

## **INTRODUCTION**

The Company is committed to the principles of corporate governance contained in the UK Corporate Governance Code that was issued in 2014 by the Financial Reporting Council (“the Code”) for which the Board is accountable to shareholders. The Board also takes account of the corporate governance guidelines of institutional shareholders and their representative bodies.

At Big Yellow, we aim to create a culture in which integrity, openness and fairness are rewarded.

We continue to review the composition of the Board to ensure that it has the appropriate skills, knowledge and balance for the effective stewardship of the Company. There have been no changes to the composition of the Board in the year.

The Board has overall responsibility for the manner in which the Company runs its affairs.

### **Statement of compliance with the Code**

Throughout the year ended 31 March 2017, the Company has been in compliance with the Code provisions set out in section 1 of the 2014 UK Corporate Governance Code.

### **Statement about applying the principles of the Code**

The Company has applied the principles set out in the Code, including both the main principles and the supporting principles, by complying with the Code as reported above. Further explanation of how the principles and supporting principles have been applied is set out below and in the Nominations Committee Report, the Remuneration Report and the Audit Committee Report.

## **LEADERSHIP**

The Board’s role is to provide entrepreneurial leadership of the Company within a framework of prudent and effective controls which enables risk to be assessed and managed.

### **Chairman and Chief Executive**

The division of responsibilities between the Chairman and the Chief Executive has been agreed by the Board and encompasses the following parameters:

- the Chairman’s role is to provide continuity, experience, governance and strategic advice, while the Chief Executive provides leadership, drives the day-to-day operations of the business and works with the Chairman on overall strategy;
- the Chairman, working with the Senior Independent Non-Executive Director, is viewed by investors as the ultimate steward of the business and the guardian of the interests of all the shareholders;
- the Board believes that the Chairman and the Chief Executive work together to provide effective and complementary stewardship;
- the Chairman:
  - takes overall responsibility for the composition and capability of the Board;
  - takes overall responsibility for the property development team; and
  - consults regularly with the Chief Executive and is available on a flexible basis for providing advice, counsel and support to the Chief Executive.
- the Chief Executive:
  - manages the Executive Directors and the Group’s day-to-day activities;
  - prepares and presents to the Board strategic options for growth in shareholder value;
  - sets the operating plans and budgets required to deliver agreed strategy; and
  - ensures that the Group has in place appropriate risk management and control mechanisms.

The Directors believe it is essential for the Group to be led and controlled by an effective Board that provides entrepreneurial leadership within a framework of sound controls which enables risk to be assessed and managed. The Board is responsible for setting the Group’s strategic aims, its values and standards and ensuring the necessary financial and human resources are in place to achieve its goals. The Board ensures that its obligations to shareholders and other stakeholders are understood and met. The Board also regularly reviews the performance of management.

## **EFFECTIVENESS**

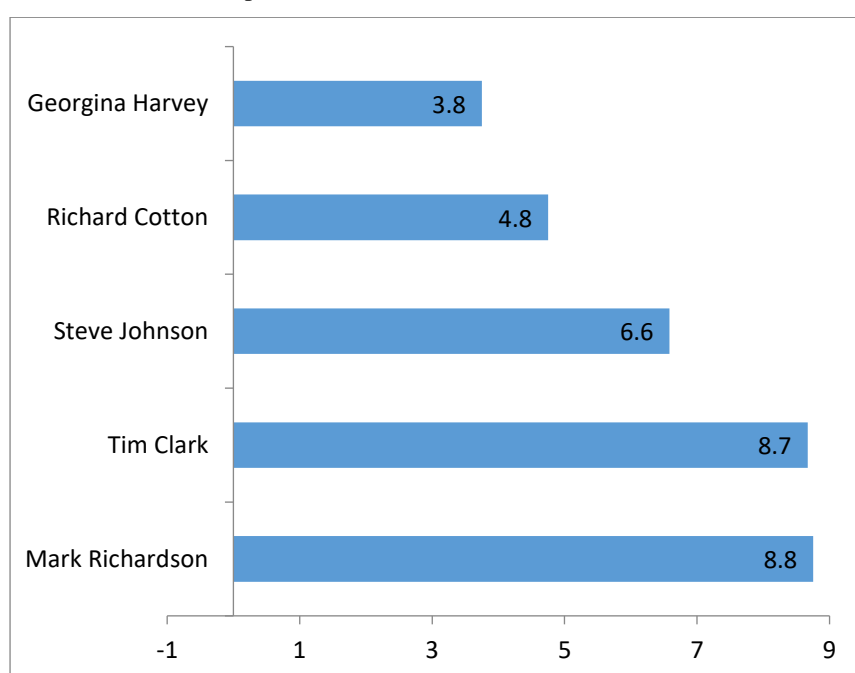
### **Composition of the Board**

The Nominations Committee is responsible for reviewing the Board Composition, and makes recommendations to the Board on the appointment of Directors. There are five independent Non-Executive Directors on the Board, with Tim Clark being the Senior Independent Director. The Company complies with the Combined Code in that at least half of The Board is comprised of independent Non-Executive Directors.

All of the Non-Executive Directors bring considerable knowledge, judgement and experience to Board deliberations. Non-Executive Directors do not participate in any of the Company's share option or bonus schemes and their service is non-pensionable. The Non-Executive Directors are encouraged to communicate directly with Executive Directors between formal Board meetings. The Non-Executive Directors meet at least once a year without the Executive Directors being present.

The Non-Executive Directors scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They are required to satisfy themselves on the integrity of the financial information and that financial controls and systems of risk management are robust and defensible. They are responsible for determining appropriate levels of remuneration for Executive Directors and have a prime role in appointing and, where necessary, removing Executive Directors, and in succession planning.

The tenure of the independent Non-Executive Directors at 31 March 2017 is set out below:



### Changes to the Board and its Committees

Mark Richardson has informed the Board of his intention to retire from the Board at the forthcoming Annual General Meeting. The Board is currently recruiting for his replacement as a Non-Executive Director and Audit Committee Chair. It is anticipated that the replacement will be announced before the Company's Annual General Meeting.

Tim Clark is to stand down as the Senior Independent Director with effect from the Annual General Meeting. He will remain as a Non-Executive Director for a further year, to provide continuity in light of Mark Richardson's retirement, after which he has indicated he will retire from the Board. The Board will commence recruitment for Tim's replacement during the forthcoming financial year, with a view to a new independent Non-Executive Director being in place by March 2018. Notwithstanding this, the Board believes that Tim Clark should be considered an independent Non-Executive, even though he has served on the Board for nine years exceeding the Combined Code recommended limit. This was concluded after considering his integrity and the effectiveness with which he carries out his responsibilities to the Company.

Richard Cotton will replace Tim Clark as the Senior Independent Director and also as Chair of the Nominations Committee with effect from the forthcoming Annual General Meeting. Georgina Harvey will replace Tim Clark as Chair of the Remuneration Committee with effect from the forthcoming Annual General Meeting.

## THE BOARD AND ITS COMMITTEES

### Standing committees of the Board

The Board has Audit, Remuneration and Nominations Committees, each of which has written terms of reference. They deal clearly with the authorities and duties of each Committee and are formally reviewed annually. Copies of these terms of reference are available on the Company's website. Each of these Committees is comprised of Independent Non-Executive Directors of the Company who are appointed by the Board on the recommendation of the Nominations Committee.

All of the Committees are authorised to obtain legal or other professional advice as necessary; to secure, where appropriate, the attendance of external advisers at its meetings and to seek information required from any employee of the Company in order to perform its duties.

The Chairman of each Committee reports the outcome of the meetings to the Board. The Company Secretary is secretary to each Committee.

Attendance at meetings of the individual Directors at the Board Meetings that they were eligible to attend is shown in the table below:

| Director        | Position                | Number of meetings attended |
|-----------------|-------------------------|-----------------------------|
| Tim Clark       | Non-Executive Director  | ●●●●●●                      |
| Richard Cotton  | Non-Executive Director  | ●●●●●●                      |
| James Gibson    | Chief Executive Officer | ●●●●●●                      |
| Georgina Harvey | Non-Executive Director  | ●●●●●●                      |
| Steve Johnson   | Non-Executive Director  | ●●●●●○                      |
| Adrian Lee      | Operations Director     | ●●●○●●                      |
| Mark Richardson | Non-Executive Director  | ●●●○●●                      |
| John Trotman    | Chief Financial Officer | ●●●●●●                      |
| Nicholas Vetch  | Executive Chairman      | ●●●●●●                      |

- - attended
- - absent

Adrian Lee, Mark Richardson and Steve Johnson each missed one meeting due to unavoidable business commitments.

The Board meets approximately once every two months to discuss a whole range of significant matters including strategic decisions, major asset acquisitions and performance. A procedure to enable Directors to take independent professional advice if required has been agreed by the Board and formally confirmed by all Directors.

There is a formal schedule of matters reserved for the Board's attention including the approval of Group strategy and policies; major acquisitions and disposals, major capital projects and financing, Group budgets and material contracts entered into other than in the normal course of business. The Board also considers matters of non-financial risk as part of its review of the Group's risk register.

At each Board meeting, the latest available financial information is produced which consists of detailed management accounts with the relevant comparisons to budget. A current trading appraisal is given by the Executive Directors.

### Information and professional development

All Directors are provided with detailed financial information throughout the year. On a weekly basis they receive a detailed occupancy report showing the performance of each of the Group's open stores. Management accounts are circulated to the Executive monthly and a detailed Board pack is distributed a week prior to each Board meeting.

All Directors are kept informed of changes in relevant legislation and changing commercial risks with the assistance of the Company's legal advisers and auditor where appropriate. The professional development requirements of Executive Directors are identified and progressed as part of each individual's annual appraisal. All new Directors are provided with a full induction programme on joining the Board.

Non-Executive Directors are encouraged to attend seminars and undertake external training at the Company's expense in areas they consider to be appropriate for their own professional development. Each year, the programme of senior management meetings is tailored to enable meetings to be held at the Company's properties. During the year, the Executive Directors made visits to all of the Group's stores.

## ACCOUNTABILITY

### Risk management and internal control

The Group operates a rigorous system of risk management and internal control, which is designed to ensure that the possibility of misstatement or loss is kept to a minimum. There is a comprehensive system in place for financial reporting and the Board receives a number of reports to enable it to carry out these functions in the most efficient manner. These procedures include the preparation of management accounts, forecast variance analysis and other ad hoc reports. There are clearly defined authority limits throughout the Group, including those matters which are reserved specifically for the Board.

The Board has applied principle C.2 of the UK Corporate Governance Code by establishing a continuous process for identifying, evaluating and managing the significant risks the Group faces and for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Board regularly reviews the process, which has been in place from the start of the year to the date of approval of this report and which is in accordance with revised guidance on internal control published in October 2005 (the Turnbull Guidance). The Board is also responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

In compliance with provision C.2.1 of the Code, the Board regularly reviews the effectiveness of the Group's risk management and internal control systems. The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. The Board has also performed a specific assessment for the purpose of this annual report. This assessment considers all significant aspects of risk management and internal control arising during the period covered by the report, including the work carried out by the Group's Store Compliance team. The Audit Committee assists the Board in discharging its review responsibilities.

A formal risk identification and assessment exercise has been carried out resulting in a risk framework document summarising the key risks, potential impact and the mitigating factors or controls in place. The Board have a stated policy of reviewing this risk framework at least once a year or in the event of a material change. The risk identification process also considered significant non-financial risks.

During the reviews, the Directors:

- challenged the framework to ensure that the list of significant risks to business objectives is still valid and complete;
- considered new and emerging risks to business objectives and included them in the framework if significant;
- ensured that any changes in the impact or likelihood of the risks are reflected in the risk framework; and
- ensured that there are appropriate action plans in place to address unacceptable risks.

The results of the exercise have been communicated to the Board and the Audit Committee. This was in the form of a summary report which included:

- a prioritised summary of the key risks and their significance;
- any changes in the list of significant risks or their impact and likelihood since the last assessment;
- new or emerging risks that may become significant to business objectives in the future;
- progress on action plans to address significant risks; and
- any actual or potential control failures or weaknesses during the period (including "near misses").

During the course of its review of the risk management and internal control systems, the Board has not identified, nor been advised of any failings or weaknesses which it has determined to be significant, consistent with the prior year. Therefore, a confirmation in respect of necessary actions has not been considered appropriate.

## **GOING CONCERN**

The Group's activities, and a fair review of the business, are included in the Strategic Report. The financial position of the Group, including its cash flow, liquidity, and committed debt facilities are discussed in the Financial Review.

The Directors have a reasonable expectation that the Group and Company have adequate resources to continue operations for the foreseeable future. They have therefore continued to adopt the going concern basis in preparing the financial statements.

## **SHAREHOLDER RELATIONS**

The Board aims to achieve clear reporting of financial performance to all shareholders and acknowledges the importance of an open dialogue by both Executive and Non-Executive Directors with its institutional shareholders. The Board believes that the Annual Report and Accounts play an important part in presenting all shareholders with an assessment of the Group's position and prospects.

The Company has an active dialogue with its shareholders through a programme of investor meetings which include formal presentation of the full and half year results. The Executive Directors have participated in investor conferences and meetings during the year throughout the United Kingdom, and also in the United States, South Africa and the Netherlands. During the year ended 31 March 2017, the Chief Executive and other Executive Directors carried out 237 meetings with UK and overseas institutional shareholders and potential investors. These meetings comprised group and individual presentations and tours of our stores.

The Board also welcomes the interest of private investors and believes that, in addition to the Annual Report and the Company's website, the Annual General Meeting is an ideal forum at which to communicate with investors and the Board encourages their participation. At each Board Meeting, the Board is updated on any shareholding meetings that have taken place, and any views expressed or issues raised by the shareholders in these meetings.

Any queries raised by a shareholder, either verbally or in writing, are answered immediately by whoever is best placed on the Board to do so. Directors are introduced to shareholders at the AGM, including the identification of Non-Executive Directors and Committee Chairmen. The number of proxy votes cast in the resolution is announced at the AGM.

By order of the Board

Shauna Beavis

Secretary

22 May 2017