

Directors' statement on corporate governance

Corporate governance report

The Board of Directors is collectively accountable to the Company's shareholders for good corporate governance and is committed to maintaining compliance with the principles of corporate governance contained in the Combined Code on Corporate Governance that was issued in 2006 by the FRC (The Code).

A narrative statement on how the Company has applied the Principles throughout the year ended 31 December 2008 and a Statement of Compliance appears below.

NARRATIVE STATEMENT

Directors

The Company is controlled through the Board of Directors which, on 31 December 2008 comprised four Executive and four Non-Executive Directors. The biographies of the current Directors are shown on pages 32 and 33 of this report.

During the year Hon. Richard Alston was appointed (2 July 2008) and Dave Allen resigned (16 December 2008), both as Non-Executive Directors.

The Board meets quarterly and additionally as necessary and is responsible for overall Group strategy, acquisitions and the consideration of significant financial matters. It reviews the strategic direction of the Group's trading companies, their annual budgets and their progress towards achievement of those budgets. The Board is responsible for ensuring the integrity of financial information and that the financial controls and systems of risk management, both financial and non-financial, are robust and appropriate.

The Chairman, Lord Bell, is responsible for the running of the Board and he ensures that all Directors receive sufficient, accurate and timely information on financial, business and corporate issues prior to meetings. He also ensures that the Non-Executive Directors have access to any further supplementary information they may require should they request it.

The Chief Executive's (Christopher Satterthwaite) responsibilities focus on co-ordinating the Company's business and implementing Group strategy.

Both Lord Bell and Christopher Satterthwaite are due to retire by rotation immediately before and are proposed for re-election at the forthcoming AGM.

Rodger Hughes is the Senior Non-Executive Director.

New Directors receive a full, formal and tailored induction on joining the Board in order to further inform them of the Company's activities and structure. All Directors are able to take independent professional advice, at the Company's expense, in furtherance of their duties, if necessary. The Company also makes appropriate training available to all existing Directors. All Directors, in accordance with the Code, will submit themselves for re-election at least once every three years.

Executive Directors are entitled to accept external appointments outside the Company and retain the fees from such appointments provided that the Chairman's permission is sought and confirmed by the Board.

The Board met on four occasions during 2008. Catherine Biner Bradley attended three meetings. Hon. Richard Alston attended both of the meetings that took place after his appointment. All other meetings were fully attended. When absent from meetings the views of the director concerned are sought in advance then put to the meeting in order to facilitate a comprehensive discussion. Each director continues to make themselves available to their fellow directors and ensures he/she contributes to the major decisions before the Board.

Non-Executive Directors

The individual Non-Executive Directors have different skills, experience and qualifications from working presently or previously in varied sectors of the economy and as such they are able to bring independent judgement to bear on matters for consideration by the Board.

Rodger Hughes was appointed as a Director by the Board in July 2007. He became the Senior Non-Executive Director and Chairman of the Audit, Remuneration and Nomination Committees in October 2007.

Hon. Richard Alston was appointed as a Director by the Board in July 2008 and will be proposed for election by the shareholders at the forthcoming AGM.

Catherine Biner Bradley is due to retire by rotation immediately before and is proposed for re-election at the AGM.

Paul Richardson is the WPP Group plc representative on the Board under the subscription agreement of 1997 and has been a Director of the Company since that date. Under the Code and due to his length of service, Paul will retire immediately before and is proposed for re-election at the AGM.

Dave Allen, WPP's second representative on the Board, resigned in December 2008.

The Board considers its current Non-Executive Directors to be of sufficient calibre and number that their views may be of sufficient weight that no individual or small group can dominate the Board's decision-making process. The Board continues to consider suitable candidates as Non-Executive Directors.

The Non-Executive Directors' terms and conditions of appointment are available for inspection at the Company's registered office on request and will be available, together with the Executive Directors' service contracts, at the forthcoming AGM.

Independence of Non-Executive Directors

The Code states that it is for the Board to determine whether a director is independent in character and judgement and consider whether there are any relationships or circumstances that are likely to affect a director's judgement.

In applying the Code, the Board has considered whether the length of service of Paul Richardson (12 years) has compromised his independence. He is experienced and accomplished in his fields of expertise. In his association with the Company he has acquired an understanding of the Company's operations, its markets and the issues determining its success. He has shown commitment to the Company in both time and effort. The Board does not consider his long service as a Director to be detrimental or to have eroded his objectivity and it should not raise any concerns about his ability to perform his duties.

Paul Richardson remains the WPP Group plc representative on the Board as stated above. Performance evaluation has shown that he continues to have a good record of involvement in Board-level discussions and contributes additional help to further the Company's strategies. The Board considers Paul Richardson to be independent.

The question of Non-Executive Directors' shareholdings should also be considered when assessing independence. Rodger Hughes and Catherine Biner Bradley each hold a small number of shares in the Company as disclosed on page 45. The Board considers that these holdings are not significant and believes this alone should not raise questions regarding their independence. The Board considers that Directors owning shares in the Company directly aligns them with the interests of the shareholders.

Following performance evaluations for 2008 the Board has considered the independence of its Non-Executive Directors and considers them to be independent in both judgement and character and that the circumstances shown above are unlikely to affect their respective judgements when considering matters of the Company.

Audit Committee

Membership is restricted to those Non-Executive Directors deemed to be independent by the Board and is shown on page 32.

The Committee met on three occasions during the year to discuss accounting, audit and internal control matters together with reviewing financial statements and compliance with accounting standards and the Company's accounting policies. The Audit Committee is also responsible for ensuring that a professional and objective relationship exists with the Company's external auditors. The external auditors are represented at each meeting and may request a meeting of the Committee without management being present if necessary. The Audit Committee also reviews the work of its sub-committee, The Risk Management Committee, which oversees the Company's risk identification and management system.

During the year the Committee has additionally considered the review of internal controls and risk management systems; has monitored the implementation of the Company's Disaster Recovery Plan and has developed the response to new and revised legislation and regulatory requirements.

Each meeting was attended by the full membership.

Remuneration Committee

The Committee measures the performance of the Executive Directors and of key members of senior management as a prelude to recommending their annual remuneration. The Committee is also responsible for overseeing grants under the Company's Co-Investment Plan, Executive Share Option Scheme, the Savings-Related Share Option Scheme and the Deferred Share Plan to employees of the Group. When required the Chairman, Lord Bell, attends the meetings but is not actually a member. The remuneration of the Non-Executive Directors is recommended by the Chairman and Finance Director and takes account of the time spent on Board and Committee matters. Final decisions are made by the Board but no director takes part in any discussion regarding his or her own remuneration.

During the year the Committee has carried out performance evaluations and agreed the remuneration for the Executive Directors for 2008.

It has reviewed and approved further grants under the Company's Deferred Share Plan for senior managers and the Savings-Related Share Option Scheme, which is open to all staff after a qualifying period. The Committee continues to monitor the administration of the incentive schemes and the performance targets that apply to each.

The Committee has also set the key performance indicators for the individual Executive Directors; approved a formal expenses policy for the Directors and approved the disclosures to shareholders in the financial statements of the Company.

In 2008 the Committee met on three occasions and all the members were present at each meeting.

Nominations Committee

Membership of the Nominations Committee is restricted to independent Non-Executive Directors as shown on page 32. The Committee leads the process of appointments to the Board by evaluation of the skills, knowledge and experience required for a particular appointment.

The Code requires the Company to have a formalised process for the selection and appointment of new directors. The Board considers that a prescriptive procedure is inappropriate and could prove restrictive and costly both in terms of identifying potential candidates and the selection process itself. The Company does not believe that it should commit to the exclusive use of external recruitment consultants although there may be occasions where this method is employed.

The Committee met once during the year to discuss the appointment of Hon Richard Alston as a Director. All of the members were present.

Performance evaluation

In line with the Code, the Company carries out annual performance evaluations of the Board, its committees and the individual Directors. The 2008 performance evaluation took place in early 2009. The aim of the evaluation is to recognise the strengths and address any weaknesses of the management process; to ensure that the Board meets its objectives and that effectiveness is maximised.

The Remuneration Committee, led by Rodger Hughes, the Senior Independent Non-Executive Director, evaluates the performance of the Executive Directors. The Board, led by the Chairman, is responsible for the assessment of the performance of the Non-Executive Directors.

The work of the Board and its Committees together with the processes used and the business transacted during the year is assessed by the Board, taking into account the specific workloads of each forum; the knowledge and expertise of its members; and the recommendations made to the Board regarding specific tasks put before the Committees concerned.

Relations with shareholders

The Company is keen to promote two-way communications with its institutional and private investors and responds quickly to queries received. Lord Bell, Chairman; Christopher Satterthwaite, Chief Executive; and Mark Smith, Group Finance Director, are the Company's principal spokespersons with investors, analysts, the press and other interested parties.

All shareholders are sent copies of the Company's Annual and Interim Reports and, where appropriate circulars and prospectuses. The Annual and Interim reports are also published on the Group website, www.chime.plc.uk, together with announcements, press releases and Company information. This enables investors worldwide to keep informed of the Company's progress. Shareholders are given at least 21 days' notice of the Annual General Meeting at which all Directors are generally present and at which questions are both invited and encouraged.

Accountability and audit Financial reporting

A review of the businesses in the Group is included in the Chief Executive's Review. The Board uses this, together with the Chairman's Statement and the Directors' report on pages 46 to 47 to present a balanced and understandable assessment of the Company's position and prospects. The directors' responsibilities for the financial statements are described on page 48 of the Report and Financial Statements.

Internal control

The Board has established a process for identifying, evaluating and managing significant risks faced by the Group. The board regularly reviews the process, which has been in place from the start of the year to the date of approval of this report and which is in accordance with revised guidance on internal control published in October 2005 (the Turnbull Guidance). The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. The control and risk management procedures are designed to highlight any weaknesses and/or failures in the systems to the Board at the earliest opportunity together with action taken and/or proposed. Such a system 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.

Internal control (continued)

Information on the Group's significant risks, together with the relevant control and monitoring procedures, is reviewed on a monthly basis by the heads of the business units under the guidance of a nominated Executive Director. This information is presented to the Executive Directors to assess any identified risks and the overall effectiveness of the system of internal control. An update on all significant risk management issues is made to the Board at each quarterly meeting. Additionally, companies annually complete a review of specified risk areas and their local risk management processes under the supervision of the trading division finance directors, the Group Internal Auditor and the Company Secretary. The Company also has a sub-committee of the Audit Committee, the Risk Management Committee, that specifically monitors and investigates potential areas of risk raised by the trading companies and by the Group centralised administrative management in areas such as Property, Human Resources and IT.

Given the nature of the Group's activities, the Board recognises the risks associated with its ability to attract, motivate and retain talented employees. Accordingly, a significant part of the Group's risk management procedures are focused in this area and the Group continues to utilise employee benefits schemes shown on 40 and 41 to meet this requirement.

The Group has a number of companies including overseas businesses in Germany, the USA and the Middle East. Control of the overseas businesses is currently affected by designated senior executives reporting directly to the Board.

The Board recognises the need to ensure that established risk management procedures and standards are integrated into all acquired businesses and accordingly potential areas of non-compliance are identified during the due diligence process and addressed post-completion.

The internal audit function reports directly to the Audit Committee. A review of this function has been conducted and reported to the Board within the annual review of the system of internal controls. Recommended changes to the scope and application of internal audit procedures have been adopted and the internal audit programme for the year has been presented to and approved by the Audit Committee.

The Group has a clear, written whistleblowing policy and procedure available to all staff regarding concerns of employees about ethical behaviour and non-compliance with regulatory requirements and/or the law.

The Group has material investments in a small number of associated companies that are not managed by the Group. Accordingly, the Group can only influence, not control, their management practices and therefore the review of internal controls for these operations is less comprehensive than that for the Group's managed operations.

Financial control

The financial control procedures are described under the following five headings:

1. Financial reporting – The Group has a comprehensive system for reporting financial results to the Board; each trading company prepares monthly results with a comparison against budget. The Board reviews these for the Group as a whole and determines appropriate action. Towards the end of each financial year the operating units prepare detailed budgets for the following year. Budgets and plans are reviewed and necessary changes made by the Board before being adopted formally.

2. Quality and integrity of personnel – One of the Group's core values is integrity; this is regarded as vital to the maintenance of the Group's system of internal financial control and is reflected in the quality and experience of the Group's financial staff.

3. Operating unit financial controls – Key controls over major business risks include reviews against performance indicators and exception reporting. The trading companies regularly assess their exposure to major business risks and appropriate action is taken both at operating and Group level in order to ensure that risk is minimised as far as possible.

4. Computer systems – The Group's financial and management information is processed by and stored on data systems. Accordingly, the Group has established controls and procedures over the security of data held on computer systems. The Group has put in place arrangements for computer processing to continue and data to be retained in the event of complete failure of any system.

5. Controls over central functions – A number of the Group's key functions, including treasury, taxation, acquisitions and insurance are dealt with centrally. Each of these functions has clear and detailed procedures and is required to report to the Board on a regular basis; the treasury details are reported daily to the Finance Director.

The Audit Committee and Auditors

The Audit Committee has considered reports made to it by the executive management of the Group, which assesses the major business risks and the control environment against the criteria for assessing internal financial controls which are set out in the guidance for directors on reporting on internal control. The Audit Committee has reported to the Board that it has been able to review the effectiveness of the Group's system of internal financial control for the accounting year and the period to the date of approval of the financial statements.

The Group has a policy for the employment of the auditors for non-audit work. The auditors work on tax issues for the Group but any increase in fees is strictly controlled by the Audit Committee. Any other non-audit assignments can be awarded to the auditors during the year but only where fees are within Audit Committee approved limits.

Going concern basis

As required by UK company law the Directors have considered and confirm that it is appropriate to adopt the financial statements on the basis that the Company and Group have adequate resources for the foreseeable future, as disclosed in the Finance Director's review. Therefore the Company and the Group continue to adopt the going concern basis in preparing the financial statements.

Social responsibility

We are in the business of managing brand and corporate reputation on behalf of clients and the Board acknowledges that being socially responsible is an important factor in the management of our business.

The Board confirms that regular consideration is given to the significance of social, environmental and ethical (SEE) issues (as defined by the Association of British Insurers), and as part of our wider operational risk framework, identifies significant risks arising from these areas to short-term and long-term value.

The Group also considers corporate responsibility to be an area of business opportunity. Our subsidiary, Corporate Citizenship, provides not only a focus for our investment in this field but provides the Group with specialist expertise.

The Board believes that corporate responsibility should underpin everything that we do. The Group is therefore committed to demonstrating the importance of this, not only in our work for clients but in our own working practices.

The Company measures the performance of each of its businesses against a benchmark of minimum corporate responsibility standards. The standards are designed to be stretching and, as such, encourage continual improvement in this important area.

We continue to report our corporate responsibility performance to our stakeholders via our website and printed media. These detail not only the principles of our approach but also give examples of the initiatives undertaken.

The Company is listed on the FTSE4Good Index, which evaluates companies performance on a number of corporate responsibility criteria.

Environment

The business of Chime Communications is primarily in the UK and delivers services to clients based on image, ideas, research and content. As such, our direct and indirect impact on the environment is minimal and considered low-risk.

However, we acknowledge that our customers, staff and other stakeholders have an interest in our impact on the environment and as such we have committed to monitor and improve our environmental performance where possible. We became Carbon Neutral at the start of 2007. In the first year we reduced our emissions by 37%, winning an award from Business in the Community in the process. In 2008, our aim was to achieve further reductions (our target was 5%) and embed the new behaviour and data collection processes into our working practices. Our emissions will be audited against our target in March by the Carbon Neutral Company and the Edinburgh Centre for Carbon Management and we are confident of meeting our target. Our companies regularly incorporate our environmental performance in business presentations as we believe this is an important consideration when evaluating reputation.

We continue to work with our customers and our supply chain in order to ensure that our impact is minimised and that best practice is achieved.

Health and safety

The Board believes that our people are our most important asset. Our businesses do not include any industrial or manufacturing processes and our staff are mainly office-based. As such, risk of accidents is low. We do acknowledge that we may expose our staff to additional areas of risk which, whilst not unique to Chime (for example, business travel, event organisation and lone or remote working), do require further scrutiny, mitigation and procedural guidance in order to maximise the wellbeing of our staff.

In 2008, the Board commissioned a review of our health and safety systems by Safety Exchange Ltd, who provide the Group with specialist expertise in this area. The findings confirmed that our procedures were appropriate but that these should be formalised and publicised within the Group more cohesively. Enhancements were deployed to improve the awareness and the assessment of risks where they do arise in our day-to-day business. The revised policy and procedures were published to staff in September 2008.

Employee issues

As a people business, our reputation depends on the skills, knowledge and integrity of our people. Chime has fostered an entrepreneurial culture and each of our businesses is encouraged to create a stimulating, rewarding and inspiring work environment for our people. Our people continue to be our main priority.

We recognise that central oversight on human resources issues is beneficial and continually review the employment standards across the Group as part of the general management and risk identification processes.

In order to attract and retain talented staff we continue to operate our Executive Share Option and Savings-Related Share Option Schemes together with our Deferred Share Plan. We also continue to review our incentive schemes on an ongoing basis.

Ethics

The Group meets all relevant laws, regulations and codes of practice issued by any relevant Government or appropriate regulator. We ensure that all our people are aware and comply with such standards. In addition, we recognise that integrity is essential to the maintenance of our reputation in the marketplace. As part of our regular review process, issues of conduct are identified, reviewed and the Board is alerted as appropriate. We utilise our published Code of Conduct which formalises the values, behaviour and ethical standards expected of Chime employees. We maintain our whistleblowing policy and procedure and ensure that our published standards of behaviour are communicated to both new and existing staff.

Compliance statement

Throughout the year ended 31 December 2008 the Company has been in compliance with the provisions set out in Section 1 of the June 2006 FRC Combined Code on Corporate Governance, except for Code A.4.6 – Processes used by the Nominations Committee (the reason for non-compliance is shown on page 37); and B.1.4 – Executive Directors' remuneration for external non-executive directorships is not stated, as this information is available in the financial statements of the companies concerned.

Approved by the Board of Directors and signed on behalf of the Board

Robert Davison, Secretary
11 March 2009