

CORPORATE GOVERNANCE

This statement outlines how the Company continues to apply the principles of corporate governance to its activities.

The board and its committees

The board conducts itself in such a way as to give an appropriate lead to the whole group. The board's lead focuses on integrity and personal responsibility with the aim of creating shareholder value.

The board currently comprises six directors, two of whom are executive and four of whom are independent and non-executive. In choosing directors the Company looks for individuals who provide a wealth of business experience, strong personal skills and independence of thought and perspective.

The board met for twelve meetings during the year, with ten regular meetings scheduled for 2004, and operates under agreed terms of reference which delegate certain powers to board committees. The terms of reference for both the board and the committees are updated as and when new situations, requirements or practices emerge. The members and Chairman of the committees are shown on page 13. The committees are composed of non-executive directors only, although the executive directors are invited to attend parts of the Audit Committee meetings.

The Nominations Committee meets as and when required to consider proposals for the appointment of new directors. The suitability of candidates is assessed and a formal proposal then put to the board. Before a nomination is formally made, each director would have an opportunity to meet the candidate. One third of the directors submit themselves for re-election each year.

The Remuneration Committee is responsible for ensuring the remuneration packages of the executive directors are appropriate to attract, motivate and retain high calibre individuals. Executive directors' remuneration packages are set having reviewed competitors' levels and industry norms, collected by independent parties. The Remuneration Report on pages 19 to 21 contains more detailed information on the remuneration of directors.

The Audit Committee's terms of reference include the duties set out in the Combined Code. The committee monitors the adequacy and effectiveness of the internal financial controls and reviews the interim and annual financial statements before submission to the board to ensure they present a balanced and understandable

assessment of the group's position and prospects. The committee also makes recommendations to the board regarding the auditors and their terms of appointment. This committee meets at least three times a year and reports to the board.

The Company's auditors attend all meetings of the Audit Committee and have direct access to the members at any time. The non-executive directors may take independent professional advice on any matter relating to the Company at the Company's expense. In advance of both board and committee meetings all directors receive detailed papers on the matters to be considered, enabling them to request further clarification or additional information.

Relations with shareholders

The Company has a policy of maintaining an active dialogue with institutional shareholders through individual meetings. Communications with private shareholders are conducted through the annual report, presentations at the annual general meeting and the Company's internet site that inter alia gives a full description of the group's business operations.

Compliance with the Combined Code

Throughout the year ended 31 December 2003 the Company has been in compliance with the provisions set out in Section 1 of the Combined Code issued in June 1998 on Corporate Governance appended to the Financial Services Authority Listing Rules except for:

- A.2.1 The posts of Chairman and Chief Executive are held by Mr Gawler. This position was ratified by shareholders at the annual general meeting held in 2003. In addition there is a strong and independent non-executive element on the board with a recognised senior member other than the Chairman and Chief Executive to whom concerns can be conveyed.
- B.1.7 At the start of the year the period of notice from the employer for executive directors was 24 months. During the year this notice period reduced to 12 months.
- B.1.10 The executive directors' service contracts contain predetermined liquidated damages provisions as noted in the Remuneration Report on page 19.

A revised Combined Code was issued in 2003 effective for reporting years beginning on or after 1 November 2003. Charter is in

the process of reviewing its corporate governance procedures in the light of the new code and the related guidance and best practice suggestions including those from the Smith and Higgs reports also issued in 2003.

Internal control

The board of directors has overall responsibility for the group's system of internal control and the Audit Committee has been delegated formal responsibility for reviewing the effectiveness of the system of internal control.

The processes to manage the key risks to the success of the group are reviewed and improved as necessary. The group has an organisational structure with clearly defined lines of responsibility and delegation of authority and there are also established procedures for monitoring the group's businesses. While the operational control of the group is decentralised and responsibility is delegated, the operations are subject to the overall group internal control framework. This, by its nature, can provide only reasonable but not absolute assurance against material misstatement or loss.

The key procedures that have been established and that are designed to provide effective internal control are:

Assessment of business risk

A system of risk assessment and identification and evaluation of controls is embedded within the management processes throughout the group. Strategic risks and opportunities arising from changes in the group's business environment are regularly reviewed by the executive directors and discussed by the board. Risks relating to key activities within the operating units and at head office are assessed on a continuous basis. Summary reports are made to the operating businesses and head office as appropriate.

Control environment

The board sets overall policy for the group and delegates the authority to implement that policy to its operating businesses and operating units. A well defined organisational structure with clear operating procedures, lines of responsibility and delegated authority has been established within the group. In terms of the group approval framework, there are procedures for appraisal, review and authorisation of investments and capital expenditure.

Information and communication

The group's operating procedures include a comprehensive system for reporting financial and non-financial information to the board, including:

- The preparation and review of annual budgets which are approved by the board.
- A review of the businesses at each board meeting, focusing on any new risks arising (for example, those relating to proposed major investments and key changes in the markets).
- Regular meetings of the executive directors with operational management.

Control procedures

Detailed operational procedures are developed for each of the group's key activities that embody key controls. The implications of changes in law and regulations are taken into account within these procedures. Procedures are established to safeguard the group's assets and to ensure that all financial transactions are properly recorded. Accounting policies and practices are widely disseminated throughout the group.

Monitoring process

There are clear procedures for monitoring the system of internal controls. The significant components of these are:

- Each year, the managing director and finance director and other key members of the management team of each operating unit and operating business are required to review internal controls and to return a self certification internal control questionnaire to the group certifying compliance with group policies and procedures and confirming the effectiveness of internal control systems.
- The management of each operating business regularly reviews the risk assessments and controls over these risks for its business. Head office reviews the work of operational management and in turn reports to the Audit Committee.
- The Audit Committee has specific responsibility for assessing the effectiveness of internal controls and monitors the process of assessing the internal controls across the group on behalf of the board.

- The Audit Committee reviews the process by which risks are identified and assessed and the effectiveness of controls over these risks are assessed by operating units, operational management and head office.
- The Audit Committee reviews the effectiveness of internal controls. This involves the review of the comprehensive planning and budgeting system, with the annual budget being considered by the board. Monthly results are reported against budget and revised forecasts for the full accounting period are prepared regularly as necessary. The results of the annual self-certification internal control questionnaire process are reviewed by the Audit Committee and, where potential problems are identified, appropriate actions are taken. Any reports by the external auditors are also considered.

The board confirms it has carried out a review of the effectiveness of the group's system of internal controls described above for the financial year and up to the date of this report in accordance with the guidance set out in Internal Control: Guidance for Directors on the Combined Code (the Turnbull guidance). The review encompassed operational, financial and compliance controls as well as risk management. The process used included the following elements:

- As part of their ongoing reviews of the businesses the executive directors and head office reviewed the effectiveness of strategic, operational and compliance internal controls and risk management. As appropriate this involved considering any reports on key risk areas (concentrating on significant changes in the risk profile) and controls, formulation of actions, policies and procedures to control risks and reviewing the actions being taken on problem areas identified.
- The board considered reports from the Audit Committee and the executive directors on these areas during the year and, at the time of approving the annual report and accounts, considered a summary of the assessments of the effectiveness of the key risks and controls identified that was prepared on behalf of the executive directors.

Statement of directors' responsibilities

Company law requires the directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the Company and the group and of the profit or loss of the group for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

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 to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors have reviewed the effectiveness of the system of internal controls over the maintenance and integrity of the Charter plc website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going concern and current liquidity

After making enquiries, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.