THE TAKEOVER PANEL

ARMOUR GROUP PLC ("ARMOUR")

Introduction

This is a public statement of censure by the Panel Executive of Mr Bob Morton for his failure to make an offer under Rule 9 of the Takeover Code (the "Code") in compliance with the Code in connection with the purchases of shares in Armour by Mr Morton's four sons in June and August 2011, and certain associated breaches of Rule 5 and Rule 2.

Background

The Executive became aware in late November 2014 of the share purchases which gave rise to the breaches of the Code described below.

As a result of a placing of new Armour shares in February 2011 (the "Placing"), Mr Morton and persons acting in concert with him (the "Morton Concert Party") became interested in shares carrying approximately 39.1% of the voting rights of Armour. This issue of new shares to the members of the Morton Concert Party was approved by a vote of independent shareholders at a general meeting of Armour on 23 February 2011 and the obligation for the Morton Concert Party to make an offer for Armour that would otherwise have arisen under Rule 9.1(b) was "whitewashed" in accordance with Note 1 of the Notes on the Dispensations from Rule 9.

In the whitewash circular published by Armour on 28 January 2011 in connection with the Placing (the "Whitewash Circular"), the Morton Concert Party was disclosed as including:

(a) Mr Morton;

(b) Mrs Sue Morton, his wife;

(c) Hawk Investment Holdings Limited ("Hawk"), a company wholly-owned by Mr and Mrs Morton;

(d) the Hawk Pension Fund;

(e) Groundlinks Limited, a company owned by the trustees of a trust for the benefit of Mr Andrew Morton, Mr Morton's son;

(f) Retro Grand Limited, a company owned by the trustees of a trust for the benefit of Mr Edward Morton, Mr Morton's son; and

(g) Serrafina Holdings Limited, a company owned by the trustees of a trust for the benefit of Mr Charles Morton, Mr Morton's son.

The Executive understands that, later in 2011, certain investors who had participated in the Placing wished to sell their shareholdings in Armour. Mr Morton told the Executive that he was asked if he would like to buy these shares. Mr Morton declined to do so because he was aware that he would not have been able to acquire an interest in any further shares without incurring an obligation to make an offer for Armour under Rule 9.1(b). Instead, believing, incorrectly, that his adult sons would be regarded by the Panel as independent of him (and not as part of the Morton Concert Party) and that it was an opportunity to purchase Armour shares at a good price, Mr Morton arranged for an aggregate of approximately 6.8 million shares in Armour to be purchased in the names of his four sons from the sellers in August 2011. Mr Morton took this action despite knowing that the trusts set up for the benefit of three of his four sons were part of the Morton Concert Party disclosed in the Whitewash Circular. Separately, in June 2011, Mr Charles Morton purchased 385,174 shares in Armour. These share purchases together resulted in Mr Morton's four sons each then becoming interested in 1.8 million shares in Armour which, collectively, carried 7.4% of the voting rights of Armour (in addition to the pre-existing interests of the Morton Concert Party referred to above).

Mr Morton made gifts of an equal sum of money to each of his sons, which were used to purchase the Armour shares referred to above.

Neither Mr Morton nor his sons consulted the Executive nor sought advice regarding the implications of these share purchases under the Code.

Relevant provisions of the Code

The definition of "acting in concert"

Under the Code, persons acting in concert comprise persons who, pursuant to an agreement or understanding (whether formal or informal), co-operate to obtain or consolidate control of a company or to frustrate the successful outcome of an offer for a company.

The Executive's long-standing practice is to treat a person's close relatives as acting in concert with that person unless it can be demonstrated clearly that there has been a breakdown in the relationship between that person and other members of the family.

The requirement for a mandatory offer – Rules 9.1(b), 9.2 and 2.2(b)

In summary, Rule 9.1(b) provides that, except with the consent of the Panel, when any person, together with persons acting in concert with him, is interested in shares which in aggregate carry not less than 30% of the voting rights of a company but does not hold shares carrying more than 50% of such voting rights and such person, or any person acting in concert with him, acquires an interest in any other shares which increases the percentage of shares carrying voting rights in which he is interested, such person shall make an offer for each class of the remaining equity share capital of the company in cash.

The prime responsibility for making an offer under Rule 9.1 normally attaches to the member of the concert party who makes the acquisition which triggers the

requirement to make the offer. However, Rule 9.2 provides that, in addition, each of the principal members of the concert party may, according to the circumstances, have an obligation to extend an offer. The Note on Rule 9.2 provides that if the person who makes the triggering acquisition is not a principal member of the concert party, the obligation may attach to the principal member or members.

Rule 2.2(b) provides that an announcement is required to be made immediately upon an acquisition of any interest in shares which gives rise to an obligation to make an offer under Rule 9.1.

Restrictions on share purchases – Rules 5.1(b) and 5.2

In summary, the effect of Rule 5.1(b) is that an acquisition of an interest in shares which triggers an obligation to make an offer under Rule 9.1(b) can only be made if one of the exceptions in Rule 5.2 applies.

Application of the Code in this case

The definition of "acting in concert"

Mr Morton and his sons are close relatives. Mr Morton arranged and/or financed the purchase of Armour shares by his sons in June and August 2011. Trusts set up for the benefit of three of his four sons were part of the Morton Concert Party described in detail in the Whitewash Circular published a few months previously. In the light of the facts in this case and the Executive's long-standing practice in respect of close relatives, the Executive concluded that Mr Morton and his sons should be regarded as acting in concert with each other.

The requirement for a mandatory offer – Rules 9.1(b), 9.2 and 2.2(b)

Immediately prior to the first of the share purchases by Mr Morton's sons in June 2011, the Morton Concert Party held shares carrying approximately 39.1% of the

voting rights of Armour. Each of the purchases of shares in Armour by Mr Morton's sons in June and August 2011 triggered an obligation to make an offer under Rule 9.1(b) and to make an immediate announcement under Rule 2.2(b). No such offer was made and no announcements were published.

In December 2014, the Executive ruled that an offer must be made for Armour in accordance with Rule 9 at 4.75p per share, being the highest price paid by any of Mr Morton's sons for Armour shares in the period between June and August 2011 and in the 12 months previously (in accordance with Rule 9.5). Mr Morton was a principal member of the Morton Concert Party and he accepted that he was responsible for making this offer.

On 24 December 2014, Hawk, a company wholly-owned by Mr and Mrs Morton and the largest shareholder in Armour, announced a cash offer at 4.75p per share for Armour shares not held by the Morton Concert Party. On 16 January 2015, Hawk published its offer document. The offer became unconditional on 3 February 2015 and closed on 20 February 2015, at which time the Morton Concert Party held and had received acceptances in respect of an aggregate of 62,718,210 shares carrying 64.62% of the voting rights of Armour.

Restrictions on share purchases – Rules 5.1(b) and 5.2

No exemption under Rule 5.2 applied to the purchases of shares by Mr Morton's sons in 2011. Rule 5.1(b) was breached as a result.

Conclusion

The Executive considers that the failure by Mr Morton to make an offer under Rule 9 in compliance with the Code in connection with the purchases of shares in Armour by Mr Morton's four sons in June and August 2011, and the associated breaches of Rule 5 and Rule 2, were serious breaches of the Code.

The Executive considers these breaches to be particularly concerning in view of the following:

(a) Mr Morton has a record of failing to comply with his obligations under the Code. Mr Morton had, on two occasions within the two years preceding the 2011 share purchases, committed other serious breaches of the Code and, on each occasion, Mr Morton was sent a private statement of censure by the Executive pursuant to Section 11(a) of the Introduction to the Code. In the first of these cases, Mr Morton was privately censured by the Executive for a failure immediately to announce under Rule 2.2(b) that an obligation to make an offer under Rule 9.1(b) had been incurred;

(b) Mr Morton is an experienced investor who has been closely involved in several transactions subject to the Code including, through Southwind Limited, mandatory offers for Lorien plc in 2007 and PSG Solutions plc in 2009. As the chairman of Armour, he was involved in the "whitewash" of the Morton Concert Party in respect of the Placing, a matter of months before his sons first purchased Armour shares. This involved a detailed description of the Morton Concert Party being included in the Whitewash Circular, a document for which Mr Morton was responsible. Mr Morton was therefore aware that the trusts which he had set up for the benefit of three of his four sons were regarded by the Panel as acting in concert with him; and

(c) Mr Morton had the opportunity to consult the Executive and his advisers, but chose not to do so.

Mr Morton has apologised to the Executive for the breaches of the Code in relation to Armour described above. Mr Morton has co-operated fully with the Executive throughout its investigation and has been open and transparent in his dealings with the Executive. Mr Morton accepted that he should be regarded as acting in concert with his sons and agreed to make an offer for Armour.

Nonetheless, Mr Morton's actions showed a disregard for the Code and his previous breaches of the Code must also be taken into consideration in determining the appropriate disciplinary sanction.

Mr Morton is hereby criticised for his conduct in this case and his record of failing to comply with his obligations under the Code. Mr Morton has agreed the facts set out in this statement and has accepted this sanction in accordance with Section 11(a) of the Introduction to the Code.

23 February 2015