

Interim update on the detailed forensic investigation

1. Introduction

- 1.1. The EOH Board (“The Board”) has received an update from ENSafrica (“ENS”), setting out their current findings of an investigation initiated by the Board and CEO in February 2019. ENS was requested to conduct a proactive comprehensive investigation into EOH Group (EOH) contracts to identify any wrongdoing or criminal conduct in the acquisition, award or execution of those contracts. ENS has had unfettered access to all information, financial records and other documentation required for the purposes of conducting this investigation.
- 1.2. These findings are the product of just over four months’ work by ENS. Significant progress has been made on the investigation but additional work is still required before the investigation is concluded and finalised.
- 1.3. The bi-monthly update provided by ENS is considered by the Board and its advisors, which in turn informs areas for further investigation and remedial work.
- 1.4. The ENS investigation is confidential and subject to legal privilege and other restrictions. In this update, the Board makes available key findings and themes, together with preliminary views on remedial measures and next steps.

2. Core finding

The ENS investigation has found evidence of serious governance failings and wrongdoing at EOH, including unsubstantiated payments, tender irregularities and other unethical business dealings which are primarily limited to:

- 2.1.1. Public Sector business run from EOH Group head office;
- 2.1.2. EOH Mthombo (Pty) Ltd; and
- 2.1.3. A limited number of EOH head office employees (now ex-employees).

3. Key themes identified by ENS include the following:

- 3.1. Identification of multiple points of failure in governance and oversight mechanisms, inadequate and ineffective controls and appropriate systems thus creating an enabling environment for wrongdoing.

- 3.2. Opaque Delegation of Authority (DOA) with significant responsibilities granted to a few executives.
- 3.3. EOH employees conspiring with two preferred suppliers / partners to facilitate artificial / inflated software licence sales.
- 3.4. Tender irregularities.
- 3.5. Systemic use of connected middle-men recognised and used as introducers and sales agents.
- 3.6. Enterprise Development ("ED") subcontractors used on projects and payments made to such suppliers, where it is questionable whether *bona fide* work was done by the said suppliers.
- 3.7. Inappropriate gifting, sponsorships and donations.
- 3.8. Payments of R1.2bn (including VAT) to approximately 78 supplier entities are being investigated to determine whether appropriate work was done for services rendered. It is worth noting that 84% of the payments were made to 20 entities. These payments were largely related to contracts entered into during 2014 and 2017. The majority of these contracts have been completed.

4. **Perpetrators**

- 4.1. The employment relationship with EOH has been terminated with individuals who have been directly implicated in the identified wrongdoing.
- 4.2. EOH has reported the concerns and the details of the parties implicated in the irregularities to the Directorate for Priority Crimes Investigation ("**DPCI or the Hawks**") in terms of Section 34 of the Prevention and Combating of Corrupt Activities Act ("**PreCCA**").
- 4.3. The suspicious transactions arising from the investigation have been reported to the Financial Intelligence Centre in terms of Section 29 of the FIC Act.
- 4.4. EOH is committed to ensuring that all perpetrators of wrongdoing are brought to justice. EOH has instructed ENS to initiate criminal charges and lodge civil claims to recover losses, as appropriate.
- 4.5. The EOH Board will act decisively in respect of any further wrongdoing that is identified during the ongoing investigation, in line with its zero tolerance on corruption policy.

5. **Remedial measures: implementation of controls and good governance**

- 5.1. In light of these findings, the Group is documenting and developing a comprehensive remediation plan. A number of remediation measures have already been implemented and others will follow in due course.
- 5.2. Extensive work has already been conducted to revise the corporate structure, implement robust risk management and mitigation initiatives, appoint new leadership and increase transparency, accountability and reporting.
- 5.3. The recent appointments of a new Board chairman and three independent, non-executive directors are an important milestone for the EOH Group to enhance and complement leadership capability and governance oversight. The EOH Board is now aligned with King IV principles to support independence and governance.
- 5.4. The appointment of a new Group Financial Director was announced in January 2019. This appointment combined with a new Head of Treasury and Investor Relations have resulted in improved financial and fiscal discipline.
- 5.5. The position of Chief Commercial Officer has been created and filled to segregate duties between the finance function and the legal, risk and compliance functions. The Chief Commercial Officer will have a dual reporting line to the CEO and Audit and Risk Sub Committees of the Board.
- 5.6. The appointment of a new Public Sector business head.
- 5.7. With the assistance of the University of Stellenbosch Centre for Corporate Governance in Africa and PwC, the Group has recently drafted and released a Code of Conduct and Corporate Governance Framework, and implemented a policy framework to cover the following:
 - Anti Bribery and Corruption (ABC) Compliance;
 - Anti fraud and irregularities;
 - Gifts and entertainment;
 - Outside business interests;
 - Conflicts of interest;
 - Donations to political parties;
 - Introducers and/or strategic transactions;
 - Whistleblowing;
 - Money laundering; and
 - Sanctions.

- 5.8. PwC is assisting EOH in setting up an internal audit function.
- 5.9. ENS has assisted EOH in implementing its anti-bribery programme which is based upon ISO 37001, the International Standard for Anti Bribery Management Systems. EOH is on track to be fully aligned to the six principles of the standard by calendar year end 2019.
- 5.10. An EOH wide whistle blower app 'Expose it' has been launched to support confidential and anonymous ABC reporting to EOH. The app is also available commercially for use by EOH customers and any 3rd party.
- 5.11. A bid governance process framework has been implemented which includes:
 - 5.11.1. Bid templates, controls, limits and mandates;
 - 5.11.2. Review, monitoring and independent oversight; and
 - 5.11.3. Supplier and customer (enhanced) due diligence to the extent necessary.
 - 5.11.4. When bidding for contracts, EOH employees are prohibited from using introducers, sales agents or middlemen. No commission payments, gifts, including trips, equipment or any other incentive is permissible.
- 5.12. Advisors have been appointed to assist in the re-organisation and optimisation of the 272 legal entities into a more manageable structure. As a result:
 - 5.12.1. Each individual business unit will have a clear go-to-market strategy with separate governance and capital structures to maximise their growth prospects;
 - 5.12.2. A single consolidation and reporting tool; and
 - 5.12.3. Delegation of Authority has been clarified and is being implemented.
- 5.13. The Group has already achieved over 50% of its targeted R1billion of disposals to reduce debt levels.
- 5.14. All enterprise development partners are required to meet the Group Know Your Client (KYC) process.
- 5.15. A Gift Policy has been introduced and EOH employees will no longer be able to accept gifts or invitations of more than R1 000 in cash or kind in South Africa (€100 or \$100 outside of South Africa). If invited to product knowledge sessions or events, EOH will pay for its own flights, accommodation, subsistence and incidental expenses through its operating budgets. All gifts above R250 but below R1 000 must be disclosed, reported and recorded appropriately.

- 5.16. A Declaration of Interest Policy has been introduced and it is compulsory for all employees to annually declare any business interests, directorships and shareholdings.
- 5.17. In order for any employee to receive a commission or bonus or other incentive, the respective employee will be required to sign an anti-corruption warranty prior to such payment or award. The warranty will acknowledge the right of EOH to claw back any commissions or bonus if an employee has been identified to have broken any policies at any time in the past or future relating to such payment.
- 5.18. Employees are required to attend mandatory training on the newly implemented EOH governance, risk and compliance processes.
- 5.19. In addition to addressing the findings of the investigation, EOH is focused on removing any culture of hierarchy and fear which dissuades employees from speaking up and voicing important issues related to the business.

6. **NEXT STEPS**

The EOH Board and Executive will continue to consider the contents of the ENS feedback and subsequent actions will include:

- 7.1. Continued analysis and assessment of the investigation in order to ensure that, amongst other things, all material aspects have been identified and evaluated.
- 7.2. Pursuit of recovery of losses incurred and damages suffered by the EOH Group.
- 7.3. The EOH Group will provide its full assistance and co-operation with any criminal investigations by law enforcement agencies.
- 7.4. Finalisation and implementation of the Group's remediation plan to address the culture change required at EOH and to meaningfully engage our shareholders and all stakeholders.
- 7.5. Provide regular updates to all stakeholders, as appropriate, as the forensic investigation is concluded.

ENDS