



## Statement of Compliance with the QCA Corporate Governance Code

### Chairman's Introduction

*Leaf's shareholders have approved the board's recommended strategy of orderly realisation and return of capital to the shareholders, which will occur on an asset-by-asset basis in timeframes appropriate for each asset. At the time of writing this, Leaf has two remaining investments, and is pursuing a breach of contract claim against former investee, Invenergy Renewable LLC. As a result, our board and management team are appropriately very small and our outlook short-term.*

*It is the board's responsibility to ensure that Leaf is managed in a way that maximizes cash returned to the shareholders. Corporate governance plays an important role in carrying out this responsibility.*

Mark Lerdal  
Chairman

### Change in corporate governance regime

The board had previously complied with the Quoted Companies Alliance (QCA) Guidelines for AIM Companies to the extent it thought appropriate, taking into account the size of Leaf and the nature of its business. Going forward, in line with the London Stock Exchange's recent changes to the AIM Rules requiring all AIM-listed companies to adopt and comply with a recognised corporate governance code, the board has decided to adopt and comply with the Quoted Companies Alliance (QCA) Corporate Governance Code ("Code"). This report sets out how we comply with the provisions of the Code at this point in time. We will provide annual updates on our compliance with the Code.

### Principle 1: Establish a strategy and business model which promote long-term value for shareholders

As mentioned above, Leaf is pursuing a strategy of orderly realisation in the short to mid-term, which means that this principle isn't applicable to or appropriate for Leaf. Leaf's strategy is in keeping with the goals of its shareholders, given that it has been explicitly approved by them. Accordingly, the company departs from the provision of this principle. Please refer to a more detailed description of Leaf's shareholder-approved strategy available on the following page of Leaf's website: <https://www.leafcleanenergy.com/investment-approach/>.

### Principle 2: Seek to understand and meet shareholder needs and expectations

Leaf remains committed to listening and communicating openly with its shareholders to ensure that its strategy, business model and performance are clearly understood.

#### *Private shareholders*

The AGM is the main forum for dialogue with retail shareholders and the board. The Notice of Meeting is sent to shareholders at least 21 days before the meeting. The chairman of the board routinely attends the AGM and is available to answer questions raised by shareholders. For each vote, the number of proxy votes received for, against and withheld is announced at the meeting. The results of the AGM are subsequently published on the Company's corporate website. In addition, shareholders have the ability to send inquiries to [info@leafcleanenergy.com](mailto:info@leafcleanenergy.com).



### *Institutional shareholders*

The directors actively seek to build a relationship with institutional shareholders. Shareholder relations are managed primarily by the chairman of the board and the chairman of the audit committee. The chairman of the board and the chairman of the audit committee meet regularly with Leaf's largest investors in order to listen to their feedback and have a direct conversation on any areas of concern. These same Leaf directors make themselves available to meet with major shareholders if required to discuss issues of importance to them.

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

Given that Leaf is in an orderly realisation strategy, as explained above, this principal is of little relevance to the Company in terms of the long-term aspect. Accordingly, the company departs from the provisions of this principle. That said, Leaf's board members interact frequently with Leaf's employee management, advisors and suppliers to ensure that all are working together to maximise cash to the shareholders through the realisation strategy.

As previously disclosed, the Leaf Board has adopted incentive compensation arrangements for the company and certain of its advisors under which company payees will receive incentive payments only when cash is returned to the shareholders and certain advisors will receive incentive payments upon the redemption of Leaf's Invenergy stake and/or damages awarded following the conclusion of the Invenergy lawsuit. The arrangements for the Company payees include a sliding scale of incentives based on cash returned to the shareholders.

### **Principle 4: Embed effective risk management, considering both opportunities and threats, throughout the organisation**

#### *Audit, risk and internal control*

##### *Financial controls*

Leaf has an established framework of internal financial controls.

- The board is responsible for reviewing progress toward completing Leaf's shareholder-approved orderly realisation strategy, including deciding on periodic returns of cash to the shareholders via compulsory partial redemptions of shares; approving the company's annual budgets; and determining the financial structure of the company including treasury, tax and dividend policy. Monthly results and variances from plans and forecasts are reviewed by the chief financial officer and quarterly results and variances from plans and forecasts are reported to and reviewed by the board.
- The audit committee assists the board in discharging its duties regarding the financial statements, accounting policies and the maintenance of proper internal business, and operational and financial controls, including the review of results of work performed by the management.
- There are comprehensive procedures for budgeting and planning, for monitoring and reporting to the board business performance against those budgets and plans, and for forecasting expected performance over the remainder of the financial period. These cover profits, and balance sheets, but primarily focus



on cash balances and flows.

### *Non-financial controls*

The board recognises that maintaining sound controls and discipline is critical to managing the downside risks to the execution of Leaf's strategy. The board has ultimate responsibility for the Leaf's system of internal control and for reviewing its effectiveness. However, any such system of internal control can provide only reasonable, but not absolute, assurance against material misstatement or loss. The board considers that the internal controls in place are appropriate for the size, complexity and risk profile of the company. The principal elements of the company's internal control system include:

- Close management of the day-to-day activities of Leaf by the executive chairman
- An organisational structure with defined levels of responsibility, which promotes rapid decision-making and implementation while minimising risks
- A comprehensive annual budgeting process producing a detailed profit and loss and cash flow forecast, which is approved by the board
- Detailed monthly and quarterly reporting of performance against budget
- Central control over key areas such as expenditures and banking facilities
- A chief financial officer to oversee all internal controls policies and processes and to ensure legal risk and regulatory compliance is properly managed

Leaf continues to review its system of internal control to maintain effectiveness while also giving regard to its size and the resources available.

### *Standards and policies*

The board is committed to maintaining appropriate standards for all the company's business activities and ensuring that these standards are set out in written policies when appropriate. Example of such standards and policies includes Leaf's 'Code of Conduct' and Leaf's adoption of the Model Code under the FCA's Listing Rules to ensure compliance with the Market Abuse Regulations (MAR) of the European Union and the AIM Rules relating to dealings in securities of Leaf, which included putting in place a share dealing policy.

### *Legal controls/approval process*

All material contracts are required to be reviewed by the chief financial officer and the board and signed by the chief financial officer or the executive chairman.

### *Code of Conduct*

Leaf's Code of Conduct includes guidance on areas that could get our employees into trouble, (including business integrity, anti-bribery, gifts, intellectual property and design rights) has been provided to all employees.



### **Principle 5: Maintaining the Board as a well-functioning, balanced team led by the Chair**

The board comprises the executive chairman, and two non-executive directors, one of whom also acts as chairman of the audit committee. The board considers, after careful review, that the non-executive directors bring an independent judgement to bear, although each of the non-executive directors hold a modest number of shares as fully disclosed in the company's annual and interim reports.

The board is satisfied that it has a suitable balance between independence on the one hand, and knowledge of the company on the other, to enable it to discharge its duties and responsibilities effectively.

All directors are encouraged to use their independent judgement and to challenge all matters, whether strategic or operational. The chairman holds update calls with each director to keep them informed and to ensure they are performing as they are required. During the year five board meetings took place. These were held in Washington D.C. and Wilmington, Delaware, USA. All Board members attended all meetings they were invited to, except for two meetings that Mr. O'Keefe was excused from attending due to scheduling conflicts.

Key board activities this year included:

- Review and approval of the terms under which Leaf's Invenergy stake was redeemed by Invenergy
- Approval of the return of £19.5 million of cash to the shareholders in the redemption of 4 July 2018
- Monitoring of the key developments in the Invenergy lawsuit, and approval of key decisions including decision to appeal the damages award
- Review and approval of the sale of Lehigh Technologies to Michelin
- Review and approval of the 31 December 2017 interim report and the 30 June 2018 annual report
- Review and approval of Leaf's budget for fiscal 2019.

#### *Directors' conflict of interest*

Leaf 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.

### **Principle 6: Ensure that among them the directors have the necessary up-to-date experience, skills and capabilities**

The board is satisfied that, among the directors, it has an effective and appropriate balance of skills and experience, including in the areas of renewable energy, investing, legal, finance, and accounting. All directors receive regular and timely information on the company's operational and financial performance. Relevant information is circulated to the directors in advance of meetings. The business reports quarterly on its headline performance against its agreed budget and any significant variances are reviewed at each meeting.

All directors retire by rotation at regular intervals in accordance with the Company's Articles of Association.



### *Appointment, removal and re-election of directors*

The board makes decisions regarding the appointment and removal of directors, and there is a formal, rigorous and transparent procedure for appointments. The Company's Articles of Association require that all directors must stand for re-election at least once every three years; and that any new directors appointed during the year must stand for election at the AGM immediately following their appointment. There have been no changes in the composition of the board in the past year.

### *Independent advice*

All directors are able to take independent professional advice in the furtherance of their duties, if necessary, at the company's expense. In addition, the directors have direct access to the advice and services of the chief financial officer, who also functions as the company secretary.

### **Principle 7: Evaluate board performance based on clear and relevant objectives, seeking continuous improvement**

Since the appointment of Mark Lerdal as chairman, he has been assessing the individual contributions of each of the members of the team to ensure that:

- His contribution is relevant and effective
  - He is committed
  - He has maintained his independence
- As stated above, the company's Articles of Association require that all directors must stand for re-election at least once every three years; and that any new directors appointed during the year must stand for election at the AGM immediately following their appointment.

### **Principle 8: Promote a culture that is based on ethical values and behaviours**

The board aims to lead by example and do what is in the best interests of the shareholders of the company and is consistent with the shareholder-approved orderly realisation strategy. For example, the board has taken steps each year to reduce operational costs as the implementation of Leaf's orderly realisation strategy has progressed and its portfolio of investments has grown smaller, including reducing the number of employees and renegotiating contracts with the company's suppliers to reduce their costs wherever possible and appropriate.

### **Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision-making by the board**

#### *Board programme*

The board meets at least four times each year in accordance with its scheduled meeting calendar. The board sets direction for the company through a formal schedule of matters reserved for its decision. At each quarterly meeting of the board, the board schedules its next quarterly meeting, and the schedule for these



meetings is aligned as far as reasonably practicable with the company's financial calendar while also ensuring an appropriate spread of meetings across the financial year. This may be supplemented by additional meetings as and when required. During the year to 18 September 2018, the board met for its four quarterly meetings and had one additional meeting to approve the company's 4 July 2018 compulsory partial redemption of shares. The board and its committees receive appropriate and timely information prior to each meeting; a formal agenda is produced for each meeting, and board and committee papers are generally distributed several days before meetings take place. Any director may challenge company proposals and decisions are taken democratically after discussion. Any director who feels that any concern remains unresolved after discussion may ask for that concern to be noted in the minutes of the meeting, which are then circulated to all directors. Any specific actions arising from such meetings are agreed by the board or relevant committee and then followed up by the company's management.

#### *Roles of the board, executive chairman and chief financial officer*

The board is responsible for the success of the company in pursuit of its strategy. There is a formal schedule of matters reserved to the board. It is responsible for overall company strategy; approval of investments and major expenditures; approval of the annual and interim results; annual budgets; dividend policy; and board structure. It monitors the performance of the company in relation to its budget. Given Leaf's size and strategy, the executive chairman has responsibility for running both the business of the board, implementing the company's shareholder-approved strategy, and managing the other members of the management team.

All directors receive regular and timely information on the company's operational and financial performance. Relevant information is circulated to the directors in advance of meetings. The business reports to the board quarterly on its headline performance against its agreed budget, and the board reviews the quarterly update on performance and any significant variances are reviewed at each meeting. The chief financial officer reviews monthly performance versus budget. Senior executives below board level, including the chief financial officer, attend board meetings where appropriate to present business updates.

#### *Management team*

The management team consists of Mark Lerdal, Jim Potochny and Yonatan Alemu. They are responsible for the day-to-day management of the company's business and its overall operational and financial performance in fulfilment of its strategy, as well as plans and budgets approved by the board of directors. The management team reports to the board on issues, progress and recommendations for change. The controls applied by the management team to financial and non-financial matters are set out earlier in this document, and the effectiveness of these controls is regularly reported to the audit committee and the board.

#### *Board committees*

The board is supported by the audit and remuneration committees. Leaf does not currently consider it necessary to establish a nomination committee. Each committee has access to such resources, information and advice as it deems necessary, at the cost of the company, to enable the committee to discharge its duties. Further details about these committee is published in Leaf's annual and interim reports.

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



The company communicates with shareholders through the annual report and accounts, full-year and half-year announcements, the annual general meeting (AGM) and one-to-one meetings with large existing shareholders. A range of corporate information (including all company announcements) is also available to shareholders and the public on the company's corporate website, [www.leafcleanenergy.com](http://www.leafcleanenergy.com).

The company also updates its shareholders and the wider market through dissemination of its results, both half-yearly and annual, as well as trading updates and other corporate activity on a regular basis through its regulatory news service (RNS), provided by the London Stock Exchange.

The board receives regular updates on the views of shareholders through briefings and reports from the executive chairman and the chairman of the audit committee. The company communicates with institutional investors frequently through briefings with these company representatives.

**September 2018**