enX Group

Enterprise Risk Management Framework

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Contents

1. RISK MANAGEMENT FRAMEWORK

1.1 Context for Risk Management

The process of managing risk is performed within the context of understanding the strategic goals and objectives as set out by enX in its annual strategy as approved by the enX Board (the Board), as well as the understanding of the economic environment in which operates. Risk management activities will be aimed at identifying the risks/threats to enX achieving its strategic goals and objectives. In addition, the strategic, operations, compliance, and the financial environments will be considered in the risk management activities to be undertaken. The process will also ensure that the interests of all stakeholders have been considered.

2. GOVERNANCE OF RISK

2.1 Role of the Board, the Audit Committee and Risk Management Committee

The Board is responsible for the governance of risk and sets the tone for risk management by providing discipline and structure. In this regard, the Board shall approve a risk management policy and framework which clearly defines enX's risk management philosophy, sets risk tolerance and appetite parameters, encourages and inculcates risk management culture within the Group and ensures that enterprise risk management (ERM) is integrated and embedded into the Group's normal business processes and activities.

Whilst the Board has delegated its responsibility for enterprise risk management to the Audit and Risk Management Committees, it still retains the ultimate accountability for the governance of risk. These committees remain responsible to ensure that the there is a combined assurance model integrating internal and external assurance providers. The committees shall also be responsible to monitor the appropriateness of the assurance model and ensure that the significant risks of enX are adequately addressed. In this way, the committee shall fulfil an assurance role to the Board, based on the combined assurance reports of internal and external assurance providers and is fully aligned to the draft King IV Report on Corporate Governance 2016 (King IV).

This will enable the Board to disclose to enX stakeholders on how it has satisfied itself that risk assessments, responses and interventions are effective.

The following table provides a summary of the roles and responsibilities of each of the key stakeholders in the enX Group Risk Management Policy.

Board	The Group board is responsible for the governance of risk and sets the tone for risk management by providing discipline and structure. In this regard, the board approves the Group Risk Management Policy which clearly defines enX's risk management philosophy and encourages a risk management culture within the Group to ensure that enterprise risk management is integrated and embedded into the normal business processes and activities.

Audit and Risk Committees	In terms of the statutory duties of the audit and risk committees, as defined in the audit and risk committees' charter ("the Charter"), "the committees must perform any other functions determined by the board, including the development and implementation of a policy and plan for a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes within the company".
Chief Executive Officer	Drives culture of risk management and signs off on annual risk attestation.
Senior Management	Continuously improving risk management policy, strategy and supporting framework. Ensure staff in their business units comply with the risk management policy and foster a culture where risks can be identified and escalated.
Employees, contractors and agents	Comply with risk management policies and control procedures, including being alert to and willing to report instances of non-compliance and unethical behaviour and making recommendations, based on their practical experiences, on what measures can be implemented to manage and/or mitigate risks within the Group.

2.2 Role of external assurance providers

enX's external assurance providers are the internal auditors (BDO) and external auditors (Deloitte & Touche) and other assurance providers in line with King IV. Their role is to collect information, evaluate and express an opinion on the adequacy and effectiveness of the enterprise risk management process.

2.3 Role of executive management:

Executive Management is responsible for the development of and recommendation to the Board for the approval of –

- the Risk Management policy
- the Risk Management framework

Both these documents are aligned to the strategies and objectives of enX. This will ensure that risk management becomes embedded within the culture of the organisation at all levels.

2.4 Role of employees

The employees and Executives of enX have responsibility, in line with the policy and framework, to manage risk within their areas of operation. These include, amongst others:

- ⇨ adhering to and practicing all the policies and procedures in their daily activities;
- ⇨ being alert to and willing to report instances of non-compliance and unethical behaviour by any member of staff;
- ⇨ monitoring and reporting on risk exposures within their sphere of operation;
- ⇨ making recommendations, based on their practical experiences, on what measures can be implemented to manage and/or mitigate risks within enX.

3. RISK MANAGEMENT PROCESS

enX is guided by the Enterprise Risk Management Framework published by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission, ISO 31000:2009 Risk Management – principles and guidelines as the risk management standard for the Group and ISO Guide 73:2009, Risk Management – vocabulary, defining risk related terms. All Group risk management standards, policies, procedures, guidelines proposals, plans and reporting should be aligned with ISO 31000 and Guide 73.

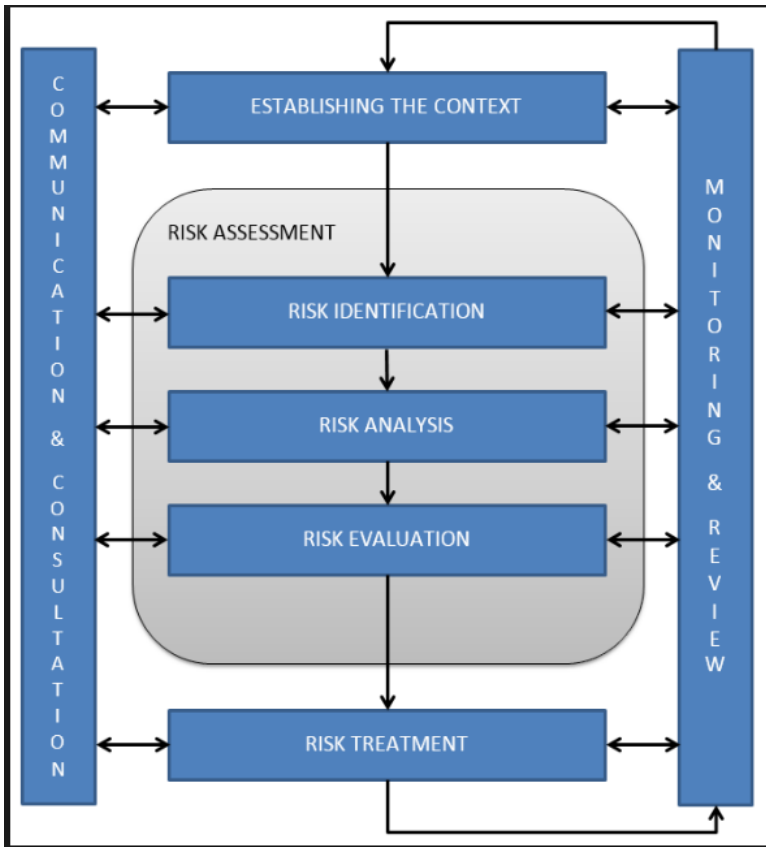


Figure 1 — ISO 31000: Relationships between the risk management principles, framework and process

4. OBJECTIVES FOR RISK MANAGEMENT

enX will manage its risks to be fully compliant with ISO 31000 and the recommendations of King IV in line with best practice corporate governance standards. This will ensure that

- the Board is able to discharge its responsibility for enterprise risk management
- ensured long term sustainability ;
- achievement of its strategic objectives;
- the risks which may prevent or hamper the achievement of strategic objectives are clearly identified and measured and that effective control measures are implemented;
- business activities are conducted in accordance with relevant legal and regulatory requirements.

4.1 Risk appetite

Risk appetite is defined as *the amount and type of risk the company is willing to accept in the pursuit of its objectives.* In this regard, the KnowRisk® Risk Management software tool (KnowRisk) used by BDO will be configured to reflect the risk values and tolerance levels. The board has the responsibility to sign-off on the risk appetite by engaging in a workshop with BDO Risk Management Services who will facilitate a discussion in setting the parameters within the KnowRisk system. In setting the risk appetite, the board will consider enX's strategic objectives and the risk factors in both the external and internal business environment.

The Board in determining the parameters which will guide the setting of risk appetite has determined, with recommendation from executive management, eight major areas which are "non-negotiable". These are:

- Originate and execute organic growth opportunities
- Establish new and build existing industrial energy platforms
- Partner with leading global brands
- Extend sub-Saharan African footprint
- Build a globally competitive manufacturing capacity
- Improve revenue mix
- Build sustainability across all businesses
- Enhance our empowerment credentials

These "non-negotiables" will direct the risk tolerance and hence the effort and resources of the Board and management in managing the risks of enX. ***(Refer Annexure C to this document)***.

4.2 Risk tolerance

Risk tolerance is the specific maximum risk the company is willing to take regarding each of the non-negotiable parameters and is a direct result of translating the Risk Appetite into more measurable quantitative or qualitative terms.

enX management has recommended to the Board specific Risk Tolerance levels which will be used to evaluate the severity of risks and hence the requisite level of Board and management effort required to manage risk. ***(Refer Annexure C to this document).***

5. RISK ASSESSMENT

Risk assessment includes risk identification and evaluation. Risk assessment is a fundamental part of the risk management process. Risk assessments procedures will be included as part of the decision-making processes intended to exploit business opportunities.

5.1 Risk identification

When identifying risk, enX will be guided by to the following areas of business (risk universe):

- Strategy
- Strategic Operations
- Business Processes
- Compliance
- Technical Management
- Financial
- Projects

A comprehensive risk universe will be developed with enX and attached as Annexure A to this document.

The following are the methods (not exhaustive) to be used to identify risks:
- Workshops and brainstorming to collect information and identify issues that could impact the strategy, objectives and stakeholder expectations;
- Audits of compliance with established systems and procedures, e.g. internal and external audit;
- Interviews with relevant stakeholders
- SWOT analysis; and
- Analysis of the economic, social, technological, legal and political environment within which enX operates.

5.2 Risk assessment

Once the risks that enX is exposed to are identified, these will be evaluated. Risks are assessed based on an inherent and a residual level. The assessment of the risks will result in the risk being rated as:

- High
- Significant
- Moderate
- Low

Assessment is done in terms of determining impact and likelihood, (***impact-*** the effect of a risk should it occur, and ***likelihood-*** the probability of the risk being realised). This will result in the rating of the risks on an inherent basis.

Comprehensive guidelines in determining the Impact and Likelihood of risks occurring are attached as Annexures C and D to this document.

The determination of the impact and likelihood of a risk occurring is to be followed by consideration of the effectiveness of controls that are currently in place to mitigate the risk. This results in a residual risk rating.

A comprehensive guideline in determining the effectiveness of existing controls is attached as Annexure E to this document

The outcome of the inherent and residual risk rating will result in one of the ratings attached in Annexure F

6. RISK RESPONSE AND CONTROL

After completion of risk identification and the related controls have been evaluated for effectiveness as per the above, **the most appropriate response option to mitigate the risk will be determined.** The response options will be evaluated in relation to enX's risk appetite, cost vs. benefit of potential risk responses, and degree to which a response will reduce impact and/or likelihood of a risk materialising.

It is the responsibility and duty of all staff of the company and its operations, at all levels, to adhere to this risk management policy and to ensure that the risk responses, as well as any company directives, are carried out. The governance structures as set out in section 2 will ensure that these control activities are carried out.

6.1 enX will base risk responses on the following options:

- **Tolerate**: this will apply where it is not possible to implement any further controls in addition to the controls that are already in place, or where it is not cost effective to implement additional controls. This may also include instances where the risk is as low as possible.
- **Treat:**
  - Consideration will first be given to the adequacy of existing controls;
  - If existing controls are inadequate, future controls to be implemented will be identified;
  - The person (control owner) responsible for implementing the future controls will be identified; and
  - Implementation date of future controls will be established.
- **Transfer:** this includes risk transfer to a third party for example through insurance and outsourcing of work.
- **Terminate:** this may be a decision that a project or investment opportunity will no longer be pursued, or the disposal of an existing investment.
- **Exploit:** where opportunities are being identified and evaluated, and a decision taken to further develop or exploit the opportunity further by developing action plans relevant to the opportunity

7. RISK RECORDING (INFORMATION)

A register for all identified risks is to be maintained, which will contain appropriate information about each risk. The risk register will record at a minimum the following information (Refer Annexure B to this document):

1. Record Risk ID
2. Document the strategic objectives (as per company strategic map/ balanced scorecard).
3. Record the identified risk in the risk description column.
4. Record the risk category, as per Annexure A of the Framework.
5. Record the contributing factor that relates to the risk identified (Cause).
6. Record the consequences of the risk should the risk materialise (i.e. the probability of the risk is certain)
7. Perform the assessment of the inherent impact of the risk. (Refer to Annexure B of the Framework).
8. Perform the assessment of the inherent likelihood of the risk. (Refer to Annexure C of the Framework).
9. Inherent Risk Rating Calculated (Refer Annexure E – Risk Matrix)
10. Document the control/s that is/are in place to mitigate likelihood of the risk occurring (Preventative) and reduce severity of the impact (Corrective) should the risk occur.
11. Perform the control effectiveness assessment. (Refer to Annexure D of the Framework).
12. Allocate the control owner. (The job title of the control owner should be recorded).
13. After the control has been identified and documented perform an assessment of the residual impact of the risk. (Refer to Annexure B of the Framework).
14. Perform the assessment of the residual likelihood of the risk. (Refer to Annexure C of the Framework).
15. Based on the results of the control effectiveness assessment record the risk response. (Refer to page nine of the framework).
16. Where the risk response is indicated as treat, transfer or exploit, complete the action plan section. Record the applicable action plan that will be implemented to enhance the effectiveness of the control. Where the risk response has been agreed to Terminate the risk, no further controls or actions are required.
17. Allocate the action plan owner.
18. Record the due date by when the action plan should be implemented.
19. Record the status of the action plan

The risk register will be reviewed and updated on a quarterly basis or more frequently as required.

8. RISK REPORTING, MONITORING AND REVIEW

8.1 Reporting

Executive summary

An executive summary will be included in the Audit and Risk Management Committees submission packs to streamline the Committee meetings by providing the sequence and a summary of salient points to be covered in the meeting with regard to risk management. The items below may form part of the executive summary:

Progress report

The progress report will detail the activity related to the implementation plan, and is intended to progress the organisation towards the appropriate level of risk management maturity.

Risk profile

The risk registers should be analysed to develop profiles that indicate exposures relative to the categories of risk (e.g. strategic or financial), business areas and risk ownership.
The total risk exposure will be tracked to identify changes from one reporting period to the next.

Significant and High risk report

The Significant and High risk report gives details related to individual risks on the risk register that have been rated accordingly in terms of ’s risk matrix and thresholds. The objective is to give more information regarding these risks and developments, trends or deterioration in the exposure, progress with mitigation actions and decisions that need to be taken to address the risk.

8.2 Monitoring and Review

enX management will regularly monitor the effectiveness of the strategies and controls that have been set up to manage risks.

8.3 Method of reporting, monitoring and review

enX management will on an ongoing basis monitor and report on identified risks. In addition, a formal review process for enX will be performed quarterly, on a systematic basis. This will be done in conjunction with the activities around enX strategic objectives formulation. The objective of this review process will be to:

- Determine whether each risk previously identified is still relevant;
- Review of the results of the following:
  - Assessments given the impact and likelihood for each risk;
  - The inherent risk rating/ranking;
  - Existing controls to mitigate risk;
  - The residual risk rating/ranking; and
- The treatment strategies which previously have been considered; and
- Update the risk register with any new risks which should be included as the company strategic objectives are reviewed.

9. ROADMAP

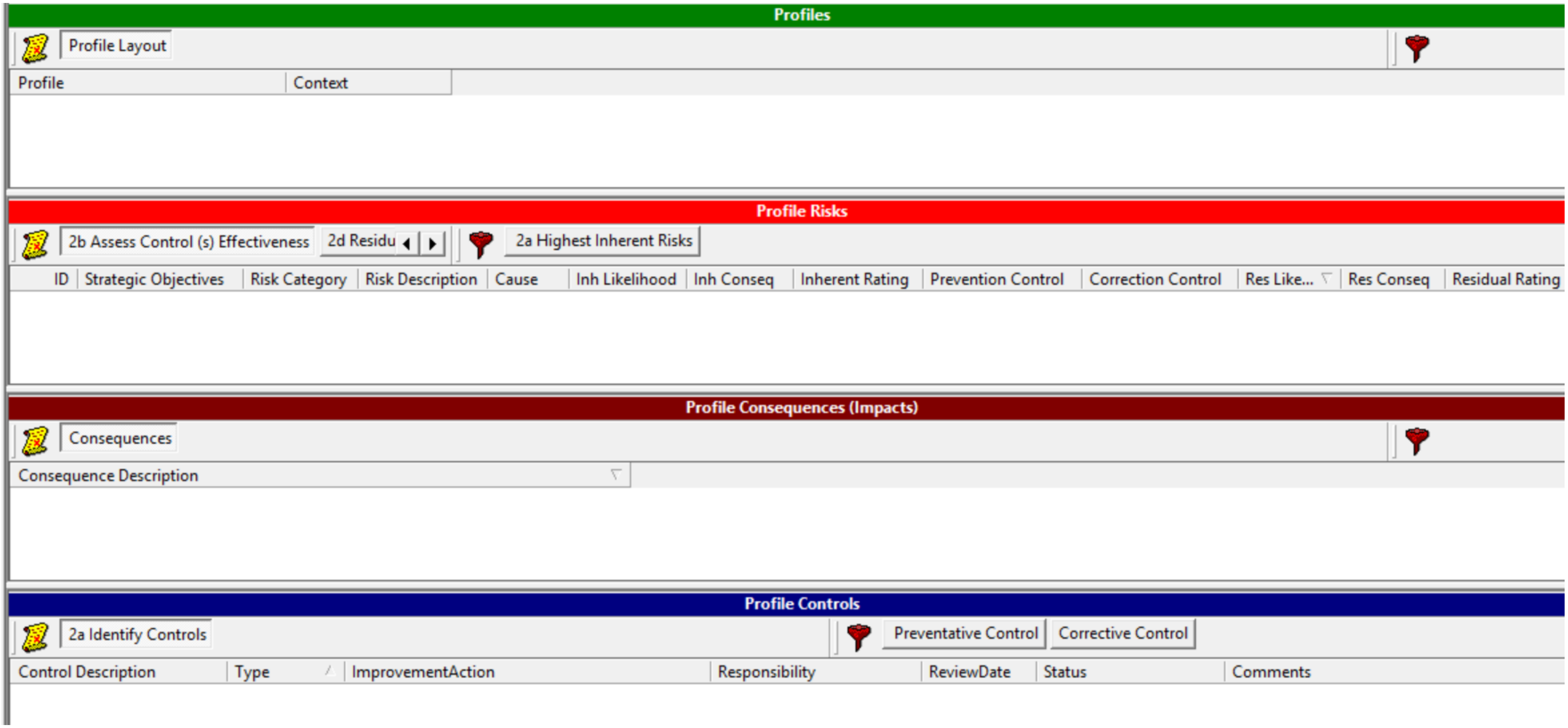
March 2017	April 2017	May 2017	June 2017
• Development of strategy • Process Methods • Workshops • Finalisation of Risk Categories • Monthly meetings with Executives/ Directors to report on risk status of Group • Finalisation of Framework	• Workshops and reporting • Monthly meetings with Executives/ Directors to report on risk status • Finalisation of Reporting Layouts	• Workshops and reporting • Monthly meetings with Executives/ Directors to report on risk status • Quarterly risk status reports to Risk Committee	• Workshops and reporting • Monthly meetings with Executives/ Directors ▪ Setting of Audit Plan

July 2017	August 2017
• Workshops and reporting • Monthly meetings with Executives/ Directors	• Workshops and reporting • Monthly meetings with Executives/ Directors • Quarterly risk status reports to Risk Committee

Annexure A: Group Risk Universe

Strategic	Operational	Compliance	Financial
▪ Board Strategy ▪ Acquisitions ▪ Governance ▪ Key Accounts	▪ Projects ▪ Engineering ▪ Health ▪ HR ▪ IT & Business Process Systems ▪ Legal ▪ Marketing & Communications ▪ Quality ▪ Safety	▪ Company Secretariat ▪ Compliance ▪ Code of Conduct/Group Ethics ▪ Regulatory ▪ B-BBEE	▪ Banking ▪ Market ▪ Credit ▪ Data Management ▪ Accounting ▪ Reporting

Annexure B: Profile Layout in KnowRisk



Annexure C: Guideline for determining risk appetite and determining impact of risk occurring

Score	Rating	Value Loss (Company level)	Reputation	Safety	Occupational Health	Legal & regulatory
5	**Catastrophic**	**Company:** If value drops by >= 39%	• Realised loss of stakeholder confidence (Shareholders, Funders,) • Realised loss of business license in regulated industries. (JSE) • Widespread/national negative media coverage over several days (Coverage by all major media networks and major media houses)	Numerous permanent disabilities or multiple fatalities	Exposure to health hazards/ agents (significantly over the OEL) resulting in irreversible impact on health with loss of quality of life of a numerous group/population or multiple fatalities	Significant breach of the law. Individual or company law suits; permit to operate substantially modified or withdrawn
4	**Major**	**Company:** If value drops 21% - 38%	• Possible loss in stakeholder confidence (Shareholders, Funders) • Realised loss of stakeholder confidence (Clients, Employees) • Regional/provincial negative media coverage by the media over several days • Possible loss of business license in regulated industries	Permanent disability or single fatality	Exposure to health hazards/ agents (significantly over the OEL) resulting in irreversible impact on health with loss of quality of life or single fatality	Breach of the law; may attract criminal prosecution, penalties/ enforcement action. Individual licence temporarily revoked
3	**Serious**	**Company:** If value drops 11% - 20%	• Possible loss in stakeholder confidence (Clients) • Limited negative media coverage over several days (e.g. local newspapers, radio etc.) • Communication of negative news to competitors and stakeholders (Shareholders, Funders, Investee Companies) via informal channels, either from within or outside of the company	Lost time injury	Exposure to health hazards/ agents (over the OEL) resulting in reversible impact on health (with lost time) or permanent change with no disability or loss of quality of life	Minor breach of law; report/investigation by authority. Attracts compensation/ penalties/ enforcement action

			• Formal 3rd party or client complaint to regulator			
2	**Minor**	**Company:** If value drops < 10%	• Possible loss in stakeholder confidence (Employees) • Communication of negative news to stakeholders (Client, Employees) via informal channels, either from within or outside of the company • Local media coverage	Medical treatment case	Exposure to health hazard resulting in symptoms requiring medical intervention and full recovery (no lost time)	Breach of regulatory requirements; report/involvement of authority. Attracts administrative fine
1	**Insignificant**	**Company:** Less than 1% impact on the value	Minor impact; awareness/ concern from specific individuals/ Minor disturbance of culture/ social structures	First aid case / Exposure to health hazard resulting in temporary discomfort	Lost time/ Exposure to health hazards/ agents (significantly over the OEL) resulting in reversible impact on health (with lost time)	Technical non-compliance. No warning received; no regulatory reporting required

Risk quantification matrix for Determining Risk Appetite

EQSTRA

Score	Rating	Value Loss	From	To
5	Catastrophic	If value drops by >= 39%	R9,000,000	-
4	Major	If value drops by 21% - 38%	R4,000,000	R9,000,000
3	Serious	If value drops by 11% - 20%	R400,000	R4,000,000
2	Minor	If value drops by < 10% > 1%	R90,000	R400,000
1	Insignificant	If value < 1%	R10,000	R90, 000

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Score	Rating	Value Loss	From	To
5	Catastrophic	If value drops by >= 39%	R1,000,000	-
4	Major	If value drops by 21% - 38%	R275,000	R1,000,000
3	Serious	If value drops by 11% - 20%	R90,000	R275,000
2	Minor	If value drops by < 10% > 1%	R30,000	R90,000
1	Insignificant	If value < 1%	R1,000	R30,000

Annexure D: Guideline for determining likelihood of risk occurring

Score	Rating	Certainty	Description
5	Expected	> 91%	The unwanted event has occurred frequently; occurs more than six times per year
4	Highly Likely	61% - 90%	The unwanted event has occurred frequently; occurs in order of one or more times per year & is likely to reoccur within 1 year?
3	Possible	31% - 60%	The unwanted event has happened at some time; or could happen within 1 year
2	Unlikely	11% - 30%	The unwanted event has happened at some time; or could happen within 2 to 3 years
1	Slight/Rare	0% - 10%	The unwanted event has never been known to occur; or it is highly unlikely that it will occur within 5 years

Annexure E: Guideline for evaluation of control effectiveness

Effectiveness	Action	Description
> 90%	Highly Effective	Controls &/or management activities properly designed and operating as intended
70% - 89%	Effective (Limited Improvement Opportunity)	Controls &/or management activities properly designed and operating, with limited opportunities for improvement identified
35% - 69%	Qualified (Moderate Improvement Opportunity)	Controls &/or management activities in place, with some opportunities for improvement identified
15% - 34%	Marginal (Significant Improvement Opportunity)	Controls and/or management activities have major deficiencies and do not operate as intended, high level of risk remains
< 15%	Ineffective (Critical Improvement Opportunity)	Controls &/or management activities are non-existent or ineffective

Annexure F: Risk Rating Matrix – Inherent and Residual Values

Score	Rating	Value Loss (Company level)	Reputation	Safety	Occupational Health	Legal & regulatory
5	Catastrophic	**Company:** If value drops by >= 39%	• Realised loss of stakeholder confidence (Shareholders, Funders,) • Realised loss of business license in regulated industries. (JSE) • Widespread/national negative media coverage over several days (Coverage by all major media networks and major media houses)	Numerous permanent disabilities or multiple fatalities	Exposure to health hazards/ agents (significantly over the OEL) resulting in irreversible impact on health with loss of quality of life of a numerous group/population or multiple fatalities	Significant breach of the law. Individual or company law suits; permit to operate substantially modified or withdrawn
4	Major	**Company:** If value drops 21% - 38%	• Possible loss in stakeholder confidence (Shareholders, Funders) • Realised loss of stakeholder confidence (Clients, Employees) • Regional/provincial negative media coverage by the media over several days • Possible loss of business license in regulated industries	Permanent disability or single fatality	Exposure to health hazards/ agents (significantly over the OEL) resulting in irreversible impact on health with loss of quality of life or single fatality	Breach of the law; may attract criminal prosecution, penalties/ enforcement action. Individual licence temporarily revoked
3	Serious	**Company:** If value drops 11% - 20%	• Possible loss in stakeholder confidence (Clients) • Limited negative media coverage over several days (e.g. local newspapers, radio etc.) • Communication of negative news to competitors and stakeholders (Shareholders, Funders, Investee Companies) via informal channels, either from within or outside of the company • Formal 3rd party or client complaint to regulator	Lost time injury	Exposure to health hazards/ agents (over the OEL) resulting in reversible impact on health (with lost time) or permanent change with no disability or loss of quality of life	Minor breach of law; report/investigation by authority. Attracts compensation/ penalties/ enforcement action
2	Minor	**Company:** If value drops < 10%	• Possible loss in stakeholder confidence (Employees) • Communication of negative news to stakeholders (Client, Employees) via informal channels, either from within or outside of the company • Local media coverage	Medical treatment case	Exposure to health hazard resulting in symptoms requiring medical intervention and full recovery (no lost time)	Breach of regulatory requirements; report/involvement of authority. Attracts administrative fine
1	Insignificant	**Company:** Less than 1% impact on the value	Minor impact; awareness/ concern from specific individuals/ Minor disturbance of culture/ social structures	First aid case / Exposure to health hazard resulting in temporary discomfort	Lost time/ Exposure to health hazards/ agents (significantly over the OEL) resulting in reversible impact on health (with lost time)	Technical non-compliance. No warning received; no regulatory reporting required

		1 **Insignificant**	2 **Minor**	3 **Serious**	4 **Major**	5 **Catastrophic**
5 - Almost Certain	90% and higher probability of occurring	**11 (Medium)**	**16 (Significant)**	**20 (Significant)**	**23 (High)**	**25 (High)**
4 - Likely	Between 60% and less than 90% of occurring	**7 (Medium)**	**12 (Medium)**	**17 (Significant)**	**21 (High)**	**24 (High)**
3 - Possible	Between 30% and 60% probability of occurring	**4 (Low)**	**8 (Medium)**	**13 (Significant)**	**18 (Significant)**	**22 (High)**
2 - Unlikely	Between 10% and 30% probability of occurring	**2 (Low)**	**5 (Low)**	**9 (Medium)**	**14 (Significant)**	**19 (Significant)**
1 - Rare	Less than 10% probability of occurring	**1 (Low)**	**3 (Low)**	**6 (Medium)**	**10 (Medium)**	**15 (Significant)**

Risk Rating	Risk Level	Guidelines for Risk Matrix
21 to 25	High	A high risk exists that management's objectives may not be achieved. Appropriate mitigation strategy to be devised immediately.
13 to 20	Significant	A significant risk exists that management's objectives may not be achieved. Appropriate mitigation strategy to be devised as soon as possible.
6 to 12	Moderate	A moderate risk exists that management's objectives may not be achieved. Appropriate mitigation strategy to be devised as part of the normal management process.
1 to 5	Low	A low risk exists that management's objectives may not be achieved. Monitor risk, no further mitigation required.