

# corporate governance report

## Framework

AVI Limited ("the Company") is a public company incorporated in South Africa under the provisions of the Companies Act No 71 of 2008, as amended and the Regulations thereto ("the Companies Act") and is listed on the JSE Limited ("the JSE").

The Company's Board of directors ("the Board") is committed to ensuring that the Company is governed appropriately. The Board recognises the responsibility of the Company to conduct its affairs with prudence, transparency, accountability, fairness and in a socially and environmentally responsible manner. The Company complies with the provisions of the Companies Act and the JSE Listings Requirements, and the principles of the Code of Corporate Governance Principles and Practices as recommended in the King IV Report on Governance for South Africa 2016 ("King IV").

## Board governance structure

The general powers of the Board and the directors are conferred in the Company's Memorandum of Incorporation. Terms of reference for the Board are set out in the Company's Board charter which is reviewed periodically. The charter covers the powers and authority of the Board and provides a clear and concise overview of the responsibilities and accountability of Board members, collectively and individually. It includes the policy and procedures for appointments to the Board as assisted by the Remuneration, Nomination and Appointments Committee. Appointments to the Board are done in a formal and transparent manner and are a matter for the Board as a whole. The Board charter is available on request from the Company Secretary.

To ensure conflicts of interest are avoided Board members annually provide a general disclosure of their personal financial interests in terms of section 75 of the Companies Act 2008, and are reminded at the commencement of every Board and Board committee meeting that they are required to declare any material personal financial interests that they may have in contracts entered into or authorised by the Company or in any matters to be discussed at the meeting, as well as any changes to their interests as previously declared.

The Board has adopted a unitary structure and no individual member of the Board has unfettered powers of decision making. The responsibility for running the Board and executive responsibility for the conduct of the business are differentiated in the Board charter. Accordingly, the roles of the Chairman of the Board and

of the Chief Executive Officer are separated, with Gavin Tipper and Simon Crutchley, respectively, holding these positions for the year under review. In accordance with King IV, Abe Thebyane has been appointed the lead independent director.

## Directorate

During the year under review the Board comprised three executive directors and six non-executive directors. All of the non-executive directors are independent as defined by King IV and have the required knowledge, skills and independence of thought to pass sound judgement on the key issues relevant to the business of the Company, independent of the Company's management. As recommended by King IV, the Chairman assessed the independence of James Hersov and Adriaan Nühn, who have served on the Board for over nine years, and concluded that they have fulfilled the requirements of King IV and are therefore considered to be independent. Consideration is given to gender and racial diversity, as well as diversity in business, geographic and academic backgrounds, when appointing directors. Tailored induction programmes are run to familiarise newly appointed directors with the Group's operations. The particulars of the directors are set out in the Board of directors' section of this Integrated Annual Report. Neo Dongwana resigned as a non-executive director on 7 May 2019, due to other business commitments. Alex Muller was appointed as a non-executive director on 1 July 2019, which appointment will be considered by shareholders at the Company's Annual General Meeting on 7 November 2019.

As required by paragraph 3.84(i) of the JSE Listings Requirements, the Company has adopted a formalised policy on the promotion of gender diversity at Board level, which aims to ensure that at least 25% of the Board is female. The Board currently comprises nine directors of which one is female. The Nomination Committee considers the policy when nominating and recommending the appointment of directors to the Board, and is currently conducting a recruitment search for two female directors.

As required by paragraph 3.84(j) of the JSE Listings Requirements, the Company has adopted a formalised policy on the promotion of race diversity at Board level.

At least one-third of the Board's members retire each year at the Annual General Meeting in terms of the Company's Memorandum of Incorporation. Retiring directors are eligible for re-election.

## Board and director assessment

The Board is required to assess its performance against its charter requirements on an annual basis. The assessment was done and it was found that in all material respects the Board complied with these requirements. The Chairman continued to monitor and manage the participation of the Board's members, and considered the development requirements, if any, of each director.

In addition, during the year under review, the Board independently considered the performance of the Chairman and Chief Executive Officer. The Chairman and the Chief Executive Officer did not participate in the Board's discussions regarding their own performance.

## Board meetings

During the year under review the Board met formally on four occasions to conduct the normal business of the Company. Attendance at these meetings is summarised in the table below.

Name	07/09/2018	22/11/2018	08/03/2019	13/06/2019
GR Tipper	√	√	√	√
MJ Bosman	√	√	√	X
SL Crutchley	√	√	√	√
OP Cressey	√	√	√	√
NP Dongwana	√	√	√	■
JR Hersov	√	√	√	√
M Koursaris	√	√	√	√
A Nühn	X	√	√	√
AM Thebyane	√	√	√	√

√ in attendance; X not in attendance ■ resigned

In addition to these formal meetings and as a prelude to the Board meeting of 13 June 2019, the Board met with the executive management of the Company's subsidiaries and major divisions on 12 June 2019, reviewed their performance for the past year and considered their objectives, strategies and budgeted performance for the year ahead.

## Company Secretary

The Company Secretary for the year under review was Sureya Scheepers.

All directors have unlimited access to the advice and services of the Company Secretary, who is accountable to the Board for ensuring that Board procedures are complied with and that sound corporate governance and ethical principles are adhered to.

The Company Secretary's principal responsibilities to the Board and to individual directors are to:

- Guide them in the discharge of their duties, responsibilities and powers;
- Provide information, advice and education on matters of ethics and good governance; and
- Ensure that their proceedings and affairs, and those of the Company, are properly administered in compliance with all relevant legislation and regulations, in particular the Companies Act 2008 and the JSE Listings Requirements.

As required by the JSE Listings Requirements, the Board assessed and satisfied itself at the Board meeting of 6 September 2019, as to the competence, qualifications and experience of the Company Secretary, and that she has maintained an arm's length relationship with the Board and the directors.

## Board committees

The Board is assisted in the discharge of its duties and responsibilities by the Audit and Risk Committee, the Remuneration, Nomination and Appointments Committee and the Social and Ethics Committee. The ultimate responsibility at all times for Board duties and responsibilities, however, resides in the Board and it does not abdicate its responsibilities to these committees.

These committees act within formalised terms of reference which have been approved by the Board and which reflect the Company's application, where appropriate, of the principles embodied in King IV, the statutory requirements of the Companies Act and the JSE Listings Requirements. The terms of reference set out the committees' purpose, membership requirements, duties, and reporting procedures. Relevant legislative requirements, such as those incorporated in the Companies Act, are incorporated in the committee charters. Board committees, and the members thereof, may take independent professional advice at the Company's expense.

When appropriate, ad hoc committees are formed to facilitate the achievement of specific short-term objectives.

There is full disclosure, transparency and reporting from these committees to the Board at each Board meeting, and the chairpersons of the committees attend the Annual General Meeting to respond to applicable shareholder queries.

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## Audit and Risk Committee ("Audit Committee")

During the year under review the Audit Committee comprised Mike Bosman (the Chairman), James Hersov and Neo Dongwana, all of whom are independent non-executive directors. In compliance with the Companies Act shareholders will be asked at the Annual General Meeting on 7 November 2019 to elect the members of the Audit Committee. Neo Dongwana resigned as a member of the Audit Committee with effect from 7 May 2019 and Alex Muller was appointed a member with effect from 1 July 2019. The current members will be available for re-election.

The Company's external auditors, the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer, the Group's head of internal audit and other senior executives attend the Audit Committee meetings by invitation.

Each operating subsidiary has an internal review committee which monitors risk management and compliance activities. These committees are chaired by the Company's Chief Financial Officer and meet at least twice a year with the external auditors and the Group's head of internal audit, with the relevant financial and managing directors in attendance. Audit Committee members can attend the subsidiary internal review meetings by open invitation. There is a formal reporting line from the various internal review committees into the Audit Committee via the Company's Chief Financial Officer.

The Audit Committee met formally twice during the year under review. The attendance of the members is reflected in the table below:

Name	04/09/2018	06/03/2019
MJ Bosman	√	√
NP Dongwana	√	√
JR Hersov	√	√

√ in attendance; X not in attendance

The Audit Committee is responsible for the consideration of key financial and operating control risks and in particular assists the Board in the following matters:

- Monitoring the financial reporting process;
- Recommending the appointment of an independent registered auditor, determining the terms of engagement and approving fees for audit and non-audit work undertaken;
- Monitoring the operation and effectiveness of internal control systems, including information technology controls;
- Overseeing the implementation of the information technology strategy, and monitoring the efficiency and effectiveness of the information technology processes;

- Overseeing the internal audit function, monitoring its effectiveness, and reviewing corrective action in relation to findings;
- Overseeing the implementation and effective operation of a structured risk management process that incorporates insurance, health and safety, and environmental issues;
- Implementing sound corporate governance policies;
- Reviewing and recommending to the Board for approval the interim and annual financial statements, the going concern status of the Company, interim and final dividends and other special payments to shareholders; and
- Considering and satisfying itself, on an annual basis, of the expertise and experience of the Chief Financial Officer.

Shareholders will be requested to approve the reappointment of Ernst & Young Inc. as the Company's external auditors at the Company's Annual General Meeting on 7 November 2019. With specific reference to the non-audit services provided by the external auditor, and at the recommendation of the Audit Committee, the Board has resolved that the auditors shall not:

- Function in the role of management;
- Audit their own work; and
- Serve in an advocacy role for the Company.

In accordance with the requirements of the Companies Act all non-audit specific service engagements with the external auditors were pre-approved by the Audit Committee.

During the year under review dedicated internal audit resources were provided via a service provision arrangement with BDO Inc.

The Audit Committee discharged the functions ascribed to it in terms of the Companies Act and the JSE Listings Requirements as reported in the Directors' Report. It also complied in all material respects with its mandate and the responsibilities prescribed to it in the Audit Committee charter.

## Remuneration, Nomination and Appointments Committee ("Remcom")

During the year under review the members of Remcom were Adriaan Nühn (the Chairman), Abe Thebyane and Gavin Tipper, all of whom are independent non-executive directors. The Company's Chief Executive Officer and Business Development Director attend relevant parts of Remcom meetings by invitation. Adriaan Nühn stepped down as Chairman and Abe Thebyane was appointed the Chairman with effect from 1 July 2019.

Remcom met formally four times during the year under review and the attendance detail is reflected in the table below:

Name	07/08/2018	06/09/2018	21/11/2018	11/06/2019
A Nühn	√	√	√	√
AM Thebyane	√	√	√	√
GR Tipper	√	√	√	√

√ in attendance; X not in attendance

Remcom assists the Board by overseeing the following matters:

- Ensuring that the Company's directors and the Group's senior executives are competitively rewarded for their individual contributions to the Group's overall performance. Remcom ensures that the remuneration of the senior executive members of the Group is set by a committee of Board members who have no personal interest in the outcomes of their decisions and who will give due regard to the interests of shareholders and to the financial and commercial health of the Company;
- Succession planning for, and approving the appointment of, senior executives within the Group;
- Assessing the performance of the Chief Executive Officer and reviewing his assessment of senior management's performance;
- Recommending an appropriate remuneration and reward framework (including salaries, benefits, share options and incentive schemes) to ensure that the Group's employees are appropriately engaged and retained. The framework includes guaranteed remuneration, short-term and long-term incentives, and benefits;
- Reviewing the composition of the Board and its committees with respect to size, diversity, skills and experience; and
- Recommending the appointment of directors to the Board and shareholders.

In the interests of efficiency, the Remuneration Committee and the Nomination Committee are combined.

The Chairman of the Board chairs discussions pertaining to agenda items related to Nomination Committee matters.

Remcom complied in all material respects with its mandate and the responsibilities prescribed in its charter.

### Social and Ethics Committee

During the year under review the Social and Ethics Committee comprised one independent non-executive director, namely Neo Dongwana (the Chairman), as well

as executive members, Willem Visser, the Group asset protection manager; and Catherine Makin, the Group marketing executive. In addition the Company's Chairman, Chief Executive Officer and Chief Financial Officer attend the meetings by invitation. Neo Dongwana resigned as the Chairman with effect from 7 May 2019 and Alex Muller was appointed the Chairman with effect from 1 August 2019.

The committee met formally twice during the year under review and the attendance detail is reflected in the table below:

Name	06/09/2018	07/03/2019
NP Dongwana	√	√
C Makin	√	√
W Visser	√	√

√ in attendance; X not in attendance

The Social and Ethics Committee assists the Board in the following matters:

- Monitoring the Company's activities with regard to social and economic development; good corporate citizenship; the environment, health and public safety; consumer relationships; and labour and employment;
- Drawing matters within its mandate to the attention of the Board as the occasion requires;
- Ensuring that the Company's ethics are managed effectively; and
- Reporting to the shareholders at the Company's Annual General Meeting on the matters within its mandate.

The Social and Ethics Committee discharged the functions ascribed to it in terms of the Companies Act. It also complied in all material respects with its mandate and the responsibilities prescribed in its charter.

## Dealings in JSE securities

The Company and its directors comply with the JSE Listings Requirements regarding trading in Company shares. In terms of the Company's closed-period policy, all directors and staff are precluded from dealing in Company shares during closed periods, namely from 31 December and 30 June of each year, until the release of the Group's interim and final results, respectively. The same arrangements apply to other closed periods declared during price-sensitive transactions, for directors, officers and participants in the share incentive schemes and staff who may have access to price-sensitive information. A pre-approval policy and process for all dealings in Company shares by directors and selected key employees is strictly

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followed. Details of directors' and the Company Secretary's dealings in Company shares are disclosed through the Stock Exchange News Service ("SENS") in accordance with the JSE Listings Requirements.

The Company Secretary regularly disseminates written notices to brief the directors, executives, and employees on insider trading legislation, and to advise them of closed periods.

Further, in accordance with the JSE Listings Requirements, the Company's non-disclosure and confidentiality agreement in use for suppliers and other third parties, contains provisions and undertakings regarding the disclosure of price-sensitive information and insider trading.

## Investor relations and communication with stakeholders

The Company identifies key stakeholders with legitimate interests and expectations relevant to the Company's strategic objectives and long-term sustainability, and strives to have transparent, open and clear communications with them. Reports, announcements and meetings with investment analysts and journalists, as well as the Company's website, are useful conduits for information. Further detail of these key stakeholders and the Company's engagements with them is set out in the Sustainable Development Report.

The Chairmen of the Board and the Board committees are expected to attend the Company's Annual General Meeting, and shareholders can use this opportunity to direct any questions they may have. A summary of the proceedings of general meetings and the outcome of voting on the items of business is available on request.

## Keeping abreast of legislative requirements

The Company's internal legal advisers keep the Company abreast of generic and industry specific legislative and regulatory developments, both pending and apparent, and ensure that the Board, management and employees are informed of and, where necessary, trained on these developments and the implementation thereof.

## Participation in industry forums

The Company and its subsidiaries participate in various forums that represent the interests of an industry or sector of the economy, including the Consumer Goods Council of South Africa, the Rooibos Council, the Aerosol Manufacturers' Association of South Africa, the Cosmetic, Toiletry and Fragrance Association of South Africa, the Responsible Fisheries' Alliance, the Association of Food and Science Technology, and the White Fish Technical Committee (a sub-committee of the Deep-Sea Fishing Industry Association). Care is taken to ensure that proceedings at these forums do not contravene competition regulations.

## King IV application register

In compliance with the JSE Listings Requirements the Company discloses hereunder details pertaining to its compliance with the principles of King IV. In addition to these specific disclosures, statements are included throughout the Integrated Annual Report dealing with these principles.

### Leadership, ethics and corporate citizenship

#### Principle 1: The governing body should lead ethically and effectively.

The Board operates within the powers conferred on it in the Memorandum of Incorporation and Board Charter; bases deliberations, decisions and actions on strategic objectives and ethical and moral values; considers the legitimate interests of all stakeholders; and aligns its conduct to drive the Company's business accordingly.

The directors hold one another accountable for acting in the best interest of the Group. This entails the discharge of duties with integrity, competence, responsibility, accountability, fairness and transparency.

#### Principle 2: The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.

The Board has adopted a Group Code of Conduct and Ethics, which is communicated internally and externally and the importance of ethical behaviour is emphasised in all of the Company's engagements. Ethical issues are considered by risk committees, internal review committees, the Company's Audit and Risk Committee and Social and Ethics Committee, and at Board level.

Mechanisms are in place to report instances of fraud, theft, corruption, unethical behaviour and irregularities. The Company's management is responsible for the implementation and execution of the Group Code of Conduct and Ethics and ongoing oversight of the management of ethics. Management will report material breaches to the Audit and Risk Committee, Social and Ethics Committee and to the Board.

#### Principle 3: The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen.

The Board is responsible for economic, social and environmental performance and reporting, and the Company has credible and well-coordinated programmes in respect of social and environmental issues and stakeholder engagement.

The Social and Ethics Committee ensures that the Group's business operations are conducted in a manner that is sensitive to the social, economic and environmental factors of the economy.

The Company maintains high standards of corporate governance and reporting.

### Strategy, performance and reporting

#### Principle 4: The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.

The Board determines the strategy and long-term direction of the Company necessary to achieve its objectives as a business enterprise while satisfying itself that the strategy and business plans are aligned with the purpose of the Company, the value drivers of the Company's business and the legitimate interests and expectations of the Company's stakeholders and do not give rise to risks that have not been thoroughly assessed by management. The Board annually reviews the Company's objectives, strategies, risks and performance.

## Strategy, performance and reporting (continued)

**Principle 5: The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance, and its short, medium and long-term prospects.**

All corporate governance disclosures, integrated annual reports, annual financial statements and all other reports, including press releases and SENS announcements are published on the website and other platforms as required by legislation. Half-year and year-end financial results are also published in the press.

The Board, through the Audit Committee, ensures that the necessary controls are in place to verify and safeguard the integrity of the annual financial statements, interim reports and any other disclosures.

The Board and its committees review and approve the various reports that are included in the Integrated Annual Report.

## Governing structures and delegation

**Principle 6: The governing body should serve as the focal point and custodian of corporate governance in the organisation.**

The Board is the focal point and custodian of corporate governance within the Group. The Board has adopted a Board charter that ensures its roles, responsibilities and accountability is documented and adhered to, which includes responsibilities relating to corporate governance. The Board is also supported by its committees, which have delegated responsibilities to assist the Board to fulfil specific functions.

**Principle 7: The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.**

The Board is satisfied that the current composition of the Board takes into account the size of the Group, the optimal mix of knowledge, skills, experience, independence, the requirement in numbers for its committees, quorum requirements and regulatory requirements.

The Board comprises a majority of non-executive directors. All of the non-executive directors are independent.

The Board has adopted gender and race diversity policies, which the Nomination Committee considers when nominating and recommending the appointment of directors to the Board.

The Chair of the Board is an independent non-executive director.

In accordance with King IV, a lead independent director has been appointed to perform the responsibilities as envisaged in King IV.

**Principle 8: The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties.**

The Board has delegated certain responsibilities, but without abdicating responsibility, to the Audit and Risk Committee; the Remuneration, Nomination and Appointments Committee; the Social and Ethics Committee; and, from time to time, ad hoc committees are appointed to deal with specific matters. In particular, the functions of the Risk Committee are incorporated into the Audit and Risk Committee, and the functions of the Nomination Committee are incorporated into the Remuneration, Nomination and Appointments Committee.

Each committee operates under the Board approved terms of reference which set out the committee's role, responsibilities, authority and composition.

The Board annually reviews the Board charter and committees' terms of reference.



## Governing structures and delegation (continued)

**Principle 9: The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.**

The Board, committees and directors are evaluated annually against their roles, functions, duties and performance criteria, and the results of the evaluations of executive directors are considered in determining their remuneration and benefits.

**Principle 10: The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities.**

The Board is responsible for the appointment of the Chief Executive Officer. The role and responsibilities of the Chief Executive Officer are set out in the Board charter. The Chief Executive Officer's notice period as stipulated in his employment contract is three months.

All Board authority conferred on management is delegated through the Chief Executive Officer, so that the authority and accountability of management is regarded as the authority and accountability of the Chief Executive Officer insofar as the Board is concerned. The Chief Executive Officer is responsible for leading the implementation and execution of the Group's strategy, policies and operational plans and reports to the Board.

The Board is satisfied that the delegation of authority framework sufficiently sets out the effective exercise of authority and responsibilities throughout the Group.

A Company Secretary has been appointed in compliance with the Companies Act 2008, the JSE Listings Requirements and the recommendations of King IV.

## Governance functional areas

**Principle 11: The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.**

In terms of the Board charter, the Board is responsible for the governance of risk, which is delegated to the Audit and Risk Committee but without abdicating the Board's responsibility. Risks are reviewed and prioritised by the Board on a regular basis.

Management has responsibility for implementation of the risk management plan in accordance with the Board approved policy and framework.

Management continuously identify, assess, mitigate and manage risks as part of normal operational management processes.

## Technology and information governance

**Principle 12: The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.**

In terms of the Board charter, the Board is responsible for the governance of information technology ("IT"), which is delegated to the Audit and Risk Committee but without abdicating the Board's responsibility.

Management has the responsibility for the implementation of the IT governance framework in accordance with the IT governance charter.

Management placed significant focus on improving cyber security and risk mitigation during the year.



## Compliance governance

**Principle 13: The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.**

In terms of the Board charter the Company is committed to compliance with applicable laws and the Company remains informed on and complies with all applicable laws, and considers adherence to relevant non-binding rules, codes and standards.

Compliance risk forms part of the Company's risk management framework, the implementation of which is delegated to management and overseen by the Audit and Risk Committee.

The Social and Ethics Committee has also been mandated to monitor the effectiveness of compliance management.

There were no material penalties, sanctions, fines for contraventions of or non-compliance with regulations during the period under review.

## Remuneration governance

**Principle 14: The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.**

The Remuneration Report sets out the Company's remuneration and reward philosophy, policy and practices for non-executive directors, executive directors, executives and senior managers. The Remuneration Report, including the implementation report and the remuneration policy are set out on pages 70 to 80 of this Integrated Annual Report.

Shareholders approve non-executive directors' fees at the Company's Annual General Meeting.

The remuneration policy and implementation report will be placed before shareholders at the Company's Annual General Meeting for a non-binding approval.

## Assurance

**Principle 15: The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision making and of the organisation's external reports.**

The Board has established an internal audit function to assist the Audit Committee and the Board in exercising good corporate governance by providing independent, objective assurance that key operating and financial risks are adequately identified, managed and controlled by risk management, internal control and governance processes put in place by management. The internal audit function is outsourced to an independent professional firm.

The assurance activities of management, internal and external audit are coordinated with each other, with the relationship between the external assurers and management being monitored by the Audit Committee.

## Stakeholder relationships

**Principle 16: In the execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.**

Stakeholder engagement is an important aspect of the Company's responsibilities and it formally identifies and recognises material stakeholders with legitimate interests with whom it engages on relevant issues.

Management has the responsibility for proactively dealing with stakeholder relationships and engagements.

All holders of the same class of shares, including minorities, are treated equitably in accordance with the preferences, rights, limitations and other terms applicable to such shares and any other relevant provisions of the Companies Act and the JSE Listings Requirements.

Disputes with stakeholders would be addressed in the appropriate forum and steps taken to ensure that such disputes are resolved as effectively, efficiently and expeditiously as possible.

The Company communicates with stakeholders in a variety of forms as more fully set out in this Integrated Annual Report on pages 34 and 35.