

# CORPORATE GOVERNANCE

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Ethical conduct, good corporate governance, risk governance and fair remuneration are fundamental to the way that Montauk manages its business. Stakeholders' interests are balanced against effective risk management and Montauk's obligations to ensure ethical management and responsible control.

## ETHICS

The Montauk board of directors is committed to the principles of good corporate governance. Ethical behaviour in Company undertakings is maintained by all directors, officers and staff in accordance with the Group's ethics policy. The policy requires that individual employees comply with all relevant legal requirements and regulations that apply to their area of work and provides guidance on matters such as respecting intellectual property rights and avoiding conflicts of interest. Montauk acknowledges and understands that the operation of its businesses requires a shared set of core values and ethical conduct to which each employee is held accountable.

The directors of the Company are accountable to act in accordance with the Group's directors' code of conduct. The governing principles are broadly defined as standards of diligence and good faith.

The board endorses the Code on Corporate Governance as set out in the King Report on Corporate Governance for South Africa 2016 ("King IV").

The board acknowledges its responsibility to ensure the integrity of the integrated annual report, believes that it addresses all material issues and that it fairly represents the integrated performance of Montauk. The Company's commitment to good corporate governance is formalised in its charter and policies.

As a corporate citizen, Montauk has a responsibility to conduct its affairs with diligence and responsibility, and to safeguard the interests of all stakeholders.

The board is accountable for the strategy, direction and corporate behaviour of the Company. This includes oversight over policies and procedures that promote Company conduct in accordance with the Company's code of ethics. The board is assisted by the social and ethics committee in discharging its responsibility of monitoring deviations from the Company's code of ethics.

## RISK MANAGEMENT AND INTERNAL CONTROL

The board acknowledges that it is accountable for the process of risk management and the system of internal control of Montauk. The Group operates in a highly regulated environment. Company management ensures adherence

to the various legislations and regulations that govern the day-to-day operations. Internal control structures have been implemented to ensure that significant business and financial risk is identified and appropriately managed. Additionally, the Group's general counsel is a credentialled certified fraud examiner who is tasked with general risk oversight.

## BOARD OF DIRECTORS

The board is regulated by a formal board charter, which sets out the role of the board and the responsibilities of the directors. While control is delegated to the Company executive management team in the day-to-day management of the Group, the board retains full and effective control over the Company and is accountable and responsible for its performance. The board charter codifies the board's composition, appointment, authorities, responsibilities and processes, and sets out the fiduciary duties of the directors of the Company. It provides the board with a mandate to exercise leadership, determine the Group's vision and strategy, and monitor operational performance. The board is satisfied that it has fulfilled its responsibilities in accordance with its charter for the reporting period.

## Composition of the board

The roles of chairman and chief executive officer of the Company are separate and not held by the same individual and the composition of the board ensures a balance of authority precluding any one director from exercising unfettered powers of decision-making. The directors are individuals of a high calibre with diverse backgrounds and expertise, facilitating independent judgement and broad deliberations in the decision-making process. The board each year evaluates its composition to ensure an appropriate mix of skills and experience.

The board's composition is based on the skills and knowledge required to operate within the renewable energy industry in the United States and within the regulatory framework of a public listed company in South Africa.

The Company has adopted a gender and race diversity policy at board level. The board's aim is to ensure that, of its South African directors, at least 25% will be female and at least 50% will be "black people" as defined in the Broad-Based Black Economic Empowerment Act, 2003, as amended. At the date of this report, 25% of the South African directors are female and 50% "black people".

The board comprises eight (8) members of whom six (6) are non-executive directors. Three (3) of the non-executive directors are also independent directors in terms of the definition stated below. King IV recommends that the board should elect a chairperson who is an independent non-executive director. The board has appointed a non-executive chairperson and in terms of the definition provided, he is not regarded as independent. The board is of the opinion that the experience of this individual and specialist knowledge of the industry makes it appropriate for him to hold this position. The board has appointed Mr MH Ahmed as lead independent non-executive director. The independence of the directors classified as "independent" was evaluated by weighing all relevant factors, including length of services on the board, which may impair independence.

The executive directors are Mr ML Ryan (chief executive officer) and Mr SF McClain (chief financial officer).

The Companies Act places certain duties on directors and determines that they should apply the necessary care and skill in fulfilling their duties. To ensure that this is achieved, best-practice principles, as contained in King IV, are applied where applicable.

No director has an automatic right to a position on the board. All directors are required to be elected by shareholders at an annual general meeting. The Company in general meeting may appoint any person to be a director subject to the provisions of the Company's MOI.

The board is evaluated on an annual basis by the remuneration committee, on both an individual and a collective basis. In turn, the board evaluates the performance and effectiveness of board subcommittees.

Directors of the Company as of 31 March 2018 were:

JA Copelyn	Appointed 20/06/2011
MH Ahmed	Appointed 31/08/2014
MA Jacobson	Appointed 31/08/2014
NB Jappie	Appointed 31/08/2014
SF McClain	Appointed 31/08/2014
BS Raynor	Appointed 31/08/2014
ML Ryan	Appointed 27/05/2016
A van der Veen	Appointed 31/08/2014

To uphold their independence and integrity, directors disclose all material interests as and when they arise. A list of directors' interests is tabled annually.

The directors are entitled to seek independent professional advice at the Company's expense concerning the Company's affairs and have access to any information they may require in discharging their duties as directors. In terms of the Company's MOI one-third of directors must retire at every annual general meeting and are eligible for re-election. The directors who retire shall be those who have been longest in office since their last election. Any director who has held office for three years since the last election, shall also retire at the conclusion of the annual general meeting. A retiring director shall be eligible for re-election and, if re-elected, shall be deemed not to have vacated office. Any casual vacancy occurring on the board may be filled by the board, but the individual so appointed shall cease to hold office at the termination of the first shareholders' meeting to be held after the appointment of such individual as a director, unless he/she is elected at such shareholders' meeting. As a result, the directors retiring at the forthcoming annual general meeting are Messrs A van der Veen, BS Raynor and MH Ahmed. Messrs BS Raynor and MH Ahmed have offered themselves for re-election. The name and brief curriculum vitae of each director appear on page 5 of this report.

In terms of the Company's MOI there is no mandatory retirement age for non-executive directors. No director has a fixed term of appointment with the Company.

### Meetings of the board

The board met three (3) times during the year under review, on each of 30 May 2017, 22 November 2017 and 6 March 2018. Mr MA Jacobson was not present for the 22 November 2017 board meeting. Otherwise, the meetings were attended by all board members. The board has met once subsequent to the reporting date, on 29 May 2018. The directors are comprehensively briefed in advance of the meetings and are provided with all necessary information to enable them to discharge their responsibilities.

### BOARD COMMITTEES

Three (3) board committees and an executive committee have been established to assist the board in discharging its responsibilities. In line with the recommendations of King IV all board committees comprise only members of the board, but appropriate personnel may be invited to the meetings as required. All committees are empowered to obtain such external or other independent professional advice as they consider necessary to carry out their duties. These committees play an important role in enhancing good corporate governance and improving internal controls and, consequently, the Company's performance. Each board

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committee must act according to written terms of reference, approved by the board and reviewed annually, setting out its purpose, membership requirements, and duties and reporting procedures.

## Audit and risk committee

**Members:** MH Ahmed (chairman), NB Jappie and BS Raynor.

The audit and risk committee fulfils an oversight role regarding the Group's financial statements and the reporting process, including the system of internal financial control. The committee also assists the board in discharging its responsibilities by considering reports and information generated by the subsidiary companies' audit or finance committees to their respective boards.

The committee's objectives are to assist the board in fulfilling its fiduciary duties with regard to:

- reviewing the interim, provisional and year-end financial statements, culminating in a recommendation to the board to adopt them;
- reviewing legal matters that could have a significant impact on the Group's financial statements;
- reviewing the external audit reports on the annual financial statements;
- verifying the independence of the external auditor, namely Grant Thornton Johannesburg Partnership;
- approving the audit fees and engagement terms of the external auditor;
- oversight of the integrated annual reporting as well as the evaluation of the significant judgements and reporting decisions affecting the integrated annual report;
- the monitoring of the design, implementation and effectiveness of the Company's risk management processes;
- reviewing the expertise, resources and experience of the Company's finance function; and
- determining the nature and extent of allowable non-audit services and approving the contract terms for the provision of non-audit services by the external auditor.

All the members of the committee are independent non-executive directors. All members act independently as described in section 94 of the Companies Act.

A report by the audit committee has been provided on page 15 of this report.

## Remuneration committee

**Members:** MH Ahmed (chairman), JA Copelyn and NB Jappie.

This committee is primarily responsible for overseeing the remuneration and incentives of the executive directors and Company executive management team. It takes cognisance of best remuneration practices in order to ensure that such total remuneration is fair and reasonable to both the employee and the Company. The committee may utilise the services of independent remuneration consultants to assist in providing guidance on the remuneration for executive management.

Functions and mandates of the remuneration committee include:

- making recommendations to the board regarding directors' fees and the remuneration and service conditions of Company executives, including the chief executive officer;
- providing a channel of communication between the board and management on remuneration matters;
- reviewing the Group's remuneration policies and practices and proposals to change these, and to make recommendations in this regard to the board;
- reviewing and approving the terms and conditions of any executive employment contracts, taking into account information from comparable companies;
- determining and approving any share-based grants to executive directors and other senior employees; and
- reviewing and approving any disclosures in the annual report or elsewhere on remuneration policies or directors' remuneration.

All the members of the committee are non-executive directors. In line with the recommendations of King IV the chief executive officer attends the meetings of the committee at the request of the committee, but recuses himself from the meeting before any decisions are made in which he is affected.

A report by the remuneration committee has been provided on page 17 of this report.

## Social and ethics committee

**Members:** JA Copelyn (chairman), ML Ryan and NB Jappie.

The committee's functions are in line with the requirements of the Companies Act. A report by the social and ethics committee has been provided on page 19 of this report.

## Executive committee

The committee's primary objectives are to assist the board in the daily management of the Group, including the allocation and investing of the Group's resources.

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The executive committee comprises Messrs ML Ryan (CEO and executive director), SF McClain (CFO and executive director) and JW Wallace.

### CHIEF EXECUTIVE OFFICER

Mr ML Ryan was appointed as CEO of the Company on 27 May 2016. Mr Ryan's employment contract with the Company includes a notice of termination period (whether notice is served by himself or by the Company) of 90 days. In addition, Mr Ryan is entitled to severance remuneration in the amount of 12 months in the event that notice of termination is served by the Company without proven wrongdoing by him.

Mr Ryan does not serve on any management boards outside of the Company and has no employment outside of the Company.

Mr Ryan has not disclosed an intention to retire or otherwise leave the employ of the Company. No formal succession plan is in place; however, Mr Ryan is supported by a strong management team.

### CHIEF FINANCIAL OFFICER

Mr SF McClain, an executive director, is the chief financial officer of the Group. The audit and risk committee has considered his expertise and experience and deems it appropriate. The committee is also satisfied that the expertise, resources and experience of the finance function are adequate and the existence of adequate financial reporting procedures.

### COMPANY SECRETARY

HCI Managerial Services Proprietary Limited, a juristic person, is the appointed company secretary of the Group and was appointed by the board in terms of the Companies Act and in accordance with JSE Listing Requirements. The board has assessed the directors and the designated staff of the company fulfilling the role of the company secretariat and is satisfied that they have the competence, qualifications and experience to effectively fulfil the role of company secretary. The company secretary provides support and guidance to the board on matters relating to governance, ethical conduct and fiduciary duties. Where required, the secretary facilitates induction and training for directors, and co-ordinates the annual board evaluation process. Directors have unrestricted access to the advice and services of the company secretary whilst maintaining an arm's length relationship between the board and the company secretary.

### DEALING IN THE COMPANY'S SECURITIES

Montauk complies with the continuing obligations of the Listings Requirements of the JSE. A Group-wide share trading policy is in place whereby all directors and employees

who have access to financial results and other price-sensitive information are prohibited from dealing in Montauk shares during certain prescribed restricted periods as defined by the JSE or when the Company is operating under a cautionary announcement. The company secretary disseminates written notices to inform these employees of the insider trading legislation and advise of closed periods. All directors and senior executives are required to obtain written clearance prior to the dealing in shares of the Company and to report all share dealings to the company secretary, to ensure that all such dealings are disclosed in terms of the applicable JSE Listings Requirements.

### CONFLICTS OF INTEREST

The directors are required to avoid situations where they have direct or indirect interests that conflict or may conflict with the Group's interests. Procedures are in place for disclosure by directors of any potential conflicts and for appropriate authorisation to be sought if conflict arises.

### COMPLIANCE WITH LAWS, CODES AND STANDARDS

Montauk respects and complies with the laws of the countries in which it operates. This includes corporate laws, common law as well as specific laws. The Group operates in a highly regulated environment and, where necessary, compliance officers have been appointed to ensure adherence to the various Acts and Codes that govern its day-to-day operations.

### DISCLOSURES

To ensure shareholder parity Montauk ensures that accurate and timely disclosure of information that may have a material effect on the value of its securities or influence investment decisions is made to all shareholders. The Company publishes details of its corporate actions and performance via the Stock Exchange News Service ("SENS") and in the main South African daily newspapers. The Company maintains a website through which access is available to the broader community on the Company's latest financial, operational and historical information, including its integrated annual report.

### LITIGATION

In June 2016 the Company's fully-owned subsidiary initiated an arbitration proceeding against the contractor it engaged to construct its facility in Southern California related to certain schedule and performance issues. In lieu of final evidentiary hearings the parties resolved the dispute through settlement and executed a settlement agreement effective as of 28 February 2018. In connection with the settlement agreement the Company received a payment in the amount of \$2.6 million and recorded a non-cash gain of \$1.2 million

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related to an outstanding liability for the construction of the facility which was not required to be paid. There are no further material legal or arbitration proceedings (including proceedings which are pending or threatened of which the directors of Montauk are aware) which may have or have had, during the year ended 31 March 2018, a material effect on the financial position of Montauk.

## GOVERNANCE OF INFORMATION TECHNOLOGY

Due to the inherent risks in information technology ("IT"), King IV has recommended that the board of directors be responsible for the assessment, implementation and monitoring of IT within the Company. IT governance is the responsibility of the board of directors, forms an integral part of the Group's risk management and is assisted by the audit and risk committee in carrying out its IT responsibilities. The board of directors of Montauk acknowledges the need for an IT policy which, if effectively managed, can streamline and add value to the underlying businesses. The board is assisted by Mr SF McClain, the chief financial officer and chief information officer (for all United States operations), in the implementation and monitoring of an IT policy. The network serving all United States operations is virtually hosted in

SOC2 and SSAE 16-compliant data centres. Moreover, as part of the Company's annual financial audit, an IT audit is performed. A governance framework for implementation at subsidiary level will be considered for approval by the board in due course. At a holding Company level, Montauk does not believe it is necessary to employ a chief information officer as the operations consist only of a basic administrative function. The audit and risk committee is responsible for the monitoring of IT compliance within the Group.

## APPLICATION OF KING IV PRINCIPLES

Montauk believes that, in all material respects, it complies with the major recommendations of the code to ensure that sound corporate governance and structures are applied within the Group. Alternatives to the King IV recommendations can be applied to further the best interests of the Company, as long as the overarching principles of good corporate governance are achieved. The board monitors compliance to ensure ongoing improvement of operational and corporate practices and that the affairs of the Group are conducted with transparency and integrity.

A detailed analysis of compliance with the individual principles of King IV is published on the Company's website.