

QCA CORPORATE GOVERNANCE CODE

As the non – executive Chairman of Rotala Plc, it is my responsibility to ensure that the company possesses the structures and management abilities to implement successfully the strategy that the company has adopted. One of the key strands of my role is that of responsibility for an appropriate level of corporate governance for the company. The objective of good corporate governance in this sense is to ensure that the company can execute its strategy by:

- Having the appropriate balance of skills and experience at board level, within senior management and at all levels of the company;
- Creating a clearly defined organisational structure and a working environment within which and through which all employees, right up to board level, can work together effectively;
- Putting in place working processes appropriate to the successful achievement of the objectives set.

In order to meet this corporate governance objective, the board has adopted the QCA Corporate Governance Code (the “Code”). The Code is framed within ten broad principles which focus on the pursuit of medium to long term value for shareholders without stifling any entrepreneurial spirit. The extent to which the company departs from the application of the provisions of this the Code are, in the view of the board, as follows:

- There are no formal board committees (see Principle 5). All matters are discussed and relevant decisions taken by the whole board;
- There is no formal performance review of individual directors nor a formal review process of overall board effectiveness (see Principle 7).

Like any such statement, this statement will constantly evolve and will need to be updated from time to time as circumstances change and the company changes with them.

John Gunn

Chairman

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

The board believes that government policy since the election of the LibDem/Conservative coalition in 2010 has profoundly upset the old order in the bus industry. It has made life much more difficult for the small bus operator at the same time as undermining the viability of many operating units within the businesses of the large operators. Rotala’s strategy is therefore to:

- Take advantage of the opportunities being created by the Bus Services Act 2017 in the West Midlands and Greater Manchester areas;
- Continue to consolidate smaller businesses via bolt on acquisitions in existing areas of operation;
- Look to consolidate unwanted business units from the larger bus operators.

Within these objectives Rotala Plc pursues the following key strategic goals:

- To achieve sustainable growth in shareholder value;
- To meet our stated progressive dividend policy;
- To improve continually the operational capability of the group; and
- To deliver a consistent quality of service to customers.

These goals are measured by:

- A focus on earnings per share and the resultant share price;
- A focus on strong organic growth and higher margin business;
- The level of new investment in infrastructure, technology and training with the objective of a sustained increase in operational efficiency; and
- Continually monitoring the timeliness and completeness of service delivery and levels of customer complaint.

Clearly all business activity contains risks. The objective of the board is to achieve the goals set out above whilst taking on acceptable, but not excessive levels of risk, so as to ensure that the company is viable in the long term.

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

The company values the views of its shareholders and recognises their interest in the company's strategy and performance. The Annual General Meeting is the primary means of communication with shareholders as a singular body, taken together with the annual report. Shareholders are encouraged to attend the AGM. All directors are available at the AGM to answer questions.

As regards institutional shareholders, the board obtains their views and expectations through the usual well-established channels:

- Face to face meetings with such shareholders as and when requested;
- Invitations to business tours if requested;
- "Road show" meetings as part of each half year and full year reporting cycle;
- Close liaison with the company's broker; and
- Regular meetings with the analysts covering the company (who are in turn in close contact with their clients).

The company's broker provides regular feedback on the outcomes of all these forms of meeting and this feedback is distributed to the whole board. Each member of the board also receives all notes published by the analysts which follow the company.

A meeting with the company can be requested by contacting the company's broker or by e-mail at info@rotala.co.uk

As regards private shareholders, aside from the AGM, it is harder for the company to ascertain their views and expectations directly. The AGM ought to be a key channel for this form of communication but very few private shareholders presently attend it. The company is seeking to develop ways in which private shareholders can access more information on the company whilst maintaining compliance with relevant regulations. Besides these initiatives the company does attend a number of conferences during the year which are specifically aimed at the private shareholder. These events

give the private shareholder the opportunity to ask questions and convey their views. The board has found these to be valuable and will continue to engage with private shareholders by these means.

Any question can be put to the company by e-mail at info@rotala.co.uk

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

In the bus industry there are many important interest groups. These groups may have direct influence over the company through the legal powers entrusted in them or they may possess a more informal influence, which is of no lesser importance to the company. The board regards it of the utmost importance to maintain contact with all these stakeholder interests and to listen to what they have to say. Identified stakeholders include:

- The Department for Transport
- The Traffic Commissioners
- The Driver and Vehicle Standards Agency
- Local Transport Authorities
- Local Councils
- Local Members of Parliament
- Local councillors
- Local bus user representative groups
- Charities with mobility interests
- Corporate customers
- Individual bus users
- Employees
- Key suppliers

The company is in constant contact at managerial level with all the stakeholders with formal legal powers which can be directed at the company. These stakeholders include the Department for Transport, the Traffic Commissioners, the Driver and Vehicle Standards Agency, Local Transport Authorities and Local Councils. The company conducts formal meetings with all these agencies, whether individually or through bus operator representative bodies. By these means the company gains insight not only into fresh legal or regulatory demands but also into the thinking and more general objectives of these stakeholder groups, with the added advantage of being able to influence them in return. The board receives regular reports of developments in these key relationships from the Chief Executive as part of his formal reporting.

The company also regards its relations with the other bodies listed above as being of critical importance in ensuring its success.

- The company meets regularly with local bus user representative groups, which often include local councillors on their panels;
- Individual Members of Parliament on occasion have cause to write to the company as part of their local surgery activities and these letters are always carefully considered and replied to;
- The needs of the disabled are also catered for by meetings with their representative groups;
- Individual bus users can make their views known via the company's website. This also incorporates a complaints facility. All complaints are recorded and systematically replied to; and
- Employees receive regular briefings from their managers and there is a group SAYE scheme which is open to all employees.

More formal relationships are conducted with corporate customers and key suppliers. Here the basis of the relationship is a written contract which governs dealings between the two parties. Contract performance reviews are regularly conducted with corporate customers. Here the key matters will be service delivery according to the targets embedded in the contract. It need hardly be pointed out that contract renewal is almost always dependent to some degree on the strength of the relationship with the customer and of course the performance against target. With the suppliers the relationship is the other way round: they are being held to account and their delivery performance reviewed against the agreed targets. Nevertheless a harmonious long-term relationship is always desired.

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

The board considers that the following factors may be considered to be material risks and uncertainties facing the group:

<u>Risk</u>	<u>Potential impact</u>	<u>Management or mitigation</u>
Variations in the price of fuel.	Fuel is a significant cost to the business. If fuel increases in price in circumstances where sales prices cannot be increased, then profitability will be affected.	Management monitors fuel prices closely, negotiates fuel escalator clauses where possible and increases fares if input costs rise in a sustained pattern. Management enters into fuel price fixing arrangements when appropriate. Management also monitors fleet fuel efficiency and uses technological aids to optimise fuel usage.
The availability of sufficient capital and leasing facilities to finance the growth in the group's businesses.	The group may miss growth opportunities.	Management maintains close contact with actual and potential shareholders. Relationships with the providers of the group's asset financing and banking facilities are dealt with centrally in order to keep them fully briefed about the progress of the group. All bank account and treasury management is conducted at group level.
New government legislation (such as the Bus Services Act 2017) or industry regulation.	Significant unplanned or unforeseen costs may be imposed on the business.	Management continually monitors regulatory and legal developments and participates keenly in industry forums. Management also ensures that it responds to requests for information and insight from governmental bodies.
Availability of management resources of the appropriate quality.	Lack of appropriate management skills damages the business and its prospects.	The board continually assesses skill requirements, management and structures as the business grows. Appropriate recruits are brought into the business and any necessary management development courses are instituted.
Fleet insurance and cover and level of vehicle insurance rates – particularly in the event of a major accident involving passenger fatality.	The group may not be able to obtain adequate levels of insurance cover.	The group is self-insured for high frequency claims of low value, as set out in the group's accounting policies. Claims above a certain level are comprehensively insured in the normal way. Driver training emphasises a risk - averse culture. Accident rates are monitored centrally. Claims are managed by a claims handler who works closely with the group's insurance adviser and insurers. Relationships with insurance brokers and providers are considered to be key and are managed centrally by the group.

The board is in addition responsible for maintaining a strong system of internal control to safeguard shareholders' investments and the group's assets. The system of internal financial control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss. The directors are responsible for the group's system of financial control and for reviewing its effectiveness.

The board receives a comprehensive monthly and quarterly suite of reports which covers:

- Financial performance against budget and prior year;
- Balance sheets;
- Cash flows; and
- Flexed forecasts.

The board also reviews and sets the budget for the year and all capital expenditure of any materiality.

In addition to these financial controls the board receives regularly a pack of Key Performance Indicators which highlight:

- Service delivery
- Complaints
- Insurance incidents
- Fleet distribution and composition
- Employee analysis and profile
- Health and safety incidents

The above reporting formats, taken together with the close involvement of the executive operational directors and senior management in the day to day activities of the company, produce what is, in the board's view, an appropriate control environment. The board however acknowledges that, as risks change and the group gains in size, controls must change to reflect the changed operational characteristics of the group.

Principle 5: Maintain the board as a well-functioning, balanced team led by the chairman

The board consists of the following directors:

Name and age	Role	Experience
John Gunn (76)	Non-executive Chairman	Extensive public company experience as both CEO and Executive Chairman. Much experience also as a non-executive director of and/or investor in a portfolio of quoted and unquoted companies.
Graham Spooner (65)	Non-executive Deputy Chairman and Senior Independent Director	25 years' experience as an authorised and regulated corporate finance adviser. Formerly: <ul style="list-style-type: none">• non-executive director of 3 listed VCTs;• Independent Director of 2 other AIM quoted companies, including Dunn Line;• Fund manager investing in SMEs, including AIM quoted companies.
Simon Dunn (42)	Chief Executive Officer	26 years' experience in the transport industry from the lowest level upwards.
Robert Dunn (64)	Executive director responsible for all the group's operations in the North West.	48 years' experience in transport industry from the lowest level upwards. Qualified engineer. Founder of own business (Dunn-Line), later listed on AIM and sold to Veolia.
Kim Taylor (63)	Chief Financial Officer	Extensive experience as CFO in both publically listed and private groups of companies.
Graham Peacock (68)	Non-executive director and Independent Director	Founder, former CEO and major shareholder of MRH (GB) Limited, then the largest independent owner and operator of petrol stations in the UK.

The board considers that it possesses collectively, through its members, a considerable range of experience in both transport and non-transport sectors. The board believes that this range of experience equips it well to supervise the running of the group and to give it effective direction.

The Chairman does not believe that in a group such as this the board should seek to delegate any of its responsibilities to committees. The Chairman therefore requires that all directors participate fully in debates about remuneration and nomination to the board, and that the board as a whole meets with the Statutory Auditor to agree the audit strategy and to receive his Audit Report annually.

Members of the board commit through their contracts to devote as much time as is necessary to carry out their designated roles.

- The time commitment required for the Chairman and the non-executive directors is usual for their roles in a group of this size. If any special duties arose outside of their normal duties, then extra remuneration would be offered;
- The role of the Chief Executive Officer is a full time role;
- The role of Managing Director in the North West requires a minimum commitment, combined with his main board role, of approximately twelve days per month;
- The role of Chief Financial Officer requires a minimum commitment, combined with his main board role, of approximately twelve days per month.

The attendance record of the board in the last twelve months is as follows:

<u>Name</u>	<u>Number of board meetings in the last year</u>	<u>Number attended</u>
John Gunn	Ten	Nine
Graham Spooner	Ten	Ten
Simon Dunn	Ten	Ten
Robert Dunn	Ten	Ten
Kim Taylor	Ten	Ten
Graham Peacock	Ten	Eight. Note that one absence was due to being snowbound.

As highlighted in the previous section the board receives a number of regular reports about the financial and non-financial performance of the group. In addition the board receives numerous ad-hoc reports between board meetings via e-mail which enable it to keep up with industry developments both inside and outside the company.

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

The above table lays out in detail the experience and skills of each member of the board. All have been involved in a range of different businesses in various functions and ranks or the same business at many different levels. Both the operational executive directors, Simon Dunn and Robert Dunn, have many decades of specialist business experience in the transport industry, having both started on the very bottom rung and worked their way up to the top. All the directors, except Simon Dunn and Kim Taylor, still sit on other boards of directors and so have concurrent experience of different business environments. The board considers that this extensive, wide and long-standing experience equips the board with all the skills, experience and capabilities that it needs to run the company in a public company environment.

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

The board does not currently review its effectiveness of performance on a regular or formal basis. Nor does it formally review the performance of individual directors. The Chairman believes that the company still retains the characteristics of its starting point: it began as a family company and in the main still is one. Given these attributes the Chairman takes the view that the formal review of the performance of each director is not appropriate. The board supports the Chairman in this approach. The board as a whole also believes that, at the current time, to review in any formal sense the effectiveness or the performance of the board would not serve any purpose. This does not mean that the board tolerates under-performance or lacks self-criticism. The Chairman has constructed a board in which he expects to see very robust, full and frank views delivered on the performance of the company and all other items on the agenda. This expectation is met at all board meetings. The board believes that it operates effectively at the current time in serving the strategic objectives of the company.

Succession planning in such an environment is difficult, as it always is in a family company. Succession to key executive roles is therefore a risk, which the board acknowledges, while noting that it believes that no one is indispensable.

As the company grows in size, the board expects that it too will grow commensurately. Over time therefore the expectation is that more formality over performance of individuals and board will naturally develop, as the company ceases to be reliant on its family base.

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

In the Annual Report, the board sets out its business philosophy and is committed thereby to conduct business in an ethical manner.

Our core values convey our organisational beliefs. These beliefs encompass a determination to be:

- **Professional** – in our approach to business, with expert presence;
- **Innovative** – in creating new solutions;
- **Agile** - quick to respond and make decisions;
- **Collaborative** - working together with all stakeholders;
- **Commercially orientated** - delivering what clients require;
- **Results focused** - focusing on the delivery of value and the job in hand;
- **Risk aware** - assessing options for alternative strategies.

These guiding principles ensure that our brands signify consistency, reliability and employee commitment.

This commitment is reinforced by the down to earth and approachable image which the board is careful to convey to every employee.

Every employee is issued with, on induction, a very comprehensive booklet which covers all operational processes. This booklet also covers the expectations that the company has of the conduct of each employee and the personal and working standards which each employee is expected to reach. The company has also developed and published on its website a Modern Slavery Statement. This has been issued to all suppliers and compliance demanded of each of them.

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

The board believes that its current governance structures and processes are in line with its corporate culture and appropriate to the size and complexity of its business and its capacity, appetite and tolerance for risk. In addition:

- The roles and responsibilities of each director have been described above;
- As set out above there are no board committees;
- As set out above no matters are delegated by the board.

The board does expect that, as the company grows in size and evolves, its governance structures will need to evolve and develop in commensurate fashion.

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

The board regards the Annual Report to be the primary means of communication with shareholders. In addition the company communicates with shareholders by means of:

- The Interim Report;
- Stock Exchange announcements;
- Press releases;
- The Annual General Meeting;
- Presentations to private shareholder groups;
- Presentations to individual substantial shareholders.

All historic annual reports, and Stock Exchange announcements, together with other key organisational documents, are available from the company's website. AGM notices are contained within each annual report. The results of AGM business are announced via the Regulatory News Service.

The company intends in the future to publish the details of each vote for and against AGM resolutions. It has not done this up to now since it is not a regulatory requirement for the AIM market.