

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.

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.

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, 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.

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.

There were no specific risk incidents which resulted in significant financial loss or which may have negatively impacted our stakeholders during the 2019 financial year.

GOVERNANCE OF RISK MANAGEMENT THE THREE LINES OF DEFENCE

AEEI realises the importance of the three lines of defence in managing risk and has assigned the responsibilities and accountability in line with the three lines of defence.

FIRST LINE OF DEFENCE

Management is responsible for the implementation of the business strategy and the identification of risks and the design of related controls. It is the responsibility of management to monitor the controls implemented to mitigate the risks.

SECOND LINE OF DEFENCE

Risk management is the second line of defence where risks are assessed, evaluated and measured. The residual risk is measured against the risk appetite and tolerance levels set by the Board.

THIRD LINE OF DEFENCE

The internal and external assurance providers are the third line of defence. During the year, the audit and risk committee appointed an independent external audit firm to perform a strategic and operation risk assessment on the listed subsidiary. The results of those risk assessments were communicated to the audit and risk committee.

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As part of Vision 2020 Vision, AEEI identified 10 material matters with each material matter having strategic objective/s. The material risks that are identified are linked to the strategic objectives in these material matters.

The executive committee 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.

During the financial year, the audit and risk committee:

- assisted the directors in fulfilling their responsibilities for ensuring there is an effective risk management process in place throughout the Group;

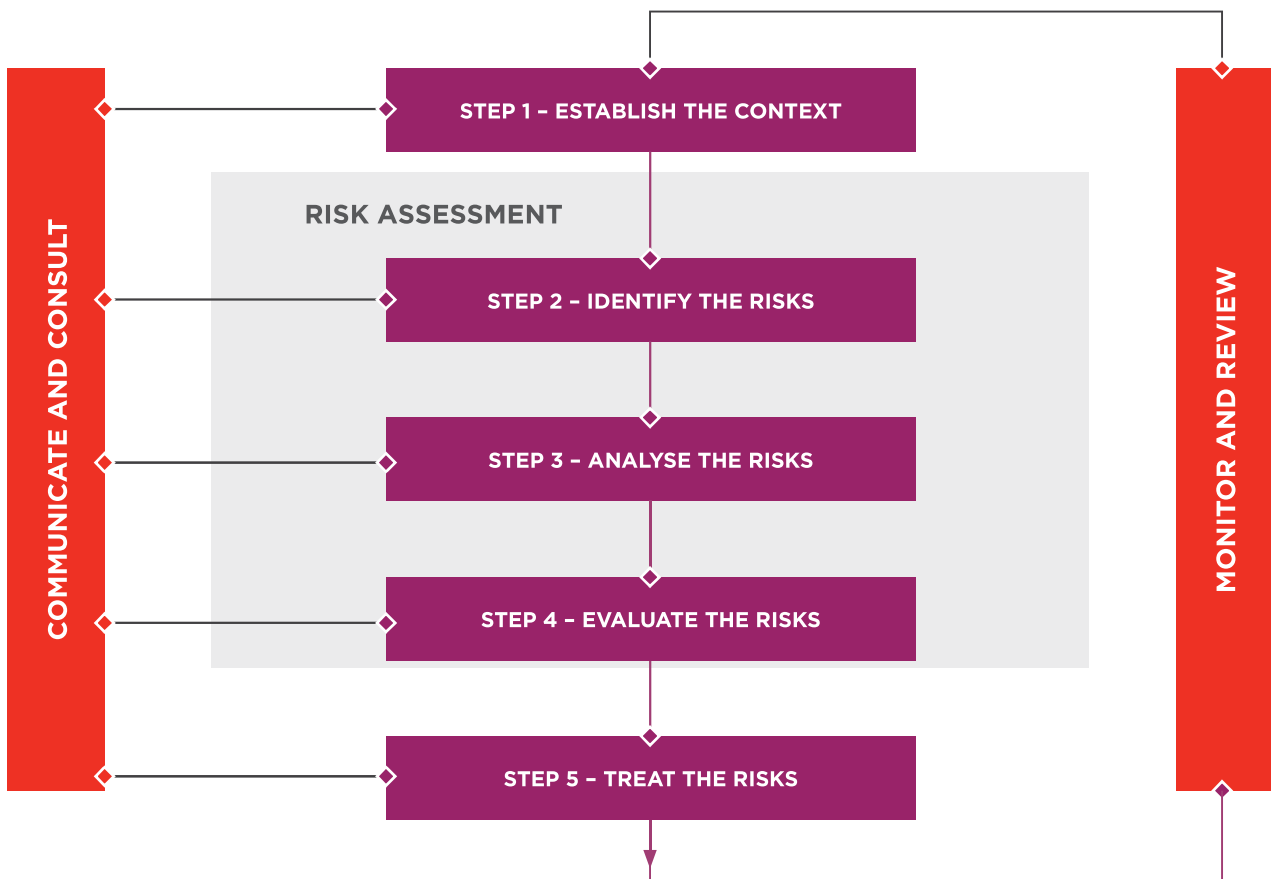
- assessed reports from management concerning the Group's risk management and compliance processes and controls in order to oversee their effectiveness;
- assessed reports from divisional management concerning business, operational and compliance risk in order to oversee their risks and assess their impact on the Group;
- assessed 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;
- received reports from management concerning resolution of significant risk exposure and risk events, in order to monitor them in accordance with the Board's risk appetite;

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- assessed whether all significant new business opportunities have been appropriately considered from a risk perspective;
 - monitored the Group's compliance with applicable external and regulatory obligations, and significant internal policies relating to the operation of its business units;
 - facilitated communication of risk issues to all management; and
 - evaluated the results of the risk assessments performed by the external independent firm and plan of action by management.
- The Company complies with the principles of King IV™ related to risk management.

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.



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COMMUNICATE AND CONSULT	Communicate and consult with those who are involved in the assessment of the risks and engage those who will be involved in treating, monitoring and reviewing the risks
ESTABLISH THE CONTEXT	Consider 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 organisation from achieving its objectives
ANALYSE THE RISKS	Analyse and assess the risks 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 then assess the effectiveness of the actions and controls
MONITOR AND REVIEW	Monitor risks and review the effectiveness of the treatment plan, strategies and management system



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Financial



Human Capital



Business Operations



Macroeconomic







The environment



Social and relationship capital

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.	<p>Active engagement with communities for outside quota holders</p> <p>Monitoring government policy and processes on requirements for reallocation</p> <p>Diversification into other products to reduce the impact on growth strategy</p> <p>Expansion in the aquaculture division to minimise impact</p>	Favourable quota allocation by the Department of Agriculture, Forestry and Fisheries will substantially increase revenue, resulting in better financial performance by the Group, which will also present an opportunity for more spend on SMMEs as well as socio and economic investments.	 
2	The loss of major customers could result in a potential reduction in revenue in the information and communications technology (ICT) sector.	Pursue and extend client base, underpinned by long-term support and maintenance agreements	Gain business confidence from stakeholders resulting in long-term relations	
3	Compliance with the CIPC and JSE Listings Requirements; and all legislation and regulations require the Group to constantly adapt to keep abreast of the latest changes	<p>Training and awareness is continuously assessed and provided across the Group.</p> <p>Policies and procedures are updated to adapt to all new regulations and legislative requirements on a regular basis.</p> <p>King IV™ compliance review.</p>	Compliance with the applicable laws and regulations governing the Group, results in the Group being seen as a good corporate citizen	






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MATERIAL RISKS - continued

	RISK AND RATIONALE	MITIGATION	OPPORTUNITY	LINK TO MATERIAL MATTER/ STRATEGY
4	<p>Environmental pressures have an impact on the production and consumption of our products:</p> <ul style="list-style-type: none"> • Adverse weather conditions affect landings of fish stocks • Water temperature variables and disease affect the location • Uncertainty in the distribution and availability of certain marine resources due to changes in sea variables 	<p>Mitigation of these risks comes from constant monitoring of these environmental variables to allow flexibility in our response to these external factors</p>	<p>Products of good quality will be produced and offered to the market, which can increase revenue and the Group's reputation in the market</p>	
5	<p>Business interruptions in the Group's ICT systems by malicious software and increasing advances in cyber and ransomware attacks could result in loss of information and increased fraud.</p>	<p>Restricted access to the Group's ICT systems.</p> <p>Constant monitoring of systems for any possible infections and intrusions.</p> <p>Rollout and implementation of new ICT system.</p> <p>Backups performed daily and stored in different external servers.</p>	<p>The Group can maintain data integrity and decrease downtime on secure IT systems.</p> <p>Uninterrupted business practices will lead to efficiency and maximise profits.</p>	
6	<p>Exchange rate volatility may have both a negative and positive impact on business performance.</p>	<p>Exchange control is monitored regularly with efficient management of overhead and cost structures in place to ensure that all volatile environments have a minimal effect on the operations.</p>	<p>A positive exchange rate, i.e. a weak rand value compared to major international currencies increases revenue for the Group.</p>	

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MATERIAL RISKS - continued

	RISK AND RATIONALE	MITIGATION	OPPORTUNITY	LINK TO MATERIAL MATTER/ STRATEGY
7	Negative reputational perceptions of the ICT business by shareholders could result in lost growth opportunities.	Pursuing strategic investments and ensuring new opportunities and ventures are adopted in line with the guiding principles of our acquisition strategy.	Resilience from the impact of the external environment and continued growth by acquisition.	 
8	Limited access to funding may slow down the ability to capitalise on the various niche growth initiatives in the biotech companies.	The sources of available funding have been allocated to each project based on an approved business plan and this is monitored by the team to ensure that it meets the Group's strategic objectives. Management is actively engaging potential investors.	The success of these projects can result in groundbreaking medical treatment developed and manufactured in South Africa.	
9	Environmental challenges include carbon emissions, waste management, climate change and marine coastal management - and must be reviewed constantly.	Adhere 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	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. 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.	

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RISK METRICS

