



CORPORATE GOVERNANCE COMPLIANCE STATEMENT

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Introduction

The purpose of this document is to record how Wm Morrison Supermarkets PLC (the “**Company**”) complies with the UK Corporate Governance Code published in June 2010, and updated in September 2012, September 2014 and April 2016, by the Financial Reporting Council. That code is referred to in this document as the “**Code**” and each of its provisions are quoted in this document. Against each provision the Main Board (the “**Board**”) gives a brief statement of how the Company complies.

Those compliance statements also refer to the terms of reference for the various Committees of the Board. These are available on the Investor Centre website which can be found here:

<https://www.morrisons-corporate.com/investor-centre/corporate-governance/>

During 2019, Morrisons will be updating this document to report on compliance against the 2018 UK Governance Code which comes into effect for the 2019/20 Annual Reporting cycle.

The compliance statement has been formally adopted by the Board for the purposes of the Code. The Board has resolved that it or, as the case may be, such of its Committees as shall be appropriate, shall have regard to the guidance set out in Schedules A and B to the Code as set out in Schedule A and Schedule B of this document.

The compliance statement provides the basis upon which the Directors will report on corporate governance matters in the Company’s Annual Report and Accounts (the “**Annual Report**”). It also provides the source material for investors and other interested parties to undertake their reviews of the Company’s compliance with the Listing Rules.

By Order of the Board

Jonathan J Burke

Company Secretary
November 2018
Wm Morrison Supermarkets PLC

Code of Best Practice and Compliance Statement

Set out below in *italics* is the text of each paragraph of the Code and, below each paragraph of the Code, the Board's statement as to compliance by the Company.

A Leadership

A. 1 The role of the Board

Code Provisions

A.1.1 The board should meet sufficiently regularly to discharge its duties effectively. There should be a formal schedule of matters specifically reserved for its decision. The annual report should include a statement of how the board operates, including a high level statement of which types of decisions are to be taken by the board and which are to be delegated to management.

The Board normally meets at least 8 times per annum for scheduled Board meetings. The Board also meets as required on an ad hoc basis to deal with urgent business – including the consideration and approval of transactions. The Board has approved a schedule of matters reserved for decision by the Board. The schedule is set out in *Appendix 1: Schedule of Matters Reserved for the Main Board*.

To facilitate swift and efficient operational management decisions, the Board has delegated authority, within clearly identified parameters, in relation to day-to-day operational matters, to the Executive Committee and, for capital expenditure matters, the Capital Approval Sub Committee.

The Board has also delegated responsibility for certain day-to-day treasury and associated matters to the Treasury Committee.

In addition, to ensure efficient and effective conduct of the administrative affairs of the Group, the Board has formally delegated authority to the Company Secretary in relation to a series of administrative matters. The delegation of such authority is set out in *Appendix 12: Delegated Authority of the Company Secretary*.

The annual report will include relevant information as required by this Code provision.

A.1.2 The annual report should identify the chairman, the deputy chairman (where there is one), the chief executive, the senior independent director and the chairmen and members of the board committees. It should also set out the number of meetings of the board and those committees and individual attendance by directors.

The annual report does, and will continue to, comply with this requirement.

A.1.3 The company should arrange appropriate insurance cover in respect of legal action against its directors.

The Company has in place directors' and officers' liability insurance at levels considered appropriate for the Group.

A. 2 Division of Responsibilities

Code Provisions

A.2.1 The roles of chairman and chief executive should not be exercised by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established, set out in writing and agreed by the board.

The roles of the Chairman and of the Chief Executive are separate. The Chairman has a formal letter of appointment setting out his duties in relation to the Company. A statement of the division of responsibilities between the Chairman and Chief Executive is set out in *Appendix 2: Chairman and CEO Roles and Responsibilities* which has been approved by the Board.

A. 3 The Chairman

A.3.1 The chairman should on appointment meet the independence criteria set out in B.1.1 below. A chief executive should not go on to be chairman of the same company. If exceptionally a board decides that a chief executive should become chairman, the board should consult major shareholders in advance and should set out its reasons to shareholders at the time of the appointment and in the next annual report.

Andrew Higginson met these independence criteria on appointment.

A. 4 Non-Executive Directors

Code Provisions

A.4.1 The board should appoint one of the independent non-executive directors to be the senior independent director to provide a sounding board to the chairman and to serve as an intermediary for the other directors when necessary. The senior independent director should be available to shareholders if they have concerns which contact through the normal channels of chairman, chief executive or other executive directors has failed to resolve or for which such contact is inappropriate.

Rooney Anand, who is an independent Non-Executive Director, has been identified by the Board as its Senior Independent Director.

A.4.2 The chairman should hold meetings with the non-executive directors without the executives present. Led by the senior independent director, the non-executive directors should meet without the chairman present at least annually to appraise the chairman's performance and on such other occasions as are deemed appropriate.

The Board has resolved that such meetings shall be held not less than annually. These meetings are incorporated into the Company's Board performance assessment programme. Where requested by the Non-Executive Directors, further meetings will be convened.

A.4.3 Where directors have concerns which cannot be resolved about the running of the company or a proposed action, they should ensure that their concerns are recorded in the board minutes. On resignation, a non-executive director should provide a written statement to the chairman, for circulation to the board, if they have any such concerns.

The Company Secretary has been instructed that the minutes of Board meetings should reflect any concerns raised by Directors regarding the running of the Company or any proposed action. The Non-Executive Directors have been made aware of Code provision A.4.3.

B Effectiveness

B. 1 The Composition of the Board

Code Provisions

B.1.1 The board should identify in the annual report each non-executive director it considers to be independent. The board should determine whether the director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement. The board should state its reasons if it determines that a director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination, including if the director:

- **has been an employee of the company or group within the last five years;**
- **has, or has had within the last three years, a material business relationship with the company either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company;**
- **has received or receives additional remuneration from the company apart from a director's fee, participates in the**

- company's share option or a performance-related pay scheme, or is a member of the company's pension scheme;**
- **has close family ties with any of the company's advisers, directors or senior employees;**
 - **holds cross-directorships or has significant links with other directors through involvement in other companies or bodies;**
 - **represents a significant shareholder; or**
 - **has served on the board for more than nine years from the date of their first election.**

The Board considers that all of the Non-Executive Directors are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

On 6 February 2018, Belinda Richards was appointed Trustee of the Youth Sport Trust, a national charity, of which Neil Davidson is Chairman. The Board has considered this cross-directorship and is satisfied that it does not compromise the independence of Belinda or Neil.

The Board is satisfied that, although these relationships exist, the Non-Executive Directors of the Company met on appointment, and continue to meet, the requisite criteria for independence.

The experience and external roles of each Director are available on the Company's website here:

<https://www.morrison-corporate.com/about-us/board-members-biographies/>

The Board regularly reviews the number and activities of its Non-Executive Directors to ensure that there are sufficient independent Non-Executive Directors to provide impartial advice to, and supervision of, the activities of the Board.

A summary of the composition of the Board is set out in *Appendix 4: Board and Board Committee Membership*.

B.1.2 Except for smaller companies, at least half the board, excluding the chairman, should comprise non-executive directors determined by the board to be independent. A smaller company should have at least two independent non-executive directors.

There are currently six Non-Executive Directors (excluding the Chairman) on the Board out of a total of nine Directors (including the Chairman). All of these Non-Executive Directors are considered to be independent.

B. 2 Appointments to the Board

Code Provisions

B.2.1 *There should be a nomination committee which should lead the process for board appointments and make recommendations to the board. A majority of members of the nomination committee should be independent non-executive directors. The chairman or an independent non-executive director should chair the committee, but the chairman should not chair the nomination committee when it is dealing with the appointment of a successor to the chairmanship. The nomination committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.*

The Board has appointed a Nomination Committee, the terms of reference of which are set out in *Appendix 5: Nomination Committee Terms of Reference*. The current members of the Committee are set out in *Appendix 4: Board and Board Committee Membership*. The Committee is currently comprised of six Non-Executive Directors and the Chairman of the Board, all of whom are considered to be independent of management.

B.2.2 *The nomination committee should evaluate the balance of skills, experience, independence and knowledge on the board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment.*

The Nomination Committee in conjunction with the Group People Director and the Company Secretary prepares the description of the role and capabilities required for appointments to the Board.

B.2.3 *Non-executive directors should be appointed for specified terms subject to re-election and to statutory provisions relating to the removal of a director. Any term beyond six years for a non-executive director should be subject to particularly rigorous review, and should take into account the need for progressive refreshing of the board.*

The letters of appointment of the Non-Executive Directors confirm that the appointment in each case is for a period expiring at the end of the Company's Annual General Meeting. Each Director is submitted for re-election at each Annual General Meeting. Re-appointment of Non-Executive Directors is not automatic. The notice of Annual General Meeting will provide details (as appropriate) of why the Board believes Non-Executive Directors should be re-elected. On submission for re-election the Chairman will confirm that performance evaluation has been carried out and that the individual's performance continues to be effective and to demonstrate commitment to the role.

B.2.4 *A separate section of the annual report should describe the work of the nomination committee, including the process it has used in*

relation to board appointments. This section should include a description of the board's policy on diversity, including gender, any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives. An explanation should be given if neither an external search consultancy nor open advertising has been used in the appointment of a chairman or a non-executive director. Where an external search consultancy has been used, it should be identified in the annual report and a statement made as to whether it has any other connection with the company.

The annual report each year describes the work of the Nomination Committee. Explanations are given as required regarding external search consultancies and open advertising of appointments.

B. 3 Commitment

B.3.1 For the appointment of a chairman, the nomination committee should prepare a job specification, including an assessment of the time commitment expected, recognising the need for availability in the event of crises. A chairman's other significant commitments should be disclosed to the board before appointment and included in the annual report. Changes to such commitments should be reported to the board as they arise, and their impact explained in the next annual report.

The process set out in this Code provision was implemented by the Nomination Committee, and the Board, on the appointment of Andrew Higginson as Non-Executive Chairman of the Company in January 2015. In connection with any future appointments of a Chairman, the Nomination Committee will, amongst other matters, prepare a job specification in accordance with the Code provisions. The Chairman's other significant commitments have been disclosed to the Board and are included in the annual report. Changes will be reported to the Board and included in the annual report.

B.3.2 The terms and conditions of appointment of non-executive directors should be made available for inspection. The letter of appointment should set out the expected time commitment. Non-executive directors should undertake that they will have sufficient time to meet what is expected of them. Their other significant commitments should be disclosed to the board before appointment, with a broad indication of the time involved and the board should be informed of subsequent changes.

The terms and conditions of appointment for Non-Executive Directors are available for inspection at the registered office of the Company. Non-Executive Directors must comply with minimum attendance requirements under the terms of their appointment letters. Their other

significant commitments are disclosed to the Board before appointment and the Board are kept informed of any changes.

B.3.3 The board should not agree to a full time executive director taking on more than one non-executive directorship in a FTSE 100 company nor the chairmanship of such a company.

None of the Executive Directors are directors or a chairman of a FTSE 100 company.

B. 4 Development

Code Provisions

B.4.1 The chairman should ensure that new directors receive a full, formal and tailored induction on joining the board. As part of this, directors should avail themselves of opportunities to meet major shareholders.

New Directors receive a briefing on the role, duties and responsibilities of a director of a listed company on appointment and an induction pack with important information regarding the Company and Board. In addition they receive a full briefing on the Group from the remaining members of the Board. Major shareholders are given the opportunity to meet new Directors.

B.4.2 The chairman should regularly review and agree with each director their training and development needs.

The Chairman reviews with each Director their training and development needs as part of the annual appraisal process. Those needs are then factored into the annual plan for each Director and monitored by the Chairman with support from the Group People Director and Company Secretary. Further, the training and development needs of all Directors are addressed in the formulation of the rolling programme of Board training and continuing education.

B. 5 Information and Support

B.5.1 The board should ensure that directors, especially non-executive directors, have access to independent professional advice at the company's expense where they judge it necessary to discharge their responsibilities as directors. Committees should be provided with sufficient resources to undertake their duties.

The Board has approved the procedures set out in *Appendix 3: Procedure for Directors taking independent professional advice*. The Board and each of its Committees are supported by the Company Secretary and, with the assistance of the Company Secretary, are able to take such external advice, or may request such internal or external resource, as they require in order to undertake their duties.

B.5.2 All directors should have access to the advice and services of the company secretary, who is responsible to the board for ensuring that board procedures are complied with. Both the appointment and removal of the company secretary should be a matter for the board as a whole.

The Board has resolved that all Directors should have access to the advice and services of the Company Secretary. The appointment and removal of the Company Secretary is a matter reserved for decision by the Board as a whole – see *Appendix 1: Schedule of matters reserved for the Main Board*, paragraph 7.9.

B. 6 Evaluation

Code Provision

B.6.1 The board should state in the annual report how performance evaluation of the board, its committees and its individual directors has been conducted.

The Group has established a performance evaluation process for its Board, Committees and individual Directors, developed by the Company Secretary. This is referred to in the annual report.

B.6.2 Evaluation of the Board of FTSE 350 companies should be externally facilitated at least every three years. The external facilitator should be identified in the annual report and a statement made as to whether they have any other connection with the company.

The Board has resolved that it will carry out an externally facilitated evaluation of the Board's performance and effectiveness at least once in every three years. Appropriate reporting of these reviews and any main conclusions, together with disclosure of any connections between the external facilitator and the company (or an appropriate negative confirmation) is included in the annual report.

B.6.3 The non-executive directors, led by the senior independent director, should be responsible for performance evaluation of the chairman, taking into account the views of executive directors.

The Chairman is subject to the same evaluation process as the rest of the Board. There is an annual evaluation and performance review carried out by the Non-Executive Directors led by the Senior Independent Director and taking account of the views of all Directors. The Chairman takes no part in that review but its conclusions are fed back to the Chairman by the Senior Independent Director and are built into the training and development plan for the Chairman.

B. 7 Re-election

Code Provisions

B.7.1 All directors of FTSE 350 companies should be subject to annual election by shareholders. All other directors should be subject to election by shareholders at the first annual general meeting after their appointment, and to re-election thereafter at intervals of no more than three years. Non-executive directors who have served longer than nine years should be subject to annual re-election. The names of directors submitted for election or re-election should be accompanied by sufficient biographical details and any other relevant information to enable shareholders to take an informed decision on their election.

The Company will comply with this Code provision and submit all Directors for re-election annually at the Annual General Meeting.

The Board has resolved that sufficient biographical details and other relevant information on Directors subject to re-election will be included in the Company's annual report and in the notice of the Annual General Meeting to enable shareholders to take an informed decision on their re-election.

B.7.2 The board should set out to shareholders in the papers accompanying a resolution to elect a non-executive director why they believe an individual should be elected. The chairman should confirm to shareholders when proposing re-election that, following formal performance evaluation, the individual's performance continues to be effective and to demonstrate commitment to the role.

The notice of Annual General Meeting will provide details (as appropriate) of why the Board believes Non-Executive Directors should be re-elected. On submission for re-election the Chairman will confirm that performance evaluation has been carried out and that the individual's performance continues to be effective and to demonstrate commitment to the role.

C Accountability

C. 1 Financial and Business Reporting

Code Provisions

C.1.1 The directors should explain in the annual report their responsibility for preparing the annual report and accounts, and state that they consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy. There should be a statement by the auditor about their reporting responsibilities.

The Board has resolved that the Directors will comply with this Code provision and a statement of responsibility is, and will continue to be, included in the annual report.

- C.1.2** *The directors should include in the annual report an explanation of the basis on which the company generates or preserves value over the longer term (the business model) and the strategy for delivering the objectives of the company.*

Details of the Group's business model, risk assessment and strategic plan are, and will continue to be, included in the annual report.

- C.1.3** *In annual and half-yearly financial statements, the directors should state whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and identify any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.*

The Board has resolved that the Directors will comply with this Code provision and such statements will be included in the annual and interim reports for the financial year ended 31 January 2016 onwards.

C. 2 Risk Management and Internal Control

Code Provision

- C.2.1** *The directors should confirm in the annual report that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity. The directors should describe those risks and explain how they are being managed or mitigated.*

There is an ongoing process of identifying, evaluating and managing the significant risks faced by the Group which is regularly reviewed by the Audit Committee and reported to the Board.

The Board has resolved that the Directors will comply with this Code provision and such statements have been included in the annual report.

- C.2.2** *Taking account of the company's current position and principal risks, the directors should explain in the annual report how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate. The directors should state whether they have a reasonable expectation that the company will be able to continue in operation and meets its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary.*

The Board has resolved that the Directors will comply with this Code provision and such explanation and statement has been included in the annual report.

C.2.3 The board should monitor the company's risk management and internal control systems and, at least annually, carry out a review of their effectiveness, and report on that review in the annual report. The monitoring and review should cover all material controls, including financial, operational and compliance controls.

The review and monitoring of risk management and internal control systems is an integral part of the activities and functions of the Audit Committee. A report on the review is, and will continue to be, included in the annual report.

C. 3 Audit Committee and Auditor

Code Provision

C.3.1 The board should establish an audit committee of at least three, or in the case of smaller companies two, independent non-executive directors. In smaller companies the company chairman may be a member of, but not chair, the committee in addition to the independent non-executive directors, provided he or she was considered independent on appointment as chairman. The board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience.

The audit committee as a whole shall have competence relevant to the sector in which the company operates.

The Company has constituted an Audit Committee. The members of this committee are all independent Non-Executive Directors. The members of the Audit Committee are set out in *Appendix 4: Board and Board Committee membership*, and the terms of reference of the Audit Committee are set out in *Appendix 7: Audit Committee Terms of Reference*. Those terms of reference are compatible with this Code provision.

The Board has resolved that the members of the committee will be named in the Company's annual report. The Board is satisfied that the Chair of the committee, Belinda Richards, has recent and relevant financial experience.

The Board is also satisfied that all members of the committee have appropriate knowledge and understanding of financial risk and accounting matters to contribute effectively to the committee.

C.3.2 The main role and responsibilities of the audit committee should be set out in written terms of reference and should include:

- **to monitor the integrity of the financial statements of the company and any formal announcements relating to the**

- company's financial performance, reviewing significant financial reporting judgements contained in them;*
- *to review the company's internal financial controls and, unless expressly addressed by a separate board risk committee composed of independent directors, or by the board itself, to review the company's internal control and risk management systems;*
 - *to monitor and review the effectiveness of the company's internal audit function;*
 - *to make recommendations to the board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;*
 - *to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;*
 - *to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and to report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken; and*
 - *to report to the board on how it has discharged its responsibilities.*

The terms of reference of the Audit Committee are set out in *Appendix 7: Audit Committee Terms of Reference* and include the items referred to above.

C.3.3 *The terms of reference of the audit committee, including its role and the authority delegated to it by the board, should be made available.*

The terms of reference of the Audit Committee are set out in *Appendix 7: Audit Committee Terms of Reference*. These are made available on the Company's website.

C.3.4 *Where requested by the board, the audit committee should provide advice on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.*

This requirement will be fulfilled by the Audit Committee each year at the time of its review of the financial statements for the purposes of recommending them to the Board.

C.3.5 The audit committee should review arrangements by which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The audit committee's objective should be to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

The Company has established a "Whistleblowing Policy". Under the terms of that policy, appropriate arrangements are available to all staff who wish to make comments about, or seek to report, matters which are of concern to them, whether relating to perceived financial reporting or accounting impropriety, or otherwise.

In relation to any such concerns:

- confidentiality will be respected;
- any concerns relating to allegations or suspicions of financial reporting or accounting impropriety will be raised with the Chairman of the Audit Committee; and
- all such matters are fully and efficiently investigated.

C.3.6 The audit committee should monitor and review the effectiveness of the internal audit activities. Where there is no internal audit function, the audit committee should consider annually whether there is a need for an internal audit function and make a recommendation to the board, and the reasons for the absence of such a function should be explained in the relevant section of the annual report.

The Company has an Internal Audit Department which reports to the Audit Committee on a regular basis.

C.3.7 The audit committee should have primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditors. If the board does not accept the audit committee's recommendation, it should include in the annual report, and in any papers recommending appointment or re-appointment, a statement from the audit committee explaining the recommendation and should set out reasons why the board has taken a different position.

The terms of reference of the Audit Committee are set out *Appendix 7: Audit Committee Terms of Reference*. The duties of the Audit Committee include the consideration of the appointment of the auditor, the audit fee and any questions of resignation or dismissal of the auditor and reporting to the Board.

C.3.8 A separate section of the annual report should describe the work of the committee in discharging its responsibilities. The report should include:

- **the significant issues that the committee considered in relation to the financial statements, and how these issues were addressed;**
- **an explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, information on the length of tenure of the current audit firm and when a tender was last conducted; and advanced notice of any retendering plans; and**
- **if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence are safeguarded.**

The Board has resolved that the Company will comply with this Code provision.

D Remuneration

D. 1 The Level and Components of Remuneration

Code Provisions

D.1.1 In designing schemes of performance-related remuneration for executive directors, the remuneration committee should follow the provisions in Schedule A to this Code. Schemes should include provisions that would enable the company to recover sums paid or withhold the payment of any sum, and specify the circumstances in which it would be appropriate to do so.

The performance-related elements of the remuneration of the Executive Directors form a significant proportion of their total remuneration packages. The performance-related elements are an annual bonus opportunity (of which part is deferred in shares) and participation in the Company's Long Term Incentive Plan. Those elements have been designed with a view to aligning participants' interests with those of shareholders and to incentivise performance at the highest level. Provisions enabling the Company to recover sums paid or withhold payment are included in the annual bonus and deferred bonus schemes and the Long Term Incentive Plan.

The Remuneration Committee's terms of reference (set out in *Appendix 6: Remuneration Committee Terms of Reference*) provide that the committee should take note of the provisions of Schedule A of the Code (as set out in Schedule A of this document).

- D.1.2** *Where a company releases an executive director to serve as a non-executive director elsewhere, the remuneration report should include a statement as to whether or not the director will retain such earnings and, if so, what the remuneration is.*

The Executive Directors do not hold any Non-Executive Directorships.

- D.1.3** *Levels of remuneration for non-executive directors should reflect the time commitment and responsibilities of the role. Remuneration for non-executive directors should not include share options or other performance-related elements. If, exceptionally, options are granted, shareholder approval should be sought in advance and any shares acquired by exercise of the options should be held until at least one year after the non-executive director leaves the board. Holding of share options could be relevant to the determination of a non-executive director's independence (as set out in provision B.1.1).*

Levels of remuneration for Non-Executive Directors reflect the individual's commitments to the Group, including the committees on which they serve, as well as taking into account market conditions and remuneration paid by comparable companies. Non-Executive Directors are not included in share option or incentive schemes.

- D.1.4** *The remuneration committee should carefully consider what compensation commitments (including pension contributions and all other elements) their directors' terms of appointment would entail in the event of early termination. The aim should be to avoid rewarding poor performance. They should take a robust line on reducing compensation to reflect departing directors' obligations to mitigate loss.*

The terms of reference for the Remuneration Committee reflect this Code provision.

- D.1.5** *Notice or contract periods should be set at one year or less. If it is necessary to offer longer notice or contract periods to new directors recruited from outside, such periods should reduce to one year or less after the initial period.*

The service contracts and appointment letters for all of the Directors comply with this provision.

D. 2 Procedure

Code Provisions

- D.2.1** *The board should establish a remuneration committee of at least three, or in the case of smaller companies two, independent non-executive directors. In addition the company chairman may also be a member of, but not chair, the committee if he or she was considered independent on appointment as chairman. The*

remuneration committee should make available its terms of reference, explaining its role and the authority delegated to it by the board. Where remuneration consultants are appointed, they should be identified in the annual report and a statement made as to whether they have any other connection with the company.

The Board has constituted a Remuneration Committee. The Chair for this Committee is Tony van Kralingen, a Non-Executive Director. Its membership is set out in *Appendix 4: Board and Board Committee Membership* and its terms of reference are set out in *Appendix 6: Remuneration Committee Terms of Reference*. The Chairman is a member of the Committee and was considered independent on appointment.

The Committee uses the services of external advisors where necessary. Willis Towers Watson are appointed as independent advisors to provide advice on (a) the design of Executive and Non-Executive remuneration; (b) the design of long-term incentive plans; (c) proposed performance criteria for incentive arrangements; and (d) benchmarking.

D.2.2 The remuneration committee should have delegated responsibility for setting remuneration for all executive directors and the chairman, including pension rights and any compensation payments. The committee should also recommend and monitor the level and structure of remuneration for senior management. The definition of 'senior management' for this purpose should be determined by the board but should normally include the first layer of management below board level.

The terms of reference of the Remuneration Committee reflect this Code provision.

D.2.3 The board itself or, where required by the Articles of Association, the shareholders should determine the remuneration of the non-executive directors within the limits set in the Articles of Association. Where permitted by the Articles, the board may however delegate this responsibility to a committee, which might include the chief executive.

The remuneration of the Chairman is reviewed and determined by the Board. The remuneration of Non-Executive Directors is reviewed and determined by the Chairman and the Executive members of the Board.

D.2.4 Shareholders should be invited specifically to approve all new long-term incentive schemes (as defined in the Listing Rules) and significant changes to existing schemes, save in the circumstances permitted by the Listing Rules.

The Board has resolved that the Company will comply with this Code provision.

E Relations With Shareholders

E. 1 Dialogue With Shareholders

Code Provisions

E.1.1 The chairman should ensure that the views of shareholders are communicated to the board as a whole. The chairman should discuss governance and strategy with major shareholders. Non-executive directors should be offered the opportunity to attend scheduled meetings with major shareholders and should expect to attend meetings if requested by major shareholders. The senior independent director should attend sufficient meetings with a range of major shareholders to listen to their views in order to help develop a balanced understanding of the issues and concerns of major shareholders.

Where issues relevant to the Board as a whole are raised by shareholders, the Chairman relays these issues to the Board. Where shareholders wish to raise concerns then the Chairman deals with these issues as appropriate. Non-Executive Directors are also offered the opportunity to attend meetings with major shareholders. The Company engages in dialogue with institutional investors to as great an extent as is possible in keeping with its obligations regarding price sensitive information.

E.1.2 The board should state in the annual report the steps they have taken to ensure that the members of the board, and in particular the non-executive directors, develop an understanding of the views of major shareholders about their company, for example through direct face-to face contact, analysts' or brokers' briefings and surveys of shareholder opinion.

The Company complies with this Code provision.

E. 2 Constructive use of General Meetings

Code provisions

E.2.1 At any general meeting, the company should propose a separate resolution on each substantially separate issue, and should in particular propose a resolution at the AGM relating to the report and accounts. For each resolution, proxy appointment forms should provide shareholders with the option to direct their proxy to vote either for or against the resolution or to withhold their vote. The proxy form and any announcement of the results of a vote should make it clear that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes for and against the resolution.

The Board has resolved that the Company's AGM and General Meeting procedures comply, and will continue to comply, with this Code provision.

E.2.2 The company should ensure that all valid proxy appointments received for general meetings are properly recorded and counted. For each resolution, where a vote has been taken on a show of hands, the company should ensure that the following information is given at the meeting and made available as soon as reasonably practicable on a website which is maintained by or on behalf of the company:

- **the number of shares in respect of which proxy appointments have been validly made;**
- **the number of votes for the resolution;**
- **the number of votes against the resolution; and**
- **the number of shares in respect of which the vote was directed to be withheld.**

When, in the opinion of the board, a significant proportion of votes have been cast against a resolution at any general meeting, the company should explain when announcing the results of voting what actions it intends to take to understand the reasons behind the vote result.

The notice of its AGM and the Company's AGM procedures (including announcement of the voting results) comply, and will continue to comply, with this Code provision.

E.2.3 The chairman should arrange for the chairmen of the audit, remuneration and nomination committees to be available to answer questions at the AGM and for all directors to attend.

The Chairman will arrange for the committee chairmen (or their deputies if any of them are unavoidably absent) to be available to answer questions at each AGM. All Directors attend the AGM unless there are unavoidable reasons for not doing so.

E.2.4 The company should arrange for the Notice of the AGM and related papers to be sent to shareholders at least 20 working days before the meeting. For other general meetings this should be at least 14 working days in advance.

The Board has resolved that it will arrange for the notice of AGM and related papers to be sent to shareholders at least 20 working days before the meeting. As regards to general meetings other than AGM's, and as stated in our 2018 Notice of AGM, the shorter 14 clear day notice period permitted by the Companies Act 2006 will not be used as a matter of routine for such meetings, but only where flexibility is merited by the business and is thought to be to the advantage of shareholders as a whole.

Schedule A To The Code

The design of performance related remuneration for executive directors

Balance

The remuneration committee should determine an appropriate balance between fixed and performance-related, immediate and deferred remuneration. Performance conditions, including non-financial metrics where appropriate, should be relevant, stretching and designed to promote the long-term success of the company. Remuneration incentives should be compatible with risk policies and systems. Upper limits should be set and disclosed.

The remuneration committee should consider whether the directors should be eligible for annual bonuses and/or benefits under long-term incentive schemes.

Share-based remuneration

Traditional share option schemes should be weighed against other kinds of long-term incentive scheme. Executive share options should not be offered at a discount save as permitted by the relevant provisions of the Listing Rules.

Any new long-term incentive schemes which are proposed should be approved by shareholders and should preferably replace any existing schemes or, at least, form part of a well-considered overall plan incorporating existing schemes. The total rewards potentially available should not be excessive.

For share-based remuneration the remuneration committee should consider requiring directors to hold a minimum number of shares and to hold shares for a further period after vesting or exercise, including for a period after leaving the company, subject to the need to finance any costs of acquisition and associated tax liabilities. In normal circumstances, shares granted or other forms of deferred remuneration should not vest or be paid, and options should not be exercisable, in less than three years. Longer periods may be appropriate. Grants under executive share option and other long-term incentive schemes should normally be phased rather than awarded in one large block.

Pensions

In general, only basic salary should be pensionable. The remuneration committee should consider the pension consequences and associated costs to the company of basic salary increases and any other changes in pensionable remuneration, especially for directors close to retirement.

Schedule B To The Code

Disclosure of corporate governance arrangements

Corporate governance disclosure requirements are set out in three places:

- FCA Disclosure and Transparency Rules (“DTR”) sub-chapters 7.1 and 7.2, which set out certain mandatory disclosures;
- FCA Listing Rules (“LR”) 9.8.6 R, 9.8.7 R, and 9.8.7A R, which includes the ‘comply or explain’ requirement; and
- The UK Corporate Governance Code (“the Code”) - in addition to providing an explanation where they choose not to comply with a provision, companies must disclose specified information in order to comply with certain provisions.

These requirements are summarised below, with the full text contained in the relevant chapters of the FCA Handbook.

The DTR sub-chapters 7.1 and 7.2 apply to issuers whose securities are admitted to trading on a regulated market (this includes all issuers with a Premium or Standard listing). The LR 9.8.6 R, 9.8.7R and 9.8.7A R and the Code apply to issuers of Premium listed equity shares only.

There is some overlap between the mandatory disclosures required under the DTR and those expected under the Code. Areas of overlap are summarised in the Appendix to this Schedule. In respect of disclosures relating to the Audit Committee and the composition and operation of the board and its committees, compliance with the relevant provisions of the Code will result in compliance with the relevant Rules.

Disclosure and Transparency Rules

DTR sub-chapter 7.1 concerns audit committees or bodies carrying out equivalent functions.

DTR 7.1.1 R, 7.1.1A R and 7.1.3 R set out requirements relating to the composition and functions of the committee or equivalent body:

- DTR 7.1.1 R states that an issuer must have a body or bodies responsible for performing the functions set out in DTR 7.1.3 R.
- DTR 7.1.1A R requires that a majority of the members of the relevant body must be independent, at least one member must have competence in accounting or auditing, or both, and that members of the relevant body as a whole must have competence relevant to the sector in which the issuer is operating.
- DTR 7.1.2 G states that the requirements for independence and competence in accounting and/or auditing may be satisfied by the same members or by different members of the relevant body.
- DTR 7.1.3 R states that an issuer must ensure that, as a minimum, the relevant body must:

- 1) monitor the financial reporting process and submit recommendations or proposal to ensure its integrity;
- 2) monitor the effectiveness of the issuer's internal quality control and risk management systems and, where applicable, its internal audit, regarding the financial reporting of the issuer, without breaching its independence;
- 3) monitor the statutory audit of the annual and consolidated statements, in particular, its performance, taking into account any findings and conclusions by the competent authority under article 26(6) of the Audit Regulation;
- 4) review and monitor the independence of the statutory auditor, in accordance with articles 22, 22a, 22b, 24a and 24b of the Audit Directive and article 6 of the Audit Regulation, and in particular the appropriateness of the provision of non-audit services to the issuer in accordance with article 5 of the Audit Regulation;
- 5) inform the administrative or supervisory body of the issuer of the outcome of the statutory audit and explain how the statutory audit contributed to the integrity of financial reporting and what the role of the relevant body was in that process;
- 6) except when article 16(8) of the Audit Regulation is applied, be responsible for the procedure for the selection of the statutory auditor(s) and recommend the statutory auditor(s) to be appointed in accordance with article 16 of the Audit Regulation.

DTR 7.1.5 R sets out what disclosure is required. Specifically:

- DTR 7.1.5 R states that the issuer must make a statement available to the public disclosing which body carries out the functions required by DTR 7.1.3 R and how it is composed.
- DTR 7.1.6 G states that this can be included in the corporate governance statement required under sub-chapter DTR 7.2 (see below).
- DTR 7.1.7 G states that compliance with the relevant provisions of the Code (as set out in the Appendix to this Schedule) will result in compliance with DTR 7.1.1 R to 7.1.5 R.

Sub-chapter 7.2 concerns corporate governance statements. Issuers are required to produce a corporate governance statement that must be either included in the directors' report (DTR 7.2.1 R); or in a separate report published together with the annual report; or set out in a document on the issuer's website, in which case there must be a cross-reference in the directors' report (DTR 7.2.9 R).

DTR 7.2.2 R requires that the corporate governance statement must contain a reference to the corporate governance code to which the company is subject (for companies with a Premium listing this is the Code). DTR 7.2.3 R requires that, where that it departs from that code, the company must explain which parts of the code it departs from and the reasons for doing so. DTR 7.2.4 G states that compliance with LR 9.8.6 R (6) (the "comply or explain" rule in relation to the Code) will also satisfy these requirements.

DTR 7.2.5 R, DTR 7.2.6 R, DTR 7.2.7 R and DTR 7.2.10 R set out certain information that must be disclosed in the corporate governance statement:

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- DTR 7.2.5 R states that the corporate governance statement must contain a description of the main features of the company's internal control and risk management systems in relation to the financial reporting process. DTR 7.2.10 R states that an issuer which is required to prepare a group directors' report within the meaning of Section 415(2) of the Companies Act 2006 must include in that report a description of the main features of the group's internal control and risk management systems in relation to the financial reporting process for the undertakings included in the consolidation, taken as a whole.
- DTR 7.2.6 R states that the corporate governance statement must contain the information required by paragraph 13(2)(c), (d), (f), (h) and (i) of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) where the issuer is subject to the requirements of that paragraph.
- DTR 7.2.7 R states that the corporate governance statement must contain a description of the composition and operation of the issuer's administrative, management and supervisory bodies and their committees. DTR 7.2.8 G states that compliance with the relevant provisions of the Code (as set out in the Appendix to this Schedule) will satisfy these requirements.

Listing Rules

LR 9.8.6 R (for UK incorporated companies) and LR 9.8.7 R (for overseas incorporated companies) state that in the case of a company that has a Premium listing of equity shares, the following items must be included in its annual report and accounts:

- a statement of how the listed company has applied the Main Principles set out in the Code, in a manner that would enable shareholders to evaluate how the principles have been applied;
- a statement as to whether the listed company has:
 - complied throughout the accounting period with all relevant provisions set out in the Code; or
 - not complied throughout the accounting period with all relevant provisions set out in the Code and if so, setting out:
 - i. those provisions, if any, it has not complied with;
 - ii. in the case of provisions whose requirements are of a continuing nature, the period within which, if any, it did not comply with some or all of those provisions; and
 - iii. the company's reasons for non-compliance.

LR 9.8.6 R (3) requires statements by the *directors* on:

- a) the appropriateness of adopting the going concern basis of accounting (containing the information set out in provision C.1.3 of the Code); and
- b) their assessment of the prospects of the *company* (containing the information set out in provision C.2.2 of the Code);

prepared in accordance with the 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' published by the Financial Reporting Council in September 2014.

The UK Corporate Governance Code

In addition to the "comply or explain" requirement in the LR, the Code includes specific requirements for disclosure which must be provided in order to comply. These are summarised below.

The annual report should include:

- a statement of how the board operates, including a high level statement of which types of decisions are to be taken by the board and which are to be delegated to management (A.1.1);
- the names of the chairman, the deputy chairman (where there is one), the chief executive, the senior independent director and the chairmen and members of the board committees (A.1.2);
- the number of meetings of the board and those committees and individual attendance by directors (A.1.2);
- where a chief executive is appointed chairman, the reasons for their appointment (this only needs to be done in the annual report following the appointment) (A.3.1);
- the names of the non-executive directors whom the board determines to be independent, with reasons where necessary (B.1.1);
- a separate section describing the work of the nomination committee, including the process it has used in relation to board appointments; a description of the board's policy on diversity, including gender; any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives. An explanation should be given if neither external search consultancy nor open advertising has been used in the appointment of a chairman or a non-executive director. Where an external search consultancy has been used it should be identified and a statement made as to whether it has any other connection with the company (B.2.4);
- the impact of any changes to the other significant commitments of the chairman during the year should explained (B.3.1);
- a statement of how performance evaluation of the board, its committees and its directors has been conducted (B.6.1). Where an external facilitator has been used, they should be identified and a statement made as to whether they have any other connection to the company (B.6.2);
- an explanation from the directors of their responsibility for preparing the accounts and a statement that they consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy. There should also be a statement by the auditor about their reporting responsibilities (C.1.1);

- an explanation from the directors of the basis on which the company generates or preserves value over the longer term (the business model) and the strategy for delivering the objectives of the company (C.1.2);
- a statement from the directors whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and identify any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements (C.1.3);
- confirmation by the directors that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity. The directors should describe the risks and explain how they are being managed or mitigated (C.2.1);
- a statement from the directors explaining how they have assessed the prospects of the company (taking account of the company's current position and principal risks), over what period they have done so and why they consider that period to be appropriate. The directors should state whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary (C.2.2);
- a report on the board's review of the effectiveness of the company's risk management and internal controls systems (C.2.3);
- where there is no internal audit function, the reasons for the absence of such a function (C.3.6);
- where the board does not accept the audit committee's recommendation on the appointment, reappointment or removal of an external auditor, a statement from the audit committee explaining the recommendation and the reasons why the board has taken a different position (C.3.7);
- a separate section describing the work of the audit committee in discharging its responsibilities, including: the significant issues that it considered in relation to the financial statements, and how these issues were addressed; an explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, including the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering plans; and, if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence is safeguarded (C.3.8);
- a description of the work of the remuneration committee as required under the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2013, including, where an executive director serves as a non-executive director elsewhere, whether or not the director will retain such earnings and, if so, what the remuneration is (D.1.2);
- where remuneration consultants are appointed they should be identified and a statement made as to whether they have any other connection with the company (D.2.1); and
- the steps the board has taken to ensure that members of the board, and in particular the non-executive directors, develop an understanding of the views of major shareholders about their company (E.1.2).

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The following information should be made available (which may be met by placing the information on a website that is maintained by or on behalf of the company):

- the terms of reference of the nomination, audit and remuneration committees, explaining their role and the authority delegated to them by the board (B.2.1, C.3.3 and D.2.1); and
- the terms and conditions of appointment of non-executive directors (B.3.2) (see footnote 9).

The board should set out to shareholders in the papers accompanying a resolution to elect or re-elect directors:

- sufficient biographical details to enable shareholders to take an informed decision on their election or re-election (B.7.1);
- why they believe an individual should be elected to a non-executive role (B.7.2); and
- on re-election of a non-executive director, confirmation from the chairman that, following formal performance evaluation, the individual's performance continues to be effective and to demonstrate commitment to the role (B.7.2).

The board should set out to shareholders in the papers recommending appointment or reappointment of an external auditor:

- if the board does not accept the audit committee's recommendation, a statement from the audit committee explaining the recommendation and from the board setting out reasons why they have taken a different position (C.3.7).

Additional Guidance

The FRC publishes guidance on the strategic report, risk management, internal control, business and financial reporting and audit committees, which relate to Section C of the Code. These guidance notes are available on the FRC website.

OVERLAP BETWEEN THE DISCLOSURE AND TRANSPARENCY RULES AND THE UK CORPORATE GOVERNANCE CODE

Disclosure and Transparency Rules	UK Corporate Governance Code
<p>DTR 7.1.1 R and 7.1.1A R Sets out minimum requirements on composition of the audit committee or equivalent body.</p>	<p>Provision C.3.1: sets out the recommended composition of the audit committee.</p>
<p>DTR 7.1.3 R Sets out minimum functions of the audit committee or equivalent body.</p>	<p>Provision C.3.2: sets out the recommended minimum terms of reference for the audit committee.</p>
<p>DTR 7.1.5 R The composition and function of the audit committee or equivalent body/bodies must be disclosed in the annual report.</p> <p><i>DTR 7.1.7 G states that compliance with Code provisions A.1.2, C.3.1, C.3.2, C.3.3 and C.3.8 will result in compliance with DTR 7.1.1 R to DTR 7.1.5 R.</i></p>	<p>This requirement overlaps with a number of different Code provisions:</p> <p>A.1.2:the annual report should identify members of the board and board committees.</p> <p>C.3.1: sets out the recommended composition of the audit committee.</p> <p>C.3.2: sets out the recommended minimum terms of reference for the audit committee.</p> <p>C.3.3: the terms of reference of the audit committee, including its role and the authority delegated to it by the board, should be made available.C.3.8:the annual report should describe the work of the audit committee.</p>
<p>DTR 7.2.5 R The corporate governance statement must contain a description of the main features of the issuer’s internal control and risk management systems in relation to the financial reporting process.</p> <p><i>While this requirement differs from the requirement in the Code, it is envisaged that both could be met by a single internal control statement.</i></p>	<p>Provision C.2.1 the directors should confirm that they have carried out a robust assessment of the principal risks facing the company – including those that would threaten its business model, future performance, solvency or liquidity. The directors should describe those risks and explain how they are being managed or mitigated.</p> <p>Provision C.2.3 the board should monitor the company’s risk management and internal control systems and, at least annually, carry out a review of their effectiveness, and report on that review in the annual report. The monitoring and review should cover all material controls, including financial, operational and compliance controls.</p>

<p>DTR 7.2.7 R The corporate governance statement must contain a description of the composition and operation of the issuer's administrative, management and supervisory bodies and their committees.</p> <p><i>DTR 7.2.8 R states that compliance with Code provisions A.1.1, A.1.2, B.2.4, C.3.3, C.3.8 and D.2.1 will result in compliance with DTR 7.2.7 R.</i></p>	<p>This requirement overlaps with a number of different Code provisions :</p> <p>A.1.1: the annual report should include a statement of how the board operates.</p> <p>A.1.2: the annual report should identify members of the board and board committees.</p> <p>B.2.4: the annual report should describe the work of the nomination committee.</p> <p>C.3.3: the terms of reference of the audit committee, including its role and the authority delegated to it by the board, should be made available.</p> <p>C.3.8: the annual report should describe the work of the audit committee.</p> <p>D.2.1: a description of the work of the remuneration committee should be made available. <i>[Note: in order to comply with DTR 7.2.7 R this information will need to be included in the corporate governance statement]</i></p>
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