

Directors' report

Activities

The Chairman's statement on pages 4 and 5, the Chief Executive's strategy review on pages 6 to 8, the Operating review on pages 22 to 37 and the Financial review on pages 38 to 40, report on the principal activities of the Group, its operations during 2006 and future developments in its businesses.

Dividends

The Directors recommend a final dividend on ordinary shares of 5.2p (net) per share, making, with the interim dividend of 3.9p, a total dividend for 2006 of 9.1p (net). Preference dividends totalling 10.75p (gross) per preference share have been paid for 2006.

Directors' interests

No Director had any material interest in any contract of significance with the Group during the period under review. The interests of Directors in the share capital of the Company and its subsidiary undertakings and their interests under the long-term incentive schemes (the Performance Share Plans 2001 and 2006), the deferred bonus plan and in respect of options, are set out in the tables in the Remuneration report beginning on page 54.

During the year, the Company has provided a qualifying third party indemnity to each of the Directors, which indemnities remain in force.

Share capital and major shareholders

Details of the share capital of the Company as at 31 December 2006 are set out in Note 27 on pages 94 to 96. During the year to 31 December 2006 no ordinary shares were repurchased for cancellation and 12,012,640 preference shares (representing 9% of the preference share capital) were repurchased for cancellation for a total consideration of £18,836,111 at an average price of 156.8p. 1,375,582 ordinary shares were issued following the exercise of options held under the Company's Savings-Related Share Option Scheme and 1,999,231 ordinary shares were issued following the exercise of options held under the Company's Executive Share Option Schemes. No other shares were issued during the year.

At 31 December 2006, the Directors had authority, under the shareholders' resolutions of 12 May 2006, to purchase through the market 42,768,741 ordinary shares and 17,739,032 preference shares at prices set out in those resolutions. This authority expires at the conclusion of the separate Class meeting which follows the 2007 Annual General Meeting.

As at 6 March 2007, the Company had been notified in accordance with the Disclosure and Transparency Rules of the Financial Services Authority of the following interests in its ordinary share capital:

Standard Life Investments Ltd	7.75%
Schroders plc	6.73%
Legal and General Group plc	3.44%

Corporate governance and the Combined Code

Overview

The Board continues to endorse and apply the principles of good corporate governance reflected in the Combined Code (the "Code"), as appended to the Listing Rules of the UK Listing Authority.

The governance of the Company through the year in the light of the principles and supporting principles and provisions of the Code is described in the following paragraphs. Throughout the year ended 31 December 2006 and save as otherwise explained in the paragraph headed "Compliance with the Code" on page 53, the Board believes that the Company was in compliance with the provisions of the Code.

Honorary President

Viscount Weir is Honorary President of the Company, having been appointed to this position in May 2003 following his retirement as Chairman.

The Board

The Board currently comprises 10 Directors, of whom seven, including the Chairman, are non-executive. Details of appointments and retirements during the year can be found under the heading "Directors" below. Jim Cohen, an executive Director throughout 2006, retired on 18 February 2007. The Directors believe that the Board continues to include an appropriate balance of skills and, with them, the ability to provide effective leadership for the Group.

Throughout 2006 and as at the date of this report, the Chairman was Sir David John, the Chief Executive was Ian Tyler and the senior independent Director was Robert Walvis. The chairman of the Audit Committee in 2006 was Steven Marshall. Sir David John continued as chairman of each of the Nomination Committee and the Business Practices Committee, and Robert Walvis continued as chairman of the Remuneration Committee, throughout the year.

The Board operates both formally, through Board and Board Committee meetings, and informally through regular contact between Directors as required. Decisions on a list of specific matters, including the approval of financial statements, major tenders and capital expenditure, and most acquisitions and disposals, are reserved to the Board or Board Committees. Matters falling outside the list are delegated to management. The list of these reserved matters is reviewed by the Board from time to time, most recently in December 2006.

Meetings of the Board are normally held in London, but meetings are on occasions held in other parts of the UK and overseas. Some meetings are combined with visits to the Group's businesses or major projects. On the evening before the July 2006 meeting, which was held in London, the Directors visited a station refurbishment project being carried out by Metronet and visited the Waterloo and City line, then in the middle of major refurbishment work also being carried out by Metronet. The November 2006 meeting was held in Berlin, for which Deutsche Bahn kindly made meeting facilities available, and Directors were able to see the new Potsdamerplatz main line station in central Berlin, a project in which the Group was involved.

Procedures for Board meetings remain unchanged. Papers are generally sent out at least three days in advance of the meeting. These include a written report from each of the Chief Executive, the Finance Director, the director of Health, Safety and the Environment, and the group managing directors. At the meetings, oral reports are made on issues arising from the written reports, and both those and other matters of immediate interest or concern are discussed by the Board. Apart from the meetings that approve the interim and final results respectively, and the meeting prior to the Annual General Meeting, a separate presentation on a topic of interest or concern, such as the operations of a particular business, is normally made to the Board. Each meeting lasts about four hours, but can be longer.

The Board met on 11 occasions in the course of 2006. One of the meetings was called at short notice to consider the Company's proposed cash offer for Birse Group plc. As a result of the short notice, three non-executive Directors were unable to attend this meeting due to other commitments. Each was briefed separately.

A table showing attendance at Board meetings, and at meetings of the Audit Committee, the Nomination Committee, the Remuneration Committee and the Business Practices Committee, is set out on page 50. In addition, the non-executive Directors held two separate meetings during the year, one being attended by the Chairman and one taking place without the Chairman.

Chairman

Sir David John became Chairman in May 2003, having joined the Board in August 2000. Sir David spends an average of two days per week on the business of the Company. He has other significant commitments as non-executive chairman of The BSI Group and of Premier Oil plc. The Board considers that his other commitments are not of such a nature as to hinder his activities as chairman of the Company or those as chairman of the Nomination and Business Practices Committees.

Directors

Brief biographical details of the Directors, including the Chairman, are given on pages 46 and 47. All the Directors shown served throughout the year save for Mike Donovan and Stephen Howard who were appointed on 1 July. In addition, Chalmers Carr, who is not pictured, served as a Director until 31 August when he retired on completion of his three year term. The Board considers that all the non-executive Directors continue to be independent.

From September 2003, non-executive Directors have been appointed for specific three year terms, and it is part of the terms of reference of the Nomination Committee to review all appointments of non-executive Directors at three year intervals and make recommendations to the Board accordingly. Mr Sage's and Dr von Rohr's appointments were each reviewed during 2006 and their appointment for a further three years was confirmed, subject to re-election as required by the Articles of Association.

Rotation of Directors, election and re-election

The Articles of Association of the Company provide that each Director shall retire from office in the third year following the year in which last elected or re-elected, and shall be eligible for re-election. This year, the Directors who retire are Sir David John, Gordon Sage, Christoph von Rohr and Robert Walvis. Each is seeking re-election, being eligible. In addition, Mike Donovan and Stephen Howard, who were each appointed on 1 July 2006, seek election.

Board Committees

The main Board Committees, the membership of which is either wholly or substantially comprised of non-executive Directors, continue to be the Audit Committee, the Nomination Committee, the Remuneration Committee and the Business Practices Committee.

Reports on the workings of three of these Committees are set out below. The report of the Remuneration Committee can be found in the Remuneration report beginning on page 54.

– The Audit Committee

The terms of reference for the Committee, based on the Smith report and the requirements of the Code, were approved by the Board in October 2003. They are subject to regular review but remain unchanged. The main responsibilities of the Audit Committee are as stated in previous reports. In summary they are:

- (1) to monitor the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance;
- (2) to review the Group's internal financial controls established to identify, assess, manage and monitor financial risks, and receive reports from management on the effectiveness of the systems they have established and the conclusions of any testing carried out by the internal and external auditors;
- (3) to monitor and review the effectiveness of the internal audit function;
- (4) to make recommendations to the Board in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- (5) to assess the independence, objectivity and effectiveness of the external auditor and to develop and implement policy on the engagement of the external auditor to supply non-audit services; and
- (6) to review arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting.

The membership of the Committee currently comprises Steven Marshall (the Committee chairman), Mike Donovan, Stephen Howard, Christoph von Rohr and Gordon Sage. Christopher Pearson, the Company Secretary, remains secretary of the Committee. The Committee was chaired throughout 2006 by Steven Marshall. Chalmers Carr, who retired on 31 August, also served on the Committee until his retirement. All of the members have extensive experience of management in large international organisations. The Committee chairman, Steven Marshall, is an accountant and a former group finance director and group chief executive of Thorn plc. He later held both these appointments at Railtrack plc.

Appointments to the Committee are made by the Board for a period of up to three years, extendable by no more than two additional three year periods, so long as members continue to be independent. At the Board meeting following each meeting of the Committee, the Committee chairman provides an oral report on the work of the Committee and any significant issues that may have arisen. The minutes of Committee meetings are circulated to all members of the Board.

Four meetings of the Committee were held in 2006. At the invitation of the Committee, partners from the external auditor, the Head of Internal Audit, the Finance Director and the Company Chairman regularly attend each meeting. In addition, any independent non-executive Director who is not a Committee member has an open invitation to attend meetings.

Directors' report (continued)

In 2006, as in previous years, the main purpose of the March and August meetings of the Committee was to consider the final and interim results respectively, a process which is well established. At each of these meetings, the Committee reviewed significant accounting policies, financial reporting issues and judgements, and reports from internal financial management and internal and external auditors.

The May and November meetings of the Committee are not driven by financial results and at these meetings the Committee was able to review a wider range of matters in addition to its usual business. For example, in May, the Committee considered a report on progress in the Group's enterprise resource plan – the introduction of new software for accounting, HR and procurement systems, and in November, the Committee considered a paper on the Group's funding.

Throughout 2006, the Committee has continued to review the Group's financial risk management processes. This review has encompassed reports from the Head of Internal Audit on the Group's internal controls and on the work of the internal auditors, a consideration of the effectiveness both of the internal audit function and of the external audit process, a review of the resources of the external and internal auditor, and a consideration of the external auditor's management letter in respect of accounting procedures and internal financial controls. As a result of this continuing process, the Committee felt able to recommend to the Board that it might properly conclude that the Company continued to maintain a sound system of internal financial control, and that a proper review of the effectiveness of the Company's systems of internal financial controls had been completed.

The Committee has also considered the independence of the external auditor and received confirmation that, in its view, it remained independent of the Company. Consideration of the independence of the external auditor included the non-audit work carried out by the external auditor during the year, which continues to be covered by the policy approved by the Board in June 2003 (an analysis of non-audit fees incurred is set out in Note 4.2 on page 73). The Committee has carried out a review of the proposal by the external auditor of the audit fees and terms of engagement for the 2006 audit and has recommended to the Board that it proposes to shareholders that Deloitte & Touche LLP continues as the Company's external auditor.

The administrative procedures of the Committee were unchanged through the year. The Head of Internal Audit continues to have direct access to the Chairman of the Committee. Separate meetings between the Committee Chairman, and the Finance Director, the Head of Internal Audit and the external auditor, took place after the March and August meetings.

– The Nomination Committee

The Committee was established by the Board in November 2003. Its terms of reference are available on the Company's website.

The Committee continues to be chaired by Sir David John. Its other members, currently, are Mike Donovan, Stephen Howard, Gordon Sage, Robert Walvis, Ian Tyler and Steven Marshall. The secretary of the Committee is Paul Raby, human resources director.

The Committee held two meetings in 2006. The first meeting was held in May. The main item for consideration at this meeting was the proposed appointment of Mike Donovan and Stephen Howard as non-executive Directors. Both had been recommended to the Committee by an external recruitment firm as having appropriate skills and experience for the job. The Committee agreed with this and recommended to the Board that they each be appointed. At this meeting the Committee also considered and approved a proposal (Dr von Rohr being absent) to appoint Dr von Rohr for a second three year term as a non-executive Director, recognising his contribution to the Board and the continuing need for his particular skills, experience and knowledge. His re-appointment was agreed by the Board.

A second meeting was held in July. At this meeting, the Committee considered and approved a proposal to re-appoint Gordon Sage (Mr Sage being absent) to a second three year term as a non-executive Director. The Committee concluded that Mr Sage's combination of experience and knowledge was a valuable asset to the Group, and his re-appointment was agreed by the Board.

– The Remuneration Committee

Information about the working and membership of this Committee is contained in the Remuneration report beginning on page 54.

– The Business Practices Committee

The Business Practices Committee was chaired through the year by Sir David John, its other members being Chalmers Carr (until his retirement), Mike Donovan (from 1 July), Christoph von Rohr, Gordon Sage (until 1 July) and Robert Walvis. Christopher Pearson, the Company Secretary, was secretary to the Committee. Its terms of reference cover matters of business conduct, ethics, reputation, health, safety and the environment and matters of corporate social responsibility generally. It is also charged with reviewing the effectiveness of the whistle-blowing procedures established in the Group.

The Committee met four times in 2006. As usual, the main topics considered by the Committee throughout the year related to health, safety and the environment, including approval of the final version of the Group's fifth SES report, sent out in May 2006. The Committee also considered the question of safety from a long-term perspective, the importance of a safety culture, progress in safety generally given the Group's expansion, and the practical difficulties of applying common safety standards in different jurisdictions. Regular reports were received by the Committee on the Group's charitable activities and about the whistle-blowing procedures.

– Table of attendance at meetings

Details of the number of meetings of, and attendances at, the Board meetings and meetings of the Audit, Nomination, Remuneration and Business Practices Committees during the year are set out in the table following. The relevant total number of meetings held in 2006 in each case is included in brackets after the name of the Board or Committee. It should be noted in reviewing attendance of Board and Committee meetings that:

- (1) Chalmers Carr retired on 31 August 2006;
- (2) Mike Donovan and Stephen Howard were appointed Directors on 1 July 2006. From that date, Mr Donovan was appointed to the Audit, Nomination and Business Practices Committees and Mr Howard was appointed to the Audit, Remuneration and Nomination Committees;
- (3) Gordon Sage was appointed to the Remuneration Committee from 1 July 2006 and resigned from the Business Practices Committee at the same date;
- (4) there were no Remuneration Committee meetings after June 2006; and
- (5) one meeting of the Board was called at short notice and, as a result of other commitments, a number of Directors were unable to attend it (see the reference at the top of page 49).

Name of Director	Board (11)	Audit (4)	Nomination (2)	Remuneration (3)	Business Practices (4)
M J Donovan	5	2			2
S L Howard	6	2			
C Carr	7	3		2	3
J L Cohen	10				
Sir David John	11		2		4
S Marshall	11	4	2	2	
A L P Rabin	10				
Dr H C von Rohr	9	2		2	1
G H Sage	11	2	1		
I P Tyler	11		1		
R J W Walvis	10		2	3	2
P J L Zinkin	11				

Board, Committee and individual director evaluation

The Board as a whole and its main Committees were the subject of an evaluation exercise carried out in 2004 by an external consultant. The actions agreed which arose from the report were implemented through 2005.

No further external evaluation exercise has been carried out in 2006 because of the number of Board changes at the end of 2005 and through 2006. A full Board evaluation is planned for 2007.

Dialogue with shareholders

The Company has continued its long-established programme of communication with institutional investors and brokers throughout 2006. Presentations of the half year and full year results were made in accordance with the practice of previous years, and other meetings have been held at regular intervals through the year with institutional shareholders, brokers, and analysts including presentations in Edinburgh, Paris and the United States. This programme will be continued and expanded where appropriate, subject to the constraints of regulation and practice.

Reports to the Board on meetings or other contact with shareholders or their representatives are made by executive Directors on a regular basis. During the year a presentation was made to the Board by the Group's Head of Corporate Communications on the subject of "Investor Relations". On occasion the Chairman attends meetings with shareholders and any non-executive Director is welcome to do so. The non-executive Directors believe that, through their direct and ready access to, and contact with, the Chairman, through Mr Walvis, the senior independent Director, and through regular reports to the Board, they are kept fully aware of the views of the larger shareholders and the investment community generally.

Risk management

The Board takes ultimate responsibility for the Group's systems of risk management and internal control and reviews their effectiveness. The Group's Principal Risks and how they are mitigated are summarised on page 41 of the main report. The Board has continued to assess the effectiveness of the risk management processes and internal controls during 2006 and to the date of this report. Such assessment is based on reports made to the Board, the Audit Committee and the Business Practices Committee, including:

- the results of internal audit's reviews of internal financial controls;
- a Group-wide certification that effective internal controls had been maintained, or, where any significant non-compliance or breakdown had occurred with or without loss, the status of corrective action; and
- a paper prepared by management on the nature, extent and mitigation of significant risks and on the systems of internal controls.

The Group's systems and controls are designed to ensure that the Group's exposure to significant risk is properly managed, but the Board recognises that any 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. In addition, not all the material joint ventures in which the Group is involved are treated, for these purposes, as part of the Group. Where they are not, systems of internal control are applied as agreed between the parties to the venture.

Central to the Group's systems of internal control are its processes and framework for risk management. These accord with the revised Turnbull Guidance on internal controls and were in place throughout the year and up to the date of signing this report.

The Group's systems of internal control operate through a number of different processes, some of which are interlinked. These include:

- the annual review of the strategy and plans of each operating company and of the Group as a whole in order to identify, inter alia, the risks to the Group's achievement of its overall objectives and, where appropriate, any relevant mitigating actions;
- monthly financial reporting against budgets and the review of results and forecasts by executive Directors and line management, including particular areas of business or project risk. This is used to update both management's understanding of the environment in which the Group operates and the methods used to mitigate and control the risks identified;
- individual tender and project review procedures commencing at operating company level and progressing to Board Committee level if value or perceived exposure breaches certain thresholds;
- regular reporting, monitoring and review of health, safety and environmental matters;
- the review and authorisation of proposed investment, divestment and capital expenditure through the Board's Committees and the Board itself;
- the review of specific material areas of Group-wide risk and the formulation and monitoring of risk mitigating actions;
- the formulation and review of properly documented policies and procedures, updated through the free and regular flow of information to address the changing risks of the business;
- specific policies set out in the Group Finance Manual, covering the financial management of the Group, including arrangements with the Group's bankers and bond providers, controls on foreign exchange dealings and management of currency and interest rate exposures, insurance, capital expenditure procedures, application of accounting policies and financial controls;
- a Group-wide risk management framework which is applied to all functions in the Group, whether operational, financial or support. Under it, the key risks facing each part of the Group are regularly reviewed and assessed, together with the steps to avoid or mitigate those risks. The results of those reviews are placed on risk registers and, where necessary, specific action plans are developed;
- reviews and tests by the internal audit team of critical business financial processes and controls and spot checks in areas of perceived high business risk; and
- the Group's whistle-blowing policy.

Directors' report (continued)

Annual General Meeting

Sir David John, who chairs the Nomination and Business Practices Committees, Steven Marshall, who chairs the Audit Committee, and Robert Walvis, who chairs the Remuneration Committee, will be available at the Annual General Meeting to answer any questions arising from the work of these committees. The Board regards the Annual General Meeting as an important occasion on which to communicate with shareholders, and research into subjects of likely interest to shareholders is undertaken so that questions can be answered during the meeting for the benefit of all shareholders present. Shareholders may also put questions in advance of the Annual General Meeting by writing to the Company Secretary. The business to be put to the Annual General Meeting is set out in the separate circular to shareholders.

Political donations

Under the current law, shareholder authority is required for political donations to be made or political expenditure to be incurred by the Company or its subsidiaries in the EU. In common with previous years, no such donations or expenditure were made or incurred in 2006, and there is no intention to do so in the future. Because, however, the current law is so widely drafted, it remains unclear whether, for example, granting paid time off for local government or trade union activity could be regarded as political expenditure. Although not yet in force, the Companies Act 2006 clarifies that trade unions are not to be regarded as political organisations for these purposes, but (as we are advised) the position regarding local government remains unclear. Given the penalties for breaching the law, the Company has sought, and will continue to seek, limited authority from shareholders to incur "political expenditure" in the EU.

Corporate responsibility

Details of our approach to the subject of corporate responsibility appear on pages 42 to 45 of this report. These include more information about the Group's charitable activities, which are described below.

Written report

For the sixth year we are publishing a separate report on safety, social and environmental issues. A copy will be available to shareholders attending the Annual General Meeting and to preference shareholders attending the separate class meeting.

Group policies

Our published policies on health and safety, the environment, ethics and human rights remain in place and are subject to regular reviews. Our progress in the areas of health and safety and the environment is described in the separate report.

Employment

As the Group operates across a number of business sectors in different environments, it has a decentralised management structure, with employment policies designed to suit the needs of individual businesses. However, each employing company is expected to comply with certain key principles in its design and practice of employment policy.

These are:

- to provide an open, challenging and participative environment;
- to enable all employees to utilise their talents and skills to the full, through appropriate encouragement, training and development;
- to communicate a full understanding of the objectives and performance of the Group and the opportunities and challenges facing it;
- to provide pay and other benefits which reflect good local practices and reward individual and collective performance; and
- to ensure that all applicants and employees receive equal treatment regardless of age, origin, gender, disability, sexual orientation, marital status, religion or belief.

Individual businesses use a variety of methods to communicate key business goals and issues to employees and also consult and involve their employees through local publications, briefing groups, consultative meetings, training programmes and working groups to assist the process of continuous improvement in the way they operate and do business. Regular publications inform employees of major business and technical achievements. Most of our UK based businesses have either attained or have committed to attain the UK Investors in People standard.

Regular communication is maintained with the in-service and pensioner members of the Group's Pension Funds.

Charitable activities

During 2006 the Group has continued to help raise funds for charity and has also continued to provide donations in cash and kind to charitable organisations. The total amount of funds raised and donated during the year was £306,400.

As in previous years, the Group's main efforts have been directed to a small number of charities with Marie Curie again being the focus of employee fundraising efforts. A total of £90,700 was raised in the year by employees in a wide variety of ways, including the London Marathon, the Fields of Hope daffodil planting scheme and numerous quizzes, walks and other events. The Company added a further £31,500 to this sum, under a matching agreement with Marie Curie, making a total for the year for Marie Curie of £122,200.

The Company donated £60,000 to the charity London Youth Games, and a further £30,000 to the regeneration charity Groundwork UK for three specific projects. A further £10,000 was donated to the Building Better Lives scheme under the Prince's Trust.

During the year, the Chief Executive, Ian Tyler, took over the presidency of the construction industry charity CRASH. The Company donated £2,000 to CRASH in 2006, and will become a patron of CRASH in 2007.

Other UK Group companies have contributed a total of £82,200 to a wide variety of charities.

As regards non-cash donations the Company provided, during the year, material support of an estimated value of £5,000 to the charity Engineers against Poverty

The Group continues to enable UK employees to donate through the Give-as-you-Earn scheme to various charities of their choice.

Key performance indicators

In 2006, the Group commissioned a study to identify the non-financial key performance indicators which are currently in use or would be relevant for external consideration of the Group's performance and prospects. Recommendations from this study are reflected in this annual report, for example by the inclusion of accident frequency rates, the proportion of work undertaken under long-term contracts, and the proportions of women and ethnic minorities in the workforce.

Post balance sheet events

Details of post balance sheet events are set out in Note 34 on page 103.

Taxation status

The Company is not a close company for taxation purposes.

Payment of creditors

In the UK, the Company's policy is to settle the terms of payment with suppliers when agreeing the terms for each transaction or series of transactions; to seek to ensure that suppliers are aware of the terms of payment; and to abide by these terms of payment as and when satisfied that the supplier has provided the goods or services in accordance with the agreed terms. At 31 December 2006 the year end creditors' days of the Company were 17 (2005: 21).

Financial instruments

The Group's financial risk management objectives and policies are described in the Financial review on pages 38 to 40, and its exposures to price risk, credit risk, liquidity risk and cash flow risk are included in Note 20 on page 84.

Research and development

The Group continues to be committed to investment in research and development in all its areas of activity. This covers new products and processes and innovation in areas such as information technology and asset management systems.

We continue to undertake a range of development initiatives throughout our businesses which are supported by links with selected universities.

Details of the Group's 2006 research and development expenditure are given in Note 4.1 on page 73.

Compliance with the Code

The Company believes it is compliant with the Code save in the following respects:

- (a) The effectiveness of the Group's whistle-blowing procedures is reviewed by the Business Practices Committee, and not the Audit Committee. This is because, based on the Company's experience, the great majority of "whistle-blowing" type complaints arise out of non-financial matters, mainly employment-related. The Audit Committee is copied with all reports made to the Business Practices Committee on the whistle-blowing procedure; and
- (b) No evaluation, either of the Board or individual Directors, has been carried out in 2006 because the number of Board changes effective at the end of 2005 and through 2006 was, the Company believes, likely to make any such process of little value. A full Board and individual Director evaluation is planned for 2007, to be conducted by an external consultant as in the last valuation in 2004. The present Board will have worked together for over a year when this evaluation process gets underway.

Statement of Directors' responsibilities

The following statement, which should be read in conjunction with the Independent Auditors' report on page 61, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditors in relation to the financial statements.

The Directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards (IFRS) and have also elected to prepare financial statements for the Company in accordance with IFRS. Company law requires the Directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985 and Article 4 of the International Accounting Standard (IAS) regulation.

IAS 1 requires that financial statements present the Company's and the Group's financial position, financial performance and cash flows fairly (ie. give a true and fair view for each financial year). This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the IAS Board's "Framework for the preparation and presentation of Financial Statements". In nearly all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. Directors are also required to:

- (1) properly select and apply accounting policies;
- (2) present information, including accounting policies, in a manner which provides relevant, reliable, comparable and comprehensible information: and

- (3) provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's and the Group's financial position and financial performance.

The Directors consider that they have met these requirements in preparing these financial statements. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group, and are reasonably directed at safeguarding the assets and detecting and preventing fraud and other irregularities. Directors are also responsible for the preparation of a Directors' report and a Remuneration report which comply with the requirements of the Companies Act 1985.

Disclosure of information to auditors

Each of the Directors at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985.

Auditors

Deloitte & Touche LLP have indicated their willingness to continue as auditors to the Company and a resolution for their reappointment will be proposed at the Annual General Meeting.

Directors' report

Signed by order of the Board

C R O'N Pearson

Secretary
6 March 2007