

## **Produce Investments plc**

Statement of compliance with the QCA Corporate Governance Code

### **Chairman's Introduction**

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

*Barrie Clapham*

*Chairman*

### **Changes to corporate governance regime**

The Board has adopted the Quoted Companies Alliance (QCA) Corporate Governance Code in line with the London Stock Exchange's recent changes to the AIM Rules requiring all AIM-listed companies to adopt and comply with a recognised corporate governance code. Our annual report sets out in broad terms how we comply at this point in time. We will provide annual updates on our compliance with the code.

### **Principle 1: Establish a strategy and business model which promote long-term value for shareholders**

The Company is a leading operator in the fresh potato and daffodil sectors with operations throughout the UK in seed production, growing, packing and processing. We serve a number of market sectors including retail, food service, wholesale and export of seed potatoes and daffodil flowers and bulbs to various territories. Outside of the UK, we operate an ethylene storage and ripening business.

Our strategy is to significantly grow the scale and profitability of the business by acquiring quality businesses that offer synergies, coupled with product and customer diversification, whilst at the same time funding organic growth strategies.

### **Principle 2: Seek to understand and meet shareholder needs and expectations**

The Company remains committed to listening and communicating openly with its shareholders to ensure that its strategy, business model and performance are clearly understood. Understanding what analysts and investors think about us, and in turn, helping these audiences understand our business, is a key part of driving our business forward and we actively seek dialogue with the market. We do so via investor roadshows, attending investor conferences and our regular reporting.

The AGM is the main forum for dialogue between shareholders and the Board. The Notice of Meeting is sent to shareholders at least 21 days before the meeting. All Directors routinely attend the AGM and are available to answer questions raised by shareholders. For each vote, the number of

proxy votes received for, against and withheld is announced at the meeting. The results of the AGM are subsequently published on the Company's corporate website.

In addition, the Directors actively seek to build a relationship with institutional shareholders. Shareholder relations are managed primarily by the Chief Executive Officer and Finance Director, supported by the Chairman, as appropriate. The Chief Executive Officer and Finance Director make presentations to institutional shareholders and analysts each year immediately following the release of the full-year and half-year results.

The Board as a whole is kept informed of the views and concerns of shareholders. Any significant investment reports from analysts are also circulated to the Board. The Non-Executive members of the Board are available to meet with shareholders if required to discuss issues of importance to them.

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

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. Aside from our shareholders, suppliers and customers, our employees are one of our most important stakeholder groups, and the Board therefore closely monitors and reviews the results of the Company's Employee Engagement survey – Your Voice, as well as any other feedback it receives to ensure alignment of interests.

#### *Employees*

Over the past year we have:

- Published our 2<sup>nd</sup> Modern Slavery Act Statement.
- Published our 1<sup>st</sup> Gender Pay Gap report.
- Arranged for our Employee Engagement survey – Your Voice – to be undertaken.
- Revised our Data Protection Policy and Procedures in light of GDPR.
- Enhanced our behavioural safety programme – Protect – to ensure even greater employee awareness and participation.

#### *Suppliers*

Over the past year we have:

- Engaged with suppliers, ensuring that they are kept fully updated with current market trends and consumer preferences.
- Review all supplier programmes annually to ensure they meet the correct profile of product type for current market requirements.
- Updated suppliers on new technologies and varieties, together with changes in compliance requirements whether stipulated by customers or changes in legislation.

- Continuously reviewed communication and information flows to ensure best links to all stakeholders within the business such as discussion groups where best practice can be shared.

#### *Customers and communities*

Over the past year we have:

- Explored the options to reduce our use of plastics within our supply chain, including packaging on our incoming materials and also on our finished goods. We are working closely with our packaging and machinery suppliers and with our retail customers to find both alternatives to plastic packaging and fully curb-side recyclable substrates for our potato packaging.
- Implemented a zero waste to landfill policy across all of our fresh packing sites. This includes a waste tracking system which ensures all waste is recorded leaving the site through to the final destination, ensuring that nothing is sent to landfill by third parties. Through this policy we are able to understand where waste is generated and we can set targets to prevent waste entering our sites which is our ultimate goal.
- Reviewed supply chain opportunities to reduce cost and waste in store from surplus stocks. Where in house surplus stock is generated, we have an agreement to send this to Fairshare, a charitable food bank.

#### *Modern Slavery*

We oppose modern slavery in all its forms and will try to prevent it by any means that we can. We expect anyone who has any suspicions of modern slavery in our business or our supply chain to raise their concerns without delay.

We undertake to that we will keep any information provided completely confidential. Produce Investments plc maintains relationships with many different organisations in its supply chain, as well as directly employing over 1,600 people worldwide. In the light of the Modern Slavery Act 2015 we annually review internal measures to ensure we are doing what we can to prevent slavery and human trafficking in our businesses and in our supply chains. Our policy is available on the plc website: [www.produceinvestments.co.uk](http://www.produceinvestments.co.uk).

#### **Principle 4: Embed effective risk management, considering both opportunities and threats, throughout the organisation**

##### *Audit, risk and internal control*

##### *Financial controls*

The Company has a framework of internal financial controls.

- The Board is responsible for reviewing and approving overall Company strategy, approving revenue and capital budgets and plans, and for determining the financial structure of the Company including treasury, tax and dividend policy. Monthly results and variances from plans and forecasts are reported to the Board.

- The Audit Committee assists the Board in discharging its duties regarding the financial statements, accounting policies and the maintenance of proper internal business, and operational and financial controls, including the review of results of work performed by the Group controls function.
- There are comprehensive procedures for budgeting and planning, for monitoring and reporting to the Board business performance against those budgets and plans, and for forecasting expected performance over the remainder of the financial period. These cover profits, cash flows, capital expenditure and balance sheets. Monthly results are reported against budget and compared with the prior year, and forecasts for the current financial year are regularly revised in light of actual performance.
- The Company has a consistent system of prior appraisal for investments, overseen by the Finance Director and Chief Executive Officer, with defined financial controls and procedures with which each business area is required to comply in order to be granted investment funds for development.
- Regular post-investment reviews are also carried out to check the delivered Return on Investment.

#### *Non-financial controls*

The Board recognises that maintaining sound controls and discipline is critical to managing the risks faced by our business.

The Board has ultimate responsibility for the 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:

- Close management of the day-to-day activities of the Group by the Executive Directors.
- An organisational structure with defined levels of responsibility, which promotes entrepreneurial decision-making and rapid implementation while minimising risks.
- A comprehensive annual budgeting process producing a detailed integrated profit and loss, balance sheet and cash flow, which is approved by the Board.
- Detailed monthly reporting of performance against budget.
- Central control over key areas such as capital expenditure authorisation and banking facilities.
- A Group General Legal Counsel to ensure legal risk is properly managed and legal rigour is enforced in all our business negotiations.

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. As part of the Group's review, a number of non-financial controls covering areas such as regulatory compliance, business integrity, health and safety, risk management, business continuity and corporate social responsibility (including ethical trading, supplier standards, environmental concerns and employment diversity) have been assessed. The key elements of those non-financial controls are set out below.

#### *Standards and policies*

The Board is committed to maintaining appropriate standards for all the Company's business activities and ensuring that these standards are set out in written policies. Key examples of such standards and policies include the Modern Slavery Policy and our Employee Codes of Conduct.

#### *Approval process*

All material contracts are required to be reviewed and approved by our General Legal Counsel.

#### *Re-assessment*

The Company has a Business Risk Register with business continuity plans to address key risks that have an immediate impact. Risks facing the business are re-assessed, and potential mitigating actions are considered and implemented to help protect against those risks.

#### *Codes of Conduct*

Our Employee Codes of Conduct include guidance on anything that could get our employees into trouble, (including business integrity, anti-bribery, gifts, intellectual property and design rights). As a collection of policies, they are sent and/or available to everyone in the Group and are visible in all workplaces.

#### *Legal controls*

The Group has appointed an independent Company Secretary and General Legal Counsel. The General Legal Counsel advises all companies within the Group.

### **Principle 5: Maintaining the Board as a well-functioning, balanced team led by the Chair**

The Board comprises the Non-Executive Chairman, two Executive Directors, three Non-Executive Directors and the Company Secretary. Billy Keane has been appointed Chair of the Audit Committee, with Liz Kynoch Chair of the Remuneration Committee. The Board considers, after careful review, that the Non-Executive Directors bring an independent judgement to bear, with two of its four Non-Executive Directors independent.

The Board is satisfied that it has a suitable balance between independence on the one hand, and knowledge of the Company on the other, to enable it to discharge its duties and responsibilities effectively.

All Directors are encouraged to use their independent judgement and to challenge all matters, whether strategic or operational. During the year eight Board meetings took place. All Board members attended all meetings they were invited to.

Key Board activities this year included:

- Continued an open dialogue with the investment community
- Considered our financial and non-financial policies, including the policies around the gender pay gap
- Discussed strategic priorities

- Discussed the Group's capital structure and financial strategy, including capital investments, shareholder returns and the dividend policy
- Discussed internal governance processes
- Reviewed the Group risk register
- Reviewed feedback from shareholders post full and half year results

#### *Directors' conflict of interest*

The Company has effective procedures in place to monitor and deal with conflicts of interest. The Board is aware of the other commitments and interests of its Directors, and changes to these commitments and interests are reported to and, where appropriate, agreed with the rest of the Board.

#### **Principle 6: Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities**

The Board is satisfied that, between the Directors, it has an effective and appropriate balance of skills and experience, including in the areas of retailing, produce, finance and innovation. All Directors receive regular and timely information on the Group's operational and financial performance. Relevant information is circulated to the Directors in advance of meetings. The business reports monthly on its headline performance against its agreed budget, and the Board reviews the monthly update on performance and any significant variances are reviewed at each meeting.

All Directors retire by rotation at regular intervals in accordance with the Company's Articles of Association.

#### *Appointment, removal and re-election of Directors*

The Board makes decisions regarding the appointment and removal of Directors, and there is a formal, rigorous and transparent procedure for appointments. The Company's Articles of Association require that one-third of the Directors must stand for re-election by shareholders annually in rotation; that all Directors must stand for re-election at least once every three years; and that any new Directors appointed during the year must stand for election at the Annual General Meeting immediately following their appointment. Billy Keane, was appointed Non-Executive Director on 11 June 2018. Angus Armstrong and Liz Kynoch will retire by rotation this year, and, being eligible, offer themselves for re-election. Billy Keane will offer himself for election.

#### *Independent advice*

All Directors are able to take independent professional advice in the furtherance of their duties, if necessary, at the Company's expense. In addition, the Directors have direct access to the advice and services of the Company Secretary and General Legal Counsel.

#### **Principle 7: Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement**

Over the next 12 months we intend to review the performance of each member of the Board, to ensure:

- Their contribution is relevant and effective
- That they are committed
- Where relevant, they have maintained their independence

In addition, we will look at the team as a unit to ensure that the members of the Board collectively function in an efficient and productive manner.

### **Principle 8: Promote a culture that is based on ethical values and behaviours**

Our vision is to continue to demonstrate our commitment to the environment, our people and the community, whilst working towards our company's vision in line with our core values. In order to achieve this, we have identified four key areas of focus:

#### *Environment*

- ISO14001 Environmental Management certification for our 2 potato packing sites.
- Green20 our multi-award winning Environmental initiative, designed to reduce water use by 35% and carbon emissions by 30% vs. 2014 levels, while also eliminating all waste to landfill and generating 35% of our electricity requirements from renewable sources by 2020.

#### *People*

- Health & Safety – OHSAS 18001 occupational health and safety management accreditation.
- Learning & Development.
- Employee engagement through quarterly meetings, group intranet, company newspaper and employee engagement survey – Your Voice.
- Gender Pay Gap Analysis.

#### *Group companies in the local community*

- Provide jobs and services
- Initiate and support community investment and educational programmes. Charities supported include GroceryAid, Fareshare and Facet.

Our policy is continuously monitored and reviewed to remain current and effective.

### **Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board**

#### *Board programme*

The Board meets at least eight times each year in accordance with its scheduled meeting calendar.

The Board sets direction for the Company through a formal schedule of matters reserved for its decision. Prior to the start of each financial year, a schedule of dates for that year's eight Board meetings is compiled to align as far as reasonably practicable with the Company's financial calendar on the one hand, and its trading calendar on the other, while also ensuring an appropriate spread of meetings across the financial year. This may be supplemented by additional meetings as and when required. During the year to 30 June 2018, the Board met for its eight scheduled meetings. The

Board and its Committees receive appropriate and timely information prior to each meeting; a formal agenda is produced for each meeting, and Board and Committee papers are distributed several days before meetings take place. Any Director may challenge Company proposals and decisions are taken democratically after discussion. Any Director who feels that any concern remains unresolved after discussion may ask for that concern to be noted in the minutes of the meeting, which are then circulated to all Directors. Any specific actions arising from such meetings are agreed by the Board or relevant Committee and then followed up by the Company's management.

#### *Roles of the Board, Chairman and Chief Executive Officer*

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; approval of the annual and interim results; annual budgets; dividend policy; and Board structure. It monitors the exposure to key business risks and reviews the strategic direction of all trading 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 proposing the strategic focus to the Board, implementing it once it has been approved and overseeing the management of the Company through the Executive Team.

All Directors receive regular and timely information on the Group's operational and financial performance. Relevant information is circulated to the Directors in advance of meetings. The business reports monthly on its headline performance against its agreed budget, and the Board reviews the monthly update on performance and any significant variances are reviewed at each meeting. Senior executives below Board level attend Board meetings where appropriate to present business updates. Board meetings throughout the year are held at the Company's various location offices.

#### *Executive Team*

The Executive Team consists of Angus Armstrong and Jonathan Lamont with input from the divisional directors and teams. They are responsible for formulation of the proposed strategic focus for submission to the Board, the day-to-day management of the Group's businesses and its overall trading, operational and financial performance in fulfilment of that strategy, as well as plans and budgets approved by the Board of Directors. It also manages and oversees key risks, management development and corporate responsibility programmes. The Chief Executive Officer reports to the plc Board on issues, progress and recommendations for change. The controls applied by the Executive Team to financial and non-financial matters are set out earlier in this document, and the effectiveness of these controls is regularly reported to the Audit Committee and the Board.

#### *Board committees*

The Board is supported by the Audit and Remuneration committees. Each committee has access to such resources, information and advice as it deems necessary, at the cost of the Company, to enable the committee to discharge its duties.

**Principle 10: Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders**

The Company communicates with shareholders through the Annual Report and Accounts, full-year and half-year announcements, the Annual General Meeting and one-to-one meetings with large existing or potential new shareholders. A range of corporate information (including all Company announcements and presentations) is also available to shareholders, investors and the public on the Company's corporate website ([www.produceinvestments.co.uk](http://www.produceinvestments.co.uk)).

The Board receives regular updates on the views of shareholders through briefings and reports from the Chairman, Chief Executive Officer, Finance Director and the Company's brokers. In addition, analysts' notes and brokers' briefings are reviewed to achieve a wide understanding of investors' views. The Company completes regular employee surveys to maintain an open dialogue with employees.

**Produce Investments plc**  
**September 2018**