

Application of the King IV Report on Corporate Governance for South Africa 2016

- Ethical culture
- Good performance
- Effective control
- Legitimacy

1 November 2017

AYO TECHNOLOGY SOLUTIONS LIMITED (AYO)

AYO Technology Solutions Limited (AYO/ the Company) is a company listed on the Johannesburg Stock Exchange. The Company complies with the principles of King IV and the mandatory corporate governance requirements of the JSE. Paragraph 3.84 of the JSE Listings Requirements stipulates that issuers must comply with certain specific requirements concerning corporate governance. AYO complies with all the requirements of paragraph 3.84. For the period ended 31 August 2017, AYO applied all the principles of King IV as disclosed in the attached table.

Application of the King IV principles

Leadership, ethics and corporate citizenship

Leadership

Principle 1 The Board should lead ethically and effectively

AYO Board of directors (the Board) exercises effective leadership, adhering to the duties of a director. The directors have the necessary competence and act ethically in discharging their responsibility to provide strategic direction and control of the Company as provided for in the Board Charter, Duties of Directors and the MOI of AYO.

AYO's Board Charter and Duties of Directors outlines the policies, procedures and practices of the Board on matters such as directors' dealings in the securities of the Company and declarations of conflicts of interest. The Board of directors of AYO adheres to all the policies, which is based on the Companies Act requirements.

The Board, through the Nominations and Social and Ethics Governance Committee, considers and take note of the declarations of interests tabled and identifies and acts on untenable conflicts. AYO's directors, executives and senior employees are prohibited from dealing in AYO securities during certain prescribed periods. The Company Secretary disseminates information and regularly informs directors, executives and senior employees of the insider trading legislation and advises them of closed periods.

The Board is committed to driving the strategy and vision of the Company and AYO's operations are based on an ethical foundation, to support a sustainable business, acting in the best interest of the Company, taking into account AYO's short, medium and long-term impact on the economy, society, environment and its stakeholders as well as considering risks and oversees and monitors the implementation and execution by management, ensuring accountability for the Company's performance.

The Board recognises that it is the custodian of corporate governance for the Company and ensured that directors lead ethically and effectively, supports an ethical culture, set the strategic direction for the Group for the year ahead, approved policies and planning, administered and monitored the Group's risks and opportunities, strategy, business model, performance and sustainable development

The Board exercises control through the governance framework which includes detailed reporting to the Board and its committees, Board reserved decision-making authority and a system of assurances on internal controls.

Organisational ethics

Principle 2 The Board should govern the ethics of the company in a way that supports the establishment of an ethical culture

The Board ensures that 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 its commitment to high moral, ethical practices, moral conduct and legal standards.

Application of the King IV principles

The Board provides effective leadership based on a principled foundation and the Group subscribes to high ethical standards and conduct. AYO's leadership is characterised by the values of responsibility, accountability, fairness and transparency. One of AYO'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 on the economy, society and the environment.

The Board has delegated the responsibility to management for the implementation and execution of the Code of Ethics ("the Code") and the Code of Conduct and the Board, with the assistance of the Social and Ethics Committee, exercises ongoing oversight of the management of ethics, monitoring AYO's activities with regard to ethics and ensuring it is integrated in the operations of the Company.

In executing its responsibilities, the Social and Ethics 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 United Nations Global Compact and labour and employment activities

The Code has clear guidelines with regard to interaction with all stakeholders of the Group, including employees and addresses the key ethical risks of the Company. The whistle-blowing mechanisms and management of the independent ethics reporting line to detect breaches of ethical standards, as well as the dedicated effort to create awareness, detect and resolve any ethical violations as well as providing training on anti-corruption and anti-competitive behaviour, all contribute to a strong ethical foundation.

The Code is published on AYO's website and is incorporated as part of the induction programme to all new employees and in employee contracts as well as suppliers.

Responsible corporate citizenship

Principle 3 The Board should ensure that the company is and is seen to be a responsible corporate citizen

In accordance with its role of overseeing the Company's conduct as a good corporate citizen, the Board approves the strategy and priorities of the company, including material matters and, more specifically, those related to sustainability. Through stakeholder engagement and collaboration, AYO has committed to understanding and being responsive to the interests and expectations of stakeholders and to partnering with them in finding lasting solutions to sustainability challenges.

It is an AYO Group imperative to be a values-driven organisation, to deliver on the South African transformation agenda and to fulfil its legal and moral obligations as a good corporate citizen.

The Board, with the support of the Social and Ethics Committee and the Executive Committee, oversees and monitors how the operations and activities of the Company affect its status as a responsible corporate citizen. AYO's commitment to sustainable development involves ensuring that the Group conducts operations in a manner that meets existing needs without compromising the ability of future generations to meet their needs.

AYO's Integrated Report, supplemented by web-based sustainability reporting, details the Group's progress against its priorities and sustainability framework, within the context of material sustainability challenges, governance, ethics and human rights, safety, developing and retaining a skilled and diverse workforce, responding to the changing regulatory context, addressing climate change and promoting water stewardship, highlighting planned future focus.

Application of the King IV principles

Strategy, performance and reporting

Strategy and performance

Principle 4 **The Board should appreciate that the company's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process**

The Board informs and approved AYO's strategy to 2020 which is aligned with the purpose of the Company, the value drivers of its underlying businesses and the legitimate expectations of its stakeholders and is aimed at ensuring sustainability which takes into account the top risks facing the Group.

With the support of its Committees, the Board oversees and monitors the implementation and execution by management of the policies and priorities and ensures that the Company accounts for its performance by, amongst others, reporting balanced, accurate and accessible assessment of our strategy, performance and opportunities in relation to material financial, economic, social, and environmental and governance issues and disclosures. Further details regarding the Company's performance against its strategic objectives are reported in the Integrated Report.

Reporting

Principle 5 **The Board should ensure that reports issued by the company enable stakeholders to make informed assessments of the company's performance, and its short, medium and long-term prospects**

The Board with the support of the Audit and Risk Committee is ultimately responsible for the system of internal control which is designed to identify, evaluate, manage and provide reasonable assurance against material matters. The Board, through the Audit and Risk Committee, ensures that the necessary controls are in place to verify and safeguard the integrity of the integrated reports and any other disclosures. The Company complies with all required disclosures. Reporting frameworks and materiality are approved by the Audit and Risk Committee to ensure compliance with legal requirements and relevance to stakeholders.

The Audit and Risk Committee applies a combined assurance model to seek and optimise the assurance provided by management, the Group internal auditor and external assurance providers to ensure a strong ethical climate and to ensure compliance.

The Audit Committee oversees the integrated reporting process and reviews the audited financial statements.

AYO will ensure that the Integrated Reports, including the Annual Financial Statements (AFS), the sustainability reports and any other relevant information to stakeholders are published on the Company's website.

Primary role and responsibilities of the Board

Principle 6 The Board should serve as the focal point and custodian of corporate governance in the company

The Board has an approved charter which it reviews annually. The charter sets out the Board's governance responsibilities, including the role, responsibilities, membership requirements and procedural conduct. It serves as the focal point and custodian of corporate governance for the Group. Through the Nominations and Social and Ethics Committees, the Board implements and monitors the governance practices within the Group.

The Board as well as any director or Committee may obtain independent, external professional advice at AYO's expense concerning matters within the scope of their duties and the directors may request documentation from and set up meetings with management as and when required.

An appropriate governance framework and the necessary policies and processes are in place to ensure all subsidiaries in the AYO Group adhere to essential Group requirements and minimum governance standards. As a direct or indirect shareholder, the Company exercises its rights and is involved in the decision-making of its subsidiaries on material matters. Subsidiaries have adopted the governance framework as appropriate and have aligned it to their MOIs and shareholders agreements' as may be required.

AYO's governance framework and corporate governance practices are disclosed in the Integrated Report.

Composition of the Board

The Board should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively

**Principle
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Also applicable: *JSE3.84(e): Categorisation of directors. JSE3.84(a): Balance of power and authority on the Board. JSE3.84(b): Appointment of CEO and Chairman. JSE3.84(i) and (j): Policy on the promotion of gender and race diversity on the Board. JSE3.84 (d): CV of each director standing for election or re-election.*

As defined in the JSE Listings Requirements, the capacity of each director is categorised while also taking into consideration the Board Charter and King IV. The Board comprises a majority of independent non-executive directors. A rigorous review of the independence and performance of independent non-executive directors serving more than 9 years, is undertaken by the Board with the support of the Nominations Committee.

In terms of the Company's MOI, all of the directors for the time being, shall retire from office, provided that if a Director is appointed as an executive director or as an employee of the Company in any other capacity, he or she shall not, while he or she continues to hold that position or office, be subject to retirement by

Application of the King IV principles

rotation and he or she shall not, in such case, be taken into account in determining the rotation or retirement of directors. When considering appointment or re-election of directors, the Board, with the support of the Nominations Committee, gives consideration to the knowledge, skills and resources required for conducting the business as well as considering its size, diversity and demographics to ensure its effectiveness.

The roles of the Chairman and CEO are clearly defined and these positions are occupied by separate individuals. All non-executive directors have been determined by the Board to be independent directors. In accordance with King IV, a lead independent director has been appointed to deal with any perceived issues flowing from the limited area of potential non-independence or conflict of interests.

The Board adopted a policy on the promotion of gender diversity at board level and reports in the Integrated Report on how it has considered and applied the policy. The Board is satisfied with the current composition in terms of race and diversity. The process for appointment and election of directors is set out in the Company's MOI. The Nominations Committee assists with the process of identifying suitable candidates to be proposed for appointment to the Board and election by the shareholders, taking into consideration the annual review of the Board's effectiveness, which includes, amongst others, its composition. All facets of diversity, having regard to the Board's gender diversity policy, are considered in determining the optimal composition of the Board, which should be balanced appropriately and enable the Board to discharge its duties and responsibilities effectively.

A brief CV for each director standing for election or re-election at the AGM accompanies the notice of the AGM.

Directors and newly appointed directors are inducted in AYO's business, board matters, their duties and governance responsibilities as directors, in accordance with each director's specific needs. Directors are provided with an opportunity to visit the Group's operations and receive regular briefings on new legal developments and changes in the risk and general business environment on an on-going basis.

The succession plan of directors is reviewed annually by the Nominations Committee and includes the identification, mentorship and development of current and future candidates.

Committees of the Board

The Board should ensure that its arrangements for delegation within its own structures promote independent judgment, and assist with balance of power and the effective discharge of its duties

Principle 8

Also applicable: JSE3.84(c): Audit Committee, Remuneration Committee and Social and Ethics Committee. JSE3.84(g): Expertise and experience of the financial director.

In order for the Board to discharge its responsibilities effectively, they have established a number of Committees. The Committees of the Board comprise the Audit and Risk Committee, the Nominations Committee, the Remuneration Committee, the Social and Ethics Committee, the Transformation Committee and the Investment Committee.

The various Committees are appropriately constituted and members are appointed by the Board, with the exception of the Audit and Risk Committee whose members are nominated by the Board and elected by shareholders. The Nominations Committee reviews the composition of Board committees and makes recommendations to the Board with regard to their composition, including appointment of the chairman of each committee, taking into account factors such as skills, diversity and the need spread of power and authority evenly.

External advisors, executive directors and members of management attend Committee meetings by invitation. The Committees play an important role in enhancing the highest standards of governance and achieving increased effectiveness within the Group. Formal terms of reference are established and approved for each Committee, which are reviewed annually. The terms of reference of the Committees can be viewed on AYO's website.

The Board considers the allocation of roles and associated responsibilities and the composition of membership across all its Committees holistically in order to achieve the following:

- There is a balanced distribution of power in respect of membership across the Committees to ensure that no individual has the ability to dominate decision making, and no undue reliance is placed on any individual.
- Effective collaboration through cross-membership between Committees, where required; with coordinated timing of meetings; and avoidance or duplication or fragmented functioning in so far as possible.
- Where more than one Committee has jurisdiction to deal with a similar matter, the specific role and positioning of each Committee in relation to such matter is defined to ensure complementary rather than competing approaches.

A delegation by the Board of its responsibilities to a Committee will not by or of itself constitute a discharge of the Board's accountability.

The Board applies its collective mind to the information, opinions, recommendations, reports and statements presented by the chairman of a Committee.

Audit Committee

The Board has an Audit and Risk Committee comprising of independent directors only and its independence and effectiveness is reviewed on an annual basis. The Audit and Risk Committee is constituted as a statutory committee of AYO in respect of its statutory duties in terms of section 94(7) of the Companies Act and a committee of the Board in respect of all other duties assigned to it by the Board.

The Committee performs the functions as set out in the Companies Act. Structures and adequate processes have been implemented to assist the Committee in providing oversight and ensuring the integrity of financial reporting, internal control and other governance matters relating to subsidiaries.

The Audit and Risk Committee consists of 3 independent, non-executive directors. The Chairman of the Board is a member of the Committee. Members of the Committee are elected by shareholders. All Committee members are financially literate and have extensive Audit and Risk Committee experience.

The Committee provides independent oversight of, among others, the effectiveness of the Company's assurance services, with particular focus on combined assurance arrangements, including external assurance service providers, internal audit and the finance function and the integrity of the AFS and, to the extent delegated by the Board, other external reports issued by the Company. The Committee also considers annually, and satisfies itself of the appropriateness of the expertise and experience of the CFO and the finance function.

The performance of the Audit and Risk Committee and significant issues dealt with during the year are set described in the Report of the Audit and Risk Committee included in the AFS.

Application of the King IV principles

Committee responsible for nomination of members of the Board

The Board has delegated oversight of, amongst others, the following to the Nominations Committee (i) the process for nominating, electing and appointing members of the Board, (ii) succession planning of directors and (iii) evaluation of the performance of the Board and its Committees.

~~All members of the Nominations Committee are non-executive independent directors and the Chairman of the Board is the Chairman of the Committee.~~

Committee responsible for remuneration

The Remuneration Committee is responsible for overseeing remuneration. All members of the Committee are independent, non-executive directors. The Chairman of the Board is a member of the Committee.

Committee responsible for social and ethics matters

The Social and Ethics Committee is responsible to oversee and report on ethics, responsible corporate citizenship, sustainable development and stakeholder relationships. It is also responsible to execute on the statutory duties set out in the Companies Act.

The Chairman of the Board, Chief Financial Officer as well as the Corporate Affairs and Sustainability Director are members of the Committee.

Evaluations of the performance of the Board governing body

Principle 9

The Board should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness

The Nominations Committee evaluates the effectiveness and performance of the Board, its Committees and individual directors annually. The Chairman of the Board, through the Committee and the Deputy Chairman, leads the evaluation process.

For the financial year 2017, the evaluation was internally facilitated. The evaluation confirmed that reliable and effective reporting remained the greatest enabler to empower the Board to execute its responsibilities and focus on appropriate matters.

It concluded that, overall the Board is working well; the structure, mandate and decision making roles are appropriate for the size and complexity of the Company and the Chairman's performance is satisfactory.

The Board is satisfied that the evaluation process is improving the Board's performance and effectiveness.

The Board, with the support of the Nominations Committee determines the number of external directorships and other positions a director may hold, taking into consideration the relative size and complexity of the organisation. The Nominations Committee considers other commitments of directors and whether the director has sufficient time to fulfil the responsibilities as a director and to ensure that they can still execute their duties effectively and is free from conflicts that cannot be managed satisfactorily. Should the Committee be of the view that a

Application of the King IV principles

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.

The role of the Chairman is formalised and an assessment of the Chairman's ability to add value and his performance against what is expected of his role and function is conducted by the Board. The lead independent director is responsible for ensuring that the performance of the Chairman is evaluated annually. The Board and the Nominations Committee are responsible for succession planning for the position of the Chairman.

The performance of the Board, its Committees and the directors are disclosed in the Integrated Report. The role and responsibilities of the Board, its Committees, the Chairman and the directors are outlined in the Board charter which is available on the Company's website.

Appointment and delegation to management

Principle 10

The Board should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities

Also applicable: JSE-3.84(h): The Company Secretary.

Executive Committee (EC)

The CEO is appointed by the Chairman on the recommendation of the Nominations Committee. The role and function of the CEO is specified in the Board charter and the performance of the CEO is evaluated by the Board against the criteria specified.

The Board appoints members of the EC upon recommendation of the CEO and the Nominations Committee and, with the assistance of the Nominations Committee, is responsible for ensuring that succession plans are in place for the position of CEO and other members of the EC.

The Board approves and regularly reviews the framework and top level delegation of authority in terms of which matters are delegated to the CEO. The CEO has the highest executive decision-making authority of the Group and is delegated with authority and accountable to the Board for the successful implementation of the Group's vision, strategy, business plans and the overall management and performance of the Group, with the primary aim of enhancing long-term shareholder value.

Specific matters have been reserved that require a joint decision by the Board. In terms of the delegation of authority framework, the EC supports the CEO in the implementation of the Group strategy and the overall management and performance of the Group. The CEO may sub-delegate all matters not specifically reserved for decision-making by the Board or shareholders.

The CEO is not a member of the Remuneration, Audit and Risk and Nominations Committees, but may attend any meeting, or part thereof, by invitation if needed to contribute pertinent insights and information.

The CEO and the Board will agree on whether the CEO may take up additional professional positions, including membership on other governing bodies outside AYO. Time constraints and potential conflicts of interests will be considered and balanced against the opportunity for professional development.

The Board evaluates the performance of the CEO annually against agreed performance measures and targets.

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The Company Secretary

Miss N Mbaliseli is the Company Secretary, duly appointed by the Board in accordance with the Companies Act. Miss Mbaliseli is not a director of the Company. The Board considers the competence, qualifications and experience of the Company Secretary annually and is satisfied that she is competent and has the appropriate qualifications and experience to serve as the Company Secretary.

The Company Secretary has a direct channel of communication to the Chairman, while maintaining an arm's-length relationship with the Board and the directors as far as reasonably possible. The role and responsibilities of the Company Secretary are described in the Board charter.

Governance functional areas

Risk governance

Principle 11 The Board should govern risk in a way that supports the company in setting and achieving its strategic objectives

The Board has direct responsibility for the governance of risk and approves AYO's risk policy that gives effect to its set direction on risk. AYO's risk policy re-affirms that AYO is committed to effective risk management in pursuit of its strategic objectives, with the ultimate aim to grow value sustainably for all stakeholders by embedding risk management into key decision-making processes. The Board also approves AYO's Group top risk profile and financial risk appetite and tolerance levels, ensuring that risks are managed within these levels and considers the risk environment on a quarterly basis and as deemed appropriate and based on materiality and changes in the external and internal environments.

To support the Board in ensuring effective risk management oversight, the Board Committees are responsible for ensuring the effective monitoring of relevant Group top risks, in compliance with AYO's Risk Management framework and risk policy, within the ambit of each Committee's scope. In monitoring and providing oversight on AYO's risk, each Committee will consider potential risks and/or opportunities as appropriate.

The Board is provided with assurance that AYO's approved Risk Management framework, process and methodology remain in accordance with best practice and good governance requirements. AYO's approach to increasing the probability of anticipating unpredictable risks includes regular monitoring of key developments in the external and internal environment, as well as identifying and monitoring developments associated with emerging risks. At a Group level, AYO is implementing actions to strengthen its business continuity capabilities including Group crisis management.

The Group Internal Auditor undertakes the audit of the Risk Management process in the Group.

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AYO's Risk Management framework, process and methodology, entails the determination and development of top risk profiles, has been rolled out into subsidiaries. Risks are considered at a Group level through the management of the Group's top risks and emerging risks that may potentially impact AYO's ability to achieve its strategic objectives. Risks at subsidiary level are considered in achieving AYO's business objectives and that they are aligned to AYO's Group strategy. Risks at the process level also include the management of operational, project, financial and legal compliance risks.

Oversight of risk management level takes place through the accountable executives and executive committees, supported by the Risk Management Forum and the Group Internal Auditor, who has suitable experience and is responsible for ensuring that a Risk Management process is in place.

Technology and information governance

Principle 12 The Board should govern technology and information in a way that supports the company setting and achieving its strategic objectives

The Board is ultimately accountable for the governance of information and technology management and delegated this authority to Audit and Risk Committee and the IT Steering Committee to support it with this role. The Board, through the Audit and Risk Committee, oversaw and monitored the governance of information technology (IT) in the Group with the assistance of the IT Steering Committee.

The Information Management (IM) function is delegated to the IT Steering Committee who is accountable for the operational governance of the technology and information function, which includes IT, in the AYO Group.

Assurance is provided that the IM controls in place are effective, information management risks are addressed and the return on major IT investments is aligned to AYO's strategy, is monitored by the Audit and Risk Committee. External auditors and internal audit perform assessments as part of their audit of IM-related controls. All significant IM-related audit findings are reported to the Audit and Risk Committee and the Board and managed accordingly.

The IM strategy is aligned to AYO business needs and sustainability objectives. An updated IM charter is in the process of being put into place which will include a best practice framework. An Information Technology Infrastructure is in the process of being implemented.

The IM risk management framework is aligned to the Group's risk management framework, including third-party management and disaster recovery measures. All technology solutions impacting financial reporting are part of the internal and external auditing scope.

Measures to ensure compliance to all relevant laws, information security and the protection of personal information are in place.

Compliance governance

Application of the King IV principles

Principle 13 **The Board should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the company being ethical and a good corporate citizen.**

AYO's policy requires all Group companies, their directors and employees to comply with all applicable laws. Legal compliance systems and processes are in place and are continuously improved to mitigate the risk of non-compliance with the laws in the various jurisdictions in which AYO does business and also to ensure appropriate responses to changes and developments in the regulatory environment.

The Nominations and Social and Ethics Committees receive regular reports on compliance matters. To the extent that legal and regulatory matters have an impact on the financial statements, reports are presented to the Audit and Risk Committee. Specific areas of law have been identified as key Group legal compliance risk areas and risk mitigation and control steps have been identified for each of these areas.

Competition law, anti-bribery and anti-corruption laws, sanction laws and safety, health and environmental laws, have been identified as key Group legal compliance risk areas, and enjoys management's focus to ensure compliance.

AYO has a suitably skilled and experienced individual who reports directly to Chairman of the Social and Ethics Committee.

Remuneration governance

Principle 14 **The Board should ensure that the company remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term**

Also applicable: JSE LR 3.84(k): The remuneration policy and the implementation report.

AYO has rewards strategy, philosophy and policy translates into approval and competitive rewards outcomes. AYO's policy and the implementation report are reported on in detail in the remuneration report in the Integrated Report.

AYO's Remuneration Committee is tasked by the Board to independently approve and oversee the implementation of a remuneration policy that will encourage the achievement of AYO's strategy and grow stakeholder value sustainably.

AYO's remuneration policy is aimed at aligning remuneration practices that will enable 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 and ultimately enable the attraction and retention of valuable talent. AYO's approach to remuneration aligns to our ethics, corporate governance philosophy, and shared values and best practices.

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

- Support the attainment of AYO's strategic business objectives and strategies;
- To 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 the key values of AYO;

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- To promote the achievement of the Group's strategic objectives within the organisations risk appetite;
 - To promote positive outcomes; and
 - To promote an ethical culture and responsible corporate citizenship.
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The Remuneration Committee considers shareholders' contributions thoroughly and incorporates them into the policy where these enhancements align with the Group's strategy.

AYO will disclose the remuneration of each director and prescribed officer individually in its Integrated Report and AFS.

In line with the recommended practices in King IV, both the remuneration policy and the implementation report will be tabled for separate non-binding advisory votes by the shareholders for the first time at the AGM in February 2018.

The remuneration policy provides for the measures that AYO commits to take in the event that either the remuneration policy or the implementation report, or both, are voted against by 25% or more of the votes exercised at the AGM.

Principle 15 **The Board 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 company's external reports**

The Audit and Risk Committee is responsible for the quality and integrity of AYO's integrated reporting. The Board, with the support of the Audit and Risk Committee, satisfies itself that the combined assurance model is effective and sufficiently robust for the Board to be able to place reliance on the combined assurance underlying the statements that the Board makes concerning the integrity of the Company's external reports.

Based on the results of the review of AYO's systems of internal control and risk management, including the design, implementation and effectiveness of internal financial controls through a formal documented management self-assessment process during the year ended 31 August 2017, and considering information and explanations provided by management and discussions with the external auditor on the results of the external audit, the Group Internal Auditor concluded that AYO's systems of internal control and risk management are effective.

The Group maintains a system of internal financial control that is designed to provide assurances on the maintenance of proper accounting records and the reliability of financial information used within the business and for publication. The new IT system currently being implemented will be able to identify deficiencies with corrective action.

A combined assurance approach has been implemented that assists in addressing control over the key risks facing the Group. Such risks and their mitigating controls are identified and controlled by management, within a risk management framework determined by the Board, and the process is monitored and evaluated under the direction of Group internal auditor. The traditional three lines of defence have also been expanded as recommended in King IV where appropriate.

The Group Internal Auditor is responsible for amongst others, assisting the Board and management in maintaining an effective internal control environment, ensuring the integration of assurance provided and monitoring the adequacy and effectiveness of combined assurance over AYO's risk management process.

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An internal audit charter is in place and outlines the responsibilities of the internal audit function. The Audit and Risk Committee has been delegated the responsibility for overseeing that assurance services are executed in line with the charter.

The audit plan, approved by the Audit and Risk Committee is updated regularly to ensure it is responsive to change, is based on an assessment of risk areas identified by Group internal audit and management, as well as focus areas highlighted by the Audit and Risk Committee, executives and management. It includes activities that support the achievement of an effective internal control environment, which in turn supports the integrity of information.

A Group internal auditor is appointed, and may be removed, by the Audit and Risk Committee. He reports to the Chairman of the Audit and Risk Committee on the performance of duties and functions that relate to assurance services and the internal audit charter gives him direct access to the CEO, the CFO and the chairmen of the other Board committees.

He functions independently from management and has the necessary authority, which includes unfettered access to meetings, minutes, documentation and risk registers of AYO's businesses and functions. His performance is evaluated annually by the Audit and Risk Committee who confirms that he has the necessary competence and independence. The Committee also assesses quarterly whether the necessary arrangements are in place to ensure that adequate skills and resources are in place and that assurance services is supplemented as required by specialists, and as applicable, external services.

The internal audit function is required to undergo an independent quality review at least every five years and will be subjected to such review in 2019. It was concluded that currently the function conforms to the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors and, using an internationally accepted maturity assessment model, defined Internal Audit as a "Significantly Leading Edge" internal audit function.

Stakeholder relationships

Stakeholders

Principle 16 In the execution of its governance role and responsibilities, the Board should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the company over time

AYO strives to ensure a systematic and integrated approach to stakeholder engagement across the Group, facilitated through engagement programmes aimed at a more systematic and integrated approach to stakeholder engagement across the Group to enable increased assurance to the Board that all stakeholder issues have been identified, prioritised and appropriately addressed.

The Board, through the Social and Ethics Committee considers issues around stakeholder perceptions. The Committee has oversight of stakeholder engagement and management. Through regular reporting by management to the Social and Ethics Committee and the Chairman of that Committee to the Board, the Board is equipped with the necessary information to enable it to take the legitimate interests and expectations of stakeholders into account in its decision-making.

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It is a business imperative that AYO understands and is responsive to the needs and interests of our key stakeholder groups which includes: shareholders, investment community, providers of capital, staff, clients, suppliers, joint venture partners, regulators, business partners and communities. The individual stakeholders within these groups are highly diverse. AYO constantly seeks to improve the way in which it engages with its stakeholders to effectively respond to their needs.

Interaction with stakeholders happens during the normal course of business at multiple levels across the AYO Group and AYO strives to resolve disputes with its stakeholders effectively and expeditiously. The role of the Corporate Affairs Function, the custodian of the stakeholder engagement approach, associated processes and standards, ensures a coordinated and consistent approach across the Group. The function acts as an enabler to the organisation with the aim to systematically embed and continuously improve how stakeholders are managed.

To ensure the company communicates with its smaller shareholders and those stakeholders who lack access to electronic media, the Company publishes and reports on details of its corporate actions and performance (including its interim and final financial results) in the main South African daily newspapers. The Company also publishes its most recent financial and operational performance and provides recent historical information, including its annual reports, on its website. AYO invites all shareholders to attend its AGM and also facilitates participation by way of focused proxy solicitation and electronic means. The CEO, the CFO and Investor Relations function conduct regular presentations on the Group's performance and strategy to analysts, institutional investors and the media in South Africa. AYO's Communications function maintains regular contact with the investment community and analysts.

The Sustainability and Corporate Affairs function, meets on a quarterly basis to provide strategic direction on Group-wide stakeholder relations, to ensure the achievement of balanced and integrated economic, social and environmental performance.