



DENEL MEDICAL BENEFIT TRUST - QUESTION AND ANSWER DOCUMENT

1. Introduction

- a. The Denel Medical Benefit Trust (the “**Trust**”) is a trust that was founded by Denel SOC Limited (“**Denel**”). As a former employee of Denel, employed prior to 2002, you are contractually entitled to receive subsidies in respect of your monthly medical aid contributions to Discovery Health Medical Scheme (“**Discovery**”) in retirement. You may also receive a subsidy because you are a dependent of a deceased retired employee who was entitled to a subsidy.
- b. In order to discharge its post-retirement medical aid funding contribution obligation to you, Denel founded the Trust and ensured that the Trust received the funds required to pay the subsidies. In turn, the Trust has been responsible for making the subsidy payments on behalf of Denel. The Trust has a Board of Trustees that safeguards the assets of the Trust on behalf of the beneficiaries, which includes you.

2. What is Denel proposing to the beneficiaries?

Denel is offering you a choice to either retain your current subsidy or to accept Denel’s offer of an individual annuity. The individual annuity that Denel is offering to you will provide guaranteed benefits from an insurer that are at least 20% greater than those of your current subsidy and are guaranteed to increase annually by inflation (changes in the consumer price index “**CPI**”) plus 4%.

3. Why is Denel proposing an alternative arrangement to the post retirement subsidy?

Denel is proposing an alternative arrangement for a variety of reasons. Some of these reasons include the following:

- 3.1. Firstly, the current position is that Denel has the obligation in respect of the subsidisation of your medical aid contribution. In the past, the amounts of the subsidies have increased as the costs of medical aid increase. Denel's current financial position is poor and Denel is undergoing significant restructuring. Even though the Trust is well funded, Denel might not always be in a position to accept a liability for the increases in medical aid costs.

The proposal is aimed at ensuring that your subsidy payments are enhanced by at least 20%, continue to increase with inflation (CPI) plus 4% and are guaranteed and paid by one of the major insurance companies in South Africa.

- 3.2. Secondly, the Government is contemplating a National Health Insurance (NHI) scheme and the future impact thereof on medical aid schemes and consequently the current subsidy that you receive is uncertain.

The proposal is aimed at ensuring that your benefit will not be affected by any changes in this space.

- 3.3. Thirdly, the Trust's assets exceed its actuarially valued liabilities by a material amount. None of the beneficiaries of the Trust can currently benefit from the excess assets. Member beneficiaries are only entitled to subsidies in terms of Denel's policy and the Trust Deed of the Trust precludes Denel from receiving the excess assets.

Denel Management has been working closely with the Denel Retired Employees Medical Scheme Forum (the "Forum") in the last year. The outcome of the work is that both member beneficiaries and Denel will be able to benefit from the excess assets.

- 3.4. Lastly, in the process the Forum had the opportunity to appoint an independent adviser of their choice to protect the interest of the beneficiaries. Willis Towers Watson represented by Antony Lester was appointed and will also guide all parties during the proposed implementation.
- 3.5. The Chairman of the Forum, Mr Paul Botha, has prepared a letter setting out the views of the Forum on the proposal that Denel is making. That letter is attached as Annexure D to the Court Notice documents sent to you.
- 3.6. The views of Willis Towers Watson are set out in the letter attached as Annexure D to the Court Notice documents sent to you.

4. How is Denel planning on seeing through their proposal and alternative offer?

Denel's offer to you is part of a wider proposal that Denel is making in relation to the Trust. Denel is also proposing that some of the Trust's assets be used to acquire a group annuity policy from an insurer. This group annuity policy will ensure that you receive the individual annuity if you choose to accept Denel's offer to you. It will also ensure that the Trust can continue to provide you with your current subsidy if you chose not to accept Denel's offer. Once the Trust has purchased the group annuity policy and made provision for its future expenses, the Trust should have excess assets that will not be required by the Trust. Denel proposes that these excess assets be paid to Denel. The Trust will retain the group annuity policy and the assets it requires to meet its future expenses.

5. Why is the High Court involved?

In order to implement the offer being made to you, Denel has to apply to the High Court for the Trust Deed of the Trust to be varied. This is because, the assets of the Trust can only be used for the purpose described in the Trust Deed that governs the Trust. Currently, the Trust Deed does not envisage that the Trust's assets be used in the way that Denel proposes. The law permits only the High Court to amend the Trust Deed in certain circumstances and Denel has accordingly made an application to the High Court to amend the Trust Deed to give effect to its proposals.

As such, in order for Denel to arrange the individual annuity offered to you it is necessary for certain prior steps to have been implemented. These include the Trust Deed must be amended and take effect; and the trustees of the Trust must comply with their obligations under the amended Trust Deed to acquire a group annuity policy.

6. How far is Denel's court application?

As it stands, Denel has made an application to the High Court of South Africa (Gauteng Provincial Division, Pretoria), under Case Number 25370/21, to amend the Trust Deed in accordance with the provisions of section 13 of the Trust Property Control Act, 57 of 1988.

Denel asked the High Court to first order that you, and other affected persons, be provided with prior notice of Denel's proposals so as to give you an opportunity to consider whether to oppose Denel's High Court application. On 12 August 2021 the High Court made that first order (a rule *nisi*) and will consider Denel's application to amend the Trust Deed on a future date (the return day) at which you may be heard if you decide to oppose Denel's application.

In terms of the rule *nisi* the return day will be on 25 November 2021 if Denel's application is unopposed and on 24 February 2022 if Denel's application is opposed. If Denel's application to the High Court to amend the Trust Deed succeeds, Denel's proposals will be implemented by Denel and the Trustees of the Trust.

7. What happens if Denel's court application is unsuccessful?

If Denel's application is unsuccessful (including following any appeal), the proposals cannot be implemented.

8. What will this mean for the offer and those who have accepted it?

The offer will fall through as the implementation of the proposal will be impossible without a court order varying the Trust Deed.

9. What are the benefits of the alternative offer?

- 9.1. If you are on a lower plan than Discovery's Essential Comprehensive Plan the amount you receive will automatically be updated to the amount receivable under this plan plus an enhancement of 20%.
- 9.2. If you are on Discovery's Essential Comprehensive Plan the amount you receive will automatically be enhanced by 20%.
- 9.3. The amount you receive will automatically increase by inflation plus 4% every year. If inflation is 5%, your increase will be 9% (inflation of 5% plus 4%)
- 9.4. One of the major insurance companies in South Africa will pay the amount which is guaranteed.
- 9.5. The amount is payable for the rest of your life, independently of what happens on National Health Insurance and Medical Aid Funds or what happens at Denel.
- 9.6. The annuity will be in your own name you will not be reliant on Denel and the Trust for future payments.
- 9.7. You can choose your own medical aid and the plan you want to belong to, or not to belong to a medical aid (not recommended) and you will still receive the same amount.
- 9.8. The amount not paid into the medical aid will be paid directly to you to be used as you choose. Amount paid to the medical aid is tax-free. Amounts paid to you directly is taxable at your individual tax rate.

10. What are my options?

If you wish to accept Denel's offer of an individual annuity, you must accept the offer and relay this to Denel by midnight on **09 November 2021**. The offer letter that has been delivered to you explains how to relay your acceptance to Denel.

If you wish to oppose Denel's High Court application, you must ensure that the steps that are set out in the Notice of Motion (Annexure B) are taken. An attorney should be able to advise you on whether to take those steps and assist you in doing so. The first of these steps must be taken by **25 October 2021**. If you accept Denel's offer, you will be agreeing to not oppose Denel's High Court application.

11. What if I do not accept or react to Denel's offer?

If you do not accept Denel's offer you will continue to receive your current subsidy but you will not receive the individual annuity. The benefits under the individual annuity are at least 20% more than your current subsidy and are guaranteed to increase annually by CPI plus 4%. These benefit enhancements will only be provided to you if you accept Denel's offer and if the High Court orders that the Trust Deed be amended.

12. If the beneficiaries are to exit the trust, who will be responsible for appointing the new trustees?

Denel appoints trustees of the DMBT in terms of the Trust deed and the status will be maintained. If you accept the offer, the insurer pays your benefit and you will no longer be a member of the Trust.

13. Is the future of the Trust viable? What about investments, management and control?

Yes, the future of the Trust is going to remain viable. Denel's proposal is that, the Trustees on behalf of the Trust will purchase a group life annuity policy from an appropriate insurer before any distribution of the excess assets is made to Denel. The group policy will insure Denel's post-retirement medical aid obligations to its former employees (which includes you) and will, accordingly, fund the benefits to the beneficiaries under the Trust. First, the Trustees of the Trust will be responsible for purchasing the group annuity policy with an insurer for the individual annuity policies being offered.

The Trust will use the annuity it receives under the group policy to fund Denel's required contribution to each Employee beneficiary. In this way, the group annuity

policy will fund the medical scheme contributions of all the Trust's beneficiaries for the rest of their lives. A capital amount to provide the future benefit to members will be given to the insurance provider that will provide the future payments.

14. What happens to the remaining Trust funds?

The assets that will remain in the Trust will exceed what is required to fund the medical scheme contributions due to you. Once the group life annuity policy is in place, the Trust's excess assets will not be required to meet Denel's liability in respect of post-retirement medical scheme contributions. The excess assets will not be needed because the beneficiaries' post-retirement medical aid contributions will then be funded by annuity payments under the group life annuity policy held by the Trust.

Once the group annuity policy has been purchased, assets will remain in the Trust and a further surplus will build up. This further surplus will provide an additional buffer against future medical aid inflation and will be used to top-up Denel's expense fund. Every three years, one half of the surplus will be distributed to Denel as a capital distribution. Such distributions may also take place more frequently

15. Is there an option to take a lump sum payment / cash?

No, the trust deed does not permit this option. Beneficiaries will not be given an option to receive a single lump sum. The only option is to receive an annuity of monthly cash payments.

16. Will the cost to the new medical scheme increase?

You can choose your own medical aid and plan based on affordability and your own personal circumstances. Annual increases will depend on the medical aid insurance and plan that you choose. You can change the medical aid and plan if you wish to.

17. Who will be chosen as the insurer to issue the individual annuity policies?

As the board of Trustees are appointed to safeguard the assets of the Trust on behalf of the beneficiaries, the insurer will be an insurer that is identified by the Trustees and approved in writing by Denel, provided that Denel's approval of the insurer will not be required if the insurer is one of Old Mutual Life Assurance Company (South Africa) Limited, Momentum Metropolitan Life Limited and Sanlam Life Insurance Limited.

18. Will Discovery continue to be my medical aid provider and will my medical plan change?

Your medical aid provider and your medical aid plan will not change. If Discovery is your current provider then Discovery will remain your provider until you change it.

The amount of the subsidy that you will receive will be based on the cost of Discovery Essential Comprehensive Plan, regardless of who your provider is or the plan that you are on.

19. Will there still be a yearly increase on the annuity?

The monthly amounts that you will receive are guaranteed to increase annually by the changes in the CPI inflation plus 4% on 1 January each year. The CPI inflation rate that will be used to determine your pension increase will be the year-on-year changes to the CPI as at the immediately preceding 30 September each year.

20. What are the considerations for beneficiaries in relation to the alternative offer:

We believe that the proposed offer is fair to you as pensioners. It should however be noted that there are both potential advantages and disadvantages in this transaction that you must consider before making a decision regarding offer that Denel is making to you.

21. What are the benefits and advantages of the proposed alternative offer:

21.1. The advantages that come with the alternative offer will only be applicable to those beneficiaries who accept the offer. That said, if you accept the offer, you will receive, as part of the offer, a higher subsidy amount than you are currently receiving, a result of the 20% enhancement. Furthermore, the subsidy amount on which the transaction is proposed is based on the Discovery Essential Comprehensive Plan which is a further advantage for pensioners who are currently on lower Discovery plan options or have medical aid from another approved medical aid scheme.

21.2. A beneficiary accepting the offer will be protected against future inflation as the annuity will guarantee increases of CPI plus 4% to provide protection for medical inflation which may be higher than CPI.

21.3. The individual annuity will be in the name of each beneficiary. As such, you will no longer rely on Denel and the Trust for future payments of subsidies or future increases. The current position is that, Denel has the obligation to

subsidies your medical aid contribution and is in a dire financial position. Should you accept the offer, this will no longer be a concern.

- 21.4. There is a potential for you to pay less out of your own pocket for medical aid contributions compared to the amount you are currently meeting in respect of medical contributions. For example, after the transaction, the subsidy amount will be independent of your plan chosen – you will be able to opt for a less expensive medical aid option and receive the same subsidy amount which can reduce your net costs.
- 21.5. The transaction will give you more flexibility. You can use the monthly payment amounts for other uses if you need, although this will attract a tax liability. Any amounts received directly to you will be subject to tax.
- 21.6. You will no longer be exposed to the risks associated with your benefits being owed by Denel and administered by the Trust. These risks, for example, may include poor investment performance of assets in the Trust and a resulting risk of future reductions in benefits if Denel is unable to make good any shortfall in the Trust. This transaction will guarantee payments based on the Discovery Essential Comprehensive plan and will guaranteed an increase of CPI plus 4% per annum regardless of any investment conditions.

22. What are the potential risks and disadvantages of the alternative offer:

- 22.1. The offer being made to you is not without risks. There is a possibility that, the guaranteed increases in the benefits payable under the Individual Annuity Policy will not keep track with the increases in medical scheme costs. However, annuitants will have a 20% buffer plus a guaranteed increase of CPI plus 4% to protect them against this risk. Annuitants will also have the flexibility to reduce their costs by electing a less expensive medical scheme option.
- 22.2. Should future medical aid contribution increases be higher than CPI + 4 % you will subsidise a larger share of your medical aid contributions. This risk has been mitigated to an extent by the proposed 20% enhancement.
- 22.3. There is a risk of the insurer facing financial difficulty. However, this risk is mitigated to an extent by the presence of Prudential Authority (an extension of the South African Reserve Bank) who regulates and monitors the financial soundness of all insurance companies through capital adequacy requirements as well as choosing one of the top RSA insurers.
- 22.4. It is notionally possible that the insurer may run into financial difficulty, and there may be tax laws that may adversely affect you as a beneficiary.

23. Why are there differences in the subsidy amounts of different pensioners?

- 23.1. Denel has prepared a Personal Benefit Statement that reflects your current subsidy.
- 23.2. Denel does not provide the same subsidy to everyone. One of the main differences follows from the different conditions of service that apply to different groups of pensioners. For example, some pensioners receive a subsidy of 15% of their medical aid contribution and others receive a subsidy of 2/3rds (66.67%) of their medical aid contribution.

24. What are the steps to follow to conclude the alternative offer?

The next steps for this alternative offer are as follows:

- 24.1. Please check that your dependant details are correct. These details are on your Personal Benefit Statement. If you accept the offer, you will need to confirm that all of these details are up to date and complete.
- 24.2. Please make sure that you have watched the short video in which we explain the arrangement. The video can be viewed via the following link – <http://www.denel.co.za/video..>
- 24.3. It would have been ideal if the DMBT could have arranged presentations that you could attend and ask your questions in person. Unfortunately, with the COVID-19 pandemic this is not possible. Instead, we suggest that if you still have questions – you can make a telephone call to the following number **012 671 2895** or send a WhatsApp message to **081 389 4330** between the hours of 09:00 16:00 on any day other than a Saturday, Sunday or public holiday.
- 24.4. To accept Denel's offer and agree to the proposed amendment to the Trust Deed and the proposed buy-out, we need your individual signature as confirmation of our agreement. Please sign on Annexure A of the offer letter and ensure that we receive that page of the offer letter by midnight, on Tuesday 9 November 2021. You can send the signature page to us in one of the following ways
 - 24.4.1. scanning the signed document and emailing it back to the Call Centre at dmbt@denel.co.za; or
 - 24.4.2. taking a photograph of the signed document and sending the photograph by WhatsApp to the Call Centre, or
 - 24.4.3. contacting the Call Centre for assistance

25. What are the steps and timeframes for this project?

25.1. At present, Denel is working on the following dates:

- 25.1.1. Last day to relay acceptance to Denel of Denel's offer: **9 November 2021**.
- 25.1.2. Return date hearing if no respondent opposes Denel's High Court application: **25 November 2021**.
- 25.1.3. Return date hearing if any respondent opposes Denel's High Court application: **24 February 2022**.
- 25.1.4. Thereafter, if Denel's application succeeds, the Trustees will acquire a group annuity policy and thereafter the individual annuities may be issued. The earliest that this can occur depends in part on whether any respondent opposes Denel's High Court application. If there is any such opposition, the earliest date is a date in the first half of 2022. If there is no such opposition, the earliest date will be at the end of 2021.

25.2. All of these dates may be changed. Denel may make announcements updating this timetable.

25.3. This will be done by making an announcement on the following webpage: <http://www.denel.co.za/events>.

25.4. Denel may also make future announcements in relation to this process. Those announcements will be made on the following webpage: <http://denel.co.za/events>.

Ends