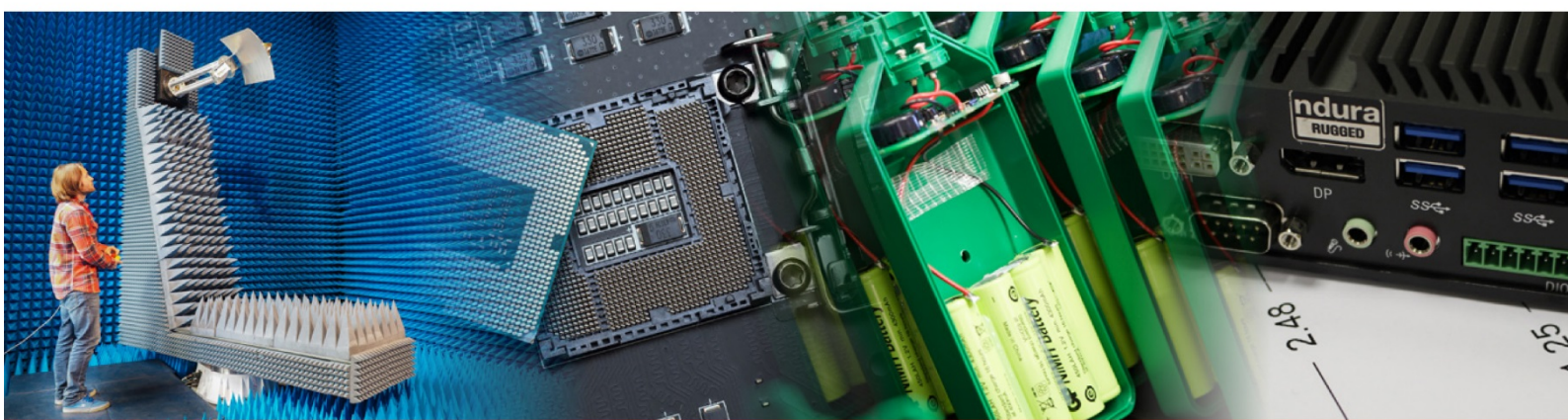


SOLID STATE PLC

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Solid State Plc Corporate Governance Statement



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Solid State Plc – Corporate Governance Statement

The Board

The Company (and thereby its group (the “Group”)) is ultimately managed by the directors of the Company (the “Directors”), who (individually and as a group) are responsible for running the Company for the benefit of its shareholders in accordance with their fiduciary and statutory duties.

The Board comprises, the Non-Executive Chairman; Mr A B Frere, the Chief Executive Officer; Mr G S Marsh, three Executive Directors and two Non-Executive Directors.

The Biographies of the Directors are set in the annual report which is available on the Group website. These show the range of business and financial experience upon which the Board is able to call.

The Board’s goal is to ensure that its membership should be balanced between Executives and Non-Executives and have the appropriate skills, experience and knowledge of the business. The Board recognises the special position and role of the Chairman under the QCA Code, and has approved the formal division of responsibilities between the Chairman and Chief Executive.

Chairman

The Chairman is responsible for the leadership of the Board and ensuring its effectiveness, and the Chief Executive manages the Group and has the prime role, with the assistance of the Board, of developing and implementing business strategy.

Non-Executives

One of the roles of the Non-Executive Directors under the leadership of the Chairman is to undertake detailed examination and discussion of the strategies proposed by the Executive Directors, so as to ensure that decisions are in the best long-term interests of shareholders and take proper account of the interests of the Group’s other stakeholders.

The Chairman ensures that meetings of Non-Executive Directors without the Executive Directors are held.

The Board currently considers that none of the Non-Executives are truly independent in accordance with the QCA Code.

However, the QCA guidelines acknowledge that for growing companies it may not be possible for boards to meet the definition of “independence” for their Non-Executive Directors and set out that it is important for the board to foster an attitude of independence of character and judgement. Furthermore, the fact that a Director has served for more than nine years does not automatically affect independence, although concurrent tenure with management could hinder the ability to be objective.

Based on the QCA guidelines the board conclude that the Non-Executives are however independent in terms of character and judgement in the way in which they execute their role as Non-Executive Directors.

As such, the Group has chosen not to appoint a senior independent Director in accordance with the Code. However, the Board feels that stability in the Non-Executive team when there have been two changes in the Executive team in 2016 and 2017. Which when combined with the knowledge, and the experience of the industry and business in general held by Mr A B Frere, Mr P Haining and Mr J M Lavery far out-weighs the potential lack of perceived independence.

The Board is mindful of the threat to independence and actively manages the potential risk to ensure that the Non-Executives provide the independent constructive challenge to help develop the Board’s proposals on strategy. The terms and conditions of appointment of the Non-Executive Directors are available for inspection upon request to the Company Secretary.

Board Committees

The Board has three standing committees (the “Committees”): the Audit Committee, the Remuneration Committee and the Executive Committee. The Terms of Reference for each of the Committees are available on the Company’s website.

The Board does not have a formally-established nominations committee however one would be formed prior to any nominations for appointment to the Board. Furthermore, any nominations are considered and recommended by the full Board and are subject to a shareholder vote at the next Annual General Meeting.

Rules concerning the appointment and replacement of Directors of the Group are contained in the Articles of Association (“Articles”). Amendments to the Articles must be approved by a special resolution of shareholders. Under the Articles, all Directors are subject to election by shareholders at the first Annual General Meeting following their appointment, and to re-election thereafter at intervals of no more than three years.

Committees of the Board

Executive Committee

The Executive Committee consists of the Executive Directors under the chairmanship of Mr G S Marsh and is responsible for the development of strategy, annual budgets and operating plans linked to the management and control of the day-to-day operations of the Group.

The Executive Committee is also responsible for monitoring key commercial opportunities and relationships, day to day stakeholder engagement and for ensuring that the Board policies are carried out on a Group-wide basis.

Audit Committee

The Audit Committee consists of the Non-Executive Directors; Mr P Haining, Mr J M Lavery and Mr A B Frere. The Committee meets at least twice a year under the Chairmanship of Mr P Haining, who the Board has evaluated to have recent relevant financial experience.

The Chairman of the Audit Committee is not deemed independent by virtue of his length of service and that he has previously held an Executive position. However, given the appointment of a new Executive Group Finance Director in 2017 and the fact that the Board considers that Mr P Haining fulfils the role with independence of character and judgement, the Board has concluded that it is appropriate to retain the financial experience and knowledge of the business possessed by Mr P Haining in his role as Chairman of the Audit Committee.

The Audit Committee has specific written terms of reference which deal with its authority and responsibilities and these are available for inspection from the Company Secretary. Its duties include monitoring internal controls throughout the Group, approving the Group’s accounting policies, and reviewing the Group’s interim results and full year financial statements before submission to the full Board. The Audit Committee also reviews and approves the scope and content of the Group’s annual risk assessment programme and the annual audit and monitors the independence of the external auditors.

The Audit Committee acts to ensure that the financial performance of the Group is properly recorded and monitored. In fulfilling their role, they meet annually with the auditors and review the reports from the auditors relating to accounts and internal control systems.

The Group does not have an independent Internal Audit function, as it is not considered appropriate given the scale of the Group’s operations, however the Group operates internal peer reviews, with a scope of evaluating and testing the Group’s financial control procedures to standardise processes around best practice. Any significant issues are reported to the Chairman of the Audit Committee, and shared with the external auditors as appropriate.

The Group Finance Director and the external auditors attend meetings of the Audit Committee by invitation. The Committee also holds separate meetings with the external auditors, as appropriate.

Remuneration Committee

The Remuneration Committee consists of Mr A B Frere, Mr J M Lavery and Mr P Haining. The Committee meets at least twice a year under the Chairmanship of Mr A B Frere.

While the Corporate Governance code suggests the Chairman of the Group should not also be Chairman of the Remuneration Committee, as Mr A B Frere is the only Non-Executive Director not to have held an Executive position, it is felt that it is appropriate that Mr A B Frere chairs this committee.

The Chief Executive and Group Finance Director have attended some of the meetings of the Remuneration Committee by invitation to respond to questions raised by the Committee. They are however, excluded from any matter concerning the details of their own remuneration.

The Remuneration Committee has specific terms of reference which deal with its authority and duties and these are available for inspection from the Company Secretary.

The purpose of the committee is to review the performance of the Executive Directors and to set the scale and structure of their remuneration and the basis of their service agreements with due regard to the interests of the shareholders. In fulfilling this responsibility, the Remuneration Committee is responsible for setting salaries, incentives and other benefit arrangements of the Executive Directors and overseeing the Group's employee share schemes.

Members of the Remuneration Committee do not participate in decisions concerning their own remuneration.

Frequency of meetings

The Board meets at least ten times a year and relevant information is distributed to Directors in advance of the meetings. The Board makes decisions on all material matters including long term and commercial strategy, annual operating and capital budgets, capital structure and financial & internal controls.

The Group has a formal schedule of matters reserved to the Board which is periodically reviewed and approved by the Board.

Evaluating board performance

The Board has a number of sources of information from which it judges its own performance and that of the individual Directors, these include but are not limited to:

- i. financial performance indicators including, revenue, order book, gross margin, net margin, earnings per share and cash flow;
- ii. the Company's share price;
- iii. reports from external auditors;
- iv. shareholder feedback; and,
- v. customer feedback.

All these factors are considered, and action is taken to improve performance as appropriate.

The Board formally evaluates its own performance (whether by itself or by engaging external consultants) at least once a year.

Communication with shareholders

The Board attaches great importance to providing shareholders with clear and transparent information on the Group's activities, strategies and financial position, in addition to having regard to its obligations as a quoted public company and the AIM Rules.

The Group holds meetings with significant shareholders on a regular basis and regards the Annual General Meeting as a good opportunity to communicate directly with shareholders via an open question and answer session.

The Group lists contact details on its website should shareholders wish to communicate with the Board. All announcements and results, including those released via RNS and RNS Reach, are available on the Group's website.

Risk management and internal controls

The Board reviews and approves an Annual Budget and Business Plan prior to the start of each financial year. This includes reviewing the key strategic, operational and financial objectives for the year, together with a detailed financial budget.

The Executive Committee is accountable to the Board for delivery of the Annual Business Plan. The Executives report performance against the plan on a monthly basis, which includes detailed analysis of budgetary variances and updated financial projections.

Each Executive Director is responsible for identifying and managing the risks relating to their respective areas of responsibility, including the risks relating to strategy, the Annual Business Plan, and day-to-day business.

To provide a framework for the delivery of the Group's strategy and plans, the Executive Committee has developed an organisational structure with clear roles and responsibilities, and clear lines of reporting.

In addition to day-to-day risk management, the Executive Directors formally assess the major business risks and evaluate their potential impact on the Group.

These risks and the reporting of the risk assessment are included in the annual report and accounts within the strategic report.

City code on takeovers and mergers

The Company is subject to the City Code on Takeovers and Mergers.

QCA Corporate governance code

As an AIM company, the Company is not required to comply with the Financial Reporting Council's UK Corporate Governance Code (the "Code"). Notwithstanding that, the Board seeks to achieve compliance with the Code wherever appropriate and proportionate, having regard to the size of the Group and the resources available to it.

In accordance with AIM rule 26 the company has adopted the QCA code and has explained on the company website how it has adopted and complied with the QCA code.

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