



Ethics & Governance Program Report 2018

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SECTION 1. FORWARD

1.1 Introduction

This is an annual report on the activities under AEC's Governance & Ethics Program.

This report is made by the Director, Corporate Governance & Internal Audit (CG&IA) as part of his duties in the overall management of AEC's corporate governance, ethics, anti-fraud / corruption, and transparency initiatives.

The Director-CG&IA also makes quarterly report to the Audit Committee (in charge to review the effectiveness of all ethics and governance program).

The following paragraphs details the activities undertaken by the company as a whole in maintaining and improving governance and transparency.

SECTION 2. ACTIVITIES UNDER TAKEN IN 2018

2.1 Awareness Sessions

In order to obtain engagement from all employees, continuous awareness sessions on various topics related to governance, ethics and anti-fraud / corruption were conducted since 2012.

The following sessions were conducted in 2018:

1. Anti-Fraud Awareness Session: The purpose of these sessions is to provide awareness to existing employees on aspects of fraud and means and ways to manage fraud risks in addition, the awareness sessions also included explanations on AEC Ethical Conduct. For 2018, the team concentrated its efforts towards engaging technicians who forms a majority of AEC employees. Thirteen sessions were provided to technicians from Manufacturing and Repair sections. A total of 169 technicians have attended the awareness sessions bringing the total employees exposed to AEC's Ethics & Anti-Fraud Program to 658 employees since the inception of the awareness session.
2. Enterprise Risk Management: 6 sessions on Risk Management were provided to departments such as IT, Marketing, Facilities, Manufacturing, and MRO.
3. Export Control awareness session: Further 6 sessions were conducted in 2018 on Export Control. The departments covered include Safety & Security, Procurement, Property Control, Materials Planning & Inventory Management, and Government Liaison Office.

2.2 Conflict of Interest Disclosure

AEC has a policy requiring employees who have been given financial authority limits and employees who are customer or supplier facing, to provide disclosures with regard to any potential or actual conflict of

interest situations while discharging their duties. Since the inception of this policy in 2014, a total of 217 employees have submitted their conflict of interest disclosure form.

During 2018, we are glad to report that there are no instances of actual or potential conflict of interest being reported.

2.3 Enterprise Risk Management

The enterprise risk register continued to be reviewed and updated on a quarterly basis as part of the overall Risk Management System implementation in AEC. During 2018, the team noted some positive movement towards the actions to manage the risks identified. Two major risks were reduced and four response actions were completed.

The Risk Management team revisited the Risk Register to include a number of improvements such as linking the risks to the objectives and inserting the fields related to risk appetite and tolerance.

Appreciating the importance of risk management towards the company's objective, the Executive Management identified "ERM Maturity" as one of the corporate objectives of the Company. The Risk Management team adopted the ERM Maturity model developed by Risk Management Society (RIMS) to assess the ERM Maturity. As at 2018, based on self-assessment, AEC's ERM Maturity was at Level 1 of the RIMS ERM Maturity Model.

2.4 Ethics & Governance Hotline & Email

Studies from the Association of Certified Fraud Examiners (ACFE) indicates that more than 50% of frauds are being highlighted and reported by employees compared to any other sources. In line with this, we have created the Ethics & Governance hotline and email to enable any employee to provide reports of suspected fraudulent activities or to raise questions with regard to ethical conduct, governance, and transparency.

No major reports were received during 2018 with regard to fraudulent or corrupt practices.

2.5 Review and Update of Policies & Procedures

To guide employees in the discharge of their responsibilities, AEC has an extensive array of policies and procedures ranging from Corporate Strategic Planning to leave application.

The policies and procedures are reviewed every three years to ensure their applicability to meet business requirements but at the same time embedded with necessary controls to manage the risks attributed to each process.

A total of 119 policy documents and 66 procedures (called process maps) were reviewed and updated during 2018.

One of the major documents updated was the Ethical Conduct Handbook. The new revision included a section of Frequently Asked Questions (FAQ) with the intention to provide further guidance to employees in facing ethical issues. In addition, the inaugural Arabic version of the handbook was released in September 2018.



In addition to the above, five new policies and eleven new procedures (process maps) have been documented. These include policies on Treasury Management, Provision & Write-off Management and processes relating to Marketing Services and Tax Management.

The above additions bring the total number of policies to 318 and 266 procedures (process maps) documents depicting the overall Management System of AEC.

SECTION 3. CONCLUSION & SUMMARY

The Director, Corporate Governance & Internal Audit is the focal point to receive all queries, complaints, and reports with regard to the ethics and governance. For 2017, we are glad to indicate that the overall governance and ethics of the company is effective in supporting the company in achieving its objectives.