

# Corporate Governance

The Board acknowledges that by adopting and implementing the highest standards of corporate governance, it sets the standard and values for the entire Group.

The Board seeks to comply with best practice in all areas of corporate governance and sets out below how the principles of the Combined Code on Corporate Governance (the Code) have been adopted and implemented by the Company.

## DIRECTORS

The Board consists of four executive Directors and five non-executive Directors. The executive Directors provide a direct line of control between the Company and its operating businesses. The non-executive Directors provide a balance to the Board and bring a wide breadth of experience. The Board considers all non-executive Directors to be independent. The Senior Independent Director is David Thompson.

Hamish Leslie Melville has completed more than eleven years' service as a non-executive Director. Despite this long service, the Board considers Hamish Leslie Melville to be independent. This is because his long standing appointment does not in any way affect his objectivity and his ability to advise and question the executive Directors, particularly in respect of strategy and the Company's financial affairs. His long association with the Company has given him a sound and detailed knowledge of the Company's business which has enabled him to consider and evaluate information and responses from the executive Directors quickly and concisely. His wise counsel has contributed significantly to the Company's success.

The Chairman has reviewed Hamish Leslie Melville's performance and he believes that his performance continues to be very effective. The Board considers it important to continue to have access to his judgement in managing the continued growth and expansion of the Company. Hamish Leslie Melville will retire and be available for re-election to the Board on an annual basis. Hamish Leslie Melville retired from the Audit Committee with effect from 19 October 2006.

The Board meets six times a year and has a formal schedule of matters reserved for its consideration and decision. This schedule includes the approval of financial and marketing strategy, dividend policy, approval of annual and interim results, major investments, review of performance, monitoring risk, ensuring adequate financial resources are available and reporting to shareholders. The schedule is reviewed on an annual basis.

The Directors normally attend all Board meetings and Committee meetings of which they are a member. During the year David Bryant, Hamish Leslie Melville, Neil Davidson, Adam Applegarth and Nicholas Wrigley were unable to attend one Board meeting each. Sir Chips Keswick was unable to attend two Board meetings. Neil Davidson was unable to attend one Audit and one Remuneration Committee meeting and Nicholas Wrigley was unable to attend one Audit Committee meeting.

The Board undertakes a written self-evaluation of its performance and a verbal evaluation of the performance of its Remuneration and Nomination Committees and the individual Directors. The Audit Committee undertakes a written self-evaluation of its performance. The non-executive Directors undertake a verbal annual performance evaluation of the Chairman, taking into account the views of the executive Directors.

All Directors have access to the advice and services of the Group Company Secretary and may also seek independent professional advice and training, at the Company's expense, if so required to carry out their duties. All executive Directors have twelve month rolling contracts. The non-executive Directors do not have service contracts.

## NOMINATION COMMITTEE

The members of the Nomination Committee until 20 April 2006 were Duncan Davidson (Chairman), Sir Chips Keswick, Hamish Leslie Melville and David Thompson. Duncan Davidson and Sir Chips Keswick retired on 20 April 2006 and John White was appointed as Chairman to the Committee.

The membership of the Committee is now John White (Chairman), Hamish Leslie Melville, David Thompson and Adam Applegarth following his appointment on 19 October 2006. The Committee met once during 2006.

## REMUNERATION COMMITTEE

Hamish Leslie Melville retired as Chairman of the Remuneration Committee on 21 April 2006 and his position was taken by Adam Applegarth. The other members of the Committee during 2006 were David Thompson and Neil Davidson.

The Remuneration Committee is responsible for setting the remuneration of the Chairman and the executive Directors. The Remuneration Committee met three times during the year. The Committee undertook a thorough review of remuneration for executive Directors during 2006 and approval will be sought at the forthcoming AGM for a new remuneration policy for executive Directors from 1 January 2007.

Full details of the Remuneration Policy and the proposed remuneration package for each executive Director in 2007 are set out in the Remuneration Report on pages 38 to 41. Details of the remuneration package for each Director serving during 2006 are set out in the Remuneration Report on pages 42 to 45.

In accordance with the Directors' Remuneration Report Regulations 2002 the Remuneration Report will be put to shareholders for their approval at the Annual General Meeting on 19 April 2007.

## ACCOUNTABILITY AND AUDIT

The Company has an Audit Committee to whom the external auditors, KPMG Audit Plc report. During 2006 the Audit Committee was wholly comprised of independent non-executive Directors. The members of the Committee are David Thompson (Chairman), Neil Davidson and Nicholas Wrigley, who was appointed on 19 October 2006, the date Hamish Leslie Melville retired from the Committee. All members of the Committee have recent relevant financial experience; please see the Directors' biographies on pages 34 and 35.

The role of the Audit Committee is to review the Company's financial reporting, monitor the Company's internal controls and Group Risk management function and oversee the Company's relations with external auditors.

The Committee's Terms of Reference were adopted on 25 February 2004. During the year the Board reviewed the Committee's Terms of Reference and no amendments were made. The Terms of Reference of the Group Risk management function were recommended by the Audit Committee and approved by the Board and were unchanged in 2006.

The Committee met on four occasions during the year. The Committee agreed the nature and scope of the audit with the auditors and monitored the quarterly findings of the auditors and Group Risk. The Committee regularly meets the auditors without the presence of the Company's management.

The Audit Committee formulates and oversees the Company policy on monitoring auditor objectivity and independence in relation to non-audit services. The policy is to ensure that the nature of non-audit services performed or the fee income relative to the audit fee does not compromise or is seen to compromise the auditor's independence, objectivity or integrity. The auditors are excluded from undertaking a range of work on behalf of the Company which includes appraisal or valuation services, management functions, litigation support, legal accounting and remuneration services.

The Company has had a whistle blowing procedure in place for a number of years which is publicised in the Staff Handbook. All employees may raise concerns about malpractice or improper or potentially illegal behaviour in confidence without concern of victimisation or disciplinary action.

## INTERNAL CONTROL

The Company has complied with the Code provisions on internal control, having continued to operate the procedures necessary to implement the guidance issued in September 1999 (the Turnbull Committee Report) throughout the year.

The Board has overall responsibility for the Company's system of internal control and for the review of its effectiveness. It is the role of management to implement the Board's policies on risk and control through the design and operation of appropriate internal control systems. All employees have some responsibility for internal control as part of their accountability for achieving objectives.

The Risk Committee has the delegated task of overseeing the Board's responsibilities with respect to risk and internal control. Specifically this includes determining appropriate control procedures and the review of the effectiveness of internal control. The members of the Risk Committee until 20 April 2006 were John White, Mike Farley, John Millar and Mike Killoran. The members after this date were John White, Mike Farley, Mike Killoran and the Divisional Chief Executives David Thornton, Jeff Fairburn and Nigel Greenaway. The Risk Committee reports to the Audit Committee, which maintains oversight of the Risk Committee's activities.

As part of its ongoing activities, the Group Risk management function has updated the Group's risk assessment during the year. The results of this process have been reported to the Risk Committee and have been used to drive a risk focused programme of work designed to improve business processes and increase internal control effectiveness. The Group Risk management function has established a risk intranet system to further embed risk management within the Company.

The processes that the Risk Committee has applied in reviewing the effectiveness of the system of internal control include the following:

- Ensuring that there is a continuous detailed involvement in land acquisition assessment and work in progress, together with regular site visits and discussion with site based personnel by senior management;
- Review of representations on risk and control from all Managing Directors of operating businesses following individual reviews of internal control within their operating businesses;
- Review of representations on risk and control from key head office and divisional management;
- Review of reports produced by the Group Risk management function and external audit on internal control and management of risk;
- Ongoing review of Group performance in comparison to operational forecasts and financial budgets;
- Involvement in individual operating businesses board discussions, specifically operational board meetings where all aspects of operational performance are analysed.

The Risk Committee met six times during the year ensuring that there has been an ongoing process for the identification, evaluation and management of the significant risks that are faced by the Company.

The Company's system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

## COMBINED CODE

The Board supports the high standards in corporate governance and continues to review the Code as well as the Company's procedures to maintain proper control and accountability. The Company complied with the Code throughout 2006.

## RELATIONS WITH SHAREHOLDERS

The Board has always sought good relations with the Company's shareholders and believes it is important that shareholders receive timely information on their Company's progress. As well as the announcement of interim and final results, the Company issues regular trading statements to the London Stock Exchange.

The Directors understand that it is important for both private and institutional shareholders to have the opportunity to raise concerns or discuss matters with them. The Chairman John White and the Senior Independent Director David Thompson maintain contact with major shareholders to understand their issues and concerns. Mike Farley and Mike Killoran have responsibility for maintaining appropriate communications with institutional investors. All the Directors attend the Company's Annual General Meeting and are available to answer questions at the meeting or privately.

By order of the Board

**Neil Francis**, Group Company Secretary  
23 February 2007