

W2

**WITNESS STATEMENT
&**

ANNEXURE

FOR

**MARTIE JANSE VAN
RENSBURG**



**JUDICIAL COMMISSION OF INQUIRY INTO ALLEGATIONS OF STATE CAPTURE,
CORRUPTION AND FRAUD IN THE PUBLIC SECTOR INCLUDING ORGANS OF STATE**

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IN THE JUDICIAL COMMISSION OF ENQUIRY INTO THE ALLEGATIONS OF STATE CAPTURE BEFORE
DEPUTY CHIEF JUSTICE ZONDO ("THE COMMISSION")

HELD IN JOHANNESBURG

STATEMENT BY MARTIE JANSE VAN RENSBURG

Introduction and Outline of Statement

1. I make this statement in my capacity as a former non- executive director and interim chairman of the Denel SOC Limited ("**Denel**") board of directors. The statement is based on my recollection of the events that took place at Denel during my tenure as a non-executive director and interim chairman of Denel, contemporaneous correspondence, notes and other material in my possession and several discussions with my former colleagues on the board of Denel and some of Denel's former senior executives.
2. In this statement, I will deal with the following:
 - 2.1. Firstly, I set out a brief personal profile on myself and information on my participation as a non-executive director of Denel;
 - 2.2. Secondly, I deal with the state of affairs at Denel (both at the time when I first became a director and at the time when my directorship was terminated) with particular reference to the following:
 - 2.2.1. A Brief Background of Denel's Business;
 - 2.2.2. Denel's historical performance;
 - 2.2.3. Denel's Financial Position as at 31 March 2015;
 - 2.2.4. The Strategic Position and Direction of the company;
 - 2.2.5. Land Systems SA (LSSA) Transaction and its Financial Impact on Denel.



- 2.3. Thirdly, I deal with the matters raised by the Minister of Public Enterprises, Ms Lynne Brown ("the Minister") at the last Annual General Meeting;
- 2.4. Fourthly, I deal with the establishment of Denel Asia;
- 2.5. Fifthly, I deal with the removal of the Board in 2015;
- 2.6. Sixthly, I briefly set out the skill set of the 2011 board;
- 2.7. Finally, I set out my concluding Remarks.

Brief Personal Profile and Information on participation as a Director of Denel

3. I am a chartered accountant and have more than 40 (forty) years' experience in the field of accounting and finance. I have more than 20 (twenty) years' experience as an executive and non-executive director of various State Owned Entities.
4. I have the following formal qualifications:
 - 4.1. B Comm (UFS 1977);
 - 4.2. B Compt Hons (UNISA 1981)
 - 4.3. CA (SA) (1987)
5. A copy of my abbreviated curriculum vitae is attached to this statement as annexure "MJVR1".
6. For 5 (five) years I served as a Chief Finance Officer of the Trans-Caledon-Tunnel-Authority ("TCTA"). I subsequently served as the Chief Executive Officer of the TCTA for a period of 10 (ten) years, up to 2008.
7. Upon conclusion of my tenure as the Chief Executive Officer of the TCTA I have served as a non-executive director of several private and state owned entities including but not limited to the Airports Company of South Africa (ACSA), Johannesburg Water, The Bond Exchange of South Africa and the Development Bank of Southern Africa (DBSA). Further, I am currently a non – executive director and deputy chairman of the Independent Regulatory Board for Auditors (IRBA).



8. I was appointed as a director of Denel in August 2010 by the Minister of Public Enterprises at that time, Ms Barbara Hogan. I was appointed as interim chairman of the board of directors on 15 August 2014 until I was removed on 23 July 2015.
9. During my tenure as a director (except for the period when I was Interim chairman) I served as the chair of the audit and risk committee of Denel.

A Brief History of Denel

10. Denel was incorporated as a company in 1992 following the restructuring of Armscor. The objective of the newly incorporated Denel was to conduct all of the production and manufacturing activities previously conducted by Armscor.
11. Between **1992 – 2000** (and with the advent of the 1998 White Paper on Defence) the equipping of the South African National Defence Force ("**SANDF**") was restructured as a result of which 70% (seventy percent) of the SANDF acquisitions were imported. Denel inherited several cumbersome and unprofitable obligations which affected it negatively. Research and development spend was drastically reduced and several attempts to access commercial markets with non-military products were made with no success.
12. Between **2001 – 2004** a strategy to centralise core activities was adopted, however, Denel experienced loss of critical markets, increased financial losses and thus began a long period of financial and solvency problems.
13. Between **2005 – 2009** a new turn-around strategy was adopted which included right sizing by reorganising the business, workforce and management and managed decentralisation of governance and authority to improve performance and accountability. Selected equity partnerships were concluded with the aim of accessing funding, best practice business processes, new technology and new markets. Further, several non-core businesses were disposed of.
14. Between **2010 – 2012** a new strategy aimed at improving revenue, optimising efficiency and costs as well as leadership and transformation was embarked upon. I pause to mention as indicated earlier in this statement that I joined the board as a director in 2010. A new board was appointed in 2011 and myself and Mr Zoli Kunene, Dr Gert Cruywagen, Prof Tshilidzi Marwala, Ms Bulelwa Paledi as previous board members were retained in the board. I shall from henceforth refer to the board reconstituted in 2011 as the 2011 Board ("**the 2011 Board**").

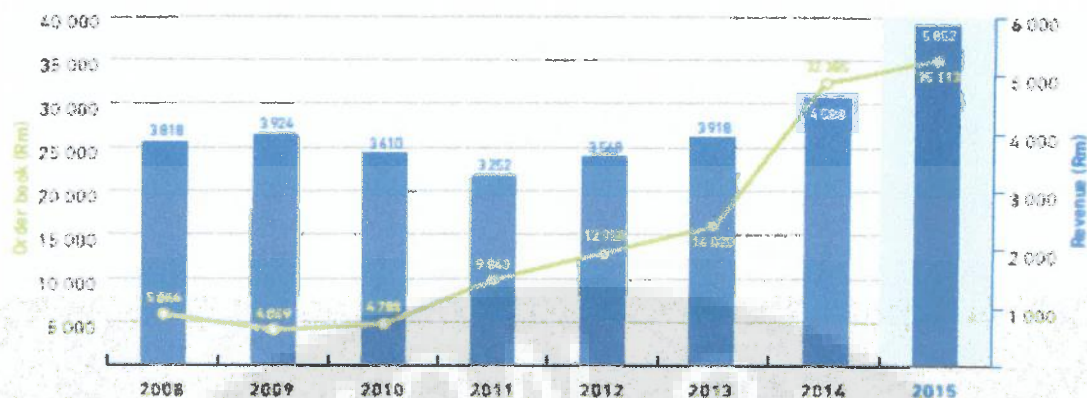


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- The organizational chart illustrates the hierarchy of Denelcor Group. At the top is the South African Government, which oversees the Minister of Public Enterprises and the Minister of Defence and Military Veterans. The Minister of Public Enterprises oversees the Denel Board of Directors, which in turn oversees Denel SOC LTD. The Denel Board of Directors also oversees other ministers. The Denel SOC LTD oversees the Business Units, which are divided into four main categories: Denel Dynamics, Denel Aviation, Supporting Businesses, and Associated Companies. Each category lists specific entities and their ownership percentages.
- | Category | Entity | Ownership Percentage |
|-----------------------|---|----------------------|
| DENEL DYNAMICS | Airbus | |
| | Lockheed Martin | |
| | Boeing | |
| | DENEL INTEGRATED SYSTEMS AND MARITIME * | |
| | DENEL AEROSTRUCTURES SOC LTD | |
| | PMP | |
| DENEL AVIATION | Airbus | |
| | Denel Technion Aerospace | |
| | DENEL LAND SYSTEMS | |
| | Land Systems | |
| SUPPORTING BUSINESSES | Denel Industrial Resources Private Ltd | |
| | DENEL OVERBERG TEST RANGE | |
| ASSOCIATED COMPANIES | Turbomeca Africa (Pty) Ltd | 49% |
| | Airbus DS Operations (Pty) Ltd | 30% |
| | Intercontinental Denel Munition (Pty) Ltd | 49% |
| | Tawazini Dynamics LLC | 47% |
- DENEL STRATEGIC COUNTRY PARTNERS:**
- SAPPHIRE (South Africa)
 - AIRBUS (France)
 - LOCKHEED MARTIN (USA)
 - BOEING (USA)
 - TAWAZINI (UAE)
- * Operational as of 1 April 2015; Previously known as LSSA - As of 28 April 2015 100% owned by Denel

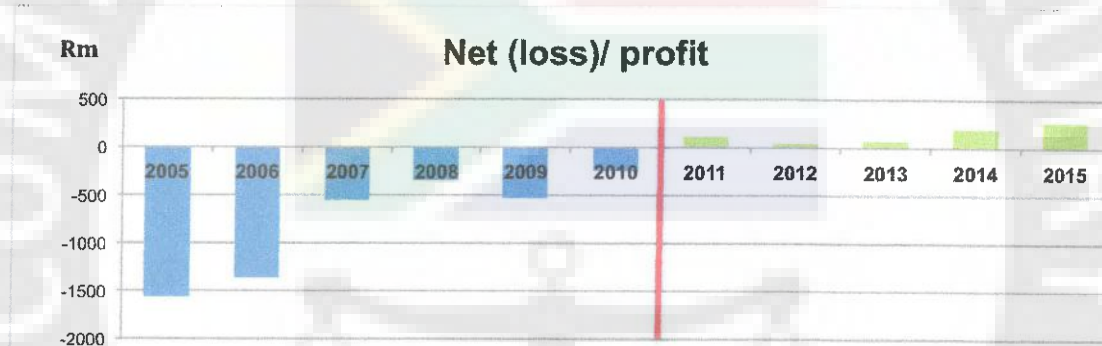
16. Shortly after its appointment the 2011 Board was tasked with recruitment of a new group CEO as the incumbent group CEO indicated that he did not wish to renew his contract. Mr Riaz Saloojee was appointed as group CEO. Under the leadership of Saloojee, the 2011 Board revised the prevailing strategy to focus on growing revenue, optimising costs and optimal management of productivity and efficiency.
17. The 2011 Board realised significant successes of its strategy which was evidenced by amongst others an all-time high order book of R35billion in Denel's traditional products such as missiles, artillery and military vehicles. The R35billion order book was the highest in the history of the company. In addition, there were significant and tangible opportunities totalling R40billion that were being actively pursued. Denel's strategic markets had expanded to the Middle East, the rest of Africa, South America and the Far East. The graph below as at 2015 represents the order book and revenue growth experienced by the company between 2008 and 2015.



Details regarding the cumulative order cover and annual revenue are reflected below:



18. In contrast to historical losses (exceeding R1billion in some years), for the 5 (five) years commencing in 2011 until 2015, the company averted losses and realised a profit. The graph below demonstrates the extent of the losses and the turn to profitability prior to 2011 and after 2011.



19. Whereas prior to 2011 significant effort was made and the 2011 Board was highly successful in its endeavours as demonstrated by the financial and order book performance detailed above.
20. During the tenure of the 2011 Board Denel did not only realise revenue and order book growth but it also won several awards as a well governed state owned company. Denel received many accolades from the Minister during her budget votes speeches in Parliament. Denel also attracted consistent positive media reviews for its considerable turnaround.
21. In a 2015 Board Effectiveness Evaluation, conducted by Deloitte, the 2011 Board was found to be highly effective “both in providing the necessary oversight as well as direction to Denel”. I attach the Board Effectiveness Evaluation hereto marked “MJVR2”.

22. It is significant to highlight this point given, and as shall be detailed later in this statement, this highly successful 2011 Board was removed in 2015 with no regard for its performance and the need to maintain continuity to ensure the success of Denel.

Financial Position as at 2015

23. Immediately prior to the departure of the 2011 Board in 2015, Denel was at its all-time best financial position. This is demonstrated by its R35billion order book (as at 2015) and the preceding 5 (five) years of successive profitability. In this regard, the graphs contained in paragraphs 18 and 19 bear reference.

24. I attach:

24.1. A summary of the group's balance sheet as at 31 March 2015 (taken from the 2014/15 Integrated Report) hereto marked "MJVR3".

24.2. A summary of the group's cash flow statement as at 31 March 2015 (taken from the 2014/15 Integrated Report) hereto marked "MJVR4".

24.3. A summary of the group's solvency forecast for the years 2014/2015 to 2019/2020 (taken from the Board Handover Report) hereto marked "MJVR5".

25. Denel's financial position as at 31 March 2015 can be summarised as follows:

25.1. The group was both solvent and liquid -

25.1.1. The total equity of the group was R1.9bn;

25.1.2. The total value of the assets of the group was 9.7bn (which included Cash of R1.9bn);

25.2. The group had sufficient funds, including borrowing facilities, to meet the group's requirements over the next 12 months; and

25.3. Positive business results were projected for the next five years (as underpinned by the confirmed order book of R35bn). The projected positive performance included the following:

25.3.1. Revenue improving from R6.3bn to approximately R10bn in 2019/20 with gross margins averaging 20% and operating costs remaining fairly stable.

- 25.3.2. The group would continue to be profitable with profits of R278m in 2015/16 growing to R656m by 2019/20.
- 25.3.3. The equity position of the group was projected to improve due to profitability going forward enabling the group to begin to reduce its debt from 2018/19 onwards.
- 25.3.4. The five-year corporate plan excluded LSSA (refer to para 32 to 38 below) numbers as it was due end February 2015 and the transaction was not fully completed at that stage.
26. An extract from the five-year corporate plan containing a summary of the projected performance is set out below:

	Budget									
	2015/16		2016/17		2017/18		2018/19		2019/20	
	Rm		Rm		Rm		Rm		Rm	
Revenue	6 320		7 364		8 285		9 189		10 037	
-Local	2 900	46%	3 448	47%	4 029	49%	4 476	49%	4 469	45%
-Export	3 420	54%	3 916	53%	4 256	51%	4 713	51%	5 568	56%
Net profit	278		370		480		567		656	
- Gross margin	20%		20%		20%		21%		21%	
- Opex margin	16%		15%		15%		16%		16%	
- EBIT margin	6.4%		6.5%		6.9%		7.0%		7.0%	
Net equity	2 092		2 462		2 942		3 509		4 165	
Cash on hand	1 499		1 767		2 100		2 400		2 800	
Borrowings	1 951		1 858		1 858		1 758		1 608	
Employees	4 785		5 026		5 236		5 440		5 641	
Revenue per employee - R'000	1 321		1 465		1 582		1 689		1 779	

27. I also attach, marked "MJVR6", an extract from the 2014/15 Integrated Report, which shows that the 2011 board achieved or exceeded almost all of the key performance indicators (KPIs) set by the shareholder.

Strategic Position and Direction as at 2015

28. At the time of its removal in 2015, the 2011 Board had set the company the following performance milestones as part of its broader strategic direction:

28.1. Acquisition of LSSA

Denel was on the verge of concluding the LSSA transaction. I shall deal with this transaction later in this statement.

28.2. *Acquisition of Command and Control (C2) capability*

Command and control (“C2”) was identified as a sovereign capability in the Defence Review. Denel had been exploring the possibility of acquiring the SAAB C2 capability for a few months. Denel and SAAB had reached high level consensus on the significant terms and conditions captured in a Memorandum of Intent. The intended transaction was strongly supported by the SANDF, Department of Defence and Military Veterans (“DoD”) and Armscor. Denel had appointed independent advisors to perform financial and legal due diligence on the business, as well as to provide independent valuations.

The PFMA application for approval by the Shareholder and National Treasury was submitted on 11 May 2015 and was under consideration.

28.3. *Airbus DS Optronics shareholding*

High-level discussions were taking place with Airbus regarding the prevailing shareholding split in Airbus DS Optronics South Africa and the fact that relevant agreements were concluded under different business and political conditions. Discussions took into account that South Africa had concluded a strategic policy document called the Defence Review 2014. The policy emphasises strong support for the defence industry, whilst introducing new concepts including the necessity to define the capabilities that are key to the local defence force as either strategic or sovereign.

28.4. *Rooivalk upgrade*

The Rooivalk MK1F baseline as deployed required a midlife upgrade due to future additional functional requirements. Denel was in discussions with the South African Air Force (“SAAF”) regarding the Rooivalk roadmap to define and upgrade the Rooivalk baseline (Mark 1F), as well as the possible development and manufacturing of additional aircraft at a Rooivalk Mk2 baseline. Denel has proposed an implementation plan to the SAAF and the DoD to expedite allocation of funding to the programme, which had in principle been approved by all relevant stakeholders.

The Rooivalk programme would be the largest programme over ten years and would be utilised as a catalyst to revive capabilities, including technology development and



manufacturing enhancement, in the local industry. Other countries would participate and board support to management would be critical.

28.5. *Formalisation of strategic relationship with DoD*

One of the key weaknesses identified by the 2011 Board was the haphazard manner and timing within which the DoD placed orders with Denel. The ill-timed placement of orders affected Denel's cash flows and its production planning. The DoD as a critical stakeholder was engaged over a long period of time as part of the process to turn around the fortunes to assist Denel. To achieve this, good progress was made towards finalising a memorandum of cooperation (MOC) that would regulate the strategic relationship between the DoD, DPE, Denel and Armscor going forward. The MOC was signed by Denel and the Minister and was awaiting the signature of the DoD. The memorandum sought to ensure timeous conclusion of orders, as well as better support for some areas that were not adequately supported by the placement of orders.

28.6. *Aerostructures work packages for Denel Aerostructures ("DAe")*

DAe is the division within Denel that is responsible to design and manufacture complex composite and metallic aircraft structures. Denel was working with DPE and the Department of Trade and Industry ("dti") to secure quality National Industrial Participation Programme (NIPP) work packages that would become due once South African Airways (SAA) and SA Express (SAX) concluded the procurement of the wide-body aircraft and regional jet aircraft respectively. Denel had held a joint collaboration workshop with Airbus and Aerosud to maximise NIPP opportunities for local industry. The NIPP obligations could amount to more than USD1.5bn and DAe together with Aerosud were targeting 50% of these packages over a period of 10 years. Denel had also approached other potential suppliers in the fleet procurement programme such as Boeing, Embraer and Bombardier for similar discussions in the event any of them was selected as a supplier.

These efforts were projected to increase the revenues of DAe by revenue in excess of R650million per annum and would facilitate job creation, local supplier development and transformation.



The success of DAe would have greatly advanced the fortunes of Denel as DAe was the only division within Denel that had continued to make significant losses during the 5 (five) years under the 2011 Board.

28.7. Denel maritime diversification

Denel had repositioned itself for maritime opportunities through Denel Integrated Systems and Maritime (DISM). Its strategic intent was to support and maintain the DoDs strategic and sovereign capabilities including Maritime systems, Naval MRO, Command and Control (C2), as well as Intelligence, Surveillance and Reconnaissance (ISR) systems. This was also in line with the Defence Review 2014 that envisages an expanded role for Denel, and recommends, inter alia, that Denel establish a Maritime Division, and that Denel plays a key role in sovereign capabilities such as Command and Control, Electronic Warfare, and Secured Communications. Denel was pursuing a number of opportunities totalling R10bn including projects such as Project HOTEL and Project BIRO in the naval arena. The detailed business plan for this division was being finalised whilst at the same time pursuing these opportunities.

In addition, Denel would join forces with a local hold baggage screening company, Aviation Co-ordination Services (ACS) in their drive to provide secure hold baggage screening services at African airports outside of South Africa. The teaming agreement would ensure the experience, reputation and resources of Denel with the specialist technology and expertise offered to provide critically safe, secure and cost effective operational services to airlines operating at African airports.

Denel would also collaborate with GEW Technologies, a South African company in the Airbus Defence and Space stable, on electronic warfare (EW) programmes. GEW's ties with Airbus Defence and Space would add international experience and expertise from Europe's leading manufacturer of defence technology. Denel already had a working relationship with Airbus Defence and Space through its role as a top tier supplier of Aerostructures for the A400M military airlifter.

28.8. Pretoria Metal Pressing ("PMP") plant

The PMP plant was forty years old, with some equipment dating as far as the sixties. The old equipment had resulted in increasing maintenance costs and the plant set-up



required more labour than contemporary metal pressing plants. Denel had embarked on a plant renewal process to improve productivity and competitiveness to ensure sustainability whilst meeting strategic national security and developmental objectives. The board approved a plant renewal programme that would assist PMP to grow its revenue base from R600m to approximately R1bn per annum. The renewal would be conducted over a period of 5 to 7 years at a cost of R370m.

29. The milestones were contained in the 2011 Board's handover report addressed to the Minister dated 4 June 2015. A copy of the handover report is attached to this statement as annexure "MJVR5".

30. I mention the milestones for two reasons:


30.1. Firstly, it demonstrates the actions taken by the 2011 Board as part of its turnaround strategy for Denel.

30.2. Secondly, it demonstrates that many aspects of the projects undertaken by the 2011 Board as part of the turnaround strategy had been commenced, but not yet completed. This meant that there was a need for continuity within the Denel board to ensure that these projects could be completed successfully (by retaining board members from the 2011 Board with knowledge of the projects in the 2015 Board).

LSSA Transaction and its Financial Impact on Denel

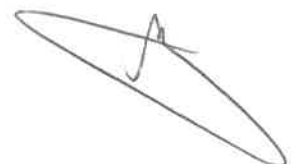
31. The 2011 Board had concluded a transaction for the acquisition of Land Systems South Africa (Pty) Ltd (**LSSA**), a South African subsidiary of BAE Systems PLC. Subsequent to the acquisition, LSSA became known as Denel Vehicle Systems (SOC) Limited.

32. It is important for me to highlight the context within which the LSSA Transaction was conceived. Historically, Denel had enjoyed strong capabilities on the production of firepower (missiles, etc.) and protection equipment. The opportunity to acquire LSSA from BAE Systems in 2014 was an ideal fit for Denel to enhance its landward equipment capabilities. Denel was the prime contractor for significant vehicle programmes like G5, G6, Rooikat, Casspirs, etc. LSSA had always been responsible for production of these vehicles, whereas Denel was responsible for overall concept design, firepower, and integration. Furthermore, the acquisition of LSSA would better position Denel for future vehicle acquisition programmes by the SANDF such as Vistula



and Sapula estimated at R14bn. LSSA would enable DLS and LMT to mitigate production risk on some of the bigger programmes, as it would bring on board a mature manufacturing capability.

33. The acquisition of LSSA was supported by the Department of Defence and SANDF as it complimented the objectives of the defence review policy which advocated the return of strategic capabilities under the ownership of the state. For this reason, the chief of the SANDF was critical in facilitating the transaction by amongst others securing a right of first refusal from BAE in favour of the South African Government to acquire LSSA.
34. The transaction was implemented with the full support of the Minister who provided upon application and thorough engagement, the necessary approvals in terms of the Public Finance Management Act and also supported the approvals required from the Competition Commission and the South African Reserve Bank.
35. The feasibility of the transaction was predicated on the inclusion of a strategic equity partner who would bring an amount of at least R450million as investment equity and also provide significant access to market and orders. Upon its departure the 2011 Board had commenced the process through a closed bid process to secure a suitable strategic equity partner. The process was at an advanced stage and there were a few potential strategic partners with the right qualities including the financial means to acquire their equity for R450million.
36. On 3 July 2015, I addressed a letter to the Minister in which I explained the rationale for the strategic equity partner and updated the Minister on the entity that had been identified by the 2011 Board as offering the best strategic fit as equity partner. I attach a copy of this letter hereto as annexure "MJVR7".
37. It appears that the 2015 Board discontinued the participation of the strategic equity partner as envisaged by the 2011 Board in implementing the LSSA transaction. The inclusion of a strategic partner was critical to the success of the LSSA transaction and the financial viability of Denel as a whole. Without the benefit of internal information, it is my opinion that there could not have been any sound business reason for the new board to deviate from the structure of the LSSA transaction as conceptualised by the 2011 Board. It is no wonder that from 2016 Denel regressed significantly from a financial perspective which was exacerbated by governance and other negative publicity.



Matters raised by the Minister at the 2015 Annual General Meeting

38. During the Annual General Meeting of 23 July 2015, which was the last for the 2011 Board the Minister raised the following concerns:

38.1. That Denel had only spent 2% (two percent) of its revenue on research and development as opposed to 3% (three percent) that was targeted;

38.2. That Denel achieved 67% (sixty seven percent) local content procurement against a target of 70% (seventy percent); and

38.3. That Denel had achieved a 1% (one percent) procurement spend from black youth owned companies against the target of 3% (three percent).

39. The concerns of the Minister were well received by the 2011 Board and it was explained that considerable effort was made to achieve the targets and that management will put more effort going forward to achieve the targets.

40. In my respectful opinion the failure to meet these targets, important as they were, paled into insignificance given the overall successes that Denel had achieved for the period under review.

The Establishment of Denel Asia

41. From the outset I wish to categorically state that the 2011 Board did not make a decision to establish Denel Asia. The decision to establish Denel Asia was made by the 2015 Board.

42. It is important to mention that shortly before its removal the 2011 Board had in August 2014 resolved a 10 years criminal investigation with the Indian prosecuting authorities. This was achieved after many years of effort. This was a significant milestone for the 2011 Board as this investigation had prevented Denel to do business with the government of India which was considered a strategic market.

43. The resolution of the criminal investigation in India had opened an opportunity for Denel to secure significant business with the government of India. Parallel work had been done over the years to ensure that upon resolution of the legal problems Denel would be well positioned to secure significant business from the government of India.

44. I am convinced that although the 2011 Board was open and continually explored good partnerships as it was the case with the LSSA transaction and the Tawazun Dynamics joint



venture, it would not have considered nor approved a partnership in the form reported to have been the case with Denel Asia. By way of example, the Tawazun Dynamics joint venture was concluded after the United Arab Emirates had signed a significant missile contract with Denel and the joint venture was part of the offset provisions. Further, Tawazun Dynamics joint venture is a UAE government entity responsible for defence and aerospace products. The utilisation of South Africa's intellectual property with respect to the Tawazun Dynamics joint venture was duly approved by the DoD through Armscor and the National Arms Control Committee.

45. I mention the salient terms of the Tawazun Dynamics joint venture to demonstrate the glaring short comings of Denel Asia terms (as I understand them from publicly available information). The following in my view are some of the short comings of Denel Asia:

45.1. The 51% (fifty one percent) offshore shareholder did not have any manufacturing capabilities or experience and neither did they have demonstrable access to markets;

45.2. There were no offsets imperatives that necessitated the creation of Denel Asia;

45.3. The involvement of VR Laser would give Denel an effective ownership of 25% (twenty five percent); and

45.4. VR Laser had no demonstrable experience nor access to the Indian market.

46. I respectfully contend that the Denel Asia establishment makes no economic sense for Denel (because it would have entailed Denel giving VR Laser a share in the venture without receiving any significant benefit in return) and appears to go against the established principles in terms of which Denel had historically concluded successful partnerships.

Removal of the 2011 Board

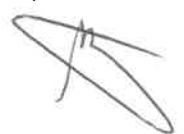
47. It is considered good practise for board members to have "scattered terms", that is for their terms to terminate at different points in time so as to ensure continuity. High performing boards usually have board members that one third is in their first term, one third in their second term and one third in their third term.

48. In 2013 the three Board members', who were appointed in 2010, first three-year term came to an end and were re-appointed by the Minister of Public Enterprises at that time, Minister



Malusi Gigaba, for one year only. This resulted in the term of all the non-executive directors ending at the same time in 2014.

49. In 2014 the Minister extended the 2011 Board's terms for a year and the terms were set to terminate in 2015. The then Chairman, Mr. Zoli Kunene, had served the maximum 9 years as a non-executive director and was not re-appointed.
50. Given that the 2011 Board had been effective, and were involved in a turnaround strategy that was still underway, I had expected that the Minister would retain a significant number of the members of the 2011 Board. The majority of Board members served only one term and were thus eligible to be re-appointed.
51. I received a letter from the Minister (dated 25 May 2015) informing that she reviewed the composition of the Board and informed the Directors individually of the rotation of the Board and that a hand over report is required within a week of the date of her letter. No details were provided on the Board composition going forward. I attach a copy of this letter hereto as annexure "MJVR8".
52. On 26 and 27 May 2015 Board members, except Sparks Motseki, received each an email notification from Ms Orcilla Ruthnam, Chief Director: Governance at the Department of Public Enterprises, with the letter attached from the Minister (dated 25 May 2015) informing them that their term of office come to an end on 23 July 2015.
53. I was surprised that the Minister did not consider continuity and performance in the appointment of the 2015 Board.
54. On learning about the imminent and unusual changes that the Minister intended to make on the 2011 Board, I attempted on several occasions to meet with her to bring to her attention the threat that a drastic change of the board would present to Denel. She did not offer me the courtesy to meet with her. I attach correspondence which evidences my repeated attempts to meet with the Minister hereto marked annexure "MJVR9".
55. The 2011 Board met on 28 May 2015 to discuss the matters to be included in the hand over report and impact of the lack of continuity in the rotation of the Board. On 29 May 2015, I addressed a letter to the Minister in which I recorded the outgoing Board's concern on the lack of continuity and the need to at least retain the current group CEO (given that various projects



were underway and had not been completed). I attach a copy of this letter hereto as annexure "MJVR10" and the letter to retain the group CEO dated 1 June 2015 in annexure "MJVR11".

56. The 2011 Board concerns raised in the letter dated 29 May 2015 and the eventual meeting with the Deputy Minister on 2 July 2015 to discuss these matters, however did not yield any results.

Skill set of the 2011 Board

57. Having had the privilege of being part of the 2011 Board, it is my considered view that the success that the 2011 Board achieved was not by chance. The key success factor was that the 2011 Board had experienced directors with complementary skills which were ideally suited for the needs of Denel.

58. The 2011 Board had a good balance of people with corporate experience, military experience, finance, human resources, legal and other expertise.

59. By way of example, some of the directors in the 2011 Board were the following individuals for whom I have the highest respect as professionals and business people in their fields:

59.1. Mr Mavuso Msimang, a veteran of South African politics, an anti-corruption champion and an experienced corporate executive. He brought vast experience from his time as the CEO of South African National Parks and State Information Technology Agency, a former director general of home affairs and experience as a non-executive director of both state owned and private companies, including listed companies. Mr Msimang was a member of the social and ethics committee of the 2011 Board;

59.2. Prof Stella Nkomo, was at the time a professor and deputy dean at the faculty of economic and management sciences at the University of Pretoria. She is an accomplished expert in human resources and leadership with vast international experience;

59.3. Dr Gert Cruywagen, is a senior executive within the Tsogo Sun Group responsible for risk management. At the time he was a long standing member of the King Committee on corporate governance and was involved in several international structures on matters of risk management and corporate governance;

59.4. Mr Matodzi Ratshimbilani, brought over 20 years' legal experience to the 2011 Board having practised as an attorney and a director in some of South Africa's top legal firms.



He helped the 2011 Board a great deal in dealing with many legal issues in particular, in matters of corporate governance, company law, mergers and acquisitions, and contracts. He also had considerable experience in advising some of South Africa's major state owned entities on various legal matters;

59.5. Advocate Ghandi Badela, had many years of experience as an engineer. He completed his legal studies and joined the bar during his tenure as a director of Denel. He is currently an Advocate at Duma Nokwe Group. He served as Chief Executive Officer at Saab Grintek Technologies, Sonke Computer Services Africa (SCSAfrica) and Masana Technologies. He holds an MSc in Engineering Management from University of Johannesburg and MBA from University of Pretoria. Advocate Badela brought a rare of combination of law and engineering. These skills helped the 2011 Board to navigate intellectual property matters from a legal and an engineering perspective.

59.6. Prof Tshilidzi Marwala, the current vice chancellor of the University of Johannesburg is renowned for his knowledge and passion in matters of technology and the fourth industrial revolution having obtained his PhD from the University of Oxford in the field of artificial intelligence; and

59.7. Mr Zoli Kunene, chaired the 2011 Board before his term expired and I replaced him as an interim chair. Mr Kunene is an accomplished South African business personality and is part of the well-respected South African family business the Kunene Brothers. Mr Kunene had considerable experience in the defence industry through his involvement with the Kunene Brothers.

60. Time and space does not allow for me to name all the other accomplished directors that were part of the 2011 Board, suffice to say that the combination of skill and experience proved to be exactly what Denel needed at the time.

61. By contrast, the 2015 Board lacked members with certain critical skills. For example, the 2015 Board did not have a chartered accountant as a member. As a result, it did not have anyone with the skills to chair the audit and risk committee.

Concluding Remarks

62. I am unable to speculate on the Minister's reasons for making the changes as she did.



63. I am however compelled to state that the Minister's decision to remove the 2011 Board and appoint the 2015 Board does not appear to have been reasonable. I say this for the following reasons:

63.1. Good corporate governance dictates that the rotation of board members should seek to achieve continuity of members. Historically, only 1/3 of board members would be rotated at a time. This would ensure continuity of board members (and stability at the company) whilst also bringing in new members.

63.2. The 2011 Board had been highly effective. There could have been no reason (based upon the performance of the 2011 Board) for the removal of the board.

63.3. The 2011 Board was in the midst of a successful turnaround strategy which included various projects that were ongoing. The removal of the 2011 Board and its replacement with members who had no knowledge of these projects would and in fact did jeopardise these projects.

63.4. The 2015 Board lacked people with the necessary skills. For example, the board lacked a chartered accountant.

64. Denel delivered improved results in 2015 but was still on a turn-around path. With continued focus on the turnaround plan and strategy improved performance, growth in order cover, revenue, profitability and cash flow was forecast for the next five-year period.



Martie Janse van Rensburg

15 February 2019

Annexure “MJVR1”



	Martie J Janse van Rensburg – Abbreviated CV
<p><u>Qualifications</u></p> <p>B Comm (UFS 1977); B Compt Hons (UNISA 1981); CA (SA) (1987)</p> <p><u>Training</u></p> <p>Executive Programme in Strategy and Organisation (Stanford University Business School 2001);</p> <p>TCTA Leadership Development Programme (GIBS 2005)</p> <p>AltX Director Programme (JSE & WBS 2009) and various technical short courses</p> <p><u>Member of Professional Bodies:</u></p> <p>Institute of Chartered Accountants (SAICA), Institute of Directors (IOD)</p>	<p>An experienced executive and non-executive director (20 years) serving in organisations that require strategic redirection and governance alignment in the public and private sector.</p> <p>Vast governance experience, which include chairing of organisations in the public and private sector (7 years public sector and 4 years private sector) and has served as chairperson of board committees (Audit and Risk and Human Resources) for 18 years. Has worked with different institutional legal vehicles (Specific legislation, Companies Act, Trusts).</p> <p>Substantial understanding of and experience in good corporate governance practices, corporate strategy, shareholder management models, enterprise wide risk management, regulatory compliance, financial reporting and analysis, human resource strategies and performance management. Over 20 years experience in and sound knowledge of infrastructure development and funding on executive and non- executive level (TCTA, Johannesburg Water, ACSA,) repositioning, restructuring and turnaround of businesses (private and public sector – TCTA, Denel, NMI Group). Work in SADC countries includes Botswana, Lesotho, Mozambique, Namibia and Swaziland.</p> <p>Work as Independent Consultant in governance, water, financial, funding and institutional arrangements and institutional transformation related areas. Recent work included:</p> <p>ASISA (Association for the Savings and Investment South Africa) to promote investment in infrastructure as an asset class;</p> <p>New Development Bank (BRICS) in 2016 on RSA Public Procurement System;</p> <p>Presidential Infrastructure Co-ordinating Commission (PICC) - a 20 months employment as Specialist on the PICC Technical Task Team that focus on the co-ordination, alignment and fast tracking of RSA's R 4 trillion National Infrastructure Plan (focus areas Strategic Integrated Projects Business plans, Skills Development, Innovative Building Technology, Localisation) (2012 – 2014).</p> <p>In 2008 and 2009 project managed RSA bid to host the 2012 World Water Forum in RSA - an international event that takes place every 3 years.</p> <p>Made various presentations and was a panel member for conferences relating to financing and development of infrastructure on local and international level. Attended World Bank / IMF Annual meetings since 2002 to 2008. Attended and participated in annual World Economic Forum Africa meetings since 2003 to 2008. Facilitated the water infrastructure break away session at the recent SA Investment Conference (October 2018).</p> <p>Martie was a recipient of the inaugural Woman in Water Award in 2002 and nominated for BWA Business Woman of the year in 2006.</p> <p><u>Sectors:</u></p> <ul style="list-style-type: none"> - Executive level: Capital Markets, Project Finance, Infrastructure Development - Non-Executive level: Financial services and Banking (Project /structured/ specialized /trade finance), Development finance, Utility Management, Aviation (Airports), Water and Sanitation, Defense & Aerospace, FMCG & Agri-processing.
CURRENT NON-EXECUTIVE APPOINTMENTS	
<p>Etion Ltd – appointed Nov 2018 – current Non Executive Director on Board and Chairman of the Audit and Risk committee</p>	
<p>Independent Regulatory Board for Auditors (IRBA) – appointed 10 May 2017 - current Non Executive Director on Board, Deputy Chairman of the Board and Chairman of the Disciplinary Advisory Committee.</p>	

Sephaku Holdings Ltd – appointed at AGM 22 September 2016 – current: Non Executive Director on Board and Chairman of the Audit and Risk committee, Member of Remuneration and Nomination Committee.
Ashburton Investments: Oct 2016 – current: Non Executive Member of Investments Credit Committee and Investments Credit Governance Committee
First Rand Bank Ltd: 2011 – current: Non Executive Member of Wholesale Credit Committee (International & Specialised Finance)
PREVIOUS NON-EXECUTIVE POSITIONS
Development Bank of Southern Africa: Jan 2016 – Dec 2018 - NED Non Executive Director on Board, Member of Audit and Risk Committee, Member of Board Credit and Investment Committee and Chairman of the Board Infrastructure Delivery and Knowledge Management Committee
Denel Soc: 2010- 2015 - NED Chair Audit and Risk Committee from Aug 2010 to 15 Aug 2014; Interim Chairman of Board - 15 Aug 2014 to 23 July 2015
Johannesburg Water (Pty) Limited: NED 2009 – 2012: Chairman, Member of Remuneration Committee; 2001 – 2006: Chair Audit & Risk Committee (2001 to 2005) Member of Remuneration Committee (2006), Acting Chairman in 2006 1999 - 2000 Advisory Board Member to create entity as part of Egoli 2001 programme
Headstream Water Holdings (Pty) Ltd: 2009 - 2016 Shareholder and Chairman
NMI Group of Companies and Trust (FMCG sector) 2009 – 2013 (Non Executive Director and Trustee) Chair Group Agri Business EXCO, Chair Group Audit & Risk Committee (2009 – 2012) Chair Group Marketing Committee, Chair Namib Mills (Pty)Ltd(2009 – 2013) in Namibia and Bolux (Pty) Ltd in Botswana (2009 – 2010)
Airports Company of SA Soc (ACSA): NED 2010 – 2012: Director, Chaired Audit & Risk Committee, Chaired Treasury & Regulatory Committee, Member of Social and Ethics Committee; 2006 -2009: Specialist member of Audit and Risk Committee and Treasury & Regulatory Committee
Bond Exchange of South Africa (BESA): NED 2000 – 2003: Executive Committee Member 2003 – 2007: Governing Committee Member 2007- 2009: Director Member of Audit and Risk Committee, Market Regulation Committee, Strategy Committee, Remuneration Committee
AH Vest Limited (previously All Joy Foods):NED 2008 – 2009: Non Executive Director and Chairman of Audit Committee
PREVIOUS EXECUTIVE POSITIONS
Trans Caledon Tunnel Authority (TCTA) 1994 – 2008: CEO 1998 to 2008 CFO 1994 to 1998 Prior to 1994: Worked as a consultant for Deloitte (1992-1994): Mainly in business re-engineering. Lectured at postgraduate level at UNISA – B Compt Hons in Advanced Taxation and Applied Auditing (1988- 1991) Deloitte – Audit Senior (1985 -1987) Worked in Commerce – Corobrik Bloemfontein (1981 – 1982), Senekal Co-op (1982 -1984) Completion of articles (1978-1980) at Viljoen Louw Bartel – now part of KPMG

Annexure “MJVR2”



Deloitte.

MJVR 2

Denel State Owned Company Limited

Board Effectiveness Evaluation

June 2015



Deloitte

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1 June 2015

Ms Martie van Rensburg
Board Chairperson
Denel SOC Ltd
Private Bag X191
Pretoria
0001

Dear Ms van Rensburg

Denel SOC Ltd: Results of the Board Effectiveness Evaluation

1 Introduction

Denel State Owned Company Limited ('Denel') performs a Board Effectiveness Evaluation every year in accordance with good governance practice. The aim of the Board Effectiveness Evaluation is to assess the functioning of the Board and Board Committees as well as identify areas of improvement in order to enhance the oversight bodies.

The King Code on Corporate Governance, 2009 (King III Code) includes the governance principle that "The evaluation of the board, its committees and the individual directors should be performed every year". In applying this principle Denel has conducted an annual Board Effectiveness Evaluation.

The assessment was performed by an external service provider. For the year ended 31 March 2015 Deloitte & Touche ('Deloitte') was appointed to perform the Denel Board Effectiveness Evaluation. We have recently completed the Board Effectiveness Evaluation for Denel.

This report sets out the results of our review.

National Executive: *LL Barn Chief Executive *AE Swiegers Chief Operating Officer *GM Pinnock Audit
DL Kennedy Risk Advisory *NB Kader Tax TP Pillay Consulting *K Black Clients & Industries
*JK Mazzocco Talent & Transformation *MJ Jarvis Finance *M Jordan Strategy S Gwala Managed Services
*TJ Brown Chairman of the Board *MJ Comber Deputy Chairman of the Board
Regional Leader: MN Alberts

A full list of partners and directors is available on request

* Partner and Registered Auditor

B-BBEE rating: Level 2 contributor in terms of the Chartered Accountancy Profession Sector Code

Member of Deloitte Touche Tohmatsu Limited

DENEL SOC LIMITED: RESULTS OF THE BOARD EFFECTIVENESS EVALUATION MAY 2015

2. Scope

The scope of the Board Effectiveness Evaluation included an assessment of the Board as a whole and the individual Board committees. In addition, we interviewed a representative sample of directors to get their individual input and performed a desk review of the governance framework and documents.

The Board Effectiveness Evaluation assessment included the following Board committees:

- Audit and Risk Committee
- Personnel, Remuneration and Transformation (PRT) Committee
- Social and Ethics Committee

3. Approach

Our approach in the assessment of the Board and the Board Committees included the dissemination and completion of an online assessment questionnaire for each Board and Board Committee members. In addition to the online assessment, Deloitte reviewed supporting documentation as well as conducted individual director interviews.

The steps taken when performing the assessment were as follows:

- Compiled self-assessment questionnaires which met best practice governance and Board effectiveness requirements, to suit Denel's specific needs;
- Distributed the on-line questionnaires to all Board directors for their completion;
- Interviewed selected directors;
- Performed a high level documentation review;

**DENEL SOC LIMITED: RESULTS OF THE BOARD EFFECTIVENESS EVALUATION
MAY 2015**

- Collated, aggregated and analysed results and developed our conclusions;
- Compiled a draft report;
- Discussed draft report with Chairman, CEO and Company Secretary to confirm our findings and conclusions;
- Presentation of results to the Denel Board meeting on 10 June 2015; and
- Issued finalised report to Chairman of the Board.



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3.1 Interviews

Structured interviews were conducted with selected Board and Committee directors, to clarify and increase our understanding of questionnaire responses, and overall Board functioning.

The following directors of the Board and Committees were interviewed:

#	Name	Role
1	Ms MJ Janse van Rensburg*	Chairman of the Board and Director of the Audit and Risk Committee
2	Professor SN Nkomo*	Board Director, Chairman of the Personnel, Remuneration and Transformation Committee and Chairman of the Social and Ethics Committee
3	Doctor G Cruywagen*	Board Director, Chairman of the Audit and Risk Committee and Director of the Social and Ethics Committee
4	Mr M Ratshimbilani*	Board Director and Director of the Personnel, Remuneration and Transformation Committee
5	Ms Z Mathenjwa*	Board Director and Director of the Audit and Risk Committee
6	Mr N Motseki*	Board Director



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#	Name	Role
7	Mr R Saloojee	CEO (Executive Director)
8	Mr F Mhlontlo	GFD (Executive Director)
9	Ms N Davies	Group Executive: Human Resources

* Non-executive director



DENEL SOC LIMITED: RESULTS OF THE BOARD EFFECTIVENESS EVALUATION MAY 2015

3.2 Questionnaires

The online assessment was based on the questionnaires designed by Deloitte to align with the Board and Board Committee terms of references as well as best practice assessment areas. The assessment was distributed on the 5th and 6th May 2015 and closed on the 26th May 2015. The Board assessment template included the following sections:

- Board size and composition, attributes and culture;
- Charter;
- Agenda and meeting preparation;
- Board meetings;
- Board functioning and processes;
- Board committees;
- Leadership: the role of the chairman;
- Support: the company secretary;
- Board effectiveness and evaluation; and
- Board orientation and development.

With the exception of Mr Motseki, Adv. Badela and Adv. Nthikil, all Board directors completed the assessment distributed to them (9 out of 12 completed the questionnaire).

The results of the evaluation questionnaires were collated by Deloitte and have been summarised in Annexure A.

The scope of the Board Committees assessment areas included in the questionnaires were as follows:

- Committee composition attributes and culture;
- Terms of reference and accountability;
- Agenda and meeting preparation Committee meetings;
- Committee functioning and processes;
- Board interaction and accountability; and
- Leadership and support.

All three directors of the Audit and Risk committee completed the questionnaire. For the Personnel, Remuneration and Transformation Committee 3 of the 5 directors completed the questionnaire and for the Social and Ethics committee all directors completed the assessment.

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A handwritten signature in black ink, located at the bottom right of the page. The signature is stylized and appears to be a single continuous stroke.

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3.3 Documentation review

Included in the Board and Board Committee assessment was the inspection of key documentation as well as the attendance of the Board and Board committee meetings, provided by the Company Secretary.

Included in the documentation review was the following:

- Board and Board Committee Charters;
- Board and Board Committee work plans;
- Board and Committee packs;
- Board and Committee agendas;
- Board and Committee meeting minutes;
- Board induction, orientation, ongoing development documents (when applicable);
- Strategy session packs;
- Delegation of Authority, Authorities framework;
- Results of the previous Board Assessments;
- Timetable of Board meetings for the year;
- Attendance register – Board and Committee meetings;
- Shareholder Compact;
- Memorandum of Incorporation; and
- Director interest declarations.

4. Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below. The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that may exist or all improvements that might be made.

Any recommendations made for improvements should be assessed by you for their full impact before they are implemented.



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Effective and timely implementation of our recommendations by the Board and management is important for the maintenance of the reliable governance and internal control system.

This report and the work connected therewith are subject to the terms and conditions of the engagement between Denel and Deloitte. The report is produced solely for the use of Denel for the purpose of the Board Effectiveness Evaluation. Its contents should not be quoted or referred to in whole or in part without our prior written consent. Deloitte & Touche will accept no responsibility to any third party, as the report has not been prepared, and is not intended for any other purpose.



**DENEL SOC LIMITED: RESULTS OF THE BOARD EFFECTIVENESS EVALUATION
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5. Executive summary

The Denel Board is considered to be highly effective both in providing the necessary oversight as well as direction to Denel. This has been confirmed and corroborated through the Board Effectiveness Evaluation. The results of the online assessment were positive and interviews conducted confirmed the sentiment of the effectiveness of the Board and Board Committees.

In general, the responses to an overwhelming majority of the questions indicated that directors either “agreed” or “strongly agreed” with the assessment statements, with the average scores of the Board and Committee level significantly better than the norm based on other assessments that we have performed.

At the time of our review the directors’ terms had been extended and the Chairman was functioning in an acting capacity. Despite the transitional phase the Board was viewed as continuing to operate in an effective manner and able to discharge its oversight responsibilities.

There is a clear distinction between Board role and authority and management role and authority. The Board are satisfied with the responsiveness and information provided by the executive management team.

The Board of directors indicated that they see the contribution of Board Committees as effective and valuable. During every Board meeting the Chairperson of the Board Committee will provide a report and meeting minutes are included in the pack for information.

Overall the directors were highly complementary of the Board Chairman and mentioned that the leadership provided by the Chairman is well regarded.

The Board assessment was complimentary of the support provided by the Company Secretary.

Our assessment has highlighted the positive attributes of the Board and Board Committees. In addition we have included areas for consideration and improvement to enhance the functioning of the Board and Board Committees.

Key areas for consideration

Most directors believe the Board would benefit from having more skills in the areas of formally qualified financial and auditing skill as well as defence. Some directors commented that the Board is overweight in legal skill. One director commented that the gender representation could be improved.

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Based on our review of the declaration of interest documentation, the individual director interests are clearly evidenced, however the assessment and declaration of spouse, partner or close family member is not. Even though this may be explicit in the practice of declaration, the documentation of the declaration should be improved.

The current Board's term will expire July 2015 and a new Board will be appointed at the AGM in August 2015 by the Minister. The succession of the Board as a whole as well as the Chairman was noted as an area of significant concern. With the reappointment of the Board the uncertainty regarding continuity was raised as a key risk area. The continuity and retention should be considered to retain the current momentum and if possible, consideration should be given to retaining a representative sample of the existing Board to ensure a smooth transition. Common practice is to rotate a third on an annual basis, however we would recommend that at least 1/3rd of the existing Board members be considered for reappointment.

There is currently no formal training and development plan for directors in place. Training is provided on an ad hoc basis when the need arises.

The detailed results of the individual questions has been provided in Section two of this report.

6. Previous year's findings

The table below contains certain areas of improvement that were noted during June 2014 assessment as well as the implementation status:

Finding	Status
Poor Board meeting attendance	During our review and inspection of the documentation we noted that the attendance to the meetings was satisfactory. Board meetings were held on 26 June 2014, 10 Sep 2014, 19 Nov 2014 and 11 Feb 2015. Only 3 apologies were received for the meeting held on 26 June 2014 and one apology for the meeting held on 19 Nov 2014.
Conflict of Interest	No conflicts of interest were noted during the interviews, analysis of the questionnaires and the document review process.

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Finding	Status
Ongoing learning and development	Not Received, we noted that there is no formal plan for the ongoing learning and development for Board directors.

The matters above, as well as additional matters, are dealt with more fully in the remainder of this report.

We would like to thank the Board Directors and the Company Secretary for their participation in and open contribution to this assessment, and the support and assistance we have received.

Should you require further information regarding this report or the work performed, please contact Mark Victor, on 082 772 3003 and Claire Hoy, on 083 410 2139.

Yours sincerely,

Mark Victor
Director
Risk Advisory
Deloitte & Touche



**DENEL SOC LIMITED: RESULTS OF THE BOARD EFFECTIVENESS EVALUATION
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7. Section A: Summary of results

The table below summarises the strengths and areas of improvement noticed through the response of the questionnaires, as well as an analysis of the questionnaires and interviews conducted.

Legend:

1 – 1.5	Strongly Agree
1.6 – 2.5	Agree
2.6 – 3.5	Not sure
3.6 – 4.5	Disagree
4.6 – 5	Strongly disagree

8.1 The Board

Assessment Area	Average score
Part 1: Board Composition, Attributes & Culture	1.67
Part 2: Board Charters: Terms Of Reference	1.56
Part 3: Agenda And Meeting Preparation	1.44
Part 4: Board Meetings	1.46
Part 5: Board Functioning And Processes	1.53
Part 6: Board Committees	1.33
Part 7: Leadership And Support	1.39
Part 8: Board Effectiveness And Evaluation	1.68
Part 9: Board Orientation And Development	1.67

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Board composition, size and diversity

The majority of the Board directors confirmed that the size and diversity of the Board was optimal and enabled the Board to operate as a cohesive unit. The collective skills set of the existing Board was assessed as complimentary. The directors are comfortable with the balance between executive, non – executive and independent directors. Based on the interviews conducted as well as the online assessment it is evident that the Board's culture is strong and enables the effectiveness of the governance structure.

Most directors believe the Board would benefit from having more skills in the areas of formally qualified financial and auditing and defence. Some directors commented that the Board is overweight in legal skill. One director commented that the gender equality could be improved.

Terms of reference

The majority of the Board directors believe that the Board terms of reference and responsibilities are clear and understood by all. The Board has a detailed work plan for the year that has been aligned to the roles and responsibilities per the Board charter. The charter is reviewed and approved annually by the Board.

Our documentation review identified one misalignment between the Memorandum of Incorporation and the Board charter relating to the minimum number of Directors. The charter indicates two directors as minimum number whereas the MOI indicates three. This should be rectified.

Board meetings, agenda and meeting preparation

The directors are satisfied with the ability to influence and inform the Board meeting agenda. The majority of the directors believe that the agenda is appropriately structured to allow for sufficient time to discuss the important matters. The agenda is developed based on the Board approved work plan for the year.

The Chairman offers members the opportunity to include items of interest that may not be on the prepared agenda. Important matters, as indicated by Board members receive due consideration and may be prioritised where this is deemed necessary. Three directors commented that the agenda is not ordered with sufficient time to discuss complex and critical issue.

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On the whole the board packs are received timeously, allowing sufficient time to prepare diligently for board meeting. Denel has migrated to electronic documentation distribution through the use of iPad's.

Overall the directors are complimentary of the Board sessions. In general the directors believe that the Board operates as a cohesive unit, however two members commented that certain items are debated and discussed for too long a period, impacting on this cohesiveness.

Declaration of interest

All directors have either 'strongly agreed' or 'agreed' to the assessment of the directors' assessment and confidence in the highest ethical standards being applied in Board deliberations and decisions taken.

The Board charter states that 'any directors shall disclose his/her direct or indirect personal or private business interest or that of any spouse, partner or close family member in any matter before the Board and withdraw from the proceedings of the Board when such matter is considered.' Based on our review of the declaration of interest documentation, the individual director interests are clearly evidence however the assessment and declaration of spouse, partner or close family member is not. Even though this may be explicit in the practice of declaration, the documentation of the declaration should be improved. King III describes an independent non-executive director as a director free from any business or other relationship which could be seen by an objective outsider to interfere materially with the individual's capacity to act in an independent manner. The detailed declaration for independent directors is particularly important.

Board functioning and processes

Directors have a good understanding of the key business issues facing Denel.

The Boards' direction and guidance, as well as oversight include both strategic matters and current operating results and performance. Based on the assessment results some directors believe that the in-year process relating to strategic planning and monitoring could be improved.

Board committees

The Board has the appropriate committees to assist the Board in fulfilling its mandate and which have:

- Appropriate leadership and composition;
- Clear terms of reference and responsibilities;
- In the opinion of Executive and Non-executive Directors, have fulfilled their mandates; and

DENEL SOC LIMITED: RESULTS OF THE BOARD EFFECTIVENESS EVALUATION MAY 2015

- Reported appropriately to the Board on their deliberations and decisions.

The directors are comfortable with the level of feedback received by the Board relating to the matters dealt with at a committee level. Denel has enhanced the transparency of the committee meetings by providing the minutes of the meetings in the Board packs with the Committee Chairman's reports.

Some directors have raised comments relating to the potential duplication of areas within the SEC, PRT and Audit and Risk Committee. The mandates of the Committees may need to be communicated to the Board as a whole as well as confirmation that certain topics or areas may require the various Committee attention as the conversation and focus would be different. It may also be useful to develop a clear RACI matrix to define the varying roles of Committees and other levels of governance to clarify this.

Based on best practice we recommend a commonality in membership across these committees to ensure the common thread is communicated and shared within the committees. This is an area that the Denel Board Committees have achieved.

Leadership: the role of the chairman

Overall the directors were highly complementary of the Board Chairman and mentioned that the leadership provided by the Chairman is well regarded. The Chairman facilitates open debate and discussions at the meetings and the meetings are viewed as efficient and effectively led. The Chairman was viewed as available and accessible to all Directors.

Succession Planning

King III recommends that a programme ensuring a staggered rotation of non-executive directors should be put in place by the board to the extent that it is not already regulated by the company's memorandum of incorporation or relevant regulation. Rotation of board members should be structured so as to retain valuable skills, maintain continuity of knowledge and experience and introduce people with new ideas and expertise. In addition King III recommends that 'At least one-third of non-executive directors should retire by rotation yearly, usually at the company's AGM or other general meetings, unless otherwise prescribed through any applicable legislation'.

The current Board director's term will expire July 2015 and a new Board will be appointed at the AGM in Aug 2015 by the Minister. This was a concern to most directors, because a new Board might not be able to maintain the momentum of the current Board, and may not be in the best interest of Denel.

The GCEO term will expire January 2017, which was a concern to directors because the strategic plans developed by the GCEO will not be completed by the current GCEO due to the timing of the contracts.

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Company secretarial support

The directors' assessed the Company Secretary as performing well and adequately supporting the Board as well as the individual directors. Through inspection of documentation we confirmed that the Company Secretary has maintained the Board and Committee charters up to date, considered training needs of directors and maintained an induction programme for new directors.

Board effectiveness and evaluation

The directors assessed the collective understanding and performance of the Board as effective. The Board is comfortable that the recommendations emanating from previous Board effectiveness assessments have been implemented.

Board orientation and development

A Board continuing development programme is in place that focuses on improving and keeping the Board up to date with governance, regulatory and operation developments.

There is currently no formal training and development plan for directors. Training is provided on an ad hoc basis when the need arises.



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8.2 Audit and Risk Committee

Assessment Area	Average score
Part 1: Committee Composition, Attributes And Culture	1.56
Part 2: Terms Of Reference And Accountability	1.00
Part3: Agenda And Meeting Preparation	1.04
Part 4: Audit And Risk Committee Meetings	1.05
Part 5: Committee Functioning And Processes	1.09
Part 6: Board Interaction And Accountability	1.00
Part 7: Leadership And Support	1.00

Overall it was noted that the Audit and Risk committee functions very well. The functioning of the Committee as a cohesive unit, its productivity and contribution to the Board and the company as a whole received good ratings.

It was noted that the Committee has a good relationship with both the internal and external auditors, and that they value their input.

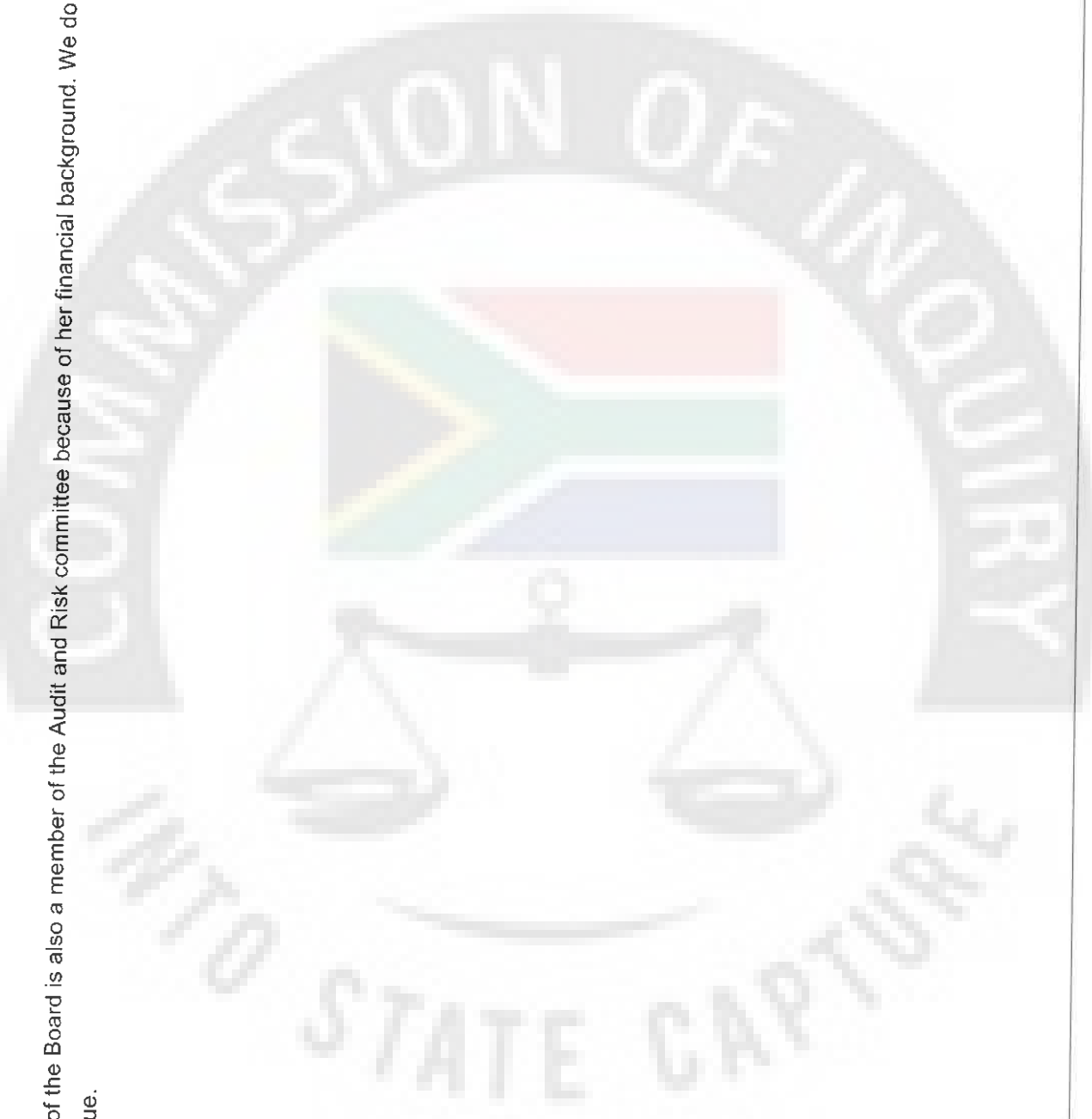
Risk is a standing item on the agenda and directors indicated that enough time is spent on audit, non-audit and risk matters. IT governance is also an item on the Committee work plan and will be on the agenda at least once per annum.

It was noted through our interviews that the meetings may be attended by too many people. However, it was confirmed that all invitees attending the meetings make relevant input as required. Thus it is less time consuming for the person to be in the meeting, than to report back to the Committee with regards to a question.

We also noted that there is only one person on the Audit and Risk committee who has a formal financial qualification. Although the other directors are financially astute and apply good financial judgement, this concern was raised during our interviews with directors. It was also noted that no second opinion is obtained with regards to accounting or auditing matters. It would be beneficial to the committee to appoint an additional member with a formal financial qualification.

**DENEL SOC LIMITED: RESULTS OF THE BOARD EFFECTIVENESS EVALUATION
MAY 2015**

The Chairperson of the Board is also a member of the Audit and Risk committee because of her financial background. We do not view this as an independence issue.



A handwritten signature in black ink, consisting of a stylized 'A' followed by a flourish.

**DENEL SOC LIMITED: RESULTS OF THE BOARD EFFECTIVENESS EVALUATION
MAY 2015**

8.3 Personnel, Remuneration and Transformation Committee

Assessment Area	Average score
Part 1: Committee Composition, Attributes And Culture	1.25
Part 2: Terms Of Reference And Accountability	1.22
Part3: Agenda And Meeting Preparation	1.29
Part 4: Committee Meetings	1.22
Part 5: Committee Functioning And Processes	1.48
Part 6: Board Interaction And Accountability	1.33
Part 7: Leadership And Support	1.08

Overall the results of the Personnel, Remuneration and Transformation Committee were complimentary. Three of the five members completed the online assessment and the Chairman of the Committee was interviewed.

Based on the results of the assessment the Committee has focused on monitoring and evaluating the implementation of policies aimed at achieving the company's transformation vision, values and objectives.

The assessment highlighted the calibre of the Chairman of the PRT. The directors were complimentary of the experience provided by the Chairman as well as the necessary guidance and leadership.

Through our interviews we understand that substantial effort has been put in place to ensure executive succession planning through initiatives such as the creation of deputy executive positions. The Committee has operated in a manner to establish the mechanisms and positioning for the future of Denel and to ensure achievement of the Shareholder compact.

DENEL SOC LIMITED: RESULTS OF THE BOARD EFFECTIVENESS EVALUATION MAY 2015

8.4 Social and Ethics Committee

Assessment Area	Average score
Part 1: Committee Composition, Attributes And Culture	1.42
Part 2: Terms Of Reference And Accountability	1.33
Part3: Agenda And Meeting Preparation	1.21
Part 4: Social And Ethics Committee Meetings	1.44
Part 5: Committee Functioning And Processes	2.00
Part 6: Board Interaction And Accountability	1.67
Part 7: Leadership And Support	1.07

Overall the assessment results of the Social and Ethics Committee were positive and the areas of Leadership and support were assessed as performing very positively.

The Committee assessment was completed by all three members. The assessment indicates a committee that is functioning well and has achieved its mandate. The Chairman received complimentary feedback in providing effective leadership.

Based on our interviews conducted the Committee has become more effective in embedding its roles and responsibilities and deepening the social and ethical impact of the Denel within the broader environment. The Committee has engaged with organisations such as the Ethics Institute of South African to ensure the breadth of ethical performance is understood and the role of the Committee effective.

Based on the interviews conducted it is clear that the Committee is functioning well and has begun to realise the reasonability areas as mandate by the Board. The composition of the SEC includes the Chairperson of the PRT as well as the Chairperson of the Audit and Risk Committee. This strengthens the collaboration and understanding of the issues dealt with within these committees. Some members feel that there is possibly duplication in the Committee processes however as mentioned by the Chairpersons the nature of the conversation would be different.

The Committee workplan details the responsibilities of stakeholder engagement, enterprise development, ethics management and transformation.

DENEL SOC LIMITED: RESULTS OF THE BOARD EFFECTIVENESS EVALUATION
MAY 2015



A handwritten signature in black ink, consisting of a stylized, cursive letter 'D' followed by a horizontal line.

**DENEL SOC LIMITED: RESULTS OF THE BOARD EFFECTIVENESS EVALUATION
MAY 2015**

8.5 Director and Chairperson Assessment

Assessment Area	Average score
Part1: Knowledge And Skills	1.46
Part 2: Execution Of Duties	1.46
Part 3: Chairman's Assessment	1.88

Through the questionnaires and interviews conducted it was noted that Directors understands the roles, responsibilities, duties, legal obligations and objectives. Directors acts in good faith, ethically and legally in the best interest of Denel.

We noted during our document review that independence is declared before every meeting, however the independence of family members is not declared. This should be considered to ensure directors always act in the best interest of Denel.

Although it was noted that there are good communication skills and inter personal skills between directors, some directors felt that interactions could be less cold and that time during the meeting could be allocated to communicate, getting to know the other directors and learning.

The Chairperson's leadership is well regarded and highly rated by all directors. She provides strong leadership without limiting the collective responsibility of Board decisions. Directors assessed the Chairperson as available and accessible at all times. The Chairperson plays an active role in planning the agenda and motivate directors to participate in the debate and collaborations during Board meetings.



**DENEL SOC LIMITED: RESULTS OF THE BOARD EFFECTIVENESS EVALUATION
MAY 2015**

8.6 Executive Director Assessment

Assessment Area	Average score
Part 1: Executive Director Assessment	1.50

The questionnaires indicated that the executive directors provide sufficient additional information, insight and clarification into issues, to ensure appropriate understanding of the matter to support effective decision making.

Overall the Board directors are comfortable that the executive directors proactively and transparently table issues and developments at the Board to ensure that the Board and all individual Directors can effectively discharge their accountability.

The executive directors also successfully transition from being executive and line manager to being a director of Denel.

8.



Annexure “MJVR3”



PART SEVEN

Consolidated annual financial statements

MJVR 3

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

as at 31 March 2015

	NOTES	GROUP		COMPANY	
		2015	2014	2015	2014
		Rm	Rm	Rm	Rm
ASSETS					
Non-current assets		2 458	2 293	2 386	2 180
Property, plant and equipment	8	915	861	683	655
Investment properties	9	590	534	581	525
Intangible assets	10	207	182	192	167
Investments in subsidiaries	11			430	333
Investments in associated companies	12	733	701	500	500
Deferred tax assets	14	13	15	-	-
Current assets		7 145	5 712	6 524	5 237
Inventories	15	1 511	1 020	1 282	887
Trade and other receivables	16	3 520	2 930	3 250	2 784
Loans and receivables	13	-	117	-	117
Other financial assets	17.1	204	132	204	132
Cash and short-term deposits	18.2	1 909	1 512	1 788	1 316
Cash held on behalf of associated companies	18.3	-	1	-	1
Income tax receivables		1	-	-	-
Non-current assets held for sale	19	84	84	84	84
Total assets		9 687	8 089	8 994	7 501
EQUITY AND LIABILITIES					
Equity					
Issued capital	20.2	1 225	1 225	1 225	1 225
Share premium	20.3	4 951	4 951	4 951	4 951
Revaluation reserve		43	43	43	43
Accumulated loss		(4 295)	(4 561)	(4 604)	(4 854)
Total equity attributable to equity holders of the parent		1 924	1 658	1 615	1 365
Non-controlling interest	21	3	6	-	-
Total equity		1 927	1 664	1 615	1 365
Non-current liabilities		3 666	3 941	3 657	3 930
Loans and borrowings	22	888	1 616	880	1 607
Advance payments received	23	2 528	2 066	2 528	2 066
Provisions	24.1	249	259	249	257
Deferred tax liabilities	14	1	-	-	-
Current liabilities		4 094	2 484	3 722	2 206
Trade and other payables	25	1 306	1 100	1 189	1 051
Loans and borrowings	22	1 270	259	1 270	259
Other financial liabilities	17.2	175	106	175	106
Advance payments received	23	940	628	730	439
Income tax payables		2	1	-	-
Provisions	24.2	399	387	358	351
Preference dividends payable	21	2	3	-	-
Total liabilities		7 760	6 425	7 379	6 136
Total equity and liabilities		9 687	8 089	8 994	7 501

Annexure “MJVR4”



CONSOLIDATED STATEMENTS OF CASH FLOWS

for the year ended 31 March 2015

	NOTES	GROUP		COMPANY	
		2015	2014	2015	2014
		Rm	Rm	Rm	Rm
OPERATING ACTIVITIES					
Net cash flows from operating activities		212	474	239	404
Receipts from customers		5 256	4 086	4 663	3 614
Payments to suppliers and employees		(5 657)	(4 674)	(5 031)	(4 084)
Cash utilised in operations	27	(401)	(588)	(368)	(470)
Increase in advance payments received	23	774	1 115	753	935
Interest paid		(238)	(116)	(232)	(125)
Interest received		47	38	41	35
Dividends received		32	19	45	29
Income tax paid		(2)	6	-	-
INVESTING ACTIVITIES					
Net cash flows used in investing activities		(177)	(206)	(137)	(268)
Purchases of property, plant and equipment	8	(146)	(216)	(124)	(151)
Proceeds from sale of property, plant and equipment		3	3	-	3
Purchases of intangible assets	10	(34)	(31)	(34)	(29)
Repayments of loan advance to associated companies		-	62	-	62
Acquisition of additional shares in subsidiary		-	(1)	-	-
Acquisition of additional shares in an associated company	12	-	(23)	-	(23)
Repayments of loans and receivables	13	-	-	117	-
Advances to subsidiaries		-	-	(96)	(130)
Net cash flows before financing activities		35	268	102	136
FINANCING ACTIVITIES					
Net cash flows from/(used in) financing activities		361	(52)	369	(36)
Repayments of interest bearing borrowings		(1 883)	(1 133)	(1 879)	(1 114)
Proceeds from interest bearing borrowings		2 253	1 120	2 249	1 117
Preference share buy back from non-controlling interest		(8)	-	-	-
Decrease in cash managed on behalf of associated companies		(1)	(39)	(1)	(39)
Net increase in cash and cash equivalents		396	216	471	100
Cash and cash equivalents:					
At the beginning of the year		1 513	1 297	1 317	1 217
At the end of the year	18	1 909	1 513	1 788	1 317

Annexure “MJVR5”



MJVR 5



DENEL GROUP

Tel: +27 12 671 2896
 Fax: +27 12 671 2944
 Email: martiejvr@denel.co.za

4 June 2015

Ms Lynne Brown, MP
Minister of Public Enterprises
 Infotech Building
 1090 Arcadia Street
 Hatfield

Dear Minister Brown

BOARD HAND OVER REPORT

In line with good corporate governance, please find the hand over report by the current Board of Directors of Denel attached.

The report covers strategy, successes achieved, key issues facing Denel, major risks and suggested priorities going forward.

On behalf of the out-going Board members, I wish to extend my appreciation to you for championing Denel and your dedication to your portfolio. I further wish to convey the Board's appreciation to the Minister of Defence and Military Veterans, the Armed Services, the Department of Defence and Military Veterans and Armscor for the extensive support and devotion extended to Denel during our term of office.

The turnaround of this SOC has proved to be an immense challenge but at the same time rewarding, and has been a privilege to undertake on behalf of the State.

Yours sincerely

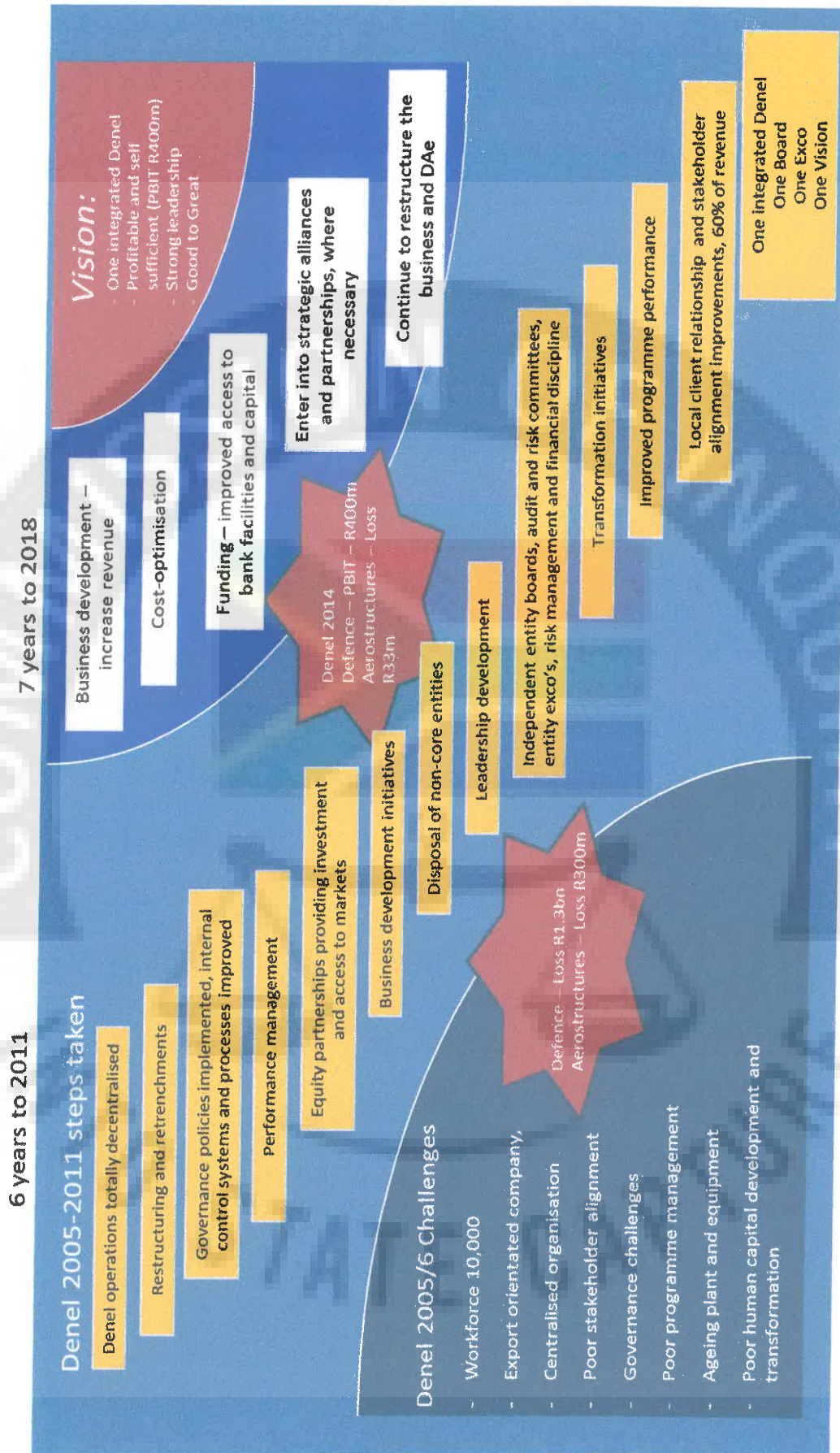
Martie MJ Janse van Rensburg
INTERIM CHAIRMAN OF THE DENEL BOARD

cc. Ms Nosiviwe Nolutando Mapisa-Nqakula - Minister of Defence
 Dr Sam Makhudu Gulube - Secretary for Defence
 Vice Admiral (ret) RJ Mudimu - Chairman of the Armscor Board

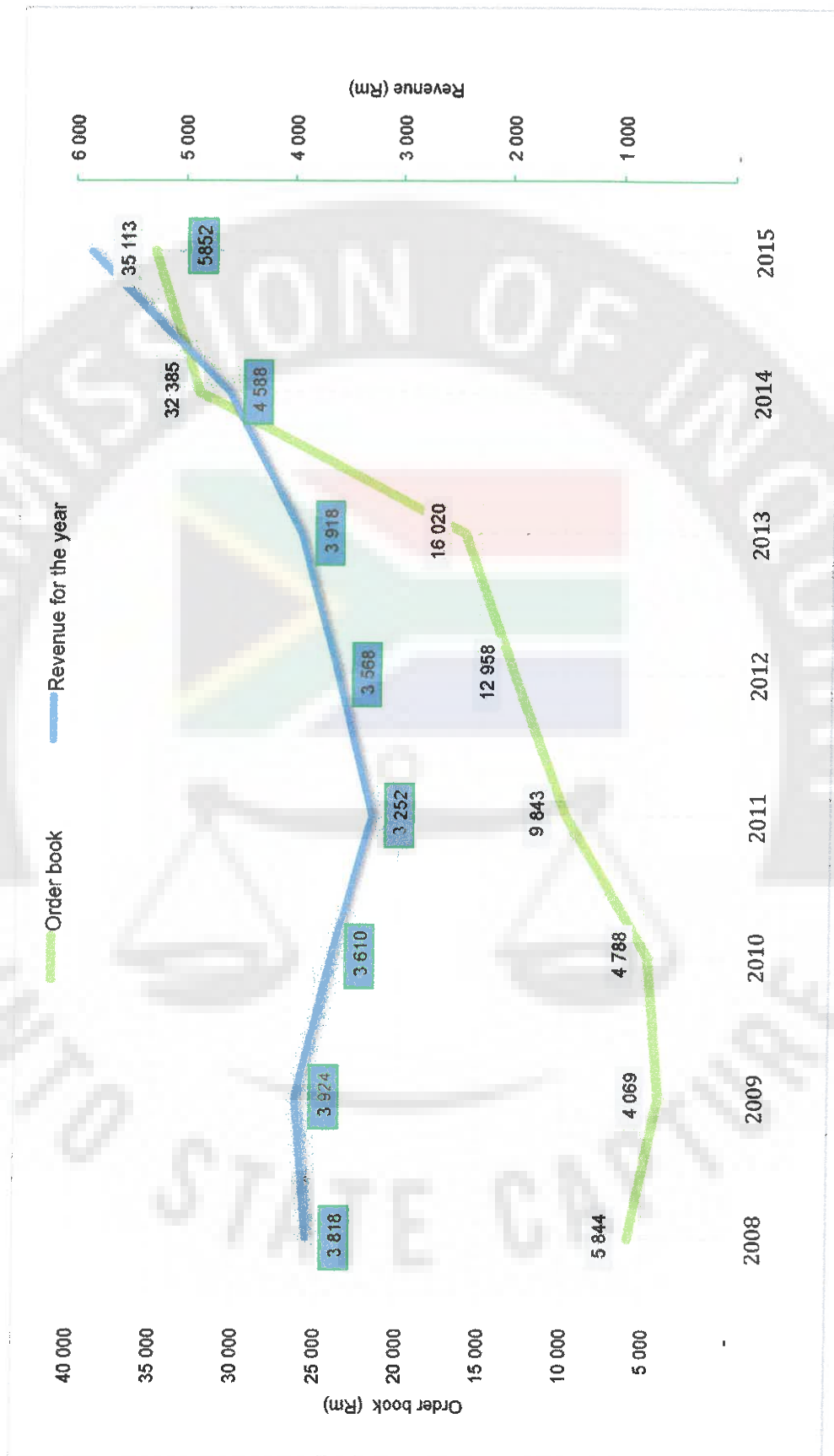
Denel SOC Ltd, Reg No 1992/001337/30, Nellmapius Drive, Irene
 P O Box 8322, Centurion, 0046, South Africa. Tel: +27 (0)12 671 2700, Fax: +27 (0)12 671 2751
 Directors: Ms M J Janse van Rensburg (Acting Chairman), Mr R Saloojee¹ (Group Chief Executive Officer), Adv. G Badela,
 Dr G C Cruywagen, Ms Z B Mathenjwa, Mr Z Mhlontlo¹, Mr N J Motseki, Mr M Msimang, Mr B F Ngwenya, Prof S M Nkomo,
 Adv M S Ntshikila, Mr M V Ratshimbilani.

¹Executive Director
 Group Company Secretary: Ms E M Africa

A graphical illustration of Denel's journey from 2005 is shown below:

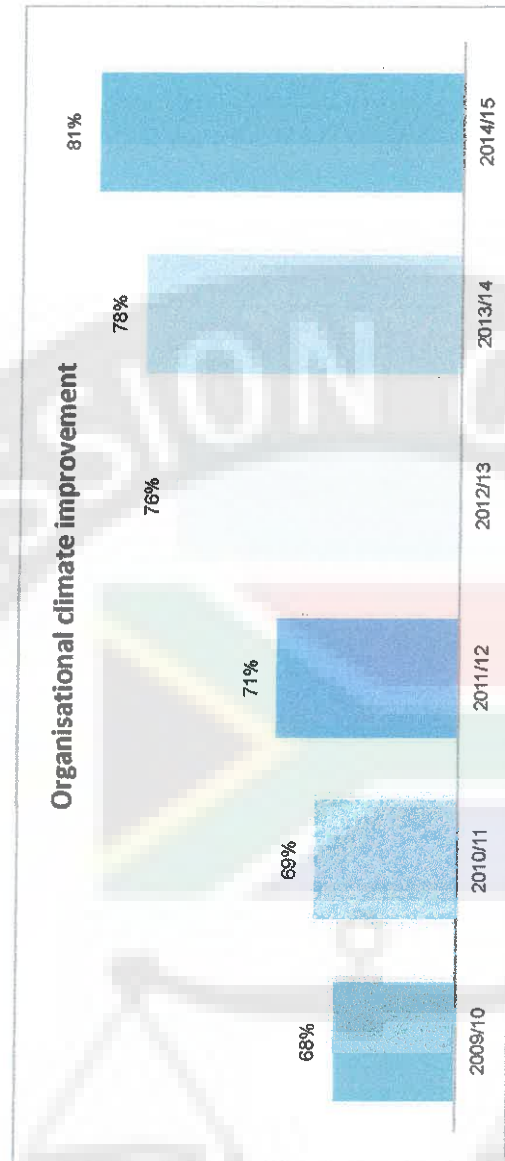
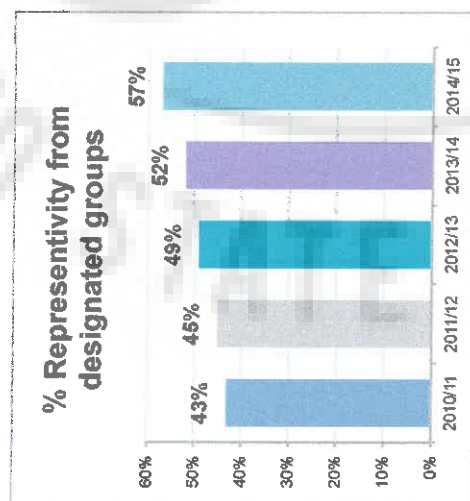


The graph below illustrates the order book and revenue growth



Human resources and transformation

Denel has made good progress in human capital development and transformation including gender representation, which have been areas of focus. Representivity has improved significantly over the years. We believe Denel has become a leader in the industry on transformation. However, it remains a challenge that Denel will need to continue improving on. The organisational climate has also improved dramatically over the last few years.



Of particular note is:

- the appointment of young black managers as CEOs of divisions,
- empowerment of women and emerging black talent as deputy CEOs in divisions,
- the strong focus on enterprise development e.g. Group Supplier Day held for the first time in the company, whereby potential youth and women were given the opportunity to engage with the management of all the divisions and to explore potential opportunities.

Specific interventions on Executive and Senior Management level, lead to an improvement of representivity. In 2015, 73% of Executive Management and 44% of Senior Management was black in comparison to 2012 was 41% and 37% respectively.

Supply Chain Initiatives

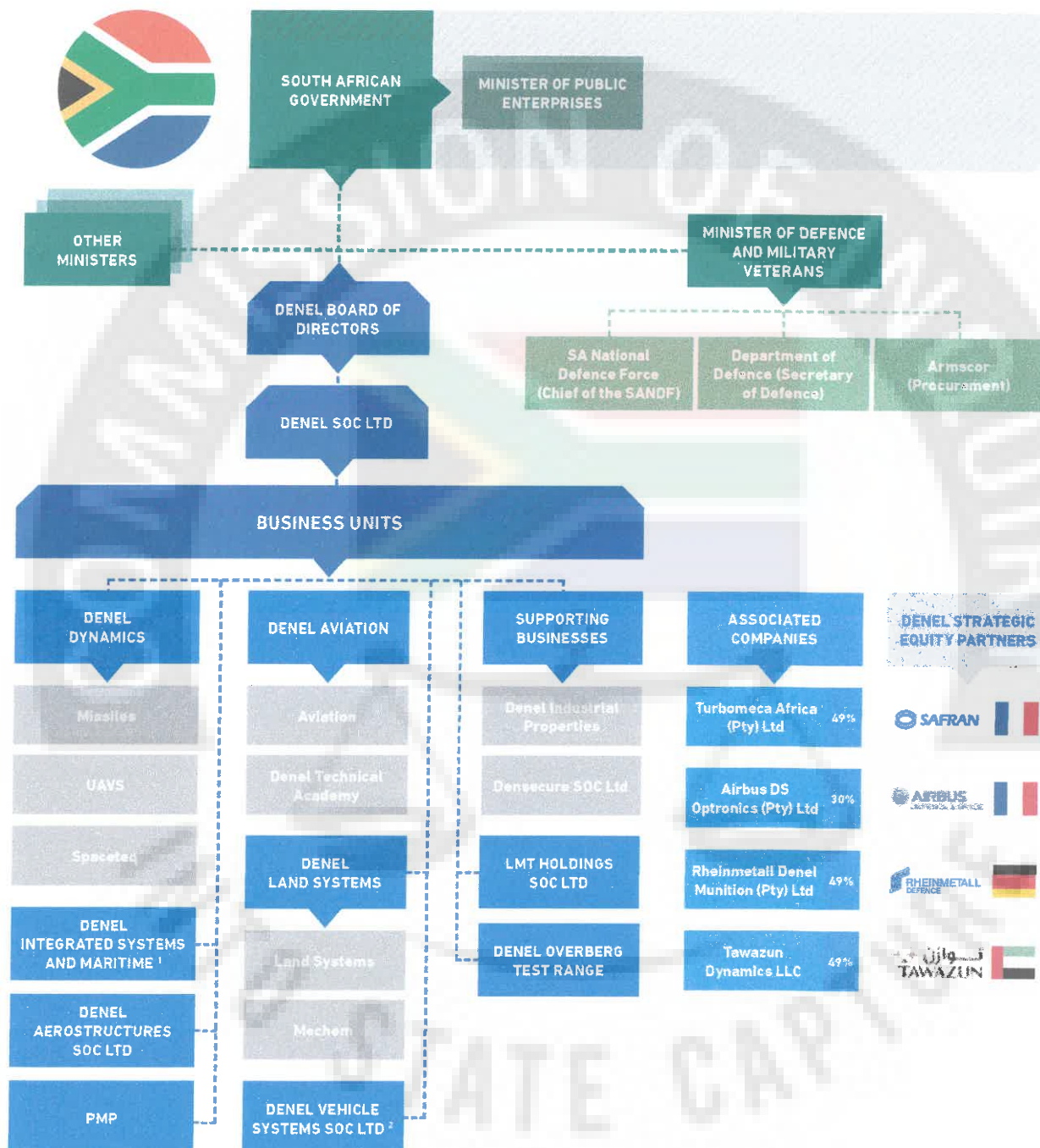
The Denel group saw a significant increase in spend on products and services in 2014/15 due to growth in business. The increase in spend was R1.2bn relative to the 2013/14 spend of R3.5bn. In general, the current supply chain strategy is delivering good results in terms of getting good value for money and also insofar as transformation metrics are concerned.

The baseline for tracking spend on black youth-owned companies has been established and we should be able to report details in the new financial year. The current estimated spend is around 1.8% of total spend and the prospects of increasing the level of spend in this category are looking good given the number of companies on Denel's ESD programme that are youth-owned.

Although local spend has increased considerably in Rand terms, the relative percentage on total spend remains stagnant at about 70%. That is due to a significant resale transaction by one of the divisions and difficulties in switching to alternative local suppliers due to OEMs prescribed and accredited suppliers.

- Spend on black-owned companies increased from 11% of total local spend to a 20.7%;
- Spend on black won-owned companies increased from 2.8% to 8.2%;
- Spend on black youth-owned companies estimated at 1.8% of total spend
- Number of ESD companies increased from 67 to 114
- 25 (2013/14: 20) of the ESD companies were developed to supply into the core business of Denel;
- Total ESD cost incurred increased from R6m to R17.3m;
- Recognised spend increased from 90% to

ORGANISATIONAL STRUCTURE

¹ Operational as of 1 April 2015² Previously known as LSSA - As of 28 April 2015 100% owned by Denel

Annexure “MJVR6”



PERFORMANCE AGAINST THE SHAREHOLDER'S COMPACT

Denel commits to key performance areas with its shareholder on an annual basis which is documented in the Shareholder's Compact. Performance against the contracted targets is continuously monitored by the board and reported to the shareholder on a quarterly basis. We are pleased that Denel has outperformed the contracted targets in most areas. The performance achieved by the group for the year under review, compared to the contracted targets, is provided in the table below:

STRATEGIC INTENT	KEY PERFORMANCE AREA	KEY PERFORMANCE INDICATOR	CONTRACTED	ACHIEVED
Strategic role in the provision of defence capabilities	Security of supply and retention of capabilities in areas required by the DoD&MV	Retained strategic capabilities in support of the DoD&MV's requirements	100%	100%
	Programme delivery	Milestone achieved per DoD contract deliverables	85%	>97%
Strategic economic role	Investment in R&D	Self-funded R&D as a % of revenue ¹	3%	2%
Business sustainability	Revenue	Increase in revenue year-on-year	12%	28%
	Profitability management	EBIT margin	4.5%	7%
	Cash from operating activities	Cash flow from operating activities before working capital changes as a % of revenue	2%	8%
	Order cover	% of orders concluded in respect of the coming year as a % of revenue budget for that year	60%	77%
Socio-economic objectives	Operating expenses	Operating expenses as a % of revenue	23%	16%
	Maximise the appointments from designated groups in order to address employment equity requirements	ACI as % of total appointments	75%	87%
		Women as % of total appointments	20%	30%
	Local content	Local procurement as % of total procurement ²	70%	67%
	Preferential procurement and enterprise development	Procurement from black-owned suppliers as a % of local spend	20%	22%
		B-BBEE (recognised spend as a % of local spend)	70%	96%
		Black woman-owned as % of local spend	3%	8%
		Black youth-owned – owners under 35, as a % of local spend ³	3%	1%
		Small and emerging enterprises suppliers developed to supply to the core business (number of beneficiaries)	20	25
	B-BBEE level	B-BBEE contributor level (old codes) ⁴	Level 3	Level 2
	Training spend	% of employee cost	3%	4%
	Skills development – scarce and critical skills	Total number of engineering trainees (bursaries and internships)	90	92
		Total number of artisan trainees	100	157
		Total number of technician trainees	-	9
		Total number of DTA artisan and technical skills trainees (enrolments during the year)	300	355
	Employment – direct jobs created	Increase number of jobs	100	275
	Corporate social investment	Spend on CSI	1%	2%

¹ Not fully met partly due to significant increase in revenue

² This ratio was affected by a significant brokering transaction, otherwise the ratio would have been 75%

³ A new area of measurement and focus on improving youth involvement through enterprise development initiatives

⁴ B-BBEE codes applied refer to the 2007 Codes of Good Practice

Annexure “MJVR7”





DENEL GROUP

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Email: Riazs@denel.co.za
Ref: Ltr/NT/LSSA/2Jul15

3 July 2015

The Honourable Ms Lynne Brown
Minister of Public Enterprises
Department of Public Enterprises
Private Bag X15
HATFIELD
0028

Dear Minister Brown

ACQUISITION OF LAND SYSTEMS SOUTH AFRICA PTY LTD (LSSA), A SOUTH AFRICAN SUBSIDIARY OF BAE SYSTEMS PLC

We refer to the correspondence from the Minister of Public Enterprises dated 10 April 2015 and the correspondence of the Minister of Finance dated 2 April 2015 approving the acquisition of LSSA (to be referred to as Denel Vehicle System (SOC) Limited (DVS)) subject to a number of conditions. Further to our response letter, dated 15 April 2015, Denel wishes to provide an update on the following conditions:

- Bringing on board a strategic equity partner (SEP);
- Completion of take-on audits and validation of specific commercial aspects; and
- Submission of a comprehensive transformation plan.

1. Bringing on board a strategic equity partner

We concluded successfully the acquisition of DVS effective 28 April 2015. In terms of the PFMA condition and a Board's decision on 11 February 2015 management proceeded on a closed tender process to introduce an equity partner in DVS. This will reduce the funding burden and significantly improve DVS business prospects going forward. Our process considered only those companies that had expressed unsolicited interest, namely:

- [REDACTED]
- [REDACTED]
- [REDACTED]

Denel SOC Ltd, Reg No 1992/001337/30, Nellmapius Drive, Irene
P O Box 8322, Centurion, 0046, South Africa. Tel: +27 (0)12 671 2700, Fax: +27 (0)12 671 2751
Directors: Ms M J Janse van Rensburg (Acting Chairman), Mr R Saloojee¹ (Group Chief Executive Officer), Adv G Badela,
Dr G C Cruywagen, Ms Z B Mathenjwa, Mr Z Mhlontlo¹, Mr N J Motseki, Mr M Msimang, Mr B F Ngwenya, Prof S M Nkomo,
Adv M S Ntshikila, Mr M V Ratshimbilani

¹Executive Director
Group Company Secretary: Ms E M Africa

[REDACTED]

The process included management holding comprehensive workshops with interested parties covering details of business capabilities, DVS strategies and business plans. Interested parties were also provided with opportunities to share their vision for DVS should they become preferred equity partners. Following this process the interested parties submitted firm non-binding offers setting out their value proposal. As a board, we evaluated the offers based on set criteria that included the following criteria:

- Sound financial investment proposal
 - Additional revenues / markets the party will bring to the organisation
 - Access to funding, working capital, and bank facilities
 - Access to experienced human resources
 - Tested business processes and track record
 - Access to established research and development capabilities
 - Support of national strategic objectives e.g. transformation and DoD objectives
 - Strategic fit and synergies with the Denel group
- [REDACTED]
- [REDACTED]
- [REDACTED]

2. Completion take-on audits and validation of certain commercial aspects

Denel engaged SizweNtsalubaGobodo to perform an audit of the transaction as envisaged in the SPA. The investigation included a fair valuation of assets and liabilities, the audit of the closing balances at transaction date to confirm the closing adjustment to the purchase price and a review of whether the resource capacity is sufficient for the programs that are currently being executed.

- The review of the closing balances confirmed a net downward adjustment of R23.7m to the purchase price as defined in the SPA. The process to adjust the purchase price, as provided in the SPA, with BAE Systems is followed.

- The advisors concluded from their procedures that the current resource capacity is sufficient for the programs that are being executed. It should be noted that when DVS receives new contracts, there might be a need to appoint temporary resources for the duration of such a contract.
- The balance sheet take-on balances were verified and an adjustment of R23.7 million was made to the purchase price of R855 million bringing it to R831 million. The cash retained in the business amounted to R230 million versus the targeted R100 million.

ZAR R'000	Target Amount	Estimated Balances at 20 April 2015	Adjustment made as at 20 April 2015	Reviewed Balances at 28 April 2015	Final Adjustment made
Unadjusted purchase price			855 000		855 000
Net cash	100 000	207 424	107 424	230 563	23 139
Net working capital	192 776	65 881	(126 895)	17 923	(47 958)
Net PP&E	135 449	144 032	8 583	143 857	1 139
Transaction costs			10 888		
Closing date and final purchase price			855 000		831 320
Final adjustment					23 680

3. Submission of a comprehensive transformation plan

A comprehensive transformation plan is in the process of being compiled and a presentation session will be scheduled with the relevant DPE officials in the next few weeks.

Should you require further information, please do not hesitate to contact me or Denel executive management.

Yours faithfully



Martie J Janse van Rensburg
CHAIRMAN OF THE DENEL BOARD (Interim)

cc. Mr Nhlanhla Nene – Minister of Finance
Ms Matsietsi Mokholo – Acting Director General: Department of Public Enterprises
Mr Riaz Saloojee – Group Chief Executive Officer: Denel

Company Confidential



Annexure “MJVR8”





MINISTRY
PUBLIC ENTERPRISES
REPUBLIC OF SOUTH AFRICA

Private Bag X15, Hatfield, 0028 Tel: (012) 431 1118/1150 Fax: (012) 431 1039
Private Bag X9079, CAPE TOWN, 8000 Tel: (021) 461 6376/7/469 6760 Fax: (021) 465 2361/461 1741

Ms Martie Janse van Rensburg
Interim Chairperson: Denel SOC Limited
P O Box 8322
Centurion
0046

Tel: 012 671 2791
Email: martievr@gmail.com
Elizabetha@denel.co.za

Dear Ms Janse van Rensburg

ROTATION OF NON-EXECUTIVE DIRECTORS OF THE DENEL BOARD

As you are aware, at the 2014 Annual General Meeting, I took a resolution to re-appoint the Non-Executive Directors (NEDs) of the Denel Board pending a review. With the conclusion of the review, I have informed the Directors, individually, of the rotation of the Board.

The last day of the out-going Directors will be the date of the 2015 AGM, currently scheduled for 23 July 2015. I express my appreciation in recognition of the admirable leadership and achievements of the out-going Board and I wish the in-coming Board members well on their new journey in taking Denel to greater heights in the achievement of its mandate.

I must stress the need for a smooth transition. It is my intention that conveying the decision at this early stage allows the Board sufficient time to conclude the various reports within the Annual Report. Importantly, it allows the Board the full benefit to anticipate handing over the baton to the new Board which will take office on 24 July 2015. During this time, the Board will agree that, it is imperative that there is a seamless transition that ensures continued stability of the company and the preservation of its good reputation.

I will, therefore, appreciate your highest cooperation and that of the whole Board in maintaining leadership as the company finalises the 2015 Annual Financial Statements and Annual Report. To this end, I request a special written handover report which identifies, issues, challenges, risks and opportunities, and more especially details the following:

- Status of all critical matters currently within the purview of the Board and its committees;
- The transactions that are being considered (PFMA applications and any transactions that may require any other approval, regulatory or otherwise);
- Major contracts that are about to be concluded;
- Significant pending stakeholder matters;
- Likely issues which may require risk mitigation strategies;
- Any other issues that will require the Shareholder's attention and action.

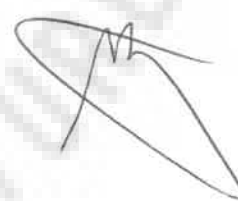
The handover report will also give the incoming Board a sense of the matters which require immediate- medium- and longer- term execution. It will be appreciated if the Report can reach me within a week of the date of this letter.

My office will set up a meeting to further discuss the transition requirements and allow you an opportunity to share the contents of the report to me.

Yours sincerely


MS LYNNE BROWN, MP
MINISTER OF PUBLIC ENTERPRISES

DATE: 25/05/2015



Annexure “MJVR9”



From: Martie martievr@gmail.com
Subject: Re: Meeting request
Date: 20 May 2015 at 11:06
To: Elizabeth Africa Elizabetha@denel.co.za



Thanks Elizabeth!

Kind regards
Martie Janse van Rensburg
0825675430

Sent from my iPad

On 20 May 2015, at 10:12, Elizabeth Africa <Elizabetha@denel.co.za> wrote:

Dear Martie

Please note Kim's response : "The request and contents hereof will be brought to the Ministers attention".

Apparently Minister is attending Cabinet today so we can expect a response by this afternoon.

Kind regards
Elizabeth

From: Martie Janse van Rensburg [mailto:martievr@gmail.com]
Sent: 19 May 2015 22:52
To: Elizabeth Africa
Subject: Meeting request

Dear Elizabeth

Can you please request a meeting with Minister Brown in my capacity as Interim Chairman to discuss board transition matters?

In my mind it is prudent to have this meeting as soon as possible. It will also enable me to address the issue about continuity and current strategic matters on the board's mind.

Kind regards

Martie Janse van Rensburg
martievr@gmail.com
Cell: +27 82 567 5430
Fax: +27 86 653 4934

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A handwritten signature in black ink, located in the bottom right corner of the page.

From: Martie Gmail martievr@gmail.com
Subject: Re: Request for a meeting with Minister Brown
Date: 10 June 2015 at 06:38
To: Annelize Van Wyk Annelize.VanWyk@dpe.gov.za
Cc: Kim Davids Kim.Davids@dpe.gov.za, Nonhlanhla Mokoena Nonhlanhla.Mokoena@dpe.gov.za, Elizabeth Africa Elizabetha@denel.co.za, Tanya vd Merwe TanyaV@denel.co.za

Thank you Annelize.

Kind regards
 Martie van Rensburg
 +27825675430
 Sent from my iPhone

On 09 Jun 2015, at 21:41, Annelize Van Wyk <Annelize.VanWyk@dpe.gov.za> wrote:

Dear Martie

Please note that DM was asked today to make sure that a meeting with yourself are taking place. I will follow up with his office whether indeed a time has been set for said meeting.

Kind regards

Annelize van Wyk
 Special Advisor

Sent from my Samsung Galaxy smartphone.

----- Original message -----

From: Martie Gmail
Date: 09/06/2015 16:19 (GMT+02:00)
To: Kim Davids
Cc: Nonhlanhla Mokoena , Annelize Van Wyk , Elizabeth Africa , Tanya vd Merwe
Subject: Re: Request for a meeting with Minister Brown

Thank you Kim.

Kind regards
 Martie van Rensburg
 +27825675430
 Sent from my iPhone

On 09 Jun 2015, at 15:22, Kim Davids <Kim.Davids@dpe.gov.za> wrote:

Dear Acting Chair,

Thank you kindly for the email received and hereby acknowledged. The contents hereof will be brought to Minister attention.

Kind regards

Ms Kim Davids

Executive Personal Assistant: Office of Minister L Brown

<image001.gif>+27 (0)12 431 1098 | <image002.gif>+27 (0)12 431 1039 |
 <image003.gif>Kim.Davids@dpe.gov.za | <image002.gif>+27 (0)72 700 8067
 1090 Arcadia Street | InfoTech Building | Hatfield | Pretoria | Switchboard: +27 12 431 1000

<image001.gif>+27 (0)21 469 6762 | <image002.gif>+27 (0) 21 465 6762 | 120 Plein Street | 16th Floor
 | Cape Town | Fax: 086 604 2498

<image004.jpg>

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From: Martie Janse van Rensburg [mailto:martievr@gmail.com]

Sent: 09 June 2015 03:10 PM
To: Kim Davids; Nonhlanhla Mokoena
Cc: Annelize Van Wyk; Elizabeth Africa; Tanya vd Merwe
Subject: Request for a meeting with Minister Brown
Importance: High

Dear Kim

In follow up to our previous attempts to set up a meeting with the Minister, I am requesting a meeting to discuss the recent correspondence sent to the Minister. I have written to the Minister:

- on 29 May 2015 in response to her letter dated 25 May 2015 and requesting a meeting (the email with the letter attached was dated 1 June 2015),
- on 2 June 2015 dealing with the Group CEO contract term; and
- on 4 June 2015 dealing with the Denel Board handover report.

The previous meeting with the Minister on 25 May 2015 needed to be cancelled and the proposed meeting with the Deputy Minister on 27 May 2015 did not take place.

I will really appreciate the opportunity to engage with the Minister on the matters raised in the correspondence. Your urgent feedback will be appreciated.

Kind regards

Martie Janse van Rensburg
Acting Chairman of Denel Soc Board
martievr@gmail.com
martiejvr@denel.co.za
Cell: +27 82 567 5430
Fax: +27 86 653 4934

Begin forwarded message:

Subject: Deputy Minister meeting Acting Chair Denel
Date: 25 May 2015 at 09:37:50 SAST
From: "Tanya van der Merwe" <TanyaV@denel.co.za>
To: <martievr@gmail.com>



Dear Ms Janse van Rensburg
 I.t.o. the e-mail below, kindly advise your availability to meet with the Deputy
 Minister.
 Kind regards

Tanya van der Merwe
 Secretariat Department
 Tel: +27 12 671 2769
 Fax: +27 12 671 2860
 Cell: +27 79 511 2712
 Email: tanyav@denel.co.za

From: Elizabeth Africa
Sent: 25 May 2015 09:20 AM
To: 'Kim Davids'; Nonhlanhla Mokoena; Annelize Van Wyk; Lindiwe Princess Kotane; Phillip Mbanyana
Cc: 'Martie Janse van Rensburg'; Tanya van der Merwe
Subject: RE: Canceled: Minister meeting Acting Chair Denel

Thanks Kim
 Will do
 Kind regards
 Elizabeth

-----Original Appointment-----

From: Nonhlanhla.Mokoena@dpe.gov.za [<mailto:Nonhlanhla.Mokoena@dpe.gov.za>] **On Behalf Of** Kim Davids
Sent: 25 May 2015 09:17
To: Elizabeth Africa; Nonhlanhla Mokoena; Annelize Van Wyk; Lindiwe Princess Kotane; Phillip Mbanyana
Subject: Canceled: Minister meeting Acting Chair Denel
When: 28 May 2015 14:00-15:00 (GMT+02:00) Harare, Pretoria.
Where: Minister Boardroom, 16 Floor, 120 Plein Street Cape Town
Importance: High

Dear Elizabeth

Please note that we have to cancel this meeting as Minister will not be able to meet with Denel Chair due to other pressing issues but has requested that Deputy Minister meet with her.

Kindly liaise with Lindiwe to get a date from DM's diary for this meeting.

Kind regards

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From: Martie Janse van Rensburg martievr@gmail.com
Subject: Re: Accepted: Meeting between Deputy Minister of Public Enterprises and Acting Chairperson of Denel
Date: 25 June 2015 at 13:04
To: Elizabeth Africa Elizabetha@denel.co.za



Hi Elizabeth

I will reschedule my dairy in order to make it.

Kind regards

Martie Janse van Rensburg
martievr@gmail.com
 Cell: +27 82 567 5430
 Fax: +27 86 653 4934

On 25 Jun 2015, at 11:50, Elizabeth Africa <Elizabetha@denel.co.za> wrote:

Hi Martie

Please find attached request to move the meeting to 14:00 on 3 July 2015 with DM, please let me know if this is in order.

Kind regards
 Elizabeth

From: Lindiwe Princess Kotane [<mailto:Lindiwe.Kotane@dpe.gov.za>]
Sent: 25 June 2015 11:22
To: Tanya van der Merwe; Elizabeth Africa
Cc: Nontobeko Florence Gwadelala
Subject: FW: Accepted: Meeting between Deputy Minister of Public Enterprises and Acting Chairperson of Denel

Good morning colleagues

Due to the meeting that the Deputy Minister must attend at the Presidency on the 3rd July 2015 at 09h30am to 12h30pm, I request that we move the time to 14h00 at the same day and the same venue.

I apologise for any inconvenience this may cause.

Kind regards

Lindiwe Princess Kotane | Ms.
 Office of the Deputy Minister
 <[image001.gif](#)>+27 (0)72 627 6175 | <[image002.gif](#)>+27 (0)12 431 1262 / +27 (0) 21 469 6788
 <[image003.gif](#)>+27 (0)86 501 2624 | <[image004.gif](#)>email : Lindiwe.Kotane@dpe.gov.za
 1090 Arcadia Street | InfoTech Building | Hatfield | Pretoria | Switchboard: +27 12 431 1000

<[image005.jpg](#)>

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From: Lindiwe Princess Kotane
Sent: 18 June 2015 11:58 AM
To: 'Elizabeth Africa'

Cc: Tanya van der Merwe (TanyaV@denel.co.za); Phillip Mbanyana; Annelize Van Wyk; Nontobeko Florence Gwadelala
Subject: RE: Accepted: Meeting between Deputy Minister of Public Enterprises and Acting Chairperson of Denel

Good morning Elizabeth

Yes the Deputy Minister did contact Ms Janse van Rensburg and I propose the 03 July 2015 from 10h00am to 12h00pm at our offices in Pretoria.

Kind regards

Lindiwe Princess Kotane | Ms.
 Office of the Deputy Minister
 <image001.gif>+27 (0)72 627 6175 | <image002.gif>+27 (0)12 431 1262 / +27 (0) 21 469 6788
 <image003.gif>+27 (0)86 501 2624 | <image004.gif>email : Lindiwe.Kotane@dpe.gov.za
 1090 Arcadia Street | InfoTech Building | Hatfield | Pretoria | Switchboard: +27 12 431 1000

<image005.jpg>

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From: Elizabeth Africa [<mailto:Elizabetha@denel.co.za>]
Sent: 18 June 2015 10:33 AM
To: Lindiwe Princess Kotane
Cc: Tanya van der Merwe
Subject: RE: Accepted: Meeting between Deputy Minister of Public Enterprises and Acting Chairperson of Denel

Dear Lindiwe

Apparently the DM called Ms Janse van Rensburg this morning and informed her that unfortunately the meeting had to be cancelled, and he also will not be able to meet next week as he is out of town. He did say that he would be able to meet with her the week after next.

Can you please check and let me know ito rescheduling this meeting.

Thanks and kind regards

Elizabeth

-----Original Appointment-----

From: Lindiwe Princess Kotane [<mailto:Lindiwe.Kotane@dpe.gov.za>]
Sent: 17 June 2015 08:28
To: Elizabeth Africa
Subject: Accepted: Meeting between Deputy Minister of Public Enterprises and Acting Chairperson of Denel
When: 19 June 2015 10:00-11:00 (GMT+02:00) Harare, Pretoria.
Where: DPE, Infotech Building, 1090 Arcadia Street, Hatfield



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Annexure “MJVR10”



**DENEL GROUP**

Tel: +27 12 671 2896
Fax: +27 12 671 2944
Email: martiejvr@denel.co.za

29 May 2015

Ms Lynne Brown, MP
Minister of Public Enterprises
Infotech Building
1090 Arcadia Street
Hatfield

Dear Minister Brown

ROTATION OF NON-EXECUTIVE DIRECTORS OF THE DENEL BOARD

Your letter dated 25 May 2015 has reference. It has been an honour and privilege to serve on the Board of Denel, with particular reference for the opportunity of serving as Interim Chairman in this period.

I can state on behalf of the Board we are proud of the legacy we are leaving, seeing Denel turnaround from a failing SOC to a company that is going from good to great.

As professionals and in consideration of our fiduciary duty as Board members, we can assure you of a seamless transition that ensures continued stability of the company and the preservation of not only the company's reputation but also the Board's as a whole. Our integrity will ensure that we will continue to provide the highest cooperation and maintaining leadership as the company finalises the 2015 Annual Report including the Financial Statements and other on-going matters such as the implementation of the recent LSSA acquisition.

The Board met on 28 May 2015 to agree on the content that should be included in the written handover report identifying issues, challenges risks and opportunities, as requested in your letter. The report would be provided to you on Wednesday 3 June 2015.

The Board acknowledges the right of the shareholder to rotate Board members but need to register our concern that the lack of continuity in Non-executive Board leadership may put Denel at risk. A 90% change in the Non-executive Board membership inherently increases the risk of instability and diversion of focus in this critical period of Denel's turnaround. Good corporate governance practise, including King III, warns against it. Since the 2014 Annual General Meeting the Board have been contemplating the eminent change and for this reason considered it prudent to review the term of Executive Management contracts to ensure that

Denel SOC Ltd, Reg No 1992/001337/30, Nellmapius Drive, Irene
P O Box 8322, Centurion, 0046, South Africa. Tel: +27 (0)12 671 2700, Fax: +27 (0)12 671 2751
Directors: Ms M J Janse van Rensburg (Acting Chairman), Mr R Saloojee¹ (Group Chief Executive Officer), Adv. G Badela,
Dr G C Cruywagen, Ms Z B Mathenjwa, Mr Z Mhlontlo¹, Mr N J Motseki, Mr M Msimang, Mr B F Ngwenya, Prof S M Nkomo,
Adv M S Ntshikila, Mr M V Ratshimbilani.

¹Executive Director
Group Company Secretary: Ms E M Africa

continuity on this level will be maintained. A separate letter will follow with the motivation to extend the Group CEO contract for a 5 year term. This was the key issue that I wanted to discuss with you in my earlier meeting requests.

I assure you of my and the Board's commitment and cooperation and looking forward to meet with you to discuss the contents of the handover report, our request to extend the Group CEO contract and the transition arrangements to ensure that we create an enabling environment for Denel on its journey from good to great.

Yours sincerely



Martie MJ Janse van Rensburg
INTERIM CHAIRMAN OF THE DENEL BOARD



Annexure “MJVR11”





DENEL GROUP

Tel.: +27 12 671 2896
Fax: +27 12 671 2860
E-mail: martiejvr@denel.co.za

1 June 2015

Ms Lynne Brown
Minister of Public Enterprises
Department of Public Enterprises
Suite 301, Infotech Building
1090 Arcadia Street
HATFIELD

Dear Minister Brown

REVIEW OF THE TERM OF OFFICE OF DENEL'S GROUP CHIEF EXECUTIVE OFFICER (GCEO)

I refer to your recent decision regarding the rotation of the Board as detailed in your letter dated 25 May 2015, with specific reference to the handover report identifying challenging issues amongst others.

At the Annual General Meeting held on 23 July 2014, and subsequent Board meetings, the Board took cognizance of the fact that there was a strong likelihood that there would be a change in the Board membership and thus agreed to propose to you to extend the GCEO's term of office for five years.

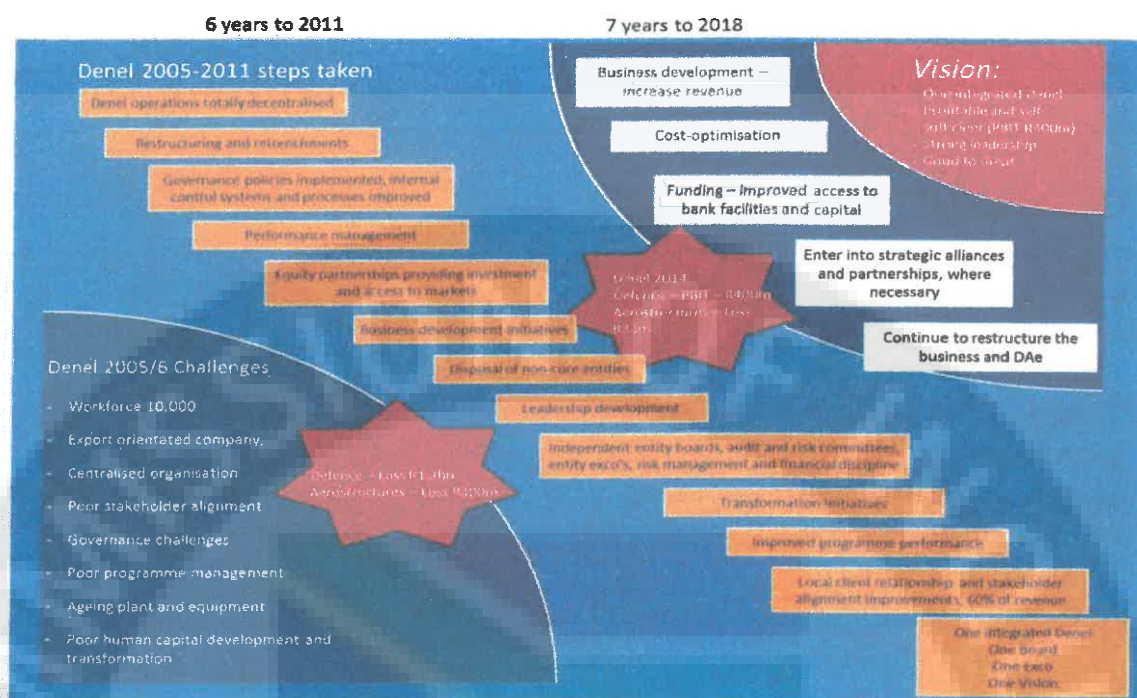
The Board's proposal is based on a number of significant aspects in which the GCEO has excelled in terms of turning Denel around (which is still in progress) and the Board's role in identifying any potential risks for the Company. As per the DPE's Guidelines for the re-appointment of a CEO for a SOC, with reference to paragraph 1.2 on succession planning, the following significant issues are highlighted and encapsulated in the GCEO's performance report for last three years as detailed below.

1. The need to ensure that there is **stability and continuity** within the company, due to the long lead times of the majority of contracts that Denel is involved in (a number of these contracts are in development and start-up production) and where the company is in the roll out of its strategy. This will require a strong focus from the GCEO in managing the various stakeholders' expectations in the delivery of these contracts and strong leadership in order to successfully complete these contracts.

Company Confidential

A handwritten signature in black ink, consisting of a stylized, cursive script. The signature is written over a small number '1'.

A graphical illustration of Denel's journey from 2005 is shown below and it can be seen that the proposed end state of the turnaround should be achieved in 2018:



2. The **strong focus on growth strategies** which management have developed and recommended to the Board for approval has resulted in a solid order pipeline and positive corporate plan with specific reference to the 5 year growth strategy as detailed therein. The significant issue related to this aspect revolves around the performance in the execution of these orders over the next three to five years. For instance, Denel's order book amounts to R35bn, triple the secured orders of a few years ago and a six-fold annual revenue cover. The order book is actually the highest in the history of the company, providing a stable foundation for future growth and sustainability. Whilst it is acknowledged that concluding orders takes several months ranging from between 24 to 60 months, the execution of these orders range from medium-term to long-term which can span between 3 to 8 years (Hoefyster contract).

The table below reflects the order book over an eight year period:



3. **Strong improvement in the bottom line** of Denel addressing the going concern and insolvency issues that were a main concern over the past period. The significant improvement in Net Profit and improved quality of earnings improved the sustainability of the company over the past three years. The GCEO displayed a firm grip to ensure that this was achieved and is sustainable going forward.

The improvement in performance of Denel under the leadership of the Group CEO is summarised as follows:

Item	2015 R million	2012 R million	% Change
Order cover	35 113	12 958	171%
Revenue	5 852	3 568	64%
EBIT	397	133	198%
Profit for year	270	41	558%
Equity	1 927	1 401	37%

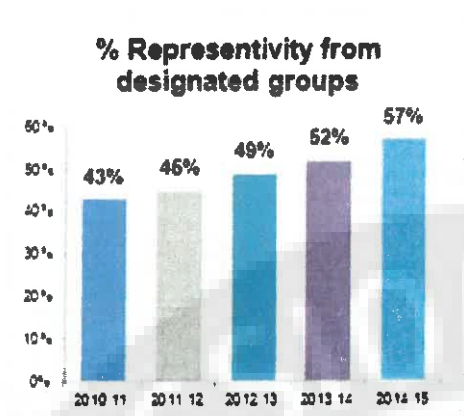
Item	2015	2012
Net Profit /Revenue	4,5%	1,1%
Debt / Equity Ratio	1,1:1	3,0:1
Current Asset Ratio	1,7:1	0,9:1
Revenue per employee	13	0,8

4. **HR and Transformation** – the GCEO displayed keen insight and commitment to the imperatives of Government's NGP with specific reference to ensuring that there is transformation within the company. Of note is:

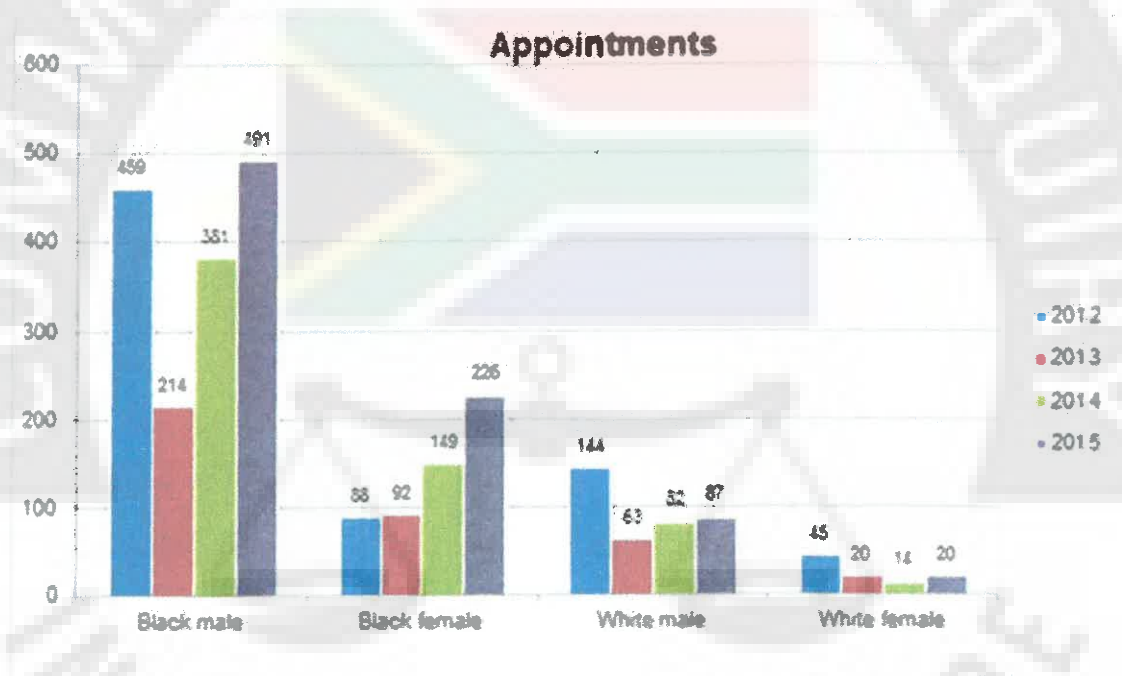
- the appointment of young black managers as CEOs of divisions,
- empowerment of women and emerging black talent as deputy CEOs in divisions,
- the strong focus on enterprise development e.g. Group Supplier Day held for the first time in the company, whereby potential youth and women were given the opportunity to engage with the management of all the divisions and to explore potential opportunities.

Specific interventions on Executive and Senior Management level, lead to an improvement of representivity. In 2015, 73% of Executive Management and 44% of Senior Management was black in comparison to when the GCEO took over leadership in 2012 when it was 41% and 37% respectively.

With the initiatives implemented by the GCEO, Denel has made significant progress during the last five years with regards to improving representivity in the organisation, which is reflected in the table below:



The graph below further illustrates the representivity i.t.o. appointments by race and gender:



Our attraction strategies are working:

- 824 new employees appointed
- 87% were AGI
- 30% were female
- 282 jobs created

5. **Creating a cohesive business** - Decentralisation of the Group and the silo effect that was a result thereof has been rectified by:

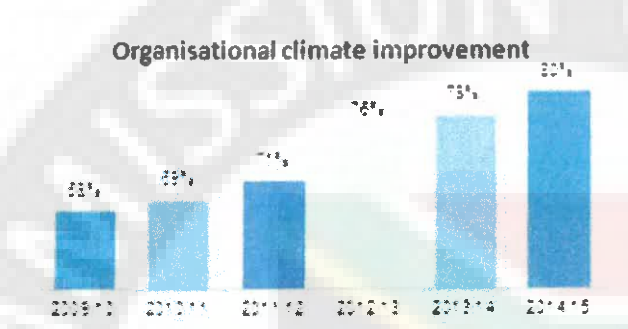
- the integration of the various divisions,
- integration of the Exco whereby all CEOs of divisions form part of.

This has had a positive influence not only on the bottom line but removed the silo effect and created cohesion within the group which is reflected in the positive results the company has been declaring for the past three years.

6. Organisation Climate

The GCEO's positive attitude has fostered a culture within Denel to continuously strive to improve the organisational climate. A vast improvement in the groups transformation plans to address transformation within their workplaces was implemented, with the GCEO holding the respective divisional heads accountable to ensure that there was significant improvement in the organisational climate.

The table below reflects a significant improvement over the last three years:



I would therefore like to reiterate that this motivation is based on the exceptional leadership performance of the GCEO demonstrated thus far and to ensure continued execution of the company's strategy over the long-term. Mr Saloojee has not only provided the leadership to drive the business performance but the Board can also confirm that he has also cultivated a positive climate and culture for Denel's 4 559 as attested to in the detail above.

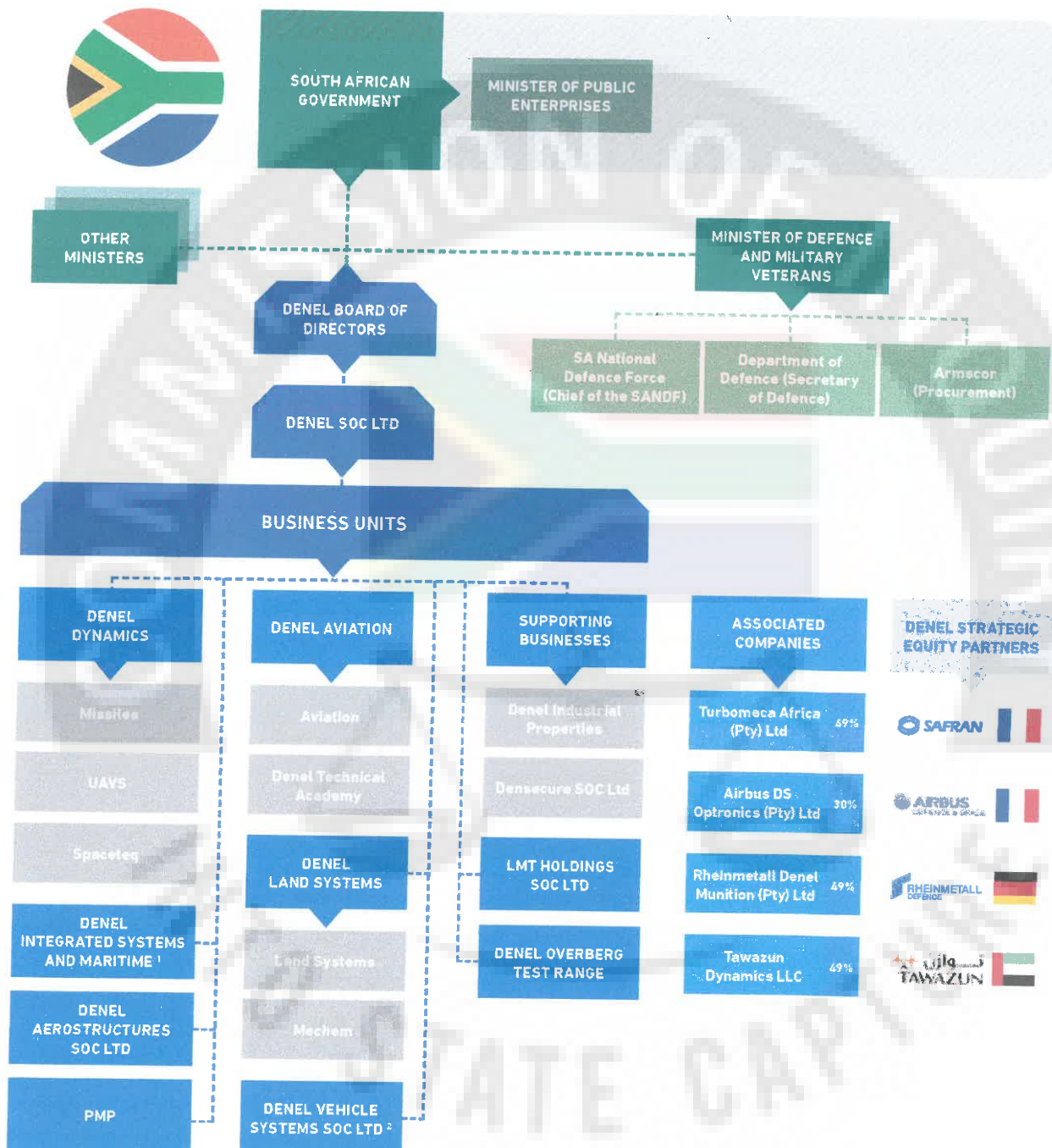
Having applied its mind the Board therefore recommends to the Minister that the GCEO's term of office be extended for a further five (5) years.

Thanking you in anticipation.

Yours sincerely

Martie MJ Janse van Rensburg
INTERIM CHAIRMAN OF THE DENEL BOARD

ORGANISATIONAL STRUCTURE

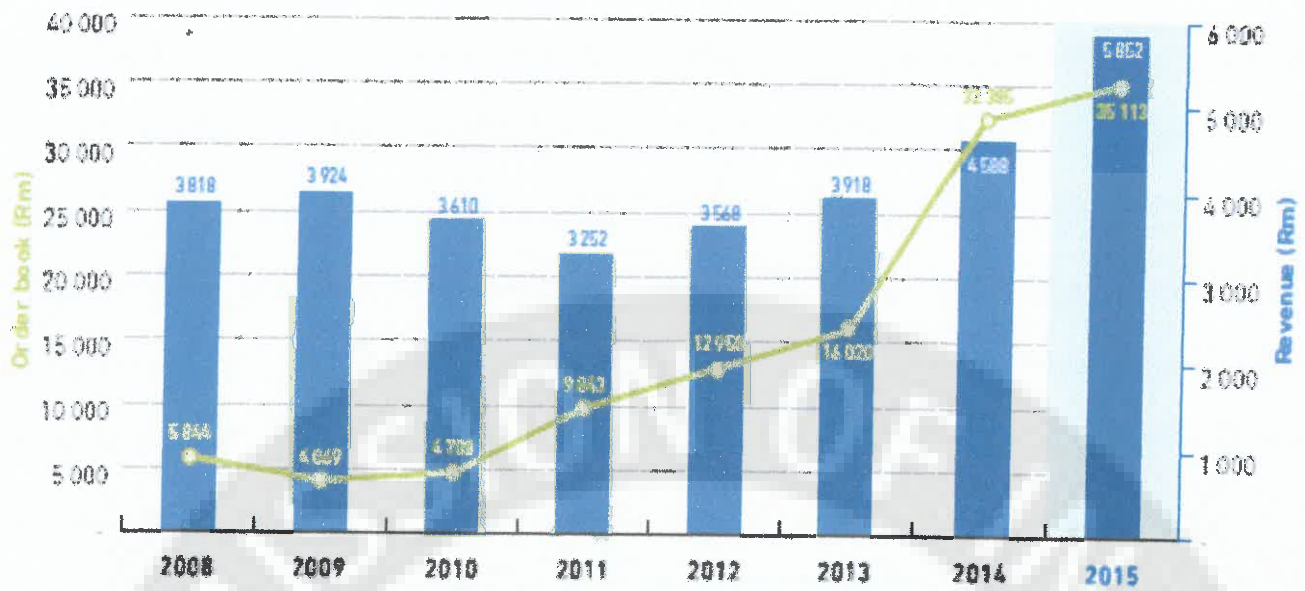


¹ Operational as of 1 April 2015

² Previously known as LSSA - As of 28 April 2015 100% owned by Denel

Para 17 - graph

Details regarding the cumulative order cover and annual revenue are reflected below:



Para 18 - graph

