



**DENEL**

**EXHIBIT W 11**

**MANDLA DENNIS  
MLAMBO**



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

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**STATEMENT**

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I, the undersigned,

**MANDLA DENNIS MLAMBO**

do hereby state as follows:

**1 INTRODUCTION**

- 1.1 I have prepared this statement following a request from the investigators of the Commission of Inquiry into Allegations of State Capture, Corruption and Fraud in The Public Sector Including Organs of State, chaired by Deputy Chief Justice, Raymond Zondo ("the Commission").
- 1.2 The facts contained in this statement are true and correct and within my personal knowledge and belief, save where the context indicates otherwise.
- 1.3 I am an adult male, currently running a consulting business, which focuses on Strategy Development, implementation of Management Systems and Supply Chain. I was previously employed as the Group Executive: Supply Chain Management at Denel SOC Ltd at Nellmapius Drive, Centurion, Gauteng Province.



1.4 Where I make submissions on legal matters, I do so based on my own understanding of those matters and evidence I have with regards to those matters. I have chosen not to have a legal representative to review my statement and provide legal advice due to financial constraints.

1.5 The purpose of this statement is to respond to the queries raised by the Commission's investigators regarding my involvement as the Group Executive: Supply Chain Management at Denel SOC Ltd with respect to the following:

1.5.1 The DLS award of the Platform Hulls contract (under project Hoefyster) to VR Laser Services in 2014, and irregularities in relation thereto.

1.5.2 Various contracts signed between VR Laser Services and divisions of Denel related to the Hoefyster project in 2015.

1.5.3 My involvement in the Chad Contract concluded in 2017.

1.5.4 Irregular appointments of Ernst & Young and Price Waterhouse Coopers in 2019.

1.6 Prior to providing the information referred to in the previous paragraph, I shall first provide my education and professional background culminating in my appointment to the role of Group Executive: Supply Chain Management at Denel SOC Ltd.

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## 2 PROFESSIONAL BACKGROUND AND EMPLOYMENT AT DENEL SOC LTD

- 2.1 I hold a Bachelor of Commerce Degree from the University of South Africa, which I obtained in the year 1993. I also hold a Diploma in Production Management from Damelin College.
- 2.2 I am an Accredited Balanced Scorecard Professional, a qualification offered by the Balanced Scorecard Institute and recognised by the George Washington University.
- 2.3 Lastly, I hold a number of qualifications in Quality, Safety, Health, Environmental and Risk Management, including Management System and Environmental Auditing obtained from the Tshwane University of Technology.
- 2.4 Prior to joining Denel, I had been employed as a Quality Assurance ("Q A"), Customer Satisfaction & Employment Equity Executive at Alcatel Telecommunications Equipment Manufacturer and Supplier.
- 2.5 I joined Denel SOC Ltd in the year 2004 as Executive Manager: Supply Chain, Q A & Business Solutions in the Dynamics Division of the Denel Group, formerly known as Kentron. This role included the development and implementation of a Management System to align and support the business strategy, comply with relevant international standards such as ISO 9000, 14 000 and 18 000. In my role, I also facilitated the development and implementation of the company strategy, dubbed the Voyage to Excellence that resulted in turning the company from a loss making position to a profitable business in the space of 18 months.



2.6 I was appointed as the Denel Group Executive: Supply Chain in the year 2012, reporting to Mr. Mhlontlo, the Group Financial Director. This was a new position in Denel. My Key Responsibility Areas included the following:

2.6.1 Development and Implementation of the Group's Supply Chain strategy

2.6.2 Overseeing performance of the Group's Supply Chain Function and providing support and guidance to Divisions in the Group, particularly the Divisional Executive Heads of Supply Chain.

2.6.3 Approval of Deviations from standard processes in line with relevant Policies and Legislation.

2.6.4 Approval of Group and Divisional tenders above R20m.

2.6.5 Optimisation and review of processes to ensure compliance and alignment with legislation and the Group's strategic objectives and Plans.

2.6.6 Development, implementation and review of the Group's Enterprise and Supplier Development programme.

2.6.7 Monitoring, evaluation and reporting on the Group's performance with respect to Supply Chain against contracted targets.

2.6.8 Review of competency levels of the Group's Supply Chain leadership and personnel to ensure optimal performance.

2.6.9 Representing Denel on a number of relevant stakeholder forums.

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**3 DENEL LAND SYSTEMS ("DLS") REQUEST TO APPROVE THE APPOINTMENT OF VR LASER SERVICES TO PRODUCE 217 ARMoured HULLS FOR THE HOEFYSTER CONTRACT IN 2014**

- 3.1 In terms of the Denel Procurement Policy dated 25 August 2008 (annexed hereto as Annexure **DM01**) and the Delegation of Authority that was applicable within the Denel Group at the time, I, as the Group Executive responsible for Supply Chain across the Group, had to be consulted prior to approval of all transactions above the value of R 20 million. The consultation was intended to prevent the award of tenders without following the approved processes and related legislation. I attach hereto a copy of the relevant Delegation of Authority document as Annexure **DM02** (Page 2.15 par. 5.1)
- 3.2 During September 2014, I received a submission from DLS EXCO requesting me to approve a recommendation for the appointment of VR Laser Services to supply Platform hulls for the Hoefyster Project – Platform Hulls Proposal Number HY/RFO/2011-002/1, issued during June 2014. This was in line with the Delegation threshold requirements.
- 3.3 At that stage, although the Group Procurement Policy did not explicitly stipulate the requirement to first establish the existence of relevant capabilities within the Group, prior to inviting external companies to tender, it was, and still is, a universally accepted practice to consider and prioritise internal capabilities and resources, prior to inviting external companies to participate in a competitive bidding process. As a result of the events that I deal with below, a provision reflecting the above principle was incorporated into the updated version of the Group Procurement Policy issued in November 2014.

Q MS

- 3.4 I refused to approve the transaction, for the reasons that follow.
- 3.5 Firstly, I was not provided with satisfactory reasons as to why Landwards Mobility Technology Holdings (Pty) Ltd ("LMT") was not exclusively approached to quote for the work, since it was a subsidiary of Denel SOC Ltd and had the capability to manufacture the said hulls for the Hoefyster contract.
- 3.6 Secondly, LMT had provided the lowest bid out of the three bidders that had responded to the RFQ. If the capability and capacity to design and manufacture the required product existed within the Group, it did not make business sense to go out on an open tender, yet the recommendation was to award the tender to VR Laser Services, which had quoted almost R100m more than LMT. I attach hereto, a copy of the said submission memorandum, motivating for approval of VR Laser Services as a supplier of the Hulls and my reasons for the rejection, as Annexure **DM03**
- 3.7 On 04 September 2014, Mr Stephan Burger ("Mr Burger"), the Chief Executive Officer of DLS, sent me an email in which he sought to justify the recommendation to award the contract to VR Laser Services. I attach a copy of the said email as **Annexure DM04**.
- 3.8 On the same date, I replied to Mr Burger, and also copied Ms Celia Mafahlela ("Ms Malahlela") who was the DLS Supply Chain Executive, Mr Fikile Mhlontlo ("Mr Mhlontlo") who was the Group Chief Financial Officer ("GCFO"), Mr Reenen Teubes ("Mr Teubes") who was the DLS Chief Operations Officer ("DLS

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COO"), Mr Riaz Saloojee ("Mr Saloojee"), the Group Chief Executive Officer of Denel SOC Ltd ("GCEO") and Mr Jan Wessels ("Mr Wessels") who was the Group Chief Operations Officer ("GCOO"). My response is attached hereto marked Annexure **DM05**. I raised a number of issues in my email, none of which were ever resolved. As a result of no objection being raised to the content of my email, I was of the view that the argument I had advanced had prevailed and the matter was not taken any further. In addition, the independent assessor I had recommended in the event of disagreement was not appointed.

- 3.9 On Tuesday, 09 September 2014, I sent an email to Mr Saloojee, Mr Mhlontlo and Mr Wessels, communicating my reasons for not approving the award of the contract to VR Laser Services, which related mostly to procedural irregularities.
- 3.10 I also expressed my considered opinion that the submission from DLS should be rejected. LMT had the capability to make the hull, and should have been considered before going out on tender.
- 3.11 I did not receive any response from either of the above three recipients to my email.
- 3.12 I attach a copy of the abovementioned email, as **Annexure DM06**. I sent this email after having reviewed the submission, which DLS submitted to recommend the award of the Platform Hulls contract to VR Laser Services.
- 3.13 On the 29<sup>th</sup> of September 2014 Mr Wessels, Mr Mhlontlo and I prepared a recommendation (position paper) on the Platform Hulls contract, which is attached hereto marked Annexure **DM07**. Mr Wessels, with Mr Mhlontlo,





drafted the recommendation and I giving input, following my views as expressed in the emails referred to above. In essence, the recommendation states that LMT was best placed to be awarded the contract. The recommendation was supposed to be forwarded to Mr Saloojee by Mr Wessels, and I cannot confirm whether this was indeed done.

3.14 I learned only in 2015 that the DLS submission had been approved and the Contract had been awarded to VR Laser Services on the 16<sup>th</sup> October 2014. I attach a copy of the signed submission as Annexure **DM08**. I was shocked to see that the approval was granted by Mr Saloojee, supported by Mr Wessels and Mr Mhlontlo given the concerns I had raised and the recommendation (outlining our objection to awarding the contract to VR Laser Services) referred to above.

3.15 Mr Saloojee never engaged me on whether the issues I had raised in the e-mail of the **9<sup>th</sup> of September 2014** against the flawed procurement process at DLS were resolved before granting the final approval of the tender. Neither had Mr Wessels nor Mr Mhlontlo informed me of their changed position. Until I became aware of the said approval, I had concluded that Mr Saloojee had accepted my position.

3.16 When I was a Board member of DLS around 2010 until 2012, Mr Burger as CEO motivated for the approval of the acquisition of LMT since it was considered a strategic supplier to Denel. He was at pains to stress the potentially disastrous impact that would befall the Hoefyster contract if LMT was allowed to close down as a result of its precarious financial position as well as lapses in governance- see Annexure **DM09**. One of the reasons cited in the motivation was that DLS's ability to

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execute the Hoefyster contract would be jeopardised if LMT was allowed to go out of business.


3.17 The DLS Board eventually approved the acquisition to retain the strategic and technical capabilities of LMT, in order to help DLS to execute the Hoefyster contract successfully. We were satisfied that LMT was in trouble at the time and Denel had to rescue it to safeguard its future business.

3.18 It is ironic that Mr Burger, having successfully driven the acquisition of LMT, would later turn around and claim that LMT produced poor quality products and business must be redirected to VR Laser Services.

#### **4 INTERFERENCE BY MESSRS BURGER AND TEUBES WITH THE INTERGRITY OF THE PROCUREMENT PROCESS AT DLS**

4.1 The Commission investigators presented to me copies of e-mail correspondence exchanged between Ms Malahlela, Mr Burger, and Mr Teubes, in relation to the above-mentioned procurement process, which I have perused. This was the first time that I had had sight of the emails in question. I confirm that Ms Malahlela never informed or shared with me the said emails.

4.2 I have noted the content of an email from Ms Malahlela to Mr Burger and Mr Teubes dated the **25<sup>th</sup> of June 2014 at 17h18**. In the said email, Ms Malahlela provides details about prices, which were quoted by each Bidder, and clarifies how the team evaluated proposals from the three Bidders.

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4.3 Mr Burger responded by email on **27 June 2014 at 01h18** to Ms Malahlela and copied Mr Teubes indicating his support for VR Laser and his intention to engage them. Another e-mail response from Ms Malahlela was sent to Mr Burger and Mr Teubes on the **27<sup>th</sup> of June 2014 at 08h28**. These emails collectively reveal more irregularities in the process that I had not been previously aware of.

4.4 I have also seen evidence in an email from Mr JP Aurora who was CEO at VR Laser Services, the purpose of the said e-mail was to submit an updated quotation to Ms Malahlela. The email was sent on 30 June 2014 at 08:10pm and the subject of the email is "FW: Updated quotation for the fabrication of the Hoefyster platform component".

4.5 In addition, I have seen email communication demonstrating that Mr Teubes contributed to drafting the submission, which was later presented to the Exco of DLS, of which he is a member. I have been shown a string of email exchanges between Ms Malahlela and Mr Teubes that took place on 30 June 2014 starting at 18:11 until 22:27 with the following subject: "Board VR Laser submissions June 2014".

4.6 In view of the exchanged e-mails referred to above, I concluded that :

4.6.1 The process was devoid of objectivity and fairness and the outcome could therefore not be accepted as the Supply Chain Policy and relevant legislative requirements had been contravened as stated in my e-mail of the **4<sup>th</sup> of September 2014** sent to Mr Stephan Burger.



- 4.6.2 The evaluation process appears to have been manipulated to ensure the outcome favoured VR Laser.
- 4.7 Furthermore, I would still have insisted on giving the contract to LMT given the fact that it did not make business sense to outsource a service for which we had the requisite capability and capacity at LMT. The CEO of LMT, Dr Stefan Nell, confirmed the existence of this capability and capacity.
- 4.8 Another reason I raised when I rejected their proposal to have me approve the tender award was that VR Laser Services was allowed to change its price during the tender adjudication process. In addition, the email communication further confirms that Mr Burger even undertook to obtain a revised price from VR Laser Services using what he termed "**outside normal channels**".
- 4.9 If I was aware of the said email communication at the time of considering the DLS submission recommending that the tender be awarded to VR Laser Services, I would have had more reason to reject the submission.

## **5 ENQUIRIES SUBMITTED TO VR LASER SERVICES REGARDING THE IDENTITY OF ITS INDIVIDUAL SHAREHOLDERS.**

- 5.1 During July 2014, media reports about the Gupta Family and Mr Duduzane Zuma's shareholding in VR Laser Services (Pty) Ltd began to surface.
- 5.2 DLS, through Ms Malahlela, requested VR Laser Services to disclose the names of its new shareholders and any association with parties, which could constitute a conflict of interest. The letter sent by Ms Malahlela, is attached as **Annexure DM10**.

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5.3 The initial response received from VR Laser Services only identified the companies, which had a shareholding in it and not the individual persons as requested. These companies were named as:

5.3.1 **Elgasolve (Pty) Ltd**, which had a **74.9%** stake; and

5.3.2 **Craysure Investment (Pty) Ltd**, which had a **25.1%** stake.

5.4 Following the above-mentioned response, I sent an email to VR Laser Services Managing Director, Mr JP Aurora, requesting that he disclose the individual shareholders in the two companies listed as shareholders in VR Laser Services.

5.5 Mr JP Aurora, through his email of **04 November 2014** confirmed that Elgasolve (Pty) Ltd, which had a 74.9% stake in VR Laser Services (Pty) Ltd, was owned by **Mr Salim Essa**. The email exchange between Mr Aurora and myself is attached hereto as **Annexure DM 11**.

5.6 The outcome of the individual shareholder verification process failed to confirm the claim that VR Laser Services was a wholly-owned South African company that could be classified as 100% Black owned, or that it was more than 25% Black woman owned. Furthermore, details of individual shareholders in Craysure Investment were never disclosed.

5.7 At the time of making the above enquiries, I was unaware that VR Laser had already been awarded the contract for the Platform Hulls by Denel.

## **6 IN 2015 - A SINGLE SOURCE AGREEMENT ENTERED INTO BETWEEN DLS AND VR LASER SERVICES.**

6.1 During October 2015, the DLS EXCO sent me a submission recommending the approval of the implementation of their decision to appoint VR Laser Services as a single source supplier. Ms Malahlela authored the submission in her





capacity as the then DLS Executive Manager: Supply Chain and the document was titled "Conflict between Policy and signed MOU".

6.2 This recommendation was based on a Memorandum of Agreement ("MoA") between DLS and VR Laser Services, which MoA gave VR Laser Services a monopoly or exclusivity to supply fabricated structures and related steel services. The MoA was in conflict with the Denel SOC Ltd Supply Chain policy of 19 November 2014 ("the 2014 SC policy") I attach hereto a copy of the said Memorandum, dated 29 October 2015 as Annexure **DM12**.

6.3 Some of the highlights of the Submission include that I had previously instructed that DLS first explore how Denel Vehicle Systems – Gear Ratio and LMT, as intergroup companies within Denel, could partake in the T5 Demo project, on condition that the said companies met the price, quality and delivery requirements.

6.4 The submission quotes the applicable paragraph 6.10 of the 2014 SC policy, headed "**Intergroup and Group Procurement/Contracts**" which specifically provides that:

*"Under no circumstances shall products or services that can be procured from a Group entity or Division, be procured from an external supplier or non-Denel company, unless there is approval by the Group Supply Chain Executive, based on sound business reasons."*

I attach hereto the 2014 SC policy, as Annexure **DM13**.

6.5 The submission further states that during May 2015 DLS, through the MoA, appointed VR Laser Services as its single-source supplier for the supply of Steel Components and Fabrications.


*Q RS*



- 6.6 It was against this background that I was requested to approve the decision by the DLS EXCO. The request was for me to approve the deviation from procuring goods and services through Denel's intergroup procurement process as required by the 2014 SC policy.
- 6.7 In rejecting the DLS submission, I stated that Denel Vehicle Systems and LMT must first submit proof that they could not meet the DLS requirements.
- 6.8 I had not been a party to the MoA between DLS and VR Laser Services before its conclusion in May 2015 or at any time prior to receiving the said submission.
- 6.9 A glaring flaw in the approval of the Memorandum of Agreement with VR Laser is the fact that:
- 6.9.1 The MoA was effectively a blanket contract whose transactions would be in excess of R20m and in terms of the Delegation of Authority, I had to approve the Agreement yet I was not party to the approval process.
  - 6.9.2 Ms Malahlela, the Divisional Executive Head of Supply Chain at DLS, was also excluded from the process of concluding the said MoA with VR Laser Services. It was Mr Burger and Mr Teubes, who signed on behalf of DLS.
- 6.10 The MoA effectively gave VR Laser Services an unassailable competitive advantage over all other competitors, including Denel Group divisions, subsidiaries as well as external companies.
- 6.11 My office received another submission linked to the above MoA from DLS dated the **29<sup>th</sup> of April 2016** signed by Mr Burger. The heading of the submission was **"VR LASER SERVICES (PTY) LTD: SUPPLY OF FABRICATED STRUCTURES"**.



- 6.12 I have attached a copy of the submission and its appendices as **Annexure DM14**. The first part of this submission deals with the background of the details surrounding the MoA entered into between DLS and VR Laser Services during **May 2015**.
- 6.13 It is stated in the submission, that Mr Ntshepe (Group Executive Business Development) and Mr Wessels (Group COO) recommended the MoA motivation for approval and that Mr Saloojee (Group CEO) granted the final approval of the motivation.
- 6.14 I repeat that I was never given the motivation for the approval of the MoA with VR Laser Services for consideration during **April or May 2015**, and this was once again a contravention of the Denel Group Delegation of Authority, which required procurement transactions of that magnitude to go through my office for approval before the GCEO could sign.
- 6.15 Mr Ntshepe and Mr Wessels were not authorised as Group Executives to recommend the motivation to the then Group CEO, in terms of the Denel Group Delegation of Authority. I am not aware why this important motivation was never presented to me for approval. Suffice to state that the market, through a structured tender process or Request for Information (RFI), should have been approached with a view to identifying a supplier(s) that met Denel's requirements. This was clearly a contravention of both Policy and applicable Legislation. Going out on an open tender or Request for Information would have been a pre-requisite step prior to the appointment of a suitable



Supplier if the capability and capacity did not exist within the Denel Group.

- 6.16 The submission further states that VR Laser Services was appointed as a single source supplier in accordance with Regulation 16.A6.4 of the National Treasury's Regulations 2005, which reads as follows:

***"If in a specific case it is impractical to invite competitive bids, the Accounting Officer or Accounting Authority may procure the required goods or services by other means, provided that the reasons for deviating from competitive bids must be recorded and approved by the Accounting Officer or Accounting Authority".***

- 6.17 I believe the National Treasury Regulations were applied incorrectly. In the case of DLS, there was no need for a Deviation Request because there was no emergency involved. In instances when there was no emergency, DLS was supposed to go out to the market to establish if there was no other company, apart from VR Laser Services, that had the requisite capability and capacity. That process was not carried out. If at the time of approval of the MoA it was brought to my office, I would have disagreed with the rationale behind the MoA and rejected it.

- 6.18 The submission from Mr Burger further provides five reasons to justify the signing of the MoA with VR Laser Services, which are stated as follows:

1. *Its (VR Laser Services') unparalleled expertise on fabrication of complex engineering systems which includes but is not limited to turrets, outer shields, add on armour and vehicle hull structures;*

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2. *It is a key supplier and strategic partner to DLS;*
3. *It offers the best value having, inter alia, committed to invest capital and resources in its facilities in order to ensure that the ability remains intact and available to DLS for a minimum period of 10 years.*
4. *It is prepared to assist and has assisted DLS with its obligations in foreign jurisdictions (such as Malaysia) in transferring skills relating to its manufacturing process (hereinafter referred to as intellectual Property; and*
5. *It promotes a black industrialist entrepreneurial company within the defence industry.*

6.19 In the absence of data or evidence from the market, as a result of failure to use a structured tender or RFI process, Mr Burger was simply expressing his opinion which cannot be treated as objective evidence based on the scanning of the supply environment.

6.20 The submission ends with a recommendation that I should approve the attached submissions relating to the Fire Compartment Module (FCM) and the Outer Shield marked "D" and "C" respectively to be sourced via VR Laser Services in accordance with the terms and conditions of the MoA.

6.21 I rejected the submission from Mr Burger and wrote my reasons for the rejection in manuscript, namely :

1. *The evidence on how VR Laser was selected is not available to support its appointment as a single-source supplier.*

2. *The approval process of the MOA excluded Supply Chain and the reasons thereof have not been furnished.*
3. *The recommendation is, given the fact that Denel Executives committed the company to place orders on VR Laser for specified products for 10 years, to have same Executives approve future orders.*
4. *The paragraph in Treasury Regulations that has been cited in the motivation memo. Is irrelevant because it was not impractical to test the supply market*

6.22 I subsequently became aware that Mr Ntshope, who in 2016 was the Acting Group CEO of Denel, overruled my rejection of the submission from Mr Burger and approved it. Mr Ntshope scratched out my name and Designation and signed on the same document to confirm his approval - See Annexure **DM15**. Mr Saloojee was suspended in September 2015, hence the acting role of Group CEO by Mr Ntshope.


6.23 Mr Ntshope neither discussed the said submission with me nor furnished me with reasons for his actions. I believe it was important for Mr Ntshope to discuss his reasons for overturning my decision in line with standard protocol, professionalism and more importantly, due regard to the relevant Policy and Delegation of Authority.





**7 IN YEAR 2015, A SUBMISSION FOR DVS TO ENTER INTO A MEMORANDUM OF UNDERSTANDING (MOA) WITH VR LASER SERVICES;**

- 7.1 During the year 2015 Mr Johan Steyn, the CEO of DVS at the time, who informed me that he had received an instruction from Mr Ntshepe to put a MOA in place between DVS and VR Laser Services, approached me. – see Annexure **DM16** (*Annexure is being sourced*)
- 7.2 Mr Steyn informed me about his reservations in implementing Mr Ntshepe's instruction and specifically stated that it would cost DVS 15% more to outsource the targeted work to VR Laser. DVS had both the capability and capacity to execute the work in question.
- 7.3 Mr Steyn further presented to me a submission, which I was supposed to sign in support of the procurement decision to enter into a MOA with VR Laser services.
- 7.4 I rejected the submission and presented my reasons in my handwriting on the said document.
- 7.5 I became aware after a while that Mr Ntshepe had again overturned my decision not to outsource work to VR Laser and approved the submission from DVS without consulting with me. I did not approach him to furnish reasons for his actions. He had already set a precedent for overturning my decisions without presenting reasons for same. He was also aware that I had rejected the validity of the MOA between DLS and VR Laser Services.





The investigators of the commission are assisting me in sourcing the submission in question from Denel. At the time of signing this statement, I had not received this submission.

## 8 THE CHAD CONTRACT


8.1 Denel concluded a contract with the Chad Government on the **18<sup>th</sup> of September 2017** to supply 40 Casspir vehicles for about US\$ 18 million (+/- R270m) at the time.

8.2 The contract, according to the submission made to the Group Exco meeting in **June 2018**, was signed by the then Group CEO, Mr Ntshepe.

8.3 Furthermore, there was an allegation that the agreed selling price was below cost and an investigation was initiated to establish why Mr Ntshepe signed the contract knowing that it was going to be loss making.

8.4 The issues around the Chad contract were essentially around the following:- (a) the approval of VR Laser as the entity to assemble the forty (40) Casspir vehicles (b) the reasons for Mr Ntshepe's acceptance of an offer that was below cost, and (c) a payment made to a Technical Advisor who was allegedly not involved in the facilitation of the contract. I will focus on the first issue since that required my approval.

8.5 DLS prepared a submission in which I was required to approve that the assembly of the Casspir vehicles be undertaken by VR Laser Services. In the said submission, VR Laser Services was alleged to have made

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significant improvements to the Casspir vehicle design without Denel having paid for same. Effectively, that meant VR Laser Services was by implication, the new owner of the Intellectual Property ("IP") right of the Casspir vehicle, which is the same vehicle that the CHAD government had placed an Order for. I rejected the assertion since there was no credible evidence to support it.

8.6 Denel had two Divisions, which could manufacture or assemble the vehicles in question, and those were LMT and DVS. My contention was that if I had to approve the assembly of the Casspir vehicles by VR Laser Services, DLS had to submit proof that the IP was indeed sold to VR Laser and it was an above-board transaction.

8.7 I needed to ascertain if that transaction followed the normal process and was accordingly approved. If there was evidence that the normal approval process was not followed, then I intended to reject the Deviation Request to use VR Laser Services. More importantly, from a business point of view, it did not make sense to outsource the work to VR Laser Services when it was common course that Denel had the capability and underutilised capacity in both DVS and LMT.

8.8 Denel was under immense pressure to start executing the contract mainly as a result of delays caused by bad contracting and failure to comply with relevant Denel processes. Naturally, it was in the company's interest to expedite the vehicle assembly process to avoid being in breach of the contractual conditions, particularly in terms of committed delivery dates of the vehicles and the risk of paying

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penalties. Penalties in the defence industry are prohibitively expensive and onerous.

8.9 In the light of the circumstances outlined above, I granted conditional approval of the Deviation to have VR Laser Services execute the contract subject to DLS presenting evidence that Denel had indeed sold the IP to VR Laser Services in line with approved processes and the Delegation of Authority. Given my suspicion that the proof I required was not going to be available, the conditional approval was a way of calling their bluff – see Annexure **DM 17**. Indeed such proof was never presented.

8.10 Whilst the process to get approval to use VR Laser Services to assemble the Casspir vehicles was underway, an announcement was made that VR Laser Services had been placed under business rescue. Effectively, that legally excluded VR Laser as a company to be considered to assemble the vehicles. A decision was then taken by the Group Exco to have DVS to execute the contract. However, it was brought to my attention that Denel did not have the latest Data Pack to manufacture the vehicles in accordance with the specifications. Reverse engineering was then proposed as a short-term solution to resolve the crisis.

8.11 It was a shocking revelation that Denel could no longer assemble a product it had manufactured before and owned the IP thereof. The expectation was that DLS was in possession of the Data Pack because it was their responsibility to protect the IP of the Casspir vehicle. Instead, DLS announced that it was in possession of an obsolete Data

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Pack and consequently it was impossible to manufacture vehicles that complied with the latest specifications.

- 8.12 I recommended that DLS negotiate with VR Laser Services to release the Data Pack as there was no evidence that they owned it. Discussions were initiated between DLS and VR Laser and unfortunately did not yield the desired outcome.
- 8.13 I was not involved in the engagements with VR Laser Services on the issue of the ownership of the IP that Denel had allegedly 'sold' to them. The claim that VR laser owned the IP for the Casspir vehicle left me speechless since the standard practice is that if a company is contracted to carry out any design change or upgrades, the Client, in this instance, Denel, retains IP for the redesigned product.
- 8.14 After consultations with relevant technical experts, DLS adopted the notion of reverse engineering and one of the significant changes required was the replacement of the Drivetrain / Chassis with one from a company called ENNE7, which happened to be the Agent / Local Distributor of Sinotruk products in South Africa. Sinotruk is a Chinese company.
- 8.15 DLS submitted a motivation signed by its Acting Executive Manager: Supply Chain, Mr. Douglas Masuku, the Mechem Programme Manager, Jack Geldenhuys, the Mechem General Manager, Peter Faro and the CEO of DLS, which confirmed that ENNE7 had actually supplied the said Drivetrain / Chassis for the Casspir vehicle, see Annexure **DM 18**. The motivation further stated that ENNE7 was

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Sinotruk's South African Agent or Distributor, and that was supported by a letter from Sinotruk on its letterhead– see Annexure **DM 19**

8.16 The letter I mentioned above was submitted to corroborate the claim that ENNE7 was the only company in South Africa or Accredited Agent of Sinotruk. Based on the evidence submitted by Sinotruk, it was a foregone conclusion that ENNE7 had to be categorised as a single – source Supplier. A single-source Supplier is exempted from a competitive bidding process as per Denel's Supply Chain Policy. Consequently, the submission in question was to approve the categorisation of ENNE7 as the approved Supplier of the Drivetrain. This is the only approval that I granted on the strength of the letter and motivation that were presented.

8.17 The DLS Supply Chain Team obtained the letter from ENNE7. Supply Chain would not have placed an order with ENNE7 if there was no proof that Sinotruk had appointed them as the sole distributor or the only accredited distributor in the country.

8.18 After receipt of the letter, I personally verified its validity with Sinotruk's Managing Director, Mr Zhang Yuzong, and he confirmed in writing as well that he was indeed the author of the letter – see attached e-mail Annexure **DM20**.

8.19 I was informed that in the Bowman's report, the authenticity of the letter was disputed despite evidence that I had validated it. I do not know how or where Bowmans got the information that the letter was



not authentic. Bowmans investigators to validate the letter's authenticity could have contacted Mr Yuzong.

8.20 The repudiation by Bowmans investigators of the letter submitted by DLS to support the categorization of ENNE7 as a single-source Supplier of Sinotruk products in South Africa, led to a decision to temporarily suspend my approved VSP application and disciplinary actions were allegedly taken against some of the people at DLS that were involved in compiling and recommending the motivation.

8.21 I have attached a number of e-mails exchanged with the relevant DLS Senior Management to demonstrate that I was acting in the interest of the Denel Group and in addition, my actions were intended to limit the inevitable loss on the CHAD contract whilst simultaneously protecting the image of Denel and following good Governance - See Annexure **DM21**.

8.22 Mr Du Toit, the Group CEO at the time, notified me about the company's intention to suspend my VSP and take disciplinary action as recommended by the Bowmans report. He stated that I was implicated in the CHAD contract for wrongdoing. I demanded a copy of the report as it did not make sense that the company contemplated taking disciplinary action against me when I was in every respect acting to protect the company's interest even at the prospect of risk to my own life. I was promised a copy of the report so I could prepare to defend myself and to this day that report was never presented to me – see e-mails exchanged with Mr Du Toit – Annexure **DM22**.

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8.23 I instructed an attorney, Mr Fisha, to assist with the matter. However, I never received a charge sheet, nor was the Bowmans report ever presented to me. Eventually Denel backtracked on its decision to pursue the spurious charge against me. This, coupled with the refusal by Mr Du Toit to give me a copy of the Bowmans report that allegedly implicated me in wrongdoing suggested there may have been ulterior motives behind the charge.

8.24 I still believe that I was correct in approving the categorisation of ENNE7 as a single source supplier. The supporting evidence from Sinotruk, was presented and verified. Mr Masuku, the Head of Supply Chain at DLS knew that if there was something wrong with the letter, that I was not going to approve the categorisation of ENNE7. Approval of the procurement transaction was a separate matter.

## **9 MY REFUSAL TO APPROVE THE APPOINTMENT OF ERNST & YOUNG IN MARCH 2019 AS INTERNAL AUDITORS FOR THE DENEL GROUP**

9.1 Around March to April 2019, when I was still an employee of Denel, I received a submission from the Tender Adjudication Committee seeking approval for the appointment of the recommended Bidder following an open tender process. The successful Bidder was going to provide internal audit services across the Group for 3 years. The value of the tender submissions of the top four Bidders ranged from around R40m to about R50m.

9.2 The service provider who came first in terms of scoring of bids was Nexia SAB & T – see Annexure **DM23**. However, Mr De Klerk, Acting Group CFO, submitted evidence to support the disqualification of Nexia SAB&T as it had been found guilty by the BEE Commission of fraudulently issuing a B-BBEE certificate, as well as the fact that Nexia SAB & T was doing work for the Auditor General as part of the Denel external audit service. His contention was that their appointment would constitute a conflict of interest.

9.3 I rejected the second reason for their disqualification since all the other Bidders in the top four were also doing work for the Auditor General.

9.4 The second highest Bidder in terms of the evaluation scores was Kopano Incorporated and Ernst & Young was number three. On the basis of the evaluation scores, I approved the award to the second best Bidder as per Policy and Procurement process.

9.5 The decision to appoint Kopano was strongly opposed by Mr De Klerk and the Group CEO of Denel, Mr Du Toit, in favour of Ernst & Young, and this was on the basis that they did not know Kopano Incorporated. That was one of the most preposterous reasons for disqualifying or rejecting a Bidder. I rejected their recommendation because it was tantamount to arbitrarily appointing Bidders without evaluating their fitness and qualification to do the job and it was, in my view, a wilful contravention of Legislation and Policy, and more importantly, that made a mockery of the evaluation process.

9.6 The vicious disagreement between these two Executives and myself is supported by email communication and comments on the approval tender document and it resulted in Mr Du Toit threatening me with disciplinary proceedings for insubordination. This threat was communicated in an email in which my subordinates were also copied, and it demonstrated that Mr Du Toit had no respect for clean governance and for me in particular.

9.7 It is my opinion that the 'recommended' disciplinary contained in the Bowmans report, which I never had the opportunity to see, was a result of the disagreement on the award of the Internal Audit tender.

9.8 The Internal Audit tender was subsequently cancelled without my involvement and in contravention of the Regulations, which require reasons for cancelling a tender to be published on the National Treasury's website. I refused to be party to that process after the decision was taken by Messrs Du Toit and De Klerk. I learnt a few months after I left Denel that the tender was awarded to Ernst & Young. I don't know whether it was re-advertised and more importantly, whether a fair, objective and approved process was followed. That is something to be investigated by the appropriate Bodies, like the SIU or the Hawks

## 10 THE APPOINTMENT OF PRICEWATERHOUSE COOPERS (PWC) AS CONSULTANTS WITHOUT A PROPER PROCUREMENT PROCESS

- 10.1 PWC was appointed in 2019 to provide resources to assist the Finance department to address audit findings raised by the Auditor General and External Auditors. This appointment was done without following a proper procurement process.
- 10.2 I am aware that the initial quote from PWC was R952 685.30 -see Annexure **DM24** and ultimately an additional Order of R5 936 000.00 was placed with PWC without, once again, following the normal tender process –see Annexure **DM25**. At least 3 quotes as per the Group Procurement Procedure must be obtained for a transaction below R1m and a tender process followed for amounts above R1m, unless the requisite Deviation approval is obtained – see attached relevant section of the Group Procurement Procedure – Annexure **DM26**.
- 10.3 What is worth noting is that the request for approval of additional resources dated the 8th of April 2019 is addressed to me and yet I never received it and the absence of my signature bears testimony to that. – see Annexure **DM27**
- 10.4 Even more shocking is the acknowledgement on the document by the GCEO that he condones the contravention of Policy and he further states that the expenditure will be irregular for FY19/20. – see Annexure **DM28**
- 10.5 The PFMA is very clear on the responsibilities of Executive Management. I have been informed by a reliable source within Denel that the company eventually paid PWC around R11 million. That should be investigated to ensure the outcome is based on solid evidence.

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SIGNED AT GARSPONTEN ON THIS THE 13th DAY OF October 2020.



MANDLA DENNIS MLAMBO

THUS SIGNED AND SWORN TO AT PRETORIA ON THIS THE 13 DAY OF October 2020 BY THE DEPONENT, WHO HAS DECLARED THAT SHE KNOWS AND UNDERSTANDS THE CONTENTS OF THIS AFFIDAVIT, THAT IT IS THE TRUTH, AND THAT SHE CONSIDERS IT TO BE BINDING ON HER CONSCIENCE

BEFORE ME: At Garspontein

COMMISSIONER OF OATHS

I, the undersigned, do hereby certify that the above statement was made by me and that the deponent has acknowledged that he/she knows and understands the contents of this statement. This statement was sworn to/affirmed before me and deponent's signature/mark/thumbprint was placed thereon in my presence.

Garspontein 2020-10-13 om 15:30

[Signature] 2292666

(HANDTEKENING) KOMMISSARIS VAN EDE  
(SIGNATURE) COMMISSIONER OF OATHS

Bolele So phuy Shaba

VOLLE VOORNAME EN VAN IN DRUKSKRIF  
FULL FIRST NAMES AND SURNAME IN BLOCK LETTERS

277 Johnny Claassen

BESIGHEIDSADRES (STRAATADRES)  
BUSINESS ADDRESS (STREET ADDRESS)

Smat Garspontein

[Signature]

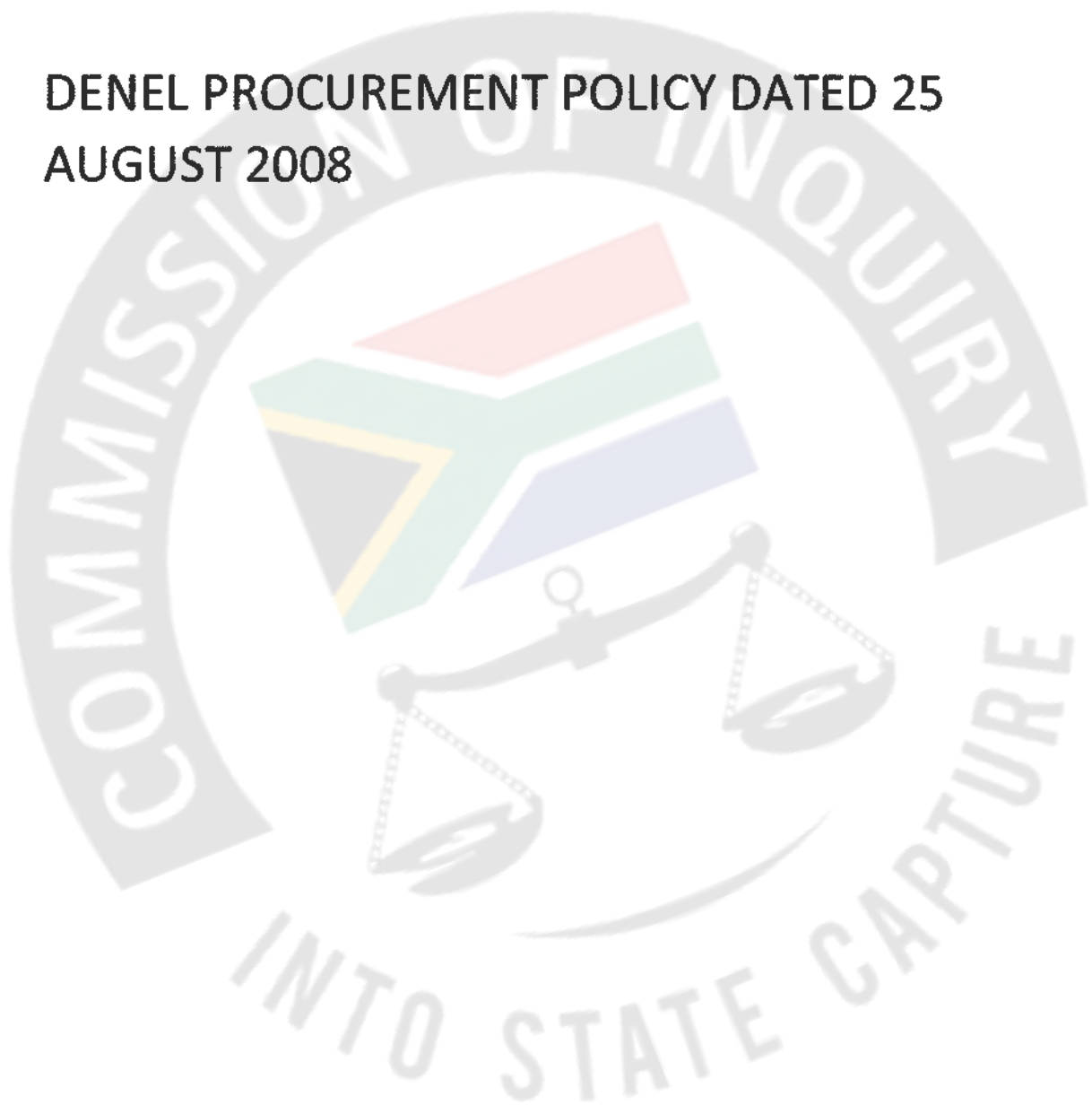
SA POLISIEDIENS






# ANN. DMO1

DENEL PROCUREMENT POLICY DATED 25  
AUGUST 2008



	<p align="center"><b>DENEL (PTY) LTD</b></p> <p align="center"><b>COMPANY POLICY</b></p>	<p align="center"><b>NUMBER</b></p> <p align="center"><b>3</b></p>
<p><b>SUBJECT: PROCUREMENT</b></p>		<p align="center"><b>EFFECTIVE DATE</b></p> <p align="center"><b>25 AUGUST 2008</b></p>
<ol style="list-style-type: none"> <li>1. PREAMBLE</li> <li>2. PURPOSE</li> <li>3. SCOPE</li> <li>4. POLICY STATEMENT</li> <li>5. SANCTIONING OF POLICY</li> <li>6. APPLICABLE LEGISLATION</li> <li>7. CODE OF ETHICS AND CONFLICT OF INTEREST</li> <li>8. NON-COMPLIANCE TO PROCUREMENT POLICY</li> <li>9. ROLES AND RESPONSIBILITIES             <ul style="list-style-type: none"> <li>9.1 Quality Assurance and Technical Support</li> <li>9.2 Procurement Resources</li> </ul> </li> <li>10. CROSS FUNCTIONAL STRATEGIC SOURCING TEAMS</li> <li>11. INTERGROUP PROCUREMENT</li> <li>12. PROCUREMENT COMMITTEES</li> <li>13. RISK MANAGEMENT</li> <li>14. STANDARD TERMS AND CONDITIONS</li> <li>15. DELEGATION OF AUTHORITY</li> <li>16. ARMS CONTROL</li> <li>17. PROCUREMENT PROCESS FOR GOODS AND SERVICES</li> <li>18. BROAD-BASED BLACK ECONOMIC EMPOWERMENT (B-BBEE)</li> </ol> <p>APPENDIX A: LIST OF APPLICABLE LEGISLATION</p> <p>APPENDIX B: TYPICAL SUB-AREAS FOR THE PROCUREMENT PROCESS</p>		
<p align="center"><b>COMPILED BY</b></p>    <p align="center"><b>FINANCE DEPARTMENT</b></p>	<p align="center"><b>UPDATED AND ACCEPTED BY EXCO ON</b></p>    <p align="center"><b>25 AUGUST 2008</b></p>	<p align="center"><b>SIGNATURE</b></p> <p align="center">(Original signed by Mr M T Sadik)</p>    <p align="center"><b>GROUP CHIEF EXECUTIVE OFFICER</b></p>



## 1. PREAMBLE

This policy is replacing the following outdated company policies:

- Policy 3: Procurement, dated 4 November 2002
- Policy 5.11: Intergroup transactions, dated 22 February 1995
- Policy 5.11B: Intergroup procurement, dated 29 November 1994
- Policy 13: Intergroup procurement, dated February 1993
- Policy 20: Central bargaining, dated 28 September 2001
- Policy 61: Transfer pricing, dated 12 May 2004.

Denel (Pty) Ltd recognises the need to provide procurement guidelines to its business entities in order to guide good procurement practice and the formulation of individual entities' procurement policies. This approach is further supported by the realization that each business entity is operationally unique in its own right and may have differing organisational environments.

It must be noted that these guidelines are intended to be mainly procurement focused. However, these guidelines may also allude to supply chain best practices since procurement is an integral function within an over-arching supply chain environment. The terms 'procurement' and 'supply chain' may be used interchangeably and must be read in the context of best practices.

Denel (Pty) Ltd's current strategic positioning requires that its core business operations are decentralised with each business entity bearing responsibility and accountability for achieving targets and objectives. Specific action plans and goals will be developed in collaboration with the Denel Transformation Executive. Applicable targets will be contained in a transformation scorecard for each business entity and/or subsidiary to report on.

Notwithstanding each business entity's operational uniqueness, it is also imperative that their procurement policies comply with applicable legislation and consider supply chain best practices. The 'Denel Six Pillar Strategy' clearly states the need to 'raise capabilities and productivity to world standards'. It is therefore important that a platform for collaboration and learning be provided that will ultimately yield benefits of reduced total cost of ownership across the supply chain.

	<p><b>DENEL (PTY) LTD</b> <b>COMPANY POLICY</b></p>
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The procurement policy is a living document and serves as an internal mechanism that essentially promotes the core values of Denel (Pty) Ltd. The procurement policy provides a broad framework for Denel (Pty) Ltd to procure and purchase in a best practice manner that is fair, equitable, transparent, cost-effective and competitive.

## **2. PURPOSE**

The purpose of the procurement policy is to direct and guide Denel (Pty) Ltd's business entities' and/or subsidiaries towards the formulation and adoption of an individual business entity procurement policy. The business entity procurement policy must be aligned to applicable legislation and supply chain best practice.

## **3. SCOPE**

The scope of the procurement policy is limited to all existing Denel business entities as mandated by the Denel Corporate Office.

## **4. POLICY STATEMENT**

It is the policy of Denel (Pty) Ltd to:

- (i) Support best procurement practice throughout the business entities in order to embed corporate governance and compliance with applicable statutes and legislation, such as the PFMA (refer Appendix A);
- (ii) Promote Broad-based Black Economic Empowerment (B-BBEE) in accordance with prescribed legislation and the Denel Transformation Strategy;
- (iii) Adhere to its ethics policy in the execution of any procurement and related activity. This includes full disclosure in potential conflict of interest situations.

## **5. SANCTIONING OF POLICY**

The Denel (Pty) Ltd business entities are required to formulate their respective procurement policies in conjunction with, but not limited to, these procurement policy guidelines. The business entities will remain responsible and accountable for the enactment and implementation of such procurement policies. Due consideration must be given to applicable legislative requirements and best practice corporate governance and compliance. If and when necessary, the Denel Corporate Office will periodically assess and validate each business entity's procurement policy for compliance with broader legislation.



	<p><b>DENEL (PTY) LTD COMPANY POLICY</b></p>
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## **6. APPLICABLE LEGISLATION**

This procurement policy generically applies to all Denel business entities and should be read in conjunction with, but not limited to, applicable legislation. A list of applicable legislation is appended for further guidance (refer Appendix A).

## **7. CODE OF ETHICS AND CONFLICT OF INTEREST**

The business entities must ensure that the Denel (Pty) Ltd ethics policy is consistently complied with. Any conflict of interest should be declared and addressed in line with relevant procedural requirements and in conformance to the ethics policy.

## **8. NON-COMPLIANCE WITH PROCUREMENT POLICY**

Denel (Pty) Ltd's normal disciplinary process and procedures will be followed, where relevant and applicable in cases of non-compliance.

## **9. ROLES & RESPONSIBILITIES**

Where applicable and relevant, the procurement policy of each business entity will clearly set forth the roles and responsibilities of typical sub-level functions listed hereunder. It is imperative that roles and responsibilities are established and confirmed at each business entity in support of continuously improving procurement as part of an overall Denel (Pty) Ltd supply chain initiative.

### **9.1 Quality Assurance and Technical Support**

The quality assurance team is primarily involved in the assessment of goods, services, materials and products, as it applies to Denel's operating environment. Notwithstanding the operational uniqueness of each business entity and/or subsidiary, the typical activities and role profiles of the quality assurance team should be clearly outlined at business entity level and be included in their respective procurement policies, where applicable.

Technical support is an integral part of ensuring that goods, materials or products are procured to correct data pack specifications. Technical support should participate in continuous improvement projects focusing on reducing manufacturing and/or assembly costs, thereby reducing the total cost of ownership across the supply chain.





## DENEL (PTY) LTD COMPANY POLICY

### 9.2 Procurement Resources

The functions of procurement resources will focus on strategic, transactional and transformational procurement. Consideration should also be given to empowering procurement resources to make business decisions that benefit the organisation. The main focus of procurement resources is to support core business objectives through efficient purchasing, negotiation and expediting of goods, services, materials and products. Where the business entity's operating environment allows, procurement resources should participate in broad-based supplier development and alternative supply initiatives. Procurement resources also require the necessary procurement skills and training to efficiently support all functional areas of the supply chain.

### 10. CROSS FUNCTIONAL STRATEGIC SOURCING TEAMS

The principles of cross functional sourcing teams (CFSTs) are promoted by this policy and may be adopted and implemented as each business entity deems appropriate. Where necessary, CFSTs will be established at business entity level, in support of reducing the total procurement spend within predefined parameters. The main focus of the CFST will be to consolidate and aggregate common demand requirements across the organization with a view of leveraging benefits of quantity discounting, improved lead times and guaranteed supply of goods, services, materials and products to specification. CFST initiatives may typically include, but are not limited to:

- shipping requirements;
- spend analysis;
- single source supply;
- non-critical cross-entity commodities and services;
- service level agreements;
- supplier management,
- supplier development and performance;
- contract management;
- assessment of specifications and standards, amongst others.

These teams may also comprise key individuals across the business entities that have the necessary skills and experience to effectively contribute to CFST initiatives and body of knowledge.

	<p><b>DENEL (PTY) LTD COMPANY POLICY</b></p>
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## **11. INTERGROUP PROCUREMENT**

Transfer prices between business entities should be managed on sound free market principles in the best interest of the Denel Group.

## **12. PROCUREMENT COMMITTEES**

Business entities will constitute procurement committees in line with best practice corporate governance and compliance standards, where and when appropriate. Procurement committees will consider strategic, operational and transformational issues related to tender adjudication, contract management and normal procurement, amongst other activities. The procurement committee will mainly focus on reducing the supply chain total cost of ownership, but without compromising technical, quality and contractual obligations.

## **13. RISK MANAGEMENT**

Due consideration must also be given to existing Denel (Pty) Ltd risk management/legal policies (corporate and business entity level) and should, where applicable, be incorporated into the business entities' procurement policies as part of embedded best practice corporate governance and compliance. Regulatory and legal requirements pertaining to contractors and sub-contractors should be explicitly addressed as part of Denel (Pty) Ltd's risk management practices.

## **14. STANDARD TERMS AND CONDITIONS**

Each Denel (Pty) Ltd business entity must ensure that its standard conditions of purchase and/or terms and conditions are legally ratified, enacted, and consistently and proactively modified in order to mitigate business risk.

## **15. DELEGATION OF AUTHORITY**


Good practice corporate governance and compliance will guide the formulation of delegation of authority requirements throughout the business entities. Business entities are required to adhere to and comply with their applicable delegations of authority.

# ANN. DMO2


DELEGATION OF AUTHORITY




2

	<p align="center"><b>DENEL SOC LTD</b></p> <p align="center"><b>COMPANY POLICY</b></p>	<p align="center"><b>NUMBER</b></p> <p align="center"><b>2</b></p>
<p><b>SUBJECT:      DELEGATION OF AUTHORITY</b></p>		<p align="center"><b>EFFECTIVE DATE</b></p> <p align="center"><b>22 NOVEMBER 2012</b></p>
<ol style="list-style-type: none"> <li>1. INTRODUCTION</li> <li>2. PURPOSE</li> <li>3. SHAREHOLDER MATTERS</li> <li>4. BOARD RESERVED MATTERS</li> <li>5. POWERS OF THE PERSONNEL, REMUNERATION AND TRANSFORMATION COMMITTEE</li> <li>6. POWERS OF THE AUDIT AND RISK COMMITTEE</li> <li>7. POWERS OF THE SOCIAL AND ETHICS COMMITTEE</li> <li>8. POWERS AND DUTIES OF THE GROUP EXCO</li> <li>9. GOVERNANCE FRAMEWORK</li> <li>10. DELEGATION IMPERATIVES</li> <li>11. DELEGATIONS             <ol style="list-style-type: none"> <li>1. Human Resources and remuneration</li> <li>2. Planning and budgeting</li> <li>3. Research and development</li> <li>4. Sales and contracts</li> <li>5. Procurement</li> <li>6. Provision requirements for contract losses and penalty assessments</li> <li>7. Strategic marketing</li> <li>8. Countertrade</li> <li>9. Irregular, fruitless and wasteful expenditure</li> <li>10. Lawsuits</li> <li>11. Financing</li> <li>12. External communications</li> <li>13. Sponsorships, support and donations</li> <li>14. Tax administration</li> <li>15. Insurance</li> <li>16. Auditors and Public Officers</li> <li>17. Company policy</li> <li>18. Significant transactions</li> <li>19. Share capital</li> <li>20. Memorandum of Incorporation</li> </ol> </li> </ol>		
<p align="center"><b>DRAWER</b></p> <p align="center"><b>B T ZWELIBANZI</b></p>	<p align="center"><b>APPROVED BY THE DENEL BOARD</b></p> <p align="center"><b>22 NOVEMBER 2012</b></p>	<p align="center"><b>SIGNATURE</b></p> <p align="center"><b>(Original signed by Mr Riaz Saloojee</b></p> <p align="center"><b>GROUP CHIEF EXECUTIVE OFFICER</b></p>



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	<p style="text-align: center;"><b>DENEL SOC LTD COMPANY POLICY</b></p>
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## DEFINITIONS AND INTERPRETATIONS

- **“Accounting Authority”**

The Board of Denel SOC Ltd as appointed by the Minister of Public Enterprises from time to time.

- **“Advisors and Consultants”**

External persons or firm contracted to render a management consulting service to Denel or its divisions and subsidiaries. This does not include hiring of contract workers or specialised technical services.

- **“Corporate Plan”**

A Corporate Plan submitted annually in terms of Section 52 of the PFMA, which entails strategy, objectives, budget, KPI's, etc.

- **“Diversification”**

Diversification involves adding products, services, and markets that are outside the traditional defence business of Denel, including non-defence but related products to Denel's portfolio.

- **“Board Reserved Matters”**

Means the matters listed in clause 4 below.

- **“Executive Authority”**

The Ministry in which the portfolio of Denel SOC Ltd falls and is accountable to Parliament.

- **“Executive Committee”**


Executive committee of Denel as constituted by the Group Chief Executive Officer.

- **“Fruitless and Wasteful Expenditure”**

Fruitless and wasteful expenditure as defined in the PFMA i.e. expenditure made in vain and would have been avoided had reasonable care been exercised.

- **“Irregular Expenditure”**

Irregular expenditure as defined in the PFMA i.e. expenditure, other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation.

	<p style="text-align: center;"><b>DENEL SOC LTD COMPANY POLICY</b></p>
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- **“Materiality and Significance Framework (MSFW)”**

The framework of acceptable levels of materiality and significance as agreed with the Minister of Public Enterprises from time to time governing significant transactions requiring Shareholder approval and/or notification.

- **“Ownership Control”**

The ability to exercise any of the following powers:

- to appoint or remove all, or the majority of the members of a company/subsidiary board of directors or equivalent governing body;
- to appoint or remove a company/subsidiary’s chief executive officer;
- to cast all, or the majority of the votes at meetings of that board of directors or equivalent governing body; or
- to control all, or the majority of the voting rights at a general meeting of a company/subsidiary.

For Denel subsidiaries such powers vest with the Denel SOC Ltd Board as the Accounting Authority.

- **“Prescribed Officer”**

Any person who exercises general executive duties and management of the whole or a significant portion of the business, or regularly participates to a material degree in the exercise of general control over the whole, or a significant portion of the business and activities of the company. In the context of Denel, this relates members of the Executive Committee of Denel and Divisions/subsidiaries.

- **“Public Officer”**


A person, appointed as Denel’s representative in terms of section 101 of the Income Tax Act No 58 of 1962 as amended. Responsibilities include ensuring that all tax affairs, the submission of tax returns in the prescribed form, answering any questions or providing explanations which may be required to determine the tax liability, the payment of taxes as provided in the main act as well as the fourth schedule of the said Act have been addressed.

- **“Shareholder”**

In the case of Denel SOC Ltd the Department of Public Enterprises and in the case of Denel subsidiaries Shareholder means Denel SOC Ltd.

- **“Shareholder Compact”**

Agreement entered into between Denel and the Shareholder pertaining to Denel’s performance against set goals, targets and KPI’s to meet business objectives.

	<p style="text-align: center;"><b>DENEL SOC LTD COMPANY POLICY</b></p>
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- **“Shareholder Representative”**

In the case of Denel SOC Ltd means the Minister of Public Enterprises and in the case of Denel subsidiaries Shareholder Representative means the Group Chief Executive Officer or his nominee.

- **“Subsidiary”**

A business unit that is incorporated and wholly owned by Denel or in which Denel has the majority shareholding or ownership control”.

- **“Tender”**

A mandatory and formal process followed in advertising, adjudicating and allocating contracts or work in excess of R500k. The 500k threshold may be lowered depending on the size of the division.

## 1. INTRODUCTION

### 1.1 Legal requirements

The Board has the authority to lead, control, manage and conduct the business of Denel and may delegate certain powers to the various levels of management for day-to-day running of the company. The Board shall exercise these powers in accordance with the relevant provisions of the Companies Act; Public Finance Management Act and the Treasury Regulations as well as the Memorandum of Incorporation; Shareholder’s Compact and any other applicable regulatory framework.

### 1.2 Accounting Authority


For purposes of this policy, Accounting Authority means the board of Denel, which has delegated the day-to-day management of Denel to the Group Chief Executive Officer assisted by the Group Executive Committee.

Notwithstanding that subsidiaries of public entities are deemed as schedule 2 entities in terms of the PFMA, Denel has been mandated by the Department of Public Enterprises, as part of restructuring to account to the Department regarding its subsidiaries.

## 2. PURPOSE

The purpose of this policy is to delegate some of the authority that vests with the Denel Board to the Group CEO, Executive Committee, as well as designated staff of Denel.

Powers delegated in terms of this policy take due regard of the Materiality and Significance Framework, which regulates the treatment of significant transactions requiring Shareholder approval.

	<p style="text-align: center;"><b>DENEL SOC LTD COMPANY POLICY</b></p>
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### 3. SHAREHOLDER MATTERS

Matters reserved for Shareholder notification and/or approval unless specified otherwise in the Shareholder's Compact.


#### 3.1 Matters for Shareholder Approval (DPE)

- Payment of interest from time to time on Denel's share capital or part thereof;
- Alteration of share capital including increase, reduction, subdivision and consolidation of shares;
- Modification of rights;
- Non-executive Directors minimum and maximum numbers, remuneration, etc.;
- Group CEO appointment and remuneration;
- Appointment of another director or any other person approved for that purpose by the Shareholder in a general meeting as an alternate director to act in his/her place or during his absence;
- Term of the director and lapsing thereof;
- Retirement of a director and filling of vacancies for a retiring director; and
- Establishment of any contributory or non-contributory pension, retirement, provident, medical or other fund for the benefit of and payment on behalf of the company, a gratuity or pension or allowance on retirement or other benefit to any director or ex-director or other officer or employee of the company or its holding or business unit whether or not he/she has held any other salaried office within the company, or to his widow or dependents and may make contributions to any fund and pay premiums for the purchase or provision of any such gratuity, pension or allowance or life assurance or other benefits, subject to the provisions of the Companies Act.
- Entering into any transaction other than in the ordinary, regular and normal course of business;
- Being liable, whether contingently or otherwise and whether as surety, co-principle debtor, guarantor and/or for the liabilities not in the normal cause of business;
- Making a decision falling outside of the scope of the mandate granted in terms of the Shareholder's Compact;
- The sale or alienation of/ or the whole or substantial part of a significant assets including matters specified in the Materiality and Significant Framework;
- Appointment and remuneration of Directors on the Denel Board or its entities; and
- Shareholder's Compact.

#### 3.2 Matters for Shareholder Notification/Information (DPE)

- A policy and framework for the remuneration of executives;
- Introduction of and/or alterations to performance incentive schemes;
- The corporate/business plan entailing the strategic intent, key performance indicators and targets;
- Matters specified for notification in terms of the Materiality and Significant Framework and the Delegation of Authority;
- Any material failure to achieve contractual milestones.



	<p style="text-align: center;"><b>DENEL SOC LTD</b> <b>COMPANY POLICY</b></p>
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### **3.3 Matters to be reported or for notification to the Minister of Finance**


- 3.3.1 The Minister of Finance furnished on 28 March 2001, the necessary approval delegating the borrowing powers from the Board to the Executive Management of Denel, in the memorandum reference M3/4/2/2 (1291/01). A public business unit authorised to borrow money:
- Must annually, submit to the Minister of Finance a borrowing programme for the year; and
  - May not borrow money in a foreign currency above a prescribed limit, except when that public business unit is a company in which the state is not the only Shareholder.
- 3.3.2 The Denel Board is required to promptly inform the National Treasury on any new business unit it needs to establish.

## **4. BOARD RESERVED MATTERS**

To the extent that any of the following actions are not within the powers and authority delegated to the Group CEO as set out in pages 2.11 to 2.27, none of the following actions shall be undertaken by or in respect of the company or any subsidiary of the company unless the action in question is authorised by the board:

- 4.1 any determination of or amendment to the management structure of the Denel group or board authorities, formation of any committee of, or the delegation of any authority to such committee by the board, other than as expressly set out in the articles;
- 4.2 any increase or reduction in the issued share capital of the company or any subsidiary of the company;
- 4.3 any issue, conversion or allotment by the company of shares or other authorised shares, securities convertible into shares or securities of the company or any issue, conversion or allotment by any subsidiary of the company of any shares or authorised shares, securities convertible into shares or other securities of that subsidiary;
- 4.4 establishments by the company of any subsidiary or business;
- 4.5 approving or deciding the dividend policy including the declaration or distribution of any dividends by the company;
- 4.6 any material change in the business of the company, including diversification or activities outside Denel's traditional business;
- 4.7 incurring, creating or assuming by the company of any indebtedness which would cause the debt/equity ratio of the company, or of the company on a consolidated basis, to exceed 1;
- 4.8 any change to the name under which the company or any subsidiary of the company does business;
- 4.9 any change in the company's financial year;



	<p style="text-align: center;"><b>DENEL SOC LTD COMPANY POLICY</b></p>
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- 4.10 any winding up or liquidation of the company or subsidiary;
- 4.11 in so far as the Act requires any such appointment to be made by the directors, appointment of the company's auditors;
- 4.12 any change or proposal to the shareholders for a change in the number of directors making up the Denel board at any time;
- 4.13 approval or amendment of the company's business plan or any annual budget or the company's strategic objectives;
- 4.14 any transfer or agreement to transfer, amend, terminate any design manufacture and service permits held by the company;
- 4.15 entering into any agreements having the effect of restricting the business or activities which the company may conduct; and
- 4.16 any other matter not delegated explicitly in this delegation of authority remains a reserved matter.

#### **5. POWERS OF THE PERSONNEL, REMUNERATION AND TRANSFORMATION COMMITTEE**

Subject to the provisions of the Companies Act, as amended the Personnel, Remuneration and Transformation Committee's powers and functions are set out in the articles and its Terms of Reference.

#### **6. POWERS OF THE AUDIT AND RISK COMMITTEE**


Subject to the provisions of Companies Act, together with the principles and recommendations in the King III report, the Audit and Risk Committee's powers and functions are set out in its Terms of Reference.

#### **7. POWERS OF THE SOCIAL AND ETHICS COMMITTEE**

Subject to the provisions of Companies Act, together with the principles and recommendations in the King III report, the Social and Ethics Committee's powers and functions are set out in its Terms of Reference.

#### **8. POWERS AND DUTIES OF THE GROUP EXCO**

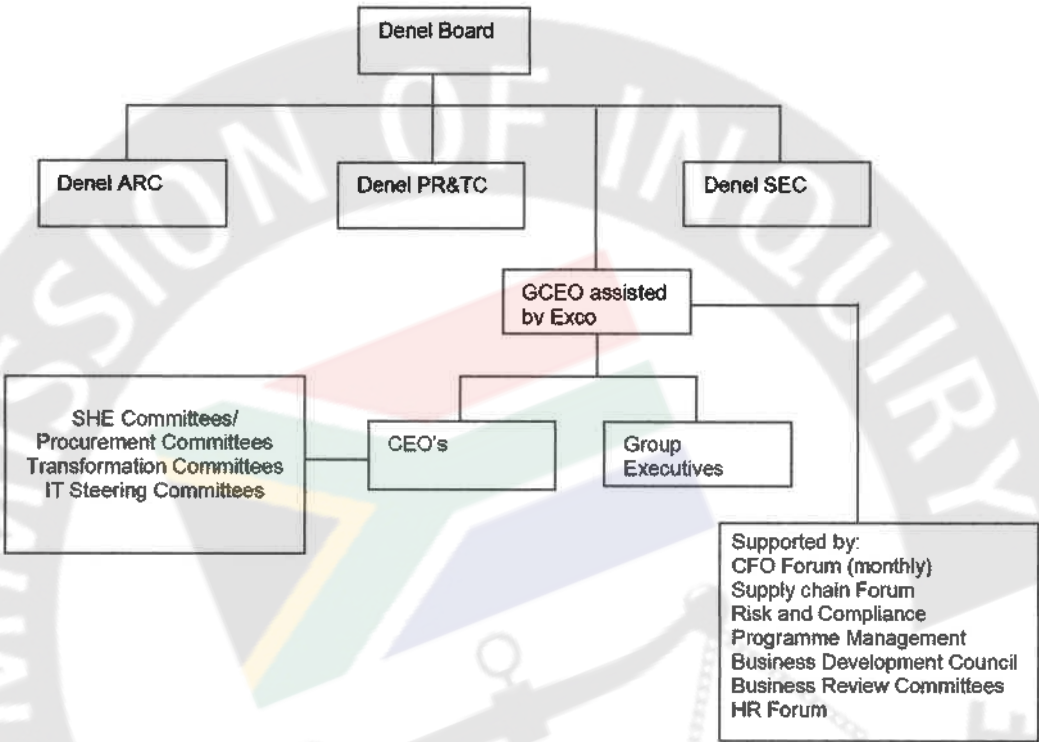
The Denel Board delegates the day-to-day running of the group to the Group CEO, assisted by the Group Executive Committee to ensure that the mandate of Denel as set out in the Shareholder's Compact is achieved.

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Without derogating from the powers of the Group CEO as primarily accountable to the board for the day-to-day operations of the business, this document allows for sub-delegation of powers to other levels of the organisation.

9. **GOVERNANCE FRAMEWORK**

Denel has put in place governance structures as depicted below to assist the organisation to carry out its duties:




10. **DELEGATION IMPERATIVES**

10.1 The context of delegation

This policy assigns accountability whilst promoting transparency in order to ensure that Denel is managed as an integrated business focussing on business development, operational excellence, transformation and financial viability. The policy also requires that delegated authority be exercised with due care by, among other things, following due processes and where appropriate, informing the next level of authority as set out in the delegation matrix.

10.2 Conditions for delegation of authority

10.2.1 The policy sets out maximum delegations and provides for sub-delegation within the division/subsidiary.

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- 10.2.2 It is mandatory that any agreement creating an obligation for Denel should follow due process and be approved at the appropriate level of authority. Amendments to or transaction relating to the same agreement must be approved at the same level of the original approval.
- 10.2.3 Delegations must be in writing and nominees must have the appropriate skills and knowledge or receive appropriate guidance.
- 10.2.4 Financial authority must be exercised within the approved budgets. Unbudgeted and over expenditure must be referred to the next level of decision-making.
- 10.3 The delegation of authority levels must be fully complied with and reviewed regularly or at least every three years to ensure relevance.
- 10.4 Contracts requiring Board approval to be tabled at scheduled board meetings, otherwise at the following board meeting with accompanying documentation for ratification.
- 10.5 The effectiveness of this policy also depends on an effective system of internal control. The following processes are prerequisite for effective governance of the approval system.
- 10.5.1 All transactions and contract proposals shall be validated including assumptions and pertinent risks prior to approval.
- 10.5.2 Sales and contract proposals greater than R100m will be peer reviewed by DCO and the divisional/subsidiary executives.
- 10.5.3 Procurement processes that meet the requirements of the PPPFA must be implemented and followed. As a top threshold, transactions above R500k should go through an open Tender process. Lower thresholds will be set by divisions and subsidiaries where applicable.
- 10.5.4 A process whereby the executive committees of divisions dedicate a session to governance, with particular emphasis on internal control, at least twice year. The sessions will be facilitated by the DCO with internal and external audit in attendance.



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11. DELEGATIONS

SH	-	SHAREHOLDER (DPE)	A	-	APPROVAL
DBD	-	DENEL BOARD OF DIRECTORS	PR	-	PRIMARY RESPONSIBILITY
GCE	-	GROUP CHIEF EXECUTIVE OFFICER	CR	-	CO-RESPONSIBILITY
DEX	-	DENEL EXCO	C	-	CONSULTATION/INPUT SUPPLIED
GFD	-	GROUP FINANCIAL DIRECTOR	I	-	INITIATE
GEX	-	FUNCTIONAL GROUP EXECUTIVE	FI	-	FOR INFORMATION/RECEIVE REPORT

No.	Description	SH	DBD	DEX	GCE	GFD	GEX	CEO	Remarks
1.	Human Resources and remuneration								
1.1	Creation of new posts, appointments, promotions, transfers and dismissals								
	• Directors of Denel Group Board	A							
	• Directors of Denel subsidiaries and Denel Board representatives in associates		A	CR	I				
	• Subsidiary and Divisional Chief Executive Officers		FI		A				
	• Management of subsidiaries and divisions				C		C	A	GCEO and Group Executive HR & Transformations to be consulted on structural alterations affecting divisional executive structure as well as in the appointment of first line to senior manager levels to address, among others, transformation imperatives.
	• GCEO	C	A						

\* Percentages used will be based on the latest audited financial statements.  
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# DENEL SOC LTD COMPANY POLICY

No.	Description	SH	DBD	DEX	GCE	GFD	GEX	CEO	Remarks
1.2	• Executives below GCEO		FI	C	A				
	• Other levels of staff							A	Division/subsidiary staff to be handled at business unit level. DCO staff to be handled via group HR.
	Remuneration and benefits strategy including setting different salary base line								
	• Denel Board of Directors and Chairman	A	I						
	• GCEO	C	A				I		
1.3	• Executives below GCEO	FI	A		I		C		
	• Other levels of staff						C	A	CEO at entity and GEX at group level.
	Annual increases								Salary increase mandates and increase proposals to be tabled at the PR&T Committee for approval.
	• Denel Board of Directors	A	I						
	• GCEO		A				I		
1.4	• Executives below GCEO		A		CR		I		
	• Other staff		A				CR	I	The salary increase mandates to be discussed and salary increase proposals to be tabled at the PR&T Committee for approval.
	Interim adjustments								Adjustments to be made within the HR policy.
	• Denel Board of Directors	A							
	• GCEO		A						Proposal to be tabled at the PR&T Committee
	• Executives below GCEO		A		I		C		Proposal to be approved by the PR&T Committee.

\* Percentages used will be based on the latest audited financial statements.

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No.	Description	SH	DBD	DEX	GCE	GFD	GEX	CEO	Remarks
1.5	• Other staff				C		CR	A	Increases for first line to senior managers to be discussed with the relevant functional Group Executive and the Group Executive HR & Transformation.
	Variable pay								Variable pay is approved by the Board through the PR&T Committee and DPE will be consulted on elements of this pay before implementation.
	• GCEO	FI	A						
	• Executives below GCEO		A		CR		I		
1.6	• Other staff		A					I	CEO for division/subsidiary, GEX at group.
	Separation packages other than retrenchments								
	• GCEO	C	A						Prior consultation with shareholder required.
	• Executives below GCEO		C		A				Prior consultation with Denel Board required.
1.7	• Other levels of staff						C	A	Consultation with Group Executive HR & Transformation should take place.
	Travel and subsistence allowances								
	Local travel on business (out of office for more than 2 days)								
	• GCEO		FI						Chairman of the Board to be informed.
1.7.1	• Executives below GCEO				A				
	• Other employees							A	Group Executive HR & Transformation in respect of Corporate office staff and CEO's in respect of divisions and subsidiaries.

\* Percentages used will be based on the latest audited financial statements.

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No.	Description	SH	DBD	DEX	GCE	GFD	GEX	CEO	Remarks
1.7.2	Foreign travel on business								
	• GCEO		A						Chairman of the Board to be informed.
	• Executives below GCEO				A				
1.8	• Other employees					FI	FI	A	The relevant Group Executive in respect of Corporate office staff and CEO's in respect of divisions and subsidiaries.
	Leave of absence								
	GCEO		A						Chairman of the Board to be informed.
2.	• Executives below GCEO				A				GCEO or delegated nominee to sign.
	Other employees							A	The relevant Group Executive in respect of corporate staff and CEO's in respect of divisions and subsidiaries.
	Planning and budgeting								
2.1	Corporate plan		A	CR				I	
2.2	Funding strategy and funding plan for the next 12 months		A	CR	C	I			Funding is subject to the PFMA restrictions on borrowings, guarantees and other commitments, etc. This includes submission of a borrowing plan to the Shareholder as may be appropriate.
2.2.1	Granting of guarantees, loans or any other form of financing to Denel subsidiaries, JVs associates, Trusts and Partnership (companies not owned 100% by Denel)								
	• ≤R50m			CR	A	C		I	
	• >R50m		A	CR		C		I	

\* Percentages used will be based on the latest audited financial statements.  
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No.	Description	SH	DBD	DEX	GCE	GFD	GEX	CEO	Remarks
2.2.2	Long term external group funding	FI	A		PR	I			The borrowing powers have been delegated by the Minister of Finance to Denel Executives. A report on the funding position to be tabled at the Denel Board.
3	Research and Development								
3.1	Developing new products/services			CR			C	A	Based on business case and Group Executive New Business Development to be consulted.
3.2	Selection of JV and other related partners			CR	A		CR	I	Group Executive Strategy initiates the process in consultation with Exco.
4.	Sales and contracts								
4.1	Sales proposals and contracts								
4.1.1	With a minimum of 7% net margin and normal trading terms, countertrade obligations not exceeding 60% of the value of the contract, no onerous penalty terms, technical risk is manageable and there are back- to -back agreements with subcontractors, and favourable contracting mode								
	• ≤R100m				C		C	A	Consult the business development executive and GCEO on proposals above R20m.
	• >R100m – R500m		FI	C	A	C		I	Proposal to be peer reviewed, approved by GCE after consulting with Exco and tabled to Board for information.
	• >R500m		A		PR	C		I	Proposal to be peer reviewed, considered by Denel Exco and tabled to the Board for approval.

\* Percentages used will be based on the latest audited financial statements.



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No.	Description	SH	DBD	DEX	GCE	GFD	GEX	CEO	Remarks
4.1.2	Undertaking work without a confirmed order								To be evaluated on a case by case.
	• ≤R50m			FI		C		A	
	• >R50m		FI		A	C			
4.2	Delayed debtor collection payment or extension of credit terms					A		I	Outside normal standard credit terms stipulated in Denel policies.
	• >R20m								
5	Procurement								Procurement of >R1m per transaction from suppliers with BEE rating >5 (excluding transactions in the approved MPS) to be discussed with the Group Supply Chain Manager. Policy and normal tender requirements to be followed.
5.1	Standard procurement of products and services other than items specified in 5.2 and 5.3.								Group Supply Chain Manager prior consultation on procurement above R20m.  Group Supply Chain Manager prior consultation on procurement above R20m.  A report outlining the process followed to invite and shortlist suppliers and evaluation and scores of the shortlisted suppliers and recommendations of the Tender Committee to be tabled at the Board for approval.
	• ≤R50m				C		C	A	
	• >R50m – R200m				A			I	
	• >R200m		A		PR				

\* Percentages used will be based on the latest audited financial statements.  
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No.	Description	SH	DBD	DEX	GCE	GFD	GEX	CEO	Remarks
5.2	Master Production Schedule (MPS) items in respect of a project (mission critical items)				FI		FI	A	Pre-approved suppliers in terms of the Master Production Schedule to be subjected to a rigorous assessment in terms of price, delivery performance, quality, B-BBEE requirements, etc. at least once per annum. Group Supply Manager to be consulted on finalisation of the MPS. Both GCEO and Group Supply Chain Manager to be consulted on procurement in excess of R50m.
5.3	Specified items								
5.3.1	Consultants								
	• <R250k(Fees)							A	
	• >R250k – R5m (Fees)				C	A		I	
	• >R5m				A	C		I	
5.3.2	Technical advisors and distribution agreements		FI		A		C	I	
5.3.3	Leases								All land related leases to be initiated and administered through Denel Properties.
	• ≤R5m			FI	FI	C		A	
	• >R5m - ≤R30m				A	C			
	• >R30m	A	PR					I	
5.4	Capital expenditure								
5.4.1	Approval of capital acquisitions								The individual capital expenditure to be motivated prior to procurement.
	• ≤R5m							A	
	• >R5m–R15m				A	C	CR	I	
	• >R15m	A			PR	C		I	

\* Percentages used will be based on the latest audited financial statements.  
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## DENEL SOC LTD COMPANY POLICY

No.	Description	SH	DBD	DEX	GCE	GFD	GEX	CEO	Remarks
5.4.2	Capitalisation of development costs or other expenses					FI		A	
5.4.3	Write off of assets								
	• ≤R5m							A	
	• >R5m							I	
6	Provision requirements for contract losses and penalty assessments		FI	PR	FI	A			Reviewing of requirements for provisions to be conducted by a multi-disciplinary team.
6.1	Potential contract losses								Potential loss to be peer reviewed.
	• < R10m			FI	FI	C		A	
	• > R10m – R20m				A	C		I	
	• >R20m		A	CR	PR	C		I	
6.2	Raising or payment of penalties on delayed contracts on failure to meet delivery dates								A consolidated quarterly report to be tabled at Denel Exco with management comments.
	• ≤R1m		FI			C		A	
	• >R1m – R5m		FI			A		I	
	• >R5m			A					
7.	Strategic marketing								
7.1	Release of products for marketing			FI			C	A	Compliance with NCACC requirements must be ensured.
7.2	Advertising								
	• Local advertising						C	A	To be coordinated through the group communication forum.
	• International advertising						C	A	

\* Percentages used will be based on the latest audited financial statements.



## DENEL SOC LTD COMPANY POLICY

No.	Description	SH	DBD	DEX	GCE	GFD	GEX	CEO	Remarks
7.3	Participation in exhibitions					C	A		Plans to be finalised with business development executive.
8.	Countertrade								
8.1	Entering into contracts containing counter trade obligations				FI			A	Approvals to be in line with 4.1.1 and Executive Technical prior to approval. Transactions must be handled as outlined in Policy 51.
8.2	Approval of appropriate countertrade vehicle			C	A			I	All transactions involving countertrade obligations must be discussed with the Group Executive Technical prior to approval.
8.3	Signing countertrade-related agreements with the appointed government authorities in a country, in which the counter trade is due against a bank guarantee, to discharge countertrade over a designated period of time. This includes related countertrade plans and projects				A		C	I	All transactions involving countertrade obligations must be discussed with the Group Executive Technical prior to approval and sign-off by the GCEO.
9.	Irregular, fruitless and wasteful expenditure								
9.1	Conclusions on cases of irregular fruitless and wasteful expenditure		A	PR		I			All incidents must be investigated and concluded in terms of the policy on Prevention of Fruitless, Wasteful and Irregular expenditure and the PFMA.
9.2	Disclosures on cases of irregular, fruitless and wasteful expenditure and criminal conduct		A	PR		I			All incidents must be reported in terms of the policy on Prevention of Fruitless, Wasteful and Irregular expenditure.
10	Lawsuits								
10.1	• Labour, criminal and related disputes and claims		FI		FI		C	A	Group Executive HR and Transformation and Group Manager Legal Services to be notified.

\* Percentages used will be based on the latest audited financial statements.

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No.	Description	SH	DBD	DEX	GCE	GFD	GEX	CEO	Remarks
10.2	• Civil actions		FI		C		A	I	Group Manager Legal Services to be involved, depending on level to be escalated to Denel Exco and Board.
11.	Financing								
11.2	Raising overnight borrowing (short-term)								
	• <R200m				C	A			
	• >R200m		FI		A	I			Borrowings up to one year limited to a maximum of available bank facilities.
11.3	Raising long-term debt								
	• <R200m		FI		A	PR			Borrowings longer than one year both in the commercial and capital markets.
	• >R200m		A		PR	I			
11.4	Payment instruments, guarantees, etc.								
11.4.1	Designation of officials who may:								
	• Sign or endorse cheques, drafts and promissory notes					A			
	• Sign ISDA master agreement with counter parties					A			
	• Sign currency arrangements outside ISDA master agreements with counter parties					A			
	• Acceptance of silent confirmation arrangements with banks on letters of credit					A			
11.4.2	Authorisation of request to Corporate Office to issue guarantees							A	

\* Percentages used will be based on the latest audited financial statements.  
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## DENEL SOC LTD COMPANY POLICY

No.	Description	SH	DBD	DEX	GCE	GFD	GEX	CEO	Remarks
11.4.3	Issuing of guarantees								Non-routine matters occur in consultation with the Denel's legal department.
11.4.3.1	Guarantees given against a prepayment received								Section 66 of the PFMA.
	• <R100m					A			Monthly reporting.
	• >R100m				A				Quarterly reporting to Board of Directors.
11.4.3.2	Guarantees to local authorities and suppliers of services to honour obligations					A			Monthly reporting.
11.4.3.3	Product guarantees/warranties					A			In accordance with stipulations of sales contract.
11.4.3.4.1	Dealing with financial institutions					A			
	• Entering into agreements with Denel banks acting for the group, any of its divisions and subsidiaries. Negotiating and settle the terms and conditions of all agreements, mandates, indemnities, waivers, and all other documents with the banks				FI	A			Relevant transactions to be initiated by Treasury Department and documents countersigned by the Head of Treasury and where applicable, relevant matters to be reported to A&R Committee.
	• Execute, sign, enter into, acknowledge, perfect and do all such agreements, contracts, conveyances, leases, mortgages, transfers, surrenders, assurances, deeds, powers of attorneys, acts and other things that shall be requisite or may be proper or necessary for or in relation to exercising all or any of the specific powers referred to herein				FI	A			Relevant transactions to be initiated by Treasury Department and documents countersigned by the Head of Treasury and where applicable, relevant matters to be reported to A&R Committee.

\* Percentages used will be based on the latest audited financial statements.

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DENEL  
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COMPANY POLICY

No.	Description	SH	DBD	DEX	GCE	GFD	GEX	CEO	Remarks
	<ul style="list-style-type: none"><li>Invest money in any manner including but not limited to investing and withdrawing monies on deposits or saving accounts;</li></ul>				FI	A			Relevant transactions to be initiated by Treasury Department and documents countersigned by the Head of Treasury and where applicable, relevant matters to be reported to A&R Committee.
	<ul style="list-style-type: none"><li>Enter into the use of debit cards, credit cards and business cash card banking facilities, service level agreements and telegraphic transfers;</li></ul>				FI	A			Relevant transactions to be initiated by Treasury Department and documents countersigned by the Head of Treasury and where applicable, relevant matters to be reported to A&R Committee.
	<ul style="list-style-type: none"><li>Participate in any electronic service products offered by banks including but not limited to cash management services, utilisation of electronic bank transfers and participation of financial electronic data interchanges at branches of the Bank including but not limited to entering into an Electronic Banking and a Cash Management Schemes Memorandum of Agreement ("Intercompany Loan Document") or any other like agreement;</li></ul>					A			Relevant transactions to be initiated by Treasury Department and documents countersigned by the Head of Treasury and where applicable, relevant matters to be reported to A&R Committee.
	<ul style="list-style-type: none"><li>Enter into and sign any Bank mandates and to appoint further authorised signatories on the part of the company who will have the same authority as set forth in these delegations;</li></ul>					A			Relevant transactions to be initiated by Treasury Department and documents countersigned by the Head of Treasury and where applicable, relevant matters to be reported to A&R Committee.

\* Percentages used will be based on the latest audited financial statements.





DENEL  
COMPANY POLICY

No.	Description	SH	DBD	DEX	GCE	GFD	GEX	CEO	Remarks
11.4.3.4.2	Opening, operating, closure and /or withdrawal of accounts								
	<ul style="list-style-type: none"><li>Open, operate, close and withdraw banking accounts; make, draw, issue, accept, indorse, execute, negotiate, discount, retire, pay or satisfy any bills of exchange, promissory notes, cheques, drafts, letters of credit, circular notes, orders of payments, delivery of monies, securities, goods or effects, bills of lading or any other kind of negotiable or transferable instruments or mercantile interests;</li></ul>				FI	A			Relevant transactions to be initiated by Treasury Department and documents countersigned by the Head of Treasury and where applicable, relevant matters to be reported to A&R Committee.
	<ul style="list-style-type: none"><li>Negotiate and accept loans and/or credit facilities and/or other credit products from the bank, irrespective of the size of such loans, facilities and/or products with or without the giving of security;</li></ul>				FI	A			Relevant transactions to be initiated by Treasury Department and documents countersigned by the Head of Treasury and where applicable, relevant matters to be reported to A&R Committee.
	<ul style="list-style-type: none"><li>Enter into indemnities, guarantees and suretyships, to secure payments there under, to cede and/or pledge any of the assets of the company as security, and to pass mortgage bonds or deeds of hypothecation over the immovable and movable assets of the company in any way whether it be for the obligations of the company or for any other party;</li></ul>				FI	A			Relevant transactions to be initiated by Treasury Department and documents countersigned by the Head of Treasury and where applicable, relevant matters to be reported to A&R Committee.

\* Percentages used will be based on the latest audited financial statements.



# DENEL SOC LTD COMPANY POLICY

No.	Description	SH	DBD	DEX	GCE	GFD	GEX	CEO	Remarks
	<ul style="list-style-type: none"> <li>Perform the solvency and liquidity test (as set out in section 4 of the Companies Act, 2008) and have reasonably concluded that the company will satisfy the solvency and liquidity test immediately after completing any agreement or security structure</li> </ul>					A			Relevant transactions to be initiated by Treasury Department and documents countersigned by the Head of Treasury and where applicable, relevant matters to be reported to A&R Committee.
11.4.3.5	Instruction of bankers to issue guarantees								
	<ul style="list-style-type: none"> <li>&lt;R100m</li> <li>&gt;R100m</li> </ul>					A			Quarterly reporting.
11.4.3.6	Fulfilment of other guarantees including surety, customs, etc.				A	A			Quarterly reporting.
11.4.3.7	Issue of guarantees on behalf of associate companies								
	<ul style="list-style-type: none"> <li>&lt;R50m</li> <li>&gt;R50m</li> </ul>					A			
11.5	Appointment of main bankers (cheque account)		A			I			
11.6	Opening of individual bank accounts, amendments in bank account names, signatories on bank accounts, sweeping arrangements, and electronic payment arrangements on all accounts applicable to Denel SOC Ltd, and business entities where Denel has a controlling share in the said business unit				A				

\* Percentages used will be based on the latest audited financial statements.

Policy 2

2.23

Issue 10 – 12-09-2012



DENEL SOC LTD  
COMPANY POLICY

No.	Description	SH	DBD	DEX	GCE	GFD	GEX	CEO	Remarks
11.7	Provisions								Provisions report to be tabled at the A&R Committee
11.7.1	Raising provisions								
	• <R10m							A	
	• >R10m		FI		A	C		I	
11.7.2	Releasing of provisions								
	• <R10m							A	
	• >R10m				A	C		I	
11.8	Credit notes: Authorisation and designation of authorising officials							A	
12.	External communications								
12.1	Crisis communications and related press releases		FI	FI	A		C	I	GCEO, Divisional CEO and Group Communications Manager to be involved at all times.
12.2	Normal communication and press release				FI		C	A	Group Manager Communications to be always involved
13.	Sponsorships, support and donations								As per approved budget and in line with Government priorities, CSI Policy and Employee Ethics Policy on business courtesies and gifts. The CSI plan to be tabled at Exco at least once a year.
	• ≤R1m						C	A	Group Communications Manager to be consulted.
	• >R1m				A		PR	I	Group Communications Manager to be consulted.

\* Percentages used will be based on the latest audited financial statements.



# DENEL COMPANY POLICY

No.	Description	SH	DBD	DEX	GCE	GFD	GEX	CEO	Remarks
14.	<b>Tax administration</b>								
14.1	Annual tax returns					A		A	Group annual return approved by the Group FD and subsidiaries' delegated to the CEO.
14.2	Handling of SARS queries					A		I	
14.3	Complaints regarding tax assessments								
	• Litigation					A		I	
	• Material tax filing issues					A		C	
15.	<b>Insurance</b>								
15.1	• Approval of ad hoc insurance requirements and general declarations					C		A	Group Risk and Compliance Manager to be consulted.
15.2	• Approval of group insurance portfolio		FI		FI	A			Table group portfolio at A&R Committee.
16.	<b>Auditors and Public Officers</b>								
16.1	Approval of year-end financial statements		A	PR		I			Annual financial statements to be presented at Denel Exco before being tabled at the A&R Committee.
16.2	Appointment of internal auditors		A	CR		I			A&R Committee to approve.
16.3	Discharge of internal auditors		A	CR		I			A&R Committee to approve.
16.4	Appointment of external auditors	FI	A			I			The appointment is ratified by the AGM after consulting the DPE and Auditor General in terms of the Public Audit Act.
16.5	Discharge of external auditors	FI	A	CR		I			A PFMA process to be followed.
16.6	Appointment of public officer				A				Group appointment is done by GCEO.

\* Percentages used will be based on the latest audited financial statements.





DENEL  
COMPANY POLICY

No.	Description	SH	DBD	DEX	GCE	GFD	GEX	CEO	Remarks
17.	Company policy								
17.1	Human Resources policies <ul style="list-style-type: none"><li>• Conditions of service,</li><li>• Remuneration and reward and schemes</li><li>• Transformation and related policies</li></ul>		A	CR	CR	C	I	C	Group Executive HR and Transformation to table at Exco and approved by PR&T Committee. Group FD consulted on financial impact.
17.2	Finance policies <ul style="list-style-type: none"><li>• Accounting policy</li><li>• Cash investment policy</li><li>• Dividend policy</li></ul>		A	CR	C	I		C	Investment limits and financial institutions to be approved by the A&R Committee and Denel Board.
	Risk management policy		A	CR		I		C	Risk & Compliance Manager to lead policy formulation.
	Ethical conduct policies <ul style="list-style-type: none"><li>• Employee ethics policy</li><li>• Fraud prevention policy</li></ul>		A	CR		I		C	Risk & Compliance Manager to lead policy formulation.
	Operational control policies <ul style="list-style-type: none"><li>• Procurement policy</li><li>• Arms control policy</li><li>• Security policy</li><li>• SHEQ related policies</li><li>• Intellectual property policy</li><li>• IT policy</li><li>• Fruitless, wasteful and irregular expenditure policy</li></ul>		A	CR			I	C	





# **DENEL SOC LTD** **COMPANY POLICY**

No.	Description	SH	DBD	DEX	GCE	GFD	GEX	CEO	Remarks
18.	Significant transactions								Application to be forwarded to the DPE and copied to National Treasury.
18.1	Establishment or participation in the establishment of a company (locally or abroad)	A	PR		I				Only approved by the Minister after following an application process prescribed in the (Materiality and Significance Framework (MSFW)).
18.2	Establishment of offices in foreign countries (for marketing purposes)		FI	CR	A		C	I	The Minister and National Treasury must be informed of all offices established in foreign countries.
18.3	Participation in a significant partnership, trust, unincorporated joint venture or similar arrangement	A	PR	C	PR		I		Reserved for Shareholder, refer to MSFW for detailed description.
18.4	Acquisition or disposal of a significant asset (>2% of the value of Denel's total assets) including shares in a company (>20% of the target)	A	PR		CR	C		I	To be read in conjunction with the MSFW. NB Acquisition or disposal of any shares on companies domiciled abroad subject to Ministerial approval. Minister to be consulted on forced liquidations.
18.5	IP transfer i.e. technology transfer, licensing and patents / trademarks or copyrights agreements etc.		A		CR		C	I	IP policy and NCAC Act requirements to be complied with.
18.6	A significant change in the nature or extent of interest in a significant partnership, unincorporated joint venture or similar arrangement	A	PR		CR	C		I	To be read in conjunction with the MSFW. Transactions of a value >2% of Denel's total assets or >20% of the shares in the target are regarded as significant.
18.7	Commencement or cessation of a significant business activity equivalent	A	PR		CR	C		I	To be read in conjunction with the MSFW. Transactions of a value >2% of Denel's total assets or >20% of the shares in the target are regarded as significant.

\* Percentages used will be based on the latest audited financial statements.

Policy 2

2.27

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DENEL  
SOCIETY LTD  
COMPANY POLICY

No.	Description	SH	DBD	DEX	GCE	GFD	GEX	CEO	Remarks
18.8	Retrenchments								The Group Executive HR and Transformation must be consulted when retrenchments are anticipated and at least one month before the planning of the process.
	• ≤10% total staff complement per event		A		I			CR	
	• >10% of total staff complement per event	A	PR		I			CR	
19.	Share capital	A	PR	C		I			
20.	Memorandum of Incorporation	A	PR	C	I				Coordinated by the Group Company Secretary.

\* Percentages used will be based on the latest audited financial statements.  
Policy 2

# ANN. DMO3

SUBMISSION MEMO: MOTIVATION FOR  
APPROVAL OF VR LASER AS SOLE SUPPLIER





DENEL LAND SYSTEMS

**GROUP CHIEF EXECUTIVE OFFICER'S  
SUPPLY CHAIN SUBMISSION**

TO: EXCO

FROM: DLS EXCO

DATE: 01 JULY 2014

SUBJECT:

Industrialisation and Production of 183 Vehicle Platform Hulls at  
VR Laser Services.

PROJECT:

Hoefyster

ORDER NUMBER:

L58226

SUPPLIER:

VR Laser Services (Pty) LTD



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## 1. OBJECTIVE

To obtain approval from Denel Group Executive Officer to

- (a) enter into contract negotiations for the manufacturing and supply of the HOEFYSTER platform hulls for 183 armoured vehicles to ensure that the total contract price fits within the DLS budget and
- (b) sign the contract for the manufacturing and supply of the HOEFYSTER platform hulls for the 183 armoured vehicles and place the associated Purchase Order.

## 2. BACKGROUND

In 2013 the board of DENEL authorised the signing of the production Contract for the 238 (Including 34 new variants/new requirement by SANDF) Badger vehicle systems with ARMSCOR. In order to execute the ARMSCOR contract, DENEL Land Systems (DLS) now wishes to sign the Contract and accordingly place an Order for the manufacturing and supply of the armoured hulls for these vehicles. 16 of these vehicles are manufactured in Finland and 217 will be manufactured in South Africa. At this stage DLS has not finalized the baselines for the 34 new variants. We therefore cannot place an order on the full 217. The intention at this stage is to place an order for only 183 platform hulls. The procurement for the new variants platform hulls will only be made once the baselines have been firmed up with frozen data-packs.

In 2012 DLS obtained quotations from the local industry to benchmark the prices with PATRIA budget prices. LMT, VR Laser and DCD Dorbyl (name changed to DCD protected mobility) were invited to participate in this process. Three quotations obtained from these 3 companies in 2012 were as follows;

SUPPLIER	PRICE PER UNIT
LMT	R1,738,694.00
VR Laser	R865,010.00
DCD Dorbyl	R896,000.00

As part of the contract between DLS and PATRIA, PATRIA has an obligation to transfer hull manufacturing and fabrication technology to the local South African supplier that will be contracted for this work. The transfer of Technology between DLS and PATRIA has already begun and various DLS departments must be trained on how to incorporate the processes and data into the DLS systems.

PATRIA training course is scheduled for 3rd week of July during the scheduled welding of the platform hulls in Finland. PATRIA has highlighted that this is the last formal training course and unfortunately it cannot be moved as PATRIA has already finalized all necessary preparations for the training. Should the successful supplier miss the July training, DLS will be charged separately for the supplier training. The next training opportunity will be towards the end of the year during the manufacturing of the 12 production models. Ideally at that stage manufacturing of the hull welding Jigs must already be in process at the RSA hull supplier.

### 3. MOTIVATION

In June 2014, DLS went out on RFQ to obtain revised prices from all the suppliers that initially quoted in 2012. A cross functional team of representatives from Supply Chain, Infantry Systems and Business Excellence was constituted to evaluate the proposals submitted and make a final recommendation on the supplier that will be manufacturing the platform Hull. The team evaluated the proposals on the following criteria technical, commercial and B-BBEE. The percentage split implemented in the criteria used is accordingly aligned with the mandated Denel criteria communicated throughout the group.

In February 2014, PATRIA visited the three suppliers for facility/ capability assessment. The outcomes of this assessment were captured in the final report ref: D117051\_3.2014 submitted to DLS. The outcomes can be summarised as follows.

- (a) PATRIA is of the opinion that VR-Laser is capable of manufacturing the whole hull from parts to delivery. The possibility of information leakage at VR-Laser is slight/ minimal. And lastly, the references given for VR-Laser are impressive/good.
- (b) PATRIA is concerned about the possibility of information leakage at DCD protected mobility. PATRIA relayed the concern that DCD protected mobility has substantial risk for information leak especially for mine protection package. Furthermore, PATRIA is of the opinion that DCD protected mobility has no capability for the manufacturing of hull plate sets due to lack of machinery and would have to outsource components or buy new machinery. That said, the PATRIA team felt that DCD protected mobility has all the necessary quality requirements in place and has the capability to machine turrets ring at one of their other division.
- (c) PATRIA is of the opinion that LMT has poor level of welding quality and it needs to be improved in order to be able to manufacture AMV hulls. However PATRIA also articulated that LMT might still be suitable for the manufacturing of other AMV components such as the Hatch.



3. PRICE

BASIS FOR COMPARATIVE OFFER

PRICE:	25%
TECHNICAL:	45%
BBE	30%

Name of Tenderer Ranked lowest to highest Price	Financial Offer (P)	Comparative Offer (Pm)	Points for Financial Offer	Points for Technical	BBE	Total point for Preference	Total point	Overall Ranking Price Technical BBE	Premium payable	Premium payable in funds
			25%	45%	30%	0%	100%			
LMT	R 763,191	R 763,191	26.00	35.78	0	0	64.78	2	0.00	R 0
VR Laser	R 1,209,247	R 763,191	10.39	50.19	5	0	65.54	1	50.45	R 446,056
DCD	R 1,391,319	R 763,191	4.42	41.66	6	0	51.28	3	82.39	R 626,120

Name of Tenderer Ranked in same order as above	BBE Scorecard Level	BBE Score	Employment Equity	Black Ownership	Total BBE (Max 30)
LMT	Exempt	0	0	0	0
VR Laser	LEVEL 4	3	0	2	5
DCD	LEVEL 4	3	0	2	5

#### 4. DISCUSSION /OTHER RELEVANT FACTS

The evaluation committee noted that the price submitted by LMT is unreasonably too low based on the following;

- (a) According to the Information received from PATRIA, manufacturing takes 600 hours excluding machining and painting.
- (b) Material cost for fabricating 1 unit complete hull is estimated to be +/-R550,000.00 compared to LMT material breakdown of R396,527.21.
- (c) Calculated as follow: 600 Hrs @ R600/Hr = R360,000.00.
- (d) R360,000.00 (Labour) + R550,000.00 (material) = +/- R910,000.00.

***At the time of writing this submission LMT's proposal was not yet approved by the board of LMT.***

The price submitted by VR Laser seem to be realistic and more acceptable, however this price exceeds DLS's current budget/input price. Whereas, the price offered by DCD protected mobility seem to be extremely higher than the estimated cost above.

LMT BBBEE certificate expired. The expired certificate indicates that they were recognized as a level 5 contributor. In their proposal, LMT indicated that they envisaged to be recognised as a level 4. At this stage, we cannot allocate any point for B-BBEE because there is no valid certificate in place. VR Laser submitted a valid B-BBEE certificate indicating that VR Laser is a level 4 contributor with 100% Black equity ownership and 25.10% black women ownership. DCD protected mobility submitted a valid BBBEE certificate indicating that DCD is a level 4 contributor with 44.7% Black equity ownership.

LMT has submitted the lowest price, however in DLS's experience on several contracts placed (including but not limited to the Yemen contract, various Casspir orders and Samil ambulances) we have experienced a lot of late deliveries and defects on workmanship. During the clarification meeting held on the 26 June 2014, LMT failed to provide DLS with a satisfactory answer/ response on how the company plans on ensuring that there will be no/minimal defects on the deliverables. This, coupled with the

fact that to our knowledge there is no welding engineer or resident metallurgist, no current available proven capacity and equipment, we are of the opinion that it would be very risky to place a contract of this magnitude on a supplier that has failed to perform on several previous programmes and cannot demonstrate on how they plan on ensuring satisfactory performance going forward.

VR Laser has demonstrated the willingness to support DLS on several occasions in the past. We strongly believe that they will be willing to negotiate the prices in order to fit within our budget.

5. CONCLUSION

As reflected in the evaluation matrix above VR Laser has scored the highest points, however the price offered is over the DLS input/budget price. We hereby request permission to negotiate the price in order to bring it in within the DLS budgeted figures.

DESCRIPTION	PRICE PER UNIT	TOTAL PRICE FOR 183 UNITS
REQUESTED MANDATE/ MAXIMUM PRICE	R1,090,000.00	R199,470,000.00
CURRENT VR LASER PRICE	R1,209,247.00	R221,292,201.00

In order to uplift the local South African industry, different contracting models were explored as an attempt to keep the money/investment in the country. As a result of this exercise, a decision was taken to manufacture more platforms locally. As stated above, now only 16 vehicle platforms will be manufactured in Finland and the rest in South Africa. VR Laser is a 100% black owned company with more than 25% black woman equity ownership. Placing an order on VR laser will not only benefit the South African local industry but it will also benefit the previously disadvantages groups. This will also ensure full compliance with ARMSCOR 25% black equity ownership requirement on the Hoefyster programme.

6. RECOMMENDATIONS

In line with the discussions articulated herein, we hereby recommend the approval of:

- (a) A mandate to enter into contract negotiations for the manufacturing and supply of the HOEFYSTER platform hulls for the 183 armoured vehicles to ensure that the total contracts price fits within the DLS budget.
- (b) the necessary permission for Mr Stephan Burger to sign the contract for the manufacturing and supply of the HOEFYSTER platform hulls for the 183 armoured vehicles and place the associated Purchase Order when the condition in a is accordingly met.

DLS EXCO RECOMMENDATION:

\_\_\_\_\_  
AS BURGER

CEO: DENEL LAND SYSTEMS

DATE: \_\_\_\_\_

DLS EXCO RECOMMENDATION:

\_\_\_\_\_  
AS BURGER

CEO: DENEL LAND SYSTEMS

DATE: \_\_\_\_\_

APPROVED:

\_\_\_\_\_  
R SALOOJEE

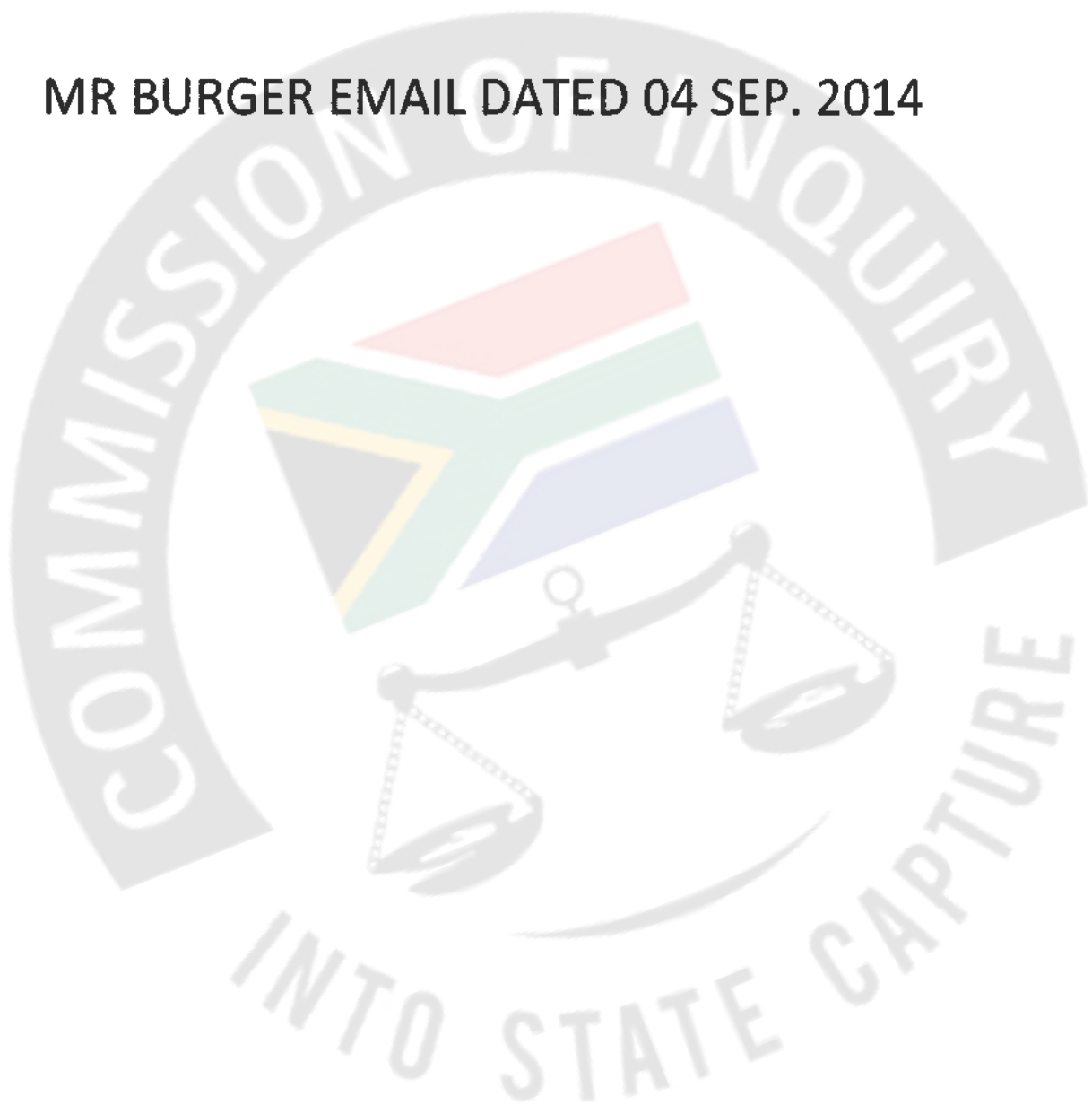
GROUP CEO: DENEL

DATE: \_\_\_\_\_



# ANN. DMO4

MR BURGER EMAIL DATED 04 SEP. 2014



**From:** Stephan Burger [mailto:StephanB@dlsys.co.za]

**Sent:** 04 September 2014 01:57 PM

**To:** Dennis Mlambo

**Cc:** Celia Malahlela; Fikile Mhlontlo; Jan Wessels; Reenen Teubes; Riaz Saloojee

**Subject:** RE: Supply Chain Scorecard Report Quarter 2: April 2014 to June 2014

Dear Dennis;

I take note of your comments. I was under the impression that these issues were sufficiently answered to you by our team. Nevertheless, my perspective is that the DLS team followed a well-structured and robust evaluation process by an independent team of 9 members representing all the relevant disciplines in the organisation. Given the sensitivity and expectation from the broader defence industry on the Hoefyster program, I insisted that a very fair, but stringent process be followed. I am convinced that given the evaluation criteria that was supplied by yourself, and approved by the board, I am convinced that an objective evaluation process was followed.

But to touch on some of your concerns;

1. The hulls for the development phase that are being used in the trials were all manufactured by Patria. The hulls LMT is referring to was the hull(s) that were used to test the mine protection. Prototyping and protection, is clearly the core of LMT's capability. But this was not what we were evaluating. Our technical evaluation was based on the recommendation (after evaluation) of Patria, and their clear track record on how they recently performed on their contracts, and in particular, in the execution of production type contracts. Although it had no impact on the evaluation, this capability/capacity is now greatly affected by the KSA order.
2. Because DLS followed an auditable and formulised process, it could be regarded as stringent. But clearly, given what is at stake, we did not deviate from our process. I would not have allowed it. You are therefore right that we did not consider the BBEE certificates that were handed in by LMT. These certificates were supplied to DLS after the evaluation process was concluded and a recommendation was submitted to DCO. And for the same token, we also did not consider the lower prices, and promises from VR Lazer of an improved BBEE certificate. During the clarification meetings these requirements were made very clear. If we considered something else than the certificates, we also had to do so for VR Laser, and that would have put them in a much better position as well.
3. The recommendation from DLS therefore stated that regardless of the price, VR Laser are considered to be the winner of the evaluation, and approval was requested to go into a price negotiation. We can therefore not make a price comparison with the facts at hand.
4. Unfortunately I cannot comment on the "likes" or "dislikes" of shareholders. I received a letter from VR Laser that there is no conflict of interest. From a technical perspective, this is sufficient to me. Should DCO however have a different view on the acceptability of shareholders in an organisation, then I accept the decision.

Nevertheless, I am convinced that VR Laser is technically best equipped to execute this program. I also believe, given the recent contract performance of LMT, it will be irresponsible to place a contract of such criticality on them, also taking into account the effect the KSA order will have on them.

And what is also true is that I have received a letter from Patria today stating that because of our indecision, the program is now officially slipping. I therefore do not want to discuss the matter further. I will be writing a letter to Jan, Fikile, and the Group CEO that this matter be elevated to the Board. I believe that in the interest of the program, VR Laser is the best equipped to execute the program. I also think this is a test case for the participation of the broader defence industry in the Hoefyster program. Going forward, after the KSA program and when the LMT processes are up and running, we can consider giving LMT the Hoefyster hulls for the Joint Task Force vehicles. But for now, I cannot recommend it.

Best regards,  
Stephan



# ANN. DMO5

MR MLAMBO EMAIL DATED 04 SEP. 2014





5

**Mbuso M. Xolo**

**From:** Dennis Mlambo <DennisM@denel.co.za>  
**Sent:** Thursday, 04 September 2014 17:34  
**To:** 'Stephan Burger'  
**Cc:** 'Celia Malahlela'; Fikile Mhlontlo; Jan Wessels; 'Reenen Teubes'; Riaz Saloojee  
**Subject:** RE: Supply Chain Scorecard Report Quarter 2: April 2014 to June 2014

Dear Stephan,

We are clearly not aligned in terms of the analysis of the data and information that I saw for the first time on Tuesday at the meeting I had with Reenen and Celia. I certainly think we should not exchange any more e-mails on the issue in question as the resolution may be easier to find around a table. However, the following issues have definitely not been addressed by your response:

1. The huge price differential in the offers made by both LMT and VR Laser. Stefan Nell of LMT is adamant that having produced the hull before makes his quote a lot more realistic. On the other hand, VR laser's quote is not based on past performance. Needless to say that prototypes are typically a lot more expensive than production related products. I am also informed that the price, capacity and capability concerns were never raised during the clarification meeting held on the 26<sup>th</sup> of June 2014.
2. The mere fact that VR Laser refuted any Conflict of Interest through the submission of the said document does not confirm the validity of the Ownership that the adjudication team evaluated. Where is the document, which should have been asked for, that details the individual shareholders of Elgasolve and Craysure Investments ? Even the documents that list the Directors of the two companies are not valid CIPC documents and I cannot understand why they were accepted.
3. You have also not explained why the capability or technical rating of LMT is the lowest despite the fact that the other two companies, if they were successful, would be making this type of hull for the first time.
4. I have received evidence that the two weeks grace period for the submission of the BBBEE certificate by LMT was met and yet you claim that could not be considered as it was after the deadline. It is standard practice that a supplier that is being verified for BBBEE Level cannot be penalised for that especially if the critical data used in the assessment is readily available. What makes this even more unacceptable is the fact that we have unhindered access to data and information at LMT.

My contention is that despite being convinced of a "fair" and "objective" process that was followed by the adjudication team, let us appoint an independent Assessor to corroborate your claim. It is also worth mentioning that you flouted the Delegation of Authority by not presenting the file for review to me before engaging Fikile and Jan. Any transaction above R20m must go through my office first. I am beginning to have doubts that this was an oversight.

Regards

Dennis

**From:** Stephan Burger [mailto:StephanB@dlsys.co.za]  
**Sent:** 04 September 2014 01:57 PM  
**To:** Dennis Mlambo  
**Cc:** Celia Malahlela; Fikile Mhlontlo; Jan Wessels; Reenen Teubes; Riaz Saloojee  
**Subject:** RE: Supply Chain Scorecard Report Quarter 2: April 2014 to June 2014

Dear Dennis;

I take note of your comments. I was under the impression that these issues were sufficiently answered to you by our team. Nevertheless, my perspective is that the DLS team followed a well-structured and robust evaluation process by an independent team of 9 members representing all the relevant disciplines in the organisation. Given the sensitivity and expectation from the broader defence industry on the Hoefyster program, I insisted that a very fair, but stringent process be followed. I am convinced that given the evaluation criteria that was supplied by yourself, and approved by the board, I am convinced that an objective evaluation process was followed.

But to touch on some of your concerns;

1. The hulls for the development phase that are being used in the trials were all manufactured by Patria. The hulls LMT is referring to was the hull(s) that were used to test the mine protection. Prototyping and protection, is clearly the core of LMT's capability. But this was not what we were evaluating. Our technical evaluation was based on the recommendation (after evaluation) of Patria, and their clear track record on how they recently performed on their contracts, and in particular, in the execution of production type contracts. Although it had no impact on the evaluation, this capability/capacity is now greatly affected by the KSA order.
2. Because DLS followed an auditable and formulised process, it could be regarded as stringent. But clearly, given what is at stake, we did not deviate from our process. I would not have allowed it. You are therefore right that we did not consider the BBBEE certificates that were handed in by LMT. These certificates were supplied to DLS after the evaluation process was concluded and a recommendation was submitted to DCO. And for the same token, we also did not consider the lower prices, and promises from VR Lazer of an improved BBBEE certificate. During the clarification meetings these requirements were made very clear. If we considered something else than the certificates, we also had to do so for VR Lazer, and that would have put them in a much better position as well.
3. The recommendation from DLS therefore stated that regardless of the price, VR Lazer are considered to be the winner of the evaluation, and approval was requested to go into a price negotiation. We can therefore not make a price comparison with the facts at hand.
4. Unfortunately I cannot comment on the "likes" or "dislikes" of shareholders. I received a letter from VR Lazer that there is no conflict of interest. From a technical perspective, this is sufficient to me. Should DCO however have a different view on the acceptability of shareholders in an organisation, then I accept the decision.

Nevertheless, I am convinced that VR Lazer is technically best equipped to execute this program. I also believe, given the recent contract performance of LMT, it will be irresponsible to place a contract of such criticality on them, also taking into account the effect the KSA order will have on them.

And what is also true is that I have received a letter from Patria today stating that because of our indecision, the program is now officially slipping. I therefore do not want to discuss the matter further. I will be writing a letter to Jan, Fikile, and the Group CEO that this matter be elevated to the Board. I believe that in the interest of the program, VR Lazer is the best equipped to execute the program. I also think this is a test case for the participation of the broader defence industry in the Hoefyster program. Going forward, after the KSA program and when the LMT processes are up and running, we can consider giving LMT the Hoefyster hulls for the Joint Task Force vehicles. But for now, I cannot recommend it.

Best regards,  
Stephan

**From:** Dennis Mlambo [<mailto:DennisM@denel.co.za>]  
**Sent:** 03 September 2014 08:14 PM  
**To:** Reenen Teubes  
**Cc:** Celia Malahlela; Fikile Mhlontlo; Jan Wessels; Stephan Burger  
**Subject:** RE: Supply Chain Scorecard Report Quarter 2: April 2014 to June 2014  
**Importance:** High

Hi Reenen,

Thanks for the prompt response. As I did not have an opportunity to do a thorough study of all the tender submissions, I cannot categorically claim that the process was sufficiently objective and the confidence level is high enough to place it beyond reproach. Nonetheless, the following are key issues that merit a serious review of the adjudication process and outcome:

1. The capability assessment of the three tenderers. Although LMT is the only one of the three tenderers that has manufactured the same hulls under contract from Patria, it obtained the lowest score. DCD has never manufactured the same hulls and yet it obtained a higher score. The score the adjudication team came up with is based on the manufacture of a different product. VR Laser will be manufacturing this type of hull for the first time and yet it has the highest score.
2. The price difference between the VR Laser and LMT offers is almost R100m. In my investigation I was informed by Stefan that the LMT quote was based on factual figures since LMT has manufactured the hull before. If Stefan is right, it would not make business sense to pay so much more. Since LMT is a sister company, I believe someone at DLS should have demanded the supporting evidence before assuming that LMT under quoted. I believe this anomaly warrants further investigation and validation.
3. LMT was given a zero score on transformation due to its expired certificate. The two elements of transformation, namely Ownership and EE, could have been assessed without a valid BBBEE certificate. Such data should be readily available from the HR department. BBBEE certificates, unless accompanied by a detailed report, do not give enough detail to be able to score the two elements accurately. If the transformation aspects of LMT were considered in the evaluation, it could have been rated number one.
4. According to my records, LMT participated in the clarification meeting on the 26<sup>th</sup> of June 2014 and was given two weeks to submit its BBBEE certificate and the certificate was submitted on the 9<sup>th</sup> of July 2014. This paints a picture of being unduly harsh on LMT.
5. The documents submitted by VR Laser on the ownership raise suspicions as they do not specify the individual shareholders in person. The names ElgaSolve and Craysure Investmensts are silent about the identities of the real shareholders of the company. There were no other documents to authenticate the shareholding.

I trust that the details above clarify my reason for not supporting the recommendation to appoint VR Laser to manufacture the hulls. Alternatively, the entire process must be revisited and conducted in a fair and objective fashion.

Regards

Dennis Mlambo

---

**From:** Reenen Teubes [<mailto:reenent@dlsys.co.za>]  
**Sent:** 02 September 2014 07:22 PM



**To:** Dennis Mlambo  
**Cc:** Celia Malahlela; Fikile Mhlontlo; Jan Wessels; Stephan Burger  
**Subject:** Re: Supply Chain Scorecard Report Quarter 2: April 2014 to June 2014

Hallo Dennis

As explained in the meeting this evening, a formal process was followed to evaluate the proposals from the different possible hull suppliers.

The closure date of 25th June 2014, was followed by a formal evaluation process by a panel of people from different functional areas. As part of this evaluation the panel had some clarification questions. Sessions were then held on the 26th June 2014, with each supplier. They were all given 7 days to submit additional information. All this additional information that was received within the 7 day period was then taken into account to finalise the scores.

This final score was used as the recommendation for the preferred supplier.

This BBBEE certificate from LMT was issued and supplied after the 7 days, as was the unsolicited proposal from VR, for an improved price on their original proposal. Both these additions were late and could not be considered for evaluation purposes.

Regards  
 Reenen

Sent from Reenen's iPad

> On 02 Sep 2014, at 18:38, "Dennis Mlambo" <[DennisM@denel.co.za](mailto:DennisM@denel.co.za)> wrote:  
 >  
 > Celia / Reenen,  
 >  
 > I have just established that LMT does have a valid BBBEE certificate – see attached. I am baffled as to why it was not submitted as per your claim at this evening's meeting. I will request details from Stefan Nell about the pricing and proof of shareholding of VR Laser as discussed.  
 >  
 > Regards  
 >  
 > Dennis Mlambo  
 >  
 > From: Gert Venter [<mailto:gert@lmt.co.za>]  
 > Sent: 22 July 2014 11:35 PM  
 > To: Dennis Mlambo  
 > Cc: Stefan Nell; Chris Giliomee; Francois Grobler  
 > Subject: Supply Chain Scorecard Report Quarter 2: April 2014 to June 2014  
 >

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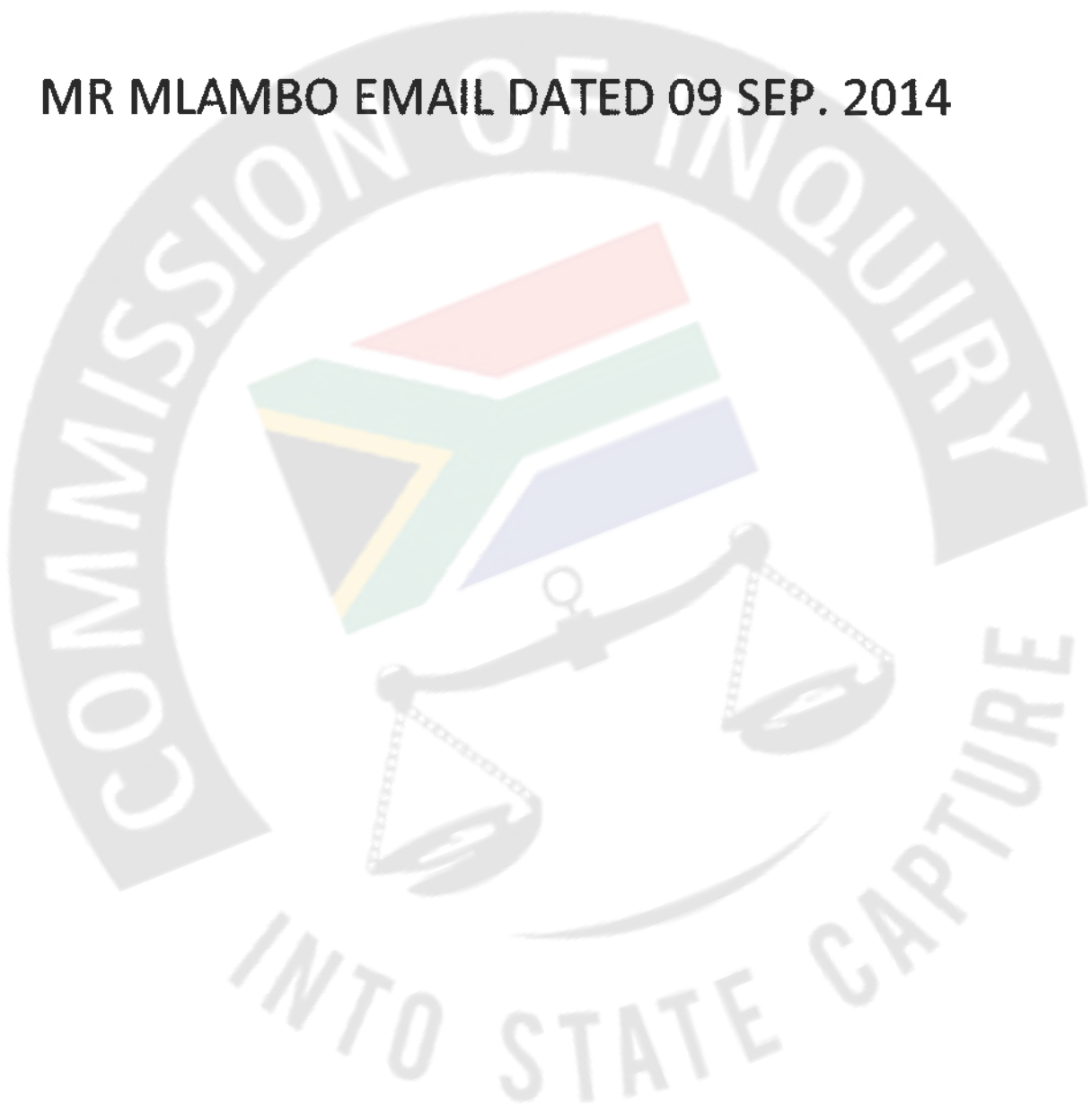
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# ANN. DMO6

MR MLAMBO EMAIL DATED 09 SEP. 2014



6

**Mbuso M. Xolo**

**From:** Dennis Mlambo <DennisM@denel.co.za>  
**Sent:** Tuesday, 09 September 2014 22:46  
**To:** Riaz Saloojee; Fikile Mhlontlo; Jan Wessels  
**Subject:** Awarding of hull manufacturing contract to VR Laser Services

Gentlemen,

I have managed to review DLS's submission pertaining to the above-mentioned subject. The following issues paint an unacceptable picture from a process, fairness and objective point of view:

1. The tender documents were not sent to all the bidders simultaneously as per the normal tender process
  2. Prior to the adjudication process there were still engagements or clarification sessions with individual bidders. The process requires that such engagements be held with all bidders at the same time. Information that is requested by one of the bidders must be sent to others even if they did not ask for it.
  3. Despite the fact that LMT's BBBEE status was disregarded on grounds that it was still being verified and the deadline was the 25th of June 2014, the VR Laser certificate was accepted and rated on the 27th of June 2014 - 2 days after the closing date!
  4. In the submission it is claimed that LMT's quote is too low and unrealistic. The difference between LMT's quote and the VR Laser quote is almost R100m. After questioning Stefan Nel on the accuracy of his quote he offered to come and present the facts to demonstrate that it is based on realistic quotes. Furthermore, he claimed LMT had made the hull before under Partria's contract.
  5. In my meeting with Stephan Burger yesterday, he indicated that VR Laser had offered to reduce the quote from around R262,4m to R195,0m ! Doesn't that tell a disturbing story about the initial offer?
- On the basis of these findings and other facts, it is my considered opinion that the submission from DLS be rejected. Since LMT has the capability to make the hull, this issue should have been discussed before going out on tender.
- Good night  
Dennis

NB. I will be back in office on Thursday should you wish to engage further on this issue.

Sent from Samsung tablet

# ANN. DMO7

POSITION PAPER ON THE PLATFORM HULLS





## **RECOMMENDATION: CONTRACTING FOR HOEFYSTER HULL & ACCESSORIES**

### **Background:**

The Group CEO requested the Group FD, the Group COO and the Group Supply Chain Executive to present him with a well-considered recommendation w.r.t. the appropriate contracting strategy for the Hoefyster hulls, in the light of the proposed strategy presented by the DLS management. This was further influenced by Pamodzi (secondary shareholder in LMT) formally communicating their opinion that Denel created an expectation at the time of the transaction in 2011 that significant work (R1 billion over 10 years) would be contracted to LMT.

### **Value System:**

We adhere to the principle of always doing what is best for Denel SOC Ltd and its shareholders (the citizens of the RSA represented by the board of directors) whilst constantly considering our priorities of transformation (primarily through EE and skills development), enterprise development (primarily towards emerging black-, women-, and youth-owned SMMEs) and broadening the industrial base of the RSA (primarily by expanding the traditional supply chain base of Denel).

### **Evaluation:**

LMT is a Denel subsidiary, 51% owned by Denel and 30% owned by Pamodzi, a fully black-owned company. Denel has management control (that also means management accountability) for LMT.

It is our opinion that:

- LMT did submit a financially competitive quote to DLS for the Hoefyster hull manufacture
- LMT has already manufactured some prototype hulls, and thus does have a nominal experience baseline from where to work and improve during production
- There are real operational, capacity and managerial challenges at LMT as identified by DLS management
- The working relationships between DLS and LMT have not been satisfactory – from the DLS point of view primarily because of uncommitted management and immature operational processes at LMT, and from the LMT point of view because of fragmented incomplete contracting and not fully defined scope of work at DLS.

(Since January 2014 DCO engaged with LMT (Board & Management) to identify and correct certain aspects of their operations (eg redefined CFO and COO roles) whilst LMT management contracted an industry specialist Carel de Beer during August 2014 to investigate and table the root causes and corrective actions required from an LMT perspective. We are confident that DCO can now successfully oversee the implementation of these corrective actions.) See annexure hereunder for a summary of key findings & short comings in the DLS – LMT relationship identified by Carel de Beer's report.

### Our Position:

It is our considered position that given Denel's strategic relationship with LMT, and despite the challenges at LMT, the intended subcontract for the supply of the hull & accessories (specialised doors & related mechanisms) should not have been placed on tender, but rather been directly negotiated with LMT being a 51% Denel owned subsidiary. However, given the current status of the supply chain process followed on this matter we advise that the *tender process not be withdrawn*, and since no selection or pronouncement has yet been made, DLS simply implements our preferred way forward as suggested in this paper, without further communication.

*We recommend that (a) DLS should implement an on-site satellite project office at LMT and (b) that the full level-4 subcontract package for the supply of the welded hull plus accessories (doors & mechanism) should be contracted in a single, directly negotiated way with LMT, taking into account their quotations received to date as well as other new parameters if needed. LMT will then be expected to work closely with DLS to evaluate internal & external capacity, and in the light of other programs currently launched in LMT preferably to subcontract the manufacture of most level-3 components (including the welded hull) to qualifying suppliers. DLS (as level-5 main contractor with overall systems accountability) will be expected work with LMT to select & contract these level-3 suppliers, and could place their own quality representatives at these suppliers to ensure quality of supply.*

*Denel has no obligation to award the previously launched DLS tender in any way, since no decision should have been communicated yet.*

Furthermore:

- ➔ We strongly recommend that DLS should establish a project management and oversight office at LMT staffed by appropriately experienced staff, to oversee progress, implement best practices according to the DLS way of working, do on-sight quality verifications also at LMT suppliers, etc.
- ➔ We will expect from LMT to appropriately spread the workload through their supply chain, closely supported and monitored by the Denel Group Supply Chain Executive, to the widest extent possible, to ensure Denel and LMT adhere to our commitment to transformation, enterprise development and broadening the industrial base of the RSA.
- ➔ We are not of the opinion that this proposed position affects the principle of divisional management accountability in the Denel context of 2014. The permanent DLS satellite office at LMT plus out-contracting of the welded-hull by LMT should mitigate the remaining concerns of DLS management w.r.t. LMT in-house capacity.
- ➔ We are committed to oversee the implementation of corrective actions at LMT.

### Other issues considered:

**LMT Quality of Supply:** We again acknowledge that LMT does have material operational & managerial short comings, but that it is our responsibility as Denel DCO, the majority shareholder with operational control of LMT, not to shy away but rather to assist, guide & support the management of LMT to achieve world-class performance in the shortest possible time. This is what we have done since 2008 to address and turn-around the shortcomings existing in all of the regular Denel divisions at the time.

**Pamodzi expectations:** Denel played a key role to secure the KSA program for LMT through introduction and through letters of comfort issued in support of LMT, and combined with the above approach on Hoefyster, we consider that Denel is on the moral high ground regarding the expectations created in 2011.

**Conclusion – measuring the effectiveness of this proposal:**

- DLS retains the overall systems accountability for delivered performance of the system
- The integrity & record of good governance of Denel, its management & shareholders is maximally protected particularly in terms of Supply Chain processes
- Best value for money is achieved
- Business is kept within the group within reason
- Nominal BBBEE levels are adhered to as criteria for supplier selection
- Optimal Enterprise Development (ED) and widening of the supply chain is achieved – overseen & monitored by DCO SC
- The need for operational improvement in LMT is acknowledged and through DCO oversight maximised through hands-on project execution.

**Prepared by:**


Dennis Mlambo  
Supply Chain Executive Manager



Jan Wessels  
Group COO



Fikile Mhlonto  
Group FD

2014-09-22/29

**ANNEX:**

**Extract from the recent investigation done for LMT management – What are the Causes of the Problems between DLS & LMT**

- 4.3 Clear communication between the parties is a problem.
- 4.4 Schedules are committed too at a high level in the proposals but dependency on timeous delivery of CFI and the actual date of placement of the order is not clarified.
- 4.6 Initially there were very few Project coordination meetings between DLS/Mechem and LMT. This has improved on later contracts between the parties.
- 4.10 Orders are not properly reviewed before they are signed by LMT. Orders are placed after the validity of the proposal has expired, escalation clauses are proposed but not accommodated in the actual DLS orders and unrealistic delivery dates are accepted when the orders are accepted.
- 4.12 There is no clear definition of responsibilities between DLS/Mechem Project Managers and DLS QA representatives and LMT sometimes receives conflicting messages.
- 4.14 Clear technical definitions of the deliverables must be obtained by LMT.
- 4.24 Some DLS employees have the impression that DLS owns LMT and therefore LMT does not have a choice but to do as DLS says.

# ANN. DMO8

SIGNED DLS SUBMISSION DATED 16 OCT.  
2014







DENEL LAND SYSTEMS

**GROUP CHIEF EXECUTIVE OFFICER'S  
SUPPLY CHAIN SUBMISSION**

TO: EXCO

FROM : DLS EXCO

DATE : 15 OCTOBER 2014

SUBJECT: Industrialisation and Production of 183 Vehicle Platform Hulls at VR Laser Services.

PROJECT: Hoefyster

ORDER NUMBER: L58226

SUPPLIER: VR Laser Services (Pty) LTD

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## 1. OBJECTIVE

To obtain approval from Denel Group Executive Officer to

- (a) enter into contract negotiations for the manufacturing and supply of the HOEFYSTER platform hulls for 183 armoured vehicles to ensure that the total contract price fits within the DLS budget and
- (b) sign the contract for the manufacturing and supply of the HOEFYSTER platform hulls for the 183 armoured vehicles and place the associated Purchase Order.

## 2. BACKGROUND

In 2013 the board of DENEL authorized the signing of the production Contract for the 238 (Including 34 new variants/new requirement by SANDF) Badger vehicle systems with ARMSCOR. In order to execute the ARMSCOR contract, DENEL Land Systems (DLS) now wishes to sign the Contract and accordingly place an Order for the manufacturing and supply of the armoured hulls for these vehicles. 16 of these vehicles are manufactured in Finland and 217 will be manufactured in South Africa. At this stage DLS has not finalized the baselines for the 34 new variants. We therefore cannot place an order on the full 217. The intention at this stage is to place an order for only 183 platform hulls. The procurement for the new variants platform hulls will only be made once the baselines have been firmed up with frozen data-packs.

In 2012 DLS obtained quotations from the local industry to benchmark the prices with PATRIA budget prices. LMT, VR Laser and DCD Dorbyl (name changed to DCD protected mobility) were invited to participate in this process. Three quotations obtained from these 3 companies in 2012 were as follows;

SUPPLIER	PRICE PER UNIT
LMT	R1,738,694.00
VR Laser	R865,010.00
DCD Dorbyl	R896,000.00

As part of the contract between DLS and PATRIA, PATRIA has an obligation to transfer hull manufacturing and fabrication technology to the local South African supplier that will be contracted for this work. The transfer of Technology between DLS and PATRIA has

already begun and various DLS departments must be trained on how to incorporate the processes and data into the DLS systems.

### 3. MOTIVATION

In June 2014, DLS went out on RFQ to obtain revised prices from all the suppliers that initially quoted in 2012. The tender closing date was 25 June 2014, after which clarification sessions were held 26<sup>th</sup> June 2014 with each supplier. They all had 7 days in which to submit additional information. Any information received after this drop dead date was not considered. A cross functional team of representatives from Supply Chain, Infantry Systems and Business Excellence was constituted to evaluate the proposals submitted and make a final recommendation on the supplier that will be manufacturing the platform Hull. The team evaluated the proposals on the following criteria technical, commercial and B-BBEE. The percentage split implemented in the criteria used is accordingly aligned with the mandated Denel criteria communicated throughout the group.

In February 2014, PATRIA visited the three suppliers for facility/ capability assessment. The outcomes of this assessment were captured in the final report ref: D117051\_3.2014 submitted to DLS. The outcomes can be summarised as follows.

- (a) PATRIA is of the opinion that VR-Laser is capable of manufacturing the whole hull from parts to delivery. The possibility of information leakage at VR-Laser is slight/ minimal. And lastly, the references given for VR-Laser are impressive/good.
- (b) PATRIA is concerned about the possibility of information leakage at DCD protected mobility. PATRIA relayed the concern that DCD protected mobility has substantial risk for information leak especially for mine protection package. Furthermore, PATRIA is of the opinion that DCD protected mobility has no capability for the manufacturing of hull plate sets due to lack of machinery and would have to outsource components or buy new machinery. That said, the PATRIA team felt that DCD protected mobility has all the necessary quality requirements in place and has the capability to machine turrets ring at one of their other division.
- (c) PATRIA is of the opinion that LMT has poor level of welding quality and it needs to be improved in order to be able to manufacture AMV hulls. However PATRIA also articulated that LMT might still be suitable for the manufacturing of other AMV components.



3. PRICE

BASIS FOR COMPARATIVE OFFER

PRICE: 25%  
TECHNICAL: 45%  
BEE 30%

Name of Tenderer : Ranked lowest to highest Price	Financial Offer (P)	Comparative Offer (Pm)	Points for Financial Offer	Points for Technical	BBBEE	Total point for Preference	Total point	Overall Ranking Price, Technical,BEE	% Premium payable	Premium payable in Rands
			25%	45%	30%	0%	100%			
LMT	R 763,191	R 763,191	25.00	39.75	0	0	64.75		0.00	R 0
VR Laser	R 1,209,247	R 763,191	10.39	50.15	5	0	65.54		58.45	R 446,059
DCD	R 1,391,319	R 763,191	4.42	41.86	5	0	51.28		62.30	R 828,128

Name of Tenderer Ranked in same order as above	BBBEE Scorecard Level	BBBEE Score	Employment Equity	Black Ownership
LMT	Expired	0	0	0
VR Laser	LEVEL 4	3	0	2
DCD	LEVEL 4	3	0	2

L58226

#### 4. DISCUSSION /OTHER RELEVANT FACTS

The evaluation committee noted that the price submitted by LMT is unreasonably too low based on the following;

- (a) According to the information received from PATRIA, manufacturing takes 600 hours excluding machining and painting.
- (b) Material cost for fabricating 1 unit complete hull is estimated to be +/-R550,000.00 compared to LMT material breakdown of R396,527.21.
- (c) Calculated as follow: 600 Hrs @ R600/Hr = R360,000.00.
- (d) R360,000.00 (Labour) + R550,000.00 (material) = +/- R910,000.00.

The price submitted by VR Laser seem to be realistic and more acceptable, however this price exceeds DLS's current budget/input price. Whereas, the price offered by DCD protected mobility seem to be extremely higher than the estimated cost above.

LMT BBBEE certificate expired. The expired certificate indicates that they were recognized as a level 5 contributor. In their proposal, LMT indicated that they envisaged to be recognised as a level 4. At the stage of evaluation, we could not allocate any point for B-BBEE because there is no valid certificate in place. The certificate was received late and could not be considered for evaluation. VR Laser submitted a valid B-BBEE certificate indicating that VR Laser is a level 4 contributor with 100% Black equity ownership and 25.10% black women ownership. DCD protected mobility submitted a valid BBBEE certificate indicating that DCD is a level 4 contributor with 44.7% Black equity ownership.

LMT has submitted the lowest price, however in DLS's experience on several contracts placed (including but not limited to the Yemen contract, various Casspir orders and Samil ambulances) we have experienced a lot of late deliveries and defects on workmanship. During the clarification meeting held on the 26 June 2014, LMT failed to provide DLS with a satisfactory answer/ response on how the company plans on ensuring that there will be no/minimal defects on the deliverables. This, coupled with the fact that to our knowledge there is no welding engineer or resident metallurgist, no current available proven capacity and equipment, we are of the opinion that it would be very risky to place a contract of this magnitude on a supplier that has failed to perform on several previous programmes and cannot demonstrate on how they plan on ensuring satisfactory performance going forward. No evidence of LMT's claim that they have

manufactured AMV hulls could be found at Patria., except for the one mine protection test hull.

VR Laser has demonstrated the willingness to support DLS on several occasions in the past delivering on time, quality products. VR Laser submitted an unsolicited proposal for a lower price as well as submitting a new BBBEE certificate with a new improved level from 4 to 3, but as in the case of the late BBBEE certificate of LMT this could not be considered for the evaluation. We strongly believe that they will be willing to negotiate the prices in order to fit within our budget.

## 5. CONCLUSION

Beyond the DLS evaluation process critical questions were asked in terms of LMT's, as the design partner, involvement in the HOEFYSTER production program, which necessitated the exploring of various options to ensure a responsible and balanced sub-contracting scenario for the program.

A contracting model to contract VR Laser via LMT, to get the best of both worlds in terms of engineering and production capability was extensively explored. This however proved not to be a viable option due to the complexity of the contracting structure as well as the financial viability.

In the evaluation of the various companies it was clear that due to the design accountability of LMT and complexity of the vehicle Rear internal fit and the Back door, that it was critical that they must also be the production supplier of these sub systems to reduce technical and schedule risks.

As reflected in the evaluation matrix above VR Laser has scored the highest points, however the price offered is over the DLS input/budget price. We hereby request permission to negotiate the price in order to bring it in within the DLS budgeted figures.

DESCRIPTION	PRICE PER UNIT	TOTAL PRICE FOR 183 UNITS
CURRENT VR LASER PRICE	R1,209,247.00	R221,292,201.00
REQUESTED MANDATE/ MAXIMUM PRICE	R1,050,000.00	R192,150,000.00

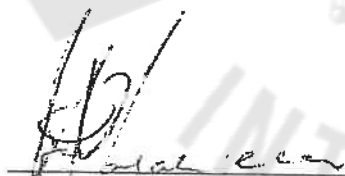
In order to uplift the local South African industry, different Patria contracting models were explored as an attempt to keep the money/investment in the country. As a result of this exercise, a decision was taken to manufacture more platforms locally. As stated above, now only 16 vehicle platforms will be manufactured in Finland and the rest in South Africa. VR Laser is a 100% black owned company with more than 25% black woman equity ownership. Placing an order on VR laser will not only benefit the South African local industry but it will also benefit the previously disadvantaged groups. This will also ensure full compliance with ARMSCOR 25% black equity ownership requirement on the Hoefyster programme.

## 6. RECOMMENDATIONS

In line with the discussions articulated herein, we hereby recommend the approval of:

- (a) The Group CEO of Denel approves the DLS recommended selection of the hull supplier
- (b) A mandate to enter into contract negotiations for the manufacturing and supply of the HOEFYSTER platform hulls for the 183 armoured vehicles to ensure that the total contracts price fits within the DLS budget.
- (c) the necessary permission for Mr Stephan Burger to sign the contract for the manufacturing and supply of the HOEFYSTER platform hulls for the 183 armoured vehicles and place the associated Purchase Order when the condition in a is accordingly met.
- (d) Contracting LMT as single source supplier for the vehicle rear internal fit and the back door
- (e) After the completion of the Joint Task Force design that the additional 34 vehicle hulls, rear internal fit and back doors be contracted on the same principles

### DLS EXCO RECOMMENDATION:

  
 \_\_\_\_\_

**C MALAHLELA**

**EXECUTIVE MANAGER: SUPPLY CHAIN**

DATE: 16/10/2014



  
A AFRICA

EXECUTIVE MANAGER: INFANTRY SYSTEMS

DATE: 16/10/2014

  
FR TEUBES

COO: DENEL LAND SYSTEMS


DATE: 16/10/2014

  
AS BURGER

CEO: DENEL LAND SYSTEMS

DATE: 16.10.2014

DCO RECOMMENDATION:

  
JM WESSELS

GROUP COO: DENEL

DATE: 16-10-2014

  
Z MHLONTLO

GROUP CFO: DENEL

DATE: 16.10.2014

APPROVE / REJECT



R SALOOJEE

GROUP CEO: DENEL

DATE: 16.10.2014.



# ANN. DMO9

DLS BOARD MINUTES



9 A+B


MINUTES OF THE SPECIAL DLS BOARD MEETING HELD ON 31 MARCH 2011, AT 14:00 IN THE DLS BOARDROOM					
NO	ITEM	DISCUSSION/DELIBERATION	ACTION/RESOLUTION	TIME FRAME	RESPONSIBILITY
1.	OPENING & WELCOME	Mr Kunene welcomed everyone to the meeting.			
2.	APOLOGIES	Ms R Geldenhuys (Denel)			
3.	ATTENDEES	<b>DLS Board Members</b> Mr. Z Kunene (Chairman) Mr Faro (Mechern) Mr J Morris (Denel) Mr T Sadik (Denel) Mr Z Ntshope (Denel) Mr I Andersson (Independent) Mr T Marwala (Independent) Mr D Mlambo (Denel Dynamics) Mr AS Burger (CEO DLS) Mr PCJ Knoetze (CFO DLS and Secretary) Mr T Mahlinza (CHR DLS) Mr MX Makhatini (CBD DLS) Mr R Teubes (COO DLS)			
4.	AGENDA	Attendance register attached. No changes			



NO	ITEM	DISCUSSION/DELIBERATION	ACTION/RESOLUTION	TIME FRAME	RESPON-SIBILITY
5.	DECLARATION OF INTEREST	No conflict of interest was declared			
6.	OPTIMIZING THE POSITION OF DLS AS THE LEAD LANDWARD SYSTEM INTEGRATOR IN SOUTH AFRICA BY RESTRUCTURING THE SHARE OPTION IN LMT	<p>The Chairman started by saying he took the document submitted for discussion as read by all.</p> <p>Mr Burger gave some background with reference to previous minutes in which the LMT opportunity was discussed.</p> <p>At a previous special Denel Board Sub committee meeting it was already agreed that a BBBEE investor is brought onboard with DLS keeping majority (51%) interest.</p> <p>Mr Burger explained that the previous option agreement of 70% will change to only 51% but the risk for DLS will substantially decrease by the inclusion of Pamodzi with the financial investment of R20m capital and an additional R10m facility.</p> <p>Mr Burger mentioned to the meeting that although LMT was valued at R70m by KPMG the value of the company is in all probability low due to the current financial position.</p> <p>The new investor is also buying in on the basis of the future value of the combined business of the three parties and for more strategic reasons than financial reasons. The proposal is that DLS and Denel should exercise the option within one year after signing the MOU.</p>			

NO	ITEM	DISCUSSION/DELIBERATION	ACTION/RESOLUTION	TIME FRAME	RESPON-SIBILITY
		<p>and Denel Board.</p> <ul style="list-style-type: none"><li>The Sub committee to monitor the process and keep the Board updated on the process going forward.</li></ul>	Sub-Committee to keep the Board updated	Next meeting	PK

  
**NKOMO KUNENE**  
CHAIRMAN

  
**PCJ KNOETZE**  
SECRETARY

NO	ITEM	DISCUSSION/DELIBERATION	ACTION/RESOLUTION	TIME FRAME	RESPON-SIBILITY
		<p>protected. He emphasizes that DLS should get the Hoefyster order.</p> <p>All members agreed that this option should be accepted.</p> <p>Mr Sadik is of opinion that given the specific conditions and one year time limit, DLS should immediately start with exercising the call option. This is with specific reference to the put option at the end of one year.</p> <p>The meeting agreed on the following process to be followed:</p> <ul style="list-style-type: none"><li>• To accept the proposal from Pamodzi after DLS advisors have given input and the Board Sub committee consisting of Mr Morris, Dennis Mlambo, Ingemar Andersson and Pieter Knoetze approve the MOU. Mr Knoetze to get the advisors' (Gildenhuy's Lessing Malatji and Investec) inputs and the committee to then agree on the MOU.</li><li>• A proper shareholders agreement to be done soon after the MOU is signed to protect DLS' and Denel's interest as discussed.</li><li>• The process of exercising Denel's (DLS) option to start parallel with the above with the appropriate approval levels, i.e. PFMA</li></ul>	Agree on MOU	Immediate	PK

NO	ITEM	DISCUSSION/DELIBERATION	ACTION/RESOLUTION	TIME FRAME	RESPON-SIBILITY
		<p>Mr Burger reported that DLS received the MOU a few minutes before the meeting only and have not yet perused it.</p> <p>From an enquiry by Dennis Mlambo referring to the fact that Pamodzi already has a partner with a Ukraine vehicle business it was said that Pamodzi acts as an agent for this vehicle company.</p> <p>Mr Ntshepe commented that although the Ukraine's vehicle could compete for the Vistula and Sapula business it could be an opportunity to join forces with them on this.</p> <p>The Chairman put the question to the members as to whether Pamodzi is acceptable as a BBEE investor to come onboard as a partner. This can only be viewed from the perspective on whether they are aligned with our long term strategy or not. Secondly, is it acceptable that DLS diluted its current option from 70% to 51%.</p> <p>Mr Morris commented that the terms and detail with respect to the preferential shares be agreed upfront to protect the future majority share of Denel (Safe guard DLS).</p> <p>Mr Ingemar Andersson also supported the proposal and requested that a proper shareholders' agreement be drawn up with Pamodzi, wherein the DLS rights will be</p>			



# ANN. DM10

Ms MALAHLELA LETTER REQUESTING  
DISCLOSURE OF VR LASER SHAREHOLDERS





## DENEL LAND SYSTEMS

10 19

Address: PO Box 7710  
Pretoria, 0001  
South Africa

Date: 11 July 2014  
Tel: +27 12 620 3613  
Fax: +27 12 620 3388  
Email: Celiem@dlsys.co.za  
Your ref: VR08072014/02

10 Haggie Road  
Dunswart Ext 5  
Gauteng  
South Africa

ATTENTION: CEO

## ALLEGED POTENTIAL CONFLICT OF INTEREST

The article published by the Mail and Guardian Centre for Investigative Journalism on the 4<sup>th</sup> July 2014 bear reference <http://mg.co.za/article/2014-07-03-transnet-tender-bosss-r50-billion-double-game>.

The abovementioned article alleges possible conflict of interest in a transaction between Transnet as a SOC and VR Laser. Having recently been informed about the new change in ownership of VR Laser, DLS is concerned that there might be a potential conflict of interest with regards to subcontracting of Hoefyster, as a local SANDF contract.

It is very important for DLS to ensure proper governance and compliance to laws in our contracting practices, specifically pertaining to conflict of interest. DLS hereby requests VR Laser to please disclose the names of the new shareholders and accordingly disclose any association (if any) with parties that may constitute a conflict of interest with reference to the Hoefyster programme. You are further requested to complete the attached declaration of conflict of interest form, V1090/02 and return it to DLS supply chain department.

Lastly, we would like to thank you for the services that you have provided to DLS thus far. Your efforts and supports are highly appreciated.

Kinds Regards

C MALAHLELA

EXECUTIVE MANAGER: SUPPLY CHAIN

DENEL LAND SYSTEMS INCORPORATING MECHEM

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: Mr N R Kunene (Chairman), Mr R Sakoojee<sup>1</sup> (Group Chief Executive Officer), Adv G Badela, Dr G C Cruywagen,  
Ms M J Janse van Rensburg, Prof T Marwala, Ms Z B Mathenjwa, Mr Z Mhlontlo<sup>1</sup>, Mr N J Motseki, Mr M Msimang, Mr B F Ngwenya,  
Prof S M Nkomo, Adv M S Nshikila, Ms B Paleli, Mr M V Ratshimbilani

<sup>1</sup>Executive Director  
Group Company Secretary: Ms E M Africa



# ANN. DM11

Mr JP AURORA EMAIL DATED 04 NOV. 2014





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**From:** Dennis Mlambo  
**Sent:** 21 November 2014 06:36 PM  
**To:** 'JP Arora'  
**Cc:** Benny Jiyane  
**Subject:** RE: Confirmation of Individual Shareholders of VR Laser Services

Dear Mr Arora,

Thanks for your response. I would appreciate it if you could supply the following as well:

1. Details of the individual shareholders in Craysure Investments or Westdawn Investments.
2. Details of the Directors of Elgasolve and Craysure Investments.(copies of IDs as well).
3. The latest EE status of VR Laser Services.

Kind regards

Dennis Mandla Mlambo

Group Supply Chain Executive

Tel : +27 12 671 2602

Fax: +27 12 671 2696

Mobile: +27 (0)82 808 4906

E-mail: dennism@denel.co.za

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**From:** JP Arora [mailto:[JPA@vrlaser.co.za](mailto:JPA@vrlaser.co.za)]  
**Sent:** 04 November 2014 05:07 PM  
**To:** Dennis Mlambo  
**Cc:** Benny Jiyane  
**Subject:** Confirmation of Individual Shareholders of VR Laser Services



Dear Mr Mlambo,

Please accept my sincere apology as I must have missed your earlier e-mail somehow - sorry for that it was not intentional at all.

Thank you so much for your kind words and also your support since I have been appointed in this new role.

I can confirm that there has been a change in shareholding at VR Laser Services as below:

Elgasolve (Pty) Ltd: 74.9%

Craysure Investments (Pty) Ltd: 25.1%

These two entities are now the sole shareholders in VR Laser Services.

1. Elgasolve (Pty) Ltd.

a) Ownership: Salim Essa

b) BBB-EE status: 100% South African black owned

c) Gender male

2. Craysure Investments (Pty) Ltd.

a) Ownership:

100% shares owned by Westdawn Investments (Pty) Ltd.

b) BBB-EE - status:

Westdawn Investments (Pty) Ltd is a level 5 BEE contributor.

Westdawn is in turn owned by other corporate entities.

I attach hereto copies of the following documents:

Kind regards,

JP Arora

Chief Executive Officer

VR Laser Services (Pty) Ltd

Tel +27 11 306 8000

Fax +27 11 306 8018

Cell +27 82 557 7625

Web - www.vrlaser.co.za

E mail - jpa@vrlaser.co.za

\*\*\*\*\*  
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**Busisiwe Mqingwana**

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**From:** Dennis Mlambo <DennisM@denel.co.za>  
**Sent:** 02 April 2015 14:19  
**To:** Pieter Van Der Merwe; 'Claire Tomsett'; 'JP'; rollandr@dlsys.co.za; CeliaM@dlsys.co.za; 'Kamal Singhala'  
**Subject:** RE: RE: Confirmation of Individual Shareholders of VR Laser Services

**Follow Up Flag:** Follow up  
**Flag Status:** Flagged

Dear Mr van Der Merwe,

Thanks for your response. You have indeed interpreted my request quite well. In the light of the request, it is imperative that the claimed 100% Black shareholding in VR Laser Services be confirmed through the evidence you will submit.

Kind regards

Dennis Mandla Mlambo  
 Group Supply Chain Executive  
 Tel : +27 12 671 2602  
 Fax: +27 12 671 2696  
 Mobile: +27 (0)82 808 4906  
 E-mail: [dennism@denel.co.za](mailto:dennism@denel.co.za)

---

**From:** Pieter Van Der Merwe [<mailto:pieter@vdmass.co.za>]  
**Sent:** 31 March 2015 09:35 AM  
**To:** Dennis Mlambo; 'Claire Tomsett'; 'JP'; rollandr@dlsys.co.za; CeliaM@dlsys.co.za; 'Kamal Singhala'  
**Subject:** FW: RE: Confirmation of Individual Shareholders of VR Laser Services

Good day sir,

Further to my previous mail may I ask the following:

1. I note that JP already provided certain information in his mail of 4 November 2014. You however requested further details of the shareholders and the directors.
2. In order to provide you with the correct details, can I assume you need the following documents/details:
  - a. Details of shareholders:
    - i. Percentage shareholding in VR Laser as well as the details of the shareholding of the shareholders (in VR)
    - ii. Their registration number and registered address.
    - iii. Their BEE status.
  - b. Details of directors in VR and the direct shareholders:
    - i. Copies of ID's;
    - ii. Addresses.

Should you need any additional information please do not hesitate to contact me directly.

Regards,



**PER: Pieter van der Merwe**  
**10 Haggie Road**  
**Dunswart**  
**Boksburg**  
**C: 072 1724 098**  
**Phone: (011) 306 8035**  
**Fax: (011) 306 8018**

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**From:** Benny Jiyane [mailto:benny.jiyane@gmail.com]  
**Sent:** Monday, March 30, 2015 3:56 PM  
**To:** Pieter van der Merwe  
**Subject:** Fwd: RE: Confirmation of Individual Shareholders of VR Laser Services

----- Forwarded message -----

**From:** "Dennis Mlambo" <DennisM@denel.co.za>  
**Date:** 30 Mar 2015 15:42  
**Subject:** RE: Confirmation of Individual Shareholders of VR Laser Services  
**To:** "JP Arora" <JPA@vrlaser.co.za>  
**Cc:** "Benny Jiyane" <bennyj@vrlaser.co.za>, <rollandr@dlsys.co.za>, <CeliaM@dlsys.co.za>

Dear Mr Arora,

This e-mail is a follow-up on the one below dated the 21<sup>st</sup> of November 2014. We are in the last month of our financial year and the audit process may uncover inconsistencies in Denel's interactions with its Suppliers. It is therefore imperative that all mandatory documents are submitted timeously. Failure to do so may result in any future orders being cancelled or put on hold. I trust that you will treat this request with the urgency it requires.

Kind regards

Dennis Mandla Mlambo

Group Supply Chain Executive

Tel : +27 12 671 2602

Fax: +27 12 671 2696

Mobile: +27 (0)82 808 4906

E-mail: dennism@denel.co.za



## DECLARATION OF CONFLICT OF INTEREST FOR SUPPLIERS

I MADODA JOHN JIYANE, representing  
VR LASER SERVICES (PTY) LTD  
in my capacity as CHIEF OPERATING OFFICER and to be  
contracted by Denel Land Systems (DLS), hereby declare that:

VR LASER SERVICES AND THE SHAREHOLDER & DIRECTORS does not have any  
conflict of interest of any nature in DLS that may materially and objectively result in a conflict of  
interest.

I hereby declare that the information provided herein is to the best of my knowledge true and  
correct. I understand that in the event that DLS finds that VR LASER SERVICES (PTY) LTD  
& SHAREHOLDERS / DIRECTORS has any interest which could  
reasonably be perceived to materially and objectively amount to a conflict of interest, the  
relationship between the Parties will be terminated subject to the terms and conditions of the  
respective contract.

Signed at JOHANNESBURG on the 11<sup>th</sup> day of  
JULY 2014

SIGNATURE OF THE DECLARANT



**VR LASER SERVICES (Pty) Ltd**

- 10 Haggie Road, Dunewarf Ext5, Gauteng, South Africa
  - P.O. Box 5362, Boksburg 1461, South Africa
  - Accounts Tel + 27 11 306 8000
  - Accounts Fax + 27 11 306-8018
- Registration No. – 2007/031329/07  
VAT No. – 4690244837

11 July 2014

**RE: ALLEGED POTENTIAL CONFLICT OF INTEREST**

*Dear Madam/Sir*

Your letter dated 11 July 2014 refers.

We hereby confirm that the shareholders in VR Laser Services (Pty) Ltd are:

Elgasolve (Pty) LTD (74.9%) and Craysure Investment (Pty) LTD (25.1%) are the shareholders and neither have any involvement or conflict with doing business with Denel in any way whatsoever. All shareholders and directors are private individuals who do not work for government.

Feel free to contact me in case of any further clarification that you may require.

Best regards

**Madoda John Jiyane**

**Chief Operating Officer**

# ANN. DM12

SUBMISSION TO APPOINT VR LASER AS A  
SINGLE SOURCE DATED 29 OCT. 2015



W2



## DENEL LAND SYSTEMS

## MEMORANDUM

**To:** DENEL SUPPLY CHAIN EXECUTIVE  
**From:** DLS SUPPLY CHAIN EXECUTIVE  
**Date:** 29 October 2015  
**Subject:** Conflict between policy and signed MOU  
**Rev. No:**

## BACKGROUND

In giving the approval for the deviation from the normal procurement process and a list of suppliers to be used for the T5 Demo, the group supply chain executive gave an instruction that DLS must first explore how Denel Vehicle Systems - Gear Ratio and LMT (Intergroup companies) will be used in the project on condition that they meet the quality, price and delivery requirements.

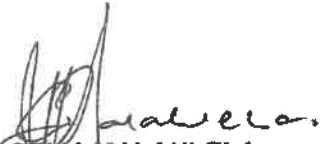
Furthermore, In terms of the approved Denel Supply Chain Policy and DLS supply chain procedure, DLS must first approach intergroup companies before procuring outside the group. In terms of the Denel Group Supply Chain Policy *"Under no circumstances shall products or services that can be procured from a Group Entity or Division be procured from an external Supplier or non-Denel company unless there is approval by the Group Supply Chain Executive based on sound business reasons."*

Having identified a need for a **single source supplier** for the supply of STEEL COMPONENTS AND FABRICATIONS, In May 2015 DLS signed an MOA with VR Laser for this Scope of work. VR Laser is a 100% Black owned entity. In terms of the MOA, VR laser prices must be market related and in line with the provisions of the MOA before an order can be placed on them.

Due to these contradicting positions, Supply Chain approached DLS EXCO to make a decision as to whether to honour the MOA and place the order on VR Laser or to follow the supply chain policy and procure from (intergroup) viz, DVS or LMT for this project. Given the timeframe, urgency and history EXCO has recommended that the work be done by VR Laser.



I hereby request permission to implement the EXCO decision in this regard.



CELIA MALAHLELA  
EXECUTIVE MANAGER: SUPPLY CHAIN

APPROVAL

DENISE MLAMBO  
GROUP SUPPLY CHAIN EXECUTIVE

NB: DVS and LMT must submit proof that they cannot meet the requirements prior to the contract being awarded to VR Laser.

Approved




G CEO  
Z. NTSHEPE

# ANN. DM13

SCM POLICY 2014



13

	<b>DENEL SOC LTD</b> <b>COMPANY POLICY</b>	<b>NUMBER</b> <b>3</b>
<b>SUBJECT: GROUP SUPPLY CHAIN</b>		<b>EFFECTIVE DATE</b> <b>19 NOVEMBER 2014</b>
<ol style="list-style-type: none"> <li>1. INTRODUCTION</li> <li>2. PURPOSE</li> <li>3. SCOPE</li> <li>4. REFERENCES</li> <li>5. DEFINITIONS AND ABBREVIATIONS</li> <li>6. POLICY ELEMENTS             <ol style="list-style-type: none"> <li>6.1. DEFINING PRODUCT / SERVICE REQUIREMENTS</li> <li>6.2. FORMULATING A PROCUREMENT STRATEGY</li> <li>6.3. INVITATIONS TO TENDER</li> <li>6.4. DELEGATION OF AUTHORITY</li> <li>6.5. TENDER EVALUATION / ADJUDICATION</li> <li>6.6. REQUESTS FOR INFORMATION / QUOTATION / PRODUCT</li> <li>6.7. EVALUATION OF TENDERS / QUOTES / PROPOSALS</li> <li>6.8. PROCUREMENT COMMITTEES</li> <li>6.9. CONTRACTING OF SUPPLIERS / SERVICE PROVIDERS</li> <li>6.10. INTERGROUP AND GROUP PROCUREMENT AND CONTRACTS</li> <li>6.11. MANAGEMENT OF SUPPLIERS</li> <li>6.12. RISK MANAGEMENT</li> <li>6.13. PROCESS TO ADDRESS NON-COMPLIANCE</li> <li>6.14. IMPORT PERMITS</li> </ol> </li> <li>7. POLICY ADMINISTRATION</li> <li>8. REVISION HISTORY</li> </ol>		
<b>DRAWER</b>  <b>SUPPLY CHAIN</b>	<b>APPROVED AT THE BOARD MEETING HELD ON</b>  <b>19 NOVEMBER 2014</b>	<b>SIGNATURE</b> (Original signed by R Saloojee)  <b>GROUP CHIEF EXECUTIVE OFFICER</b>

	<b>DENEL SOC LTD COMPANY POLICY</b>
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## 1. INTRODUCTION

This Group Procurement Policy shall serve as a guideline and directive to assist the Denel divisions in formulating their processes, procedures and work instructions to manage critical or challenging areas in Supply Chain. In the context of this policy, procurement must be seen as the key element of Supply Chain. Whilst this policy focuses primarily on the strategic and operational requirements within the Supply Chain environment, it is imperative to note that the relevant pieces of legislation and regulations are equally important in ensuring that all Supply Chain processes and activities do not contravene same.

## 2. PURPOSE

The purpose of this procurement policy is to:

- Provide guidance and direction on how to handle the various Supply Chain activities and requirements in the group.
- Outline the minimum standards and actions that must be applied in order to acquire value for Denel.
- Assist and equip divisions within Denel with the skills and competencies to achieve the Denel Group's Supply Chain strategic objectives
- Define the transformation requirements expected of Denel's suppliers and service providers.
- Specify the key elements pertaining to the management of tenders and requests for information or quotations
- Define key requirements and elements in contracting potential suppliers / service providers
- Define how tender and procurement committees are to be constituted.
- Specify the relevant legislation and attendant regulations in ensuring legal compliance.
- Outline the tender evaluation process
- Define the critical steps in Supplier performance monitoring
- Emphasize the importance of risk management in Supply Chain
- Give guidance on how to address non-compliant suppliers / service providers

## 3. SCOPE

The scope of this Procurement Policy spans the following aspects in particular:

- Supply Chain related planning.
- Key elements that must constitute procurement and sourcing processes
- Supplier performance management
- Applicable legislation and regulations
- Procurement committees or boards
- Contracting with suppliers or service providers
- Evaluation of tenders / proposals



	<b>DENEL SOC LTD COMPANY POLICY</b>
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#### 4. **APPLICABLE REFERENCES**

- 4.1 The Constitution of RSA -Sect. 93
- 4.2 The Public Finance Management Act, No. 1 of 1999, as amended
- 4.3 The Preferential Procurement Policy Framework Act No. 5 of 2000 and relevant Regulations
- 4.4 International Trade in Arms Compliance – ITAC
- 4.5 International Traffic in Arms Regulations – ITAR (USA)
- 4.6 Broad-Based Black Economic Empowerment Act No. 53 of 2003 as amended
- 4.7 Delegation of Authority - Policy 2
- 4.8 Enterprise and Supplier Development Policy – Policy 40
- 4.9 Intergroup Pricing - Policy No. 73

#### 5. **DEFINITIONS AND ABBREVIATIONS**

- 5.1 **Tender** - the term "tender" refers to a process that entails inviting potential Suppliers or Service Providers to offer a product or solution to Denel or any of its entities.
- 5.2 **Supply Chain** – "Supply Chain" refers to the series of steps or interconnected elements that commence when a need is identified until it is satisfied through the delivery of a product or service. The term could also be used to refer to the Function within Denel that is responsible for acquiring and delivering the identified need.
- 5.3 **Procurement** - The term "Procurement" is defined as the process of defining a need and then put measures in place to satisfy the need through either acquiring a suitable product or service to satisfy the said need.
- 5.4 **Entities / Divisions** - In the context of this Policy, the terms "Entities or Divisions" are used to refer to any of the companies within the Denel Group that operate a fully-fledged business with a clearly defined set of core products and services.
- 5.5 **Product / Material** - In the context of this Policy the terms 'product' or 'material' are used to define a substance or item that is used in the development or manufacture of a Denel Entity core product or by-product for the purpose of effecting a transaction with a Client or Customer. The two terms are used interchangeably.
- 5.6 **PPPFA** – Preferential Procurement Policy Framework Act, No. 5 of 2000 and relevant Regulations
- 5.7 **RFI** - Request For Information
- 5.8 **RFQ** - Request For a Quote
- 5.9 **RFP** – Request For a Product



## DENEL SOC LTD COMPANY POLICY

### 6. POLICY ELEMENTS

#### 6.1 Defining Product /Service Requirements

6.1.1 The Denel Group divisions are responsible for defining or specifying the input materials and services that are required to design or manufacture the relevant divisions' core products and attendant services. Typically the definition of the said input materials and services would be captured in a technical specification or master production schedule (MPS). A far more detailed breakdown of a MPS is a material requirements plan (MRP). The formulation of a MPS and / or MRP must precede the procurement or sourcing process. The availability of the MPS and /or MRP facilitates the planning process and the identification of suitable or compliant suppliers.

6.1.2 It is the MPS that must be submitted to the office of the Group Supply Chain executive for identification of opportunities to use compliant suppliers and to seek value in the planned procurement transactions.

6.1.3 The final approval of the MPS may necessitate the formulation of action plans on the part of both the relevant division and the targeted potential supplier.

6.1.4 Denel divisions may use their discretion to formulate supporting Processes and Procedures to align with this Policy. The complexity of the development and manufacturing process would typically influence such a decision unless the Management System or Product Standard specifies the need to have a documented process.

#### 6.2 Formulating a Procurement Strategy

6.2.1 Once the material and service requirements have been identified, the relevant Supply Chain Manager or delegated individual shall formulate a strategy or plan on where and how the various types of materials and services will be procured. This process entails a rigorous scanning of the supplier environment with a view to achieving amongst other things, good value for Denel and transformation objectives.

6.2.2 The plan shall be detailed enough to expedite the procurement process and also to take into account the lead times of the various requirements.

6.2.3 The relevant Head of the Supply Chain function or delegated responsible person shall take accountability for the approval and implementation of the said strategic procurement plan.

#### 6.3 Invitations to Tender

6.3.1 Upon defining all the material and service requirements, a decision must be taken on whether a sound and compliant tender process shall be followed. A number of factors such as the projected value of the transaction, number of potential suppliers, in-house or group division's capability would determine the appropriate route to take.

6.3.2 In instances where the value is above five hundred thousand rand (R500k) and there are many potential suppliers, an open tender process must be followed unless there are compelling good business reasons to follow a closed tender process. In the case of the latter example, approval must still be obtained from the Group Supply Chain Executive. Closed tenders are ideal if the number of potential Suppliers is well known and there is

	<b>DENEL SOC LTD COMPANY POLICY</b>
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documentary proof. That could also have the effect of containing advertising costs for Denel.

6.3.3 The management of tenders shall be in line with the PFMA, PPPFA and the relevant section of the constitution of the RSA. The following requirements, as a minimum, shall be adhered to:

- 1) Tender documents must be transmitted to all potential tenderers simultaneously.
- 2) Proposals from potential suppliers must not be accessed by any SC personnel at different times.
- 3) Proposals must be accessed at the same time and stamped accordingly and that must be in the presence of an independent person from a non-Supply Chain department.
- 4) No correspondence must be entered into with individual tenderers without ensuring that all of them get the same information even the ones who did not request same.
- 5) The adjudication criteria must be specified upfront in the tender documents.
- 6) The deadline for all submissions must be specified in the tender document and late submissions shall be disqualified.
- 7) Any member of the tender requirements definition team with a conflict or potential conflict of interest shall recuse themselves from the team.

#### 6.4 DELEGATION OF AUTHORITY

- 6.4.1 The approval of any transaction, depending on the value of the transaction shall be in accordance with the Group Delegation of Authority. See the procurement section of the DoA.
- 6.4.2 Divisions may draft customised Delegation of Authority documents to simplify and cascade approval levels in line with the group's Delegation of Authority. It is the responsibility of the Divisional CEO to ensure that there is full alignment with the group's DoA.

#### 6.5 TENDER EVALUATION / ADJUDICATION COMMITTEES

- 6.5.1 Tender evaluation committees shall be constituted in such a way that, as a minimum, the following functions / roles are represented:
- 6.5.1.1 **Chairperson / Team Leader** – This role must be assumed by a person who is an expert in the management of tenders, preferably someone with a strong Supply Chain background and leadership qualities.
- 6.5.1.2 **User Community Representative** – A person (s) that is well versed with the product or service that is required. This may be an input material or finished product. This category may include persons who represent the user community from different functional areas or departments or divisions.
- 6.5.1.3 **Product / Service / Process Expert / Specialist** - This role must typically be assumed by an expert insofar as the product and service are concerned. In some instances that could be the same person(s) who represents the user community.





## DENEL SOC LTD COMPANY POLICY

- 6.5.1.4 Financial Practitioner** – In instances where the cost of ownership or future costs are not readily discernible, it may be necessary to enlist the services of a person with financial expertise. This role is optional.

**NB; Additional team members may be invited depending on the relevance of the expertise required.**

### **6.6 Requests for Information / Quotations / Products**

- 6.6.1** A formal request for information (RFI) may be sent out to potential suppliers of product or service provided that action may enhance the understanding of requirements on the part of the relevant Denel division. This step is typically adopted in cases wherein specifying requirements for the purpose of inviting proposals or offers from potential suppliers could lead to an unsatisfactory outcome.

- 6.6.2** A formal RFQ / product shall be sent out to potential suppliers if the internal requirements for the said service or product are clearly defined and the responsible experts or users thereof are satisfied that the potential suppliers will understand them.

**NB: In all the instances specified above, the closing dates for submissions must be specified and enforced accordingly. It is equally important to specify in the RFIs / RFQs / RFPs that Denel reserves the right to cancel the request and that no participant in the process shall in any way or form be entitled to any form of compensation.**

- 6.6.3** All RFQs and RFPs shall be subjected to the group's tender adjudication criteria and relevant guidelines stipulated in the PFMA, PPPFA and any other relevant legislation. Due cognisance must be paid to the importance of getting value for Denel's spend and the pursuit of transformation targets as set out in the relevant Shareholder Compact and BBBEE codes as amended.

- 6.6.4** It is imperative that transactions from fifty thousand rand and above as well as long term agreements or service level agreements or any other contracts entered into be presented to the established and permanent procurement committee for final approval.

- 6.6.5** In instances where emergency spares for repairs and maintenance purposes are required, an interim approval shall be obtained from the relevant Divisional Supply Chain Head or as per the DoA.

- 6.6.6** Depending on the pool of potential suppliers, the procurement officers must not restrict themselves to three quotes unless there is a properly motivated case in writing for doing so. In cases where only one supplier is known, based on a thorough scanning of THE Supplier environment, that must be properly motivated in writing as well.

### **6.7 Evaluation of Tenders / Proposals / Quotes**

- 6.7.1** In order for Denel to acquire value for its spend and to achieve its transformation objectives, as a minimum, the following criteria and their attendant weightings shall be used:

- |  |       |
|--|-------|
| 1. Capability and Capacity             | - 25% |
| 2. Ability to meet delivery milestones | - 20% |



	<b>DENEL SOC LTD COMPANY POLICY</b>
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- |                                    |                        |
|------------------------------------|------------------------|
| 3. Price / Total Cost of Ownership | - 25%                  |
| 4. Black Shareholding              | - 10%                  |
| 5. EE status top 4 levels          | - 10% (2,5% per level) |
| 6. BBBEE status                    | - 10%                  |

**NB: The first criterion, namely capability and capacity are prerequisites for considering any supplier / bidder.**

## **6.8 Procurement Committees / Boards**

6.8.1 Each division shall establish a procurement committee whose main responsibility shall be the evaluation and approval of submissions by Procurement Officers / Users / Requisitioners or delegated parties. In addition, the Procurement Committees shall verify compliance with applicable legislation and Denel Group Policies.

6.8.2 Procurement committees shall be constituted as follows:

6.8.2.1 **Chairperson** – This role must be assumed by either the CEO of the Division or the Divisional Supply Chain Head. If the CEO delegates this responsibility, it must be taken up by an Executive Committee member who may not be the COO or a person responsible for Operations. This is intended to avoid a conflict of interest.

6.8.2.2 **Committee Secretary** – This role must be assumed by a person well versed with sound Procurement principles and relevant legislation.

6.8.2.3 **Financial Expert** - This role must be assumed by a qualified Accountant that will assist the Committee in the financial assessment of any submission.

6.8.2.4 **Quality Specialist** – This role must be assumed by a person well versed with Quality, Risk and Environmental Management principles.

6.8.2.5 **Relevant Expert (Optional)** – Depending on the nature of the product or service required, the Committee Secretary shall ensure that the person with the relevant expertise is notified and invited prior to the Committee meeting.

## **6.9 Contracting of Suppliers / Service Providers**

6.9.1 The requirement is that only Suppliers that meet Denel's qualifying criteria be contracted for a maximum period of three years unless a longer period is properly motivated and approved as per the Denel Delegation of Authority.

6.9.2 The Group Procurement Standard Terms and Conditions shall be used in all cases when contracting Suppliers. The nature of the product or service determines which clauses are relevant and it shall be the responsibility of the Contract Manager to identify clauses that are relevant and delete those that are not required.

6.9.3 In cases where there are no Suppliers that adequately meet Denel's requirements, the contract shall clearly stipulate the pre-conditions for awarding it. An approved Action Plan shall form part of the contract.

	<b>DENEL SOC LTD COMPANY POLICY</b>
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6.9.4 Regular reviews of progress against the approved Plan shall be conducted and corrective measures taken where necessary. Minutes or records of reviews shall be maintained as proof thereof.

#### **6.10 Intergroup and Group Procurement / Contracts**

6.10.1 Under no circumstances shall products or services that can be procured from a Group Entity or Division be procured from an external Supplier or non-Denel company unless there is approval by the Group Supply Chain Executive based on sound business reasons.

6.10.2 The pricing for services or products shall be formulated in line with the principles outlined in the Intergroup or Transfer Pricing Policy.

6.10.3 Where practical, particularly when similar products and services are used across the Group, a concerted effort shall be made by all Entities to collaborate in the procurement of the said products and services. This approach will invariably lead to considerable savings and improved value for the Group.

#### **6.11 Management of Suppliers / Service Providers**

6.11.1 To achieve good performance on the part of all contracted Suppliers, it is imperative that a Supplier Performance Management System or Tool be developed and implemented by all Entities to monitor and take corrective actions in instances when performance is unacceptable.

6.11.2 The System / Tool shall amongst other metrics, track the following:

1. Product / Service Quality
2. Delivery performance
3. Transformation – BBBEE Codes or Approved Plan
4. Any other relevant metric

6.11.3 In instances where contracts are in place, all critical contractual requirements shall be reviewed at agreed intervals with the contracted parties. The intervals may not exceed six successive months.

#### **6.12 Risk Management**

6.12.1 It is mandatory to formulate and monitor Risk Mitigation Plans to address risks that could disrupt operations in the Group. The Risk Mitigation Plans shall amongst other things target Sole / Single Source, Industrialised Suppliers and long-lead items.

6.12.2 All Risk Mitigation Plans shall be reviewed at quarterly intervals to ensure continued relevance.

#### **6.13 Process to Address Non-Compliance**

6.13.1 In instances where a Supplier is unable to address poor performance against metrics that are monitored or as per the contractual requirements, the relevant Entity shall endeavour to assist the said Supplier prior to taking corrective measures or terminating the contract, if there is one in place.

	<b>DENEL SOC LTD COMPANY POLICY</b>
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- 6.13.2 Suppliers that are guilty of fronting shall be blacklisted and prevented from doing business with any of the Denel Divisions for at least 10 years.

**NB:** In cases where the decision to terminate the contract has been taken or is being considered, the relevant Entity shall consult the Group Supply Chain Executive for guidance and final approval. The conditions stipulated in contracts shall be adhered to at all times.

#### 6.14 Import Permits

- 6.14.1 The timely acquisition of permits for importing relevant components / sub-systems or subassemblies must form part of the planning and procurement process to ensure that applications are lodged with NCACC timeously. The key considerations are compliance with ITAC and ITAR requirements as well as getting delivery of the relevant items on time.
- 6.14.2 In instances where there are difficulties being experienced in securing permits on time, the Group Risk and Compliance Manager must be approached for assistance. It is the responsibility of the relevant Supply Chain Head to ensure compliance with this process and to implement systems to maintain the process under control.

### 7. POLICY ADMINISTRATION

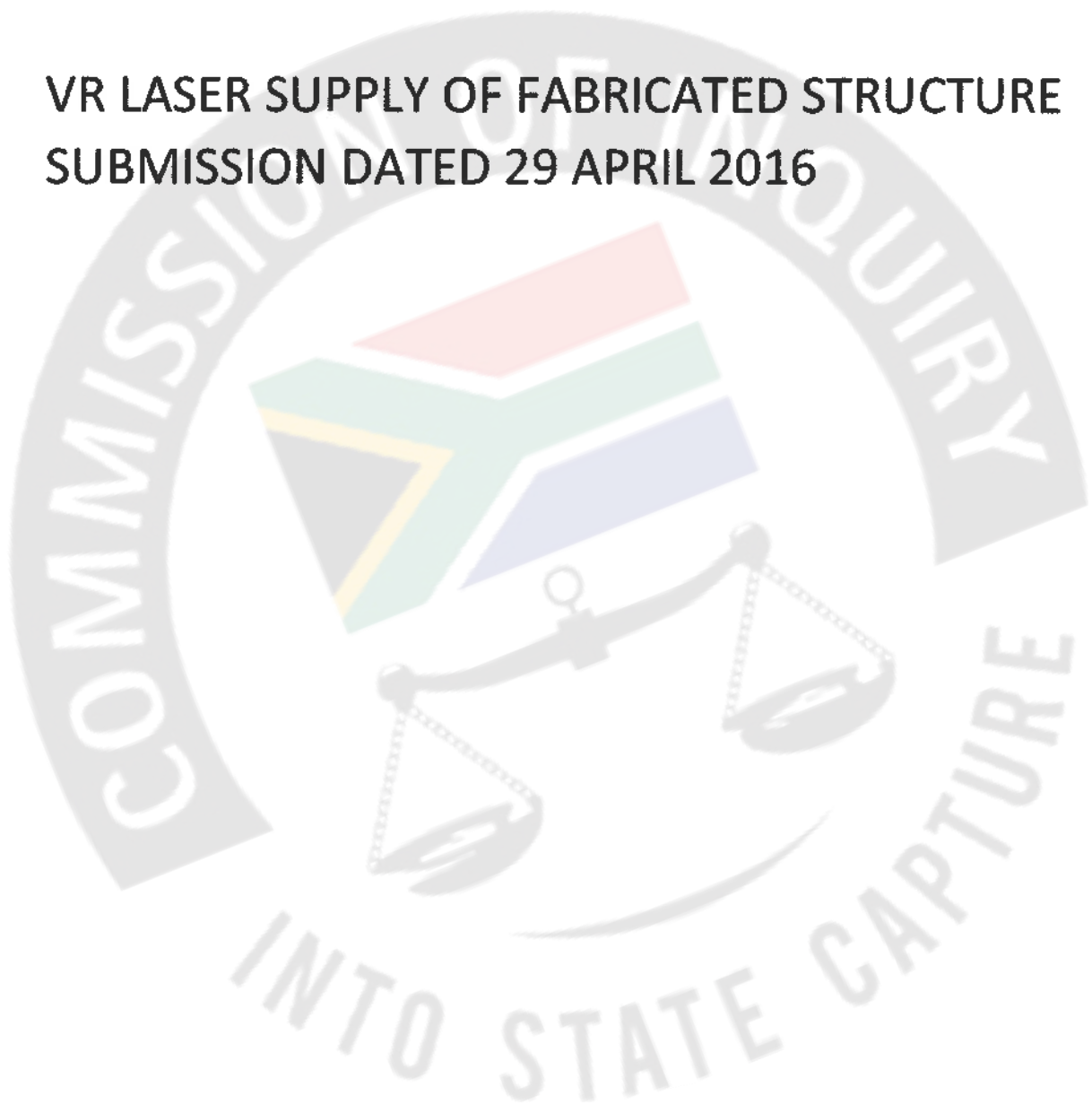
The policy shall be reviewed when the business process, or new standards and even legislation warrant or to address deficiencies found identified during an audit.

### 8. REVISION HISTORY

Date	Version	Comments
25 August 2008	001	
19 November 2014	002	

# ANN. DM14

VR LASER SUPPLY OF FABRICATED STRUCTURE  
SUBMISSION DATED 29 APRIL 2016





DM134



## DENEL LAND SYSTEMS

**Address:** PO Box 7710  
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South Africa

**Date:** 29 April 2016  
**Tel:** +27 12 620 3535  
**Fax:** +27 12 620 3172  
**Email:** [stephanb@dlsys.co.za](mailto:stephanb@dlsys.co.za)

**GROUP EXECUTIVE: SUPPLY CHAIN**

Attention Mr. Dennis Mlambo

Dear Dennis

**VR LASER SERVICES (PTY) LTD: SUPPLY OF FABRICATED STRUCTURES**

Firstly, thank you for the constructive meeting held at DCO with Mr. Odwa Mhlwana and yourself on 28 April 2016.

I confirm our discussion that a Single Source Supplier Agreement (hereinafter referred to as the "MOA") was entered into with VR Laser Services (Pty) Ltd ("VR Laser") on 19 May 2015 pursuant to a motivation being submitted to DCO. The motivation was recommended for approval by both the Group Executive: Business Development, Mr. Zwelakhe Ntshepe and the Group Chief Operations Officer, Mr Jan Wessels whereupon it was approved by the Group CEO at the time namely Mr Riaz Saloojee. The approval by the Group CEO of VR Laser as a single source supplier is in accordance with Regulation 16A6.4 of the National Treasury Regulations (2005). A copy of the approval dated 22 April 2015, the signed MOA and the applicable National Treasury regulation is attached hereto marked "A", "B" and "C" respectively.

As indicated during the meeting and in terms of the abovementioned approval, the rationale for appointing VR Laser as a sole supplier was based on, inter alia, the following:

1. its unparalleled expertise on fabrication of complex engineering systems which includes but is not limited to turrets, outer shields, add on armour and vehicle hull structures;
2. it is a key supplier and strategic partner to DLS;
3. it offers the best value having, inter alia, committed to invest capital and resources in its facilities in order to ensure that the capability remains intact and available to DLS for a minimum period of 10 (ten) years;

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Directors: Mr L D Mantsha (Chairman), Mr R Saloojee<sup>1</sup> (Group Chief Executive Officer), Ms M Kgomongoe, Mr T D Mahumapelo, Ms P M Mahlangu, Ms N Mandindi, Mr Z Mhlontlo<sup>1</sup>, Ms R Mokoena, Mr N J Motseki, Mr T J Msomi, Lt Gen T M Nkabinde (rtd), Ms K P S Ntshavheni,

<sup>1</sup>Executive Director  
Group Company Secretary: Ms E M Africa



4. it is prepared to assist and has assisted DLS with its obligations in foreign jurisdictions (such as Malaysia) in transferring skills relating to its manufacturing process (hereinafter referred to as Intellectual Property (IP)); and
5. it promotes a black industrialist entrepreneurial company within the defence industry.

It is hereby recommended that the attached submissions relating to the Fire Compartment Module (FCM) and the Outer Shield marked "D" and "C" respectively be sourced via VR Laser in accordance with the terms and conditions of the MOA.

Best regards



Stephan Burger  
Chief Executive Officer: DLS

APPROVED BY:

APPROVAL  
DENNIS MLAMBO  
GROUP SUPPLY CHAIN EXECUTIVE

- NB: 1. The evidence on how VR Laser was selected is not available to support its appointment as a single-source supplier.
2. The approval process of the MOA excluded Supply Chain and the reasons thereof have not been furnished.
  3. The recommendation, given the fact that Deneel Executives committed the company to place orders on VR Laser for specified products for 10 years, to have the same Executives approve future orders.
  4. The paragraph in Treasury Regulations that has been cited in the motivation memo. is irrelevant because it was not impractical to test the supply market.

# ANN. DM15

MR NTSHEPE OVERRULING MR MLAMBO  
REJECTION



13



## DENEL LAND SYSTEMS

### MEMORANDUM

**To:** DENEL SUPPLY CHAIN EXECUTIVE  
**From:** DLS SUPPLY CHAIN EXECUTIVE  
**Date:** 29 October 2015  
**Subject:** Conflict between policy and signed MOU  
**Rev. No:**

### BACKGROUND

In giving the approval for the deviation from the normal procurement process and a list of suppliers to be used for the T5 Demo, the group supply chain executive gave an instruction that DLS must first explore how Denel Vehicle Systems - Gear Ratio and LMT (Intergroup companies) will be used in the project on condition that they meet the quality, price and delivery requirements.

Furthermore, In terms of the approved Denel Supply Chain Policy and DLS supply chain procedure, DLS must first approach intergroup companies before procuring outside the group. In terms of the Denel Group Supply Chain Policy *"Under no circumstances shall products or services that can be procured from a Group Entity or Division be procured from an external Supplier or non-Denel company unless there is approval by the Group Supply Chain Executive based on sound business reasons."*

Having identified a need for a **single source supplier** for the supply of STEEL COMPONENTS AND FABRICATIONS, In May 2015 DLS signed an MOA with VR Laser for this Scope of work. VR Laser is a 100% Black owned entity. In terms of the MOA, VR laser prices must be market related and in line with the provisions of the MOA before an order can be placed on them.

Due to these contradicting positions, Supply Chain approached DLS EXCO to make a decision as to whether to honour the MOA and place the order on VR Laser or to follow the supply chain policy and procure from (intergroup) viz, DVS or LMT for this project. Given the timeframe, urgency and history EXCO has recommended that the work be done by VR Laser.



I hereby request permission to implement the EXCO decision in this regard.

  
CELIA MALAHLELA  
EXECUTIVE MANAGER: SUPPLY CHAIN

APPROVAL

DENISE MLAMBO  
GROUP SUPPLY CHAIN EXECUTIVE

NB: DVS and LMT must submit proof that they cannot meet the requirements prior to the contract being awarded to VR Laser.

Approved:



  
G. CEO  
Z. NTSHEPE

# ANN. DM16

MR NTSHEPE INSTRUCTING MR STEYN TO  
PREPARE MoA



**Busisiwe Mqingwana**

**From:** Geldenhuys, Carene (ZA)  
**Sent:** 16 January 2019 11:10  
**To:** Geldenhuys, Carene (ZA)  
**Subject:** 20 November 2015 08:35 AM  
**Attachments:** VRL and DLS and DVS Rev3.docx

**20 November 2015 08:35 AM**

26 September 2018  
 01:05 PM

<b>Subject</b>	<b>Update - DVS/DLS &amp; VRL FABRICATION</b>
<b>From</b>	Steyn, Johan (ZA)
<b>To</b>	Mhlwana, Odwa (ZA); Kruger, Piet (ZA); du Plessis, Abri (ZA); Geldenhuys, Carene (ZA); Ndaba, Percy (ZA)
<b>Cc</b>	Magobolo, Steven (ZA)
<b>Sent</b>	20 November 2015 08:35 AM
<b>Attachments</b>	<<VRL and DLS and DVS Rev3.docx>>

All

Since Zwelakhe's surprising instruction to me a few weeks ago to enter into an agreement with VRL we have made good progress with Jan Wessels's help and oversight, and we had several discussions with VRL and DCO about this. The process evolved mainly around OMC's fabrication capability, how we protect it not to increase risk in the business and how we utilise it in future.

I had a brief review of Revision 3 (attached) of the draft agreement with Jan Wessels and Stephan Burger yesterday at DCO and both were happy with it. Since Zwelakhe instructed Stephan to take the lead in this (see below e mail from him), he (Stephan) will now discuss and finalise this agreement with VRL. I will keep you posted if and when I get feedback.

My understanding is that Denel Board approval is required before DCO can enter into this agreement (see Jan's e-mail below). We (Jan, Odwa and I) discussed and agreed this with Zwelakhe last week, so until then, and after the Agreement is signed, no onwards communication please.

I have pointed out to Jan and Stephan yesterday that we are making progress with determining the effect of this agreement on the DVS business and that it will be completed soon.

Odwa, we need your help on this. Percy and Abri made very good progress in terms of the recovery calculations and modelling of potential scenarios and I think we can conclude this fairly soon.

Regards  
 Johan

**From:** Zwelakhe Ntshepe [<mailto:ZwelakheN@denel.co.za>]  
**Sent:** 17 November 2015 08:44 AM  
**To:** Jan Wessels

**Cc:** Odwa Mhlwana; StephanB@dlsys.co.za; Steyn, Johan (ZA)  
**Subject:** RE: UPDATE: DVS & VRL FABRICATION

Hi Jan your email is too long and as you usually say some of the issues you put on paper can be discussed. You forgot to mention that I showed you , Johan, Odwa and now a Stephan a letter coming from the Chairman instructing me to divisionalise and optimise DVS and DLS and show savings whilst the process is being carried through. I have asked Johan and Stephan to do just that because we were taking too long to come to a final conclusion on this matter. This process will of course involve you as a third independent party. We are required to present a plan for the board and I have asked Stephan to take the lead on this.

**From:** Jan Wessels  
**Sent:** Tuesday, November 17, 2015 7:39 AM  
**To:** Zwelakhe Ntshepe  
**Cc:** Odwa Mhlwana; Jan Wessels  
**Subject:** UPDATE: DVS & VRL FABRICATION

Morning Zwelakhe (cc Odwa)

You requested me at Dubai Airshow to urgently support Johan Steyn to progress the strategic supplier process with VRL management. As a result I requested a meeting last Friday 13 November which included Pieter vd Merwe (CEO VRL) and Johan Steyn & self (Denel).

I have to repeat again that the process & complexity differs from when DLS appointed VRL as preferred single source hull fabricator (DLS had no inhouse capability anyway and used a variety of outsourced fabricators) from now with DVS (with DVS having a strong inhouse capability which need to be converted in an optimal way).

The following were discussed in detail on Friday 13 Nov at the meeting:

- The model of strategic co-operation envisaged between DVS & VRL, in the context that DVS has a big inhouse fabrication capability (including people, facilities, infrastructure) that will need to be migrated to VRL partially or fully when an agreement is reached
- The discrete programs currently available -> the current and planned customer orders for vehicle fabrication to form the basis of the initial business case for VRL
- Some practicalities important to both entities (VRL need to plan for ramping up and DVS for ramping down, for example).
- The specific sensitivity, timeline, other issues around the NIMR RG35 work was discussed in detail and it was my opinion that Pieter vd Merwe understood these
- It was acknowledged by both sides that the DVS business plan (budget for 2016/17 plus 4 years) will be affected (DVS becomes more of a systems company than a manufacturer) and as such Denel Board will have to sign-off the partnership by virtue of approving the revised budget on 7 December 2015.

The following was agreed on Friday 13 Nov to be the most practical way forward:

- A DRAFT binding agreement will be constructed by using the current DLS-VRL agreement, but with the more complex issues arising from the DVS-VRL relationship (see above) INCLUDED as additional clauses or paragraphs, to ensure the agreement is comprehensive and will not result in misaligned expectations in future. The two teams will both work together to have this as **DRAFT available Friday 20 November**, whereafter I will call a follow-up meeting with Pieter & Johan to monitor progress (probably afternoon Friday 20 November). **(This is where we are currently focussing - developing this DRAFT agreement)**
- The DRAFT agreement, after possible update, will be presented to Denel and VRL stakeholders for review (Zwelakhe, that will be yourself & Odwa in the case of Denel) **target date Tuesday 24 November**.
- If supported by the two sets of stakeholders, the DRAFT can be converted to a FINAL version, and the impact will be translated into a revised DVS budget & 5 year businessplan (probably same top line but different bottom line and cash curve). This revised budget will be presented to EXCO in late November and specifically to **Board on 7 December** for consideration and approval. (Managing of expectations: due to limited time towards 7 December



the accurate delta impact will probably only be visible when the final budget is completed around Feb 2016, but on 7 December the implications should be ready within say 80% accuracy).

- Once Board approved the DVS budget on 7 December, including the partnership impact, the **Group CEO should be able to sign the FINAL agreement after 7 December.**
- In parallel to above DVS is working full blast to convert the hull datapacks for the RG31 and RG32 (till now fabricated inhouse) to a format where these can be supplied to VRL (as outsourced fabricator) to prepare time/cost/impact quotes so that when the new orders come in around February (IGG and/or Namibia) the process can be initiated without delay, and VRL can have their own facility plans in order etc.

Let me know if you have different expectations or other inputs to consider.

Regards

Jan Wessels

Group Chief Operating Officer



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 \*\*\*\*\*  
 \*\*\*\*\*

Cc: janw@denel.co.za

Subject: CRUDE DRAFT MOU WITH AN EXAMPLE

Morning Johan

I thought long & hard after receiving the instruction from Zwelakhe on Sunday (after my relaxed camping trip in the bundu out of cellphone reach!).

The stakeholders "need to see progress" as discussed.

It took me back to a number of comparable (though not similar) instances where there was the similar need for "agreements to be reached without delay".

The formula that worked well for me in the past was :

- Conclude a very thin Memorandum of Understanding (MOU) without delay. This MOU is not legally binding but commits to the exploration process leading to deep collaboration
- As outflow of the MOU develop a detailed, legally binding MOA (which can take a couple of weeks or perhaps more). In this instance I propose 4 weeks after signing the MOU given the high priority as discussed by now.
- Once the MOA is signed the MOU is dissolved.

**BUT the key is to have a "visible handshake ceremony" on the signing of an MOU as expected by the stakeholders without delay .....**

Attached - Last night I pen-and-inked an example of such MOU I have already used successfully (even for the group-level relationship between Denel & Paramount .....

**Johan, please consider this approach.....** with the goal that you & Mr XXXX can sign the MOU within few days to get the time to develop something sensible thereafter under an MOA.....

Regards

Jan Wessels

Group Chief Operating Officer



DENEL GROUP

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# ANN. DM17

CONDITIONAL APPROVAL for VR LASER







## DENEL LAND SYSTEMS

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Tel: +27 12 620 3252  
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E-mail: [Douglasmd@dlsys.co.za](mailto:Douglasmd@dlsys.co.za)  
Ref:

### REPLIES TO QUERIES RAISED ON CHAD CASSPIR CONTRACT

#### 1. BACKGROUND

The Contract CHAD/CSPR/PERS/2017 requires delivery of the following Casspir variants to the government of Chad:

- 29 x Troop Carriers,
- 5 x Command and Control vehicles,
- 3 x Ambulances, and
- 3 x Recovery vehicles (6x6 type)

The total contract value is (US) \$18M. An advance payment of (US) \$7.2M is payable upon signature of the contract. In pursuance thereof, the advance payment was received on the 20<sup>th</sup> of November 2017. The first ten (10) completed vehicles are to be delivered 10 weeks after receipt of the advance payment (viz. 16 February 2018). Thereafter, vehicles will be delivered at the rate of ten units per month until the full requirement of forty Casspirs is satisfied.

#### 2. CASSPIR DESIGN AND IP HISTORY

This Casspir was originally developed by the CSIR and subsequently manufactured by Mechem which was then part of Armscor. Over the years, Mechem's manufacturing capability diminished resulting in the proliferation of copycat Casspir producers. This prompted Mechem to identify suitable manufactures to help it revive its position in the market as the preeminent supplier of Casspir vehicles.

To this end, VRL, IAG and General Profiling were approached for the redesign support and manufacturing of CASSPIR MKII armoured vehicles. VR Laser (VRL) first became involved in the manufacture of the Casspir Vehicle in 2007/2008. They provided product support, design and manufacturing of Casspir old generation



vehicles systems. VRL, at that time, was the preferred manufacturer, given the redesign capability and technology improvement as well as the following:

- Capacity to supply armoured hulls based on bending technology instead of welding technology
- Competitive pricing
- Good quality systems
- High performance product design and product support capacity

The above was warranted by MECHEM, as a long time prior to its incorporation into Denel, was the initial designer and custodian of the CASSPIR products. Due to a high demand for CASSPIRS based on product support and maintenance of Casspir units until obsolescence phase, MECHEM investigated the strategic possibility of manufacturing and support of the old generation Casspir vehicle needs already in the market. In 2007, with only two persons and with no design and assembly experience, it was realised that a Casspir vehicle, with improvements and equipped with the latest technology design, was in demand because of the following:

1. Improved drive trains system
2. Improved suspension system
3. Latest automatic transmission and gear selections
4. Improved AC and pneumatic systems
5. New instrument cluster design
6. Improved personal interior and upgraded safety features
7. Latest technology designed for mine roller adaptation
8. Improved manufacturing process by VR Laser to bend the armoured base plate of the hull structure to minimise the possibilities of welding cracks that occur by welding plates together. VRL have the bending technology capability to bend long and thick plates.

All of the above improvements to the Casspir vehicles changed its identity in the market to be known as the CASSPIR NG Series (New Generation).

As MECHEM was not part of the Denel Group during this period the opportunity was identified and a competitive bidding process was **not** followed.

It should, however, be noted that VRL at the time was 26% Black-owned. The company remained at this B-BBEE level until 2014 when it was sold to new (the current) owners.

### 3. REASONS WHY VRL IS CURRENTLY THE SINGLE SOURCE SUPPLIER OF ALL CASSPIR NG2000 SERIES B VARIANTS

Due to all the technology designs and improvements, VRL developed the data packs for all the Casspir variants and is in possession of same. It has become the *de facto* owner of the data packs of the new generation Casspir NG 2000 Series A. Many Casspir vehicles have been sold to international clients including the UN. Different Casspir vehicle variants were designed and manufactured to support the demands of users such as Troop carriers, Ambulances units, Command and Control Units, Recovery Vehicles, Police Force Support vehicles, Fire Support variants, and Weapons Carriers.

The marketing of all Casspir variants is done by MECHEM and VRL are doing all manufacturing, test and evaluation and design according to client preference.

### 4. LMT'S ABILITY TO MANUFACTURE AND SUPPLY CASSPIR NG2000 SERIES B-VARIANTS

Prior to MECHEM's merger with DLS, LMT was procured by DENEL and became a subsidiary of DLS. It was requested by DLS Management that MECHEM provide the CASSPIR NG2000 Troop Carrier (Old Generation) data pack to LMT to manufacture the CASSPIR NG2000.

LMT was offered an order to manufacture fifteen (15) new generation CASSPIR based on the NG2000 data pack. Claims were made by LMT that the data pack was not suitable for manufacturing and they redesigned and made modifications to suit LMT production. The redesign and modification differs from the original VRL designs and specifications. This caused many technical problems and manufacturing issues which required a considerable labour and material expense to rework and repair the manufactured vehicles. The UN client was not satisfied with all the ongoing technical problems and issues that occurred before delivery.

The main reasons LMT is currently not suitable to execute the Chad contract are as follows:

- LMT has only once produced 15 Casspir vehicles. However, the UN client was not very happy on the quality, technical and manufacturing performance.
- LMT need 4 weeks to submit a quotation according to the issued RFQ requirements if DLS can issue the Casspir data pack. DLS don't have a data pack to hand over to LMT to quote.
- LMT don't have the required equipment, jigs and fixture for manufacturing and assembly of the new generation Casspir vehicles. The design and manufacturing of the jigs and fixtures can take 6 to 8 months and will be very costly.
- LMT don't have building process books for the new generation Casspir vehicles. Preparing process books can take about 4 months.



- LMT is not industrialized to manufacturing and assembling the new generation of Casspir vehicles. This process can take 3 to 5 months.
- For this contract LMT will have to procure the specified armour material. If the material is not locally available they will have to import from Sweden which will take up to twelve weeks to deliver.
- LMT would only be able to start with production approximately 4 months after ARO.

## 5. DVS OMC

DVS were initially approached to provide a quote for the Chad project. Their proposal indicates that they are very cautious about their ability to manufacture the vehicles and deliver them at the targeted cost and on time. The following can be inferred from their proposal:

- DVS OMC has never manufactured or supplied any Casspir variants.
- DVS OMC can't submit a proper quotation without a data pack.
- DVS OMC don't have the required equipment, jigs and fixture for assembling of Casspir vehicles. The design and manufacturing of the jigs and fixtures can take 6 to 8 months and will be very costly.
- DVS OMC don't have any building process books. Preparing process books can take about 4 months.
- DVS is not industrialized to manufacture and assemble the new generation of Casspir vehicles. This process can take 3 to 5 months.
- DVS OMC don't have the in-house capability to laser cut, bending technology and welding of armoured structures. If armoured material is not locally available, armoured material have to be import from Sweden which can take 4 to 7 months (after receiving of a PO) and then only after receiving of the material, can the manufacturing of the structure start.
- It was confirmed in a meeting between DLS, Mechem and DVS OMC that they don't have the capacity to execute the Chad contract due to a larger UAE artillery contract that is in the process of being concluded. The contract was not signed and at a very late stage (12 January, 2018) DVS OMC confirmed to Mr Douglas Masuku that they would now like to participate in the Chad opportunity, because the UAE contract did not materialise.
- DVS OMC would only be able to start with production approximately 6 to 8 months after ARO.



## 6. CONSIDERATIONS

VRL are the owners of the data packs of the Troop Carrier, Command Variant, Ambulance and 6x6 Recovery vehicles. They are the only company that manufacture and assemble all four variants as required under the Chad contract. It is necessary to obtain the new generation data packs from VR Laser. Negotiations to buy the IP from VRL is estimated to take between 4 to 6 months due to the strategic importance of the data pack to them and the weak cash position of DLS. If we agree to manufacture from a different supplier (such as LMT or DVS) we would be required to pay considerable royalties for their data packs. VRL have all the jigs and fixtures ready for manufacturing and assembling for all four Casspir variants. They have all the armoured material available and can start with manufacturing process immediately. By not having data packs LMT and DVS OMC can't submit quotations in a short period and will need extra time as they have to calculate the additional cost for manufacturing and assembling equipment which will increase the total cost of the project and also the delivery time of the vehicles.

The Casspir offer to Chad government was based on the price offered by VRL and VRL commitment to the contract delivery schedule. The VRL offer is the best option to manufacture and supply to Denel Land Systems and to achieve on time delivery schedule.

The delivery schedule as per Contract Number CHAD/CSPR/PERS/2017 is as follows:

OPERATION	DELIVERY SCHEDULES
Inspection, approval and shipping of the first batch of 10 Vehicles	Week 10 -11 (5/03 to 16/03/2018)
Inspection, approval and shipping of the second batch of 10 Vehicles	Week 14 – 15 (2/04 to 13/04/2018)
Inspection, approval and shipping of the third batch of 10 Vehicles	Week 18 – 19 (30/04 to 11/05/2018)
Inspection, approval and shipping of the fourth batch of 10 Vehicles	Week 22 – 23 (28/05 to 8/06/2018)

According to the contract schedule the last pre-delivery acceptance should be done by not later than 8 June 2018.

Technically the vehicles should be ready for pre-delivery acceptance by the Chad Government acceptance team on the Monday of each contract scheduled Week 10, 14, 18, 22.

Looking at the contract schedule it is impossible to believe that LMT or DVS OMC will be able to meet the contract schedule.

If we have to use LMT or DVS OMC there is a huge risk of not delivering according to the contract schedule. This means that the Chad government could cancel the contract due to breach of agreed contract delivery schedule and could claim back the advance payment with interest. Of greater import is the reputational damage that would be suffered by Denel in a market that hold much promise for armoured vehicle sales.

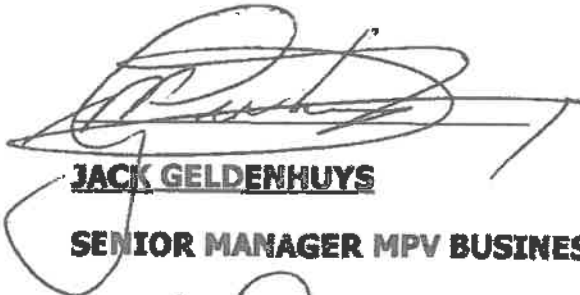
We should also add that the original time envisaged for delivery of the first vehicles was contingent on the issue of a purchase order in December, 2017. It has not been possible to issue the order to date. This poses a very real risk of schedule deliveries being delayed by a few weeks. This has been confirmed by VRL who have indicated that they will not be able to support the original delivery schedule and that in the absence of a purchase order it has not been possible for them to place orders on second-tier suppliers of components (e.g. transmissions, harnesses etc.).

## 7. RECOMMENDATION

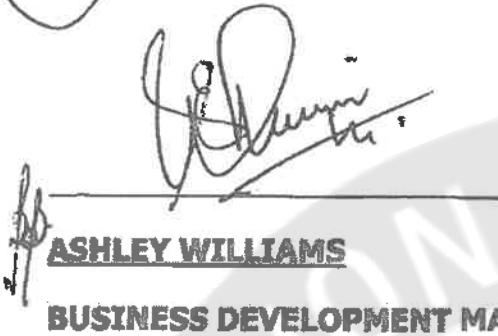
Based on the foregoing, it is recommended as follows:

1. The Casspir vehicle manufacturing and integration required for the Chad contract as aforesaid should be executed by VR Laser as a single-source supplier because they are the owners of the new generation Casspir data packs. VRL have the capacity, technical and manufacturing capability, manufacturing and production equipment, jigs and fixtures and armoured material to start manufacture in very short time ARO all on one facility.
2. DLS should immediately negotiate for a fair and equitable price at which the Casspir data packs developed by VRL can be purchased. The intention is for DLS to become the full owners of the Casspir IP and data packs going forward.
3. All future Casspir contracts will be executed in terms of the policies and procedures of DLS giving priority to manufacture within the Denel group, as far as it is practical, before consideration of external companies.

Recommended:

  
**JACK GELDENHUYS**  
**SENIOR MANAGER MPV BUSINESS**


02/02/2018  
**DATE**

  
**ASHLEY WILLIAMS**  
**BUSINESS DEVELOPMENT MANAGER**

02/02/2018  
**DATE**

  
**PETER FARO**  
**GENERAL MANAGER MECHEM**

02/02/18  
**DATE**

  
**DOUGLAS MASUKU**  
**SUPPLY CHAIN EXECUTIVE (ACTING)**

02/02/2018  
**DATE**

  
**STEPHAN BURGER**  
**CHIEF EXECUTIVE OFFICER**

2.2.2018  
**DATE**

Conditional Approval subject to validation  
that the IP/Data Packs belongs to VR Laser  
and a proper process was  
followed to sell that to  
VR Laser.

Approved / Rejected



09/02/2018

**DENNIS MLAMBO**

**DATE**

**GROUP SUPPLY CHAIN EXECUTIVE**

**Notes:**





**xolo@nmkforensics.co.za**

---

**From:** Dennis Mlambo <DennisM@denel.co.za>  
**Sent:** Thursday, 18 January 2018 11:53  
**To:** Douglas Masuku (douglasm@dlsys.co.za)  
**Cc:** Stephan Burger; Innocent Khoza (Innocentk@dlsys.co.za); Thamsanqa Mbele  
**Subject:** FW: VR Laser Casspir Manufacturing and Data Pack

Dear Mr Masuku,

I have gone through the submission for approving VR Laser to assemble the 40 Casspirs ordered by Chad. There are issues that will make the process irregular and the key ones at this stage are as follows:

1. There is no satisfactory answer as to how the IP or Data Packs ended up being the property of VR Laser despite the irrefutable evidence that Denel developed the Casspir.
2. What was the basis for selecting VR Laser to execute the Order when the same capability is available within the Group? LMT and DVS have the capability and there is capacity available at this stage.
3. If Denel has the capability and capacity to assemble the said vehicles, then we should simply demand our IP from VR Laser unless there is evidence that they paid for it, in which case they should be allowed to execute the Order.
4. If VR Laser is exempted from participating in a competitive bidding process as required by both the Group Policy and relevant legislation, then it should have been qualified accordingly and listed in the DLS Single-source Register.

In view of the above, I suggest you escalate the issue for a resolution.

Regards

Dennis Mlambo

**From:** Douglas Masuku [mailto:douglasm@dlsys.co.za]  
**Sent:** 15 January 2018 01:37 PM  
**To:** Dennis Mlambo  
**Subject:** RE: VR Laser Casspir Manufacturing and Data Pack

Good afternoon Dennis,

Compliments of the new year.

Please find our reply to queries raised on our application for approval of VR Laser to manufacture the Casspir vehicles for Chad as requested.

We await your kind reply.

Regards,  
 Douglas

**From:** Dennis Mlambo [mailto:DennisM@denel.co.za]  
**Sent:** 21 December 2017 12:45 PM

**To:** Douglas Masuku <douglasm@dlsys.co.za>  
**Subject:** RE: VR Laser Casspir Manufacturing and Data Pack

Hi Doug,

The following issues will need to be addressed in order to strengthen your motivation for approval:

1. Evidence that VR Laser was appointed to design the relevant parts or the process to assemble the Casspir following an open and competitive bidding process with other potential Suppliers.
2. Supply the industrialisation report approved / confirmed as valid by DLS to attest to the contention that VR Laser is currently the single—source Supplier for the service you require approval for.
3. Clarify why DVS and LMT cannot assemble the vehicle when they have the capability to do so.
4. The implication, particularly the financial one, if Denel cannot meet its contractual obligations on the contract in question.
5. Explain how VR Laser obtained the IP and why it does not belong to Denel given the fact that if Denel contracts a company to develop any product, then as per our Policy it becomes Denel's IP.

Lastly, once the above-mentioned issues are addressed, we should be closer to finding a sound business decision.

Regards

Dennis

---

**From:** Douglas Masuku [<mailto:douglasm@dlsys.co.za>]  
**Sent:** 19 December 2017 04:17 PM  
**To:** Dennis Mlambo  
**Subject:** VR Laser Casspir Manufacturing and Data Pack

Good afternoon Dennis,

Regarding our discussion this afternoon, please find the attached letter from VR Laser confirming their ownership of IP and vehicles they develop for DLS.

Regards,  
 Douglas

---

**From:** Thomas Koegelenberg  
**Sent:** 19 December 2017 03:50 PM  
**To:** Douglas Masuku <douglasm@dlsys.co.za>  
**Subject:** SOLE SUPPLIER MOTIVATION VR LASER CASSPIR

Hi Douglas

Attached for your records.

Best regards.



**Tommie Koegelenberg**  
Commodity Specialist

DENEL (Pty) Ltd trading as DENEL LAND SYSTEMS incorporating MECHEM  
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## REPLIES TO QUERIES RAISED ON CHAD CASSPIR CONTRACT

### 1. Background

The Contract CHAD/CSPR/PERS/2017 requires the delivery of the following configuration of Casspir vehicles:

- 29 x Troop Carriers
- 5 x Command and Control vehicles
- 3 x Ambulance variants and
- 3 x Recovery vehicles (6x6 type)

The Total contract value is \$18M. An advance payment of \$7.2M was payable upon contract signature. After a short delay, this amount was finally paid to DLS in late November, 2017. In terms of the contract the advance payment was received on 20 November 2017 and first ten (10) vehicles systems are to be delivered 10 week (16 February 2018) after receiving of advance payment at the rate of ten units per month.

### 2. CASSPIR DESIGN AND IP HISTORY

VRL (VR Laser) engaged with the Casspir Vehicle in 2007/2008 - when still under previous private ownership - for product support, design and manufacturing of Casspir old generation vehicles systems. VRL, IAG and General Profiling were approached for the redesign support and manufacturing of CASSPIR MKII armoured vehicles. VRL, at that time, was the preferred manufacturer given the redesign capability and technology improvement and the following:

- Capacity to supply armoured hulls based on bending technology instead of welding technology
- Competitive pricing
- Good Quality systems.
- High performance Product Design and product support capacity.

The above was warranted hence MECHEM, a long time prior to its incorporation into Denel, was the initial designer and custodian of the CASSPIR products. Due to a high demand of CASSPIRS based on product support and maintenance of Casspir units until obsolesce phase, MECHEM investigated the strategic possibility to manufacturing and support of the old generation Casspir vehicles needs already in the market. In 2007, with only two persons and with no design and assembly experience, it was realised that a Casspir Vehicle with improvements and equipped with the latest technology design was in demand because of the following:

1. Improved Drive trains system
2. Improved suspension system
3. Latest automatic transmission and gear selections
4. Improved AC and pneumatic systems
5. New Instrument cluster design
6. Improved personal interior and upgraded safety futures.
7. Latest technology designed for mine roller adaptation

8. Improved manufacturing process by VR Laser to bend the armoured base plate of the hull structure to minimise the possibilities of welding cracks that occur from welding plates together. VRL have the bending technology capability to bend long and thick plates.

All of the above improvements to the Casspir vehicles changed its identity in the market to be known as the CASSPIR NG Series (New Generation)

As MECHEM was not part of the Denel Group during this period the opportunity was identified and a competitive bidding process was *not* followed.

### 3. Reasons why VRL is currently the single source supplier of all CASSPIR NG2000 Series B variants

Due to all the technology designs and improvements, VRL developed the data packs for all the Casspir variants and is in possession of same. It has become the *de facto* owner of the background IP for the new generation Casspir NG 2000 Series A. Many Casspir vehicles have been sold to international clients including the UN. Different Casspir vehicle variants were designed and manufactured to support the demands of users such as Troop carriers, Ambulances units, Command and Control Units, Recoveries Vehicles, Police Force support vehicles, Fire Support variants, and Weapons Carriers.

The marketing of all Casspir variants is done by MECHEM and VRL doing all manufacturing, test and evaluation, design according to client preference.

### 4. LMT's ability to manufacture and supply CASSPIR NG2000 Series B-Variants.

Prior to MECHEM's merger with DLS, LMT was procured by DENEL and became a subsidiary of DLS. It was requested by DLS Management that MECHEM provide the CASSPIR NG2000 Troop Carrier (Old Generation) data pack to LMT to manufacture the CASSPIR NG2000.

LMT was offered an order to manufacture fifteen (15) new generation CASSPIR based on the NG2000 data pack. Claims were made by LMT that the data pack was not suitable for manufacturing and they redesigned and made modifications to suit LMT production. The redesign and modification differs from the original VRL designs and specifications. This caused many technical problems and manufacturing issues which required a considerable labour and material expense to rework and repair the manufactured vehicles. The UN client was not satisfied with all the ongoing technical problems and issues that occurred before delivery.

The main reasons LMT is currently not suitable to execute the Chad contract are as follows:

- LMT has only once produced 15 Casspir vehicles. However, the UN client was not very happy on the quality, technical and manufacturing performance.
- LMT need 4 weeks to submit a quotation according to the issued RFQ requirements if DLS can issue the Casspir data pack. DLS don't have a data pack to hand over to LMT to quote.
- LMT don't have the required equipment, jigs and fixture for manufacturing and assembly of the new generation Casspir vehicles. The design and manufacturing of the jigs and fixtures can take 6 to 8 months and will be very costly.
- LMT don't have building process books for the new generation Casspir vehicles. Preparing process books can take about 4 months.
- LMT is not industrialized to manufacturing and assembling the new generation of Casspir. This process can take 3 to 5 months.

- For this contract LMT will have to procure the specified armour material. If the material is not locally available they will have to import from Sweden which will take up to twelve weeks to deliver
- LMT would only be able to start with production approximately 4 months after ARO.

## 5. DVS OMC

DVS were initially approached to provide a quote for the Chad project. Their proposal indicates that it is very cautious about its ability to manufacture the vehicles and deliver them at the target cost and on time. The following can be inferred from their proposal:

- DVS OMC has never manufactured or supplied any Casspir variant.
- DVS OMC can't submit a proper quotation without a data pack
- DVS OMC don't have the required equipment, jigs and fixture for assembling of Casspir vehicles. The design and manufacturing of the jigs and fixtures can take 6 to 8 months and will be very costly.
- DVS OMC don't have any building process books. Preparing process books can take about 4 months
- LMT is not industrialized to manufacturing and assembling the new generation of Casspir. This process can take 3 to 5 months.
- DVS OMC don't have the in house capability to laser cut, bending technology and weld of armoured structures. If armoured material is not local available armoured material have to be import from Sweden which can take 4 to 7 months (after receiving of a PO) and then only after receiving of the material, can the manufacturing of the structure start.
- It was confirmed in a meeting between DLS, Mechem and DVS OMC that they don't have the capacity to execute the Chad contract due to a bigger UAE artillery contract that is in process of signing. The contract was not signed and at a very late stage (12 January 2018) DVS OMC confirm with Mr Douglas Masuku that they want to participate because they have not received the signed UAE contract yet.
- DVS OMC would only be able to start with production approximately 6 to 8 months after ARO

## 6 Considerations

VRL are the owners of the background IP of the Troop Carrier, Command Variant, Ambulance and 6x6 Recovery vehicles. They are the only company that manufacture and assemble all four variants as required under the Chad contract. It is necessary to obtain the new generation data packs from VR Laser. Negotiations to buy the IP from VRL is estimated to take between 4 to 6 months due to the strategic importance of the data pack to them and the weak cash position of DLS. If we agree to manufacture from a different supplier (such as LMT or DVS) we would be required to pay considerable royalties for their data packs. VRL have all the jigs and fixtures ready for manufacturing and assembling for all four Casspir variants. They have all the armoured material available and can start with manufacturing process immediately. By not having data packs LMT and DVS OMC can't submit quotations in a short period and will need extra time as they have to calculate the additional cost for manufacturing and assembling equipment which will increase the total cost of the project and also the delivery timing of the vehicles.

The Casspir offer to Chad government was based on the price offered by VRL and VRL commitment to the contract delivery schedule. The VRL offer is the best option to manufacture and supply to Denel Land Systems and to achieve on time delivery schedule.

The delivery schedule as per Contract Number CHAD/CSPR/PERS/2017 is as follows:

OPERATION	DELIVERY SCHEDULES
Inspection, approval and shipping of the first batch of 10 Vehicles	Week 10 -11 (5/03 to 16/03/2018)
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According to the contract schedule the last pre delivery acceptance should be done by not later than 8 June 2018.

Technically the vehicles should be ready for pre delivery acceptance by the Chad Government acceptance team on the Monday of each contract scheduled Week 10, 14, 18, 22.

Looking at the contract schedule it is impossible to believe that LMT and DVS OMC will be able to meet the contract schedule.

If we have to use LMT and or DVS OMC there is a huge risk of not deliver according to the contract delivery schedule that Chad government could cancel the contract due to breach of agreed contract delivery schedule and claim back the advance payment with interest.

7. Recommendation

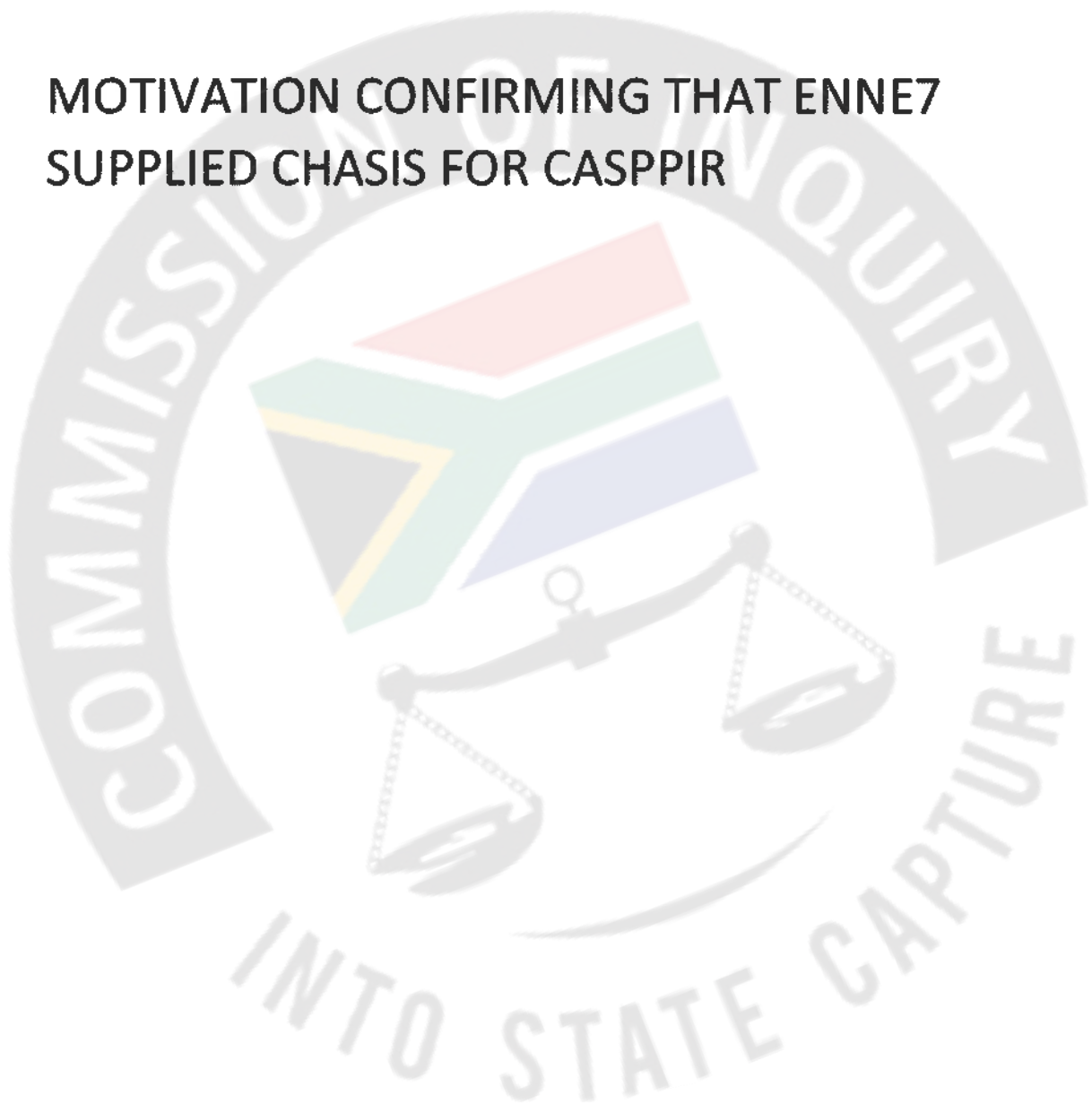
Based on the foregoing, it is recommended as follows:

1. The Casspir manufacturing and integration required for the Chad contract as aforesaid should be executed by VR Laser as a single-source supplier because they are the owners of the background IP for the new generation Casspir vehicles. VRL have the capacity, technical and manufacturing capability, manufacturing and production equipment, jig and fixture and armoured material to start manufacture in very short time ARO all on one facility.
2. DLS should immediately negotiate for a fair and equitable price at which the data packs delivered by VR Laser can be purchased. The intention is for DLS to become the full owners of the Casspir IP and data packs going forward
3. All future Casspir contracts will be executed in terms of the policies and procedures of DLS giving priority to manufacture within Denel group as far as it is practicable before consideration of external companies



# ANN. DM18

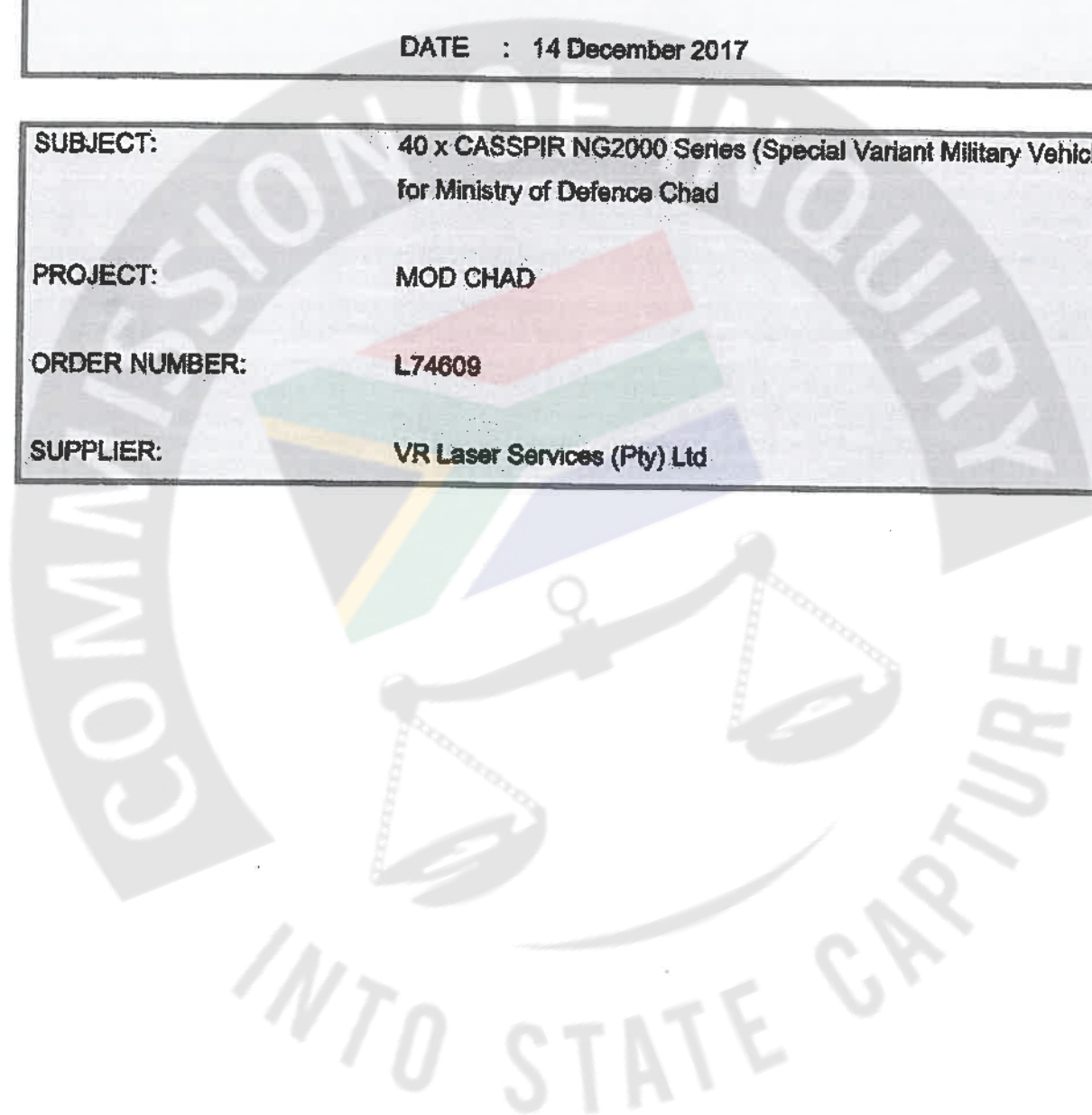
MOTIVATION CONFIRMING THAT ENNE7  
SUPPLIED CHASIS FOR CASPPIR



L74609



DENEL LAND SYSTEMS

**DENEL GROUP CEO  
SUPPLY CHAIN SUBMISSION****TO: EXCO****FROM : SUPPLY CHAIN****DATE : 14 December 2017****SUBJECT: 40 x CASSPIR NG2000 Series (Special Variant Military Vehicles)  
for Ministry of Defence Chad****PROJECT: MOD CHAD****ORDER NUMBER: L74609****SUPPLIER: VR Laser Services (Pty) Ltd**

L74608

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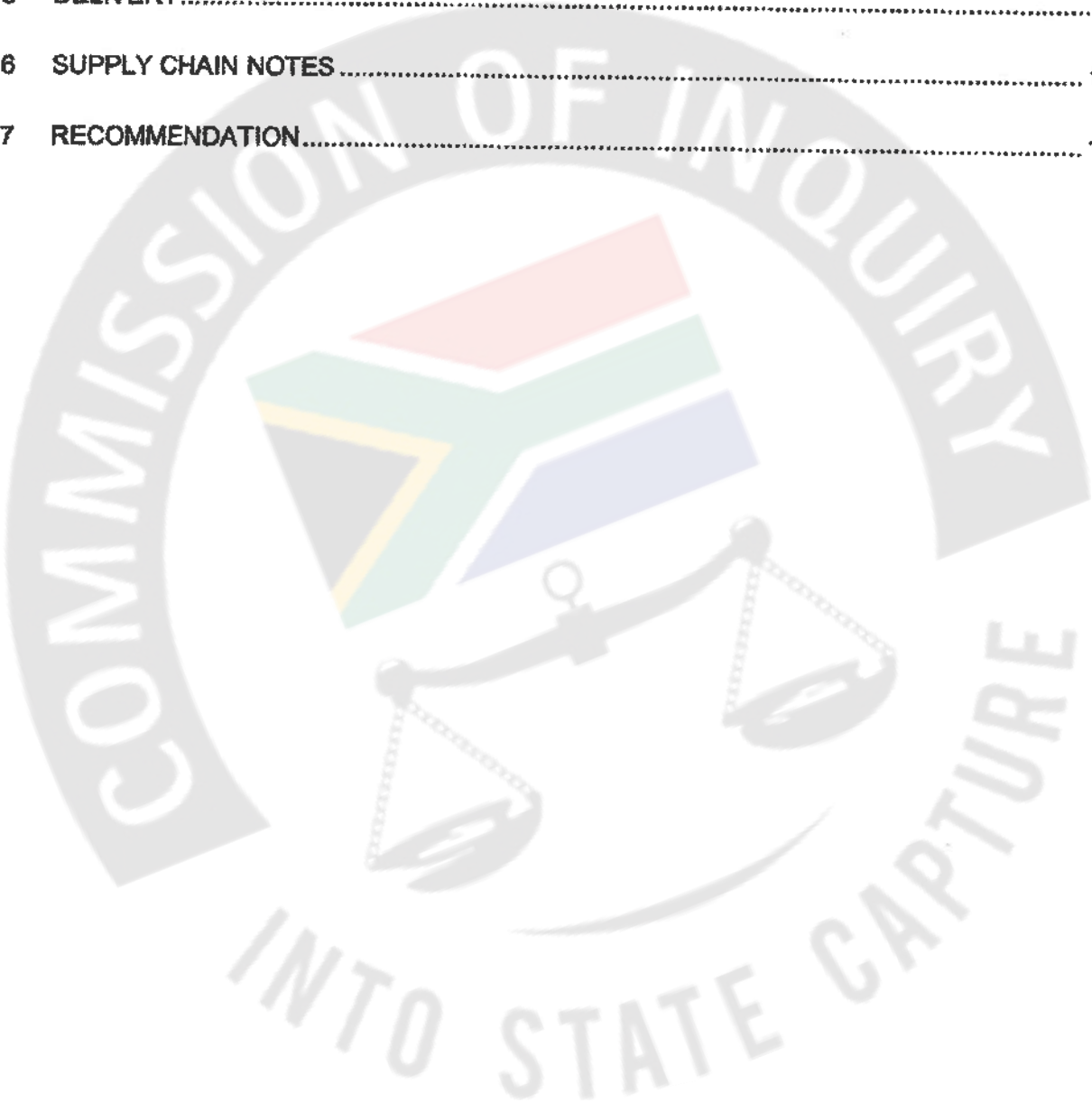
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L74609

## **1 OBJECTIVE**

To obtain recommendation from Denel Land Systems incorporating Mechchem (DLS) Chief Executive Officer and ultimately the Denel Group Chief Executive Officer to place Purchase Order L74609 for the procurement of 40 X CASSPIR Special Variant Models for the execution of the Chad Contract signed in the week of 4 December 2017, pursuant to the Denel proposal, technical scope and guidelines.

## **2 BACKGROUND**

In March 2017 DLS was requested to make an urgent proposal to DCO to enable contract discussions to supply 10 x CASSPIR Military variant vehicles to the MOD of Chad. The initial proposal issued was for 12 x Ambulances but this was changed at customer's request to 10 x CASSPIR Military variant vehicles based on Government to Government discussions, involving Denel Cooperate Office and the Denel Board.

In the intervening period, negotiations between MOD Chad and Denel Cooperate Office were conducted resulting in the final offer to supply a total of 40 Vehicles based on the CASSPIR NG Series of various specialist variant configurations consisting of:

- 29 x CASSPIR NG2000B 4x4 LHD Automatic Troop Carrier Variants.
- 5 x CASSPIR Military 4x4 LHD Automatic Command Variants.
- 3 x CASSPIR Military 4x4 LHD Automatic Ambulance Variants.
- 3 x CASSPIR "Likkewaan" MPV D/Cab 6x6 LHD Automatic Recovery Variants.

In terms of the agreement reached between the parties, ten (10) vehicles are to be delivered to the customer fourteen weeks from payment of advance to DLS. The remainder of the vehicles are to be delivered to customer at the rate of ten (10) each month thereafter.

## **3 MOTIVATION**

In view of the specific product requirement for the supply 40 x CASSPIR NG2000 Series specialist Variant Vehicles of which VR Laser is the IP & Datapack custodian and legitimate holder, we recommend that VR Laser be contracted to manufacture and assemble the 40 Vehicles in question. The specific Variants under the CASSPIR specialist variant of Vehicles was not manufactured by any other entity within the industry and thus render VR Laser a single source supplier of a unique product.

DVS OMC declined to provide a firm quote and clearly indicated it would need time to hone in on its manufacturing capability to manufacture the vehicle in-house. The risk of not meeting the delivery schedule was determined to be significantly high.



L74609

The Personnel Carrier Variant was manufactured by LMT, though a different configuration as the Military Troop Carrier Variant as supplied to Angola and required by Chad. The LMT personnel variant as a standard personnel carrier does not comply with base line configuration similarity as to special variants of VR Laser. The specialist Troop Carrier variant and all other specialist variants of VR Laser share the same base line configuration and latest upgrades.

Furthermore, VR Laser has manufactured these CASSPIR specialist variants vehicles in the past and recently similar variants were delivered to Angola.

Production of these vehicles must commence immediately once the contract finalisation and payments are done and confirmed by Denel Cooperate Office. The placement of this order will assist DLS in meeting the following objectives;

- Contractual items:
  - Deliverables delivered to DLS as follows
  - 10 x CASSPIR NG2000B Series Troop Carriers 18 May 2018
  - 10 x CASSPIR NG2000B Series Troop Carriers 13 July 2018
  - 9 x CASSPIR NG2000B Series Troop Carriers 7 August 2018
  - 3 x CASSPIR NG2000B WB Ambulance and 5 x CASSPIR NG2000B WB Command Variants 13 July 2018
  - 3 x "Likkewaan" MPV D/Cab Recovery Variants. 26 July 2018

Delivery to the client will take place approximately 1 month after delivery to DLS.

4 PRICE

4.1 SUMMARY OF THIS CONTRACT VALUE

CASSPIR NG2000B – TROOP CARRIER				
MILESTONE	QTY.	BUDGET PRICE	ACTUAL COST	VARIANCE
1. Component Fabrication (Steel material supplied and processed up to component level)	29		R20 109 002.84	
2. Fabrication (Boiler making, Welding and Fretting to produce welded components)	29		R7 645 233.75	

L74609

3. <i>Paint</i> (Surface Treatment of items produced in 1 & 2)	29		R2 020 963.09	
4. <i>Integration of Bought-out Components</i>	29		R12 523 722.21	
5. <i>Integration Services</i> (Electrical, Pneumatic, Hydraulic and Exhaust Sub-contract labour)	29		R5 367 309.52	
6. <i>Upgrades</i> (Additional 20 Amp Alternator, Dual Alternator Mounting and Compressor modifications)	29		R1 632 898.36	
7. <i>Insulation Material</i> (27m <sup>2</sup> waterproof self-extinguishing fire retardant, thermal and acoustic material installed)	29		R1 155 879.16	
8. <i>Automatic Transmission</i> (Allison 3200 SP installed with Cooling Kit)	29		R14 028 750.00	
9. <i>Tote</i> (Tools and Equipment as per specification)	29		R592 526.55	
10. <i>Integration</i> (Labour for mechanical fitment)	29		R8 112 793.50	
11. <i>Testing</i> (Road and Gerotek testing)	29		R406 000.00	
<b>SUB-TOTAL</b>		<b>R82 581 185.32</b>	<b>R73 595 078.98</b>	<b>R8 986 106.34</b>

L74609

CASSPIR NG2000B WB – COMMAND VARIANT				
MILESTONE	QTY.	BUDGET PRICE	ACTUAL COST	VARIANCE
1. <i>Component Fabrication</i> (Steel material supplied and processed up to component level)	5		R3 744 435.01	
2. <i>Fabrication</i> (Boiler making, Welding and Fretting to produce welded components)	5		R1 423 595.25	
3. <i>Paint</i> (Surface Treatment of items produced in 1 & 2)	5		R390 254.94	
4. <i>Integration of Bought-out Components</i>	5		R3 084 660.64	
5. <i>Integration Services</i> (Electrical, Pneumatic, Hydraulic and Exhaust Sub-contract labour)	5		R925 398.19	
6. <i>Upgrades</i> (Additional 20 Amp Alternator, Dual Alternator Mounting and Compressor modifications)	5		R281 534.20	
7. <i>Insulation Material</i> (27m <sup>2</sup> waterproof self-extinguishing fire retardant, thermal and acoustic material installed)	5		R227 759.44	
8. <i>Automatic Transmission</i> (Allison 3200 SP installed with Cooling Kit)	5		R2 418 750.00	
9. <i>Tote</i> (Tools and Equipment as per specification)	5		R102 159.75	
10. <i>Integration</i> (Labour for mechanical fitment)	5		R1 398 757.50	

L74609

11. <i>Testing</i> (Road and Gerotek testing)	5		R70 000.00	
12. <i>Special Variant Cost</i>	5		R1 312 541.46	
<b>SUB-TOTAL</b>		<b>R17 257 756.40</b>	<b>R15 379 846.39</b>	<b>R1 877 910.01</b>

**CASSPIR NG2000B WB – AMBULANCE VARIANT**

<b>MILESTONE</b>	<b>QTY.</b>	<b>BUDGET PRICE</b>	<b>ACTUAL COST</b>	<b>VARIANCE</b>
1. <i>Component Fabrication</i> (Steel material supplied and processed up to component level)	3		R2 246 661.01	
2. <i>Fabrication</i> (Boiler making, Welding and Fretting to produce welded components)	3		R854 157.15	
3. <i>Paint</i> (Surface Treatment of Items produced in 1 & 2)	3		R234 152.96	
4. <i>Integration of Bought-out Components</i>	3		R1 295 557.47	
5. <i>Integration Services</i> (Electrical, Pneumatic, Hydraulic and Exhaust Sub-contract labour)	3		R555 238.92	
6. <i>Upgrades</i> (Additional 20 Amp Alternator, Dual Alternator Mounting and Compressor modifications)	3		R168 920.52	
7. <i>Insulation Material</i> (27m <sup>2</sup> waterproof self-extinguishing fire retardant, thermal and acoustic material installed)	3		R136 655.66	
8. <i>Automatic Transmission</i> (Allison 3200 SP installed with Cooling Kit)	3		R1 451 250.00	



L74609

9. <i>Tote</i> (Tools and Equipment as per specification)	3		R61 295.85	
10. <i>Integration</i> (Labour for mechanical fitment)	3		R839 254.50	
11. <i>Testing</i> (Road and Gerotek testing)	3		R42 000.00	
12. <i>Special Variant Cost</i>	3		R910 325.00	
<b>SUB-TOTAL</b>		<b>R9 869 413.41</b>	<b>R8 795 469.04</b>	<b>R1 073 944.37</b>

<b>LIKKEWAAN MPV DOUBLE CAB – RECOVERY VARIANT</b>				
<b>MILESTONE</b>	<b>QTY.</b>	<b>BUDGET PRICE</b>	<b>ACTUAL COST</b>	<b>VARIANCE</b>
1. <i>Component Fabrication</i> (Steel material supplied and processed up to component level)	3		R1 040 120.84	
2. <i>Fabrication</i> (Boiler making, Welding and Fretting to produce welded components)	3		R527 257.50	
3. <i>Paint</i> (Surface Treatment of Items produced in 1 & 2)	3		R203 257.78	
4. <i>Integration of Bought-out Components</i>	3		R429 975.00	
5. <i>Integration Services</i> (Electrical, Pneumatic, Hydraulic and Exhaust Sub-contract labour)	3		R184 275.00	
6. <i>Upgrades</i> (Additional 20 Amp Alternator, Dual Alternator Mounting and Compressor modifications)	3		R168 920.52	

L74609

7. Insulation Material (27m <sup>2</sup> waterproof self-extinguishing fire retardant, thermal and acoustic material installed)	3		R51 245.87	
8. Automatic Transmission (Allison 3200 SP installed with Cooling Kit)	3		R1 411 058.82	
9. Tote (Tools and Equipment as per specification)	3		R61 295.85	
10. Integration (Labour for mechanical fitment)	3		R373 500.00	
11. Testing (Road and Gerotek testing)	3		R42 000.00	
12. Special Variant Cost	3		R3 750 000.00	
<b>SUB-TOTAL</b>		<b>R9 249 382.65</b>	<b>R8 242 907.19</b>	<b>R1 006 475.46</b>

<b>TOTAL</b>		<b>R118 957,737.78</b>	<b>R106 013,301.60</b>	<b>R12 944436.18</b>
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## 4.2 BUDGET CHECK BY FINANCIAL OFFICER

*Financial figures in line with previous presentation (6 September 2017) done by S. Nel.*

Name: C. PosthagenSignature: [Signature]

## 5 DELIVERY

Delivery schedule to DLS is as follows:

- o 10 x Troop Carriers 18/05/2018
- o 10 x Troop carriers 13/07/2018
- o 9 x Troop Carriers 07/08/2018
- o 5 x Command Variants 13/07/2018
- o 3 Ambulance Variants 13/07/2018
- o 3 x Recovery Variants 26/07/2018

L74609

The delivery schedule is subjected to the receipt of an official order, and CFI items delivered on time.

This schedule excludes December shutdown (15 December 2017 to 9 January 2018)

The CFI items are the Chassis Cab Vehicles, Air-conditioners, Front and Rear Spring Packs and Shock Absorbers.

The first ten (10) Chassis Cab Vehicles will be delivered to VR Laser during week of 19 March 2018, thereafter at a rate of ten (10) every fourteen (14) days.

The lead times of the remainder of the CFI are not on the critical path and pose no risk to the Vehicle integrator

The Supplier order progress will be closely monitored by the Project Management Team to avoid any delay in delivery.

#### 5.1 TECHNICAL REQUIREMENTS AND SCHEDULE CHECKED BY PROGRAMME MANAGER

Name: Nitesh Arjoon

Signature: \_\_\_\_\_

#### 6 SUPPLY CHAIN NOTES

The contract price reflected above is fixed and firm with no escalation. Payment terms are 30 days from date of invoice. VR Laser is the IP & Datapack custodian and legitimate holder, for all CASSPIR related work. So far there has been no complaints on the workmanship of the CASSPIR's delivered by VR Laser.

VR Laser is a 100% black-owned and a level 8 BBBEE contributor.

The warranty period on the vehicles shall be 1 year or 10,000km whichever comes first.

#### 7 RECOMMENDATION

It is hereby recommended that approval be granted to place Purchase Order L74609 to the value of R 106 013 301.60 for the fabrication, integration and assembly of the 40 CASSPIRS required for the Chad contract on VR Laser Services (Pty) Limited subject to the payment terms recited herein.

L74609

**RECOMMENDED:**


  
 D MASUKU  
 ACTING EXECUTIVE MANAGER: SUPPLY CHAIN

  
 J GELDENHUYS  
 PROGRAMME MANAGER: MECHEM

  
 P FARO  
 GENERAL MANAGER: MECHEM

  
 I KHOZA  
 CHIEF FINANCIAL OFFICER

**RECOMMENDED:**

  
 AS BURGER  
 CHIEF EXECUTIVE OFFICER: DENEL LAND SYSTEMS  
 INCORPORATING MECHEM

DATE: 18 Dec 2017

  
 D MLAMBO  
 GROUP SUPPLY CHAIN EXECUTIVE

DATE: \_\_\_\_\_



18

L74610



DENEL LAND SYSTEMS

**CHIEF EXECUTIVE OFFICER'S  
SUPPLY CHAIN SUBMISSION****TO: EXCO****FROM : SUPPLY CHAIN****DATE : 11 December 2017****SUBJECT:****SINOTRUK HOWO 4X4 Model and SINOTRUK HOWO 6X6  
Model Chassis Cab Vehicles for the execution of the order  
received from the Ministry of Defence Chad.****PROJECT:****CASSPIRS FOR CHAD MOD AS PER MPS7640.****ORDER NUMBER:****L74610****SUPPLIER:****ENNE7 (Pty) Ltd**

L74610

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1 OBJECTIVE..... 3

2 BACKGROUND..... 3

3 MOTIVATION ..... 3

4 PRICE..... 4

5 DELIVERY..... 4

6 SUPPLY CHAIN NOTES..... 5

7 RECOMMENDATION..... 5



L74610

## 1 OBJECTIVE

To obtain approval from Denel Land Systems incorporating Mechem (DLS) Chief Executive Officer to place Purchase Order L74610 for the procurement of 37x SINOTRUK 4X4, 3 x SINOTRUK 6X6 Donor Vehicles and 40 extra Spare Wheels for the execution of the Chad Contract signed in the week of 4<sup>th</sup> December, 2017 pursuant to the Denel proposal, technical scope and guidelines.

## 2 BACKGROUND

In March 2017 DLS was requested to make an urgent proposal to DCO to enable contract discussions to supply 10 x CASSPIR Military variant vehicles to the MOD of Chad. The initial proposal issued was for 12 x Ambulances but this was changed at customer's request to 10 x CASSPIR Military variant vehicles based on Government to Government discussions, involving Denel Cooperate Office and the Denel Board.

In the intervening period, negotiations between MOD Chad and Denel Cooperate Office were conducted resulting in the final offer to supply a total of 40 Vehicles based on the CASSPIR NG Series of various specialist variant configurations consisting of:

- 29 x CASSPIR NG2000B 4x4 LHD Automatic Troop Carrier Variants.
- 5 x CASSPIR Military 4x4 LHD Automatic Command Variants.
- 3 x CASSPIR Military 4x4 LHD Automatic Ambulance Variants.
- 3 x CASSPIR "Likkewaan" MPV D/Cab 6x6 LHD Automatic Recovery Variants.

Additionally, 40 X Spare tyres will be included in the procurement per customer requirements.

In terms of the agreement reached between the parties, ten (10) vehicles are to be delivered to the customer fourteen weeks from payment of advance to DLS. The remainder of the vehicles are to be delivered to customer at the rate of ten (10) each month thereafter.

## 3 MOTIVATION

ENNE7 is the approved sole distributor of the SINOTRUK Chassis and have been in partnership with DLS for a number of years where they have delivered similar vehicles (see letter attached).

The SUPPLIER is a 100% black-owned company and a Level 1 BBBEE contributor. Production of these donor vehicles must commence immediately to ensure delivery at the earliest possible timing given the very tight requirements of the customer. However, the supplier requires a 30% advance payment in order to secure a production slot before the end of the year.

L74610

It is proposed to place the order on supplier in the week of 11<sup>th</sup> December. This will ensure production of the vehicles commences in December. Manufacturing of all 40 vehicles is expected to take 40 business days. Shipping from China to SA will take approximately 25 days. Accordingly, donor vehicles will become available for integration from about 17<sup>th</sup> March, 2018.

The vehicles will be delivered to the supplier responsible for integration at the rate of 10 per month. ENNE 7 will be paid the balance due on the initial 10 vehicles actually delivered to integrating supplier after successful PDI approval. This process will be repeated for the remainder of the vehicles delivered to integrators.

#### 4 PRICE

##### 4.1 SUMMARY OF THIS CONTRACT VALUE

Item	Qty.	Budget Price	Actual Cost	Variance
SINOTRUK HOWO 4X4	37	R37 362 600.00	R36 630 000.00	R732 600.00
SINOTRUK HOWO 6X6	3	R3 619 980.00	R3 549 000.00	R70 980.00
Extra Spare Wheels	40	R600 000.00	R460 000.00	R140 000.00
<b>TOTAL</b>		<b>R41 582 580.00</b>	<b>R40 639 000.00</b>	<b>R943 580.00</b>

##### 4.2 BUDGET CHECK BY FINANCIAL OFFICER

Name: TF DU TOIT

Signature: 

#### 5 DELIVERY

Delivery schedule is 65 working days for the 40 units subject to the receipt of an official order and the advance payment of 30% of the contract sum. The delivery schedule is made up by the production rate of 40 working days from the OEM and 25 days required for shipping. The estimated delivery date is 16 March, 2018.

The Supplier order progress will be closely monitored by the Project Management Team to avoid any delay in vehicle delivery.



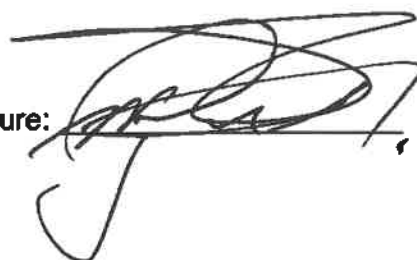
L74610

**5.1 TECHNICAL REQUIREMENTS AND SCHEDULE CHECKED BY PROGRAMME MANAGER**

Name:

J. D. GROENHUIS

Signature:

**6 SUPPLY CHAIN NOTES**

The contract price reflected above is fixed and firm with no escalation. Procurement and Payment terms are as follows:

- An advance payment of 30% of the contract sum (or R12 191 700.00) is required prior to start of production.
- A Bank and/or Insurance Guarantee will be required of the supplier to secure the advance payment made by DLS.
- COD payment shall be made to supplier after the pre-delivery inspection (PDI) has been performed by ENNE7 and final acceptance is granted by DLS QA.
- The stores transaction will be finalized before the Chassis Cabs are issued to integrating supplier.
- The warranty period on the Chassis Cab's shall be 2 years or 120 000km whichever comes first.

**7 RECOMMENDATION**

It is hereby recommended that approval be granted to place Purchase Order L74610 to the value of R 40 639 000.00 on ENNE7 to proceed with the contracted production manufacturing and delivery of the items as contracted. An advance payment of R12 191 700.00 shall be made to supplier. A Bank or Insurance Guarantee shall be obtained by the supplier to secure the advance payment.

L74610

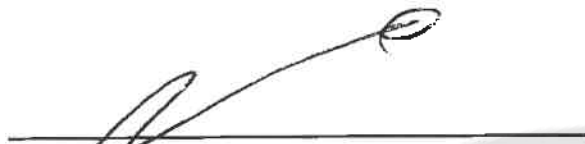
## RECOMMENDED:



**D MASUKU**  
**ACTING EXECUTIVE MANAGER: SUPPLY CHAIN**



**J GELDENHUYS**  
**PROGRAMME MANAGER: MECHEM**



**P FARO**  
**GENERAL MANAGER: MECHEM**



**I KHOZA**  
**CHIEF FINANCIAL OFFICER**

## APPROVED/REJECTED:



**AS BURGER**  
**CHIEF EXECUTIVE OFFICER: DENEL LAND SYSTEMS**  
**INCORPORATING MECHEM**

DATE: 13 Dec 2017

# ANN. DM19

SINOTRUK LETTER CONFIRMING THAT ENNE7  
WAS SA AGENT



19

217

**SINOTRUK SOUTH AFRICA PROPRIETARY LIMITED**

Registration Number 2912/802384/07

Add: Unit 1204, Sinosteel Plaza, 185 Rivonia Road, Morningside Ed., Sandton 2146  
Johannesburg, South Africa Tel: +27 (0) 11 688 6244

Date: 12 December 2017

To whom it may concern

This letter serves to confirm that ENNE 7 (Pty) Ltd is a distributor of Sinotruk products in South Africa.

Sinotruk South Africa (Pty) Ltd has and is in the process of establishing sales and service network in all major cities of South Africa ensuring that wherever our products are used that there is a facility for parts and service back up at all times, giving our clients peace of mind.

Sinotruk China has an established network in Africa whereby technical support, parts and service is available.

Should you have any further queries, please feel free to contact me.

Yours Sincerely

Mr. Zhang Yuzong  
Managing Director of Sinotruk South Africa (Pty) Ltd  
Tel. 0800481178



18 221



# 中国重汽集团国际有限公司 SINOTRUK INTERNATIONAL

SINOTRUK Tower No. 777 Hua'ao Road, Innovation Zone, Jiluan, Shandong, China. Website: [www.sinotrukimpex.com](http://www.sinotrukimpex.com)

Attention:

1 January 2019

Enne7 (Pty) Ltd

7 Lark Street, Anzac, Brakpan, Gauteng, 1541

Republic of South Africa

## LETTER OF APPOINTMENT

Dear Mr. Sandy Chudayan,

We are pleased to advise you that Enne7 (Pty) Ltd has been officially appointed as the exclusive supplier of Military Vehicles to Denel (SOC) Ltd, from 6<sup>th</sup> June 2017 to 31<sup>st</sup> December 2018.

We look forward to growing a positive business relationship with you.



# ANN. DM20

SINOTRUK MD CONFIRMATION EMAIL



20

From: 钟其荣 <[zhongqirong@sinotruk.com](mailto:zhongqirong@sinotruk.com)>  
Date: Wed, 12 Jun 2019 at 14:04  
Subject: 回复 : Fwd: Confirmation that ENNE 7 is a sole Distributor in RSAofSinotruk  
spares  
To: Mandla Mlambo <[mandlamlambo5@gmail.com](mailto:mandlamlambo5@gmail.com)>

Hi Mandla,

Yes, that letter was from us,

Hope it will help with you.

Regards!

钟其荣

**JEFF ZHONG**

**Mobile:** 0790433861 (SA); 15264151062 (中国/微信)

**Email :** [zhongqirong@sinotruk.com](mailto:zhongqirong@sinotruk.com)

SINOTRUK SOUTH AFRICA PTY LTD

Reg. No.: 2012/002394/07

VAT No.: 4640269884

Add: 42 VIEW POINT ROAD, BARTLETT AH, BOKSBURG, 1459

----- 原始邮件 -----

发件人: "Mandla Mlambo" <[mandlamlambo5@gmail.com](mailto:mandlamlambo5@gmail.com)>;

发送时间: 2019年6月12日(星期三) 下午4:48

收件人: "钟其荣" <[zhongqirong@sinotruk.com](mailto:zhongqirong@sinotruk.com)>;

主题: Re: Fwd: Confirmation that ENNE 7 is a sole Distributor in RSAofSinotruk spares

Dear Mr Zhong,

Thanks for your prompt response. I take it that the letter from Sinotruk that I sent you is a genuine document, isn't it?

Best regards

Dennis Mandla Mlambo

On Tue, 11 Jun 2019 at 14:26, 钟其荣 <[zhongqirong@sinotruk.com](mailto:zhongqirong@sinotruk.com)> wrote:

Good day,

This is Jeff from Sinotruk,  
Thanks for your emai,

Enne 7 is our dealer in South Africa, and previously we authorised them as exclusive dealership on denel orders,

Unfortunately, we see a big delay on the payment by denel, it brought a big challenge to my company's currency chain.

Can you please kindly advice, when the suppliers can get paid, I think the payment is late for more than 1 year.

Regards!

钟其荣

**JEFF ZHONG**

**Mobile:** 0790433861 (SA); 15264151062 (中国/微信)

**Email :** [zhongqirong@sinotruk.com](mailto:zhongqirong@sinotruk.com)

SINOTRUK SOUTH AFRICA PTY LTD

Reg. No.: 2012/002394/07

VAT No.: 4640269884

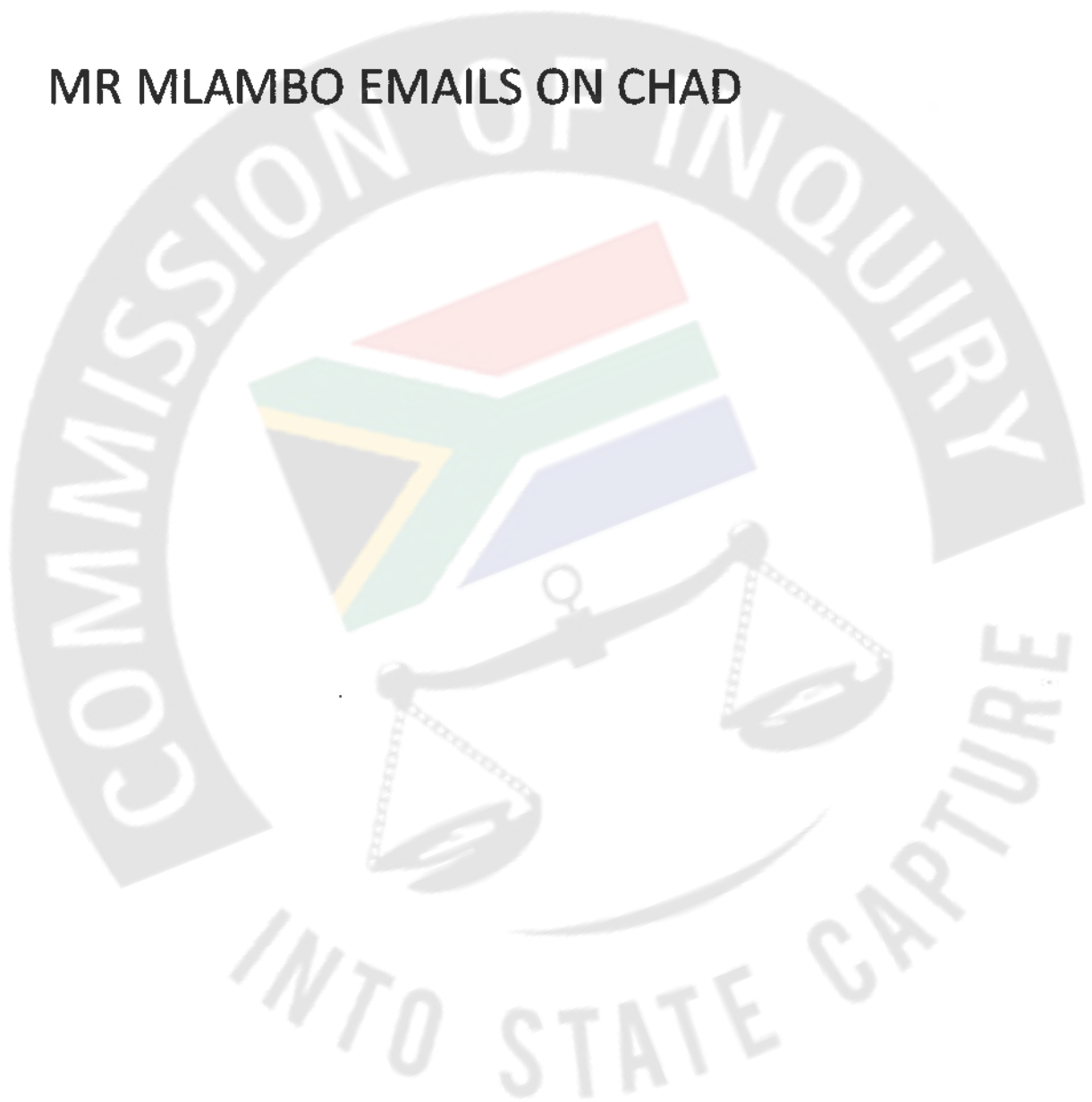
Add: 42 VIEW POINT ROAD, BARTLETT AH, BOKSBURG, 1459





# ANN. DM21

MR MLAMBO EMAILS ON CHAD



**Nhlakanipho N. Kunene**

---

**From:** Peter Faro  
**Sent:** Tuesday, 16 January 2018 14:25  
**To:** Pieter Knoetze  
**Cc:** Denise Govender; Jack Geldenhuys; Reenen Teubes  
**Subject:** RE: VR Laser Casspir Manufacturing and Data Pack

Dear Pieter

You can arrange- no problem.

Regards

Peter

Peter B Faro

General Manager: Mechem Business Unit

Denel Land Systems, Incorporating Mechem

a Division of DENEL SOC Ltd

PO Box 14864, Lyttelton, 0140, South Africa

Tel: +27 12 620 3443, Fax: +27 12 664 0397

Mobile: +27 (0)82 884 9145

Email: [peterf@mechem.co.za](mailto:peterf@mechem.co.za) <<mailto:leanab@mechem.co.za>>

[www.denellandsystems.co.za](http://www.denellandsystems.co.za) <<http://www.denellandsystems.co.za/>>

From: Pieter Knoetze  
Sent: 16 January 2018 02:24 PM  
To: Peter Faro <[Peterf@mechem.co.za](mailto:Peterf@mechem.co.za)>  
Cc: Denise Govender <[deniseg@dlsys.co.za](mailto:deniseg@dlsys.co.za)>; Jack Geldenhuys <[Jackg@mechem.co.za](mailto:Jackg@mechem.co.za)>; Reenen Teubes <[reenent@dlsys.co.za](mailto:reenent@dlsys.co.za)>  
Subject: Re: VR Laser Casspir Manufacturing and Data Pack

Thx Peter

Should I not arrange a session with all including Denise and Reenen for tomorrow as they also know some critical aspects of the happenings.

We must have a clear plan on this before we give a reasoning to the auditors on Thursday

Regards

Sent from my iPad

On 16 Jan 2018, at 13:40, Peter Faro <[Peterf@mechem.co.za](mailto:Peterf@mechem.co.za) <<mailto:Peterf@mechem.co.za>> > wrote:

Dear All

Hope all is good.

I was informed by our CEO Mr Burger that an audit team will visit DLS MECHEM on Thursday to discuss the VR Laser CASSPIR Manufacturing and Data Packs.

Denise, I'm not sure when you will be back, but we need to have a session to discuss this issue either tomorrow afternoon or early Thursday if you are back in office. I've also included an email response from Jack Geldenhuys to Supply Chain as background on the matter.

Please confirm availability.

Kindest Regards

Peter

<image001.jpg>

Peter B Faro

General Manager: Mechem Business Unit

Denel Land Systems, Incorporating Mechem

a Division of DENEL SOC Ltd

PO Box 14864, Lyttelton, 0140, South Africa

Tel: +27 12 620 3443, Fax: +27 12 664 0397

Mobile: +27 (0)82 884 9145

Email: peterf@mechem.co.za <mailto:leanab@mechem.co.za>

www.denellandsystems.co.za <http://www.denellandsystems.co.za/>



From: Peter Faro  
Sent: 16 January 2018 12:45 PM  
To: Peter Faro <Peterf@mechem.co.za <mailto:Peterf@mechem.co.za> >  
Subject: FW: VR Laser Casspir Manufacturing and Data Pack

<image001.jpg>

Peter B Faro

General Manager: Mechem Business Unit

Denel Land Systems, Incorporating Mechem

a Division of DENEL SOC Ltd

PO Box 14864, Lyttelton, 0140, South Africa

Tel: +27 12 620 3443, Fax: +27 12 664 0397

Mobile: +27 (0)82 884 9145

Email: peterf@mechem.co.za <mailto:leanab@mechem.co.za>

[www.denellandsystems.co.za](http://www.denellandsystems.co.za) <http://www.denellandsystems.co.za/>

From: Jack Geldenhuys  
 Sent: 08 January 2018 02:00 PM  
 To: Douglas Masuku <douglasm@dlsys.co.za <mailto:douglasm@dlsys.co.za> >  
 Cc: Thomas Koegelenberg <Thomask@dlsys.co.za <mailto:Thomask@dlsys.co.za> >; Peter (Velly) Mmangoale <petermm@dlsys.co.za <mailto:petermm@dlsys.co.za> >; Peter Faro <Peterf@mechem.co.za <mailto:Peterf@mechem.co.za> >  
 Subject: RE: VR Laser Casspir Manufacturing and Data Pack

Good Day Douglas,

As per our meeting held in your board room dated 08/01/2018 herewith a confirmation on the background as far as CASSPIR and VRL laser involvement.

Please see my inline comments.

VRL Laser was engaged in 2007/2008 when still under previous ownership for the assistance and support with design and manufacturing as far as CASSPIR OLD GENERATION vehicles concern. VRL and two other companies was approached for the redesign support and manufacturing of CASSPIR MKII armoured Hulls. VRL at that time was the preferred option given the following:

- \* Capacity to supply armoured Hulls based on bending technology instead of a complete weld technology.
- \* Best price
- \* Quality
- \* Product Design and support capacity.

The above was warranted hence Mechem long prior part of Denel, was the initial designer and custodian of the CASSPIR products and with a high demand to supply CASSPIRS based on refurbished units until obsolesce, Mechem investigate the strategic possibility to open manufacturing of the OLD GENERATION vehicles to sustain the market need. In the due process with only office of two personnel, no design and assembly capacity in 2007, it was realised that a CASSPIR with improvements in certain design parameters, drive trains etc will be the way forward and to be known as the CASSPIR NG Series – or New Generation.

VRL with all the capacity – co work with Mechem and the CASSPIR NG2000 Series A-Model was developed. Many of these vehicles were sold to international clients incl the UN. User feedback and operational data then require

more solutions based on just the CASSPIR NG2000 Troop Carrier and the spectrum of vehicle variants grew under the design of the vehicles that include Ambulances, Command Units, Recoveries, Police variants, Fire Support, Weapons Carriers etc.

Prior Mechem's merger with DLS, LMT was procured by Denel and under the control of DLS. It was required by DLS Senior Management that Mechem provide the CASSPIR Troop Carrier Datapack to LMT for future use to manufacture the CASSPIR NG2000 going forward, although the IP was not Denel property and that of VRL.

LMT was afforded an order to manufacture a new generation CASSPIR based on the VRL datapack. Claims were made by LMT that the datapack is not suitable for use and they institute certain design modifications to suit LMT production, this from the onset differ from the original VRL designs that include critical commonality over the spectrum of variants that include the Ambulances etc.

With problems experienced post the delivery to the client (UN) and not only related to the armoured hull cracks, but also delivery times and other technical issues as experienced based on the LMT manufactured CASSPIR, the UN issued a directive that they will only procure CASSPIRS from Denel if manufactured at VRL, hence they received previous VRL products and was satisfied with the quality.

Decisions was taken that VRL hence the IP holder and the improvements on the vehicle be the sole manufacturer of the CASSPIR vehicle.

The LMT data pack is very outdated since they changed it to suit LMT production processes. VRL in the meantime improve and update the datapacks to ensure all variants enjoy commonality on improvements, like:

- \* Improved suspension
- \* Improved interior layouts
- \* Improved AC systems
- \* Improved Gear selection
- \* Automatic Transmission adaptability
- \* Improved pneumatics
- \* Hull design to accommodate C Model variant drive train (LMT datapack is still on the old model A design)
- \* New and Improved Instrument Cluster design
- \* Better Fuel system
- \* Keyless start and special mine roller adaptation design.

Denel do not enjoy owner ship of the IP hence at the time of engagement with VRL in 2007, Mechem do not possesses the capacity to design and manufacture inhouse. VRL enjoy the IP hence all designs was done by VRL and not Denel (Mechem)

Mechem market the product and VRL was facilitating the manufacturing.

Proposals was made to VRL for the procurement of IP, and it was declined hence they see it as cementing the future business between Denel and VRL. (Recommend that senior management DCO level engage and proposed again the procurement or sort of future business agreement to obtain ownership of the datapacks). VRL will definitely not share free willingly any datapack going forward to any 3rd party given the fact that VRL IP was made available to LMT way back.

LMT or DVS can assembly vehicles I assume, but VRL will not share any IP in this regard, as for the Troop Carrier the level of build is far advanced at this point given all the new improvements and a significant difference as from the old LMT CASSPIR datapack that was originally a VRL IP

Given the current contract – it is clear that all vehicles total 40 of various configurations (Variants) are on the latest improved design model of which VRL enjoy the IP ownership, and it is not at all possible for either LMT or DVS to deliver the same in this period of time.

Going forward – given VRL not willing to sell any IP, it will require bothy DVS or LMT more than a year plus to total redesign and developed the CASSPIR NG2000 from scratch to surpass or just to meet the Series C-Model. (Latest Upgrade) which will need to include the following variants:

- \* CASSPIR Troop Carrier (Mil Version)
- \* CASSPIR Personnel Carrier (Humanitarian Version)
- \* CASSPIR Mine Roller
- \* CASSPIR Police version
- \* CASSPIR Ambulance
- \* CASSPIR Command and Control
- \* CASSPIR Reconnaissance
- \* CASSPIR Fire Support Version (ATK and Mortar Weapon Carrier)
- \* CASSPIR Cargo Carrier (4x4 & 6x6)
- \* CASSPIR Water Carrier
- \* CASSPIR Fuel Carrier
- \* CASSPIR Recovery (Stallion 4x4 & 6x6)
- \* CASSPIR Recovery (Likkewaan 6x6 & 8x8)
- \* CASSPIR IED Intervention vehicle
- \* CASSPIR Mobile Vehicle Mine Detection Array system

I trust this info shared will be of assistance.



Regards

From: Douglas Masuku  
Sent: 08 January 2018 12:05 PM  
To: Jack Geldenhuys <Jackg@mechem.co.za <mailto:Jackg@mechem.co.za> >  
Cc: Thomas Koegelenberg <Thomask@dlsys.co.za <mailto:Thomask@dlsys.co.za> >; Peter (Velly) Mmangoale <petermm@dlsys.co.za <mailto:petermm@dlsys.co.za> >  
Subject: FW: VR Laser Casspir Manufacturing and Data Pack

Good afternoon Jack,

Please refer to below queries from DCO regarding the proposal to issue order to VR Laser to manufacture the Chad Casspirs. Please advise and furnish background to the queries here.

Regards,  
D

From: Dennis Mlambo [mailto:DennisM@denel.co.za]  
Sent: 21 December 2017 12:45 PM  
To: Douglas Masuku <douglasm@dlsys.co.za <mailto:douglasm@dlsys.co.za> >  
Subject: RE: VR Laser Casspir Manufacturing and Data Pack

Hi Doug,

The following issues will need to be addressed in order to strengthen your motivation for approval:

1. Evidence that VR Laser was appointed to design the relevant parts or the process to assemble the Casspir following an open and competitive bidding process with other potential Suppliers.
2. Supply the industrialisation report approved / confirmed as valid by DLS to attest to the contention that VR Laser is currently the single –source Supplier for the service you require approval for.
3. Clarify why DVS and LMT cannot assemble the vehicle when they have the capability to do so.

4. The implication, particularly the financial one, if Denel cannot meet its contractual obligations on the contract in question.

5. Explain how VR Laser obtained the IP and why it does not belong to Denel given the fact that if Denel contracts a company to develop any product, then as per our Policy it becomes Denel's IP.

Lastly, once the above-mentioned issues are addressed, we should be closer to finding a sound business decision.

Regards

Dennis

From: Douglas Masuku [mailto:douglasm@dlsys.co.za]  
Sent: 19 December 2017 04:17 PM  
To: Dennis Mlambo  
Subject: VR Laser Casspir Manufacturing and Data Pack

Good afternoon Dennis,

Regarding our discussion this afternoon, please find the attached letter from VR Laser confirming their ownership of IP and vehicles they develop for DLS.

Regards,  
Douglas

From: Thomas Koegelenberg  
Sent: 19 December 2017 03:50 PM  
To: Douglas Masuku <douglasm@dlsys.co.za <mailto:douglasm@dlsys.co.za> >  
Subject: SOLE SUPPLIER MOTIVATION VR LASER CASSPIR

Hi Douglas

Attached for your records.

Best regards.

<image001.jpg>

Tommie Koegelenberg

Commodity Specialist

DENEL (Pty) Ltd trading as DENEL LAND SYSTEMS incorporating MECHEM

PO Box 7710, Pretoria, 0001, South Africa

368 Selborne Avenue, Lyttelton

Republic of South Africa

Tel: +27 12 620 3315, Fax: +27 12 620 3388

Cell: +27 72 493 6297

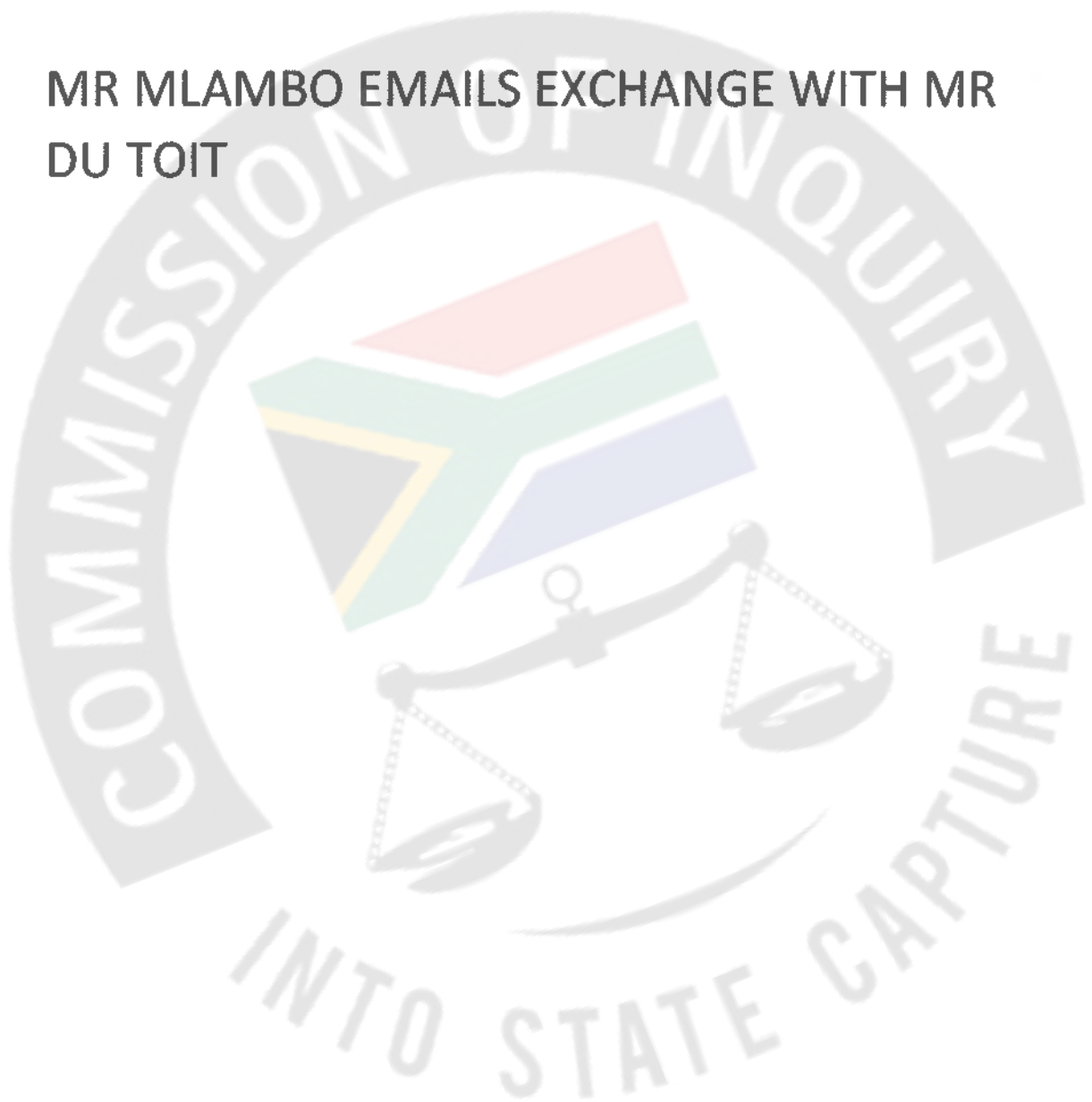
E-mail: [thomask@dlsys.co.za](mailto:thomask@dlsys.co.za) <<mailto:thomask@dlsys.co.za>>

[www.denellandsystems.co.za](http://www.denellandsystems.co.za) <<https://protect-za.mimecast.com/s/eSQVCQ1XWDIM6r2FP1j9Y?domain=denellandsystems.co.za>>

Disclaimer

# ANN. DM22

MR MLAMBO EMAILS EXCHANGE WITH MR  
DU TOIT





21

**Dennis Mlambo**

**From:** Danie Du Toit  
**Sent:** 11 April 2019 10:28 AM  
**To:** Dennis Mlambo  
**Cc:** Thandeka Sabela; Indira Panday; Themba B. Zwelibanzi; Wim De Klerk; Innocent (Modise) Khoza; Yuneal Padayachy (YPadayachy@thedti.gov.za); Klaas Mamushi; Thulani Mahlinza  
**Subject:** RE: Assessment of the contentious issues with respect to the Internal Audit Award

Dear Dennis,

Clearly you misunderstood my instructions.

I instructed you to present a solution, considering the facts in terms of the way forward.

**Please do so as a matter of urgency or I will initiate disciplinary steps for insubordination!**

Best regards,

Danie

**From:** Dennis Mlambo  
**Sent:** Thursday, 11 April 2019 10:25  
**To:** Danie Du Toit  
**Cc:** Thandeka Sabela; Indira Panday; Themba B. Zwelibanzi; Wim De Klerk; Innocent (Modise) Khoza; Yuneal Padayachy (YPadayachy@thedti.gov.za); Klaas Mamushi  
**Subject:** Assessment of the contentious issues with respect to the Internal Audit Award

Hi Danie,

At the Exco meeting yesterday you asked me to present my position to you with respect to the contentious issues on the Award of the Internal Audit tender. I will not repeat the answers already presented, which are highlighted in green below. There are essentially two pertinent issues to address and they are:

1. Whether the second best Bidder, Kopano, following the disqualification of Nexia SAB &T ,will have the capacity to handle the Denel Account.
2. To renegotiate the price down with the successful Bidder.

My responses are as follows:

1. In terms of the scores pertaining to the suitability of the skills as well as capacity, the 3 shortlisted companies were scored almost the same by the Evaluation Team , with Ernst & Young getting a marginally lower score. The implication of the first argument is that the scores are at variance with reality. We obviously have to present contrary evidence to reject the scores of the team. This could also mean that the Evaluation team was not aligned in terms of the evaluation criteria. The latter argument cannot hold water because the scores are very close. It is also important to note that all three companies are categorised as " Large" , and that means in terms of resources and turnover, they should be in a position to handle Denel's requirements. Consequently, if we don't have confidence in the scores that we based our decision on, that means we have to restart the process or give the file to an independent and competent party to review the functionality scores.

However, that will not guarantee a different outcome if all three achieve the minimum score of 80 overall for all 4 areas evaluated.

2. The second issue of renegotiating the price is straightforward and all we have to do is to ask all three shortlisted Bidders to give us their Best and Final Offer (BFO) and use that to determine the outcome. Unfortunately, the Functional Evaluation scores are never a factor in determining the final outcome as per the current legislation. The Price and B-BBEE determine the final outcome so long as the Bidders being evaluated have at least achieved the minimum Functional Score

Perhaps also worth mentioning is the fact that once the final scores have been presented, in terms of the PPPFA Regulations and our Policy, we cannot use any subsequent submissions, whether obtained in writing or through presentations, to change the scores / outcome. Lastly, if unconvinced by what I am saying, you may submit the entire file for a review to National Treasury. It is a free service.

I trust this helps.

Regards

Dennis

---

**From:** Dennis Mlambo  
**Sent:** 03 April 2019 07:53 PM  
**To:** Wim De Klerk; Themba B. Zwelibanzi  
**Cc:** Danie Du Toit; Thandeka Sabela; Indira Panday ([IndiraP@denel.co.za](mailto:IndiraP@denel.co.za))  
**Subject:** RE:

Hi Wim,

Firstly, apologies for addressing you as Wimbledon yesterday from my handset, that is the downside of the Spellcheck facility if one does not proofread messages. I have engaged the Evaluation team and perused the relevant reports and my responses are highlighted alongside the questions below.

I trust the responses clarify the issue.

Regards

Dennis

---

**From:** Wim De Klerk  
**Sent:** 02 April 2019 08:53 AM  
**To:** Themba B. Zwelibanzi; Dennis Mlambo  
**Cc:** Danie Du Toit; Thandeka Sabela  
**Subject:**

It came to my attention yesterday afternoon that Nexia is doing work for the AG on Denel audit and therefore it will be a conflict of interest to do external and internal work.

Dennis I know you are the gatekeeper of process so I would like to understand:

- 1) Has it been declared by them –

[REDACTED]

2) How should this conflict be handled.

[REDACTED]

3) Why should they not immediately be eliminated from process .

[REDACTED]

4) If so, what is the process re the re-evaluation of the remainder of candidates.

[REDACTED]

5) Talib also commented on them being guilty of fraud around issuing a BEE certificate. Why was this not picked up by team?

[REDACTED]

As Exco member I reject the current proposal from committee (although the official doc still not submitted to Exco).

[REDACTED]

As a personal preference, on the way forward:

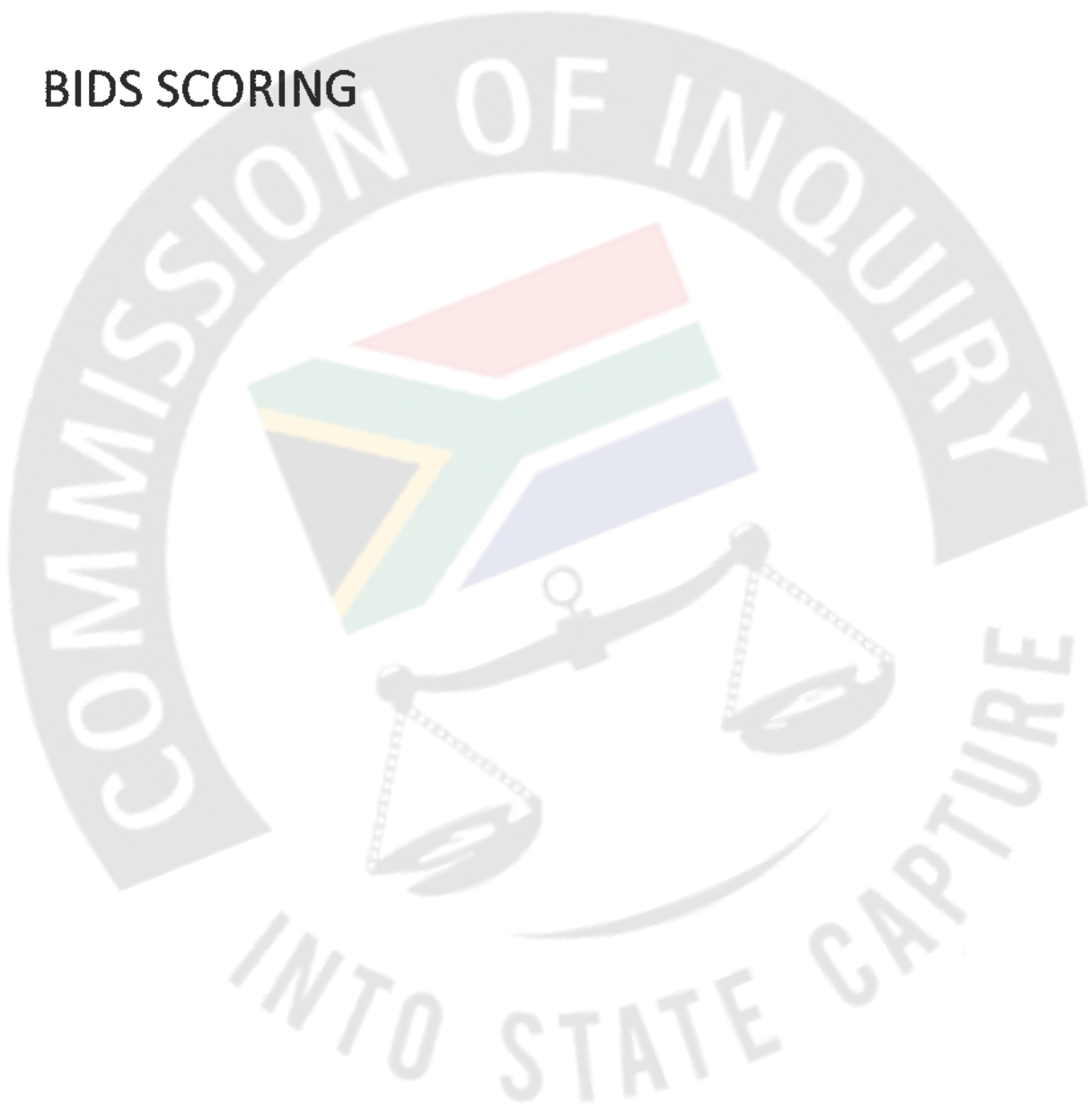
- 1) I would like to contact them personally if they did not declare the interest.
- 2) And get personally involved in choosing a partner going forward
- 3) But I need to understand the governance as expressed above.

Not a good position to be in 2 months after the process started!!

Wim

# ANN. DM23

BIDS SCORING





PPPFA SCORECARD- refer to Appendix 3

Project Manager: <b>THANDEKA</b>							
Item	Company	Lowest quote	Quote	Points for quote	BBSEE LEVEL	BBSEE POINTS 80/20	Total points
Description: SHORT							
		36 702 325,00					
1	NEXIA SAB&T		36 702 325,00	80,0	1	20	100,0
2	KOPANO INCORPORATED		49 047 004,22	61,2	1	20	81,2
3	ERNST & YOUNG		49 725 778,00	59,8	1	20	79,8
4	DELOITTE		49 984 217,00	59,3	1	20	79,3

Insert the lowest price in column D6  
Insert prices quoted from each supplier in Column E (Descending order)  
Insert BBSEE points in column H, using BBSEE points table below.  
Refer to Column J for Total Points

BBSEE Status	Level of Contributor	Number of points (80/20 System)
1		20
2		18
3		14
4		12
5		8
6		6
7		4
8		2
Non-compliant contributor		0

Denel SOC Ltd, Reg No 1982/001337/30, Nelmapius 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 W Hlahla (Chairperson), Mr D du Toit<sup>1</sup> (Group Chief Executive Officer), Dr H Nel, Ms M K Lehloenyane, Mr T H Magezi, Lt. Gen. (ret) T T Matanzima, Mr M M Mhisi, Gen. (ret) S Nyanda, Ms S R Rabkin, Mr M T Sadik, Mrs G T Serobe, Dr S P Sibisi, Ms N Siyotula

<sup>1</sup> Ex-Officio Director  
Group Company Secretary: FluidRock Co Sec (Pty) Ltd

Comment sheet...

The evaluation process, based on the evidence submitted, seems fair and objective. - 02/04/2018

Following representations from W. de Wolk and T. Sadik on the unethical behaviour of one of the Directors of the recommended Bidder Neria Sabet, the review confirms that the Bidder must be disqualified - see attached e-mails from Mr. Mlambo. Consequently, the second best Bidder Kopano is approved based on the evaluation scores. 5/04/19



D. Mlambo  
GROUP SUPPLY CHAIN EXECUTIVE  
DENEL CORPORATE OFFICE

APPROVED	X	AMENDED	NOT APPROVED
----------	---	---------	--------------

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  
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<sup>1</sup> Ex-Officio Director  
Group Company Secretary: FluidRock Co Sec (Pty) Ltd



Please provide info in blue below

Comment sheet...

I do not support this recommendation. Although this file was brought to me at 11h30 on 9 April. I tried to discuss it with teams but was advised that I need to wait for final proposal for me. I do not support this for the following reasons:-  
① I do not believe that price should be the final decision when value added in the way, creating  
② I am aware that they are doing significant work for Denel on accounting issues and should not perform Internal Audit as well.  
③ Therefore Koparor is right to my knowledge the partners are Ery = Bopart = Bopart as they do work for the company  
④ The team did not pick up that Alexia should be disingenuous as they do work for the company on Denel. It was not declared. Have the team checked that UB would not and EM do not have similar problems at Koparor

WA De Klerk  
ACTING GROUP CHIEF FINANCIAL OFFICER  
DENEL CORPORATE OFFICE

APPROVED

AMENDED

NOT APPROVED

Conclusion and next steps: After a 14% difference between Bopart and Ery I support Ery to be appointed as the support they can give to Denel with the size

Denel SOC Ltd, Reg No 1992/001337/30, Nelmapius 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 W Hlabisa (Chairperson), Mr D du Toit\* (Group Chief Executive Officer), Dr H Nel, Ms M K Lethekoanya, Mr T H Magazi, Lt Gen. (ret) T T Matanzima, Mr M M Mntsi, Gen. (ret) S Nyanda, Ms S R Rabkin, Mr M T Sadik, Mrs G T Serobe, Dr S P Sibisi, Ms N Siyofula

\* Ex-Officio Director  
Group Company Secretary: FluidRock Co Sec (Pty) Ltd

② That as FOI request permission to negotiate with Ery a prize of around Rm 47 to do this job.  
PS I give this kudos to Thanta 12h05:44

# ANN. DM24

PWC QUOTE of R952 685.30







Private and Confidential  
Denel SOC Ltd  
Nellinapius Drive

Centurion  
South Africa  
0062

Attention :  
South Africa Inc Foreign Tax Ref :  
VAT Registration No :  
Our Reference :  
PO Number :

Wim de Klerk  
4660131485  
Myataza, Asanda

BPN :

07-05-2019 **TAX INVOICE** Account No : 520270  
Invoice No : 302191113154

Secondment of resources to assist the Finance Division with year-end processes for FY 2019 for the period 3 April to 30 April 2019 ZAR 828,422.00

Total excluding taxes ZAR 828,422.00  
Total VAT ZAR 124,263.30

Total due ZAR 952,685.30

**VAT Itemisation:**

VAT RATE	AMOUNT	VAT
Std VAT 15%	828,422.00	124,263.30
Total	828,422.00	124,263.30

**This invoice is payable on presentation. Please return a copy of this invoice with your payment.**

Banking Details:  
Standard Bank, Sandton, Account Name: PwC Inc,  
Account No: 022672168

*Handwritten signature*  
C/C 1005.

Client Ref No : 520270/302191113154

It is imperative to quote the above Client Ref No when making a payment.

Please send proof of payment to : Finance.AfricaAR@za.pwc.com  
Billing queries can be raised with Myataza, Asanda



Denel SOC Ltd  
Trading as Denel Corporate  
Office  
REG. No 92/01337/30  
Val. No 4660131485  
Nelmapius Drive, Irene, 0157  
P.O. Box 8322  
CENTURION, 0046  
Republic of South Africa  
Tel: (012) 671 1615

## PURCHASE ORDER

PO number/date  
4500017428 / 31.05.2019  
Contact person/Telephone  
Palesa Mapetla  
Our fax number  
  
Int code (+27 12)

PRICEWATERHOUSECOOPERS  
PRIVATE BAG X36  
SUNNINGHILL  
2157

Tel : 011-797 4000  
Fax :

Your vendor number with us  
6296  
BBBEE Level : 6  
BBBEE Expiry : 11.10.2014

Please deliver to:

Delivery date: 03.06.2019

This Order is subject to the Denel Industrial Properties General Conditions of Purchase, COSAD-

Terms of payment: within 30 days Due net Currency ZAR

Item	Material Description Order qty.	Unit	Price per unit	Net value
00010	RESOURCES TO ASSIST ENTITIES WITH CORREC	1 Unit	828,422.00	828,422.00
TOTAL-Amount (Net excl VAT)				828,422.00 ZAR
VAT-Amount (To be Invoiced)				124,263.30 ZAR
TOTAL-Amount (Net incl VAT)				ZAR

BUYER:

*Palesa Mapetla*

DATE:

*31/05/2019*

APPROVED BY:

DATE:

PO No. 45/17428

**pwc**

Private and Confidential  
Denel SOC Ltd  
Nellmapius Drive

Centurion  
South Africa  
0062

Attention :  
South Africa Inc Foreign Tax Ref :  
VAT Registration No :  
Our Reference :  
PO Number :

Wim de Klerk  
4660131485  
Myataza, Asanda

BPN :

Account No : 520270  
Invoice No : 302191113154

07-05-2019

# **TAX INVOICE**

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Total excluding taxes  
Total VAT

ZAR 828,422.00  
ZAR 124,263.30

Total due

ZAR 952,685.30

## **VAT Reimbursement:**

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*Handwritten signature*  
C/C 1005.

Client Ref No : 520270/302191113154

It is imperative to quote the above Client Ref No when making a payment.

Please send proof of payment to : [Finance.AfricaAR@za.pwc.com](mailto:Finance.AfricaAR@za.pwc.com)  
Billing queries can be raised with Myataza, Asanda

# ANN. DM25

ADDITIONAL ORDER of R5 936 000.00





Annexure 25



Mr Wim De Klerk  
Acting Chief Financial Officer  
Denel SOC Ltd  
Nellmapius Drive  
Irene, Centurion  
South Africa

30 April 2019

Dear Mr De Klerk

**Addendum to Engagement Letter: Secondment of resources to assist the Finance Division with year-end processes for FY2019 for the period 3 April to 30 April 2019**

Whereas PricewaterhouseCoopers Inc (PwC) and Denel SOC Ltd ("Denel") entered into an engagement letter dated 02 April 2019, which was signed on 02 April 2019 ("the engagement letter") in terms of which PwC was contracted to o the Finance Division to assist with the secondment of 7 resources to the Finance Division to assist with the FY19 year-end processes. Specific scope of work, comprising, but not limited to the following:

- Reconciliations (both for SoFPes and SoFPef level)
- General Ledger reviews;
- Review of external audit finding for FY2018 to ensure they are addressed;
- Assisting with preparation of annual statements for FY2019; and
- Audit support

While the above was still underway, you required us to extend the services to include the following:

- Provision of 3 x technical resources for the provision of advice and observations relating to the accounting matters that should be considered under International Financial Reporting Standards ("IFRS") regarding the application of IFRS 15 and other standards applicable to Denel. These resources will be deployed as follows:
  - o 3 x resources to assist with all financial technical queries at all divisions
- Provision of 7 x senior resources for the overall co-ordination of the external audit process for FY 2019 as follows:
  - o 1 x resource at Denel Land System ("DLS")
  - o 1 x resource at Denel Properties ("DP")
  - o 1 x resource at Denel Aero structures ("DA")
  - o 1 x resource at Denel Dynamics ("DD")
  - o 1 x resource at Denel Vehicles Services ("DVS")
  - o 1 x resource at LMT
  - o 1 x resource at Group level

PricewaterhouseCoopers Advisory Services (Pty) Ltd., Reg. no. 1999/024417/07  
4 Lisbon Lane, Waterfall City, Jutskel View, 2090, Private Bag X36, Sunninghill, 2157, South Africa  
T: +27 (0) 11 797 4000, F: +27 (0) 11 209 5800, [www.pwc.co.za](http://www.pwc.co.za)

M A O'Flaherty – National Advisory Leader  
The Company's principal place of business is at 4 Lisbon Lane, Waterfall City, Jutskel View, where a list of directors' names is available for inspection.



These resources will be seconded to Denel for a period of 4 months commencing 9<sup>th</sup> May 2019 with the additional fees as follows. The first table below relates to technical resources which will be used on an adhoc basis as and when required by the entity during the months of May 2019 to August 2019.

No.	Resource Level	Resource Name	Hourly Rate	Daily Fees
1	Manager	TBD	2,500	20,000
2	Manager	TBD	2,500	20,000
3	Manager	TBD	2,500	20,000

The second table below relates to senior resources which will be used by the relevant divisions to assist with the management of the audit for the months of May 2019 to August 2019.

No.	Resource Level	Division	Resource Name	Hourly Rate	Monthly Fees*
4	Senior Manager	DLS	Veronica Lukwago	2,510	281,120
5	Manager	DP	TBD	1,790	200,480
6	Manager	DA	TBD	1,790	200,480
7	Manager	DVS	TBD	1,790	200,480
8	Manager	DD	TBD	1,790	200,480
9	Manager	LMT	TBD	1,790	200,480
10	Manager	Group	TBD	1,790	200,480
			<b>Monthly Fee(s)</b>		<b>1,484,000</b>
			<b>Fees excl Vat &amp; Disbursement**</b>		<b>5,936,000</b>

\*The monthly fees above are based on an average monthly utilisation of 112 hours. We foresee that the resources may not be fully utilised 8 hours of each day, therefore we will only bill the actual hours worked.

\*\*The total fees is calculated for a period of 4 months i.e. May till August 2019

Except to the extent as set out above, the engagement letter remains unchanged.

#### Acknowledgement and Acceptance

We shall be obliged if you will confirm in writing your agreement to the terms of this letter by signing and returning the enclosed copy. We will then proceed add this to the contract with between PwC and Denel.


Yours sincerely,

**Asanda Myataza**  
Engagement Leader

# ANN. DM26

## GROUP PROCUREMENT PROCEDURE



	<b>DENEL SOC LTD</b> <b>COMPANY PROCEDURE</b>	<b>NUMBER</b> <b>DCOF03</b>																																																									
<b>SUBJECT: GROUP SUPPLY CHAIN</b>		<b>EFFECTIVE DATE</b> <b>1 JULY 2017</b>																																																									
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<b>DRAWER</b>  <b>GROUP CHIEF OPERATING OFFICER</b>	<b>APPROVED AT THE AUDIT AND RISK COMMITTEE MEETING HELD ON</b>  <b>24 APRIL 2017</b>	<b>SIGNATURE</b>  (Original signed by Mr Z Ntshepe)  <b>ACTING GROUP CHIEF EXECUTIVE OFFICER</b>																																																									





## DENEL SOC LTD COMPANY PROCEDURE

### 1 INTRODUCTION

Denel and its divisions acquire goods and services on behalf of the company on a daily basis. This "Procedure" seeks to provide those that engage in procurement activities with a with clear, concise, and accurate information on the Public Procurement of goods and services, by discussing the steps that need to be taken into consideration in effecting such procurement in the manner that is efficient, effective and accordingly complies with the rules prescribed by the Public Finance Management Act and other Regulatory Prescripts.

### 2 PURPOSE AND SCOPE

The purpose of this procedure is give effect to the group supply chain policy number 3 and to ensure that all Supply Chain procurement personnel responsible for the acquisition of products, material and services know exactly what steps to follow in the procurement process. This procedure supersedes all other Denel/divisional procedures on the subject matter.

This Procedure Manual establishes the broad governance framework and principles to enabling legal compliance, alignment, standardisation of procedures and processes, and consistency in decision-making of all stakeholders involved in procurement and supply chain operations.

The scope of this Procedure manual span from the planning phase after the need/requirement arises through to contract management and inventory control.

### 3 APPLICABILITY

This Procedure is applicable to Denel SOC Limited, its Divisions, wholly owned subsidiaries wherein Denel has a controlling interest, operating in terms of South African law, which are subject to the provisions of the PFMA.

Unless otherwise stated herein, this procedure shall be applicable when acquiring all products, material and services for:

- a. Development
- b. Product Support
- c. Production
- d. Services
- e. Capital items
- f. Warranties
- g. Use within Departments
- h. Repairs and Modifications
- i. Sub contracts
- j. Rework



## DENEL SOC LTD COMPANY PROCEDURE

The following items are excluded from the scope of this procedure.

- Telephones.
- City Council (levies, water, lights, etc.).
- Densecure.
- S&T
- Subscriptions.

#### 4 APPLICABLE REFERENCE DOCUMENTATION / LEGISLATION

- The Constitution of the Republic of South Africa Act, 108 of 1996, Section 217
- The Public Finance Management Act (PFMA), Act No. 1 of 1999
- National Treasury: The Public Finance Management Act: Treasury Regulation, issued in terms of the Public Finance Management Act, 1999
- Instruction/practice notes issued by National Treasury in terms of the PFMA and Treasury Regulations
- The Preferential Procurement Regulations, 2011 published in Government Gazette number 34350 dated 08 June 2011
- The Preferential Procurement Policy Framework Act (PPPFA), No. 5 of 2000 as amended
- The SCM, a guide for Accounting Officers/Authorities of February 2004
- International Trade in Arms Compliance – ITAC
- International Traffic in Arms Regulations – ITAR (USA)
- The Broad-Based Black Economic Empowerment Act, No. 53 of 2003
- The SCM Framework published in the Government Gazette number 25767 dated 05 December 2003 as part of Treasury Regulations in terms of section of the PFMA)
- The Framework for the Operationalisation of Government's Procurement Policies in State Owned Enterprises (dates 31 July 2001)
- The Prevention and Combating of Corrupt Activities Act, No. 12 of 2004
- The Promotion of Access to Information Act (PAIA), No. 2 of 2000
- The Promotion of Administrative Justice Act, No. 3 of 2000
- The Arbitration Act 42 of 1965
- The Companies Act of 2008 as amended
- The Competition Act 89 of 1998 as amended
- The Construction Industry Development Board Act (CIDB ACT) 38 of 2000 including the CIDB regulations and Standard for Uniformity, as amended
- The Currency and Exchange Act, No. 9 of 1933 as amended
- The Customs and Excise Act, No. 91 of 1964
- The Electronic Communications and Transaction Act, No. 25 of 2002
- Industrial Policy Action Plan (IPAP)
- Local Procurement Accords
- Delegation of Authority - Policy 2



## DENEL SOC LTD COMPANY PROCEDURE

- Group Procurement Terms and Conditions - Policy 6
- Localisation, Enterprise and Supplier Development Directive – Directive 40
- Code of Ethics and Business Conduct – Policy No. 41
- Fraud and Corruption Prevention – Policy No. 65
- Prevention of Fruitless and Wasteful Expenditure – Policy 62
- Intergroup Pricing - Policy No. 74
- Inventory Provisioning – Directive 3
- Performance Management Framework - Policy 36
- Intellectual Policy – Policy No. 23
- Risk Management Framework – Policy No. 12
- Arms Control Compliance System – Policy No. 38
- Broad Based Black Economic Empowerment Defence Sector Charter

## 5 ABBREVIATIONS

B-BBEE	Broad-based Black Economic Empowerment
CA	Confidentiality Agreement
CDI	Controlled Defence Item
CFI	Customer-furnished Item
CIC	Commercial-in-Confidence
CoC	Certificate of Conformance
CDA	Confidentiality Disclosure Agreement
CEO	Chief Executive Practitioner
CFST	Cross functional sourcing team
DCO	Denel Corporate Office
ECP	Engineering Change Proposal
EM	External Manufacturing
EME	Exempted Micro Enterprise
ERP	Enterprise Resource Planning
EUC	End-user Certificate
EUD	End-user Declaration
EUU	End-user Undertaking
FEC	Forward Exchange (Cover) Contract
FOB	Free on Board
FTP	File Transfer Protocol
GRV	Goods Receipt Voucher
HDI/PDI	Historically, or Previously Disadvantage Individual
IP	Intellectual Property
ISO	International Organization for Standardization
IT	Information Technology
ITAC	International Trade in Arms Compliance



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ITAR	International Traffic in Arms Regulations (USA)
LTA	Long term agreement
MOQ	Minimum Order Quantity
MPS	Material Planning Schedule
MRP	Material Requirements Planning
MSDS	Material Safety Data Sheet
NCACC	National Conventional Arms Control Committee
NDA	Non-disclosure Agreement
OEM	Original Equipment Manufacturer
PDF	Portable Document Format
PDI	Product Data Index
PFMA	Public Finance Management Act
PIA	Proprietary Information Agreement
PO	Purchase order
PPPFA	Preferential Procurement Policy Framework Act (No. 5 of 2000)
PR	Purchase Requisition (Direct Purchase Requisition)
QC	Quality Control
QSE	Qualifying Small Enterprise
RFI	Request for Information
RFP	Request for Proposal
RFQ	Request for Quotation
RFT	Request for Tender
ROE	Rate of Exchange (for Foreign Currencies)
SLA	Service Level Agreement
SMME	Small, Medium and Micro Enterprises.
SOC	State-owned Company
SOE	State-owned Entities
SOP	Sales and Operational Plan
URS	User requirement specifications
VAT	Value-added Tax
WA	Work Authorization
YTD	Year to Date
ZAR	South African Rand





## DENEL SOC LTD COMPANY PROCEDURE

### 6 DEFINITIONS

#### 6.1 Approved Suppliers List

A Practitioner Enterprise Resource Planning (ERP) list of all Denel local and foreign suppliers. Suppliers are categorized as Key, Sole, Preferred, Prototype or Standard. All new suppliers are allocated an ERP vendor code.

#### 6.2 Approved Supplier/Vendor

This refers to any category of Supplier or Service Provider that has been screened and approved in line with the requirements of the Denel Group.

This is a supplier registered on the ERP system, with a specific ERP vendor code

#### 6.3 Asset Procurement

Procurement taking place to obtain an asset which can include the following:

- Capital Equipment
- Property
- Any other requirement that can be classified as an asset

#### 6.4 Controlled Defence Item

A Controlled Defence Item CDI is one of the following:

- Non-proliferation CDI: Any article, technical data or service that is classified as such by specified South African legislation.
- End-use Controlled Defence Item (EUCDI): Any item procured by Denel that is subject to formal end-use or end-user restrictions by foreign governments. A EUCDI is considered as such only if a written notification is given of end-use/end-user restrictions by a foreign government.

#### 6.5 Bill of Materials (BOM)

This refers to a comprehensive list of materials that are required for the manufacture and support of Denel products or systems

#### 6.6 Broad-Based Black Economic Empowerment (B-BBEE)

B-BBEE is a form of Economic Empowerment initiative initiated by the South African government with the goal of distributing wealth across as broad a spectrum of South African society as possible. To this end, all reference to Black people/Black businesses shall bear the small meaning as ascribed in the B-BBEE codes as amended from time to time.



## **DENEL SOC LTD COMPANY PROCEDURE**

### **6.7 Cooperative Purchasing Agreements with Other Denel Divisions/Associates**

Procurement may, from time to time, procure requirements through other Denel divisions to achieve the maximum efficiency and economies in making purchases. In some cases, Denel may combine its needs with other Denel divisions to establish a multi-institutional or system-wide contract.

These contracts would be available for use by the Denel divisions / associates as the need arises.

### **6.8 Emergency Procurement**

An emergency purchase is defined as a circumstance in which an immediate purchase or purchasing decision is necessary to prevent a serious delay, which delay reasonably could result in a danger to life, damage to property, or suspension/delay of the provision of emergency national security interest.

### **6.9 Divisions**

In the context of this Procedure, the term "Divisions" are used to refer to any of the subsidiaries/divisions within the Denel Group that operate a fully-fledged business with a clearly defined set of core products and services.

### **6.10 ERP System**

The ERP system is the Practitioner system used for the ordering process, utilizing the ERP Materials Management Module. ERP programs used in the execution of a purchase request. (SAP, Q-Muzik, Sage etc.)

### **6.11 ERP Vendors (Suppliers)**

ERP refers to the vendor and not the supplier. This is a supplier registered by Finance on the ERP system, with a specific ERP vendor code. All suppliers used on a regular basis must have a specific vendor code. A supplier not used for more than three years will be blocked for verification of the supplier's details.

### **6.12 File Transfer Protocol**

A File Transfer Protocol (FTP) is a protocol for exchanging files over the Internet. It is a Denel controlled FTP site that suppliers can access by means of a password, in order to download or upload electronic files.

### **6.13 Limited Tendering**

In areas of limited competition or capabilities where only pre-qualified suppliers will be asked to tender. Denel selects a tender list drawn from an Approved Suppliers List of qualified suppliers. Supplier qualification is needed due to technical, accreditation, environmental or commercial requirements.



## DENEL SOC LTD COMPANY PROCEDURE

### 6.14 Industrialised Supplier

This refers to a Supplier that was selected after a competitive bidding process and has had their processes and products qualified through a structured process with clearly defined parameters and outcomes. This category of Supplier is a temporary or fixed term Sole Supplier.

### 6.15 Master Production Schedule (MPS)

This refers to a comprehensive list of deliverables inclusive of the said products and services, as well as the timelines (schedules) for the use thereof in order to produce a saleable product or system

### 6.16 Material Requirements Planning (MRP)

This refers to a Plan that details the list of materials and timelines for the materials to be available for production activities to commence.

### 6.17 Multi-Sourced Suppliers

Suppliers are multi-sourced when quotations/tenders are simultaneously obtained from multiple potential reliable sources of supply in order to obtain alternative options.

### 6.18 Non-Disclosure Agreement

A Non-disclosure Agreement (NDA), also known as a Confidentiality Agreement (CA), Confidential Disclosure Agreement (CDA), Proprietary Information Agreement (PIA) or Secrecy Agreement, is a legal contract between at least two parties that outlines confidential material, knowledge or information that the parties wish to share with one another for certain purposes, but with restricted access, or restricted access by third parties.

It is a contract through which the parties agree not to disclose information covered by the agreement. An NDA creates a confidential relationship between the parties to protect any type of confidential and proprietary information or trade secrets. An NDA protects non-public business information.

NDAs are commonly signed when:

- Denel and potential new supplier are considering doing business and need to understand the processes used in each other's business for the purpose of evaluating the potential business relationship.
- Denel, during procurement negotiations with potential new suppliers, may have to first enter into a Unilateral or Reciprocal (Preferred) NDA agreement before continuing with procurement-related requests for restricted information. This is required for protection of sensitive technical or commercial information from disclosure to others.
- Refer to standard NDA local and international templates.



## DENEL SOC LTD COMPANY PROCEDURE

### 6.19 Procurement

The term "Procurement" is defined as the process of reacting/satisfying a need or requirement and then put measures in place to satisfy the need through acquiring a suitable product or service to satisfy the said need/requirement.

### 6.20 Deliverable

A deliverable means any goods and/or service to be delivered (or rendered) by suppliers.

### 6.21 Product Data Pack

A Product Data Pack (PDP) identifies products with associated documents and relevant issues. For manufactured products, an approved Product Data Pack is to accompany each Request for Quotation (RFQ)/Tender or purchase order. During the quotation or manufacturing phase, the supplier will verify:

- PDP product description, number and issue are the same as reflected on the RFQ/Tender or purchase order.
- All associated (required) documents called up in the PDP have been issued.
- All issued documents are the correct issues as called up in the PDP.

### 6.22 Product Industrialization

Product industrialization is not a stand-alone process, but rather an underlying process that ensures that the effort to design, evaluate, manufacture and maintain a product is channelled to ensure cost-effective and acceptable quality manufacture, production, use and maintenance. To achieve such a certain amount of non-recurring cost was spent to establish continuous method through the use of programming, jigs or fixtures.

Product industrialization can be seen as an effort to ensure that an item or component is designed to suit the requirement effectively (not over- or under-designed) and can be manufactured and maintained through the most cost-effective processes for the expected life cycle.

### 6.23 Product/Material

In the context of this Policy the terms 'product' or 'material' are used to define a substance or item that is used in the development or manufacture of a Denel Division core product or by-product for the purpose of effecting a transaction with a Client or Customer. The two terms are used interchangeably.

### 6.24 Product Qualification

Product qualification is the process followed to certify that a manufacturing process can be executed within established boundaries, conditions, restrictions and requirements to deliver a specific outcome. The process of such a qualified product is proven to be stable and is referred to as a "frozen" process. No changes to the process is allowed unless otherwise authorized.





## DENEL SOC LTD COMPANY PROCEDURE

### 6.25 Proprietary Commodities – Good and Services

The goods (also referred to as 'bought-out' or 'off-the-shelf' items) are mainly brand-name proprietary items made to the manufacturer's specifications, produced for general use and ordered by a trade name, with a manufacturer's part or model number. This purchase has as its sole or main purpose, the buying of tangible items such as equipment, parts, supplies or other merchandise.

### 6.26 Purchase Order

A Practitioner purchase order is an ERP system-generated order document, stating items required and conditions applicable as a firm order placed by Denel on a supplier to supply purchased goods or services. These also include change orders approved in line with the relevant Denel delegation.

### 6.27 Quotation and Receipt Thereof

A quotation (bid) is a written offer in a prescribed or stipulated form made by a supplier in an Practitioner letter, fax or Practitioner quotation document, and submitted (addressed to the relevant buyer) within a specified time frame, in response to request for quotation. Receipt methods are:

#### 6.27.1 Closed secure fax/e-mail for tenders

A closed fax/e-mail is a fax/e-mail in a locked environment and controlled. A dual-lock system will be used, i.e. two individuals, one from Finance and one from Supply Chain, each with a different key, will manage the tender receiving process.

#### 6.27.2 Secure tender box for tenders

A secure tender box is a locked box situated in an area where suppliers can easily insert a tender document, and controlled by persons appointed by Finance and Supply Chain. A dual-lock system is used, i.e. two individuals, one from Finance and one from External Manufacturing, each with a different key, manage the tender receiving process. The tender box is used in those instances where it is not practical to use a closed fax, such as when receiving bulk tender documentation.

#### 6.27.3 Open fax or email direct to buyer

The buyer receives quotations via a normal 'open/buyer' fax or via email from potential suppliers such as:

- Single Source such as key, sole or preferred (technically qualified) suppliers.
- Quotation (bid) process not requiring the formal closed fax process.

### 6.28 Request for Information

A Request for Information (RFI) is a standard business process whose purpose is to collect written information about the capabilities of various suppliers. This process can also be used to scan the supplier landscape / market.



## DENEL SOC LTD COMPANY PROCEDURE

An RFI is primarily used to gather information to help make a decision on what steps to take next. RFIs are therefore seldom the final stage and are instead often used in combination with the following: Request for Proposal (RFP), Request for Tender (RFT) and Request for Quotation (RFQ).

### 6.29 Request for Quotation

A Request for Quotation (RFQ) is a standard business process whose purpose is to invite suppliers into a bidding process to bid on specific products or services.

RFQs often include the specifications of the items/services to make sure all the suppliers are bidding on the same item/service. Logically, the more detailed the specifications, the more accurate the quote will be and comparable to the other suppliers. Another reason for being detailed in sending out an RFQ is that the specifications could be used as legally binding documentation for the suppliers.

### 6.30 Request for Tender

A Request for Tender (RFT) is a formal, structured invitation to suppliers for the supply of products or services. In the public sector, such a process may be required and determined in detail by law to ensure that such competition for the use of public money is open, and fair.

### 6.31 Sole Source Supplier

Refers to a Supplier which is exempted from participating in a competitive bidding process as a result of any of the following reasons:

- a) There is documented evidence that the product or service the Supplier provides is the only one of its kind and the Supplier owns the Intellectual Property (IP) or is an Agent of the IP Owner and there is no other alternative product that is fit form and functional;
- b) The Supplier is the Original Equipment Manufacturer – OEM; and
- c) Client Prescribed Suppliers – Suppliers who have been nominated as part of a specific project of specific product/service.

### 6.32 Supply Chain

Refers to a function that addresses Denel requirements from when a need is identified until it is satisfied through the delivery of a product or service. This is team/department within Denel that is responsible for acquiring and delivering the identified need, example SOP and MPS and Strategic Sourcing.



## DENEL SOC LTD COMPANY PROCEDURE

### 7 PROCEDURE ELEMENTS



#### 7.1 Demand Management

##### 7.1.1 Demand Analysis

- As soon as the need arises as a result of either operational or project requirement, Business must analyse the need and plan the execution thereof. Supply Chain Functions or Management must identify and quantify materials and services that will be required to execute operations in a given financial year or period. The Demand Plan shall be based on the Business/Sales Plan or Sales and Operational Plan (SOP) for one or more financial years. The demand setting (SOP, MPS, MRP) will assist in resource and capacity planning as well estimating projected Procurement Spend for a given period.
- The Supply Chain Function must request/instruct the Operations and/or Engineering Department to generate and formalise the Bill of Materials (BOM) for each specific product or system to be used in the demand setting process (SOP, MPS, MRP).
- To ensure effective scheduling of the delivery of materials and services that are required to make a product or system, the Supply Chain Function or Planning Function must draw up a MPS and/or MRP with potential Suppliers to enable order book management and capacity planning. This Master schedule and demand setting must be approved by the relevant entity Business Management/ Exco teams.
- A more detailed breakdown of a MPS is a Material Requirements Plan (MRP) that indicates the planned times for the acquisition and delivery of materials and services. The MRP is an invaluable tool to ensure timely delivery of materials and services whilst minimising inventory costs or the total cost of ownership. Both the MPS and MRP are crucial tools for ensuring an efficient planning, acquisition and ultimately timeous execution of Customer contracts. .
- Prior to the initiation of the procurement process, the relevant Divisional SC Head shall submit the provisionally approved MPS to the office of the Group Supply Chain Executive for identification of opportunities to use compliant or transformed





## DENEL SOC LTD COMPANY PROCEDURE

suppliers, identification of candidates for the ESD programme and ultimately to find value for Denel in the planned procurement transactions.

- Whilst among other things, the assessment of the MPS offers opportunities for the identification of candidates for the ESD programme; the focus must be on the identification of Black-owned companies that have potential to be developed as Suppliers into the core business of Denel – See more details in Policy 40 – Localisation, Enterprise and Supplier Development Directive.
- It is the responsibility of all Divisional Supply Chain Heads to formulate and submit Demand Management Plans to project Spend spanning a 5-year period based on the divisional Corporate Plan, or as directed by the Group SC Executive. This process shall be carried out at the start of each financial year and updated during the course of the year should there be any material change in circumstances .
- Other means of creating demand for procurement could be by ad-hoc requirements such as operational consumables or services required to maintain operations and are crucial for continuous production and delivery. This demand is excluded from the BOM and process steps as previously outlined and will be handled through service or non-stock requisitions as and when required.
- Development/New Project/Product Design demand setting will entail design services or product to be created or designed for a certain application.
- Capital Procurement as set in a Capital Expenditure (CAPEX) Plan pre-approved by management through the annual budget cycles.

### 7.1.2 User Requirement Specification (URS)

- In the absence of a standard or generic specification for a product or service, an ad hoc committee shall be convened or individual having the appropriate expertise shall be called upon to draft the specifications to address the requirements.
- The team does not necessarily have to be a permanent one as it should be convened as the need arises.
- The relevant Head of department is responsible for ensuring that appropriately qualified or experienced people are appointed for defining the specifications or requirements before the request is sent to Supply Chain.
- The Chairperson of the appointed team, after consulting with relevant experts or stakeholders, shall be accountable for the final approval of the technical specifications or user requirements.
- In instances where the expertise does not exist in the relevant Division, the work may be outsourced or contracted to a suitably qualified or accredited organisation. The appointment of the individual or organisation to formulate the specification is the responsibility of the Supply Chain Function and the normal screening and evaluation processes shall apply.

URS should:

- Foster company interest;
- Better engagement with the market;
- Facilitate a competitive environment;
- Encourage innovation;





## DENEL SOC LTD COMPANY PROCEDURE

- Apply a high standard in the delivery of requirements; and
- Be clear and simple and avoid onerous or unnecessary requirements.

### 7.1.3 Formulating a Procurement Strategy

- Once the SOP/SP/BP have been formalised and approved as per the Delegation of Authority, the relevant Supply Chain Head or delegated responsible person shall formulate a Procurement strategy or plan. This process entails a rigorous scanning of the Supplier environment with a view to achieving amongst other things, good value for Denel, product localisation opportunities and transformation objectives. That said, there will be no need to perform a rigorous scan of the market if one was conducted in the same financial year for similar products. The information collated in the financial year can then be utilised to formulate the strategy/plan.
- The relevant Head of the Supply Chain Function or delegated responsible person shall take accountability for the development and implementation of the Procurement strategy or plan.
- The final Procurement strategy/plan shall be submitted to the Office of the Group Supply Chain Executive for approval. The Procurement strategy shall be submitted together with the demand summary.

## 8 APPROACHING THE MARKET

### 8.1 Screening of Potential Suppliers

Suppliers that have been identified as potentially able to meet Denel's product, service, commercial and transformation requirements, must submit, at least, the following documents or certified copies thereof, in order to assess their eligibility as Suppliers:

- Company profile that outlines, as a minimum, the core business, Shareholder details, Directorships, Employment Equity, latest audited financials and any relevant details about the company
- CIPC registration
- Proof of CIDB Certificate – when applicable
- Valid Tax Clearance certificate from SARS
- Valid BBBEE certificate
- Compensation Commissioner's Injury and Occupational Diseases certificate (COLD), as required.
- Relevant ISO/Industry Related certificates, where applicable
- NCACC and Explosives permits, where applicable
- Proof of registration on the Treasury Central Supplier Database (CSD)
- POPI declaration (acknowledgement of POPI requirements)

As part of the screening process in case of subcontracting, the responsible Supply Chain person(s) must ensure that the applicant has adequate infrastructure to operate from, as well as adequate Human Resources to execute the envisaged work.



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In instances where the requirement is a result of an emergency that cannot wait until the screening process is completed, provided there is no suitable Supplier in the Denel database, the focus should be on determining if the identified company has the capability to address the emergency. If the value of the transaction exceeds R30 000.00, then the Order must specify that the Service Provider must at the very least, submit a copy of a valid Tax Clearance certificate as a pre-condition for placing the Order.

**NB: Since the Treasury Central Supplier database is mandatory for use by all State Organs, Government departments and SOC's. All Suppliers in the database are deemed compliant.**

In the event of a foreign potential supplier that has to be screened, the following is required:

International suppliers are required to submit the following documentation, as a minimum, for purposes of becoming a registered supplier on the Denel supplier database:

- Proof of banking details from applicable bank
- Prior to concluding the transaction an application form must be sent to the foreign company requesting them to submit relevant details.
- International suppliers having local South African operations/offices and/or local South African shareholders must provide registration documents from the CIPC;
- International suppliers with no local South Africa operations, offices or shareholding must provide registration documents from the country of incorporation;
- Certified copies of passports for shareholders and directors where shareholders and directors are not in possession of South African identity documentation.
- Proof of the address of the registered head office;
- Company profile confirming services / supply organisational structure, and references of previous supply/services; and
- International suppliers having local South African operations/offices and/or local South African shareholders must provide a Letter of Good Standing in terms of COIDA, while international suppliers with no local South Africa operations, offices or shareholding must provide proof of registration with the COIDA equivalent body of the country of incorporation.

**NB: In addition to the above it is advisable to confirm the existence of the foreign company through a reputable service provider/database.**

Records pertaining to the screening of potential Suppliers shall be retained as proof that the process was followed and also for audit purposes in line with Denel document retention policies.

## 8.2 Sourcing Process

- 8.2.1 After receipt of a Purchase Requisition, the Procurement Practitioner must first establish if requirements can be met from the following already established sources of supply (i-iii hereunder), in the following order, before sourcing from external sources of supply (v hereunder), being the market at large:



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i) An existing Framework Agreement;

The Procurement Practitioner investigates and decides first whether the requirement can be met in whole or in part from existing Framework Agreements at the group or divisional level. Where the requirement can be met from an existing contract, draw-downs for the requirements may be made against the contract by an authorised Practitioner, who is generally an End-User or appointed Contract Manager.

ii) Intergroup:

Denel Group Entities or Divisions have the first right of refusal for Products or services that can be procured from them. Procurement practitioners can only deviate from this provision with the permission of Group Supply Chain Executive based on sound business reasons.

The pricing for services or products shall be formulated in line with the principles outlined in the Intergroup or Transfer Pricing Policy ensuring that the selling entity/division remains reasonably profitable see Policy 74.

iii) Group Transversals:

Where practical, particularly when similar products and services are used across the Group, a concerted effort shall be made by all Entities to collaborate in the procurement of the said products and services. This approach will invariably lead to considerable savings and improved value for the Group.

iv) External Suppliers / Market at Large

Where existing and /or internal sources of supply (i-iii) are not available, suppliers within the external market /market at large must be sourced.

### 8.2.2 External

Having established that there is no established source of supply as outlined above, The Procurement practitioner can approach the external market by issuing either a Request for information (RFI), Request for quotation (RFQ) or Request for tender (RFT). (Collectively referred to as RFX)

A formal RFX shall be sent out to potential suppliers if the internal requirements for the said service or product are clearly defined and the responsible experts or users thereof are satisfied that the potential suppliers will understand them.

Before disseminating any company information (verbal or written) the procurement practitioner shall ensure that the supplier signs a Denel approved non-disclosure agreement and accordingly file the signed document in line with Denel policies and procedures.

**NB: in all the instances specified above, the closing dates for submissions must be specified and enforced accordingly. It is equally important to specify in the RFIs/RFQs/RFPs that Denel reserves the right to cancel the request and that no participant in the process shall in any way or form be entitled to any type of compensation.**





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### 8.2.2.1 Request for information – RFI

- RFI can be used when the solution to a business problem is not immediately evident or clearly defined. The RFI is used to gather information, not to make a selection or an award. The SCM works with the customer to clearly describe the problem, or solicit external. Expertise regarding how to solve the problem and study proposed solutions
- A formal request for information (RFI) shall be sent out to potential suppliers of product or service provided that action may enhance the understanding of requirements on the part of the relevant Denel division. This step is typically adopted in cases wherein specifying requirements for the purpose of inviting proposals or offers from potential suppliers could lead to an unsatisfactory outcome.

### 8.2.2.2 Request for Quote – RFQ (0-R30k) (R30k – R500k)

- An RFQ can be used when the estimated value is less than 500K to obtain pricing, delivery information, terms and Conditions from suppliers. In this case, requestors have a clear understanding of what they need, including requirements and specifications. To procure the exact product or service you need, the customer provides the SCM with As much information as possible, including complete “approved/signed off” specifications, Quantities, and delivery schedule.

Is the value less than R30 000?	Yes	Obtain at least 1 written quotation in line with the order of preference in iv above
Is the value less than R500 000?	Yes	Obtain at least 3 written quotations, if possible from database established for this purpose
Is the value above R500 000?	Yes	Use tender process process: open or closed

Depending on the pool of potential suppliers, the Procurement Practitioners shall not restrict themselves to three quotes unless there is a properly motivated case in writing for doing so. In cases where only one supplier is known, based on a thorough scanning of the Supplier environment, that must be properly motivated in writing as well.

### 8.2.2.3 Request for Tender – RFT (R500k above)

- In instances where the value is above Five Hundred Thousand rand (R500 000) and there are many potential Suppliers, an open tender process must be followed unless there are compelling good business reasons to follow a closed tender process.
- A Closed tender process may be used in cases where there is evidence of a limited number of Suppliers and also in cases where the nature of the product or requirement does not permit Denel to advertise in the mainstream Press or the Public Tender Bulletin – Controlled items fall into the category of items that cannot be advertised in mainstream Press or the Public Tender Bulletin.





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- In order to contain costs, the use of the Treasury CSD presupposes that any invitation to tender or invitation to quote on a public platform. Consequently the use of main stream Press will be used under exceptional circumstances.
- In cases where the closed tender is used, the Suppliers in the database for a specific product or service shall be invited to tender or quote as required.

NB: The relevant procurement Practitioner is responsible for retaining evidence to support using the closed tender process

Any deviations from these provisions shall be approved as per the thresholds stipulated in Delegation of Authority – Pol 2

### 8.2.1.4 Management of Tenders

The management of tenders shall be in line with the PFMA, PPPFA and the relevant Regulations and Instruction Notes issued by Treasury from time to time. The following requirements, as a minimum, shall be adhered to:

- Tender documents must be transmitted to all potential Tenderers simultaneously.
- Proposals from potential suppliers must not be accessed at different times by individual SC personnel.
- Proposals must be accessed at the same time and stamped accordingly and that must be in the presence of an independent person from a non-Supply Chain Function.
- No correspondence must be entered into with individual Tenderers without ensuring that all of them get the same information even the ones who did not request same.
- The mandatory requirements and adjudication criteria must be specified in the tender documents.
- A declaration of Bidders past supply chain management practises must be obtained
- A Certificate of independent Bid Determination must be obtained to eliminate any form of bid rigging
- All winning bidders must be assessed against the National Treasury's Prohibited Entities List, evidence of this must be recorded
- The deadline for all submissions must also be specified in the tender document and late submissions shall be disqualified.
- Any member of the tender requirements definition team with a conflict or potential conflict of interest shall recuse themselves from the team.
- For all tender adjudication processes, the scores for both the individual as well as the consolidated scores must be recorded and filed for audit purposes.
- Cancellation/re-issuing of tenders may occur any time after the tender has been issued to the market and before contract award.
- Should it be necessary for a formal tender to be cancelled, approval needs to be obtained as per the delegation of authority.



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- After approval has been obtained, the Procurement Practitioner informs all participating suppliers of the cancellation. Where an open competitive tender requires cancellation, suppliers must be notified of the cancellation through the same media / advertising platform through which the invitation was published (i.e. newspapers, tender bulletin, National Treasury eTender Portal, CIDB's i-tendering, etc.), provided that the costs of advertising in the media is not excessive. Where the invitation to tender was to a closed list of suppliers, then written notification of cancellation must be sent to each of the invited suppliers.

### 8.3 Limited Bidding

There are few instances where procurement practitioners can deviate from the competitive process set out above. To avoid abuse of these processes, procurement practitioners can only deviate under conditions set out herein.

Is there is limited competition in the market? This should be based on a thorough analysis of the market?	YES	Use 'Multiple source' route/closed tender
Does the division/Denel have a nominated single source for the deliverables in question? This should be based on a thorough analysis of the market and use a transparent and equitable pre-selection process?	YES	Use 'Single source' route
Is there supplier/s that have gone through a defined, well documented development/ qualification/ industrialisation phase on the components/goods in question? This process can only be utilised if there was a thorough analysis of the market and use a transparent and equitable pre-selection process was utilised in the selection process before the initial order for development/ industrialisation/qualification was placed.	YES	Use 'Industrialised supplier/qualified supplier' route
There is no competition and only one bidder exists (for example, sole distribution Rights)?	YES	Use 'Sole source' route
Emergency? Urgent cases are cases where early delivery is of critical importance and the invitation of competitive bids is either impossible or impractical. (However, a lack of proper planning should not be constituted as an urgent case.)	YES	Use Emergency procurement route
It does not fall under any of the above instances?  The objective of competitive bidding is to provide all prospective bidders with timely and adequate notification of Denel's requirements and an equal opportunity to bid for the required goods, works or Services. This allows for unfettered Competition.	YES	Use competitive bidding route as outlined herein



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Suppliers that are classified as Sole/Single-source, Industrialised and OEM, qualify for the classification following a structured and objective market scan and a rigorous evaluation of their capabilities and products. As a minimum, the following steps shall be carried out:

- A formal invitation either through an Open tender or RFI/Q.
- An evaluation of their submissions or proposals based on pre-approved screening criteria.
- An evaluation of the process and/or product to confirm the degree of compliance in terms of product characteristics and related processes
- A formal report that demonstrates how the final outcome was arrived at based on the assessment that was carried out.
- The report and recommendation must be submitted to the relevant Procurement Committee for interim approval
- Once the relevant Procurement Committee's provisional approval has been obtained, the file with relevant evidence shall be submitted to the Group Supply Chain Executive for final approval.

8.3.1 The Divisional Supply Chain Heads shall ensure that a detailed list(s) with all Single-source/Sole, Industrialised, Client prescribed Suppliers and OEMs is generated and approved by the relevant Procurement Committee and finally by the Group Supply Chain Executive. As far as possible these categories of Suppliers shall be flagged in the relevant databases.

8.3.2 A complementary database or list of the said categories of Suppliers shall be maintained once the CSD is fully operational for ease of procurement.

8.3.3 Evidence on the screening, evaluation and approval of the categories of Suppliers as specified above shall be maintained to attest to the integrity of the process and the validity of the classification.

8.3.4 Once Suppliers have been categorised as above, it is not mandatory to go out on tender or request quotes from other potential competitors to the said Suppliers. The agreed pricing must be for a specific period and if there are requests for changes to the pricing, the same parties that approved the initial pricing shall evaluate the requirement and approve or reject as required. See Delegation of Authority for more details – Policy 2.

8.3.5 Benchmarking shall be undertaken at pre-agreed intervals based on the contractual obligations and the complexity of the product

#### 8.4 Emergency Procurement

An emergency is not a situation that arises as a result of poor planning or lack of funds. Failure to anticipate a need, lack of planning and project delays are not considered a bona fide emergency.

In such cases, purchases must be limited to emergency situations or to exceptionally urgent purchases that could genuinely not have been foreseen or planned for, and where the remaining time is insufficient to meet the required date if the normal procurement





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procedure is followed. If the needed items are required immediately, Purchasing will expedite order placement using whatever means are available.

All emergency purchases shall be approved in advance, wherever possible, by the Group Supply Chain Executive. Where time or circumstances do not permit prior approval, approval must be obtained at the earliest practical date.

Request for approval shall be made in writing and shall include:

- a purchase requisition;
- a quotation abstract; and
- a written explanation of how the emergency was determined (giving specific reasons why the procurement is an emergency).

### 8.5 Purchase Order, Credit Card

The use of a purchase order or credit card is limited to purchases where the monetary value does not exceed R20 000.00 per transaction.

Prior ERP electronic purchase release approval is required before payment can take place. No controlled goods or company assets may be procured using a company credit card. All non-client-related goods will be reviewed on a case-to-case basis to determine if the normal procurement process needs to be followed.

## 9 EVALUATION OF TENDERS/ PROPOSALS/QUOTES

All Tenders/Proposals/Quotes shall be evaluated in terms of the evaluation criteria specified in the PPPFA and/or relevant Regulations or instruction notes issued by National Treasury from time to time. Due cognisance must be paid to the importance of getting value for Denel's spend and the pursuit of transformation targets as set out in the relevant shareholder compact and BBBEE codes as amended.

To ensure that the evaluation process is fair and objective, members of the Adjudication Committee shall initially rate each Supplier individually based on the submitted proposals.

The Chairperson must ensure that all team members are sufficiently briefed and all essential aspects of the bid are clarified before the team commences with the individual scoring. Each member must further declare that the process was properly explained and that it was accordingly understood.

The Chairperson of the team shall collate the scores and facilitate further discussions should there be notable discrepancies pertaining to some of the rating scores/evaluation.

There will be instances where there is just reason to award the contract to a tenderer that did not score the highest points; or break a deadlock in scoring; in such cases the adjudicating committee will apply an objective transparent criteria,

- If two or more tenderers score an equal total number of points, the contract must be awarded to the tenderer that scored the highest points for B – BBEE.



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- If functionality is part of the evaluation process and two or more tenderers score equal total points and equal preference points for BBEE, the contract must be awarded to the tenderer that scored the highest points for functionality.

Once the scores have been collated and the rating of Bidders completed, the Chairperson shall draft a motivation for the selected company and a report of the process for submission to the relevant Procurement Committee for approval and the Group SC Executive as per the DoA.

When evaluating tenders, the team shall follow a 3 stage evaluation process as set out below. To ensure that the evaluation process is fair and objective, members of the Adjudication Committee shall initially rate each Supplier individually based on the submitted proposals.

Table 1

PREQUALIFICATION		STAGE 1			STAGE 2				
STEP 1	STEP 2	STEP 3	STEP 4	STEP 5	STEP 6	STEP 7	STEP 8	STEP 9	STEP 10
Administrative	Substantive	Minimum Threshold			Weighting scoring: 100***				
Returnables/document /schedules	Pre-qualification	Local Content *	SD	Functionality/Technical **					
Bidders will be requested to submit their SD commitments as returnable documents, where the market analysis indicates that it is not viable to include SD as a threshold, SD will be requested as a prequalification criterion. Bidders will be requested to provide B-BBEE Improvement plan as to how bidders will improve their B-BBEE status over the contract period as an additional document			SD threshold must be based on market analysis	Technical/functional criteria & weightings must be stipulated in the tender documents	Price (50/50) B-BBEE Scorecard (20/10)	Post Tender negotiation requesting preferred bidders to provide their BAFOs	Final Evaluation 50:20 or 50:10	Selection of the preferred bidder & negotiation of various aspects including final SD commitments and the B-BBEE Improvement plan.	Conclusion of contract incorporating the SD and B-BBEE improvement plan.
* Indicative stipulated minimum threshold as prescribed by national treasury (if applicable). If the sector is not designated localisation must be incorporated into SD threshold, not prescribed (if applicable)					** Indicative *** Point system dependent on value of transaction				

9.1 Prequalification

9.1.1 Administrative Mandatory Evaluation Criteria

- Administrative Mandatory Evaluation criteria, sometimes called ‘conditions of tender’ or ‘tender rules’ are the requirements or rules that the buyer sets out in the tender document regarding the procedure for lodging an offer.
- They are scored as ‘pass/fail’ or ‘yes/no’.
- Each offer must conform to these conditions to be eligible for further evaluation. An offer that fails to meet these conditions can be rejected. It is important to highlight such conditions and provide clear guidance for suppliers on what they must do to meet them.
- Mandatory conditions could include such items as:
  - hard copy offer received (no fax or e-mail offers being acceptable)
  - offer received on time
  - offer signed



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- supplier name, address and contact details included
  - correct documents submitted e.g. SBD/MBD Documents,
  - separate sealed envelope containing pricing details,
  - correct number of copies included,
  - electronic copy of offer attached in correct format,
  - signed declaration of conflict of interest included, etc.
  - Supplier Development and Localisation (SD&L) over and above PPPFA Regulations, namely BBBEE, Localisation, Industrialisation, Skills Development, Job Creation and Supplier Development elements.
- The team may decide that failure to meet all conditions results in an offer being rejected.
  - Sometimes, a degree of discretion is allowed forming failures such as provision of five copies of the offer instead of six. This can be acceptable if the breach is minor, can quickly be rectified and the nature of the breach does not afford the supplier unfair advantage.
  - The buyer's tender documents must address whether or not late offers will be received. The general rule is that late offers should only be accepted in exceptional circumstances and only if:
    - DENEL can be certain that there is no possibility of unfair advantage
    - the late supplier has no knowledge of other offers
    - the late offer conforms in all other respects to the mandatory process conditions
    - the lateness of the offer does not unduly delay the evaluation process.

### 9.1.2 BBBEE improvement plan

Denel encourages its suppliers to constantly strive to improve their BBBEE rating. Whereas tenderers will be allocated points in terms of the preference point system of the PPPFA based on its BBBEE scorecard, in addition to such scoring, at this stage tenderers will be required to submit B-BBBEE improvement plan detailing how the tenderer intends improving their B-BBBEE status during the course of the contract should the order be placed on their company later.

The impact of the amended codes of good practice on the BBBEE scorecard needs to be indicated at time of tender as well as how the organisation plans to overcome any challenges or obstacles work on the BBBEE improvement plan for each year of the contract. This will be measured in accordance with the requirement of annual verifications done and BBBEE certificates to be provided (though it must be noted that all suppliers are required to inform Denel of any change in their BBBEE status whereby failure to do so might result in termination of contract). The plans should not only cover issues of ownership, but must extend to other elements such as Skills Development, Job Creation and Supplier Development elements.



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### **9.2 Stage 1**

#### **9.2.1 Functional Evaluation Criteria**

Functional evaluation criteria, is also known as "Performance or Quality Criteria". They may either be:

- Critical/ Mandatory
- Not critical / Optional

Functionality/Application requirements are a pre-requisite to applying the mandatory/statutory criteria. Aspects such as the following should be considered when defining functionality:

- Capability
- Capacity
- Ability to meet delivery milestones
- Customer References/ Track records
- Adherence to Specification

The capability elements must be defined by a properly constituted team of experts or specialists or an organisation with the appropriate expertise appointed by the relevant Head of Supply Chain.

#### **9.2.2 Critical / Mandatory Functional Criteria**

These criteria are so important that it cannot be compromised.

- Suppliers **MUST** comply with these criteria in order to be considered for further evaluation
- Any negotiable aspects cannot be deemed as critical/mandatory evaluation criteria
- Compliance to these criteria should be by means of a "YES" or "NO" answer only, and be backed-up with documentary proof
- If any of these criteria are not met, the supplier will be disqualified and not be considered for further evaluation.

#### **Examples of Critical/Mandatory evaluation criteria**

- Quality: The supplier must have an accredited Quality System (for e.g. ISO 9000 as amended from time to time)
- Capacity: "Manufacturing facilities must be capable of producing as per Denel's request
- Accredited Standards: ISO, SABS etc.
- Technical Specifications: - Full adherence to specification – but we must also be careful as specifying 100% compliance to the technical specification as minimum evaluation criteria is setting you up for failure, as it is highly unlikely that all aspects of the specification are deemed as critical and any over-compliance will also be



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deemed as non-compliance to the original specification and will as such disqualify the supplier from further evaluation.

- Supplier Development and Localisation (SD&L) over and above PPPFA Regulations, namely BBBEE, Localisation, Industrialisation, Skills Development, Job Creation and Supplier Development elements.

### 9.2.3 Not Critical / Optional Functional Criteria

These criteria are negotiable and can be weighted according to importance (high weight for more important criteria and a low weight for less important criteria).

- Documentary proof will be required in order for evaluation panel members to determine a score for the criteria (e.g. 0=unacceptable; 1=poor; 2=less than acceptable; 3=good/acceptable; 4= more than acceptable; 5=exceptional; or some similar scoring mechanism)
- The criteria should as far as possible be measurable. Subjectivity should be minimised.
- These criteria should be linked to a minimum threshold that should be achieved in order to be considered for further evaluation.

#### Examples of Not critical / Optional evaluation criteria

- Understanding the requirements
- Quality systems/processes
- Low fuel consumption
- Low environmental impact

## 9.3 Stage 2

### 9.3.1 PPPFA Evaluation Criteria

This evaluation criterion is also known as "Price & Preference" evaluation criteria.

Total points out of 100:

- Price points are out of 80 / BBBEE preference out of 20 for low value tenders under R50m incl. VAT
- Price points are out of 90 / BBBEE preference out of 10 for high value tenders over R50m

### 9.3.2 Price Point Calculation

- The lowest cost tender (Pmin) gets the maximum points (80 or 90).
- The points for all other tenders are calculated against the value of the lowest acceptable tender.





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- This is a straight line calculation. The effect is that a tender at double the cost will get zero points for Price. Any bid more than double the lowest price will get negative points.

Where:

$P_s$  = Total Points scored for comparative prices of the tender or offer

$P_t$  = Comparative Price for tender or offer under consideration

$P_{min}$  = Comparative Price for lowest acceptable tender

## 10 APPROVAL

### 10.1 Short-Listing for Post-Tender Negotiations

Based on the outcome of evaluations, the Procurement Practitioner and End-User/cross-functional team determine whether it is necessary to negotiate post-tender. If so, they must obtain a mandate to negotiate from the appropriate Delegated Approval Authority. The request for a mandate to negotiate must set out the mandate objectives, such as commercial, technical and financial parameters for the negotiation.

### 10.2 Delegation of Authority

- The approval of any transaction, depending on the value of the transaction shall be in accordance with the Group Delegation of Authority.
- Divisions may draft customised Delegation of Authority documents to simplify and cascade approval levels in line with the Group's Delegation of Authority. It is the responsibility of the Divisional CEO to ensure that there is full alignment with the Group's DoA.
- Where the DOA is silent on other procurement ancillary matters, the authority shall be deemed to vest in the person delegated to approve the procurement transaction of that amount, except in cases of "deviations" where the authority shall be deemed to vest in the person one level higher than the person delegated to approve the procurement transaction of that amount.
- Furthermore in a case of deviations, where the authority one level higher is higher than the divisional CEO, the authority shall be deemed to vest in the Group Supply Chain Executive unless otherwise stated by law.

## 11 CONTRACTING/ORDER PLACEMENT

### 11.1 Notification of Award

- Once approval has been given to the award of the contract to the successful supplier, the Procurement Practitioner notifies the successful supplier of the acceptance of his tender. The Procurement Practitioner must ensure that this notification is received by the successful supplier, because notification of



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acceptance will become legally binding upon Denel. E-mailed notifications will be subject to the Electronic Communications and Transactions Act.

- Once the contract is printed, the Procurement Practitioner takes the contract to the Practitioner and authorised Denel signatory as nominated by the Delegated Approval Authority to sign the contract on Denel's behalf. It is the responsibility of the Procurement Practitioner to ensure that the contract is signed by the duly authorised delegates of Denel and the Supplier before order placement against the contract. In other words, orders cannot be executed against a contract where the contract has not been signed by the parties, and any orders placed against the contract in the absence of contract signature may place Denel at legal risk in the event of a breach of contract, a claim against the contract or a dispute with the supplier. To the extent that orders may have to be placed before contract signature, consent must be obtained in writing from the relevant delegated Practitioner for deviations.
- For tenders advertised through the central database, the results must accordingly be publicised on the tender portal.

### 11.2 Contracting of Suppliers/Service Providers and Long-Term Agreements

An analysis should be undertaken to define whether there is a necessity for a contract to be in place, or whether the standard terms and conditions of the purchase order are sufficient to satisfy the business unit's needs.

As a guideline, for once off purchases and general MRP driven requirements, a standard purchase order may satisfy the requirement but for on-going service provision, for example cleaning services, machine repair services and waste management, it would be critical to manage and measure this service by putting a contract or service level agreement in place.

Contracts will only be awarded to a supplier or service provider following a proper Denel Sourcing process that results in a supplier that meets Denel's qualifying criteria. The maximum contract period will be 3 years with an annual review to address suitability to current business requirement and pricing.

Cognisance must always be given to following the right sourcing process. (Refer to Annexure E- Tender Process).

One of the following contracting methods may be adopted when contracting with a supplier:

- Back to back (conditions flowing down from the terms and conditions agreed to with the Client/End User) contract,
- Denel general terms and conditions of contract/Order,
- The supplier's terms and conditions of contract, only in exceptional cases with the approval of the Group Supply Chain Executive.

The contract may only be signed in accordance with the DENEL's DOA. It must be signed, dated by both parties, and accordingly archived in accordance with the company's policies and procedures.



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- The main contractual requirement is that only Suppliers that meet Denel's qualifying criteria be contracted for a maximum period of three years unless a longer period is properly motivated and approved as per the Denel Delegation of Authority.
- The award of 3 –year Contracts or Agreements shall be extended to Beneficiaries of the Denel Group's ESD programme as per Directive 40.
- The Group Procurement Standard Terms and Conditions, Policy 6, shall be used in all cases when contracting Suppliers. The nature of the product or service determines which clauses are relevant and it shall be the responsibility of the Contract Manager to identify clauses that are relevant and delete those that are not required.
- Back to back terms and conditions flowing down from the flowing down from the terms and conditions agreed to with the Client/End User can be used to minimise risk and ensure that contractual obligations are accordingly carried through/ distributed to the suppliers. The nature of the product or service determines which clauses are relevant and it shall be the responsibility of the Contract Manager to identify clauses that are relevant and delete those that are not required.
- Regular reviews of progress against the approved Plan shall be conducted and corrective measures taken where necessary. Minutes or records of reviews shall be maintained as proof thereof.

**NB: It is a contravention of the PFMA and this Policy to award contracts with Suppliers without following the screening and evaluation process as outlined in this Policy.**

### 11.3 Panel Contracts

The appointment of a panel of service-providers must be executed against a signed and approved strategy, and approval for contract award, must be obtained from a relevant Delegated Approval Authority. The appointment of a panel of service providers must follow a two-stage process.

The first stage is conducted as a pre-qualification enquiry where suppliers are first screened and pre-qualified for general compliance to technical, SHE, quality, and Supplier Development & Localisation requirements, including specific goals, if applicable.

Price is generally not requested as part of the pre-qualification enquiry, unless a standard rate is prescribed for acceptance.

Once pre-qualified, suppliers on the panel may then compete on a per task order basis as part of the second stage, where they may tender based on the 80:20 or 90:10 preference point system as may be relevant to the task order, or where capacity /capability /location, treated as objective criteria, may become factors in task order award.

Panels may be used as a mechanism to support the development of emerging suppliers where task order allocations are based on principles of rotation.

Contract Managers are responsible for putting in place appropriate systems and controls to ensure that:





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- Work / task orders are distributed fairly and equitably among the panel of suppliers;
- RFQs for task orders not exceeding R500 000.00 must be received and administered via the same process for the receipt of informal tenders;
- All RFPs relating to task orders must be formally received and administered via the relevant Tender Office;
- All RFQs relating to task orders greater than R5m must be received and administered via the relevant Tender Office;
- Criteria for the selection of a particular supplier for the allocation of work / task orders are defined and documented within the RFQ / RFP and enabling agreement, and made known to panel suppliers and End-Users;
- There is a documented and approved task order approval process;
- Task orders are placed against contracts with sufficient funds and time available for the completion of the supply / services;
- Supplier Development & Localisation targets and objectives are being monitored and tracked.
- All of the above controls must be dealt with upfront as part of the approved strategy, and executed during the contract management phase.

### 11.4 Cooperative Purchasing Agreements with Other Denel Divisions/Associates

- Procurement may, from time to time, procure requirements through other Denel divisions to achieve the maximum efficiency and economies in making purchases. In some cases, Denel may combine its needs with other Denel divisions to establish a multi-institutional or system-wide contract.
- Unless otherwise agreed to with the Group Supply Chain Executive, where practical, particularly when similar products and services are used across the Group, all divisions must collaborate in the procurement of the said products and services. The intent is to leverage on the volumes and improve the buying power for the Group. This approach will invariably lead to considerable savings and improved value for the Group.
- The Group Support SC Manager shall together with relevant Divisional Supply Chain Heads, identify high usage and high value items and services used across the Group, consolidate same and procure them at Group level. This will ensure that the Group uses its purchasing power to get the best value for Denel.
- These contracts would be available for use by the Denel divisions / associates as the need arises.

## 12 MANAGEMENT OF SUPPLIER PERFORMANCE

To achieve good performance on the part of all contracted Suppliers, it is imperative that a Supplier Performance Management System or Tool be developed and implemented by all divisions to monitor and take corrective actions in instances when performance is unacceptable. The Performance Management tool is also to be used to recognise and reward Suppliers who consistently meet or exceed Denel requirements





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The System/Tool shall amongst other metrics, also track the following:

- Product/Service Quality
- Delivery performance
- Transformation – BBBEE Codes or Approved Transformation Plan
- Any other relevant metric

In instances where contracts are in place, all critical contractual requirements shall be reviewed at agreed intervals with the contracted parties. The intervals may not exceed six successive months.

### 12.1 Supplier Performance Monitoring and Reporting

#### 12.1.1 Performance Monitoring of Supplier

All suppliers will be monitored in accordance with the following three criteria:

##### 12.1.1.1 Supplier delivery performance, weight 40%

- ERP reporting data for selected period.
- Percentage calculation of number of orders identified late (supplier at fault) versus total number of order lines.

##### 12.1.1.2 Supplier non-conformance, weight 40%

- ERP reporting data for selected period.
- Only non-conformances reported via Quality notification and where final outcome of investigation shows that supplier is at fault, will be used in performance reporting.
- Percentage calculation of number of non-conformance items identified (supplier at fault) versus total number of items procured.

##### 12.1.1.3 Supplier general (logistics) performance, weight 20%

- ERP reporting data for selected period.
- Percentage calculation of buyer's feedback/rating of supplier general performance.
- General performance covering suppliers, timely quote response, resolves issues efficiently, credibility and general communication.

#### 12.1.2 Reporting Supplier Performance

When calculating a final supplier performance score, the Supplier Evaluation ERP Module performance report takes into account the performance elements listed in paragraph 6.4.1 and their relevant performance weight.

The performance must be communicated to all key suppliers on a regular basis to improve supplier performance and relationships. As a minimum, a supplier performance report is issued once a year.

The supplier performance report shall be used by buyers and the relevant procurement managers as an input for:



## DENEL SOC LTD COMPANY PROCEDURE

- Supplier requiring supplier improvement or to be blocked from further purchase order placement.
- Supplier selection during multi-source quotations.

The performance score is as follows:

- > 80% – Supplier meets Denel performance requirements with respect to procurement order placement.
- 60% to 80% – Supplier requires supplier improvement, but procurement order can continue to be placed.
- < 60% – Supplier automatically suspended with no further order placement.

### 12.2 Risk Management and Reporting

It is mandatory to formulate and monitor Risk Mitigation Plans to address risks that could disrupt operations in the Group. The Risk Mitigation Plans shall focus mainly on Sole/Single Source and Industrialised Suppliers.

All Risk Mitigation Plans shall be reviewed at quarterly intervals to ensure continued relevance and effectiveness.

In addition to formulating Risk Management Plans, the Heads of Supply Chain at Divisions shall ensure that quarterly reports as per the stipulated SC metrics are submitted a week prior to the quarterly meetings. In certain cases, ad-hoc reports or more frequent reports may have to be submitted to the Group SC Executive to address and monitor identified hotspots.

### 12.3 Process to Address Poor Performance and Misrepresentation by Suppliers

In instances where a Supplier is unable to address poor performance against metrics that are monitored or as per the contractual requirements, the relevant Entity shall endeavour to assist the said Supplier prior to taking drastic actions or terminating the contract, if there is one in place.

Suppliers that are guilty of fronting shall be blacklisted and prevented from doing business with any of the Denel Divisions for at least 10 years.

**NB: In cases where the decision to terminate the contract has been taken or is being considered, the relevant Entity shall consult the Group Supply Chain Executive for guidance and final approval. The conditions stipulated in contracts shall be adhered to at all times.**

## 13 INVENTORY MANAGEMENT

It is the responsibility of the Supply Chain Function to ensure that prior to placing any order for products/services that the execution of the order is in line with the approved MPS/Requisition.



## DENEL SOC LTD COMPANY PROCEDURE

Every Division shall have an inventory management procedure to ensure that there are effective controls in place to deal with:

- Excess
- Obsolete and
- Disposal of unwanted inventory
- Inventory replenishment strategies
- Stock turns
- Stock accuracy

For more details on inventory management kindly refer to the Denel Directive 3.

### 14 IMPORT PERMITS

The timely acquisition of permits for importing relevant components/sub-systems or sub-assemblies must form part of the planning and procurement process to ensure that applications are lodged with NCACC timeously. The key considerations are compliance with ITAC and ITAR requirements as well as getting delivery of the relevant items on time.

The relevant Supply Chain Head shall assign a person within the Supply Chain Function to drive the timely lodging of permit applications and monitoring progress against relevant Plans.

In instances where there are difficulties being experienced in securing permits on time, the Group Risk and Compliance Manager must be approached for assistance. It is the responsibility of the relevant Supply Chain Head to ensure compliance with this process and to implement systems to maintain the process under control.

### 15 ROLES AND RESPONSIBILITIES

#### 15.1 Accounting Practitioner

“Accounting Practitioner” means a person mentioned in section 36; Source: Section 36 of the Public Finance Management Act (PFMA)

#### 15.2 Requester

A requester is any employee who identifies the need for procurement and who in this regard request supply chain's involvement, support and consultation in activities associated with the acquisition of goods and services.

#### 15.3 Cost Centre / Node Manager

A cost centre manager is any member of the management team responsible for a cost centre, with delegated authority to authorize expenditure against the cost centre.

Where a manager/delegated person is responsible for a specific node, the said person has delegated authority to authorise expenditure against the relevant node.



## DENEL SOC LTD COMPANY PROCEDURE

### 15.4 Supply Chain Management Team

A supply chain management team consist of the management members from supply chain department with the authority to sign off on and authorise purchase orders within provision of the delegation of authority.

### 15.5 Cross Functional Sourcing Team

A CFST is a team that comprises of individuals from different functional units brought together to achieve purchasing. The composition will vary depending on the nature and complexity of the specific project. It must always include representative from supply chain and the business unit concerned.

### 15.6 Procurement Practitioner

A Procurement Practitioner is an employee within Supply Chain / Procurement appointed, trained and authorised to co-ordinate and/or execute a procedure or process as contained in this procedure.

They receive the needs/requirements through the ERP System

- Execute the RFX process with Suppliers
- Execute Purchase Orders for the procurement of assets, goods and / or services on behalf of the beneficiary as requested in the authorised and valid URS (User Requirement Specification).
- The Procurement Practitioner has the right and duty to question and confirm requirements, and to escalate such questions, but not to change a request without the permission of the beneficiary.

**NOTE: PROCUREMENT PRACTITIONERS ARE THE ONLY COMPANY EMPLOYEES ALLOWED TO EXECUTE PROCUREMENT ACTIVITIES ON BEHALF OF DENEL.**

### 15.7 Supply Chain Management

SCM must in the case of procurement through a tendering process provide for:

- The establishment, composition and functioning of relevant role-players;
- The evaluation of tenders through a Tender Evaluation Committee;
- The establishment, composition and functioning of Tender Evaluation Committees;
- The appointment and functioning of the Tender evaluation/Adjudication Committee's approval of Tender Evaluation Committee recommendations as per DoA.

### 15.8 Strategic Sourcing / Procurement Manager

The Manager responsible for the Strategic Sourcing and/or Procurement processes. To ensure adherence to the procedure with good governance and compliance.

Strategic Sourcing is an institutional procurement process that continuously improves and re-evaluates the purchasing activities of a company.





## DENEL SOC LTD COMPANY PROCEDURE

### 15.9 Adjudication/Evaluation Committee

- The Adjudication/Evaluation committee evaluates and assess proposals submitted, and process followed. Recommends their final decision made and then recommends for approval by the Procurement Committee.
- The Evaluation committee/Adjudication committee shall always consist of members of different departments.
- Tender evaluation committees shall be constituted in such a way that, as a minimum, the following Functions/Roles are represented:
  - **Chairperson/Chairperson** – This role must be assumed by a person who is an expert in the management of tenders, preferably someone with a strong Supply Chain background and Chairpersonship qualities.
  - **User Community Representative** – A person (s) that is well versed with the product or service that is required. This may be an input material or finished product. This category may include persons who represent the user community from different functional areas or departments or divisions.
  - **Product/Service/Process Expert/Specialist** - This role must typically be assumed by an expert insofar as the product and service are concerned. In some instances that could be the same person(s) who represents the user community.
  - **Financial Practitioner** – In instances where the cost of ownership or future costs are not readily discernible, it may be necessary to enlist the services of a person with financial expertise. This role is optional.

**NB; Additional team members may be invited depending on the relevance of the expertise required. For simple day-to-day products and services it may not be necessary to constitute a Committee as specified above.**

### 15.10 Technical Specialist

It is a person or a panel / forum that has expert technical know-how or is technically inclined to provide a technical specification for a said product. This can also be referred to as a subject matter expert.

### 15.11 Procurement Committees/Boards

Approves expenditure for procurement of goods and services with the Procurement Process, Governance and compliance in mind.

Procurement committees are delegated by the CEO or the CFO to authorise purchases / disposals within Denel according to DoA.

The procurement committee shall be governed by Terms of Reference signed and approved by the divisional CEO.

- The Procurement Committee/Board main responsibility shall be the evaluation and approval of submissions by Procurement Practitioners/Users/Requesters or



## DENEL SOC LTD COMPANY PROCEDURE

delegated parties. In addition, the Procurement Committees shall verify compliance with applicable legislation and Denel Group Policies.

- Procurement Committees shall be constituted as follows:
  - Chairperson – This role must be assumed by the Divisional Supply Chain Head or delegated Senior Supply Chain Manager or the CEO of the Division. If the CEO delegates this responsibility, it must be taken up by an Executive Committee member who may not be the COO or a person responsible for Operations. This is intended to avoid a conflict of interest. However, the person delegated to chair the Committee must be conversant with Supply Chain principles and the business dynamics or requirements.
  - Committee Secretary – This role must be assumed by a person well versed with Procurement principles and relevant legislation.
  - Financial Expert - This role must be assumed by a qualified Accountant that will assist the Committee in the financial assessment of any submission.
  - Quality Specialist – This role must be assumed by a person well versed with Quality, Risk and Environmental Management principles.
  - Relevant Expert (Optional) – Depending on the nature of the product or service required the Committee Secretary shall ensure that the person with the relevant expertise is notified and invited prior to the Committee meeting.
- It is imperative that minutes of the meeting deliberations and decisions are generated by the Secretary to back up any decision that is taken by the Committee.
- Transactions from hundred thousand rand (R100 000) and above, as well as long term agreements or service level agreements, and any other contracts, including capital procurement greater than or equal to five thousand rand (R5 000.00), be presented to the divisional procurement committees for approval.

## 16 CONDONATION OF IRREGULAR PROCUREMENT

Whenever any Denel employee procures assets, goods or services by any means without adherence to the Approved Procurement Framework, the condonation process must be followed in order to give effect to the irregular procurement and enable payment to the supplier.

The irregular procurement must be dealt with as follows, involving 3 separate but simultaneous steps:

- **The disciplinary / remedial process** where the employee who committed an act of financial misconduct, may be disciplined according to the approved HR/IR policies and procedures. This is in compliance with the PFMA requirement for the effecting of disciplinary action if irregularities have occurred within the execution of procurement;
- **The internal governance process due to a deviation from the approved procurement framework:** All condonations must be logged by the procurement committee secretariat and with the Risk Department where a risk assessment must be conducted in consultation with the line management of the defaulting employee in order to determine the risks faced by Denel as a result of the procurement irregularity and any specific actions that need to be taken in order to rectify or prevent the



## DENEL SOC LTD COMPANY PROCEDURE

irregularity from re-occurring. The Risk Department will follow up with the relevant line managers on the status of the corrective / preventative / disciplinary processes to be taken within the agreed time frames, and will report thereon via the Audit and Risk Committee.

- **The payment process to the supplier:** The relevant procurement committee is required to approve the payment to the supplier against a valid invoice, and to the extent that Denel has a valid contractual obligation to pay for the assets, goods or services delivered. Unless otherwise advised by the Denel Legal/Risk Department, the procurement committee is not permitted to unduly delay or withhold payment due to a supplier, based on internal governance issues.

The execution of the 3 steps must take place as follows:

- Once an employee's line manager becomes aware of a possible condonation, he/she must investigate the procurement and based on the outcome of the investigation, determines whether corrective or disciplinary action must be taken against the employee. The line manager must be assisted by IR/HR in executing the disciplinary action, and this process is independent from the process of authorising payment to the supplier, which is a commercial transaction authorised by a procurement committee
- In order to seek condonation from a procurement committee to enable payment to the supplier, the defaulting employee and his/her line manager must present the facts regarding the irregular procurement together with valid invoices to the appropriate procurement committee. This is the responsibility of the line manager and the defaulting employee, and not the responsibility of the local procurement department. The procurement function is not responsible for the processing of condonations to the procurement committees.
- If the irregular procurement occurred against an approved existing contract, but in a manner which was irregular, the request for condonation must be made to the procurement committee that approved the original contract/order (subject to its delegation of authority, which if exceeded by the cumulative value of the contract value and condonation value, must then be tabled at the next higher level of delegation). If the original order / contract had been approved through dual or triple adjudication, then the condonation must still be sought from a relevant procurement committee with an appropriate level of delegation of authority. If the procurement occurs in the absence of an approved contract/order, then the value and duration of the executed supply determines which procurement committee to approach.
- The procurement committee applies its mind to the request for condonation of the irregular procurement, including addressing matters such as whether the amount payable is contract or market-related, the impact as a result of foreign currency (if any) and/or whether interest may be payable, etc., and based on this, may condone the irregular procurement as a commercial transaction and authorise payment to be made to the supplier.
- When condonation of the irregular procurement has been granted, the line manager (or his/her authorised nominee) must create a PR in the ERP system which must be routed via the Cost Centre Manager to the relevant procurement department in





## DENEL SOC LTD COMPANY PROCEDURE

order to facilitate creation of a purchase order and to enable payment to be made to the supplier.

- The line manager concerned (or his /her authorised nominee) arranges for payment to be effected by sending the minutes of the procurement committee, a copy of the invoice and the PR number to the assigned Procurement Practitioner who will create a purchase order for payment purposes.
- The authorisation of payment as condonation for an irregular procurement is reported by the coordinating official/Secretariat of the procurement committee to the Risk for PFMA reporting and monitoring purposes. The Secretariat of the procurement committee will update the relevant internal monitoring data repository with the relevant details of the condonation approved.
- Risk Department will monitor the progress of the disciplinary / corrective actions taken by the line manager, within a stipulated and agreed time frame.
- All condonations will be reported by the head of Risk department on a regular basis to the Group Audit and Risk committee and / or relevant sub-committees thereof.

## 17 ETHICS

### 17.1 Declaration of Interest

#### 17.1.1 Supplier declaration

All suppliers must declare potential conflict of interest at registration stage. Thereafter, only suppliers within a financial year with total purchase orders exceeding R1 million are required to repeat the declaration process. Supplier must fill in and sign a supplier declaration form, declaring no interest or declaring interest, providing full declaration/particulars in that regard.

#### 17.1.2 Denel employee declaration

Over and above the annual declarations by all Denel personnel, all personnel involved in the adjudication or award of tenders are required to declare any interests in the companies bidding for the work and/or awarded the work.

### 17.2 Bid Rigging (or Collusive Bidding)

Bid rigging (or collusive bidding) occurs when businesses (co-conspirators), that would otherwise be expected to compete, secretly conspire to raise prices or lower the quality of goods and / or services for purchasers who wish to acquire goods and / or services through a bidding process. Bids are designed to give the appearance of competition. Bid rigging is, therefore, an agreement between competitors not to compete. Procurement Practitioners should be sensitive for such behavior and it should not be allowed.

### 17.3 Fraud Line

Instilling ethical conduct and living the Denel value of integrity. In the spirit of good corporate governance, Denel encourages its employees, suppliers and customers to report any fraud and all forms of corruption to the dedicated fraud line 0800 20 48 80. All



	<b>DENEL SOC LTD COMPANY PROCEDURE</b>
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incidents will be followed up. Denel will not tolerate harassment or victimization, and will take action to protect whistle-blowers that raise concerns in good faith.

18      **PROCEDURE ADMINISTRATION**

The policy shall be reviewed when the relevant business processes, or new standards and pertinent legislation change. The update of the Policy may also be necessitated by deficiencies found during an audit.

19      **REVISION HISTORY**

<i>Date</i>	<i>Version</i>	<i>Comments</i>

# ANN. DM27

REQUEST FOR APPROVAL OF ADDITIONAL  
RESOURCES



Annexure 27



DENEL GROUP

Group Finance

Tel: +27 12 671 1313

Fax: +27 12 671 2751

Email: thandekas@denel.co.za

08 April 2019

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**TO : Supply Chain Manager**
**SUBJECT : Approval for the securing of additional resources for the correction of prior period error correction project**


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**BACKGROUND**

At 31 October 2018, the Auditor General issued a disclaimer audit opinion for Denel. The basis of the opinion was errors in the prior year financial statements. The finance team was tasked with sourcing external resources in order to correct these errors. The Board issued an instruction that Finance must source external assistance in order to correct prior period errors identified by the 2017/18 external audit report. The process followed required resulted in Deloitte being appointed to provide the technical assistance in resolving these issues. Due to delays in resolving the revenue issues in particular, management was instructed by the audit committee held on 02 April 2019 to obtain additional resources in order to assist the finance team to resolve the prior period errors. Management contacted PriceWaterCoopers (PWC) for the additional resources. It is important that Denel resolves the prior period errors/ and demonstrate an improvement in the 2018/19 audit opinion. A repeat disclaimer audit opinion will have a negative impact in the rollover of the R3.4bn debt in August 2019.

**RECOMMENDATION**

In procuring the additional resources, management did not follow the prescribed supply chain processes as a result this expenditure will be irregular for the 2019/20 financial year

*Please place order soonest*

**Recommended by:**

*[Signature]*  
**Wim de Klerk**  
 Group Chief Financial Officer (Interim)

**Approved by:**

*[Signature]*  
**Danie du Toit**  
 Group Chief Executive Officer

Denel SOC Ltd, Reg No 1992/001337/30, Nelmaplus 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 W Hlahla (Chairperson), Mr I Dockrat<sup>1</sup> (Act. Group Chief Executive Officer), Mr Z M Mhlwana<sup>1</sup> (Group Chief Financial Officer), Mr N R Kunene, Dr S P Sibisi, Mrs G T Serobe, Mr M T Sadik, Mr T H Magazi, Lt. Gen. T T Matanzima (rd), Ms S R Rabkin, Ms N Styolula, Mr M M Mntsi, Dr H Nel, Gen. S Nyanda (rd), Ms M K Lelisoanya

<sup>1</sup> Ex-Officio Director  
 Group Company Secretary: FluidRock Co Sec (Pty) Ltd



Mr Wim De Klerk  
Acting Chief Financial Officer  
Denel SOC Ltd  
Nellmapius Drive  
Irene, Centurion  
South Africa

30 April 2019

Dear Mr De Klerk

**Addendum to Engagement Letter: Secondment of resources to assist the Finance Division with year-end processes for FY2019 for the period 3 April to 30 April 2019**

Whereas PricewaterhouseCoopers Inc (PwC) and Denel SOC Ltd ("Denel") entered into an engagement letter dated 02 April 2019, which was signed on 02 April 2019 ("the engagement letter") in terms of which PwC was contracted to o the Finance Division to assist with the secondment of 7 resources to the Finance Division to assist with the FY19 year-end processes. Specific scope of work, comprising, but not limited to the following:

- Reconciliations (both for SoFPos and SoFPPerf level)
- General Ledger reviews;
- Review of external audit finding for FY2018 to ensure they are addressed;
- Assisting with preparation of annual statements for FY2019; and
- Audit support

While the above was still underway, you required us to extend the services to include the following:

- Provision of 3 x technical resources for the provision of advice and observations relating to the accounting matters that should be considered under International Financial Reporting Standards ("IFRS") regarding the application of IFRS 15 and other standards applicable to Denel. These resource will be deployed as follows:
  - 3 x resources to assist with all financial technical queries at all divisions
- Provision of 7 x senior resources for the overall co-ordination of the external audit process for FY 2019 as follows:
  - 1 x resource at Denel Land System ("DLS")
  - 1 x resource at Denel Properties ("DP")
  - 1 x resource at Denel Aero structures ("DA")
  - 1 x resource at Denel Dynamics ("DD")
  - 1 x resource at Denel Vehicles Services ("DVS")
  - 1 x resource at LMT
  - 1 x resource at Group level

PricewaterhouseCoopers Advisory Services (Pty) Ltd., Reg. no. 1999/024417/07  
4 Lisbon Lane, Waterfall City, Jukskei View, 2090, Private Bag X36, Sunninghill, 2157, South Africa  
T: +27 (0) 11 797 4000, F: +27 (0) 11 209 5800, [www.pwc.co.za](http://www.pwc.co.za)

M A O'Flaherty – National Advisory Leader  
The Company's principal place of business is at 4 Lisbon Lane, Waterfall City, Jukskei View, where a list of directors' names is available for inspection.





**Confirmation**

I have read the above letter and accept the terms and conditions set out therein.

Signed by:

A handwritten signature in black ink, appearing to read "Wim De Klerk", written over a horizontal line.

Mr Wim De Klerk  
Acting Chief Financial Officer

\_\_\_\_\_  
(date)



# ANN. DM28

GCEO CONTRAVENTION OF POLICY





DENEL GROUP

Group Finance

Tel: +27 12 671 1313  
 Fax: +27 12 671 2751  
 Email: [thandekas@denel.co.za](mailto:thandekas@denel.co.za)

08 April 2019

---

**TO : Supply Chain Manager**
**SUBJECT : Approval for the securing of additional resources for the correction of prior period error correction project**


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**BACKGROUND**

At 31 October 2018, the Auditor General issued a disclaimer audit opinion for Denel. The basis of the opinion was errors in the prior year financial statements. The finance team was tasked with sourcing external resources in order to correct these errors. The Board issued an instruction that Finance must source external assistance in order to correct prior period errors identified by the 2017/18 external audit report. The process followed required resulted in Deloitte being appointed to provide the technical assistance in resolving these issues. Due to delays in resolving the revenue issues in particular, management was instructed by the audit committee held on 02 April 2019 to obtain additional resources in order to assist the finance team to resolve the prior period errors. Management contacted PriceWaterCoopers (PWC) for the additional resources. It is important that Denel resolves the prior period errors/ and demonstrate an improvement in the 2018/19 audit opinion. A repeat disclaimer audit opinion will have a negative impact in the rollover of the R3.4bn debt in August 2019.

**RECOMMENDATION**

In procuring the additional resources, management did not follow the prescribed supply chain processes as a result this expenditure will be irregular for the 2019/20 financial year

**Recommended by:**

  
 Wim de Klerk  
 Group Chief Financial Officer (Interim)

**Approved by:**

  
 Danie du Toit  
 Group Chief Executive Officer

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<sup>1</sup> Ex-Officio Director  
 Group Company Secretary: FluidRock Co Sec (Pty) Ltd

**Thandeka Sabela**

---

**From:** Wim De Klerk <wim.dk@outlook.com>  
**Sent:** 02 April 2019 02:59 PM  
**To:** michal.kotze@pwc.com  
**Cc:** Thandeka Sabela  
**Attachments:** Denel - Secondment of Resources Quotation\_02042019.pdf; ATT00001.htm

Please find attach the approval for your records.

Thandeka, please organize with Asanda where and when they must report.

*... please organize with Asanda where and when they must report*

*Make it now at 8 tomorrow at our offices??*

*When they must report.*







Mr Wim De Klerk  
Acting Chief Financial Officer  
Denel SOC Ltd  
Nelmapius Drive  
Irene, Centurion  
South Africa

30 April 2019

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M A O'Farley – National Advisory Leader  
The Company's principal place of business is at 4 Lisbon Lane, Waterfall City, Jukeskei View, where a list of directors' names is available for inspection.



**Confirmation**

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Signed by:

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Mr Wim De Klerk  
Acting Chief Financial Officer

\_\_\_\_\_  
(date)

