



FLOW OF FUNDS

EXHIBIT VV 1

STEPHEN
VAN COLLER



**JUDICIAL COMMISSION OF INQUIRY INTO ALLEGATIONS OF STATE CAPTURE,
CORRUPTION AND FRAUD IN THE PUBLIC SECTOR INCLUDING ORGANS OF STATE**

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Affidavit

I, the undersigned,

Stephen van Coller

do hereby make oath and say that:

Introduction

1. I am currently the Group Chief Executive Officer ("CEO") at EOH Holdings Limited ("EOH") and make this submission in this capacity.
2. EOH is a public company incorporated in accordance with the laws of the Republic of South Africa, with its operations situated at EOH Business Park, Gillooly's View, Osborne Lane, Bedfordview. EOH is the largest Information, Communication and Technology (ICT) company in Africa, and plays an important role in the South African economy.
3. Unless otherwise indicated, the facts contained in this affidavit are within my personal knowledge, or arise from documents under my control, and are, to the best of my knowledge and belief, true and correct.
4. I have a B.Com (Hons) from Stellenbosch University, a Higher Diploma in Accounting from Natal University and I am a registered Chartered Accountant in South Africa.
5. I completed my articles at Ernst and Young and have 20 years' experience in the Financial Services industry. I was employed for about 10 years at Deutsche Bank in South Africa, eventually becoming a managing director and executive committee member of the investment banking division.
6. I was thereafter employed for about 10 years at Barclays Africa. After about three years of employment with Barclays Africa, I was promoted to Group Executive and CEO of the Corporate and Investment Banking division and held that position for about seven years.
7. Prior to joining EOH, I was employed at MTN for about two years and when I left MTN, I was the Vice President and executive committee member of Data, Digital and Corporate Development.
8. EOH's submission of information and presentation of evidence to the Zondo Commission is in line with the Board's commitment that the company would provide full assistance and co-operation with any regulatory authorities and law enforcement agencies regarding the findings of EOH's independent forensic investigations.
9. EOH has already co-operated and provided information to National Treasury, the Financial Intelligence Centre, South African Police Services ("SAPS"), South African Revenue Services ("SARS") and the major South African banks.

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10. Before referring to the Commission's specific queries, I set out hereunder relevant background information in regard to EOH, the cancellation of a contract by Microsoft and the steps that the reconstituted board of EOH took to improve governance at EOH.

Background

11. I joined EOH at the request of the founder, Asher Bohbot ("**Bohbot**"), who was looking firstly to retire and secondly for someone to, as he termed it, professionalise EOH.
12. Bohbot had approached me early in 2017 to join EOH but I declined as we could not agree on the job scope and requirements.
13. He subsequently appointed Zunaid Mayet ("**Mayet**") as his replacement CEO in mid-2017 and retired. Bohbot returned as Chairman in early 2018 and approached me again in mid-2018 to assist in "professionalising" EOH. I accepted the offer to serve as Group CEO of EOH.
14. Mayet stepped down as Group CEO when I assumed the position of Group CEO of EOH. I commenced employment at EOH on 03 September 2018. Mayet became the CEO of EOH subsidiary, Nextec.
15. Prior to my appointment as Group CEO of EOH, the company had already been the subject of adverse media reports related to, *inter alia*, corporate governance and probity concerns. These media reports had also negatively impacted the EOH share price.
16. Upon my arrival at EOH in September 2018, I immediately initiated a number of interventions to establish the veracity of the media allegations against EOH, and to enhance governance and ethical standards throughout the company.
17. These interventions in the first few months of my tenure as Group CEO from September 2018 included, but were not limited to:
- 17.1. significantly broadening the scope of the independent law firm ENSafrica and their subsidiary ENS Forensics' (jointly "**ENS**") forensic investigations and allowing them unfettered access to EOH emails and books and records;
 - 17.2. assessing the quality of anti-bribery controls and governance in place at EOH; and
 - 17.3. personally addressing the senior leadership teams of EOH Group subsidiaries on Anti-Bribery obligations at "Ambassador Anti-Bribery and Corruption training sessions" that were held in Johannesburg, Durban and Cape Town, where I emphasised that there is only one way to do business, and that is ethically.

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18. Within the first two months, it was evident to me that there might be issues regarding the revenue and asset recognition in the accounts of the company. The fast-declining return on assets and declining cash conversion rates between 2014 to 2018 were evidence of this. I published two graphs in the 2019 year-end financial accounts presentation illustrating this. They can be accessed at <https://www.eoh.co.za/investor-relations/previous-financial-results/2019/> on page 6.
19. I had immediate concerns about the lack of attention to corporate governance and control mechanisms. This, together with some of the early feedback meetings with ENS, highlighted issues regarding the ethical conduct of some of the senior leadership team who, it appeared, had been derelict in their duties to provide adequate governance controls and oversight, as would typically be required of a JSE listed entity.
20. As a result of this and my early concerns, the Financial Director was requested to resign. EOH commenced the search for a new Financial Director and also decided to appoint a treasurer to closely manage the cash flows.
21. The treasurer was appointed in November 2018 and a new Financial Director started during January 2019.
22. Furthermore, the board was not King Code compliant. This was largely because there were four Executive Directors, three non-executive directors who had been on the board for longer than 10 years and a fourth non-executive director who was previously an executive and had not had the required three-year cooling off period.
 - 22.1. As a result of the above factors, the Chairman and Founder ("**Bohbot**") stepped down at the Annual General Meeting in February 2019 along with the two other long serving directors.
 - 22.2. EOH appointed the University of Stellenbosch Centre for Corporate Governance in Africa to review the board committees and assist with an overhaul of all the policies and procedures required for a listed company.

Microsoft

23. On 8 February 2019, I received a notice to terminate the Microsoft Channel Partner and Microsoft Partner Network agreements executed between Microsoft Ireland Operations Limited ("**Microsoft**") and EOH.
24. At the time, I reached out to Microsoft's local leadership team to gain an understanding of the concerns that culminated in the decision by Microsoft to cancel the above agreements without cause.
25. My team and I held a meeting on 11 February 2019 with Microsoft management at the Sandton offices of the law firm, Dentons, in which we urged Microsoft to provide us with information so that we could address any alleged wrongdoing within EOH. We also tried to persuade the local Microsoft management team to consider less drastic alternatives to outright cancellation of the agreements.

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26. Microsoft's local management team (many of whom have since exited the business) were, however, unwilling to share any information with us, or to reconsider the intended termination. After 30 days, Microsoft proceeded to cancel the agreements with EOH.
27. On Monday 11 February 2019, I was contacted by a journalist from the online media publication, *Techcentral*, Duncan Mcleod ("**McLeod**"), who informed me that a whistle-blower had given him details of what the whistle-blower asserted was a fraud on Microsoft contracts with the Department of Defence ("**DoD**") and South Africa Police Service ("**SAPS**").
28. Mcleod later published these allegations on the *Techcentral* website via two different articles: <https://techcentral.co.za/microsoft-terminates-partner-agreements-with-eoh/87357> and <https://techcentral.co.za/eoh-microsoft-ensnared-in-sec-corruption-complaint/87543>
29. As a consequence of the Microsoft cancellation and the allegations made by the whistle-blower, I mandated ENS to conduct a comprehensive investigation into the Microsoft agreements, as well as other large public sector contracts, in order to try to identify any wrongdoing in the acquisition, award or execution of such contracts.
30. EOH held its AGM on 20 February 2019. Subsequent to the abovementioned AGM, a new reduced Board of EOH under the interim Chair, Jesmane Boggenpoel, gave ENS unfettered access to all EOH information, financial records and other documentation required for the purposes of conducting the above-mentioned comprehensive investigation.
31. Furthermore, the Board set up weekly sub-committee meetings with ENS to get updates in regard to its investigations.
32. A new chair and three new board members were appointed by July 2019. Three executives that were suspected of wrong-doing or governance failures were asked to leave and did so.
33. The reconstituted board decided to take decisive action against all alleged perpetrators and those who had allowed poor governance and system and process failures to thrive under their watch.
34. By July 2019, EOH had a new executive team. EOH Group also at this stage had a board composition that complied with the King Code for the first time.
35. Following the appointment of a new Financial Director, EOH appointed PWC to conduct a detailed review of the 2018 financial year end balances and revenue recognition. This review was concluded in September 2019 and resulted in the restatement of the 2018 financial year results.

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Core findings of the ENS investigation:

36. On 16 July 2019, EOH released an update detailing the initial findings of the ongoing investigation by ENS. EOH reported the findings in the 2019 annual results' presentation. This can be accessed at <https://www.eoh.co.za/investor-relations/previous-financial-results/2019/> on pages 21 and 22.
37. ENS found evidence of governance failings and suspected wrongdoing at EOH, including unsubstantiated payments, suspected tender irregularities and other suspected unethical business dealings.

Key themes identified by ENSafrica include the following:

38. Multiple points of failure in governance and oversight mechanisms, inadequate and ineffective controls and inadequate systems thus creating an enabling environment for wrongdoing, including:
 - 38.1. opaque Delegation of Authority (DOA) with significant responsibilities granted to a few executives;
 - 38.2. artificial/inflated software licence sales;
 - 38.3. potential tender irregularities;
 - 38.4. use of politically connected middlemen that are suspected to have been used as introducers and sales agents;
 - 38.5. payments being made to subcontractors in circumstances where there is no evidence that work was done by the said subcontractors. (at the time, these payments totalled R1,2 billion, including VAT and on further investigation, it is currently suspected that the potential irregular payments stand at approximately R865 million); and
 - 38.6. suspected inappropriate gifting, sponsorships and donations.
39. EOH's board instructed attorneys to issue summons to recover damages from the alleged perpetrators.
40. Following the initial investigations by ENS, an update was released by EOH and can be accessed on the EOH website at the following address: <https://www.eoh.co.za/interim-update-on-the-detailed-forensic-investigation/>. This update is attached to this affidavit as **SvC 1**.
41. EOH was unable to "follow the money" to substantiate its suspicions in all instances and has engaged with various law enforcement agencies and Government departments in relation to the findings of the ENS investigation, including:
 - 41.1. SAPS, the Directorate of Priority Crime Investigations ("DPCI"), the Special Investigation Unit ("SIU");

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- 41.2. The State Information Technology Agency (“SITA”); and
- 41.3. National Treasury, the South African Revenue Services (“SARS”) and other relevant government departments impacted by the investigation.
42. In addition, EOH has fulfilled its regulatory reporting obligations and in this regard EOH has made a number of reports to the DPCI in terms of Section 34 of the Prevention and Combating of Corrupt Activities Act (“PreCCA”).

Enhanced Risk & Compliance Governance Framework

43. Running in parallel to the ENS investigations, EOH had set about establishing a dedicated compliance team and has overseen the implementation of extensive enhancements to the compliance programme and control environment to ensure that identified gaps and deficiencies are addressed. These enhancements included the following:
- 43.1. **Tone from the Top** - Leadership commitment to anti-bribery and corruption compliance;
- 43.2. **Training and Awareness** - Face to face dedicated anti-bribery and corruption training for employees in addition to online training on the newly adopted code of conduct. This training achieved a 93 per cent attendance and completion rate;
- 43.3. **Compliance Policy Framework** – some of the new policies that EOH has implemented include:
- 43.3.1. Anti-Bribery and Corruption Policy (including sections on Introducer's and Strategic Transaction Risk)),
 - 43.3.2. Fraud Risk Policy,
 - 43.3.3. Gifts and Entertainment Policy (including a section on donations to Political Parties),
 - 43.3.4. Conflict of Interest Policy (including a section on Outside Business Interests),
 - 43.3.5. Whistleblowing Policy,
 - 43.3.6. Anti-Money Laundering, Terrorist Financing and Sanctions Policy,
 - 43.3.7. EOH Share Dealing Policy;
 - 43.3.8. Regulatory Change and Relations Policy;
 - 43.3.9. Procurement Policy; and
 - 43.3.10. Competition Compliance Policy.
- 43.4. **Enhanced Risk & Compliance Governance Framework:** ENS, PWC and the University of Stellenbosch Centre for Corporate Governance in Africa were retained to support the implementation of the new risk governance framework to ensure an effective basis for the company to move forward. Improvements include:

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- 43.4.1. Appointment of new Group CEO (Stephen Van Coller);
- 43.4.2. Appointment of a new Financial Director (Megan Pydigadu) - Qualification - B Com (Accounting), HDip Acc, CA(SA), having held senior financial positions at De Beers and Bateman and most recently she was chief financial officer for Mix Telematics, a JSE- and New York-listed company;
- 43.4.3. Appointment of a Chief Risk Officer (Fatima Newman) - Qualification - BA (Law), Certificate in Compliance Management, Leadership Programme (Singularity University) with 25 years of experience as a strategic leader of risk, compliance, regulatory and governance oversight in banking and financial services, stockbroking, asset management and corporate finance;
- 43.4.4. Appointment of a Head of Risk (Cara Laing), CA(SA) and previously Head of Risk at Mix Telematics;
- 43.4.5. Appointment of a Head of Compliance (Garreth Young), BA LLB (Admitted Attorney) and previously Head of Compliance and Governance, Risk and Control for ABSA Corporate and Investment Bank;
- 43.4.6. Appointment of a Head of Legal (Damian Naicken), LLB (Admitted Attorney) and previously Group Legal Manager for the Servest Group;
- 43.4.7. Appointment of a Head of Internal Auditing (Kaamil Buckas), CA(SA) and previously Regional Executive: Audit and Risk for Liquid Telecommunication;
- 43.4.8. Constitution of a new independent Board aligned with King IV principles to support independence and governance;
- 43.4.9. Appointment of Dr Xolani Mkhwanazi as new Chairman. Sadly, Dr Makhwanazi passed away in January 2020 and Mr. Andrew Mthembu was appointed as new Chairman to continue the work of aligning EOH with King Codes of Corporate Governance principles;
- 43.4.10. Implementation of a new risk governance framework (policies, procedures, guidelines). The new framework requires reports to the chair of the EOH Board's Audit Committee, Social and Ethics Committee and Risk and Governance Committee;
- 43.4.11. Re-formulation of the Enterprise Risk Management Framework, the Code of Conduct, and the Information Security Policy. These changes have been introduced to enhance governance in consultation with the University of Stellenbosch's School of Business risk governance faculty;

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- 43.4.12. Re-statement and communication of the EOH Zero Tolerance Against Bribery and Corruption statement and EOH Code of Conduct. Copies of these policies are published and available to staff and to customers or suppliers upon request;
- 43.4.13. Implementation of a Conflicts Management Control Room within the Compliance function which conducts a due diligence on all third parties and the respective proposed engagements prior to said engagements. The due diligence includes but is not limited to checks for Adverse Media, Politically Exposed or Influential Persons, internally restricted third parties and potential conflicts of interest; and
- 43.4.14. Implementation of an automated Compliance Portal and electronic attestation process which allows, amongst others, for (a) access to policies (b) ABC attestations, (c) Gift and Entertainment registration (d) conflict of interest disclosures and (e) EOH Share dealing requests.
- 43.5. **Bid Review** - Between July 2018 and December 2019, ENSafrica conducted 559 bid reviews for EOH. These bid reviews included all public sector bids (local and international) and private sector bids (above R10 million – local and international) submitted by EOH Group. By January 2020, EOH developed internal capability for bid monitoring and review. EOH's Bid Review Committee is responsible for vetting all public sector bids in excess of R1 million and private sector bids in excess of R10 million. These bids are interrogated by specialists in various disciplines including compliance, legal, finance and risk.
- 43.6. **ISO 37001 Anti-Bribery Management System Assessment** - ENS has concluded an assessment of the EOH anti-bribery compliance program. ENS benchmarked EOH's enhanced compliance programme against the six principles contained in ISO 37001, the International standard for Anti-Bribery Management Standards (ABMS).
- 43.7. **Whistleblowing Mechanism** - Launch of the Expose-It mobile application – a whistleblowing tool which provides for anonymous and confidential reporting of concerns, inappropriate behaviour of any kind that could impact on EOH directly. Link available here online - <https://www.eoh-fs.co.za/products/exposeit-mobile-app/>

Further engagement with relevant authorities

- 44. Following an extensive investigation by the ENS we were able to submit information to the relevant authorities. We did not release all the information to the public immediately to give the authorities time to conduct investigations without impediment. These investigations are ongoing.
- 44.1. At the initial stage of the investigation three contracts were identified as having apparent irregularities including collusion to bypass SITA processes to enable over invoicing:

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- 44.1.1. The three contracts related to Microsoft Licenses for the Department of Defence ("DOD") in 2016 and 2017 and a contract for SAP licenses for the Department of Water and Sanitation ("DWS) in 2016. The recognition of a liability for the over-invoicing was provided for in the EOH Group 2019 year-end;
- 44.1.2. EOH declared the over-invoicing to the National Treasury at a meeting on 31 May 2019 and has already commenced reimbursing the Department of Defence for the over-charging, pursuant to an agreement with the Special Investigations Unit in terms of which EOH will repay approximately R42 million. EOH is in the process of arranging a similar reimbursement for overcharging the DWS.
- 44.2. Furthermore, during the ENS investigation, potential irregularities in relation to public sector contracts concluded during the period 2014 to 2018 were discovered. Suspected corrupt activity was reported under the Prevention and Combating of Corrupt Activities Act ("PRECCA").
- 44.3. I must emphasise that these are just suspicions and we trust that the investigations by the DPCI that will follow the making of the PRECCA reports, will shed more light on these suspicions. The majority of these affected contracts have already been completed.
45. **Business Governance Enhancements - Other changes in respect of enhanced governance at EOH include the following:**
- 45.1.1. All public sector work that was previously performed in the Public Sector business unit is now undertaken in business units that are the appropriate product centres of excellence;
- 45.1.2. Integration of the Public Sector bid office into a core, centralised bid office team in each entity improving standardisation, visibility and control; and
- 45.1.3. Implementation of new public sector business risk framework governing qualification of new business opportunities, particularly with high-risk entities.
- 45.1.4. EOH Finance department enhanced controls include:
- 45.1.4.1. Delegation of authority (DOA) devolved from the Board;
- 45.1.4.2. Combined assurance model;
- 45.1.4.3. Enhanced internal controls around financial statement close process;
- 45.1.4.4. Reporting of monthly results to EXCO in a standard format which includes balance sheet and income statement; and
- 45.1.4.5. Investment committee to assess acquisitions and disposals.

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46. EOH has authorised Steven Powell from ENS, who led the forensic investigations at EOH referred to earlier and who is more familiar with the technical detail, to provide the Commission with information in response to the specific queries of the Commission regarding information related to payments from an account in the name of Jehan Mackay and transactions between Molelwane Consulting CC and the following entities and individuals, during the 2006 and 2018 periods:

46.1. Zylec Investments;

46.2. TSS Managed Services; and

46.3. Patrick Makhubedu.

Conclusion

47. We continue to co-operate with the authorities and improve our control framework in line with the board's zero tolerance stance on bribery and corruption. The new EOH leadership team will continue to ensure that any malfeasance uncovered in the past or future will be dealt with appropriately.
48. I can further confirm that:
- 48.1. individuals suspected of wrongdoing are no longer employed by the company. Several former employees, primarily from the public sector vertical team, have also been reported to law enforcement agencies;
- 48.2. EOH, with support from ENS, has fully co-operated and continues to engage with authorities including the DPCI, SARS and other law enforcement authorities. A number of Section 34 reports have been filed with the DPCI under the Prevention and Combating of Corrupt Activities Act ("PreCCA"); and
- 48.3. suspected individuals have been reported to the DPCI, including a number of government employees.
49. As a result of all the work done and breaking with the past, I am comfortable that the EOH of today is a fundamentally transformed business, committed to the highest standard of good governance, business integrity and ethics.


 Stephen van Coller

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16 July 2019

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.

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Reg no: 1998/014669/06

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ENS interim update

- 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.

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ENS interim update

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.

ENS interim update

- 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.

ENS interim update

- 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

FY 2019 Annual Results Presentation

15 October 2019



AGENDA



Strategic and operational overview

Stephen van Collier
Group CEO



Governance overview

Fatima Newman
Group CRO



Financial overview

Megan Pydigadu
Group CFO



Looking forward

Stephen van Collier
Group CEO



STRATEGIC AND OPERATIONAL OVERVIEW

Stephen van Coller
Group CEO



KEY FEATURES

EOH



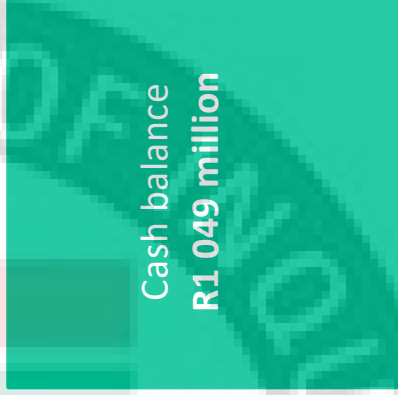
EOH remains a key part of the economic fabric of South Africa



Enhanced King IV compliant Board & new Executive leadership



Extensive review and clean up of the balance sheet





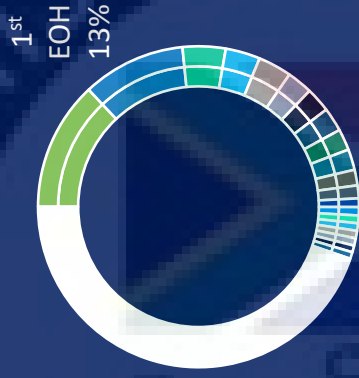
EOH – A HIGH POTENTIAL BUSINESS WITH GREAT EMPLOYEES



>5000 clients
with multi-year
relationships



#1
**SA IT service
provider 2018**
Gartner, April 2019



Talented Technical
Workforce Over
1000 developers



**High potential IP
businesses**



100+
Entrepreneurial businesses
bought
=
Highly entrepreneurial people

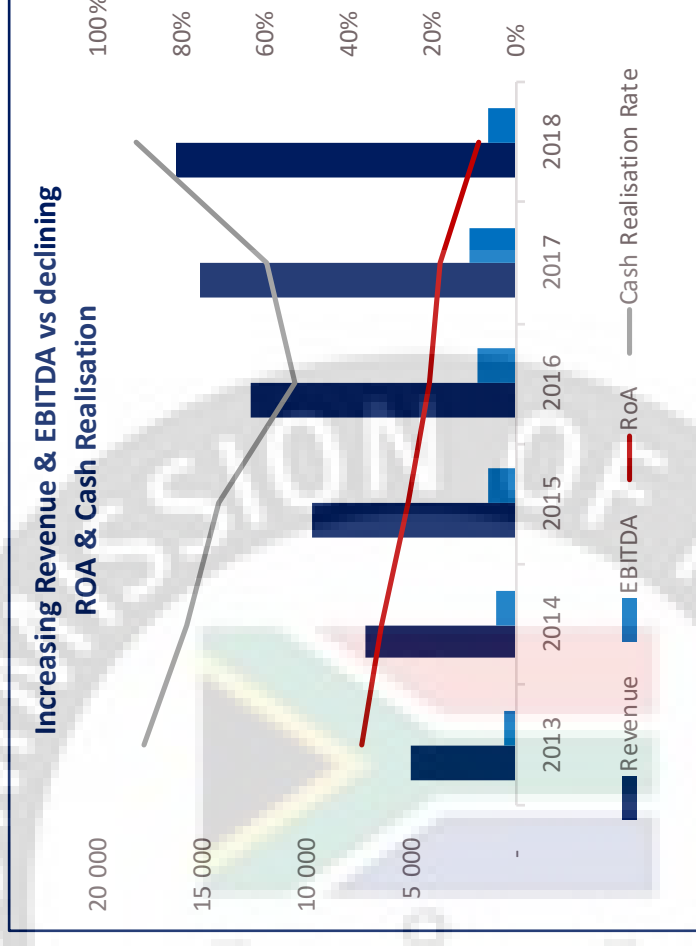
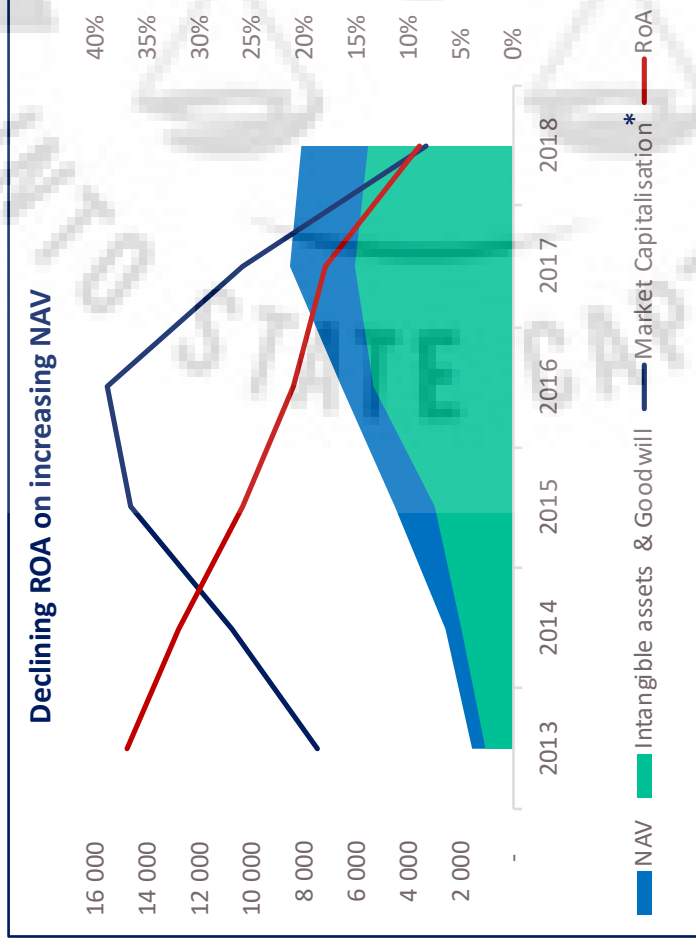


B-BBEE Large Enterprise
Level 1



**Unparalleled range
of IT Solutions**
Africa's Largest Technology
Service Provider

HOWEVER, CONCERNING TRENDS HAVE BEEN IN PLACE

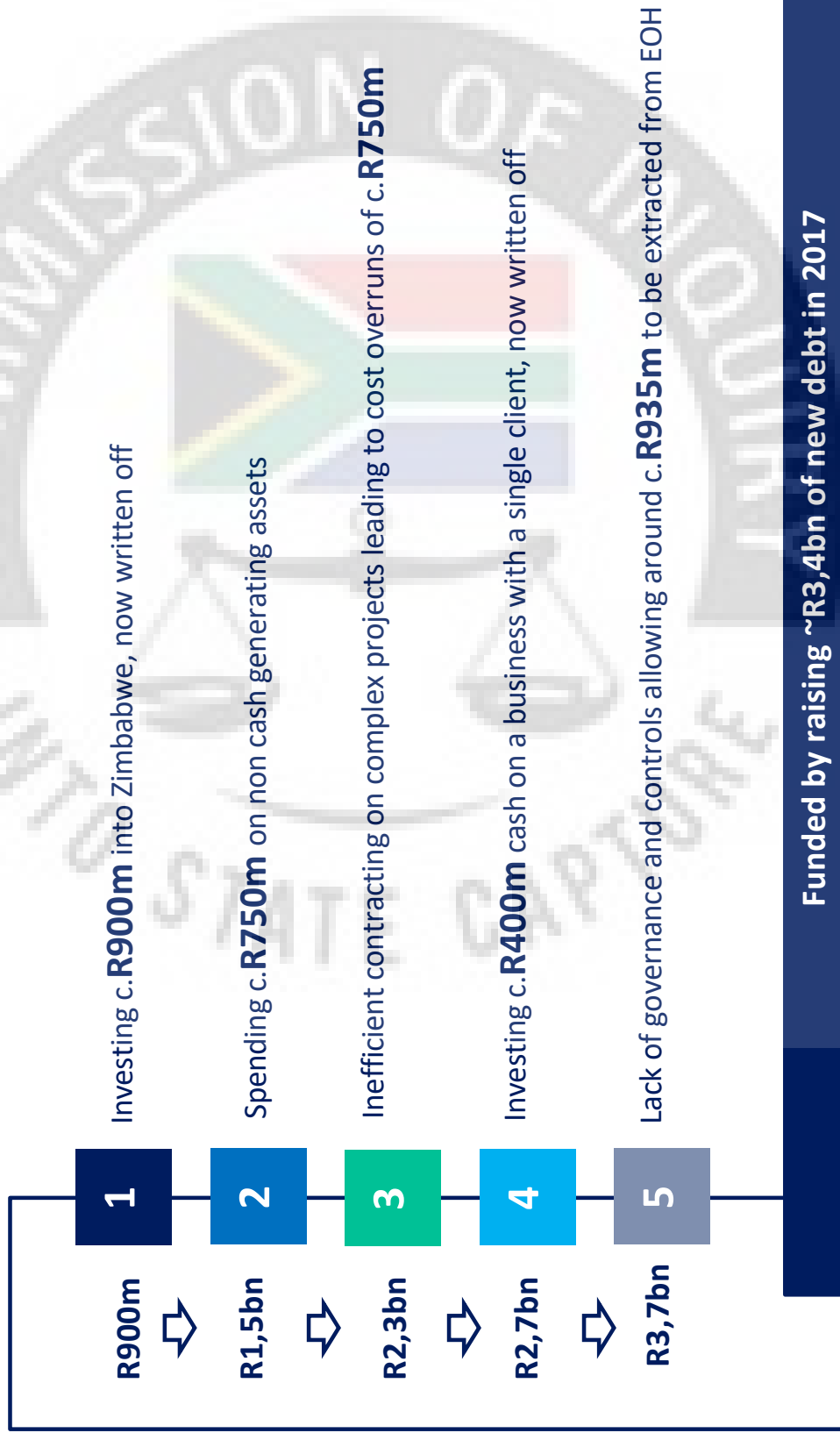


Clear evidence of

- Optimistic revenue recognition resulting in falling collections
- Inappropriate IP capitalization inflating EBITDA
- Revenue driven through generous asset purchase prices

* 6 Market cap data points used – August of each year

SOME MATERIAL MISTAKES WERE MADE BETWEEN 2013 and 2017





OUR TURNAROUND PROMISE WITH CLEAR PRIORITIES

EOH



Credibility

- Deal with the **allegations**
- Provide **transparency** on outcomes
- Rebuild an **ethical business**



Liquidity

- **Deleverage** the balance sheet
- Pursue other opportunities to **unlock liquidity**
- Address **costs**



Transparency

- Unpack **business model** for investors
- Provide **transparent reporting**
- Develop a strategy to **return to growth**



DESPITE THE SEVERE ISSUES UNCOVERED, SIGNIFICANT PROGRESS ACHIEVED

EOH



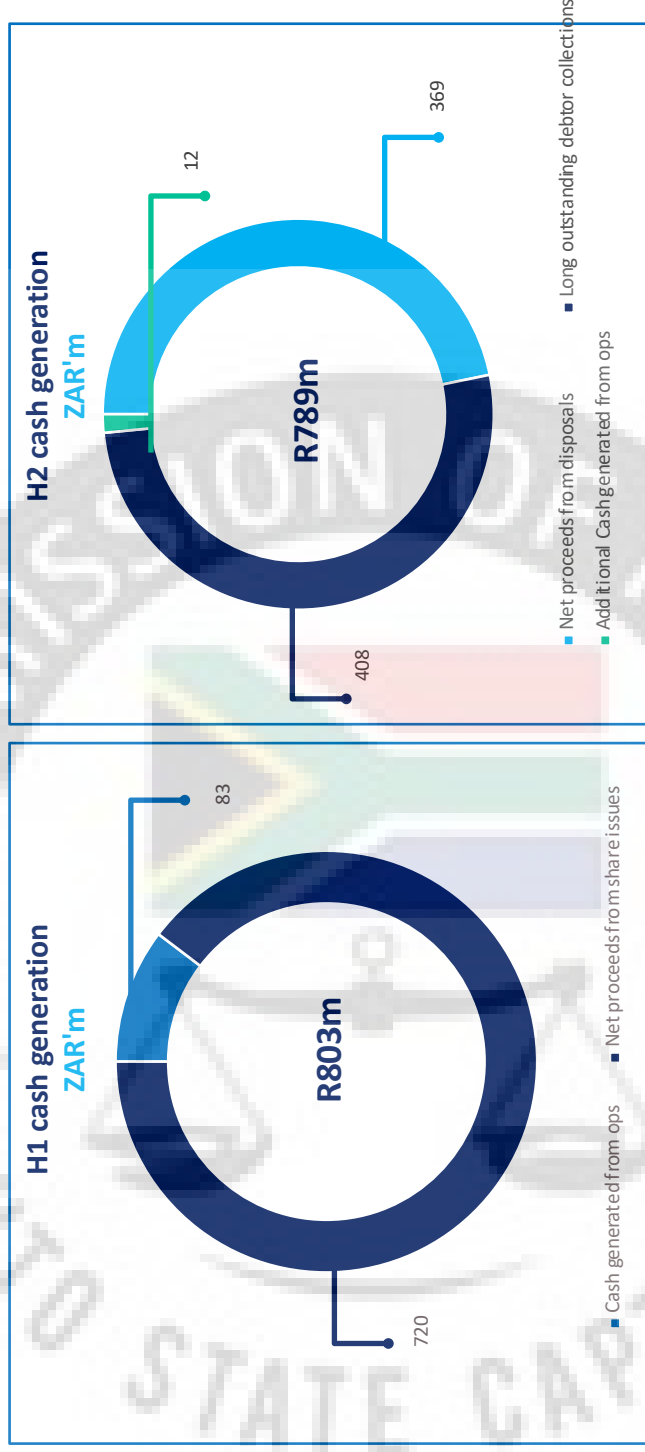
Credibility



- Created a **new Board** and **new Executive** team
- Rolled **out governance and control systems**
- Enhanced **whistle blowing** procedure
- Completed the **ENS review transparently**
 - All individuals directly involved no longer employed
 - ENS instructed to fully cooperate with all authorities
 - Engaging SARS and National Treasury to settle any liabilities



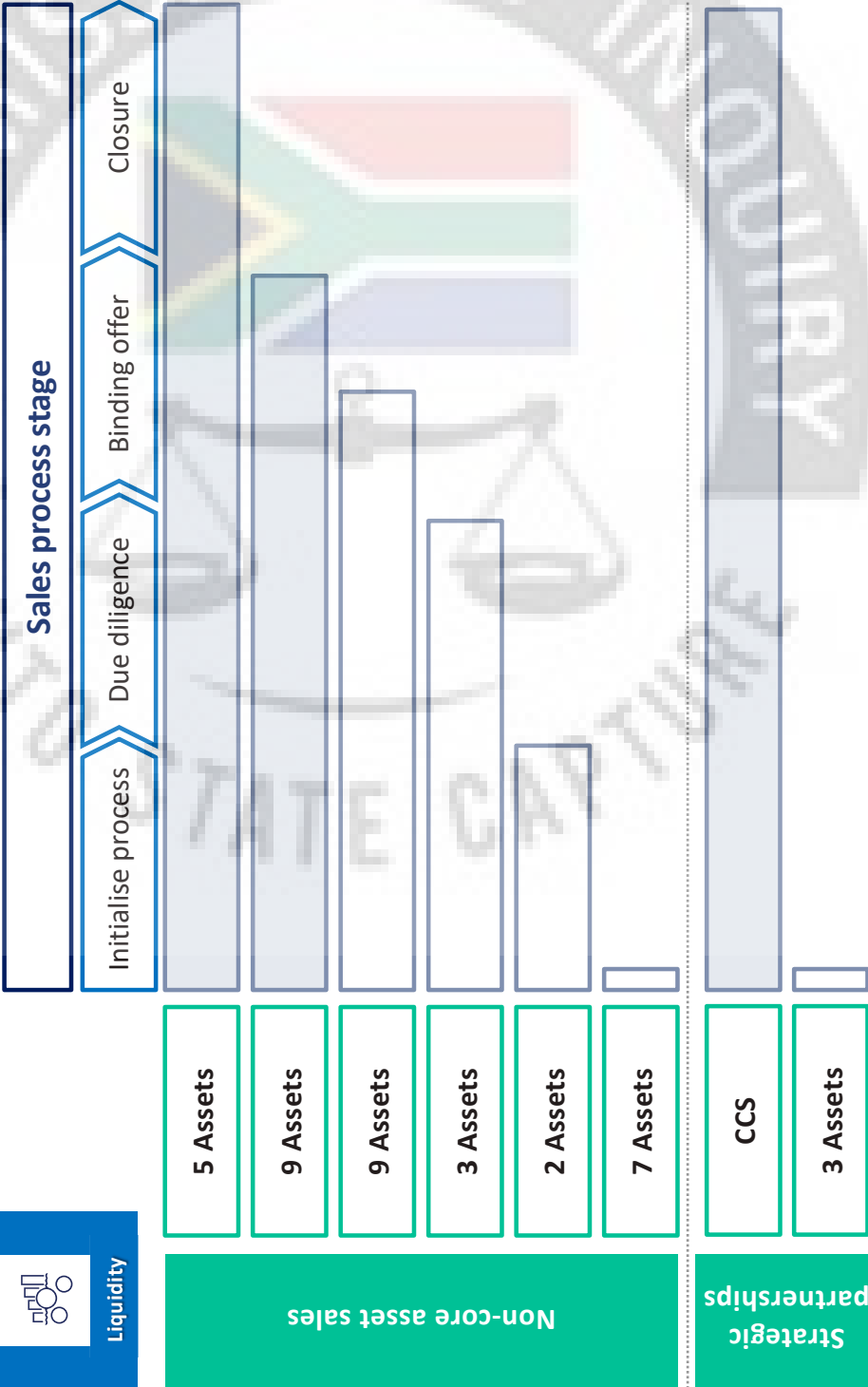
DESPITE THE SEVERE ISSUES UNCOVERED, SIGNIFICANT PROGRESS ACHIEVED



R1,6 bn of cash generated in FY2019

Responsible deleveraging plan agreed with the Banks

Liquidity



Total consideration @ October

15 Assets sold for c. R750m

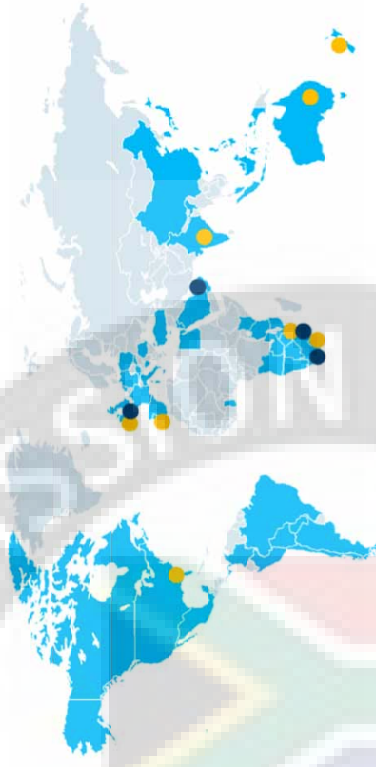
Total expected proceeds > R 1 billion in 2020



SCALING OUR BUSINESSES: THE CCS TRANSACTION



CCS current footprint



● CCS offices. ● Authorized distributors. ● Countries where CCS software is used



Acquired by



The deal

EV/EBITDA of

8.5X



Enterprise value of
R 634.8m



PROPERTY RATIONALISATION



EOH

2018

77



32

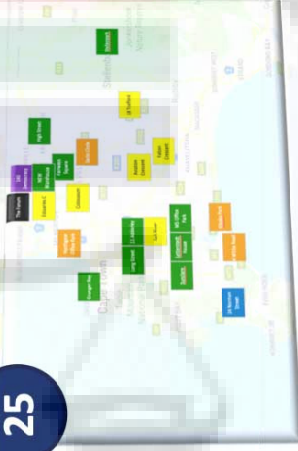


2019

52

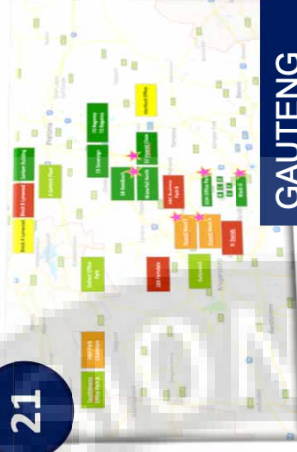


25



2020

21



12



- 32 Buildings exited in 2019
- Real Estate saving **R64,8 million**
- Additional reduction of **44 buildings** by 2020
- Total savings of **~R151 million** by 2020



DESPITE THE SEVERE ISSUES UNCOVERED, SIGNIFICANT PROGRESS ACHIEVED

EOH



Transparency



Clear path to simplified structure:

70% in legal entities

Launched


Connect · People · Technology



>**100 hrs** spent with Client Risk Committees and Senior Executives



Enhanced **financial reporting** and **disclosures**
Extensive **balance sheet clean up**


101001
1010

Crafted a **strategic turnaround plan** to harvest profitable business

GOVERNANCE OVERVIEW

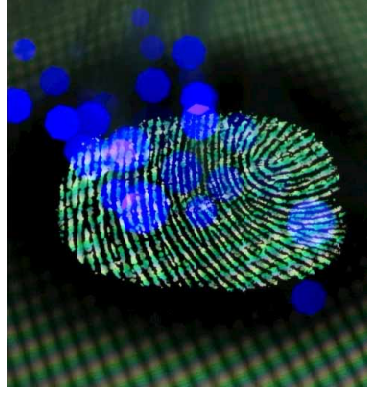
Fatima Newman
CRO

GOVERNANCE CONTEXT

- 6 intense, challenging and complex months!
- With the support of key strategic collaborators have made significant progress to clean up the past
- Progress in 6 months
 - Significantly stronger risk management capability – with stronger leadership
 - Progressed the legal process to ensure justice and restitution
 - Committed to investing in a sustainable strategy



OUR PRIORITIES FOR CLEANING UP THE PAST - BASED ON FOUR PILLARS



Forensics

A detailed plan to forensically analyse our existing position by determining the scope of the wrongdoing



Governance

Before building a best practice framework, we needed to assess our functional capabilities



Justice

Simultaneously, we needed to kick off a process to ensure justice was served and we had done enough to mitigate the damage



Sustainability

We needed to understand the internal and existing skills and talents before we could assess the knowledge gap

SEVERAL FUNCTIONAL WEAKNESSES WITHIN THE EOH ECOSYSTEM

EOH



Procurement & Supply Chain

- **Poor tendering** process
- Inconsistent bid management
- No supplier relationship management
- No contractual management process
- **Lack of reporting** and limited visibility
- **No segregation** of duties



Legal

- **No contract management system in place**
- **Weak contracting policy** and processes
- **Ineffective action** on liabilities and penalties due
- **Poor regulatory compliance** and no BCM regulation
- Lack of visibility in the contract environment



Governance, Risk & Control (GRC)

- **Unethical behaviour** & leadership issues
- **No cohesive integrated governance** framework
- No compliance or risk management capability
- **Unethical risk culture** with inconsistent practices
- Insufficient training and awareness
- Inconsistent processes and practices
- **Inadequate whistleblowing** channels



Human Capital Management

- **Poorly managed organisational change**
- **Poor integration** of entity cultures
- Insufficient post acquisition restructuring
- Fragmented incentive systems
- **Poor performance management**
- **Excessive reliance on contractors**

Internal Audit – The function did not exist



STEADY PROGRESS IMPLEMENTING GOVERNANCE RISK AND CONTROL FRAMEWORK

May 2019

| 7 Pillars of Governance- Strength Road Maps (building blocks/ each element building Governance Value) | | | | | | | | | | | |
|---|-----------------------------|------------------------------|----------------------------------|----------------------------------|-------------------------|-----------------------------------|------------------------------|---------------------------|--------------------------------|-----------------------------|-----------------------------|
| Ethical Leadership & Culture | Core Values | Code of Conduct | Ethics Programme | Ethical Recruitment | Anti-Fraud Corruption | Completion | Other Policies | | | | |
| Strategy Governance | MDI | EOH Strategy | Sustainable Transformation | Operating Model | Non-Executive Strategy | Effectiveness Reviews | Project R&D Portfolio Mgmt | | | | |
| Governance Structures Accountability | EOH LTD BoD | Operational Management BoD's | Board Members Development | Executive & Management Structure | Operational Plans | EOA, Escalation Approval Protocol | Directive Setting | Goals Performance Metrics | Revenue Recognition Collection | ESM Knowledge Management | ESM Business Goals |
| Sustainability & Resilience | Reputation Brand Strategy | Change Management | Values Capital Talent Management | EOH IT Strategy | Marketing Strategy | Commercialisation | Execution Project Management | Balance Sheet Management | ESM Knowledge Management | ESM Business Goals | ESM Business Goals |
| Corporate Citizenship | CSR | Environmental Stewardship | CSR Performance | Employee Health/Safety | | | | | | | |
| Risk Compliance Framework | Internal Control Frameworks | Board Fiduciary Duties | Risk Strategy | ERM Capability | Risk Culture | ERM Oversight Structure | Risk Assessment Analysis | Risk Mitigation Plans | Risk Monitoring Reporting | Risk Assessment Analysis | Regulatory Framework |
| Transparency & Disclosure | Internal Codes | External Codes | Transmit Management | Software Licensing | Material Non-Compliance | Document Management | IA Strategy | Risk-based IA Plan | IA Forum | Protection of EOH IP/Client | Protection of EOH IP/Client |
| | IFRS | Integrated Report | Stakeholder Regulations | Financial Management | Portfolio/Req Reporting | RemCo Disclosures | King IV | Risk & Assurance | IF & Trademarks | Protection of EOH IP/Client | Protection of EOH IP/Client |
| | | | | | | | | | | | |
| | | | Not in place | Partially in place | Not in place | | | | | | |

EOH Before

- Unethical Past Behaviour & Leadership Issues
- Insufficient Enterprise Risk Management
- Undefined Regulatory Universe
- No Compliance Risk Management
- No Integrated Assurance
- Insufficient Business Continuity Management
- Unethical Risk Culture

September 2019

| 7 Pillars of Governance- Strength Road Maps (building blocks/ each element building Governance Value) | | | | | | | | | | | |
|---|-----------------------------|------------------------------|----------------------------------|----------------------------------|-------------------------|-----------------------------------|------------------------------|---------------------------|--------------------------------|-----------------------------|-----------------------------|
| Ethical Leadership & Culture | Core Values | Code of Conduct | Ethics Programme | Ethical Recruitment | Anti-Fraud Corruption | Completion | Other Policies | | | | |
| Strategy Governance | MDI | EOH Strategy | Sustainable Transformation | Operating Model | Non-Executive Strategy | Effectiveness Reviews | Project R&D Portfolio Mgmt | | | | |
| Governance Structures Accountability | EOH LTD BoD | Operational Management BoD's | Board Members Development | Executive & Management Structure | Operational Plans | EOA, Escalation Approval Protocol | Directive Setting | Goals Performance Metrics | Revenue Recognition Collection | ESM Knowledge Management | ESM Business Goals |
| Sustainability & Resilience | Reputation Brand Strategy | Change Management | Values Capital Talent Management | EOH IT Strategy | Marketing Strategy | Commercialisation | Execution Project Management | Balance Sheet Management | ESM Knowledge Management | ESM Business Goals | ESM Business Goals |
| Corporate Citizenship | CSR | Environmental Stewardship | CSR Performance | Employee Health/Safety | | | | | | | |
| Risk Compliance Framework | Internal Control Frameworks | Board Fiduciary Duties | Risk Strategy | ERM Capability | Risk Culture | ERM Oversight Structure | Risk Assessment Analysis | Risk Mitigation Plans | Risk Monitoring Reporting | Risk Assessment Analysis | Regulatory Framework |
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| | | | | | | | | | | | |
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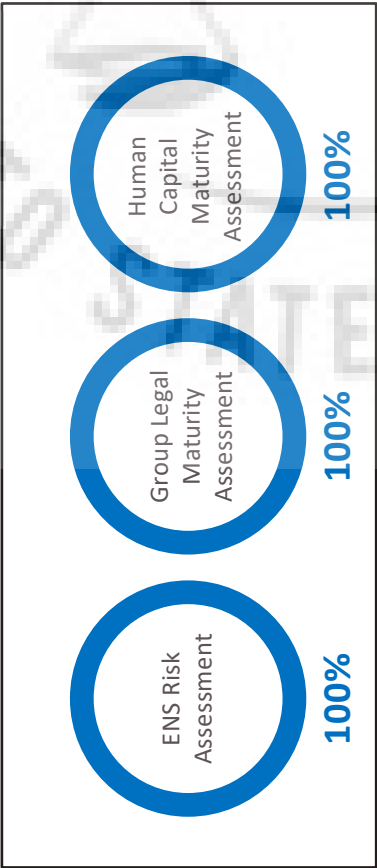
EOH of Tomorrow

- Ethical Behaviour Underpins Decisions
- Embedded Enterprise Risk Management
- Governance Best Practice
- Regulatory Compliance
- Integrated & Optimised Assurance Coverage
- Training & Continuity Management
- Improved Controls

STATUS ON THE COMPREHENSIVE REMEDIATION PLAN

Forensic Analysis of Risk

Forensics



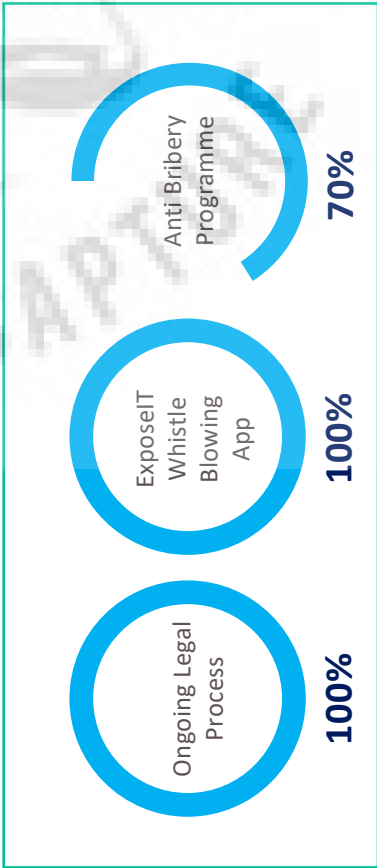
Strengthened Governance and Risk Management

Governance



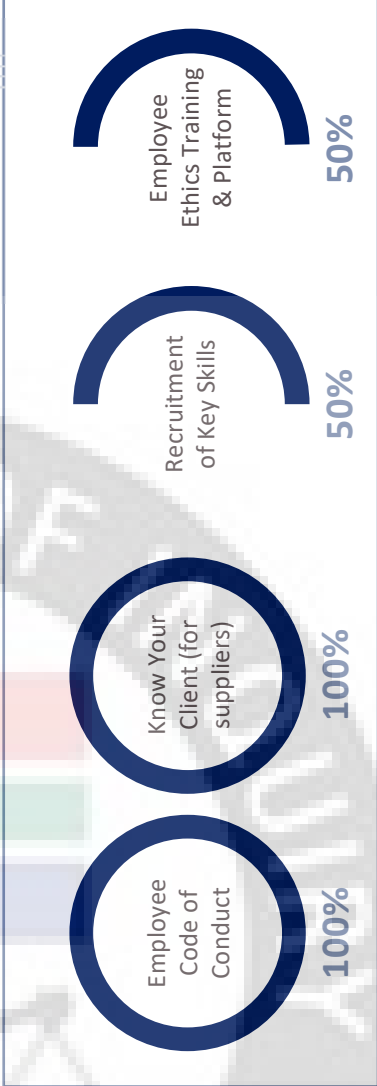
Deliver Justice and Mitigate Damage

Justice



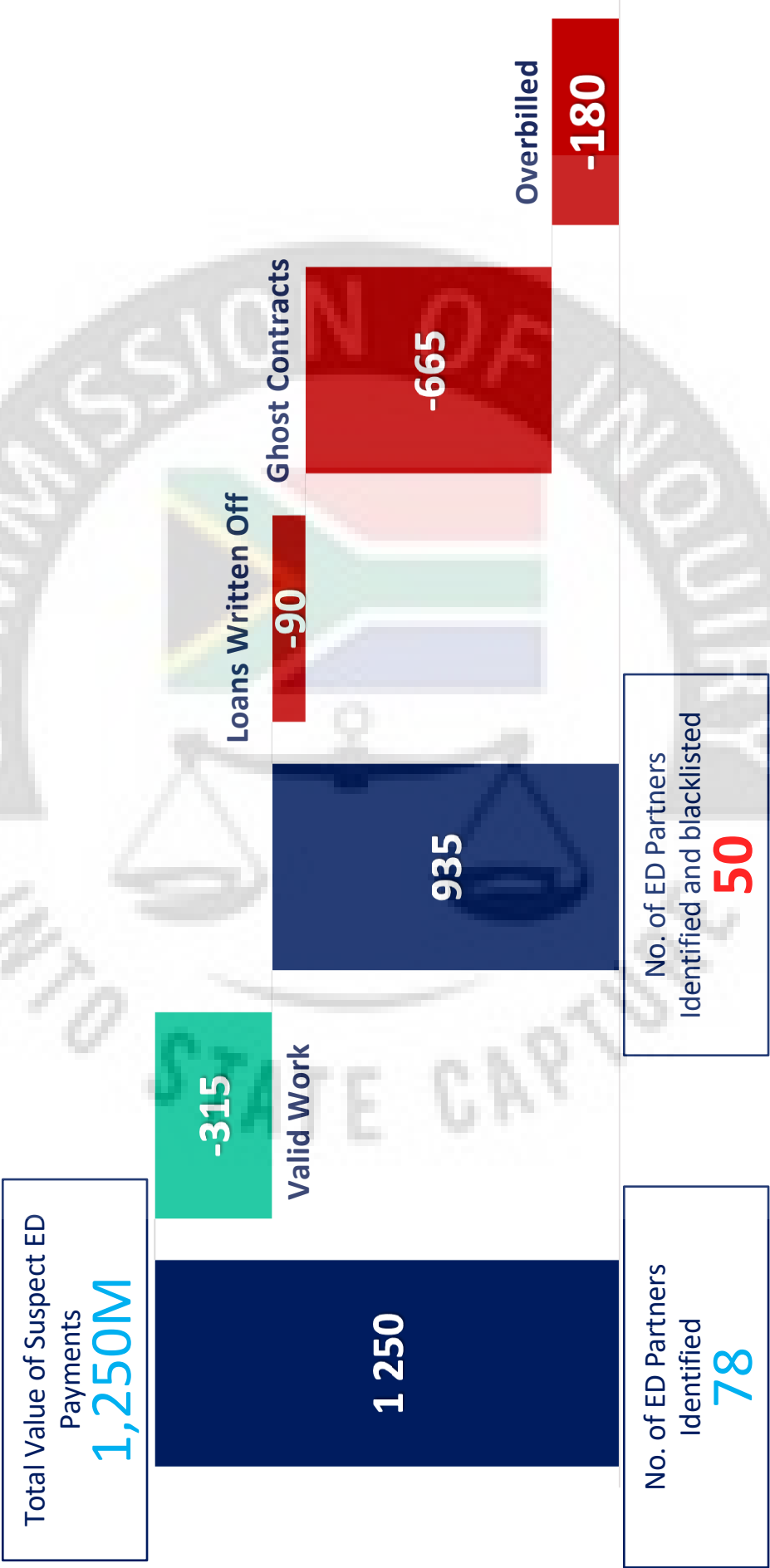
A Sustainable and Ethical Futureproofing for People

Sustainability





STATUS ON THE PURSUIT OF JUSTICE AND RESTITUTION





DEALING WITH THE INDIVIDUALS

EOH

Regulatory Bodies Engaged



1 16 EOH employees implicated



2 50 Enterprise Development entities implicated and blacklisted



3 18 Enterprise Development Directors implicated



4 12 Government employees implicated



5 7 Section 34 reports submitted



Of these implicated individuals, 46 names reported to FIC and Hawks*

Good business practices are not driven by a corporate culture **they reflect a corporate culture!**

Values that govern the board room should be no different than the values that guide the rest of us

Good corporate citizenship means doing no harm in the communities we do business in – rather actively working to leave those communities better than we found them because **poverty** anywhere undermines stability everywhere!

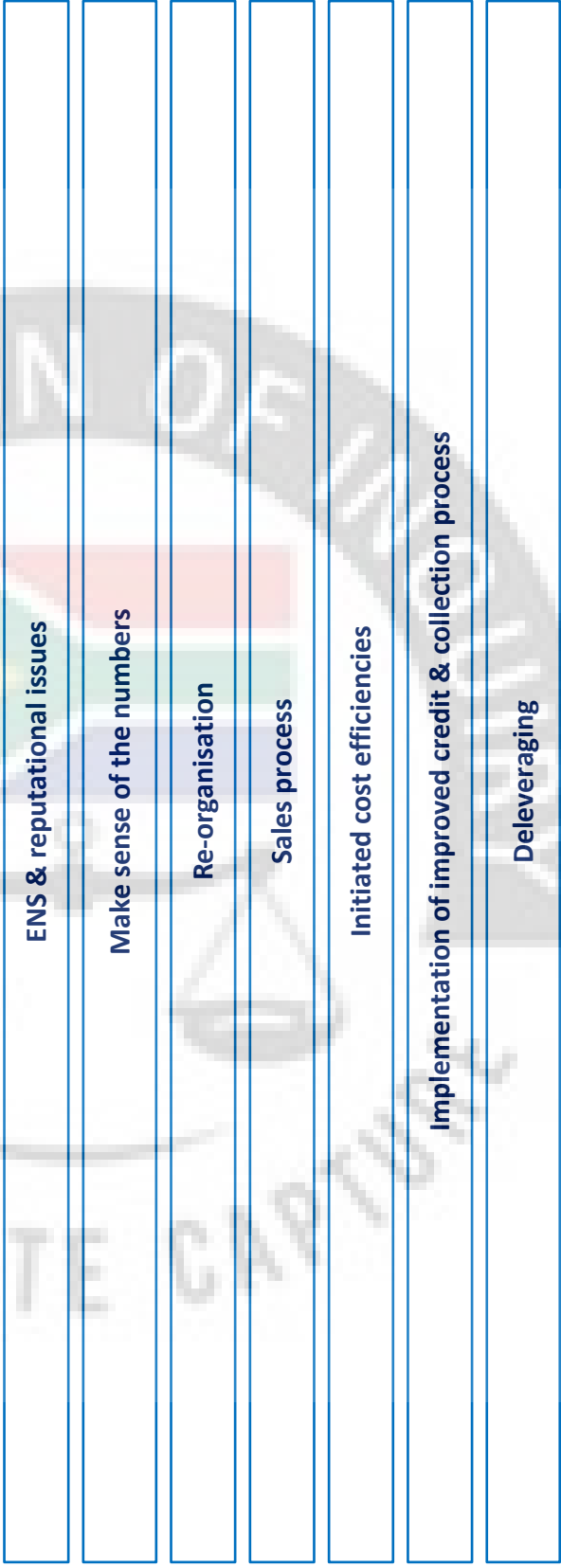


FINANCIAL REVIEW

Megan Pydigadu
Group CFO



FACTORS IMPACTING OUR RESULTS





CHALLENGES WE FACED AND IMPROVEMENTS MADE

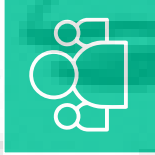
EOH

THEN



Systems not fit for purpose

- Outdated
- Manual consolidation



People

- Culture of low accountability and ownership



Poor oversight and control

- Balance sheet not representative of reality
- Poor segregation of duties

NOW

- Consolidation system Phase 1 implemented
- Budgeting system implemented
- Treasury system being implemented
- Financial statement system implemented
- Proper functions in place (Tax, Treasury, FP&A)
- Recruitment of skilled and experienced individuals
- HR interventions: KPI's performance management
- IFRS skills inhouse
- Training on IFRS & tax for finance function
- Monthly balance sheet reviews
- Accountability & ownership driven down into organization
- Balance Sheet cleaned up
- Delegation of authority rolled out
- Risk heat maps implemented
- Weekly cash flow forecasting
- Weekly debtors meetings

VV1-SVC-42



CLARIFYING DISCLOSURE DEFINITIONS

Income Statement



Balance Sheet



Includes



CONTINUING OPERATIONS

In each line of I/S

In each line of B/S

| |
|---|
| Core business |
| Businesses being re-assessed |
| Projects in the process of being closed in complex ERP space & electrification of water pumps |

ASSETS HELD FOR SALE

In each line of I/S

In assets held for sale

Doesn't form major line of business but earmarked for sale. Generally part of a business line

DISCONTINUED

In one line item
Loss from discontinued operations

In assets held for sale

Major line of business earmarked for sale or in sale process



INCOME STATEMENT HIGHLIGHTS

Continuing

EOH

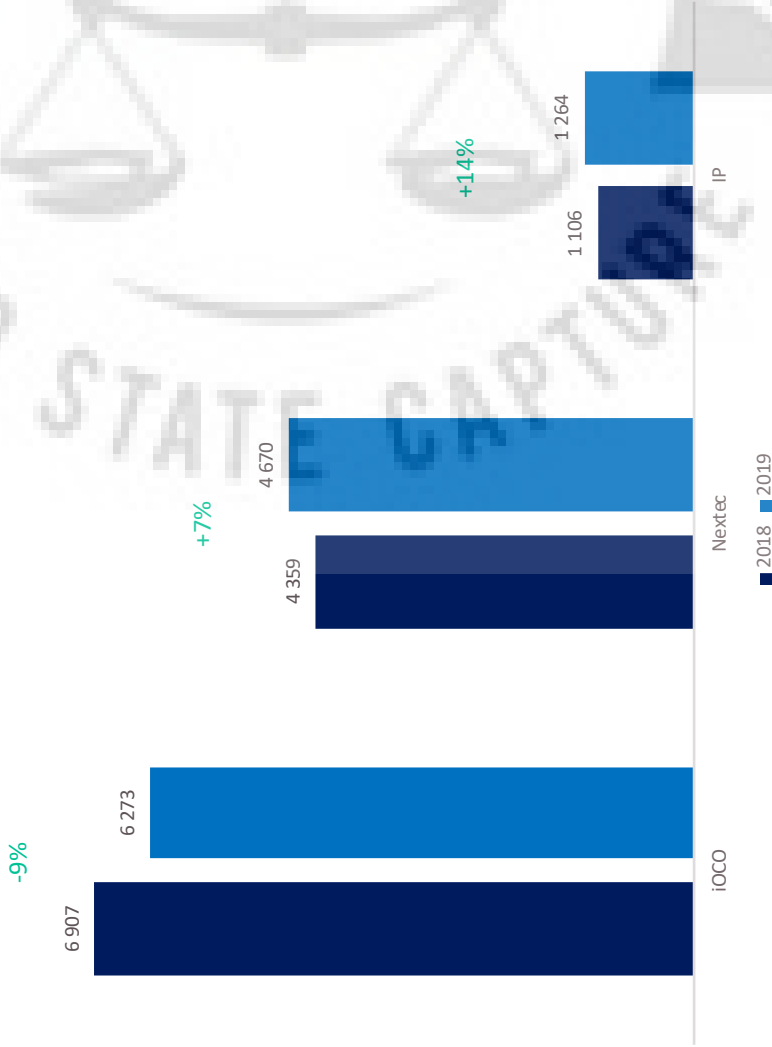
| R'm | FY 2019 Reviewed | FY 2018 Restated Audited | % change |
|--|---------------------|-----------------------------|--------------|
| Revenue | 11 791 | 12 103 | (3%) |
| Gross Profit | 2 369 | 3 421 | (31%) |
| Net financial asset impairment losses | (606) | (534) | 13% |
| Operating expenses | (5 136) | (4 227) | 22% |
| Operating loss | (3 373) | (1 340) | 152% |
| Net finance costs | (303) | (310) | (2%) |
| Share of equity-accounted loss | (10) | - | |
| Taxation | (324) | (206) | 57% |
| Loss for the year – continuing operations | (4 010) | (1 856) | 116% |
| Loss for the year – discontinued operations | (861) | (130) | 562% |
| Loss for the period | (4 871) | (1 986) | 145% |
| <hr/> | | | |
| Gross margin | 20% | 28% | |
| Operating margin | (29%) | (11%) | |
| Loss per share – Continuing (cents) | (2 464) | (1 277) | |
| HEPS – Continuing (cents) | (1 352) | (728) | |



REVENUE BREAKDOWN

EOH

Revenue by Division
(ZAR'm)

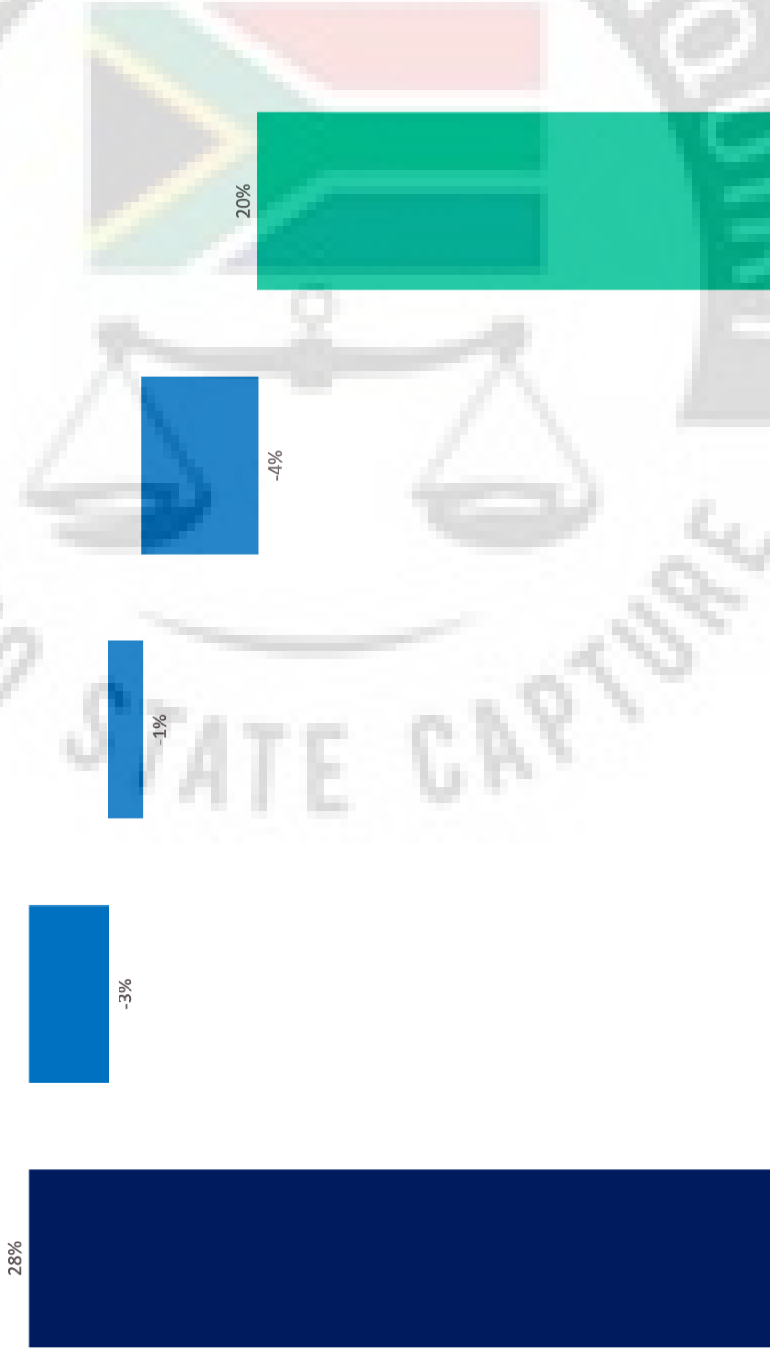


- Positive growth in IP business comprising Sybrin, Syntell & Information Services
- NEXTEC revenue impacted by delay in infrastructure projects in water, power sectors
- Slowdown in iOCO revenue in H2 due to reputational issues
 - Further impacted by poor performance in ERP implementation business as well as License reseller (Qlik)



GROSS PROFIT MARGIN

8% drop in GP Margin y-o-y



Mix & margin pressure

Economic pressures

Water Business Line

Delay on certain projects in infrastructure space

Business Line Close downs

Close out of projects in ERP public sector space and water electrification projects

FY 2018

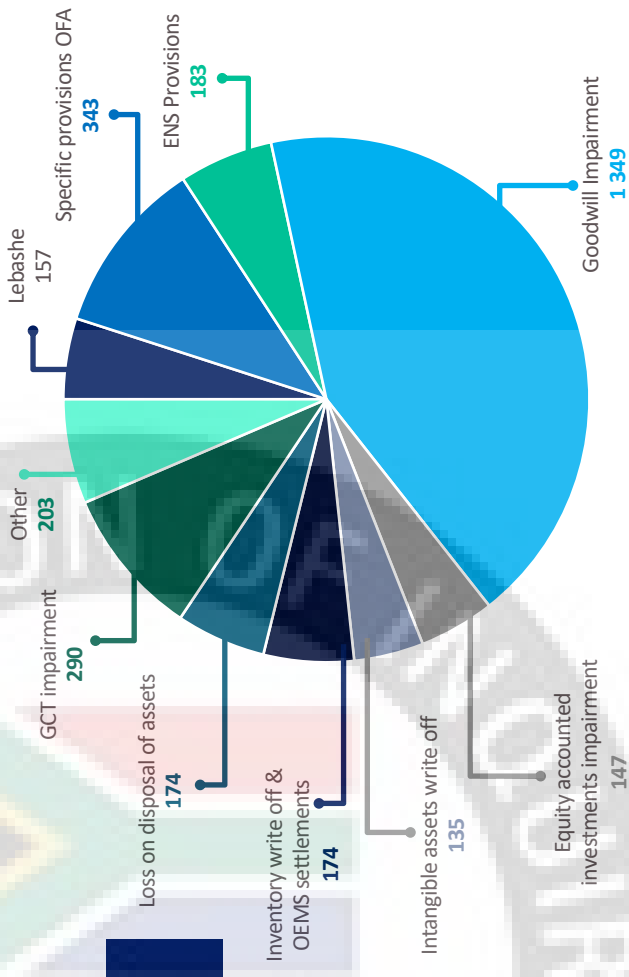
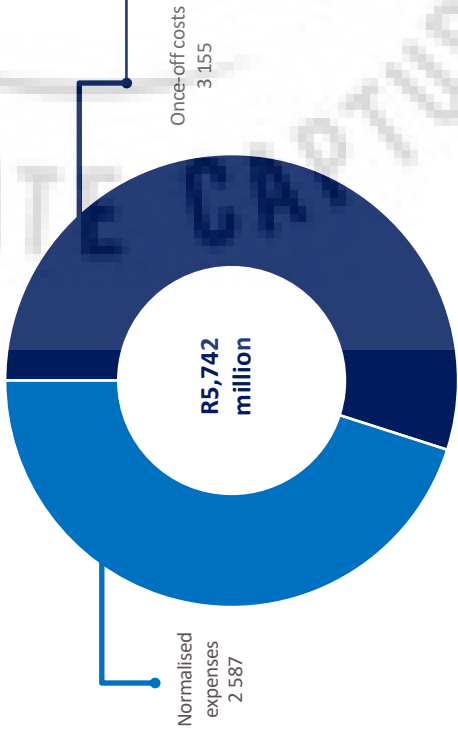
Mix & Margin pressure

Water business

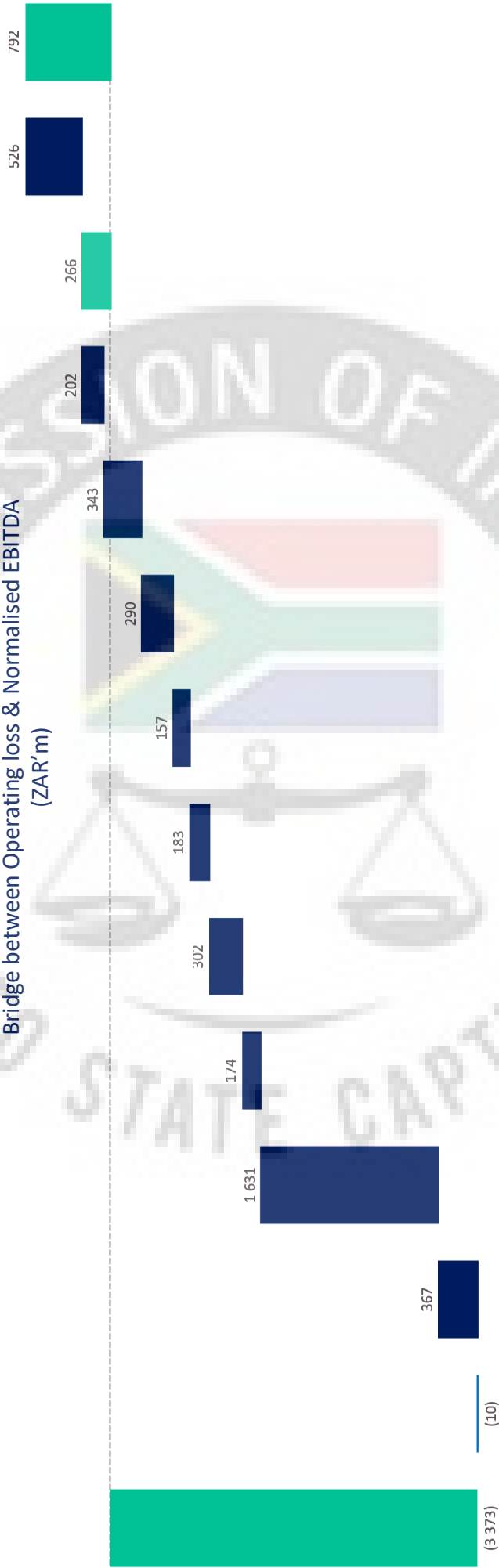
Business lines closing down

FY 2019

OPERATING EXPENSES IMPACTED BY FLAWED FUNDAMENTALS



Bridge between Operating loss & Normalised EBITDA
(ZAR'm)



* FY 2019 Operating loss

State of equity accounted losses

Debt

Impairment losses

Loss on disposal of assets

Stock write-offs & OGAIS settlements

EHS provisions

Lease

ECT impairments

Pensions on other assets

Other

FY 2019 continuing EBITDA

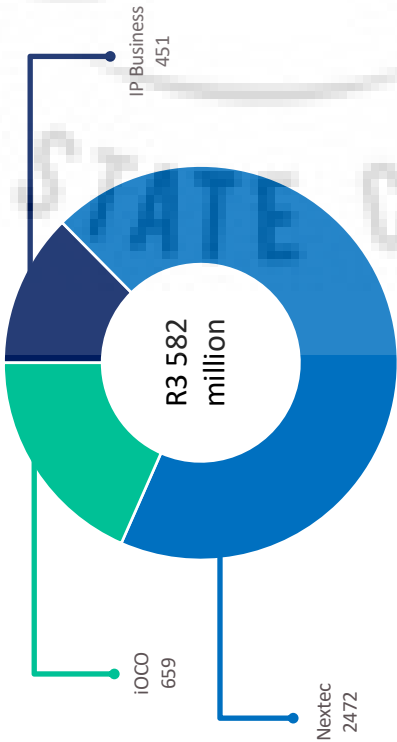
Non-core business closures

FY 2019 Normalised EBITDA

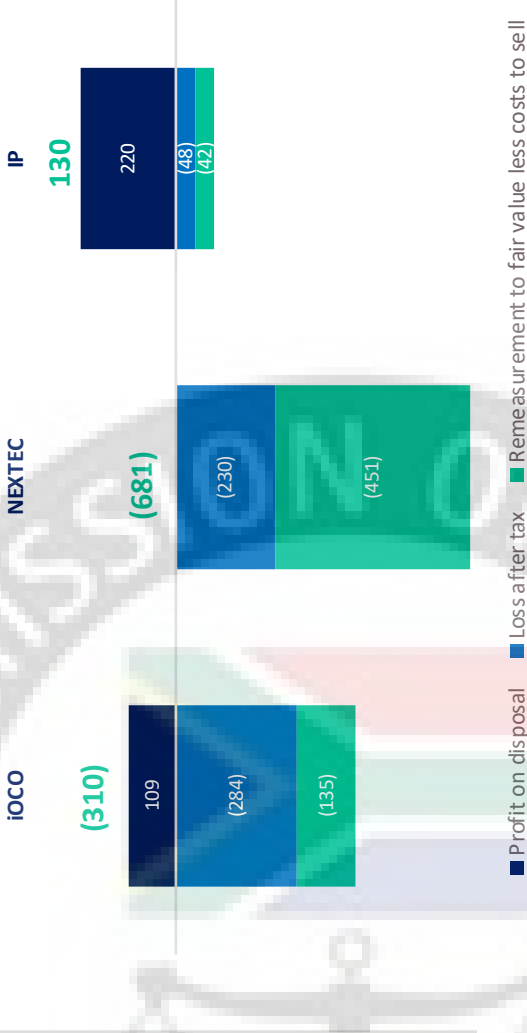


DISCONTINUED OPERATIONS

FY 2019 Discontinued Operations Revenue
(ZAR'm)



Breakdown of R861m Loss after Tax in Discontinued Operations
(ZAR'm)



R1,194m

Net Assets Value expected to be realised



BALANCE SHEET REVIEW COMPLETED

| Assets | | | | |
|------------------------------|---------|------------------|--------------|------------|
| ZAR 'm | FY 2019 | Restated FY 2018 | AHS Movement | Difference |
| Non-current assets | 3 379 | 7 366 | 695 | (3 292) |
| PPE | 482 | 743 | 217 | (44) |
| Goodwill | 1 851 | 4 255 | 372 | (2 032) |
| Intangible assets | 489 | 880 | - | (391) |
| Equity accounted investments | 228 | 531 | 72 | (231) |
| Other financial assets | 12 | 499 | 7 | (480) |
| Deferred tax | 245 | 327 | 27 | (55) |
| Finance lease receivables | 72 | 131 | - | (59) |
| Current assets | 6 460 | 6 887 | 1 064 | 637 |
| Trade and other receivables | 3 164 | 4 733 | 716 | (853) |
| Inventories | 251 | 378 | 35 | (92) |
| Cash & cash equivalents | 1 049 | 1 418 | 310 | (59) |
| Assets held for sale | 1 759 | - | - | 1 759 |
| Other current assets | 237 | 358 | 3 | (118) |
| Total assets | 9 839 | 14 253 | 1 759 | (2 655) |



BALANCE SHEET REVIEW COMPLETED

EOH

Equity & Liabilities

| ZAR 'm | FY 2019 | Restated FY 2018 | AHS Movement | Difference |
|-------------------------------------|--------------|---------------------|-----------------|----------------|
| Equity | 1 957 | 5 937 | - | (3 980) |
| Non-current liabilities | 2 673 | 3 653 | 12 | (968) |
| Other financial liabilities | 2 256 | 3 208 | 9 | (943) |
| Finance lease payables | 28 | 57 | - | (29) |
| Deferred taxation | 389 | 388 | 3 | 4 |
| Current liabilities | 5 209 | 4 663 | 553 | 1099 |
| Trade and other payables | 3 006 | 3 139 | 469 | 336 |
| Liabilities held for sale | 565 | - | - | 565 |
| Other current liabilities | 1 638 | 1 524 | 84 | 198 |
| Total equity and liabilities | 9 839 | 14 253 | 565 | (3 849) |

- 2019 Balance sheet unqualified opinion issued
 - Opening balances qualified
 - Disagreement on timing of errors

Net asset value of R 1,957 million

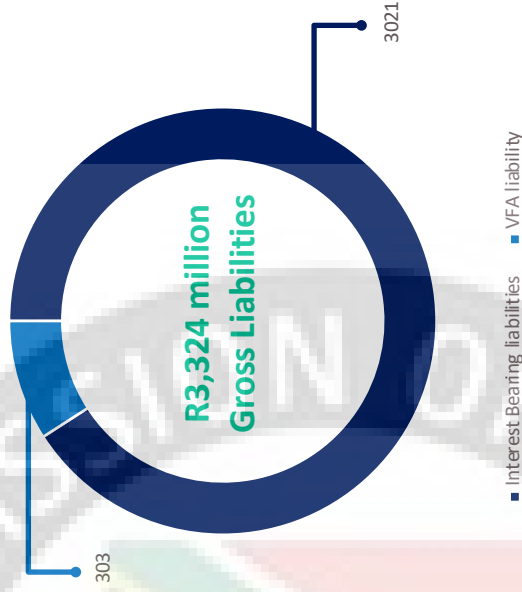


DELEVERAGE PLAN ON TRACK

EOH

| ZAR 'm* | FY 2019 | HY 2019 | FY 2018 |
|---|---------|---------|---------|
| Interest bearing liabilities | 3 021 | 2 775 | 3 405 |
| Cash and cash equivalents | 1 359 | 957 | 1 418 |
| | | | |
| Net debt | 1 662 | 1 818 | 1 987 |
| Liabilities for acquisitions | 303 | 419 | 634 |
| Net debt including Liabilities for acquisitions | 1 965 | 2 237 | 2 621 |

*All balances include assets held for sale.

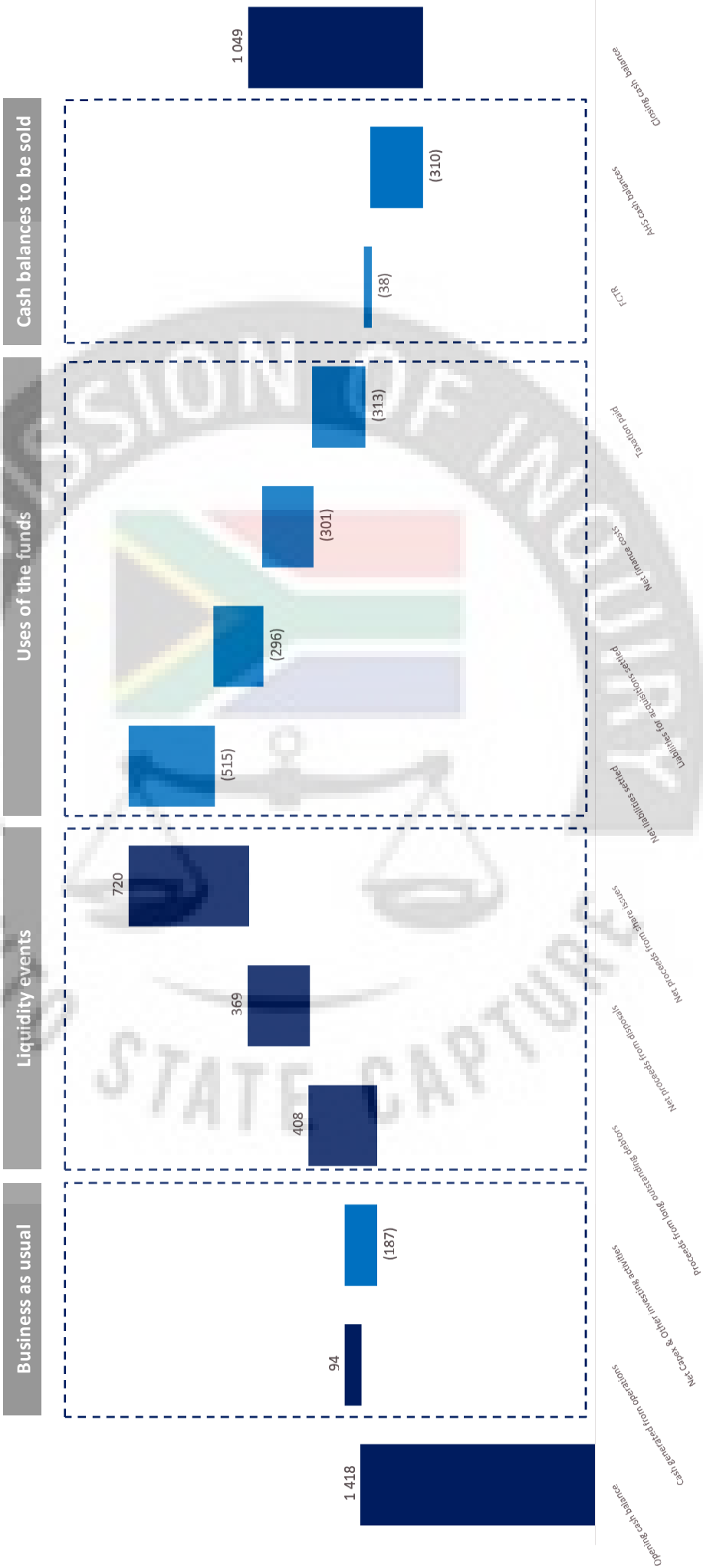


- Responsible deleveraging plan agreed with lenders
- The bridge loan raised in December 2018 has been fully repaid.
- Legacy burden of acquisitions has been reduced in the current financial year and is expected to unwind over the next 12 months.
- Deleveraging to occur over the next 18 months to right size and re-align the business.



DELIVERY ON LIQUIDITY EVENTS ENABLED DELIVERY OF DELEVERAGING IN H2

EOH



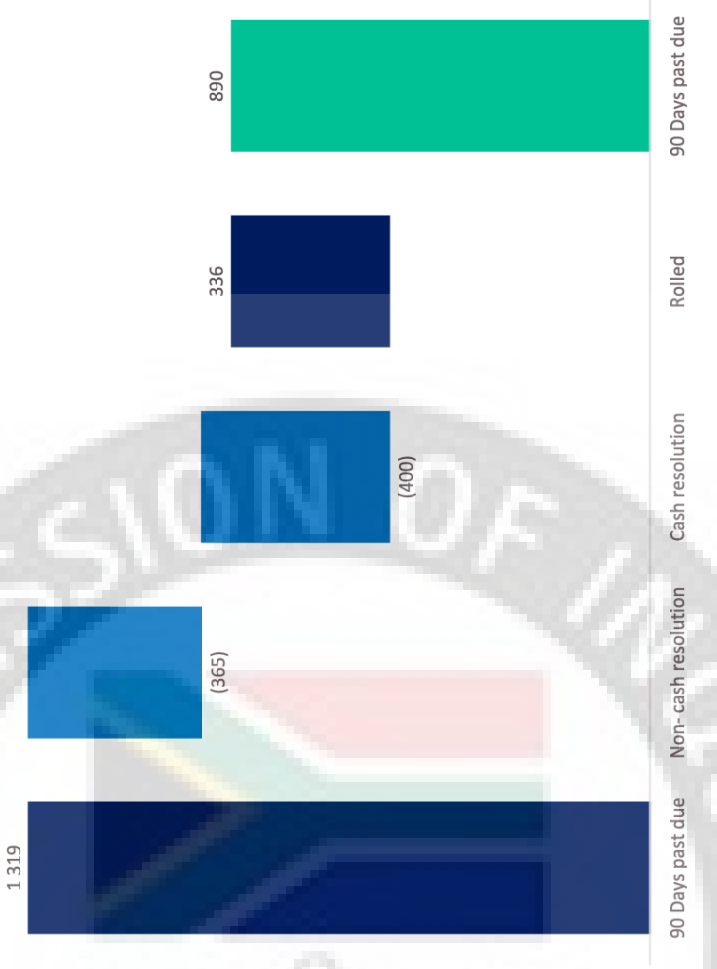
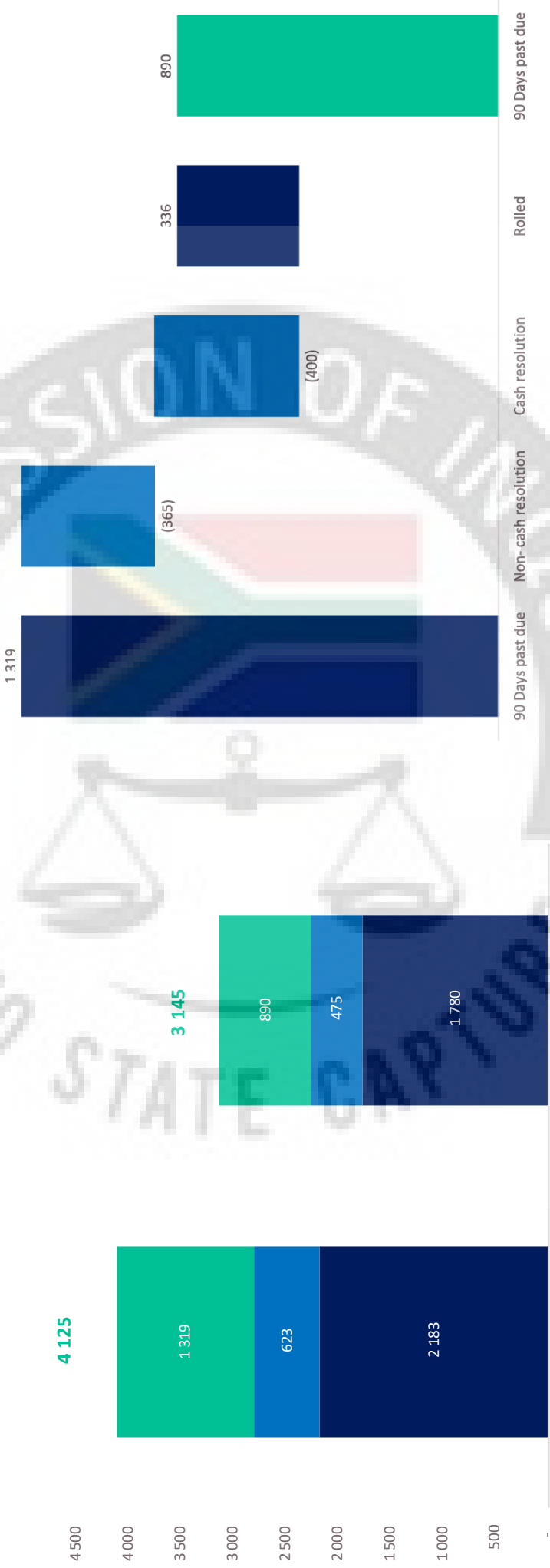


TRADE RECEIVABLES

EOH

Ageing of Gross Debtors

ZAR 'm



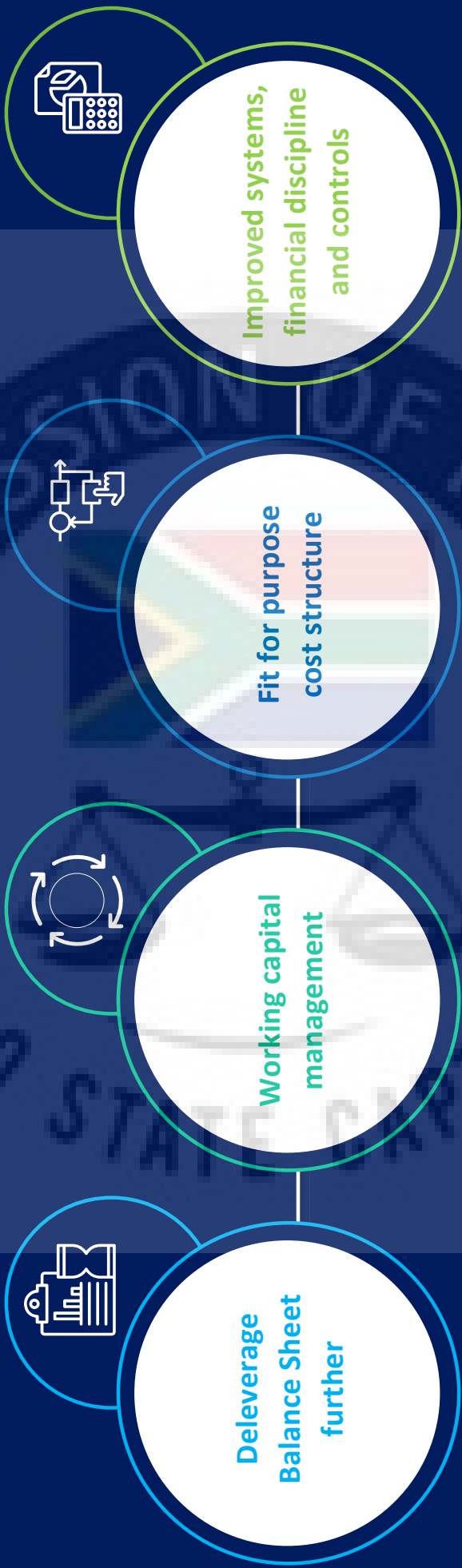
January

July

■ Current ■ 30 -60 Days ■ 90+ Days

FY 2018 Provision 5,5%
FY 2019 Provision 16,5%

PRIORITIES FOR FY 2020





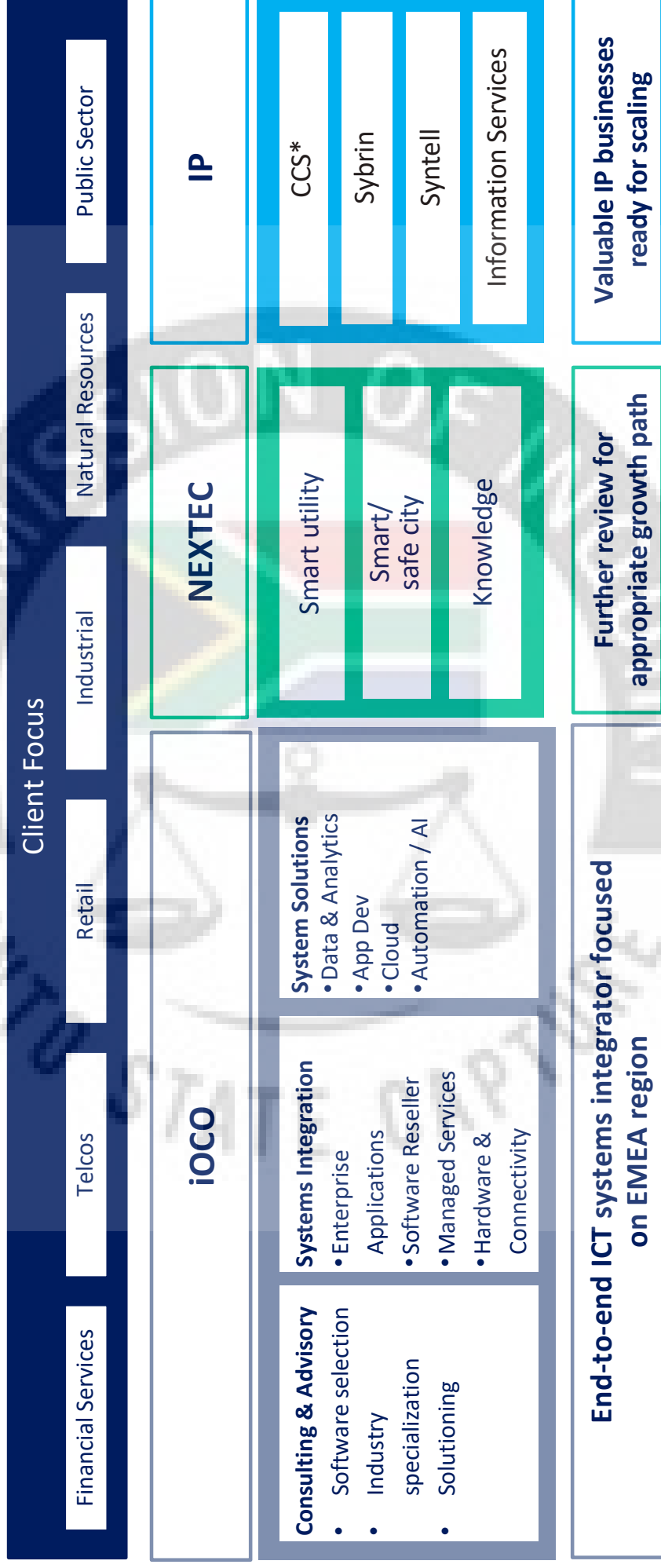
LOOKING FORWARD

Stephen van Coller
Group CEO



THE BUSINESS CONTINUES TO EVOLVE AS WE CLEAN UP

EOH



*70% of Construction Computer Software (CCS) was sold to RIB Limited, a subsidiary of German-listed RIB Software SE (RIB), for an amount of R444 million as at 31 July 2019



WE WILL CONTINUE TO DELIVER AGAINST THE PLAN



Transparency

- Refine **business model** for investors
- Continue portfolio refinement to **return to growth**
- Focus on **long term strategic plan**



Liquidity

- **>R1 bn** in disposals
- **Gross debt target** of <R1.5bn by FY2021
- **EBITDA margin** of >10% for FY2021
- **Neutral working capital** for FY2021
- **EBITDA cash conversion** of >**80%** for FY2021



Credibility

- **Revamp risk reporting**
- **Embed governance culture**
- **Establish Internal Audit**
- **Retain top talent** with appropriate incentives



IT SERVICES

Microsoft terminates partner agreements with EOH

By **DUNCAN MCLEOD** — 11 February 2019 4 Comments

Twitter Facebook LinkedIn WhatsApp YouTube



Mystery surrounds a decision by Microsoft South Africa to terminate two partner agreements with JSE-listed technology services group EOH.

TechCentral learnt on Monday that Microsoft served notice on EOH Mthombo on Friday that it plans to terminate the company's Licensing Solution Provider agreement and Microsoft Partner Network agreement.

EOH holds the Microsoft agreements through its EOH Mthombo subsidiary.

The agreements expire 30 days from the date of the notice of termination.

A Microsoft South Africa spokeswoman confirmed on Monday that it served notice on EOH on Friday but said the company cannot

“ EOH Holdings CEO Ste Collier is scheduled to l

PROMOTED CONTENT

- TechCentral Webinar: Debunking the myths around Popia for IT
- How to get the best out of your contact centre agents
- Empowering sales teams with future-fit UC technology from Telviva

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Microsoft terminates partner agreements with EOH - TechCentral

from Microsoft on Tuesday afternoon

EOH Holdings head of investor relations Debbie Millar also confirmed that the agreements had been terminated by Microsoft South Africa but said that the group has not been given reasons by the software giant.

"We are engaging with them to understand their decision," Millar said. EOH Holdings CEO Stephen van Coller is scheduled to lead a meeting with representatives from Microsoft on Tuesday afternoon to discuss their decision, she added. More clarity is expected to emerge after that meeting.

No direct access

Millar said Microsoft is "an important part of our application ecosystem". However, she emphasised that the software company is just one of more than 50 partners that the group works with.

The termination of the agreements means that, unless they are reinstated, EOH will no longer have direct access to Microsoft products and services, she said. It could still partner with a Microsoft reseller, though she conceded this would be a "less acceptable route to market".

EOH, she said, has already started implementing a plan to ensure there is no disruption to the group's customer base.

"We are very committed to resolving this in a way that meets our and Microsoft's requirements."

EOH shares were trading down 1.8% at 4.03pm in Johannesburg at R26.58. — © 2019 NewsCentral Media

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IT SERVICES

EOH, Microsoft ensnared in SEC corruption complaint

 By **DUNCAN MCLEOD** — 18 February 2019 9 Comments

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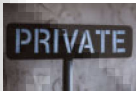



Microsoft terminated longstanding partner agreements with JSE-listed technology services group EOH after an anonymous whistle-blower filed a complaint about alleged malfeasance involving a South African department of defence software procurement deal with the US Securities & Exchange Commission (SEC).


TechCentral has seen correspondence that corroborates this and spoken to well-informed sources who say the whistle-blower lodged the complaint with the SEC at the end of November 2018 under the US's tough anti-graft legislation, the Foreign Corrupt Practices Act.

At the same time, the whistle-blower, through a firm of attorneys, wrote to Seattle, Washington-headquartered Microsoft's board of directors, asking it to investigate the matter and take appropriate action, the correspondence shows.

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The allegations centre on a contract, worth R120-million, awarded by the department of defence in 2016 to the EOH subsidiary, EOH Mthombo.

“ The allegations centre on a contract, worth R120-million, awarded by the department of defence in 2016 to EOH Mthombo

Following receipt of the letter, a Microsoft board committee, acting promptly on the allegations, hired Seattle law firm Perkins Coei to probe the matter. TechCentral can reveal that the whistle-blower’s complaint and the subsequent investigation by Perkins Coei led to an instruction by Microsoft to its South African subsidiary to terminate its agreements with EOH.

A spokeswoman for Microsoft South Africa said on Monday that the company is legally precluded from commenting further on the matter. However, she emphasised that the decision to end the agreements with EOH was “not taken lightly”. She firmly denied that the recent resignation of Microsoft South Africa MD Zoab Hoosen was in any way related to the EOH developments or the department of defence contract.

Took fright

TechCentral reported last Monday evening that Microsoft terminated its Licensing Solution Provider and Microsoft Partner Network agreements with EOH Mthombo, leading to a 34% intraday collapse in the IT services group’s share price on Tuesday as investors took fright amid a lack of reasons supplied by both parties for the decision.

EOH has not said why Microsoft terminated the relationship with EOH Mthombo, while the software giant declined to provide reasons when contacted last week, citing confidentiality.

However, TechCentral can now reveal for the first time that Microsoft took the unusual step after the whistle-blower reported allegations of corruption in the software supply agreement between EOH Mthombo and the department of defence. The whistle-blower claimed the government department overpaid Mthombo to the tune of millions of dollars for Microsoft software licences.

EOH Holdings CEO Stephen van Coller

The whistle-blower alleged that Microsoft was “complicit” in allowing EOH Mthom engage in a “corrupt” licensing transaction with the department of defence (DoD) key allegations are that:

- The DoD concluded the deal indirectly through EOH, whereas it is typical for South African government agencies to procure software licences directly from Microsoft.
- Though EOH Mthombo offered little by way of value-added services, it received a US\$5-million margin, where EOH received \$8.4-million for the deal and Microsoft \$3.4-million. “EOH essentially made this massive sum for doing paperwork as a middleman for the deal,” the whistle-blower said in the letter to Microsoft’s board. EOH allegedly made more in profit from the deal than Microsoft made in revenue. “At the risk of stating the obvious, this amount of margin on a straight licensing deal was not just a red flag for corruption, but was a cannonball shot across (Microsoft) compliance’s bow that was ignored.”
- EOH should have received between 1% and 3% of the amount owing for the supply of the software licences, or between \$80 000 and \$240 000, for related “advisory services”.
- EOH Mthombo provided about 5 000 licences less than promised – 15 000 versus the promised 20 000 – to the DoD;
- The DoD agreed to pay the three-year licence renewal to EOH upfront – “a red flag for corruption”. A former senior DoD official, whose name is known to TechCentral, is accused by the whistle-blower of pushing this payment through ahead of his retirement in 2017. There is, however, no direct evidence yet implicating the official in a corrupt act, and TechCentral has decided not to publish his name at this juncture.
- The deal was flagged to a compliance officer in Microsoft South Africa, but no action was taken by the company against EOH. The whistle-blower suggested no action was taken because EOH was helping Microsoft at the time with a large, \$50-million-plus contract with the South African Police Service, which was said to be the biggest-ever such contract for the software company’s local subsidiary.

Asked to comment on the allegations, EOH Holdings CEO Stephen van Coller said via a text message on Monday that he could confirm that EOH hired law firm ENSafrica last week to start reviewing all licensing contracts in the past five years with all public-sector entities.

“ENS was instructed to start with the Microsoft licensing contracts,” Van Coller said. “ENS is continuing with this review and giving us regular updates.”

The allegations, and a possible SEC probe, are potentially very serious for Microsoft. Approached for comment, specialist US attorneys Andy Rickman and Chris Connors told TechCentral that US-traded companies may face “significant penalties” — in some cases up to hundreds of millions of dollars — for violating the US Foreign Corrupt Practices Act.

“ US-traded companies may face significant penalties ... for violating the US Foreign Corrupt Practices Act

“Whistle-blowers who report corruption relating to technology companies may receive 10-30% of the entire penalty levied upon the company by the US government, resulting in multimillion-dollar rewards,” they said in emailed comments. Rickman and Connors specialise in getting rewards for whistleblowers who report corruption under a piece of legislation known as the Dodd-Frank Street Reform and Consumer Protection Act.

On Friday, EOH “proactively initiated” an internal investigation into EOH Mthombo’s partner business unit.

In a detailed statement to shareholders, issued through the JSE’s stock exchange news service, EOH said it was working with Microsoft “to better understand the concerns and rationale for the action”.

‘Fruitful meeting’

“Following a recent fruitful meeting between EOH and Microsoft leadership, Microsoft has advised that it is taking the EOH proposals under consideration and further review,” EOH said.

It said EOH was “committed to ensuring ethical leadership throughout the group”.

Among other initiatives, it has retained the services of ENSafrica to “perform an independent, ongoing risk-based monitoring and oversight role in all the group’s major public-sector bids, contracts and engagements”. The law firm is also “overseeing EOH’s review of all material current public-sector contracts to ensure that governance relating to these contracts were adhered to”.

ENSafrica was also part of a “broadened review of large public-sector licensing agreements”, EOH said.

The group said it was “committed to zero tolerance to any impropriety and upholds the highest levels of governance and ethical conduct”. — © 2019 NewsCentral Media

- Read: [Stephen van Coller's extraordinary letter to EOH shareholders](#)

EOH

EOH MTHOMBO

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