

# Directors' Report

The Directors' Report includes the Corporate Governance Statement set out on pages 43 to 45.

The Directors' Report and Strategic Report comprise the 'Management Report' for the purpose of the Financial Conduct Authority's Disclosure Guidance and Transparency Rules (DTR 4.1.8R).

The Directors of the Company are listed on pages 40 and 41 and were in place on the date this Directors' Report was approved.

The Group is UK domiciled and the majority of its activity is within the United Kingdom.

## Strategic Report

As permitted by section 414C of the Companies Act 2006, certain information required to be included in the Directors' Report has been included in the Strategic Report, which is set out on pages 4 to 39. Specifically, this relates to information on the Group's strategy, business model, likely future developments and risk management.

## UK Corporate Governance Code

Matters related to corporate governance and our compliance with the Code are set out in the Corporate Governance Statement on pages 43 to 45, which is incorporated herein by reference.

## Results

Our Financial Statements for year ended 31 December 2017 are set out on pages 69 to 109. The Financial Statements should be read in conjunction with the Chief Executive's Review, Divisional Reviews and the Group Financial Review.

## Dividends

The Board is recommending a final dividend of 6.0 pence (2016: 5.7 pence) per share which, together with the interim dividend of 3.0 pence (2016: 2.8 pence) per share, makes a combined dividend of 9.0 pence (2016: 8.5 pence) per share.

Payment of the final dividend, if approved at the Annual General Meeting, will be made on 23 May 2018 to Shareholders registered at the close of business on 27 April 2018. The ex-dividend date will be 26 April 2018.

Dividends paid in the year to 31 December 2017 and disclosed in the cash flow statement of £8.7 million (2016: £8.0 million), is comprised of the 2016 final dividend of 5.7 pence per share and the 2017 interim dividend of 3.0 pence per share, which were paid in May and October 2017 respectively.

## Tax governance

Our tax policy is set out below. It is determined by the Board and overseen by the Audit and Risk Committee. The Board reviews the policy, and our compliance with it, on an annual basis. Operational responsibility for the execution of the Group's

tax policy rests with the Chief Financial Officer, who reports the Group's tax position to the Audit and Risk Committee on a regular basis.

## Tax Policy

We are committed to compliance with tax law and practice in the UK. Compliance for us means paying the amount of tax we are legally obliged to pay and doing so at the right time. It involves disclosing all relevant facts and circumstances to the UK tax authorities and claiming appropriate reliefs and incentives where available.

## Risk management

The level of risk that we accept in relation to UK tax is consistent with our overall objective of achieving certainty in the Group's tax affairs. At all times, we seek to comply fully with our regulatory and other obligations, and to act in a way that upholds our core values and reputation as a responsible corporate citizen. We see compliance with tax legislation as key to managing tax risk, and understand the importance of tax in the wider context of business decisions.

Processes have been put in place to ensure tax is considered as part of our overall decision-making processes, with tax risks managed by local finance teams and escalated through to appropriate levels of management and, ultimately, to the Board when necessary.

## Tax planning

In structuring our commercial activities, we will always consider, among other factors, the relevant tax laws. We believe that it is fair to mitigate tax using generally available reliefs in the spirit in which they are intended. However, any tax planning that we undertake will have commercial and economic substance and we will not use aggressive tax planning or enter into complicated tax avoidance schemes.

## Engaging with HMRC

We aim to have a good working relationship with HMRC. We will engage with honesty and integrity, and in a spirit of cooperative compliance. We will make all returns and pay tax on a timely basis, across all types of tax.

## Share Capital

Details of our issued share capital, including movements during the year, are shown in Note 23 to the Financial Statements. We have one class of ordinary shares, which carries no fixed income. Each share carries the right to one vote at our general meetings. The ordinary shares are listed on the Official List and traded on the London Stock Exchange.

As at 31 December 2017, we had 100,137,186 (2016: 100,000,000) ordinary shares of 0.001 pence each in nominal value in issue (the 'issued share capital').

Holders of ordinary shares are entitled to receive dividends when declared, to receive the Company's Annual Report, to

## Directors' Report continued

attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights.

Whilst the Board has the power under the Articles of Association to refuse to register a transfer of shares, there are no such restrictions on the transfer of shares in place.

Under the Company's Articles of Association, the Directors have power to suspend voting rights and the right to receive dividends in respect of shares in circumstances where the holder of those shares fails to comply with a notice issued under section 793 of the Companies Act 2006. The Company is not aware of any agreements between Shareholders that may result in restrictions on the transfer of securities or voting rights.

### Share schemes

The Company operates a number of share schemes.

Long-Term Incentive Plans payable to executives and senior managers are operated under our Performance Share Plan ('PSP'). Executive Directors and PDMRs have a proportion of their annual bonus deferred for three years under our Deferred Share Plan ('DSP'). During 2017 the Company successfully launched a Save As You Earn (or sharesave scheme) which was available to all employees.

All shares issued under these plans carry the same rights as those already in issue.

### Related party transactions

Other than in respect of arrangements set out in Note 28 to the Financial Statements and in relation to the employment of Directors, details of which are provided in the Remuneration Committee Report on pages 50 to 64, there is no material indebtedness owed to or by us to any employee or any other person or entity considered to be a related party.

### Substantial Shareholders

As at 29 December 2017, the Company had been notified of the following holdings of voting rights in its shares under Chapter 5 of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority:

| Shareholder                     | No. of Shares | % of voting rights |
|---------------------------------|---------------|--------------------|
| Woodford Investment Management  | 14,885,249    | 15%                |
| Aberforth Partners              | 12,020,396    | 12%                |
| JO Hambro Capital Management    | 10,825,011    | 11%                |
| AXA Investment Managers         | 7,561,862     | 8%                 |
| Alantra Asset Management        | 6,596,666     | 7%                 |
| Hargreave Hale                  | 6,080,516     | 6%                 |
| Ruffer                          | 4,969,314     | 5%                 |
| Santander Asset Management UK   | 4,905,877     | 5%                 |
| BlackRock Investment Management | 4,422,324     | 4%                 |
| Janus Henderson Investors       | 3,035,714     | 3%                 |

### The Takeover Directive

The rights and obligations attached to the issued share capital are set out in the Articles of Association (see below).

There are no agreements in place between the Company, its employees or Directors for compensation for loss of office or employment that trigger as a result of a takeover bid.

### Articles of Association

The Company's Articles of Association can only be amended by special resolution of the Shareholders. Our current articles are available on our website at [investors.eurocell.co.uk](http://investors.eurocell.co.uk).

The Company's Articles of Association give powers to the Board to appoint Directors. All Board members are required to retire and submit themselves for re-election by Shareholders at each Annual General Meeting.

The Board of Directors may exercise all the powers of the Company, subject to the provisions of relevant legislation, the Company's Articles of Association and any directions given by the Company in general meetings. The powers of the Directors include those in relation to the issue and buyback of shares.

### Directors' retirement by rotation

In accordance with above and in line with the Code, all Directors in office will retire and offer themselves for re-election at the 2018 AGM.

The Articles of Association provide that a Director may be appointed by an ordinary resolution of Shareholders or by existing Directors, either to fill a vacancy or as an additional Director.

The Executive Directors serve under contracts that are terminable with 12 months' notice from the Company and 12 months' notice from the Executive Director. The Non-executive Directors serve under letters of appointment and do not have service contracts with the Company.

Copies of the service contracts of the Executive Directors and the letters of appointment of the Non-executive Directors are available for inspection at the Company's registered office during normal business hours and will be available for inspection at the Company's AGM.

### Directors' interests

Details of Directors' remuneration, interests in the share capital (or derivatives or other financial instruments relating to those shares) of the Company and of their share-based payment awards are contained in the Remuneration Committee Report on pages 50 to 64. No change in the interests of the Directors has been notified between 31 December 2017 and the date of this report.

### Directors' indemnities

Pursuant to the Articles of Association, the Company has executed a deed poll of indemnity for the benefit of the Directors of the Company and persons who were Directors of the Company in respect of costs of defending claims against them and third-party liabilities. These provisions, deemed to be qualifying third-party indemnity provisions pursuant to section 234 of the Companies Act 2006, were in force during the year ended 31 December 2017 and remain in force. The indemnity provision in the Company's Articles of Association also extends to provide a limited indemnity in respect of liabilities incurred as a director, secretary or officer of an associated company of the Company.

A copy of the deed poll of indemnity is available for inspection at the Company's registered office during normal business hours and will be available for inspection at the Company's AGM.

### Conflicts of interest

Under the Companies Act 2006, Directors must avoid situations where they have, or could have, a direct or indirect interest that conflicts or possibly may conflict with the Company's interests. As permitted by the Act, the Company's Articles of Association enable Directors to authorise actual or potential conflicts of interest.

### Legal and regulatory compliance

The executive team is responsible for identifying and carrying out assessments of those areas of the business where material legal and regulatory risks may be present. Where issues are identified, mitigating actions are built into an action plan involving the drafting and communication of policies and the delivery of training where appropriate, or are approached by way of a revision to key contractual terms. The Board receives regular reports on material litigation and the legal action taken to support our strategy.

### Health and Safety

We are committed to providing a safe place for employees to work. Our policies are reviewed on an ongoing basis to ensure that the approach to training, risk assessment, safe systems of working and accident management are appropriate. As part of this process, a rolling audit programme is in place to ensure that health, safety, environmental and security risks are assessed stringently and that robust control measures are in place to limit or mitigate risk as appropriate.

### Other matters

#### Employee disclosure (including Equality and Diversity)

See Corporate Social Responsibility on page 31.

### Financial risk management

Please refer to Note 3 of the Financial Statements.

### Research and development

The Group undertakes research and development work in support of its objectives. Further details of our research and development activities can be found in the Strategic Report on pages 4 to 21.

### Payments to suppliers

It is Group policy to abide by the payment terms agreed with suppliers, provided that the supplier has performed its obligations under the contract.

### Donations

In accordance with the Group's policy, no political donations were made and no political expenditure was incurred during 2017.

### Greenhouse gas emissions

See Corporate Social Responsibility on page 32.

### Disclosures required by Listing Rule 9.8.4R

There were no waivers of dividends during the year. There are no other disclosures to be made under the above listing rule.

By Order of the Board

**Gerald Copley**  
Company Secretary

8 March 2018