

AIM Rule 26 – statement regarding corporate governance

CORPORATE GOVERNANCE REPORT

Introduction

The Board is committed to good corporate governance practices. The Company was admitted to trading on AIM in May 2008. From 28 September 2018, AIM quoted companies are required to adopt and comply or explain non-compliance with a recognised corporate governance code. Whilst, compliance with the governance framework contained in the UK Corporate Governance Code published by the Financial Reporting Council (the 'Code') is not currently mandatory. Nevertheless, the Company remains committed to adopting high standards of corporate governance and has chosen to comply with the Code. The Code is based around five main principles; leadership, effectiveness, accountability, remuneration & relations with shareholders. Certain areas of non-compliance of the Code are explained below.

Compliance with the Code

Since admission to AIM, the Group has grown substantially against a background of difficult trading conditions within the Indian electricity generation sector. The Company completed its development programme, paid dividend with respect to year ended 31 March 2017 and is poised for the next phase of its development. The key objective is to build on these achievements and the Board has therefore adopted an approach to governance that is proportionate with and appropriate to the current size and complexity of the Group.

The Board notes the following areas of non-compliance with the Code with comments on each as appropriate:

1. *Division of Responsibilities (A.2.1)*

At the Annual General Meeting ('AGM') on 14 November 2016, Mr M C Gupta retired from the position of Chairman and the Chief Executive, Arvind Gupta, accepted the Board's proposal to assume the role of Executive Chairman effective from that date. As Executive Chairman, Mr Arvind Gupta is responsible for the overall business, strategic decision and heads the Executive Committee.

Mr Dmitri Tsvetkov, the Company's Chief Financial Officer is responsible for the finance function, including financial controls and funding (V Narayan Swami, the Company's former Finance Director had these responsibilities before his resignation). Simultaneously with the appointment of Mr Arvind Gupta as Executive Chairman, the Company announced the appointment of Mr T Chandramoulee to a newly created post of Chief Operating Officer. This was a non-Board appointment. Mr T Chandramoulee resigned from the Company and Ms Avantika Gupta, daughter of Mr Arvind Gupta, was appointed as Chief Operating Officer on 1 March 2018. As Chief Operating Officer, Ms Gupta is responsible for the day-to-day running of the operations.

In the Board's view, these changes together ensure an appropriately clear division of responsibilities between the running of the Board and the executive responsibility for the running of the Company's business.

2. *Non-executive Directors (A.4.2)*

The Code requires the Non-executive Directors, led by the Senior Independent Director, to meet at least annually without the Executive Chairman to appraise the Executive Chairman's performance. The Board is to institute a periodic evaluation process, including evaluating the performance of the Executive Chairman in due course.

3. *Evaluation (B.6)*

The Executive Chairman, as part of his responsibilities, informally assesses the performance of the Board and its Directors on an ongoing basis and brings to the Board's attention any areas for improvement. For the time being, the Board will continue to evaluate in this way the balance of skills, experience, independence and knowledge required to ensure that its composition is appropriate to the Group's size and complexity. As noted in connection with Code provision A.4.2 above, the Board is to institute a process of periodic evaluation of its performance and that of its principal committees and the individual Directors annually.

Operation of the Board

Board of Directors

The Board comprises the following individuals:

Executive

1. Arvind Gupta (Executive Chairman since 14 November 2016 (Chief Executive Officer before 14 November 2016)); and
2. Dmitri Tsvetkov (Chief Financial Officer) (joined on 8 November 2017).

3. V Narayan Swami (Finance Director) (resigned on 8 November 2017).

Non-executive

1. Jeremy Warner Allen (Deputy Chairman) (joined on 8 November 2017);
2. Martin Gatto (Senior Independent Director) (resigned on 8 November 2017);
3. Michael Grasby;
4. Jeremy Beeton; and
5. Ravi Gupta (resigned on 29 May 2018).

The Board considers that, as at the date of this statement, it complies with Code provision B.1.2, which requires that, in the case of smaller companies, there should be a minimum of two independent Non-executive Directors. The Board considers both Mr Grasby and Mr Beeton to be independent in character and judgement notwithstanding their length of service. Mr Allen was appointed in November 2017 and is considered to be independent under the Code. Biographical details of all the Directors at the date of this report are set out on pages 22 and 23 of the Company's latest Annual Report, together with details of their membership, as appropriate, of the Board Committees. The Board is responsible for setting the Company's objectives and policies and providing effective leadership and the controls required for a publicly listed company. Directors receive papers for their consideration in advance of each Board meeting, including reports on the Group's operations to ensure that they remain briefed on the latest developments and are able to make fully informed decisions. The Board met 4 times during the year under review.

The Executive Committee ('ExCo') comprises of the two Executive Directors and four members of senior management.

All Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

Directors have the right to request that any concerns they have are recorded in the appropriate Committee or Board minutes. Informal procedures are in place for Directors to take independent professional advice at the Company's expense although these are not currently set down in writing.

The Company maintains Directors' and officers' liability insurance and indemnity cover, the level of which is reviewed annually.

Executive Chairman and Deputy Chairman

The Executive Chairman's key responsibilities were the effective running of the Board, proposing and developing the Group's strategy and ensuring that the Board plays a full and constructive part in the development and determination of the Group's strategy and overseeing the Board's decision-making process. In addition to that, the Executive Chairman, as leader of the executive team, is responsible for implementing the decisions of the Board and its Committees.

At the AGM of the Company on the 14 November 2016, the previous Chief Executive, Arvind Gupta, assumed the role of Executive Chairman and previous Chairman retired on the same date.

Jeremy Warner Allen, the Deputy Chairman, is available to shareholders who have concerns that cannot be resolved through discussion with the Executive Chairman. The role of the Deputy Chairman is to support and tender advice to the Executive Chairman on all governance matters. Martin Gatto, former Senior Independent Director, played this role before his resignation in November 2017.

Re-election of Directors

At every AGM, one-third of the Directors for the time being (excluding any Director appointed since the previous AGM) or, if their number is not divisible by three, the number nearest to one-third, shall retire from office by rotation. Pursuant to the Company's Articles, the Board shall have power at any time to appoint Directors to fill a vacancy and any Directors so appointed shall hold office only until the annual general meeting of the Company and shall be eligible for re-election. On this basis, Messrs Jeremy Warner Allen, Dmitri Tsvetkov (both appointed on 8 November 2017) and Michael Grasby, will offer themselves for re-election at the forthcoming AGM.

Information and professional development

Prior to the Company's admission to AIM in May 2008, all Directors received a briefing from the Company's nominated adviser of their duties, responsibilities and liabilities as a Director of an AIM company. Also all Directors received a briefing on the Market Abuse Regime (MAR) regulation from the Company's Nominated Advisor. Directors are encouraged to keep abreast of developments and attend training courses to assist them with their duties.

In addition to the formal meetings of the Board, the Executive Chairman is available to the other Non-executive Directors to discuss any issues of concern they may have relating to the Group or as regards to their area of responsibility and to keep them fully briefed on ongoing matters relating to the Group's operations.

The Executive Chairman is responsible for ensuring that new Directors each receive a full, formal and tailored induction on joining the Board as required by provision B.4.1 of the Code.

Board performance

As noted above, the Board will in due course consider the most appropriate methodology for evaluating its performance and that of its principal Committees and the individual Directors.

Meetings of the Board and its Committees

The following table sets out the number of meetings of the Board and its Committees during the year under review and individual attendance by the relevant members at these meetings:

	Board meetings				Board Committee meetings			
	Number	Attended	Audit		Remuneration		Nomination	
			Number	Attended	Number	Attended	Number	Attended
Arvind Gupta	4	3	2	2	NA	NA	1	1
Dmitri Tsvetkov	4	2	2	1	NA	NA	NA	NA
V Narayan Swami	4	2	2	1	NA	NA	NA	NA
Jeremy Warner Allen	4	2	2	1	NA	NA	NA	NA
Martin Gatto	4	2	2	2	1	1	NA	NA
Michael Grasby	4	4	2	2	1	1	1	1
Ravi Gupta	4	1	2	1	1	1	NA	NA
Jeremy Beeton	4	1	2	1	1	1	1	1
Number of meetings held during the year	4		2		1		1	

In the event that Directors are unable to attend a meeting, their comments on the business to be considered at the meeting are discussed in advance with the Executive Chairman so that their contribution can be included in the wider Board discussions.

Board Committees

Audit Committee

The members of the Audit Committee are Jeremy Warner Allen, Michael Grasby and Jeremy Beeton (Martin Gatto and Ravi Gupta were members of the Audit Committee until their resignations in November 2017 and May 2018 respectively). Jeremy Warner Allen is considered to have continuing, relevant financial experience (Martin Gatto was considered to have continuing, relevant financial experience before his resignation). The Executive Chairman and Chief Financial Officer and also, as necessary, a representative of the auditors are normally invited to attend meetings of the Committee.

The primary duty of the Audit Committee is to oversee the accounting and financial reporting process of the Group, the external audit arrangements, the internal accounting standards and practices, the independence of the external auditor, the integrity of the Group's external financial reports and the effectiveness of the Group's risk management and internal control system.

The Audit Committee met twice during the year and considered the following matters during the year under review:

- the Annual Report and Accounts for the year ended 31 March 2017; and
- the unaudited results for the half-year FY18 to 30 September 2017.

Remuneration Committee

The Remuneration Committee currently consists of Jeremy Beeton, Jeremy Warner Allen and Michael Grasby (Martin Gatto and Ravi Gupta were members of the Audit Committee until their resignations in November 2017 and May 2018 respectively). Ravi Gupta was not present when any remuneration matter relating to the Executive, Arvind Gupta (his brother) were discussed.

The primary duty of the Remuneration Committee is to determine and agree with the Board the framework or broad policy for the remuneration of the Executive Directors and such other members of the executive management team of the Group as is deemed appropriate. The remuneration of the Non-executive Directors is a matter for the executive members of the Board. No Director may be involved in any decisions as to his own remuneration.

Full details of the role and composition of the Remuneration Committee, the remuneration policy of the Company and its compliance with the Code provisions relating to remuneration are set out in the Directors' Remuneration Report in the Company's latest Annual Report on pages 30 to 33.

Nomination Committee

The members of the Nomination Committee are Arvind Gupta, Jeremy Beeton and Michael Grasby. The primary duty of the Nomination Committee is to lead the process for Board appointments and make recommendations to the Board.

Accountability and Audit

Risk management and internal control

The Board has overall responsibility for the Group's system of internal control, which includes risk management. The Board has delegated the responsibility for reviewing the effectiveness of its internal control systems to the Audit Committee. The Audit Committee reviews these systems, policies and processes for tendering, authorisation of expenditure, fraud and the internal audit plan.

The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has instructed the ExCo to be a leading part of its process to identify, evaluate and manage the significant risks the Group faces, which is in accordance with the current guidance on internal control. The Audit Committee will assist the Board in discharging its review responsibilities. A summary of the key risks facing the Group and mitigating actions is described on pages 20 and 21 of the Company's latest Annual Report.

Assurance

BDO LLP was appointed as auditor for the Group for the financial year ended 31 March 2018. The Audit Committee considers that, at this stage in the Group's development, it is more efficient to use a single audit firm to provide certain non-audit services for transactions and tax matters. However, to regulate the position, the Committee will at the appropriate time establish a policy on the provision of non-audit services by the external auditor. That policy will set out the external auditor's permitted and prohibited non-audit services and a fee threshold requiring prior approval by the Audit Committee for any new engagement. The external auditor did not provide any non-audit services during the year.

Going concern

A statement on the Directors' position regarding the Company as going concern is contained in the Directors' Report on page 28 of the Company's latest Annual Report.

Shareholder Relations and the Annual General Meeting

The Board is committed to maintaining an ongoing dialogue with its shareholders. The Directors are keen to build a mutual understanding of objectives with its principal shareholders. To this end, the Executive Chairman and Chief Financial Officer together with the Deputy Chairman met with a number of institutional shareholders during the year. The Directors also encourage communications with private shareholders and encourages their participation in the AGM.

The Company also has access to regular feedback from its shareholders through its broker, Cenkos Securities plc.

Arvind Gupta is primarily responsible for ensuring the effective communication of shareholders' views to the Board as a whole and updates the Board accordingly. Board members keep abreast of shareholder opinion and to discuss strategy and governance issues with them as appropriate.

Notice of the AGM will be sent to shareholders at least 21 clear days before the meeting. The voting results will be made available on the Company's website following the meeting.

The Company uses its corporate website (www.opgpower.com) to communicate with its institutional shareholders and private investors and posts the latest announcements, press releases and published financial information together with updates on current projects and other information about the Group.