

## **Statement of Compliance with the QCA Corporate Governance Code**

### **Chairman's Introduction**

It is the Board's job to ensure that the Arricano Group is managed for the long-term benefit of all shareholders, with the effective and efficient decision-making process. Corporate governance is an important part of that job, reducing risks and adding value to our business.

AIM Rule 26 requires AIM companies to adopt a recognised corporate governance code. The Arricano Board has decided to adopt the Quoted Companies Alliance (QCA) Corporate Governance Code (QCA Code). This Statement sets out how the Company currently complies, and does not comply with the QCA Code.

Philip Scales

### **Independent Non-Executive Director Interim Chairman**

Arricano or the Group or the Company means Arricano Real Estate PLC or the group of companies controlled by it.

### **DELIVER GROWTH**

<b>QCA Code Principle</b>	<b>How the Principle Should be Applied</b> (as set out by the QCA Corporate Governance Code)	<b>What We Do and Why</b>
<b>1. Establish a strategy and business model which promote long-term value for shareholders</b>	The board must be able to express a shared view of the company's purpose, business model and strategy. It 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-	The Group strategy is explained fully within the Chairman's Statement and Chief Executive Officer's Report (pages 1-5) of our Annual Report for the year ended 31 December 2017.  <a href="https://arricano.com/storage/reports/432.pdf">https://arricano.com/storage/reports/432.pdf</a>  The Group strategy is to increase the appeal of each shopping centre in the portfolio. Arricano's long-term strategy remains focused on developing and

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	term future.	<p>protecting value of the portfolio. Key metrics of visitor numbers and occupancy demonstrate the success of the management's strategy to date.</p> <p>However, retail is a fastmoving world and the Company is focused on anticipating future trends and ensuring that Arricano centres maintain their strong appeal.</p> <p>The key challenges to our business are:</p> <ul style="list-style-type: none"> <li>- low purchasing power of Ukrainian people, which ultimately limits the Group's opportunities for establishing higher rent rates;</li> <li>- political situation and economic environment in Ukraine.</li> </ul> <p>From the above, it is clear that the majority of the risks the Group faces are country specific. However, mitigating steps taken by the Company enable these risks to kept under control and limit their exposure where possible.</p> <p>In particular, in order to increase rent rates and the Group's income, the Company established education courses for the tenants and focused, being the pioneer in this area, on the revenue share model.</p> <p>Strong focus is also given to the Group's marketing programs. Our marketing strategy aims to attract and retain visitors and</p>

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		decrease tenant turnover. The main focus is on the shopping and entertainment centre development with the new brand attributes as the comfortable social space.
<p><b>2. Seek to understand and meet shareholder needs and expectations</b></p>	<p>Directors must develop a good understanding of the needs and expectations of all elements of the company's shareholder base.</p> <p>The board must manage shareholders' expectations and should seek to understand the motivations behind shareholder voting decisions.</p>	<p>The Board is committed to the continuous growth of Arricano's business. Company revenue grew by 19 per cent during 2017 and it is expected that it will continue to do so in future.</p> <p>The Group encourages communication with investors and responds quickly to all queries received. The Chairman, the Chief Executive Officer and the Chief Financial Officer talk regularly with the Group's major shareholders and ensure that their views are communicated fully to the Board.</p> <p>The Board recognizes the Annual General Meeting ("AGM") as an important opportunity to meet shareholders. The Directors may be available to listen to the views of shareholders informally immediately following the AGM.</p> <p>Where voting decisions are not in line with the Company's expectations the Board will contact those shareholders to understand and address any issues. This has not been required to date.</p>
<p><b>3. Take into account wider stakeholder</b></p>	<p>Long-term success relies upon good</p>	<p>The Arricano Group is committed to sustainability progress in all aspects of our</p>

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<p><b>and social responsibilities and their implications for long-term success</b></p>	<p>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.</p> <p>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.</p> <p>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.</p>	<p>business.</p> <p>Engaging with our stakeholders strengthens our relationships and helps us make better business decisions to deliver on our commitments. The Board is regularly updated on wider stakeholder engagement feedback to stay abreast of stakeholder insights into the issues that matter most to them and our business, and to enable the Board to understand and consider these issues in decision-making.</p> <p>In addition to its shareholders, the Group believes its main stakeholder groups are its employees, tenants, suppliers, service providers, visitors, partners and the communities we work in.</p> <p>The representatives of the Group regularly collect feedback from stakeholders as described below, in particular, from different surveys, marketing and social research, face-to-face meetings, feedback provided via social media platforms (Facebook etc.), e-mail communications and feedback from our website.</p> <p>Among our service providers and partners, we would like to highlight the Company's Nominated Adviser and the Corporate Secretary with whom the Board representatives and the Company's executives continuously communicate and work with in order to ensure compliance of the Group operations with the requirements</p>

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		<p>of AIM. Such dialogue helps the Group in its strategy and aim to become the long term-trusted partner for the shareholders.</p> <p>Aside from our shareholders, suppliers and tenants, our employees are one of our most important stakeholder groups and the Chief Executive Officer collects and analyses results of the Company's employee engagement surveys to get employees feedback on number of aspects of employment with the Group and the employees' representatives meet to discuss business related issues.</p> <p>The Group encourages feedback from its tenants through email communication, website, collaborative events, face-to-face calls and discussions. We collect the visitors thoughts from marketing and social research, media projects, special events and social media such as Facebook, YouTube and Instagram.</p> <p>The Group recognises the increasing importance of corporate social responsibility and endeavours to take it into account when operating its business.</p> <p>In 2017 the Group started the educational project "Business to Students by Arricano" ("B2S by Arricano"). The aim of this project is to inspire Ukrainian students, allow them to meet successful people, visionaries from different industries and give practical lessons on how to start their own businesses, search for reputable jobs or</p>

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		<p>enter the retail industry.</p> <p>The Group aims to conduct its business with integrity, respecting the different cultures and the dignity and rights of individuals. The Group treats each person equally irrespectively of its origin, nationality, gender, religious beliefs and sexual orientation.</p> <p><b>Health and safety</b></p> <p>The Group is committed to ensuring the highest standards of health and safety, for all employees, tenants and the visitors.</p> <p>The Group has signed the Memorandum “On Comprehensive Fire Safety Measures in Ukrainian Shopping Centers and Shopping Malls”, which confirms that comprehensive fire safety measures are observed at the Company's facilities, in particular fire safety systems' signs are functioning, the status and testing of all fire-fighting equipment is regularly checked,, personnel and evacuation training for employees, tenants and visitors are also held periodically.</p> <p>The Group seeks to meet legal requirements aimed at providing a healthy and secure working environment to all employees, visitors and tenants and understands that successful health and safety management involves integrating</p>

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		<p>sound principles and practice into its day-to-day management arrangements and requires the collaborative effort of all parties.</p> <p><b>Environment</b></p> <p>The Company is committed to minimising the impact of the Group's operations on the environment. The Group recognises that its business activities have an influence on the local, regional and global environment and accepts that it has a duty to carry these out in an environmentally responsible manner. The Group continuously participates in different events devoted to environmental safety, studying environmental cases and implementing them. In particular, the Group encourages separate collection of waste at the malls and offices and encourages its employees to responsibly use office facilities (re-use paper, print at both sides etc.).</p>
<p><b>4. Embed effective risk management, considering both opportunities and threats, throughout the organisation</b></p>	<p>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.</p> <p>Setting strategy includes determining the extent of exposure to the identified risks that the company is able to bear and</p>	<p>The Company has an established framework of internal financial controls, the effectiveness of which is regularly reviewed by the Board and the Audit Committee in light of an ongoing assessment of significant risks facing the Company.</p> <p>The Board recognises that maintaining sound controls and discipline is critical to managing the downside risks to our plan.</p> <p>The Board has ultimate responsibility for the</p>

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	willing to take (risk tolerance and risk appetite).	<p>Group's system of internal control and for reviewing its effectiveness. However, any such system of internal control can provide only reasonable, but not absolute, assurance against material misstatement or loss. The Board considers that the internal controls in place are appropriate for the size, complexity and risk profile of the Group. The principal elements of the Group's internal control system include:</p> <ul style="list-style-type: none"> <li>- Close management of the day-to-day activities of the Group by the Executive Director;</li> <li>- An organisational structure with defined levels of responsibility, which promotes entrepreneurial decision-making and rapid implementation while minimising risks;</li> <li>- A comprehensive annual budgeting process producing a detailed integrated profit and loss, balance sheet and cash flow, which is approved by the Board;</li> <li>- Detailed monthly reporting of performance against budget;</li> <li>- Central control over key areas such as capital expenditure authorisation and banking facilities;</li> <li>- Multi-stage system of internal approval of documentation to be executed and actions to be performed by the Group.</li> </ul> <p>The Group continues to review its system of internal control to ensure compliance with best practice, while also having regard to its size and the resources available.</p>

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		<p>The Board is committed to maintaining appropriate standards for all the Company's business activities and aiming to set out these standards in written policies of the Group or of the Company's subsidiaries. The Group has adopted the Rules Applicable to Approval of the Main Documents (the Document Approval Policy), the Tender Policy, the IT Policy as well as number of other policies related to daily operations.</p> <p>All material contracts are required to be reviewed by the Chief Financial Officer and the Chief Executive Officer.</p> <p>The executive management regularly identify the key risks, they are re-assessed, and potential mitigating actions are considered and implemented to help protect against those risks.</p>

**MAINTAIN A DYNAMIC MANAGEMENT FRAMEWORK**

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<p><b>5. Maintain the board as a well-functioning, balanced team led by the chair</b></p>	<p>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,</p>	<p>The Company is overseen by the Board of Directors.</p> <p>Philip Scales, being the Independent Non-Executive Director, is responsible for the running of the Board and Mykhailo Merkulov,</p>

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	<p>and approach to, corporate governance lies with the chair of the board.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>Directors must commit the time necessary to fulfill their roles.</p>	<p>the Chief Executive Officer, has executive responsibility for running the Group's business and implementing the Group's strategy.</p> <p>All Directors receive regular and timely information on the Group's operational and financial performance. Relevant information is circulated to the Directors from time to time in advance of the meetings. All Directors have direct access to the advice and services of the Company Secretary and are able to take independent professional advice in the furtherance of the duties, if necessary, at the Company's expense.</p> <p>The Board comprises four Non-Executive Directors and one Executive Director. The Board has determined that Mr. Philip Scales (Non-executive Chairman) and Mr. Michael Zampelas (Non-executive Director) are independent in character and judgement and that there are no relationships or circumstances which could materially affect or interfere with the exercise of their independent judgement.</p> <p>Mr. Philip Scales (Non-executive Chairman) is continuously communicating with the CEO of the Group, mentoring him and providing valuable advice, he is expected to devote at least 20 days to the Group per annum.</p> <p>The other Board members regularly communicate with each other and with the CEO as well as attending Board meetings. Generally, each director is expected to devote approximately 20 days to the Group per annum.</p>

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		<p>The Board has established an Audit and a Remuneration Committee, with specific duties and responsibilities. The directors do not consider that, given the size of the Board, it is appropriate at this stage to have a nomination Committee. However, this will be kept under regular review by the Board.</p>
<p><b>6. Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities</b></p>	<p>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.</p> <p>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.</p> <p>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.</p>	<p>The Board is satisfied that, between the Directors, it has an effective and appropriate balance of skills and experience, including in the areas of rent, retailing, development, finance, innovation and marketing.</p> <p>The biographical details of the Directors are set out below.</p> <p><b>Interim Non-executive Chairman</b></p> <p>Mr. Philip Scales is Deputy Chairman of FIM Capital Limited (formerly IOMA Fund and Investment Management Limited ("FIM"). FIM specializes in the provision of third-party fund administration and investment management services. Prior to this, Philip spent 18 years as Managing Director of Northern Trust International Fund Administration Services (Isle of Man) Limited (formerly Barings (Isle of Man) Limited). He has over 38 years' experience working offshore, primarily in corporate and mutual fund administration, and currently holds a number of directorships of listed companies. FIM provides secretarial and administrative services to a number of listed companies. Philip is a Fellow of the Institute of Chartered Secretaries and Administrators. Mr. Philip Scales also holds the position of the member of the Audit Committee and the Chairman of the Remuneration Committee.</p>

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		<p><b><i>Independent Non-executive Director</i></b>  Mr. Michael Zampelas, together with his associates, established Coopers &amp; Lybrand in Cyprus and Athens in 1970. He served the firm as its Chairman and Chief Executive Officer from its establishment in 1970 until 2001 (latterly as PricewaterhouseCoopers) and as a Non-executive Chairman from 2002 until 2005. He also served as an elected member of the board of the European Organization of Coopers &amp; Lybrand Europe from 1991 to 1999. Michael served as Chairman of the Board of a number of local government authorities and companies. Currently, he is the independent Non-executive Vice Chairman of Eurobank Cyprus Limited and the Member of the Board of the Russian transport company, Globaltrans Investment Plc, listed on the Main Market of the London Stock Exchange. Also Michael acted as the Board's Non-executive Chairman of Globaltrans Investment Plc for a period of three years and as the Chairman of the Audit Committee for the first five years. He was Mayor of Nicosia from 2002 to 2006. Since 1997, he has been the Honorary Consul General of Estonia in Cyprus, contributing to the development of the commercial and cultural relations between the two countries. He has played a significant role in the promotion of education, culture, community affairs and business in Cyprus. He is a Fellow of the Institute of Chartered Accountants in England and Wales.</p> <p><b><i>Non-executive Director</i></b>  Mr. Volodymyr Tymochko is a Managing Director of Private Equity, and a Partner at</p>

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		<p>Dragon Capital. At this position he is responsible for investment management of DUPD – an AIM-listed property investment company with active real estate projects in Ukraine. Prior to joining Dragon AM Volodymyr was an Associate Director for Consulting and Investment Services at Colliers International. Volodymyr graduated from the National University of Kyiv-Mohyla Academy and holds an MA degree in Economic Theory.</p> <p><b>Chief Executive Officer</b></p> <p>Mr. Mykhailo Merkulov graduated from Romano-Germanic Philology Department of Kharkiv State University in 1996, and received an MBA from Manchester Business School in the UK in 2007. Mykhailo has 20 years' experience across different industries operating in Central and Eastern Europe countries (Ukraine, Russia, Bulgaria, Serbia, Slovenia and Austria). His career started in 1996 when he joined McDonald's, in Ukraine, where he worked for 9 years on various middle-level and, later, top management positions. After nine years of being with McDonald's, Mykhailo joined Food Star (Russia) in the capacity of Chief Executive Officer. In 2007 Mykhailo joined Erste Group Immorent AG in Ukraine, a specialist in real estate financing, infrastructure financing and project development, as Managing Director. In 2011 he became Regional Director for the Eastern European Group (Ukraine, Poland, Bulgaria, Serbia, and Slovenia). As of September 8, 2014, Mykhailo Merkulov has been appointed to the position of the Chief Executive Officer of Arricano Real Estate plc and as of 16 April 2015 was appointed to hold</p>

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		<p>the position of the Director of the Board. His competence covers strategic planning and the Company's business operations control.</p> <p><b>Non-executive Director</b>  Mr. Juri Pold as a construction and development professional has more than 20 years of experience working for European companies and respectively the best practices and best European approaches to construction of civil (non-residential) projects. Juri graduated from the Estonian Agricultural University as a civil engineer in 1991. Mr Pold started his professional career in 1990 as project manager. In 1997 Juri joined Skanska, a world leading project development and construction group based in Sweden. Among the main achievements of Juri in Skanska was development of several infrastructural nationwide projects in Finland and Estonia. Since 2007 Mr. Pold acted as a construction director of Expert Capital Management OU: it was an active start of expanding the development projects of shopping malls in Ukraine. Mr Pold occupied the position of construction director till 2009. During this period, Juri in cooperation with the team of international professionals engaged by Expert Capital Management OU worked on commercial real estate projects in Ukraine and Estonia. As a result, one of the first professional malls named - "Sun Gallery" Shopping and Entertainment Center was opened in 2008 in Kryvyi Rih, Ukraine.</p> <p>In 2013 Mr. Pold continued his career as a consultant, where his competence in construction and investments support the companies' development strategies.</p>

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		<p>By joining the Board of Directors of Arricano Real Estate Plc Mr. Juri Pold has strengthened the team of professionals engaged in management and supervision of the Company's strategic development and expansion.</p> <p>The Company does not have a diverse board with regard to gender however will keep this under review going forward.</p>
<p><b>7. Evaluate board performance based on clear and relevant objectives, seeking continuous improvement</b></p>	<p>The board should regularly review the effectiveness of its performance as a unit, as well as that of its committees and the individual directors.</p> <p>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.</p> <p>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.</p>	<p>The Board takes into account the performance of its individual Directors internally before taking decisions on their re-appointment, to ensure that their performance is and continues to be effective, that where appropriate they maintain their independence and that they are demonstrating continued commitment to the role.</p> <p>In addition to that, the Board evaluates performance of the Chief Executive Officer taking into consideration fulfillment of the Company's annual goals. The Company didn't adopt the strict performance evaluation procedure with the criteria against which effectiveness is considered and with frequency of evaluation process, because it believes that its internal approaches of succession planning and the processes by which the Board and other senior management appointments are determined constitutes enough motivation and</p>

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		<p>performance assessment system which results in achievement in the Company's goals and the constant growth.</p> <p>The Company does not regularly review the performance of its committees or individual directors other than described above.</p> <p>The Board does not regularly review and assess the performance of its Directors as the two independent directors are considered very experienced in their field and highly knowledgeable regarding the corporate governance and the financial matters. The two non-independent Directors were approved by the Board at the time of their appointment by their respective shareholders. The performance of the CEO who is also the Executive Director is regularly reviewed by the Board through the business and the policy updates he provides.</p>
<p><b>8. Promote a corporate culture that is based on ethical values and behaviours</b></p>	<p>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.</p> <p>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.</p> <p>Corporate values should guide the objectives and strategy of the company.</p>	<p>The Board aims to lead by example and do what is in the best interests of the Company. The culture of the Group is to go the extra mile for its customers, suppliers and shareholders.</p> <p>In order to increase our tenants and visitors bases which are loyal to the Group, it is vital that all our employees act in a way that reflects the values of our business.</p> <p>Our corporate behavior guidelines, which is</p>

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	<p>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.</p> <p>The corporate culture should be recognisable throughout the disclosures in the annual report, website and any other statements issued by the company.</p>	<p>read by all employees as part of their induction, provide further specific details of aforementioned values, and principles of ethical behavior promoted in the Group.</p> <p>The Group communicates with its visitors and shoppers both online (via social networks, internet platforms, internet forums etc.) and offline in its malls. Online we provide B2C communication, promotion and feedback in relation to the goods and the services of the tenants. Online communication helps to attract the visitors to the malls for shopping.</p>
<p><b>9. Maintain governance structures and processes that are fit for purpose and support good decision- making by the board</b></p>	<p>The company should maintain governance structures and processes in line with its corporate culture and appropriate to its:</p> <ul style="list-style-type: none"> <li>• size and complexity; and</li> <li>• capacity, appetite and tolerance for risk.</li> </ul> <p>The governance structures should evolve over time in parallel with its objectives, strategy and business model to reflect the development of the company.</p>	<p>The Board is responsible for the long-term success of the Company. There is a formal schedule of matters reserved to the Board. It is responsible for overall Group strategy; approval of major investments (whether Capex or Opex); approval of the annual and interim results; annual budgets; dividend payments; and Board structure. It monitors the exposure to key business risks and reviews the strategic direction of all operating subsidiaries, their annual budgets and their performance in relation to those budgets. There is a clear division of responsibility at the head of the Company. The Chairman is responsible for running the business of the Board and for ensuring appropriate strategic focus and direction. The Chief Executive Officer is responsible for implementing the Company's strategy once it has been approved and overseeing the management of the Company.</p> <p>All Directors receive regular and timely information on the Group's operational and</p>

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		<p>financial performance. Relevant information is circulated to the Directors in advance of the meetings. The business reports monthly on its headline performance against its agreed budget, and the Board regularly reviews the updates on performance and any significant variances are reviewed at the meetings. Senior executives below Board level attend Board meetings where appropriate to present business updates or any issues regarding their zone of responsibility.</p> <p>The Remuneration Committee comprises three non-executive directors. It is chaired by Mr. Philip Scales; Mr. Michael Zampelas and Mr. Volodymyr Tymochko are the other members. The committee is responsible for the review and recommendation of the scale and structure of remuneration for the Executive Directors and the Chairman, including any bonus arrangements or the award of share options with due regard to the interests of the shareholders and the performance of the Company.</p> <p><b>Audit Committee</b></p> <p>The Audit Committee comprises three non-executive directors. It is chaired by Mr. Michael Zampelas; Mr. Philip Scales and Mr. Volodymyr Tymochko are the other members. The Audit Committee meets not less than twice a year. The committee is responsible for making recommendations to the Board on the appointment of the auditors and the audit fee and for monitoring the integrity of the financial statements of the Company. In addition, the Audit Committee will receive and review reports from the management and the auditors relating to the</p>

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		interim report, the annual report and accounts and shall review the internal controls and risk management systems of the Company. The audit committee held 2 meetings during 2017 and 2 meetings during 2018.

### **BUILD TRUST**

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<p><b>10. Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.</b></p>	<p>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.</p> <p>In particular, appropriate communication and reporting structure should exist between the board and all constituent parts of its shareholder base. This will assist:</p> <ul style="list-style-type: none"> <li>the communication of shareholders' views to the board; and</li> <li>the shareholders' understanding of the unique circumstances and constraints faced by the company.</li> </ul> <p>It should be clear where these communication practices are described (annual report or website).</p>	<p>The Company communicates with shareholders through the Annual Report and Accounts, website, full-year and half-year announcements, the AGM and one-to-one meetings with large existing or potential new shareholders.</p> <p>The Company encourages two-way communication with investors and aims to respond quickly to all queries received. The Board Members talk regularly with the Group's major shareholders and ensures that their views are communicated fully to the Board.</p> <p>The Board recognizes the AGM as an important opportunity to meet private shareholders. The Directors are available to listen to the views of shareholders informally immediately following the AGM.</p>