



Ethics & Governance Program Report 2017

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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 2017

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 2017:

1. Anti-Fraud Awareness Session: The purpose of this session is to provide awareness to existing employees on aspects of fraud and means and ways to manage fraud risks. Eight sessions were provided to employees from Publics Relations, Business Units, Maintenance, Repair & Overhaul, and Corporate Legal. A total of 36 employees have attended the awareness sessions bringing the total employees exposed to AEC's Anti-Fraud Program to 489 employees. It should be noted that this awareness sessions also covers AEC's Ethical Conduct Policy as a refresher to the employees.
2. Governance Function as Second Line of Defence: This is one of the deliverables of a project called "Aligning the Governance Functions in AEC". The purpose of this project is to identify and align the various governance functions in AEC (also termed as the second line of defence in the Three Lines of Defence model mooted by the Institute of Internal Auditors). All of the relevant representatives of the governance functions in AEC attended the session held on 5 November 2017.

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



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interest situations while discharging their duties. Since the inception of this policy in 2014, a total of 174 employees have submitted their conflict of interest disclosure form.

In 2017, we have obtained new disclosures from 43 E&D employees Grade 13 and above who have just joined the company or being transferred or being promoted.

In addition, 31 E&D employees Grade 13 and above who submitted their first disclosure in 2015 completed renewing their disclosures.

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 2017, the Risk Management team conducted 12 awareness sessions covering departments such as Corporate Development unit, Engineering & Development, Manufacturing, Corporate Portfolio Management, Facilities, Finance, Maintenance Repair Operations, and Defence & Aerospace business unit.

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 2017 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 138 policy documents and 139 procedures (called process maps) were reviewed and updated during 2017.

In addition to the above, 15 new policies and 25 new procedures (process maps) have been documented.



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.