

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 seven directors, three 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. David Gawler is Chairman and Chief Executive. Homi Mullan was the senior independent director during 2004 until 6 December 2004. James Bruce has been the senior independent director since that date. The senior independent director is available to shareholders if they have concerns. The board has determined that each of the non-executive directors is independent in character and judgement and consequently meets the definition of 'independent' for the purpose of the Combined Code. John Neill has been a non-executive director for more than nine years but the board has determined that he is still independent because he remains independent of thought, character and judgement. Michael Foster ceased to be a non-executive director on 1 January 2005 when he was appointed to an executive position and was no longer considered independent for the purposes of the Combined Code from October 2004 when his appointment as Commercial Director was announced.

David Eilbeck resigned from the board on 22 April 2004 and Homi Mullan resigned from the board on 6 December 2004. Robert Careless was appointed a director on 22 April 2004. Subsequent to the year-end, Grey Denham and Andrew Osborne were appointed non-executive directors on 7 February 2005. On 23 March 2005 it was announced that John Biles will be appointed as a non-executive director with effect from 1 April 2005.

The board met for fourteen meetings during the year. The directors attended all board meetings in 2004 except that, by prior arrangement, Michael Foster was absent from three meetings, John Neill was absent from two meetings and James Bruce was absent from one meeting.

In addition to the board, Audit, Remuneration and Nominations Committee meetings that are listed below, a number of other meetings of sub committees of the board were held during the year.

Director	Board	Audit Committee	Remuneration Committee	Nominations Committee
Meetings Held	14	3	4	1
David Gawler	14	n/a	n/a	n/a
Hon James Bruce	13	3	4	1
John Neill	12	3	3	1
Michael Foster	11	3	2	0
Robert Careless ⁽ⁱ⁾	8	n/a	n/a	n/a
David Eilbeck ⁽ⁱⁱ⁾	5	n/a	n/a	n/a
Homi Mullan ⁽ⁱⁱⁱ⁾	13	2	3	1

(i) Appointed 22/04/04

(ii) Resigned 22/04/04

(iii) Resigned 06/12/04

n/a Not applicable

Twelve board meetings are scheduled for 2005.

The Chairman conducted formal evaluations of the board as a whole and of its committees in 2004 and the results of these evaluations have been reported to the board.

Evaluation of individual directors as members of the board have also been conducted by the Chairman in 2004. The senior independent director is responsible for the evaluation of the Chairman and he meets at least annually with other non-executive directors to appraise the performance of the Chairman.

The board operated under agreed terms of reference under which it retains certain specific powers and delegates certain other powers and authorities to the various board committees.

During 2004 the board updated the terms of reference for its committees and the powers and authorities retained by the Board. These will be reviewed as and when new situations, requirements or practices emerge. The powers and authorities retained by the board include the approval of annual and interim results, the membership, authority and terms of reference of the board committees, strategy and the approval of the annual budget, significant financing arrangements and matters relating to share capital. The Remuneration and Audit Committees are composed of non-executive directors only, although the executive directors are invited to attend parts of the Audit Committee meetings. The Executive Committee is composed of the executive directors, together with such senior executives, if any, who have been nominated by the Chief Executive and whose appointments are confirmed by the board.

The Nominations Committee met once in 2004 in relation to the appointment of Robert Careless as Finance Director. The members of the committee at that date were Homi Mullan, who was the chairman, John Neill, James Bruce and Michael Foster. By prior arrangement Michael Foster did not attend the meeting. Having regard to its size and structure, the board has decided that the board as a whole now acts as the Nominations Committee, retaining all power and authority in relation to the appointment and removal of directors and the Company Secretary. The board met once in this capacity during the year, in relation to the appointment of Michael Foster as Commercial Director. One third of the directors submit themselves for re-election each year. Michael Foster, who had been a non-executive director of the Company since December 2001 will retire and offer himself for re-election following his appointment as Commercial Director on 1 January 2005.

There were no external appointments to the board during 2004. A formalised induction procedure has been developed in 2005 for new appointments to the board.

The Remuneration Committee is responsible for ensuring the remuneration and other terms and conditions of employment of the executive directors are appropriate to attract, motivate and retain high calibre individuals. A significant proportion of executive directors' remuneration is structured so as to link rewards to corporate and individual performance. Executive directors' remuneration packages are set having reviewed competitors' levels and industry norms.

The members of the Remuneration Committee in 2004 were Homi Mullan, who was the chairman of the committee until his resignation from the board on 6 December 2004, James Bruce, who became chairman on 6 December 2004, John Neill and, until 29 October 2004, Michael Foster. The committee met four times during the year. All members attended all meetings except that, by prior arrangement, Michael Foster was absent from two meetings and John Neill was absent from one meeting. On 7 February 2005 Grey Denham and Andrew Osborne became members of the committee upon their appointment as non-executive directors of the Company. As announced on 23 March 2005, John Biles will also become a member of the committee with effect from 1 April 2005, the date of his appointment as a non-executive director of the Company. The terms of reference of the committee are available on request and it is intended that this information will be made available on the Company's website. The Remuneration report on pages 20 to 23 contains more detailed information on the remuneration of directors.

The Audit Committee's terms of reference were updated during 2004 to include all the roles and responsibilities set out in the Combined Code. These are available on request and it is intended that this information will be made available on the Company's website. The committee is intended to provide appropriate and regular lines of communication between the board and the external and internal auditors. The Chief Executive and Finance Director, together with representatives of the external auditors are usually present at committee meetings and the

head of internal audit will attend those parts of the meetings that the committee chairman deems appropriate.

The Audit Committee:

- monitors the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance;
- reviews the Company's internal financial controls and internal control and risk management systems;
- monitors and reviews the effectiveness of the Company's internal audit function;
- makes recommendations to the board regarding the auditors and their terms of appointment;
- reviews and monitors the external auditor's independence and objectivity and the effectiveness of the audit process;
- is responsible for developing and implementing a policy on the engagement of the external auditor to supply non-audit services;
- makes recommendations to the board in relation to 'whistle blowing' policies and procedures.

The members of the Audit Committee in 2004 were Homi Mullan, who was the chairman of the committee until his resignation from the board on 6 December 2004, James Bruce, who became chairman of the committee on 6 December 2004, John Neill and, until 29 October 2004, Michael Foster. The board is satisfied that both Homi Mullan and James Bruce have recent and relevant financial experience. The committee met three times during 2004 and all members attended all meetings. On 7 February 2005 Grey Denham and Andrew Osborne became members of the committee upon their appointment as non-executive directors of the Company. As announced on 23 March 2005, John Biles will be appointed as a non-executive director with effect from 1 April 2005 and will become a member of the committee on that date. It is intended that he will become Chairman of the committee on 24 June 2005, following the conclusion of the annual general meeting.

The Audit Committee has reviewed the non-audit services provided by the external auditors during 2004 and has received from them a 'Confirmation of independence' letter. The committee remains satisfied as to their independence. The Audit Committee will be adopting a formal policy in relation to the external auditors providing non-audit services during 2005. The Audit Committee has also evaluated the effectiveness of the external audit process.

The Executive Committee, which was established during the year, is responsible for the management of the operations of the businesses of the group and the formulation and adoption of appropriate and detailed policies and procedures to enable it to fulfil its responsibilities. The members of the committee currently comprise the three executive directors.

All directors of the Company have access to the advice and services of the Company Secretary and 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. The board receives regular updates on all meetings and communications with major shareholders.

Compliance with the Combined Code

Throughout the year ended 31 December 2004 the Company has been in compliance with the provisions set out in Section 1 of the Combined

Code issued in July 2003 on Corporate Governance appended to the Financial Services Authority Listing Rules except for the following principal items:

- A.2.1 The posts of Chairman and Chief Executive are held by David Gawler. This position was originally approved by shareholders following David Gawler's appointment in 2001 and was ratified by shareholders at the annual general meeting held in 2003. In addition, as explained in the Remuneration report, shareholders approved changes to David Gawler's Long Term Incentive Plan ('LTIP') at the 2004 annual general meeting. Major shareholders have been consulted and continue to support this appointment. 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;
- A.4.1 Having regard to its size and structure the board acts as the Nominations Committee although a separate Nominations Committee was in existence for part of 2004;
- B.2.2 The definition of 'senior management' was only formally determined in March 2005 although the Remuneration Committee has been responsible for approving the bonuses for 2004 for these individuals;
- C.3.2 The terms of reference of the Audit Committee were only updated to comply with the requirements of the Combined Code during 2004;
- C.3.2 The Audit Committee has not developed a policy on the engagement of the external auditors to supply non-audit services. A policy will be developed and implemented during 2005;
- C.3.4 The board has delegated authority to the Audit Committee to review arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. Arrangements were only formalised and approved by the Audit Committee in March 2005;
- C.3.5 The Audit Committee has the authority to monitor and review the effectiveness of the internal audit activities. The group did not have a fully effective internal audit function covering all aspects of the group, responsible to the Audit Committee, during 2004. A new head of internal audit for the group was appointed in January 2005.

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 largely 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 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.

Payment Control Review

Following the discovery that an employee had, over a number of years, made a series of unauthorised payments from a bank account of a subsidiary of the Company, an extensive review of payment and related accounting controls was performed and, where necessary, related systems and controls have been strengthened.

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;
- Each operating business maintains a log of business risks. Progress on action plans to mitigate high and medium risks is monitored in monthly management reviews that also check for newly emerging risks. The board of Charter plc reviews progress on the action plans with the Chief Executives of each operating business every six months and in turn reports to the Audit Committee;
- The internal audit function seeks to verify that the internal controls identified in the self-certification internal control questionnaires are being effectively applied. The internal audit function conducts on-site assessments on companies in the group. The Audit Committee reviews the findings of the internal audit process;
- 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. 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 systems 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.