



**DENEL'S PRESENTATION
TO THE SELECT
COMMITTEE ON PUBLIC
ENTERPRISES**

15 JUNE 2023





PRESENTATION OVERVIEW

- 1. Governance Update**
- 2. Implementation Status of Denel Turn-Around Plan**
- 3. Human Resources**
- 4. Denel's Financial Sustainability**
- 5. Divisional Projections**
- 6. Status of Annual Reports**
- 7. Status of Irregular, Fruitless and Wasteful Expenditure**
- 8. Priority Actions and Way Forward**
- 9. Conclusion**



GOVERNANCE UPDATE

The board has had several key interventions in the past 12 months including but not limited to:

- Revisited and aligned the turnaround plan to the most recent business needs;
- Reviewed the funding strategy in order to ensure the balance restructuring to achieve the ease in liquidity challenges;
- Ensured alignment with all stakeholders in support of the turnaround plan is achieved;
- Augmented the board with two additional members with requisite skills to allow the board to steer Denel towards its stability, sustainment, growth phases and beyond;
- In discussions with the Shareholder Representative to bolster the Board with additional Board Members with complex engineering and programme management skills
- In the process to finalise the appointment of the GCEO and GCFO executive management and expect to complete the process by October 2023;
- Continued to support the Zondo Commissions and SIU in its investigations on fraud and corruption;
- A Denel monthly performance monitoring meeting established Chaired by Department of Public Enterprises (DPE) with participation of National Treasury (NT), Department of Defence (DoD) and Armscor.



IMPLEMENTATION STATUS OF TURNAROUND PLAN

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.

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

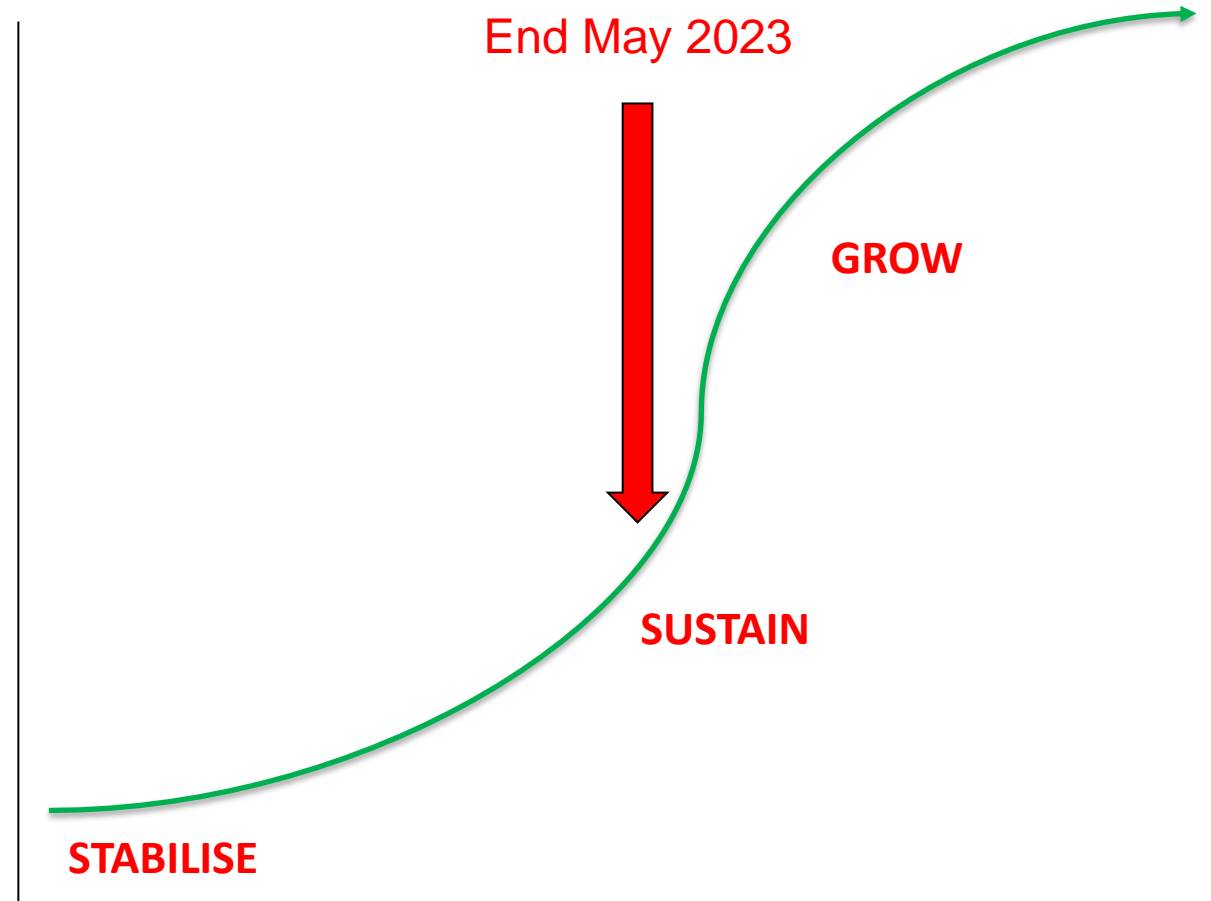
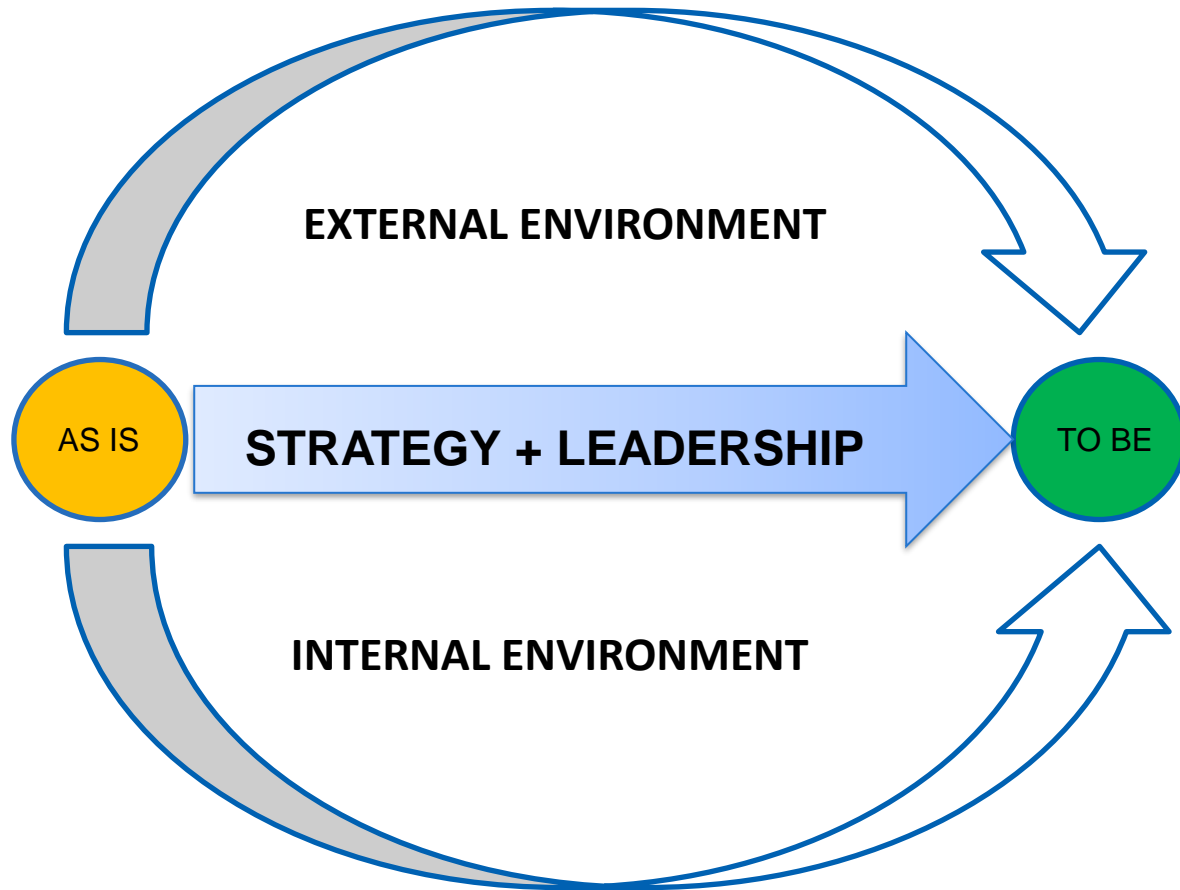
- Denel 35mm Dual Purpose Gun
- Denel Umkhonto IR Surface-to-Air Missile
- Denel GI2 cannons for IPVs



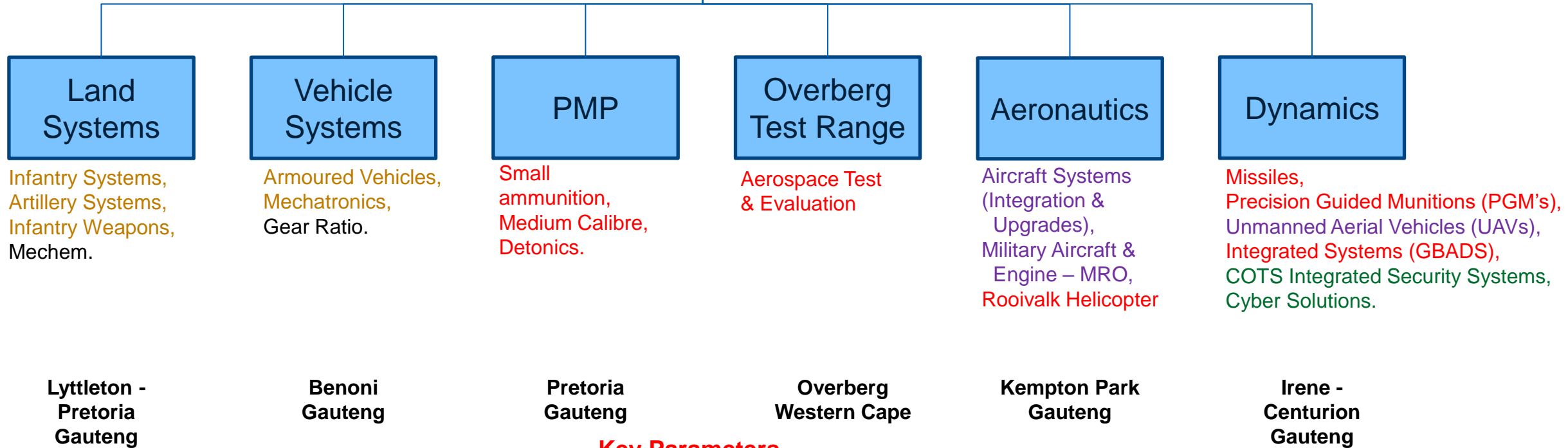
The loss of Denel's capabilities means that the SANDF will:

- 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.

- 24 & 25 November 2022 – Denel had the Badger Vehicles, T5 Artillery Systems and numerous other products on display at THE CHIEF OF THE SA ARMY DISTINGUISHED VISITORS DAY at the SA Army Combat Training Centre, Lohatla
- 22 to 25 February 2023 - A modest presence of Denel Board, Execs and Management at the IDEX23 Defence Exhibition in Abu Dhabi proved to be valuable for refreshing existing markets / relationships as well as pursuing new opportunities and new markets.
- 17 to 22 February 2023 – The various variants of Denel Badger vehicles were on display and participating in exercises, night firings and a SA Army Parade at the SA Armed Forces Day activities in Richards Bay.
- 16 March 2023 – Briefing to the Joint Standing Committee on Defence on *“Denel’s ability to support the SANDF following the Medium-Term Budget Policy Statement (MTBPS) allocation.”*
- 27 March 2023 – Presentation of the JSCD Slides to the Military Command Council with Armscor & Denel Executive teams for aligned understanding and way forward.
- 28 March 2023 – CRO and Denel Executives Meet with Chief of SAAF – Discussion on C130, Rooivalk and Oryx Support. Agreed to set-up a Joint SAAF / Denel Project Team to resolve the current support difficulties and expedite improvement.
- 29 March 2023 - Portfolio Committee on Defence and Military Veterans (PCODMV) Oversight at Denel – Helicopter Maintenance Support Facilities at Denel Aeronautics – Kempton Park.
- 3 April 2023 - MCC Oversight Visit & Presentation on Denel Air, GW and ISS Capabilities with associated facility visits and capability demonstrations at Kempton Park and Irene Campuses.
- 4 April 2023 - MCC Oversight Presentation on Denel Land Capability with facility visits and capability demonstrations at Lyttleton for Artillery, Infantry and Vehicle Systems and the Small and Medium Munitions capabilities at the two PMP facilities.
- 5 April 2023 – PCB on Hoefyster held – DoD Governance Process to consider the restart of Phase 2 (AACB, AASB, AAC) to follow.
- 2 May 2023 – Denel Turn-around Planning and Status to the Council on Defence
- 11 May 2023 – Presentation to the Extended Army Command Cadre (EACC) on Denel Landward Programmes and support capability. With a visit by the EACC to Denel’s facilities on 12 May 2023.



DENEL SOC



Key Parameters

Headcount	: 2206
Revenue	: R 1 946m
Cost Base	: R 1 971m (Excl. Materials & Subcontracts)
Net margin	: -39%
Productivity	: 1:1

Sovereign Capability
 Sovereign & Strategic Capability
 Strategic Capability
 Growth Capability
 Non-core

The proposed future **structure for Denel's core capabilities** is to have a direct link to the **dimensions of defence with a Land, Air and more complex Integrated Systems grouping** to exploit new opportunities and emerging technologies. Hence the logical consolidation of Land and Air to improve efficiencies, remove redundancies and level over the gaps in capabilities.

Besides the exiting of non-core / unprofitable business which is already in progress, and the obvious benefits expected from a reduced executive structure, shared support services, standardised policies & processes, and reduction footprint and other overheads, **other key structural impact initiatives are as follows:**

The **relocation of the DVS capability** to the Lyttleton DLS facilities is **to capitalise on the significant shortage of skills in the DVS capability, avoid the urgent backlog investment in infrastructure and facility refurbishment required in Benoni** by relocating into appropriate underutilised facilities in the Lyttleton campus. The merging of capabilities within the Land facilities **will allow for consolidation of the overheads and scarce resources**. The **once-off cost to relocate and restore the DVS capability at the Lyttleton facility is estimated to be around R46m** with an **annualised benefit of R68m** and a return from the **sale of the property expected to be approximately R80m**.

The **relocation of the UAVs capability** to the Kempton Park based Air facilities initiative is **to capitalise on the significant overlap in airborne platform capabilities between Aeronautics and Dynamics (UAVs), solve skills shortages in the DD (UAVs) capability and consolidating on one site**, thereby also freeing up the Irene footprint for the property optimisation initiative. The **once-off cost to relocate and restore the UAVs capability** at the Kempton facility is **estimated to be +/- R3m** with a **return from the property expected at R40m**. An overall reduction of the Irene footprint is **expected to save / earn up to R60m pa** going forward.

The **separation of the Guided Weapons capabilities** of missiles and precision guided munitions is **to enable a focused protection and restoration of the severely depleted capability** to enable the development of the processes that are required **to bring in the scarce leadership and critical skills, partner and contract for urgently required capabilities that are available in industry and secure the urgently needed external funding to return to viability**.

The **lifting of the Integrated Systems capability** out of Dynamics is to ensure that the efficiencies and performance in the **existing Integrated Systems programmes are protected and able to remain agile in order to expedite targeted opportunities in complex integrated systems growth area**, develop knowledge in new advanced technologies emerging in the defence sector, and **diversify its integration capabilities towards non-defence security opportunities offered by other SOEs and in the commercial market**.



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

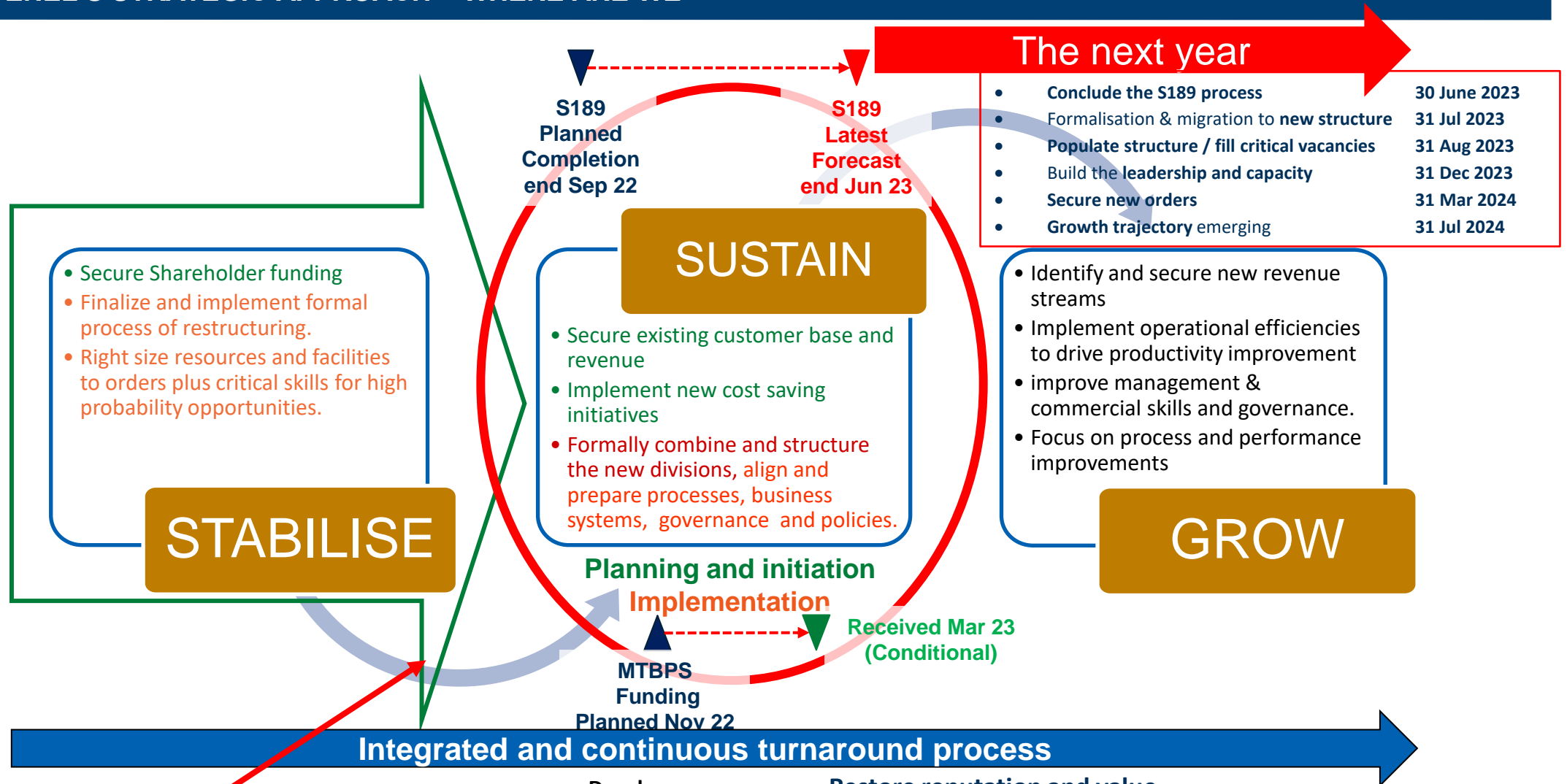
Key Products / Systems
Complex Integrated Systems - Military (eg GBADS), COTS Security Systems and Cyber Solutions supply and support

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 delays to support Denel’s cashflow (received end Mar 23 vs Nov 22) and completion of S189

ROTARY WING AIRCRAFT MRO & UPGRADES

- MRO for Oryx and Rooivalk
- Airbus Helicopters Accredited Facility
- Aircraft Upgrades/Conversions & Systems Integration
- Aircraft Recovery



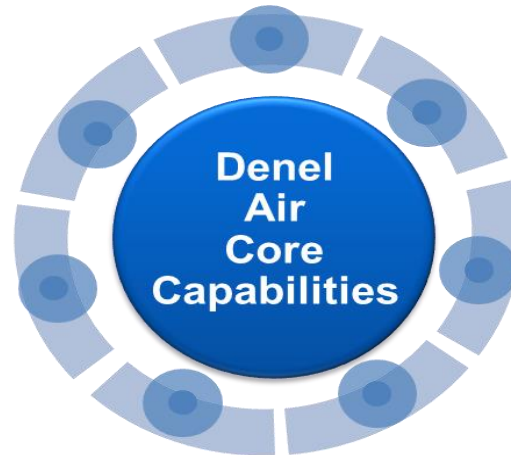
FIXED WING AIRCRAFT MRO & UPGRADES

- MRO for C130B-H Model
- Lockheed Martin Accredited Facility
- Aircraft Upgrades/Conversions & Systems Integration
- Aircraft Recovery



ENGINEERING & CONTINUED AIRWORTHINESS

- Aircraft OEM - Rooivalk
- Aircraft Design Authority - Oryx
- Aero Mechanical Systems Engineering
- Avionics Systems Engineering
- Flight Test
- UAV design, development, systems integration and manufacture



COMPONENT MRO

- Depot Level Repair & Overhaul for C130BZ, Oryx and Rooivalk
- Airbus Helicopters Accredited Facility
- Avionics, Electrical & Oxygen Components (C130BZ, Oryx & Rooivalk)
- Mechanical Components (C130BZ, Oryx & Rooivalk)
- Ground Support & Test Equipment



OVERBERG TEST RANGE (OTR)

- Fully integrated multipurpose test facility
- In-flight testing of advanced guided and aviation systems
- Unrestricted test arena with appropriate topography
- Ground Support & Test Equipment
- Instrumentation suite with ISO9001:2015 quality certification
- Instrumentation deployment flexibility
- Test design and control, data measurement and reduction
- Onsite accommodation and conference facilities

AERO ENGINE MRO

- Repair & Overhaul of Makila and Arris Engines (Oryx, Rooivalk & Agusta A109)
- Safran Helicopters Engines Accredited Facility
- Full Repair and Overhaul capability including modules and engine accessories (mechanical and electrical)

The divisions primary activities relate to the following in support of the South African National Defence Force (SANDF):

- Aircraft maintenance, repair and overhaul (MRO) for the Oryx and Rooivalk helicopters as well as the C130 transport aircraft; and
- Continued airworthiness assurance with through its systems engineering capabilities for the unique Oryx and Rooivalk helicopters.
- UAVS Maintenance & Support for an export client for next two years.
- Manage and execute any combination of air, ground and sea flight tests by measuring performance of weapon systems (new and upgrades).

Surface Target Missiles



Surface to Air Missiles (Air Defence)



The divisions primary activities is design, development, production of guided weapons (missiles and precision guided munitions) for both the local and export markets.

Production activities are as follows for the Guided Weapons capability:

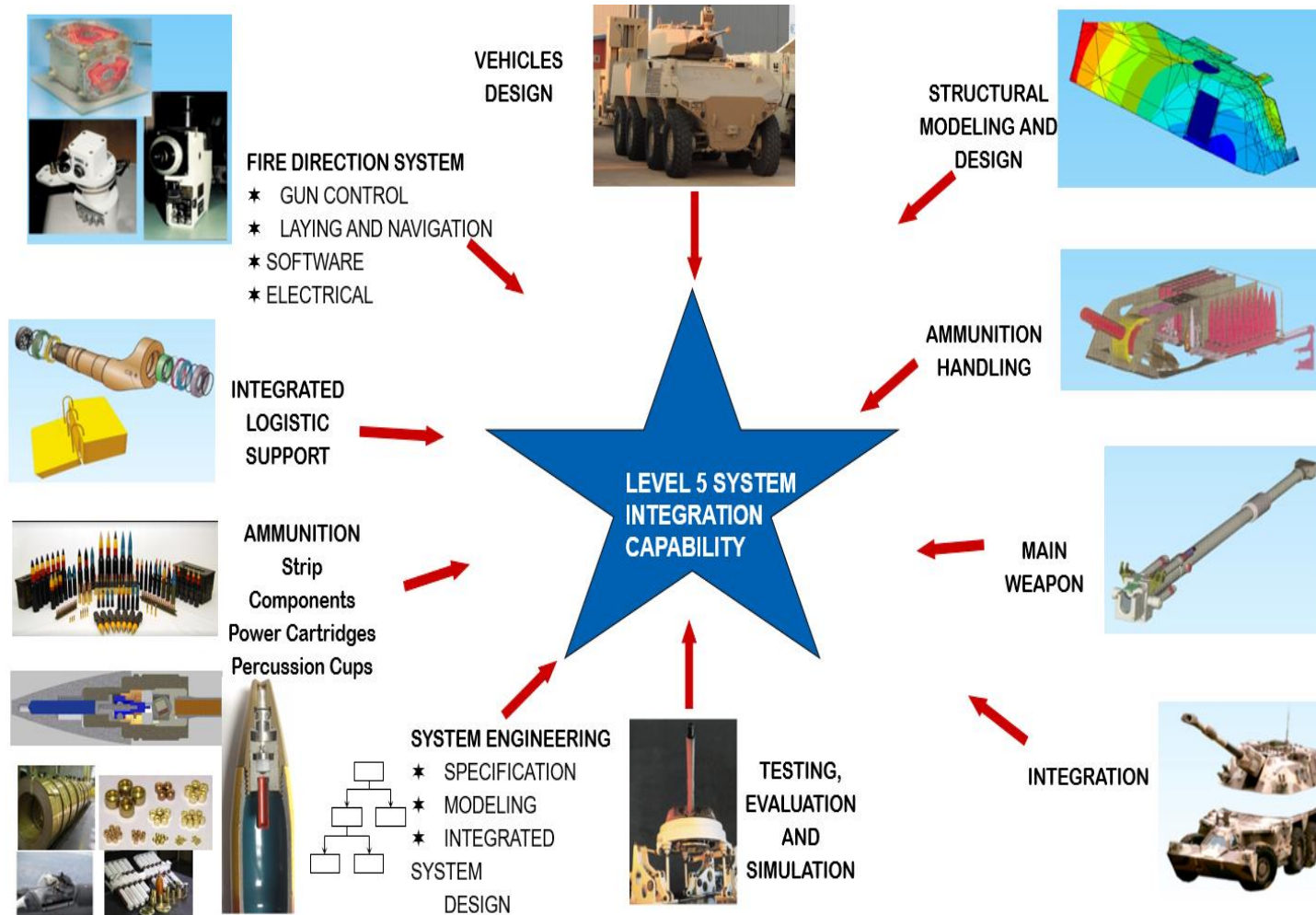
- Upgrade of the Surface to Air Missile System (SAM) for an export client. This programme is on track and planned for completion in March 2024.
- Maintenance & repair of the STM sight system for an export client for the next two years.
- Maintenance & repair of the STM sight system for an export client for the next two years.
- SAM support for an export client for the next two years.
- SAM support for local client (SANDF) on an on demand basis for the next two years.
- Air to Air Missile system for local.

Air to Air Missiles



Stand Off Weapons (SOW)





The divisions primary activities is design, development, production and support of infantry weapons, infantry combat systems and artillery systems for both the local and export markets.

Main activities were as follows for DLS:

- Product and technical support for local artillery systems (towed and self propelled).
- Product and technical support for artillery systems in the export market (towed and self propelled).
- Product and technical support for local infantry combat systems.
- Delivery of infantry combat systems for the export market.
- Upgrade of local artillery systems.
- Product and technical support for artillery systems in the export market.
- Maintenance and repair of local infantry weapons.
- Supply of mortars for the local and export market.
- Supply and support of specialist infantry weapons for the local and export market.
- Product and technical support for local armoured personnel carriers.
- Product support for the local main battle tanks.
- Product support for the local landward vehicles (A&B vehicles).
- Continued engineering support for the export market on APCs



The divisions primary activities is design, development and integration of complex systems and support (level 5 system integration).

Activities are as follows for ISS:

- Delivery of final milestones on the ground based air defence system (GBADS) design and development contract, a one of kind sub-system delivery that includes all the command and control and the communication system in readiness for the full production phase.



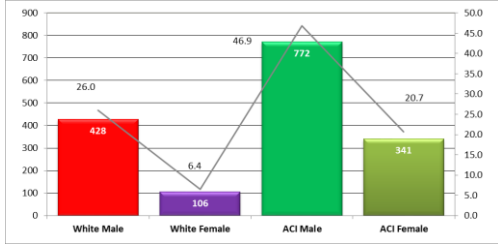
HUMAN RESOURCES

Denel - Human Resources Score Card

Headcount Current Month : 31 May 2023

Employee Movements : 1 April 2023 to 31 May 2023

1,647
Current Headcount
▼ **-0.5%**
over Financial Year



447 27.1%
Total Female
▼ **-1.1%**
over Financial Year

1,113 67.6%
ACI
▼ **-0.7%**
over Financial Year



Entrants
12

Permanent 0
Contract 12
Students 0

Transfers 0
Position Change 0

Exits : 21
Permanent 17
Students 0
Contractors 4

0.54%
Turnover
Regretted Loss

Contract Type	1 April 2023	31 May 2023	Gender Representation	Permanent Appointments	Contract Appointments	Exits	
Permanent	1,527	1,510	 447 27.1%  1,201 72.9%	None	7 x Artisan 1 x Configuration 2 x Supply Chain 1 x Human Resources 1 x Operator	1 x Engineers	4 x Management
Students	11	11				5 x Artisans/Technical	2 x Secretarial
Contractors	118	126				5 x Operator	1 x Configuration
Total	1,656	1,647				2 x HR/Trainer/Financial	1 x General Worker

Metric	KPA	Targets		Exit Reasons	
		Actual	Target	Regretted Loss	Other
EE Plan	Designated	67.6%	72%	2 x Better Career Opportunities	4 x Voluntary Retrenchment
	People with Disabilities	1.5%	5%	1 x Emigrate	1 x Retirement
	Females	27.1%	33%	5 x Not Disclosed	2 x Medical Unfit
BBEEE	Level	Level 5	Level 6	1 x Self Employment	3 x Death
Female in Leadership	Top Management	18.2%	33%		1 x Abscondment
	Senior Management	30.8%	32%		1 x End of Contract
	Middle Management	13.6%	17%		
	Junior Management	24.3%	33%		

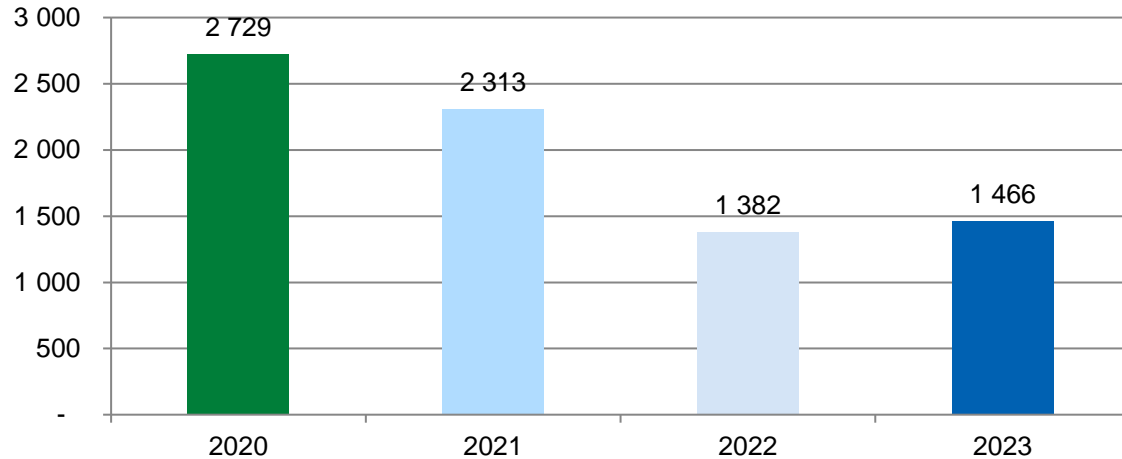


- The HR Strategy has a strong focus on reframing Denel on the correct skills sets
- To this end there is both a requirement in gaining external skills and maximizing skills internally
- An Integrated Talent management strategy has been developed to illustrate how various key elements will flow into each other
- This includes the National imperatives, and other macro influences to internal processes
- The Denel Technical Academy is being reorganized to be able to fulfill many of the learning initiatives identified.

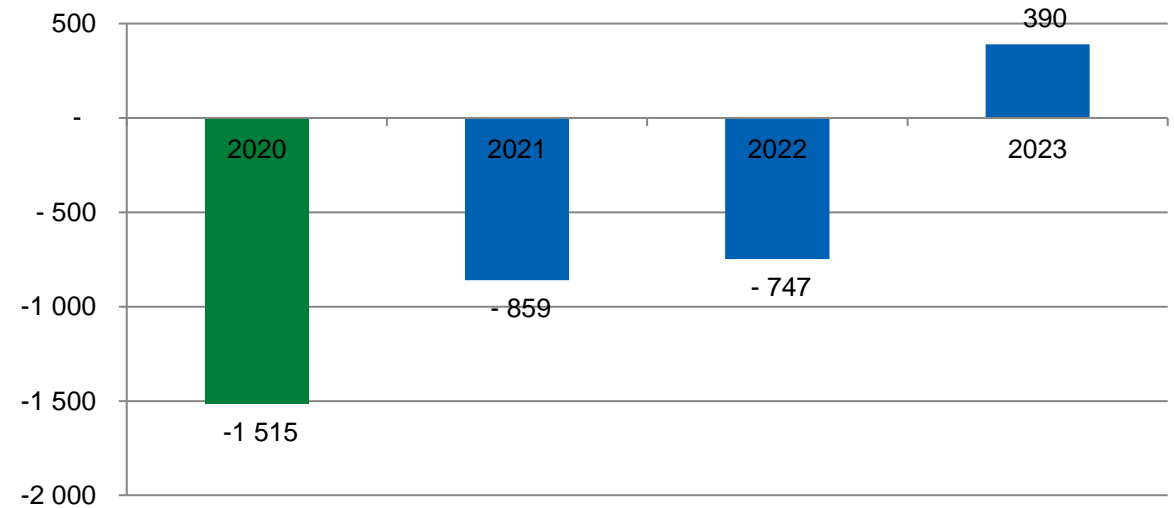


DENEL FINANCIAL SUSTAINABILITY

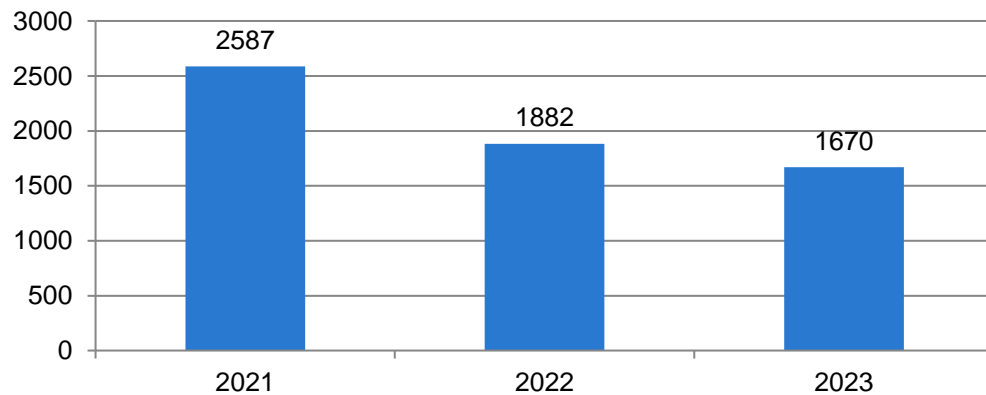
Revenue



Earning before interest and tax (EBIT)

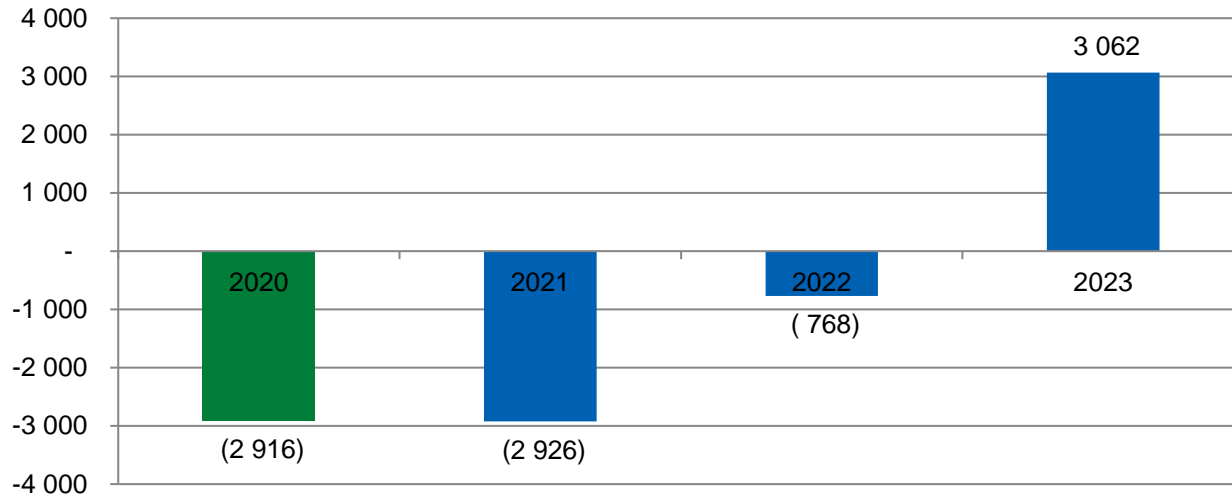


Headcount

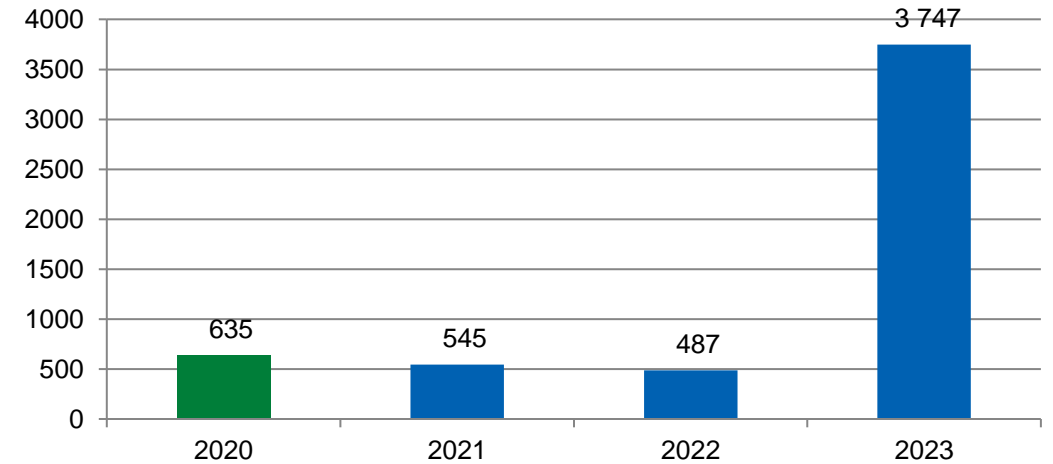


- Denel operations have seen a reduction over the last 3 – 5 years.
 - The revenues have declined by 46% with headcount at 1670 as the end of FY2023.
 - Denel has reported preliminary result of R390m EBIT in FY2023 mainly as result of the DMBT funds received.

Solvency



Cash



- Since FY2020, Denel had remained insolvent and with poor liquidity position
- During FY2021, F2022 and FY2023 Denel received R416m, R3.03bn and R205m for the repayment of bonds against the guarantees issued by the government.
- Whilst this improved the solvency position, it did not address the operational challenges it faced until the unbundling of its Medical Benefit Trust (DMBT) and the recap both received in FY2023.
- The DMBT and recap received allowed Denel to successfully defend liquidation applications by suppliers (e.g. SAAB Grintek) and asset attachments by unions and employees.



DENEL FINANCIAL SUSTAINABILITY

Denel Funding Requirement	Recapitalisation utilisation original request	Recapitalisation utilisation after DMBT application
Business Case Critical Funding Requirement to Stabilise	977	628
Restructuring Costs	577	405
DMTN payment	0	100
Working Capital requirement	400	123
Business Critical Funding Requirement for Growth and sustainability	900	900
Further Optimisation Restructuring Cost	180	180
Critical Capex	120	120
Strategic Resource Operational Maintenance	280	280
Growth Working Capital Requirement	320	320
Total business case funding requirement to financial sustainability	1877	1528
Current and Legacy Obligations	3323	2772
Legacy obligations (Airbus, DRC, Chad, T5, overdraft, onerous contracts & c	521	521
Armscor HY Loan & Creditors	600	600
Trade Creditors	963	753
Operational cash losses 2022/23 before implementation of Restructuring	102	0
Arrear Employee Obligations (PAYE obligation relocated to SARS)	908	75
Exit of loss making contracts - performance guarantees, pre-payments and SARS	118	118
	111	705
Total recapitalisation and funds from sale of non-core assets	5200	4300

- **Recapitalisation required** for turnaround plan amount to **R5.2bn**, through recapitalisation of R3.4bn and the sale of non-core assets of R1.8bn;
- **R992m received** in August 2022 through unbundling of the Denel Medical Benefit Trust (DMBT) utilised mainly on working capital to restart operations and normalise labour relations;
- The **stabilisation phase** was largely completed and **implemented** with this funding;
- **Recapitalisation funding of R3.4bn** received in **March 2023 with circa R605m** spent to date mainly in **operations, restructuring and towards legacy** obligation;
- This has allowed significant **progress** to be made on implementation of the **sustainability phase** of the turnaround plan;
- The **balance of the funds** will largely be spent to clear **legacy obligations** and support the **growth phase** of the turnaround plan.

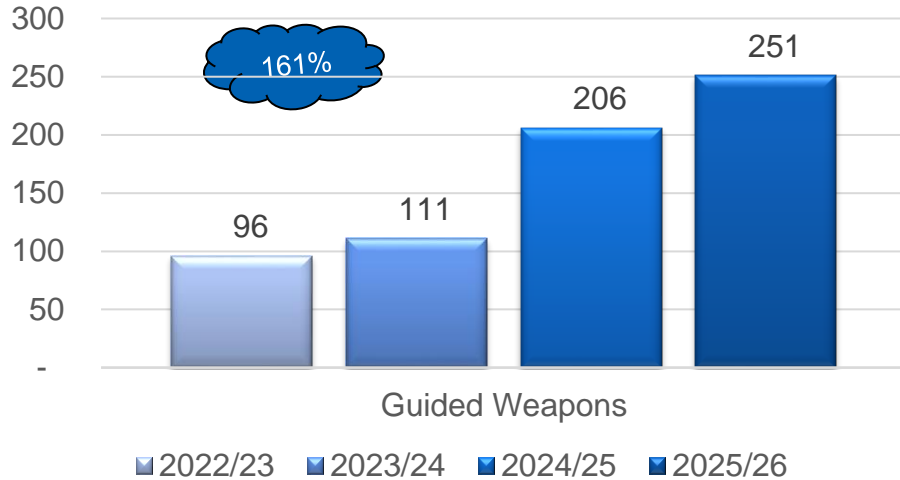
DESCRIPTION	CORPORATE PLAN 2023/2024		
	Budget 2023/24	Budget 2024/25	Budget 2025/26
INCOME STATEMENTS	R' m	R' m	R' m
Revenue	1 972	2 440	3 207
Gross profit	389	512	759
Gross profit margin	20%	21%	24%
Operating expenses	(502)	(498)	(518)
Operating expense margin	-25%	-20%	-16%
Net finance income/(costs)	(172)	(160)	(149)
Net profit for the year	(344)	(28)	213
NPAT margin	-17%	-1%	7%
EBIT	(113)	14	241
EBIT margin	-6%	1%	8%
BALANCE SHEETS			
Equity	1 320	1 348	1 561
Loans and borrowings	-	-	-
Cash and short-term deposits	1 313	789	408
Debt equity ratio	0,43	0,45	0,54

- Aggressive increase on export orders over the three years
- 100% Revenue growth in FY2025/26
- Expected gross profit margins between 20% to 25% in Y3
- Operational profit target of 8% reached in Y3
- Solvency position sustained from Y1;
- Debt/equity ratio improved to acceptable industry levels at 0.5

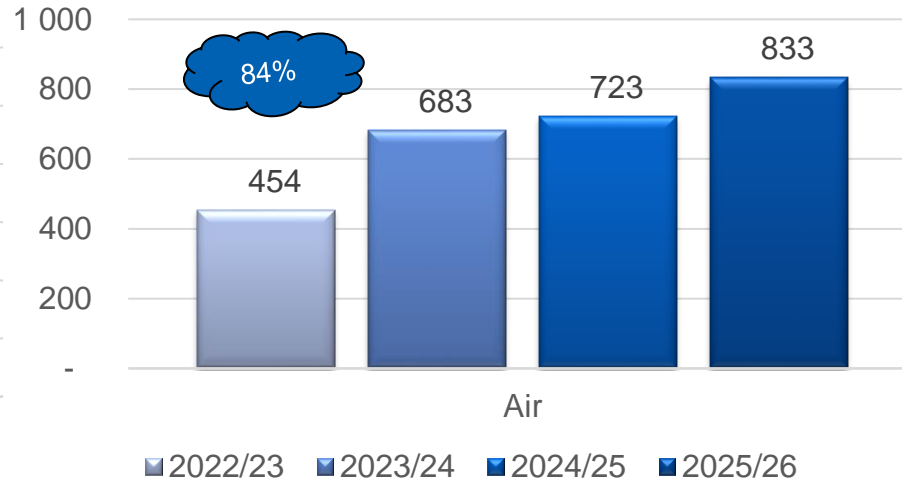


DIVISIONAL PROJECTIONS

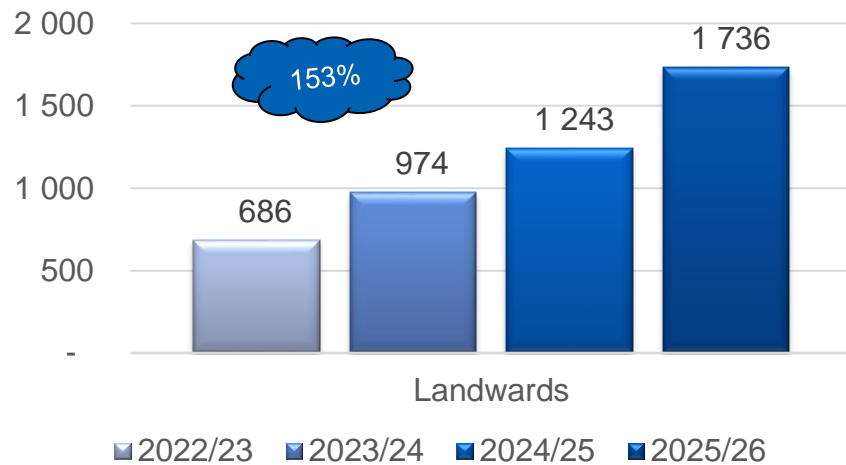
REVENUE - GUIDED WEAPONS



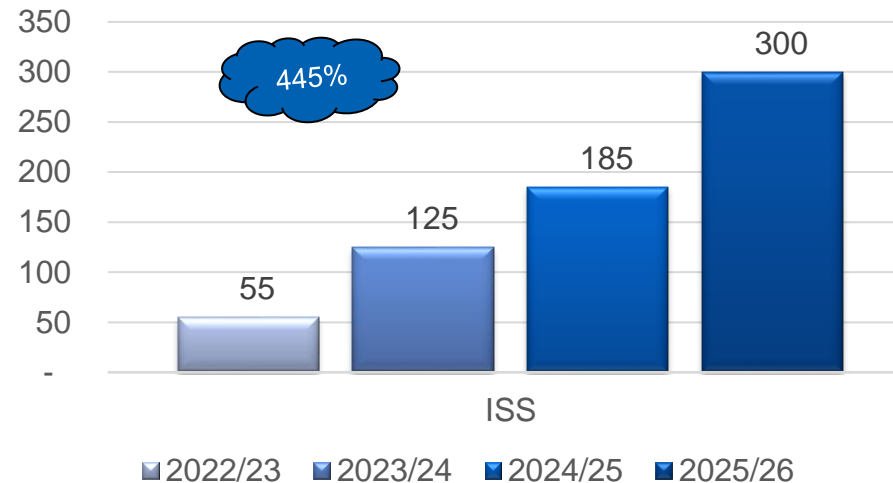
REVENUE - AIR



REVENUE - LANDWARD

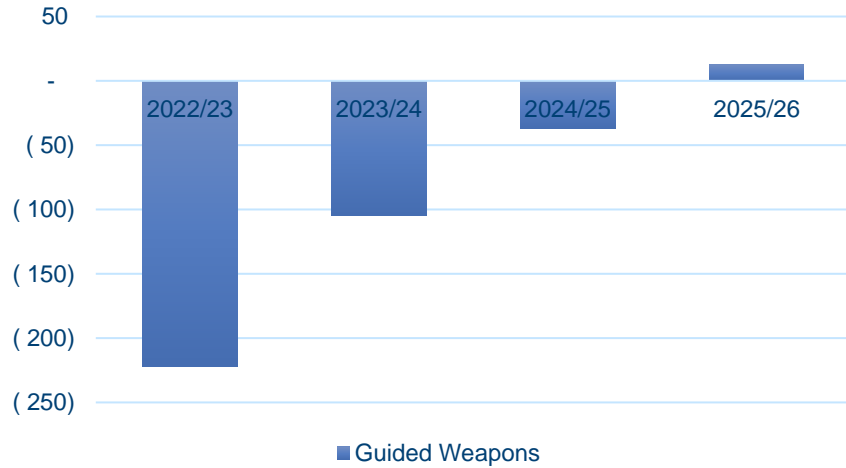


REVENUE - ISS

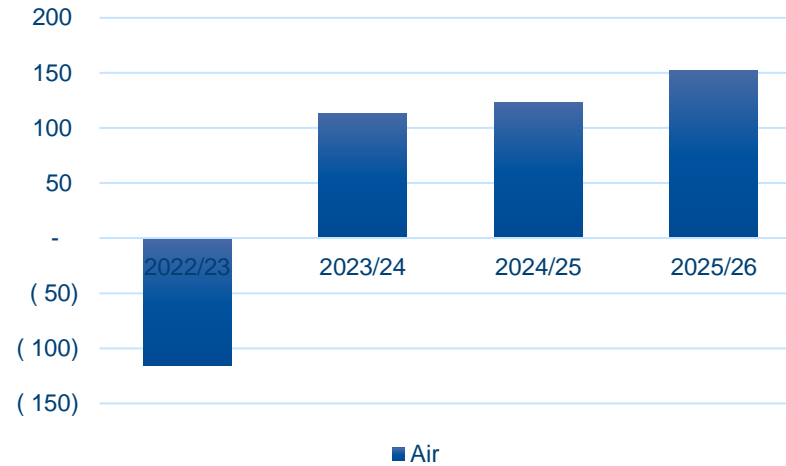


- Order cover at **Guided Weapons** is significantly low. It takes 6 – 12 months to translate an order to revenue;
- The **Landward** capability plan includes an amount of Hoefyster Phase II.
- Increased concentration in Denel traditional export markets for the its products
- **Air** capability has a concentration of the local market and assumes improved pricing to ensure sustainment of sovereign and strategic capabilities;
- The **ISS** business is expected to grow exponentially based on increased business in civil security sector and Defence export revenue.

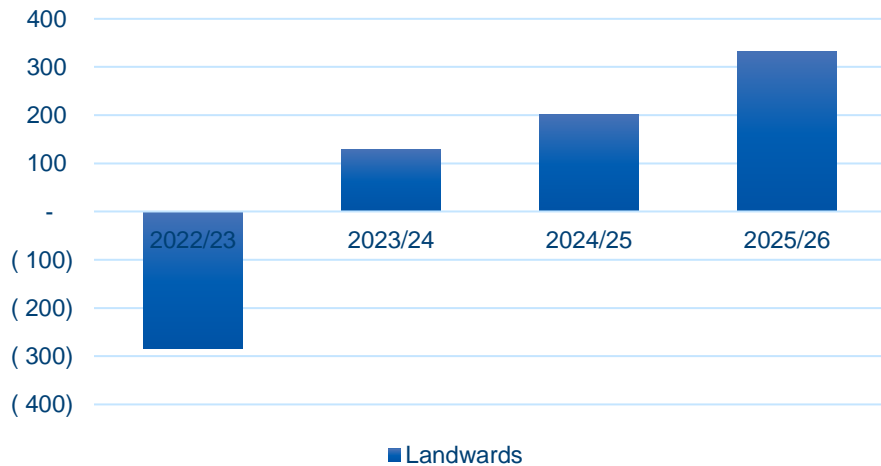
Guided Weapons



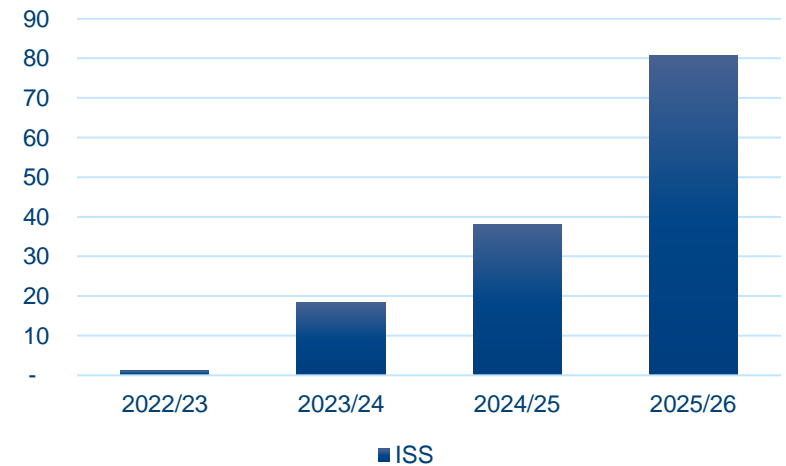
Air



Landwards



ISS



- All entities with the exception of Guided Weapons return to operating profitability in Y1;
- Guided Weapons retains critical mass headcount in order to maintain strategic and core capabilities;
- Labour under-recoveries to be reduced by Y3 with Guided Weapons returning to profitability.



STATUS ON ANNUAL REPORTS

STATUS ON OUTSTANDING ANNUAL REPORTS

FY2020/21	Submitted 30 November 2022 to AGSA for audit
FY2021/22	Submitted 31 January 2023 to AGSA for audit
FY2022/23	Submitted 31 May 2023 to AGSA for audit

- Timeous submission of annual financial statements for FY2021 and FY2022 was not achieved due to the high turnover of personnel in Denel as a result of non-payment of salaries. Furthermore, AGSA was unable to commence with the audit until some payment was made as it was owed fees from the previous years.
- Upon receipt of payment in March 2023, the AGSA has commenced with the audit of all three years. The date of completion of these audits will be communicated at the end of June 2023 and thereafter will advise on the expected tabling of all three annual reports.



FY2022/2023 – IRREGULAR EXPENDITURE

Irregular Expenditure- R3.28bn

Includes entities liquidated (R1.01bn; 31%) or in process of being liquidated LMT R0.76bn & AEROSTRUCTURES R0.25bn

Prior to FY17/18- R1.54bn

FY17/18 to FY22/23
R1.74bn

Deviation from
Competitive
Bidding

R1.80bn (55%)

Expansions/
Variation of
Orders

R0.43bn (13%)

Evaluation
criteria not
adequately
specified or
applied

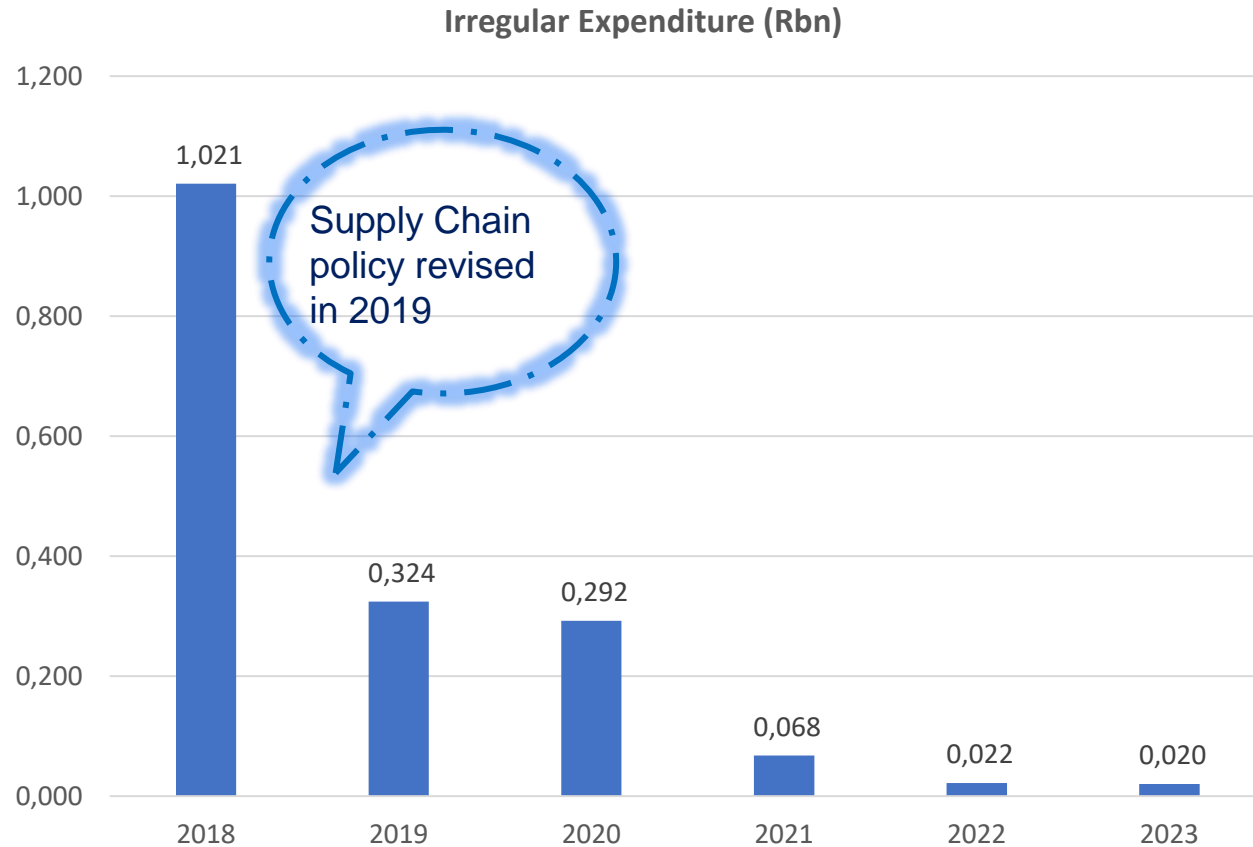
R0.36bn (11%)

Other *(Bids not
adequately approved,
contracts not signed,
declaration of interest,
Tax Clearance, AG
Findings)*
(R0.69bn (21%))

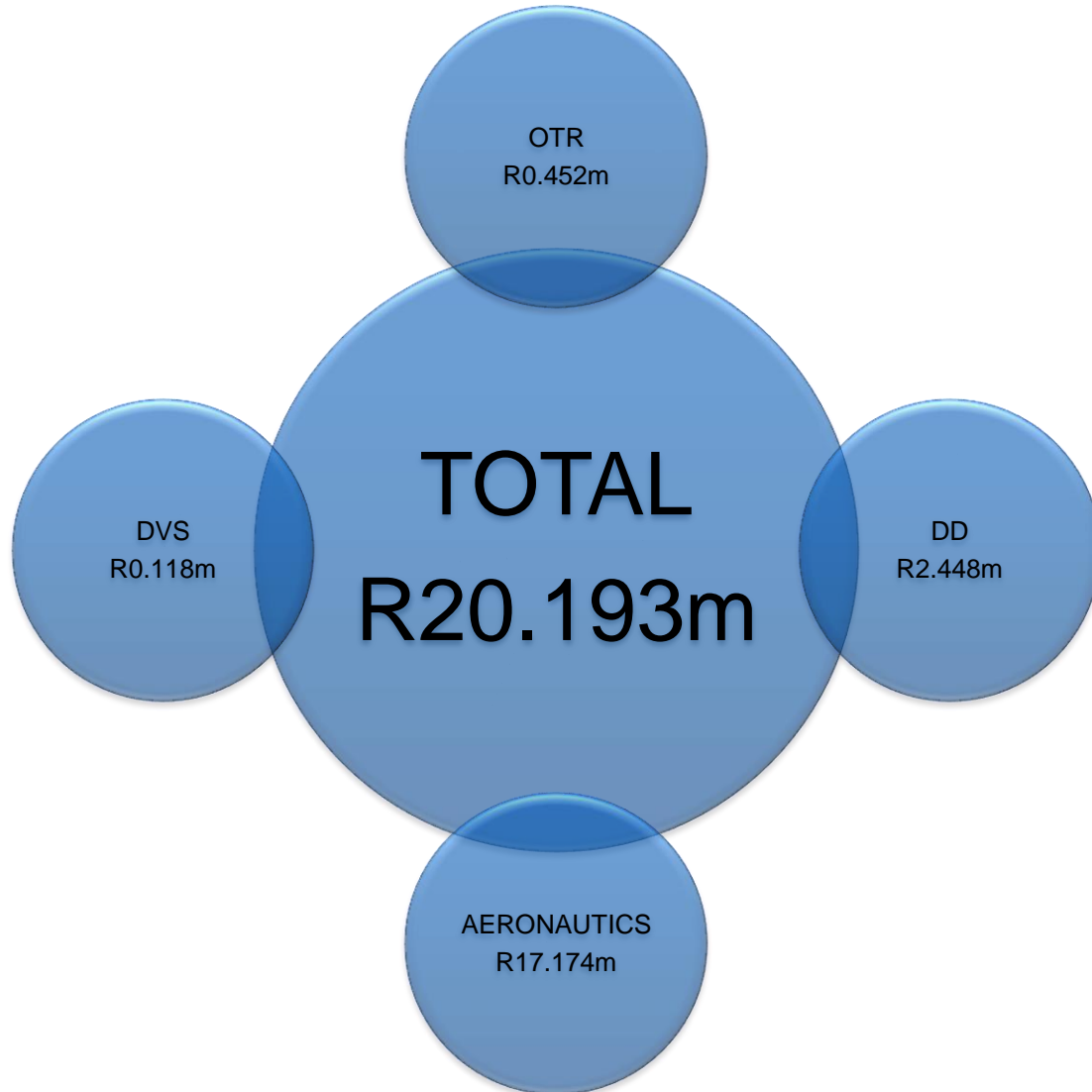
Key challenges resulting to irregular expenditure prior to FY2018:

- Misinterpretation of the procurement regulations;
- Misalignment of supply chain policy to regulations;
- Inadequate procedures in respect to deviations single source and sole suppliers; and
- Inadequate skilled personnel particularly in supply chain.

IRREGULAR EXPENDITURE INCURRED – R3,28bn (PY: R3,26bn)



- Annual incurred irregular expenditure **decreased by 98%** since April 2018.
- In FY2019, commissioned an investigation on irregular expenditure incurred pre-FY2018 which could not be concluded due to liquidity constraints.
- Investigations will be conducted and to be completed by the end of FY23/24.
- Fit-for-purpose structure as part of the Turnaround strategy includes an Audit & Compliance Unit for Supply Chain tasked to prevent Irregular Expenditure
- Consequence management requires significant improvement as well as processes for reviewing all potential IE.



The main contributor/transgression categories for Irregular Expenditure are attributed to:

1. Deviation from Competitive Bidding Process- **R9.6m**
2. Tax Clearance Certificate not Obtained- **R10.17m**

No fraud, corruption and/or other criminal activities related to these transactions were reported.

Denel is re-establishing its Loss Control Committee to initiate the determination and assessment principles as per the Irregular Expenditure Framework to adequately deal with its Irregular Expenditure portfolio.



PRIORITY ACTIONS AND WAY FORWARD



PRIORITY ACTIONS AND WAY FORWARD

- Conclude on the restructuring in terms of the LRA Section 189A and stabilise Leadership of the organisation with appointment of Group Chief Executive Officer; Group Chief Financial Officer; Chief Audit Executive and the rest of the Group Executive Leadership;
- With the appointment of the Chief Audit Executive, finalise capacitation of the Internal Audit Function;
- Deliver on the sale of non-core assets as defined in the Turnaround Plan.
- Continued Board oversight on utilisation of the Recapitalisation Funds with support from Monthly Monitoring Committee (DPE/NT/DoD/Arm Scor);
- Expedite the rebuilding of the Denel capabilities through a focus on employee value proposition by making the company attractive (new work , improved working conditions etc);
- Continued drive to realise the opportunity pipeline of circa R30bn (local and export);
- Secure funding to invest in Research and Development through collaborations (own and/or customer funding);
- Fund the CAPEX plan through recapitalisation funds and own funds from operations and prioritise investment in infrastructure and preventative maintenance actions;
- As part of operational excellence, improve collections from sales and reinvestment in the business.



THANK YOU!

