

Chairman's statement

Board of Directors

DIRECTORS' REPORT

Financial information

Other information

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" ("the FRC Code"), in response to the Higgs Review on non-executive directors and the Smith Review on Audit Committees. The FRC Code was then revised in 2006 and 2008.

STATEMENT OF COMPLIANCE WITH THE COMBINED CODE

The Company has been in compliance with the provisions set out in Section 1 of the 2006 version of the FRC Code throughout the year.

APPLICATION OF THE PRINCIPLES OF THE FRC CODE

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

A) DIRECTORS

The Board is structured under a non-executive Chairman, and includes three executive Directors, and three other independent non-executive Directors, who were selected for appointment because of their wide industrial and commercial experience. In addition, there is an 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 members of the Board and of the Executive Committee are included on pages 6 and 7.

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 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 (nine times in 2008); and in addition there were three meetings of the Audit Committee in 2008, together with five meetings of the Remuneration Committee, five meetings of the Nominations Committee and five meetings of the HSE Committee. 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 and 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 Martin Clark, and its composition is shown on page 7. Its Terms of Reference may be found on the Company's website.

The appointment of new 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, and then present their recommendation to the Board. When appointing non-executive Directors, 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. Following completion of extensive selection processes, the Nominations Committee recommended the appointments of Mark Rollins as Group Chief Executive, Simon Nicholls as Group Finance Director, and Michael Steel as a non-executive Director.

Michael Steel has been appointed for an initial period of three years, with potential for renewal for a further three years, unless terminated by either the Company or Michael Steel upon giving one month's notice. His annual fee is £35,000.

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. David Best and Ian Much, in consultation with the executive Directors, undertook an evaluation of the Chairman's performance, and concluded that Martin Clark provided 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.

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B) DIRECTORS' REMUNERATION

The Remuneration Report on pages 28 to 35 describes how the Board has applied itself to remuneration matters.

C) ACCOUNTABILITY AND AUDIT

The Audit Committee Report on pages 26 and 27 describes the role and activities of the Audit Committee and its relationship with the internal and external auditors.

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. Ian Much is the Company's Senior Independent Director. His position provides shareholders with an alternative channel of communication if they have a concern that the Chairman, Group Chief Executive or Group Finance Director have failed to resolve, or where such contact is appropriate.

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 2008, 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 Michael Steel following his appointment as a non-executive Director on 1 May 2008.

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 put to shareholders at the AGM 2008 were passed unanimously on a show of hands. Resolution 12 (relating to the inclusion of a dispute resolution provision in the revised Articles of Association) was withdrawn and not put to the meeting. Details of the proxy voting received by the Company for the AGM 2008 are set out in the table below.

The issued share capital as at 29 February 2008 (the date of the Notice of the AGM 2008), was 391.0 million shares of 10p each.

The total number of proxy votes received for the AGM 2008 represented approximately 57.8% (2007 – 68.1%) 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 2008

Resolution	For (votes)	Against (votes)	Discretionary (votes)	Abstentions (votes)	Total (votes)
1. To adopt Report & Accounts	223,052,162	5,438,921	133,749	0	228,624,832
2. To approve Remuneration Report	228,412,628	69,735	135,549	6,920	228,624,832
3. To declare a Final Dividend	228,473,083	18,000	133,749	0	228,624,832
4. To re-elect Mark Rollins as a Director	228,419,883	28,600	166,349	10,000	228,624,832
5. To re-elect Mike Sheppard as a Director	228,417,658	40,825	166,349	0	228,624,832
6. To elect David Best as a Director	228,201,699	239,224	172,709	11,200	228,624,832
7. To re-elect Deloitte & Touche LLP as auditors	228,199,886	265,171	158,875	900	228,624,832
8. Authority to allot shares	218,148,569	10,300,003	165,360	10,900	228,624,832
9. Disapplication of pre-emption rights	218,108,230	10,330,593	173,336	12,673	228,624,832
10. Authority to buy back shares	228,409,240	50,157	161,635	3,800	228,624,832
11. To adopt new Articles of Association	227,708,443	234,577	179,320	502,492	228,624,832