

Corporate governance

The Board is committed to meeting the standards of good Corporate Governance set out in the Combined Code on Corporate Governance ('the Code') published by the Financial Reporting Council in June 2008 (this being the edition of the Code which presently applies to the Company). The Code is publicly available on the Financial Reporting Council's website (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

As at the date of this report, the Board of Directors has nine members comprising the Non-executive Chairman, the Chief Executive, three other Executive Directors and four Non-executive Directors. The names of the Directors together with their biographical details are set out on page 32. 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.

During the year, the Board was also served by Mr Green as Executive Chairman and Mr Calder as Deputy Chairman until their retirements on 30 June 2010 and 31 March 2010 respectively. Following the retirement of Mr Green and in accordance with the Board's previously announced succession planning, Mr Harvey was appointed as Non-executive Chairman.

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 judgement. Mr Harvey is a Non-executive Director of Jardine Lloyd Thompson Plc, which acts as insurance broker to the Company. Mr Lewis is a former partner of Addleshaw Goddard, which acts as legal advisor to the Company. Mr Heale is presently the interim Non-executive Chairman of Panmure Gordon, which acts as joint broker to the Company. None of them participate in any way in the provision of services by the relevant supplier to the Company. 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 one of the suppliers, it has been agreed that the relevant individual will withdraw from that meeting until such matters have been dealt with.

Mr Lewis is the Senior Independent Non-executive Director and in this capacity he is available to shareholders if they have concerns which contact through the normal channels of Chairman, Chief Executive or Group Finance Director has failed to resolve or for which such contact is inappropriate.

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. In line with the Code and the Company's Articles of Association, all Directors are required to submit themselves for election at the Annual General Meeting following their appointment and thereafter by rotation. 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.

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.

Five 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 coordinating 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. 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. 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. The terms of reference of the committees are available on the Company's website (www.pzcussons.com) and will also be available at the Annual General Meeting. 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. The Committee comprises Mr Harvey (Committee Chairman), Mr Kanellis and the four independent Non-executive Directors, Prof Arnold, Mr Heale, Mr Lewis and Mr Steel. During the year, the Committee was also served by Mr Green until his retirement on 30 June 2010. Mr Harvey was appointed to the Committee on 1 January 2010 and assumed the chairmanship of the Committee on 1 July 2010. The Company Secretary is secretary to the Committee.

In considering an appointment, the Nomination Committee evaluates the balance of skills, knowledge and experience of the Board and prepares a description of the role and capabilities required for a particular appointment. External search agencies or open advertising will be used where this is appropriate. Short-listed candidates will then be invited to interview with members of the Committee and, if recommended by the Committee, will be invited to meet other Board members before any decision is taken relating to an appointment.

During the year, following the engagement of an external search agency and an appropriate interview and selection process the Committee nominated Mr Harvey for appointment to the Board, initially as independent Non-executive Director and, with effect from 1 July, as Non-executive Chairman. In making its nomination, the Committee considered the experience, knowledge and qualifications of Mr Harvey, his fit with the business and his potential contribution to the Board and the Company.

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, Mr Heale and 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 pages 37 to 43.

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), Mr Heale, Mr Lewis and Mr Steel and 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, one of the duties of the Audit Committee 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 assessing whether to recommend the auditor for reappointment. 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. PricewaterhouseCoopers LLP have been the Company's auditors for three years, and were appointed after an independent tender process. The Committee is satisfied with their effectiveness and independence.

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. Activities that 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. Details of the amounts paid to the external auditor during the year for audit and other services are set out in note 4 to the financial statements.

Corporate governance continued

Attendance at meetings

The number of scheduled meetings of the Board (excluding such ad hoc meetings as were necessary during the year to address specific matters arising) and of each of the Audit, Remuneration and Nomination Committees during the year ended 31 May 2010, together with a record of the attendance of the current Directors who are their respective members, is detailed in the table below:

	Board		Audit Committee		Remuneration Committee		Nomination Committee	
	Number of meetings eligible to attend	Number of meetings attended	Number of meetings eligible to attend	Number of meetings attended	Number of meetings eligible to attend	Number of meetings attended	Number of meetings eligible to attend	Number of meetings attended
Mr A J Green	5	5	n/a	n/a	n/a	n/a	3	3
Mr R J Harvey*	2	2	n/a	n/a	n/a	n/a	1	1
Mr A G Calder**	3	2	n/a	n/a	n/a	n/a	n/a	n/a
Mr G A Kanellis	5	5	n/a	n/a	n/a	n/a	3	3
Mr C G Davis	5	5	n/a	n/a	n/a	n/a	n/a	n/a
Mr B H Leigh	5	5	n/a	n/a	n/a	n/a	n/a	n/a
Mr J Pantelireis	5	5	n/a	n/a	n/a	n/a	n/a	n/a
Mr D W Lewis	5	5	4	4	5	5	3	3
Prof J A Arnold	5	5	4	4	5	5	3	3
Mr S J N Heale	5	4	4	4	5	4	3	3
Mr J T J Steel	5	5	4	4	5	5	3	3

Notes:

'n/a' indicates that the Director is not a member of the Committee.

* Mr Harvey did not attend the meetings held prior to his appointment to the Board on 1 January 2010.

** Mr Calder retired from the Board on 31 March 2010.

No Director participates in meetings when matters relating to him are being discussed.

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. At least once a year, the Board as a whole reviews any material risks facing the Group and the output of this review forms the basis of the work undertaken by the Committee during the year.

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. This is achieved by ongoing review to develop and implement plans to eliminate, reduce or transfer risk where practicable. The Committee is also responsible for reviewing the risk management and control process within the Group and encouraging and supporting two-way communications in respect of risks within the business and with external stakeholders including shareholders, suppliers and customers.

The Group Risk Committee comprises Professor Arnold (independent Non-executive Director and Committee Chairman), Mr Kanellis, Mr Davis, Mr Leigh and Mr Pantelireis. The Company Secretary is secretary to the Committee. The Committee has been in place throughout the year and continues in operation as at the date of this report. 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 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, product testing and consumer safety, business conduct and ethics, employees and local community and charity. Further details of the Committee's terms of reference and activities during the year are set out in the Corporate Social Responsibility report on pages 22 to 31.

The CSR Committee comprises Mr Heale (independent Non-executive Director and Committee Chairman), Mr Harvey, Mr Kanellis, Mr Davis, Mr Leigh and Mr Pantelireis. The Company Secretary is secretary to the CSR Committee. The Committee reports formally to the Board after each meeting. During the year, the Committee was also served by Mr Green until his retirement on 30 June 2010. Mr Harvey was appointed to the Committee on 1 January 2010. 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.

Performance evaluation

Reviews of the Board and Board committee performance are carried out annually, with the assistance of external advisers where considered appropriate, and the review results are discussed and any appropriate actions taken.

The performance of the Non-executive Directors is evaluated 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 review process in 2010 concluded that all Directors continue to contribute effectively and with proper commitment, devoting adequate time to carry out their duties.

Remuneration

Details of Directors' remuneration are set out in the Report on Directors' remuneration.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review. The financial position of the Group and liquidity position are described within the Financial Review. In addition, note 18 to the Financial Statements 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 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 2010 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 Combined 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 of 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 with areas of improvement which come to the attention of management and the Board. The Group has ethical guidelines and a defined fraud reporting process which are issued with the Group Internal Control Manual 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, containing a wide range of information of interest to institutional and private investors and a subscription e-mail 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.

Share capital

Further information on the Group's share capital structure is provided in the Report of the Directors.

Corporate governance continued

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 exceptions:

- Code Provision A.3.2: The Board recognises that the Code specifies that at least half of the members of the Board (excluding the Chairman) should be independent Non-executive Directors. The Company did not comply with this provision between 1 June 2009 and 31 December 2009 during which period the Board comprised the Chairman, a total of five Executive Directors and four Non-executive Directors. During the period from 1 January 2010 to 31 May 2010 the Company did comply with this provision as the Board comprised the Chairman, a total of five Executive Directors (reducing on 31 March to four upon the retirement of Mr Calder) and five Non-executive Directors. In any event, however, each of the Non-executive Directors is determined by the Board to be independent and their respective backgrounds clearly indicate that they are of sufficient calibre and number for their views to carry significant and sufficient weight in the Board's decisions.
- Code Provision D.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 only a small 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.