

# CHAIRMAN'S LETTER ON CORPORATE GOVERNANCE

Dear Shareholder,

On behalf of the Board I am again pleased to introduce the Group's Corporate Governance report.

In terms of regulation, the Company is subject to the provisions of the UK Corporate Governance Code (the 'Code'), which was last updated in September 2014, and I am pleased to report that the Company has applied the main and supporting principles of the Code, and has complied with all provisions. The Company's position regarding the independence of Stuart Corbyn, is discussed on page 86.

However, in addition to the regulations represented by the Code, it is increasingly being questioned whether compliance with the Code is sufficient to ensure a viable and sustainable business. This revised perspective, nearly 25 years after the introduction of the original Cadbury Report, is demonstrated by the Culture Project launched by the Financial Reporting Council (FRC) last October, and signifies a greater emphasis being placed on the culture of a company. This is referred to in the preface to the Code but recent studies have emphasised its importance in underpinning a company's behaviour and also stressed that, to be truly embedded, it must be set by the Board.

At Derwent London, we have always appreciated the importance of setting the tone from the top and have strived to promote a collegiate, honest and open culture throughout the business. This is supported by the Group's Whistleblowing policy. The importance of our culture has become increasingly evident over the last year as we have formalised the Group's Risk Appetite Statement, reviewed the Group's Bribery Act procedures and considered the requirements under the new Modern Slavery Act. In all these instances the successful implementation of the new processes depends at least as much on the culture established throughout the business by the Board as the detailed procedures that are introduced.

Within this overall context, there are a number of governance issues that I would like to provide further details on.

## Risk

One of the key risks to the Group's strategy that was identified last year and which has been carefully monitored by the Risk Committee during 2015 is cyber risk. This takes many different forms and has been the subject of guidance issued by the UK Government. The Group has adopted a three pronged approach to reduce the risk. The first was to improve the resilience of the IT infrastructure and to enhance the forensic capabilities of the business which will allow an attack to be identified and remedied more quickly. Secondly, staff awareness training has been increased with particular emphasis on 'social engineering' techniques. Finally, the Group's Business Continuity Plan was updated and fully tested at the disaster recovery suite.

Whilst in no way becoming complacent, these improvements to the controls and mitigating actions resulted in the Executive Committee lowering its assessment of this risk during its review of the Risk Register at the end of the year.

## New legislation

The Modern Slavery Act 2015 came into force in October 2015. Whilst we do not have to report under this legislation in respect of this year end, we have completed an initial review of the requirements and carried out a risk assessment. As a result of this we have identified the high risk area of our business and supply chain and inserted compliance clauses into the contracts of our higher risk suppliers. During 2016 it is intended to prepare a formal policy dealing with slavery and human trafficking and to roll out a programme of staff training.

## Future developments

Over the last few years I have commented on the volume of changes to the corporate governance environment and the introduction of the Modern Slavery Act shows that change is still happening. However, in January 2016 the FRC announced that it does not intend to make substantial changes to the Code for the next three years. Subject to changes arising from the EU Audit Regulation and Directive, this period of relative stability is to be welcomed.

As always, I would encourage you to attend the Group's Annual General Meeting on 13 May 2016. This important event gives you the opportunity to meet both the chairmen of the Board committees and members of senior management.

**ROBERT A. RAYNE**  
CHAIRMAN

25 FEBRUARY 2016