



DENEL GROUP

Corporate Governance

Denel is a state-owned company (SOC), with the South African Government as the sole shareholder. The Minister of Public Enterprises is the shareholder representative who appoints a board of directors to oversee the functioning of the company's executive management. The company groups together several divisions and subsidiaries in which Denel has varying degrees of shareholding.

The company has developed a governance turnaround plan, which, among other things, addresses governance lapses that occurred in the preceding period, including the elimination of fruitless and wasteful expenditure.

The board is committed to applying and enforcing applicable corporate governance principles. It recognises that sound corporate governance enhances the long-term sustainability of the company and provides assurance to its stakeholders that the company is well managed. Risk management and internal control systems in place are designed in accordance with best practice in compliance with the King Code of Governance Principles; as well as the King Report on Governance (King IV report) recommendations, the Public Finance Management Act, no. 1 of 1999 (PFMA); and the governance requirements of the Companies Act, no. 71 of 2008 (Companies Act), as amended. Following the launch of King IV, the company is in the process of implementing the principles of King IV, although the Board charter and Terms of References of the Board committees already reflect the King IV principles.

Governance principles and the main duties of the board, under the leadership of the chairperson; executive and non-executive directors and Group Chief Executive Officer (GCEO) are clearly documented in the board charter. The board charter includes a schedule of matters reserved for the board and the Terms of Reference of the respective board committees. The governance framework was developed to meet the group's strategic objectives and compliance requirements. It further balances the interests of stakeholders, minimises and avoids conflicts of interest, whilst practicing good corporate behaviour. The board further delegated management accountability to the company's GCEO through the Delegation of Authority Policy and performance contract.

As a state-owned company (SOC), the company enters into an annual shareholder's compact with the Government of South Africa represented by the Minister of Public Enterprises. This contract sets out annual key performance deliverables that cover but are not limited to social and economic drivers.

Although each of the group's subsidiary companies has a separate board of directors, the Denel board and its committees oversee all significant aspects and

transactions of the subsidiaries. The subsidiaries are also governed by the limits of authority set by the board in the Denel Delegation of Authority.

The board plays a critical role in strategy planning and establishes clear benchmarks to measure the company's performance. Sound corporate governance practices underlie the company's values, culture and processes. The board promotes efficient, accountable, transparent and ethical management of the business through an effective system of corporate governance. This ethos is embedded in all the group's activities and thus Denel's governance framework goes beyond mere compliance with legislation.

Responsibility and Accountability

The board provides leadership and strategic oversight, and specifically oversees the internal control environment to sustain value for the company's shareholder and stakeholders. The board ensures adherence to principles of good governance and accountability as prescribed in its board charter and the King IV report. All of the members of the board are individually and collectively aware of their responsibilities to the group's stakeholders and each director brings experience, independence and judgment to the functioning of the board.

Composition of The Board

The Denel group has a unitary board, comprising of two ex-officio directors, the GCEO and the Group Chief Financial Officer (GCFO), as well as seven non-executive directors. The non-executive directors meet the independence criteria in terms of being free from any business relationship that could generally hamper their objectivity or judgement on the business and activities of the group. Any conflict of interest is declared. The company supports the principles of gender diversity at board level. Collectively, the board believes the current mix of knowledge, skills and experience meets the requirements to lead the company effectively.

Board Committees

The board has delegated specific responsibilities to four standing committees, namely:

1. Audit committee
2. Risk and Finance committee
3. Personnel Remuneration and Transformation (P, R&T) committee, and
4. Social and Ethics (S&E) committee

The board committees assist the board to discharge of its duties effectively. The committees' terms of reference are set out in the board charter and are reviewed annually to limit risk and ensure they remain in line with relevant regulations, company requirements and corporate governance best practice.

Audit Committee

The audit committee comprises only independent non-executive directors, with the executive directors as standing invitees to committee meetings. Members of the

audit committee have extensive skills which are necessary for the committee to effectively fulfil its role. These include finance, risk management, commercial and legal fields.

The audit committee provides the following support to the company:

- audit and risk function
- corporate governance
- Other business risk

This is done with a view to improve accountability and limit risks. The appointment of members of the audit committee is reconsidered and voted on at every annual general meeting (AGM).

The Audit committee provides the following support activities to the board of directors:

- Reviews the integrated report, including consolidated annual financial statements, and considers reports of the auditors on the financial statements;
- Reviews and assesses the risk control processes and systems;
- Reviews the effectiveness of the company's internal controls;
- Considers matters emanating from the company's ethics hotline, planned management actions and the results of enquiries;
- Agrees on the scope of the auditors' work and their fees;
- Monitors the performance of the internal audit function;
- Considers the combined assurance model, assesses levels of assurance as provided by auditors, regulators, management and other assurance providers;
- Considers treasury controls and related risk management processes; and
- Information Technology governance.

Risk and Finance Committee

The Risk and Finance committee is responsible for the governance of risk. The committee comprises of only independent non-executive directors, with the executive directors as standing invitees to the committee meetings.

The strategy must be clearly communicated to all employees to ensure that the risk management strategy is incorporated into the language and culture of Denel (Treasury Regulations paragraph – 27.2.1). Particularly the Risk and Finance Committee should, among other things:

- Oversee the development and annual review of a policy and plan for risk management to recommend same for approval to the Denel Board;
- Monitor implementation of the policy and plan for risk management taking place by means of risk management systems and processes;
- Oversee the dissemination of the risk management plan throughout Denel and its integration in the day-to-day activities of Denel;
- Ensure that frameworks and methodologies are implemented to increase the possibility of anticipating unpredictable risks;
- Ensure that management considers and implements appropriate risk responses;

- Ensure that continuous risk monitoring by management takes place.
- Express the Audit Committee's opinion to the Denel Board on the effectiveness of the system and process of risk management;

Ensure that risks arising from business strategies and activities are identified and prioritised (including material environmental and social issues);

- Ensure management and the Denel Board have determined the level of risks acceptable to Denel, including the acceptance of risks designed to accomplish Denel's strategic plans;
- Ensure risk mitigation activities are designed and implemented to reduce or otherwise manage risk at levels that were determined to be acceptable to management and the Denel Board;
- Ensure ongoing monitoring activities are conducted to periodically reassess risk and the effectiveness of controls to manage it.
- Ensure that the Denel Board and management receive periodic reports on the results of the risk management process. The corporate governance process of Denel should provide periodic communication of risks, risk strategies, and controls to stakeholders; and
- Ensure Denel's Fraud Prevention Plan, based on a fraud risk evaluation, is regularly reviewed.
- Review arrangements in place for combined assurance and views on their effectiveness.
- Oversee the Denel treasury function in terms of the following:
 - (i) Approval of all counterparty limits;
 - (ii) Approval of new instruments;
 - (iii) Approval of foreign exchange transaction company policy;
 - (iv) Approval of Corporate Treasury policy and procedure manual; and
 - (v) Approval of long-term funding requirement.

Personnel Remuneration and Transformation (P, R&T) Committee

Denel's personnel, remuneration and transformation (P, R&T) committee comprises of only independent non-executive directors. Its scope of responsibilities is detailed in the terms of reference, which are reviewed and approved annually by the board.

The P, R&T committee gives assurance that remuneration arrangements with employees support the group's strategic objectives and enable the recruitment, motivation and retention of senior executives, whilst complying with the requirements of regulation.

The responsibilities of the P, R&T committee include reviewing the design and management of Denel's remuneration and reward principles, policies and implementation strategies.

The P, R&T committee provides the following support activities to the board of directors:

- Evaluating the performance of the executive management, and for setting appropriate remuneration;
- Overseeing the group's performance in respect of Employment Equity, transformation and staff development, taking into consideration the legal requirements and monitoring of targets set by the company; and
- Overseeing the skills development and retention of critical skills and talent.

Social and Ethics (S&E) Committee

Only independent non-executive directors serve on the S&E committee. This includes the chairman who is confirmed at every AGM. The executive directors are standing invitees to committee meetings and relevant Exco members may attend the committee meetings by invitation. External experts as proposed in the regulations may be appointed to the committee by the board, as and when necessary.

The committee advises the board on good corporate citizenship and ethical relationships, reporting to the board and the shareholder on the group's commitment in this regard. The committee's terms of reference are reviewed and updated annually.

An annual work plan ensures that the committee meets all monitoring and reporting responsibilities within the annual cycle. A significant responsibility of the committee is to consider the group's corporate and social investment (CSI) programmes, transformation and enterprise development (ED) initiatives, occupational health and safety (OHS), stakeholder management and the ethics policy.

The Social and Ethics committee provides the following support activities to the board of directors:

- Evaluating policies and measures in place to prevent fraud and corruption;
- Reviewing the corporate social investment (CSI) strategies and progress thereon;
- Evaluating the stakeholder engagement model, monitoring the status and from time to time assessing effectiveness;
- Reviewing the transformation strategies, progress on initiatives and improvement plans; and
- Reviewing occupational health and safety (OHS) policies and monitoring effectiveness.

Legal, Regulatory and Public Policy Compliance

The nature of Denel's business requires an assessment of and integration of legal, regulatory and public policy requirements into the strategy and operational processes of the group. This enables Denel to meet its contractual, moral and corporate citizenship obligations. As a state-owned company (SOC) that trades globally, the observation of laws that govern the group and its activities forms the foundation for good corporate governance. The compliance process demonstrates responsibility to the shareholder and other stakeholders.

Contact the Board

Contact the Board by sending a mail:
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