

Annual Integrated Report

For the year ended 31 December 2017






Strate is licensed to be an independent provider of post-trade products and services for the financial markets.

As a South African Central Securities Depository (CSD), Strate is a licensed independent provider of post-trade products and services for the financial markets. We are internationally recognised as a Financial Market Infrastructure (FMI). People trust us to use our state-of-the-art technology, international expertise and sound risk management practices to support and promote the safety and efficiency of the financial markets.

Strate keeps the electronic record of securities, and provides electronic settlement for securities transactions – including equity, bond and money market securities, as well as derivative products (such as warrants, exchange traded funds (ETFs), retail notes and tracker funds) for the South African market. Our portfolio of value-added services includes Strate's Tri-Party Collateral Management Services (CMS), data services and a range of corporate actions products. We are a fully endorsed Society for Worldwide Interbank Financial Telecommunication (SWIFT) bureau and were appointed as a local operating unit (LOU) to issue Legal Entity Identifiers (LEIs). We provide services to issuers for their investors in terms of the Companies Act, 71 of 2008, as amended (Companies Act) and the Financial Markets Act, 19 of 2012 (FMA).

NAVIGATION

-  **Further information:** illustrates where further information is available online.
-  **Read more:** provides a cross-reference to information within the report.

-  A list of acronyms and definitions used in this report can be found on page 57.

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About this Report

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SCOPE AND BOUNDARY

We are pleased to present our Annual Integrated Report 2017 (report) to our stakeholders, which covers the period 1 January 2017 to 31 December 2017.

The report has been prepared according to the International Integrated Reporting Council's (IIRC) Integrated Reporting Framework (<IR> Framework). The report outlines who we are and what we do; and presents insights into our structure, strategy, objectives, performance, governance and future prospects. All significant items are reported on a like-for-like basis and are comparable with the 2016 Annual Integrated Report.

MATERIALITY AND APPROACH

Strate's material matters are those that are deemed to have a substantial impact on the company's ability to create value over the short, medium and long term.

Our materiality determination process considers:

- feedback from our key stakeholders;
- the regulatory objectives;
- our key risks; and
- elements that could impact the achievement of our strategic objectives.



Our strategic focus areas aim to respond to these material matters. Refer to page 19 for more information.

APPROVAL OF THE ANNUAL INTEGRATED REPORT



The Board of Directors (the Board) and its committees oversee the integrity and completeness of the report. In the Board's opinion, this report provides a reliable, transparent and balanced overview of the company's performance based on our material matters.

We applied our collective mind to the presentation and preparation of this report. The report was approved on 20 March 2018.

CONTACT DETAILS

For further information or feedback regarding this report email: info@strate.co.za.

The table below provides an overview of the reports and information prepared on an annual basis:

Annual Integrated Report	Annual Financial Statements (AFS)
<ul style="list-style-type: none"> • Overview of Strate’s business model, strategy, performance and prospects • Corporate governance reports • Summarised financial information <p>Governance and Frameworks</p> <ul style="list-style-type: none"> • Companies Act • King Code of Governance for South Africa, 2009 (King III) • IIRC’s <IR> Framework • Committee on Payments and Market Infrastructures – International Organisation of Securities Commissions (CPMI-IOSCO) – Principles of Financial Market Infrastructures (PFMI) • CPMI-IOSCO – Guidance on cyber resilience for FMIs <p>Assurance</p> <ul style="list-style-type: none"> • Combined assurance (incorporating external audit, internal audit and management) • Governance oversight by our Audit and Risk Committee • Board approval <p> http://www.strate.co.za/press-room/reports-publications</p>	<ul style="list-style-type: none"> • AFS for the year ended 31 December 2017 • Report of the Audit and Risk Committee • Directors’ report • Independent auditor’s report <p>Governance and Frameworks</p> <ul style="list-style-type: none"> • International Financial Reporting Standards (IFRS) • Companies Act • King III <p>Assurance</p> <ul style="list-style-type: none"> • Internal controls • Combined assurance (including management, internal audit and external audit) • Governance oversight by our Board, and Audit and Risk Committee • External audit opinion – KPMG • Board approval
Regulatory and the Strate Supervisory Report	Supplementary reports
<p>Strate is a self-regulatory organisation.</p> <p>This report provides information regarding Strate’s regulatory and supervisory functions (via STRATE Supervision).</p> <p>Governance and Frameworks</p> <ul style="list-style-type: none"> • FMA • Companies Act • Strate Rules and Directives <p>Assurance</p> <ul style="list-style-type: none"> • Management assurance • Regulatory and Supervisory Committee <p> Available in hard copy from Strate’s offices, or downloadable from: http://www.strate.co.za/strate/supervision/publications</p>	<ul style="list-style-type: none"> • Broad-Based Black Economic Empowerment (B-BBEE) certification • Remuneration Report • King III Report • PFMI Assessment Report <p>Governance and Frameworks</p> <ul style="list-style-type: none"> • B-BBEE Act • B-BBEE Codes of Good Practice (CoGP) • Department of trade and industry (dti) • King III <p>Assurance</p> <ul style="list-style-type: none"> • B-BBEE is independently verified by Empowerdex



CHAIRMAN'S REVIEW

During 2017, South Africa's attention was drawn to the basic principle of how long it takes for trust to be earned, backed by market confidence, and how quickly a tarnished reputation can affect positive sentiment. Bell Pottinger; Donald Trump; Guptagate; Steinhoff; ratings downgrades; market volatility; and political uncertainty are examples of developments that could impact Strate's settlement volumes.

It is in these times that companies have to revert to the basics, by focusing on core services and by optimising their strengths to create shared value, so as to maintain their integrity and confidence in the South African financial markets. Numerous challenges may still present themselves. Strate was established to build trust and confidence in the financial markets, and we will never lose sight of this.

Strate's sole purpose as an FMI is underpinned by almost two decades' worth of activities centralised around risk mitigation and delivering services that contribute to a stable, robust and attractive financial market. This almost 20-year history came with numerous milestones, many of which were introduced by Strate's former Chief Executive Officer (CEO), Monica Singer. During the year, Monica stepped down as CEO to move to Cape Town and pursue other interests. Monica's contribution to the company over many years is invaluable and, on behalf of the Board, I thank her for her dedicated service. Dr Maria Vermaas, who served as Strate's Head of the Legal and Regulatory Division for more than 15 years, was appointed as the interim CEO. A stringent process is underway to find Strate's new CEO, who will be announced in due course.

Key milestones during 2017 included the adoption of a new settlement system for the bond market, extending Strate's Tri-Party Collateral Management Services (CMS) to key clients; and providing our services to the country's new exchanges. Strate announced a partnership with Nasdaq to develop an

e-Voting solution for South Africa's financial markets. Many of these are explained in more detail throughout this report.

The Debt Instrument Solution (DIS) project deserves a special mention, and will be referred to throughout this report. The large-scale project to replace Strate's bond clearing and settlement system, replaced a legacy system that served the South African market for many years. It introduced a number of new business processes. As a result, during the week of implementation, we faced operational challenges and Strate worked closely with the financial market to overcome these. Strate has looked into the causes of the incidents and is working on the remedial actions. I would like to acknowledge all the individuals across the market who worked with Strate during this challenging time and thank them for their commitment to the financial markets. Our stakeholder relations can never be underestimated, particularly during such incidents, and we can expect to further entrench relations across the full spectrum of stakeholders.

Looking ahead, Strate intends to work with its stakeholders on their respective industry-wide projects, such as National Treasury's Electronic Trading Platform (ETP), or the JSE's Integrated Trading and Clearing (ITaC) initiative. The company will closely monitor the expected regulatory changes, as the financial market prepares for the introduction of the Financial Sector Regulation Act and the Protection of Personal Information Bill. We will continue to research how new technological developments will change the landscape within which Strate operates, and strategise accordingly.

As we move further into 2018, Strate will strive to uphold the high governance standards it has set, and continue to build on its relationships with current and prospective clients, regulators and other key stakeholders. I would like to thank you for your continued support of Strate.

We welcome two new Board members to Strate, Elias Masilela and Stuart Yates. We look forward to working with you. I extend my gratitude to Strate's Board, to Maria Vermaas and the executive team for executing the corporate strategy, as well as to Strate's employees for their commitment to Strate and the financial markets.


A handwritten signature in black ink, appearing to read 'Rob Barrow'.

Rob Barrow
Chairman



Strate continues to operate as a CSD in the spirit and framework of the FMA and without abusing its powers as a Self-Regulatory Organisation (SRO).

CHIEF EXECUTIVE OFFICER'S REVIEW

In 2017, the South African operating environment experienced slow growth, ratings downgrades, political uncertainty and persistent market volatility. Consequently, Strate's settlement values and volumes were impacted. Our revenue declined by 2% to R435,2 million (2016: R445,5 million), and net profit after tax (NPAT) decreased by 25% to R84,6 million (2016: R112,1 million). Refer to  page 30 for our financial review. In response to this, we continued with our efforts to contain costs. Various measures were implemented to lessen discretionary expenditure while ensuring we deliver our strategic projects, products and services to the highest standard.


Strate is intrinsically linked to South Africa Inc. Sentiment towards the country's economical, legal and financial infrastructures impacts our performance. As an FMI, we have the responsibility to conduct our business in a fair and transparent manner with due regard to the rights of participants and their clients, and issuers. We are dedicated to bringing efficiencies, reducing systemic risk and ensuring operational excellence in our operations and are pleased to report that the South African Capital Market continues to enjoy a very favourable (AA-) rating from Thomas Murray. We have invested in various strategic projects to uphold these commitments.

IT roadmap

We commenced with the implementation of a five-year Information Technology (IT) Roadmap in 2014 to improve the efficiency and effectiveness of the settlements system. The IT Roadmap outlines the migration of Strate's custody and settlement systems onto the Tata Consultancy Services BaNCS Market Infrastructure (TCS BaNCS MI). During 2016, phase one was completed when the settlement of money market securities moved to the new platform. In September 2017 we completed the second phase of the roadmap with the migration of bond securities into the BaNCS MI platform (known as the Debt Instrument Solution (DIS) project). The third and final phase of the IT Roadmap, the migration of equities, is expected to be concluded in 2019.

The DIS project impacted the bonds market stakeholders throughout the value chain. The project introduced a new settlement model for the cash bonds market, and required a number of business process improvements and reference data changes. Unfortunately, during the "go-live" week in September, all market stakeholders experienced a significant level of operational disruption.

In appreciation of the seriousness of these events, Strate, in conjunction with the JSE Limited (JSE), initiated an independent investigation into the post-go-live difficulties and root causes of the disruption. Strate had already taken a number of actions to address the issue and will continue to work on specific remedial actions emanating from the incident. We will also apply the lessons learned to all future projects and initiatives, such as the final phase of the IT Roadmap.

For more detailed comment in this regard, please refer to Strategic Focus Areas on  page 19.

We accept full accountability for our shortcoming, and we sincerely apologise to all stakeholders impacted by the incident. We extend our appreciation to all parties for their assistance, resources and dedication during that time.

New exchanges

The South African market introduced four new exchanges (ZAR X, 4 Africa Exchange (4AX), A2X and Equity Express Securities Exchange (EESE)). All newly licensed exchanges appointed Strate as their CSD of choice to provide settlement services, and all commenced operations in 2017. We welcomed the new exchanges into our realm and we embrace the status of being "exchange neutral". Beyond the JSE, the new exchanges introduced multiple platforms for raising capital through equity securities. Some specialise in restricted share schemes and/or B-BBEE market segments.

Stakeholder centrality

We continue to ensure that we meaningfully engage with our stakeholders to position ourselves as service provider of choice. Having an improved understanding of our stakeholders' needs enables us to strengthen our relations and to forge new ones in the future. The creation of shared value for all stakeholders is a key principle for Strate.

In 2017, we learned that we need to broaden our understanding of stakeholders across the value chain in the financial markets.

Strate progressed well with its transformation strategy. We achieved a level 2 B-BBEE certification. This is testament to our commitment to transformation and our dedication to socio-economic initiatives aimed at entrepreneurship, learning and development.

Governance and leadership

One of the functions of the Board is to develop the company's strategy. Once the strategy has been set, the CEO and the Executive Committee will implement the strategy and run the business. My appointment as the interim CEO on 1 September 2017 did not impact Strate's strategy. The Board will appoint the new CEO in 2018 following its recruitment process.

Outlook

In 2018, Strate will continue to support and collaborate with the market on new services and the delivery of various projects. We aim to position ourselves as a service provider of choice.

The World Bank and National Treasury are collaborating to implement an electronic trading platform (ETP) for government bond trading in 2018. This aims to promote anonymity, price discovery, transparency, fairness, and improved liquidity in government bond trading. The ETP project is managed by the JSE. Strate is represented on the various work streams,

which include IT and connectivity, settlement assurance, rules /principles, and pricing and operational matters.

The replacement of the South African Multiple Option Settlement (SAMOS) system is a key strategic project for Strate's Tri-Party CMS. This will provide the banks with an opportunity to use assets held by the South African Reserve Bank (SARB) as collateral with their other exposures, and manage collateral from central custody. The project is based on the replacement of the National Payments System.

Due to the pace of technological and innovative change, it is imperative for us to continuously research developments that enable us to remain relevant as a CSD.

Appreciation

2017 was an eventful year. The guidance and encouragement from our Chairman, Mr Rob Barrow, the Board and its committees, enabled us to achieve our deliverables. I would like to thank Strate's employees and contractors, led by the executive team, for their teamwork and dedication. Thank you to our CSD Participants, clients, issuers and other stakeholders for your continued commitment to serving the financial markets. We pledge our full support to our regulators, especially in the implementation of legislation and regulations for Twin Peaks.



Dr Maria Vermaas
Acting Chief Executive Officer



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OUR MANTRA

Our pioneering spirit and commitment to excellence will make a difference in a world driven by the need for reliable exchange-of-value settlement systems.

STRATEGIC OBJECTIVES

	We strive to have an unmatched performance track record through our operational excellence
	We aim to build a financially sustainable business
	We have stakeholders at the heart of everything we do
	We focus on learning and development to enable personal and corporate growth

OUR VALUES



WHAT WE DO

As a South African CSD, Strate is a licensed independent provider of post-trade products and services for the financial markets.

RANKED AMONG TOP CSDS GLOBALLY. ROBUST & RESILIENT TECHNOLOGY



We are an internationally recognised FMI that is trusted to use its state-of-the-art technology, international expertise and sound risk management framework to support and promote the safety and efficiency of the financial markets.

SERVICES NUMEROUS EXCHANGES



Strate is an independent company, serving multiple exchanges in South Africa and their respective issuer clients.

OPERATING SINCE 1998

OPERATES AS A CENTRAL SECURITIES DEPOSITORY IN TERMS OF FINANCIAL MARKETS ACT

We are licensed by the Financial Services Board (FSB). We own technology to securely hold equities, bonds and money market securities in electronic form so that buyers and sellers can exchange ownership of these securities once they are successfully traded.



SETTLES

- Bonds
- Equities
- Money market instruments

LEADING FINANCIAL MARKET INFRASTRUCTURE



Strate continues to explore new, advanced and disruptive technologies that could be identified as new opportunities in the financial markets.

THE LEGAL RECORD OF SECURITIES OWNERSHIP in SOUTH AFRICA

Given that records are electronic, Strate records the transaction via book entry rather than transferring physical certificates. The shareholder database held in the Strate environment is recognised as the legal record of ownership in South Africa.




- is responsible for the electronic safekeeping of the records of ownership of a variety of securities;
- provides electronic settlement of equities and bonds transactions concluded on South African exchanges;
- settles transactions in money market securities;
- offers data services to clients to enhance trend analysis across the market
- collates and manages the shareholder registers for issuers (such as Beneficiary Download (BND));
- offers Strate's Tri-Party Collateral Management Services (CMS); and
- offers an asset-servicing product range that augments the services it offers to issuers in terms of the Companies Act and the FMA.

EVOLVE INNOVATIVE SOLUTIONS



1. CSD Operations
2. Fractal Solutions

Self-regulatory organisation

Strate is well respected in both local and international financial markets as an SRO. The Regulatory and Supervisory Committee has established and ensures continued solid governance structures. This reaffirms our significance in the financial markets and enables us to fulfil our key strategic objectives  (page 11). In the facilitation of settlements, Strate authorises specific organisations (CSD Participants (CSDPs)) to provide custody services to investors.

Legislation regulates how SROs deal with confidential information.



Refer to page 18 for more information on our revenue streams, how services are charged, and costs.

Strate is a regulatory authority that aims to ensure that its participants comply with regulation.

Our regulatory environment

Developments in the local and international markets impact Strate. Following the Global Financial Crisis, the role of FMIs, such as CSDs, became instrumental. As a CSD, we operate in a market which is subject to various regulatory guidelines, as outlined below. Our services play a pivotal role in facilitating trade on the financial markets. A key element of Strate's strategy formulation process is to consider regulatory reforms.

The Financial Sector Regulation Act, 9 of 2017 (FSRA) (Twin Peaks) was endorsed on 22 August 2017. The Minister of Finance will determine the commencement date of the FSRA by notice in the Government Gazette. Once implemented, the FSRA will supersede any other financial sector legislation. The FSRA will introduce two regulatory authorities, the Prudential Authority (to be housed at SARB) and the Financial Sector Conduct Authority (FSCA) (replacing the FSB).

The Prudential Authority will be tasked with promoting and enhancing the safety and soundness of regulated financial institutions; and the FSCA will be tasked with protecting financial customers by supervising market conduct. The FSCA establishes measures to ensure alignment between the two authorities and other regulators.

Our licences are granted by:

- the Payments Association of South Africa (PASA), which authorises Strate to be a payment clearing house (PCH) system operator; and
- the FSB, which grants Strate the legislative right to be a CSD and PCH in South Africa (performing such functions without a licence is illegal).

We aim to comply with the terms and conditions of our licences.

Our CSD licence grants us the responsibility for:

- issuing, amending and suspending, where necessary, rules and directives according to which the market operates – our Legal and Regulatory Division employs regulatory specialists who draft Strate Rules and Directives;
- supervising that CSDPs comply with the Strate Rules and Directives ; and
- the provision and maintenance of infrastructure for holding, settling and administering uncertificated securities.

Being an SRO enables us to issue our own rules and directives.

STRATE Supervision, a supervisory mechanism, enforces the Strate Rules and Directives. Robust risk management principles and tools have enabled STRATE Supervision to apply and enforce its supervisory approach over the years. STRATE Supervision

applies 30 supervisory tools to identify, manage and mitigate regulatory risks.

There is a fine line between Strate's functions as a CSD and the supervisory function. This opens the door to actual or perceived conflicts of interests. Strate has the potential to obtain confidential information through its statutory powers as a regulator. Conflicts of interest could arise, in the event that this information is used, or is perceived to be used, to provide an unfair advantage to Strate's CSD and other commercial activities.

To avoid conflicts of interest, Strate has established the appropriate "Chinese Walls" between these functions (CSD or commercial function versus the supervisory function). Strate adheres to a conflicts of interest Board Notice issued by the FSB in terms of section 62 of the FMA.

The Supervision Division's administrative matters are reported to the CEO. All other matters are reported to the Regulatory and Supervisory Committee and its chairman.



Refer to the Regulatory and Supervisory Committee report on page 45.

The legal foundation of Strate

The sound legal foundation provided by the FMA, paired with the level of understanding that Strate (including its Board, the various committees and management) has in terms of the FMA and the Companies Act, ensures effective corporate governance and strong risk management processes are implemented. The electronic ownership records held in the Strate environment are recognised as the legal record of ownership.

OUR PRODUCTS AND SERVICES

To ensure operational excellence, we aim to maintain our performance track record and evolve our core services through our robust risk management framework. Strate ensures alignment to international standards, such as CPMI-IOSCO principles for FMI.

Custody and settlement

Settlement – Securities transferred from seller to buyer and cash transferred from buyer to seller.

Strate's core function is the custody and settlement of uncertificated securities.

Our services include the settlement of all transactions concluded on various exchanges, such as 4AX, the JSE, A2X, ESEE and ZAR X, and those executed "off market" in listed and unlisted securities and money market securities. We also facilitate the settlement of Securities Lending and Borrowing (SLB) (including loan and collateral), depository receipts, account transfers and portfolio movement transactions.

Strate is tasked with the safekeeping and administration of securities on behalf of third parties. We are also responsible for the settlement of these securities – where the corresponding cash is delivered to complete a transaction between sellers and buyers of those securities. This custody and settlement role is the core service provided by Strate to stakeholders across the bonds, equities and money market environments.

Strate's Tri-Party Collateral Management Services (CMS)

Strate's Tri-Party Collateral Management services – the power of three.

Strate's Tri-Party Collateral Management Services (CMS), a Tri-Party collateral agent, offers the supervision of securities that are held as collateral to cover exposures of any bi-lateral principal agreement. As a neutral collateral agent, we handle the allocation, optimisation and substitution in straight-through processing and in real time.

IT services

Infrastructure that markets use to make financial payments and securities-related transactions.

Our suite of IT services comprises:

SWIFT Services

The South African financial market use the SWIFT network

to make payments and securities-related transactions. Strate manages one of Africa's largest SWIFT infrastructures and allows clients access to the SWIFT network through this infrastructure. Strate's centralised SWIFT Services allow market players to save costs and present new efficiencies to their organisations.

Gateway Services

Through Strate's Gateway Services, the South African financial market has an alternate mechanism to send and receive International Organisation for Standardisation (ISO) 15022 format messages¹ directly to and from Strate. This allows the realisation of cost savings. The Gateway application processes and routes messages to and from the required Strate target application, and stores a copy of the messages on a database at Strate's high-availability infrastructure. The messages are stored for five years after which they are archived.

Issuer and investor needs

Corporate actions

A corporate action is an event initiated by a company that affects the securities issued by the company.

Strate executes all corporate action events in respect of uncertificated securities for the market.

Our corporate actions model provides significant risk reduction and cost savings for our clients, given that corporate action payments are processed through the SARB.

Beneficiary download (BND)

Highly secure electronic records of securities.

Electronic records are subject to stringent controls, advanced encryption and authentication. Our information services offer high-level security and reliability.

The BND is a securities register containing details of shareholders. Strate produces the BND by collating shareholder positions from information supplied by CSDPs, brokers and Strate recognised nominees.

Legal Entity Identifier (LEI)

LEIs were set up by regulatory authorities (including the G20 and the Financial Stability Board) to address the Global Financial Crisis. The LEI is designed to identify and link parties to financial transactions to manage counterparty risk. Strate is the South African issuer of LEIs.

Data sales

The data products captured under data sales include once-off BND requests, transfer secretary and data vendor BND's, ad-hoc BND requests, and value-add reports.

¹ An ISO standard for messaging used by institutions involved in securities settlement activities.

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Strate creates value by providing world-class¹ post-trade services to the market, that enhance the management of risks and investments.

POSITIONING

Trading environment	Post-trade environment
Exchanges Platform where capital can be raised through the issue of securities, which are traded by investors using brokers.	Strate <ul style="list-style-type: none">• World-class post-trade services• Clearing and settlement• Effects ownership changes• Increased ease and reduced risk of conducting transactions

An exchange's primary service is to provide a platform for raising capital through issuing securities, which are traded by investors using brokers. This service is commonly known as the trading environment. The South African exchanges include the JSE, and the four newly licensed exchanges, ZAR X, 4AX, A2X and EESE.

The post-trade environment is where various activities take place after trading in the financial market. Strate operates in the post-trade environment to effect ownership changes. Strate was appointed by the newly licensed exchanges as their CSD to provide settlement services.

There are several other entities involved in the post-trade environment with similar, but varying, needs. We have grouped these entities based on the similarity of their needs. Our products and services are designed accordingly.

¹Since inception, Strate has used international benchmarks to ensure we provide world-class post-trade services.

BUSINESS MODEL

The business model illustrates our value creation process by highlighting the capital inputs employed to provide the products and services we offer to the market. In turn, these produce outcomes imperative to the effective operation of our business.

Key resources

The **resources** we use to **create value**

Intellectual

- Licence to operate as a CSD, a clearing house for bond and payment system operator for all markets
- Operating procedures and protocols in line with Strate Rules and Directives
- Develop market-specific systems and interfaces

Financial

- Funded by equity and reserves
- Strong cash-generating ability through operations

Human

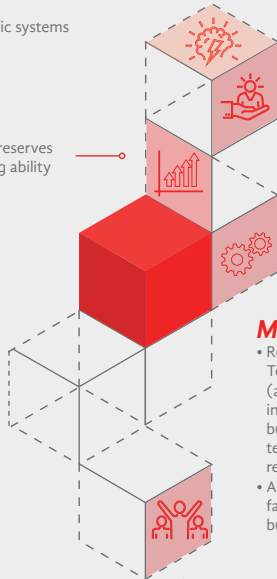
- Knowledgeable, experienced and skilled Board of Directors
- Specialised, and skilled employees focused on deliverables, innovation, creativity and thought leadership

Manufactured

- Robust Information Technology (IT) (applications and infrastructure) to meet business objectives in terms of availability, resilience and reliability
- Alternate operating facilities to ensure business continuity

Social and relationship

- Clients
- Employees
- Regulators and government
- Suppliers and partners
- Communities



Our business activities

The **core activities** in which Strate specialises

Records of ownership

Strate is responsible for the electronic safekeeping of the records of ownership of a variety of securities.

Information Technology

Strate's IT infrastructure is a key enabler of services. It includes various systems and applications required for the daily processing of transactions and highly secure electronic records of shareholding.

Dematerialising securities

Servicing assets

Servicing streamlined, reliable, single-source issuer notifications and events initiated by a listed company.

Knowledge sharing

Managing collateral

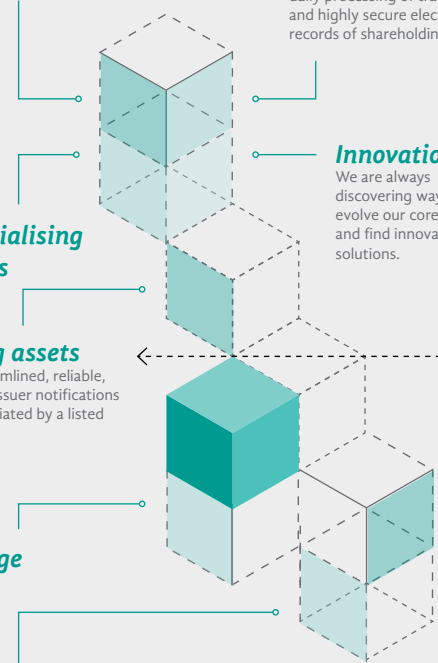
Collateral management is the method of granting, verifying, and advising on collateral transactions in order to reduce credit risk in unsecured financial transactions.

Innovation

We are always discovering ways to evolve our core services and find innovative solutions.

Processing transactions

Strate effects ownership changes. The custody and settlement of uncertified securities are Strate's core function.



Our outputs

The products and services *we deliver* to our stakeholders

Information services

Beneficial Download (BND) is a securities register containing information of dematerialised holdings.

Legal Entity Identifier

Strate is the South African issuer of LEIs.

Custody and settlement

- Electronic settlement of equities and bonds transactions concluded on the exchanges.
- Electronic exchange and settlement of transactions "off-market" in money market securities
- Strate facilitates the settlement of SLB (including loan and collateral), depository receipt, account transfers and portfolio movements transactions

Information Technology services

Our IT Services provide electronic records of shareholding and secure transmission of information related to financial transactions. Strate uses the following networks for the relay of electronic information:

- SWIFT Services
- Gateway Services

Corporate actions

Strate Asset Servicing (SAS) executes all corporate actions and events in respect of uncertified securities for the market through a product range which brings efficiencies and cost reductions to its users.

Strate's Tri-Party Collateral management services (CMS)

Our collateral management services provide centralised, automated optimal management of services on three business day settlement cycle (t+3) basis.

Strate provides world-class post-trade services to the market

Our outcomes

The outcomes of our business activities

Operational excellence

- Support and promotion of the safety and efficiency of the South African financial markets
- Provision of high-quality services
- Investment in projects to ensure organisational growth
- Effective management of risk

Financial viability

- Profit and cash flow generation to ensure sustainability and financial viability of the company
- Dividends paid to shareholders

Stakeholder centricity

- Stakeholder satisfaction

Learning and development

- Investing in staff development
- Contributions to corporate and social initiatives

VALUE PROPOSITION TO CLIENTS

We deliver operationally efficient and cost-effective services to the financial market. Our clients are central to our value-creation process, relevance and sustainability.

Strate's clients are across the equities, bonds and money market environments. Our value proposition is tailored to meet the following client requirements:

- Increased efficiencies
- Reduced costs for our post-trade market segment clients
- Decreased principal risk
- Enhanced ability to achieve their key deliverables and meet their financial market obligations.

 Strate's products and services are described on page 14.

Innovation

Continuous improvement and innovation are key to us maintaining our status as a world-class FMI. In 2017 we exemplified this approach through:

- research and development relating to blockchain technology;
- ongoing deployment of our big data strategy and mobile application, which enables data analytics for management to meet the needs of our stakeholders; and
- research into the feasibility of implementing artificial intelligence/robotics to progress our mantra of improving revenue, cost, efficiency and risk.

To ensure our sustainability Strate must keep adding value and "Always Discover" ways to evolve.

Communication

We communicate to our clients through various platforms depending on the nature and purpose of the engagement. Our communication platforms include:

- individual or face-to-face meetings,
- industry forums;
- newsletters;
- the media;
- Strate's website;
- educational workshops;
- publications and material; and
- company circulars.



Further detail can be found under stakeholder engagement, page 21.

REVENUE STREAMS, HOW SERVICES ARE CHARGED AND COSTS

Our focus is on our revenue and pricing models. We derive our revenue primarily from the transaction fees paid by investors for settlements. Our economic conditions dictate the volumes of trades and corporate actions which, in turn, influence the number of transactions we process. We process various types of transactions, and our fees are determined by effort and associated cost. Strate regularly reviews the pricing structure to manage our clients' sensitivity to price.

We manage our costs carefully to achieve economies of scale. Our cost base is largely fixed and does not depend on transaction volumes. Our fixed cost base primarily comprises our employees and IT infrastructure. We implemented various ancillary services and we constantly research different methods to assist with cost management.

STRATEGIC FOCUS AREAS

Our strategic focus areas enable our core business – the custody and settlement of uncertified securities and the effective management of risk.

The CSD industry is dynamic and there are potential risks which could disrupt our business. We constantly assess growth opportunities across the company to remain sustainable and relevant.

Upholding our reputation as a trusted third party for the financial markets is vital to:

- continue to enhance and maintain our core CSD business and expand our products and services where the core technology platforms enable this;
- successfully implement important market projects in 2018 and 2019, which are crucial in meeting our clients' needs, and for the improvement of South Africa's financial markets; and
- determine our strategic direction (post-2018).

Our strategic focus areas enable us to achieve our objectives.

Operational excellence

Processing world-class settlement services and facilitating transactions are central to our strategy.

We provide services for the settlement of securities (equity, bond and money market securities). The company also facilitates the processing of portfolio movement transactions, depository receipt transactions, account transfers and SLB transactions.

IT roadmap – application consolidation

The IT Roadmap began in 2014 and has reached its final stage. Two of the three asset classes were migrated to the new application and testing activities of the third are expected to

begin in 2018. The last migration, being equities, is planned for 2019.

The IT Roadmap programme aims to consolidate the diverse applications used by the various asset classes into a single application (TCS BaNCS MI). This consolidation is expected to achieve IT cost savings. Strate carefully considered the application's ability to operate on open architecture, which enables Strate to choose the underlying infrastructure, including cloud offerings.

The three phases of the IT Roadmap:

- First phase (implemented February 2016): **Money Markets**
- Second phase (implemented September 2017): **Bonds (DIS)**
- Third phase (commenced 2018; completion planned mid-2019): **Equities (BaNCS MI platform)**

Main challenges and outlook





Strate unfortunately encountered DIS operational post-go-live complications. The implementation of DIS involved changes to the technology and certain key operational processes within the bond market. The market, unfortunately, experienced a number of challenges in the time immediately following the implementation and, in appreciation of the seriousness of these events, a full investigation was launched into the root causes of the disruption.

Specific remedial actions emanating from the incident have been identified and Strate has established detailed steps to address each one of these. The process will involve continued action throughout 2018 to ensure that the necessary improvements and enhancements are embedded in the bond settlement environment and that these are carried through to future, market-wide, projects in general.

Remedial actions have been grouped into four main themes, namely:-

1. End-to-end engagement

The complex, and interdependent, value chain that exists across our markets has highlighted the need for the continuous evaluation and enhancement of processes and procedures. Specific actions involve the review of testing protocols, the introduction of enhanced training initiatives and the careful

	Strategic objective	Strategic focus area 2017	Strategic focus area 2018
	Operational excellence	<ul style="list-style-type: none"> • Implementation of the second phase of the IT Roadmap 	<ul style="list-style-type: none"> • Continued focus on providing superior settlement services to meet our stakeholders' needs. • Implementation of the final, third phase of the IT Roadmap
	Financial viability	<ul style="list-style-type: none"> • Annual review of the fee model to ensure financial viability and cost containment • Extending CMS to key clients 	<ul style="list-style-type: none"> • Ensure financial viability of CMS
	Stakeholder centricity	<ul style="list-style-type: none"> • Continued focus on market collaboration 	
	Learning and development	<ul style="list-style-type: none"> • Promoting a learning culture 	

reassessment of existing communications channels to ensure that all elements in the value chain are appropriately involved at all times.

2. Strate/JSE

Effective engagement between Strate and the JSE is more important now than ever before. All existing interactions between the two organisations are currently being subjected to critical review and areas of improvement have been identified. Opportunities for knowledge-sharing between the two organisations have been recognised and are currently being undertaken on an informal basis. A formal interaction plan is currently being developed.

3. Changes/Enhancements

The need for changes and enhancements to systems and processes has been identified, especially in the effective use and management of back-to-back linkages. Potential enhancements have been identified and a full impact analysis is currently being undertaken by all stakeholders.

4. Market discipline

The roles and responsibilities of various parties (such as the Settlement Authority and STRATE Supervision) are being carefully evaluated to ensure that their respective responsibilities are fully understood by the market as a whole.

Each of these actions is being tracked with full visibility to the Strate Audit and Risk Committee on a monthly basis.

In 2018 and beyond, Strate will continue to take the specific recommended remedial actions as required for the DIS incident and ensure that lessons learned are applied to all future projects and initiatives.

Some factors expected to unfold in 2018 will determine the implementation of the National Treasury's ETP. Membership criteria are being finalised. Once finalised, admission and continued participation requirements will be outlined. The rules which will govern Primary Dealers will be outlined in the regulatory framework, which is being drafted. The JSE's ITaC project will touch on CMS and we will continue working closely with the JSE to ensure the introduction of non-cash collateral solutions, equities BaNCS and e-Voting.

Financial viability

Pricing of all settlement services

Strate annually reviews its fee models to ensure their equity and relevance to the company's sustainability.

During fee reviews, we consider the impact of South Africa Inc. Due to the challenging economic environment, we consider cost containment opportunities within the company. A holistic view of fees and costs by market, service or product ensures a robust pricing strategy.

Main challenges and outlook

Our upcoming review will analyse the costs of our various fee-generating services, including our core and ancillary services.

Following the implementation of the new DIS bonds settlement system, we will review all fixed-income-related fees and our costs will be reviewed and remodelled. These are anticipated to be resolved in 2018.

Strate's Tri-Party Collateral Management Services (CMS)

Increased regulatory pressure is being placed on investors, and local and global financial institutions to:

- collateralise financial transactions;
- increase capital adequacy;
- improve liquidity ratios; and
- move more transactions to central clearing platforms.

CMS is an efficient and reliable collateral management and mobility offering that mitigates operational and credit counterparty risk in the market. The offering plays a key role in meeting current and future regulatory capital reforms. Many of these reforms have been delayed in the South African market by up to four years, however, in 2018 key reforms will come into fruition.

CMS is a key element of our strategy, as it provides a source of diversified revenue through new clients and services. We are the sole provider of Tri-Party Collateral Management Services (CMS) to South African financial markets.

Main challenges and outlook

Historically, we have experienced revenue delays due to delayed regulatory reforms. In 2017, revenue delays were attributed to customer readiness and delays in production readiness for collateral usage in key market projects such as DIS and the JSE ITaC¹ initiative.

Events planned for 2018 to improve our product and service offering include:

- The JSE ITaC project will go live and enable non-cash collateral for the listed derivatives business in South Africa².
- DIS system stabilisation will enable efficient transactions in the secured interbank market.
- The SARB project to replace the National Payments System will commence; a key requirement is to integrate banks to the services.
- Key over-the-counter derivative regulation will be implemented.
- Other regulations will be introduced to support secured financing transactions, which are expected to enhance the support and usage of our products and services.
- We will migrate to multiple administration systems such as IRESS, CloudMargin and others.

¹The JSE's ITaC is a multi-year programme to enhance the JSE's current trading and clearing functions.

²Strate is the sole provider of this service

Stakeholder centrality

Market collaboration

We are committed to stakeholder inclusivity. Strate collaborates on various projects that support the market. During 2017 these included the integration of the four new exchanges (ZAR X, 4AX, A2X and EESE) as well as market-wide projects such as DIS, ETP and JSE ItaC.

One of Strate's key principles is to create shared value for our stakeholders. We strive to better understand the needs of our stakeholders across the value chain.

Learning and development

Strate promotes a learning culture by creating continuous learning opportunities. At Strate, learning and development form part of each employee's performance objectives and are measured to determine their performance. This encourages all employees to enroll for accredited training courses.

We believe that employee development inspires corporate and personal growth. It elevates individuals as employees and as people, and opens opportunities for the company to transform continuously for the better.

Learning and development initiatives ensure that employees develop the appropriate skills, knowledge and behaviour. These are transferred back to the organisation, thereby fulfilling our strategic and operational objectives.

The company benefits from these initiatives through increased efficiency, productivity and profit; increased employee satisfaction; and lower employee turnover. Employees are capable of adapting to change, and have an increased awareness of local and international developments, including technological change and industry trends. We are dedicated to ensuring that skills and knowledge are maintained and developed to ensure ongoing competitiveness and adaptability.

STAKEHOLDER RELATIONS

Over the years, Strate's Stakeholder Relations Division has established an open and transparent relationship with our stakeholders.

Strate believes that engaging with its stakeholders is critical for the formulation of a successful strategy. Stakeholder inclusivity is a key pillar of the organisation's sustainability.

Our material stakeholders are those that have a significant interest in our business or are impacted by our operations. Our stakeholders are at the heart of what we do, and we believe that our sustainability relies on mutually beneficial relationships.

The frequency and method of engagement vary according to each stakeholder group. Understanding our stakeholders' expectations enables us to respond to their material concerns, and identify our risks and potential business opportunities. Our stakeholders' views help us define our strategic direction.

We evaluate the effectiveness of our stakeholder engagement process by measuring our stakeholders' sentiment and perceptions.

All material matters are escalated to the Board through a dedicated Stakeholder Relationship Report. The key themes that emerged in 2017 were:

- the continued focus on core functions;
- the introduction of efficient and cost-effective services to the market;
- the integration of new exchanges;
- the emergence of new technology solutions such as blockchain and e-Voting;
- the implementation and testing of key strategic projects;
- changes in leadership; and
- demands of regulatory changes.



An overview of our engagement with our material stakeholders is provided on pages 22 and 23.

Future focus areas

- To improve our understanding of our broader clients' needs and to understand how we impact them
- To position Strate as a service provider of choice
- To continue to support and participate in key market project implementations
- To realise value from our technology that will bring efficiencies, mitigate risk and reduce costs to our clients
- To ensure we remain relevant as a CSD
- To ensure we stay abreast of regulatory changes and actively participate collectively with policy makers
- To ensure we are sustainable through organic growth
- To continue creating a shared value approach for all stakeholders

Our material stakeholder relations are with:	How we create value
<p>Clients Give the company purpose and keep us in business.</p>	<p>Strate delivers efficient, high-quality cost-effective services to our clients. We are a trusted third party. Our 19-year foundation of trust is supported by a reputation of operational excellence.</p>
<p>Employees Supply the necessary skills and expertise to deliver on our mantra and strategic objectives.</p>	<p>Attraction and retention of the best employees are managed through competitive remuneration and benefits, flexibility, and learning and growth opportunities.</p>
<p>Regulators and government Provide Strate with its legal licence to operate.</p>	<p>Our role as a trusted SRO enables and promotes a world-class settlement environment in South Africa.</p>
<p>Shareholders Emphasise governance and financial performance.</p>	<p>We remain accountable and continue to build and maintain a financially sustainable business.</p>
<p>Shareholders Play an instrumental role in our success through collaboration and key strategic partnerships.</p>	<p>We uphold productive and progressive relationships, and support shareholders' businesses.</p>
<p>Communities The communities in which we operate provide our social licence to operate.</p>	<p>We ensure development through community initiatives and our commitment to corporate social investment (CSI).</p>

Material concerns	Responses and outcomes
<ul style="list-style-type: none"> • The implementation of key strategic projects and assessment of Strate's market readiness • Onboarding of new exchanges • Broader stakeholder engagement focusing on the end-to-end value chain and the impact of key projects on all stakeholders 	<ul style="list-style-type: none"> • Collaboration to initiate, develop, migrate and actively participate in key market projects • Continuous effort to ensure that systems are appropriately tested prior to implementation. Ongoing engagement and market education to ensure that operational processes and practices are understood • Established solid relationships with new exchanges that enabled a more flexible solution to meet their needs • Time and resources invested into engaging with broader client ecosystem to understand their needs
<ul style="list-style-type: none"> • Performance management • Talent management and succession planning • Skills development • Employee wellness • Employee satisfaction • Executive remuneration 	<ul style="list-style-type: none"> • Performance ratings were verified to determine remuneration • Talent management workshops to develop executives and their management teams • The formulation of development plans and budgets to support succession planning • Needs analysis conducted to establish training requirements • Wellness presentations to all employees • Independent employee engagement survey • Conducted benchmarking to align to King IV remuneration principles for executive remuneration
<ul style="list-style-type: none"> • Regulation and collaboration of new services • Identifying regulatory developments • Regulatory requirements, legislation and compliance • Crisis management • New exchanges 	<ul style="list-style-type: none"> • Engagements with regulatory bodies including one-on-one meetings and workshops • Participated in workshops on pending legislative changes, such as Twin Peaks legislation • Continuous operational communication through the implementation of key strategic projects such as DIS and ETP • Engagements on the integration of new exchanges • Engagements on new products and services, such as e-Voting
<ul style="list-style-type: none"> • Resignation of CEO • Emergence of disruptive technologies • Progress of strategic projects • Pricing of service fees 	<ul style="list-style-type: none"> • Appointment of an interim CEO and the process of recruiting a new CEO • Continuous feedback and updates on strategic projects and developments on disruptive technology to the Board • One-on-one engagements with shareholder representatives for input into strategy and outcomes of key strategic projects • Annual fee reviews and cost reviews to ensure financial viability • Planning and monthly financial analysis to maintain an acceptable cost to income ratio, among others
<ul style="list-style-type: none"> • Delivery timelines not met on key strategic projects 	<ul style="list-style-type: none"> • Lessons learned from previous implementation have been incorporated into new products for further implementation
<ul style="list-style-type: none"> • Increased focus on transformation • Community involvement – CSI 	<ul style="list-style-type: none"> • B-BBEE audit performed and placed additional focus on external learnerships • Participated in various charity activities

RISK MANAGEMENT, ETHICS AND COMPLIANCE

Our robust risk management practices are the mainstay of our world-class service and our high levels of operational excellence.

Introduction

Strate is ideally positioned to assist the South African financial markets to adopt and comply with the appropriate global best practices. Our risk management approach is guided by the principles for FMIs, issued by the CPMI-IOSCO.

We prioritise guaranteeing the safety and efficiency of the financial markets. We are aware of the risks that emerge in the constantly evolving environment. In response, we adopt a multi-phased approach to risk management, including cyber risk. This enables us to achieve our strategic objectives and ensure the sustainable growth of stakeholder value.

Strate's approach

The Board approves the company's risk management policy and framework annually. The defined and approved risk policy and framework enable the company to identify, measure, monitor and manage the risks and opportunities we face. Having an embedded risk policy and framework ensures

appropriate responses are in place to protect the company and its stakeholders. This supports Strate's growth in a sustainable and responsible manner.

Managing the company's risk across all facets of the business is a crucial function in the execution of the company's strategy. Our risk analysis is conducted according to the ISO 31000 principles of input, processes, output and outcomes. We assess risks comprehensively using an integrated approach. We consider internal risks, risks that may impact external entities, and risks that external parties may bring to the operations of Strate.

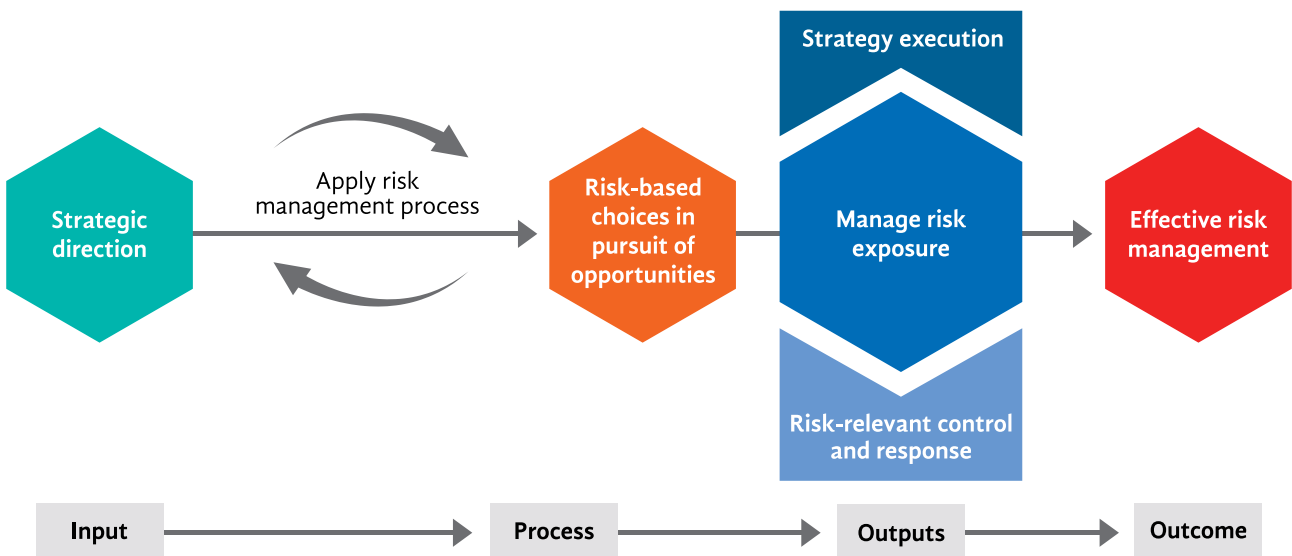
Our risk management process considers feedback from stakeholders. Our engagements range from consultations on various areas of possible risk, to understanding the inherent risks of new products or services.

Strate is aware of the increasing influence of cyber threats, and we constantly engage with relevant stakeholders to ensure that we manage the risk appropriately. We assure new clients, products and services, to gauge the possible risk to our business or our existing clients.

Risk appetite and tolerance

Risk appetite refers to the extent and nature of risk that the company is prepared to take in the execution of its strategy. This is traditionally measured by a range. In instances where risk levels exceed this range, performance is considered sub-optimal. Our risk policy outlines the point at which specific risk levels are deemed to have exceeded the company's risk appetite.

The Board annually reviews the risk tolerance statements in the risk management policy to confirm their relevance.



Management and governance of risk

Strate adheres to the risk management guidelines outlined in King III. The Board oversees, and is responsible for, the company's risk management process. The Audit and Risk Committee liaises with management and internal and external audit to ensure the effectiveness of the risk management process. The Chief Risk Officer is responsible and accountable for implementation and success of Strate's risk management process.

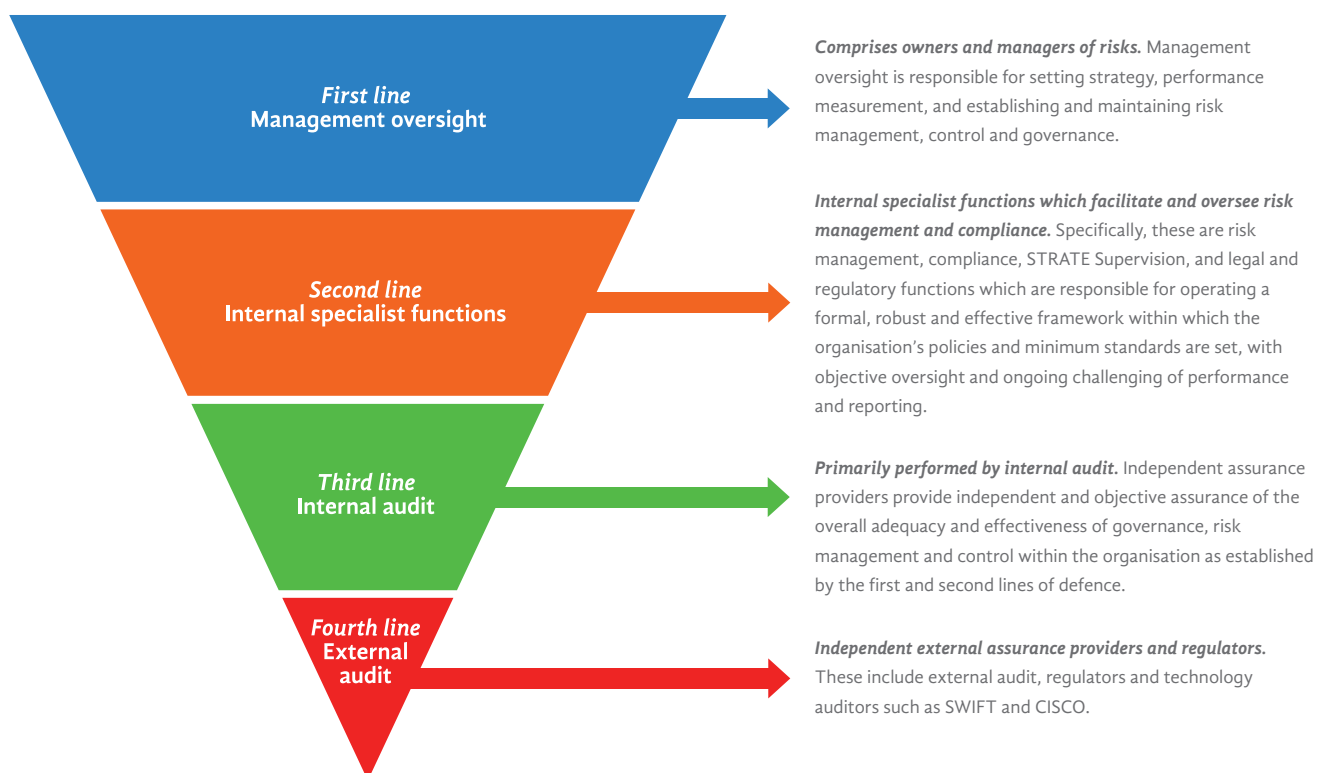
The head of each business unit manages the risk in his respective business unit, and the Executive Committee provides oversight. Our risk management policy and governance framework recommend comprehensive assessments to ensure the effectiveness of risk management.

Combined assurance

Strate undertakes a combined assurance approach to optimise and enhance the level of risk, governance and control oversight of risk management. Strate's Combined Assurance Forum comprises management and representatives from internal and external audit. The forum aims to align the company's risk management and assurance processes.

Combined assurance model

Strate's combined assurance model consists of four lines of defence. The responsibilities of the four lines are delineated in accordance with how far they are removed from management:



Key risks

Operational risks

Operational resilience is essential for the company's ongoing success. It focuses on preventing any event that could disrupt business processes from having a material impact on the CSD. Material impacts are those that would cause the CSD to be unable to fulfil its obligations in the market timeously. This includes the likelihood of inadequate or failed procedures, systems or policies, employee errors, system failures, fraud or other criminal activity.

Technology risks

The provision of reliable technology platforms that sustain the South African financial markets is an essential component of the services provided by Strate to the financial market. A technology-related disruption would have a debilitating effect on the CSD and the broader markets it serves. Knock-on impacts could be far-reaching.

Strate is committed to ensuring a level of resilience that is commensurate with the responsibilities of the company.

Human resource risks

As with most organisations, our employees are a key asset. The acquisition, upskilling and retention of talented employees are an ongoing focus to drive optimal levels of success.

Regulatory risks

Strate is a recognised SRO and is expected to perform certain regulatory and supervisory functions. These functions include the issuing of Strate Rules and Directives. Further functions include the authorisation and supervision of market participants, including investigations into alleged regulatory breaches. STRATE Supervision, as an independent division of Strate, fulfils the supervisory, investigative and enforcement functions required by legislation.

Any failure, or perceived failure, to execute these responsibilities per the highest possible regulatory standards could directly impact the levels of confidence in our markets as a whole.

LABOUR PRACTICES, ENVIRONMENT AND SOCIAL VALUE

Our people are an integral part of our business. We believe that our sustainability as a business in this competitive environment relies on their input and commitment.

The employee turnover rate is cyclical and mirrors the economic climate. Our employee turnover decreased to 9% (2016: 9,5%) and the company recruited 12 new employees to fill vacancies and ensure stability. Acquiring skills is an ongoing challenge in the market, hence, we prioritise employee retention and skills development.


Training and development

R2,2 million (2016: R2,8 million) was committed to employee training and development programmes. We offer financial resources, opportunities and facilities to develop our employees' competencies. Training and development equip our employees for future opportunities, growth and demands.

To achieve the highest-quality standards of training, our skills development interventions are coupled with strategic objectives. Strate's Sponsored Education and Training (SET) is conducted through a registered and accredited learning institute. Trainees attain a formal qualification or certificate upon completion.

SET programmes were completed by 10 of the company's 134 permanent employees in their respective fields. Employees who completed the programme shared their experience with their respective departments. Strate encourages employees to provide feedback, which enables the company to improve the effectiveness of the training.

Strate's Performance Management System

The company relies on key performance indicators to determine employees' ratings. Strate moved from assessing these on a mathematical basis to a conversational basis. Additional information on our performance management system is included in the remuneration report on  page 47.

Safety management

We adhere to the Occupational Health and Safety Act, 85 of 1993 (OHS Act) to ensure a safe working environment for our employees, contractors and visitors.

Strate is committed to continuous improvement and aims to integrate health and safety into all facets of our business activities. Raising health and safety awareness improves employee behaviour. We complied with the general requirements of the OHS Act by training and inducting all employees on our OHS aspects. We review our policy and communicate it to employees biennially.

Socio-economic development

The company is committed to uplifting individuals and communities in South Africa. Strate's socio-economic development (SED) policy considers the B-BBEE Codes of Good Practice (CoGP), the new BEE Act published in the Government Gazette, CSI and the Financial Sector Charter (FSC).

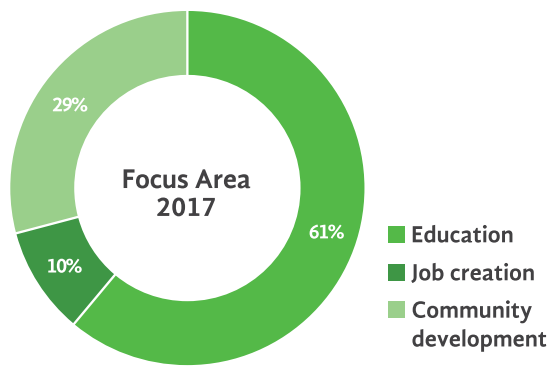
Since 2016, we have successfully facilitated an entrepreneurship programme (iValue) in collaboration with the Valued Citizens Initiative and the University of Johannesburg. This project was successfully completed at the end of 2017.

The project provides basic business management and entrepreneurship skills to 30 (2016: 24) students from Kwena Molapo High School and 30 (2016: 27) students from Forte Secondary School. The project primarily focuses on generating ideas, business planning and branding.

The social outcomes were to empower students to identify problems and make decisions using critical thinking; effective teamwork; and enhance leadership and management skills. Being exposed to the experience of running a business has been beneficial for learners.

We are involved in other SED initiatives through charities and non-profit organisations such as: Straight from the Ground, JSE liberty Life, Discovery Soccer Park, Nelson Mandela Day, Sunflower Fund, Tabernacle, Smiles Foundation, 94.7 Cycle Challenge, Liquid Earth, Avril Elizabeth Home, Christ Church Christian Centre, Ebenezer School Fees, Cell C Day, Kgosi Neighborhood Foundation Sea Rescue, Rugby Union, Chubby Chumps, West Rand Association for people with disabilities, JICAMA, Knysna Initiatives, St Michaels Church, Charity Begins With Me, Protea Glen Stars, Animal Welfare, Elshaddai Children Home, Window of Hope, Areswaneng, Crescent Haven and Little Eden.

Strate's SED spend



Strate Charity Shares (SCS)

We have a charity donation programme for shareholders who own small holdings of securities or bonds that would not be financially viable to sell. The programme enables shareholders to easily donate those securities or bonds to SCS. Donations are tax-deductible and there is no cost to the donor. In 2017, SCS granted donations of R1,17 million (2016: R1,2 million). By the end of 2017 total donations to charities amounted to R7,37 million.

The SCS beneficiaries include the following charities: Child Welfare, African Children Feeding Scheme, Guild Cottage, Bethany House, Childline Gauteng, Cotlands, Nazareth House, Lambano Sanctuary, Salvation Army and Topsy.

Transformation – B-BBEE

The 2017 B-BBEE audit was based on the 2016 audited Annual Financial Statements (AFS). We were recognised as a level 2 contributor and our procurement recognition level increased to 156,5% (2016: 137,5%). In the categories within Strate's control, such as employment equity, skills development, preferential procurement, enterprise development and SED, we performed positively. We also introduced new initiatives, such as our external learnership programme, to attain the new targets and requirements stipulated by the Department of Trade and Industry (dti).

During the 2017 B-BBEE audit, Strate complied with the FSC Codes. The FSC Codes guide companies in the financial and insurance sector. The FSC Codes integrate all existing elements and include a new suppliers development section.

During the 2017 B-BBEE audit, we attained the following results:

Element	Overview	DTI target	2017	2016
Ownership	This element is controlled by Strate's shareholders. Our score decreased due to less black female shareholders at one of Strate's shareholders.	14,00	12,71	13,00
Management and control	This element relates to Strate's Board of Directors.	8,00	8,65	1,33
Employment equity	This is reflected in the employee demographics, which outlined that African representation at Strate decreased to 66% (2016: 69%). 38% of our African employees are women and 3,88% are disabled. African representation at senior management level remains a challenge.	15,00	8,84	8,84
Skills development	R5,3 million (2016: R3 million) was invested into the development of African employees. R3,5 million (2016: R1,3 million) of the total was spent on African female employees. These amounts comprise salaries paid to all African employees who participated in Strate's Gordon Institute of Business Science (GIBS) Leadership Acceleration Programme, learnerships and other SETA-accredited programmes. This increase was mainly due to the maintenance of Strate's current development programmes and the new external learnership programme offered to all employees' children.	10,00	10,00	8,83
Preferential procurement	Strate's level 2 contributor status coupled with its accreditation as a value-adding supplier, enables its South African-based clients to claim 156,25% (2016: 137,5%) B-BBEE preferential procurement credits for the full value of purchases made from Strate. Strate achieved its target score, and total BEE measured procurement spend increased to R157 million (2016: R144 million). Procurement from exempt micro-enterprises (EMEs) and qualifying small enterprises increased to 18,92% (2016: 11,98%). Procurement from black-owned suppliers increased to 5,76% (2016: 4,46%), and from black women-owned suppliers decreased to 3,61% (2016: 4,21%).	16,00	13,33	12,64
Enterprise development	We continued to yield positive outcomes from the early payment system and achieved the maximum 15 points	15,00	15,00	15,00
SED	In line with the SED policy, the company supports worthy causes and charities. We aim to spend 0,70% of NPAT on qualifying charities. We contributed an additional 0,30% NPAT to consumer education initiatives.	3,00	3,00	3,00

We achieved a significant number of the B-BBEE targets within our control. We implemented new programmes and continued to demonstrate a good understanding of the principles that drive transformation.

Performance Highlights

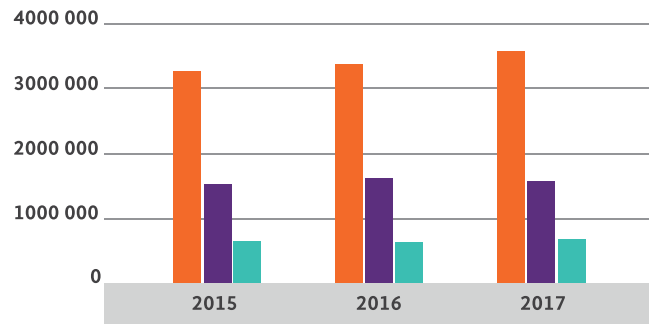
28 Operational Performance

30 Financial Review

OPERATIONAL PERFORMANCE



Settlement Volumes – Equities

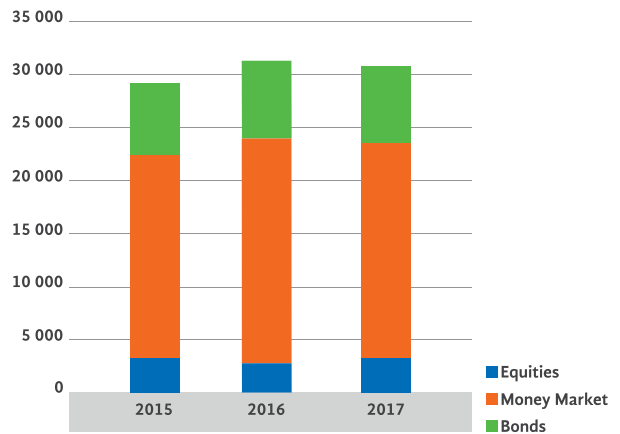


■ On-market
■ Off-market
■ Equities SLB

Increase in volume of 3% due to growth in on-market equity settlements.



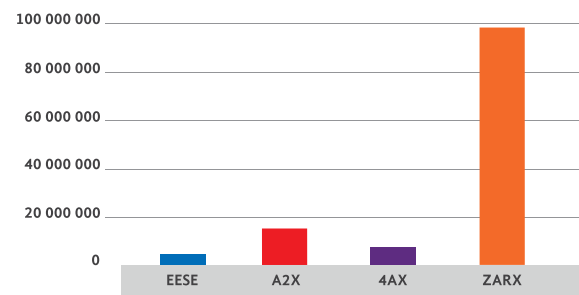
Corporate Actions – Number of Events



Decrease of 2% due to a decrease in Money Market and Bonds.



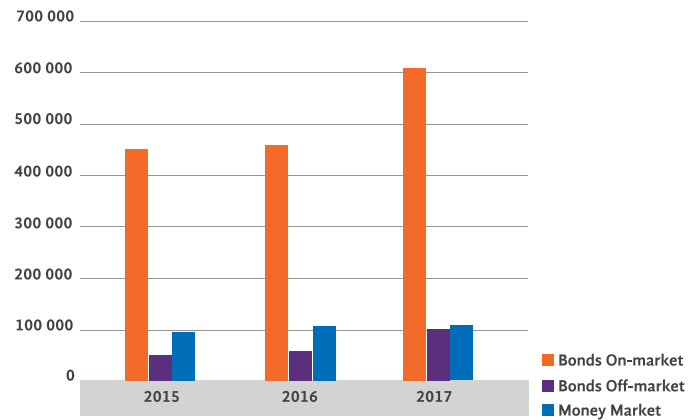
New Exchanges – Value of Settlements 2017



ZAR X, 4 Africa Exchange (4AX), A2X Markets and Equity Express Securities Exchange (EESE) went live with Strate's settlement services.

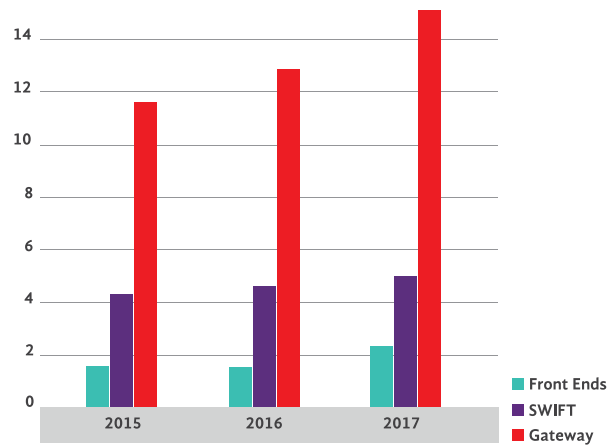
A2X Markets successfully uses Strate's Tri-Party Collateral Management Services for non-cash collateral to cover margin transactions.

Settlement Volumes – Bonds and Money Market



Increase of volume of 31% due to an increase in on-market bond settlement volumes.

IT Services – Revenue R'm



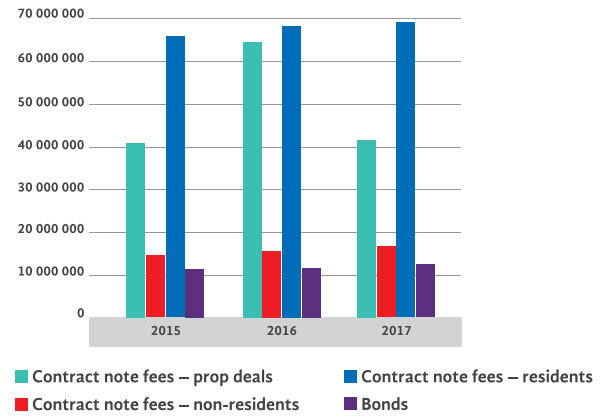
Increase of 19% from 2016 due to growth in Front Ends, SWIFT and Gateway.

Strate's Tri-Party Collateral Management Services

Collateral integrated with CloudMargin to provide cloud-based technology to exchange Tri-Party SWIFT messaging for collateral instructions, settlement and confirmations. Onboarding of clients continues.

The Liquidity Alliance built a blockchain-based proof-of-concept solution for cross-border collateral transfer.

Advolarem – Contract Note Fees



Decrease of 14% from prior year as there was a once-off fee adjustment in 2016, related to the fee leakage in prior years. In addition, contract note values decreased from prior year.

IT Roadmap

First phase: Money Markets	Implemented February 2016
Second phase: Bonds (DIS)	Implemented September 2017
Third phase: Equities (BaNCS MI platform)	Planned mid 2019

IT uptime

Average IT Uptime: **99.99%** across all services.

B-BBEE

We were recognised as a **level 2** contributor and our procurement recognition level increased to 156.25% (2016: 137,5%).

FINANCIAL REVIEW

The South African economy was in a moderate recovery state due to low levels of business and investor confidence, and the views of the rating agencies. Despite the strained macro-economic environment of 2017, Strate performed moderately by achieving revenue of R435,2 million and a net profit after tax (NPAT) of R84,6 million. Normalised revenue indicated real growth of 2% driven by increased settlement volumes.

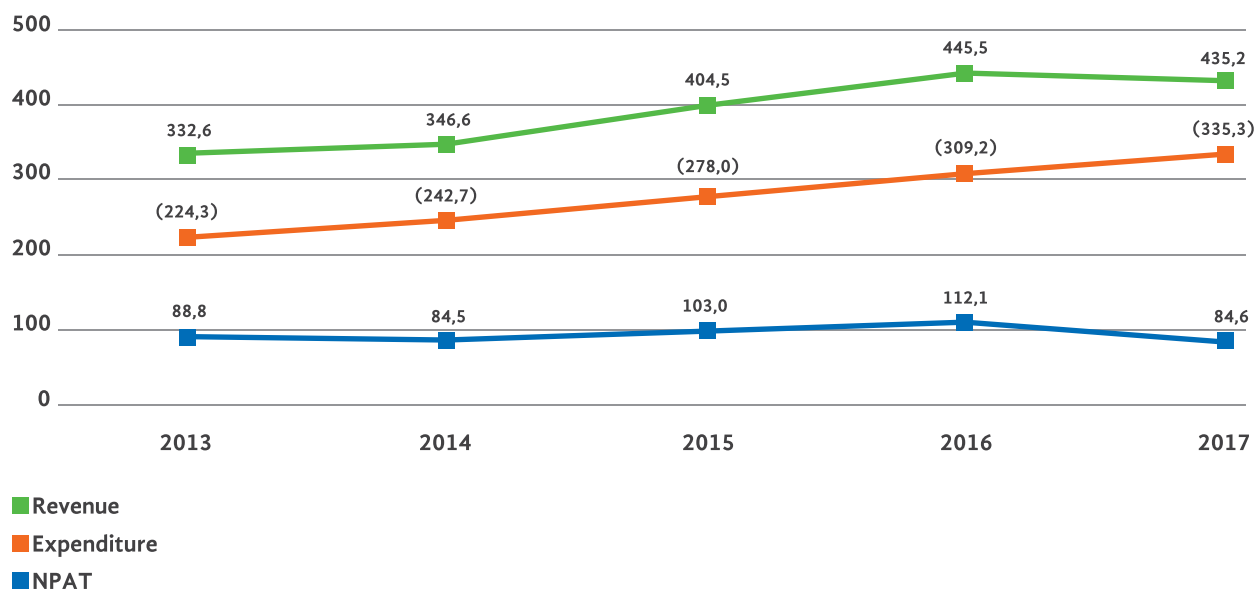
Performance Summary

- ↓ **Net profit after tax (NPAT)** decreased by 24,5% to R84,6 million (2016: R112,1 million).
- ↓ **Earnings before interest, tax, depreciation and amortisation (EBITDA)** is 16,7%, lower at R149,4 million (2016: R179,7 million), due to normalisation of revenue in the current year, and an impairment of value of the collateral management system.
- ↓ **Revenue** decreased to R435,2 million (2016: R444,5 million). The variance is mainly attributable to the additional revenue recognised in 2016 as a result of the resolution of the fee completeness issue between Strate and the JSE. The real growth in revenue in 2017 was 2%.
- ↑ **Settlement volumes** in aggregate across all markets increased by 6% year on year.
- ↓ **Operating expenditure** increased by 8,4% to R335,3 million (2016: R309,2 million), due to higher technology costs associated with maintaining dual systems until the complete BaNCS MI suite is implemented, and the impairment of value of the CMS system.
- ↑ **Cash flows** remained strong, and improved to bring our cash balance to R279,9 million (2016: R269,8 million).

Table 1 Five-year summary:

	2017 R'm	2016 R'm	2015 R'm	2014 R'm	2013 R'm
Revenue	435,2	445,5	404,5	346,6	332,6
Other income	1,0	1,9	2,9	2,4	7,6
Expenditure	(335,3)	(309,2)	(278,0)	(242,7)	(224,3)
NPAT	84,6	112,1	103,0	84,5	88,8
EBITDA	149,4	179,1	185,0	131,8	136,1
Cash-on-hand at the end of the period	279,9	269,8	224,9	206,7	208,6
Cost-to-Income ratio overall (%)	77%	69%	69%	70%	67%
Return on equity (%)	16%	22%	23%	22%	26%
Return on assets (%)	14%	20%	20%	17%	23%
Dividend per share (cents)	5 746	5 280	4 330	4 551	4 032

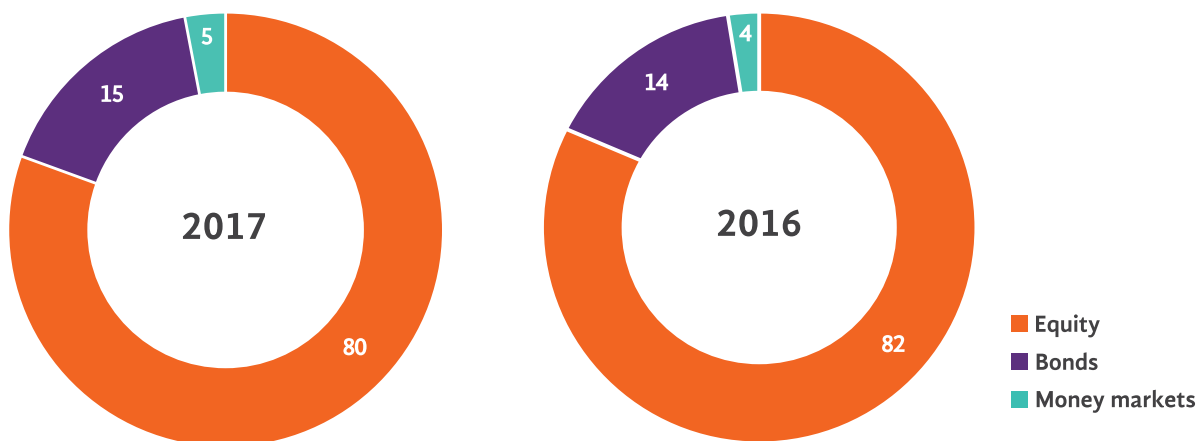
Revenue, expenditure and NPAT



REVENUE

Revenue decreased to R435,2 million (2016: R445,5 million). The variance is mainly attributable to the additional revenue recognised in 2016 as a result of the resolution of a fee completeness issue between Strate and the JSE. Normalising revenue indicates a real growth in revenue of 2% as a highly volatile market resulted in increased on-market and off-market settlement volumes.

Revenue per market segment (%)



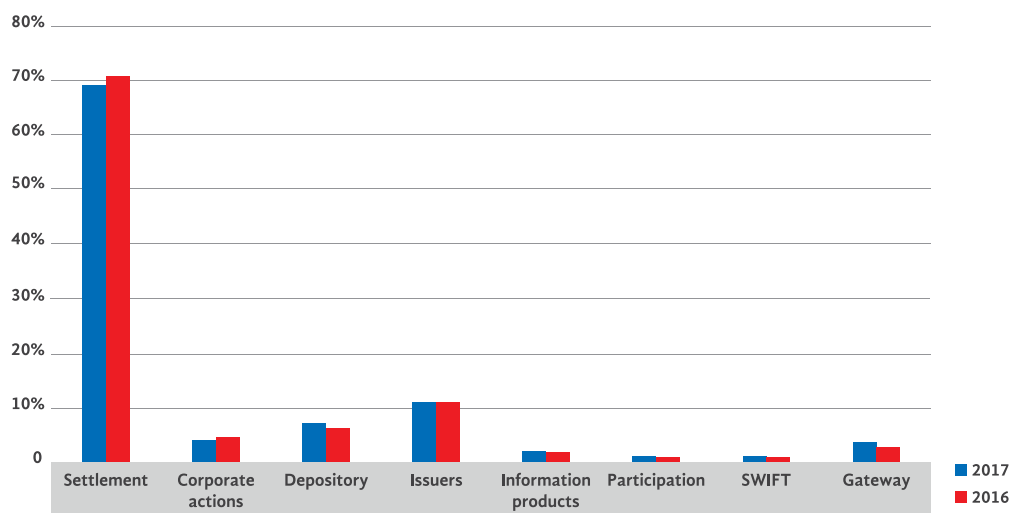
Revenue earned per market segment

	2017 R'm	2016 R'm	Variance R'm	Variance %
Equity	349,4	367,2	-17,1	-5%
Bonds	65,7	61,1	5,0	8%
Money markets	20,1	17,2	2,9	14%
Total Revenue	435,2	445,5	9,2	-2%

Revenue per Service

- Equities revenue, which is 80% of total revenue, decreased by 5% year on year as a result of the resolution of fee completeness between Strate and the JSE. Normalising equities revenue indicates a real growth of 2%.
- Bonds revenue makes up 15% of total revenue. The increase of 8% year on year was due to higher value of assets under custody.
- Money market revenue, which is 5% of total revenue, increased by 14% year on year due to higher settlement volumes.

Contribution to revenue per service (%)



Expenditure

Personnel costs

Personnel costs increased to R154,2 million (2016: R142,4 million). The main contributors to the increase were average CPI increases on gross remuneration, and a reduction of remuneration capitalised to projects.

Depreciation and amortisation

Depreciation and amortisation increased by 5% to R48,6 million (2016: R42,1 million). This was due to an impairment of value of the CMS system by R9,5 million. This service has experienced revenue challenges since inception due to internal and external market project delays. Certain required regulatory clarification was finalised in 2017. The potential of using non-

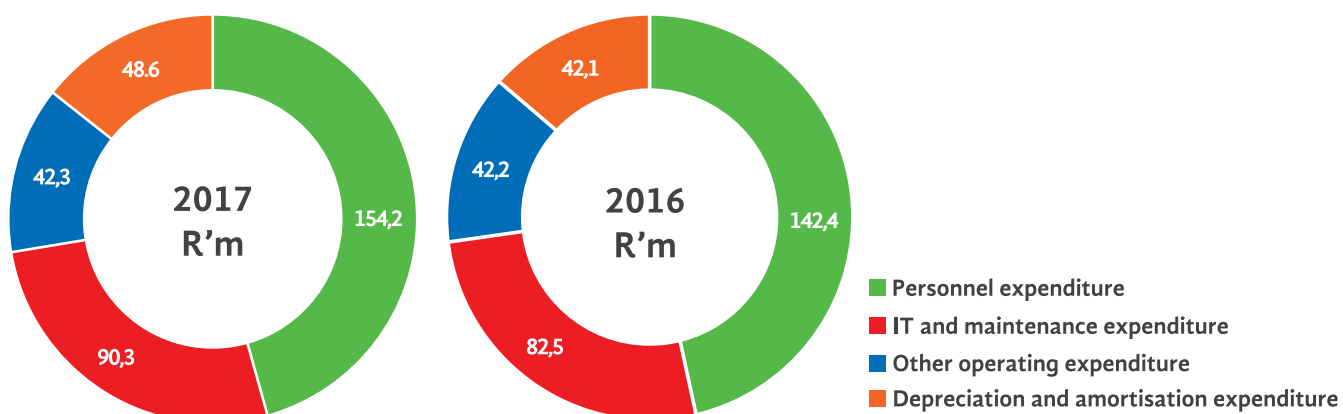
cash collateralisation in the South African market has grown substantially as regulation and key projects have materialised.

IT costs

Technology costs increased by 9,3% to R90,2 million (2016: R82,5 million) mainly as a result of maintaining multiple systems (BaNCS and DIS).

Other operating expenditure

Other operating expenditure increased to R42,3 million (2016: R42,2 million). This is in line with the prior year. Management focused on cost containment of discretionary expenses for 2017 and will continue to be cost conscious into the future.



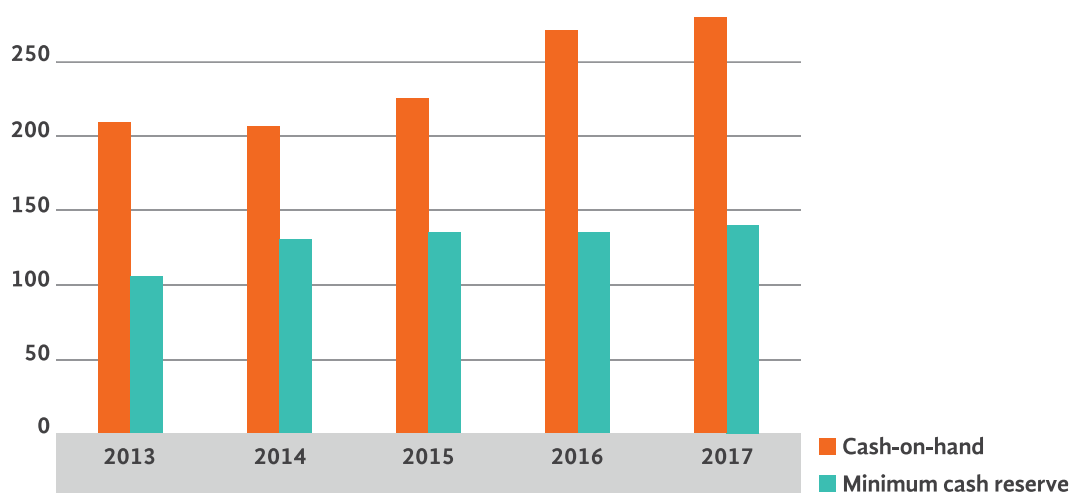
Liquidity and capex

The company aims to maintain a minimum balance equal to six months' cash operating expenditure. The minimum balance for 2018 is set at R140 million (2017: R135 million). Excess cash is used to fund capital expenditure and distributions to shareholders, and is actively managed by our well-established internal Investment Committee.

While the company is not subject to externally imposed capital requirements, it assessed its capital adequacy against the regulations issued in terms of the Financial Markets Act and is satisfied that it meets the regulatory requirements.

- Cash flows generated from operations improved during the year, bringing our cash balance to R280 million at year-end. This is after capital expenditure of R48 million (2016: R35 million), 80% of which relates to our investment in terms of the IT roadmap and collateral software development in respect of IRESS and ITAC.
- Capital expenditure for 2018 is estimated to be R56 million, 83% of which relates to continued efforts relating to the IT roadmap, and 17% to refreshing our IT storage infrastructure. This will be fully funded from our cash reserves.
- We remain fully funded by equity and are satisfied that this is appropriate in the short to medium term.

Cash-on-hand vs Minimum cash reserve – R'm



Outlook

We will continue to roll out our IT Roadmap as part of our strategy and will incur technology costs associated with the maintenance of dual systems until the third quarter of 2019. The company strategy evolved to focus on organic growth for 2018, in addition to maintaining our core services. This development, accompanied by effective cost management, will enable Strate to maintain growth in uncertain market conditions. We maintain a strong balance sheet to ensure that we have sufficient flexibility to fund our growth strategy through cash generated from operations. Strate remains positive about 2018 and looks to achieve greater efficiencies and performance results.

06

Corporate Governance

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INTRODUCTION TO CORPORATE GOVERNANCE

The Board and Executive Committee strive to create and maintain a culture of good governance across the business. Good governance is linked to the company's philosophy, which incorporates its purpose, vision and values.

Strate continues to practice high corporate governance standards, which contribute to the ongoing sustainability of the company, enhancing long-term shareholder value creation, and ensuring that stakeholders benefit from Strate's continued success.

The Board is responsible for ensuring that the company adheres to sound corporate governance principles and is accountable to shareholders, while also considering the interests of other stakeholders, such as clients, employees, suppliers and regulators.

Governance extends beyond compliance with codes, legislation and regulations. Corporate governance processes are continually reviewed and improved to align with internal requirements and to ensure adherence to legislation, regulation and best governance practices.

This report sets out the key governance principles adopted by the Board in governing the company. The Board endorses the principles of accountability, integrity and transparency as contained in King III.

King III and King IV principles

The Board confirms that the company has, in all material respects, applied the King III principles during 2017.

The King Code of Governance for South Africa 2016 (King IV) became effective for companies with a financial year starting on or after 1 April 2017. In 2018, Strate will perform an evaluation against the King IV principles. The company initially intended to early adopt King IV in 2017. However, management prioritised the implementation of DIS  (refer to page 19). As a result, the Audit and Risk Committee resolved that Strate will apply King IV in 2018.



A table indicating Strate's application of the King III principles is included on our website, using the following link:

<http://www.strate.co.za/press-room/reports-publications>

BOARD AND COMMITTEES

The Board has six permanent committees to assist in the execution of its responsibilities, as follows:

- Audit and Risk Committee
- Regulatory and Supervisory Committee
- Remuneration and Nominations Committee (RemNomCo)
- Social and Ethics Committee
- Participant Failure Committee
- Urgent Issues Committee

BOARD OF DIRECTORS

The names and details of the directors and the alternate directors in office at the date of this report are as follows:



Mr RJG Barrow (71)

CA (SA), Advanced Management Programme (UCT)

Independent non-executive Chairman
9 years in service

Committees

- Regulatory and Supervisory Committee[#]
- RemNomCo
- Participant Failure Committee
- Urgent Issues Committee



Mr C Bruyns* (41)

CA (SA) (University of Pretoria)

Non-executive director
1 year and 9 months in service

Committees

- RemNomCo[#]



Mr CHM Edwards (42)

BSocSci Philosophy, PGDip Management (UCT)

Non-executive director
1 year and nine months in current position (since 2014 held positions of either director or alternate director)

Committees

- Audit and Risk Committee



Mr K Getz (62)

BProc, LLM (UCT)

Lead independent non-executive director

4 years in service

Committees

- Regulatory and Supervisory Committee
- Social and Ethics Committee[#]



Dr A Greenwood (47)

BSc (Mathematics, Chemistry), PhD (Chemistry), (UCT)

Non Executive director

1 year and 4 months in service

Committees

- None



Ms A Maharaj (41)

CA(SA) (University of Natal)

Executive director

1 year and 9 months in service

Committees

- Audit and Risk Committee[^]
- RemNomCo[^]
- Social and Ethics Committee



Mr E Masilela (53)

BASocSci (Swaziland), MSc Economic Policy and Analysis (Addis Ababa), Professional Certificates (Harvard)

Independent non-executive director

8 months in service

Committees

- Participant Failure Committee



Ms D Naidoo (45)

MCom (Tax), CA(SA) (University of Natal - Durban)

Independent non-executive director

7 years in service

Committees

- Audit and Risk Committee[#]
- Participant Failure Committee
- Urgent Issues Committee



Mr RSM Ndlovu (51)

BBusSci (Hons) (University of Zimbabwe)

Independent non-executive director

10 years in service

Committees

- RemNomCo



For further information regarding the experience of Strate's Board member please visit:

<http://www.strate.co.za/about/our-board-shareholders>



Ms NF Newton-King (51)

BA, LLB (Stellenbosch), LLM (Cambridge)

Non-executive director

6 years in service with a broken period during 2016

Committees

- None



Mr NG Payne (57)

BCom (Hons), CA(SA), MBL (Unisa)

Independent non-executive director

16 years in service

Committees

- Audit and Risk Committee
- Regulatory and Supervisory Committee
- RemNomCo
- Participant Failure Committee*



Mr RD Proudfoot* (57)

BAcc (Wits), CA(SA)

Non-executive alternate director

5 years in service (since 2013 held positions of either director or alternate director)

Committees

- None



Ms M Ramplin (43)

Financial Derivatives and Regulations, Securities Institute Certificate (UK)

Independent non-executive director

7 years in service

Committees

- Audit and Risk Committee
- Regulatory and Supervisory Committee



Mr MJ Stocks (51)

BCom (University of Natal)

Non-executive director

1 year and 8 months in service as director (since 2008 held positions of either director or alternate director)

Committees

- Regulatory and Supervisory Committee



Mr SPM Yates (67)

BSc (Hons) Computer Science (Edinburgh, Scotland), Fellow (South African Institute of Financial Markets)

Independent non-executive director

8 months in Service

Committees

- None

* Alternate director


Committee chairperson

^ Attends committee as an invitee

Board composition

At the date of this report, the company has a unitary Board of 13 directors, made up of 12 non-executive directors (of which eight are independent) and one executive director, as well as two alternate directors.

During the year under review, Mr E Masilela and Mr SPM Yates were appointed as independent non-executive directors, effective 3 July 2017. Ms M Singer resigned as CEO effective 24 August 2017. A sub-committee of the Board was established to assist the Board in the search for a new CEO and an appointment is expected to be announced on 20 March 2018.

An interim CEO was appointed by the Board until such time as a new CEO is appointed. The interim CEO was granted all the powers necessary to act in terms of the Board-approved Delegation of Authority Policy. Further information on director appointments and resignations can be found in the directors' report in the AFS on  page 5.

The Board has the appropriate balance of knowledge, skills, experience, diversity and independence to enable it to discharge its governance role and responsibilities objectively and effectively.

The roles of Chairman and CEO are separate and clearly defined. This division of responsibilities ensures a balance of authority and power. The Board conduct is such that no individual director has unrestricted decision-making authority.

Independence of directors

Independence is assessed annually by requesting the directors to complete an independence questionnaire based on the King III requirements. In addition to assessing the independence at director level, the questionnaire assesses the classification of directors on the Audit and Risk and the Regulatory and Supervisory committees.

The RemNomCo reviewed the completed questionnaires and recommended to the Board that eight non-executive directors be classified as independent.

The Chairman of the Board is considered to be independent. A lead independent non-executive director was appointed in 2016 to provide leadership and advice to the Board, without detracting from the authority of the Chairman, when the Chairman is not independent, or has actual or perceived conflicts of interest.

For those directors that have served for longer than nine years, the Board further considered the following issues in reaching the conclusion that those directors remained independent:

- Whether their participation and performance had been satisfactory for the past year

- Whether they had acted independently at all times
- Whether there were any relationships, circumstances or factors which may impair their judgement or independence of character for the ensuing year
- Whether their reappointment as a director would prevent the Board being refreshed

Board appointments

Directors are appointed by the Board in a formal and transparent manner.

The RemNomCo considers candidates and nominates people for appointment as directors. Directors are selected based on their skills, business experience and qualifications. We also consider gender and racial diversity.

All independent non-executive directors are required to retire by rotation at the Annual General Meeting (AGM) of shareholders, and may offer themselves for re-election. The performance of all directors standing for election at the AGM has been considered and their re-election is supported.

Board charter and delegation of authority

The Board established and documented a formal delegation of authority framework to delegate certain responsibilities to management, setting out the direction and parameters for powers which are reserved for itself, and those delegated to management.

The Board operated within its written terms of reference during the year under review and is satisfied that it has fulfilled its responsibilities during the year in terms of its charter.

The Board charter sets out those matters that are reserved for the Board.

Director induction and development

Newly appointed directors participate in an induction programme during which they are introduced to key management and receive a personalised, electronic induction pack containing various documentation. This pack includes, inter alia, the Board and committee charters, statutory information, minutes of previous meetings, and the most recent Annual Integrated Report.

Strate is conscious of, and continually addresses, the need for industry-related training.

As part of the directors' ongoing development, relevant information is circulated to them regularly, either as part of meeting documentation or on an ad hoc basis between meetings. Directors are invited to attend dedicated training sessions that coincide with certain Board and Regulatory and Supervisory Committee meetings.

Board and director evaluation

The Board undertakes an annual series of assessments to assess the effectiveness of the Board, committees and the individual contributions of directors, over a three-year cycle (the “Steps” process).

At the beginning of 2018, evaluations of the Board and the committees were performed in respect of the 2017 financial year. A peer review was performed in which directors assessed their own and their peers’ performance on both the Board and the committees. The assessments included reviews of the various chairpersons of the committees. An assessment of the performance of the Chairman of the Board, was performed by the non-executive directors. The evaluations seek to measure the performance of individual directors based on their general contribution, involvement and participation in meetings, as well as the Board composition, appointments, evaluations, and the overall functioning and performance of the Board and its committees as a unit.

The evaluations of the Board and the committees were performed by the Chairman, with the assistance of the Company Secretary. The evaluations found no significant matters or material concerns in respect of Board and committee performance.

Conflicts of interest

The company’s policy on conflicts of interest applies to all directors and employees. Directors are required to declare their interests annually.

Where a matter for consideration at a meeting is likely to give rise to a conflict of interest or a potential conflict of interest, a confidential section is included at the end of the agenda. Directors with a conflict of interest are required to recuse themselves from the meeting at the time the matter is discussed.

Based on the declarations made by each director and which are signed by each director present at Board meetings, no director had a material interest in any transactions with the company during the financial period, other than the interests disclosed in the AFS, all of which are considered arm’s length.

Prescribed officers

Only executive directors and, where applicable, their alternates, are viewed as prescribed officers of the company.

Directors’ and officers’ insurance

Directors and officers enjoy the benefit of liability insurance funded by the company to cover instances where they could be held personally liable to the company in cases of negligence, default or a breach of duty or trust. The cover excludes liability resulting from criminal, reckless or fraudulent behaviour.

The level of cover is reviewed annually to ensure that it is appropriate.

Company Secretary

The Company Secretary is suitably qualified and has the necessary experience to perform her duties set out in section 88 of the Companies Act.

The Company Secretary is contracted by Strate, and her re-appointment and remuneration are considered annually by the RemNomCo.

Board meetings

The Board meets a minimum of four times a year, or more frequently where necessary. Board meetings are conducted according to a formal agenda and directors are required to sign off on their interests at every meeting.

Supporting documentation in the form of comprehensive proposals and reports is distributed to directors at least five working days before Board meetings to allow for adequate preparation, and to facilitate more relevant discussions at these meetings.

Directors have access to all company information and are entitled to obtain independent professional advice at the company’s expense, after consulting the Chairman. Non-executive directors have direct access to the Executive Committee and may meet with committee members independently.

Board and committee meeting attendance

Directors	Classification	Board	Audit and Risk Committee	RemNomCo	Regulatory and Supervisory Committee	Social and Ethics Committee
Mr RJG Barrow	Independent Non-executive Chairman	6/6	1/1*	4/4	11/11	-
Ms MJ Singer Saul ¹	Executive	2/4 ²	2/3**	3/3*	-	1/1*
Mr C Bruyns ³	Non-executive	-	-	1/1 ⁷	-	-
Mr PL Campher ⁴	Independent non-executive	1/1	-	-	-	-
Mr CHM Edwards	Non-executive	6/6	6/7 [#]	-	-	-
Mr K Getz	Independent non-executive	6/6	-	-	11/11	3/3
Dr A Greenwood	Non-executive	6/6	-	-	-	-
Mr RM Loubser ⁵	Independent non-executive	1/1	1/1	-	-	-
Ms A Maharaj	Executive	6/6	7/7*	4/4*	-	3/3
Mr E Masilela ⁶	Non-executive	4/4	1/1*	-	-	-
Ms D Naidoo	Independent non-executive	5/6 [#]	7/7	-	-	-
Mr RSM Ndlovu	Independent non-executive	6/6	-	4/4	-	-
Ms NF Newton-King	Non-executive	5/6 [#]	-	-	-	-
Mr NG Payne	Independent non-executive	6/6	7/7	4/4	11/11	-
Mr RD Proudfoot ³	Non-executive	-	-	-	-	-
Ms M Ramplin	Independent non-executive	6/6	7/7	-	5/5 ⁸	-
Mr MJ Stocks	Non-executive	6/6	1/1*	3/3 ⁷	5/11 ^{9#}	-
Mr SPM Yates ⁶	Non-executive	4/4	-	-	-	-

Legend:

¹ Resigned 24 August 2017

² Recused from two meetings

³ Attended other meetings that are not reflected in the schedule, in the capacity as an alternate director

⁴ Resigned 9 May 2017

⁵ Not re-elected by shareholders at AGM held on 9 May 2017

⁶ Appointed 3 July 2017

⁷ Mr C Bruyns was appointed chairman of RemNomCo in place of Mr MJ Stocks effective 27 September 2017

⁸ Appointed to Regulatory and Supervisory Committee effective 8 June 2017

⁹ Recused from five meetings

*By invitation

Apologies

^ Alternate director

EXECUTIVE COMMITTEE

Dr Maria Vermaas
Interim CEO and Head - Legal and Regulatory



Beverley Furman
*Managing Executive
CSD Operations*



Tanya Knowles
*Managing Executive
Fractal Solutions*



Ashnee Maharaj
*Executive Director
Finance and Human Resources*



Dale Connock
Chief Risk Officer



Leigh Bevis
*Head - Marketing and
Business Development*



Rudi Steenkamp
Chief Information Officer

AUDIT, RISK AND COMPLIANCE COMMITTEE REPORT

Introduction

The Audit and Risk Committee (the Committee) presents its report for the financial year ended 31 December 2017.

Role, purpose and principal function

The Committee is an important element of the Board's system of monitoring and control. It makes recommendations for Board approval on all responsibilities that the Board delegates to it, as well as those imposed by the Companies Act.

The Committee operated within written terms of reference during the year under review. The terms of reference were reviewed and updated during the year and approved by the Board. The Committee is satisfied that it has fulfilled its responsibilities during the year in accordance with its terms of reference and has complied with its legal and regulatory responsibilities for the period under review.

During the year under review, the compliance responsibilities of the Committee were transferred to the Social and Ethics Committee, except for those matters that pertain specifically to audit committees, such as tax compliance. As a result, the name of the Committee was changed from the Audit, Risk and Compliance Committee to the Audit and Risk Committee.

Composition and meeting procedures

The membership of the Committee during the year under review was:

- **Ms D Naidoo** – chairperson – independent non-executive director
- **Mr C Edwards** – non-executive director
- **Mr R Loubser** – independent non-executive director (not re-elected by shareholders at the AGM held on 9 May 2017)
- **Mr N Payne** – independent non-executive director
- **Ms M Ramplin** – independent non-executive director

At least two non-conflicting members are required to form a quorum.

Meetings were attended by appropriate executives, including the Chief Executive Officer (CEO), the Interim CEO (Interim CEO), the Chief Financial Officer (CFO), Chief Information Officer (CIO) and the Chief Risk Officer (CRO); representatives from the external and internal auditors; and the FSB, by invitation.

The Committee met seven times during the period under review. The Committee obtained assurance from the external and internal auditors that they received full co-operation from management.

Combined assurance

The Combined Assurance Forum (incorporating internal audit, external audit, the CFO, the CIO and the CRO) provides assurance to the Board that the risk management process is integrated into the daily business activities of the Company and that the appropriate levels of assurance are obtained.

Internal auditors

The internal auditors are responsible for reviewing and providing assurance on the adequacy of the internal control environment in accordance with agreed internal audit plan. This function has been outsourced to PricewaterhouseCoopers Inc. (PwC). The engagement partner is responsible for reporting the findings of the internal audit work to the Committee.

External auditors

The external auditors during the period under review were KPMG Inc. Mr P MacDonald was appointed as the designated registered auditor at the AGM held on 9 May 2017. In the last quarter of 2017, Mr P MacDonald informed the Committee that he was emigrating. The Committee considered and recommended to shareholders that Mr Z Wade be appointed as the designated registered auditor in his stead. Shareholders approved this appointment in November 2017.

The Committee is satisfied that the external auditor remained independent of the Company and management during the period under review. The external auditors did not provide any non-audit services to the Company.

During the period under review, the Committee agreed to appoint new auditors to the Company and a tender process was performed during the first quarter of 2018, with Ernst & Young Inc. (EY) being selected as the preferred provider of the Company's external audit services. Accordingly, the Committee will recommend to the shareholders that EY be appointed as the external auditors to the Company and that Mr Warren Kinnear be appointed as the designated registered auditor.

Key audit matters (KAMs)

The Committee considered and noted the Key Audit Matters contained in the external audit report.

Effectiveness of internal controls

Strate aims to maintain a high standard of internal control. After due consideration of information, explanations by management and combined assurance, and discussions with the external auditor on the results of their audit, the Committee is of the opinion that Strate's system of internal financial controls is effective and forms a basis for the preparation of reliable financial statements.

Chief Financial Officer and finance function

During the period under review, the Committee considered the expertise and experience of the CFO and the Committee is satisfied that the CFO and the finance team have the required and adequate skills to perform their duties.

Going concern

The going-concern assumption was reviewed by management during the year. The Committee reviewed documentation supporting management's assumption and recommended to the Board the approval of the assessment.

Risk Management

The Board has assigned oversight of the Company's risk management function to the Committee. It fulfils an oversight role regarding the:

- adequacy of the nature, intent and effectiveness of the risk and control infrastructure;
- development and maintenance of a comprehensive, dynamic system of internal and external controls to ensure Strate's adherence to the CSD Rules;
- review of, and compliance with, the risk philosophy, strategies and policies of the Company; and
- review of risk identification and measurement methodologies employed within the Company

Ethics

The Social and Ethics Committee has oversight of Strate's ethics programme. During the period under review, while the Audit and Risk Committee still had oversight of this function, no material incidents or issues were brought to its attention and no unethical behaviour was noted during this period.

Compliance

The Social and Ethics Committee has oversight of Strate's compliance programme. During the period under review, while the Audit and Risk Committee still had oversight of this function, it reviewed the compliance reports, which detail the applicable laws and regulations and the respective compliance risks; the effectiveness of the controls in place; and the respective risk rating of the compliance risks. Strate remained compliant with all legislation relevant to the Company.

IT Governance

The introduction of a robust governance framework enhanced the business value that IT delivers to the organisation. This provides a structured assessment of the significant investment being made into technology and includes the evaluation of significant operational expenditure, and the objective monitoring and measurement of projects throughout their life cycle.

The following governance components are recognised:

Leadership: The Board's responsibility for technology and information governance

Structure: Governance at all levels in the organisation

Framework: The management of IT

Arrangement: Relevant principles, policies, processes and practices

Integration: Integration of IT into the corporate fabric

IT is represented at the Audit and Risk Committee and presents the IT dashboard biannually on the performance of IT for the preceding period. The IT dashboard highlights the following:

- Adherence to policies and procedures
- Service availability and description of major incidents
- Health and lifespan of Strate's core applications
- Usage and lifespan of underlying infrastructure
- Health assessment of vendors
- Disaster recovery capability and testing

During the past year, IT enhancements were made in the following areas:

- Replacement of core applications to better service the bonds market in line with the IT Roadmap
- Cyber security-related enhancements at all levels
- Policy, employee awareness and training, and investment technology
- SWIFT Standard Operation Procedure accreditation

The IT department has done extensive work in the introduction of the BaNCS MI application and is committed to working with the market to address all possible issues, errors and challenges in the bond settlement system.

The IT department forms a large part of Strate's overall budget. The management of the funds allocated towards the operations of the IT departments are carefully monitored at all levels of the organisation (IT management, the executives and the Board). The 2017 budget was well managed and all items identified were procured and implemented within the agreed timeframes and budget.

An internal audit review of IT governance against King IV was performed with no major concerns raised.

Looking forward, IT will focus on the following areas:

- Completion of the IT Roadmap
- LOU – Global Legal Entity Identifier Foundation (GLEIF) level 2 accreditation
- Implementation of the e-Voting service
- Defining digital transformation strategy

New business

The Committee considered new business opportunities by reviewing new business proposals. It also ensured that the decisions and recommendations in relation to the proposals fell within the ambit of the core services of the Company.

Special Purpose Reserve Fund (SPRF)

The Committee considered proposals for the use of the SPRF based on the mandate of the SPRF and approved all funds spent by the SPRF. All fines collected by STRATE Supervision in its supervisory role are allocated to a separate fund, which is part of the Company's reserves. These funds may only be used for the benefit of the financial markets in one or more of the following manners:

- To fund or subsidise the costs of training or exams provided to the financial markets
- To fund special projects that would benefit the CSDPs and/or the financial markets

The Committee approved expenditure amounting to R3,0m in 2017 (2016: R5,1m) to be funded out of the SPRF Fund.

External and internal audit fees

A review of all external and internal audit fees was undertaken and recommendations were tabled to the Board for approval.

Fees paid to the internal and external auditors are disclosed in note 5 of the annual financial statements.

Whistle-Blowing

The Social and Ethics Committee has oversight of Strate's whistle-blowing programme. During the period under review, while the Audit and Risk Committee still had oversight of this function, it was satisfied that adequate and appropriate provision was made for whistle-blowing. No instances requiring action were raised or identified during the period under review.

Sustainability reporting

The Committee considered the Company's sustainability information, as disclosed in the Annual Integrated Report, and has assessed its consistency with operational and other information known to Committee members. The Committee is satisfied that the sustainability information is reliable and consistent with the financial results.

On behalf of the Board, I would like to express my sincere gratitude to my fellow committee members for their efforts and contribution during the year, as well as to management, the auditors, and the user community for their ongoing support.



Ms Daisy Naidoo

Chairperson: Audit and Risk Committee

REGULATORY AND SUPERVISORY COMMITTEE REPORT

Role, purpose and principal function

Strate is internationally recognised as an FMI and is licensed as a CSD in South Africa by the FSB in terms of the FMA. This licence allows it to perform the functions of a CSD, including the electronic settlement of securities transactions on and off market. Under the FMA, a CSD has regulatory authority. This entails making Strate Rules and Directives, and the approval and supervision of CSDPs, including investigations into alleged regulatory breaches. A CSD must make arrangements for the proper supervision of compliance by CSDPs with the FMA, and Strate Rules and Directives.

Duties assigned by the Board

The Regulatory and Supervisory Committee is an independent committee of the Board, comprising non-executive directors, with the majority being independent. The committee is specifically tasked with overseeing that Strate fulfils its role as an SRO in terms of the FMA. This includes the rule and directive making processes run by Strate's Legal and Regulatory Division, and the supervisory, investigative and enforcement functions performed by STRATE Supervision, an independent division within Strate. One of the main roles of the committee is to oversee and monitor the securities services activities of the CSDPs, specifically their compliance with the FMA, and Strate Rules and Directives.

The committee ensures that the operational and business activities of Strate are appropriately separated from the supervisory and enforcement activities of STRATE Supervision.

A full regulatory and supervisory report is published annually, which details the regulatory, supervisory and enforcement activities of Strate and STRATE Supervision.



This report can be obtained from Strate's website:

<http://www.strate.co.za/strate/supervision/publications>, and contains significant information regarding the regulatory, supervisory, investigative and enforcement activities of Strate for the past 12-month period.

Key focus areas for the year

During 2017, the Strate Rules and a total of 30 Strate Directives were issued, amended or withdrawn where necessary, to, inter alia, cater for:

- the implementation of Strate's debt securities technology for bond securities;
- the new exchanges settling through Strate; and
- the operational and regulatory requirements.

The key regulatory changes during 2017 include:

- issuing Strate Directives to cater for the operational models of four new exchanges (namely, ZAR X, A2X, 4AX and EESE);
- unifying the operational procedures and securities holding models of money market and bond securities;
- consolidating rules and terminology for equity, bond and money market securities; and
- a new rule enabling the pledging of a securities account.

These issued, amended or withdrawn Strate Rules and Directives were circulated to the affected market stakeholders via special gazettes.

Risks relating to staff resource constraints (within STRATE Supervision), the effectiveness of Strate Compliance Officers (as participants), as well as the implementation of any new exchanges and Strate's DIS solution, were the key themes considered by the committee during 2017.

The supervisory fines process continues to be effective and is monitored by the committee on an ongoing basis to ensure that all fine categories and fine quanta remain at a sufficient level to deter unwanted behaviour, thereby ensuring regulatory compliance. Following the implementation of Strate's DIS project in September 2017, the Strate Regulatory and Supervisory Committee was requested by both Strate and the CSDP Forum, to extend the initial six-week "fine waiver period" until such time as the Strate Operational Window Directives are amended and implemented (together with the JSE Rules) to ensure that the current bonds market practices are more realistically reflected.

A number of incidents of debit balances of securities continued to take place during 2017, and the committee had to conduct special-purpose meetings to consider the aggravating and mitigating factors surrounding these events.

Overall, the past year balanced the committee's attention between regulatory and supervisory concerns or developments. The level of compliance by CSDPs continues to remain high, with only pockets of operational weakness or non-compliance having to be managed.

During the year, the composition of the STRATE Supervision Division changed as follows: Ms N Modley resigned as manager of STRATE Supervision during April 2017 and Ms L Phaleng joined the division as an on-site supervision officer during September 2017.

Committee membership and meeting attendance

There was one change to the composition of the committee during 2017. Ms M Ramplin joined the committee in July 2017. The current members continue to maintain strong skills in, and knowledge of, both the securities industry and regulations, and Strate's supervisory, investigative and enforcement activities.

Members and observers on this committee recuse themselves when a matter is discussed that involves confidential information relating to any potential conflict of interest situation. This was particularly relevant when the approval of new or amended Directives in respect of any new exchanges were considered by the committee.

The committee met six times during 2017; four standard meetings and two special-purpose meetings were held to consider Strate Rules and Directives amendments; five separate special-purpose meetings were held to consider matters relating to non-compliance by CSDPs.

Special-purpose meetings are generally called at short notice to discuss matters requiring immediate attention.

Regulatory and Supervisory Committee Charter

The committee is satisfied that all material issues arising from its terms of reference have been addressed and actioned. The terms of reference were revised and updated where new responsibilities or activities to be performed by the committee were identified.

2018 will once again bring interesting developments in Strate's regulatory and supervisory landscape. The Twin Peaks model legislation, which focuses on transparency, market integrity and consumer protection, was passed by Parliament in 2017 and is awaiting the President's signature for it to be implemented. Strate will continue to engage with the prudential authority and market conduct authority to fully understand their expectations from Strate as a CSD in this regard. Strate will also address changes as a result of amendments to the FMA (that were consequential changes to the Twin Peaks Legislation), FMA regulations and draft Guidelines on Recovery Plans for Market Infrastructures.

I would like to extend my gratitude to the Strate Legal and Regulatory and STRATE Supervision divisions for their dedication and professionalism during 2017. My sincere thanks also go to every member of the committee for your active participation in robust debate and your willingness to often make tough decisions. Your contributions, at both Board and committee level, to ensure that we collectively fulfil our responsibilities, are appreciated. With the ongoing support of each and every one of you, I have no doubt that the coming year will reap even greater rewards and that the effectiveness and security of the financial markets will remain safeguarded.



Mr Rob Barrow
Chairman: Regulatory and Supervisory Committee

REMUNERATION AND NOMINATION COMMITTEE REPORT

This report provides an overview of the company's remuneration philosophy, policies, practices and governance.

Role, purpose and principal function

The Board is responsible for the company's remuneration policies and is assisted in its endeavours by the RemNomCo. The role of RemNomCo is to ensure that the Board comprises the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.

RemNomCo operates according to its terms of reference as reviewed and approved by the Board.

RemNomCo's chairman reports to the Board after each meeting and attends the AGM to take questions from shareholders on RemNomCo's areas of responsibility.

Committee membership and meeting attendance

There was one change to the composition of the committee during 2017. Mr C Bruyns was appointed as the chairman of the committee in place of Mr MJ Stocks.

The membership of the committee during the year under review was:

- **Mr C Bruyns** – Chairman – non-executive director – appointed 27 November 2017
- **Mr MJ Stocks** – previously the Chairman – resigned 27 November 2017
- **Mr RJG Barrow** – independent non-executive director
- **Mr RSM Ndlovu** – independent non-executive director
- **Mr NG Payne** – independent non-executive director

Remuneration governance structure

Strate follows two processes, job evaluation and benchmarking, to ensure that employees are fairly remunerated. The job evaluation provides a rational basis for designing and

maintaining an equitable pay structure and managing the internal relativity of jobs. This is a process of assessing the relative worth of each job, or job description, where more than one employee fulfils the same role. The process relies on an independent consultant objectively rating each position which results in a specific job grade being allocated to each position or job description.

Strate aims to ensure that the cost to company of each employee is market-related by benchmarking each grade on a biannual basis (June and October), using data from a wide variety of industries in South Africa at a national level.

Strate aims to attract, retain, engage and motivate employees of the highest calibre, while aligning their remuneration with shareholder interests and best practice. All incentives are performance-based.

In terms of Strate's performance management system, revised in 2016, employees' ratings are determined on the achievement of key performance indicators, the rating of which is determined on a more conversational basis rather than being measured on a strictly mathematical basis, as they were previously.

Strate's performance management system is used to measure employee performance and engagement within the organisation. The performance management system provides management and individuals with the guidelines to support the delivery of Strate's strategy and their personal development. Individual performance is discussed during the performance conversation which includes objectives, key performance indicators (KPIs) based on an individual's job description, personal development areas, stakeholder expectations, the Code of Conduct, innovation and values.

According to Strate's vision, objectives, purpose and values, the performance management system aims to motivate and reward top performers in the company. Employees who implement an innovative initiative as part of the performance management system are measured against this rating in the final performance review.

The new performance rating scale is depicted in the table below:

Score	Definition
Unacceptable	Overall, the employee's performance is unacceptable as the employee does not meet their core outputs/deliverables. Significant improvement is needed in all aspects of their work and a documented performance improvement plan should be in place. The employee must show significant improvement in their work to continue to be employed by Strate as per the Incapacity and Management of Poor Work Performance Policy.
Poor	Overall, the employee does not meet expectations and their core outputs/deliverables are below standard. Improvement is needed in some aspects of their work and a documented performance improvement plan should be in place. The employee must show improvement in their work in order to continue to be employed by Strate as per the Incapacity and Management of Poor Work Performance Policy.
Fair	Overall, the employee consistently meets expectations and their core outputs/deliverables are satisfactory.
Successful	Overall, the employee consistently meets and frequently surpasses their core outputs/deliverables.
Excellent with innovation	Overall, the employee consistently meets and surpasses their core outputs/deliverables. In addition, the employee has successfully implemented an innovative initiative within Strate. Consideration may be given to significant progress made towards the implementation of an innovation initiative.
Exceptional	The employee delivered a significant, extraordinary and unique contribution to Strate over and above their core deliverables and innovative initiative.

Remuneration is conducive to rewarding, developing and retaining appropriate top talent, critical skills and intellectual capital. It also ensures the sustainability and growth of the business based on sound discipline and investment by staff in the results of Strate.

Remuneration policies and practices

Fair and competitive reward is vital to being an employer of choice. To ensure that Strate remunerates its employees competitively, it uses information from a wide variety of industries in South Africa at a national level sourced from an independent service provider. These benchmarks are used by RemNomCo to set the guaranteed base remuneration for employees.

RemNomCo considers proposed adjustments to bring employees below the 40th percentile of the market in line with this benchmark, while some higher-performing employees will be brought to the 50th percentile.

RemNomCo considers total reward information (benchmark information for guaranteed base remuneration, short-term incentives and long-term incentives for individual positions) to evaluate remuneration of the executives. This entails a comparison between the executive's total reward in relation to the latest market indications as furnished by PwC.

Remuneration Structure

The remuneration structure consists of the following elements:

- guaranteed base remuneration
- performance bonuses in the form of:
 - short-term bonuses (all qualifying staff);
 - discretionary bonuses (profit sharing for all qualifying staff); and
 - long-term incentive (key Strate staff in critical roles with specialised skills and knowledge).

Of these elements, only the base remuneration is guaranteed. All other elements are discretionary and based on predefined performance deliverables and measurable criteria.

PwC completed an independent review of Strate's remuneration policies and practices, which were presented to RemNomCo in early 2016 and which were reconsidered by RemNomCo in 2017. Although PwC's recommendation was that the short-term bonuses could be simplified, RemNomCo concluded that Strate's incentive policies were not out of line with market practice and that no changes would be made to the incentive schemes for the current performance cycle. RemNomCo will, however, during the course of 2018, further consider whether Strate's remuneration policies and practices should be amended.

Employment contracts

With the exception of the CEO, who has a six-month notice period, the service contracts of the executive directors, heads of divisions as well as general managers of Strate are subject to a three-month notice period. There are no service contracts in place for non-executive directors.

The remuneration policy is tabled at the AGM for a non-binding advisory vote, in terms of King III.

Job Evaluation and Benchmarking

Job evaluations and benchmarking exercises are performed biannually (in April and September) by independent consultants from PwC to ensure that employees are fairly remunerated.

The guaranteed base remuneration is developed around job evaluations, grading of positions, and the associated benchmark information. Strate uses a wide variety of industries in South Africa, as this is considered the most appropriate benchmark since its activities are broader than pure financial services.

An employee's guaranteed base remuneration is bench-marked between the 40th and 75th percentile of the market on an annual basis according to certain marketability criteria.

As per the cost-to-company remuneration and benchmarking policy, where an employee is remunerated above the 75th percentile of the market, the percentage increase granted will be considered by the RemNomCo on an annual basis. It is recommended that affected employees receive an increase which is 2% less than a normal Consumer Price Index (CPI) related increase, however, that reduction should be limited to the 75th percentile and not below.

Executive directors' remuneration

Executive directors' remuneration is disclosed in the AFS. Only executive directors and their alternates, where applicable, are viewed as prescribed officers of the company.

Non-executive directors' remuneration

A comprehensive analysis of the fees and time spent for Board and committee activities was undertaken in 2015.

Based on this analysis, non-executive directors' fees were determined for a three-year period ending December 2018. The annual fee during this period is adjusted for inflation. These fee proposals apply to the independent directors, but not to shareholder-nominated directors who continue to receive no fees from the company. The fees are subject to shareholder approval each year.

The non-executive directors' fees for 2017 were approved by the shareholders at the AGM.

Non-executive directors' remuneration is disclosed in the AFS.

Board and executive succession planning

The committee considered succession for the Board and Executive Committee and believes that the company has an adequate pipeline and a succession plan in place for all key positions.

The notice period of the CEO is six calendar months as per the contractual obligation. Upon notice of a planned resignation, the RemNomCo will ensure that a comprehensive and formal executive search and selection process for both internal and external candidates takes place.

Strate has high-level succession plans in place for the CEO in the event of a temporary, planned or unplanned absence. The purpose of this plan is to ensure that:

- Strate maintains a strong leadership pipeline to sustain the healthy functioning of the organisation into the future;
- all nominated successors have adequate qualifications, exposure and development plans are in place to address any shortcomings; and
- the roles and responsibilities for the implementation of the plan are clearly defined.

In the event of the departure of the CEO, the Chairman of the Board, in consultation with the Chairman of the RemNomCo, may appoint an interim CEO from the current Executive Committee. The RemNomCo is responsible for formalising the role and responsibilities of the CEO and to make recommendations to the Board on his or her replacement when it becomes necessary. This includes identifying and recommending other suitable executive directors for formal appointment by the Board.

A sub-committee of the Board was established to assist the Board in the search for a new CEO. An interim CEO was appointed by the Board until such time as a new CEO is appointed.

I wish to express my gratitude to the members of the committee and management for their efforts and contributions during the year. I also wish to express my appreciation to Mr MJ Stocks, the previous chairman of RemNomCo, for his contribution to the committee during his tenure as chairman of the committee.



Mr Charl Bruyns
Chairman: Remuneration and Nominations Committee

SOCIAL AND ETHICS COMMITTEE REPORT

Role, purpose and principal function


The role of the Social and Ethics Committee is to assist the Board in discharging its social and ethics obligations. In terms of King III, it is important that an organisation is, and is seen to be, a responsible corporate citizen. The committee is accountable to the Board. The committee operated within written terms of reference during the year under review. The terms of reference were reviewed and updated during the year and approved by the Board.

The committee does not assume the functions of Strate's management, which remain the responsibility of the executive directors, officers and/or other members of senior management.

Composition and meeting procedures

The committee, which comprises four members, is chaired by an independent non-executive director. The membership of the committee during the year under review was:

- **Mr K Getz** – Chairman – independent non-executive director
- **Ms MJ Singer** – CEO (resigned 24 August 2017)
- **Ms A Maharaj** – CFO
- **Mr D Connock** – CRO

The committee met three times during the year under review.  Details of meeting attendance is provided on page 40.

Key focus areas for the year

The following responsibilities were transferred from the Audit and Risk Committee during the year under review.

Ethics

No material incidents and issues were brought to the attention of the committee and no unethical behaviour was noted during this period. The Code of Conduct is reviewed and recommended to the Board for approval on a biennial basis, and the next scheduled date for review is 2018.

Compliance

The committee reviewed the compliance reports, which detail the applicable laws and regulations and the respective compliance risks; the effectiveness of the controls in place; and the respective risk rating of the compliance risks. Strate remained compliant with all legislation relevant to the company.

Whistle-blowing programme

The committee is satisfied that adequate and appropriate provision is made for whistle-blowing. No instances requiring action were raised or identified during the period under review.

Transformation

Transformation in the company was aligned to the new FSC. Strate's socio-economic goals are aligned to the charter. Strate's scoring in terms of its transformation targets is satisfactory for those elements under its control.

Future focus areas

The following matters will be focused on in the coming year, with an emphasis on how they relate to good corporate citizenship:

- Competition
- Regulation
- Sustainability

PARTICIPANT FAILURE COMMITTEE REPORT

Role, purpose and principal function

The role of the committee is to assist the Board in fulfilling certain duties in terms of the FMA and the CSD Rules, as it relates to the resolution of the insolvency management process in respect of the CSDPs in accordance with the FMA, the CSD Rules and Directives, as well as the participant failure manual.

The committee does not assume the functions of Strate's management, which remain the responsibility of the executive directors, officers and/or other members of senior management.

Composition and meeting procedures

The committee comprises four members, and is chaired by an independent non-executive director. The membership of the committee during the year under review was:

- **Mr NG Payne** – chairman – independent non-executive director (appointed 27 November 2017)
- **Mr RJG Barrow** – independent non-executive director
- **Mr E Masilela** – independent non-executive director
- **Ms D Naidoo** – independent non-executive director
- **Ms MJ Singer** – CEO (resigned 24 August 2017)

URGENT ISSUES COMMITTEE REPORT

Role, purpose and principal function

The role of the committee is:

- to consider and take reasonable action as may be required to resolve an emergency situation in terms of CSD Rule 2.20; and
- to consider whether a CSDP is conducting its business in such a manner that it poses an imminent risk that such CSDP may be unable to perform its business or may be acting in such a manner that may be detrimental to the rights and interests, business or operations of other CSDPs, clients, issuers or the CSD.

The committee does not assume the functions of Strate's management, which remain the responsibility of the executive directors, officers and/or other members of senior management.

Meetings are attended by appropriate executives, including the CFO, the Head of Legal and Regulation, the Company Secretary, and the CRO.

The committee did not convene any meetings during 2017 as there were no matters that required the attention of the committee.

The committee convened during the first quarter of 2018 to review its responsibilities in terms of the FMA and the CSD Rules, as it relates to the resolution of the insolvency management process in respect of the CSDPs in accordance with the FMA, the CSD Rules and Directives, as well as the participant failure manual.



Mr Nigel Payne

Chairman: Participant Failure Committee

Composition and meeting procedures

The committee comprises three members, and is chaired by an independent non-executive director. The membership of the committee during the year under review was:

- **Mr RJG Barrow** – Chairman – independent non-executive director
- **Mr NG Payne** – independent non-executive director
- **Ms D Naidoo** – independent non-executive director
- **Ms MJ Singer** – CEO (resigned 24 August 2017)

The committee did not convene any meetings during 2017 as there were no matters that required the attention of the committee.



Mr Rob Barrow

Chairman: Urgent Issues Committee



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STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	2017 R'000	2016 R'000
Revenue	4.1	435 169	445 512
Other income	4.2	1 010	1 875
Total income		436 179	447 387
Operating Expenditure	5	(335 321)	(309 225)
Personnel expense		(154 198)	(142 423)
IT and maintenance expense		(90 256)	(82 533)
Depreciation and amortisation expense		(38 975)	(41 019)
Allowance for impairment on receivables		(137)	(502)
Impairment on intangible assets		(9 464)	(572)
Other operating expenses		(42 291)	(42 176)
Profit from operations		100 858	138 162
Net finance income	6	19 004	17 913
Finance income		21 811	19 415
Finance costs		(2 807)	(1 502)
Profit before taxation		119 862	156 075
Income tax expense	7	(35 304)	(43 957)
Net profit for the year		84 558	112 118
Total comprehensive income		84 558	112 118

STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Note	2017 R'000	2016 R'000
Assets			
Non-current assets		195 054	195 748
Property, plant and equipment	8	19 951	17 401
Intangible assets	9	171 508	174 743
Loans receivable	26	2 453	2 197
Prepayment	26	1 142	1 407
Investment in subsidiary ¹	22	-	-
Current assets		392 082	375 991
Trade and other receivables	10	112 225	106 216
Cash and cash equivalents	11	279 857	269 775
Total assets		587 136	571 739
Equity and liabilities			
Equity attributable to the owners		527 105	498 605
Stated capital	13	20 000	20 000
Retained earnings		496 270	466 595
Capital Redemption Reserve Fund		50	50
Special Purpose Reserve Fund	25	10 785	11 960
Non-current liabilities		7 186	8 564
Deferred tax liabilities	12	7 186	8 564
Current liabilities		52 845	64 570
Current tax payable	17.3	14 886	3 375
Trade and other payables	14	17 259	35 572
Foreign exchange contracts		-	1 294
Employee benefits	20	12 893	17 555
Provisions	15	7 807	6 774
Total equity and liabilities		587 136	571 739

¹ Investment in CD Nominees is R1

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Share capital R'000	Capital Redemption Reserve Fund R'000	Special Purpose Reserve Fund R'000	Retained earnings R'000	Total equity R'000
Balance at 1 January 2016	20 000	50	13 078	405 985	439 113
Total comprehensive income for the year	–	–	–	112 118	112 118
Utilisation of the reserve	–	–	(1 118)	–	(1 118)
Dividends declared	–	–	–	(51 508)	(51 508)
Balance at 31 December 2016	20 000	50	11 960	466 595	498 605
Total comprehensive income for the year	–	–	–	84 558	84 558
Utilisation of the reserve	–	–	(1 175)	1 175	–
Dividends declared	–	–	–	(56 058)	(56 058)
Balance at 31 December 2017	20 000	50	10 785	496 270	527 105

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 R'000	2016 R'000
Cash flows from operating activities			
Cash generated by operations	17.1	120 201	152 546
Interest received	17.2	21 811	19 265
Interest paid	17.2	(2 865)	(1 366)
Taxation paid	17.3	(25 248)	(39 150)
Dividends paid to shareholders		(56 058)	(51 508)
Net cash inflow from operating activities		57 841	79 787
Cash flows from investing activities			
Investment in property, plant and equipment	8	(15 478)	(4166)
Investment in intangible assets	9	(32 302)	(30 759)
Proceeds on disposal of property, plant and equipment		21	4
Net cash outflow from investing activities		(47 759)	(34 921)
Net increase in cash and cash equivalents		10 082	(44 866)
Cash and cash equivalents at beginning of year		269 775	224 909
Cash and cash equivalents at end of year		279 857	269 775

ACRONYMS AND DEFINITIONS

The following key terms are provided to assist readers in understanding the functions that Strate provides and the terminology used within this report.

Central Securities Depository (CSD)	A specialist financial organisation which holds securities to enable the transfer of ownership through a book entry rather than the transfer of physical certificates. The electronic records of the securities are held at one location where they are available for custody and settlement.
Securities	The collective term for equities, bonds and money market instruments.
Settlement	The completion of a transaction, whereby securities and corresponding cash are delivered and received. (Securities are transferred from seller to buyer and cash transferred from buyer to seller).

A number of acronyms are used in this Annual Integrated Report. A list of these follows:

4AX	4 Africa Exchange	IOSCO	International Organisation of Securities Commissions
AFS	Annual Financial Statements	ISO	International Organisation for Standardisation
AGM	Annual General Meeting	IT	information technology
BaNCS MI	The Tata Consultancy Services BaNCS Market Infrastructure	ITaC	JSE's Integrated Trading and Clearing initiative
B-BBEE	Broad-Based Black Economic Empowerment	JSE	Johannesburg Stock Exchange
BND	Beneficiary Download, also referred to as the share register	King III	King Code of Governance Principles for South Africa, 2009
CEO	Chief Executive Officer	King IV	King Code of Governance Principles for South Africa, 2016
CFO	Chief Financial Officer	KPI	key performance indicator
CIO	Chief Information Officer	LEI	Legal Entity Identifier
CMS	Strate's Tri-Party Collateral Management Services	LOU	local operating unit
CRO	Chief Risk Officer	NPAT	net profit after tax
CoGP	Codes of Good Practice	OHS	Occupational Health and Safety
CPMI	Committee on Payment and Market Infrastructure	OHS Act	Occupational Health and Safety Act, 85 of 1993
CSD	Central Securities Depository	PASA	Payment Association of South Africa
CSI	corporate social investment	PCH	payment clearing house
DIS	Debt Instrument Solution	PFMI	Principles for Financial Market Infrastructures
dti	Department of Trade and Industry	PwC	PricewaterhouseCoopers
EBITDA	earnings before interest, tax, depreciation and amortisation	RemNomCo	Remuneration and Nominations Committee
EESE	Equity Express Securities Exchange	SAMOS	South African Multiple Option Settlement
EME	exempt micro enterprise	SARB	South African Reserve Bank
ETFs	exchange traded funds	SAS	Strate Asset Servicing
ETP	electronic trading platform	SCS	Strate Charity Shares
FMA	Financial Markets Act, 19 of 2012	Securities	Equities, bonds and money market instruments
FMI	Financial Market Infrastructure	SED	socio-economic development
FSB	Financial Services Board	SET	Sponsored Education and Training
FSC	Financial Sector Charter	SETA	Sector Education and Training Authority
FSCA	Financial Sector Conduct Authority	SLB	Securities Lending and Borrowing
FSRA	Financial Sector Regulation Act, 9 of 2017	SPRF	Special Purpose Reserve Fund
IFRS	International Financial Reporting Standards	SRO	self-regulatory organisation
IIRC	International Integrated Reporting Council	SWIFT	Society for Worldwide Interbank Financial Telecommunication
		TCS	Tata Consultancy Services

CORPORATE INFORMATION

First Floor, 9 Fricker Road,
Illovo Boulevard, Illovo,
Sandton, 2196,
South Africa

Tel: +27 (0) 11 759 5300

Fax: +27 (0) 11 759 5500

Email: info@strate.co.za

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