

Corporate Governance

Combined Code

This statement, which has been approved by the Board, reports on the Company's compliance during the year ended 31 December 2009 with the Combined Code on Corporate Governance ("the Code") as issued by the Financial Reporting Council in June 2008 (available on its website www.frc.org.uk) and how the principles contained within the Code have been applied. Compliance with the principles relating to Directors' Remuneration is reported within the Remuneration Committee's Report on pages 27 to 36. The Board notes two areas of non-compliance with the Code during the year:

- The Chairman and senior independent non-executive Director were available but did not meet with key shareholders during the year.
- Prior to the appointment of John Nicholas on 26 August 2009, no independent non-executive Director had recent and relevant financial experience.

These areas of non-compliance are discussed further below.

The Board

The Board of Directors currently comprises the Chairman, Chief Executive, Finance Director and four independent non-executive Directors. John Hofmeister and John Nicholas were appointed to the Board as independent non-executive Directors on 26 August 2009 and Hector McFadyen, an independent non-executive Director, retired from the Board on 3 September 2009. Iain Paterson is the nominated senior independent non-executive Director. This composition, with a separate Chairman and Chief Executive, ensures a balance of responsibilities and authorities. Non-executive Directors' letters of appointment include details of their duties and expected time commitments required. The Directors, together with brief biographical details, are identified on page 18. Excluding the Chairman, two thirds of the Board is currently comprised of independent non-executive Directors.

All Directors are subject to re-election by the shareholders at least every three years. The non-executive Directors are initially appointed for a three year term with subsequent reappointments conditional upon an appraisal and review process described below. Letters of appointment for each of the independent non-executive Directors are available from the Company upon request and their terms of appointment are summarised on page 31. Details of the executive Directors' service contracts are set out on pages 30 to 31.

On appointment to the Board, each Director receives comprehensive induction tailored to their experience and needs. John Hofmeister and John Nicholas have received an induction to the Group, including site visits to subsidiaries. All Directors have access to the Company Secretary and to independent professional advice, at the Company's expense, in the furtherance of their duties. Directors are encouraged to maintain their skills and knowledge to best practice standards and, where appropriate, attend update training courses on relevant topics. The Company Secretary, through the Chairman, is responsible for keeping the Board informed of Corporate Governance developments and maintaining corporate awareness of legislative and regulatory changes. The appointment and removal of the Company Secretary is a matter reserved for the Board.

The Board normally meets formally five times a year and convened seven times during 2009, of which one meeting was held in North America. Meeting dates are set a year in advance. All Directors attended all the Board meetings held whilst in tenure during the year, with the exception of Hector McFadyen who was unable to attend the June meeting.

Board papers are always circulated in advance of meetings. These include detailed financial reports on the Group's activities and reports on each operating subsidiary. In addition, the meetings held in February and August focus on the full year and half year results respectively and the meeting in December focuses on the budget for the following financial year.

The duties and responsibilities of the Board and its committees are formally agreed by the Board in writing. In addition, the division of responsibility between the Chairman and the Chief Executive is set out in writing and agreed by the Board. Matters specifically reserved for the Board include, but are not limited to, the following:

- Compliance with UK Company Law and UK Listing Rule requirements.
- Review the Group's system of internal control and assess its effectiveness.

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- Consider Group commercial strategy and approve the annual budget.
- Consider Board appointments, terms of reference for each Director and the Board sub committees.
- Board remuneration as recommended by the Remuneration Committee.

The Board, its committees and each individual Director participate in an annual performance evaluation appraisal, the purpose of which is to confirm the continued effective contribution and performance of the individual or committee. Evaluation of the Board was undertaken by the non-executive Directors and took account of Directors' attendance and their contribution at meetings, financial performance of the Group against budget, compliance with corporate governance and best practice guidelines and market perception of the Group. The Nomination, Remuneration and Audit Committees were evaluated by the executive Directors and took account of communication with the Board and compliance with terms of reference. The evaluation of the Chairman was undertaken by the non-executive Directors and included an assessment of his leadership and direction of the Board. The appraisal of the Chief Executive was completed by the non-executive Directors together with the Chairman. Evaluation of the other individual Directors took account of their contribution and, in the case of executive Directors, the performance of their executive duties.

Prior to the reappointment of a non-executive Director, the Nomination Committee undertakes an evaluation of the Director's contribution and commitment to the Board together with an evaluation of the Board's requirements. In the case of a non-executive Director being reappointed for a term beyond nine years, the Code recommends a particularly rigorous evaluation with particular consideration being given to the need to regularly refresh the Board and to his continued independence. The Nomination Committee undertook such an evaluation of Iain Paterson prior to his reappointment for a one year term effective from 6 June 2009 concluding that he remained a committed and independent contributor to the Board. Iain Paterson did not participate in the evaluation process undertaken by the Committee.

Shareholders approved amendments to the Company's Articles of Association at the Annual General Meeting held in 2008, which included provisions giving the Directors authority to approve actual and potential conflicts of interest as permitted under the Companies Act 2006.

The Company has procedures in place to deal with conflicts of interest whereby actual and potential conflicts of interest are reviewed, and appropriate authorisation sought, prior to the appointment of any new Director or if a new conflict arises. In accordance with the Articles of Association, only non-conflicted Directors are involved in the authorisation process. The Board is of the view that these procedures operated effectively throughout the year.

The Board has three main committees to which it delegates responsibility and authorities:

Nomination Committee – members of the Committee are Richard Hunting (Chairman), Dennis Proctor and the non-executive Directors. John Hofmeister and John Nicholas were appointed to the Committee on 26 August 2009 and Hector McFadyen retired from the Committee on 3 September 2009. The Committee, which convened three times during the year, has written terms of reference approved by the Board and which are published on the Company's website. Committee members in office participated in all Committee meetings except for Iain Paterson who did not attend the meeting to consider his reappointment and Hector McFadyen was unable to attend the meeting in June. The role of the Committee includes leading the process for Board appointments and determining the terms of new appointments. The Committee also considers succession planning which takes into account the experience and skills required of Board members. The Committee met on 21 April 2009 to consider the reappointment of Iain Paterson as an independent non-executive Director and on 25 August 2009 to consider the appointments of John Hofmeister and John Nicholas as independent non-executive Directors.

Remuneration Committee – details of the Remuneration Committee are contained within their report on page 27. The Committee, which convened four times during the year with all members in tenure participating, has written terms of reference approved by the Board which are published on the Company's website. John Hofmeister and John Nicholas were appointed to the Committee on 26 August 2009 and Hector McFadyen retired from the Committee on 3 September 2009.

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Audit Committee – members of the Committee comprise exclusively the independent non-executive Directors. John Hofmeister and John Nicholas were appointed to the Committee on 26 August 2009 and Hector McFadyen retired from the Committee on 3 September 2009. Since the appointment of John Nicholas, the Company is compliant with the Code recommendation for one member of the Committee to have recent and relevant financial experience. On 24 February 2010, John Nicholas replaced Iain Paterson as Chairman of the Audit Committee. Iain Paterson remains as a member of the Committee. The Committee met four times during the year and operates under written terms of reference approved by the Board which are published on the Company's website. All Committee members attended all meetings held whilst in their tenure during the year. It normally meets in February and August each year with a third meeting in April coinciding with the Group's Annual General Meeting. The Chief Executive, Finance Director and the auditors are invited to attend all meetings. The auditors present an audit report at each meeting for consideration by the Committee. Their full year report includes a statement on their independence, their ability to remain objective and to undertake an effective audit. The Committee considers and assesses this independence statement on behalf of the Board taking into account the level of fees paid particularly for non-audit services. PricewaterhouseCoopers LLP and its predecessor firms have been the Company's auditors for many years. The Audit Committee is satisfied with their effectiveness and their independence and has not considered it necessary to require an independent tender process. The Audit Committee considers the reappointment of the auditors annually and makes a recommendation to the Board. During 2009, the Committee continued to closely monitor fees paid to the auditors in respect of non-audit services, which are analysed within note 9 on page 71 and include £0.9m in respect of taxation advice. At the August meeting, scheduled to be held immediately prior to the announcement of the half year results, the auditors present their interim report to the Committee which includes audit scope and fee estimates for the annual audit. The Committee normally meets with the auditors without executive Directors present at the end of each formal meeting.

Other responsibilities of the Audit Committee include:

- Review of reports on the Group's system of internal control.
- Review of reports from the Group's internal audit process and agreement of internal audit scope.
- Review of the external auditor's independence and effectiveness of the audit process and assess the level and quality of service in relation to fees paid.
- Monitor the Group's financial statements and announcements.
- Monitor and approve engagements of the external auditor to provide non-audit services for the Group.

The Board receives copies of all reports submitted to the Audit Committee.

The senior independent non-executive Director, Iain Paterson, is the primary point of contact for staff of the Company to raise, in confidence, concerns they may have over possible improprieties, financial or otherwise. All employees have been notified of this arrangement through the corporate magazine, company notice boards and the Company web site.

Institutional Shareholders

The Company uses a number of processes for communicating with shareholders, including the annual and half year reports, Interim Management Statements issued twice yearly and the Annual General Meeting to which all shareholders are invited.

In addition, the Chief Executive and Finance Director meet on a one-to-one basis with all principal shareholders at least twice a year or when requested to update them on Group performance and strategy. The Board is in turn briefed by the Chief Executive, when appropriate, on matters raised by shareholders. Non-executive Directors are offered the opportunity to meet with shareholders and are available to meet if requested by shareholders. No meetings between non-executive Directors and shareholders were requested or took place during 2009.

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The Code recommends that the Chairman and the senior independent non-executive Director should meet with key shareholders in order that the Board receives a balanced view of shareholder issues or concerns. The Board has reviewed its procedures currently in place for ensuring they are fairly and adequately apprised of shareholder issues. The Company's major shareholders are listed, together with the information required under the Disclosure and Transparency Rules 7.2.6, within the Report of the Directors' on page 21.

Internal Controls

The Board acknowledges its responsibility for the Group's system of internal control and for reviewing its effectiveness. The internal control system, which has been in place throughout 2009 and up to the date of approval of these accounts, is an ongoing process designed to identify, evaluate and manage the significant risks to which the Company is exposed. Any such system of internal control can however, only provide reasonable, but not absolute assurance against material misstatement or loss in the financial statements and of meeting internal control objectives. The Directors have reviewed the effectiveness of the Group's system of internal control for the period covered by these financial statements, the key features of which are as follows:

Management structure – within operational parameters set by the Board, management is delegated to the executive Directors. Subsidiaries operate within clearly defined policies and authorities contained within a Group Manual under a decentralised management structure. All senior management changes require the prior approval of the Chief Executive.

Reporting and consolidation – all subsidiaries submit detailed financial information in accordance with a pre-set reporting timetable. This includes weekly, bi-monthly and quarterly treasury reports, monthly management accounts, annual budgets and two-year plans, together with half year and annual statutory reporting. The Group's consolidation process is maintained and updated with regular communication, including distribution of the Group's accounting manual to all reporting units. The Group monitors and reviews new UK Listing Rules, Disclosure and Transparency Rules, accounting standards, interpretations and amendments and legislation and other statutory requirements. Subsidiary reporting entities are supported by instruction from Group and structured training. All data is subject to review and assessment by management through the monitoring of key performance ratios and comparison to targets and budgets. The content and format of reporting is kept under review and periodically amended to ensure appropriate information is available.

Strategic planning and budgeting – strategic plans and annual budgets containing comprehensive financial projections are formally presented to the Board for adoption and approval and form the basis for monitoring performance. Clearly defined procedures exist for capital expenditure proposals and authorisation.

Quality assurance – most of the business sectors within which the Group operates are highly regulated and subsidiaries are invariably required to be accredited, by the customer or an industry regulator, to national or international quality organisations. These organisations undertake regular audits and checks on subsidiary operating procedures and practices ensuring compliance with regulatory requirements.

Monitoring process – in addition to reports from external auditors, the Audit Committee receives reports from the internal auditors as part of the Group's internal audit and risk assessment programme.

All subsidiaries undertake formal self-assessment risk reviews a minimum of three times a year on their internal control environment. These reviews encompass the identification of the key business, financial, compliance and operational risks facing the business, together with an assessment of the controls in place for managing and mitigating these risks. Additionally, risks are evaluated for their potential impact on the business. The results of these reviews, together with a review of risks facing the Group as a whole, are reported to the Board. Risk management is a Board agenda item at every Board meeting.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report, the Remuneration Committee's Report and the financial statements in accordance with applicable law and regulations.

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Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the Group and parent company financial statements in accordance with International Financial Reporting Standards (“IFRSs”) as adopted by the European Union (“EU”). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company’s and Group’s transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Remuneration Committee’s Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for the maintenance and integrity of the Company’s website, www.hunting.plc.uk. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Pursuant to the Disclosure and Transparency Rules, each of the Directors, whose names and functions are listed on page 18, confirm that, to the best of their knowledge and belief:

- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Company; and
- the Business Review on pages 4 to 17 includes a fair review of the development and performance of the business and the position of the Company and Group, together with a description of the principal risks and uncertainties they face.

By order of the Board



Peter Rose
Company Secretary
25 February 2010