

CORPORATE GOVERNANCE REPORT

The Company remains committed to the principles of Corporate Governance contained in the Combined Code on Corporate Governance that was issued in 2006 by the Financial Reporting Council ('the Code') for which the Board is accountable to shareholders.

Throughout the 53 week period ended 3 May 2009, the Company has been in compliance with the Code provisions set out in Section 1 of the Code.

The Company has applied the principles set out in this Section, including both the main principles and the supporting principles, by complying with the Code as reported above. Further explanation of how the principles and supporting principles have been applied is set out below and in the Directors' Remuneration Report and Audit Committee Report.

DIRECTORS

The Board comprises the Non-Executive Chairman (Executive Chairman prior to 1 November 2008), two Executive Directors and three Non-Executive Directors. Brief biographical details of all members of the Board are set out on pages 18 and 19.

The Board considers the three Non-Executive Directors, Stuart Doughty, Christopher Kemball and James Newman to be independent within the meaning of the Code and provide the Board with a high level of independent judgement and objective balance. The Senior Independent Director is Stuart Doughty.

The final stage of the move to a more conventional plc Board structure was implemented during the year when Geoff French moved from an Executive to a Non-Executive role with effect from 1 November 2008. Prior to this change Geoff continued to hold the position of Executive Committee Member of FIDIC, the International Federation of Consulting Engineers and Vice Chairman of ACE, the Association for Consultancy and Engineering. The limited time commitments associated with these appointments was considered beneficial to the interests of the Group and Geoff has continued in these roles, now as Chairman of ACE, since his move to a Non-Executive role. Geoff is also a Vice President of the Institution of Civil Engineers. Neither Hugh Blackwood nor Sean Cummins have any external appointments.

The Board is responsible to shareholders for the overall strategy and direction of the Group and for ensuring that the Group's values and standards are applied throughout the business. The Directors have adopted a formal schedule of matters reserved for the Board, setting out the areas upon which the Board leads and the issues that must be referred to the Board for consideration and decision. Examples of topics covered by the schedule are Group policies, long term objectives and strategy, extension of the Group's business into new business or geographic areas, the annual business plan, acquisitions and disposals, major capital projects, major changes to the Group's management and control structure, capital structure and dividend policy. The Board has developed a five-year strategic plan for the business and this is reviewed and updated annually. During the year the Board considered and approved a revised management structure as part of the move to a market facing business arranged around five global sectors, details of which are set out in more detail in the Business Review. Also during the year all of the Group policies were brought together and published as a single document called **The way we do business**, which was issued to every members of staff as well as being published on the Group website and Intranet. **The way we do business** re-enforces the Group's commitment to high business standards and enables all our stakeholders and the wider community, to see what is important to us and how we operate. The publication was also prepared in Chinese and Polish for our staff operating in those countries. The Board has delegated a number of matters to the Audit, Remuneration and Nominations Committees, reports on the activities of which are included on pages 27, 28 to 33 and 24 respectively.

The number of Board and Board Committee meetings attended by each of the Directors during the year is shown on page 25.

The Board operates to a broadly standing agenda, which includes consideration at each of the routine meetings of reports from the Executive Directors on Group operational, financial and functional performance.

The roles of Chairman and Chief Executive are separate and having been established in writing are clearly defined. During the year the Chairman held regular meetings with the Non-Executive Directors without the other Executive Directors being present.

The Chairman is responsible for leadership of the Board and creating the conditions for overall Board and individual Director effectiveness, both inside and outside the Boardroom. The Chairman sets the agenda and encourages active engagement by all Directors and ensures that the Board as a whole and each of the Board Committees is subject to an annual evaluation. The Chairman also ensures that there is effective communication with shareholders. The Chief Executive is responsible for running the Group's business.

The Directors are able to take independent professional advice at the expense of the Company where they judge it necessary to discharge their responsibilities as Directors. They also have access to the advice and services of the Company Secretary and where it is considered appropriate, training is made available to Directors. The annual Board evaluation process addresses training needs and where requirements are identified training is arranged. In addition the Directors keep abreast of relevant developments and thereby update their knowledge and skills. At the time of his appointment, comprehensive induction materials were provided to Christopher Kemball and induction meetings were held with senior members of staff. In addition induction visits to a number of offices were arranged so that Christopher could meet local management teams and staff and get a greater understanding of the sector businesses within the Group. Christopher is available to meet with major shareholders if requested.

The Company maintains appropriate insurance cover in respect of any legal action against its Directors.

At the 2008 Annual General Meeting Sean Cummins, Geoff French and James Newman retired from office and were re-elected. In accordance with the Company's Articles of Association, one third of the number of Directors is required to retire each year by rotation such that all Directors submit themselves for re-election at least once every three years. Hugh Blackwood and Sean Cummins will retire by rotation at the 2009 Annual General Meeting and offer themselves for re-election. In addition, Christopher Kemball, who was appointed a Director on 1 January 2009, retires at the next Annual General Meeting and being eligible, offers himself for re-election.

CORPORATE GOVERNANCE REPORT CONTINUED

DIRECTORS (CONTINUED)

The Chairman, with the assistance of the Company Secretary, ensures that the Board receives timely and accurate information in order to enable it to perform its duties. Management provides detailed information ahead of each Board and Board Committee meeting. Each Executive Director is available to the Non-Executive Directors if the latter should need clarification or amplification on any information provided. All of the Non-Executive Directors are encouraged to meet with managers and make visits to offices to update their knowledge of the business. The Company Secretary is responsible to the Board for ensuring all Board procedures are followed and for advising the Board on Corporate Governance matters.

A performance evaluation was carried out in 2008 using the same questionnaire based assessment tool that was used in 2007, which enabled scores to be compared and the degree of improvement identified. The evaluation confirmed ongoing improvement in and the closure of a number of the actions identified in the 2007 evaluation. A further evaluation will be carried out in 2009.

The Executive Directors underwent a formal personal performance evaluation during the year as part of the Group-wide performance evaluation system. These reviews were conducted by the Chairman. The performance of the Chairman was reviewed by the Senior Independent Director.

AUDIT COMMITTEE

James Newman chairs the Audit Committee and its other members are Stuart Doughty and Christopher Kembal. Pelham Allen was a member of the Committee until his resignation as a Director on 1 January 2009. The Report of the Audit Committee is on page 27. This sets out in more detail the role of the Committee in advising and making recommendations to the Board on a range of delegated matters including financial reporting, internal controls and the appointment and remuneration of the auditors.

REMUNERATION COMMITTEE

Stuart Doughty chairs the Remuneration Committee and its other members are Christopher Kembal and James Newman. Pelham Allen was a member of the Committee until his resignation as a Director on 1 January 2009. The report of the Remuneration Committee can be found on pages 28 to 33.

NOMINATIONS COMMITTEE

The Nominations Committee is chaired by Geoff French and its other members are Stuart Doughty, Christopher Kembal and James Newman. Pelham Allen was a member of the Committee until his resignation as a Director on 1 January 2009. The Committee met three times during the year. The Committee has written terms of reference and has responsibility for considering the size, structure and composition of the Board, Board Committee membership, succession planning and retirements and the appointment of additional and replacement Directors.

During the year the Committee dealt with Geoff French's move from an Executive to a Non-Executive role as part of a previously agreed transition to a more conventional plc Board structure. In addition the Committee dealt with the resignation of Pelham Allen as a Non-Executive Director and the appointment of his replacement, Christopher Kembal. The key attributes for this post and a number of potential candidates were identified in consultation with external advisers. Interviews were conducted with those shortlisted with the selection being made against objective criteria, Christopher being the unanimous choice of the Committee members.

Stuart Doughty and James Newman completed three years' service with the Company during the year. The Committee considered and made a recommendation to the Board that both be re-appointed for a further three year term. The Board approved the recommendation. Both Stuart and James were absent during all discussions regarding their respective re-appointments.

At the 2009 Annual General Meeting Hugh Blackwood and Sean Cummins will retire by rotation and Christopher Kembal will retire in accordance with the regulation in the Articles of Association dealing with the filling of a casual vacancy. The Committee gave due consideration to the re-appointment of the three Directors and considered that all met the requirements of their respective positions. Following a recommendation to the Board and its subsequent endorsement the three Directors will offer themselves for re-election at the 2009 Annual General Meeting.

The Committee also considered the revised management structure that came into effect on 4 May 2009, including the appointments to the posts of the two Managing Directors who will report to the Group Chief Executive. Both appointments were filled by internal candidates.

Succession planning continued to be an important part of the Committee's work, with consideration being given to a report on the external assessment exercise that was undergone by a number of the members of the senior management team. Progress on the executive and top talent development programmes was also monitored.

During the year the Committee conducted an evaluation of its performance. This concluded that the structure of the Committee and the frequency of meetings remained appropriate for the business.

The terms of reference of the Committee were reviewed and a number of changes were made. The revised terms of reference have been published on the Group website and are available on request from the Company Secretary.

The letters of appointment for the Non-Executive Directors and the contracts of employment for the Executive Directors will be available for inspection by any person at the Company's registered office during usual business hours and for 15 minutes prior to and during the 2009 Annual General Meeting.

BOARD AND COMMITTEE ATTENDANCE

	Main Board	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings	11	3	4	3
Name of Director				
Geoff French	11		2 ⁽¹⁾	3
Pelham Allen	7 ⁽²⁾	2 ⁽²⁾	3 ⁽²⁾	2 ⁽²⁾
Hugh Blackwood	11			
Sean Cummins	11			
Stuart Doughty	11	3	4	3
Christopher Kemball	4 ⁽³⁾	1 ⁽³⁾	1 ⁽³⁾	1 ⁽³⁾
James Newman	11	3	4	2 ⁽⁴⁾

(1) Geoff French was appointed as a member of the Remuneration Committee on 1 November 2008 and as such was eligible to attend two Committee meetings during the period 1 November 2008 to 3 May 2009.

(2) Pelham Allen resigned as a Director of the Company on 1 January 2009 and as such was eligible to attend seven Main Board meetings, two Audit Committee meetings, three Remuneration Committee meetings and two Nominations Committee meetings during the period 28 April 2008 to 1 January 2009.

(3) Christopher Kemball was appointed as a director on 1 January 2009 and as such was eligible to attend four Main Board meetings, one Audit Committee meeting, one Remuneration Committee meeting and one Nominations Committee meeting during the period 1 January 2009 to 3 May 2009.

(4) James Newman was unable to attend a meeting of the Committee due to unavoidable travel delays which also precluded him being able to join the meeting by telephone.

INTERNAL CONTROL

The Directors have ultimate responsibility for the system of internal control and reviewing its effectiveness. Throughout the business there are internal control processes and procedures in place that are designed to manage the risks facing the business. The effectiveness of these processes and procedures is monitored although it is recognised by the Board that any system can only manage rather than eliminate the risk of failure to achieve business objectives.

The Audit Committee assists the Board in its review of the effectiveness of internal controls and is responsible for making recommendations to the Board. In carrying out these delegated duties the Committee takes into account the organisational structure of the business and the reporting regime that operates throughout the Group. During the year the Committee considered reports on progress with the Group risk management programme and gave consideration to the risks and controls around the subject of fraud.

The key internal control procedures and processes that are in operation, many of which are considered and reviewed monthly through consideration of the reports received by the Directors, are as follows:

- **Monthly Reporting.** The Group has a comprehensive system of internal budgeting, forecasting and reporting which includes both financial and non-financial metrics. Monthly actual financial and other key results are analysed by Division and are reported to the Board via the monthly reports in a consistent format for all Divisions. Significant variances to budget are investigated and reported upon. Operational management receives comprehensive management accounts covering their areas of responsibility and formal reports from the Group Function leaders. A revised monthly reporting system has been prepared ready for implementation of the new Sector business structure at the start of the new financial year.
- **Financial Controls and indicators.** The Group has a detailed Financial Management Manual which covers all the procedures from initiation of the bid process through to closure of the project on the accounting system. Key controls and indicators used by management to manage the business risks include monthly monitoring of:
 - projected costs to complete which ensures early notification of potential problems;
 - utilisation rates in order to manage and improve margin;
 - forward order book for identification of long term security of workload;
 - revenue gap for identifying and tracking any forecast shortfall in project work;
 - aged debtors and work in progress measured in terms of value and as a ratio of value;
 - capital utilisation;
 - performance against budget to review the general level of activity and trends against budgeted forecasts;
 - head count and employee movements to monitor staff attrition rates;
 - billable hours, which allows the Group to measure growth in the business and inform the strategy on recruitment and resource management; and
 - operational and other functional KPIs covering such matters as health and safety, client feedback, quality audits and environmental management system audits to ensure maintenance of standards and drive continuous improvement.
- **Project Control.** As part of the quality management system the Group has a project control process that is mandatory throughout the business, which applies a range of controls throughout the project lifecycle. At the heart of the system are a number of Gateway controls including a project risk assessment that determines the level of authorisation required to proceed to the next stage. This system has been the subject of review during the year and a number of improvements agreed.
- **Authority Levels.** Each business unit operates against detailed authority levels, which list delegated authority levels for the range of project and functional activity that takes place within the respective unit.
- **Employment Contracts.** All grades of staff have standard employment contracts and are managed using formalised policies implemented by a regular and individual review and development process.

CORPORATE GOVERNANCE REPORT CONTINUED

INTERNAL CONTROL (CONTINUED)

- **Group policies.** The adoption of Group policies on a range of control and related matters. These were brought together during the year and published in a single document that was issued to every member of staff.
- **External Audit of Safety, Quality and Environmental Management Systems.** In respect of UK offices and projects managed from UK offices, the Quality Management System is externally audited and certified by Lloyds Register of Quality Assurance (LRQA) against the requirements of ISO 9001:2000. Similarly, LRQA audit the Scott Wilson Environmental Management System against the requirements of ISO 14001:2004 and the Scott Wilson Health & Safety Management System against OHSAS 18001:1999. To support the external audits each Division employed dedicated auditors covering these management systems. Outside the UK a number of the Group businesses are already certified to ISO 9001:2000. During the year the Group extended its scope of quality assurance certification to include services in Gdansk, Crakow and Brisbane and the acquired UK businesses within the Scott Wilson management system. ISO 9001 certification was also extended to Shanghai and Beijing.

The Board is satisfied that there is an ongoing process for identifying, evaluating and managing the risks faced by the business and that the requirements of the code in relation to internal controls have been met.

INTERNAL AUDIT

The Head of Internal Audit was appointed in the second quarter of the financial year. In accordance with the Internal Audit Terms of Reference, the function's remit is to provide an independent, objective assurance and consulting activity designed to add value and improve Scott Wilson's operations. It helps the Group accomplish its objectives by bringing a systemic, disciplined approach to evaluate and improve effectiveness of governance, risk management and internal control processes.

The Head of Internal Audit reports functionally to the Audit Committee, but for purposes of day-to-day operations, reports to the Group Business Systems Director. Audit engagements in the year focussed on commercial performance of projects. Internal audits of Scott Wilson's safety, quality and environmental management systems continued to be performed by the divisional auditors up until the end of the financial year. However, from 1 May 2009, these resources were consolidated into a central unit under the leadership of the Head of Internal Audit.

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 on pages 4 to 17. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Report on pages 16 and 17. In addition, note 3 to the Financial Statements includes the Group's financial risk management objectives, and notes 2.10 and 39 contain details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

As discussed in the Business Review, during the year, certain of the business sectors in which the Group operates became more challenging as a result of the financial situation in the UK and overseas. The current economic conditions create some uncertainty particularly over the future demand for the Group's services and the recoverability of debtors and WIP from customers subsequently impacted by market conditions.

The Group has taken actions to restructure its business to meet expected demand and opportunities in each sector, and demand for the Group's services overall has remained strong. The Group has continued to trade profitably and at increased revenue levels and the Group order book at the Balance Sheet date stands at £291m (2008: £280m).

The Group's £70m bank facility is committed until April 2011, subject to compliance with covenants which require the Group to maintain certain financial ratios (net debt to EBITDA, interest cover and debtor days). Based on the budget for the current financial year and forecasts thereafter, the Group has adequate headroom in relation to its facility level and its financial covenant compliance.

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 accounts.

INVESTOR RELATIONS

The Directors encourage two-way communication with both its institutional and private shareholders and require that all enquiries or queries received from shareholders are answered promptly.

The Directors regularly meet with institutional investors, fund managers, analysts and the media to discuss the performance of the Group and its future strategy, particularly when interim and final results are announced. Whilst the Chairman and the Executive Directors act as the main point of contact, the Senior Independent Director is available to meet institutional shareholders should such a shareholder so wish.

Feedback from investors and analysts to the presentations given is prepared by a third party and the full report containing this feedback is issued to all the Directors and reviewed by the Board.

All shareholders have the opportunity to meet and put questions to the Directors, including the Chairmen of the Board Committees, at the Company's Annual General Meeting. Separate Resolutions are proposed for each substantially different issue to enable each one to receive proper consideration. Proxy votes are disclosed after each Resolution has been dealt with as a poll. Following the 2009 Annual General Meeting the results, including proxy voting, will be published on the Scott Wilson website, www.scottwilson.com. Also published on the website are the statutory accounts and other information on the Group's activities including shareholder information, regulatory announcements and Group policies. The Group's website is kept under regular review and development in order to communicate as widely as possible with our shareholders.

Approved by the Board and signed on its behalf by:



GEOFF REDWOOD
COMPANY SECRETARY
30 JUNE 2009