

The Felixstowe Dock and Railway Company

Statement of corporate governance arrangements

The company is engaged in the provision of port operations and associated services in the United Kingdom, trading as Port of Felixstowe (the “Port”). The company is an indirect majority-owned subsidiary of CK Hutchison Holdings Limited (“CKHH”, and together with its subsidiaries, the “CKHH Group”), a company whose shares are listed on the main board of The Stock Exchange of Hong Kong Limited.

The company adopts and applies high standards of corporate governance best suited to the needs and interests of the CKHH Group. It believes that an effective corporate governance framework is fundamental to promoting and safeguarding the interests of shareholders and other stakeholders and enhancing shareholder value.

For the financial year ended 31 December 2019, under The Companies (Miscellaneous Reporting) Regulations 2018 applicable to companies reporting for financial years starting on or after 1 January 2019, the company has adopted the Wates Corporate Governance Principles for Large Private Companies (the “Wates Principles”), as an appropriate framework for disclosure of its corporate governance arrangements. The company’s reporting under the Wates Principles is set out below.

Principal 1 - Purpose and leadership

The primary objective of the company is aligned with the strategic goal of the CKHH Group to enhance long-term total return for shareholders. To achieve this objective, the company’s strategy is to place equal emphasis on achieving sustainable recurring earnings growth and maintaining the company’s strong financial profile, facilitating both with prudent capital investment.

The company’s goal is to achieve profitable growth of its business in a sustainable way and retain its position as Britain’s number one container port, by providing a high quality and consistent level of cargo handling services and innovative solutions, offering the best connectivity with its deep-water channel and extensive intermodal access and developing long-term relationships with its customers and stakeholders.

The company’s strategy is to retain its position as Britain’s number one container port and to provide good employment prospects for its people. It seeks profitable growth in port operations and logistics activities by providing a high standard of performance, innovative solutions and developing long-term relationships with its customers. It does this through its strategic objectives:

The Felixstowe Dock and Railway Company

Statement of corporate governance arrangements (continued)

1. grow volume and market share and the commercial growth of the business, through engagement and partnering with customers and end-users.
2. maximise operational efficiency and eliminate avoidable risk and waste, through resourcing efficiency by engaging with employees and subcontractors and adopting modern work practices across the business.
3. improve the financial performance of the business and the effective management of total costs, by collaborating with stakeholders to achieving targets, taking revenue opportunities, eliminating unnecessary waste and cost and investing in value-added capital expenditure and new initiatives.
4. develop the skills, knowledge and motivation of the workforce, by acknowledging that it is people that deliver the service to customers. Recognition of the importance of gender diversification by increasing the blend of skills and experience that are vital components of future operation and the company is committed to implementing key initiatives to improve the gender balance across all areas of its business.

The company continues to adopt an open and transparent communication style and is moving forward with culture change. It continues to invest in its employees by focusing on individual training, development and performance management. The company acknowledges and celebrates the experience and contribution of every individual in its business as the driving force for its continued success.

The board of directors (the “Board”) is appointed by CKHH, the ultimate parent entity and the views of shareholders are clearly communicated through various channels. Whilst the Board is responsible for the overall direction and management of the company, to ensure effective day-to-day management of the company, it has selected the company’s local Executive team (the “Exec”) and delegated signing authority to certain senior officers and employees which is generally based on financial thresholds. In addition, to maintain an appropriate level of control over strategic and key business decisions, the Board has identified certain matters that only it can approve. The Board regularly reviews the signing authority and the list of matters reserved for Board approval to ensure they are appropriate and relevant.

The Exec and members of the Board meet regularly to discuss and review strategies, performance, business plans, budgets, and risk profiles of the company. Whilst the Board is charged with the task of promoting the long-term success of the company and making decisions in the best interests of the company, the Exec is accountable for the conduct and performance of the company within the agreed strategies. The Board together with the Exec instil and uphold the company’s objectives and strategies through the day-to-day operations and management of the company.

The company’s values, strategy and objectives are shared regularly with employees via town hall briefing events, formal monthly meetings, publications on the intranet, keynote speeches from the Exec and senior leadership team members.

Further, these strategy and objective are communicated across the business by various means and at different levels of detail depending on the audience and needs. A decision-making framework exists outlining the forum that sets out the strategy and purpose, those empowered to execute the strategy and those who are informed on the progress of execution against the plan. The process is managed through the operation of a centralised governance board whose remit is to assure that the collective company change plan delivers against the overall company strategy. The governance board has a view of all business and technical change and is made up of senior level personnel from across the key directorate groups.

The culture and behaviours that are demonstrated include being customer led, evidence based, equal opportunity, working collaboratively and people development.

The Board and Exec recognise the importance of their role in setting the tone and embedding behaviours in corporate culture and values. The Exec holds regular sessions to create behaviours in themselves and senior leadership teams across the business that will demonstrate the company’s values. Progress against this is regularly reviewed. Insight from employee engagement surveys also provides measures against the company’s values and is used as a key indicator of progress against cultural change ambitions.

The Key Performance Indicators identified are measured through several mechanisms including the employee engagement survey, exit interviews, employee feedback sessions as well as through external benchmarking. The insight is shared by the Exec on a quarterly basis with Board members and senior leaders.

The Felixstowe Dock and Railway Company

Statement of corporate governance arrangements (continued)

An Executive Change Steering Committee has a remit to deliver managed change against the overall company strategy, with the Exec forming its governance board. Strategy is driven by authorising change programmes against business cases and setting priorities. Business cases for change projects are drawn up and delivered by members of a Change Management Board comprising leaders from key business areas and the effectiveness of change projects is assessed by a variety of measurable criteria.

The Exec leads on establishing transparent policies in relation to raising concerns about misconduct and unethical practices and embeds this education and awareness through annual mandatory training modules which include Bribery Act 2010, Competition Law, General Data Protection Regulation, Cyber Security, Equal Opportunities and Health and Safety in the workplace.

Principal 2 - Board composition

In alignment with the Board Diversity Policy of CKHH, the company recognises the benefits of a Board that possesses a balance of skill sets, experience, expertise and diversity of perspectives appropriate for the strategies of the company. The company believes that board diversity enhances decision-making capability and thus the overall effectiveness of the Board in achieving sustainable business operation and enhancing shareholder value. The Board combines a diverse set of skills and expertise which include business management, strategic planning and risk management, financial reporting, and industry knowledge and experience.

As at 31 December 2019, the Board comprised the following five directors:

Sing Chi Ip is the chairman of the Board (the “Chairman”) and has been a director of the company since 2014. He has been Group Managing Director of Hutchison Port Holdings Limited, the global ports division of CKHH Group, since 2014. Mr Ip has been with Hutchison Ports since 1993 and was the founding Chairman of the Hong Kong Container Terminal Operators Association Limited. He was a member of the Hong Kong Port Development Council from 2009 to 2014 and has over 35 years of experience in the maritime industry.

Frank John Sixt has been a director of the company since 2016 and is Group Finance Director, Deputy Managing Director and an Executive Director of CKHH. He had previously been an Executive Director of Cheung Kong (Holdings) Limited from 1991 and became a Non-Executive Director in 1998 until June 2015. He holds a Master’s degree in Arts and a Bachelor’s degree in Civil Law, and is a member of the Bar and of the Law Society of the Provinces of Québec and Ontario, Canada.

Clemence Chun Fun Cheng is Chief Executive Officer (“CEO”) of Hutchison Ports UK and of the company and has been a director of the company since 2001. Clemence has over 20 years’ port industry experience with Hutchison Ports. He is also an Executive Director of Hutchison Port Holdings Limited. He serves on a number of industry bodies including London International Shipping Week and the CBI Infrastructure Board and participates in several UK and European port industry forums. Clemence is a Chartered Accountant whose early career included investment banking.

Andrew Steven Lawrence has been a Director of the Company since December 2019. He was appointed Director of Corporate Affairs for Hutchison Whampoa (Europe) Limited, the European headquarters company of CKHH, in July 2012. His responsibilities were extended to Director of Corporate Affairs and Communications in January 2019. Prior to joining Hutchison Whampoa (Europe) Limited, Andrew worked in the British Civil Service. He holds a Master of Arts degree in Modern and Medieval Languages from the University of Cambridge and a Master of Business Administration degree from Imperial College London.

Simon Richard Mullett has been a Director of the Company since December 2019 and company secretary since 2010. He is Chief Financial Officer for the Europe Division of Hutchison Ports and has over 20 years’ industry experience with Hutchison Ports. He has held a number of positions with the group and now has a leading role in business development in Europe. Simon is a Chartered Accountant whose previous experience included audit, taxation and corporate transactions.

The Felixstowe Dock and Railway Company

Statement of corporate governance arrangements (continued)

The positions of the Chairman and chief executive are being held by different individuals. The Chairman leads the Board and is responsible for its overall effectiveness, promoting open debates and facilitating constructive discussion. The Board which comprises experienced and seasoned professionals and the management of the CKHH Group collectively demonstrate a high-level of understanding relevant to the business needs of the company and stakeholder interests. The Board considers its current size and composition constitutes an effective board appropriate to meet the strategic needs and challenges of the company and ensure effective decision-making. The company has not appointed any independent non-executive directors nor created any board committees but is mindful of reviewing the need and making appropriate appointments as and when warranted.

The company arranges, provides and facilitates continuous professional training, this includes seminars, management briefing sessions, professional development and training days. There are regular Chief Executive Officer summit meetings, Hutchison Ports UK Executive offsite briefings and senior management offsite courses in business-related topics and leadership, mentoring, coaching and development. The company has a formal mentoring programme. These initiatives help ensure that both the Board and the Exec are familiar with the current commercial, legal and regulatory environment in which the company operates.

Principal 3 – Directors responsibilities

The Board and each director have a clear understanding of their accountability and responsibilities.

The Board is committed to achieving and maintaining the high standards of corporate governance structure, policies and practices of the CKHH Group, taking into account the business and regulatory frameworks within which the company operates. Business plans and budgets are prepared annually by management of the company and then subject to review and approval by the Board and the executive management team of CKHH as part of CKHH's five-year corporate planning cycle. The Exec and senior managers are also responsible for preparing monthly management reports on the financial results and key operating statistics of the company. Monthly meetings are held with the executive management team of CKHH to review these reports, business performance against budgets, forecasts, significant business risks sensitivities and strategies of the company. Board meetings are held quarterly to consider and discuss issues and approve items reserved to the Board.

The Board is responsible for promoting the long-term success of the company and making decisions in its best interests in line with the agreed business plans and strategies. Throughout the year, company management provides the directors with updates and other information on the performance, business activities and development of the company. The Board seeks to instil risk awareness across the company's business operations and has put in place policies and procedures, including parameters of delegated authorities, which provide a framework for the identification and management of risks.

In addition to Board meetings, directors participate in the consideration and approval of significant operational matters by written resolutions with supporting explanatory materials, supplemented by additional information from the Company Secretary or other executives when required. Except for circumstances permitted by the statutes of the company, a director will abstain from voting on resolutions approving any matter in which he or she is materially interested in. Directors also have full access to information on the company and independent professional advice when desired and they can propose appropriate matters for inclusion in Board agendas or the monthly meetings explained above.

The Board considers all these corporate governance and internal control frameworks and the basis of company leadership together with teamwork and promotion of effective stewardship to deliver long-term value for the company and its shareholders as a whole.

The CEO is responsible for the consideration of the structure, size, diversity profile and skills makeup of the Exec, the progress in achieving the strategic needs of the organisation and meeting the objectives of the company. To support this, the Exec has established a number of specialist committees to develop, promote and support specific elements of governance. These include:

- Anti-Bribery and Anti-Corruption Steering Group
- Environment Committee
- Executive Health and Safety Committee
- IT Security Committee
- Internal Compliance and Risk Management Committee

The Felixstowe Dock and Railway Company

Statement of corporate governance arrangements (continued)

Each of these committees has established terms of reference and either reports to the Exec, to the CEO or directly to the Board. Separately, other committees are established by the Board as and when warranted to handle specific tasks. The Group Management Services of CKHH periodically carries out reviews of company control procedures and risk management and reports to the Board and provides input as and where appropriate to ensure effective and continually improving risk management is in place.

Principal 4 – Opportunity and risk

The company supports the long-term sustainability of its business by regularly reviewing its business models and practices to identify opportunities for improving its performance and creating value for stakeholders. The company reviews external factors that influence the business, including political, economic and industrial relations factors. Additionally the company considers market demand, technology and reviews the position of its competitors and customers.

The company adopts an Enterprise Risk Management framework which is consistent with the COSO (the Committee of Sponsoring Organisations of the Treadway Commission) framework and CKHH Group reporting. The framework facilitates a systematic approach in identifying, assessing and managing risks within the company, whether of strategic, financial, operational or compliance nature. Risk management is an integral part of the day-to-day operations and management of the company. There is regular executive dialogue about current and emerging risks, their plausible impact and mitigation measures. On a half-yearly basis, the company is required to formally identify and assess the significant risks its business faces. Relevant risk information including key mitigation measures and plans are recorded in a risk register to facilitate the ongoing review and tracking of progress by the management team of the company and the Board. Risks faced by the company include the reliance on a small number of large customers for a substantial proportion of business, the impact of technology, cyber-security risks and the impact on the environment of our operations. The Exec seeks to mitigate these risks by maintaining a broad customer base as a common-user operator, upgrading and developing equipment and systems, and seeking and implementing green technology and behaviours.

In terms of formal risk review and reporting, the composite risk register together with the risk heat map generated from the various risk registers of the core businesses of the CKHH Group (including the company), as confirmed by the executive directors of CKHH, form part of the Risk Management Report for review and approval by the Audit Committee of CKHH on a half-yearly basis. The Audit Committee, on behalf of the board of CKHH, reviews the Risk Management Report and provides input where appropriate to ensure effective risk management.

The company's Internal Control and Risk Management Focus Group meets on a monthly basis to consider and identify risks and risk management actions across areas including finance, safety, security and information technology. The company's IT Security Committee has been closely working with the group's information security team, the Department for Transport and the National Cyber Security Centre to develop a programme for the ongoing review of its cyber assessment framework submission. The company implements a number of cyber security initiatives, with an approach set on deterrence, defence and development.

The directors acknowledge the unprecedented impact of the outbreak and rapid spreading of COVID-19 across continents. Contingency plans have been introduced to ensure business resilience and continuity and plans implemented to minimise the risks to and impacts on employees, customers and port users.

Considering risks also provides the company opportunities. Whilst Brexit could have an impact on container volumes, directly affecting the throughput of the Port, there was also the expectation that roll-on/roll-off services could be shifted from other routes to the Port. The UK government plans to establish up to ten free ports are being closely monitored and commercial strategy is to ensure that the Port is well placed to capitalise on any commercial opportunities that may arise. Whilst the low unemployment rate in the UK labour market is subject to change the company is proactively identifying the required skills and knowledge for its workforce, now and in the immediate future, whilst building talent pipelines to fill vacancies.

An environment route map, The Clean Maritime Plan, was published in 2019 and identifies ways to tackle air pollutants and greenhouse gas emissions including a pathway to zero-emission shipping and a requirement for ports to produce air quality strategies in 2020. The company has published a clean air strategy which will be delivered by a combination of the further electrification of yard cranes and the adoption of other sources of motive power, such as battery or hydrogen power for mobile equipment.

The Felixstowe Dock and Railway Company

Statement of corporate governance arrangements (continued)

The company is committed to protecting the environment in which it operates whilst striving to constantly improve its carbon and ecological footprints. The company constantly invests in infrastructure and equipment to keep pace with container vessel size growth as shipping lines pursue supply chain efficiencies, economies of scale and energy and environmental optimisation. A vital component of this plan is a commitment to increasing rail volumes, the most environmentally beneficial mode of hinterland transportation.

Principal 5 – Remuneration

The directors of the company received their remuneration primarily in respect of services provided to other group companies and as a result their respective remuneration details are reflected in the financial statements of those companies.

Under the remuneration policy of the CKHH Group, the remuneration of the directors and senior executives is set by the CKHH Remuneration Committee and determined with reference to their expertise and experience, the performance and profitability of relevant group companies as well as remuneration benchmarks from other local and international companies and prevailing market conditions. Bonus arrangements are determined in accordance with the performance of relevant group companies and the individual's performance within an overall framework approved by the CKHH Remuneration Committee.

Principal 6 – Stakeholder relationships and engagement

The Board actively promotes engagement and communications with stakeholders. With support from the Board, the company fosters and maintains ongoing dialogues with its key stakeholders, including employees, shareholders and investors, customers, business partners, suppliers, pensioners, regulators, government, community and other representative groups and media partners.

Engaging and involving the company's people is critical if the business is to be successful in achieving its vision and strategic objectives. The company engages constantly with employees and has a variety of formal and informal channels to facilitate that communication and to seek the views of employees. At the beginning of each year directors, the Exec and management team share the company's key business messaging and its challenges and priorities for the year ahead. All employees take part in a number of scheduled company-wide briefings for the purpose. The employee app continues that messaging and key updates throughout the year and provides the opportunity for employees to respond to communications.

There is regular CEO-led engagement activity through CEO briefings throughout the year. The CEO presents company updates to groups of employees both in messrooms and at CEO forums and responds directly to questions raised. The updates relate to the company and factors affecting its performance, including general market trends as well as competitor actions. Notes of the CEO forums are shared via the employee app and company intranet.

Internal communication standards aim to ensure that all internal communications will be honest, consistent and accessible. To allow the sharing of feedback, ideas and questions channels that allow two-way communications are utilised wherever possible and employee feedback should be responded to in a timely manner via the relevant channels. Leaders and managers should be visible to the workforce and must commit to taking action and seeking feedback. The aim is to include regular features that celebrate individual and team successes and achievements.

The company's management team is in constant contact with its customers and end-users of the port's services. From time to time the company carries out a customer survey which provides insights into customer requirements, focus and priorities. When reviewing the need to redevelop berths, introduce remote control yard and quay cranes and extend the number of train services to and from the port, the company has regard to its customers' requirements.

The company engages widely with its suppliers both when tendering for services and during the life cycle of contracts. Management and the procurement team work continuously to ensure that suppliers meet the necessary security, environmental and ethical requirements. The company works with its suppliers with targeted aims, such as reducing the amount of packaging waste.

The Felixstowe Dock and Railway Company

Statement of corporate governance arrangements (continued)

There is regular engagement with port users, the community and government departments and agencies. The company is a member of the UK Major Ports Group, the trade association representing most of the larger commercial ports in the UK. Close relationships are maintained with government agencies, departments and ministers at local, regional, national and European levels. The company strives to be a trusted partner for Government and ministers through a positive contribution to the development of public policy on transport, port, maritime and related environmental issues. The main policy areas to which the company is currently contributing include:

- working closely with the Department for Transport (“DfT”), the HMRC led Border Delivery Group, Department for Environment Food & Rural Affairs and local Border Force and Port Health Teams in respect of Brexit;
- Maritime 2050, the DfT initiative taking a long view of future maritime policy and positioning;
- Clean Maritime Plan, part of the government’s commitment to achieving net zero emissions by 2050; and
- regional transport and economic development, the devolution policy is pushing aspects of planning down to sub-national levels and the company is engaged with the Eastern and South East regions to influence the development of regional strategies.

The company has adopted a proactive approach to social, economic and environmental responsibilities. The Environment Committee leads discussion and approval of environmental policies and statements for the company. The company, in response to the government’s Clean Air Strategy, with its commitment to developing a Clean Maritime Plan (achieving net zero emissions by 2050) and voluntary provision for Port Air Quality Strategies, has issued a statement committing to reducing the impact of its operations on the environment. The company is a signatory to the Maritime UK’s Women in Maritime Initiative which aims to address the lack of diversity in the UK maritime sector.

The company publishes an annual Environment Report to update interested stakeholders on its performance. The report details actions and activities for the period reported and details performance against environmental targets.

The company takes pride in serving the local and wider community through its businesses and other initiatives.