RENEURON GROUP PLC

CORPORATE GOVERNANCE MEMORANDUM

NOVEMBER 2018

COVINGTON

PART I: INTRODUCTION TO CORPORATE GOVERNANCE

1. RULE 26 OF THE AIM RULES AND THE QCA'S CORPORATE GOVERNANCE CODE

Rule 26 of the AIM Rules for Companies requires each AIM company to maintain a website from admission which gives details of a recognised corporate governance code that the board of directors has decided to apply, how the company complies with that code, and where it departs from its chosen corporate governance code an explanation of the reasons for doing so. This information must be reviewed annually (which exercise will usually be done in conjunction with the company's preparation of its annual report and accounts) and the website should include the date on which this information was last reviewed.

The Quoted Companies Alliance ("**QCA**") was founded in 1992 to champion the cause of the smaller and mid-cap quoted sector of the London Stock Market, i.e., companies below the FTSE 350. An AIM company can choose to apply the Financial Reporting Council's UK Corporate Governance Code, which is mandatory for companies with a premium listing on the Main Market of the London Stock Exchange, but such Code is generally not suitable for most smaller or mid-sized quoted companies. The QCA's "Corporate Governance Code for Small and Mid-size Quoted Companies 2018" (the "**QCA Code**") takes key elements of good governance and applies them in a manner which is workable for the different needs of growing companies. It contains 10 corporate governance principles and step-by-step guidance on how to effectively apply the principles within the company.

The 'comply or explain' approach is AIM's alternative to a strict rules-based system of corporate governance. AIM recognises that a company may prefer not to adopt a provision of the QCA Code if good governance can be achieved by means more suited to the culture and organisation of the individual company. The advantage of this approach is that when making decisions on governance practices, the board can make judgements on a case-by-case basis, taking into account the size and complexity of the company and the nature of the risks and challenges it faces.

Part III of this Memorandum sets out a summary of the principles of the QCA Code.

In addition to the QCA's Code, the QCA have also issued Guidance on Audit Committees for Smaller and Mid-Size Quoted companies (2014) and the QCA's Remuneration Committee Guide for Small and Mid-sized Quoted Companies (July 2016).

2. INVESTORS' PROTECTION ORGANISATIONS

As well as the QCA Code, AIM companies may need to have regard to the views of the investors' protection organisations, which look after the interests of the institutional shareholders which are their members or clients. Currently, the five most important of these are:

(a) The Association of British Insurers ("**ABI**");

(b) The Investment Association ("**IA**");

(c) The Pensions and Lifetime Savings Association ("**PLSA**") (formerly the National Association of Pension Funds ("**NAPF**"));

(d) Pensions & Investment Research Consultants ("**PIRC**"); and

(e) The Institutional Shareholder Services (“**ISS**”).

Each of these organisations publishes recommendations as to how their members or clients should vote on resolutions being proposed to shareholders. There is no requirement to comply with their views, but failure to do so may result in a company’s proposals being opposed. A difficulty is that these bodies do not necessarily have the same concerns, sometimes having different views that are not always effectively publicised. It is, however, often possible to speak to the organisations and gain their views on a particular proposal.

3. IA Principles of Remuneration

The IA’s guidelines titled “The Investment Association Principles of Remuneration” November 2017 set out detailed guidance to be followed in relation to directors’ and executives’ remuneration. While the IA’s Principles of Remuneration are directed at companies listed on the Official List, AIM companies should (and typically do) have regard to them, especially if they aspire to an official listing. The IA’s Principles of Remuneration can be found at:

https://www.ivis.co.uk/media/13548/Principles-of-Remuneration-2018.pdf

4. NAPF Corporate Governance Policy for AIM Companies

In order to protect its members as institutional investors in smaller quoted companies, the PLSA published guidelines titled “NAPF Corporate Governance Policy and Voting Guidelines for Smaller Companies” (the “**NAPF Guidelines**), the most recent version of which were published in November 2012. The NAPF Guidelines include the PLSA’s policy for AIM companies. Any AIM company which wishes to be seen to comply with the UK Corporate Governance Code and also has a substantial proportion of shareholders which are pension funds, should take these requirements seriously, in view of the influence the PLSA has over such funds. The PLSA expects companies at the top end of the AIM market capitalisation range to comply with the UK Corporate Governance Code (or to explain non-compliance) and smaller companies to apply the highest standards of corporate governance consistent with the size and complexity of their business. The NAPF Guidelines can be found at:

http://www.plsa.co.uk/Policy-and-Research/Document-library/Corporate-Governance-Policy-and-Voting-Guidelines-for-Smaller-Companies-an-NAPF-document.

5. PIRC Guidelines

PIRC’s guidelines are expressed only to apply to companies on the Official List, but directors of AIM companies should nevertheless be aware of them, as they highlight particular areas in respect of which institutional shareholders may have concerns and, at least in the past, they have been a pointer as to the direction in which corporate governance is heading.

A copy of the PIRC Guidelines can be supplied on request.

6. Pre-Emption Group Principles

The Pre-emption Group Statement of Principles sets out guidance in respect of the disapplication of pre-emption rights by companies on the Official List, but AIM companies are also encouraged to comply. The Statement emphasises the need for flexibility where a new equity issue on a non-pre-emptive basis would be in the interests of companies and their owners and sets out guidance regarding the extent to which companies ought to consult with their shareholders in connection with the issuance of shares on a non-preemptive basis. The full version of the Pre-emption Group Statement of Principles can be found at:

http://www.pre-emptiongroup.org.uk/Principles.aspx

7. ISS Guidelines

ISS, a US provider of proxy voting and corporate governance services, has produced the "UK and Ireland Proxy Voting Guidelines 2017" (the "**ISS Policy**"), which constitute benchmark vote recommendations for UK and Irish listed companies (as updated by the 2018 EMEA Proxy Voting Guidelines Updates, which apply to meetings on or after 1 February 2018).

The format of the ISS Policy is based on the ISS European Summary Proxy Voting Guidelines. The ISS Policy includes additional, specific recommendations in respect of smaller companies and investment companies (namely AIM companies). The recommendations in the ISS Policy on smaller companies are based on the NAPF Corporate Policy and Voting Guidelines for Smaller Companies, although ISS notes that the QCA Code may also be helpful in respect of AIM listed companies.

The ISS' Global Voting Principles (December 2013) also provide for four key tenets on accountability, stewardship, independence, and transparency, which underlie ISS' approach to developing recommendations on management and shareholder proposals at publicly traded companies.

The ISS Guidelines can be accessed here:

(a) ISS UK and Ireland Proxy Voting Guidelines 2017

(b) 2018 EMEA Proxy Voting Guidelines Updates

(c) Global Voting Principles (December 2013)

(d) European Proxy Voting Summary Guidelines

8. Social, Environmental and Ethical Issues

There is increasing institutional pressure on companies to adopt socially responsible policies and to report on them in the annual report and accounts. One of the chief reasons is that since July 2000, pension funds have been required to disclose their approach to social, environmental and ethical issues.

The IA published guidelines for social, environmental and ethical reporting which all quoted companies are expected to follow. These guidelines (which were originally published by the ABI) can be found at:

https://www.ivis.co.uk/media/11203/Rebranded-Guidelines-on-Responsible-Investment-Disclosure-January-2007-3-June-2015-.pdf

PART II: REQUIREMENTS OF THE QCA CODE

1. THE BOARD

The QCA believes that the board is responsible for setting the vision and strategy for the company to deliver value to its shareholders and board members are collectively responsible for defining corporate governance arrangements to achieve this purpose, under clear leadership by the chair.

The board structure and balance of non-executive directors will depend on the company's stage of development. The QCA Code currently recommends that the board should include at least two independent non-executive directors. Larger boards should have more independent non-executive directors. Generally, shareholder expectation is that at least half of the board are independent non-executive directors. Where a director has served for more than nine years, this does not automatically affect independence, but the board should make a decision regarding such director's independence and ensure that this is discussed with key investors before the AGM. It is good practice for directors to be re-elected on an annual basis.

Board should be mindful of the company's relationship with stakeholders and should have sufficient experience to oversee how the executive team is engaging with them. Boards that include directors associated with major shareholders should clearly and regularly explain to shareholders the reasons for those individuals sitting on their board, the details of any relationship agreements in place and the particular skills and experience those individuals bring to the board.

Boards should continuously challenge themselves and regularly consider whether they are effective. An effective board develops and promotes the company's purpose together with the values, culture and behaviours needed to conduct business and to achieve its strategic objectives.

The QCA Code states that an effective board:

- has a clear purpose and strong leadership by the chair;
- has the right balance of skills, experience and independence;
- has directors who work as a team;
- understands the business and supports the creation and delivery of the strategy of the company;
- regularly informs and engages with shareholders and other key stakeholders; and
- evaluates its performance and acts on the conclusions.

2. BOARD ROLES AND RESPONSIBILITIES

2.1 Chair

The chair's primary responsibility is to lead the board effectively and to oversee the adoption, delivery and communication of the company's corporate governance model. The chair must have adequate separation from the day-to-day business to be able to make independent decisions. Best practice is that save in exceptional (and well justified and explained) circumstances, the chair should not also fulfill the role of chief executive. If there is a need to combine these roles then this should be temporary and discussed beforehand with shareholders.

A good chair will display clear vision and focus on strategy, acting in a manner that brings together the various characteristics, skills, qualities and experience of the other members of the board. The role should foster a positive governance culture throughout the company.

The chair should be visible in the role. Attendance at results presentations and meetings with shareholders helps to signal that the board is being run with the appropriate level of engagement and time commitment.

The chair is responsible for making sure that the board agenda concentrates on the key issues, both operational and financial, with regular reviews of the company's strategy and its overall implementation. The chair should ensure that the board receives accurate, timely and clear information and there should be good information flows within the board and its committees as well as between the non-executive directors and senior management.

2.2 Senior Independent Director

The QCA Code requires companies to consider whether it is appropriate to appoint one of the independent non-executive directors to the role of senior independent director. The senior independent director acts as a sounding board and intermediary for the chair or other board members (as necessary). The key responsibilities of the senior independent director also include leading the performance evaluation of the chair, or the search for a new chair, and chairing the (usually annual) meeting of the independent non-executive directors without the chair being present. The senior independent director can act as deputy chair, whether formalised or not.

Being a senior independent director requires sensitivity to the views of shareholders and other directors. A senior independent director's role is especially important, and can be particularly difficult, where the chair is a founder, major shareholder and/or executive director, where the chair is not effective and/or at times where there may be divergent opinions within the board.

Senior independent directors are also an alternative route of access for shareholders and other directors who may have a concern that cannot be raised through the normal channels of the chair or the executive directors. Senior independent directors should attend sufficient meetings with major shareholders and analysts to obtain a balanced understanding of the issues and concerns of shareholders.

2.3 Non-Executive Directors

The non-executive directors participate in all board level decisions and play a particular role in the determination and articulation of strategy. Non-executive directors should provide oversight and scrutiny of the performance of the executive directors, whilst both constructively challenging and inspiring them, thereby ensuring the business develops, communicates and executes the agreed strategy and operates with reference to the risk management framework. Non-executive directors should possess the critical skills that are relevant to dynamic companies, which should include both technical experience and the ability to positively challenge and to listen in equal measure.

Non-executive directors should be independent to be able to provide appropriate oversight and to perform their role. They should expect to:

(a) have a formal appointment process and a structured induction process, including meetings with key shareholders;

(b) commit an appropriate amount of time to the company (particularly where the non-executive director has more than one directorship) and to be available to shareholders;

(c) be appointed to board committees that have formal terms of reference;

(d) receive high-quality information sufficiently in advance of board and committee meetings, which is accurate, clear, comprehensive, up-to-date and timely;

(e) have access to the executive directors, the company secretary and the company's advisers;

(f) be able to call upon independent professional advice at the company's expense if they consider it necessary to discharge their responsibilities as directors;

(g) receive ongoing training and development; and

(h) have their performance assessed on a regular basis (along with the executive directors).

Since independence can be easily compromised, non-executive directors should not normally participate in performance-related remuneration schemes or have a significant interest in a company share option scheme. On occasions, where performance-related remuneration is under consideration, it should be proportionate, shareholders must be consulted and their support obtained. It is recommended that remuneration plans that may lead to significant dilution of holdings of investors are pre-brokered with investors.

2.4 Executive Directors

The executive directors of a company are charged with the delivery of the business model of the company within the strategy set by the board. All executive directors should work with the chair and the non-executive directors in an open and transparent way. Executive directors must keep them up-to-date with operational performance, risks and other issues to ensure that the business remains aligned with the strategy.

2.5 The Company Secretary

The company secretary should act as a trusted adviser to the chair and the board. The company secretary plays a vital role in relation to both legal and regulatory compliance and as such must keep up-to-date with relevant legal, statutory and regulatory requirements. The company secretary should play a proactive and central role in ensuring good governance.

As part of this role, the company secretary should assist the chair and the board committee chairs in preparing for and running effective board meetings, including the timely dissemination of appropriate information. Unless other arrangements are in place, the company secretary should also act as a conduit for all the directors, particularly the non-executive directors, into the workings of the company, providing not only an induction programme but information, advice and guidance. The company secretary often also acts as the link between the company and shareholders on matters of governance and investor relations.

At times, the company secretary may have to act as a confidential sounding board to one or more directors. Given the importance of this role, companies where an executive director is also the company secretary should have plans in place to separate the role at the appropriate time. It is vital for the company secretary to report directly to the chair on governance matters and not to any executive director.

3. BOARD COMMITTEES

3.1 Audit Committee

The QCA Code emphasises the essential role of the audit committee in providing confidence to shareholders on the integrity of the financial results of the company expressed in the annual report and accounts and other relevant public announcements of the company. The audit committee should challenge both the external auditors and the management of the company. It should review the need for internal audit and, where required, make the appointment of a head of internal audit. It should also consider the engagement of auditors including tendering and the approval of non-audit services.

The audit committee should review and report to the board on any significant reporting issues, estimates and judgements made in connection with the preparation of the company's financial statements.

The audit committee also has a key role in the oversight of the effectiveness of the risk management and internal control systems of the company. Some companies may establish a separate risk committee.

The QCA Code does not make any recommendation as regards the number of members of the audit committee. The UK Corporate Governance Code provides for this committee to comprise at least three (or, in the case of smaller companies, two) independent non-executive directors. At least one member of the committee should have recent and relevant financial experience. In smaller companies, the chair can be a member, but not chair, of the committee provided he or she was considered independent on appointment as chair.

The audit committee's responsibilities include:

(a) oversight and monitoring of the integrity of financial statements and announcements and the people and processes involved in their production, in particular by scrutinising important transactions, accounting policies and judgments made by management;

(b) reviewing internal controls, including overseeing internal audit and whistleblowing arrangements and reporting to shareholders regarding such review;

(c) satisfying itself that the company's approach to risk and its management of risk conforms with the risk appetite determined by the board;

(d) managing the relationship with the external auditor and reviewing and monitoring the independence of the external auditor;

(e) reviewing the need for internal audit; and

(f) reporting on the committee's work in the annual report.

The QCA has produced an Audit Committee Guide for Small and Mid-Size Quoted Companies 2014, which assists audit committee members to be effective in their roles, meeting the expectations of investors and complying with best regulatory best practice for small and mid-size quoted companies.

3.2 Remuneration Committee

The key aim of the remuneration committee is to ensure that the company's remuneration arrangements are aligned to support the implementation of company strategy and risk management for the medium to long-term and to take into account the views of shareholders. Remuneration policy should ensure that it encourages and rewards the right behaviours, values and culture. Any risk it creates should be acceptable to the committee, be within the risk appetite of the board and respect the strategy in place.

The QCA Code does not make any recommendation as regards the number of members of the remuneration committee. The UK Corporate Governance Code provides for this committee to consist of at least three (or, in the case of smaller companies, two) independent non-executive directors. The chair can be a member of this committee, but cannot chair it, provided he or she was considered independent when appointed as chair.

A remuneration committee member must be independent and must be able to resist inappropriate demands from executive directors and senior management. Furthermore, members must seek and take into consideration the views of shareholders, as well as be prepared to seek external advice when necessary. Every member of the remuneration committee must commit sufficient time to the role and develop the necessary skills and knowledge (including in relation to current market practice, taxation and legal requirements).

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

The remuneration policy should be designed to ensure that remuneration is sufficient to attract, retain and motivate key management of the quality required to deliver strategic milestones set by the board. The committee should consult with major shareholders on a regular basis, allowing plenty of time for a quality dialogue, and provide a meaningful and transparent explanation in the annual report of the remuneration committee's work and reasons for choosing the remuneration structure adopted. In addition, any potential or actual areas of disagreement between the views of the remuneration committee's work and shareholders are explained clearly, in particular justifying the decided course of action, both directly with the shareholders concerned and in the annual report.

The QCA has produced a Remuneration Committee Guide for Small and Mid-sized Quoted Companies (July 2016), which aims to provide practical guidance to smaller quoted companies on how to develop a bespoke, appropriate approach to remuneration. The guide covers the objectives, role and responsibilities of the remuneration committee, factors to consider in setting remuneration policy, communicating with shareholders, remuneration committee membership, organisation and functions, the Directors' Remuneration Reporting Guidelines and the remuneration report.

3.3 Nomination and Corporate Governance Committee

The Nomination and Corporate Governance Committee should ensure there is a robust process for the appointment of new board directors. It should work closely with the board and the chair to identify the skills, experience, personal qualities and capabilities required for the next stage in the company's development, linking the company's strategy to future changes on the board. It should keep a close eye on succession plans and the possible internal candidates for future board roles. If necessary, the Nomination and Corporate Governance Committee must provide support to the chair (and, where appropriate, the senior independent director) in taking steps to remove any under-performing executive or non-executive director.

The Nomination and Corporate Governance Committee should assess each year whether or not the company is complying with the AIM Rules for Companies and its corporate governance obligations.

4. MATTERS RESERVED TO THE BOARD

It is best practice that decisions relating to matters of importance to a company be reserved to the board. This is a recommendation of both the QCA Code and the UK Corporate Governance Code.

5. RESTRICTIONS ON DEALINGS UNDER MAR AND SHARE DEALING CODE

It is also considered important that an AIM company put in place appropriate procedures with regards to compliance with the Market Abuse Regulation (EU) No. 596/2014 and dealing in the company's own securities including that all relevant staff be advised of the requirement to notify and obtain approval for any proposed share dealing and the method by which this should be done.

PART III: PRINCIPLES OF THE QCA CODE

The QCA believes that good corporate governance creates shareholder value by improving performance, whilst reducing or mitigating the risks that a company faces as it seeks to create sustainable growth over the medium to long-term, without stifling entrepreneurial spirit in which the company was created.

To claim that the QCA Code has been adopted, the company should apply 10 essential principles that represent good practice, and also publish certain minimum disclosures, either in the company's annual report and accounts or its website (or a combination of the two). Where disclosures are presented in different locations, there should be clear signposting by way of an index on the company's website to where that information can be found). The annual report should contain a reference to where this index can be found.

The disclosures set out after each principle indicate the areas that companies need to address in their reporting on corporate governance. The disclosure exercise should be approached with the mindset of explaining and demonstrating the company's good governance to external stakeholders. Emphasis should be on describing what is done and why it is done in a particular way, with a clear and well-reasoned explanation for not so doing. There should also be clear signposts to where the relevant disclosures can be found. A company is able to diverge from conventional governance approaches, provided there is a well justified explanation which properly describes why such practice is appropriate for that company at that time of its development and is in the best interests of its shareholders.

THE QCA PRINCIPLES AND DISCLOSURES

1. Establish a strategy and business model to promote long-term value for shareholders

The board must be able to express a shared view of the company's purpose, business model and strategy, which should go beyond the simple description of products and corporate structures and set out how the company intends to deliver shareholder value in the medium to long-term. It should demonstrate that the delivery of long-term growth is underpinned by a clear set of values aimed at protecting the company from unnecessary risk and securing its long-term future.

Disclosure: The annual report and accounts should explain the company's business model and strategy, including key challenges in their execution (and how those will be addressed).

2. Seek to understand and meet shareholder needs and expectations

Directors must develop a good understanding of the needs and expectations of all elements of the company's shareholder base.

The board must manage shareholders' expectations and should seek to understand the motivations behind shareholder voting decisions.

Disclosure: The website should explain the ways in which the company seeks to engage with shareholders and how successful this has been. This should include information on those responsible for shareholder liaison or specification of the point of contact for such matters.

3. **Take into account wider stakeholder and social responsibilities and their implications for long-term success**

Long-term success relies upon good relations with a range of different stakeholder groups both internal (workforce) and external (suppliers, customers, regulators and others). The board needs to identify the company's stakeholders and understand their needs, interests and expectations.

Where matters that relate to the company's impact on society, the communities within which it operates or the environment have the potential to affect the company's ability to deliver shareholder value over the medium to long-term, then those matters must be integrated into the company's strategy and business model.

Feedback is an essential part of all control mechanisms. Systems need to be in place to solicit, consider and act on feedback from all stakeholder groups.

Disclosure: The website should explain:

- how the business model identifies the key resources and relationships on which the business relies; and
- how the company obtains feedback from stakeholders and the actions that have been generated as a result of this feedback (e.g., changes to inputs or improvements in products).

4. Embed effective risk management, considering both opportunities and threats, through the organisation

The board needs to ensure that the company's risk management framework identifies and addresses all relevant risks in order to execute and deliver strategy; companies need to consider their extended business, including the company's supply chain, from key suppliers to end-customer.

Setting strategy includes determining the extent of exposure to the identified risks that the company is able to bear and willing to take (risk tolerance and risk appetite).

Disclosure: The annual accounts and report should describe how the board has embedded effective risk management in order to execute and deliver strategy. This should include a description of what the board does to identify, assess and manage risk and how it gets assurance that the risk management and related control systems in place are effective.

5. Maintain the board as a well-functioning, balanced team led by the chair

The board members have a collective responsibility and legal obligation to promote the interests of the company, and are collectively responsible for defining corporate governance arrangements. Ultimate responsibility for the quality of, and approach to, corporate governance lies with the chair of the board.

The board (and any committees) should be provided with high quality information in a timely manner to facilitate proper assessment of the matters requiring a decision or insight.

The board should have an appropriate balance between executive and non-executive directors and should have at least two independent non-executive directors. Independence is a board judgement.

The board should be supported by committees (e.g. audit, remuneration, nomination) that have the necessary skills and knowledge to discharge their duties and responsibilities effectively.

Directors must commit the time necessary to fulfill their roles.

Disclosure: The annual report and accounts should:

- identify those directors who are considered to be independent; where there are grounds to question the independence of a director, through length of service or otherwise, this must be explained;
- describe the time commitment required from directors (including non-executive directors as well as part-time executive directors); and
- include the number of meetings of the board (and any committees) during the year, together with the attendance record of each director.

6. Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities

The board must have an appropriate balance of sector, financial and public markets skills and experience, as well as an appropriate balance of personal qualities and capabilities. The board should understand and challenge its own diversity, including gender balance, as part of its composition.

The board should not be dominated by one person or a group of people. Strong personal bonds can be important but can also divide a board.

As companies evolve, the mix of skills and experience required on the board will change, and board composition will need to evolve to reflect this change.

Disclosure: The annual report and accounts should:

- identify each director;
- describe the relevant experience, skills and personal qualities and capabilities that each director brings to the board (a simple list of current and past roles is insufficient); the statement should demonstrate how the board as a whole contains (or will contain) the necessary mix of experience, skills, personal qualities (including gender balance) and capabilities to deliver the strategy of the company for the benefit of the shareholders over the medium to long-term;
- explain how each director keeps his/her skillset up-to-date;
- where the board or any committee has sought external advice on a significant matter, this must be described and explained;
- where external advisers to the board or any of its committees have been engaged, explain their role; and
- describe any internal advisory responsibilities, such as the roles performed by the company secretary and the senior independent director, in advising and supporting the board.

7. Evaluate board performance based on clear and relevant objectives, seeking continuous improvement

The board should regularly review the effectiveness of its performance as a unit, as well as that of its committees and the individual directors.

The board performance review may be carried out internally or, ideally, externally facilitated from time to time. The review should identify development or mentoring needs of individual directors or the wider senior management team.

It is healthy for membership of the board to be periodically refreshed. Succession planning is a vital task for boards. No member of the board should become indispensable.

Disclosure:

- The annual report and accounts should include a high level explanation of the board performance effectiveness process. Where a board performance evaluation has taken place in the year, a brief overview of it, how it was conducted and its results and recommendations should be provided. Progress against previous recommendations should also be addressed.
- The website should include a more detailed description of the board performance evaluation process/cycle adopted by the company. This should include a summary of (i) the criteria against which board, committee, and individual effectiveness is considered; (ii) how evaluation procedures have evolved from previous years, the results of the evaluation process and action taken or planned as a result; and (iii) how often board evaluations take place. The disclosure should also explain how the company approaches succession planning and the processes by which it determines board and other senior management appointments, including any links to the board evaluation process.

8. Promote a corporate culture that is based on ethical values and behaviours

The board should embody and promote a corporate culture that is based on sound ethical values and behaviours and use it as an asset and a source of competitive advantage.

The policy set by the board should be visible in the actions and decisions of the chief executive and the rest of the management team. Corporate values should guide the objectives and strategy of the company.

The culture should be visible in every aspect of the business, including recruitment, nominations, training and engagement. The performance and reward system should endorse the desired ethical behaviours across all levels of the company.

The corporate culture should be recognisable throughout the disclosures in the annual report, website and any other statements issued by the company.

Disclosure:

- The annual report and accounts disclosure should include in the chair’s corporate governance statement how the culture is consistent with the company’s objectives, strategy and business model in the strategic report and with the description of principal risks and uncertainties. The statement should explain what the board does to monitor and promote a healthy corporate culture and how the board assesses the state of the culture at present.

- The website should explain how the board ensures that the company has the means to determine that ethical values and behaviours are recognised and respected.

9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the board

The company should maintain governance structures and processes in line with its corporate culture and appropriate to its (i) size and complexity; and (ii) capacity, appetite and tolerance for risk.

The governance structures should evolve over time in parallel with its objectives, strategy and business model to reflect the development of the company.

Disclosure: The website should, in addition to the high level explanation of the application of the QCA Code set out in the chair's corporate governance statement (see further below):

- describe the roles and responsibilities of the chair, chief executive and any other directors who have specific individual responsibilities or remits (e.g., for engagement with shareholders or other stakeholder groups);
- describe the roles of any committees (e.g. audit, remuneration and nomination committees) setting out any terms of reference and matters reserved by the board for its consideration;
- describe which matters are reserved for the board; and
- describe any plans for evolution of the governance framework in line with the company's plans for growth.

10. Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

A healthy dialogue should exist between the board and all of its stakeholders, including shareholders, to enable all interested parties to come to informed decisions about the company.

In particular, appropriate communication and reporting structures should exist between the board and all constituent parts of its shareholder base. This will assist (i) the communication of shareholders' views to the board; and (ii) the shareholders' understanding of the unique circumstances and constraints faced by the company.

It should be clear where these communication practices are described (annual report or website).

Disclosure:

- The annual report and accounts should:
  - describe the work of any board committees undertaken during the year;
  - include an audit committee report (or equivalent report if such committee is not in place);

    - include a remuneration committee report (or equivalent report if such committee is not in place); and
    - if the company has not published one or more of the disclosures set out under Principles 1 to 9, the omitted disclosures must be identified and the reason for their omission explained.
- The website should:
    - disclose the outcomes of all votes in a clear and transparent manner;
    - where a significant proportion of votes (e.g., 20% of independent votes) have been cast against a resolution at any general meeting, the company should include, on a timely basis, an explanation of what actions it intends to take to understand the reasons behind that vote result, and, where appropriate, any different action it has taken, or will take, as a result of the vote; and
    - include historical annual reports and other governance-related material, including notices of all general meetings over the last five years.

CHAIRMAN’S CORPORATE GOVERNANCE STATEMENT

In addition to the disclosures, the correct application of the QCA Code also requires the company’s corporate governance statement to include a statement by the chair which:

- clearly articulates the chair’s role and demonstrates his/her responsibility for corporate governance;
- explains, at a high level, how the QCA Code is applied by the company and how its application supports the company’s medium to long-term success;
- explains in a clear and well-reasoned way, any areas in which the company’s governance structures and practices differ from the expectations set by the QCA Code; and
- identifies any key governance related matters that have occurred during the year, including any significant changes in governance arrangements.

The QCA recommends that the corporate governance statement should be included both in the annual report and on the company’s website.

DEMONSTRATING GOOD CORPORATE GOVERNANCE

The QCA Code states that good corporate governance is about having the right people with the necessary mix of skills and experience (in the right roles), working together, and doing the right thing to deliver value for shareholders as a whole over the medium to long term. Good corporate governance is achieved through a series of decisions made by the board, which needs to be kept dynamic and diverse and engender a consistent corporate culture throughout the organisation. The QCA further states that good corporate governance is about ensuring that the board is set up to make robust decisions and manage risk. It is also increasingly about ensuring that a healthy culture is in place which combines a strong focus on performance and a sense shared throughout the workforce of what is acceptable and what is unacceptable in terms of behaviour.

Good corporate governance must also be communicated effectively, which promotes trust among shareholders and other stakeholders. Corporate reporting should focus on the primacy of shareholders and the need to communicate clearly with them. To communicate effectively to existing and potential shareholders and other stakeholders requires the time commitment of the chair and the team supporting him or her. Whilst annual reports, the prospectus or admission documents are the starting point for linking governance to strategy, corporate performance and management of risk, a board must go further and decide how best to articulate its strategy, business model and corporate governance culture consistently across all publicly available information.