

Corporate Social Responsibility Report

Principles

The policy of the Board is to enhance shareholder value in an ethical and socially responsible manner whilst seeking to preserve health, safety and the environment. The Board believes that operating in such a way is an integral part of efficient and profitable business management, and recognises that success in these areas depends on the involvement and commitment of everyone in the organisation.

As a minimum, the Group operations around the world are required to meet their legal and regulatory obligations. This policy is reviewed annually for validity and is revised and reissued as necessary.

Goals

a) Ethical Operations

Applications for employment by disabled persons are encouraged, bearing in mind the respective aptitudes, skills and abilities of the applicant concerned and the requirements of the position. In the event of employees becoming disabled, the Group's aim is to ensure continued employment where possible and to arrange appropriate training. It is the policy of the Group to maintain, wherever feasible, the training, career development and promotion of disabled persons.

Group policy is that employment-related decisions are based on relevant aptitudes, skills and abilities, and promote a policy of equal opportunity in employment, without unlawful consideration of sex, race, nationality, age, disability, religion or any other category protected by law.

The Group promotes the dissemination of relevant information so that employees are kept regularly advised of Group and operating company developments. Where practical, local briefing sessions are held concerning such matters as health and safety, pension plans, etc.

There is a formal Code of Business Conduct in place for the Group, which promotes a commitment to maintaining the highest standard of ethics and integrity in the conduct of the Group's business throughout the world. This Code includes requirements for the personal conduct of Group employees, including specifically conflict of interest, business gifts, and bribery and corruption. The Code does not permit employees to make contributions to political parties, or organisations, or candidates for public office, with a view to gaining any advantage.

The Company has a Whistle Blowing Policy that is communicated throughout the Group. This Policy provides employees with the opportunity to report unethical or illegal corporate conduct. M Clark is the Company's Senior Independent Director; his position provides shareholders with an alternative channel of communication if they have concerns that the Chairman, Chief Executive or Finance Director has failed to resolve, or for which such contact is inappropriate.

b) Socially Aware Operations

The management of each operation in the Group is aware of the importance of being a good neighbour in its community and is encouraged to build a relationship with local organisations.

Each operation within the Group looks to offer a competitive remuneration package to its employees which assists in the retention of its skilled workforce. In addition, each operation aims to recognise and respond constructively to any community concerns about the Health, Safety & Environmental aspects of its operation.

c) Health, Safety & Environment

The Board as a whole takes an active interest in ensuring that all of its operations provide a safe working environment for its employees. In order to enhance the Group's efforts in managing Health, Safety & Environmental issues, a new committee of the Board was created during the year: the Health, Safety & Environment ("HSE") Committee. The HSE Committee is chaired by G R Menzies (Group Chief Executive), with M Sheppard (CEO Automotive & North American Industrial) and R Case (CEO Aerospace Division), as its other members. The Committee's terms of reference can be found on the Company's website.

The HSE Committee sits on a quarterly basis and is responsible for formulating the Group's HSE strategy and objectives, for measuring the Group's HSE performance against these objectives, and for ensuring that key HSE risks and issues are effectively identified and managed.

A new post of Group Health, Safety & Environment Manager was created to facilitate the effective implementation of the HSE Committee's strategy and objectives. The successful candidate was appointed in December 2005, and is due to take up his post in March 2006.

The Board also reviews the quarterly health and safety performance of all the Group's operations, on both an absolute and relative basis. The executive Directors, together with the CEOs of the local operations, are responsible for delivering improved HSE performance.

The Group's operations promote employee involvement in HSE matters, by open communication and encouragement of active participation.

Each operation aims to provide sufficient resources in terms of people, training, plant and equipment to meet applicable health and safety obligations.

The Group's operations continue to work on improving their health and safety performance through, for example, training, the use of internal assessments and regular reports on performance.

d) Environment

While already subject to various laws and regulations governing the emission of substances which could affect human health or the environment, each operation examines different means by which to reduce further such emissions.

The Group strives both to reduce waste at source by careful use of materials, energy and other resources, and to take advantage of recycling opportunities. Each operation considers, early in the development stage, the possible environmental impact of new products and processes, and the Group carefully considers environmental issues during acquisitions and divestments.

Each operation aims to provide resources in terms of people, training, plant and equipment to meet applicable environmental obligations.

The Group's operations continue to work on improving environmental performance through, among other things, training, the use of internal assessments and regular reports on performance.

Four of the Group's Automotive operations, which represent almost a third of the Group's turnover, have successfully obtained ISO14001, the international environmental accreditation. The HSE Committee has given further impetus to improving the Group's environmental performance by targeting the remaining operations in the Group to be compliant with ISO14001 in the near term.

Organisation and Responsibilities

Operating in an ethical and socially aware manner which preserves health, safety and the environment is a mainstream management responsibility. The Group Chief Executive, as Chairman of the HSE Committee, leads the Board's efforts in improving the Group's ethical, social, Health, Safety & Environmental performance, and is also responsible for external stakeholder issues. Executive and line managers at all levels within the Group are directly responsible, through the normal management structure, for these matters in the specific operations under their control.

All of the Group's employees have a responsibility to act in an ethical and socially aware manner; to take reasonable care of themselves and others while at work, and to participate positively in the task of preserving workplace health and safety, and the environment.

Each operation is expected to adopt policies in keeping with these principles and goals, which also describe the local organisation and to make arrangements for putting them into practice. Each operation has a person appointed to this task, who is responsible to the General Manager for the implementation of these principles and goals.

Ethical, social, Health, Safety & Environmental factors can represent risks to the Group's short and long-term value, as well as opportunities to enhance value that may arise from an appropriate response. The Board has established reporting structures in place to provide it with information on such risks and opportunities, as listed below:

- Ethical, social, Health, Safety & Environmental issues that represent significant business risk or opportunity are monitored and reported as part of the risk management process initiated following the Turnbull Report on corporate risk management, as described in the Corporate Governance Report. The Risk Management process adopted includes procedures for monitoring, and verification of matters reported.
- Other important ethical, social, Health, Safety & Environmental matters are reported to the Group's Executive Committee and to the Board on a regular basis, by the Group's Divisional Directors, as part of their reports on operational matters.

The Group continues to work closely with its employees, local works councils, and trade unions, where applicable. It values its employees and encourages long-term commitment by promoting job security and appropriate training packages for employees at all levels.

Customers and Suppliers

The nature of the businesses in which the Group operates relies heavily on forming close and long-term relationships with both its customers and suppliers. Generally, these relationships are managed at a local level, with Divisional support.