees of the Group can, in confidence, raise concerns about possible improprieties in financial reporting or other matters, and the independent investigation and resolution of such concerns.

During the year, the Audit Committee supervised the ongoing engagement of the Group's auditors, PricewaterhouseCoopers LLP. It met to discuss the auditors' findings in respect of the audit of the 31 March 2009 financial statements and to approve non-audit fees. There are specific restrictions on the level of non-audit fees, which requires approval from the Audit Committee for non-audit fees exceeding two times the annual audit fee. Specific agreement is required from the Audit Committee for certain types of assignment (for example, due diligence on Class 1 acquisitions). Furthermore, the Audit Committee received internal reports on the Group's risk management and key aspects of the financial controls.

Attendance at the Audit Committee meetings is extended to Mr D H Elgie and Mr B C Brien by invitation only. At least once during the year the Executive Directors did not attend all or part of an Audit Committee meeting.

### Nominations Committee

The Nominations Committee comprises Mr D C Marshall (Chairman), Mr A J H Dougal, Mr D H Elgie and Mr M R Wall. The appointment of Directors is a formal process involving proposal by the Nominations Committee and the approval of the whole Board. The Nominations Committee will undertake whatever process is most appropriate for the identification of suitable candidates and their assessment, taking into account any other commitments that they have. Appointments are made on merit and are considered against objective criteria.

All Directors are required to retire every three years and may offer themselves for re-election, which is not automatic. As a long-term growth company, it is appropriate for Directors to serve on the Board for more than a single term, subject to continuing satisfactory performance. Given its small size, changes to the composition of the Board are infrequent, however, progressive refreshing of the Board may occur through further appointments, which will be made commensurate with the growth of the Company. The Nominations Committee met once in the year.

### Directors' Performance Evaluation

The Board undertakes a formal evaluation of its own performance and that of its Committees and individual Directors. Individual evaluation aims to show whether each Director continues to contribute effectively and to demonstrate commitment to the role (including commitment of time for Board and Committee meetings and other duties). The Chairman acts on the results of the performance evaluation by recognising the strengths and addressing the weaknesses of the Board and, where appropriate, proposing new members be appointed to the Board or seeking the resignation of Directors.

The Chairman is responsible for the annual evaluation process and acts on its outcome. Each Director submits a self-appraisal to the Chairman in respect of their individual performance, in respect of the performance of the Board and in respect of each Board Committee of which they are a member. The self-appraisal is discussed by the Chairman with the Director.

For the Board and its Committees, the appraisal considers actual performance against performance objectives, terms of reference, communication, effectiveness, flexibility and contribution to risk management.

# Corporate Governance

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## Partners' Board

In the year ended 31 March 2009, Creston's Partners' Board was the key forum for the operational management of the Group. The role of the Partners' Board was to review:

- market development;
- client offering (ensure ongoing relevance and 'market fit' of each operational company's offer);
- start-up and acquisition needs (enhancement/extension of existing offer);
- client relationships (status and early warning indicators);
- business development (status, joint pitches, sharing resource/best practice);
- new business (contact strategy, intermediaries, help on pitches, pipeline status);
- synergy (status and opportunities);
- financial performance and budget (at operational level);
- talent management; and
- operational initiatives/developments
  - Group IT
  - Group procurement
  - Business planning (annual).

The members of the Partners' Board were:

Keith Bates	Managing Director of MSL
Martin Bostock	Chairman of NBC
Barrie Brien	Chief Operating and Financial Officer, Creston plc
Ben Davies	Managing Director of PAN
Nick Davies	Managing Director of EMO
Greg Delaney	Chairman of DLKW
Don Elgie	Chief Executive Officer, Creston plc and Chairman of the Partners' Board
Grant Litchfield	Managing Director of CML
Mark Lund	Chief Executive Officer of DLKW
Richard Marshall	Business Development Director of TMW and Creston plc
Nick Sparrow	Chairman of ICM
Catherine Warne	Managing Director of RDC
Chris Warren	Managing Director of TMW

As Creston's expansion continues, the format and structure of the Partners' Board has been reviewed and for the new financial year ending March 2010, the Partners' Board has been restructured and is now made up of the Executive Board and the Divisional Boards. This evolution has occurred in order to truly harness the entrepreneurial talent and enormous practitioner expertise and experience that is within the operating companies. The Executive Board is made up of the divisional heads, namely Nick Sparrow (of ICM) for Insight; Chris Warren (of TMW) and Richard K Warren (of DLKW) for Communications; and Ben Davies (of PAN) and Catherine Warne (of RDC) for Health. These individuals are responsible for the financial and operational performance of their respective Divisions and they will also be taking an active role alongside the Executive Directors in executing Group strategy.

## Relations with Shareholders

The Company encourages meaningful dialogue with all shareholders. Shareholder communication centres primarily on the publication of Annual and Interim Reports, periodic press releases and trading updates. The Chairman and Executive Directors are available for discussions with shareholders throughout the year and particularly at the time of results announcements. The senior independent Non-Executive Director is also always available should any shareholder wish to draw any matters to his attention. The Directors are available for comment throughout the year and at all General Meetings of the Company. Creston values the views of its shareholders and recognises their interest in the Company's strategy and performance, Board membership and quality of management. It therefore has an active programme to meet and make presentations to its current and potential shareholders to discuss its objectives. The Company aims to provide existing and potential investors with the means of developing an understanding of the Group and raising any issues they may have.

The AGM is used to communicate with private investors and they are encouraged to participate. Shareholders are encouraged to attend the AGM and to participate in proceedings by asking questions during the formal part of the Meeting, voting on the resolutions put to the Meeting and providing Board members with their views in informal discussions after the Meeting. The Chairmen of the Audit, Remuneration and Nominations Committees are available to answer questions. Separate resolutions are proposed on each issue so that they can be given proper consideration and there is a resolution to approve the Annual Report and Accounts. The Company counts all proxy votes and indicates the level of proxies lodged on each resolution, after it has been dealt with by a show of hands. All shareholders can gain access to the Annual and Interim Reports, press articles and other information about the Company through the Company's website: [www.creston.com](http://www.creston.com).

## Financial Reporting

Each year the Group prepares a three-year strategic plan supported by seven-year financial projections. This strategic plan is supported by annual submissions from each operating company. These plans and submissions are prepared in the last quarter of the financial year and reviewed by the Board before being adopted.

Operating company results are reported monthly and are reviewed by Head Office. The results are compared to the budgets (which form part of the three-year strategic plan) and the previous year. At the half year and the year end all operating companies are required to produce financial statements to comply with local accounting regulations and to produce sufficient information to enable Head Office to produce IFRS compliant consolidated financial statements.

The Board presents a balanced and understandable assessment of the Group's position and prospects in all interim and price-sensitive public reports whilst also reporting to regulators all information required to be presented by statutory requirements.

## Internal Control and Risk Management

The Board has overall responsibility for the Group's system of internal control to safeguard company assets and shareholders' investments. The risk management process and systems of internal control are designed to manage rather than eliminate the risk of failure to achieve the Group's objectives. It should be recognised that such systems can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board has reviewed the effectiveness of the system of internal control for the year to 31 March 2009 and up to the date of the signing of the Annual Report and Accounts. Group control policies and procedures covering all major areas of corporate control have been developed and issued throughout the subsidiaries, including specific levels of delegated authority. The Board will continue to develop and implement control procedures using the guidance set out in Internal Control Guidance for Directors on the Combined Code (the Turnbull Guidance), appropriate for its nature and scale throughout the Group and in any future acquisitions.

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

- clearly defined organisational responsibilities and limits of authority, including a formal schedule of matters specifically reserved for decision by the Board;
- financial controls and review procedures;
- a comprehensive system for reporting financial and non-financial information to the Board;
- a formal business acquisition investment appraisal process designed to monitor and control growth initiatives;
- insurance and risk management policies including a formal annual risk review report to the Board;
- non-financial policies and procedures including health and safety, HR and information systems; and
- disaster recovery procedures.

The policies and procedures for all companies in the Group are set out in the Group's policy manuals for HR, information systems, financial systems and controls. As with many service sector industries the system of internal controls is dependent upon the quality and integrity of our employees.

The financial reporting system has been fully implemented and has improved the system of financial controls by standardising report formats and enabling Creston to conduct centralised internal reviews. The Audit Committee believes that these internal controls are adequate for its current size and does not feel that a separate internal audit function is currently required. This situation is kept under regular review.

During the year, the Group fully complied with all of its banking covenants.

## Going Concern

The financial statements have been prepared on the going concern basis as the Board, having considered the Group's financial projections, borrowing facilities and other relevant financial matters, is satisfied that on the date of approving the financial statements the Group has a reasonable expectation that it has the resources to continue in business for the foreseeable future. The Group's trading performance during these difficult economic conditions has been discussed in the Chairman and Chief Executive's Statement.