



April 2018

## AECI King IV analysis

PRINCIPLE			CURRENT STATE	ACTION AND TIMELINE TO CLOSE GAPS
Principle 01: Leadership, Ethics and Corporate Citizenship	The governing body (GB) should lead ethically and effectively.	This means the members of the GB should individually and collectively cultivate the following characteristics: Integrity, Competence, Responsibility, Accountability, Fairness and Transparency.	AECI's Board Charter as well as the Code of Ethics and Business Conduct (Code) articulates these characteristics and invariable the overall performance of the Group attests to the existence of these principles.	No material improvement required, the new chairman of the Board and new CEO need to sign the Code as indication of full commitment to the principles.
Principle 02: Organizational Ethics	The GB should govern the ethics of the organization in a way that supports the establishment of an ethical culture.	The GB should perform some of the following practices: <ul style="list-style-type: none"> <li>• Set the direction for ethics in the organization</li> <li>• Approve code of conduct and ethics policy and this should include all stakeholders</li> <li>• Ensure that the Code of Ethics is made familiar to all stakeholders</li> <li>• Provide ongoing oversight to the implementation of the Code of Ethics policy</li> <li>• Disclose how ethics are managed and outcomes addressed.</li> </ul>	<ul style="list-style-type: none"> <li>• AECI Code applicable to all stakeholders.</li> <li>• Code in place and minor aspects to be reviewed in Q4/2017</li> <li>• Extensive training undertaken including in induction sessions</li> <li>• Continual progress reports submitted on related principles from the Code e.g. declaration of interests</li> <li>• Aspect reported in AR.</li> </ul>	No material improvement required except the following: <ul style="list-style-type: none"> <li>• Ensure ongoing awareness of Code by external stakeholders</li> <li>• Better disclosure in the AR on how ethics and related outcomes are addressed.</li> </ul>

Principle 03: Responsible corporate citizenship	The GB should ensure that the organization is and is seen to be a responsible corporate citizen.	<p>The GB should perform some of the following practices:</p> <ul style="list-style-type: none"> <li>• Set the direction of good corporate citizenship including compliance with laws, standards, policies as well as congruence with the organization's strategy, conduct and purpose</li> <li>• Oversee and monitor the organization's status as a good corporate citizen in areas of workplace, economic behaviors, societal and environmental impacts</li> <li>• Disclose how corporate citizenship is managed, current and future focus areas etc.</li> </ul>	<ul style="list-style-type: none"> <li>• A Group Compliance Framework in place but under revisions to align with Group changes.</li> <li>• Africa compliance project supports Group strategy in Africa</li> <li>• Room for improvement in management of environmental compliance</li> <li>• Room for improvement in articulation what it means to be a good corporate citizen.</li> </ul>	<ul style="list-style-type: none"> <li>• Proactive and ongoing engagement with environmental authorities to deal with related matters</li> <li>• Proactive approach using various programs e.g. project Clean cupboards, audits by experts, self-assessment etc</li> <li>• Need to redefine the concept of "being a good corporate citizen" as part of the values exercise.</li> </ul>
Principle 04: Strategy and performance	The GB should appreciate that the organization's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all <u>inseparable elements of the value creation process.</u>	<p>The GB should perform some of the following practices:</p> <ul style="list-style-type: none"> <li>• Steer and set the direction, strategy and purpose of the organization</li> <li>• Delegate to management the formulation of the strategy and approve same with reference to timeline, resources, relationships, legitimate expectation of stakeholders etc</li> <li>• Approve management policies and plans, including key KPIs</li> <li>• Delegate and oversee the implementation of the strategy to management</li> <li>• Be alert to the organizations' viability, reliance and effect on capital, solvency and liquidity and its going concern status.</li> </ul>	<ul style="list-style-type: none"> <li>• The Group's strategic direction is clear, process of setting it entrenched and led by Board with management charged with implementation with periodic reviews.</li> <li>• Executive KPIs approved by Remco and these aligned to Group's strategic objectives.</li> <li>• Group's viability, solvency and liquidity periodically assessed at Audit Committees throughout the financial year e.g. declaration of dividend, major acquisitions etc.</li> </ul>	No material improvement required
Principle 05: Reporting	The GB should ensure that reports issued by the	The GB should perform some of the following practices:	<ul style="list-style-type: none"> <li>• Board approves reporting framework inclusive of content, with</li> </ul>	

	organization enable stakeholders to make informed assessment of the organization's performance and its long-medium and short terms prospects.	<ul style="list-style-type: none"> <li>• Approve organization's reporting framework</li> <li>• Oversee that all reports are compliant with legal reporting requirements</li> <li>• Ensure that material and reasonable stakeholder expectation are met</li> <li>• Ensure issuing of Integrated Report and approve basis of determining materiality</li> <li>• Ensure integrity of external reports</li> </ul>	<p>specific focus to compliance with regulations as well as alignment with best practices.</p> <ul style="list-style-type: none"> <li>• Continuous engagement with key shareholders on material issues and concerns through roadshows with market and key shareholders and this fed back to Board for consideration.</li> <li>• Annual development of IR and Board reports on the basis of materiality.</li> <li>• Assurance information subject to external assurance and oversight provided by Audit Committee e.g. environmental information.</li> </ul>	No material improvement required
Principle 06: Primary roles and responsibilities of the GB	The GB should serve as a focal point and custodian of the corporate governance in the organization	<p>The GB should perform some of the following practices:</p> <ul style="list-style-type: none"> <li>• Exercise its leadership role by having a charter, set up committees, agree protocols that approve that non-executive board members receive documentation and have access to management</li> <li>• Disclose the number of its meetings and attendance and express an opinion whether it is satisfied in this regard.</li> </ul>	<ul style="list-style-type: none"> <li>• Board Charter in place, Committees reflecting Group need in place with TORs. Board Charter and TORs ensure access to information as well as access to management.</li> <li>• Meetings are pre-scheduled and in IR report tabled on attendance, number of meetings etc.</li> </ul>	No material improvement required except to articulate in the IR that GB is satisfied with the number of meetings scheduled over the reporting period.
Principle 07: Composition of the GB	The GB should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.	<p>The GB should perform some of the following practices:</p> <ul style="list-style-type: none"> <li>• Discuss the composition of the GB</li> <li>• Discuss nominations, election, rotation of the members of the GB</li> <li>• Discuss independence and manage conflicts of interests of its members</li> <li>• Discuss the chairing role and succession of the GB.</li> </ul>	<ul style="list-style-type: none"> <li>• Nomco continually assessment skills adequacy of the GB</li> <li>• Need to focus on gender diversity – GB has recently made a commitment on the basis of JSE requirement.</li> <li>• Independence survey conducted on long serving members</li> <li>• Chairman's succession a robust process.</li> </ul>	<p>To ensure that independence assessment of long serving non-executives is conducted annually becomes practice.</p> <p>To continue to monitor progress on achieving gender balance in the GB.</p>

Principle 08: Composition of the GB	The GB should ensure that its arrangements for delegation within its own structures promote independent judgment, and assist with the balance of power and effective discharge of its duties	The GB should perform some of the following practices: <ul style="list-style-type: none"> <li>• Set up adequate committees to reflect the organizational model and need, capacitate these and nominate relevant members with skills and give them TORs</li> <li>• Audit and Social &amp; Ethics Committees are legislated committees</li> <li>• Set up Nomco, Remco, Risk Committees with related objectives and TORs.</li> </ul>	<ul style="list-style-type: none"> <li>• GB has set up adequate committees to support its work and have capable skills chairing these. Where required, GB sets ad-hoc committees to deal with specific issues e.g. conversion of pension funds, material acquisitions.</li> <li>• The Audit and Social and Ethics Committees are fully functional structures that report to stakeholders annually.</li> <li>• The rest of structures like Nomco, Remco, Risk have clear objectives and report to the GB.</li> </ul>	No improvement required.
Principle 09: Evaluation of the performance of the GB	The GB should ensure that the evaluation of its own performance and that of its committees and individual members support continued improvement in its performance and effectiveness.	The GB should perform some of the following practices: <ul style="list-style-type: none"> <li>• Assume responsibility of the assessment process</li> <li>• Appoint director to lead this process</li> <li>• Ensure that every 2years the assessment process is externally facilitated</li> <li>• Disclose the results of the assessment as well as remedial actions</li> </ul>	<ul style="list-style-type: none"> <li>• The chairman lead the process of the GB's evaluation supported by the Group Company Secretary</li> <li>• Every 3<sup>rd</sup> year, the exercise is facilitated externally</li> <li>• Results and focus areas disclosed in the IR annually</li> </ul>	Need to ensure that improvement areas identified are continually and visibly managed by the GB with agreed interventions by the whole GB.
Principle 10: Appointment and delegation to management	The GB should ensure that the appointment of and delegation to management contribute to role clarity and effective exercise of authority and responsibilities	The GB should perform some of the following practices: <ul style="list-style-type: none"> <li>• CEO appointment and role</li> <li>• Delegation of authority</li> <li>• Access to professional corporate governance advisory</li> <li>• Appoint, remove, evaluate company secretary</li> </ul>	<ul style="list-style-type: none"> <li>• The GB, is accountable for appointing the CEO, and the process is led by Nomco. The CE engages with the Chairman in the appointment of all key management.</li> <li>• The Group has a delegation of authority framework that gets approved by the GB, with certain decisions reserved for the GB.</li> <li>• The Group Company Secretary is charged with supporting the GB on governance issues...through articles, commentary etc.</li> <li>• The GB through the chairman and the CFO appoint the Group</li> </ul>	No improvement required.

			Company Secretary. Nomco evaluates her performance.	
Principle 11: Risk Governance	The GB should govern risk in a way that supports the organization in setting and achieving its strategic objectives.	The GB should perform some of the following practices: <ul style="list-style-type: none"> <li>• Set the approach for the governance of risk with focus on upside and downside of risk</li> <li>• Treat risk as integral to decision-making process</li> <li>• Oversee risk management (including BCM and culture)</li> <li>• Consider receiving independent assurance on the effectiveness of risk management</li> </ul>	<ul style="list-style-type: none"> <li>• The Group, through Risk Committee has approved a risk management framework that sets out process of managing risks</li> <li>• Group assesses downside of risk.</li> <li>• There is a need to commence process of assessing upside of risk</li> <li>• Group has embarked on setting up BCM and Operational Resiliency program</li> <li>• Embarked on self- evaluation of risk management function by Board and IA.</li> </ul>	<ul style="list-style-type: none"> <li>• The Risk Management Framework is to be reviewed to agree process of evaluating the upside of risk.</li> <li>• Finalizing the process of self-evaluation by GB of the effectiveness of risk management in the Group.</li> </ul>
Principle 12: Technology and Information Governance	The GB should govern technology and information in a way that supports the organization setting and achieving its strategic objectives	The GB should perform some of the following practices: <ul style="list-style-type: none"> <li>• Set approach and approve policy for IT governance</li> <li>• Delegate management of IT to management and oversee results of implementation</li> <li>• Oversee management of information e.g. information architecture, protection of privacy and security</li> <li>• Oversee management of technology</li> <li>• Consider receiving independent assurance on the effectiveness of IT management</li> </ul>	<ul style="list-style-type: none"> <li>• The AECI board has given the Chief Financial Officer overall responsibility for managing the IT governance structures and processes. IT operations are managed by the Chief Information Officer, who reports to the Chief Financial Officer. An IT steering committee is chaired by the Chief Financial Officer and its membership comprises the Chief Information Officer and the members of the group executive committee. The committee has a well-defined charter and it is responsible for overseeing IT related activities and ensuring compliance with applicable laws, rules and standards.</li> <li>• The IT Steering Committee has approved a Group CIO King III Scorecard against which the 7 King III IT Principles for Technology are to be measured.</li> </ul>	<ul style="list-style-type: none"> <li>• Oversee management of information e.g. information architecture, protection of privacy and security</li> <li>• Oversee management of technology</li> <li>• Consider receiving independent assurance on the effectiveness of IT management</li> </ul>

Principle 13: Compliance Governance	The GB should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that it supports the organization ethical and a good corporate citizen	The GB should perform some of the following practices: <ul style="list-style-type: none"> <li>• Approve policy that directs the process of compliance management</li> <li>• Delegate but oversee the process of compliance management</li> <li>• Ensure that compliance is understood and is responsive to change</li> <li>• Disclose an overview of compliance management (<i>finances, penalties, interaction with regulators etc</i>).</li> </ul>	<ul style="list-style-type: none"> <li>• Risk Committee approved a Group Compliance framework with annual compliance plans.</li> <li>• Periodic reporting to the Risk Committee on progress in managing compliance risk</li> <li>• Ongoing process of ensuring that there is alignment with regards to compliance management in the Group and continuous training on this.</li> <li>• In IR we do report on outcomes of compliance process.</li> </ul>	Ongoing process of ensuring that there is alignment with regards to compliance management in the Group and continuous training on this: <ul style="list-style-type: none"> <li>○ Compliance framework under review</li> <li>○ Periodic training is set on compliance</li> </ul>
Principle 14: Remuneration Governance	The GB should ensure that the organization remunerates fairly, responsibly and transparently so as to promote the achievement of the organization's strategic objectives and positive outcomes in the short, medium and long term.	The GB should perform some of the following practices: <ul style="list-style-type: none"> <li>• Set direction of remuneration in the organization</li> <li>• Design remuneration policy and set out all pertinent elements</li> <li>• Disclose remuneration in the AR</li> </ul>	<ul style="list-style-type: none"> <li>• Within the ambit of responsibility of the Remco is the review of the remuneration philosophy and the GB reviews ongoing income differentials and analysis of remuneration practices.</li> <li>• The current remuneration policy has been reviewed and approved by the Remco and all pertinent elements are disclosed</li> <li>• The annual report includes the remuneration report and executive remuneration is disclosed in both the remuneration report and the AFS</li> </ul>	Remuneration policy, particularly the LTI scheme will be reviewed in 2017, with additional performance measurements to be proposed. A revised LTI scheme will be tabled with Shareholders. Further, detail on pay disparity will be reviewed on a regular basis
Principle 15: Assurance	The GB should ensure that assurance services and functions enable an effective control environment and that these support the integrity of information for internal decision-making and of the organization's external reports	The GB should ensure that there are assurance from the below mentioned assurance providers and that there is sufficient expertise, independence of the assurance providers: <ul style="list-style-type: none"> <li>• Combined Assurance</li> <li>• Assurance of external reports</li> <li>• Internal audit</li> </ul>	<ul style="list-style-type: none"> <li>• No formalized combined assurance in place in the Group</li> <li>• Strong internal audit function with high levels of independence e.g. CAE is not member of Executive Management and has a reporting line to Chairman of the Audit Committee.</li> <li>• Strong external audit partners but with new changes in RBA could be considered less independent by the market.</li> </ul>	To set up a steering committee to manage combined assurance in the Group and ensure interaction by all assurance providers to limit duplications and costs.

Principle 16: Stakeholders	The GB adopts a stakeholder inclusive approach that balances, needs, interests and expectations of material stakeholders in the best interest of the organization over time.	<p>The GB should perform some of the following practices:</p> <ul style="list-style-type: none"> <li>• Stakeholder relationships (<i>have a stakeholder management approach and identify key stakeholders</i>)</li> <li>• Shareholder relationships (<i>proactive engagement, attendance at AGMs, equal treatment of all shareholders</i>)</li> <li>• Relationships within a group of companies (<i>governance framework must be clear and articulate roles and responsibilities, accountability, powers, authority etc</i>)</li> </ul>	<ul style="list-style-type: none"> <li>• Strong interaction with identified key shareholders with periodic discussions without according them preferential treatment</li> <li>• All board members attend the AGM</li> <li>• The relational arrangement in the Group is through an established governance framework. Need to clarify this better for alignment.</li> </ul>	To develop a Group Governance Framework align to the Delegation of Authority framework to align the governance of all the businesses in the Group.
Principle 17: Responsibilities of Institutional Investors	The GB of an institutional investor organization should ensure that responsible investment is practiced by the organization to promote the good governance and the creation of value by the companies in which it invests	N/A	N/A	