

Summary Directors' report

Dividends

The Directors recommend a final dividend on ordinary shares of 6.9p (net) per share, making, with the interim dividend of 4.6p, a total dividend for 2007 of 11.5p (net). Preference dividends totalling 10.75p (gross) per preference share have been paid for 2007.

Share capital and major shareholders

During the year to 31 December 2007 no ordinary shares were repurchased for cancellation and 4,957,163 preference shares (representing 4.23% of the preference share capital) were repurchased for cancellation for a total consideration of £7,500,534 at an average price of 151.3p. 1,286,018 ordinary shares were issued following the exercise of options held under the Company's savings-related share option scheme and 1,271,342 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 2007, the Directors had authority, under the shareholders' resolutions approved at the AGM and separate class meeting held in May 2007, to purchase through the market 43,071,984 ordinary shares and 17,245,795 preference shares at prices set out in those resolutions. This authority expires at the conclusion of the separate Class meeting which follows the 2008 Annual General Meeting.

As at 4 March 2008, 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 Limited	9.06%
Lloyds TSB Group plc	6.30%
Schroder Investment Management Limited	6.06%
Legal & General Group plc	4.01%
Prudential plc	3.43%

Corporate governance and the Combined Code

Overview

The Board continues to endorse and apply the principles of good corporate governance reflected in the 2006 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 2007 and save as otherwise explained in the paragraph headed "Compliance with the Code" on page 51, 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. Duncan Magrath was appointed an executive Director from 31 March 2008. 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 2007 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 2007 was Steven Marshall who remains chairman as at the date of this summary report. 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, and each remains chairman as at the date of this summary report.

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.

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. It was announced on 25 February 2008 that Sir David was stepping down as Chairman after the AGM on 15 May 2008 and that Steven Marshall would succeed him as Chairman.

Directors

Brief biographical details of the Directors, including the Chairman, are given on pages 48 and 49. All the Directors pictured served throughout the year other than Duncan Magrath, who will join the Board on 31 March 2008.

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 or as near to that as is practicable and make recommendations to the Board accordingly.

The Board considers that all the non-executive Directors continue to be independent.

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 only Director to retire is Anthony Rabin. He is seeking re-election, being eligible. In addition, Duncan Magrath, who was appointed from 31 March 2008, seeks election for the first time.

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.

The terms of reference of the Board Committees are available on the Company's website.

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. A full evaluation exercise of the Board and its main Committees was carried out in 2007. While no substantive issues emerged from this, a number of minor procedural matters were identified as meriting attention and these are under consideration for implementation during 2008 together with any changes to Board procedures necessitated by the coming into force of the Companies Act 2006.

Risk management

The Board takes ultimate responsibility for the Group's systems of risk management and internal control and reviews their effectiveness. As for previous years the Board has continued to assess the effectiveness of the risk management processes and internal controls during 2007 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.

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 continues to regard 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.

Compliance with the Code

The Company believes it is compliant with the Code save only in the following respect, namely, that 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 practice.