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## Corporate Governance Report

The Board recognises that it is very important to maintain high standards of corporate governance as 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 2006 (the Code) have been adopted and implemented by the Company.

### Directors

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The Board consists of the Chairman, three 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.

The Board routinely 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 half year results, major investments, review of performance, monitoring risk, ensuring adequate financial resources are available and reporting to shareholders.

The Board met on eight occasions in 2008, reflecting the significant change in market conditions affecting the Company. There was full attendance by all Directors at Board and Committee meetings during the year except that David Bryant was unable to attend the two extra Board meetings.

The Senior Independent Director is David Thompson. David Thompson joined the Board in August 1999 and has now served more than nine years on the Board. As Senior Independent Director his primary responsibility is relationships with the Company's major shareholders. The Company consulted with its major shareholders setting out the reasons why it would be appropriate for David Thompson to remain as Senior Independent Director beyond nine years and received a positive response. Hamish Leslie Melville has also completed more than nine years' service as a non-executive Director.

The Board considers both David Thompson and Hamish Leslie Melville to be independent, despite their long service. This is because their long standing appointments do not in any way affect their objectivity and their ability to advise and question the executive Directors, particularly in respect of strategy and the Company's financial affairs. Their long association with the Company has given them a sound and detailed knowledge of the Company's business which has enabled them to consider and evaluate information and responses from the executive Directors quickly and concisely.

The Chairman has reviewed both David Thompson and Hamish Leslie Melville's performance and he believes that their performance continues to be very effective. The Board considers it important to continue to have access to the wise counsel of both David Thompson and Hamish Leslie Melville in managing the Company in the current difficult market conditions.

David Thompson and Hamish Leslie Melville will retire at the AGM and be available for re-election to the Board on an annual basis in the future.

The Board and the Audit Committee undertake a written self-evaluation of their performance. A verbal evaluation of the performance of the Remuneration and Nomination Committees are undertaken by the Committees. The non-executive Directors undertake a verbal annual performance evaluation of the Chairman, taking into account the views of the executive Directors. The Chairman undertakes a verbal evaluation of the executive Directors' performance. As a result of the evaluations, a number of procedural and other changes have been implemented during 2008; for example the Board are provided with additional executive management reports and management accounts to ensure they have detailed knowledge of the Company's progress in the current challenging market conditions.

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 12 month rolling contracts. The Chairman and the non-executive Directors do not have service contracts.

### Conflicts of Interest

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The Company has procedures in place to ensure that Directors disclose any situation in which they may have an interest, direct or indirect, which conflicts or possibly may conflict with the interests of the Company. No authority to authorise a conflict of interest has been necessary.

### Nomination Committee

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The members of the Nomination Committee are John White (Chairman), Hamish Leslie Melville, David Thompson and Nicholas Wrigley.

The Board instructed the Committee in late 2007 to make recommendations for a non-executive Director who would bring new different skills and expertise to the Board. The Nomination Committee consulted the Board, some major shareholders and its merchant bankers in connection with the appointment. The Committee did not use a recruitment agency or open advertising as it did not consider that this would have assisted in the recruitment of a high calibre non-executive Director with the right skills to compliment the Board.

The Committee met twice during 2008, to review and consider the composition of the Board. There was full attendance by Directors at the Committee meetings.

The Committee recommended Richard Pennycook to the Board and he was subsequently appointed on 14 March 2008. Mr Pennycook's biography is on page 23. Mr Pennycook has undertaken a comprehensive induction with the Company and has had detailed discussions with the Chairman, Group Chief Executive, Group Finance Director, Chairman of the Audit Committee and the Group Company Secretary.

David Bryant informed the Board that he will step down from the Board at the 2009 AGM. Mr Bryant will transfer his Group responsibilities to other Group directors so that his management role will be solely Eastern Regional Chairman on 1 July 2009 until his retirement on 31 December 2009.

The Committee is satisfied that appropriate succession planning for the Board and senior management is in place.

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## Remuneration Committee

The members of the Remuneration Committee are Nicholas Wrigley (Chairman), 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 twice during the year to consider and approve the remuneration arrangements for these Directors from 1 January 2008. The Committee members all attended each meeting. Details of the remuneration package for each Director serving during 2008 are set out in the Remuneration Report on pages 28 to 34.

The Remuneration Report will be put to shareholders for their approval at the Annual General Meeting on 23 April 2009, in accordance with the Directors' Remuneration Report Regulations 2002.

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## Accountability and Audit

The Company has an established Audit Committee to whom the external auditors, KPMG Audit plc report. During 2008 the Audit Committee was wholly comprised of independent non-executive Directors. The members of the Committee are David Thompson (Chairman), Neil Davidson, Nicholas Wrigley and Richard Pennycook, who was appointed to the Committee on 19 June 2008. All members of the Committee have recent relevant financial experience; please see the Directors' biographies on page 23.

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 (which are recommended by the Audit Committee and approved by the Board) were unchanged in 2008.

The Committee met on four occasions during the year and all members were in attendance at each meeting. 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 meet the auditors without the presence of the Company's management.

The Audit Committee formulates and oversees the Company's 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 and litigation support, legal accounting and remuneration services. From time to time non-audit services are put out to tender to a number of accountants. The Committee recommend the reappointment of KPMG as auditors.

The Company has had a whistle blowing procedure in place for a number of years which is publicised in the Staff Handbook and from January 2009 on Company noticeboards. All employees may raise concerns about malpractice or improper or potentially illegal behaviour in confidence without concern of victimisation or disciplinary action.

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## Going concern

After making enquiries, the Directors have formed a judgement at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

Further details are provided in note 2 to the financial statements.

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## Internal Control

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 Company has complied with the Code provisions on internal control, having continued to operate the procedures necessary to implement the guidance issued in the Turnbull Committee Report (revised October 2005) throughout the year.

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 during 2008 were John White, Mike Farley, Mike Killoran and the Divisional Chief Executives, Jeff Fairburn, David Thornton and Nigel Greenaway. The Risk Committee are supported by the Group Risk Manager. The Risk Committee reports to the Audit Committee, which oversees 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 updated the risk register during the year to reflect the changing risk profile facing the Group. The risk register has been approved by the Risk and Audit Committees.

The Risk Committee met six times during 2008 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 processes that the Risk Committee has applied in 2008 in reviewing the effectiveness of the system of internal control include the following:

- Review of reports produced by the Group Risk management function on internal control and risk 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;
- Reviewing reports from the Corporate Responsibility Committee with particular reference to the social, environmental, sustainability and reputational risks facing the Group.

The members of the Risk Committee completed the following tasks as essential parts of the Group's control framework:

- Maintaining a continuous detailed involvement in monitoring and controlling work in progress and controls over land acquisition assessment;
- Regular site visits and discussion with site based personnel by senior management;
- Ongoing review of Company 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.

Upon completion of these processes the Risk Committee formally considers the Annual Review of the Effectiveness of the Group's System of Internal Control. The review for 2008 has been completed and approved by both the Risk and Audit Committees.

A detailed Group Risk programme of work for 2009 has been approved by both the Risk and Audit Committees.

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 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 2008.

## Relations with Shareholders

The Board continues to seek 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 half year and final results, the Company issues regular trading and interim management statements to the London Stock Exchange.

The Directors recognise that it is important for both private and institutional shareholders to have the opportunity to raise concerns or discuss matters with them. The Group Chairman John White and the Senior Independent Director David Thompson maintain contact with major shareholders to understand their issues and concerns and report relevant information to the Board. Mike Farley and Mike Killoran have responsibility for maintaining appropriate communications with institutional investors and analysts. The Board is provided with reports and feedback from shareholders and analysts.

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  
2 March 2009