

# 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 June 2008 Combined Code on Corporate Governance ("Combined Code").

## Statement of Compliance with the Combined Code

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

## Application of the Principles of the Combined Code

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

### a) Directors

The Board is structured under a non-executive Chairman, and includes two executive Directors, and three 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, comprising the executive Directors and other key executives within the Group. Brief details of the Board and of the key Executive Committee members are included on page 31.

The Directors consider that there is in place an effective Board which leads and controls the Group, with clear divisions of responsibility between the running of the Board and the running of the Group's businesses.

The Board is responsible for strategic decisions affecting the Group, including the setting of commercial strategy and the 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 2010); in addition there were three meetings of the Audit Committee in 2010, together with six meetings of the Remuneration Committee, one meeting of the Nominations Committee and four meetings of the HSE Committee. There was full attendance at every Board meeting and Committee of the Board during the year with the exception noted on page 31. Other committees are appointed by the Board to deal with treasury matters and specific issues such as acquisitions and disposals. The minutes arising from all Committee meetings are available to the Board.

Procedures are in place to ensure that the Directors are properly briefed, so that 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. Group strategy, and health, safety and environmental performance are reviewed by the Board on a regular basis. Social and ethical issues, the 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 planning. It also makes recommendations to the Board on all new Board appointments and re-appointments. The Committee, which consists entirely of non-executive Directors, is chaired by Martin Clark, and its composition is shown on page 31. 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 an appropriate external recruitment consultant. 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. Members of the Committee interview the shortlisted 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 duties as a non-executive Director.

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. Ian Much, in consultation with the 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 all members of the Board, the Board collectively, and its Committees, continue to contribute effectively to the running of the Company.

There were no new appointments to the Board in 2010. Michael Steel has indicated that he wishes to retire from the Board at the Annual General Meeting 2011 and the Nominations Committee has commenced the process to appoint two new non-executive Directors. The Board is to adopt the New Code's provision relating to the annual re-election of Directors for the Annual General Meeting 2011 and David Best, Martin Clark, Simon Nicholls, Ian Much and Mark Rollins will all stand for re-election at the AGM.

#### b) Directors' remuneration

The Remuneration Report on pages 38 to 45 describes the Board's approach to remuneration matters.

#### c) Accountability and audit

The Audit Committee Report on pages 36 and 37 describes the role and activities of the Audit Committee and its relationship with the internal and external auditor.

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 employees with an alternative channel of communication to resolve issues if they have a concern that the Chairman, Group Chief Executive or Group Finance Director have failed to resolve these, or where such contact with them is not appropriate. The Group's ethical procedures and Code of Business Conduct have been reviewed in light of the potential impact of the Bribery Act 2010 and enhancements planned as appropriate.

#### d) Relations with shareholders

The Company maintains regular contact with its institutional shareholders. At least 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 preliminary full-year and interim results, to discuss both strategic objectives and the detailed performance of the business. During 2010, the Company's non-executive Chairman also attended the preliminary full-year and interim results announcement presentations to analysts, in March and August respectively. No shareholders requested a meeting with any non-executive Directors 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 makes constructive use of its 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 2010 were passed on a show of hands. Details of the proxy voting received by the Company for the AGM 2010 resolutions are set out in the table below. The total number of proxy votes received for the AGM 2010 represented approximately 66.8% (2009 – 66.2%) 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 proxy form.

#### Proxy voting for the AGM 2010 resolutions

Resolution	For (votes)	Against (votes)	Discretionary (votes)	Abstentions (votes)	Total <sup>(1)</sup> (votes)
1. To adopt Report & Accounts	259,380,879	216,480	97,777	7,091,507	266,786,643
2. To approve Directors' Remuneration Report	254,002,016	298,983	101,137	12,384,507	266,786,643
3. To declare a Final Dividend	259,597,819	800	96,337	7,091,687	266,786,643
4. To re-elect Martin Clark as a Director	258,837,310	736,302	107,764	7,105,267	266,786,643
5. To re-elect Deloitte LLP as auditor	258,759,949	752,800	111,577	7,162,317	266,786,643
6. Authority to allot shares	251,718,841	2,183,051	114,739	12,770,012	266,786,643
7. Disapplication of pre-emption rights	259,382,370	103,165	109,882	7,191,226	266,786,643
8. Authority to buy back shares	259,440,896	134,697	102,442	7,108,608	266,786,643
9. To retain the 14-day notice period	244,708,142	14,856,281	109,052	7,113,168	266,786,643
10. To adopt New Articles of Association	259,325,482	229,562	115,781	7,115,818	266,786,643

<sup>(1)</sup> The total issued share capital as at 1 March 2010 (the date of the Notice of the AGM 2010), was 399.7 million ordinary shares of 10 pence each.