



**STATUS UPDATE TO THE
JOINT STANDING
COMMITTEE ON DEFENCE
& DENEL SUPPORT TO
THE SANDF**

16 March 2023



Joint Standing Committee Requirement:

Briefing by Denel on their ability to support the SANDF following the Medium-Term Budget Policy Statement (MTBPS) allocation.



PRESENTATION OVERVIEW

- 1. Denel turn-around status**
- 2. Denel Supply & Support Role & Record**
- 3. Denel's Ability to Support the SANDF**
- 4. Risks and Conclusion**

A light blue silhouette of a world map is centered in the background of the slide, showing the outlines of all continents.

DENEL TURN-AROUND STATUS





CONSOLIDATED & RESTRUCTURED DENEL - OPERATING MODEL

Approved JULY 2022

Core skills allocated to the structure to **maintain a critical mass for all key capabilities** to execute programmes, partner with industry and ramp-up as operational requirements dictate.

Denel SOC
Holding Company Concept
(R&D, Innovation, IP Development & Integration)

Denel Associates & Subsidiaries
Rheinmetall Denel Munitions (Large)
Barij Dynamics (UAE) (PGM's)
Hensoldt Optronics (SA)

Commercial
Business Development, IP Registry & Management, Offset Management, Compliance and Properties

Guided Weapons
Innovation, Design, Engineering, Modelling, Upgrades, Assembly, Test and Support
Restore core and rebuild

Land
Research & Development, Innovation, Design, Engineering, Manufacturing, Assembly, Test & Support
Strengthen core and diversify

Air
Research & Development, Innovation, Design, Engineering, Integration, Upgrades, CAW & MRO
Strengthen core and grow

Integrated Systems
System Level: Design, Engineering, Integration, T&E, ILS, Commissioning and Support
Diversify to Commercial / SOEs

Key Products / Systems
Missiles and Precision Guided Munitions (PGM's) supply and support

Key Products / Systems
Infantry, Artillery, Armoured Vehicles, Mechatronics and Infantry Weapons Products supply & support.
Small Weapons Ammunition & Medium Calibre Munitions supply.

Key Products / Systems / Services
Military Aircraft & Engine MRO, Aircraft Systems Integration & Upgrades, Rooivalk Helicopter, Unmanned Aerial Vehicles, Aerospace Test & Evaluation (@OTR) and other Aerospace products and support

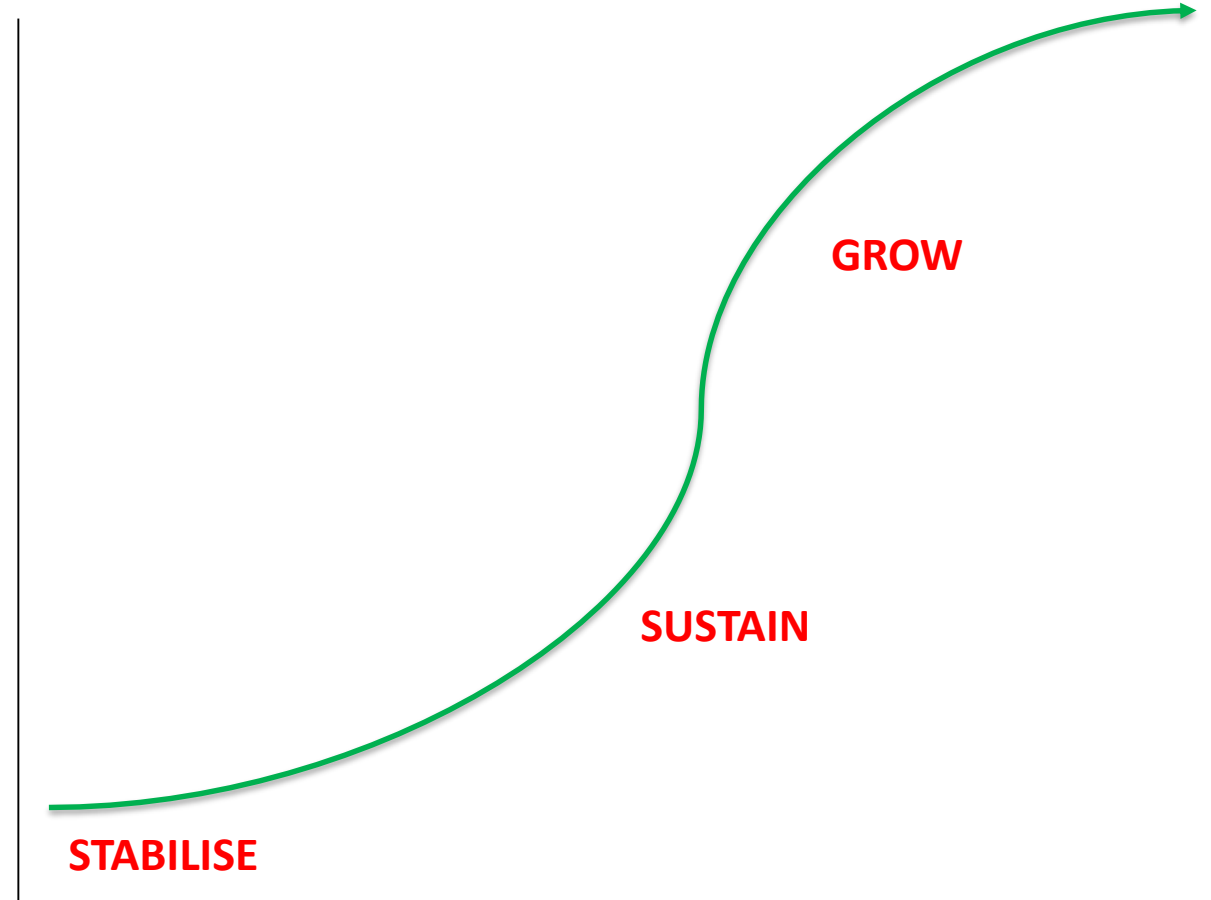
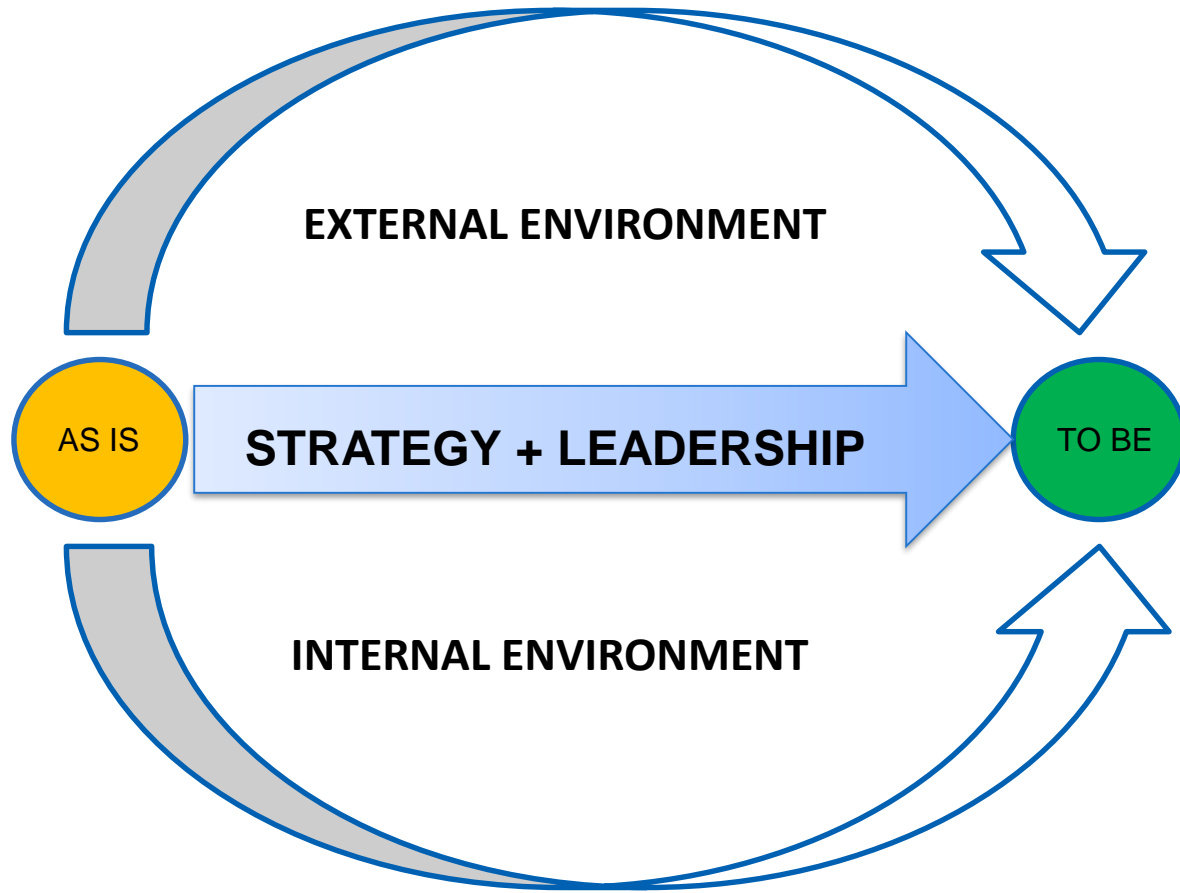
Key Products / Systems
Complex Integrated Systems - Military (eg GBADS), COTS Security Systems and Cyber Solutions supply and support

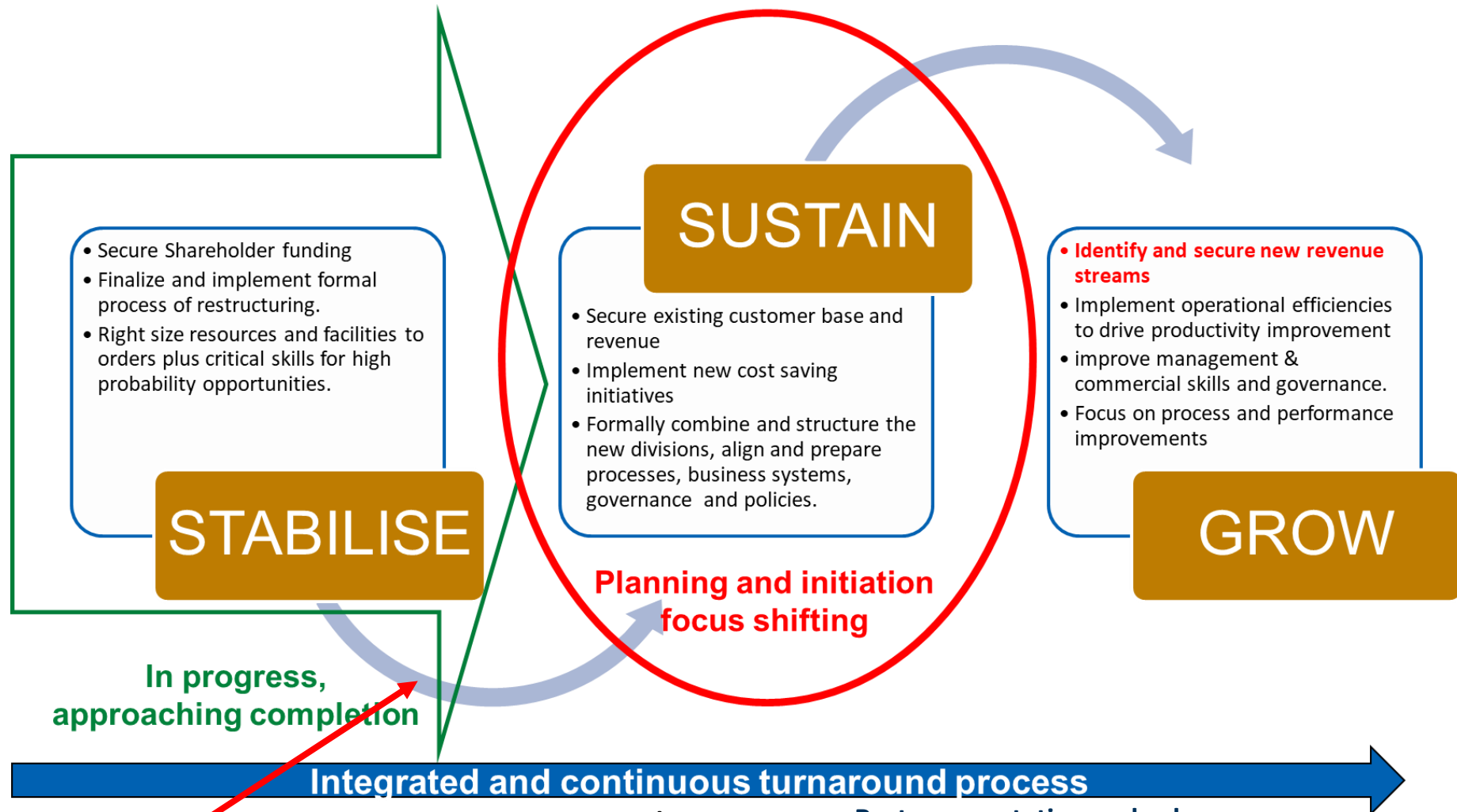
Shared Services
Human Resources, Financial Services, Legal Services, Risk / SHEQ / Configuration, Business Development, Supply Chain, Communications, ICT Services

Model built on a **foundation of standardised Governance, DoA, Policies, Practices, Standards and Business Management Systems**

Industry involvement and development through supply chain with PPPs for lower level production, manufacturing and support

NEW CUSTOMER / MARKET FACING OPERATING MODEL





Note: Process **stalled in transition from “Stabilise” to “Sustain” due to recap funding not materialising** as planned in approved turn-around plan **to support Denel through its cashflow crisis**

Develop:

- Joint Ventures;
- Contracting Partnerships;
- Marketing Agreements;
- Smart Partnerships, etc

Restore reputation and value



Develop SEPs with:

- Shareholder support
- DoD support
- Government Support

Critical Objective

Approach

Progress



The **strategic Intent is to reduce dependence on the fiscus** for the maintenance of critical strategic and sovereign capabilities. The recapitalisation will set the organisation on a **solid basis** as the restructuring will **right size the organisation to current revenue levels. Exports increase economies of scale which will further support the funding of strategic and sovereign capabilities.** These will be **managed through ring-fencing and flexible resourcing** to minimise the impact of rapid declines in exports like cliff face that as experienced during Covid Pandemic. Furthermore, in-country capabilities will minimise the cost of securing and maintaining strategic capabilities, which will otherwise be imported at increased cost.

Alignment with DoD and Armscor on identified sovereign and strategic capabilities and the funding thereof to be identified and articulated through a formalised tripartite Memorandum of Co-operation between the DoD (SANDF), Armscor and the DPE (Denel).

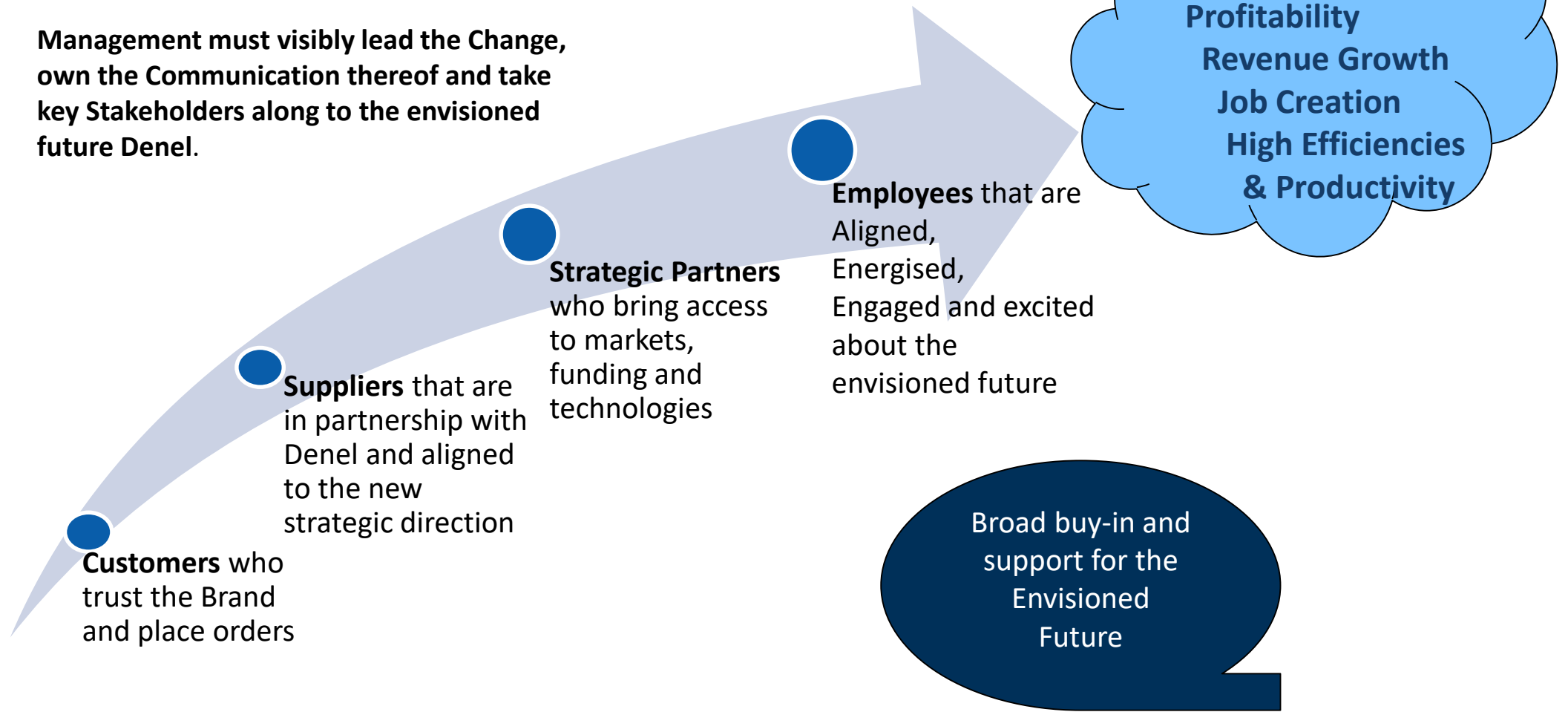
Denel will employ smart partnerships with industry and create the majority of these jobs in industry and not in Denel to make sure that a) **Denel remains lean and mean with flexible cost structure** and b) **capabilities can be leveraged for other productive endeavours** in private industry

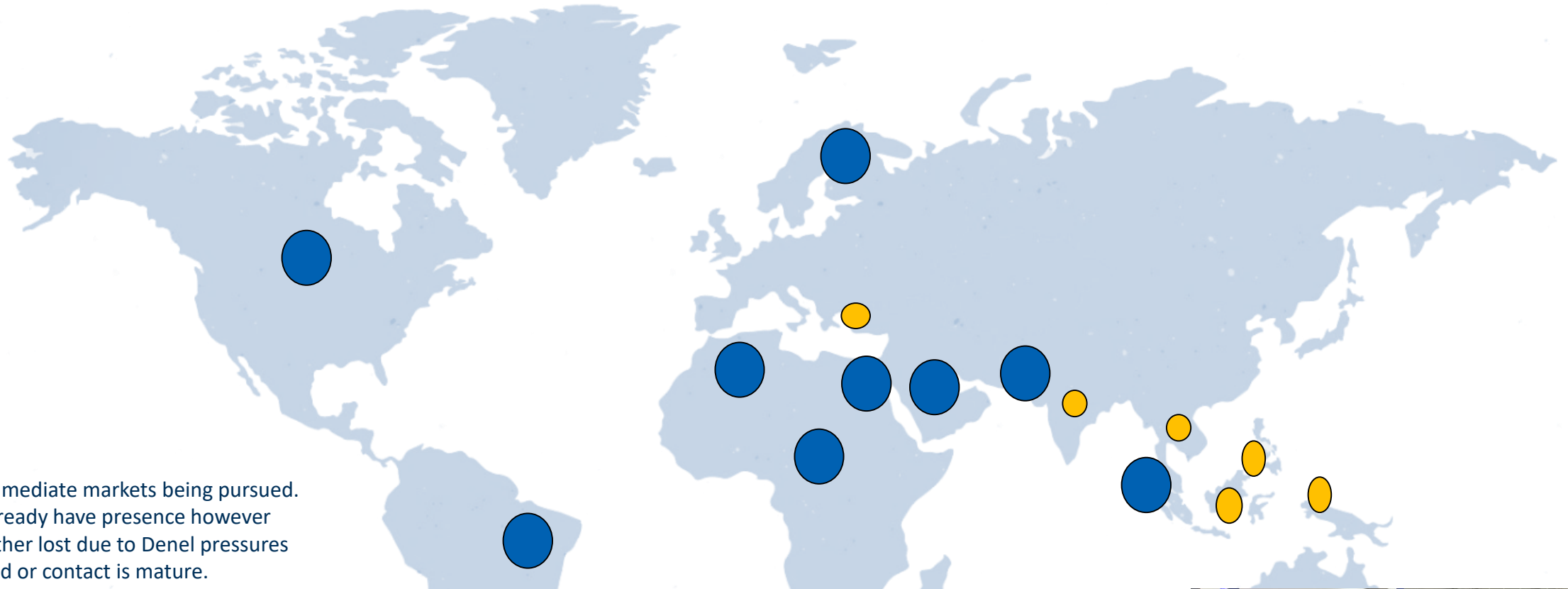
Job Retention / Creation – the planned growth path will result in direct high quality jobs in Industry of **approximately 1000 people (with a multiplier of 4:1 for indirect jobs of 4000) in the next 3 years. Targeting 4000 direct (and indirect 16000 on multiplier effect)** with a return to 2017 revenue levels in 5 years.

Once Denel has been stabilised and reputational damage reeled in, **Denel will employ a strategy of credible long-term strategic partnerships in all its businesses to entrench our position in the local and international market that is aligned to national interests and maximise the value of the Intellectual property and capabilities within Denel**

Redefine Denel, then:

Management must visibly lead the Change, own the Communication thereof and take key Stakeholders along to the envisioned future Denel.





- Immediate markets being pursued.
- Already have presence however either lost due to Denel pressures and or contact is mature.

- Diversify from MENA further into Eastern Markets
- Stringent NCACC requirements
- Planned medium term concentration with expected orders in 12 to 24 months.

- Denel has placed a lot of emphasis on **restoring traditional networks through engaging key market Diplomats, Attaches and representatives** in SA, as well as partners and customers in those countries.
- Denel relaunched at **AAD in Sep 2022** where an impressive display of Denel's capability was displayed with support from the Shareholder and **a lot of interest and support being indicated by the local and other traditional markets.**
- **A modest presence at IDEX proved to be valuable for refreshing existing markets / relationships as well as pursuing new opportunities and new markets.**



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DENEL SUPPLY & SUPPORT ROLE & RECORD

Denel SOC Ltd is a state-owned commercially-driven company and strategic partner for innovative defence, security and related technology solutions. It groups together several defence and aerospace divisions and associated companies with the primary purpose of designing, developing, manufacturing and supporting defence matériel that remains critical for the local defence force to execute its constitutional mandate to safeguard the citizen of South Africa.

DEFENCE REVIEW 2015

Introduction Paragraph 12 states:

The policy principle of preventing armed conflict is achieved by taking all political, diplomatic, informational, societal and military measures to deter potential aggressors. South Africa's international stature and balanced suite of defence capabilities contribute to overall deterrent capability and posture. This is characterised by credible combat forces, operational prowess, rapid force generation through trained Reserves, demonstrated ability in field training, technological and doctrinal competence, and the visible morale of personnel.

Section 15 Paragraph 95 states:

Denel is a national security asset, with the primary purpose of designing, developing, manufacturing and supporting defence matériel. In addition thereto, Denel is charged with:

- a. The custodianship of assigned sovereign or strategic defence capabilities, technologies and abilities, inclusive of those that may be at risk, the loss of which would threaten South Africa's required defence capability.*
- b. The design, development, manufacture and support of important capabilities which may not be commercially viable.*

From a Geopolitical perspective, the SANDF is dependent on a significant “level of effort” and capability from Denel to support their preparation and readiness for deployment both Internally (such as during July 2021 unrest and recent KZN floods) and Externally (such as in the DRC and Mozambique) to South Africa.



THE ROLE OF DENEL SO FAR

Denel is an OEM and / or MRO Authority of numerous critical systems of the SANDF, e.g.:

SA Army

Denel Badger Infantry Fighting Vehicle
Denel Casspir Armoured Personnel Carriers
Denel G6 Renoster Self-Propelled Howitzer
Denel G5 Luiperd Towed Howitzer
Denel Bateleur MRL
Denel Ingwe Anti-Armour Missile
Ground-Based Air Defence System (GBADS)
Ratel Comms upgrades for GBADS

SA Air Force

Denel Oryx MTH
Denel Rooivalk AH
Lockheed Martin C-130BZ
Denel A-Darter Air-to-Air Missile
Denel Mokopa Anti Tank Missile
Denel MII ECS at JARIC - Waterkloof

SA Navy

Denel 35mm Dual Purpose Gun
Denel Umkhonto IR Surface-to-Air Missile
Denel GI2 cannons for IPVs



The loss of Denel's capabilities means that the SANDF will:

- No longer have security of supply and reliant on imports for equipment;
- Be disadvantaged as an informed purchaser of defence products able to customise equipment requirements;
- Be unable to hedge against the cost of foreign currency denominated purchases, capital and support; and
- Lose the local defence components manufacturing industry.



DENEL'S ABILITY TO SUPPORT THE SANDF

Despite the crisis that Denel has experienced, it has continued to support the SANDF in critical deployments for disasters (July 2021 unrest, KZN Floods) locally as well as operations abroad (DRC, Mozambique, etc) by keeping the SAAFs assets airworthy and the SA ARMY vehicles and armaments supported and functional.

Part of Denel's revenue and liquidity crisis can be attributed to the drastically reduced spending of the SANDF over a prolonged period, which has led to Denel's Sovereign, Strategic and other supporting parts of business and industry being woefully underfunded. Attempting to retain underfunded parts of the business will continue to impact negatively on Denel's sustainability.

Denel has therefore embarked on a restructuring of its core capabilities towards the SANDF's needs and reduced budget, exiting of non-core non-profitable parts of business for funds that have been ploughed back into restoring the core, and rightsizing resources to the current order book. The recap funds from the Medium-Term Budget Policy Statement (MTBPS) allocation will enable Denel to settle its remaining legacy debt, initiate critical CAPEX and maintenance programmes, fully complete the restructure, and drive growth once again.

While Denel is restoring many of its core capabilities in-house on a smaller scale than before, **Denel will employ smart partnerships with industry and create jobs in industry** to make sure that **Denel remains lean and mean with a flexible cost structure and sufficient critical mass of capabilities leveraged for other productive endeavours** in private industry.

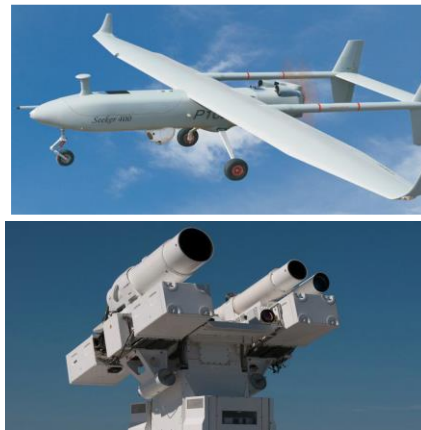
Denel Aerospace Capabilities

Denel is the only qualified and capable entity in the RSA to maintain and upgrade the key assets that provide the air power capability of the SAAF. To this purpose, Denel has continued to support the Oryx and Rooivalk helicopters locally as well as for operations abroad (DRC, Mozambique, etc) and deliver the required services. However, the SAAF is seriously underfunded to meet their operational demands. The SAAF places the service contracts on Denel but does not adequately fund spares and other supplies which renders it difficult to ensure airworthiness and availability of these critical platforms.

The C-130BZ support and upgrade capabilities of Denel are also still in tact but underfunded. Denel still has the capability to fully support and upgrade the SAAF C-130BZs into the future.

The Seeker-400 unmanned aerial vehicle system (UAVS) is a qualified system and Denel continues to have capabilities to support the system into the future and offer integration of advanced mission equipment for the UAVS.

The Overberg Test Range has also been severely underfunded in recent years resulting in a significant backlog in CAPEX for maintaining and upgrading the facilities. However, some funding from the SANDF has improved the situation recently, foreign clients are beginning to return to OTR, and a funding from the MTBPS allocation will continue to have a positive impact on OTR's availability to support the SANDF for tests, trials, training and exercises in this world class, unique strategic capability.



Denel Landward Capability

Denel Land Systems – Artillery and Infantry Systems - The earlier ringfencing of the SA Army G5 & G6 Artillery Upgrade programmes by Denel enabled the company to maintain sufficient skills required for the Artillery capability. This lean core of skills will be ramped up once any major new artillery contracts appear to be imminent.

The **Badger - Infantry Combat Vehicles (ICVs)** of Project Hoefyster's participation in the landward force line-up for **Armed Forces Day (AFD)**, as well as the related exercises, in **Richards Bay** re-affirms Denel's locally designed and produced **Badger** which is the culmination of decades of research, testing and development that produced a mature vehicle which will provide South African soldiers with unrivalled firepower, mobility and maximum armoured protection. The programme is pending an Army Project Control Board (PCB) approval in order to continue.

As Denel recovers, the **Vehicle Systems capability** has managed to retain the critical skills required to supply and support **Armoured Vehicles locally and abroad** with support from industry. Most of the current business and major opportunities lie in providing support to their vehicle systems in the Middle East. **Very little SANDF funding is channelled to Denel for the supply of these services, where industry is claiming to be able to support products for which Denel is the OEM, Design Authority, Certification Authority and IP Catalyst for Industry.** Diluting Denel's role in supporting and upgrading these systems can impact on the safety of these systems and impact the personnel use and operation of them.



Denel Landward Capability - Continued

With orders from the SANDF, SAPS and the Export market, PMP's small and medium calibre munitions capability has restarted production but is still battling to deliver on time to its clients. While it has sufficient human capital, a substantial backlog in CAPEX for maintenance and replacement of equipment is leading to many failures of old equipment. The most critical CAPEX is planned as part of the MTBPS allocation, but no funds are available so far. The ongoing rejuvenation of the plant is planned to be facilitated through strategic partnering as part of Denel's turn-around plan. The current dire position will improve as soon as funding is available to upgrade facilities.

Consolidation of DLS, DVS and PMP will provide a single point of responsibility and drastically improve efficiencies for the SANDF (and SAPS) requirements for Armoured Protection, Mobility and Firepower.



Guided Weapons – Missiles and Precision Guided Munitions

This capability of Denel has been **severely impacted by the skills drain which started with the cancellation of a major export contract** due to an inability to secure bank guarantees. It was then **further exacerbated by the poaching of resources by local and foreign companies** when Denel was unable to pay salaries. **Denel is able to restore capabilities and capacity for the production of these products**, but some key engineering resources will be required from the broader industry for **obsolescence re-engineering and new product development**. A partnering model has been developed with support from Armscor to restore this capability in South Africa. **The restart of the A-Darter programme (pending a SAAF Project Control Board (PCB)) would go a long way towards supporting the capability restoration and render the sovereign capability available to the SANDF again.**



Denel Integrated Systems Solutions

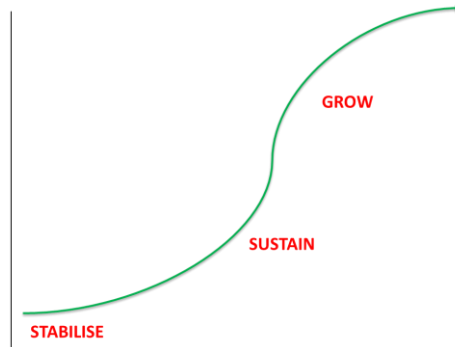
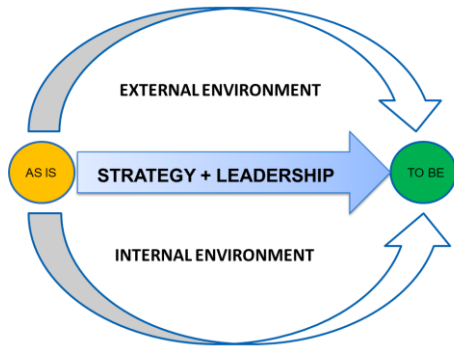
This business unit has continued to meet the contracted requirements of the SA Army for development and integration of the Ground Based Air Defence System (GBADS). It should be noted though that the support of earlier systems delivered by this team, such as the SA Army's Mobile Air Defence System (MoBADS) and SAAF's Military Image Interpretation & Exploitation Computer System (MIIECS) are **not funded**. Denel intends to grow and diversify its system level design, development, integration and support capabilities towards the broader Justice, Crime Prevention & Security (JCPS) Cluster, as well as to support other SOEs (Transnet, ESKOM, PRASA, etc) for the security of infrastructure.



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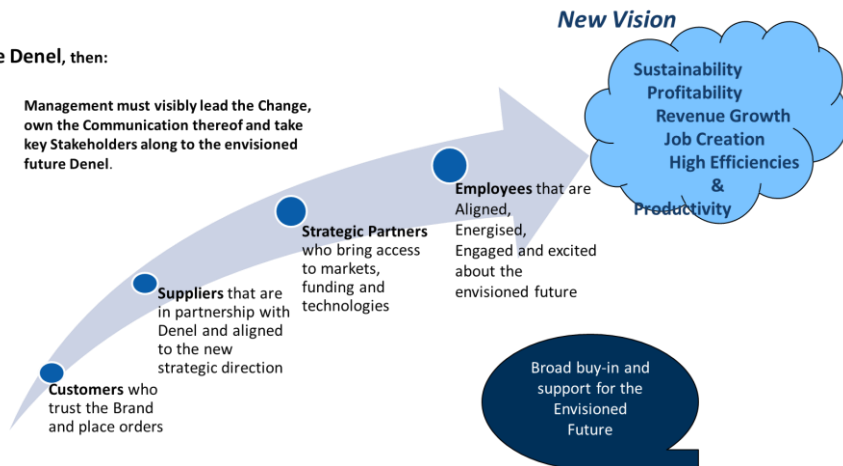
RISKS & CONCLUSION





Redefine Denel, then:

Management must visibly lead the Change, own the Communication thereof and take key Stakeholders along to the envisioned future Denel.



Denel’s turnaround has so far been funded by limited income from operations and exiting non-core business. Expediting the flow of funds from the MTBPS allocation is critical as a number of creditors have liquidation threats against Denel. Delay of funds poses the following existential threats to the Company and Government:

- Insufficient funds to support mission critical operational equipment like the Oryx Helicopter and the C130BZ transport aircraft for the SANDF, Protection Vehicles and Ammunition to the SANDF and SAPS.
- Insufficient funding to complete restructuring means that the company remains loss making and extremely vulnerable to external factors.
- Continued brain-drain and loss of critical skills as no compelling employment offer can be made to remaining core and scarce skills.
- Funding not available to take advantage of the R30bn export opportunity pipeline – loss of work and export opportunities for RSA industry.
- Insufficient working capital means that the entire insufficient liquidity cycle can repeat itself.
- Inability to fund critical capex and business improvement initiatives means that the company remains loss making and extremely vulnerable to external factors.

Denel has continued to support the SANDF to the best of its abilities right through its most difficult times. It has lost many resources, but repositioned its critical capabilities to remain the Sovereign and Strategic partner of the SANDF. Capabilities and capacity is now poised for ramping up to improve Denel's support to the SANDF and progress on capital projects such as the Infantry Combat Vehicles (ICVs) and the A-Darter. However, it should be noted that:

- **Sustaining Denel's Sovereign and Strategic capabilities for the support of the SANDF and to the benefit of local industry is directly dependent on the SANDF's funding and success in the export market.**
- **Diluting Denel's role in the supply and support of SANDF products where Denel is the OEM, Design Authority, Certification Authority and IP Catalyst for Industry dilutes Denel's position and effect in industry, incurs risk for the SANDF personnel safety and equipment durability, and will ultimately lead to the demise of Denel's Sovereign and Strategic support to the SANDF**
- **Denel's turnaround has so far been funded by limited income from operations and exiting non-core business. The funding allocated in the Medium-Term Budget Policy Statement (MTBPS) is required to complete the restructure, initiate critical CAPEX and maintenance programmes, settle legacy debt and invest in growth is imminent but so far not received.**

Denel is the Original Equipment Manufacturer (OEM), the Design Authority (DA) and Support Supplier of major Prime Mission Equipment of the SANDF. If Denel's capabilities are eroded, it will have a fundamental adverse effect on the SANDF's ability to ensure operational readiness and execute its National Security mandate.

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THE END
THANK YOU