



INTEGRATED
ANNUAL
REPORT

2019

ABOUT THIS REPORT

Cartrack's considerable experience, knowledge and skills in the telematics field, has allowed us to grow at an accelerating pace to create a wide-ranging and meaningful impact in this sector. This growth can largely be attributed to our growing reputation as the telematics industry's most trusted partner in safety and security, mobile asset management, asset recovery, workforce optimisation and data analytics based on a proven telematics platform. With a strong, revenue producing balance sheet, broad distribution network and world-class operating platform, Cartrack is geared for growth.

Scope and boundary

The 2019 integrated annual report (IAR) should be read with the audited consolidated annual financial statements for the year ended 28 February 2019. All subsidiaries are included in the consolidated financial information. The 2019 IAR covers relevant aspects of all Cartrack's operations. There has been no change in the scope and boundary of this report, relative to our previous report, nor have there been significant changes in the size, structure or ownership during the current reporting period. Although new jurisdictions are constantly being added to the group's regional base, no new offices were opened in the past year.

There was no substantive restatement of information provided in earlier reports. Where historical data has been adjusted in this report, the relevant numbers have been annotated and a brief explanation included at the bottom of the tables.

Materiality

The information in this report has been selected to provide for the interests of stakeholders who require a broad overview of the present and future direction and prospects of Cartrack – shareholders, funders, regulators, prospective employees, suppliers and community members, among others. Stakeholders with more in-depth needs are invited to contact Cartrack directly or visit our website for further information.

Frameworks

The content and structure of our IAR are guided by the principles of the King Report on Corporate Governance™ for South Africa, 2016 (King IV)* and the framework endorsed by the Integrated Reporting Committee of South Africa. Cartrack fully complies with the JSE Listings Requirements (LR), the Companies Act of South Africa 71 of 2008, as amended (the Companies Act) and the International Financial Reporting Standards (IFRS) and is committed to embracing best practice in reporting to ensure transparency and improve stakeholder engagement.

Assurance

The Cartrack board of directors and its subcommittees have reviewed the report and have satisfied themselves of the materiality, accuracy and balance of disclosures in this report. The board has not sought independent assurance of the report, other than for the annual financial statements.

Supplementary information

The IAR forms part of and should be read in conjunction with additional reports available on our website at www.cartrack.com. Other reports available include:

- » Annual financial statements for 2019
- » A King IV compliance register
- » Analyst booklet
- » SENS announcements
- » Notice of AGM and directors' report

Forward-looking statements

There may be statements in this report that constitute "forward-looking statements". Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of Cartrack and its subsidiaries to be materially different from the future results, performance or achievements expressed or implied by such forward-looking statements.

The company undertakes no obligation to update publicly or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this document, or to reflect the occurrence of anticipated events. These statements have not been reviewed or reported on by the group's auditors.

For more information, please contact Annamè de Villiers at aname.devilliers@cartrack.com

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Approval of the IAR

The board of directors acknowledges its responsibility to ensure the integrity of this report. The directors confirm that they have collectively assessed the content of the IAR and believe it addresses the material issues and is a fair representation of the integrated performance of the group. The board of directors has therefore approved the 2019 IAR for publication.

On behalf of the board:



David Brown
Chairman



Zak Calisto
Chief executive officer (CEO)



VISION

Cartrack's vision is to provide the global technology platform of choice for users seeking intelligent data.

MISSION

Cartrack's mission is to understand our customers' and partners' needs for smart transportation and information and to fulfil these needs through advanced data management and outstanding customer service.

CORPORATE PROFILE

WHO WE ARE

Cartrack is a leading global Software-as-a-Service (SaaS) provider of solutions for small, medium and large fleets and provides insurance telematics, security and safety services to both businesses and consumers. Fleet management, tracking and insurance telematics services remain Cartrack's primary offerings while it continues to grow its artificial intelligence, data analytics and enhanced value-added services capability to deliver additional value to its subscribers. Cartrack's solutions are underpinned by real-time actionable business intelligence that drives tangible return on investment for its customers. Cartrack is also renowned for its agility and speed in developing innovative, first-to-market solutions aimed at further enhancing the customer experience.

Cartrack's impressive organic growth since being launched in 2004 has resulted in it developing an extensive footprint in 23 countries across Africa, Europe, North America, Asia-Pacific and the Middle East. With a base fast approaching 1 000 000 active subscribers, the group ranks among the largest telematics companies globally.

Cartrack is a vertically integrated service-centric organisation owning all its unique telematics intellectual property (IP) and business processes ranging from in-house design, hardware and software development, mobile technical workshops and sales, to the control of vehicle tracking tactical teams in specific territories. Cartrack is therefore in full control of delivering a superior service while also protecting its healthy margins.

OUR VALUES

Our 2 338 employees across five continents live one culture by ascribing to these core values:

- » ACCOUNTABILITY

- » INTEGRITY

- » SERVICE ORIENTATION

- » RELATIONSHIPS

- » ENTREPRENEURIAL AND OWNER-ORIENTATED LEADERSHIP

ETHICS

At Cartrack we believe that sustained value creation is built on ethical and values-driven business practices supported by continuous focus on strong governance. A code of ethics policy, which includes monitoring of gifts and entertainment, and whistle-blowing policy have been in effect for many years and form part of the induction training of all employees. Awareness training is an ongoing process. More recently, a data privacy policy has been implemented in accordance with global best practice.

OUR PERFORMANCE

FINANCIAL HIGHLIGHTS

TOTAL REVENUE

R1 693 million **+28%**

(2018: R1 324 million)

SUBSCRIPTION REVENUE

R1 521 million **+30%**

(2018: R1 166 million)

EBITDA

R761 million **+17%**

(2018: R651 million)

RETURN ON EQUITY

50%

(2018: 58%)

CASH GENERATED FROM OPERATIONS

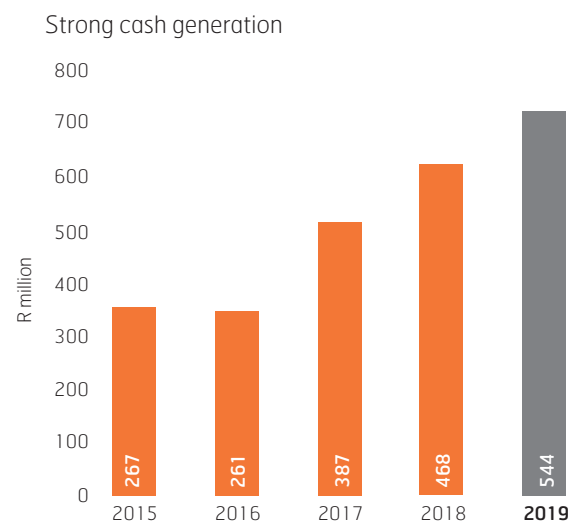
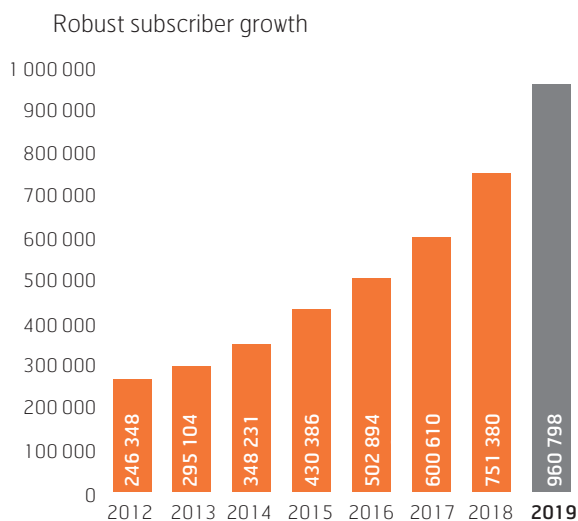
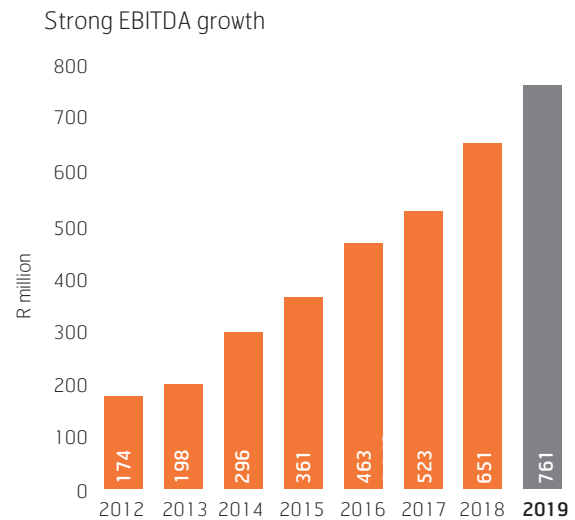
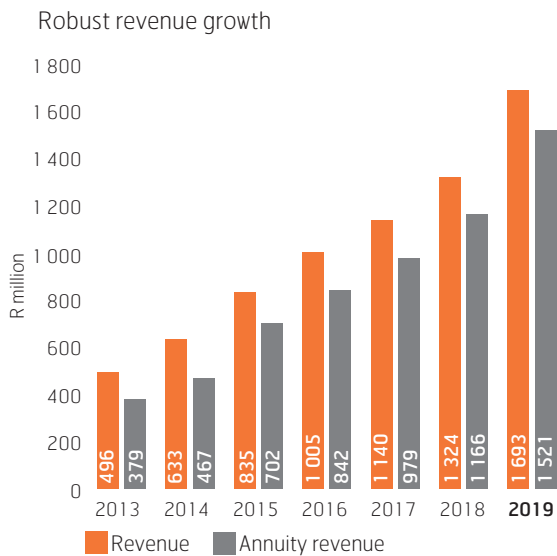
R544 million **+16%**

(2018: R468 million)

SUBSCRIBER GROWTH

209 418 **+28%**

(2018: 150 770)



OUR INVESTMENT CASE

-
- | | |
|--|---|
| » A HISTORY OF STRONG CASH FLOW GENERATION AND CASH CONVERSION, LOW FINANCIAL LEVERAGE AND HEALTHY MARGINS | » A PROVEN TRACK RECORD OF PROFITABILITY AND STRONG FINANCIAL METRICS |
| » A WELL-ESTABLISHED AND PROVEN PLATFORM FOR GROWTH IN A HIGH-GROWTH INDUSTRY | » STRONGLY INNOVATIVE, FOCUSED ON DEVELOPING UNDERPENETRATED MARKETS |
| » A LARGE AND GEOGRAPHICALLY DIVERSE SUBSCRIBER BASE | » AN EXPERIENCED AND STABLE MANAGEMENT TEAM |
-
- » AN ANNUITY-BASED BUSINESS MODEL THAT PROVIDES STRONG VISIBILITY OF EARNINGS
-

NON-FINANCIAL HIGHLIGHTS

- » Major upgrade to proprietary customer-centric platform that will allow improved operational efficiencies to deal with accelerated growth.
- » Conscious investment into distribution footprint to lay a strong foundation through further exponential growth in the years to come.
- » Focused investment into back office business systems with the aim of improving the operational and financial control environment. This will drive efficiency as well as allow the business to scale further.
- » Increase in global management capacity with the appointment of a chief information officer (CIO), Jesse Young, an industry professional with 15 years of experience, who will be based at the research and development (R&D) centre in Singapore. In addition, a strategic split of the global chief operations officer (COO) role at Cartrack into separate operational and product innovation functions.
- » The appointment of Harry Louw (CEO SA) and Brendan Horan (chief strategy officer and investor relations) with a combined 35 years of solid telematics experience in Africa and abroad will increase senior executive capacity.
- » Accelerated momentum in efforts to capitalise on the increase in global trends of artificial intelligence and data analytics and evidence of tangible results.
- » Industry-leading audited recovery rate of 92% underpins the quality of Cartrack's security technology in high-crime regions.

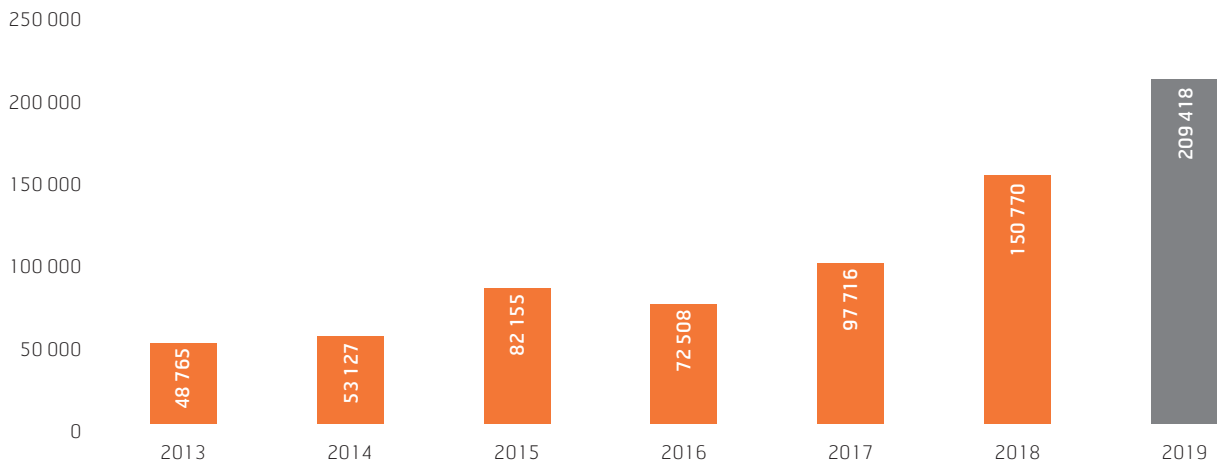
GLOBAL DISTRIBUTION

960 793
SUBSCRIBERS

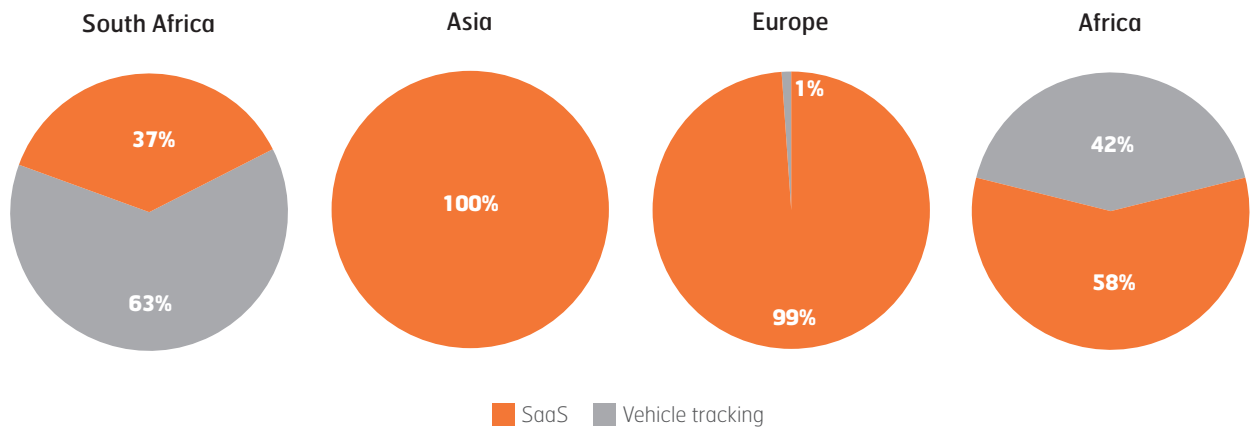
23
COUNTRIES

5
CONTINENTS

Net subscriber additions



SaaS versus vehicle tracking 2019



Customers with fleet size	≤5	6 – 24	25 – 99	100 – 499	500 – 1 499	≤1 500	Total
South Africa	451 464	4 623	705	128	16	8	456 944
Asia	3 582	1 312	311	55	6	2	5 268
Europe	5 188	2 390	439	69	8	3	8 097
Africa	15 733	951	245	45	1	0	16 975
Total	475 967	9 276	1 700	297	31	13	487 284

BUSINESS MODEL

Cartrack has positioned itself as a premium service provider for high-volume telematics through its SaaS platform. This enables economies of scale across its business and allows newly established operations to achieve profitability in a relatively short time and at a low investment cost and exposure.

Cartrack has rapidly evolved from a hardware manufacturing, stolen vehicle recovery business to a telematics data intelligence business. This evolution has closely tracked improvements in data collection technologies and advances in software capability driven by greater demand and adoption of data driven technologies within the growing Internet of Things (IoT).

As telematics devices become more embedded in Original Equipment Manufacturer (OEM) products, Cartrack's SaaS platform is the foundation for accelerated growth as it is able to collect data from any source. However, security, specialised fleet management and regulatory compliance will continue to require the design and development of proprietary hardware.

Cartrack typically designs and develops proprietary hardware and software for mainstream applications and deploys the technology in all global markets it serves. The control of the supply chain from design to service provision enables Cartrack to be a low-cost provider and to manage service delivery levels effectively. Where appropriate, partnerships with technology providers are established to create further value to customers in the markets Cartrack serves. Cartrack's business model is designed to take maximum advantage of the digital business era through:

- » an annuity-based financial model where subscribers pay an ongoing fee;
- » a strong technology platform that is readily deployable for expansion into new regions and scalable for growth;
- » continuous innovation through Cartrack's in-house R&D department;
- » low fixed infrastructure cost; and
- » a wide range of reliable services with appropriate features to service the needs of a geographically diverse range of clients.

The critical inputs into the business model remain human capital and research and development. The execution of the business model requires adaptable executives and highly motivated staff supported by software solutions. The annuity nature of the business results in stable forecastable revenues, while the cost base is manageable. Once higher penetration levels are achieved, lower distribution costs will result in margin expansion.

THE CARTRACK ADVANTAGE

- » Founder-led business with a growth and entrepreneurial mindset
- » Owner of all core telematics IP
- » High-performance track record
- » Quick turnaround on innovation and execution
- » Strong ability to adapt to changing industry trends
- » Highly scalable business and technology platform
- » A proven distribution model
- » Totally vertically integrated and customer-centric culture
- » Low cost per acquisition

OUR PROMISE TO CUSTOMERS

Cartrack's technology is widely accepted by motor manufacturers and insurers



INCREASED FLEET PRODUCTIVITY



REDUCED OPERATIONAL COSTS



INCREASED WORKFORCE EFFICIENCY



INCREASED REVENUE



INCREASED CUSTOMER SERVICE

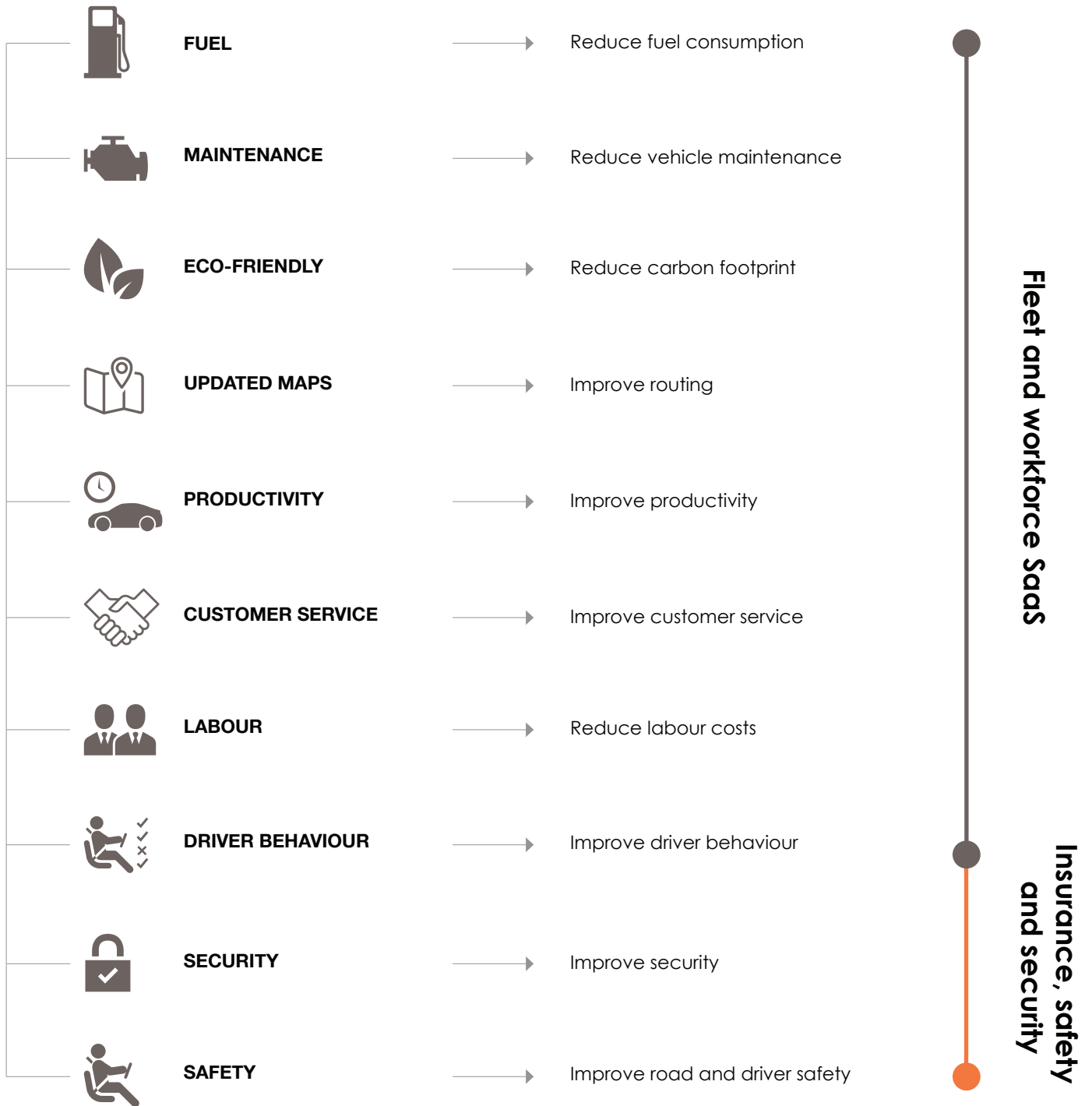


REGULATORY COMPLIANCE



INCREASED SAFETY AND SECURITY

OUR VALUE PROPOSITION



OUR OUTPUTS

STOLEN VEHICLE RECOVERY

FLEET MANAGEMENT

INSURANCE TELEMATICS

WORKFORCE OPTIMISATION

MOBILE ASSET SOLUTIONS

BIG DATA MANAGEMENT

VALUE-ADDED PRODUCTS

OUR OUTCOMES

Internal

- » Employee satisfaction
- » Strengthened organisational reputation
- » Job creation
- » Training and development

External

- » Customer satisfaction
- » Brand loyalty
- » Positive environmental impact
- » Social responsibility
- » Strong customer base
- » Wealth creation for a range of stakeholders
- » Safety and security

OPERATING CONTEXT

Global telematics operating context

Cartrack operates in developed and emerging markets across five continents. The telematics industry is growing globally and industry penetration is relatively low in all markets. While initially confined to vehicle tracking, the application of telematics data is rapidly finding traction in a broader range of asset classes and industries.

Market size and growth prospects

Wireless communications and mobile connectivity, in the form of technology such as the internet, mobile phone applications, wearable devices and connected cars and homes, are revolutionising human interaction and daily functioning. The IoT is rapidly gaining traction and broader acceptance globally. As the demand for better and increased connectivity gains significant momentum, there is also a need for more complex software and broader applications that can maximise the utility of available data. Telematics is playing a dominant role in this evolution. The cost of devices and communication has reduced significantly, resulting in the increasing adoption of this technology among consumers and fleet owners. In South Africa and many other developing markets worldwide, the crime rate

stimulates demand for stolen vehicle recovery (SVR) services. North America remains the largest and most mature market, followed by Europe, Middle East and Africa (EMEA), and the Asia-Pacific region. Asia-Pacific is set to grow rapidly due to the increasing number of vehicles in use, an increase in the popularity of fleet services and the accelerating rate of adoption and use of IoT applications.

Goldstein Research estimates that the global automotive telematics market will expand at a compound annual growth rate of 20,9% from 2016 to 2024, and Gartner Inc. forecasts revenue in the commercial fleet telematics market to increase to \$55 billion by 2021. Regardless of the forecast favoured, they all point to a diverse and compelling range of industry drivers that should underpin the substantial growth expectations for the industry over the next couple of years in this rapidly evolving industry.

Business drivers

The business case for telematics applications is expanding rapidly, driven by, among others, growing regulatory compliance requirements, enhanced profitability and customer service, improved safety and security.

The most important demand drivers are:

<p>Commercial demand</p> <p>The use of telematics products can achieve significant gains in productivity, efficiency, cost control and compliance. The maturing and consolidating fleet management market also has a growing awareness of the benefits of fleet management technology to enhance customer service. The ability to transform raw data into actionable information is a critical success factor.</p>	<p>Regulatory requirements</p> <p>Government regulations to improve safety on the roads are creating significant demand for telematics. These regulations serve to manage hours worked by drivers in the transport sector, roadworthiness of vehicles, implement road taxes per distances travelled and control carbon emissions, among others. Examples are Europe's E-Call initiative to install automatic emergency call devices, the CONTRAN 245 mandate in Brazil to install vehicle tracking devices in all new vehicles sold and the ELD mandate in the USA. Similar requirements are found in many other jurisdictions.</p>
<p>Autonomous vehicles and smart transportation</p> <p>Globally, there is growing acceptance of electric and self-driven vehicles as a solution to the need for advanced safety features and smart mobility. All these vehicles require technology to manage the vehicle and collect and interpret the data.</p>	<p>OEM</p> <p>Manufacturers seek to enhance customer service and manage vehicle warranties through remote diagnostics, monitoring service due dates, providing accident and breakdown assistance and satisfying the demand for fleet management solutions.</p>
<p>Crime</p> <p>SVR services protect assets and result in lower insurance costs and increased levels of personal security in the event of a hijack. SVR is especially in demand in developing economies in Africa, South America and Asia.</p>	<p>Data and new applications of technology</p> <p>The IoT is generating an enormous and growing set of data. The ability to turn raw data into actionable information is a critical success factor for software and technology concerns. This growing data set increases the need to continually innovate and develop new applications.</p>
<p>Consumer demand</p> <p>Consumer demand for telematics devices is also expanding rapidly, driven by reducing costs of telematics services, increasing awareness of insurance telematics, increases in availability and reduced cost of broadband and the growing adoption of technology products and applications that require in-vehicle connectivity and services.</p>	<p>Insurance telematics</p> <p>Insurance companies are adopting telematics data at a rapid rate to assist with assessing driver risk and tailor premiums to an individual's risk profile. The data is also utilised to reconstruct accident scenes and evaluate claims.</p>

For Cartrack to derive maximum benefit from the abundance of growth opportunities, it is imperative that we continue to carefully select the opportunities.

Cartrack's operating context

Subscription growth and scale in all geographies

Our business is annuity income driven, with 90% of revenue generated from subscription income. Growing the number of subscribers is key to long-term sustainable value creation.

Geographical expansion is costly and only creates value if sufficient scale is achieved for the businesses to be profitable. Cartrack has a proven expansion model with well-established operations across a number of countries, as well as greenfield developments in regions such as Asia and the USA. There is a strong focus on growing these newly established businesses to scale as quickly as possible.

Availability of skills

Significant growth comes with additional requirements for distribution infrastructure and skills. In South Africa specifically, the challenge is to find the technical skills to keep up with the demand. We established the Cartrack Academy four years ago to develop these skills and have also started an apprenticeship programme to meet this demand.

Geographical diversification of income streams

Geographical diversification improves the resilience of our business by reducing Cartrack's dependency on the vagaries of individual economies and customer groups.

Cartrack has a strong focus on extending its subscriber base and, at the same time, continuing to diversify the base across a range of dimensions. These include diversification across the types of subscriber, the types of income from subscribers, as well as the geographies covered.

Culture transfer into new regions

As we continue to expand globally, it is imperative to instil a universal set of values and way of doing business across all operations. Cultural fit is considered during the recruitment process. Our policies and processes apply globally and regular awareness sessions and training are done, both face to face and electronically. Senior management undergoes induction training in South Africa and general training is offered in-country.

Senior management and key employees attend annual workshops. Risk and compliance reports are regularly submitted to the board.

Remaining at the forefront of the technology spectrum and utilising data to provide a competitive edge

In an industry where new application of technology and data are among key growth drivers, a deep understanding of emerging trends and continuous innovation are critical ingredients for successful value creation. Cartrack's customer proposition, competitive positioning and capacity to expand globally are strongly linked to its technological platform. Cartrack invests heavily in R&D and technology platforms undergo continuous evolution to adapt to new compliance requirements, customer demands and developing trends. Our participation in sophisticated international markets with complex logistical and regulatory requirements which demand an advanced level of functionality, is stimulating Cartrack's development of innovative technologies. Cartrack has been able to develop and apply such learnings globally.

We have developed an extensive competitive database of behavioural and technical data over a number of years. Data analytics has the potential to add substantial new revenue streams to Cartrack and additional value-added services for customers.

Service excellence and customer retention

Cartrack maintains a strong focus on exceptional service from every customer facing aspect of its business. As a result, customer retention is high, with the average lifecycle per customer currently at more than 64 months. Capitalised rental units are depreciated over 60 months. Keeping customers for longer through service excellence and a superior product offering is, therefore, highly beneficial to the long-term profitability of the company.

STRATEGY AND OUTLOOK

As we look toward the future, Cartrack remains focused on the expansion of vehicle and related telematics, capitalising on the exponential growth of the IoT. We continue to drive innovation through our interaction with customers and strategic research activities. We expect double-digit annuity revenue and subscriber growth to continue for the foreseeable future.

Our strategy has remained consistent. We drive stakeholder value through robust growth in our subscriber base, continuous innovation through R&D and an unrelenting focus on delivering sustainable profit margins. Cartrack's technology platforms are essential to attaining these goals as they provide the backbone for products that are technologically sound and reliable and therefore relevant and attractive to our customers. Maintaining strong financial discipline and prudent investment provide the platform from which to fulfil our growth aspirations.

Our long-term growth is driven by four key factors:

- » *Connected vehicles:* We are enhancing our platform for connected vehicles to be device and/or service provider agnostic as we experiment in smart mobility, partnering with two of the world's leading companies in pay-as-a-service transportation. This development affirms the strengthening of telematics companies' value proposition and the growing eco-system of services around vehicles. We will capitalise on our present and future opportunities as we leverage both OEM and third-party telematics devices and data.
- » *Increased technology investment:* Favourable industry dynamics are driving our position in the marketplace as our customers are becoming reliant on the telematics market to optimise business intelligence relating to both assets and

people on a global scale. As a result of the rapidly changing market, we will continue to invest in technology, information management and human resources, as well as in the distribution and operating capacity in current and new markets.

- » *Increased demand for telematics data:* We have seen a notable rise in demand for telematics data across the globe. Our key market, South Africa, remains underpenetrated, with many opportunities available to provide customer-centric solutions to individuals, enterprise customers and fleets alike. We believe that markets across the globe have a strong need for our products.
- » *Exciting new applications:* As part of our drive to add value to our customers, we have added additional specialist applications to our software suite. This includes our easy-to-use administrative and vehicle cost accounting software called MiFleet and a customer relationship management (CRM) extension to assist our customers in driving profitability and customer retention within their businesses. As an ongoing commitment to our customers' needs, we continue to invest significantly into the enhancement of our existing platforms.

Demand for telematics data continues to increase

Continued and significant investment in technology and capacity

Exciting new services on the back of our SaaS platform

Reaping the benefits of scale

Double-digit annuity revenue and subscriber growth expected for the foreseeable future

Any forecast information included in this section has not been reviewed and reported on by Cartrack's auditor in accordance with 8.40(a) of the JSE Listing Requirements. The directors take sole responsibility for the statements.

CHAIRMAN'S AND CEO'S REVIEW

With the global market remaining materially underpenetrated, lucrative growth opportunities are evident across all channels to market and in each operating region as the demand for telematics data continues to increase. Cartrack's totally vertically integrated, customer-centric culture and unequalled audited recovery rate have translated into a proven track record of customer acquisition and retention. The relatively low cost per acquisition, industry leading margins and cash generation, together with a proven distribution model and prudent cash allocation, provide the support for sustainable future growth.

SaaS applications, within the context of the maturing landscape of the IoT, continue to rapidly expand. We remain at the forefront of the related telematics expansion and continue to drive innovation and application through our interaction with customers and strategic R&D activities. Our next generation IoT SaaS platform is poised to be launched in FY20 and will include an OEM integrator, a CRM module and advanced jobs and messaging via our communicator routing application.

Financial performance

We are pleased with our year-end results driven by continued strength in our top line and margins. This year marks the sixth year of consecutive double-digit total company revenue and subscription revenue growth. Added to that, subscription revenue as a percentage of total revenue reached peak levels. We are equally excited about the continued growth and adoption of our advanced fleet management platform by a number of large corporate fleets in both Asia-Pacific and mainland Europe. In South Africa, our industry leading audited recovery rate underpins the superior specialised quality of the security technology required for the recovery of stolen vehicles.

Our total subscriber base is over 960 000 globally. Subscriber growth has been accelerating as our continuous investment in the regions we target has started to pay off and key greenfields markets such as Asia have started come into fruition. All segments contributed positively to growth, albeit that the Africa segment showed modest gains in subscribers of 4% due to challenging economic conditions. The group continues to maintain a strong order book while focusing efforts on channel and market development.

With a strong, uncomplicated balance sheet and capital structure, a robust cash flow is forecast for the foreseeable future, enabling high growth with accelerated investment in customer acquisition.

Governance

A focus on long-term business sustainability underpins our operations and their governance. The implementation of strong governance and risk management practices are essential to ensure the long-term sustainability of the Cartrack group, and our governance practices are continuously monitored and revised as the business grows.

As technology forms the backbone of our product offering and our brand, the identification and mitigation of risks related to our platforms requires additional prominence. Our audit and risk committee oversees the governance of this function.

Outlook

Cartrack is gathering significant momentum in its efforts to capitalise on the increase in global trends of artificial intelligence and data analytics and tangible results are already evident from these efforts. Our vision remains to achieve global leadership in the telematics industry as we strive to be the technology leader, providing transformational solutions to manage fleets, workforces, and other non-powered assets, and help clients move their business operations into the digital age. As we focus on a highly underpenetrated market, Cartrack's goal is to provide our customers and partners with real-time, actionable business intelligence, based on advanced technology and reliable data.



Zak Calisto
Global CEO



David Brown
Chairman

CHIEF FINANCIAL OFFICER'S REPORT

Group performance

Cartrack delivered a strong performance across its key growth metrics, with total revenue growing by 28%, from R1 324 million to R1 693 million, and subscription revenue growing by 30% year-on-year, from R1 166 million to R1 521 million. Subscription revenue now represents 90% (FY18: 88%) of total revenue and we expect this to further increase with scale. The total subscribers increased by 28%, from 751 380 to 960 798 and the group continues to maintain a strong pipeline and order book while focusing on fully utilising the distribution footprint it has expanded in the current financial year. The net new subscriber addition of 209 418 is a significant increase from the prior year net additions of 150 770, an achievement worth noting.

The decision for ongoing investment in pursuit of sensible growth coupled with the realisation of economies of scale across the businesses and segments will continue to generate robust results in the future and we foresee margin expansion in the short term. We maintain a focus on ensuring a meaningful return on capital invested for our shareholders.

While the group is gearing for continued sustainable growth, it continues to have an industry leading EBITDA margin of 45% and an operating profit margin of 30%. On the back of these metrics, management is satisfied with the business performance and delivery of basic earnings per share of 116 cents compared to 100 cents in the prior year.

The high return on equity of 50% and the return on assets of 28% indicate that capital was efficiently applied across the group and that Cartrack's business model delivers very attractive returns on capital employed for shareholders.

It is anticipated that demand for telematics data will continue to increase and lucrative growth opportunities across all distribution channels will increase in all Cartrack's operating regions.

Segment overview

South Africa

The South African segment delivered particularly strong subscription revenue growth of 31% from R854 million to R1 117 million, while subscribers grew by 30%. The sales mix in FY19 continued to include significantly more bundled sales resulting in a decrease in hardware and installation revenue. Combined, these elements delivered strong revenue growth of 27% from R984 million to R1 246 million in a tough trading environment.

The increase in distribution expenses is largely as a result of focused growth in subscriber acquisition driven by increased marketing expenses and an expanded headcount. Investment in sales and marketing has had an immediate positive impact on subscriber growth and we plan to leverage these learnings across our 23 countries globally. This expense line will rightsize as subscriber growth translates into revenue growth.

Similarly, the increase in non-distribution expenses is largely as a result of the costs associated with collections. Cartrack has made a substantial investment in its back office to manage the credit risk associated with an economy under pressure. Cartrack will continue to exploit the growth opportunities in South Africa to the extent that operating profit margins can be maintained at target levels.

South Africa's operating profit of R422 million, up from R376 million in the prior year, represents a 34% margin. We anticipate margin expansion and continued subscriber growth in FY20. Cartrack will continue to invest in data analytics and behavioural science to ensure insurance partners get relevant and accurate data to manage their own risk and enhance the customer experience.

As the subscriber base and vehicle community continue to grow, Cartrack will continue to identify and exploit opportunities to realise investment returns from the economies of scale that this platform brings to its business. This, in turn, gives Cartrack further opportunity to drive operational efficiency and overall profitable performance.

Asia-Pacific

Asia-Pacific is the second largest revenue contributor and the fastest growing segment in the group, with total revenue up by 52% from R118 million to R180 million and subscription revenue up by 51% from R106 million to R160 million. These results are due to an increase of 53% in subscribers.

Given the heavy investment in distribution capabilities, operating profit increased to R16 million from R15 million in the prior year, representing a 9% margin. Management remains mindful that this segment has the largest potential in the long term and, as such, is devoted to acquiring and coaching the necessary talent to ensure successful long-term growth.

The market in this segment remains considerably underpenetrated due to fragmented market participants delivering entry level telematics offerings, thereby enabling Cartrack to exploit its more sophisticated, reliable products and customer-centric services. Cartrack remains poised to exploit new opportunities while expanding cross-border relationships as it drives its robust and proven offerings to customers in this segment.

Cartrack has also identified the region as having significant strategic benefit to enable the efficient development of world-class SaaS products. In line with this, management has taken the necessary steps to establish an R&D centre in Singapore to support the group's long-term vision.

Europe

The European segment delivered subscriber growth of 15%, total revenue growth of 27%, from R116 million to R148 million, and subscription revenue growth of 28% from R111 million to R142 million. The substantial increase in subscription revenue growth is largely attributable to subscriber sales closed in the prior financial year.

Operating profit of R30 million, up from R19 million in the prior year, represents a 20% margin. The investment in distribution and operating capacity will continue as new channels to market are established. Cartrack is currently evaluating its strategy to expand into the rest of Europe.

Africa (excluding South Africa)

The African segment (excluding South Africa) delivered an improved performance despite a weak regional economic backdrop. Africa continues to play a critical role in ensuring a high level of service to customers who increasingly travel across the border.

The subscriber base in Africa increased by 4% and subscription revenue grew by 5% from R93 million to R98 million, while total revenue increased by 11% from R105 million to R116 million, driven by an increase of new sales in the current year.

Operating profit increased to R39 million, up from R32 million in the prior year, representing a 33% margin. Management remains conscious of the importance and potential of this segment and Africa continues to generate positive cash flows.

USA

Cartrack's investment in the USA has yielded many key insights that have positively contributed to the group and this continues to be strategic in nature.

Managing our balance sheet

Capital allocation and cash management are particularly important in a high-growth phase with accelerated investment in customer acquisition. Prudent management in this regard remains a key focus area which is monitored and managed on an ongoing basis.

Production has been planned to meet growth targets while ensuring that sufficient buffer stock remains available to provide for adequate lead times associated with global distribution.

Inventory balances increased marginally to meet growing demand.

The higher levels of rental sales and the corresponding increase in capitalised rental assets, the planned and continued investment in distribution and operating capacity of the group, as well as the increase in inventory levels to ensure an uninterrupted realisation of the sales pipeline, have resulted in the reinvestment of cash flows generated from operating activities into these business initiatives.

The current and quick ratios of 1,3 and 0,7 (FY18: 0,5 and 0,9) respectively, reflect a restructuring of short-term overdraft facilities to a structured medium-term loan. Debtors' days (after prudent provisions for bad debt) remained within target at 33 days (FY18: 30 days). This is a key metric indicating the quality of sales, operational effectiveness and a strong focus on credit management.

Notwithstanding the significant and continuing investment in customer acquisition, Cartrack remains highly cash generative with a strong cash flow forecast for the foreseeable future.



Morné Grundlingh

Global chief financial officer (CFO)

STAKEHOLDER ENGAGEMENT

Stakeholder	Requirements	Focus areas	Engagement	Risks and opportunities	Management approach	Strength of relationship
Investment community	<ul style="list-style-type: none"> » Sustainable returns and dividend flow » Adequate and consistent disclosure of operating and financial performance » Clarity on our strategy » Sound governance practices 	<ul style="list-style-type: none"> » Responsible organic and global expansion » Governance and ethics » Competition and price pressure » OEM involvement in telematics 	<ul style="list-style-type: none"> » Formal announcement of results » Investor events » Informal meetings » SENS announcements 	<ul style="list-style-type: none"> » A well-informed and broad investor base will support demand for the share » Illiquid shares may detract from investment case 	<ul style="list-style-type: none"> » Support access to management and the board » Continue to broaden the potential investor base » Provide clear and transparent reporting » Focus on maintaining sustainable returns 	<ul style="list-style-type: none"> » Good management access and robust discussions
Employees	<ul style="list-style-type: none"> » Competitive pay » Fair labour practices » Skills development and training 	<ul style="list-style-type: none"> » Training, sharing and standardisation of practices across multiple countries 	<ul style="list-style-type: none"> » Biannual performance appraisals » Training and development » Employee functions » Formal and informal meetings » Intranet » Wellness days 	<ul style="list-style-type: none"> » Our apprenticeship programme provides opportunities of employment » Skills shortage may restrict growth and expansion 	<ul style="list-style-type: none"> » Focus on recruitment process and job profiling » Training and development through both e-learning and classroom methods » Investment in external tertiary qualifications » Ongoing alignment of skills to operational structures 	<ul style="list-style-type: none"> » Strong, evidenced by low turnover of key employees
Customers	<ul style="list-style-type: none"> » Quality products » Strong aftersales support » Safety and security » Value for money 	<ul style="list-style-type: none"> » Consistent service quality to a high volume of customers » Continuous adaptation and innovation to meet dynamic market needs in different global regions 	<ul style="list-style-type: none"> » Face-to-face meetings, telephone and e-mail » Social media and website » Public media releases, advertising newsletters and events 	<ul style="list-style-type: none"> » Extended customer retention improves profitability » Innovative products launched will attract a previously untapped customer base 	<ul style="list-style-type: none"> » Continuous improvement in service delivery and investment in R&D » Investment in innovation and development » System efficiency improvement and simplification of processes 	<ul style="list-style-type: none"> » Strong customer growth and high customer retention
Media	<ul style="list-style-type: none"> » Clear and transparent reporting » Keeping stakeholders informed » Access to key spokesmen and decision-makers 	<ul style="list-style-type: none"> » Enhance awareness and understanding of Cartrack and our services globally 	<ul style="list-style-type: none"> » Shareholder reporting and announcements » Meetings and events » Media releases on topical development 	<ul style="list-style-type: none"> » Increased exposure will promote the brand » Uninformed or inaccurate reporting can damage the brand 	<ul style="list-style-type: none"> » Ensure good access to Cartrack management » Arrangement of interviews, site visits and special events » Distribution of press releases for publication 	<ul style="list-style-type: none"> » Moderate exposure » Continuous endeavours to strengthen relationships
Partners and suppliers	<ul style="list-style-type: none"> » Professional procurement practices » Participation in Cartrack's business opportunities and developments » Long-term sustainable partnerships 	<ul style="list-style-type: none"> » Ability to procure quality products/services at right prices and terms » Lead times for component procurement » Communication network quality 	<ul style="list-style-type: none"> » One-on-one communication » Regular meetings » Site visits and workshops 	<ul style="list-style-type: none"> » Strong relationships may provide access to opportunities » Interrupted supply and long lead times may create business risks 	<ul style="list-style-type: none"> » Transparent and ethical procurement practices » Partnership approach » Selection of suppliers with values and objectives aligned with those of Cartrack 	<ul style="list-style-type: none"> » Long-term relationships
Local communities	<ul style="list-style-type: none"> » Responsible corporate citizenship » Investment in communities in which business is conducted » Social upliftment 	<ul style="list-style-type: none"> » Growing needs of communities » Skills shortages » Unemployment 	<ul style="list-style-type: none"> » Direct engagement through community projects » Business enterprise » Skills transfer 	<ul style="list-style-type: none"> » Negative perceptions may impact brand reputation » Cartrack's growth will create new employment opportunities » Sponsorship initiatives create future brand ambassadors 	<ul style="list-style-type: none"> » Corporate social investment (CSI) spend » Provide education initiatives » Offer employment opportunities 	<ul style="list-style-type: none"> » Focused brand and reputation management and strategic investment
Governments and regulators	<ul style="list-style-type: none"> » Compliance with laws and regulations » Good corporate citizenship » Responsible engagement in fighting vehicle theft » Provision of Cartrack services to government fleets 	<ul style="list-style-type: none"> » Access and engagement difficult » Government tender process inconsistent and not transparent 	<ul style="list-style-type: none"> » Statutory compliance » Communication through industry forums and directly with appropriate government bodies, sponsor 	<ul style="list-style-type: none"> » Increased regulations create further demand for telematics services » Cooperation with law enforcement authorities improves safety and security efforts » Non-compliance may cause reputational damage 	<ul style="list-style-type: none"> » Focus on governance and compliance » Tender submission process and compliance » Maximise stolen vehicle recovery rate and police relationships 	<ul style="list-style-type: none"> » Strong compliance » Supportive working relationship with law enforcement authorities

BOARD OF DIRECTORS

Short curricula vitae of the directors and company secretary are set out below.

Isaias Jose Calisto (Zak) (52)

Global CEO

Appointed: 1 July 2008

Years of service as executive: 18

Zak is the founder of Cartrack and global CEO. Zak has an impressive entrepreneurial history with over 24 years of experience in the telematics industry. Having founded and operated a number of businesses, Zak has a wide range of technical and operational knowledge relating to business models and information technology (IT).

Morné Grundlingh (44)

Global CFO

Appointed: 1 September 2018

Years of service as executive: 10 months

Morné is a qualified Chartered Accountant and a member of the South African Institute of Chartered Accountants (SAICA) and the Institute of Chartered Accountants in England and Wales (ICAEW). He holds a BComm (Hons) from the University of Johannesburg and an MSc (Accounting and Finance) from Birmingham City University. After finishing his training in 2000 at Deloitte, Morné worked at Blackrock and Barclays in the London and Singapore offices. Morné initially joined Cartrack in February 2017 as CFO for the Asia-Pacific region.

David Jamie Brown (64)

Independent chairman

Appointed: 13 October 2014

Years of service: 5

David holds a BComm from the University of South Africa and an MBA from the University of Cape Town. In addition, he attended the Management Development Programme at the School of Business Leadership, and the Advanced Management Programme at Harvard Business School in the USA. He spent 30 years with the Standard Bank Group, where he held various senior positions, including managing director of Stanbic Bank Botswana, managing director of Stanbic Bank Zambia, managing director of Stannic Asset Finance and managing director of Standard Bank's Commercial Banking division. He was appointed CEO of Mercantile Bank and Mercantile Holdings Limited (a JSE-listed company) in 2004 and stepped down as CEO in 2013.

Thebe Ikalafeng (52)

Independent non-executive director

Appointed: 13 October 2014

Years of service: 5

Thebe holds a BSc (Business Administration) and MBA from Marquette University in the USA and has completed executive development courses in finance at Wits and Harvard Business School. A Chartered Marketer (CM(SA)), he has held various marketing positions in the USA and Africa. He is the founder and managing director of Brand Leadership Group, deputy chairman of South African Tourism and non-executive director of Mercantile Bank and WWF South Africa.

Kim White (43)

Independent non-executive director

Appointed: 13 October 2014

Years of service: 5

Kim is a qualified Chartered Accountant and Registered Auditor. Kim has over 15 years of experience in the accounting and auditing sector servicing a wide variety of industries. She holds a postgraduate certificate in advanced taxation and a postgraduate certificate in international taxation, as well as being a certified financial planner and a master tax practitioner (SA). Kim is a registered member of SAICA, a member of the South African Institute of Tax Professionals and is registered with the Regulatory Board of Auditors (IRBA).

Sharoda Rapeti (55)

Independent non-executive director

Appointed: 31 August 2018

Years of service: 10 months

Sharoda has a National Higher Diploma: Electronic Engineering, a Master's in Business Administration and over 30 years of strategic and operational experience in the telecommunications, media and technology industries. She was a director at Deloitte Africa where she established the TMT advisory services practice for Deloitte Africa. She was also the Smart Cities Leader and Digital Payments Leader for Deloitte Africa.

Sharoda has extensive non-executive director experience in the built environment and in banking where she served as South Africa's first female vice-president of the Engineering Council of South Africa and as non-executive director on the board of Mercantile Bank.

Annamè de Villiers (62)

Company secretary

Annamè holds a BProc and LLB as well as a postgraduate diploma in corporate law. She is an admitted attorney in South Africa and specialises in regulatory compliance and corporate governance with specific emphasis on the application of the Companies Act, JSE Rules and Listings Requirements and related global best practices. She has held various positions in the financial services industry including acting as company secretary for two JSE-listed entities.

Board structure and composition

The group has a unitary board structure comprising a majority of independent non-executive directors (including the chairman). There are six directors in total, four of whom are non-executive, and two full-time salaried executive directors. The board's diversity policy is reviewed annually. The size of the board is appropriate given the nature and size of the business and the board is comfortable that it adequately embraces representation in relation to gender and ethnicity in accordance with the principles of the King Code.

The roles of the chairman and the CEO are separate and clearly defined. This division of responsibilities ensures a balance of authority and power. The range of skills, experience and

backgrounds currently represented on the board ensures robust decision-making processes and diversity of viewpoints, enhancing the effective governance of the group with no individual director having unrestricted decision-making authority. A number of board committees assist the board in fulfilling its mandate, and the roles and responsibilities of the respective committees are set out in their formal terms of reference. The terms of reference of the board and the respective committees are reviewed annually to ensure that they remain relevant and are available on the company's website.

Board of directors and committees

Name	Status	Tenure	Attendance			
			Board	Audit and risk committee	Remuneration and nominations committee	Social and ethics committee
DJ Brown Chairman of the board Chairman of the nominations committee Chairman of the social and ethics committee	Independent non-executive	Four years and nine months (appointed October 2014)	5/5	7/7	6/6	2/2
AT Ikalafeng Chairman of the remuneration committee	Independent non-executive	Four years and nine months (appointed October 2014)	5/5	3/7	6/6	N/A
K White Chairperson of the audit and risk committee	Independent non-executive	Four years and nine months (appointed October 2014)	5/5	7/7	6/6	N/A
S Rapeti Member of the audit and risk committee	Independent non-executive	Ten months (appointed 31 August 2018)	2/5	3/7	N/A	N/A
IJ Calisto Global CEO	Executive	Eleven years (appointed July 2008)	5/5	7/7	5/6	N/A
M Grundlingh Global CFO	Executive	Ten months (appointed 1 September 2018)	2/5	4/7	2/6	1/2

Board composition analysis

The majority of directors are non-executive and all non-executive directors are independent. The non-executive directors are representative of the racial and gender diversity of South Africa, with 50% female and 50% black representation.

CORPORATE GOVERNANCE

Leadership and governance

Commitment and approach

The board is committed to good governance and endorses the principles of the King Code in both letter and spirit to ensure consistent practices throughout the group, providing effective leadership that displays integrity, competence, responsibility, accountability, fairness and transparency in directing the business of the company to create and maintain value. During this financial year the board continued to review and enhance the application of the King IV principles and is satisfied that these have been substantially applied. There will be continued focus on governance best practices in FY20.

A report on the steps taken by the company to comply with the King Code is available on the company's website (www.cartrack.com/About Us/Corporate Governance).

Organisational ethics

The directors acknowledge that the ethical tone is set from the top and proactively review and assess the assimilation and entrenchment of governance best practices in the group. As a listed company, Cartrack is required to adhere to the LR. Directors of Cartrack are bound by the provisions of the LR, both in their capacities as directors and in their personal capacities. To ensure the integrity of directors' duties towards the company, conflicts of interest are managed through annual written declarations which are confirmed and updated, if required, prior to the commencement of each board meeting.

Conflicts, if any, are dealt with in accordance with the requirements of the Companies Act. The company's ethics are managed through a number of policies which are approved by the board and implemented, monitored and reported on to the board by management.

Policy	Objectives and focus	Implementation	Monitoring and outcome
Code of ethics and online gifts register (including entertainment)	Addresses acceptable conduct for employees and directors in interaction with colleagues, customers, suppliers and other stakeholders Applies to the company, its leaders, employees, contractors, suppliers and other stakeholders Focused on appropriate and accurate disclosure of gifts and entertainment and better understanding of requirements	Induction training for new employees Regular training, awareness and reinforcement Publication on the external and internal website Annual confirmation	Review of gifts register by internal risk committee Regular reporting to the audit and risk committee There were no matters of concern
Whistle-blowing policy	Encourages and protects disclosure of perceived unethical behaviour that may affect the company and ensures transparency and accountability Applies to the company, its leaders, employees, contractors, suppliers and other stakeholders No particular focus	Induction training for new employees Regular training, awareness and reinforcement Publication on the external and internal website Annual confirmation	Independent review of disclosures There were no matters of concern Continuous training
Media policy	Outlines appropriate communication with the media and determines acceptable social media behaviour Focused on entrenching the principles of acceptable social media behaviour	Induction training for new employees Regular training, awareness and reinforcement Publication on the external and internal website Annual confirmation	Regular review of and reporting on social media disclosures There were no matters of concern Continuous training

Policy	Objectives and focus	Implementation	Monitoring and outcome
Personal account dealing policy	Restrictions in dealing in the company's securities Applies to directors, prescribed officers (as defined in the Companies Act) and the company secretary as well as their affiliates	Targeted training, reinforcement and advice Notification of closed periods	Monitoring by the company secretary There were no transgressions
Data privacy policy	Governs the collection, use and disclosure of personal data provided to Cartrack. It directs how personal data is gathered, stored and handled, in accordance with relevant data protection legislation	Targeted training and reinforcement Publication on the external and internal website Inclusion of principles in employment contracts Appointment of dedicated data protection officers	Monitoring and continuous training There were no transgressions

Responsibilities and accountability

The board is responsible for directing, governing and controlling the company's business by, inter alia, developing and approving the company's strategic direction, financial budget, risk and governance framework and supporting policies and procedures. The board delegates to management the detailed planning and implementation of the group's strategic objectives and policies in accordance with appropriate risk parameters. The board monitors compliance with policies and achievement against objectives by holding management accountable for its activities through performance reporting and regular business updates. The board operates in accordance with approved terms of reference that are reviewed on an annual basis. The responsibility for ensuring that key management functions are appropriately

resourced and directed has been delegated to the CEO. The company's executive directors are involved in the day-to-day management of the company and business activities of the group in accordance with the framework of authority delegated to them by the board, containing formal levels and parameters for all group companies which are reviewed annually.

Executive and senior management are required to acknowledge and confirm the relevant levels of authority by signature and are responsible for implementing procedures to enforce and monitor adherence.

The board has delegated certain of its functions to board committees but remains ultimately responsible and accountable for these functions.

Key focus areas for 2019	Focus areas for 2020
Enhancing compliance monitoring across the group	Maturing the governance of compliance across the group
Enhancing risk management implementation and monitoring thereof across the group	Maturing the governance of risk management in accordance with the King Code and global best practices
Implementation of a new system of financial reporting and internal financial controls across the group	Enhancing reporting and controls
Board diversification and relevance of skills	Enhancing communication, transparency and stakeholder engagement
Ensuring communication to stakeholders is accurate, transparent and timely	

CORPORATE GOVERNANCE CONTINUED

Board appointments

Directors are appointed by the board in a formal and transparent manner. The nominations committee annually reviews the size of the board and its committees and the required mix of skills and experience needed to provide strategic direction and leadership. In consultation with the CEO, it considers suitable candidates and nominates persons for appointment as directors to the board. One-third of the directors are required to retire by rotation at the annual general meeting (AGM) of shareholders. Retiring directors may offer themselves for re-election. Directors appointed during the financial reporting period are required to have their appointments ratified at the following AGM. Directors generally have no fixed term of appointment. Executive directors retire at the age of 65 unless fixed-term contracts are negotiated with the board beyond this age. There is no prescribed retirement age for non-executive directors.

Board induction and development

Directors are introduced to the company through a formal induction programme and ongoing training and development is planned annually to enable directors to make the maximum contribution to the company and to remain informed about changes in risks, legislation, accounting standards and policies and the environment that the company operates in.

Director independence

All non-executive directors, including the chairman, are independent in terms of the definition in the King Code and the guidelines outlined in the LR. The directors have a clear understanding of their fiduciary duties as directors of Cartrack. The directors individually and collectively are committed to exercise due care and diligence in the performance of their duties in accordance with the highest possible standards.

All directors have reasonable and unfettered access to the group's records, facilities, management and any other resources that may be required to ensure optimal ability to discharge their duties.

Board and director evaluations

An annual evaluation is conducted to assess the effectiveness of the board as a unit, the board committees and the individual contributions of the directors through a process of self-evaluation. The chairman discusses results of the individual director evaluations with the relevant directors and suitable developmental plans are agreed with them if required. The results of the evaluation of the CEO are distributed to all board members for consideration. Evaluations for 2019 were satisfactory and no specific areas of concern were raised.

Company secretary assessment

The company secretary acts as steward of the group's corporate governance framework, ensuring that board procedures and relevant legislation and regulations are observed. The company secretary acts as the secretary for all committees of the board and has unrestricted access to the CEO and the non-executive directors. Her responsibilities include, among others:

- » induction and continued training of directors;
- » preparing meeting agendas and recording minutes;
- » providing guidance to directors on governance, compliance and fiduciary responsibilities; and
- » liaising with regulatory bodies.

Based on the outcome of a formal assessment conducted by the chairman, CEO, CFO and audit and risk committee chairman, the board is satisfied with the competence, qualifications and experience of the company secretary and believes that the company secretary provides the board with the requisite support for its efficient functioning and discharge of its duties. In line with the principles of the King Code, the company secretary is not a director within the group and is considered suitably independent of the board to be effective.

Risk management

While the board has delegated its responsibility for risk management to the audit and risk committee, the board remains ultimately responsible for the governance of risk. The risk management framework defines Cartrack's risk management philosophy and encourages a risk-conscious business culture through agreed internal controls and commitment to mitigating actions.

Cartrack's risk management framework implements a bottom-up and top-down approach and has been reviewed to specifically consider the governance of risk to support the achievement of strategic objectives, including compliance and performance-related matters. To this end, the identification and assessment of structural opportunities will be further explored to achieve a complete risk response.

The risk management plan ensures an effective system of risk identification, analysis, evaluation and treatment throughout the group. Major risk categories have been identified as financial risk, operational risk, business risk and legal and regulatory risk. A dashboard of significant risks is compiled through the internal risk committee from risks identified by business. Individual risk ratings are determined by the probability and impact of each risk. Appropriate risk response planning is ascribed to each risk and mitigating actions are monitored. This report is regularly reviewed and interrogated by the audit and risk committee. Opportunities will be approached in a similar manner.

A system of internal controls, designed to protect value and enable business growth in a sustainable manner, encompasses financial, operational, compliance and sustainability issues. This system includes a documented organisational structure and division of responsibility, clarity of accountability, established policies and procedures which are communicated throughout the group, and the careful selection, training and development of people.

Management proposed that the internal audit function be outsourced and, following a tender process and recommendation by management, the board approved the appointment of PricewaterhouseCoopers Incorporated (PwC) to provide internal audit services. The annual internal audit plan, containing a programme of financial and operational audits and reviews for the group, is agreed with the audit and risk committee. This plan is developed by applying a risk-based approach and is reviewed and ultimately approved by the board on recommendation of the audit and risk committee. It is regularly revised to ensure that it remains relevant to the key business priorities and changing risk environment.

For details on the top of mind risks, refer to the risk report.

IT governance

The board is responsible for the governance of IT, which, in view of its importance as a key driver of Cartrack's strategy and value proposition, demands specific emphasis. Governance is achieved through the adoption of appropriate policies and procedures and the management and monitoring of compliance.

As a management structure reporting to the board, the IT steering committee assumes responsibility for the following:

- » strategic alignment between IT and business;
- » delivery of value;
- » measurement of IT performance;
- » risk management;
- » IT resource deployment; and
- » proper and effective use of IT within the business.

The IT governance officer is responsible for compiling regular reports to the audit and risk committee, which consist of a comprehensive governance report and dedicated risk register, from which significant risks are included in the top 10 risks dashboard. At the request of the board, the external auditors performed a focused review of the IT function as part of the annual audit. No material matters were raised.

The global focus on data privacy against the background of data leakages and misappropriation over the last few years culminated in the implementation of General Data Protection Regulation

(GDPR) for the European Union. The complexity of the legislation and the cross-border application thereof necessitated the appointment of in-country expertise to guide the company in the assessment and application of the requirements. This exercise will also assist with the implementation in other jurisdictions, including in terms of the Protection of Personal Information (POPI) Act in South Africa, which has many similar requirements.

Significant investment into back office business systems with the aim of improving the operational and financial control environment has been made. Global management capacity has been increased with the appointment of a CIO, Jesse Young, an industry professional with 15 years of experience, who will be based at the R&D centre in Singapore. In conjunction with this role, the global COO role at Cartrack has been strategically split into separate operational and product innovation functions. Significant investment has been and will continue to be made in systems and infrastructure upgrades, human resources and R&D.

Focus areas for the future include:

- » infrastructure upgrade;
- » software platform maintenance and improvement;
- » technology security;
- » POPI, GDPR and other legislative requirements; and
- » continued application of and alignment with the King Code.

Board committees

Committee responsibilities, focus and composition

Audit and risk committee

Key focus areas for 2019	Focus areas for 2020
Technology security and infrastructure upgrade	Continuing the upgrade of technology security and infrastructure
Governance and risk management	Governance and risk management, compliance and reporting
Ensuring compliance with relevant legislation across the group	Enhancing monitoring and reporting of compliance
Enhance the resources and experience of the IT function	Enhance the resources and experience of the IT function
	Strengthening the internal finance function
	Strengthening the internal audit function

Membership and meetings

All members are independent non-executive directors of the company and collectively have adequate and relevant knowledge and experience to effectively discharge their duties. To ensure appropriate consideration of audit and risk committee matters, the agenda of meetings is split accordingly and separate audit and risk committee meetings are held from time to time. The CEO and CFO attend meetings by invitation but do not have a vote.

The report of the audit and risk committee is included in the notice of AGM, posted to shareholders on 28 June 2019 and is also available on the company's website.

CORPORATE GOVERNANCE CONTINUED

Social and ethics committee

Key focus areas for 2019	Focus areas for 2020
Training programmes to develop skills	Continued investment in training initiatives
Training, compliance and monitoring of gifts and entertainment	Continued awareness training and monitoring of bribery and corruption
Customer experience	Customer engagement
	Review of broad-based black economic empowerment (B-BBEE) strategy
	Consideration of Organisation for Economic Co-operation and Development (OECD) implementation guidelines

Membership and meetings

The membership comprises an independent non-executive director who acts as chair of the committee, an executive director and a prescribed officer, who takes responsibility for the internal management committee responsible for implementation and monitoring of the governance plan in accordance with the Companies Act. Other members of senior management may attend meetings by invitation but do not have a vote.

The report of the social and ethics committee is included in the notice of AGM, posted to shareholders on 28 June 2019 and is also available on the company's website.

Remuneration and nominations committee

Key focus areas for 2019	Focus areas for 2020
<i>Remuneration</i>	
Reviewing the remuneration policy, payment of performance bonuses and short, medium and long-term incentive schemes	Consideration of appropriate incentive schemes
Employee retention, development and succession planning to ensure continuity of leadership	Employee retention, development and succession planning to ensure continuity of leadership and appropriate skills for growth
<i>Nominations</i>	
Reviewing the board structure, size and composition, split between audit and risk committee meetings	Reviewing the board structure
Identification and nomination of new directors for approval by the board	
Training, specifically regarding governance and relevant regulatory requirements	Training, specifically regarding governance and relevant regulatory requirements
Conducting annual performance reviews of the performance and effectiveness of the board, board committees and individual directors	Conducting annual performance reviews of the performance and effectiveness of the board, board committees and individual directors

Membership and meetings

All members are independent non-executive directors of the company and collectively have adequate relevant knowledge and experience to effectively discharge their duties. To ensure appropriate consideration of remuneration committee and nominations committee matters, the position of chairman has been split accordingly. The CEO and CFO attend meetings by invitation but do not have a vote. Executive directors, managers and the company secretary are not present during committee discussions relating to their own compensation.

REMUNERATION PHILOSOPHY

Key principles underpinning our approach to remuneration

- » Employees are fairly and equitably rewarded for their performance and contribution.
- » Guaranteed remuneration is generally aligned with industry benchmarks.
- » Risk and reward are adequately balanced to promote sound and effective risk management.
- » Remuneration is consistent with the company's strategy, objectives and values.
- » Cartrack's financial performance is taken into account when considering increases and bonuses.

Basic remuneration

- » Remuneration consists of a monthly basic salary. Overtime is paid in accordance with the Basic Conditions of Employment Act.
- » A car allowance or company car (depending on the employee's position), if travelling for business is a key requirement.
- » A cellphone allowance, if regular business communication is required during or after business hours.
- » Company contribution to life insurance and a capital disability scheme.
- » The company and employees each contribute 5% to a provident fund.

Increases and bonuses

Salaries are reviewed annually on 1 March and increases are determined by:

- » individual performance;
- » company performance;
- » consumer price index (CPI) and inflation; and
- » internally assessed market conditions.

Annual increases are recommended to the remuneration and nominations committee for review and recommendation to the board for final approval.

All incentive bonuses are discretionary and no individual has a right to be paid an incentive or performance bonus.

Incentive schemes

- » Non-guaranteed annual 13th cheque payment for all permanent employees, payable in December, based on both individual and company performance.
- » Incentives are payable for collections and performance monthly in the credit control and voice logging/customer service departments.
- » Quarterly and annual incentives are payable to sales managers. These are based on the performance of their employees against national sales targets.
- » Branch managers also qualify for incentives which are calculated annually and based on performance of the branch against various targets.
- » Individual contractual bonuses may be payable to members of senior management in accordance with annual performance parameters approved by the board.

Directors' and prescribed officers' remuneration

Summary of reward components

Component	Operation	Purpose and link to strategy
Base salary	<ul style="list-style-type: none"> » Paid monthly in cash » Reviewed annually with increases to be effective from 1 March each year » Salary reviews take into account prevailing market practices, economic conditions and the levels of base salary increase mandates provided to the general employee population 	Attracting and retaining appropriate talent
Benefits Group life and other insurance	<ul style="list-style-type: none"> » Financial protection in the event of death or disability <p>These are:</p> <ul style="list-style-type: none"> » Appropriate in terms of level of seniority » Market-related » Death benefit is a multiple of base salary » Non-pensionable 	Employee wellness and engagement
Pension	<ul style="list-style-type: none"> » Comprises pension plans with company contributions as part of total cost to company remuneration 	Facilitate the accumulation of savings for post-retirement, contributing to financial security

REMUNERATION PHILOSOPHY CONTINUED

Component	Operation	Purpose and link to strategy
<p>Cash incentive (bonus)</p> <ul style="list-style-type: none"> » Align participants to targets relevant to the group's strategic goals » Drive performance » Motivate executives to achieve specific and stretched short-term goals » Reward individuals for their personal contribution and performance 	<ul style="list-style-type: none"> » All measures and objectives are reviewed and set at the beginning of the financial year » Payments are reviewed and approved at year-end by the committee based on performance against targets » Threshold is required to be met for any bonus payment to occur » Target level of bonuses varies from 35% to 65% of base salary » Criteria for 2019: subscriber growth, revenue growth, profit before tax targets and recovery rate targets » Bonuses are paid in cash 	<ul style="list-style-type: none"> » Drives a high-performance culture » Motivates and rewards the achievement of business and individual targets » Focuses employees on the growth strategies
<p>Short-term incentive plan Once-off 2019 incentive to reward key employees for commitment and performance approved by shareholders (Vesting criteria not achieved)</p>	<ul style="list-style-type: none"> » Vesting criteria are aligned to business strategy » Rights only vest on meeting of criteria » Incentive value settled in shares acquired in market 	As above

RISK MANAGEMENT

Effective risk management is not a defensive activity. It is the active understanding, identification, measurement, appreciation of consequences and the taking of appropriate action accordingly: the capacity to make forward-looking choices about risk in relation to reward.

Risk management process

Identify

Risks are identified and defined using a top-down and bottom-up approach. The risk management plan and framework are used to guide the process. The four broad categories of risks identified are: financial risk, operational risk, business risk and legal and regulatory risk.

Assess and measure

Risks are assessed based on their potential impact on the business and their likelihood of occurring, after taking into account the effectiveness of controls that are in place. Risks are classified from low to moderate, medium, significant or high, based on the residual risk rating. All medium, significant and high risks are reported on.

Response and action

Mitigating actions are assigned to each risk by management and regularly reported on. The appropriateness of these is reviewed by the audit and risk committee.

Monitor and report

The risks are managed and monitored on an ongoing basis and form part of the internal audit plan. Quarterly risk reports are prepared by management and provided to the audit and risk committee, which in turn reports to the board. A separate governance and risk report is submitted for IT, which is also subject to an annual governance audit by the group's auditors.



RISK MANAGEMENT CONTINUED

Top of mind risks

The board regularly reviews the risk register prepared and reported on by management and monitors the risk mitigation process accordingly.

Risk category	Description	Mitigation actions	Opportunities
Network access	Reliable access to networks is crucial to our service delivery Unavailability of access or complete failure in networks would adversely affect our customers, our ability to provide services and our reputation	Continuous engagement with service providers to obtain assurance of their disaster recovery and business continuity processes and status. Redundancy links are in place Utilisation of more than one service provider	
Customer data protection	Client data is an imperative part of our service delivery and contain personal information. Data privacy is therefore critical to ensure customer confidence and regulatory compliance. Breach of data privacy would result in reputational damage, loss of customers, loss of revenue and regulatory sanctions	Customer personal information is kept secure and private, verification processes are in place before disclosure, no information is shared without specific authorisation by the customer In view of the regulation of data privacy in the European Union (GDPR) and imminent implementation of similar requirements in terms of the POPI Act in South Africa, management appointed a dedicated project team to ensure compliance with the GDPR and other data privacy requirements across its businesses	The implementation of this project has strengthened and enhanced existing controls and processes and has put the company in a position to utilise these controls and processes to achieve compliance with the provisions of the POPI Act and other regulatory requirements in different jurisdictions across the globe The focus on appropriate data protection will increase customer trust
Customer service	Material adverse customer experiences may result in reputational and brand damage, loss of customers and loss of revenue	Improving engagement with clients through customer service centres and social media, by way of quality control processes and regular training, will allow for better understanding and resolution of service issues and help to identify training requirements A complaints procedure has been implemented to assist customers in effectively communicating complaints and will assist in efficient and swift resolution and appropriate escalation to senior management when required	Engagement with customers poses an opportunity to build the relationship, retain the customer, update personal information and educate the customer Social media creates opportunities for engagement and can be used to increase brand awareness and sales Awareness of repetitive issues will assist in the identification of service deficiencies and training requirements
Key employees	Loss of skills, corporate knowledge and leadership that may adversely affect execution on strategy, customer service, operational efficiencies and execution on strategy	Board-approved succession planning is continually reviewed and updated, mentoring programmes and appropriate skills transfer have been implemented to assist in alleviating the impact of the loss of a key resource Internal leadership programmes have been launched to nurture and grow leadership talent	As part of the talent management process, succession planning allows for the identification of internal talent to be developed or creates the opportunity to employ appropriate talent Engagement with customers poses an opportunity to build the relationship, retain the customer, update personal information and educate the customer
Technology security	Exposure to external infiltration of our systems, hardware, laptops and data may result in service interruption, data corruption and/or breach of confidentiality which may adversely impact customer service, operational efficiencies, revenues and brand and possibly expose the company to extortion and regulatory sanctions	An IT risk assessment has been done in accordance with an approved framework and is continuously updated and reported on to the board. The external auditors perform a focused review of the IT function as part of the annual audit process Cyber security will remain a focus area for 2020 and beyond	The implementation and maturing of the GDPR project will assist in highlighting any weaknesses and enhance the current controls and processes Better controls will enhance reliability and mitigate risk

CORPORATE CITIZENSHIP

Cartrack cares

We recognise that education is the key enabler to empower individuals in a skills-driven, technology-oriented landscape. In addition to the continued good work of the Cartrack Education Fund, which provides primary, secondary and tertiary education opportunities to children from impoverished communities and to our employees and their children, we have continued to roll out apprenticeship programmes, study assistance programmes, and distance learning opportunities for employees.

Cartrack acknowledges its responsibility to help address South Africa's societal needs. Among others, Cartrack supports the fight to reunite missing children with their loved ones, assists the Wheel Well and the Car Seats for Kids campaign, and sponsors a Rapid Intervention Unit, known as "Kwagga", which helps secure the scene of an accident and offers support to paramedics and fire personnel.

Human capital comprises the people Cartrack employs and stakeholders we engage with. Their health, knowledge and skills combined with their attitude and motivation are essential to meeting our strategic objectives and the relationships with our stakeholders.

- » Learning and development – Employees receive both formal and on-the-job training. Learning opportunities are provided through various platforms including classroom-based application training, on-the-job coaching, job shadowing, e-learning, and formal studies through tertiary institutions.
- » Apprenticeship – The training of apprentice technicians through the Cartrack Academy addresses both the shortage of resources and skills development.
- » Employee wellness – Cartrack continuously offers wellness initiatives to improve the knowledge of employees on high-risk diseases, to assist with avoidance of sickness and to help them adopt a healthier lifestyle.

The key challenge for growth has been, and continues to be, skills shortage.

The communities in which Cartrack operates form the core of its social and relationship capital. Cartrack is committed to making a difference in its communities through employment opportunities, educational initiatives and social programmes. Its services and technology contribute to the safety of customers and their assets, and to a reduction in crime.

- » Social sponsorship – Cartrack again assisted Wheel Well (car seats for children), Kwagga (emergency response team) and Missing Children South Africa with sponsorship and funding during the year.
- » The Cartrack Education Fund provides primary, secondary and tertiary education opportunities to children from impoverished communities, as well as to its employees and their children. Tertiary institutions have been approached to promote the bursaries granted to candidates in specific disciplines related to the industry Cartrack operates in. Regular engagement with the bursary holders encourages them and develops a relationship. Career days at universities are attended to promote Cartrack as an employer. A study assistance programme is offered to eligible employees wanting to increase their skill and competency levels through tertiary educational institutions. Cartrack is accredited with the ICDL Foundation – the certifying authority behind the world-leading ICDL computer skills certification – and actively drives end-user computing proficiency throughout its business.

- » Apprenticeship programme – Cartrack's technical training programme affords people with low-level skills, unemployed people and school leavers the opportunity to receive basic auto-electrical training and training on the installation of tracking units in vehicles.
- » Our Zimbabwe branch has helped to better the lives of vulnerable children in Zimbabwe through its monthly donations to Glenforest Children's Home, as well as the donation of a solar geyser and shower system to Danai Children's Home.

The effective use of Cartrack's telematics offerings improves fuel consumption, reduces maintenance costs and reduces traffic congestion, among other environmentally friendly benefits to our subscribers. Efficient use of radio spectrum, a key input for Cartrack's operations and a limited resource, is essential to provide fast and clean data communication for telematics services. Renewable energy, air and land constitute other natural capital inputs on which Cartrack relies for the operation of its offices and mobile workforce of installation technicians. Cartrack encourages and facilitates energy and waste reduction practices through recycling plastic, glass, paper and all scrap materials to improve its environmental management system and reduce its ecological footprint.

- » Cartrack's technology is primarily reliant on frequency spectrums. Consumption of bandwidth is routinely monitored to ensure that the volume of transmitted data is managed and optimised effectively.
- » Cartrack complies with the Waste, Electrical and Electronic Equipment Directive, collecting all tracking units from around the world for repair or scrapping.
- » All Cartrack's products, including the battery and enclosures, comply with the European Union Restriction of Hazardous Substances (ROHS) Directive.
- » Cartrack has a team of mobile installers and, as such, is a large consumer of petrol and diesel. Cartrack employed its fleet management systems in its own fleet, which led to reduced kilometres travelled, and less fuel, maintenance and accidents.

Core to Cartrack's intellectual capital are:

- » its brand;
- » its trade secrets developed around the application of its services through the years;
- » the extensive senior management experience in the telematics and stolen vehicle recovery industry; and
- » its continued investment in R&D to add to a growing product suite. Also, the collection and storage of telematics data and the ability to convert raw data into actionable business intelligence further contribute to intellectual capital.

Cartrack's proprietary technology platform and user interface that form the backbone of its product range, as well as its hardware technology, are designed, developed and maintained in-house. The entire supply chain for Cartrack's telematics devices, from design to manufacture and ultimately through to installation of units and recovery of stolen vehicles, is managed internally. Components are sourced from legitimate and responsible producers, and manufacture is performed under ISO 9000 standards.

The funds available to Cartrack for use in its business are its financial capital inputs. Being highly cash generative, Cartrack has very little debt. Refer to the information on page 47 of the annual financial statements and to the stakeholder engagement discussion on page 16 and 17 of this report for more details.

DEFINITIONS

“board” or “directors”	the board of directors of the company, presently comprising the persons specified in the “board of directors” section commencing on page 18
“Cartrack” or “Cartrack Holdings” or “company” or “group”	Cartrack Holdings Limited, a public company incorporated in South Africa under registration number 2005/036316/06, its subsidiaries and Cartrack Mozambique
“Companies Act”	the Companies Act of South Africa 71 of 2008, as amended and substituted from time to time
“company secretary”	the company secretary of the group
“data management”	the collection, storage and analysis of telematics-related data
“EBITDA”	earnings before interest, tax, depreciation and amortisation
“fleet management” or “fleet”	range of functions relating to monitoring the location, movements, status and behaviour of a vehicle or fleet of vehicles
“insurance telematics”	the usage of telematics to monitor driving behaviour and habits to assess and profile driver risk for insurance purposes
“IoT”	Internet of Things
“JSE”	JSE Limited, a public company incorporated in South Africa under registration number 2005/022939/06, licensed as an exchange under the Financial Markets Act
“King Code”	the South African Code of Corporate Practices and Conduct as set out in the King Report on Corporate Governance for South Africa, 2016
“Listings Requirements” or “LR”	the Listings Requirements of the JSE
“OEM”	original equipment manufacturer
“operating profit”	profit from operations, before interest and tax
“R&D”	research and development
“rand”, “R” and “cents”	the lawful currency of South Africa
“SaaS”	Software-as-a-Service
“SENS”	the Stock Exchange News Service of the JSE
“South Africa” or “SA”	the Republic of South Africa
“stolen vehicle recovery” or “SVR”	the determination of a vehicle’s location upon the occurrence of theft or another predetermined metric and the associated software and recovery services which complement the requirements surrounding the recovery thereof
“telematics”	the branch of information technology which deals with the long-distance transmission of computerised information, which includes fleet management, stolen vehicle recovery and insurance telematics markets
“vehicles”	vehicles include mainly cars, buses, motorbikes, trailers and freight vehicles and other assets that are tracked under subscription contracts

CORPORATE INFORMATION

Directors

Independent non-executive directors

David Jamie Brown (independent chairman)
Thebe Ikalafeng
Kim White
Sharoda Rapeti

Executive directors

Isaias Jose Calisto (global CEO)
Morné Grundlingh (global CFO)

Company secretary

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Rosebank Johannesburg
2196
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Sponsor

The Standard Bank of South Africa Limited
30 Baker Street, Rosebank

Transfer secretary

Computershare Investor Services Proprietary Limited
Rosebank Towers
15 Biermann Avenue
Rosebank Johannesburg
2196
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Legal adviser

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Auditors

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Registered Auditor
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Company's bankers

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