

Foundation of Hearts

*This document contains, in the form of a Q&A, a summary of the principal terms of the Working Together Agreement which was entered into by Foundation of the Hearts Limited (the “**Foundation**”) and Heart of Midlothian plc (the “**Club**”) on 30 August 2021, when majority ownership (75.1%) of the Club’s share capital was transferred (“**Transfer**”) to the Foundation by Bidco (1874) Limited (“**Bidco**”) in accordance with the provisions of the 2014 Repayment and Funding Support Agreement between them (amongst others) (the “**Bidco Agreement**”).*

*The Working Together Agreement is part of the long-term corporate governance framework which was developed over a three-year period (2015 – 18) as the Foundation progressed towards meeting its financial obligations under the Bidco Agreement. At various stages in 2017 and 2018, the views of the Foundation membership on the evolving governance proposals of the Foundation and the Club were sought and taken into consideration. In the lead-up to the Transfer, the Working Together Agreement has been supplemented and refined but the fundamental governing principles have not changed. This summary covers the material terms of the finalised Working Together Agreement (the “**agreement**”).*

	Question	Answer
1	What is the purpose of the agreement, and what do the parties want to achieve?	The purpose of the agreement is to put in place a governance and operational framework for the smooth functioning of the new relationship between the Foundation and the Club post-Transfer. Our objective is to ensure that the long-term success and stability of the Club is promoted.
2	What values underpin the agreement?	The key guiding governance principles which the Club and the Foundation agree to adhere to and honour are set out in Appendix 1. The agreement has also been shaped by the key principle that a correct balance must be achieved between operational independence for the Club and accountability at all levels. At the heart of the governance structure is a recognition that the Foundation will not interfere in the day-to-day management of the Club’s operations.
3	How long does the agreement run for?	The agreement came into effect on completion of the Transfer on 30 August 2021. It will continue in effect for so long as the Foundation holds more than 50% of the Club’s share capital, unless terminated earlier by the Club entering liquidation or other insolvency procedure.

4	What is the composition and size of the Club’s board of directors?	<p>Upon Transfer, the Club board comprises:</p> <ul style="list-style-type: none"> • two non-executive directors appointed by the Foundation (“Foundation nominated directors”); • one non-executive director appointed by Bidco; • two independent non-executive directors (“independent directors”); and • two executive directors. <p>The Foundation nominated directors will be its chairman, <i>ex officio</i>, and one other member of its board. This reflects the position under the Bidco Agreement. The Foundation nominated directors will not receive any payment for their services.</p> <p>Bidco is currently a significant shareholder in the Club, holding 17.3% of the share capital, and is also the provider of a secured £3.095m loan facility to the Club. Bidco’s right to appoint a director will be exercisable for so long as it holds at least 10% of the share capital and/or any part of the secured loan facility remains outstanding.</p> <p>The size of the Club board is capped at eight at any one time. So far as practicable, at least one-quarter of the Club’s board should comprise independent directors.</p> <p>On appointment, each member of the Club’s board must satisfy the SFA’s “fit and proper” eligibility test.</p>
5	How are independent directors and executive directors appointed?	<p>Independent directors and executive directors are appointed by the Club board on the basis of nominations submitted by the nomination committee of the Club board (see Question 7). Candidates for appointment are identified on merit against objective criteria of skills and experience, and taking into account the requirement for diversity. Vacancies will be advertised.</p> <p>In the case of the independent directors:</p> <ul style="list-style-type: none"> • candidates for appointment or re-appointment must not have a material relationship with the Club, the Foundation or related persons; and • their appointment or re-appointment by the Club board must be ratified by shareholders at the next AGM of the Club. They must also retire and stand for re-election by shareholders on a periodic basis.

6	How is the Chair of the Club appointed?	<p>The chair of the Club is chosen by a majority vote of the directors from among their own number, on the basis of a recommendation by the nomination committee. The chief executive is not eligible to be chair.</p> <p>The chair is appointed for a three year-term, with the possibility of further three-year terms. The board has agreed that Ann Budge should continue to chair the Club for a term of up to two years from the date of Transfer, with the possibility of a further term if the Club board agrees on a majority vote following a recommendation from the nomination committee.</p> <p>The chair has a casting vote at board meetings.</p>
7	What other material provisions apply to the Club board?	<ul style="list-style-type: none"> • The Club board will meet regularly during each year, and will observe good corporate governance principles in performing its functions. It will evaluate its collective performance as a decision-making body and, with the involvement of the remuneration committee (if any), the performance of the executive directors annually. • The nomination committee leads the appointment process for independent directors, executive directors and chairpersons. It has at least three members - a Foundation nominated director, an independent director and (unless the Club board decides otherwise) an executive director. • The Club board also maintains a remuneration committee and an audit and risk committee, each with an appropriate combination of executive and non-executive members (including a Foundation nominated director). Certain matters cannot be delegated by the Club board to a committee.
8	What matters are reserved for decision by shareholders of the Club?	<ul style="list-style-type: none"> • the issue of shares by the Club; • any borrowing by the Club in excess of the limit set out in the articles of association; • any proposal by the Club to change the name of the football team, the design of the Club badge or the Club colours; and • any proposal to sell Tynecastle Park.

9	<p>What are the arrangements for the Foundation to continue to support the Club financially?</p>	<p>The key guiding funding principles which the Club and the Foundation agree to adhere to and honour are set out in Appendix 2.</p> <p>The Foundation is committed to continuing to provide financial support for the Club through members' contributions which shall be applied in the furtherance of the Club's business in accordance with its business plan. Whilst the Foundation will not be entitled to direct the Club board to apply funding for a specific purpose, the Foundation nominated directors may make the views of the Foundation membership known to the Club board.</p> <p>As has been the case from the outset and in line with what has been agreed before, the agreement allows the Foundation to retain up to £50,000 per annum (indexed) from the sums received by it from members' contributions for administration, marketing and general running costs and expenses of the Foundation.</p> <p>The Club has agreed that it will, to the extent it is reasonably able to do so, support the Foundation, including co-ordinating marketing and fund-raising activities. The agreement also recognises the importance of the Foundation actively engaging with its members on matters of interest to them, and the Club will provide the Foundation with support and co-operation in this regard.</p>
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10	What are the arrangements for sharing of information on Club matters, and the making of public announcements and press releases?	<p>Under the leadership of Ann Budge, the Club has provided supporters, the Foundation and shareholders with a high level of transparency and insight into Club matters, through clear and effective communication. This culture builds trust and a sense of belonging, and it will be maintained under the agreement. It sets out the responsible sharing of information between the Club board and the Foundation board by confirming:</p> <ul style="list-style-type: none"> • when a Foundation nominated director is permitted to share information obtained by him/her from the Club as a result of being a Club director with the Foundation board; • the attendance of a Club director and the Club marketing and communications director at a Foundation board meeting at least once every quarter; and • the provision of appropriate financial information to prepare any required consolidated accounts. <p>The agreement also confirms the arrangements between the Foundation and the Club to constructively work together to agree certain public statements and press communications to be issued by the Foundation.</p>
11	Will the agreement be subject to review?	Yes. The agreement will be kept under periodic review and may be amended or supplemented from time to time as agreed between the Club and the Foundation.

Appendix 1

Guiding Governance Principles adopted in proposed governance framework (2018)

1. **Ethos:** the relationship between the Club and the Foundation will be built on principles of trust and mutual co-operation;
2. **Working together:** the Club and the Foundation will work together and assist each other to carry out their respective roles and responsibilities (but subject always to clause 10) and to fulfil the Key Objectives set out below;
3. **Effective decision-making:** it is critical that the Club and the Foundation maintain governance and operational structures that:
 - are based on clearly defined roles and responsibilities at all levels of the structure and within the Club and the Foundation respectively; and
 - support good decision-making;
4. **Communication:** the Club and the Foundation will promote an environment of clear and effective communication;
5. **High integrity:** office-holders of the Club and the Foundation should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests that may conflict with their responsibilities.

The **Key Objectives** referred to above are:

- ensuring the Club continues to prosper, supported by a foundation based on a stable and effective organisational structure and financial sustainability;
- maintaining and enhancing the standing and reputation of the Club, and sustaining it as a major force in Scottish football; and
- growing the Hearts family, developing fans' loyalty to, and connection with, the Club, and making them proud to be supporters of the Club.

Appendix 2

Guiding Funding Principles adopted in proposed governance framework (2018)

The Club and the Foundation:

- recognise that, under the Bidco Agreement, both the Foundation and Bidco has been an important source of funding for the Club;
- acknowledge the outstanding commitment and loyalty of the Foundation membership in providing the funds which have made that financial support possible;
- believe it is desirable that, after the Transfer, the Foundation continues to act as a source of financial support;
- recognise that if the Club and the Foundation adhere to the guiding governance principles above, the ability to maintain or grow funding levels is likely to be improved; and
- recognise that the sole source of that funding will be ongoing contributions from the Foundation's membership.

The Foundation is committed to adhering to the principle that the Foundation membership should never be asked or encouraged to give more than they can reasonably afford.