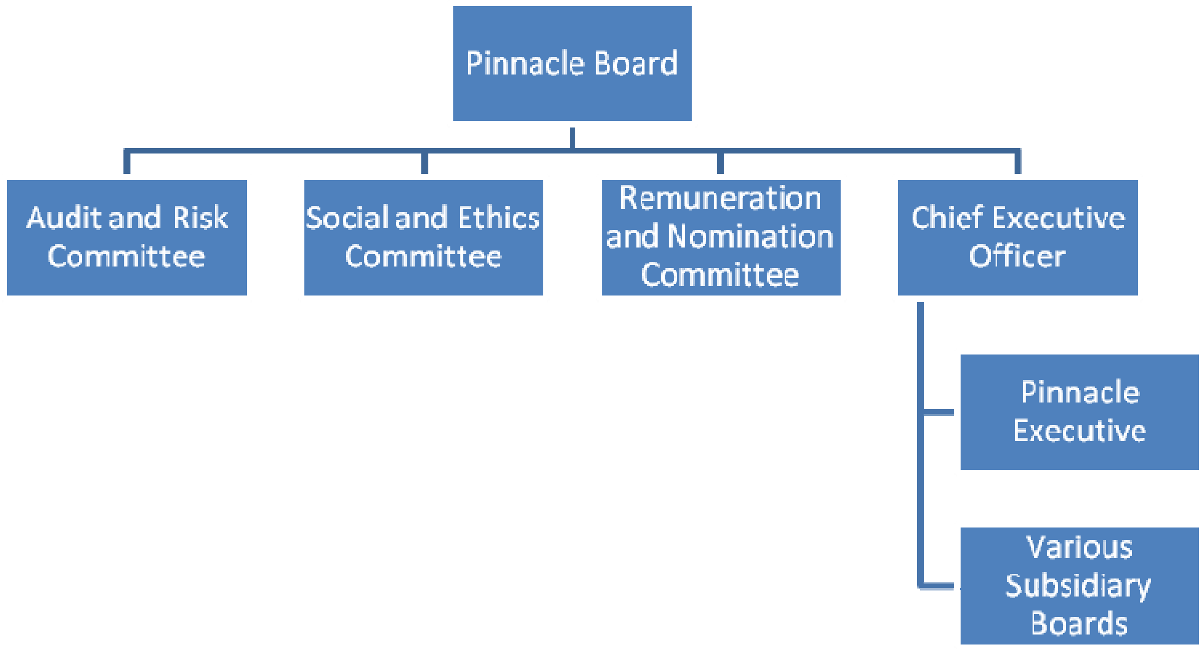
Corporate Citizenship

Governing the business

The Board of Pinnacle Technology Holdings Limited ("Pinnacle" or the "Company" or the "Group") and its committees fulfil their mandate of setting, overseeing and guiding the company's strategy and performance. Pinnacle believes that strong corporate governance is essential for the achievement of corporate goals and the sustainable value for all of the company's stakeholders. The company recognises the fact that good corporate governance is a characteristic of successful companies, fulfilling the objective of performing in all three areas of the triple bottom line namely "people, planet and profit". This section provides details on corporate governance structures and achievements during the year.



The Board has a unitary structure and consists of a majority of independent non-executive directors. It acts as the focal point for and custodian of corporate governance. Its aim is to balance the creation of higher standards for all the stakeholders, while still generating maximum returns for shareholders. The Pinnacle Board is chaired by Ms Daphne Mashile-Nkosi, an independent non-executive director. Amongst others, the Board is responsible for the adoption of strategic plans, monitoring of overall business performance, and the development and monitoring of risk management policies and processes. Roles and duties of the various Board members are clearly defined with no individual having unrestricted decision-making powers.

Some of the Board's responsibilities are delegated to its various sub-committees which are the Audit and Risk Committee, the Social and Ethics Committee, and the Remuneration and Nomination Committee. In addition, each of the divisions is governed by divisional Boards and Executive Committees which are chaired by either the CEO or a Pinnacle executive director or a director of a higher level of subsidiary, in each case acting in a non-executive capacity in respect of that divisional Board or executive committee. These executives derive their authority from the main Pinnacle Board. At each Board meeting the various sub-committees report to the Board on their activities and performance in terms of their mandate. The Board satisfied itself that the subcommittees were adequately structured and qualified to carry out their duties and in so doing, to enhance the overall performance of the Company. Refer to the latest annual report for a summary of Board Committees, memberships and attendance. The composition of the Board is also detailed under http://www.pinnacleholdings.co.za/index.php/directorate/pinnacle-technology-holdings.

Pinnacle has adopted the good governance principles as set out in the King III Report on Corporate Governance for South Africa, 2009 ("King III Report" / collectively "King III"). Where some of the recommended King III principles were not adopted, Pinnacle follows the principles of explaining the reasons for an alternative approach to governance. A King III checklist is included in the full governance report which is included on our company's website.

Pinnacle continues to refine and integrate sustainability into its strategy and daily operations with oversight by the Social and Ethics Committee. The Committee's key mandate is organisational oversight of social and ethical issues. The achievement of BEE objectives currently receives priority attention whilst Human Resources related issues will be focused on once an achievable transformation programme is underway and achieving progress. The composition and Terms of Reference for this committee is contained in the report of the Social and Ethics Committee, which is contained in our annual report.

The Audit and Risk Committee is charged with oversight and reporting to the Board on corporate governance, risk, the audit process and financial controls in the company. For a full report of the Audit and Risk Committee, refer to the current year's annual report.

BOARD AND DIRECTORS

The Board of Directors

All members of the Pinnacle Board must be formally elected by the shareholders, usually at the Annual General Meeting ("AGM"). The Board may appoint a director (after having been first considered and recommended by the Remuneration and Nominations Committee) but any such appointee must stand for election by shareholders not later than the next AGM. Non-executive directors are elected for a term of office that expires not later than the adjournment of the third AGM from the AGM in which they are elected. They may offer themselves for re-election at the AGM during which their term of office expires. At least one-third of the non-executive directors must retire at each AGM and if no directors have reached the end of their three year term of office then the director with the longest period of service since his/her last election must retire. There is no limit on the age of directors nor upon the number of terms for which they may serve in aggregate.

Once elected executive directors retain their Board position without being required to stand for re-election for as long as they remain employed, unless they resign or are removed by the Board in accordance with the executive's employment contract and the relevant labour law.

The Board is the focal point for and custodian of corporate governance in Pinnacle. The Board is constituted and operates in accordance with the Companies Act, the King III Code, the JSE Listings Requirements and all other applicable laws, rules and codes of governance. Amongst others, the Board is responsible for strategic decision making, governance of risk and information technology, ensuring that the various sub-committees are in place and are effective.

The Board of Directors gives strategic direction to the Group, appoints the Chief Executive Officer and ensures that a succession plan is in place. The Board selects the Chairperson who is responsible for leadership of the Board, ensuring effectiveness in all aspects of its activities and setting its agenda. Although elected annually, the Chairperson is generally expected to serve for more than one year. The Chairperson's ability to add value, and his/her performance against what is expected of her role and function, is assessed every year by means of a Chairperson evaluation that is performed by the Board.

The Board composition policy requires either a majority of non-executive directors, or contrary to the recommendations contained in King III, an equal number of non-executive and executive directors. The Board is satisfied that the influence of the control exercised by the non-executive directors is not diminished by this composition.

The Board currently comprises four non-executive directors (including the Chairperson), each of whose independence has been considered by the Board. It was concluded that no director's independence is compromised in any way and all directors comply with the requirements stated in the Companies Act, 2008. The Board's policy requires that a majority of non-executive directors should pass the independence criteria specified in clause 67 of chapter 2 of the King III Report ("clause 67"), but if this is not possible, then a non-executive director shall be considered independent if he/she satisfies the Board that his/her level of independence is not diminished in any way by his/her non-compliance with any sub-clause of clause 67.

In addition, the Board only considers a director not independent in terms of clause 67.6 if the director's professional advisory relationship with the Company is material to either party, and directors with non-material professional advisory relationships with the Company will still be considered independent if they pass the remaining tests in clause 67, and the Board is satisfied of their independence. This allows non-executive directors to use their independence in the strategic decision making process with sustainable outcomes for not only the shareholders but also its staff, the community, the environment and other stakeholders. Non-executive directors are expected to contribute business acumen and other operational experience to the strategic development of the Group. The Board takes final responsibility for acquisitions and disposals, approves capital expenditure and appraises proposals from the Audit & Risk, Remuneration & Nomination and Social & Ethics Committees.

All directors are allowed and encouraged to obtain independent professional advice, when required, at the Company's expense, provided that the director(s) concerned advises the Chairperson prior to doing so and follows the Company's normal procurement policies in selecting an advisor.

No individual Board member has unfettered powers in respect of decision making and no individual Board member has any power to commit or bind the company, contractually or otherwise, in any way, unless the Board has, by formal resolution, delegated such powers to him/her, and in such case he/she may only exercise such powers in accordance with the written terms of the delegation.

Although Board meetings are held on at least a quarterly basis, where the relationship between management and the stakeholders of the company is measured, on-going Board member involvement on strategic and other Board matters is a key success factor to the success of the company. As a result and contrary to the guidance by King III, Board members are not remunerated based on a meeting attendance basis, but on the general service that they provide to the company as Board members throughout the year.

The roles of the Chairperson and Chief Executive Officer are separate. The Chairperson is responsible for leading the Board and for its effectiveness whilst the Chief Executive Officer is delegated the responsibility of the execution of strategy and the day-to-day management of the Group. He is supported by three executive directors of which one is responsible for finance.

The Board has a comprehensive system of control ensuring that risks are mitigated and the Group's objectives are attained. This is achieved through the monitoring of the relationship between management and the various stakeholders of the Company. With oversight from the Audit and Risk Committee, the company's risk register was updated during the year and risk responses monitored to mitigate risks which exceeded the Company's risk apatite. The Board ensures that the Group complies with all relevant laws, regulations, standards and codes of business practice. The management of risk in the group is detailed under **THE GOVERNANCE OF RISK** .

The Board and its sub-committees have unrestricted access to all company information, records, documents and property to enable them to discharge their responsibilities. Management is responsible for providing this information on a timely basis to assist with the decision making process. The Board members also have access to management and may even meet with management, the external auditors and members of the internal audit department, without the executive management being present. To protect shareholder interests and to enable the Board to identify possible rescue proceedings or turn-around strategies, a fifteen month solvency and liquidity forecast model of the company is continuously reported and monitored.

The Board considers the responsibility for continuing professional development of directors to lie with each individual director in his or her field of specialisation. Continued professional development is a pre-requisite for most of the Board members to maintain their respective professional qualifications.

Independence assessment

Directors are required to inform the Board timeously of conflicts or potential conflicts of interest with the dealings of the Group. Directors are also required to disclose any influential and/or material shareholding and any directorship in other companies. The independence of non-executive directors was evaluated in accordance with the criteria recommended by King III. The current independence status of each director is stated in the Annual Report.

Performance assessments

The evaluation of the Board, its committees and the individual directors was performed during the year. Evaluations are performed in line with the guidance that is given by the King III Code and the Institute of Directors. Performance evaluation questionnaires were distributed to all Board members requiring each to evaluate the performance and effectiveness of the Board as a whole.

Board Committees

The Board has delegated certain functions to well-structured committees but without abdicating its own responsibilities. The committees include:

Audit and Risk Committee

The Audit and Risk Committee is constituted in respect of section 94 of the Companies Act and meets three times during each financial year. The Board delegates the quality, integrity and reliability of audit and risk related issues of the Group to the Audit and Risk Committee to assist the Board in discharging its duties.

The Committee comprises three non-executive directors, excluding the Chairperson, who are qualified in terms of section 94(4) of the Companies Act and each of whom has the requisite qualifications and experience to carry out of the duties of a member of this committee. The Board does require that committee members are independent but does not fully apply the test specified in clause 67.6 of chapter 2 of the King III Report in that it will only exclude directors who have a professional advisory relationship that is material to either party. The Chairperson of the company is not a member of the Committee but has a standing invitation to attend all meetings.

The Committee has an independent role with accountability to both the Board and Shareholders. Accordingly, the Chairperson of the Committee reports on the Committee's activities and recommendations at each scheduled Board meeting.

The Audit and Risk Committee plays an essential role in ensuring that financial reporting throughout the Pinnacle group is accurate and reliable and that Risks are adequately managed The key functions of the Committee are to monitor risk management processes, review the annual financial statements, monitor the effectiveness of internal controls, review the internal and external audits and to monitor the implementation of action plans. It also reviews, approves and monitors internal and external audit plans and budgets. Each year the Committee makes an assessment of the qualifications, expertise, resources, independence and objectivity of both the internal and external auditors. The competency of the Chief Financial Officer, internal and external auditors is also assessed during the year.

The Audit and Risk Committee is the custodian of the combined assurance model. The model provides for a co-ordinated approach to all assurance activities in the Group. The Committee ensures that any risks that emanate from the combined assurance activities are appropriately mitigated.

The following persons are required to attend all meetings of the Audit and Risk Committee: the Chief Financial Officer, Chief Operations Officer, Chief Internal Audit Executive and the external audit partner. Both the external and internal auditors have unrestricted access to the Audit and Risk Committee Chairperson and meet with its members on a regular basis without management being present.

The Committee regularly monitors Pinnacle's levels of compliance with the requirements of the King III and recommends to the Board which of the King III principles will be complied with and which will be explained. Where the Company is not in compliance with a principle with which the Committee requires compliance, an action plan is prepared and monitored by the Committee to address deviations from the recommended principles. Although the company complies in the main with the requirements of the King III Code, a gap analysis was completed of principles that were not applied during the year. The details are contained on our website under King III Compliance.

The Audit and Risk Committee also has a responsibility for the governance of sound risk management in the Group. The details are contained on section "The Governance of Risk" below in this report.

The, membership and purpose of the Committee is set out in its Terms of Reference which are outlined in the Audit and Risk Committee's report in the latest Annual Report.

Remuneration and Nominations Committee

The Board delegated the responsibility for remuneration matters to the Remuneration and Nominations Committee to make sound remuneration decisions that are aligned to the Company strategy and are in line with sound governance principles. The Committee is chaired by the Chairperson of the Board and establishes overall principles that govern the remuneration of the Chief Executive Officer, other senior executives and non-executive directors. The Committee also reviews management incentive schemes, share option schemes, retirement and termination entitlements, fringe benefit policies and professional indemnity policies.

The Remuneration and Nominations Committee comprises two non-executive directors. The Chief Executive Officer is invited to attend meetings, but may not participate in or attend any discussion on his own remuneration and/or performance discussions.

The Committee is also responsible for receiving, considering and screening Board nominations making recommendations for appointment to the Board whenever vacancies arise on the Board.

Social and Ethics Committee

The Social and Ethics Committee is constituted as a sub-committee of the Board in terms of section 72 (4) of the Companies Act read with regulation 43 of the Companies Act Regulations, 2011. The Board prefers to appoint a non-executive director as Chairperson. Membership includes one executive director and senior managers responsible for transformation, training, safety and security, environment matters and Human Resources management. In particular, the committee focuses on Pinnacle's strategy and performance regarding social and economic development, good corporate citizenship, environment, health and public safety, consumer relations, ethics and labour. The Committee's Terms of Reference and the report of the Social and Ethics Committee are included in the Annual Report.

Company Secretary

The Board is required to annually consider the competence, qualifications and experience of the company secretary and to report on how they have executed their responsibility. Mr FC Smyth is the company's appointed secretary and plays a pivotal role in the continuing effectiveness of the Board. Mr Smyth is not a director of the Company and was appointed by the Board in line with requirements of the Companies Act. Mr Smyth is considered independent and competent in the role as Company Secretary but remains accountable to the Board. He is sufficiently knowledgeable in relevant laws as required by his role.

Key functions of the Company Secretary include:

- Provision of guidance to the Board as a whole and to individual directors with regard to how their responsibilities should properly be discharged in the best interests of the Group;
- Oversees the induction of new directors;
- Assists the Chairperson and the Chief Executive Officer in determining the annual Board plan, Board agendas;
- Formulates governance and Board-related issues;
- Ensures that minutes of all shareholders meetings, Board meetings and the meetings of any committees of the directors, including those of the Audit and Risk Committee, are properly recorded in accordance with the Companies Act, 2008; and
- Ensures that the company has filed required returns and notices in terms of the Companies Act, and whether all such returns and notices appear to be true, correct and up to date.

CORPORATE GOVERNANCE

ETHICAL LEADERSHIP AND CORPORATE CITIZENSHIP

Governance of ethics and tone at the top

In Pinnacle a good tone at the top is considered a prerequisite for solid corporate governance. Pinnacle's tone is established by its Board of Directors, the Audit and Risk Committee and executive and senior management. Although the Board sets the tone for ethics in the Group, executive and senior management and most staff often make decisions or act on behalf of the company. The actions of both internal and external stakeholders such as employees and suppliers, need to conform to set ethical standards as defined by laws and regulations, internal policies and procedures and also requirements by other organisations, including Pinnacle's vendors as defined in the Group's vendor and distributor agreements.

Good ethics governance and effective leadership by the Pinnacle Board therefore defines expectations, grants power, verifies performance and guides behaviour on the values of responsibility, accountability, fairness and transparency. In financial terms, the company's tone at the top also governs leadership towards internal financial controls. This forms the basis for reliable financial records, including prevention and detection of fraud and other non-compliant and/or unethical financial practices.

The Pinnacle Code of Conduct is a set of guidelines that defines acceptable behaviour for all employees in the organisation and explains the conduct expected of all employees and other representatives of the Group. The Code of Conduct formally communicates the company's ethical values to outside stakeholders and details what to expect when doing business with any of the companies forming the Group. As such, all representatives of the Group are required to obey all laws, to be honest and ethical, to be fair to all stakeholders including competitors, to respect others and to protect the environment. The Code of Conduct is applicable to all employees in the Group and was also introduced, together with the whistle-blowers hotline (Ethics Line), in areas where new acquisitions were made during the past year. The Code of Conduct is continuously reviewed, updated and communicated to all existing staff. Both the Audit and Risk Committee and the Social and Ethics Committee received regular reports on incidents reported and subsequent outcomes of investigations and corrective actions.

Corporate Citizenship

The Board acknowledges the fact that both the environment and the various societies in which the Company operates are key stakeholders in any successful organisation. When defining its strategy the Board considers the short- and long-term impacts of the strategy on the business, the economy, society and the environment. The Board has accepted the responsibility to protect group interests, to enhance and invest in the wellbeing of the economy, society and environment. The Board has given the Social and Ethics Committee the mandate to formally identify all the various stakeholders and to develop policies in relation to each stakeholder group in line with international conventions on human rights and generally accepted norms.

Workplace Forums were formed in key areas of the business allowing all employees representation to advance economic development, social justice, labour peace and the democracy of the workplace. The Workplace Forums are comprised of sub-committees which focus on areas such as employees' wellness, skills development, employment equity, sports & recreation, social responsibility and general employee relations matters. The forums meet every month. Meetings are held with senior management who provide general feedback on companies' performance and other matters affecting employees. Forum committee members have an opportunity to raise matters of concern to their members and seek acceptable solutions with management. Pinnacle views the existence of the workplace forums as the cornerstone to employees' long-term engagement and participation in the day-to-day running of its operation in order to remain a sustainable business.

As part of Pinnacle's overall skills development strategy and an ongoing need to have readily available talent pool to fill key positions, it remains key to retain critical skills and anticipate the Company's strategy. Pinnacle has already accepted its next learnership intake for the current financial year and beyond. This is on the backdrop of a recent successful completion of a learnership programme for 143 learners, which provided them with employment opportunities within the Group and related industries, based on the workplace exposure received.

Management of ethics

Our goal is to build and sustain an ethical culture throughout the organisation. It articulates Pinnacle's commitment to doing business ethically. This culture is also entrenched in any new acquisitions that are made by the group. The Board has ultimate responsibility for setting an ethical tone at the top. Executive management is responsible for setting up and implementing ethics processes, including ethics training.

Measures were introduced to ensure that all employees have formally acknowledged the Code of Conduct. All new employees are required to sign a copy of this Code as part of the engagement process. Ethics training is also conducted from time to time but in particular during the induction of new employees and when new acquisitions are made.

In line with the King III Code governance principles, Pinnacle's Group Internal Audit department performs periodic independent ethics audits covering all operations in the Group. All the employees in the organisation are invited to participate in anonymous surveys to assess the ethics performance of the Company. The objective is to provide the Board and management with assurance on both the adequacy and effectiveness of controls so that they have an understanding of how the organisation is managing its ethics risks.

In addition to the internal ethics audit, Pinnacle was also invited to participate in the South African National Business Ethics Survey (SABES) which was conducted by the Ethics Institute of South Africa (EthicsSA). This survey measured the capacity of Pinnacle to manage ethics risk and promote responsible business conduct. It assessed the perceived congruency between what an organisation states, and what it does. It is a quantitative study employing an instrument comprising 119 indicators which assessed the following:

- Levels of awareness of related policies and process, and perceptions of their effectiveness;
- Organisational culture;
- Organisational satisfaction and leadership; and
- Levels of observed misconduct, tendencies to report, and pressure to engage in unethical activity.

The results of both the latest internal and external assessments highlighted that, although some areas of improvement were evident, Pinnacle's ethics climate compared favourably to management's goals and with the other participants in the ethics survey. It was concluded that Pinnacle was exposed to generally low ethics risk.

Whistle-blowing

The company's whistle-blowing hotline (ethics line) has been fully operational since it was established in 2010. This enables employees and other stakeholders to anonymously blow the whistle on breaches of the Code of Conduct and to report on incidents of fraud, theft and other dishonest behaviour. The facility was rebranded and re-launched in 2013 with the aim of increasing awareness with all the stakeholders, but mainly with Pinnacle employees. The hotline's contact details were also recently published on the company's website for access by all of the Company's stakeholders. The details can be found on the Company's website at URL http://www.pinnacleholdings.co.za/index.php/investor-relations/code-of-conduct .

The Group Internal Audit function reports all Ethics Line incidents received to both the Audit and Risk Committee and the Social and Ethics Committee. A summary of all criminal activity in the group is also presented to these meetings. The results provide assurance on the effectiveness of existing controls in the company. It also assists with the identification of corrective actions required to mitigate any risks relating to corruption. Pinnacle's risk management process also considers risks associated with corrupt behaviour. No significant incidents were reported in the current year.

Compliance with laws, rules, codes and standards

Compliance is governed by the company's Code of Conduct. Pinnacle does business ethically, obeys the law and does not engage in or accept or condone engaging in any illegal acts. The Board is responsible for ensuring that the Group complies with applicable laws. This is achieved through the assigned mandates to the Audit and Risk as well as the Social and Ethics Committees. Compliance matters are also reported and addressed by management, Internal Audit, and contracted assurance providers and consultants. This includes legal advisers, ISO auditors, external auditors, Health and Safety auditors including reviews that are sometimes performed by some of Pinnacle's vendors in order to assess the Group's levels of compliance. This forms part of the Combined Assurance model, a responsibility that was assigned by the Board to the Audit and Risk Committee. The Audit and Risk Committee reviews work performed by the various assurance providers to ensure that compliance gaps that are highlighted, are appropriately addressed.

ACCOUNTABILITY AND AUDIT

Going concern assertion

The Board has formally considered the going-concern assertion for Pinnacle and its subsidiaries. Pinnacle have no reason to believe that the Company and the Group will not be a going concern in the foreseeable future. The Board minutes the facts and assumptions used in the assessment of the going concern status of the Group at the financial year-end. The Board applies the Solvency and Liquidity test defined in section 4 of the Companies Act 2008 on a regular basis and whenever required in terms of the Act. Senior management monitors exposures on a daily basis in order to ensure a proactive approach and net position to be kept within acceptable norms. Being a major importer, foreign exchange exposures are closely monitored on almost an hourly basis.

THE GOVERNANCE OF RISK

The Pinnacle Board has overall accountability and responsibility for risk management including:

- setting the Company's risk appetite and overall risk management strategy;

- developing appropriate risk management and governance systems; and

- establishing and maintaining effective monitoring of internal controls systems.

The Board delegated the responsibility for risk to the Audit and Risk Committee. This Committee has a properly defined Terms of Reference. The Audit and Risk Committee assists the Board of directors with processes to identify key risk areas and key performance indicators in the Group.

Pinnacle subscribes to a Three Lines of Defence Model to ensure comprehensive risk management function. The model depicts three groups on which senior management and the Board can rely to detect and address risk:

1. Operating management;

2. Risk and compliance functions; and

3. Internal Audit.

As the first line of defence, operational management manages the organization's risks by implementing and maintaining effective internal control procedures on a day-to-day basis. The front-line managers are in the best position to identify control breakdowns and to introduce controls and other reactive measures to address any deficiencies.

The second line of defence is made up of a number of speciality risk management and compliance functions that work to make sure the first-line defence controls are designed appropriately and operating as intended. Pinnacle's second-line functions include financial functions, security, health and safety, ISO, and internal IT. They conduct their own risk assessments, develop risk management programs, and alert management to emerging issues and changing regulatory risk scenarios. The Audit and Risk committee, as part of the combined assurance model, also reviews work performed and related results as performed by these assurance providers.

Internal audit serves as Pinnacle's third line of defence and reviews controls and risk management procedures. In line with the definition of internal audit, the Department is appropriately independent and objective, something which is closely monitored by the Audit and Risk committee. PGIA's independence is supported through its independent reporting line to the Chairperson of the Audit and Risk Committee. Internal audit's independence enables the function to provide effective assurance to both the Audit and Risk Committee and ultimately the Board on whether the risks in PTH are been identified and adequately managed and mitigated.

The Chief Executive Officer and Divisional Boards are accountable to the Board for the implementation and maintenance of sound risk management. The Chief Risk Officer (CRO) has access and interacts regularly on strategic matters with the Audit and Risk Committee and executive management. The Chief Risk Officer's role is to provide a resource and focus for the development and implementation of the risk management policy. The CRO maintains contact and involvement with the divisions to ensure that the policy is implemented and is available for advice on risk management issues.

Risk registers are drafted and kept updated for the key areas of the business, including a strategic risk register covering the Pinnacle Group. The results, including action plans to mitigate risks that exceed the risk appetite, are reported to the Audit and Risk Committee. Inherent risk exposures that could prevent the Group from achieving its objectives are rated in terms of impact and likelihood of the risk materialising. The effectiveness of controls to mitigate each risk are evaluated. In instances where the residual risk exceeds the risk appetite, a risk mitigation plan is agreed and documented, champions assigned to execute the actions and implementation dates set. The Audit and Risk Committee monitors progress on the mitigation strategies.

Risk management is integrated in daily operations. In addition, the risk management methodology is applied in certain projects to ensure effective risk management and successful implementation of such projects. The risk management process is also utilised in some of the smaller divisions to serve as a management control self-assessment tool. The resultant risk registers included risk response plans which are monitored by management on at least a quarterly basis as a method of self-auditing. The risk management process is constantly refined in order for Pinnacle to become more risk-enabled.

The Chief Audit Executive's core role in risk management is to provide objective assurance to the Board on the effectiveness of Pinnacle's enterprise risk management activities. The various risk registers are used by Internal Audit to arrive at their risk-based three-year rolling audit plan.

Detailed below are the top 5 inherent risks in alphabetical order:

Risk Category	Key risks	Managemen
Employee risk	**Loss of key management** • The loss of key management could be a particular vulnerability; and • Loss of staff skills.	• Recruitment processe improved, and are re management attentio • Training plans are bei alignment with both b needs; • Staff remuneration pl reviewed. Employee r functions are assesse • A share incentive sch introduced for key ma • Staff turnover and oth is closely monitored b management and the the various operating
Financial Returns risk	**Competitor actions** Competitor actions could erode Pinnacle's competitive edge and value creation for all of the Company's stakeholders, including its shareholders. **Supplier actions** Loss of a key distribution license.	**Competitor actions** • Integrated customer • Strategic growth segm plans to grow those a • Tight financial contro efficiencies; • Key focus on custome • Direct oversight by se Board to ensure time coupled with quick ex appropriate; and • Diversification and ac of competitor actions

Risk Category	Key risks	Managemen
	Poor acquisitions Poor acquisitions resulting in financial loss and poor return on investment.	**Supplier actions** • Close relationships w • Close monitoring of c obligations with key r on an on-going basis. **Poor acquisitions** • Proper due diligence competent resources such reviews; and • Board approval and u
Information Technology risk	**Key reliance on Information Technology** The Group is reliant on its IT, telecommunications and power provision infrastructure.	• Major hardware upgr system improvement • Well controlled IT stru management in key a • Robust disaster recov • Decentralised approa reduce the risk expos • Generators for emerg and • Internet, data and tel links to ensure contin
Liquidity/ Financial risk	**Liquidity/Forex risk** If the main working capital items (inventories, trade debtors and creditors) together with capital expenditure are not carefully planned and controlled, a funding shortfall could arise and result in business interruption and damage to the Group creditworthiness. Failure to control other financial risks such as foreign exchange and interest rate risks could result in financial losses.	• Robust foreign excha reduce the impact of fluctuations; • The Group ensures th unutilised borrowing continuously plans bo bankers as is informe • Co-ordinated approac management and rela • Effective debt collecti widespread use of cre • Cash flow monitoring basis; and • Regular solvency and

Risk Category	Key risks	Manageme
Regulatory risk	Non adherence to legal requirements and regulations and specifically empowerment and transformation requirements.	• The responsibility for compliance was dele Ethics Committee; • BEE scorecards are re with a pro-active app requiring attention to on a timely basis; • Employment is all cha Human Resources to where appropriate; a • Independent BEE rati assistance of externa ensure BEE targets ar

A full report of the Audit and Risk Committee is contained in the Annual Report.

THE GOVERNANCE OF INFORMATION TECHNOLOGY

Principles and goals

The Board recognises and complies with the King III position that IT risk is an important aspect of the Audit and Risk Committee's responsibilities. The four key focus areas are as follows:

- Strategic alignment with the business and collaborative solutions, including the focus on sustainability and the implementation of green IT principles;
- Value delivery: concentrating on optimising expenditure and providing the value for IT;
- Risk management: addressing the safeguarding of IT assets, disaster recovery and continuity of operations: and
- Resource management: optimising knowledge and IT infrastructure.

IT Steering Committee

An IT steering committee continues to assist the Board in its responsibility for IT governance. Its Chairperson is the Chief Information Officer (CIO) and its members are senior members of the Group Information Office subsidiaries. The IT Steering Committee, reporting to the Audit and Risk Committee:

- provides strategic leadership for IT by aligning IT strategic objectives and activities within the group's strategic objectives and processes;

- prioritises IT project initiative and delivers IT investment recommendation for Board approval;

- ensures that sufficient organisational capability exists to enable the processes within its scope to perform and deliver the results expected by the business;

- exercises its authority in support of the IT process owners' achievements of the outcomes expected and to periodically evaluate performance and assist in implementing remedial actions when necessary; and

- considers the annual IT assurance statement on key IT projects and performance metrics.

IT governance charter

The current IT strategy defines the purpose and responsibility of IT in the group as defined by an approved Charter. The IT governance goals are as follows:

- the management of business risks;

- high service availability;

- agility in responding to changing business requirements;

- automation and integration of the enterprise value chain; and

- compliance with internal policies, selected industry standards, external laws and regulations.

IT performance against target

The Group IT systems are significantly improved from the previous year due to the integration of both staff and hardware resources as well as overall improved controls and processes. The IT strategy in the main has been achieved. The investment in IT infrastructure resulted in helping towards a sustainable Greener IT in reducing the data centre carbon footprint and electrical consumption by a considerable amount. The saving equates to 10KVA of power and 370 tonnes of CO_2 per month.

The objective for the year ahead is to ensure that all principles of King III are fully adopted. Specific attention will also be given to further improve on the four key areas: greener IT, value delivery, risk management and resource management.

COMPLIANCE WITH LAWS, RULES, CODES AND STANDARDS

The Board is ultimately responsible to ensure on-going legal and regulatory compliance. Management is responsible for the on-going monitoring of all pending and actual changes to the group's regulatory environment. Employees are reminded that compliance with legal requirements is not negotiable, a requirement which is also contained in the Company Code of Conduct.

The Group's activities are governed by regulations of which many received specific attention in the previous year. Several initiatives were undertaken during the financial period to ensure legal compliance, particularly relating to legislation such as the Companies Act (no 71 of 2008), the Competition Act (1998), anti-corruption legislation and the Occupational Health and Safety Act (no 85 of 1993). There has also been ongoing focus on the few remaining aspects covering the King III report.

No significant fines or non-monetary sanctions for non-compliance with any laws, specifically environmental laws and regulations, were paid in the latest financial period.

Statutory compliance

As articulated in Pinnacle's Code of Conduct, Pinnacle does not accept any violation of law or unethical business dealing by any employee. Employees must comply with all applicable laws and regulations which relate to their activities for and on behalf of the Group. This includes not only laws in South Africa but also all foreign territories in which Pinnacle conducts business.

Pinnacle is governed by a wide range of legislation and codes. The following is most relevant to the Pinnacle Group as a minimum received particular attention during the year:

- Companies Act;
- Anti-bribery laws including the UK Bribery Act and US Foreign Corrupt Practices Act;
- Basic Conditions of Employment Act;
- Labour Relations Act;
- The Skills Development Act;
- Occupational Health and Safety Act;
- Competition Act;
- Consumer Protection Act;
- Employment Equity Act; and
- Broad-Based Black Economic Empowerment (B-BBEE) Act.

Non-compliance with anti-bribery legislation poses a significant risk to the Group as this may not only result in significant fines but also in the potential loss of key vendor contracts. All relevant staff in the Group are continuously made aware and trained on anti-bribery laws. The Company plans to raise awareness with its independent reseller base through training programmes and information sharing.

The Group's internal audit function performed ongoing assurance reviews of employee compliance with the Competition Act. The aim is not only to identify possible breaches of the Act but also to raise employee awareness on both the legal requirements and company policy covering anti-competitive behaviour. The latest review did not highlight any beaches of the Competition Act.

All of the above legislation will impact on the governance and associated reporting within the Group. Additional responsibilities were therefore placed on both the Board and management to adhere to requirements and ensure compliance. Adherence to legal requirements forms an integral part in the day-to-day management of the Group. Compliance is also included in the various risk registers.

Competition Act No 89 of 1998 ("the Competition Act")

Non-compliance to the requirements of the Competition Act, No 89 of 1998 is a key inherent risk for the Pinnacle Group and all its subsidiaries. Each breach of the Competition Act could result in Pinnacle receiving a fine of up to 10% of its annual turnover, over and above any reputational damage.

Reasonable assurance was obtained through an internal audit that there were not violations of the Competition Act (the Act) by any of the employees in the Group. Reported violations would enable the company to self-confess such violations. Initiatives were also undertaken to make staff aware of the requirements of the Act including the Company's policy covering adherence.

Occupational Health and Safety Act No 85 of 1993 ("OHS Act")

The OHS Act aims to provide for the health and safety of persons at work. Initiatives from the prior year were continued to ensure both a safe working environment but also compliance with the Act. New acquisitions that were made during the year were also assessed for OHS Act compliance with corrective measures taken where appropriate.

Insider trading

Pinnacle confirms that it complies with the JSE Listings Requirements, and the Financial Markets Act (No 19 of 2012) in respect of insider trading. The Board has instituted preventative measures to ensure that individuals who have inside information relating to securities or financial instruments of the company, do not deal in such securities or financial instruments. Closed periods of trading in company securities are formally announced to reduce insider trading risks.

Anti-corruption legislation

The Pinnacle Group, its resellers and third parties are compelled to comply with anti-bribery and anti-corruption legislation. Adherence in some instances is also included in distributor agreements that are signed with Pinnacle's vendors. In the main, compliance is governed by the Foreign Corruption Practices Act (United States), the UK Bribery Act and the South African Prevention and Combating of Corrupt Activities Act (No 12 of 2004). Non-adherence could result in fines or even the loss of the distribution license of some products. A training programme was rolled out to all relevant staff to ensure that all employees and to a lesser extent resellers are familiar with the requirements. Training and awareness is a continuous process and going forward, the initiative will specifically be targeting Pinnacle's resellers and other third parties.

Regulatory compliance

Pinnacle has adopted and implemented the recommendations of the King III Report as well as those of the Companies Act, and all taxation and labour legislation. As an issuer on the Johannesburg Stock Exchange (JSE), the Pinnacle Board annually confirms that the Company has complied with the JSE's Listing Requirements. It also conducts an annual review of its compliance with King III the latest results of which are detailed at the end of this report. The Board places strong emphasis on reliable financial reporting and hence financial results are prepared in line with the requirements of the International Financial Reporting Standards (IFRS).

King III Code

The King III Report was issued in South Africa by the King Committee on Corporate Governance and recommends best international practices in corporate governance. Compliance with only a small section of the King III Code is mandatory under the Johannesburg Stock Exchange ("JSE") Listings Requirements. The JSE does however require listed companies to provide explanations where recommended principles are not implemented.

Pinnacle has adequately responded to the 'Apply or Explain' requirements of the 60 elements of the King III. A gap analysis is performed each year and explanations are reported in areas where principles had not been applied. The gap analysis serves as a basis for an action plan to ensure that deviations from recommended practice are addressed in the coming financial year. The Company complies fully with those principles that were declared mandatory by the Johannesburg Stock Exchange. The details of the most recent gap analysis and related explanations are contained on our website under KING III CODE – GAP ANALYSIS.

In line with King III recommendations, Information Technology (IT) governance forms an important part of Pinnacle's strategic and business processes, governance structures, policies and procedures. The function is managed by a suitably qualified Chief Information Officer (CIO). Particular attention is given to IT governance and the amalgamation of the various IT support teams and other resources. In line with King recommendations, IT governance continued to be standing item on the agenda of the Audit and Risk Committee, where strategies and progress on addressing both strategic and operational risks are reported and monitored. The Committee ensures that current network infrastructure and resources are aligned with both current and planned business strategies and requirements. The key objective is not only to mitigate risk, but also to improve efficiency and reduce costs where appropriate. This is in line with the mandate which was given to IT.

INTERNAL AUDIT

The Board supports the fact that independent assurance does not only assist management to reach their objectives but also lends credibility to the organisation's activities and reporting.

Role of Internal Audit

The purpose, authority and responsibility of the internal audit function are defined in the Internal Audit Charter which was approved by the Audit and Risk Committee. The charter is consistent with the Institute of Internal Auditors' definition of internal auditing, and the principles as defined by the King III Report and Code.

Internal Audit provides objective assurance and consulting activities to add value and improve Pinnacle operations to assist us in accomplishing Pinnacle's objectives. In terms of the Pinnacle Internal Audit Activity Charter and the King III Report, it is a requirement for the Chief Audit Executive to report on the adequacy and effectiveness of the organisation's corporate governance, risk and control processes. To this end, Internal Audit's assessment of the adequacy of corporate governance and risk management processes was conducted during the year and reported to the Audit and Risk Committee. In addition, Internal Audit provided assurance on Pinnacle's adequacy and effectiveness of internal control frameworks and performed an analysis and evaluation of business processes and associated controls.

Independence

Internal Audit is independent, with the Chief Audit Executive (CAE) functionally reporting to the Chairperson of the Audit and Risk Committee and administratively to the Chief Executive Officer. He has unrestricted access to both the Audit and Risk Committee and the Board. During the year the CAE met separately with the Chairperson of the Audit and Risk Committee to discuss any governance concerns that might arise from time to time and the results of internal audit's work. The CAE is a permanent invitee to all Audit and Risk Committee meetings and also has open invitations to attend Board and Executive Committee meetings.

Scope of work

Internal Audit's scope of work is to determine whether Pinnacle's risk management, control, and governance processes are adequate and functioning in a manner to ensure:

- risks are appropriately identified, managed and mitigated;
- assets are adequately safeguarded;
- significant legislative or regulatory issues impacting the organisation are recognised and addressed appropriately;
- employees' actions are in compliance with policies, standards, procedures, applicable laws and regulations;
- significant financial, managerial, and operating information is accurate, reliable, and timely;
- resources are acquired economically and used efficiently; and
- quality and continuous improvements are fostered in the organisation's control process.

Audit plan

A three-year risk-based rolling Internal Audit plan, covering all entities in the Group was used to guide Internal Audit's efforts. The plan was arrived at by using various risk registers, company strategic objectives, management concerns, and other factors such as results from previous audits and changes in operations which might increase risk exposures and affect the achievement of strategic objectives. The Audit and Risk Committee approved the plan and also reviews and approves amendments when the plan is updated throughout the year. The Audit Committee also monitors the plan's execution, audit resources and the results of work performed.

Audit approach

The CAE is suitably qualified and experienced to execute his audit responsibilities. To further enhance controls and improve skills in the business, Pinnacle adopted a principle where experts from the business assisted Internal Audit with the execution of certain audit assignments. These guest auditors assist Internal Audit with audit scrutiny in areas outside of their scope of work or influence. These assignments were conducted under close supervision of Internal Audit to ensure on-going independence of the audit function. Benefits derived were not only to assist Internal Audit with expert knowledge to enhance the overall audit activity but also to ensure cross-pollination of skills and knowledge throughout in the Company.

Combined assurance

The Group has adopted a combined assurance model which identifies key risk areas where audit assurance needs to be provided to assure the Committee that risks are within acceptable levels.

Internal Audit seeks to work closely with other assurance providers to maximise assurance efforts to the Audit and Risk Committee. The Audit and Risk Committee reviews results of combined assurance efforts by both internal and external assurance providers to ensure that risks are highlighted and appropriately addressed.

Overall opinion

The internal audit process provided reasonable assurance that for the areas reviewed, the audit process did not highlighted any breakdowns in internal control that are known to have a material impact on the Pinnacle Group's performance and achievement of objectives during the period under review. Management had taken appropriate action to address key control deficiencies that were highlighted as a result of audit testing.

INTEGRATED REPORTING AND DISCLOSURE

Pinnacle has taken cognisance of King III Code principle 9 covering integrated reporting requirements. The Board acknowledges its responsibility to ensure the integrity of the Integrated Report and has delegated this responsibility to the Audit and Risk Committee to evaluate disclosures in the report. To achieve this objective, the Audit and Risk Committee applied the combined assurance model to ensure that information in the integrated report is reliable and does not contradict the financial aspects of the report.

It is noted that the Company no longer produces one Integrated Report as this is not required under the JSE Listings Requirements, the Companies Act or IFRS. Until such time as integrated reporting is required, the Company has decided to divide the usual contents of an Integrated Report into two separate reports. The first report is this report, titled "Corporate Citizenship" which comprises standing information about the Company's Governance and Risk. Such information is updated as and when it changes. The second report is the traditional Annual Report which is issued in final form once annually within three months of the Company’s financial year end. The Annual Report contains the annual financial statements compiled in accordance with IFRS, and any other information typically found in Integrated Reporting that has specific reference to the financial year.