

CORPORATE GOVERNANCE

Introduction

Following a period of significant change the Board possesses an appropriate balance of skills and experience and is performing with increasing effect.



KEN LEVER CHAIRMAN

CHAIRMAN'S INTRODUCTION

The Group's detailed Annual Corporate Governance Report together with supporting reports from the Chairman of each of the Board's three principal committees and can be found on the following pages. These are intended to give shareholders an understanding of the Group's corporate governance arrangements and how they operated during the period. As Group Chairman it is, however, appropriate for me to provide some general overview and pick up on a number of key points.

CHANGE AND PERFORMANCE

The changes at Board level are detailed in the Annual Report of the Nomination Committee. The Board as now constituted incorporates a strong and appropriate balance of skills and experience. With such significant changes a period of adjustment is required, however, the Board is

performing with increasing effect. The review of effectiveness, which I led towards the end of the year, and which was then considered by the Board, is described in the Annual Governance Report. No major issues of concern were identified, although some areas for improvement were noted which will be addressed in 2018. Overall the exercise confirmed that progress has been made. Whilst we had previously contemplated undertaking an external review of performance we concluded that against the backdrop of the major changes of Board membership such an exercise would be premature. We will give further consideration to undertaking an externally facilitated review during 2018.

GOVERNANCE FRAMEWORK

The opportunity was also taken to review and clarify the overall governance framework within which the Board operates. The Board considered and adopted a charter within which the key elements of this framework are captured. The opportunity was taken to clarify the respective roles Chairman, Chief Executive and Non-Executives, as well as reviewing and updating Board Committee terms of reference. In addition the schedule of those matters that are reserved for the Board's decision was reviewed and updated to ensure that the Board has oversight in appropriate areas whilst vesting sufficient authority in the executive to enable effective day to day management of the Group. The Board will review its charter and the terms of reference on an annual basis.

The Board's agenda strikes an appropriate balance between review of performance as well as strategy, planning and the management of risk. Whilst in a people business risk management and internal control needs to remain an integral part of our culture the Group's formal systems of risk management and internal control continue to develop as outlined in the Annual Corporate Governance Report.

ENGAGEMENT

Notwithstanding the formal framework within which the Board operates, it is important that it remains connected with and understands the wider business. The strategy review that was conducted in the year is described elsewhere in the Annual Report, but it is pleasing that at the time the Board discussed the recommendations of the Executive, the Board actively engaged not only with the Executive Directors but also with the Group's principal business leaders. During 2018 the Board intends to meet at a number of the Group's business locations where the opportunity will be taken to fully engage with local management.

We will continue to strive to ensure that the Board achieves an appropriate balance of its corporate governance, business performance evaluation and strategy assessment activities.

KEN LEVER
Chairman

1 March 2018

CORPORATE GOVERNANCE

Annual Report

OVERVIEW AND COMPLIANCE

The Chairman's statement which appears on page 32 incorporates comments relating to the governance of the Group and provides a backdrop to this detailed report. During the year the Board considered and then adopted a charter incorporating the key aspects of the Group's governance arrangements. This includes the definition of roles, responsibilities and authorities as applicable to Board, its Committees and individual directors. The Board is pleased to report that throughout the year the Company complied with all provisions of the UK Corporate Governance Code 2016 (the 'Code') as applicable to a small market capitalisation company. This report and the following report of the Committee Chairmen describe the structures, processes and events through which compliance is achieved.

BOARD STRUCTURE

At the date of this report the Board comprised two Executive Directors, three Non-Executive Directors and the Chairman. Whilst this general structure has remained unchanged, a number of personnel changes occurred during the year. On 1 June 2017 John Bennett stood down as a Director with Allison Bainbridge being appointed with effect from the same date. Liz Peace joined the Board on 11 July 2017 and Louise Charlton retired as a director on 4 August 2017. In addition John Douglas joined the Board as Chief Executive Designate on 1 June 2017 and assumed the role as Chief Executive on 31 August 2017, at which time Alan Hearne retired as a Director.

The Board Charter referred to above incorporates descriptions of the distinct roles of the Chairman and Chief Executive. The Chairman provides leadership to the Board of Directors, sets its agenda and is responsible for its overall effectiveness and performance. This includes ensuring that all Directors are in receipt of timely information in order to take a full and constructive

part in Board discussions. The Chairman, with the involvement of the Executive Directors, also seeks to ensure effective communication with shareholders and will meet with major shareholders as reasonably required. The Chief Executive is responsible for all executive management matters within the Group. This incorporates the development of Group strategy, budgets and business plans as well as providing effective executive leadership and developing a culture which strikes an appropriate balance between entrepreneurship and the management of risk.

The role of the Non-Executive Directors is to provide independent and considered advice to the Board in matters of strategy, risk and performance, whilst providing governance oversight through operation of the Board's Committees. The Board is satisfied that all Non-Executives are independent and that there are no circumstances or relationships that may affect judgements. In particular none of the circumstances detailed in provision B.1.1 of the Code apply. The Chairman and the Non-Executive Directors are generally appointed for three-year terms, which may subsequently be extended. Any term beyond six years for a Non-Executive is rigorously reviewed, taking account of the requirement to refresh the Board.

The Senior Independent Director is available to shareholders who wish to raise concerns that cannot be resolved through the Chairman, Chief Executive or Finance Director. Robert Miller-Bakewell acted as the Senior Independent Director throughout the year. The Board is assisted by the Audit, Remuneration and Nomination Committees. Separate reports from each of these Committees can be found on pages 36 to 56. The Chairman of each Committee provides regular updates at Board meetings.

John Douglas, Allison Bainbridge and Liz Peace having been appointed during the year will all be subject to election at the forthcoming Annual General Meeting.

All Directors are subject to annual re-election by shareholders.

BOARD RESPONSIBILITIES

The Board Charter incorporates a comprehensive schedule of matters that are reserved for its decision and which include the following:

- determination of the Group's overall strategy
- the approval of annual budgets and business plans
- financial reporting including annual and half year results and market updates
- the recommendation and approval of dividends and other capital distributions
- the approval of material corporate transactions including all acquisitions
- the approval of policies and systems for risk management and internal control
- the appointment of key advisers to the Group
- the approval of major items of capital expenditure
- any substantive change in the nature of the Group's activities

Matters falling outside of the Board's reserved list are delegated to the Group executive under the leadership of the Chief Executive. Responsibilities are, subject to clear written limits, delegated further to the Group's Business segments and in turn within each segment. The Group Leadership Team, which meets regularly throughout the year, retains operational oversight of the Group's activities. This team currently consists of the Chief Executive, the Group Finance Director, the Group Marketing Director and the Group's four principal business leaders.

BOARD OPERATION

The Board has eight scheduled meetings during the year, but will meet on other occasions should circumstances require. The Board's agenda seeks to achieve a balance between review

of performance, the development of strategy, the management of risk and regulatory obligations. During the year the following items were considered at each meeting.

- Safety performance
- Financial and business performance
- Strategic priorities
- Emerging risks
- Material employment issues
- Significant litigation
- Investor and City relations

In addition and at the appropriate point the Board also considered.

- The Group's Annual Budget
- Significant Market Announcements
- Group results and the Annual Report and Accounts
- Board Performance
- Review of internal control and risk management
- Dividends and Dividend Policy
- Reports from Board Committee Chairmen
- Other matters reserved for Board approval

The Board also conducted a two day strategy workshop in conjunction with the Group's principal business leaders following which the strategic priorities described on pages 10 and 11 were endorsed.

Detailed papers are made available in advance of meetings in support of

relevant agenda items. During the year a Board portal through which papers are provided was adopted to improve speed and efficiency. The Company Secretary assists the Chairman in ensuring that Board procedures are followed and is available to assist directors generally as well as advising on matters of corporate governance.

Outside of Board meetings the Chairman has discussions with all Directors. The Chairman and Non-Executives meet without the Executive Directors present at least twice a year and the Non-Executives meet without the Chairman present at least once a year.

Each Director is required, in accordance with the Companies Act 2006, to declare any interests that may give rise to a conflict of interest with the Company on appointment and subsequently as they may arise. Where such a conflict, or potential conflict, arises the Board is empowered under the Company's articles of association to consider and authorise such conflicts as appropriate and subject to such terms as they think fit. No such conflict arose during the year under review.

There is an agreed procedure for Directors to take independent professional advice at the Company's expense. The Company maintains Directors and Officers liability insurance with a current limit of indemnity of £20m.

BOARD PERFORMANCE

The Board undertakes an annual appraisal of its performance. As indicated above, 2017 has been a year of significant Board change and transition. Against that background it was concluded that a highly structured evaluation process would be of limited value at this point. A process was, however, undertaken whereby the Chairman engaged with all of the Company's Directors across a range of topics to ascertain any areas of concern and suggestions. The results of this exercise were then reported to and discussed with the Board as a whole. A number of priorities and notably the following were identified from this process:

- more timely production of Board papers linked to accelerated financial reporting;
- more engagement with businesses through visits and management presentations;
- reviewing the knowledge and training needs of the Non-Executive Directors and
- improved process and communication protocol between the Board and its Committees.

The Board will keep progress in these areas under review. A more structured review, which may involve the use of an external facilitator; will be undertaken during 2018.

TRAINING

On appointment Directors receive information on the Company as well as the Board and its procedures. They also meet other members of the Board to be briefed on strategy, financial matters and other key issues. The foregoing applied to all Directors appointed during the year. Advice is available from the Company's solicitors, auditors and brokers if required. Updates are provided on key technical issues as required including those relating to corporate governance and corporate social responsibility. During the year the Chairman and Non-executive Directors met with and received presentations

	Full Board	Audit Committee	Remuneration Committee	Nomination Committee
Ken Lever	9	–	–	5
Alan Hearne*	6	–	–	–
John Douglas*	5	–	–	–
Gary Young	9	–	–	–
Robert Miller-Bakewell	9	3	8	5
John Bennett*	4	1	6	5
Louise Charlton*	5	–	7	5
Allison Bainbridge*	4	2	–	–
Liz Peace*	3	1	1	–
Number of meetings held	9	3	8	5

*served for part year only

from the Managing Directors of three of the Group's operating segments and engaged with the Group's various businesses more generally.

The Non-Executive Directors have access to a training academy managed by Deloitte LLP.

COMMUNICATION

The Company attaches great importance to communication with its shareholders and other stakeholders. In addition to regular financial reporting the Group website provides up-to-date information about its organisation, the services it offers and newsworthy subjects. The Company responds to enquiries from shareholders and others with an interest in the Group as required.

In addition to presentations of full and half-year results, the Executive Directors hold meetings with the Company's principal shareholders to discuss the Company's strategy and performance. The Chairman and Senior Independent Director also meet with major shareholders from time to time. An investor relations update is provided at all regular Board meetings to ensure that the Board is kept aware of the views of larger shareholders and the investment community generally.

The Chairman of each of the Board Committees attends the Annual General Meeting and is available to answer questions.

RISK MANAGEMENT AND INTERNAL CONTROLS

Overview

The Board retains overall responsibility for setting the Group's risk appetite as well as risk management and internal control systems. In accordance with this obligation the Board has throughout the year and up to the date of approval of the financial statements had procedures in place as recommended in the guidance in the UK Corporate Governance Code and the supporting document issued by the

Financial Reporting Council 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'. The principal risks to which the Group is exposed and the measures to mitigate such risks are described on pages 12 to 15.

The key procedures that the Directors have established to provide effective internal financial controls are as follows.

Financial reporting

The results for the Group are reported to and reviewed at each Board meeting. A detailed formal budgeting process for all Group businesses culminates in an annual Group budget which is approved by the Board.

Financial and accounting principles and internal financial controls assurance

The Group's accounting policies, principles and minimum standards required for effective financial control are communicated to all accounting teams. The Group Assurance Manager undertakes periodic detailed reviews at key centres within the Group to ensure that policies and procedures are being followed as well as to identify any control weaknesses or failings.

Capital investment

The Group has clearly defined guidelines for capital expenditure. These include detailed appraisal and review procedures as well as due diligence procedures in respect of potential business acquisitions.

Treasury

The Group operates a central treasury function that undertakes required borrowing and foreign exchange transactions as well as the daily monitoring of bank balances and cash receipts. Appropriate payment authorisation processes are in place in all parts of the Group. Trading in financial instruments is not permitted.

Base Controls

During the year the Group Assurance Manager commenced the introduction

of an internal control self-assessment system throughout the Group. This requires the Finance Directors of the Group's operating units to regularly assess the controls they operate against a standard set of base controls and to ensure that any shortcomings identified are mitigated or new controls put in place. The process of assessment and implementation of controls is underway and preliminary assessment indicates that appropriate controls are in place.

Delegated Authorities

A system of delegated authorities, whereby the incurring of expenditure and assumption of contractual commitments can only be approved by specified individuals and within pre-defined limits, is in place throughout the Group.

Review and reporting

Internal controls and in particular any failures are reported to and reviewed at Group and operating Board meetings in order that changes to systems can be implemented where required. The Audit Committee also maintains a brief to keep the overall systems of internal control under review. During the year a detailed review of the Group's system of internal control and risk management was undertaken and reviewed by the Board. The Board and the Audit Committee were satisfied that the systems in place are appropriate and effective.

The respective responsibilities of the Directors and the independent auditors in connection with the accounts are explained on pages 29 to 30 and 62 and the statement of the Directors in respect of going concern appears on page 29. The long term viability statement is set out on page 15.

TAKEOVER DIRECTIVE

Disclosures required under the Takeover Directive are included on pages 30 and 31 and form part of the Group's Corporate Governance report.