

Real Good Food plc Corporate Governance Report

In January 2018, the London Stock Exchange's AIM Rule 26 was amended to require all AIM quoted companies to give details of the corporate governance code that they had decided to apply, to explain how they comply with the selected code and, if they depart from that code, to explain where and why. It is also made appropriately clear in the new Quoted Companies Alliance Corporate Governance Code (QCA Code) that it is a prime responsibility of the Chairman and the Board to ensure the Company applies a suitable code of corporate governance in the best interests of all stakeholders. Two particular codes have been recommended as appropriate models for AIM-listed businesses such as ours. Real Good Food plc has decided to apply the QCA Code, which was created with SMEs particularly in mind, in preference to the FRC's UK Corporate Governance Code. The QCA Code is constructed around ten broad principles and a set of disclosures. Each of those principles, and the status of the Group's compliance with each, is considered in greater detail below.

Real Good Food plc's clear and recently articulated objective, following a difficult two-year period, is to deliver a return on investment to all our stakeholders. Experience here and elsewhere has demonstrated that there is a close correlation between sound corporate governance and the achievement of corporate goals, so the importance of sound corporate governance is not underestimated by the Board.

By following the QCA code, the Board seeks to ensure that the Company will operate more efficiently and effectively, as well as communicating well, to promote confidence and trust in the Company's Board and management. The Board will aim to balance the interests and expectations of the Company's many shareholders and stakeholders by observing a transparent set of rules, practices and processes, but we must recognise those areas where the Board may not yet be in full compliance and to provide our explanation why not.

After an inglorious period of poor governance in the relatively recent past, the Board enlisted the services of experts in governance from Ernst & Young this year to undertake a thorough review of the processes and practices of the Company, similar in scope to the review that a company looking to list on AIM would undergo, and to make recommendations for improvement. Although a great deal of progress has been made in light of this report, not all measures have been fully embedded at this point. The Board is fully conscious of this however and we will continue to pursue improvements in all aspects of the Group's governance.

One area of historic non-compliance existed in having the audit committee chaired by Chris Thomas, a former Chief Executive and therefore not regarded as independent, between January and September 2018. The Audit Committee is now chaired by Mike Holt, a newly recruited independent Non-Executive Director, such that the non-compliance has been corrected.

Another area of non-compliance, still extant for the moment, is in having the Remuneration Committee chaired by a Non-Executive Director, Judith MacKenzie, who, by virtue of being a partner in a major corporate shareholder, is not independent. With the recent recruitment to the Board of two truly independent non-Executive Directors, we shall rectify this non-compliance in short order.

The third area of non-compliance is in having thus far had no independent evaluation of the performance of the Board as a board. This will also be rectified, prior to the publication of the 2019 Annual Report, although the ultimate judgement of its effectiveness could be said to lie in the achievement of the Group's expressed objective.

Finally, in terms of areas for improvement and non-compliance, in connection with Principle 4 below, the Board has not yet established a formal risk register process directly to identify and address the risks inherent in the Company's operations and its business. This will form a central part of the remit of the Audit Committee, under its newly appointed Chair.

Pat Ridgwell
Interim Non-Executive Chairman

Principle 1 – Establish a strategy and business model which creates long-term value for shareholders.

The objective and strategy of any company will be influenced by events and the recent history of the Group has clearly shaped our current objective. We recently articulated that clear objective, and strategy for its accomplishment, in the shareholder Circular issued in connection with the Open Offer and Approval of waiver of obligations under Rule 9 of the Takeover Code.

It is our intention to deliver a return on investment for all our shareholders, providing a stable financial platform through improving the profitability of the Group as a whole and its constituent businesses, and, where appropriate, where it maximises value for stakeholders, that might include finding a more suitable home for one or more of the businesses.

The execution of the strategy to date has so far seen the disposal of two of our businesses, Garretts Ingredients and the long-held Haydens business, where in both cases the value to the Group from their sale, and the benefits to other stakeholders, were estimated to be greater than the value to be realised from retention and executing a turnaround.

Principle 2 – Seek to understand and meet shareholder needs and expectations.

We are fortunate indeed to have three members of our Board who can, and do readily, communicate the thoughts and requirements of a large proportion of our shareholder base. Through Pat Ridgwell, our Chairman, Jacques d'Unienville and Judith MacKenzie, we can continually understand the needs and expectations of, respectively, Napier Brown, Omnicane and certain funds of Downing LLP.

We continually make available the contact details of the Executive Directors should other shareholders wish to make contact, as they regularly do, and we have in the past nine months at least, had cause to hold two general meetings to which the shareholders have been invited. Informal contact is also encouraged and some such contact has resulted. When the details of the Convertible Loan Notes were made public via the Regulatory News Service for example, shareholders made contact with the Chief Executive to make their views known and these views were taken into account in the Open Offer which was made in August of 2018.

Copies of the Annual Report and Accounts are issued to all shareholders who have requested them and copies are available on the Group's investor website www.realgoodfoodplc.com. The Group's Prelim and Interim results are also made available on the Company's website and we make full use of the investor section of the corporate website to provide information to shareholders and other interested parties.

The Board has of course reviewed reports of voting intentions to ensure that any significant dissenting voices are listened to. The level of proxy votes lodged on any resolution put at a general meeting is declared and subsequently announced.

Shareholders are encouraged to raise questions at the Annual General Meeting and the Directors are available both before and after the meeting for further discussion with shareholders.

The CEO and Finance Director are primarily responsible for updating the market with developments, although the level of such activity has been relatively muted of late as the turnaround process has been underway. All and any of the Non-Executive Directors are available to meet with other shareholders if such meetings are requested. Feedback from such meetings with shareholders has been provided to the Board to ensure the Directors have a balanced understanding of the issues and concerns of minority shareholders. Trading updates and press releases are issued as appropriate and the Company's NomAd and broker provides briefings on any shareholder opinion imparted to them.

The Board receives share register analysis reports to monitor the Company's shareholder base and help identify the types of investors on the register.

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

The Company regards its shareholders, employees, customers, suppliers and advisors as all being important parts of the wider stakeholder group.

Management clearly places particular importance on its day-to-day relationships with customers and staff, with significant effort directed to ensuring these are managed appropriately. Regular individual employee reviews are undertaken to ensure any issues are addressed promptly. And an independent review of the relationship of one of the key businesses with its customers was recently commissioned, for example, to learn what we can about the need for improvement in that important sphere.

The Company records customer service levels – OTIF (on time in full), for example. There is a feedback system in place for service levels and issues raised can be addressed.

It is trite to say that the Company's most important internal stakeholders are its employees, but a great deal of effort has historically been expended in ensuring that RGF has employment policies which follow best practice, based on equal opportunities for all employees, whoever they may be.

Wide-ranging employee involvement in the businesses of the Group is encouraged, with regular communications forums to maintain awareness for all employees of the various factors affecting the Group.

Involvement in the communities in which the Group's constituent businesses operate is a critical aspect of maintaining the good will of the societies which sustain the businesses, through our local sponsorship of charitable causes, providing produce to local ventures and the like.

Principle 4 – Embed effective risk management, considering both opportunities and threats, throughout the organisation.

The Board has yet to establish a formal risk register process relating to the Company's operations and its business. As part of the improvement of the operation of the Audit Committee, we will be formally embedding regular meetings to consider the appropriateness of the risks identified and monitor progress in mitigating actions taken by management on an individual risk basis, placing the greatest emphasis on the most urgent and important.

Principle 5 – Maintain the Board as a well-functioning, balanced team led by the Chair.

The Board, chaired on an interim basis by Pat Ridgwell, now comprises two executive and six non-executive directors; it oversees and implements the Company's corporate governance programme. As chairman, Pat is primarily responsible for the Company's approach to corporate governance and the application of the principles of the QCA Code. Steve Dawson and Mike Holt are the Company's independent directors. Further details on the members of the Board, their experience and the roles carried out by each are set out in the Annual Report and Accounts.

Each Board member commits sufficient time to fulfil her or his duties and obligations to the Board and the Company. Each Director attends monthly Board meetings and joins ad hoc Board discussions as necessary.

Monthly packs of Board papers comprise reports from all business units and their financial performance, together with overview reports from the Executive Directors, summarising and highlighting where there are key issues for Board consideration, including sufficient detail and information to enable a relevant and progressive discussion. These are circulated ahead of the relevant Board meetings.

The Board is supported by its Audit Committee and its Remuneration Committee. The Board has so far operated sufficiently closely to render the necessity for a Nominations Committee null. The number of Board and Committee meetings held throughout the course of the financial year and further details of these committees is set out in the Annual Report and Accounts

Principle 6 – Ensure that between them the Directors have all appropriate experience, skills and capabilities.

The description in the Governance Report of the Annual Report and Accounts identifies each member of the Board and describes her or his relevant experience, skills and qualities. The Chairman and the Board as a whole believes that the Board has a more than sufficient and suitable mix of experience, skills and competence which covers all the disciplines essential to bring a balanced perspective to enable the Company to deliver its objective.

The Board is comprised of two Executive directors and six Non-Executive directors, two of whom are independent and comprises six men and two women, ranging in age from their mid 40s to early 70s in age. Updates to members of the Board on regulatory matters are given by Board members themselves where appropriate and/or by Company's professional advisers.

In addition to the support provided by the Company's retained professional advisers (NomAd, lawyers, auditor and M&A advisor), external consultants have been engaged to advise on a number of matters, including, for example, tax advisers on transactional matters, or corporate governance experts where practice has fallen short of the standards we and/or our stakeholders have a right to expect.

Where relevant, these external advisers are invited to attend Board meetings to advise or report and/or discuss specific matters relevant to the Company and the particular situations they face or the markets in which they operate.

Principle 7 – Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement.

Board performance effectiveness process

Over the course of 2018, the Board's focus has principally been on agreeing, defining, articulating and delivering the objective which was agreed would best serve its stakeholders. Its performance in that regard has not so far been objectively or independently assessed. In that respect, the Group has not thus far complied with the 2018 QCA Code. This situation will and must be addressed in the coming months, and prior to the publication of the Annual Report and Accounts for 2019.

The Remuneration Committee has clearly defined and articulated its role and in so doing has begun the process of determining areas for improvement in influencing the behaviours of the Executive Directors, to align with the interests of the Group and its stakeholders. The implementation of a long-term incentive plan for the Executive Directors is in its final stages and detail of these plans will be shared with shareholders in due course. In the meanwhile, against the background of the articulated objective for the Group, the performance of the Board as a whole may be judged in due course, through the eventual attainment of financial measures including adjusted EBITDA, operating cash flow and net debt.

Succession planning and Board appointments

The Remuneration Committee meets as and when necessary to consider the appointment of new executive and non-executive directors; whilst the Board as a whole of course takes responsibility for succession planning. Board members all have appropriate notice periods so that if a Board member

indicates his or her intention to step down, there would be sufficient time to source and appoint a replacement, whether internal or external.

Each director is required to offer him- or her-self for re-election at least once every three years as indicated in the Company's Articles of Association. Pat Ridgwell is currently the longest serving Board member having been appointed originally as Non-Executive Deputy Chairman on the Company's merger with Napier Brown and Company Limited and its accession to AIM in 2005.

All Board appointments are made only after consultation with advisers, including the NomAd, who undertakes due diligence on all potential Board candidates.

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

The Board recognises that the values it espouses provide the framework which influences all parts of the Company. The Chief Executive Officer takes the lead in developing the corporate culture and looks to encourage all employees to contribute to the enjoyment and success of the business, the formulation of the tactics to deliver the objective and strategy and to the promulgation of the core values. The Human Resources team have long promoted the Company's values which underpin conditions of employment. The Board believes that, although the difficulties of the past have dented the culture of confidence, we now have the leadership capable of engendering the environment which will rebuild the successful team atmosphere.

The Group is committed to employment policies which follow best practice, based on equal opportunities for all employees.

The Company's environmental and health and safety policies are referred to in the Corporate and Social Responsibility section of the Annual Report and Accounts and in the Strategic Report, reiterating here as follows:

Environmental policy

The Group acknowledges the critical importance of environmental matters and where possible uses environmentally friendly policies in its offices, such as recycling and energy-efficient practices.

Health and safety

The Group aims to provide and maintain a safe working environment for all colleagues and visitors to its premises, and to comply with all relevant health and safety legislation. Health and safety matters are delegated to representatives within the business, who can raise any issues arising via a number of means, from bringing to the attention of the line manager through to approaching any member of the Board.

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

The Executive Board members have clear overall responsibility for managing the day-to-day operations of the Company and the Board as a whole is responsible for monitoring performance against the Company's goals and objectives. The Governance report in the Annual Report and Accounts sets out individual Board members' specific responsibilities, contributions and skills.

The roles of the Audit Committee and the Remuneration Committee are set out in the Governance section of the Annual Report and Accounts.

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

The Company strives to maintain a regular dialogue with stakeholders including shareholders to enable any interested party to make informed decisions about the Company and its performance. The Board believes that greater transparency in its dealings offers a level of comfort to stakeholders and an understanding that their views will be heard and taken into account appropriately.

The Board discloses the result of general meetings by way of announcement, discloses the proxy voting numbers to those attending the meetings and publishes them in the investor section of the website. Whilst it has not been the Group's experience of late, should a significant proportion of voters vote against a resolution, an explanation of what actions the Board will take to understand the reasons behind the vote, would be included.

The roles and responsibilities of the committees supporting the Board are set out in the Corporate Governance section of the Annual Report and Accounts.