

STATEMENT OF COMPLIANCE WITH THE QCA CORPORATE GOVERNANCE CODE

CORPORATE GOVERNANCE

(The information contained in this document was last reviewed on 28 September 2019)

In this document, unless the context otherwise requires:

- reference to **REI** or to the **company** is to **Real Estate Investors Plc** (and reference to **our**, **us** and **we** is to be construed accordingly); and
- reference to the **group** is to the group of companies of which REI is the parent company

Introduction

On 28 September 2018, the board of REI decided to apply The QCA Corporate Governance Code (2018 edition) (the **QCA Code**). The choice of code to adopt was important to us. We wanted to be sure that we would proactively embrace whatever code we opted for and not end up with a code that could stifle us and result, on a comply or explain basis, with us describing why certain requirements were not appropriate. We believe that the QCA Code provides us with the right governance framework: a flexible but rigorous outcome-orientated environment in which we can continue to develop our governance model to support our business.

Corporate governance principles applicable to REI

As a result of deciding to apply the QCA Code, the corporate governance principles which now apply to us are those contained in the QCA Code. These are:

Corporate governance principles

- Establish a strategy and business model which promote long-term value for shareholders
- Seek to understand and meet shareholder needs and expectations
- Take into account wider stakeholder and social responsibilities and their implications for long-term success
- Embed effective risk management, considering both opportunities and threats, throughout the organisation
- Maintain the board as a well-functioning, balanced team led by the chair
- Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities
- Evaluate board performance based on clear and relevant objectives, seeking continuous improvement
- Promote a corporate culture that is based on ethical values and behaviours
- Maintain governance structures and processes that are fit for purpose and support good decision-making by the board
- Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

Application of the QCA Code and required disclosures in our annual report or on our website

The correct application of the QCA Code requires us to apply the principles set out above and also to publish certain related disclosures; these can appear in our annual report, be included on our website or we can adopt a combination of the two approaches.

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

The company is a commercial property investment company specialising in the established and proven markets of the greater Midlands area. The group's business model is based on generating rental and capital growth from an active approach to the management and development of a portfolio of quality buildings, predominantly within the office and retail sector. Recurring rental income from the portfolio underpins profits, which are supplemented by gains from the sale of investment properties. Disposal proceeds are recycled into new acquisitions with better growth prospects, whilst maintaining compliance with the terms of flexible secured bank finance.

With effect from 1 January 2015 the group converted to Real Estate Investment Trust (REIT) status under which the group is not liable to corporation tax on its rental income or capital gains from qualifying activities.

One of the company's principal objectives is to deliver on a commitment to a progressive dividend policy, which is underpinned by the company's REIT status. (See Annual Report and Accounts 2018 – page 32).

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

The company remains committed to listening and communicating openly with its shareholders to ensure that its strategy, business model and performance are clearly understood. Understanding what analysts and investors think about us, and in turn, helping these audiences understand our business, is a key part of driving our business forward and we actively seek dialogue with the market. We do so via investor roadshows, attending investor conferences and our regular reporting.

The AGM is the main forum for dialogue with retail shareholders and the Board. The Notice of Meeting is sent to shareholders at least 21 days before the meeting. The chairs of the Board and all committees, together with all other Directors, routinely attend the AGM and are available to answer questions raised by shareholders. For each vote, the number of proxy votes received for, against and withheld is announced at the meeting. The results of the AGM are subsequently published on the company's corporate website.

Institutional shareholders

The Directors actively seek to build a relationship with institutional shareholders. Shareholder relations are managed primarily by the Chief Executive Officer supported by the Finance Director. The Chief Executive Officer and Finance Director make presentations to institutional shareholders and analysts each year immediately following the release of the full-year and half-year results.

The Board as a whole is kept informed of the views and concerns of major shareholders by briefings from the Chief Executive Officer & Finance Director. Any significant investment reports from analysts are also circulated to the Board. The Non-Executive Chairman is available to meet with major shareholders if required to discuss issues of importance to them. (See Annual Report and Accounts 2018 – page 32).

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

The Company's business model has been in place for many years. As such, any of the key resources and relationships needed by the group have now been in place for quite some time.

The group's stakeholders include shareholders, members of staff, customers, suppliers, regulators, industry bodies and creditors (including the group's lending banks). The principal ways in which their feedback on the group is gathered are via meetings and conversations. Following this feedback, the group has continued its clearly defined, customer-focussed and people-led strategy and accompanying conservative approach to acquisitions and financing.

Engaging with our stakeholders strengthens our relationships and helps us make better business decisions to deliver on our commitments. The Board is regularly updated on wider stakeholder engagement feedback to stay abreast of stakeholder insights into the issues that matter most to them and our business, and to enable the Board to understand and consider these issues in decision-making. (See Annual Report and Accounts 2018 – page 32).

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

Audit, risk and internal control

The company has an established framework of internal financial controls, the effectiveness of which is regularly reviewed by the Executive Management, the Audit Committee and the Board in light of an ongoing assessment of significant risks facing the company.

- The Board is responsible for reviewing and approving overall company strategy, approving revenue and capital budgets and plans, and for determining the financial structure of the company including treasury, tax and dividend policy.
- The Audit Committee assists the Board in discharging its duties regarding the financial statements, accounting policies and the maintenance of proper internal business, and operational and financial controls
- There are comprehensive procedures for budgeting and planning, for monitoring and reporting to the Board business performance against those budgets and plans, and for forecasting expected performance over the remainder of the financial period. These cover profits, cash flows, capital expenditure and balance sheets. Quarterly results are reported against budget and compared with the prior year, and forecasts for the current financial year are regularly revised in light of actual performance.
- The company has a consistent system of prior appraisal for investments, overseen by the Finance Director and Chief Executive Officer, with defined financial controls and procedures.

The Board has ultimate responsibility for the group's system of internal control and for reviewing its effectiveness. However, any such system of internal control can provide only reasonable, but not absolute, assurance against material misstatement or loss. The Board considers that the internal controls in place are appropriate for the size, complexity and risk profile of the group. The principal elements of the group's internal control system include:

- Close management of the day-to-day activities of the group by the Executive Directors
- An organisational structure with defined levels of responsibility, which promotes entrepreneurial decision-making and rapid implementation while minimising risks
- A comprehensive annual budgeting process producing a detailed integrated profit and loss, balance sheet and cash flow, which is approved by the Board
- Detailed quarterly reporting of performance against budget
- Central control over key areas such as capital expenditure authorisation and banking facilities.

Principal risks and uncertainties

The Directors consider the principal risks of the Group and the strategy to mitigate these risks, as follows:

Risk area	Mitigation
Investment portfolio <ul style="list-style-type: none"> • Tenant default • Change in demand for space • Market pricing affecting value 	<ul style="list-style-type: none"> • Not reliant on one single tenant or business sector • Focused on established business locations for investment • Monitor asset concentration • Portfolio diversification between office and retail properties • Building specifications not tailored to one user • Continual focus on current vacancies and expected changes
Financial <ul style="list-style-type: none"> • Reduced availability or increased cost of debt • Interest rate sensitivity 	<ul style="list-style-type: none"> • Low gearing policy • Fixed rate debt and hedging in place • Existing facilities sufficient for spending commitments • Ongoing monitoring and management of the forecast cash position • Internal procedures in place to track compliance with bank covenants
People <ul style="list-style-type: none"> • Retention/recruitment 	<ul style="list-style-type: none"> • Remuneration structure reviewed • Regular assessment of performance • Long-term incentive plan
Corporate <ul style="list-style-type: none"> • Reputational risk • Health & safety • IT/Cyber 	<ul style="list-style-type: none"> • External investor and public relations consultancy • Management system and support from specialist external advisers • IT systems and anti-virus software and firewalls

(See Annual Report and Accounts 2018 – page 33).

Principle 5: Maintaining the Board as a well-functioning, balanced team led by the Chair

The Board comprises the Non-Executive Chairman, two Executive Directors and two Non-Executive Directors. The Board considers, after careful review, that both the Non-Executive Directors are independent.

The Board is satisfied that it has a suitable balance between independence on the one hand, and knowledge of the company on the other, to enable it to discharge its duties and responsibilities effectively. All Directors are encouraged to use their independent judgement and to challenge all matters, whether strategic or operational. During 2018 four Board meetings took place - all Board members attended all such meetings.

During 2018, two Audit Committee Meetings took place – all members attended such meetings. During 2018, two Remuneration Committee meetings took place – all members attended such meetings.

Key Board activities this year included:

- Input into the group corporate plan
- Continued an open dialogue with the investment community
- Considered our financial and non-financial policies
- Discussed strategic priorities
- Discussed the group's capital structure and financial strategy, including capital investments, shareholder returns and the dividend policy
- Discussed internal governance processes
- Reviewed feedback from shareholders post full and half year results.

Directors' conflict of interest

The company has effective procedures in place to monitor and deal with conflicts of interest. The Board is aware of the other commitments and interests of its Directors, and changes to these commitments and interests are reported to and, where appropriate, agreed with the rest of the Board. (See Annual Report and Accounts 2018 – page 33).

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

The Board is satisfied that, between the Directors, it has an effective and appropriate balance of skills and experience. All Directors receive regular and timely information on the group's operational and financial performance. Relevant information is circulated to the Directors in advance of meetings. The business reports quarterly on its headline performance against its agreed budget, and the Board reviews the quarterly update on performance and any significant variances are reviewed at each meeting. Contracts are available for inspection at the company's registered office and at the Annual General Meeting ("AGM").

The company does not provide formal training for the directors at present but may do so in the future. However, the directors understand their duties as directors of a company quoted on AIM. The directors have access to the Company's Nominated Adviser, auditors, solicitors and other advisers as and when required. These advisers may provide formal training to the Board from time to time. The directors are also able, at the Company's expense to obtain advice from external advisers if required.

All Directors retire by rotation at regular intervals in accordance with the company's Articles of Association.

Appointment, removal and re-election of Directors

The Board makes decisions regarding the appointment and removal of Directors, and there is a formal, rigorous and transparent procedure for appointments. The company's Articles of Association require that one-third of the Directors must stand for re-election by shareholders annually in rotation; that all Directors must stand for re-election at least once every three years; and that any new Directors appointed during the year must stand for election at the AGM immediately following their appointment.

Independent advice

All Directors are able to take independent professional advice in the furtherance of their duties, if necessary, at the company's expense. In addition, the Directors have direct access to the advice and services of the Finance Director. (See Annual Report and Accounts 2018 – page 33).

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

John Crabtree, as Chairman, assesses the individual contributions of each of the members of the team to ensure that:

- Their contribution is relevant and effective
- That they are committed
- Where relevant, they have maintained their independence

Succession planning is an ongoing process that identifies necessary competencies, and then works to assess what would be required to ensure a continuity of leadership for all critical positions.

Over the next 12 months we intend to review the performance of the team as a unit to ensure that the members of the board collectively function in an efficient and productive manner. (See Annual Report and Accounts 2018 – page 34).

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

The Board aims to lead by example and to do what is best in the interests of the company, its stakeholders and employees and it is the Board's responsibility to ensure that good standards of corporate governance are embraced within the group. The Board sets clear standards concerning the group's culture, values and behaviours. The management team have regular meetings and updates with the executive directors, who firmly believe that encouraging the right way of thinking and behaving reinforces our corporate governance culture. (See Annual Report and Accounts 2018 – page 34).

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

Board programme

The Board meets at least four times each year in accordance with its scheduled meeting calendar. The Board sets direction for the company through a formal schedule of matters reserved for its decision. Prior to the start of each financial year, a schedule of dates for that year's Board meetings is compiled to align as far as reasonably practicable with the company's financial calendar. The Board and its Committees receive appropriate and timely information prior to each meeting; a formal agenda is produced for each meeting, and Board and Committee papers are distributed several days before meetings take place. Any Director may challenge company proposals and decisions are taken democratically after discussion. Any Director who feels that any concern remains unresolved after discussion may ask for that concern to be noted in the minutes of the meeting, which are then circulated to all Directors. Any specific actions arising from such meetings are agreed by the Board or relevant Committee and then followed up by the company's management.

Roles of the Board, Chairman and Chief Executive Officer

The Board is responsible for the long-term success of the company. There is a formal schedule of matters reserved to the Board. It is responsible for overall group strategy; approval of major investments; approval of the annual and interim results; annual budgets; dividend policy; and Board structure. It monitors the exposure to key business risks and reviews the strategic direction of the group. There is a clear division of responsibility at the head of the company. The Chairman is responsible for running the business of the Board and for ensuring appropriate strategic focus and direction. The Chief Executive Officer is responsible for proposing the strategic focus to the Board, implementing it once it has been approved and overseeing the management of the company through the Executive Team.

All Directors receive regular and timely information on the group's operational and financial performance. Relevant information is circulated to the Directors in advance of meetings. The business reports quarterly on its headline performance against its agreed budget, and the Board reviews the quarterly update on performance and any significant variances are reviewed at each meeting. Senior executives below Board level attend Board meetings where appropriate to present business updates.

Executive Team

The Executive Team consists of Paul Bassi and Marcus Daly with input from the management team. They are responsible for formulation of the proposed strategic focus for submission to the Board, the day-to-day management of the group's businesses and its overall trading, operational and financial performance in fulfilment of that strategy, as well as plans and budgets approved by the Board of Directors. It also manages and oversees key risks, management development and corporate responsibility programmes. The Chief Executive Officer reports to the Board on issues, progress and recommendations for change. The controls applied by the Executive Team to financial and non-financial matters are set out earlier in this document, and the effectiveness of these controls is regularly reported to the Audit Committee and the Board.

Board committees

The Board is supported by the Audit and Remuneration committees. Each committee has access to such resources, information and advice as it deems necessary, at the cost of the company, to enable the committee to discharge its duties. The terms of reference of each committee are available at <http://reiplc.com/barques-content/uploads/2018/09/Audit-Committee-Terms-of-Reference.pdf>.

Audit Committee

Its primary focus is on corporate reporting (from an external perspective) and on monitoring the company's internal control and risk management systems (from an internal perspective).

Remuneration Committee

Its primary function is to determine, on behalf of the Board, the remuneration packages of the Executive Directors.

(See Annual Report and Accounts 2018 – page 34).

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

The company communicates with shareholders through the Annual Report and Accounts, full-year and half-year announcements, the Annual General Meeting (AGM) and one-to-one meetings with large existing or potential new shareholders. A range of corporate information (including all company announcements and presentations) is also available to shareholders, investors and the public on the company's corporate website, www.reiplc.com.

The Board receives regular updates on the views of shareholders through briefings and reports from the Chief Executive Officer, Finance Director and the company's brokers. The company communicates with institutional investors frequently through briefings with management. In addition, analysts' notes and brokers' briefings are reviewed to achieve a wide understanding of investors' views. (See Annual Report and Accounts 2018 – page 34).

Audit Committee Report

The Audit Committee comprised two Non-Executive Directors for the year 31 December 2018, in compliance with the QCA Corporate Governance Code, William Wyatt (Chairman), and John Crabtree. It is scheduled to meet at least twice a year. It is the Audit Committee's role to provide formal and transparent arrangements for considering how to apply financial reporting under IFRS, risk and the internal control requirements of the Company and maintaining an appropriate relationship with the independent auditor of the Group.

Responsibilities

The Audit Committee's main functions include reviewing and monitoring internal financial control systems and risk management systems on which Circle is reliant, considering annual and interim accounts and audit

reports, making recommendations to the Board in relation to the appointment and remuneration of auditors and monitoring and reviewing annually the independence, objectivity, effectiveness and qualifications of the auditors.

The main responsibilities of the Committee are:

- To review accounting policies and the integrity and content of the financial statements
- To monitor disclosure controls and procedures and the Company's internal controls
- To monitor the integrity of the financial statements of the Company and assist the Board in ensuring the Annual Reporting and Accounts for 2018, when as taken as a whole, give a true and fair view
- To consider the adequacy and scope of the external audit
- To review and report on the significant issues considered in relation to the financial statements and how they are addressed
- To review and approve the statements to be included in the Annual Report

The committee has undertaken a formal assessment of the auditor's independence and will continue to do so at least annually. This assessment includes:

- a review of any non-audit services provided and the related fees
- a review of the auditor's own procedures for ensuring independence of the audit firm and parties and staff involved in the audit
- obtaining confirmation from the auditor that, in its judgement it is independent

The Committee's terms of reference are reviewed annually and a summary of these are available on the Corporate Governance section our website at www.circleproperty.co.uk/investors/corporate-governance

Actions undertaken during the year

The key activities for the Committee for the year under review are as follows:

Presentation of results

At the request of the Board, the Committee reviewed the presentation of the Company's audited results for the year ended 31 December 2018 and the unaudited interim results for the 6 months to 30 June 2018 to ensure they are fair, balanced and understandable for shareholders and other users of the accounts to assess the Company's position and performance.

Risk management

Effective risk management and control is key to the delivery of the Company's business strategy and objectives. Risk management and control processes are designed to identify, assess, mitigate and monitor significant risks, and can only provide reasonable and not absolute assurance. The Board is responsible for oversight of how the Company's strategic, operational, financial, human, legal and regulatory risks are managed and for assessing the effectiveness of the risk management and internal control framework.

Internal audit

The Company does not have an internal audit function.

Safeguards and effectiveness of the external auditor

The Committee recognises the importance of safeguarding auditor objectivity. The following safeguards are in place to ensure that auditor independence is not compromised:

- The Audit Committee carries out an annual review of the external auditor as to its independence from the Company in all material respects and that it is adequately resourced and technically capable to deliver an objective audit to shareholders.
- A tax advisor separate from the external auditor is engaged to provide all taxation services.
- Any non-audit work is restricted to work closely related to the annual audit or where the work is of such a nature that detailed understanding of the business is beneficial.
- The Audit Committee reviews all fees paid for audit and consultancy services on a regular basis to assess reasonableness and any independence issue that may potential arise in the future.
- The external auditor reports to the Directors and Audit Committee regarding their independence in accordance with Audit Standards. Grant Thornton UK LLP policy in line with best practice is that the audit partner rotates every 5 years. The external auditor liaises with the Audit Committee regarding work to be undertaken and complies with the Ethical Standards for Auditors issued by the Auditing Practices Board, prior to commencing the audit work carried out on behalf of the Group and communicates the safeguards in place to ensure its independence and objectivity. Any in-year proposals for non-audit work are subject to prior approval by the Audit Committee.

The Committee monitors the effectiveness of the external auditor. The auditor presented its audit plan to the Audit Committee at the meeting in March 2019, the plan was reviewed and approved at that meeting with specific areas of focus by the independent auditor discussed in detail for the ensuing audit.

The Committee recognises that all financial statements include estimates and judgements by management. The key areas are agreed with management and the external auditors as part of the year-end planning process. This includes an assessment by management of the significant areas requiring management judgement. These areas are reviewed with the auditors to ensure that appropriate levels of audit work are completed, the following are areas of judgement that have been considered:

Valuation of investment properties

Investments in property and property-related assets are inherently difficult to value due to the individual nature of each property. As a result, valuations are subject to substantial uncertainty. There is no assurance that the estimates resulting from the valuation process will reflect the actual sales price even where such sales occur shortly after the valuation date. Professional valuers were employed to perform valuations of the Group's investment properties using Royal Institute of Chartered Surveyors ("RICS") valuation standards. In arriving at their estimate of market value the valuers used their market knowledge and professional judgement and did not rely solely on comparable historical transactions. There is an inherent degree of uncertainty when using professional judgement in estimating the market values of investment property.

Review of accounting policies

There were no significant changes in accounting policies applying to the Group for the year ended 31 December 2018. The Group has applied IFRS 15, 'Revenue from contracts with customers' for the first time, the adoption of IFRS 15 had no material impact on the recognition, measurement or disclosures relating to its financial statements, as the only contracts are leases with tenants, which are out of scope of the new standard.

IFRS 16, 'Leases' will apply to the Group from 1 April 2019, the standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted. For lessees, it will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases will be removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low value leases. The accounting for lessors will not significantly change. In the Directors' opinion, IFRS 16 will have no material impact on the recognition, measurement or disclosures in the Group's financial statements.

Effective risk management and internal control

One of the Board's key responsibilities is to ensure that management maintains a system of internal control to ensure effective and efficient operations, internal financial controls and compliance with law and regulation. The Company's systems are designed to identify key financial and other risks to the Company's business and reputation and to ensure appropriate controls in place. Consideration is given to the costs and benefit of implementing such controls.

Assurance

Where appropriate, the Audit Committee ensure that necessary actions have been, or are being taken, to remedy or mitigate significant failings or weaknesses identified during the year whether from internal review or raised by the external auditor. The Company's internal controls over the financial reporting and consolidation processes are under supervision of the Audit Committee to ensure the reliability of financial reporting and the preparation and fair presentation of the Company's published financial statements for external purposes in accordance with IFRS.

Because of its inherent limitations, internal control over financial reporting cannot provided absolute assurance and may not prevent or detect all misstatements whether caused by fraud or error.