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CHAIRMAN'S CORPORATE GOVERNANCE STATEMENT

Updated: 26 September 2018

Overview

As Chairman of the Board of Directors of Stilo International plc (**Stilo,** or the **Company/Group** as the context requires), it is my responsibility to ensure that Stilo has both sound corporate governance and an effective Board. As Chairman of Stilo my responsibilities include leading the Board effectively, overseeing the Company's corporate governance model, communicating with shareholders, and ensuring that good information flows freely between the Executive Director and Non-Executives Directors in a timely manner.

Stilo has decided to adopt the Quoted Companies Alliance Corporate Governance Code (**QCA Code**) in line with the London Stock Exchange's recent changes to the AIM Rules, requiring all AIM-quoted companies to adopt and comply or explain non-compliance with a recognised corporate governance code. This report follows the structure of these guidelines and explains how we have applied the guidance. We will provide annual updates on our compliance with the QCA Code, and note that, save the adoption of the QCA Code, there have been no changes to the Company's key corporate governance arrangements over the past year. The Board considers that the Group complies with the QCA Code so far as it is practicable having regard to the size, nature and current stage of development of the Company, and will disclose any areas of non-compliance in the text below.

Stilo understands that the application of the QCA Code supports the Company's medium to long-term success whilst simultaneously managing risks and provides an underlying framework of commitment and transparent communications with stakeholders.

QCA Principles

1. Establish a strategy and business model which promotes long-term value for shareholders

Stilo's strategy is to develop software tools and cloud services that help organisations create and process structured content in XML format, so that it can be more easily stored, managed, re-used, translated and published to multiple print and digital channels. The Board considers this appropriate for delivering the highest medium and long-term value to its shareholders.

To achieve this strategy the Company has three key technologies:

- OmniMark;
- Migrate; and
- AuthorBridge.

Over recent years, many organisations have adopted industry specific XML standards e.g. Publishing (DocBook), Aerospace & Defence (S1000D), Finance (XBRL), Life Sciences (SPL), Software and High Tech (DITA). Stilo made the decision some years ago to focus new product development and marketing efforts on the emerging DITA standard. This standard originated within IBM to support the publishing of its technical documentation and has been increasingly adopted by other software and high-tech companies. DITA is now beginning to make inroads into additional market sectors including Manufacturing, Life Sciences and Publishing.

In order to diversify beyond the DITA market, we have recently undertaken research into the XML JATS (Journal Article Tag Suite) market for scientific and scholarly publishers. Initial indications are that this could represent a promising new business opportunity for Stilo, and we will seek to address this through the incremental development of AuthorBridge and Migrate.

We continue to build upon our strong reputation for excellent products and supporting technical expertise, resulting from many years of experience in the structured content marketplace. With offices in the UK and Canada, we support clients throughout North America, Europe and Japan.

For more information on Stilo's strategy and future developments, please see pages 4-8 of the 2017 Annual Report. See link 2017 Stilo Annual Report.

The Company intends to deliver shareholder returns for the foreseeable future through capital appreciation and distribution via dividends. Challenges to delivering capital appreciation include uncertainty in relation to market conditions, product risk, receivables and credit risk, and currency exposure, although the Board takes steps to mitigate these risks. These challenges, and how they are mitigated, are highlighted in the Risk Management section below.

2. Seek to understand and meet shareholder needs and expectations

The Company places great importance on the need for effective communication and constructive dialogue with investors and the media, by providing communications through the Annual and Interim Reports, along with Regulatory News Service announcements. The Company's website, www.stilo.com, is used for both financial and general news relevant to shareholders. The Board maintains a general policy of keeping all interested parties informed by regular announcements and update statements. The CEO and Chairman meet regularly with the Company's institutional and other major shareholders in order to communicate mutual understanding of its objectives.

All Directors attend the AGM, where private investors are given the opportunity to question the Board. The AGM provides an opportunity to meet, listen and present to shareholders, and shareholders are encouraged to attend. All 2018 AGM resolutions were passed comfortably.

In addition, the Company is open to receiving feedback from key stakeholders, and will take action where appropriate. Shareholders can contact the Company by email through its website, and relevant queries are passed to the Board for discussion.

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

The Board recognises that the long-term success of the Company is reliant upon the efforts of employees, customers and other stakeholders. The Board has put in place a range of processes and systems to ensure that there is close oversight and contact with its key resources and relationships. The Company prepares an annual strategic plan and detailed budget which considers a wide range of key resources including employees, contractors, clients, technical teams and opportunities.

All employees within the Group are valued members of the team, and the Company is committed to promoting policies which ensure that high-calibre employees are attracted, retained and motivated, to ensure the ongoing success of the business. Employees and those who seek to work within the Company are treated equally regardless of sex, sexual orientation, marital status, creed, colour, race or ethnic origin. The Company is an equal opportunity employer and makes every effort to ensure disabled people are not discriminated against on the grounds of their disabilities. In the event of staff becoming disabled, every effort is made to ensure that employment continues and that appropriate training is arranged.

Employees are also kept informed regarding the Company's affairs and are consulted on a regular basis through quarterly staff meetings. Feedback provided during these meetings helps to ensure that new issues and opportunities that arise may be used to further the success of the Company.

The Company has close ongoing relationships with a broad range of its stakeholders and provides them with the opportunity to raise issues and provide feedback to the Company. The Company listens and values customer feedback, and is encouraged by the feedback received so far, from early customers in relation to the development of AuthorBridge.

The activities of the Company do not pose environmental hazards. The Company co-operates with relevant authorities to ensure that all statutory environmental requirements are complied with. The Company will continue to monitor and review for a change in status in line with regulatory and further developments.

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

The Board is responsible for ensuring that the Company maintains a system of internal financial controls including suitable monitoring procedures. The objective of the system is to safeguard Company assets, ensure proper accounting records are maintained and that the financial information used within the business and for publication is reliable.

Internal financial control monitoring procedures undertaken by the Board include the review of monthly financial reports and monitoring of performance, setting of annual budgets and monthly forecasts and the prior approval of all significant expenditure. The 2017 Annual Report (page 8) also outlines the key risks to the business.

The Board is responsible for the monitoring of financial performance against budget and forecast and the formulation of the Company's risk appetite including the identification, assessment and monitoring of Stilo's principal risks.

The Board regularly reviews the effectiveness of the systems of internal control and considers the major business risks and control environment. No significant control deficiencies have come to light during the period and no weaknesses in internal financial control have resulted in any material losses, contingencies or uncertainties which would require disclosure as recommended by the guidance for directors on reporting on internal financial control.

The risk assessment matrix below sets out and categorises some of the Company's key risks, and outlines the controls that are in place. This matrix is updated as changes arise in the nature of risks or the controls that are implemented to mitigate them, and the Board reviews risks on a regular basis. The following principal risks and controls to mitigate them have been identified:

Activity	Risk	Impact	Control(s)
External Risk	Market Conditions	The Group may fail to attract new customers, consequently sales revenue may decrease	Close working relations are maintained with both the Company's partners and customers in order to monitor market and technology changes. The directors continually monitor other markets and products that are complementary to the Company's business model and dynamics which can be added to the Company's sales portfolio.

			Economic and interest rate changes are also monitored in relation to the impact they will have on the market conditions for the Company.
External Risk	Product risk	Technological obsolescence	The Company continues to innovate with releases of new products and the frequent updating of existing products. We endeavour to work closely with customers in our product development efforts, to help ensure their relevance and acceptability in our target markets.
Financial Risk	Receivables and credit risk	Adverse consequences could include reduced revenue	Credit risks are reviewed for customers based upon payment history and references. Credit risks are reviewed regularly in conjunction with debt ageing and collection history. The directors regard the scale and spread of customers as being a safeguard against the potential adverse effect of default.
Financial Risk	Currency exposure	Negative impacts of exchange rate fluctuations	The Company deals in several currencies and maintains bank accounts in each of those currencies. The Company monitors foreign currency rates and currency exposure regularly. Foreign currency hedging instruments are also considered.
Financial Risk	Adequate financial and business controls	Error or fraud, leading to a loss in reputation, business partners and customers.	The Company exercises financial and business control through qualified and experienced financial personnel, budgeting and cash flow forecasting, amongst other measures.

The Board considers that in light of the control environment described above, an internal audit function is not considered necessary or practical due to the size of the Company and the day to day control exercised by the Executive Director. However, the Board will monitor the need for an internal audit function. The Board has established appropriate reporting and control mechanisms to ensure the effectiveness of its control systems.

The Board regularly reviews the mechanisms of internal control it has implemented, assessing for effectiveness.

5. Maintain the Board as a well-functioning, balanced team led by the Chair

The Board comprises the Non-Executive Chairman, David Ashman, the CEO, Les Burnham, and one Independent Non-Executive Director, Liam O'Donoghue. David Ashman, as a substantial shareholder, is not considered to be independent. Notwithstanding, David Ashman at all times exercises independent judgement and acts in the best interest of all independent shareholders. The Non-Executive Directors are each expected to dedicate such time as is necessary in order to fulfil their role.

Since January 2018 there have been 5 Board meetings, all of which were attended by all Directors. There has been 1 Audit Committee meeting, which was attended by the relevant Directors.

Meetings are open and constructive, with every Director participating fully.

The Board also notes that the QCA recommends a balance between Executive and Non-Executive Directors and recommends that there be two independent Non-Executives. The Company does not currently comply with the QCA Code in this regard. The Board will take this into account when considering future appointments. However, all Directors are encouraged to use their judgement and to challenge matters, whether strategic or operational, enabling the Board to discharge its duties and responsibilities effectively. Therefore, the Board acknowledges that at its current development, it does not comply with Principle 5. However, the Board maintains that the Board's compositions will be frequently reviewed as the Company develops.

The Board meets 6 times in the year and a calendar of meetings and principal matters to be discussed is agreed at the beginning of each year. In order to be efficient, the Directors meet formally and informally both in person and by telephone. Board document authors are made aware of proposed deadlines, allowing board papers to be collated, compiled into a Board Pack, and circulated with sufficient time prior to each meeting, thus allowing time for full consideration and necessary clarifications before the meeting.

The Company has an Audit Committee and a Remuneration Committee. The Board believes that the Committees have the necessary skills and knowledge to discharge their duties effectively. The Board has elected not to establish a Nominations Committee, preferring instead that the Board should, itself, deal with such matters, including succession planning, the balance of the Board and Executive remuneration. This is believed to be appropriate given the size of the Board and the Company.

<u>Directors' Conflict of Interest</u>

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.

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

The Company believes that the current balance of expertise in the Board as a whole reflects a very broad range of personal, commercial and professional skills, and notes the range of financial and managerial skills. The Non-Executive Directors maintain ongoing communications with Executive Director between formal Board meetings.

Biographical details of the Directors can be found here http://www.stilo.com/leadership/

Liam O'Donoghue also acts as the Company Secretary, and is responsible for ensuring that Board procedures are followed and that the Company complies with all applicable rules, regulations and obligations governing its operation, as well as helping the Chairman maintain good standards of corporate governance.

In addition to their general Board responsibilities, Non-Executive Directors are encouraged to be involved in specific workshops or meetings, in line with their individual areas of expertise. The Board is kept abreast of developments of governance and AIM regulations. ONE Advisory provides updates on governance issues, and the Company's NOMAD provides annual Board AIM Rules refresher training as well as the initial training as part of a new director's on-boarding.

The Directors have access to the Company's NOMAD, lawyers and auditors as and when required and are able to obtain advice from other external bodies when necessary. All Directors have access to advice from the Company Secretary and independent professionals at the Company's expense.

The Board shall review annually the appropriateness and opportunity for continuing professional development, whether formal or informal.

Board composition is a factor for contemplation in relation to succession planning. The Board will seek to take into account any Board imbalances for future nominations, with areas taken into account being Board independence and gender balance.

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

The Directors consider that the Company and Board are not yet of a sufficient size for a full Board evaluation to make commercial and practical sense. In the frequent Board meetings/calls, the Directors can discuss any areas where they feel a change would benefit the Company, and the Company Secretary remains on hand to provide impartial advice. As the Company grows, it expects to expand the Board and with the Board expansion, re-consider the need for Board evaluation.

Succession planning recommendations are made by the Board as a whole, and all Directors submit themselves for re-election at the AGM at regular intervals.

8. Promote a corporate culture that is based on ethical values and behaviours

The Board recognises that its decisions regarding strategy and risk will impact the corporate culture of the Company as a whole and that this will impact the performance of the Company. The Board is aware that the tone and culture set by the Board will greatly impact all aspects of the Company as a whole and the way that employees behave. The corporate governance arrangements that the Board has adopted are designed to ensure that the Company delivers long term value to its shareholders, and that shareholders have the opportunity to express their views and expectations for the Company in a manner that encourages open dialogue with the Board.

A large part of the Company's activities is centred upon an open and respectful dialogue with employees, clients and other stakeholders. Therefore, the importance of sound ethical values and behaviours is crucial to the ability of the Company to successfully achieve its corporate objectives. The Directors consider that the Company has an open culture facilitating comprehensive dialogue and feedback and enabling positive and constructive challenge.

The Company has adopted a code for Directors' and employees' dealings in securities which is appropriate for a company whose securities are traded on AIM and is in accordance with the requirements of the Market Abuse Regulation which came into effect in 2016. The Directors seek to align their interests with shareholders.

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

The Board reviews the Company's corporate governance arrangements regularly and expects to evolve these over time, in line with the Company's growth. The Board delegates responsibilities to Committees and individuals as it sees fit.

The Chair is responsible for the leadership of the Board and ensuring its effectiveness in all aspects of its role, including creating the right dynamic and ensuring that all important matters, in particular strategic decisions, receive adequate time and attention at Board meetings.

The CEO is responsible for the day-to-day running of the business and developing corporate strategy and primary contact with shareholders, clients and partners. The Non-Executive Directors are tasked with ensuring that the strategies proposed by the CEO are fully considered, constructively challenging the decisions of executive management and satisfying themselves that the systems of business risk management and internal financial controls are robust.

No other Directors have any particular governance responsibilities beyond their role on the Board and Board Committees.

The Company supports the concept of an effective Board leading and controlling the Company. The Board is responsible for approving Company policy and strategy. It meets bi-monthly and has a schedule of matters specifically reserved to it for decision. Management supply the Board with appropriate and timely information and the Directors are free to seek any further information they consider necessary.

The Board delegate's authority to two Committees: Audit and Remuneration, to assist in meeting its business objectives, and the Committees meet independently of Board meetings.

Audit Committee
The Audit Committee comprises the Non-Executive Directors and meets formally twice a year and whenever it is considered appropriate. The Audit Committee is responsible for ensuring that the financial performance of the Group is properly measured and reported and for reviewing reports from the auditors relating to the Group accounts and the Group's internal control systems. The Audit Committee monitors the level of non-audit work undertaken by the auditors prior to the annual audit.

Remuneration Committee
The Remuneration Committee comprises the Non-Executive Directors. The remit of the Committee is primarily to determine and agree with the Board the framework or broad policy for the remuneration of the Company's Executives and the Senior Management of the Group. The Remuneration Committee reviews the performance of the Executive Directors and makes recommendations to the Board on matters relating to their terms of employment and remuneration, including short term bonus and long-term incentives. The Remuneration Committee also considers the granting of share options pursuant to the Company's share option scheme. The Remuneration Committee meets not less than twice a year.
The Board has elected not to establish a Nominations Committee, preferring instead that the Board should, itself, deal with such matters, including succession planning and balance of the Board.

The Chair and the Board continue to monitor and evolve the Company's corporate governance structures and processes, and maintain that these will evolve over time, in line with the Company's growth and development.

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

The Board is committed to providing effective communication and having constructive dialogue with its shareholders and other relevant stakeholders. The Company intends to have ongoing relationships with both private and institutional shareholders, and for them to have the opportunity to discuss issues and provide feedback at meetings with the Company, as well as maintaining regular contact with its advisers in order to ensure that the Board develops an understanding of the views of any other major shareholders.

In addition, all shareholders are encouraged to attend the Company's Annual General Meeting. All 2018 AGM resolutions were passed comfortably. The Company maintains that, if there is a resolution passed at a GM with 20% votes against, the Company will seek to understand the reason for the result and, where appropriate, take suitable action.

The latest Corporate Documents (including Annual Reports and Notices of AGMs) can be found here. http://www.stilo.com/annual-interim-reports/

Investors also will have access to current information on the Company though its website, www.stilo.com.