AFRICAN EQUITY EMPOWERMENT INVESTMENTS LIMITED

# CORPORATE GOVERNANCE REPORT 2018

# CONTENTS

## CORPORATE GOVERNANCE REPORT


| | |
|---|---|
| 6 | OUR EFFECTIVE LEADERSHIP |
| 20 | NOMINATION COMMITTEE REPORT |
| 22 | AUDIT AND RISK COMMITTEE REPORT |
| 28 | RISK MANAGEMENT REPORT |
| 36 | TECHNOLOGY AND INFORMATION |
| 41 | REMUNERATION COMMITTEE REPORT |
| 49 | SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE REPORT |
| 55 | INVESTMENT COMMITTEE REPORT |

# CORPORATE GOVERNANCE REPORT

At AEEI we believe that effective corporate governance is critical to delivering on our Vision 2020 Vision strategic objectives and creating long-term value for our shareholders. As well as implementing minor improvements in governance, our governance framework is clear and consistent in terms of delegation of authority from our Board of directors to senior levels within our Group.

## STATEMENT OF COMMITMENT

The Board is committed to the highest standards of ethics, governance and business integrity and has adopted an integrated approach to managing the Group to ensure that the governance structure actively identifies, communicates on and responds to material matters that impact on the Group's capacity to create value. The Board believes that it has addressed all material matters appropriately and that it fairly represents the integrated performance of the Group. The Board continuously reviews the Group's governance structures and processes to incorporate and accommodate new corporate developments, to facilitate effective leadership, to provide sustainable corporate citizenship in support of the Group's strategy and to reflect national and international corporate governance standards, developments and best practices. *(King IV™ – Principle 6)*

The Board is satisfied that effective controls have been implemented and complied with throughout the Group and that the Company fully complies with the spirit and form of the continuing obligations of the JSE Listings Requirements, King IV™ and the Companies Act.

## COMBINED ASSURANCE AND INTERNAL CONTROL FRAMEWORK

AEEI has a combined assurance model, which includes internal and external assessments of key strategic risks, internal controls and other material areas to support the integrity of the management, monitoring and reporting data.

The Board paid attention to the combined assurance through the audit and risk committee, which ensured that our combined assurance model adequately addresses the Group's risk and material matters. We continually look at optimising our combined assurance model to avoid duplication of efforts, rationalise collaboration efforts and manage assurance costs. This enables an effective control environment and ensures the integrity of the information used for reporting and decision-making.

## CREATING VALUE THROUGH SOUND CORPORATE GOVERNANCE

Sound corporate governance and ethics form the foundation of AEEI's business and are pivotal in delivering long-term value to our stakeholders. AEEI has a positive association with all its stakeholders and is committed to the highest standards of ethics and business integrity in all its activities.

## OUR GOVERNANCE FRAMEWORK

The Board is the principal decision-maker and is supported by various committees and the executive management team. The Board is responsible for the strategic direction of the Group and the Company's governance framework. The governance framework supports the Company's strategic focus areas.

The Board plays a pivotal role in strategy planning and has established clear benchmarks to measure the strategic objectives of the Company. The Board ensures that its sound governance framework will enhance good corporate governance, improve internal controls and improve the Company's performance. In carrying out the Company's strategic objectives, the Board is assisted by the necessary committees, including the executive committee, with clear terms of reference to assist the Board in discharging its responsibilities. This flows down to the subsidiaries and divisional levels to ensure that the business is provided with a structure within which management can operate effectively.

# CORPORATE GOVERNANCE REPORT - continued

The Group's governance framework focuses on the following:

- Vision, strategy and performance
- Ethical and responsible leadership
- Finance, including budgets and forecasts
- Corporate citizenship
- Risk management
- Information technology
- Investment
- Products – quality, cost, delivery and competitiveness
- Human capital – health, safety, employee wellness and the environment
- Transformation
- Sustainability
- Stakeholder relations

As AEEI is listed on the JSE, the Company is subject to and has implemented controls to provide reasonable assurance of compliance with all relevant regulatory requirements in respect of its listing. AEEI has applied all the principles of King IV™. *(King IV™ – Principle 6)*

## RESPECTED CORPORATE CITIZENSHIP

The Board and management recognise that AEEI is an economic entity as well as a corporate citizen and that it has a social and moral standing in society with all the attendant responsibilities. Further information is provided in our corporate social investment report on pages 26 – 35.

*(King IV™ – Principle 3)*

## APPLICATION OF AND APPROACH TO KING IV™

In supporting King IV™ the Board recognises that it is the custodian of corporate governance for the Company and ensured that directors:

- lead ethically and effectively;
- supported an ethical culture;
- set the strategic direction for the Group for the year ahead;
- approved policies and planning; and
- administered and monitored the Group's risks and opportunities, strategy, business model, performance and sustainable development.

The Board ensured compliance with applicable laws, rules, codes and standards in a way that supported the Group in being ethical and a good corporate citizen. It ensured that remuneration is fair and transparent and that the integrity of information for decision-making internally and externally was assured. A stakeholder-inclusive approach was applied in the Group to ensure that the needs, interests and expectations of material stakeholders were addressed.

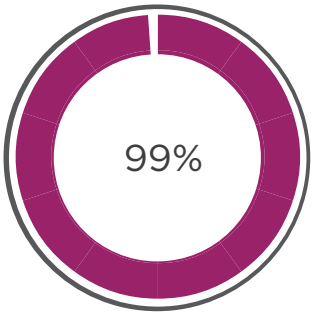
*A statement on AEEI's application of the principles of the King IV™ is available on www.aeei.co.za.*

AEEI has applied all the principles of King IV™.

# CORPORATE GOVERNANCE REPORT - continued

## KING IV™ REPORT WRITER – DETAILED BY PRACTICE

### COMPLETENESS METER

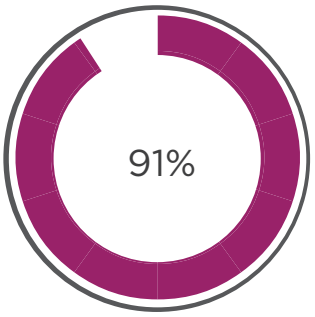



### PRACTICE COUNT

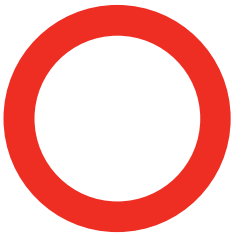
| | |
|---|---|
| Practices with narrative | 17 |
| Practices with no narrative | 0 |
| Practices cross-referenced to narrative | 382 |
| Not applicable | 1 |

## KING IV™ MANAGEMENT REVIEW

### COMPLETENESS METER



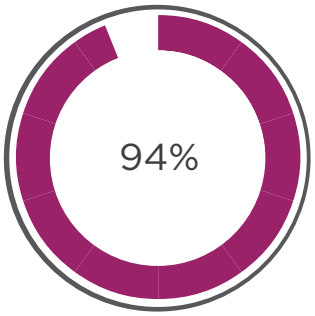

### PRACTICE COUNT



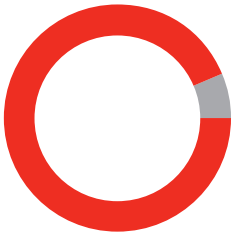
| | |
|---|---|
| Satisfactorily applied | 368 |
| Not applied | 0 |
| Not applicable | 0 |

## KING IV™ REPORT WRITER – BY PRINCIPLE

### COMPLETENESS METER



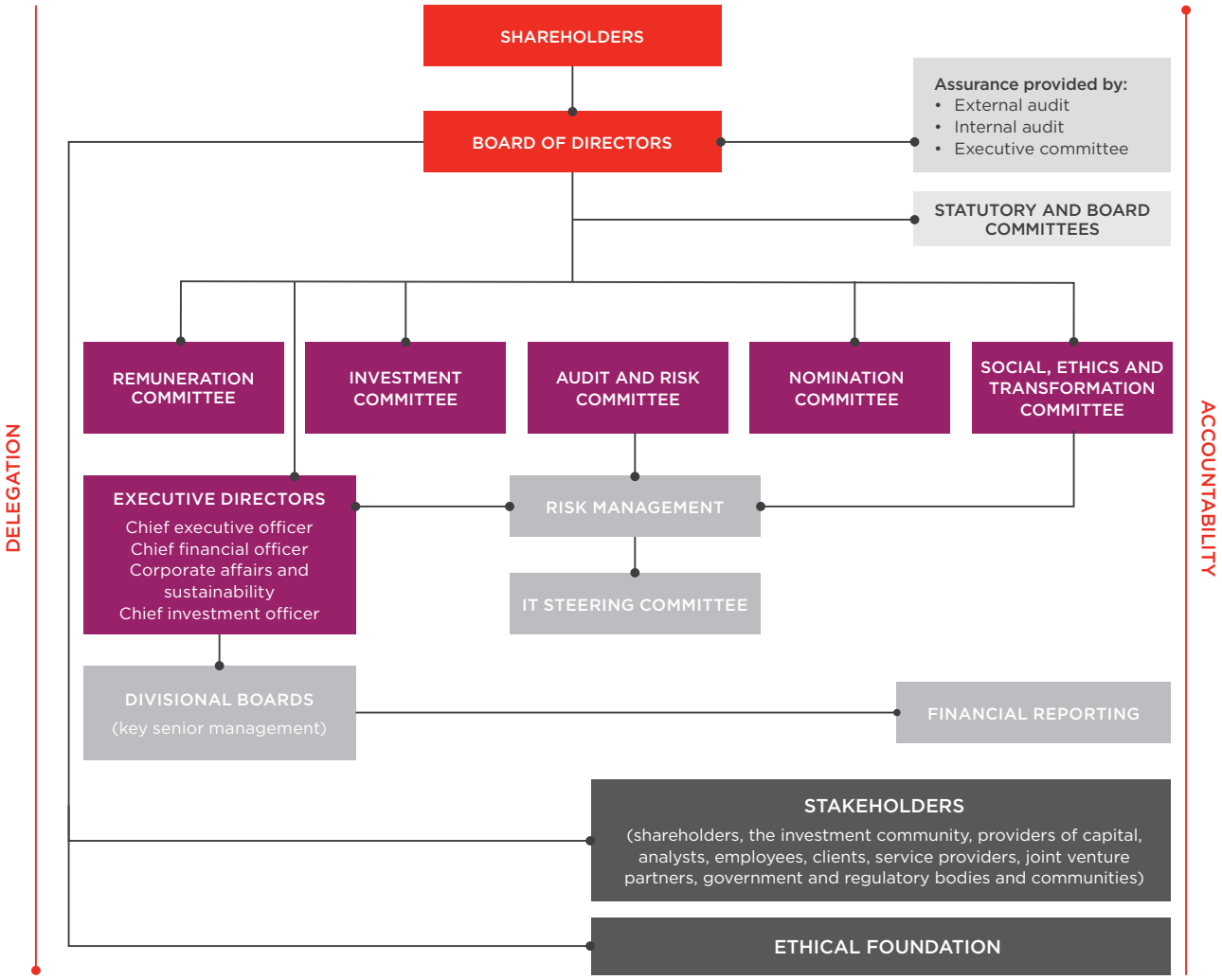

### PRACTICE COUNT



| | |
|---|---|
| Practices with narrative | 15 |
| Not applicable | 1 |

# CORPORATE GOVERNANCE REPORT - continued

## CORPORATE GOVERNANCE STRUCTURE



# OUR EFFECTIVE LEADERSHIP

In terms of AEEI's Memorandum of Incorporation and Board Charter, the Board is responsible for strategic direction and ultimate control of the Company.

## INTRODUCING OUR BOARD OF DIRECTORS

The diversity and skills of our Board ensure that the Group is steered to deliver growth to all our stakeholders.

Executive directors

### CHIEF EXECUTIVE OFFICER
### Khalid Abdulla (53)

MBA (UCT), BCompt (Hons), CTA (Unisa), Project Management (UCT)

**Appointed:** 29 August 2007

**Nationality:** South African

**Board committee:**
Investment committee

### CHIEF FINANCIAL OFFICER
### Chantelle Rae Ah Sing (44)

BCom (Nelson Mandela University), Post-graduate diploma in Accounting (University of KwaZulu-Natal)

**Appointed:** 19 November 2009

**Nationality:** South African

### CORPORATE AFFAIRS AND SUSTAINABILITY DIRECTOR
### Cherie Felicity Hendricks (55)

University of Cambridge Programme for Sustainability Leadership, Incite Sustainability Executive Programme, Executive Women in Leadership Programme (University of Cape Town – Graduate School of Business)

**Appointed:** 18 March 2009

**Nationality:** South African

**Board committees:**
Social, ethics and transformation committee

### CHIEF INVESTMENT OFFICER
### Abdul Malick Salie (37)

BCom (Hons), CA(SA)

**Appointed:** 21 February 2018

**Nationality:** South African

**Board committees:**
Investment committee

# OUR EFFECTIVE LEADERSHIP - continued

## Non-executive board members

### INDEPENDENT NON-EXECUTIVE CHAIRMAN
### Reverend Dr Vukile Charles Mehana (65)

PhD (University of Johannesburg), DBA, Honoris Causa (Commonwealth University), MBA (De Montfort University, UK), Master Class Certificate (London Graduate School), BTh (Rhodes University), AMP (Insead Business School, France), Certificate in Public Enterprises (National University of Singapore), DPhil (University of Johannesburg), Top Management Certificate on Public Enterprise (National University of Singapore)

**Appointed:** 8 August 2007

**Nationality:** South African

**Board committees:**
Chairman of the investment committee
Chairman of the nomination committee
Remuneration committee

### LEAD INDEPENDENT NON-EXECUTIVE DIRECTOR
### Advocate Dr Ngoako Abel Ramatlhodi (63)

BA Law and LLB (National University of Lesotho), MSc in International Relations (University of Zimbabwe), admitted to the Bar of Lesotho and South Africa as an Advocate, Honorary Doctor of Law Degree (University of Limpopo)

**Appointed:** 7 March 2018

**Nationality:** South African

**Board committees:**
Audit and risk committee
Investment committee

### INDEPENDENT NON-EXECUTIVE DIRECTOR
### Aziza Begum Amod (56)

**Appointed:** 12 November 2012

**Nationality:** South African

**Board committees:**
Chairman of the social, ethics and transformation committee
Remuneration committee
Nomination committee

### INDEPENDENT NON-EXECUTIVE DIRECTOR
### Takudzwa Tanyaradzwa Hove (36)

BCom (Hons) Accounting (Nelson Mandela University) CA(SA), ACMA, CGMA

**Appointed:** 4 September 2013

**Nationality:** Zimbabwean

**Board committees:**
Chairman of the audit and risk committee
Chairman of the remuneration committee
Investment committee

# OUR EFFECTIVE LEADERSHIP - continued

## Non-executive board members

### INDEPENDENT NON-EXECUTIVE DIRECTOR
### Johannes Mihe Gaomab (56)

**Appointed:** 13 September 2006

**Nationality:** Namibian

**Board committees:**
Audit and risk committee

Social, ethics and transformation committee

### INDEPENDENT NON-EXECUTIVE DIRECTOR
### Zenariah Barends (56)

Diploma in Library and Information Science, BA (Hons) (University of Western Cape)

**Appointed:** 14 November 2014

**Nationality:** South African

**Board committees:**
Nomination committee

Social, ethics and transformation committee

# OUR EFFECTIVE LEADERSHIP - continued

## BOARD POWERS AND PROCEDURES

The Board sets and steers the direction of the Group to ensure that it brings informed, independent and effective judgement and leadership on all material decisions reserved for the Board. It ensures that strategy, risk, performance and sustainable development issues are effectively integrated and appropriately balanced. The Board assumed ultimate responsibility and accountability for the performance and affairs of the Group and ensured effective leadership on an ethical foundation. It serves as the focal point and custodian of corporate governance for the Group. *(King IV™ – Principles 1, 2, 3, 4 and 6)*

AEEI has established a suitable balance of power and a solid framework for the examination, calculation and management of risk. The Board believes that diversity is an essential component for sustaining a competitive advantage. Directors are chosen for their corporate leadership skills, experience, expertise and gender and race diversity. The Board believes that the current mix of knowledge, skill and experience meet the requirements to lead the Group effectively. The Board has a policy that allows for the clear division of responsibilities to ensure a balance of power and authority. This means that no one individual has unlimited powers when it comes to decision-making. *(King IV™ – Principles 1, 8 and 10)*

The Board regularly reviews the Group's governance structures and processes to ensure that they support effective and ethical leadership, good corporate citizenship and sustainable development and to ensure that they are applied in the best interests of the Group's stakeholders. The Group has the necessary policies and processes in place to ensure that all subsidiaries adhere to its requirements and governance standards.

While all directors have equal responsibility for monitoring the Group's affairs, it is the role of the CEO and the executive management team to run the business within the parameters prescribed by the Board and to produce clear, accurate and timely reports, thus enabling the Board to make informed decisions. The independent non-executive directors are considered to have the necessary skills and experience to bring balanced and independent judgement to the Board. *(King IV™ – Principles 7 and 8)*

The Company's Memorandum of Incorporation (MOI), the Companies Act, King IV™ and the JSE Listings Requirements set out the directors' responsibilities, rights and obligations. Directors are required to comply with all relevant legislation and to maintain strict confidentiality of all information relating to the business of the Company.

The conduct of directors shall be consistent with their duties and responsibilities to the Company and indirectly to the shareholders.

The Board and its committees continue to monitor the implementation of compliance to policies and processes and improve upon them and to mitigate the risk of non-compliance with all applicable laws. *(King IV™ – Principle 11)*

The Board is involved in the decision-making of its subsidiaries on material matters and is satisfied that its delegation of authority framework contributes to role clarity and effective exercise of authority and responsibilities. *(King IV™ – Principles 1, 2 and 3)*

The Board recognises its responsibility to report and communicate all matters of significance to all of its stakeholders and to ensure effective communication between internal and external stakeholders. The Board encourages attendance of its directors and chairpersons of its committees at the annual general meeting (AGM). The Board has full and unrestricted access to all Company information, records, documents and property and monitors the non-financial aspects relevant to the businesses of the Group.

Due to the ever-changing landscape during the year under review the Board made changes to policies and charters and also implemented new polices and charters to take into account the changes in regulatory compliance and to stay abreast of trends.

The following policies and charters were updated and the new ones implemented:

- Board Charter – updated
- Emergency Procedure for Disclosure of Price Sensitive Information – new
- Governing Technology and Information – new
- Insider Trading and Dealing in Securities and Transactions – updated
- Price Sensitive Information and Discussions with Journalists and Investment Analysts Policy – updated
- Records Retention Policy – new
- Remuneration Policy – updated
- Social, Ethics and Transformation Committee Monitoring Indicators & Workplan – new
- Social Media Policy – new
- Risk Management Policy – new

# OUR EFFECTIVE LEADERSHIP - continued

The Board is satisfied that it discharged its duties and obligations as described in the Board Charter during the year under review.

## ETHICAL AND RESPONSIBLE LEADERSHIP

The Board provides effective leadership based on a principled foundation and the Group subscribes to the highest ethical standards. Responsible leadership, instilled by the values of responsibility, transparency, accountability and fairness, has been a defining characteristic of the Company since inception.

AEEI's fundamental objective has always been to do business ethically while building a sustainable Company that recognises the short and long-term impacts of its activities on the economy, society and the environment.

The Group is governed by its Code of Ethics and Code of Conduct. The Code of Ethics requires all directors, management and employees to obey the law, respect others, to be honest and fair and to protect the environment. The Code of Conduct articulates AEEI's commitment to doing business according to best practices, the right way and guided by our values. *(King IV™ – Principles 1 and 2)*

The Board comprises 10 directors of whom six serve as non-executive directors and four as executive directors. The Board is satisfied that its composition contains the appropriate knowledge, skills, experience, independence and race and gender diversity. The Board operates in terms of a board-approved charter and there is a clear division of responsibilities at Board level to ensure a balance of power and authority. No one individual has unfettered powers of decision-making.

## BOARD COMPOSITION – GENDER AND RACE DIVERSITY

| GENDER DIVERSITY | RACE DIVERSITY |
|---|---|
| Male – 55.55%<br>Female – 44.45% | White – 11%<br>Black – 78%<br>Black other – 11% (i.e. non-South African) |

## COMPOSITION OF THE BOARD AND COMMITTEES

The Board recognises and embraces the benefits of diversity at board level. AEEI appreciates that board diversity is an essential component for sustaining a competitive advantage and directors are chosen for their leadership and business skills, experience and expertise. AEEI's Board has a combination of business, geographic and academic backgrounds as well as diversity in age, gender and race which enhances the composition of a truly diverse board. The Board is comfortable that it has the right skills, experience and independence to make a meaningful contribution to the Company. *(King IV™ – Principle 7)*

The Board committees play an important role in enhancing standards of governance, ethics and effectiveness within the Group. The terms of reference of the Board and its committees are reviewed annually and amended as required in terms of legislation.

# OUR EFFECTIVE LEADERSHIP - continued

## APPOINTMENTS TO THE BOARD

In terms of the Company's MOI, no director shall be appointed for life or for an indefinite period and the directors shall rotate in accordance with the provisions set out in the MOI. All directors shall retire from office provided that, if a director is appointed as an executive director or an employee of the Company in any other capacity, he or she shall not, while he or she holds that position or office, be subject to retirement by rotation and he or she shall not in such case be taken into account in determining the rotation or retirement of directors.

Appointments to the Board are formal and transparent and a matter for the Board as a whole. The Board specifically considers the independence of directors and their other commitments when they are first appointed, as well as annually, or at any other time when a director's circumstances change and warrant re-evaluation. This is done to determine whether the director has sufficient time to discharge his or her duties effectively and is free from conflicts that cannot be managed satisfactorily.

Should the nomination committee be of the view that a director is over-committed or has an unmanageable conflict, the chairman will meet with that director to discuss the resolution of the matter, to the satisfaction of the committee. *(King IV™ – Principle 7)*

The nomination committee makes recommendations to the Board for the appointment of new non-executive directors. In the Board's opinion, all directors have the relevant knowledge, skills and experience to make a meaningful contribution to the Company's business. The Board believes that, as long as non-executive directors remain completely independent of management and relationships that could significantly affect their decisions and advice and are of the right calibre and integrity, they can perform the required function of looking after the Company's interests.

The Board is of the view that all the non-executive directors exercise independent judgement at all times with respect to material decisions of the Board. *(King IV™ – Principle 8)*

## OVERVIEW OF THE BOARD

| | 2018 | 2017 |
|---|---|---|
| Number of Board members | **10** | 9 |
| Number of Board members who are non-executive directors | **6** | 6 |
| Number of Board members who are deemed independent | **6** | 6 |
| Number of Board members who are deemed HDSA | **8** | 7 |
| Number of Board members who are women | **4** | 4 |
| Tenure of executive directors' service (in years) | **7.40** | 8.67 |
| Tenure of non-executive directors' service | **5.75** | 7.50 |
| Tenure of directors' (full Board) service (in years) | **6.11** | 7.89 |
| Average age of directors (in years) | **52.00** | 52.44 |
| Audit remuneration % of non-audit fees | **0.00%** | 0.00% |
| Independence of Board chairman | **Yes** | Yes |
| Number of prescribed officers | **1** | 1 |

# OUR EFFECTIVE LEADERSHIP - continued

## CHANGES TO THE BOARD AND COMPANY SECRETARY

During the year under review, Mr S Young did not make himself available for re-election as a member of the Board or committee member at the AGM held on 21 February 2018. Mr AM Salie was appointed to the Board as an executive director on 21 February 2018 in the capacity of the chief investment officer, and Advocate Dr Ngoako Ramatlhodi was appointed on 7 March 2018 as a lead independent non-executive director. As a result of the changes to the Board, the committees were reconstituted accordingly.

The following change was made post the financial period:

The company secretary, Ms Nobulungisa Mbaliseli was the company secretary and secretary to all the committees, resigned on 3 September 2018. Mr Damien Terblanche was appointed as the new company secretary to the Board and committees, effective 4 September 2018.

## EVALUATION OF THE BOARD, COMMITTEES AND INDIVIDUAL DIRECTORS

Ever-changing issues facing companies make it essential to look at the agenda items of the Board to ensure that it stays aligned with good governance and ethics, and also meets current needs, best practices and matters of strategic importance. The independence of directors and their other commitments are also evaluated.

The Board and committees were evaluated by its members using an electronic Appraisal Instrument. Having regard to the findings, it was concluded that the Board and committees operate efficiently, openly, transparently and there is a good level of discussion between members and attendees. The findings addressed some areas for improvement which will be addressed appropriately.

The Board is of the view that all non-executive directors are independent and specifically reviewed the independence of directors whose tenure is nine years or longer. Reverend Dr Mehana and Mr Gaomab are in excess of nine years' tenure and the Board is satisfied that they are still independent after taking into account their experience, skills and diversity. *(King IV™ – Principle 9)*

The non-executive chairman concluded that the Board is functioning well and noted minor areas for improvement. The independent non-executive chairman and remuneration committee evaluate the performance of the executive directors. The nomination committee evaluates the independence of the non-executive directors on an annual basis. *(King IV™ – Principles 7 and 9)*

The Board appraises the performance of the CEO, the CFO, chief investment officer and the corporate affairs director on an annual basis and identifies areas of improvement, which are appropriately addressed. The Board confirmed that they were happy that the executive directors carried out their duties with due skill and diligence and in the best interest of the Company for the period under review.

## BOARD TRAINING

To ensure that directors are kept abreast of changes in legislation, the full Board undertook training facilitated by the Institute of Directors of Southern Africa which covered:

- Corporate governance
- King IV™ and the Board's role
- Directors' responsibilities and duties
- Key role players
- Conflict of interest
- Audit committee forum
- The dissenting director
- Representative directors

Members of the executive team undertook training with various institutions covering:

- Updates on the JSE Listings Requirements
- Ethics and governance
- Company secretaries' information session
- The role of the company secretary at an AGM

# OUR EFFECTIVE LEADERSHIP - continued

## INDEPENDENT NON-EXECUTIVE CHAIRMAN

The independent non-executive chairman of the Board is Reverend Dr Vukile Charles Mehana.

During the year under review, the chairman ensured that the Board functioned efficiently and provided guidance and overall leadership to the Board and the Group. He ensured the integrity and effectiveness of the Board and its committees and ensured that Board members were fully involved in and informed of any business issues on which a decision had to be made. He ensured Board members exercised independent judgement, acted objectively and all relevant matters were placed on the agenda and prioritised accordingly for discussion by the Board.

He ensured that executive members played an effective management role and participated fully in the operations, governance and ethics of the Group. He availed himself to the CEO and executive management between Board meetings to provide counsel and advice. *(King IV™ – Principle 9)*

## BOARD COMMITTEES

The Board has established a number of committees to assist it in performing its statutory duties and to fulfil its effective decision-making processes. Specific responsibilities with formally delegated powers have been given to the committees to perform their functions, with defined regulations and terms of reference to promote independent judgement and assist with the balance of power.

The Board has the following committees in place to assist it in executing some of its duties:

- Executive committee
- Nomination committee
- Audit and risk committee
- Remuneration committee
- Social, ethics and transformation committee
- Investment committee

## STATUTORY DUTIES

The audit and risk, remuneration, investment, nomination and social, ethics and transformation committees are constituted as statutory committees of the AEEI Board in respect of their statutory duties in terms of the Companies Act and King IV™, and are accountable to the Board and shareholders. These are committees of the Board in respect of all other duties the Board assigns to them and have been delegated powers to perform their functions in accordance with all regulatory requirements including the Companies Act and King IV™.

## TERMS OF REFERENCE

All committees function according to Board-approved terms of reference as contained in each committee's charter and/or policy. Each committee adopted its policy/charter with the terms of reference approved by the Board. Each committee reviews its policy on an annual basis to ensure it remains current and updated.

All committee charters and policies were reviewed during the year with changes being made to take into account new regulatory requirements and King IV™ to ensure best governance practices. These charters and polices were formally tabled at each committee meeting and adopted by the Board of directors.

The chairman of each committee reports back to the Board at each Board meeting and embraces the principles of transparency and full disclosure.

The delegation of authority to Board committees does not mitigate or discharge the directors and the Board from their duties and responsibilities.

# OUR EFFECTIVE LEADERSHIP - continued

## BOARD COMMITTEES

| AUDIT AND RISK COMMITTEE | REMUNERATION COMMITTEE | INVESTMENT COMMITTEE | NOMINATION COMMITTEE | SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE |
|---|---|---|---|---|
| **COMPOSITION** | | | | |
| Four independent non-executive directors | Three independent non-executive directors and a consultant | Three independent executive directors and two executive directors | Three independent non-executive directors | Three independent non-executive directors and one executive director |
| **COMMITTEE MEMBERS** | | | | |
| TT Hove (chairman)<br>JM Gaomab<br>AB Amod<br>Advocate Dr NA Ramatlhodi | TT Hove (chairman)<br>Reverend Dr VC Mehana<br>AB Amod<br>A Ipp (consultant) | Reverend Dr VC Mehana (chairman)<br>TT Hove<br>Advocate Dr NA Ramatlhodi<br>K Abdulla<br>AM Salie | Reverend Dr VC Mehana (chairman)<br>AB Amod<br>Z Barends | AB Amod (chairman)<br>CF Hendricks<br>JM Gaomab<br>Z Barends |
| **FREQUENCY OF MEETINGS** | | | | |
| Three time a year | Twice a year | Twice a year | Annually | Twice a year |
| **TERMS OF REFERENCE –BOARD-APPROVED CHARTER/POLICY** | | | | |
| Yes | Yes | Yes | Yes | Yes |
| **INVITEES** | | | | |
| Meetings are attended by the internal and external auditors, members of the executive management team and a consultant | Meetings are attended by members of the executive management team and the consultant | Meetings are attended by executive members of the management team | Meetings are attended by members of the executive management team | Meetings are attended by members of the executive management team and human resources department |
| **OTHER** | | | | |
| The auditors have unlimited access to the audit and risk committee, ensuring independence is not compromised in any way | | | | |

The Board combined the social and ethics and the transformation committees during the previous financial year.

Board committee members are authorised to obtain independent outside professional advice when necessary.

# OUR EFFECTIVE LEADERSHIP - continued

## NUMBER OF MEETINGS HELD DURING THE YEAR

| | |
|---|---|
| Board | 4 |
| Audit and risk committee | 3 |
| Remuneration committee | 3 |
| Investment committee | 3 |
| Nomination committee | 1 |
| Social, ethics and transformation committee | 2 |

## DIRECTORS' DETAILS AND ATTENDANCE AT MEETINGS

| | EXECUTIVE (E) NON-EXECUTIVE (NE) | OVERALL ATTENDANCE AT BOARD MEETINGS | OVERALL ATTENDANCE AT COMMITTEE MEETINGS | LENGTH OF SERVICE (YEARS) | AGE |
|---|---|---|---|---|---|
| K ABDULLA | E | 100% | 100% | 11 | 53 |
| CR AH SING | E | 100% | N/A | 8 | 44 |
| CF HENDRICKS | E | 100% | 100% | 9 | 55 |
| *AM SALIE | E | 100% | 100% | 0.6 | 37 |
| REVEREND DR VC MEHANA | NE | 100% | 86% | 11 | 65 |
| *S YOUNG | NE | 100% | 100% | N/A | N/A |
| *ADVOCATE DR N RAMATLHODI | NE | 100% | 50% | 0.5 | 63 |
| AB AMOD | NE | 100% | 100% | 5 | 56 |
| JM GAOMAB | NE | 75% | 60% | 11 | 56 |
| *TT HOVE | NE | 50% | 29% | 4 | 36 |
| * Z BARENDS | NE | 100% | 50% | 4 | 56 |

* *The above includes Mr Young's attendance who did not make himself available for re-election at the AGM on 21 February 2018. It takes into account Mr Salie's attendance since his appointment at the AGM on 21 February 2018, and Advocate Dr Ramatlhodi's attendance since his appointment on 7 March 2018.*

* *It does not take into account the appointment of Mr TT Hove as chairman of the remuneration committee nor Ms Z Barend's appointment to the nomination committee as these appointments were made post the last committee meetings.*

# OUR EFFECTIVE LEADERSHIP - continued

## PRESCRIBED OFFICER

Mr Khalid Abdulla is the prescribed officer. The prescribed officer is required to perform his function and exercise his duties to the same standard of conduct applicable to all directors and is subject to the same liability provisions applied to directors.

During the year under review he exercised general executive control over the management of the subsidiaries in the Group and regularly participated in the exercise of general executive control of the business units and activities of the Group.

The prescribed officer is not remunerated separately for this function.

## COMPANY SECRETARY

The company secretary, Ms Nobulungisa Mbaliseli, was the company secretary to the Board and committees, and subsequently resigned on 3 September 2018. Mr Damien Terblanche was appointed as the new company secretary to the Board and committees, effective 4 September 2018.

The company secretary is accountable to the Board.

During the year under review, the company secretary provided guidance to the directors in terms of their duties, responsibilities and powers and their responsibilities and liabilities under the Companies Act. The Board was made aware of changes to any relevant law affecting the Company. The company secretary prepared board packs and recorded detailed minutes of meetings. The company secretary ensured that Board and committee meetings and the AGM of the Company were conducted in a proper and orderly manner. The company secretary disclosed the corporate actions, SENS announcements and directors' dealings in securities and ensured compliance with the JSE Listings Requirements and the Companies Act.

The Board has considered the competence, qualifications and experience of the new company secretary and is satisfied that they are appropriate. This was concluded after due assessment following a review by the remuneration committee of the Company regarding the company secretary's qualifications, experience and performance to date. All directors have unlimited access to the services of the company secretary.

The company secretary's appointment and removal is a matter for the whole Board.

The Board is satisfied that an arm's length relationship exists between the company secretary and the Company, as he is not a member of the Board, is not involved in the day-to-day operations of the Company and is not a prescribed officer.

## POLICY ON TRADING IN COMPANY SECURITIES

In accordance with the JSE Listings Requirements, the Company has a policy in place for insider trading, dealings in securities and transactions. Directors and employees may not trade in Company securities during prohibited and closed periods.

Directors and designated employees may only deal in the Company's securities outside of the prohibited and closed periods.

## CONFLICT OF INTEREST

All directors of the Company and its subsidiaries, including senior management, are required to submit a list of their directorships and interests in contracts at each Board meeting.

Directors are required to disclose their personal financial interests and those of persons related to them in contracts or other matters in which the Company has a material interest. Where a potential conflict of interest exists, directors are expected to recuse themselves from the relevant discussions and decisions.

No director had a material interest in any significant contract with the Company or any of its subsidiaries during the year under review.

## COMPLIANCE WITH LAWS, RULES, CODES AND STANDARDS

The Board ensured that the Company complied with all the laws, rules, codes and standards including, but not limited to, the JSE Listings Requirements, King IV™, the Companies Act, Competition Law, legislative and environmental standards, consumer protection laws, employment legislation, international laws and legislation as well as compliance in terms of corporate governance, ethics, risk, technology and information. The Board considers adherence to non-binding rules, codes and standards.

# OUR EFFECTIVE LEADERSHIP - continued

The Board reviews the compliance with laws, regulations, rules, codes and other standards and continually monitors the implementation of the legal compliance processes. Board policies and charters were updated during the year under review in compliance with statutory, regulatory and legislative requirements. *(King IV™ – Principle 13)*

## ANNUAL FINANCIAL STATEMENTS

In terms of the Companies Act, directors are required to maintain adequate accounting records and are responsible for the preparation of the annual financial statements based on appropriate accounting policies.

AEEI's financial statements are based on appropriate accounting policies as set out in the notes to the financial statements and are supported by reasonable and prudent significant judgements and estimates.

The external auditors are responsible for considering internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control systems.

The Board established formal and transparent arrangements with the external and internal auditors and ensured that timely and accurate disclosure was made of any information that would be of material importance.

The Board ensured that assurance services and functions enabled an effective control environment and that these support the integrity of information for internal and external decision-making and of the Groups' external reports in achieving its objectives.

The external auditors assessed whether the financial statements conform to IFRS, the JSE Listings Requirements and the Companies Act.

The Board is satisfied that the financial statements are fairly presented and contain proper disclosures and appropriate internal controls and that regulatory compliance processes were followed in the preparation of the annual financial statements.

The external auditors offered reasonable, but not absolute, assurance of the accuracy of the financial statements. AEEI's management is responsible for the preparation of the financial statements. *(King IV™ – Principle 15)*

## DEALING IN GROUP SHARES

In terms of the JSE Listings Requirements, directors, officers and employees of the Company are not permitted to trade in the shares of the Company during closed periods, which commence at the end of the first six months of the financial year (end February) and financial year-end (end August) and during periods when the Company is trading under a cautionary announcement. The company secretary disseminated written notices to all directors and senior management throughout the Group informing them that it is prohibited to deal in AEEI shares during closed periods.

Directors are required to seek the authority of the independent non-executive chairman, chief financial officer and the company secretary prior to dealing in shares of AEEI. Accordingly, directors are not permitted to make use of internal Company information when deciding to deal in the Company's shares.

In accordance with the JSE Listings Requirements, the Board reinforced the Code of Conduct for insider trading. During the year under review, directors were updated according to any changes in terms of the JSE Listings Requirements.

## COMMUNICATION

AEEI places great value on its high standards of corporate governance, ethics, communication and transparency of information in terms of the Promotion of Access to Information Act, and regulatory and other directives relating to the dissemination of information. AEEI's primary emphasis is to protect its reputation by managing the Company's relationships with its stakeholders.

The Group subscribes to a policy of full, accurate and consistent communication with regard to all its affairs. The Board seeks to present a balanced and understandable assessment of the Group's position at all times when reporting to stakeholders. The integrated report deals adequately with disclosures relating to financial statements, auditors' responsibility, accounting records, internal controls, risk management, accounting policies, adherence to accounting standards, going concern issues, as well as the Group's adherence to established codes of governance.

# OUR EFFECTIVE LEADERSHIP - continued

The independent non-executive chairman and CEO regularly communicated with major shareholders, institutional investors, analysts and the media during the period under review. The Group acknowledges the role of the media, especially that of financial journalists and it endeavours to assist these role players as much as possible.

The Group encourages shareholders to attend the AGM, which provides them with an opportunity to raise concerns and ideas and to participate in discussions at the AGM. The Group publishes its financial results on SENS and shareholders are advised that a copy of the integrated report is available on the Company's website and at the registered offices of the Company. *(King IV™ – Principle 16)*

## CORPORATE CODE OF ETHICS AND CODE OF CONDUCT

The Group subscribes to the highest levels of professionalism and integrity in conducting its businesses and dealing with all stakeholders. All employees are expected to share the Group's commitment to high morals, ethical practices, the Company's values, moral conduct and legal standards.

The Board continues to provide effective leadership based on a principled foundation. AEEI's leadership is characterised by the values of responsibility, accountability, fairness and transparency. One of AEEI's fundamental objectives has always been to do business ethically while building a Company that is sustainable, taking into account the short, medium and long-term activities of the economy, society and the environment.

In executing its responsibilities, the social, ethics and transformation committee considered and monitored the Group's activities, having regard to legislation, human rights and prevailing practice in matters relating to social and economic development, including compliance with the 10 principles of the UN Global Compact and labour and employment activities.

The Board of AEEI recognises that the Company is an economic entity and a corporate citizen and has a social and moral standing in society with all the attendant responsibilities. Refer to the Sustainability Report – social sustainability on page 26. AEEI's Code of Ethics addresses corruption, bribery, conflicts of interest and human rights and governs the Group's approach to ethical behaviour and fair business practice.

All directors and employees are aware of the Code of Ethics and Code of Conduct, which are maintained throughout the Group. The Code of Ethics and Code of Conduct were updated during the year under review and approved by the Board. Through The Way We Work Policy, the Group subscribes to a code of ethical and moral behaviour that requires total transparency for all stakeholders. AEEI prides itself on fairness and honesty and is intolerant of theft and dishonesty. *(King IV™ – Principles 1, 2, 3 and 16)*

## INTERNAL POLICIES

As a leading JSE-listed black empowerment Company and through our brand's position, the organisation is dominant in a global context relating to a variety of issues, technology changes, globalisation, rapid change, dynamic markets, enterprise development and sustainability legislation. These issues affect the overall business strategy of the Group while focusing on organic growth, acquisitions, geographic expansion, new categories, margin improvement and transformation.

In line with the Group's governance, the Group has all the relevant policies in place as approved by the Board of directors.

## REPORTING UNETHICAL BEHAVIOUR

Employees and stakeholders are able to report any breach of the Code of Ethics via the Group's anonymous reporting facility. During the period under review, no allegations of unethical behaviour were reported.

## REPORTING TO STAKEHOLDERS ON STRATEGY AND PERFORMANCE

The Group's strategy and performance are covered comprehensively in the reports of the chairman, chief executive officer and the group financial officer.

AEEI appreciates the role of its stakeholders and remains committed to nurturing impactful relationships that deliver mutual benefits and encourage transparent, objective and relevant communication. The Group recognises that its businesses are one of the stakeholders in the socio-economic and environmental system. It is essential for the Group to compete successfully in an increasingly complex and ever-changing business environment and to systematically bring about the change needed for sustainable development. We built and maintained trust and respect with our various stakeholders, thus ensuring a positive impact on our reputation.

# OUR EFFECTIVE LEADERSHIP - continued

AEEI places great value on its high standards of ethics, communication, transparency of information in terms of the Promotion of Access to Information Act, Protection of Personal Information Act, 2013, and other regulations and directives relating to the dissemination of information.

The Company has identified stakeholder groups with whom it engages in a structured manner.

We addressed essential risks and opportunities and responded timeously and appropriately to issues raised in our interactions with our various stakeholders. *(King IV™ – Principle 16)*

## STAKEHOLDER RELATIONSHIPS

The Group subscribes to a policy of full, accurate and consistent communication with regard to all its affairs. The Board seeks to present a balanced and understandable assessment of the Group's position at all times when reporting to stakeholders. The integrated report deals adequately with disclosures relating to financial statements, auditors' responsibility, accounting records, internal controls, risk management, accounting policies, adherence to accounting standards, going concern issues, as well as the Group's adherence to established codes of governance.

## ENGAGING WITH OUR STAKEHOLDERS

The Group's stakeholder engagement is governed by the recommendations of King IV™. AEEI has a stakeholder engagement framework, which includes communication guidelines and corporate identity. AEEI's stakeholder engagement framework outlines the Company's approach to communicating and working with its stakeholders. Engagement is an integral part of developing an understanding of our stakeholders' needs, interests and expectations and assists with strategic and sustainable decision-making.

Stakeholder consultation and relationship management are implemented in all divisions of the Group. Our stakeholders' expectations are identified through regular engagements, personal interactions and our financial and sustainability reports. The Board appreciates that it is required to provide timeous, relevant and accurate information and continually strives to maintain open direct dialogue with all its stakeholders.

AEEI regularly communicated with its stakeholders during the year under review, which included the presentation of the Group's strategy and performance. Engaging with stakeholders is decentralised and forms part of the operations of our various business units. Each business unit is required to report regularly on its stakeholder engagements. The role, responsibilities and focus areas for the year under review are comprehensively addressed in the stakeholders' relations report on pages 90 to 97 of the abridged integrated report – Building relationships with our stakeholders. *(King IV™ – Principle 16)*

# NOMINATION COMMITTEE REPORT

## ROLE OF THE NOMINATION COMMITTEE

The committee's main role is to ensure that the Board comprises the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.

The role of the committee is to assist the Board in assessing its composition and recommends the appointment of directors. The committee is the main body responsible for evaluating, promoting and ensuring gender and race diversity. In reviewing the Board composition, the committee will consider the benefits of all aspects of diversity including, but not limited to, those described above, in order to enable it to discharge its duties and responsibilities effectively. In identifying suitable candidates for appointment to the Board, the committee will consider candidates on merit against objective criteria and with due regard to the benefits of gender and race diversity on the Board.

For the annual performance evaluation of the effectiveness of the Board, the nomination committee will consider the balance, skills, experience and the diversity representation of the Board and other factors relevant to its effectiveness. It will also ensure that the Board has the appropriate composition in terms of structure, size, composition and independence for it to execute its duties effectively and that directors are appointed through a formal and transparent process. The committee will ensure that induction and ongoing training and development of directors take place and that formal succession plans for the Board, CEO and senior management appointments are in place.

## REPORT OF THE NOMINATION COMMITTEE

During the year under review, the nomination committee performed all the functions necessary to fulfil its role as stated above, including the following:

- Gender diversity policy: During the prior financial year, the Board adopted and approved a gender diversity policy which includes identifying suitable candidates for appointment to the Board. The committee will consider candidates on merit against objective criteria and with due regard to the potential benefits of gender diversity at Board level. The committee will continue to discuss and annually agree on all measurable targets in terms of gender diversity on the Board.
- Race diversity policy: During the year under review the Board adopted and approved a race diversity policy as the Company believes that race diversity at Board level maximises opportunities to achieve its business goals through an informed understanding of the diverse environments in which we operate. The committee will assess the composition and recommend the appointment of directors as a truly diverse Board which will include the differences in age, gender, race, skills and industry experience and other distinctions between directors. The selection of Board members is made on merit, in the context of their skills, experience, independence and knowledge, which the Board as a whole requires to be effective. The committee will consider candidates on merit against objective criteria and with due regard to the potential benefits of race diversity at Board level. The committee will continue to discuss and annually agree all measurable targets in terms of race diversity on the Board
- Assessed the current composition of the Board in terms of gender and race diversity and confirmed that they were pleased with the current composition of the Board. The Company's level of compliance against its targets for the past year is summarised below:

| PERCENTAGE OF DIRECTORS | ACTUAL | TARGET |
|---|---|---|
| Black people | 89% | 60% |
| Female | 44.45% | 30% |

# NOMINATION COMMITTEE REPORT - continued

- Established a process for the appointment of new directors, which includes:
  - identifying suitable members in terms of gender and race diversity;
  - performing reference and background checks of candidates, which should be independently investigated and their qualifications should be independently verified prior to nomination;
  - formalising the appointment of directors through an agreement between the Company and the director; and
  - a formal induction programme for new directors.
- Ensured that inexperienced directors are developed through a mentorship programme.
- Developed and implemented continuing professional development programmes for directors.
- Ensured that directors receive regular briefings on changes in regulatory compliance, risks, laws and the environment in which the Company operates.
- Ensured that formal succession plans for the Board, chairman, CEO and executive management were developed.
- Evaluated the performance of the chairman and the Board as a whole and confirmed their performance in terms of independence, balance of power, fiduciary duties, ethical leadership, corporate governance and the effective discharge of their duties.
- Reviewed the re-appointment of directors with regard to retirements due to rotation on the basis of that member's performance, including attendance at Board and committee meetings.
- Ensured that a brief professional profile of each candidate standing for election at the AGM, including details of professional commitments, accompany the notice of the AGM, together with a statement from the Board confirming whether it supports the candidate's election or re-election.
- Ensured that a programme of professional development and regular briefings on legal and corporate governance developments and risk and changes in the external environment of the organisation was provided to members of the Board.
- During the year under review, recorded that Mr Salim Young did not make himself available for re-election at the AGM as a member of the Board and as a member of the audit and risk, the remuneration and the investment committees.
- The Board reviewed the current membership composition and appointed Mr Abdul Malick Salie as an executive director in the capacity of chief investment officer, and Advocate Dr Ngoako Ramatlhodi as the lead independent non-executive director to the Board.
- Due to Mr Young not having made himself for re-election at the AGM, the Board reconstituted the committees and the following appointments were made to committees:
  - Mr Takudzwa Hove was appointed as the chairman of both the audit and risk and the remuneration committees;
  - Advocate Dr Ngoako Ramatlhodi was appointed to the audit and risk and the investment committees;
  - Ms Zenariah Barends was appointed to the nomination committee; and
  - Mr Abdul Malick Salie was appointed to the investment committee.

*(King IV™ – Principles 1, 7, 8 and 9)*

The committee believes that race and gender diversity at board level will assist in achieving its strategic goals through an improved understanding of the diverse environments in which the Group operates. The committee is satisfied with the Board's current composition in terms of gender and race diversity, age, skills and experience.

For the year under review, the committee is satisfied that it has fulfilled all its statutory duties assigned by the Board. The chairman of the nomination committee reports to the Board on the activities of the committee at Board meetings.

# AUDIT AND RISK COMMITTEE REPORT

"Knowing our risks provides opportunities to manage and improve our chances of success."

Roger Van Scoy

## REPORT OF THE AUDIT AND RISK COMMITTEE

### Mr Takudzwa Hove – chairman of the audit and risk committee

As a qualified chartered accountant and my experience in the commercial sector, I am able to discharge my duties and carry out the mandate in terms of the committee's terms of reference. The varied experience of the committee members provides insight and perspective in terms of decisions and considerations and the members of the committee are considered competent in terms of skills and experience.

The Company was informed by its audit firm that there has been a change in its network firm from Grant Thornton Cape Inc. to BDO, as a result of the merger of BDO South Africa and Grant Thornton Cape Town. Accordingly, with effect from 1 March 2018, the audit firm of the Company is now BDO Cape Inc., however, the designated audit partner has remained unchanged. The change in audit firm was initiated by the audit firm as a result of the aforementioned merger.

It is important to note, that while the designated audit partner has remained unchanged, the audit and risk committee requested and considered information about the receiving audit firm as the Company is deemed to be appointing BDO Cape Inc. for twenty one years.

The audit and risk committee has a formal audit and risk charter with formal rules governing the services provided by the external auditors in terms of systems and processes. The charter was reviewed during the year to ensure regulatory compliance and implemented accordingly.

The committee reviewed all significant risks and challenges and assessed the adequacy of internal controls and the combined assurance delivered over the identified risks. It monitored the effectiveness of the control environment through reviewing reports from management, the external auditors and internal audit and ensured the quality of financial reporting by reviewing the 2018 interim financial results and the 2018 annual financial statements.

The committee reviewed the impact of the Company's medium to long-term strategy against pertinent factors of technology and communication, including cybersecurity and governance compliance to ensure that risk management was applied appropriately.

The committee reviewed the following:

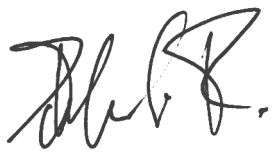
- After the change in its network firm from Grant Thornton Cape Inc. to BDO Cape Inc., the Company reviewed its options in terms of the external audit function by requesting separate information about the receiving audit firm and assessed its approach and independence. After due consideration, the Company approved BDO Cape Inc. as the Company's auditors and is deemed to be appointing BDO Cape Inc. as the auditors for twenty one years (PKF for seventeen years and four years as Grant Thornton Cape Inc.). BDO Cape Inc. is still waiting for the Competition Commission's approval and once merged, BDO SA Inc. will be appointed for the first year.
- The performance, independence, appointment and remuneration of the external auditors and the audit process.
- Internal financial controls and systems are monitored through the internal auditors and external audit findings and the action taken by management from the significant findings.
- The effectiveness of risk management and controls through the evaluation of the risk management report and group risk register.
- The quality and integrity of the integrated report, including the annual financial statements and public announcements in respect of the financial results.
- The effectiveness of the internal audit function by monitoring the scope and execution of its audit plan, independence, skills, staffing and overall performance.

# AUDIT AND RISK COMMITTEE REPORT - continued

- Sustainability and environmental issues.
- Technology and information governance.
- Governance compliance.

For the purposes of determining the effectiveness of management systems and internal controls during the year, the committee reviewed the internal audit methodology and external audit plans and findings from the management reports.

The committee has fulfilled its statutory duties in terms of section 94(7) of the Companies Act and King IV™ compliance. The committee confirms that it has complied with its legal and regulatory responsibilities for the 2018 financial year. *(King IV™ – Principles 10, 11, 12, 13 and 15)*



**Takudzwa Hove**
*Committee chairman*

## ROLE OF THE AUDIT AND RISK COMMITTEE

The committee has an independent role with accountability to the Board and shareholders. The committee's role is to assist the Board in carrying out its duties relating to accounting policies, internal controls, financial reporting practices and identification of significant risk exposure.

The main purpose of the audit and risk committee is to ensure the integrity of the financial statements and to oversee the effectiveness of the internal financial controls and the external and internal audit functions.

The audit and risk committee undertook a full review of the cost and scope of the audit function performed by the independent auditors of the Group. The committee recommended to the Board that the current auditors, BDO Cape Inc., be reappointed as the Group's auditors. In terms of the Companies Act, the committee confirms that the same audit partner has not served as the designated auditor of the Company for more than five consecutive financial years.

The Group has internal controls and systems designed to provide assurance as to the reliability and integrity of the financial statements. The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve the Group's business objectives. It can only provide reasonable and not absolute assurance against material misstatement or loss and to safeguard, verify and maintain accountability adequately for its assets. *(King IV™ – Principles 2, 4, 10, 11, 12, 13 and 15)*

The external and internal auditors had unrestricted access to the audit and risk committee and attended all the audit and risk committee meetings by invitation during the year ended 31 August 2018. Detailed reports were presented by the internal and external auditors. The chairman of the audit and risk committee reported on the findings at the Board meetings.

The external auditors can communicate with the chairman of the audit and risk committee and all its members throughout the year. The chairman of the committee is also available at the AGM to answer questions about the committee's activities.

For the reporting period under review, the committee is satisfied that is has fulfilled all its statutory duties assigned by the Board.

## FEEDBACK FROM THE AUDIT AND RISK COMMITTEE

In the conduct of its duties and in accordance with section 94 of the Companies Act, the committee reports as follows:

- Considered the separate information about BDO Cape Inc., the receiving audit firm, as the Company is deemed to be appointing BDO Cape Inc. for twenty one years
- Satisfied itself that the external auditor BDO Cape Inc. is independent of AEEI, as set out in section 94(8) of the Companies Act and suitable for reappointment by considering, *inter alia*, the information stated in paragraph 22.15(h) of the JSE Listings Requirements
- Ensured that the appointment of the external auditor complied with the Companies Act
- Nominated for re-election BDO Cape Inc. as the external audit firm at the AGM
- Recommended to the Board, the interim and preliminary announcements of results, interim reports, trading statements and approved the restatement of the prior year's interim results
- Reviewed the annual financial statements of AEEI and its subsidiaries and considered the audit report and findings, together with combined assurance from management and external auditors and recommended it for approval by the Board

# AUDIT AND RISK COMMITTEE REPORT - continued

- Reviewed the disclosure within the integrated report and reports to shareholders, taking into account all factors and risks that may impact on the integrity of the integrated report, including factors that may predispose management to present a misleading picture, significant judgements and reporting decisions made, monitoring of enforcement actions by a regulatory body, any evidence that brings into question previously published information, forward-looking statements or information
- Considered concerns regarding accounting practices and internal audit matters
- Oversaw the development and implementation of the Enterprise Risk Management Policy and provided input
- Continued to oversee the Group risk plan and strategy to ensure that the Group manages its risks in an optimal manner
- Approved, reviewed and evaluated the adequacy and efficiency of the risk policies, procedures and controls applied in the day-to-day management of the business
- Reviewed and approved the external auditors annual audit plan, considered the key audit matters addressed in the external audit report and monitored their effectiveness in terms of audit quality, expertise and independence
- The committee considered and approved the terms of engagement and fees proposed by the external auditors
- Reviewed the JSE Proactive Monitoring Report and considered the action taken by management from the findings recommended in the 2018 report
- Obtained assurance from the external auditors that adequate accounting records are being maintained
- Non-audit services were rendered for tax opinions and an independent internal quality assurance reviews related to the internal auditor's operational audits
- Non-audit services performed during the year under review include reviews of internal audit work and written opinions from tax experts, which was carried out by other independent audit firms and consultants respectively
- Evaluated the independence, effectiveness and performance of the internal auditor and compliance with its charter
- The appropriateness of the expertise and experience of the financial management team was reviewed and reported to be adequate

*(King IV™ – Principles 2, 4, 5, 10, 11, 12, 13, 15 and 16)*

## EXPERTISE AND EXPERIENCE OF THE CHIEF FINANCIAL OFFICER AND THE FINANCE FUNCTION

The audit and risk committee satisfied itself in terms of paragraph 3.84(g)(i) of the JSE Listings Requirements that the Group CFO and the finance function have the appropriate expertise and experience and are adequately resourced.

## RISK MANAGEMENT PROCESS

A key component of the audit and risk committee was to review the top 10 material matters that AEEI faces in order to respond to new and emerging risks and to ensure alignment with regulatory changes as well as best practice. In doing so, the committee took into account stakeholder needs, corporate governance principles, risk trends, global trends and external dynamics. Refer to page 28 for the full risk management report.

## COMPLIANCE

The audit and risk committee is responsible for reviewing the compliance with legal, regulatory, codes and other standards and continually monitors the implementation of the legal compliance processes. The audit and risk committee is satisfied that it has complied with all its legal, regulatory and other responsibilities during the year under review. *(King IV™ – Principle 13)*

## GROUP INTERNAL AUDIT

The Group internal auditor performs an independent assurance function. The Group internal auditor had unrestricted access to the Group CEO, the Group CFO and the chairman of the audit and risk committee.

The primary objective of the Group internal auditor during the year was to provide independent objective assurance and consulting activity on the adequacy and effectiveness of the Group's systems of governance, risk management and internal control and reports functionally to the audit and risk committee. The audit and risk committee monitored the effectiveness of the internal audit function in terms of its scope, independence, skills, execution of its plan and overall performance.

The Group internal auditor recommended the annual audit plan for approval to the audit and risk committee. The audit and risk committee approved the formal internal audit plan, which included risk-based audits and improvements to the Group's governance and business processes for 2018.

# AUDIT AND RISK COMMITTEE REPORT - continued

The system of internal control is designed to ensure that significant risks are appropriately identified, managed and provide reasonable assurance that:

- Company assets and information are safeguarded
- Operations are efficient and effective
- Applicable laws and regulations are complied with

### The Group internal auditor undertook the following during the year under review:

- Prepared and submitted a risk-based internal audit plan to the audit and risk committee for review and approval
- Updated and presented the internal audit methodology after being independently reviewed by Nexia SAB&T to the audit and risk committee
- Performed reviews on the Company's governance processes and ethics
- Systematically analysed and evaluated the business processes and associated controls
- Performed consulting activities requested by management
- Followed a risk-based approach
- Performed an objective evaluation of the internal control framework
- Monitored and challenged, where appropriate, action taken by management with regard to the internal audit findings
- Liaised with the external assurance service provider, Nexia SAB&T, on quality improvement of the internal audit function
- Monitored and reported on the risk management process to the audit and risk committee
- Liaised with the external auditors as part of the combined assurance process where internal audit followed up and ensured that management implemented the external auditors' recommendations from the prior year
- Provided a source of information on fraud, corruption, unethical behaviour and irregularities

The internal audit takes a risk-based approach to audit planning. Internal audits were performed at most subsidiaries during the year under review and no significant breakdowns in internal controls were identified. A formal report on the key findings of these audits was submitted to the audit and risk committee on a quarterly basis, summarising the results of the internal audit activity and management's progress in addressing the control measures. This enabled the audit and risk committee to ensure that action was taken to address areas of concern. The internal audit assessment to the Board and audit and risk committee on the overall internal control environment confirmed that there were no material breakdowns in internal controls. *(King IV™ – Principles 11 and 15)*

The chairman of the audit and risk committee reported to the Board on the activities of the committee at each Board meeting.

## EXTERNAL AUDIT

The scope, independence and objectivity of the external auditors, BDO Cape Inc., were reviewed. The committee considered the annual audit plan and related scope of work, determined the terms of engagement and fees of the external auditors. In the committee's opinion, the audit firm, BDO Cape Inc., and the audit partner are independent of the Company.

BDO Cape Inc. provided an audit opinion in accordance with the Companies Act, the JSE Listings Requirements and King IV™. Under company law, their responsibility is to the shareholders of the Group. In addition, they have professional responsibilities to report reportable irregularities in terms of section 45(1) of the Auditing Profession Act, 2005, and key audit matters in their audit report to the committee.

## AUDIT PROCESS

The audit process included:

# AUDIT AND RISK COMMITTEE REPORT - continued

## AUDIT OBJECTIVES

The audit was conducted in accordance with International Standards on Auditing and the auditors' objective was to provide a comprehensive service to the Group.

**The primary objective as independent auditors is to form an opinion as to whether or not the annual financial statements of the Company:**

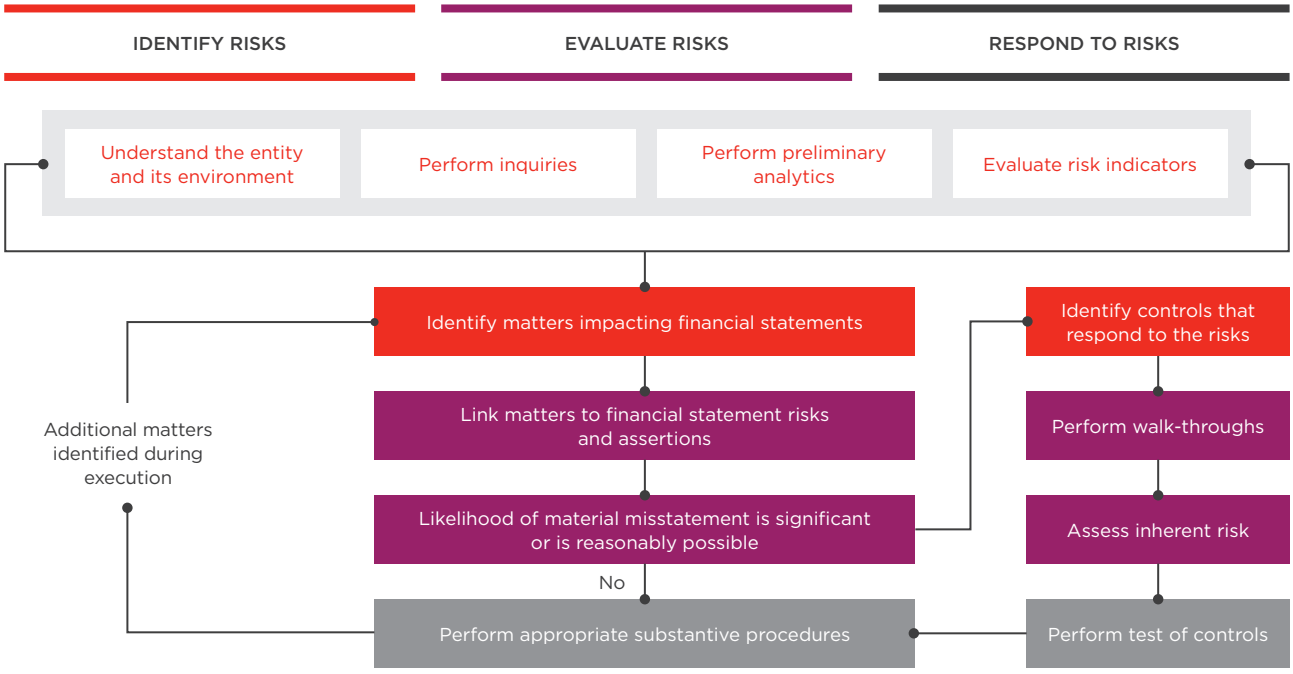
- Fairly represent the financial position of the Company
- Fairly represent the results of operations and cash flows for the year
- Comply with statutory and regulatory requirements, including the JSE Listings Requirements, and
- Have been prepared in terms of the Company's accounting policies, applied on a consistent basis in terms of IFRS.

The audit was directed at delivering assurance at three levels:

- For shareholders and other stakeholders
- Independent opinions and reports that added credibility to the financial information released by the Company
- Compliance with the requirements of the various regulatory bodies and legislation, including IFRS, the Companies Act and the JSE Listings Requirements

They assisted the audit and risk committee in discharging their corporate governance and compliance responsibilities. They provided advice on financial reporting, tax and business issues and made recommendations to management to improve internal controls and business efficiencies to add further value to the Company.

## AUDIT METHODOLOGY



# AUDIT AND RISK COMMITTEE REPORT - continued

The audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depended on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors considered internal controls relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. The audit included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. *(King IV™ – Principles 15 and 16)*

As the auditors of a public interest Company, the same individual has not served as audit partner of the engagement for more than five consecutive financial years. BDO Cape Inc. has been the Company's auditors for the past twenty one years, with Mr Imtiaaz Hashim serving as audit partner for the third year.

The auditors have a statutory responsibility to report to the shareholders whether, in their opinion, the financial statements fairly present the financial position, results of operations and cash flow information of the Group, in conformity with IFRS and in the manner required by the Companies Act.

The external auditors liaised with the Group internal auditor and attended the audit and risk committee meetings by invitation. As the auditors of the Company, they attend every AGM where the annual financial statements of the Company for the financial year are presented, in order to respond accordingly and to answer any questions relevant to the audit of the financial statements.

## JSE'S PROACTIVE MONITORING

Due to the fundamental shift in the regulatory model for auditor accreditation introduced in October 2017 resulted in section 22 of the JSE Listings Requirements being replaced in its entirety. The JSE issued its seventh report back on proactive monitoring on financial statements in February 2018.

The Company's audit and risk committee has considered the JSE's most recent report back on proactive monitoring of financial statements and, where necessary, those of previous periods. The committee also considered the findings recommended by the report and reviewed the appropriate action taken by executive management when preparing the annual financial statements for the year ended 31 August 2018.

# RISK MANAGEMENT REPORT

The Board has delegated the management of risk to the audit and risk committee.

The Board is committed to effective risk management in pursuit of the Group's strategic objectives with the aim of growing shareholder value sustainably. The Board understands that proactive risk management is both an essential element of good corporate governance and an enabler in realising opportunities and continues to enhance its capabilities to anticipate risks and manage them.

## BOARD

### STRATEGY, RISK APPETITE AND POLICY

| RISK OWNERSHIP | RISK CONTROL AND MONITORING | INDEPENDENT ASSURANCE AND VALIDATION |
|---|---|---|
| CEO AND EXECUTIVE COMMITTEE | AUDIT AND RISK COMMITTEE | INTERNAL AND EXTERNAL ASSURANCE |
| DOING AND RECORDING | INTERNAL VERIFICATION | INDEPENDENT VERIFICATION |
| Delegated Board authority to:<br>• Develop and implement the business strategy;<br>• Measure and manage performance; and<br>• Implement internal control and risk management framework within agreed appetite. | Objective oversight of risks<br>Key activities include:<br>• Designing and deploying the overall risk management framework;<br>• Developing and monitoring policies and procedures; and<br>• Monitoring adherence to risk framework and strategy. | • Assurance that the risk management process is functioning as designed and identifies improvement opportunities<br>• Independent and objective assurance of the effectiveness of corporate governance standards and business compliance |
| MANAGEMENT-BASED ASSURANCE | AUDIT AND RISK COMMITTEE ASSURANCE | INDEPENDENT-BASED ASSURANCE |

# RISK MANAGEMENT REPORT - continued

## GOVERNANCE OF RISK MANAGEMENT

The Board is overall accountable and responsible for the governance of risk and is committed to effective risk management in pursuit of the Group's strategic objectives. It is assisted by the audit and risk committee, which reviews and monitors the effectiveness of the risk management processes within the Group in accordance with corporate governance requirements.

As part of Vision 2020 Vision, AEEI identified six material matters with each material matter having strategic objectives. The material risks that are identified are linked to the strategic objectives in these material matters.

The audit and risk committee approved a risk management framework to ensure that a best practice risk assessment approach is followed. The committee ensured that the risk management process complies with the relevant standards and works effectively. The Board oversees the activities of the committee, the Group's external and internal auditors as well as the Group's risk management function.

The executive committees of the divisional subsidiaries are accountable and responsible for managing risks within their business units and may delegate specific responsibilities appropriately. This process is evaluated by the Group Internal Audit who provides the audit and risk committee with assurance that significant business risks are systematically identified, assessed and reduced to acceptable levels in line with the Board's risk appetite and risk tolerance levels.

### The main function of the audit and risk committee relating to risk is to:

- assist the directors in fulfilling their responsibilities for ensuring there is an effective risk management process in place throughout the Group;
- assess reports from management concerning the Group's risk management and compliance processes and controls in order to oversee the effectiveness of these;
- assess reports from divisional management concerning business, operational risk and compliance risk in order to oversee these risks and assess their impact on the Group;
- assess reports from management concerning the risk implications of new and emerging risks, legislative or regulatory initiatives and changes in order to ensure the risk is held at an acceptable level;
- receive reports from management concerning resolution of significant risk exposure and risk events, in order to monitor them and approve them in accordance with the Board's risk appetite;
- assess whether all significant new business opportunities have been appropriately considered from a risk perspective;
- oversee the Group's compliance with applicable external and regulatory obligations as well as significant internal policies relating to the operation of its business units;
- assess whether IT risks are adequately addressed through the Group's risk management and assurance processes; and
- facilitate communication of risk issues to management across the Group.

The Group complies with the principles of King IV™.

## RISK APPETITE AND RISK TOLERANCE

In support of effective governance and risk-informed decision-making, the Board has set out a risk appetite statement for those risks which, to a lesser or greater extent, are within its control to mitigate and manage. The risk appetite statement specifies the types of risks that the Company is willing to accept in fulfilling its mandate and informs policies on the allocation of accountabilities and resources to managing its risk exposures.

During the year under review, the audit and risk committee defined the risk appetite and risk tolerance levels which the Board adopted and approved. These levels will be reviewed on an annual basis and can be changed in response to variable environmental factors and the low-growth in the economic climate.

AEEI proactively manages risks within the set risk appetite and risk tolerance levels in order to ensure that risks are kept at acceptable levels. Risk appetite is the amount and type of risk that AEEI is willing to take in order to meet its strategic objectives. Risk tolerance is the amount of risk that AEEI is prepared to accept and cope with. These identify the maximum level of risk, beyond which we are unwilling to operate.

## OUR APPROACH TO RISK MANAGEMENT

The Group's risk management approach continues to evolve. The audit and risk committee continued to assess, manage and report on all significant risks, the impact on the business and the mitigation of the risks.

# RISK MANAGEMENT REPORT - continued

The audit and risk committee also assessed whether the risk management process is effective in identifying and evaluating risks to determine whether the business operations have managed the risks in line with the Group's strategy and to consider the impact on the sustainability of the business as well as the external and internal environments in order to identify key developments related to our risks, implications and our responses.

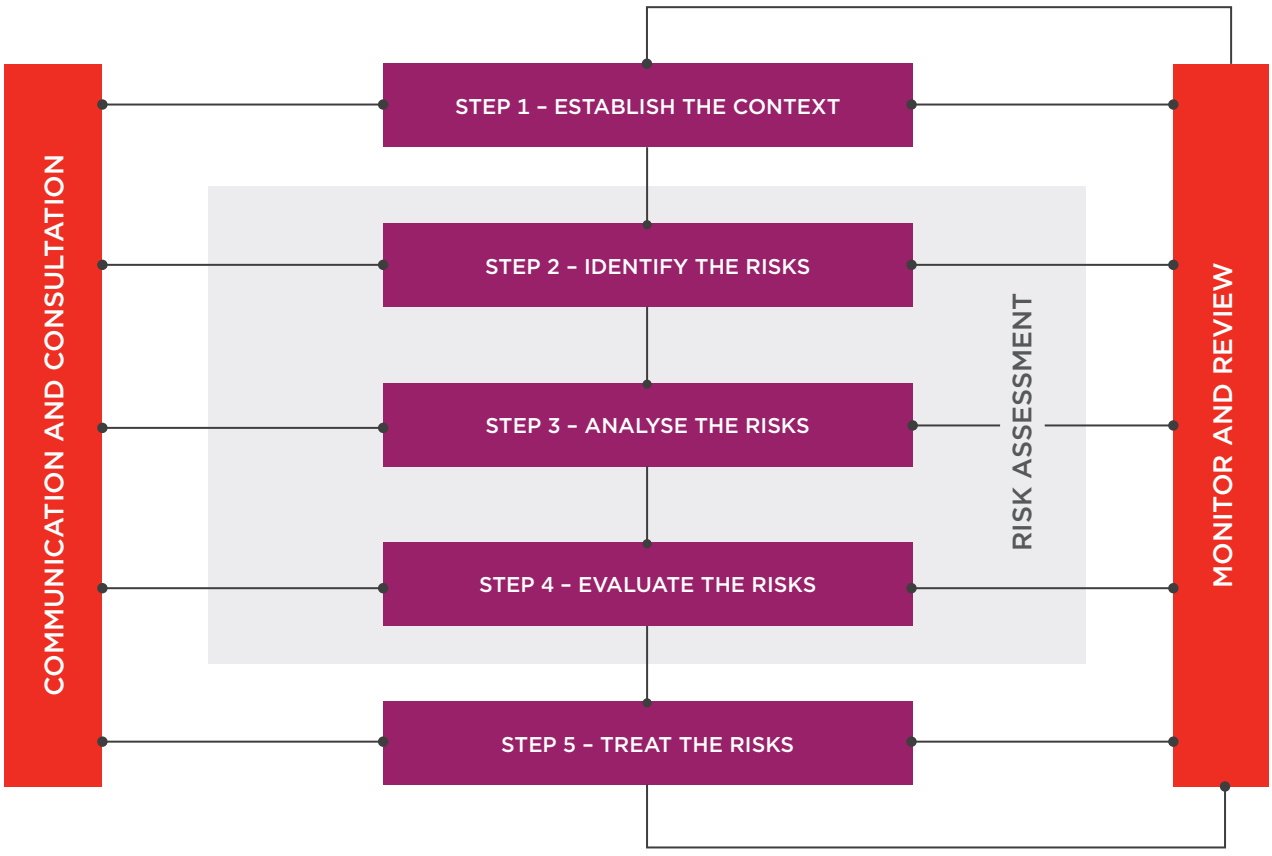
The responsibility for monitoring the management of each of these risks is assigned to the executive committee of each business unit. The risks are then considered at a group level through the monitoring process of the audit and risk committee.

The Enterprise Risk Management Policy was reviewed, updated and adopted by the Board. The policy strengthens the link between risk and strategy and embedding risk management into key decision-making processes.

Risk registers are tabled at each subsidiary board meeting under the categories of financial, operational, strategic, legal, human resources and other risks. Action plans are monitored and discussed to reduce the risks to acceptable levels as per the risk appetite and tolerance levels. From the risk evaluation in the risk register, significant risks are reported to the audit and risk committee, who in turn reports these risks to the Board.

## RISK MANAGEMENT PROCESS

The structure of our risk management process is set out below. This structure was rolled out across the entire Group and is in line with industry standards.

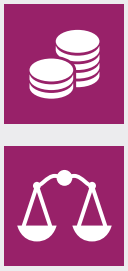


# RISK MANAGEMENT REPORT - continued

| | |
|---|---|
| **COMMUNICATE AND CONSULT** | Communicate and consult those who are involved in the assessment of risk and engage those who will be involved in the treatment, monitoring and review of risk |
| **ESTABLISH THE CONTEXT** | Considers the environment internally and externally within which the risks are present |
| **IDENTIFY THE RISKS** | Identify all possible uncertainties (risks) that may impact and prevent the Group from achieving its objectives |
| **ANALYSE THE RISKS** | Analyse and assess the risk in terms of likelihood and impact |
| **EVALUATE THE RISKS** | Compare the level of risk found during the analysis process and decide whether these risks are acceptable or require treatment |
| **TREAT THE RISKS** | Identify actions and controls to manage the inherent risks to an acceptable residual level and assess the effectiveness of actions and controls |
| **MONITOR AND REVIEW** | Monitor risks and review the effectiveness of the treatment plan, strategies and management system |

# RISK MANAGEMENT REPORT - continued

## MATERIAL RISKS

| | RISK AND RATIONALE | MITIGATION | OPPORTUNITY | LINK TO MATERIAL MATTER/ STRATEGY |
|---|---|---|---|---|
| 1 | Reallocation of the long-term fishing rights may impact the profitability of the fishing segment | Uncertainty of the fishing rights allocation has resulted in active engagement with communities and government to monitor policy and processes. Diversification into other products to reduce the impact on growth strategy. | Favourable quota allocation by the Department of Agriculture, Forestry and Fishing (DAFF) will substantially increase revenue resulting in better financial performance by the Group. That will also present an opportunity for more spend on SMMEs, socio and economic investments. |  |
| 2 | Limited access to funding may slow down the ability to capitalise on the various niche growth initiatives in the Biotech companies.<br>Long sale cycles to obtain new business and new markets may result in financial loss. | The sources of funding have been allocated to each project based on an approved business plan and this is monitored by the Group's finance team to ensure that it meets the Group's strategic objectives.<br>Adequacy of working capital is assessed to ensure sufficient funding for new business development and loan recovery procedures are aligned to the risk appetite of the Group. | Success of these projects can result in ground-breaking medical treatment developed and manufactured in South Africa.<br>There is an opportunity to improve working capital and cash flow, which in turn will improve profits. | |
| 3 | Business interruptions in the Group's information technology (IT) systems by malicious software and increasing advance cyber and ransomware attacks could result in loss of information and increased fraud. | The Group has put in place preventative measures to ensure there is no unauthorised access to the Group's IT systems. The Group's IT support constantly monitors the systems for any possible infections and intrusions. | The Group can maintain data integrity and decrease downtime on secure IT systems. | |

# RISK MANAGEMENT REPORT - continued

## MATERIAL RISKS continued

| | RISK AND RATIONALE | MITIGATION | OPPORTUNITY | LINK TO MATERIAL MATTER/ STRATEGY |
|---|---|---|---|---|
| 4 | Compliance with the CIPC, JSE Listings Requirements and all legislation and regulations require the Group to constantly adapt to keep abreast of the latest changes. | Training and awareness is continuously assessed and provided across the Group. Policies and procedures are updated to adapt to all new regulations and legislative requirements on a regular basis. | Compliance with the applicable laws and regulations governing the businesses in the Group and being seen as a good corporate citizen. | |
| 5 | Labour strikes and salary demands can bring disruption to the business operations and delay the ability of the companies to produce. | Active engagement with key stakeholders to ensure the impact on the operations is reduced. | Maximise production to ensure an uninterrupted supply chain of products which will maximise output resulting in increased sales and revenue. | |
| 6 | Changes in the ever-changing economic landscape create a need for innovation to drive growth. This brings a risk appetite that may not be aligned to the Group's strategy. | The investment committee considers the risk appetite in relation to the investment opportunity and recommends to the Board that the investment opportunity is in line with Group's overall strategy. | Positive return on investment and other potential opportunities taken within the Group's risk appetite levels. | |
| 7 | Exchange rate volatility may have both a negative and positive impact on business performance. | Exchange control is monitored regularly with efficient management of overhead and cost structures in place to ensure that all volatile environments have a lesser impact on the operations. | Positive exchange rate, i.e. a weak rand value compared to major international currencies increases revenue for the Group. | |

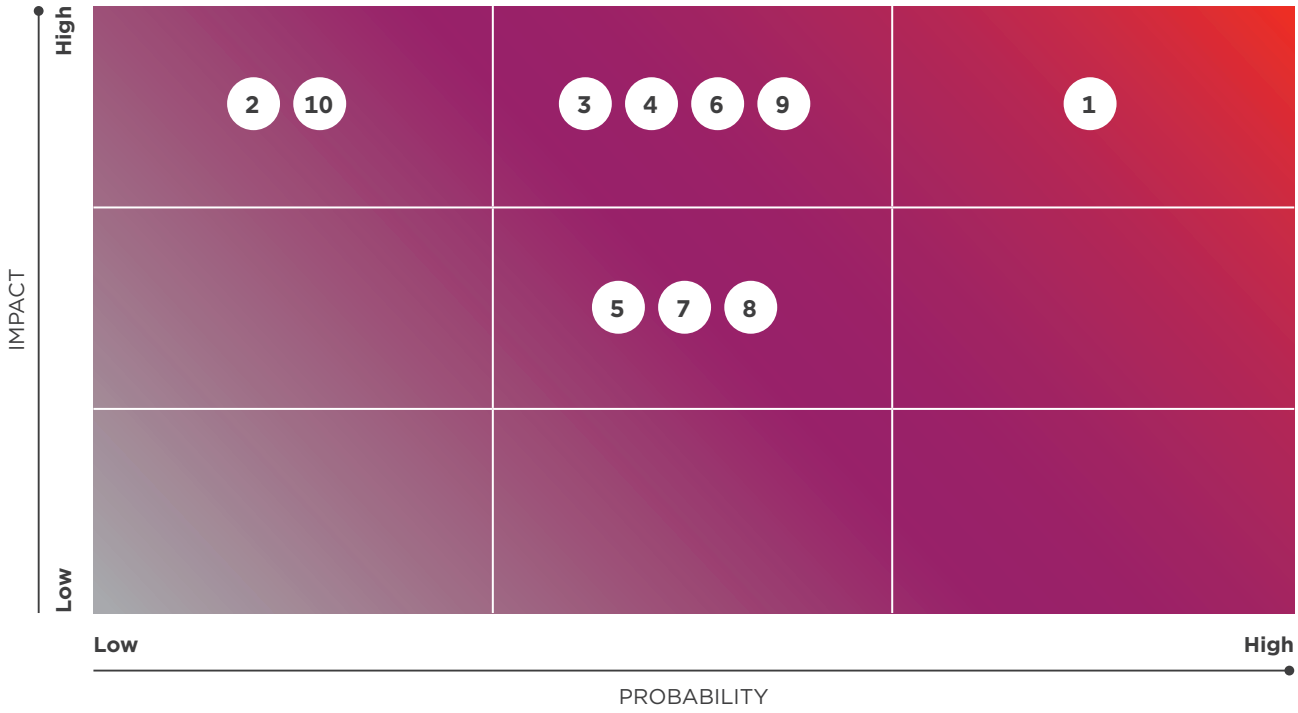
# RISK MANAGEMENT REPORT - continued

## MATERIAL RISKS continued

| | RISK AND RATIONALE | MITIGATION | OPPORTUNITY | LINK TO MATERIAL MATTER/ STRATEGY |
|---|---|---|---|---|
| 8 | The inability to recruit and retain key skilled employees, hence skills retention and succession planning remain a constant challenge for all divisions. | Better recruitment policies have been implemented to recruit and retain high-calibre personnel.<br>A continuous review of employee training, development and succession planning occurs annually to ensure that it is in line with the Group's strategy. | Retention of key skilled employees ensuring efficiency and effectiveness of business processes. | |
| 9 | Environmental challenges include carbon emissions impact, waste management, climate change and marine coastal management and must be reviewed constantly. | Adherence to marine management policies from the Marine and Coastal Management to ensure no overfishing takes place. Recycling and better waste removal techniques are being employed across the Group. | There is an opportunity for the Group to maintain a clean, safe environment and reduce carbon emissions, and be seen as a good corporate citizen. | |
| 10 | Environmental pressures have an impact on the production and consumption of our products:<br>• Adverse weather conditions affect landings of fish stocks<br>• Water temperature variables and disease affect the location<br>• Uncertainty in the distribution and availability of certain marine resources due to changes in sea variable | Mitigation of these risks comes from constant monitoring of these environmental variables to allow flexibility in our response to these external factors. | Products of good quality will be produced and offered to the market. This can increase revenue and the Group's reputation in the market. | |

# RISK MANAGEMENT REPORT - continued

## RISK METRICS



# TECHNOLOGY AND INFORMATION

"Prepare, listen, question and participate. It plays a critical role in taking the organisation to the next level of digital maturity."

Pearl Zhu

The Board is responsible for technology and information governance in the Group and delegated the management of technology and information governance to the audit and risk committee to ensure the promotion of an ethical technology and information governance culture and awareness.

The audit and risk committee governs technology and information in a way that supports the organisation in setting and achieving its strategic objectives and has delegated this responsibility to management to implement and execute effective technology and information management. Management is accountable for operational governance of technology and information management.

## TECHNOLOGY AND INFORMATION

**Technology –** "Technology comprises infrastructure, devices, systems and software that generate, use or carry information and enable transactions" – *King IV™*

**Information –** "Includes all data, records and knowledge in electronic or any other format, which form part of the intellectual capital used, transformed or produced by the organisation" – *King IV™*

## TECHNOLOGY AND INFORMATION GOVERNANCE

Technology and information governance is an integral part of the Group's governance and consists of the leadership and organisational structures and processes that ensure that the Group's technology and information sustain and extend the Group's strategy and objectives.

The objective of technology and information governance is to direct technology and information endeavours, to ensure that technology and information's performance meets the following objectives:

- Alignment of technology and information with the Group and realisation of the promised benefits.
- Use of technology and information to enable the Group by exploiting opportunities and maximising benefits.
- Responsible use of technology and information resources.
- Appropriate management of technology and information-related risks.

Technology and information governance ensures that technology and information goals are met and risks are mitigated and that technology and information deliver value to sustain and grow the Group.

## TECHNOLOGY AND INFORMATION GOVERNANCE FRAMEWORK

The technology and information governance framework promotes an ethical technology and information governance culture and awareness by ensuring the following:

- The activities and functions of the technology and information strategy are aligned to the business strategy and opportunities to improve the use of technology and information within the Group are identified and exploited.
- The investment made in technology and information, ensuring costs are managed and the return on investment is measured by the relevant divisional boards and committees. Where applicable, synergies between technology and information initiatives are enabled and technology and information choices are in the best interest of the Group as a whole.
- Technology and information risks are identified and adequately addressed in line with the Group's risk management framework. The Group ensures that it has adequate business resilience arrangements in place for disaster recovery and assurance has been provided to the Board.
- Technology and information resources are sourced optimally and legitimately, keeping core capabilities in-house.
- Processes and procedures are in place to ensure that the Group's IT assets are managed, maintained, replaced and disposed effectively and in accordance with applicable policies.

# TECHNOLOGY AND INFORMATION - continued

- Infrastructure, systems and policies are in place for the management of information which includes information security and information privacy.
- The audit and risk committee considers technology and information as it relates to financial reporting and the going concern of the Company/Group through regular risk-based audit coverage.
- Technology and information use remains sustainable with respect to the environment.

## DIGITAL REVOLUTION

King IV™ refers to advances in technology and digitisation as the Fourth Industrial Revolution and stresses what a big impact it has on all organisations.

As business leaders we are trying to keep abreast of the surging pace of digital transformation globally. Information technology (IT) security can no longer be an afterthought as the digital economy accelerates and both consumers and organisations become increasingly inter-connected. At AEEI, security is the foundation on which solutions are built.

Digital evolution, as an applied digital business approach, provides both the necessary development model and cultural organisational shift to ensure that a business can be continually successful in the digital market. We have seen companies expand through the adoption of technologies, and we have seen companies shrink as they lacked the tenacity to make the leap. We have seen companies rapidly expand as they adapted to the changing technology landscape, and we have seen companies shut their lights off as they failed to do so.

With the recent IT security incidents, such as ransomware attacks, it occasions a large but reactionary response from companies and industries. However, this typically happens after significant damage has already been done.

The world continues to evolve due to significant trends that include the following:

- IT automation and analytics are two key trends accompanying artificial intelligence, which is starting to play a significant role in IT security.
- Further personal data legislation has a significant global impact on how companies secure their data and protect their digital assets.
- Mobile devices with pervasive connectivity to the internet, as broadband data reduces in price and increases in availability, results in new heights of social media interaction on both business and personal levels.
- Cloud computing provides access to high-level, utility-based, location-independent and capital-light computing resources and agility.
- An increase in data that needs to be stored, managed and interpreted for business advantage.
- The increase in connected devices installed to on-board computers giving rise to the internet of real-time exchange of information between connected devices.

## REPORT OF THE COMMITTEE

This past year was a pivotal year that surprised many in the IT security industry. From the resurgence of destructive ransomware, internet of things, botnets, data breaches and mobile malware to sophisticated multi-vector technologies, it is clear we are witnessing an inflection point and a transition to the fifth generation of cyberattacks. As the cyber landscape evolves, the World Economic Forum recently rated cyberattacks as one of the top three global risks for 2018. We are now seeing threat actors effectively weaponising ransomware as a way to cripple large institutions, affecting the health and lives of nation-states' populations, as well as causing pain to many businesses' bottom lines. Data breaches took centre stage in the past year, with some shocking revelations about major customer data compromises.

In addition, the increasing popularity and meteoric rise in value of cryptocurrencies took the world by storm and led to a significant increase in the distribution of cryptominers, which quickly became a favourite monetising attack vector. And finally, the leak of alleged CIA cyber tools by hacktivist groups was seen to cast a long shadow over the global information security ecosystem as a whole. From alleged election hacking to critical infrastructure sabotage, more evidence came to light of nation-state-backed technologies being behind some of the largest global cyberattacks. In turn, we will realise how the threat landscape, by entering the fifth generation of cybersecurity, now spans across countries and industries along multiple vectors of network, cloud and mobile and uses state-sponsored technologies to do so. By reviewing recent attacks, we can understand how 97% of organisations are not prepared for the fifth generation of cyberattacks.

# TECHNOLOGY AND INFORMATION - continued

Cybersecurity threats aren't just technical, but societal and political. The five most critical threats to business in 2018 are:

- Phishing
- Ransomware
- The cloud
- General data protection regulation (Protection of Personal Information Act)
- Cryptocurrency mining

## TECHNOLOGY TRENDS AND INNOVATION

The Group considered the emerging technology trends to ensure that we remain abreast of technological change. The IT steering committee looked at new technologies and innovations that could assist in improving our network access, security, performance and efficiency and creating new ways of working and identifying opportunities,

We need to look closer at what 2019 may have in store and most importantly, how best to prepare for it. In this regard, the committee adopted a policy on Governing Technology and Information.

An integrated approach for technology and information governance in all the business units was implemented and all divisions in each subsidiary have followed the Group user policies and security practices within the technology and information environment.

Due to the diverse nature of the Group's operations, the Group adopted baseline principles for the development and implementation of a technology and information governance framework during the year under review. These principles incorporate standards included in King IV™, Control Objectives for Information Technology (COBIT) and Information Technology Infrastructure Library; they started from the premise that technology and information need to deliver the information that the Group needs to achieve its objectives.

These governance baseline principles are as follows:

- Business alignment and enablement focused on ensuring the linkage of business and technology and information plans, defining, maintaining and validating the technology and information value proposition and aligning technology and information operations with the Group's operations.
- Sourcing responsible and adequate procurement of technology and information hardware and software and the correct selection of technology partners and suppliers.
- Ensuring operational performance in technology and information is with the right people who are developed and empowered and ensuring that optimal technology and information processes and measurements are deployed that result in:
  - integration of people, technologies, information and processes across the Group;
  - integration of technology and information risks into the Group's risk management;
  - arrangements to provide for business resilience;
  - proactive monitoring of intelligence to identify and respond to incidents, including cyberattacks and adverse social media events;
  - managing the performance of and the risks pertaining to third-party outsourced service providers;
  - assessing the value delivered to the Group through significant investments in technology and information, including evaluation of projects throughout their life cycles and of significant operational expenditure;
  - the responsible disposal of obsolete technology and information in a way that should have a minimal impact on environmental and information security;
  - ethical and responsible use of technology and information;
  - compliance with relevant laws;
  - ongoing oversight of the management of information that resulted in the following:
    - The leveraging of information to sustain and enhance the Group's intellectual capital
    - An information architecture that supports confidentiality, integrity and availability of information
    - The protection of privacy of personal information
    - The continual monitoring of security information

# TECHNOLOGY AND INFORMATION - continued

- Management of technology that resulted in the following:
  - A technology architecture that enables the achievement of strategic and operational objectives
  - The management of risks pertaining to the sourcing of technology
  - Monitoring and appropriate responses to development in technology including the capturing of potential opportunities and the management of disruptive effects on the Group and its business model
- Supplier performance management outlining practices regarding the implementation and monitoring of service level agreements and commercial agreements.
- Business continuity/disaster recovery requirements and practices regarding the processes in terms of technology and information disruptions.
- Security regarding data privacy, cybersecurity and user access.
- Compliance in terms of internal monitoring and external assurance.
- Compliance with the Protection of Personal Information (PoPI) Act, 2013.

*(King IV™ – Principle 12)*

## TECHNOLOGY RISK AND CYBERSECURITY

During the year under review, the Group continued to monitor the evolving threat of cyberattacks in order to protect our systems, employees and customers. We continue to make progress with our security programmes, which include the proactive monitoring of our systems and networks to ensure that our IT controls are robust and running awareness programmes with our employees so that the necessary steps can be taken to protect themselves and others against cyberattacks.

## RISK MITIGATION

The ever-changing environment brings with it the complexities of managing information risk and the Group continues to apply the appropriate operational and technology interventions to manage these challenges.

As the Group is dependent on IT to meet its business needs and sustainability objectives, all identified risks are monitored and reduced to an acceptable level by executive management. The Group prides itself on its high standard of security monitoring, data protection, business service availability and network reliability. It ensures that IT maintenance is performed and reviewed constantly.

Although no material risks were reported during the year under review, we are cognisant of cybersecurity and the implications thereof, taking into account the protection of our stakeholders, which remains a high priority. One aspect driving risks and security is our governance and internal audit to ensure that the Group's information assets are secure.

We constantly address best practices, threats from phishing, ransomware and other cyber threats which could have an impact on business operations, financial statements, legal exposure and the Company's reputation.

*(King IV™ – Principle 11)*

# TECHNOLOGY AND INFORMATION - continued

## TECHNOLOGY-ENABLED SOLUTIONS – THE CHANGING ROLE OF IT

In terms of our Vision 2020 Vision strategy, the Group looked into the technology landscape and systems, taking into account the current systems. An assessment was done for an integrated technology system that would be able to accommodate all companies within the Group, taking into account the different needs of each individual company. A system was identified for the Group with future additional benefits that could be implemented through a phased approach.

Key to considering the new technology was the multi-user environment and data being generated in a variety of options, thus reducing the risk of errors, audit trails, document managers, improved workflows, multiple reviewers and consolidation of information and maintenance costs.

The Group's current focus is on maintaining the existing traditional enterprise systems where operational reliability is paramount. The current systems have necessitated the need for enhancements within the Group's business units and consolidation for improved corporate controls and reporting.

Our technology associate continues to provide technology-enabled solutions which add value to our customers.

The Board has oversight of the effectiveness of technology and information governance through the delivery of the integrated report and the approval of the governance framework and policy.

The Board oversees the following:

- The adoption of a governance framework and reviews IT policies that detail the strategic direction on the use of technology and information.
- The report from management that contains the following objectives in terms of compliance:
  - Activities and functions of the IT strategy are aligned to the business strategy
  - The optimal investment made in IT – costs are managed and the return on investment measured
  - IT risks are identified and adequately addressed and assurance is obtained to ensure that the IT control framework is in place to address IT risks efficiently
  - IT resources are sourced within subsidiary companies or externally
  - Information, IT assets and intellectual property contained in the IT systems are protected and effectively managed and used
  - IT has adequate business resilience arrangements in place for disaster recovery
  - Information management is a joint IT and business responsibility
  - IT governance conforms to laws and related rules, codes and standards are considered
  - The use of IT is sustainable with respect to the environment and security
  - Synergies between IT initiatives and the benefits to the Group as a whole and individual business units

*(King IV™ – Principle 12)*

For the year under review, the audit and risk committee is satisfied that is has fulfilled all its statutory duties assigned by the Board. The chairman of the committee reports to the Board on the activities of the committee at each Board meeting.

# REMUNERATION COMMITTEE REPORT

"Society as a whole benefits immeasurably from a climate in which all persons, regardless of race or gender, may have the opportunity to earn respect, responsibility, advancement and remuneration based on ability."

Sandra Day O'Connor

## REMUNERATION REPORT

### Statement from the chairman of the remuneration committee – Mr Takudzwa Hove

I am pleased to provide you with my first summarised remuneration report for the year. During the year under review, I replaced Mr Young as chairman of the remuneration committee and, with the support of the committee members in the areas of human resources and organisational transformation, I am able to discharge my duties as mandated by the Board.

I am pleased to provide you with the summarised remuneration report, which includes the remuneration policy and implementation report as required by the provisions of King IV™ that will be considered and voted upon at the forthcoming AGM of shareholders on behalf of the remuneration committee.

The committee was tasked by the Board to approve and oversee the implementation of the remuneration policy, enabling it to achieve the Group's strategic objectives, translating into market-related yet affordable performance-linked rewards and to ensure balanced and transparent outcomes that align with shareholder interests over the short and long-term. Ultimately our policy enables the attraction and retention of valuable talent. During the year under review, the remuneration policy was updated and approved by the Board.

In South Africa, good governance, ethics and leadership regarding remuneration are primarily informed by King IV™. This report highlights the key components of our policy and how these aligned to our performance and strategic objectives for the 2018 financial year. The remuneration committee is governed by its Charter that is reviewed annually.

Reporting and disclosures continue to evolve to ensure that stakeholders are able to understand how remuneration decisions are made in order to assess the outcome of these decisions. Shareholder focus remains on ensuring pay for performance and alignment with shareholder goals as well as enhanced disclosure so that shareholders can understand the quantum, rationale 7and drivers of executive remuneration.

Our approach to remuneration aligns to our ethics, corporate governance philosophy and shared values – respect and trust, people, integrity, accountability, stakeholders, commitment and investment. Remuneration and reward systems remain sensitive matters, especially in the socio-political environment. During the past year, we introduced a few non-material changes to the remuneration policy, strategy and associated practices in alignment with best practices, but we have kept our core remuneration policy and principles consistent. We will continue to review and adapt to changes in market conditions to ensure that our policy and principles remain appropriately aligned with our overall business strategy.

It is fundamental to our core remuneration principles that executive remuneration is aligned to the Group's performance. Income differentials are an important topic within the Group and the remuneration committee remains committed to monitoring and addressing this critical issue. Executive remuneration and the governance of remuneration continues to remain a feature of the corporate governance landscape while the issue of income differentials and the steps necessary to address these continue to enjoy prominence in the local and international markets.

The alignment of our executives' remuneration to the long-term strategic goals of the Group to deliver sustainable value to shareholders and build the business

# REMUNERATION COMMITTEE REPORT - continued

remained a key focus during the year. Some decisions and their related impact in setting targets in terms of performance-related remuneration were made for the executives and senior management of the Group. Weightings of performance as well as specific financial targets were reviewed and amended accordingly for the year under review. The committee was satisfied and will continue to monitor remuneration against the appropriate strategic objectives, performance and market benchmarks.

The committee had an independent third party perform a market comparison against our peers in other businesses. The comparison was used to determine where we should remunerate. The committee reviewed the targets set in terms of performance-related remuneration for the CEO, the executive management team and senior management in the Group; these targets include individual performance factors and a combination of portfolio-specific targets. The CEO and executive management team's performances are assessed against a set of predetermined objectives that include, *inter alia*, strategic leadership, execution of the strategy through business results and stakeholder relations. The Board recognises that the successful delivery of the Group's objectives should constitute both financial and non-financial performance measures, with the key financial measures including profits, cash flow and asset growth weighted to 70% and the remaining 30% weighted to non-financial measures for most of the executives in the Group.

The committee remains mindful to ensure overall remuneration was appropriate for the performance of the Group and in relation to its operational peers. In doing so, the committee considered the overall risk environment, its risk appetite and risk profile and the need to attract, retain and motivate key talent to enable delivery of the Group's strategic objectives.

Our ethos is one of appreciation for commitment, diligence, care and attention to detail. We respect and recognise our employees for their contributions made during the year and inspire them to realise their full potential, and we believe in rewarding accordingly. We consistently applied the principle that our remuneration should be fair and competitive and should reflect the performance of the Group and the business units.

During the financial year, the remuneration committee:

- reviewed and determined the remuneration for the executives;
- reviewed the performance targets to ensure that they are both challenging and linked to the Group's strategic objectives;
- took into account the remuneration and employment conditions of all employees, the performance of the Group and the individual, current views and guidelines of shareholders and market conditions;
- continued to keep under review the relationship of risk to remuneration;
- satisfied itself that the remuneration structure for senior executives does not raise environmental, social or governance risks nor does it inadvertently motivate irresponsible behaviour;
- retained absolute discretion to reduce variable compensation in light of risk and the Group's overall performance; and
- received guidance from the following independent advisors:
  - An external advisor
  - PE Corporate Services – executive salary benchmarking and job grading.

The committee conducted a detailed review of the performance of each of the four senior executives for the 2018 financial year, and recommended to the Board that a bonus be paid using the Matrix guidelines based on financial and qualitative performance. The committee agreed to recommend to the Board the approval of a general salary increase based on the current price index of 7% for all employees in the Group.

The information provided in this report has been approved by the Board on the recommendation of the remuneration committee.

For the year under review, the committee is satisfied that is has fulfilled and complied with its obligations and statutory duties as reflected in its charter, in terms of the policy and duties assigned by the Board.

**Mr Takudzwa Hove**
*Chairman of the remuneration committee*

*(King IV™ – Principles 13 and 14)*

# REMUNERATION COMMITTEE REPORT - continued

## ROLE OF THE REMUNERATION COMMITTEE

The remuneration committee's main purpose is to implement the guiding principles in the application of remuneration governance, practices and policies and to ensure that the Group remunerates fairly, responsibly and transparently so as to promote the achievement of the strategic objectives as well as positive outcomes in the short, medium and long-term.

## REMUNERATION POLICY

### INTRODUCTION

AEEI's remuneration committee is primarily responsible for overseeing the remuneration and incentives of the Group's executive directors and key management, as well as providing strategic guidance.

To assist in the achievement of AEEI's long-term strategic goals, the remuneration committee has a formal remuneration policy in place. Each major subsidiary has its own remuneration committee and a policy specific to its business unit, including the industry in which it operates, taking into account AEEI's long-term strategic goals.

The main aim of the committee is to assist the Board in fulfilling its responsibilities in establishing formal and transparent policies and guiding principles of a standardised approach in the application of remuneration practices within all its business units and functions.

The remuneration committee's main purpose is to implement the guiding principles in the application of remuneration governance, practices and policies and to ensure that the Group remunerates fairly, responsibly and transparently so as to promote the achievement of the strategic objectives and positive outcomes in the short, medium and long-term.

### OVERVIEW OF THE MAIN PROVISIONS OF THE REMUNERATION POLICY

The remuneration policy is aimed at aligning remuneration practices that will enable the committee to achieve the Group's strategic objectives, translating these into market-related yet affordable performance-linked rewards and ensuring balanced and transparent outcomes that align with shareholder interests over the short and long-term, and ultimately enable the attraction and retention of valuable talent. Our approach to remuneration aligns to our ethics, corporate governance philosophy, shared values and best practices.

The remuneration policy is designed to achieve the following strategic objectives:

- Support the attainment of AEEI's strategic business objectives and strategies
- Attract, retain and motivate key and talented individuals
- Compete in the market place to be an employer of choice
- Reward individual, team and business performance and encourage superior performance
- Support AEEI's key values
- Promote the achievement of the Group's strategic objectives within its risk appetite
- Promote positive outcomes
- Promote an ethical culture and responsible corporate citizenship

The remuneration policy addresses the Group's remuneration and includes provision for:

- arrangements towards ensuring that the remuneration of executive management is fair and responsible in the context of overall employee remuneration in the organisation;
- the use of performance measures that support positive outcomes across the economic, social and environmental context in which the Group operates and all the capitals that the Group uses or affects; and
- enable the Company to attract, engage and retain talent to drive performance and to meet the Company's strategic objectives.

## EXECUTIVES AND EMPLOYEES

The remuneration of the executives is reviewed annually by the remuneration committee, which seeks to ensure that balance is maintained between the fixed (base salary) and variable (discretionary bonus) elements of remuneration, as well as between the short-term (base salary and discretionary bonus) and the long-term financial performance objectives of the Group.

# REMUNERATION COMMITTEE REPORT - continued

Cost-to-company remuneration incorporates the following elements:

### BASE SALARY

Base salary is guaranteed annual pay on a cost-to-company basis. It is subject to annual review and adjustments are effective 1 September of each year, coinciding with the commencement of the Group's financial year. Benchmarking is performed with reference to companies comparable in size, industry, business complexity and the level of responsibility that the individual assumes.

### BENEFITS

Benefits form part of the total cost-to-company and include:

- membership to the pension/provident fund (providing death, disability and dread disease benefits);
- medical aid;
- unemployment insurance fund; and
- funeral cover.

## COMPLIANCE

The remuneration policy is reviewed each year to ensure that the remuneration framework remains effective in supporting the achievement of the Company's business objectives and remains in line with best practice. AEEI complied with the remuneration policy, relevant remuneration governance codes and statutes. The recommended practice as stated under Principle 14 of King IV™ has been applied and is explained throughout this report through the outcomes achieved.

During the year, the committee engaged the services of an independent external advisor in support of our endeavours to act independently and provide specialist input.

## EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Executive directors do not have fixed-term contracts but have permanent employment agreements with the Company. The remuneration of executives is determined on a cost-to-company basis and is subject to an annual review by the remuneration committee. Provident or pension fund and healthcare provision form part of the overall cost-to-company packages. Executive directors are members of the Group's provident fund and are required to retire from the Group as a director of the Board at the age of 65, unless requested by the Board to extend their term. There are no other special benefits for executive directors.

## PRESCRIBED OFFICER

Mr Khalid Abdulla is not remunerated for his role as the prescribed officer of the Company.

## PERFORMANCE APPRAISALS

Performance appraisals of the executive management team are done by the committee on an annual basis. Line managers and divisional managers also conducted performance appraisals on employees in the Group. The CEO conducted the performance appraisals of the divisional heads in the Group and provided feedback to the committee.

## NON-EXECUTIVE DIRECTORS' REMUNERATION

The non-executive directors receive fees for serving on the Board and its committees. The fees for non-executive directors are reviewed annually by AEEI's executive committee, and thereafter referred to the remuneration committee which seeks to ensure that the fees are market-related and presented to the shareholders for approval.

The Board recommends the fees to shareholders for approval at the AGM of the Company. Consideration is given to the relative contribution of each non-executive director and their participation in the activities of the Board and its committees. Changes to the fee structure are effective 1 September, subject to the approval by shareholders at AEEI's AGM held in February of each year. The annual fees payable to non-executive directors are, as in the past, fixed and not subject to the attendance of meetings. In the event of non-attendance on a regular basis, same may be reviewed.

# REMUNERATION COMMITTEE REPORT - continued

## EXECUTIVE AND NON-EXECUTIVE DIRECTORS' REMUNERATION

The 2018 remuneration of the executive directors is set out below:

| EXECUTIVE | K Abdulla R'000 | CR Ah Sing R'000 | CF Hendricks R'000 | AM Salie* R'000 | Total R'000 |
|---|---|---|---|---|---|
| Salary | 3 209 | 1 210 | 899 | 1 687 | 7 005 |
| Bonus | 2 400 | 245 | 412 | 814 | 3 871 |
| Provident fund | 391 | 171 | 189 | 218 | 970 |
| Expense allowance | 60 | 18 | 17 | 28 | 123 |
| TOTAL | 6 060 | 1 644 | 1 517 | 2 748 | 11 969 |

* *Mr AM Salie was appointed to the Board on 21 February 2018. However, the remuneration amounts reflected above are for the full financial year, being 1 September 2017 to 31 August 2018.*

The 2018 remuneration of the non-executive directors is set out below:

| NON-EXECUTIVE | VC Mehana R'000 | S Young* R'000 | JM Gaomab R'000 | AB Amod R'000 | NA Ramatlhodi** R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| Directors' fees | 425 | 364 | 212 | 212 | 106 | 1 319 |

*Mr TT Hove and Ms Z Barends waived their non-executive director fees.*

* *Mr S Young's remuneration only reflects his time served on the Board, from 1 September 2017 to 21 February 2018.*

** *Advocate Dr NA Ramatlhodi's remuneration only reflects his time served on the Board, from 7 March to 31 August 2018.*

AEEI covers all reasonable travelling and accommodation expenses incurred to attend Board and committee meetings.

Non-executive directors do not have any employment contracts, nor do they receive any benefits associated with permanent employment.

## NON-BINDING ADVISORY VOTES ON THE REMUNERATION POLICY AND IMPLEMENTATION REPORT

In the event that there is less than 75% support for the above-mentioned reports at the AGM, the Board will invite dissenting shareholders to send reasons for such votes in writing. Thereafter, further engagements may be scheduled to appropriately address legitimate and reasonable objections and concerns raised.

## IMPLEMENTATION REPORT

This part of the report focuses on the performance outcomes against the targets set for 2018.

### SALARY INCREMENT

The committee reviewed the targets set in terms of performance-related remuneration for the CEO, executive management team and senior management in the Group, which includes individual performance factors and a combination of portfolio-specific targets.

For the year ended 31 August 2018, a general salary increase was approved based on the yearly average current price index of 7% for all employees in the Group.

### DISCRETIONARY BONUS

For the year ended 31 August 2018, the discretionary bonus was calculated as a percentage of the qualifying executive/senior management/employee's base salary according to seniority and the level of responsibility assumed. Qualifying executives and senior management received a discretionary cash bonus, dependent on them meeting both financial and qualitative strategic performance objectives. Employees received a discretionary cash bonus, dependent on them meeting both their personal and the Company's strategic objectives. Financial, qualitative, personal and Company

# REMUNERATION COMMITTEE REPORT - continued

strategic performance are aimed at ensuring sustainable long-term value creation to the benefit of all stakeholders. The total base salary and bonus paid were considered to be fair to the Company and the executive/senior manager/employee.

For the year ended 31 August 2018, the CEO and executive management team's performance was assessed against a set of predetermined objectives that include, *inter alia*, strategic leadership, execution of the strategy through business results and stakeholder relations. The successful delivery of the Group's objectives constitute both financial and non-financial performance measures, with the key financial measures which include profits, cash flow and asset growth weighted to 70% and the remaining 30% weighted to non-financial measures for most of the executives in the Group. The committee remains mindful of ensuring that overall remuneration was appropriate for the performance of the Group and in relation to its operational peers. In doing so, the committee considered the overall risk environment, its risk appetite and risk profile and the need to attract, retain and motivate key talent to enable the delivery of the Group's strategic objectives. *(King IV™ – Principle 14)*

## SHAREHOLDER VOTING/FEEDBACK

As required by King IV™ and the JSE Listings Requirements, the Company will put a non-binding advisory vote to shareholders regarding the approval of the remuneration policy and the implementation report. The Company seeks the support from its shareholders at the upcoming AGM. If any shareholders are inclined not to support the resolutions, we would ask that the reasons for such decision be communicated to the Company so that consideration can be given to those reasons. Please forward any comments to the company secretary at damien@aeei.co.za.

Should either vote receive 25% or more votes against, the Company will take the following steps:

- Issue a SENS announcement regarding the outcome of the voting results
- Invite shareholders to engage with the Company regarding their dissatisfaction with either of the votes
- Schedule engagements with concerned shareholders to record their concerns and objections
- Assimilate all responses and schedule a remuneration committee meeting to analyse concerns and issues raised with the aim of formulating changes to the policy and implementation required and
- Develop a formal response to shareholders that articulates the concerns raised, the details of where the changes will be made to address concerns raised and provide responses for areas where the Company, despite the shareholder feedback, believes its current policy and/or implementation is adequate

Results of the shareholders' votes at the most recent AGM held on 21 February 2018, as a percentage of the total number of shares voted at the AGM, is indicated below:

| | |
|---|---|
| Approval of the remuneration policy | **100%** |
| Implementation of the remuneration policy | **100%** |
| Non-executive directors' fees | **100%** |

*A copy of the full remuneration policy is available on www.aeei.co.za.*

# REMUNERATION COMMITTEE REPORT - continued

| | |
|---|---|
| **COMPENSATION – GUIDING PRINCIPLES** | • Differentiated total reward distinguishing six categories of employees: wage earners, salaried employees, general managers, senior managers, executive directors and non-executive directors<br>• Transparent communication of reward in general while respecting confidentiality of individual personal reward information<br>• No unfair pay discrimination<br>• Affordability<br>• Conservative approach towards employee taxation<br>• Compliance to relevant Acts |
| **COMPENSATION BENCHMARKING POLICY** | • The Company benchmarks total packages against market value in job segments<br>• To establish market values, the Company conducts and participates in South African salary surveys. In light of these surveys, a reference salary is determined by job segment and by level, nationally across all industries<br>• Different types of jobs on the same level will not necessarily carry the same reference salary. Each level may cover a number of reference salaries<br>• An employee's positioning within the applicable salary range will be influenced by a combination of factors such as relevant work experience, competence, performance as well as internal, historical and market influences<br>• The Company may intentionally compensate employees above the reference salary to attract and retain critical employee segment skills or scarce skills |

# REMUNERATION COMMITTEE REPORT - continued

## SUCCESSION PLANNING

The Board recognises its responsibility to make provisions for competent leaders in the Group. In fulfilling this responsibility, the Board also acknowledges that situations may arise which require a need for interim leadership and that future leadership transitions are inevitable.

The purpose of succession planning is to ensure that plans are in place to develop potentially suitable candidates for the future. The focus also remains on the retention of key and critical skills in the Group. Succession planning is reviewed periodically and provides for succession in emergency situations as well as succession over the longer term.

The succession plan is designed to address each of the following situations:

- Provision for leadership during anticipated or unanticipated short-term absences of the CEO
- Planned resignation – in the event of a permanent leadership change, the process for conducting a CEO search
- Provision for leadership during anticipated or unanticipated short-term absences of the chairman
- Planned resignation – in the event of a permanent leadership change, the process for conducting a chair search

## REMUNERATION REPORT – KEY STATISTICS

| | 2018 R'000 | 2017 R'000 |
|---|---|---|
| Total rand value of compensation paid to executive directors – excluding gains on the exercise of share options | **11 919** | 6 690 |
| Average compensation per executive director (rands) – excluding gains on the exercise of share options | **2 992** | 2 230 |
| Total compensation paid to prescribed officers – excluding gains on the exercise of share options | **0** | 0 |

# SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE REPORT

"Directors must understand their duties and responsibilities to protect not only themselves but also society as a whole."

Unknown

## ROLE OF THE SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE

The social and ethics and the transformation committees were combined into one committee during the year under review.

The social, ethics and transformation committee was established to assist the Board in ensuring that the Group is and remains a committed socially responsible corporate citizen, and to also report on organisational ethics, sustainable development and stakeholder relationships. This role includes organisational ethics, which covers statutory duties and encourages leading practice by having the social, ethics and transformation committee progress beyond mere compliance to contribute to the creation of value in the Group.

The committee also assists the Board in effectively discharging its responsibilities for oversight of transformation management, ensuring that management has implemented and maintained an effective transformation management process in the Group. It also assists the Board to lead transformation within the Group and to ensure that there are appropriate policies and procedures in place to address transformation by levelling the playing fields both socially and economically for broader participation by all South Africans.

The commitment to sustainable development involves ensuring that the Group conducts its operations in a manner that meets existing needs without compromising the ability of future generations to meet their needs. The committee's primary role is to supplement, support, advise and provide guidance on the effectiveness or otherwise of management's efforts in respect of sustainable development, social, ethics and transformation matters, and to ensure that the Group is and is seen to be a responsible corporate citizen.

One of the main purposes of the committee is to ensure compliance with the amended B-BBEE Codes of Good Practice as revised from time to time and to measure the Company in terms of compliance under the elements in terms of the Department of Trade and Industry's Codes of Good Practice.

## OUR TRANSFORMATION PHILOSOPHY

The B-BBEE Codes of Good Practice, promulgated in 2007, emphasised the need to extend empowerment to a broader base of South Africans. They provided guidelines and a balanced scorecard to measure the transformation of a business entity from an empowerment perspective.

AEEI's aim is to be an employer of choice in the market place. AEEI continues to champion transformation within the Group and has been recognised for its contribution to this process. For AEEI, transformation goes beyond compliance with B-BBEE and includes the transformation of the culture, ethics and values of the Group.

As a Group, we believe in the development and empowerment of our employees and to enhance performance by "growing our timber". We recognise that today's best is the benchmark we must surpass tomorrow. The Group is committed to its shared values which include: people, accountability, integrity, commitment, stakeholders, respect, trust and investment. Refer to page 41 of the abridged integrated report for more details.

## REPORT OF THE SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE

The social, ethics and transformation committee assisted the Board in ensuring that the Group is and remains a committed, socially responsible corporate citizen. It performed the statutory functions required in terms of the Companies Act and King IV™. The committee's obligation to sustainable development involved ensuring that the Group conducted its operations in a manner

# SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE REPORT - continued

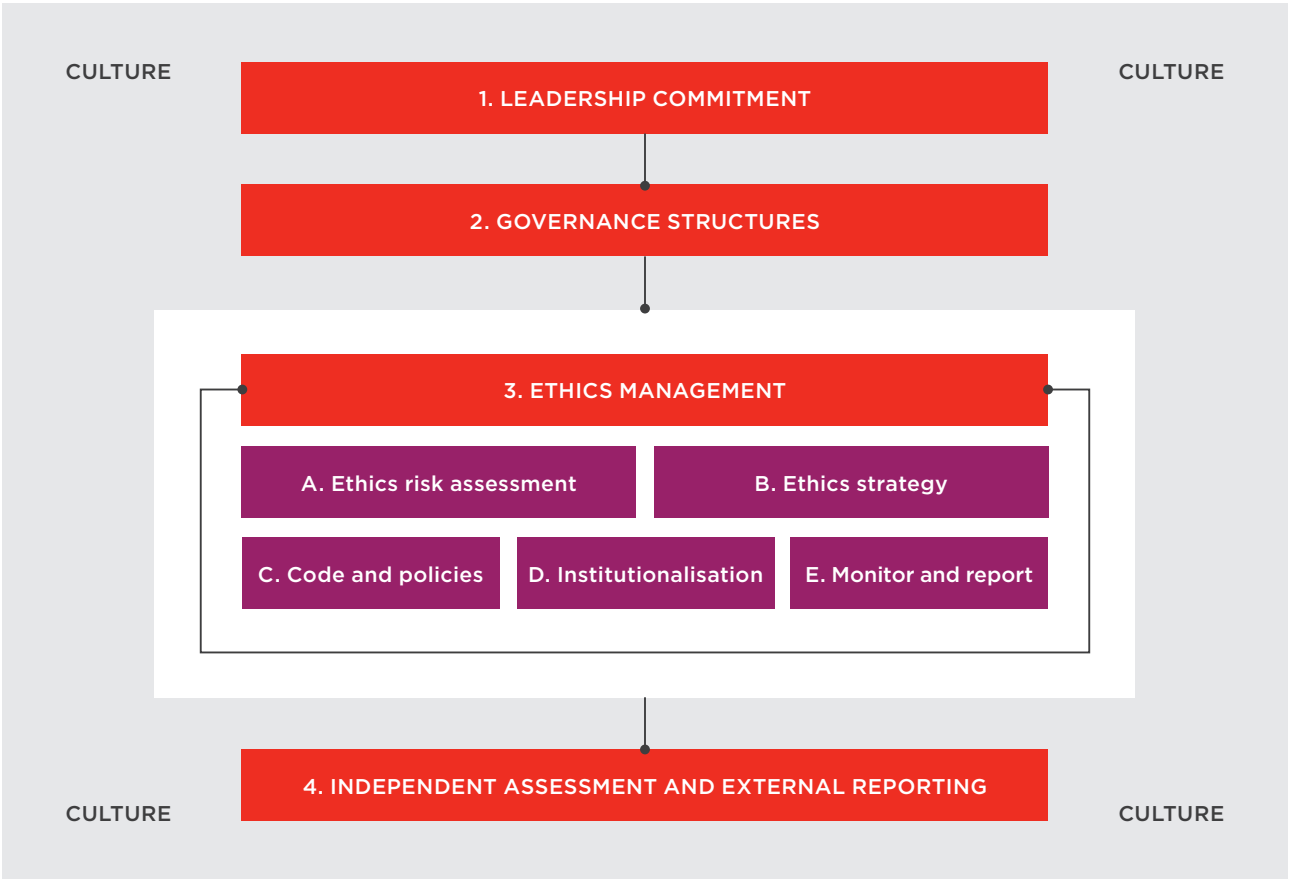
that meets existing needs without compromising the ability of future generations to meet their needs. The committee provided support, advice and guidance on the effectiveness, or otherwise of management's efforts, in respect of sustainable development and social, ethics and transformation matters.

As a responsible employer, we adhered to all labour legislation and laws. The Group's employment equity policy affirms the commitment to equal opportunities relating to affirmative action and the achievement of employment equity. The committee has been proactive within the Group to ensure understanding and compliance of the revised B-BBEE Codes. The Company lodged its BEE Certificate with the BEE Commissioner during the year. Since the changes in the rankings of listed companies on the JSE six years ago, this is the third year that AEEI will qualify to be in the main rankings of the JSE Top 100 listed companies as a generic enterprise. Refer to page 20 of the Sustainability Report for further details.

Corporate corruption and deviation from good corporate governance practices made the headlines this year, implicating some of the largest businesses in South Africa. This is a major concern for investors, as increasingly unethical behaviour is uncovered in several businesses worldwide. Directors bear the ultimate responsibility for any corruption that occurs within an organisation, and King IV™'s emphasis on ethical leadership, the establishment of an ethical culture and being a responsible corporate citizen also makes it quite clear that mechanisms must be in place to prevent corruption and a board is ultimately responsible for good corporate governance. Whistle-blowers are an integral part of compliance-focused corporate governance business models as they assist executives in identifying problems.

As a result of the above, AEEI formally adopted a governance of ethics framework:

## GOVERNANCE OF ETHICS FRAMEWORK



# SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE REPORT - continued

Our actions affect not only ourselves, but also those around us. Ethical behaviour is equally important in the workplace as it is in our personal lives. A successful business depends on the trust of various parties – employees, managers, executives, customers, suppliers and competitors.

The following six ethical terms form the foundation of trust upon which our business is built:

- Ethics
- Values
- Morals
- Integrity
- Character
- Law

During the year under review, the committee undertook the following:

- Adopted a social, ethics and transformation committee "Monitoring Indicators and Workplan" for roll-out at the start of the 2019 financial year
- Governed the ethics of the Group in a way that supports the establishment of an ethical culture and monitored the Group's activities, having regard to all relevant legislation, legal requirements, codes of best practice through ongoing employee awareness around the following policies:
  - The Way We Work Policy
  - Anti-corruption and bribery
  - Code of Conduct
  - Code of Ethics
- Adopted the following compliance framework:

### TRACKING PERFORMANCE

- Use topics in the Companies Act to track performance and SEC Charter
- Develop and implement methodology for acquiring quantitative and qualitative data
- Review data and include in SEC reporting
- Report at the AGM

### BUSINESS CASE

- Understand what SEC is
- Understand how it relates to business
- Identify the risks, responsibilities and opportunities
- Build the business case for SEC
- Obtain executive commitment
- Engage colleagues

### STRATEGY

- Find out what other committees are doing that may overlap with SEC
- Identify potential risks and opportunities
- Revise strategy in light of SEC considerations

## FRAMEWORK FOR COMPLIANCE REGULATION 43 OF 2011

### CAPACITY AND CAPABILITY

- Understand how SEC can be embedded in the business culture
- Build relationships with other committees
- Review different types of training, select training programmes and target groups
- Integrate SEC considerations into these groups

### PROCESSES AND PROCEDURES

- Form a SEC base limit for the company
- Undertake SEC risk assessment
- Integrate SEC into ongoing management of a project or act on findings as appropriate

### POLICIES

- Identify what SEC considerations are already included in policies
- Develop a policy statement regarding SEC considerations and Board Charter
- Define management responsibilities
- Ensure policy implementation and results are reviewed systematically

# SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE REPORT - continued

- Ensured that employees and stakeholders familiarised themselves with the Group's ethical standards
- Exercised ongoing oversight of the management of ethics which resulted in the application of the Group's ethical standards to the processes for the recruitment and evaluation of employees, as well as the sourcing of suppliers
- Monitored, reviewed and made recommendations to the Board to amend policies and procedures regarding the Group's:
  - personnel manuals and ensured that all policies are in line with the amended Basic Conditions of Employment Act, 1997 (No. 75 of 1997) (Basic Conditions of Employment Act), the Employment Equity Act, 1998 (No. 55 of 1998) (Employment Equity Act) as well as skills development;
  - compliance against the UN Global Compact's 10 principles in the areas of human rights, labour, the environment and anti-corruption;
  - ongoing human resources, employment relationships and skills development through the contribution of educational development of employees by conducting a skills audit and training analysis which identified training needs; and
  - the promotion of equality and prevention of unfair discrimination.
- Recommended new policies to the Board for adoption and implementation
- Monitored, reviewed and ensured compliance with the Group's standing in terms of social and economic development and ensured that the business units contribute and give back to the communities in which they operate and made recommendations
- Monitored, reviewed and ensured that the businesses in the Group recognise that they have a responsibility to apply good environmental practices and to improve on their environmental performance as part of the Group's strategy and commitment to sustainability; to meet and where possible exceed environmental legislative and regulatory requirements; and to promote sustainability by monitoring their environmental impact in terms of health and public safety, including the impact of their activities and/or products or services
- Monitored and ensured that the Group is seen to be and is a responsible corporate citizen through societal and environmental initiatives and the Group's contribution to the development of communities in which the Group's activities are conducted, including sponsorship, donations and charitable giving
- Monitored the Group's consumer relationships, including advertising, public relations and compliance with consumer protection laws
- Monitored the anonymous tip-off line and dedicated email address and confirmed that no corruption or fraud was reported
- Rolled out the three-year Transformation Plan from 2018 onwards and made recommendations on the subsidiaries' transformation plans
- Reviewed the B-BBEE status of the Group's subsidiaries
- Implemented and tracked the long-term goals in terms of the Group's Vision 2020 Vision
- Reviewed and made recommendations to the skills development plans and the placement of interns in the Group
- Reviewed and made recommendations to employing more people with disabilities
- Reviewed and made recommendations on the learnership programme
- Reviewed the equity ownership of the Group
- Reviewed and made recommendations on the employment equity plans
- Contributed to our corporate social investment programmes
- Contributed to our social economic, enterprise development and supplier development initiatives
- Reviewed the human resources' roles
- Continued to build on our solid empowerment credentials – empowerment partner of choice
- Ensured that all regulatory obligations were met, including the submission of employment equity plans to the Department of Labour

*(King IV™ – Principles 2, 13 and 16)*

# SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE REPORT - continued

## PLANNED AREAS OF FUTURE FOCUS

- Roll-out of the Social, Ethics and Transformation Monitoring Indicators and Workplan
- Continue to govern ethics in the Group in a way that continues to support the establishment of an ethical culture as detailed below:

| DIMENSION NAME | DIMENSION DESCRIPTION |
|---|---|
| CLARITY | The degree to which the rules and procedures are accurate, concrete and complete, so that employees understand what is expected with regard to ethical conduct within the Group |
| POSITIVE ROLE MODELLING | The degree to which management sets a good example for the Group and its employees |
| FEASIBILITY | The degree to which the Group's targets correspond to predetermined values and norms |
| SUPPORT/COMMITMENT | The degree to which employees endorse the proper use of corporate assets and the active realisation of the interests of the Group and its stakeholders |
| TRANSPARENCY | The degree to which employee conduct and the effects thereof are manifested across the Group |
| DISCUSSABILITY | The degree to which employees can discuss ethical dilemmas within the Group |
| APPROACHABILITY | The degree to which employees are called to account about unethical behaviour within the Group |
| ENFORCEMENT | The degree to which employees are punished for irresponsible conduct or rewarded for responsible behaviour |

- Monitor labour, employment relationships, training and skills development, employment equity, promotion of equality and the prevention of unfair discrimination
- Exercise oversight of the management of ethics and, in particular, oversee that it results in the following:
  - Application of the Group's ethical standards to the processes for the recruitment, evaluation of employees, as well as the sourcing of suppliers
  - Having sanctions and remedies in place for when the Group's ethical standards are breached
  - Monitor the use of protected disclosure and whistle-blowing mechanisms to detect breaches of ethical standards and deal with such disclosures appropriately
  - Monitor adherence to the Group's ethical standards by employees and other stakeholders through, among others, periodic independent assessments
- Monitor, review and ensure compliance to the Group's standing in terms of social and economic development
- Monitor and review to ensure that the businesses in the Group recognise that they have a responsibility to apply good environmental practices and to improve on their environmental performance
- Ensure compliance and standing in terms of the regulations governing B-BBEE as set out by the Department of Trade and Industry

# SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE REPORT - continued

- Monitor and ensure that the Group is seen to be a responsible corporate citizen through societal and environmental initiatives and the Group's contribution to the development of communities in which the Group's activities are conducted
- Monitor the Group's consumer relationships, including advertising, public relations and compliance with consumer protection law
- Works toward improving our B-BBEE accreditation
- Employer of Choice – continue to create and nurture a working environment and a corporate culture that attract and retain the best talent and skills; to redress residual inequalities with regard to race, gender and disability in accordance with our employment equity plan; and to accelerate the development and retention of a diverse pool of skilled employees in order to achieve equitable representation in all occupational categories and levels of employment
- Gender and race diversity – to continue to value all people who make up the diverse population of South Africa and to accelerate and cultivate an environment where diversity is valued and prospers
- Leadership and management – to ensure that employees who manage and lead broadly reflect the diverse profile of the South African and African populations and that they are appropriately empowered and skilled to manage the Company towards its strategic objectives
- Economic sustainability – to create long-term economic value
- Environmental sustainability – brands and practices – to further improve brand value for the Company
- Environmental sustainability – resource stewardship – to drive resource management throughout our supply chain
- Social sustainability – stakeholders – to contribute to a society through our own practices and relationships with communities
- Internal communication – to continue to overcome barriers to communication related to race, gender, culture and status and to encourage open, honest and effective communication between all people, both individually and within the appropriate communication forums
- Transformation image and profile – continue to ensure that the Group's image and profile are aligned with its transformation strategy and the changing South African and African environments

Management is responsible for the preparation, presentation and integrity of information and all matters about which the committee should be informed.

*(King IV™ – Principles 2, 3, 4, 13 and 16)*

For the year under review, the committee is satisfied that is has fulfilled all its statutory duties assigned by the Board. The chairman of the social, ethics and transformation committee reports to the Board on the activities of the committee at Board meetings.

# INVESTMENT COMMITTEE REPORT

"Successful investing takes time, discipline and patience. Even with great talent and effort, some things just take time."

Unknown

## ROLE OF THE INVESTMENT COMMITTEE

The committee has an independent role, operating as an overseer and makes recommendations to the Board for its consideration and final approval. The committee does not assume the functions of management, which remain the responsibility of the executive directors, officers and other members of senior management.

The role of the committee is to assist the Board:

- in considering and recommending investment opportunities in respect of acquisitions of listed and unlisted securities and other corporate actions in terms of the Group's risk appetite in a transparent manner and ensure that sufficient evaluation has been afforded to such opportunities; and
- to approve acquisitions and disposals in line with the limits of authority delegated to it and in line with the strategy determined by the Board.

The committee must perform all the functions as is necessary to fulfil its role as stated above including the following:

- Review the investment strategy of the Group
- Set criteria and targets for investment in terms of the Group's risk appetite
- Approve proposals for acquisitions and sale of companies
- Periodically review due diligence processes for acquisitions
- Approve equity and other strategic investments
- Regularly review the performance of the Group's investment portfolio
- Report regularly and make recommendations to the Board for approval
- Monitor and evaluate investment service providers
- Perform other responsibilities regarding the Group's investment activities as the Board may from time to time assign to it

## REPORT OF THE INVESTMENT COMMITTEE

AEEI's investment approach resulted in it acquiring majority ownership of its operational investments in fishing and brands, technology, events and tourism, health and beauty, and biotherapeutics. It also holds a significant minority stake in its associates and minority equity in strategic investments.

AEEI's investment decisions across its entire portfolio are driven by the overall objective of creating and growing stakeholder value in a sustainable manner. This is achieved by ensuring that all investments, acquisitions, organic growth projects or investment funding are subjected to review by the investment committee. The committee is well balanced and has legal, financial and strategic expertise.

Investments are adjudicated to ensure that they have both a strategic fit with synergistic benefits to the current portfolio and that the investments provide an acceptable level of return with a reasonable payback period (based on the specific industry). Strategic road maps per sector invested have been developed within the five-year plan (Vision 2020 Vision) and each investment is adjudicated in line with its contribution to the growth plan mandated by the Board. We have a long-term approach in our decision-making and investment approach.

### For the year under review, the committee concluded the following investments:

- On 21 December 2017, the Group successfully listed its technology division on the JSE – now trading as AYO Technology Solutions Ltd. Subsequent to the listing, AYO became an associate on 28 February 2018 as AEEI now owns 49.36% of AYO, without Board control.
- AEEI through its investment in AEEI Events and Tourism acquired an additional 24.5% shares in espAfrika (Pty) Ltd from an existing shareholder by exercising its pre-emptive rights, whereafter the previous shareholder's shareholding ceases to exist.

# CORPORATE GOVERNANCE - continued

- The Group, through its subsidiary Premier Fishing SA (Pty) Ltd, acquired a 50.31% stake in Talhado Fishing Enterprises (Pty) Ltd (Talhado). All conditions precedent were met during the period under review. Talhado is the largest squid player in the South African market and this strategic acquisition is in line with the Group's strategy to diversify by expanding organically and through acquisitions.
- AEEI acquired additional shares in Magic 828 (Pty) Ltd.

*(King IV™ – Principles 4, 11, 12 and 16)*

## ASSOCIATE INVESTMENTS

During the year under review, the Group's subsidiary, AYO Technology Solutions Limited (AYO) was successfully listed on the main board of the JSE on 21 December 2017. The Group relinquished control of AYO resulting in the division becoming an associate in August 2018. The Group now holds a 49.36% equity in comparison to 80.03% prior to AYO being listed. This investment has been accounted for as an associate as at the period 24 August 2018.

AYO listed on the JSE as a leading B-BBEE ICT company with strong management expertise and a sound track record. The current improving market conditions and regulation pertaining to B-BBEE have set the Company in good stead to capture the growing ICT spend across the South African market. The ICT associate is currently servicing customers in Southern and Northern Africa, Europe and Mauritius. Its strategic alliance with BT Communication Services South Africa (Pty) Ltd (BT) provides it with access to global technology trends as well as access to the global market.

Within the first few months of this associate being listed, AYO concluded a significant contract with energy giant Sasol.

The Group also holds a 30% equity interest in BT. This investment is accounted for as an associate.

## STRATEGIC INVESTMENTS

AEEI has become the partner of choice for multinationals seeking a B-BBEE partner that brings value through active participation in its businesses. Through AEEI's non-controlling strategic investments, it has been able to add value and influence the business process to create wealth and achieve transformation.

AEEI invests in companies with the following characteristics:

- Strong investment partners that are aligned with our strategic objectives
- Leading brands
- Defined growth strategy
- Successful track record
- Management expertise
- High-growth sector

Through its investment portfolio AEEI continues to:

- hold a portfolio of investments in businesses that are diversified;
- acquire control of the majority of its operational investments;
- acquire and maintain non-controlling equity in strategic investments;
- acquire and maintain non-controlling equity in its associates;
- add value, influence business processes, and provide management expertise and synergies with existing investments;
- provide capital investment to grow the business;
- ensure above-market shareholder returns;
- provide and maintain high-quality infrastructures and assets;
- create sustainable wealth for all its stakeholders;
- maintain sound corporate governance, business and ethical practices;
- stimulate economic growth by assisting and adding value to SMMEs;
- promote an entrepreneurial culture; and
- be open and transparent in its reporting.

# CORPORATE GOVERNANCE - continued

## THE FOLLOWING POST-BALANCE SHEET INVESTMENTS WERE CONCLUDED:

- The Group, through its associate, AYO Technology Solutions Ltd:
  - Acquired a 55% stake in Sizwe Africa Group Limited (Sizwe). Sizwe is one of South Africa's leading integrated ICT solution providers. Its services include a focused spectrum on infrastructure, metro and long-distance optic fibre storage server processing and data centres. Its clients include, among others, various government departments and blue chip companies such as Vodacom, Neotel, Cell C, Exxaro and Barloworld. The transaction is subject to various conditions being met that would include the conclusion of definite agreements and regulatory approvals.
  - Acquired a significant minority stake in Vunani Group Ltd to support a fintech-focused joint venture to expand the fintech platform and financial services activities of Vunani. Vunani is a diversified financial services group that has four operating businesses, namely fund management, fund administration, investment banking (including securities trading and corporate advisory) and private equity.
  - Disposed of its stake in World Wide Creative (Pty) Ltd, a full-service digital innovation agency and technology product innovation consulting company.

The committee is currently in negotiations around new opportunities due to a significant increase in deal flow. The opportunities still have to be adjudicated and concluded if the investment criteria is satisfied. Prior to the conclusion of any new opportunities the investment committee ensures that:

- negotiations are transparent;
- indicative proposals are in line with the Group's policy;
- risks and risk appetite are evaluated;
- a formal due diligence is conducted in terms of legal, technical and financial aspects;
- agreements are reviewed by the legal team; and
- the Board is appraised of any significant developments prior to conclusion.

For the year under review, the committee is satisfied that is has fulfilled all its statutory duties assigned by the Board. The chairman of the investment committee reports to the Board on the activities of the committee at Board meetings.