

# Corporate Governance Report

This Corporate Governance Report describes the manner in which the Company has applied the Principles of Good Governance set out in Section 1 of the Combined Code on Corporate Governance and whether or not it has complied with the Code provisions. In July 2003, the Financial Reporting Council ("FRC") issued the "Combined Code on Corporate Governance" known as the "2003 FRC Code", in response to the Higgs Review on Non-executive Directors and the Smith Review on Audit Committees.

## Statement of Compliance with the Combined Code

In June 2006, the FRC issued a revised Combined Code which supersedes and replaces the 2003 FRC Code for financial years beginning on or after 1 November 2006. The Board considered that it would be beneficial to take advantage of the amendment to the 2003 FRC Code restriction on the Chairman serving on the Remuneration Committee, in order to enable him to do so. The Board considered J R Kerr-Muir to be independent on appointment as Chairman.

The Company, throughout the year, has been in compliance with the provisions set out in Section 1 of the 2003 FRC Code, except that J R Kerr-Muir was re-appointed to the Remuneration Committee on 1 August 2006 (FRC Code Provision B.2.1).

## Application of the Principles of the 2003 FRC Code

The Principles of Good Corporate Governance are detailed in the 2003 FRC Code under four areas which have each been reviewed by the Directors and then commented upon below:

### a) Directors

The Board is structured under a non-executive Chairman, and includes three executive Directors, and two other non-executive independent Directors, who were selected for appointment because of their wide industrial and commercial experience. In addition, there is a Group Executive Committee, chaired by the Group Chief Executive, which is comprised of the executive Directors and other key executives within the Group. Brief details of the Board are included on page 4.

The Directors consider that there is in place an effective Board which leads and controls the Group, with clear divisions of responsibility between running the Board and running the Group's businesses. The Board is responsible for the strategic decisions regarding the Group, including the setting of commercial strategy and approval of Group budgets and financial statements. It also approves significant financial and contractual commitments made by the Group. The Board's Terms of Reference more fully describe the responsibilities of the Board, and may be found on the Company's website.

The Board delegates certain of its responsibilities to the Audit, Remuneration, Nominations, and Health, Safety & Environment ("HSE") Committees. The Group Chief Executive, together with the Group Executive Committee, is responsible for the implementation of the decisions made by the Board, and for the day-to-day conduct of the Group's operations.

The Board meets formally on a regular basis (11 times in 2006); and in addition there were three meetings of the Audit Committee in 2006, together with five meetings of the Remuneration Committee, two meetings of the Nominations Committee and three meetings of the HSE Committee during the year. There was full attendance at every Board meeting and Committee of the Board during the year. Other Committees are appointed by the Board to deal with treasury matters and specific issues such as acquisitions and disposals. The minutes arising from the Committee Meetings are available to the Board.

Procedures are in place to ensure that the Directors are properly briefed so that the decisions taken by the Board are based on the fullest available information. At every Board Meeting there are reviews of operational, financial and administrative matters. Health, safety & environmental performance is reviewed by the Board on a regular, and at least quarterly, basis; while social and ethical issues, agreement of budgets and levels of insurance cover are reviewed whenever appropriate.

There is a procedure by which all Directors can obtain independent professional advice at the Company's expense in furtherance of their duties, if required.

### Nominations Committee

The Nominations Committee leads the process for Board appointments, and supervises management development and succession plans. It also makes recommendations to the Board on all new Board appointments. The Committee, which consists entirely of non-executive Directors, is chaired by J R Kerr-Muir, and its composition is shown on page 4. Its Terms of Reference may be found on the Company's website.

The appointment of new non-executive Directors to the Board is controlled by the Committee, assisted by appropriate external recruitment consultants. In conjunction with the external consultant, consideration is given to the role and the capabilities required for a particular appointment. Based on agreed criteria, the consultant then produces a shortlist of candidates. The Committee members interview these candidates, then present their recommendation to the Board. Consideration is also given to the number of other posts held by the candidates, and their ability to devote sufficient time to discharge their duty as a non-executive Director. J R Kerr-Muir has advised the Company that he will be retiring from the Board during 2007. The Nominations Committee recommended that M Clark, the Senior Independent Director, be appointed non-executive Chairman and I F R Much be appointed the Senior Independent Director, upon J R Kerr-Muir's retirement. In order to maintain the minimum required number of non-executive Directors, a new non-executive Director will be appointed prior to J R Kerr-Muir's retirement.

During the year, the Board undertook a formal review to evaluate its own performance, and that of its Committees and individual Directors; this process involved the completion and review of performance assessment questionnaires, and appraisal interviews. The results of the evaluation process are used to improve Board performance and to determine the training needs of the Directors. M Clark and I F R Much, in consultation with the executive Directors, undertook an evaluation of the Chairman's performance, and concluded that J R Kerr-Muir continued to provide effective leadership of the Board. Based on the results of the performance evaluation process, the Chairman considers that each member of the Board, the Board collectively, and its Committees, continue to contribute effectively to the running of the Company.

In accordance with the Company's Articles, Directors submit themselves for re-election at the Annual General Meeting following their appointment and thereafter at intervals of no more than three years.

#### b) Directors' Remuneration

The Remuneration Report on pages 18 to 23 describes how the Board has applied itself to remuneration matters.

#### c) Accountability and Audit

The Audit Committee Report on pages 16 and 17 describes the role and activities of the Audit Committee and its relationship with the internal and external auditors.

#### d) Relations with Shareholders

The Company maintains regular contact with its institutional shareholders. Twice a year, the Group Chief Executive and Group Finance Director undertake a series of meetings with the Company's major shareholders, following the announcement of the full year and interim results, to discuss both strategic objectives and the detailed performance of the business. During 2006, J R Kerr-Muir, the Company's

non-executive Chairman, also attended the full year and interim results announcements to shareholders and analysts, in March and August respectively. No other non-executive Director formally met with shareholders during the year. The Senior Independent Director is available to attend shareholder meetings, if this is requested by shareholders, so providing an alternative channel of communication between the Company and its shareholders. The Company's largest shareholders were invited to meet I F R Much following his appointment as a non-executive Director on 21 December 2005.

The Company makes constructive use of the Annual General Meeting to communicate with private investors. A presentation of the Company's performance is given at the AGM, and a copy of the presentation, along with other investor relations material, is available on the Company's website.

All resolutions at the 2006 AGM were passed unanimously on a show of hands. Details of the proxy voting received by the Company for the AGM 2006 are set out in the table below.

The issued share capital as at 1 March 2006 (the date of the notice of the AGM 2006), was 324.73 million shares of 10p each.

A large majority of the abstentions to Resolutions 2 and 7 (approving the Remuneration Report and the election of Deloitte & Touche LLP as Auditors respectively) came from a single shareholder.

The total number of proxy votes received for the AGM 2006 represented approximately 68.1% (2005 – 71.6%) of the issued share capital of the Company. The Company is supportive of initiatives to promote greater shareholder participation and offers CREST members the facility to appoint a proxy or proxies through the CREST electronic proxy appointment service. Further details of this service may be found in the enclosed Notice of the Annual General Meeting.

Proxy voting for the AGM 2006

Resolution	For (votes)	Against (votes)	Discretionary (votes)	Abstentions (votes)	Total (votes)
1. To adopt Report & Accounts	220,828,542	181,186	153,186	1,000	221,164,332
2. To approve Remuneration Report	217,370,970	583,743	162,422	3,047,192	221,164,332
3. To declare a final dividend	221,003,792	6,186	154,354	0	221,164,332
4. To re-elect Mark Rollins as a Director	219,766,582	1,204,001	191,749	2,000	221,164,332
5. To re-elect Michael Sheppard as a Director	219,660,278	1,261,849	191,749	50,456	221,164,332
6. To elect Ian Much as a Director	219,701,090	1,212,637	197,749	52,856	221,164,332
7. To re-elect Deloitte & Touche LLP as auditors	218,075,437	208,163	185,822	2,694,910	221,164,332
8. Authority to allot shares	220,872,236	84,031	190,422	17,643	221,164,332
9. Disapplication of pre-emption rights	220,840,983	115,736	190,122	17,491	221,164,332
10. Authority to buy back shares	220,918,631	52,410	188,304	4,987	221,164,332