

1 Compliance with the Combined Code

The Company monitors its compliance with the requirements of the Combined Code on Corporate Governance (the 'Combined Code') most recently revised in June 2008 on a continuous basis.

This report, in addition to the Remuneration Report on pages 55 to 61 and the Audit Committee report on pages 53 and 54, describes how the Company has applied and complied with the principles, supporting principles and provisions contained in the Combined Code, and in accordance with the Combined Code's 'comply or explain' principle, further explains where the Company has not complied with the provisions of the Combined Code. The Board is of the opinion that in respect of the period from 1 January 2009 to 31 December 2009 the Company has been in compliance with the provisions of the Combined Code with only one exception. The service contracts of Michael Foster and Robert Careless contain liquidated damages clauses, which are in contrast to requirement B.1.5 of the Combined Code for outgoing directors to mitigate their loss. The Board feels that these arrangements are not excessive and serve to balance the interests of shareholders with the need to ensure the retention of these individuals. The policy has been revised with regard to the service contracts of new Executive Directors and hence the service contract of James Deeley contains no such provision.

2 Directors

(a) The Board

The Board conducts itself in such a way as to provide leadership to the Company and its subsidiaries and their respective employees. It is committed to the highest standards of corporate governance and to the delivery of enhanced shareholder value in a manner consistent with sound business practices and proper standards of the Company's Corporate Responsibility Report ('CR'). In providing such leadership, the Board focuses on integrity and personal responsibility with the overriding objective of creating shareholder value. The Board operates in accordance with a Management and Governance Framework (the 'Framework'). This has been approved and adopted by the Board, and consolidates those policies which govern the management and governance of the Company and its subsidiaries. The Framework contains details of: (a) the specific powers that the Board has retained (b) the authority that has been delegated to the Board Committees and their terms of reference and (c) the role of the Board, the Chairman and the Chief Executive. The Framework is kept under regular review and modified as and when new situations, requirements or developments in best practice arise. The Board ensures that the membership of its committees is refreshed so that undue reliance is not placed on individual Directors. The Board meets regularly and there are seven scheduled meetings for 2010.

The Board hosts an annual strategy conference at which it considers and determines the strategic plans for the Company's businesses. Details of attendance at meetings of the Board and its Audit, Nominations and Remuneration Committees are shown in the following table. Agendas and supporting papers are distributed to Directors in advance of each meeting so that the meeting can benefit from informed debate. No individuals other than the Committee chairman and the members are entitled to be present at meetings of the Audit, Nominations and Remuneration Committees, although others including the Executive Directors, the Charter HR Director, Head of Internal Audit, Head of Taxation and the external Auditors may attend at the prior invitation of the relevant committee chairman.

	Board	Committee		
		Audit	Nominations	Remuneration
Meetings attended:				
Lars Emilson	9/9	n/a	3/3	6/6
Michael Foster	9/9	n/a	3/3	n/a
Robert Careless	9/9	n/a	n/a	n/a
James Deeley	9/9	n/a	n/a	n/a
John Biles	9/9	4/4	3/3	6/6
The Hon. James Bruce ¹	1/3	0/1	1/3	1/2
Grey Denham	8/9	4/4	3/3	6/6
John Neill	7/9	n/a	n/a	n/a
Andrew Osborne	8/9	4/4	3/3	6/6
Manfred Wennemer ²	4/6	2/3	1/1	3/4

1 The Hon. James Bruce retired from the Board on 29 April 2009

2 Manfred Wennemer joined the Board on 26 March 2009

The powers and authorities retained by the Board include:

- the approval of annual and half year results, interim management statements and associated announcements;
- the membership, authority and terms of reference of Board committees;
- corporate strategy;
- significant financing arrangements;
- matters relating to share capital (including employee share schemes and share options);
- contracts or expenditures in excess of certain monetary thresholds;
- adoption of annual budgets; and
- approval of appointments of Directors to the Board and the appointment and removal of the Company Secretary.

Subject to these retained powers and authorities, the day-to-day management of the Company's subsidiaries resides with the boards of those subsidiaries. Any concerns that the Non-Executive Directors may have regarding either the administration of the Company and its subsidiaries, or any proposed actions, are recorded in the minutes of the Company where an alternative resolution cannot be found. The Company has provided its Directors with appropriate insurance cover in respect of legal proceedings and other claims against them.

(b) Board committees

(i) Standing Committee

Composition: Any two Directors of the Company.

Role: The Committee is responsible for taking necessary steps that are ancillary to and required in order to progress transactions that have been approved in principle by the Board and which relate to the Company, to review and make recommendations to the Board in respect of the Policies and Procedures Manual and determine the remuneration and other terms and conditions of appointment of the Non-Executive Directors of the Company.

(ii) Nominations Committee

Composition: Lars Emilson (Chairman), Michael Foster, John Biles, Grey Denham, Andrew Osborne and Manfred Wennemer, who joined the Committee on his appointment to the Board on 26 March 2009. The Hon. James Bruce retired from the Committee on 29 April 2009. All of the members of the Committee, excluding Michael Foster, are considered independent Non-Executive Directors pursuant to the Combined Code and accordingly a majority of the members are independent.

Role: The Committee is responsible for making recommendations to the Board concerning appointments to the Board, including evaluating the skills, knowledge and experience required and setting a job description for specific appointments. In fulfilling its role in respect of new appointments, the Committee generally seeks advice and assistance from external search consultants to identify, benchmark and select appropriate candidates. In July 2008 the Committee appointed an executive search consultant to assist in sourcing a suitable candidate to recommend for appointment to the Board of Directors. Having met the Committee's search criteria and having undergone a series of interviews with the Chairman and the Directors of the Company, Manfred Wennemer was appointed a Non-Executive Director of the Company.

The Board of Charter International plc reviewed plans for orderly management succession in relation to both Board and senior management appointments at its annual strategy conference in September 2009. The Board believes that this provided the necessary reassurance that appropriate plans have been adopted to ensure that the correct balance of skills and experience are maintained on the Board and within the senior management of the Company and its subsidiaries.

(iii) Remuneration Committee

Composition: Grey Denham (Chairman), John Biles, Lars Emilson, Andrew Osborne and Manfred Wennemer, who joined the Committee on his appointment to the Board on 26 March 2009. The Hon. James Bruce retired as Chairman and as a member of the Committee on the 29 April 2009. The members of the Committee are considered independent Non-Executive Directors pursuant to the Combined Code.

Role and activities: An explanation of the role and activities of the Committee can be found in the remuneration report on pages 55 to 61.

(iv) Disclosure Committee

Composition: The Committee comprises the three Executive Directors.

Role: The Committee is primarily responsible for the creation and maintenance of appropriate procedures, systems and controls to ensure compliance by the Company with its obligations under the Disclosure and Transparency Rules ('DTR') and the Listing Rules of the Financial Services Authority. In particular, it has responsibility for the determination, on a timely basis, of the disclosure treatment of material information and designing, implementing and evaluating disclosure controls and procedures that operate within the Company and its subsidiaries. The Committee also has responsibility for identifying inside information, for the purpose of maintaining the Company's insider lists as required by the DTR.

(v) Audit Committee

Details regarding the membership, role, responsibilities and work of the Committee during the year under review can be found in the Audit Committee report on page 53.

(c) Chairman and Chief Executive

Lars Emilson is Chairman and Michael Foster is Chief Executive of the Company. The Board believes that the two roles carry different responsibilities and has approved a clear division of responsibilities between the Chairman and Chief Executive which is reflected in the Framework. The Chairman has primary responsibility for leading the Board, for ensuring its effectiveness, and for ensuring that good communications are maintained with shareholders, while the Chief Executive has responsibility for running the Company's businesses. Lars Emilson has no significant commitments that require disclosure in relation to his Chairmanship. The Chairman periodically meets with the Non-Executive Directors without the other Executive Directors present as well as maintaining contact should they wish to raise any issues with him outside the formal setting of the Board meetings.

(d) Board balance and independence

The Board currently comprises nine Directors, three of whom are Executive and six of whom are Non-Executive. The Board believes that this structure provides the correct balance of skills and experience for the business and would allow for any changes to the Board's composition to be managed without undue disruption, whilst ensuring that the presence of six Non-Executive Directors prevents a concentration of power and influence in a small number of individuals. The Board has determined that, with the exception of John Neill who is no longer considered to be independent by virtue of his combined length of service on the Boards of the Company and Charter plc and his relationship with the Unipart Group of Companies, all of the Non-Executive Directors including the Chairman are regarded as independent. The Board does not consider that there exist any relationships or circumstances likely to affect the judgement of any Non-Executive Director. The Board greatly values the contribution and experience of John Neill and recommends his re-election at the forthcoming AGM as a Non-Executive Director. No Executive Director currently holds a non-executive directorship of a FTSE 100 company.

(e) Information and professional development

The Company Secretary, under the guidance of the Chairman, is responsible for ensuring good information flows within the Board and its committees. 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 Board and committee meetings, Directors and relevant committee members receive detailed papers on the matters to be considered, enabling them to request further clarification or additional information and to participate fully in discussions. The Company Secretary is responsible for advising the Board, through the Chairman, on all governance matters and best practice.

The Company has a comprehensive induction process for all Directors when they join the Board. This includes a detailed information pack, which combines publicly available information, such as the Annual Report and product information, with confidential briefing notes on the Company's financing arrangements, corporate structures, management accounts, advisers and other relevant information. In addition briefing meetings are organised with key members of the Board and senior management and visits are arranged to the Company's businesses.

(f) Performance evaluation

Evaluation of the Board and its principal committees is conducted by gathering feedback from the relevant Board members. This feedback is gathered from two sources: a) a confidential questionnaire eliciting both measurable data and free-format responses and b) individual interviews. The process is run by the Charter HR Director who collates the results and presents them to

the Chairman and the Board. The individual interviews are between the Chairman and Board members who give their feedback on Board performance against a structured agenda. Board members also give more general comment on the performance of the Board and its committees. The Chairman is responsible for conducting the Chief Executive's performance review. The Non-Executive Directors, led by the Senior Independent Director, are responsible for evaluating the performance of the Chairman. In doing so, they also take account of the views of the Executive Directors. The Chief Executive conducts individual evaluations of the Executive Directors as part of the Company's formal performance management process. Performance is assessed against written objectives.

The results of the 2009 questionnaire and the individual meetings were summarised in a paper submitted to the Board by the Charter HR Director on 3 December 2009. This considered the areas that the Directors identified for improvement and set out the way in which they will be addressed. In addition, careful attention was given to those areas that recorded different ratings since the similar exercise in 2008. The Board was unanimous in its agreement with the assessment that the Board, its committees and individuals continued to be effective and that there had been an overall improvement in effectiveness in 2009. The Board valued the continuity of approach and the total confidentiality of the questionnaire and agreed to repeat the process in 2010.

(g) Re-appointment

Under Article 93 of the Articles of Association of the Company, at every AGM any Director who has been appointed by the Board since the last AGM, or who held office at the time of the two preceding AGMs and who did not retire at either of them, or who has held office with the Company, other than employment or executive office, for a continuous period of nine years or more at the date of the meeting, shall retire from office and may offer himself for re-appointment by the members.

Given that the Company's first AGM was held in April last year, all the Directors accordingly came up for election. As a result, none of the Directors are required to stand for re-election at the forthcoming AGM, apart from John Neill who is subject to annual re-election by virtue of his length of service.

(h) Directors' conflicts of interest

The Company has procedures in place to deal with Directors' conflicts of interest and these procedures have operated effectively.

3 Accountability and Audit

(a) Financial reporting & Directors' responsibilities

The following paragraphs set out the responsibilities of the Directors in relation to the consolidated financial statements for the Group and the financial statements for the Company. The reports of the external Auditors, shown on page 62, set out their responsibilities in relation to those financial statements.

Under the Companies (Jersey) Law 1991 (as amended) (the 'Jersey Companies Law'), the Directors are responsible for preparing financial statements for the Company in respect of each of its financial periods. The Company's financial statements are required to show a true and fair view of, or be presented fairly in all material respects, so as to show: (i) the profit or loss of the Company for the financial period covered by such financial statements; and (ii) the state of affairs of the Company at the end of such financial period. The Company's financial statements for each of its financial periods are required to be prepared in accordance with the generally accepted accounting principles adopted by the Company and to specify such generally accepted accounting principles. The Company's financial statements are prepared in accordance with UK generally accepted accounting principles ('UK GAAP').

Although the Company is not required to prepare consolidated financial statements for the Group under the Jersey Companies Law, it is required to prepare them under the Listing Rules of the London Stock Exchange. The consolidated financial statements for the Group are prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union.

In preparing both the consolidated financial statements for the Group and the financial statements for the Company, the Directors were required to:

- (1) select appropriate accounting policies and apply them consistently;
- (2) make judgements and estimates that are reasonable and prudent;
- (3) state whether applicable accounting standards have been followed, subject to any material departures being disclosed and explained; and
- (4) prepare those financial statements on the going concern basis, unless they consider them to be inappropriate.

The Directors are responsible under the Jersey Companies Law for ensuring that the Company keeps accounting records which are sufficient to show and explain its transactions and that are such as to disclose with reasonable accuracy, at any time, the financial position of the Company and to enable the Directors to ensure that the Company's financial statements comply with the Jersey Companies Law. The Directors are required to have the Company's financial statements for each of the Company's financial periods audited, and for this purpose, to provide the Auditors with a right of access to the Company's records and to provide them with such information and explanations as they think necessary for the performance of their duties as auditors.

The Directors are also responsible for taking reasonable steps to safeguard the assets of the Company and its subsidiaries and, in that context, to have proper regard to the establishment of appropriate systems of internal control with a view to the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the Company's website.

The requirements of Jersey Companies Law and UK legislation which govern the preparation and dissemination of financial statements may differ from the requirements of applicable legislation in other jurisdictions.

The Directors consider that they have taken the actions necessary to meet their responsibilities as set out in the paragraphs above.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Company and its subsidiaries have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing both the consolidated financial statements for the Group and the financial statements for the Company.

(b) Internal control

The Board has overall responsibility for the maintenance of a system of internal control. The Audit Committee has been formally delegated responsibility for reviewing the effectiveness of the system of internal control. The processes to manage the key risks to the success of the Company and its businesses are reviewed and improved as necessary. There is an organisational structure with clearly defined lines of responsibility and delegation of authority

and there are also established policies and procedures for monitoring each business. While the operational control is largely decentralised and responsibility is delegated, the businesses are subject to the overall internal control framework. This, by its nature, can provide reasonable but not absolute assurance against material misstatement or loss. Detailed policies and procedures have been established by the Board dealing with numerous issues, including internal controls. Examples of internal control procedures are summarised on the following pages:

(i) Assessment of business risk

A system of risk identification, assessment and evaluation of controls is embedded within the Company's management processes. Strategic risks and opportunities arising from changes in the business environment are regularly reviewed by the senior management and formally discussed by the Board. Risks relating to key activities within the operating businesses and at the Company's head office are assessed on a continuous basis and reported to the Board as appropriate.

(ii) Control environment

Under the Framework described on page 49, the Board sets overall policy and approves the core policies and procedures to be adopted by all of its subsidiaries. A well-defined organisational structure with clear operating procedures and lines of responsibility and delegated authority has been established. There are procedures for appraisal, review and authorisation of matters of significance, including investments, capital expenditure, borrowings, guarantees, indemnities and material contracts.

(iii) Information and communication

The Company'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 and monthly results and forecasts;
- 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); and
- meetings between various Executive Directors and operational management.

(iv) Control procedures

Detailed operational procedures are developed for each key business activity 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 assets of the Company and its subsidiaries and to ensure that all financial transactions are properly recorded. Accounting policies and practices are widely disseminated throughout the Company's subsidiaries and its affiliates.

Control processes are dynamic. Continuous improvements are made to adapt them to the changing risk profile of operations and whenever a weakness in the internal control system is identified appropriate remedial action is taken.

The Company is committed to the highest ethical standards. The Company has an established code of business conduct that requires that all of its businesses and employees act with integrity at all times and that there is strict compliance with applicable laws. Employees are provided with a whistleblowing hotline allowing them to raise concerns anonymously. These reports are monitored by the Audit Committee and are investigated as appropriate by the Charter Head of Internal Audit independently of management. Recently the Company completed investigations into possible irregular payments that might have been made by two overseas

third party agents of two Howden subsidiaries to obtain business in an emerging market. Howden is in the process of reinforcing its existing ethics and compliance programme, to ensure these standards are maintained and this includes the use of third party agents. This work has been ongoing for the last year and is expected to take another 12 months to complete.

(v) Monitoring process

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

- the Chief Executive Officer and Chief Financial Officer of each operating company are required to review internal controls and to return a self-certified internal control questionnaire confirming the effectiveness of internal control systems;
- each operating company deploys a variety of risk identification and assessment processes and develops mitigating actions. Major, high or medium risks are escalated and progress on action plans is reviewed at least quarterly as part of management meetings. The Board reviews every six months the major and high risks and monitors progress against action plans;
- as part of its audit visits to operating companies, the internal audit function evaluates the effectiveness of internal controls. The Audit Committee reviews the findings of the internal audit process;
- the Audit Committee has specific responsibility for reviewing the effectiveness of internal controls and monitors the process of assessing the internal controls on behalf of the Board; and
- the Audit Committee reviews the process by which risks are identified and assessed by operating units, operational management and the Board.

The Board confirms it has carried out a review of the effectiveness of the system of internal controls described above for the financial year ended 31 December 2009 and up to the date of this Report in accordance with the guidance set out in Internal Control: Revised Guidance for Directors on the Combined Code (the 'Turnbull Guidance'). The review encompassed operational, financial and compliance controls as well as risk management.

The system used included the following key elements: (i) as part of their ongoing reviews of the business, the Executive Directors and Key Management reviewed the effectiveness of strategic, operational and compliance internal controls and risk management. This involved considering reports on key risk areas (concentrating on significant changes in the risk profile) and in the light of such reviews making appropriate amendments to policies and procedures to control risks; and (ii) 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, considered a summary of the assessments of the effectiveness of the controls on the key risks identified.

4 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, Company announcements, presentations at the AGM and the Company's website which, includes descriptions of the Company's business operations. The Board receives regular updates on all meetings and communications with major shareholders and major shareholders are offered the opportunity to meet with the Non-Executive Directors from time to time. The Senior Independent Non-Executive Director is available to shareholders if they have concerns that cannot be addressed through regular channels such as the Chairman, Chief Executive or Finance Director.