

Corporate governance report

Deneb is committed to a high standard of corporate governance and endorses the recommendations contained in the King Code of Governance Principles for South Africa 2009 (King III). Sound corporate governance principles are viewed as pivotal to delivering the Group's strategic and sustainability objectives.

This report provides our stakeholders with insight as to how the board and its underlying committees are overseeing and guiding the Group's performance and strategy. It further outlines our corporate structure which is responsible to ensure compliance with internal policies and external regulation.

Board of directors

Deneb's board of directors is tasked with both leading and controlling the Group's strategy and operations. The basis for good governance at Deneb is laid out in the board charter, which sets out the division of responsibilities between the board and executive management. The collective experience and diversity of the directors bring a broad perspective and insight. Their knowledge comes from a diverse array of backgrounds and specialist skills across a range of sectors including law, accounting, manufacturing, logistics, education and industrial relations.

Board composition

The board of directors comprises eleven members, seven non-executive directors and four executive directors. Four of the seven non-executive directors are independent. The composition of the board is a reflection of the demographics of the Group's diversified investments and attempts to ensure a representative voice of all relevant stakeholders. The composition of the board is regularly reviewed to ensure a balance of power and authority, negate individual dominance in the decision-making processes and promote objectivity.

Board appointment

The appointment to the board of directors is governed by a formal board-approved mandate regulating the terms of reference and incorporates the provisions of the Companies Act of 2008, as amended, the mandatory

provisions as stipulated in paragraph 3.84 of the JSE Listings Requirements, recommendations of the King Code and the MOI of the company. There is a distinct division of responsibilities at board level so that not one individual has unfettered powers of decision-making. The board as a whole, within its powers and in a formal and transparent manner, is responsible for the selection and appointment of directors. Directors do not have a fixed term of appointment and there is no mandatory retirement age for non-executive directors.

Mr J A Copelyn has been appointed by the board as the non-executive chairman. The roles of chairman and chief executive officer are separate with a clear division of responsibilities.

The company's ultimate controlling shareholder is Hosken Consolidated Investments Limited (HCI). Four of the non-executive directors, namely Messrs J A Copelyn, K Govender, Y Shaik and Ms R D Watson also serve on the HCI board.

The company's memorandum of incorporation provides that at the annual general meeting held each year 1/3 (one-third) of the non-executive directors, or if their number is not a multiple of 3 (three), then the number nearest to, but not less than 1/3 (one-third) shall retire from office. A retiring director shall be eligible for re-election and, if re-elected, shall be deemed not to have vacated office.



Independence of directors

Deneb's non-executive directors acknowledge the need for their independence, while recognising the importance of good communication and close co-operation with executive management. The directors are entitled to seek independent professional advice at the company's expense concerning the company's affairs and have access to any information they may require in discharging their duties as directors. Deneb has appointed Mr M H Ahmed as the company's lead independent director and is responsible for verifying on an annual basis the continuing independence and objectivity of the independent non-executive directors. This is done by assessing any circumstance or relationships that could affect such independence.

Board attendance

The board meets at least four times a year and additional meetings can be convened to consider specific business issues which may arise between scheduled meetings. Directors are provided with substantive board papers to enable them to consider the issues on which they are requested to make decisions. The following table details each director's board meeting attendance during the year under review:

	10 November 2014	2 February 2015	11 March 2015
M H Ahmed	√	√	√
J A Copelyn	√	√	√
D Duncan	√	√	√
L Govender	–	–	√
T G Govender	√	√	√
N Jappie	√	√	√
A M Ntuli	√	√	√
S A Queen	√	√	√
R D Watson	√	√	√
G D T Wege	√	√	√

√ In attendance.

– Not a member of the board.

Company secretary

Deneb has appointed HCI Managerial Services Proprietary Limited as the company secretary. The company secretary provides support and guidance to the board in matters

relating to governance, ethical conduct and their fiduciary duties. Where required representatives of the company secretary facilitate induction and training for directors tailored to their individual needs and co-ordinate the annual board and committee evaluation process. Directors have unrestricted access to the advice and services of the company secretary. The company secretary, or any representatives of the company secretary, do not fulfil any executive management function and maintain an arm's length relationship with the board and its directors. The company secretary is responsible for the functions as set out in section 88 of the Companies Act of 2008 (as amended). The board has assessed the directors and the designated staff of the company fulfilling the role of the company secretariat and is satisfied that they have the competence, qualifications and experience to fulfil the role of company secretary. All board, committee and shareholders' meetings are properly recorded as per the requirements of the Companies Act.

Application of King III

The JSE Limited Listings Requirements made adherence to selected King III requirements compulsory. The directors assessed Deneb's compliance to the recommendations of King III and confirmed that, except where indicated, the company complied with all material aspects of these corporate governance principles. With reference to the remainder of the King III requirements, where the directors' assessment has indicated that certain practices are not in the best interest of Deneb, we explain the reasons for our alternative approach as follows:

Principle 2.16 recommends that the board should elect a chairman who is an independent non-executive director. The board has appointed a non-executive chairman and, in terms of the definition provided, he is not regarded as independent as he is a director of the company's ultimate shareholder. The board is of the opinion that the experience and specialist knowledge of the industry sectors in which Deneb operates, makes it appropriate for him to hold this position. The board has appointed Mr M H Ahmed as lead independent non-executive director.

Principle 2.26 recommends that the remuneration of each individual director and the three most highly paid employees

Corporate governance report (continued)

who are not directors in the company be disclosed. The remuneration report discloses the remuneration of the three most highly paid employees, however the names of the employees who are not directors have not been disclosed as the board is of the opinion that such information is private to the individuals concerned and adds no value to stakeholders.

Principle 4.6 recommends that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks. It is the view of the risk committee that the existing governance principles and levels of risk tolerance embedded within Deneb provide sufficient coverage of the risks associated with the probability of anticipated unpredictable risks.

Principles 4.9 and 9.3 recommends that the effectiveness of the risk management process and sustainable reporting and disclosure should be independently assured. Deneb's external auditors have assured the financial statements and accredited specialist agencies have verified the disclosure on broad-based black economic empowerment, property valuations and carbon emissions. The Group has implemented a combined assurance framework which considers the assurance provided by all independent assurance providers. The extent of the independent assurance received is deemed to be sufficient.

Detailed disclosure of Deneb's adherence to the King III principles is published on our website, www.deneb.co.za.

Dealings in the company's securities

Deneb complies with the continuing obligations of the Listings Requirements of the JSE. The company's directors, executives and senior employees are prohibited from dealing in Deneb securities during prescribed restricted periods. The company secretary regularly disseminates written notices to inform them of the insider trading legislation and advise them of closed periods. All directors and senior executives are required to obtain clearance from the company secretary prior to dealings in the company's securities. All dealings in the company's securities are disclosed in terms of the applicable Listings Requirements.

Whistle-blower "hotline"

A whistle-blower hotline has been implemented in all the businesses of the Group. This service, operated by an independent service provider, enables all stakeholders to anonymously report environmental, safety, ethics, accounting, auditing, control issues or other concerns. It is the responsibility of all employees and stakeholders to report known or suspected unethical or illegal conduct. The follow-up on all reported matters is co-ordinated by internal audit and reported to the social and ethics committee.

Governance of information technology

The board of directors are responsible for information technology (IT) governance. The board tasks the Group head of IT to ensure IT governance compliance within the Deneb Group. The Group head of IT further provides oversight and direction on business level IT strategy, IT investment and the efficiency and effectiveness of IT. IT risk management is aligned with the Group risk management structure and is channelled by way of the risk management committee. The committee receives feedback on critical risk issues, the solutions proposed and progress reports.

Board committees

Deneb's board has established committees to assist it to discharge its duties. The committees play a pivotal role in guiding and overseeing strategy, enhancing high standards of governance and achieving increased effectiveness within the Group. The committees comprise members of the board and executive officers of the Group.

Board committees are free to take independent, outside professional advice within the scope of their terms of reference and as deemed necessary to carry out their duties. The Group's chief executive officer and other members of the executive management whose presence is required for such committees' effective performance of their responsibilities are invited to be in attendance at committee meetings. The board has established five committees to assist in discharging its responsibilities:



Executive committee

Chairman: Mr S Queen

Role: The executive committee is responsible for controlling the day-to-day operational activities of the Group, and the development and implementation of the board strategy.

The Deneb executive committee comprises Messrs S Queen (Chairman, Group Chief Executive Officer), G Wege (Group Financial Director), D Duncan (Chief Operating Officer), K Robson (Properties, Corporate and Legal Services) and I Morris (Branded Product Distribution).

The executive committee meets formally once a week and executive committee members attend the monthly operational meetings of each operating entity within the Group. Such formal weekly and monthly meetings include the review of strategic, operational and financial results. The board is apprised of progress through reporting at board meetings and regular communication with management.

Audit committee

Chairman: Mr M Ahmed

Role: The audit committee oversees the Group's financial statements and reporting processes, including the system of internal financial controls. The committee's report is presented on pages 36 and 37.

Risk committee

Chairman: Mr M Ahmed

Chief Risk Officer: Mr D Levin

Role: The risk committee is primarily responsible for the governance of risk in accordance with the framework of the Group's risk management policy. The committee's report is presented on pages 24 and 25.

Remuneration committee

Chairman: Mr M Ahmed

Role: The remuneration committee ensures that the Group's directors and senior management are fairly rewarded for their individual contribution to overall performance and aligned with the Group's strategy and performance goals. The committee's report is presented on pages 26 to 32.

Social and ethics committee

Chairman: Mr A Ntuli

Role: The social and ethics committee monitors activities relating to ethics, stakeholder engagement and the social impact of the company on communities within which it operates. The committee also monitors progress across all areas of strategic empowerment as well as compliance with transformation codes. The committee's report is presented on pages 19 to 23.



Corporate governance report (continued)

Adherence to King III principles checklist

Principle No.	Principle	
Ethical leadership and corporate citizenship		
1.1	Effective leadership based on an ethical foundation	√
1.2	Responsible corporate citizen	√
1.3	Effective management of Group's ethics	√
Boards and directors		
2.1	The board is the focal point for and custodian of corporate governance	√
2.2	Strategy, risk, performance and sustainability are inseparable	√
2.3	The board should provide effective leadership based on an ethical foundation	√
2.4	The board should ensure that the Group is and is seen to be a responsible corporate citizen	√
2.5	The board should ensure that the Group's ethics are managed effectively	√
2.6	The board should ensure that the Group has an effective and independent audit committee	√
2.7	The board should be responsible for the governance of risk	√
2.8	The board should be responsible for information technology (IT) governance	√
2.9	The board should ensure that the Group complies with applicable laws and considers adherence to non-binding rules, codes and standards	√
2.10	The board should ensure that there is an effective risk-based internal audit	√
2.11	The board should appreciate that stakeholders' perceptions affect the Group's reputation	√
2.12	The board should ensure the integrity of the Group's Integrated Report	√
2.13	The board should report on the effectiveness of the Group's system of internal controls	√
2.14	The board and its directors should act in the best interests of the company	√
2.15	The board should consider business rescue proceedings or other turnaround mechanisms as soon as the Group is financially distressed as defined in the Act	√
2.16	The board should elect a chairman of the board who is an independent non-executive director. The CEO of the company should not also fulfil the role of chairman of the board	x √
2.17	The board should appoint the chief executive officer and establish a framework for the delegation of authority	√
2.18	The board should comprise a balance of power, with a majority of non-executive directors. The majority of non-executive directors should be independent	√
2.19	Directors should be appointed through a formal process	√
2.20	The induction of and ongoing training and development of directors should be conducted through a formal process	√
2.21	The board should be assisted by a competent, suitably qualified and experienced company secretary	√
2.22	The evaluation of the board, its committees and the individual directors should be performed every year	√
2.23	The board should delegate certain functions to well-structured committees but without abdicating its own responsibilities	√
2.24	A governance framework should be agreed between the Group and its subsidiary boards	√
2.25	Companies should remunerate directors and executives fairly and responsibly	√
2.26	Companies should disclose the remuneration of each individual director and certain senior executives	#
2.27	Shareholders should approve the company's remuneration policy	√



Principle No.	Principle	
Audit committee		
3.1	Effective and independent	√
3.2	Suitably skilled and experienced independent non-executive directors	√
3.3	Chaired by an independent non-executive director	√
3.4	Oversees integrated reporting	√
3.5	A combined assurance model is applied to improve efficiency in assurance activities	√
3.6	Satisfies itself of the expertise, resources and experience of the Group's finance function, chief financial officer and company secretary	√
3.7	Oversees internal audit	√
3.8	Integral to the risk management process	√
3.9	Oversees the external audit process	√
3.10	Reports to the board and shareholders on how it has discharged its duties	√
The governance of risk		
4.1/4.2	The board is responsible for the governance of risk and setting levels of risk tolerance	√
4.3	The audit committee assists the board in carrying out its risk responsibilities	√
4.4	The board delegates the risk management plan to management	√
4.5	The board ensures that risk assessments and monitoring are performed on a continual basis	√
4.6	Frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks	x
4.7	Management implements appropriate risk responses	√
4.8	The board ensures continual risk monitoring by management	√
4.9	The board receives assurance of the effectiveness of the risk management process	x
4.10	Sufficient risk disclosure to stakeholders	√
The governance of information technology		
5.1	The board is responsible for information technology (IT) governance	√
5.2	IT is aligned with the performance and sustainability objectives of the Group	√
5.3	Management is responsible for the implementation of an IT governance framework	√
5.4	The board monitors and evaluates significant IT investments and expenditure	√
5.5	IT is an integral part of the Group's risk management	√
5.6	IT assets are managed effectively	√
5.7	The audit committee assists the board in carrying out its IT responsibilities	√
Compliance with laws, codes, rules and standards		
6.1	The board ensures that the Group complies with relevant laws	√
6.2	The board has a working understanding of the relevance and implications of non-compliance	√
6.3	Compliance risk forms an integral part of the Group's risk management process	√
6.4	The board has delegated to management the implementation of an effective framework and processes	√

Corporate governance report (continued)

Principle No.	Principle	
Internal audit		
7.1	Effective risk-based internal audit	√
7.2	Follow risk-based approach to its plan	√
7.3	Written assessment of the effectiveness of the Group's system of internal controls and risk management	√
7.4	Be responsible for overseeing internal audit	√
7.5	Internal audit is strategically positioned to achieve its objectives	√
Governing stakeholder relationships		
8.1	Appreciation that stakeholders' perceptions affect the Group's reputation	√
8.2	Management proactively deals with stakeholder relationships	√
8.3	There is an appropriate balance amongst the Group's various stakeholder groupings	√
8.4	Equitable treatment of stakeholders	√
8.5	Transparent and effective communication to stakeholders	√
8.6	Disputes are resolved effectively and timeously	√
Integrated reporting and disclosure		
9.1	Ensures the integrity of the Group's Integrated Report	√
9.2	Sustainability reporting and disclosure is integrated with the Group's financial reporting	√
9.3	Sustainability reporting and disclosure is independently assured	x

KEY

√ Compliant.

Partially compliant.

x Non-compliant.