

Denel Reinforces Commitment To Good Governance You are here: Media Centre / News & Press

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Denel is a strategic company for South Africa and over the past months, the company, its Board and senior executives have been under tremendous media attack and scrutiny. As the Board, we are totally committed to ensuring that Denel is managed with good governance and sound business practices.

Since September 2015, Denel has been inundated with media queries and questions which makes it difficult for the Board and management to focus on their core responsibilities to manage the affairs of the company. Therefore, in order to protect the integrity and reputation of both the Board and the company, it is important to clarify some aspects relating to business transactions considered by the Board since its appointment in July 2015.

It is important to state upfront that, this media statement is not an attempt by Denel and its Board to communicate with government through the media but it is important to set the public record straight. The Board is mindful of its fiduciary responsibility for accounting to various stakeholders including the South African public on Denel's business activities and decisions.

The Board would like to clarify some of the issues that are in the public domain. It must be noted that some of these issues are still subject to internal and legal processes and therefore, would not be elaborated on in detail in order to protect the integrity of these processes and the individuals involved.

SUSPENDED EMPLOYEES

Following a resolution at its meeting of 25th September 2015, the Board suspended three executives, namely the former Group CEO, CFO and the Company Secretary.

The decision to suspend these executives was taken to allow for the unfettered investigation to address concerns that the Board had raised regarding Denel's acquisition of BAE Land Systems South Africa (LSSA). What is distinct about this transaction from others, are the facts that transpired subsequent to the granting of Board and shareholder approval. The preliminary assessment conducted by the Board during implementation of the transaction highlighted serious areas that required detailed investigation.

The Board has previously refrained from commenting in detail on the matter, given the nature of the disciplinary process. However, given the degree of misrepresentation and misreporting over the past few days, the following points now need to be made:

The assessment undertaken by the Board is a normal process required in the ordinary monitoring of transactions as part of its oversight and fiduciary duties. This was not aimed at purging any of the executives or employees of the company but, to solicit a clearer

understanding of the transaction from the executive who was part of the decision-making process then and privy to the rationale presented to the former Board.

It is unfortunate that what was intended to be an internal company matter became a subject of media and public speculation -- casting serious aspersions on our motive as the Board.

At the core of the allegations against these officials is the fact that the funding model that was approved for the BAE LSSA transaction was not implemented in that form, and BAE LSSA's liquidity was misrepresented.

The CEO's contractual obligation to Denel was terminated as his contract was about to expire, and Denel is proceeding with disciplinary action against the other two officials.

DENEL ASIA

This is not the first transaction of this scale and magnitude that the company embarked upon, there were many others in the past and certainly, there would still be more in the future. However, the keen interest shown by the media and the public in this transaction has created a perception that there is huge controversy, malice and something shoddy with the manner in which the transaction was structured.

Denel has established many cross border companies and concluded partnerships with foreign entities before. In actual fact, the success of the current turnaround strategy was premised on the formation of associate companies with international companies such as Turbomeca, Airbus Optronics and Rheinmetall amongst others. This strategy was adopted by previous Denel Boards and has been in implementation since 2005. These partnerships contributed to the successful business turnaround and sustainability of the company, evidenced by an order book of more than R20 billion.

The Denel Asia transaction was considered in furtherance of this strategy and the process to form the Joint Venture commenced before the current Board came to office. Further, it is important to highlight the fact that in the past, Denel suffered serious business and reputation damage as a result of its marketing strategy which allowed for appointment of "Agents" in foreign jurisdiction. The decision to consider joint ventures was also to minimize the business risks associated with "Agents" in some of the countries we have identified for Business expansion.

For purposes of clarity we would like to provide a brief background on the VR Laser contract with Denel.

VR LASER CONTRACT WITH DENEL

Denel Asia is composed of VR Laser Asia and Denel. VR Laser Asia has direct relations with VR Laser South Africa and has been doing business with Denel for more than a decade prior to the current Board coming into office. It is therefore incorrect to state that this board

“brought the Gupta family into Denel” particularly as the Gupta family has no business interest in VR Laser Asia.

VR Laser South Africa's work at Denel includes the steel cutting and fabrication contract on the Hoefyster Project, which was awarded before this board took office.

The total value of the Hoefyster Project is R12.7-billion, with VR Laser's steel fabrication and cutting component making up R400-million of this. It is therefore incorrect to state that the Gupta family stood to benefit to the tune of more than R10-billion from this contract, as some media reports have suggested.

It must be stated that there is nothing wrong with doing business with any registered, legally-trading business in South Africa, whether the Gupta family or any other.

NATIONAL TREASURY AND DPE ENGAGEMENTS WITH DENEL

Denel Executives are in ongoing contact with National Treasury clarifying Denel’s legal compliance in establishing Denel Asia. No further comment will be made on this matter until such discussions with Treasury are concluded. We have been assured that through our shareholder department DPE, we will engage with Treasury to clarify our full compliance with the PFMA.

The Board of Denel will continue to engage with all affected stakeholders, in particular, the Minister of Public Enterprises, to ensure continuing oversight and support to the company and its leadership.

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