



PRESENTATION TO PUBLIC ENTERPRISES PORTFOLIO COMMITTEE

Ms. Martie Janse van Rensburg, Messrs. Riaz Saloojee and Fikile Mhlontlo

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OVERVIEW OF DENEL

(Corporate Video)

DENEL PRODUCTS AND CAPABILITIES



CORE PRODUCT PORTFOLIO

Humanitarian demining services and products

Maintenance repair and overhaul

Unmanned
Aerial vehicles



Aerostructures



Engineering
services



Technical Training

Munitions and
sub components

Mine Protected
Vehicles

Land based systems
(Artillery, Infantry
and Armour systems)

Command and Control

Missiles

STRATEGY

STRATEGIC INTENT AND PURPOSE

Aligned to the mandate given by the Shareholder, as articulated below:

Purpose

Supply SA defence and security environment with strategic technology capability, products, services and support

Leverage indigenous capability to access selected export markets

Contribute to socio-economic imperatives of government, such as:

- Job creation, skills development and social investment
- Enhancing the local technology and manufacturing base
- Supplier development
- Exploiting commercial use of technology
- Foreign policy and regional security objectives

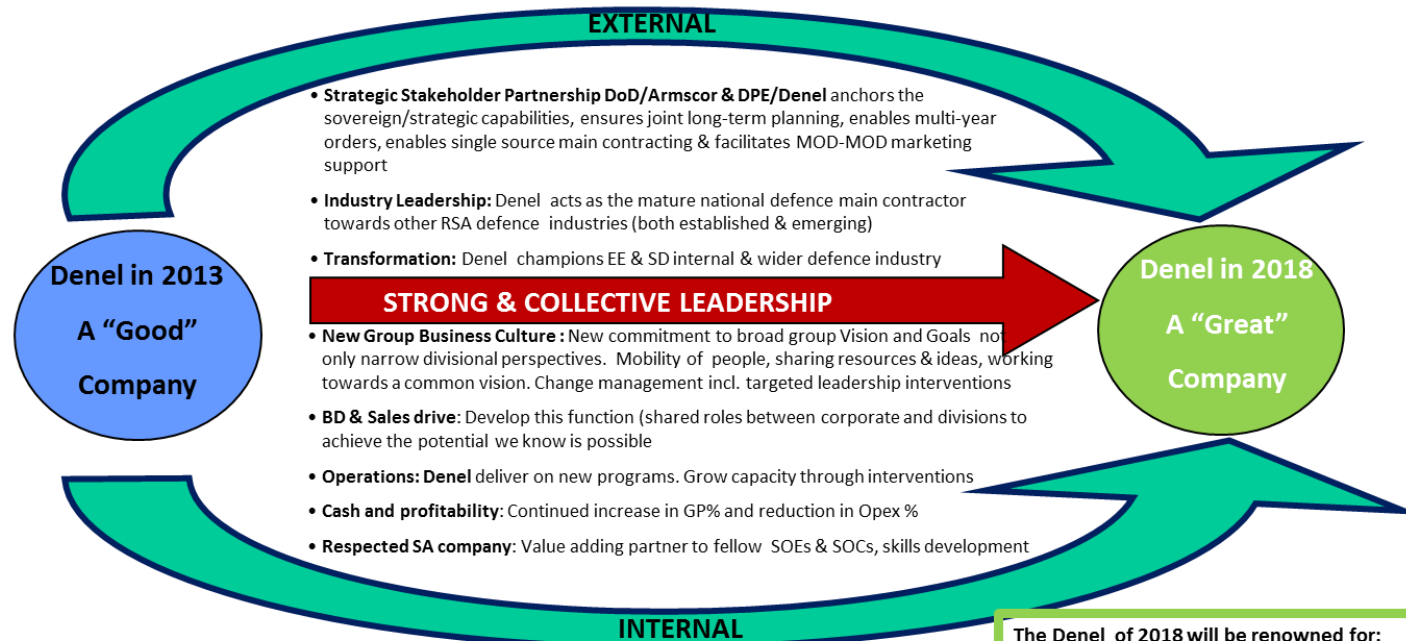
Be a responsible corporate citizen to ensure:

- Good governance and sustainability
- Transformation and employee well-being

STRATEGY FIRMLY IN PLACE



STRATEGY ROADMAP



The Denel of 2013 – Promising Progress:

- Solid opportunity pipeline
- All business areas (except aerostructures) profitable
- Improved programme execution performance
- Improved customer confidence, and a commitment to a strategic partnership between DoD/Armscor and DPE/Denel
- Solid conventional technology base (though in a maturing industry sector)
- BBBEE Level 3
- Strengthened human capital base, with improved age and EE profile, and improved attraction and retention trends

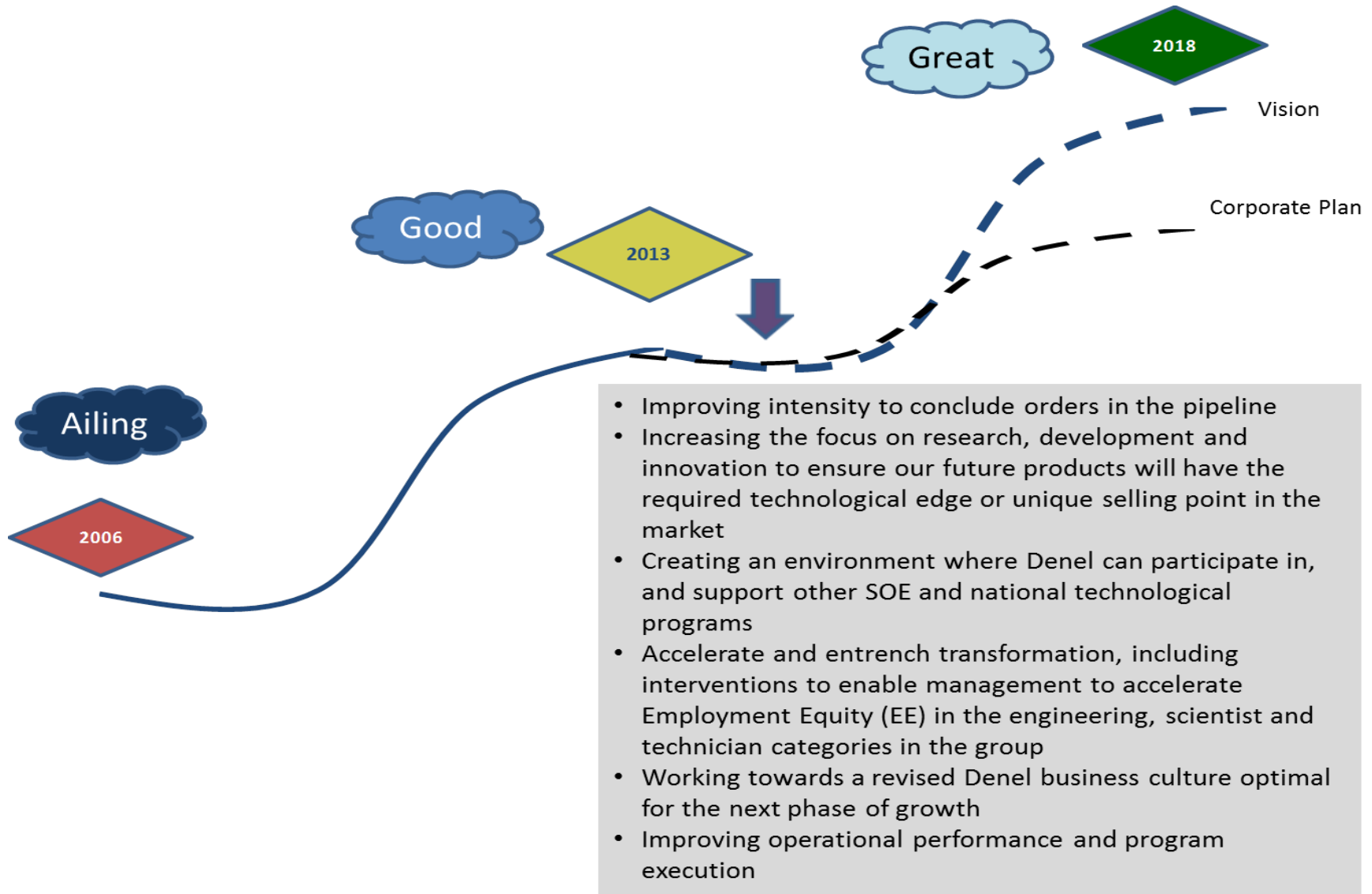
The Denel of 2013 - Remaining Challenges:

- Quicker conversion of opportunities from the strong opportunity pipeline into long-term orders
- Cost base has improved but more needed
- Aerostructures requires > R100m pa to break even
- Sub-optimal R&D investment in context of our high-technology industry priorities. Specific areas eg. ammunition and artillery under threat.
- Asymmetrical warfare technology base weak though improving in certain areas example the LMT acquisition, new missile technologies.
- Though overall ACI representivity now 50%, EE in senior management & engineering still unacceptable

The Denel of 2018 will be renowned for:

- New future orientated, group focussed business culture well established
- Revenue has grown to more than R7bn
- EBIT on group level more than 7% after major investments in R&D and Transformation
- Sufficiently funded balance sheet
- Long-term orders book more than 5x turnover, including new orders from SOEs
- Modernised product offerings in most capability areas provides competitive edge
- Challenged product areas incl. artillery, UAVS, ammunition & aircraft MRO re-positioned
- Marked improvement in EE levels for Engineers and Senior Managers, and improvement in average age of workforce

STRATEGY ROADMAP INTO THE FUTURE



OUR KEY STRATEGIC DRIVERS

Growing of order book and annual revenues

- Focussed business development activities
- Dynamic and appropriate business development model
- Increase multi-year order book >30bn
- Aggressively pursuing new opportunities >40bn
- Leveraging of significant contracts (e.g. Mbarc, Al-Tariq, A400M and Hoefyster) for new work

Optimal organisational structure, efficiency and performance

- Streamlined support services and organisation
- Unified and effective group Exco
- Significant business issues elevated to group Exco
- Modest Opex and acceptable EBIT
- Good corporate governance
- Efficient use of resources and financial discipline
- Programme execution and on time delivery
- Efficiency improvement interventions e.g. plant renewal at PMP

People development and transformation

- Strong collective leadership
- Interventions to improve transformation
- Capable and disciplined workforce
- Development of small and strategic supplier base
- High performance culture
- Increased spending on training and SED initiatives
- B-BBEE level 2 rating

Modernisation of capabilities and technologies

- On-going modernising technology and establishing new capabilities
- Constant review and focus on the technology roadmap
- Own R&D investment $\pm 5\%$ of turnover
- Carefully selected technologies e.g. artillery, space, new missiles technology, command and control, etc.
- Include development work to sustain future business

Focused strategic relationships

- Key customer relationships
- Strategic relationship with DoD, DPE and Armscor
- Smart partnerships with strategic markets e.g. Middle East, South America, Africa, Far East, etc.
- Leverage country bilateral relationships e.g. BRICS, SADC, AU, etc.
- SOC to SOC relations e.g. in UAVs, railway rolling stock, SKA, space, etc.
- Support by financial institutions for facilities

ORDER BOOK OVER THE PAST 7 YEARS

- Order book for the group at R32bn to be executed over the next 5 to 10 years. Order cover for 2014/15 is at 91% compared to 79% this time in the prior year



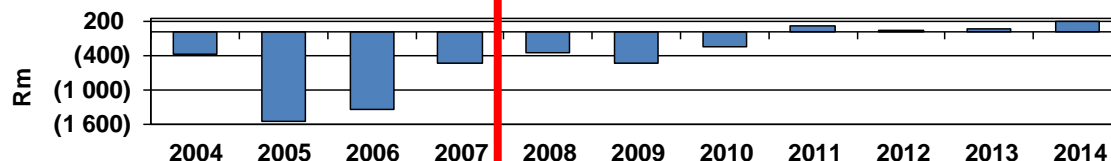
KEY DEVELOPMENTS

- Strategic Drivers: Significant progress achieved in Revenue Growth, Cost Optimisation, Enhancing Capabilities through Innovation, Leadership Development and Transformation
- Order book in excess of R32bn - the highest order cover in Denel's history
- Progress in strategic business development markets: Middle East, Africa, South America and the Far East
- Denel exploring acquisition opportunities in the landward, command & control and cyber security
- Denel has established a Maritime capability – South African Defence Review
- Memorandum of Cooperation (MOC) with the SecDef (Secretary of Defence), the respective Chiefs of Services, DPE and Armscor
- AAD (Africa Aerospace & Defence Show) - Showcased Denel products and capabilities and hosted various delegations.
- Hosted inaugural Aerospace, Maritime and Defence Conference - future of local industry
- Extensive resource planning to facilitate envisaged growth including infrastructure (e.g. plant renewal and human resource development)
- 5-year corporate plan the strongest in the history of Denel; includes improved financial performance, increased equity and reduced levels of debt

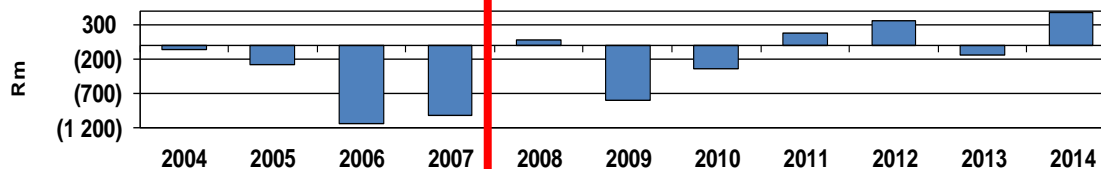
FINANCIAL PERFORMANCE

SHOWING PROGRESS TO SELF-SUSTAINABILITY

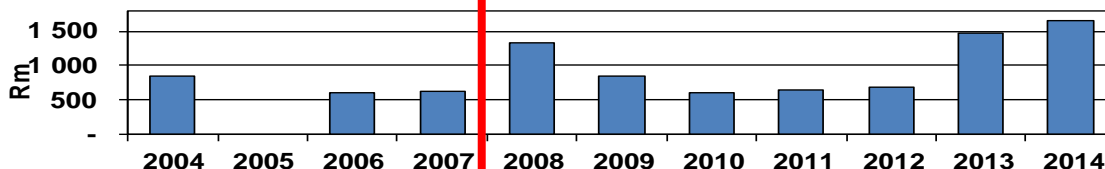
Profits/(losses)



Cash from operations



Solvency



Denel turnaround



The group has continued to improve on historic results through restructuring and turnaround interventions and have posted profits for four consecutive years

The strategic focus is on significantly growing revenue by aggressively driving business development, as well as enhancing technology and capabilities, whilst continuing transformation and efficiency imperatives

DENEL 2013/14

Denel **contributes to national security and peacekeeping** by supporting military independence through security of supply of sovereign and strategic military capabilities.

Operational successes:

- Completion of development and validation of Oryx upgrade programme
- Successful first flights of the Seeker-400 UAVS
- Test and validation of operational features of Al-Tariq precision guided munitions
- Excellent progress on Airbus A400M production packages
- Record number of successful test campaigns at OTR
- Positive media coverage regarding performance of the Rooivalk combat support helicopter during deployment as part of peace support operations in Africa; and
- Research and development investment of R507m during the year.

Employment and skills development – providing quality employment opportunities in high tech environment, as well as artisan competency development:

- Spending R64m towards skills development within the financial year;
- Denel employs 6 555 employees including associated companies;
- Supports in excess of 20 000 indirect jobs;
- Schools outreach programme.

Denel contributes towards addressing **SA's national developmental priorities**, such as skills and supplier development, growing the strategic technology base and creating skilled jobs that bring downstream benefits to broader society.

2013/14 FINANCIAL HIGHLIGHTS

• Revenue

- Revenue R4 588m improves 17%
- Local revenue R2 313m remains fairly constant
- Export revenue R2 275m improves by 28% - now 50% of total revenue

• Profit

- Operating profit R224m improves 91%
- Net profit R194m improves by R123m

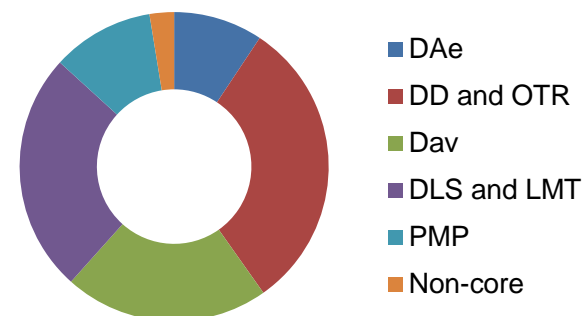
• Balance sheet

- Debt equity ratio improves from 1.3 to 1.1
- Equity position R1 664m improves by R192m
- Borrowings reduced marginally by R38m

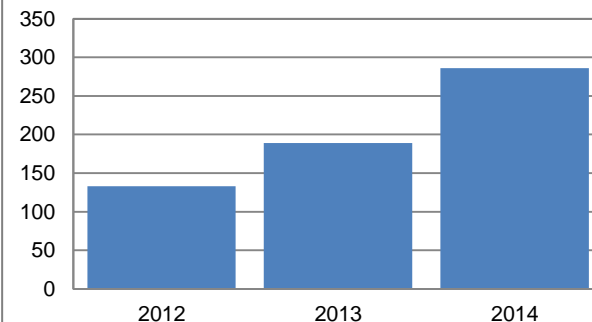
• Other

- Significant R&D spend of R507m
- Skills development spend of R64m

Revenue contribution per business unit



EBIT



Denel's long-term FitchRatings rating upgraded to AAA (zaf) from AA- and the short term rating at F1+(zaf) confirmed with a stable outlook

GROUP INCOME STATEMENT: 31.03.2014

	Actual Mar-14 Rm	Actual Mar-13 Rm
Revenue	4 588	3 918
Cost of sales	(3 689)	(3 092)
Gross profit	899	826
Gross profit as % of sales	20%	21%
Other income	204	231
Other operating expenses	(879)	(940)
Operating costs as % of sales	(19%)	(24%)
Operating profit/(loss)	224	117
Share of profit of associates	58	72
Profit/(loss) before interest and tax (EBIT)	282	189
EBIT as % of sales	6%	5%
Finance costs	(140)	(143)
Finance income	48	36
Income tax expense	4	(11)
Net profit/(loss)	194	71

GROUP BALANCE SHEET: 31.03.2014

	Actual Mar-14 Rm	Actual Mar-13 Rm
Non-current assets	2 293	2 177
Current assets	5 712	4 497
Inventories	1 020	713
Trade and other receivables	2 930	2 263
Loans and receivables	117	182
Other financial assets	132	42
Cash and short-term deposits	1 513	1 297
Assets held for sale	84	104
Total assets	8 089	6 778
EQUITY AND LIABILITIES		
Total equity	1 664	1 472
Total liabilities	6 425	5 306
Loans and borrowings	1 875	1 914
Advance payments received	2 694	1 579
Provisions	646	788
Trade and other payables	1 100	946
Other financial liabilities	110	78
Total equity and liabilities	8 089	6 778

ABBREVIATED CASH FLOW STATEMENT: 31.03.2014

	Actual Mar-14 Rm	Actual Mar-13 Rm
Net cash flows from/(used in) operating activities	474	(151)
Receipts from customers	5,201	3,626
Payments to suppliers and employees	(4,674)	(3,792)
Other movements	(53)	15
Net cash flows used in investing activities	(206)	(167)
Net cash flows from/(used in) financing activities	(52)	521
Net cash generated	216	203
Balance at the beginning of the year	1,297	1,094
Balance at the end of the year	1,513	1,297

SHAREHOLDER COMPACT - KEY PERFORMANCE INDICATORS: 31.03.2014

Strategic intent	Key performance area	Key performance indicator	Contracted	Achieved
Strategic role in the provision of defence capabilities	Retention of capabilities in areas required by the DoD&MV	Retained strategic capabilities in support of the DoD&MV's requirements	100%	100%
	Programme delivery	Milestones achieved per contract deliverables	>85%	>95%
Strategic economic role	Local content	Local procurement as % of total procurement on core programmes	≥70%	71%
	Investment in R&D	Self funded R&D as % of revenue	≥3%	3%
Business sustainability	Revenue	Increase in revenue year on year	≥12%	17%
	Profitability management	EBIT as % of revenue	3%	6%
	Cash from operating activities	Cashflow from operations before changes in net current assets as % of revenue	2%	5%
	Order cover	Orders concluded in respect of the coming year as % of sales budget of that year	60%	85%
	Operating expenditure (OPEX)	Operating costs as % of revenue	22%	19%
Socio economic objectives	Contribution to economic transformation (including key supplier development)	B-BBEE contributor level	Level 3	Level 3
	Training spend	Training as % of personnel cost	3%	3%
	Skills development scarce skills and critical skills	No of engineering trainees	29	17 engineering trainees and 82 engineering bursars
	NGP commitments and Denel specific learners	Technician trainees	12	16
		Artisan trainees	64	126
		DTA partnership artisan trainees	435	231 apprentices and 764 learners attended type training and advanced courses
	Employment creation- Direct jobs created (Denel employees)	Number of direct jobs created	88	99

SUPPLY CHAIN MANAGEMENT

Material procurement : >R3bn.

Denel's supply chain strategy includes:

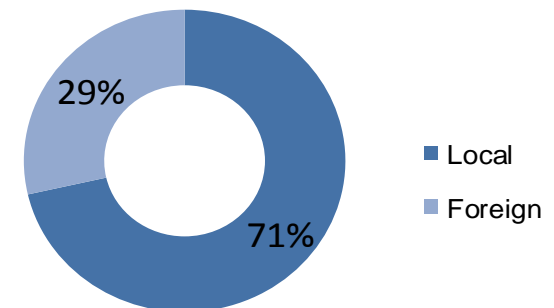
- **Maximising local content** in programmes and better **support to local defence industry**
- Equitable sharing of supply chain spend; ensuring adequate **participation by black-owned businesses**
- Exploiting purchasing power to **drive down costs and create value**

Highlights:

Local spend of 71% vs 70% target

Recognised B-BBEE spend of 79% vs 70% target in codes

Increased number of ED beneficiaries from 58 to 76



SYSTEMS OF INTERNAL CONTROL

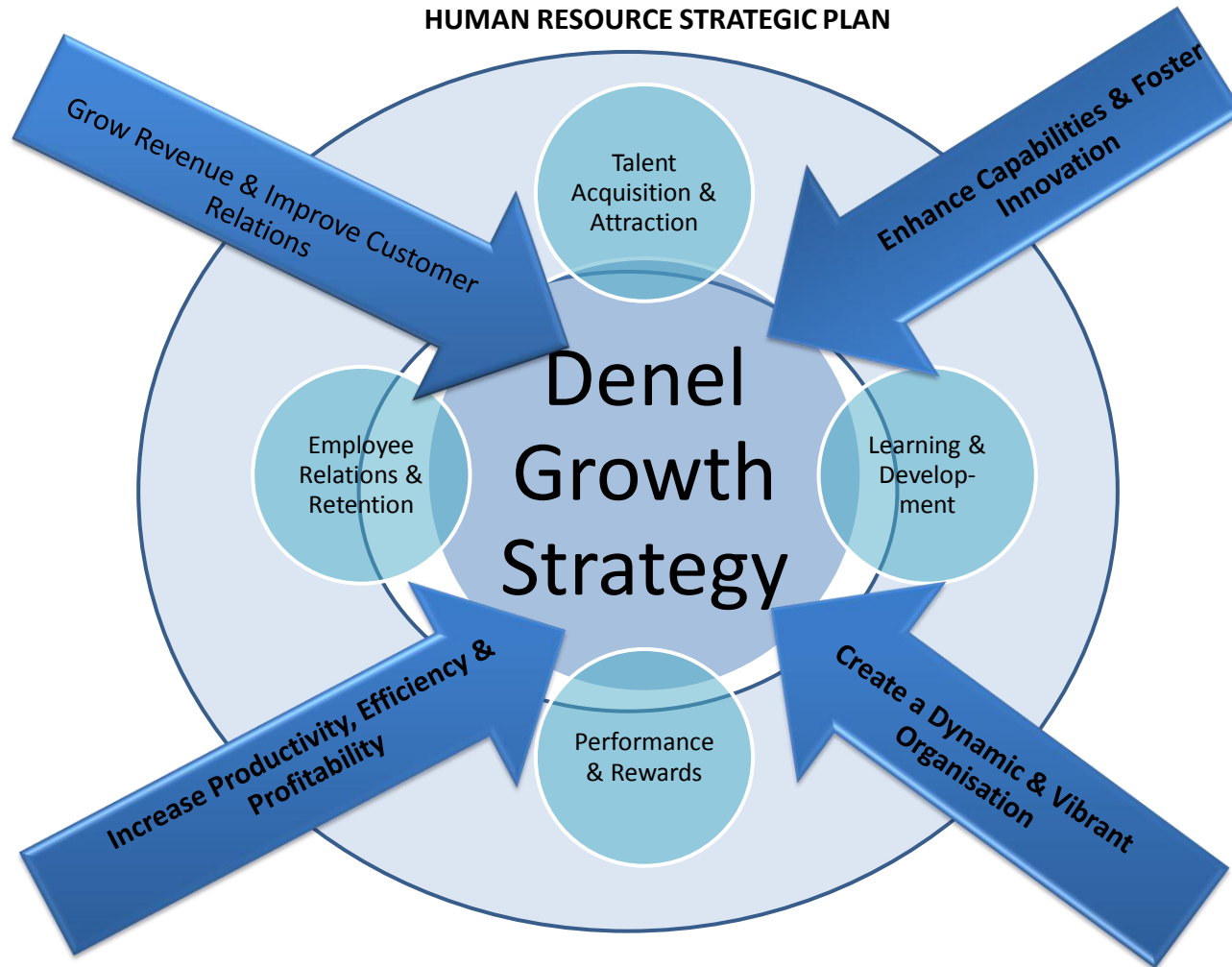
- Strong governance structure and culture
- Sound functioning Board and Board Sub-committees
- Risk governance processes in place
 - Fraud prevention and anti-corruption including fraud hotline
 - Ethics policy
 - Compliance processes
 - Complied with local and international codes, laws and regulations
- Complies with King III Code of Corporate Governance
 - Stakeholder management
 - IT governance
 - Sustainability reporting

SYSTEMS OF INTERNAL CONTROL (2)

- Recognition for excellence in Corporate Governance and Reporting
 - Nkonki Inc.: rated in Annual Report disclosures for ethical leadership and corporate citizenship, board and directors, audit committee, governance of risk, internal audit and internal control, and governing stakeholder relationships
 - Centre for Corporate Governance in Africa Stellenbosch University: Denel a leading and well governed SOC among 21 Schedule 2 companies

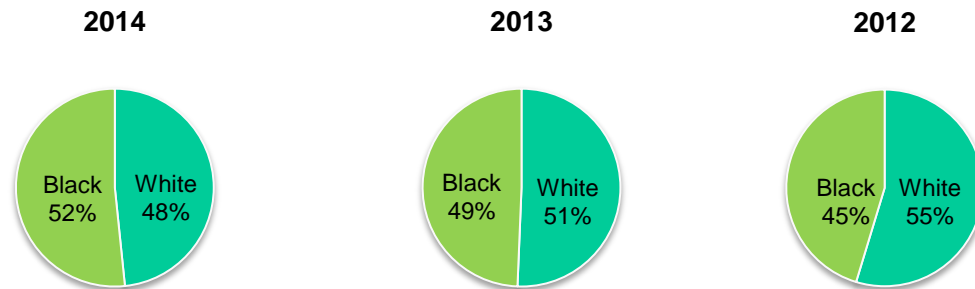
HUMAN RESOURCES AND TRANSFORMATION

HUMAN RESOURCES & TRANSFORMATION



PROGRESS IN REPRESENTIVITY

Representivity within Denel increased by 7% in the past two years. Representivity is displayed in the graphs below:



- Black refers to African, Coloured and Indian (ACI) : 52%
- People with disabilities : 1.4%

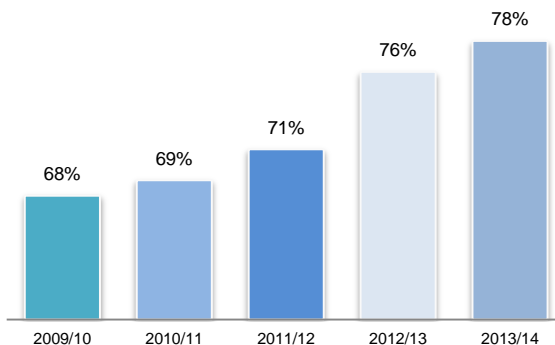
626 new employees appointed

85% were ACI

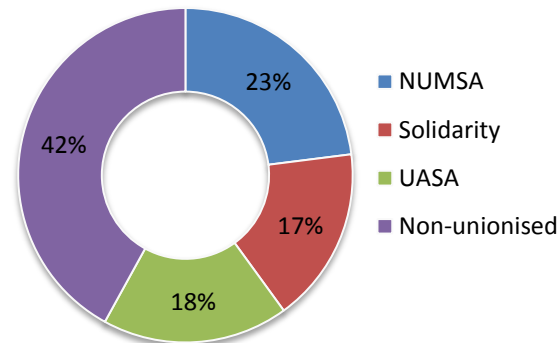
26% were female

99 jobs created

Organisational climate improvement



Industrial relations



The labour environment is considered to be stable with **no incidents of industrial action** at any of Denel's campuses during the year under review.

EMPLOYEE DEMOGRAPHICS

Detailed demographics of employees excluding associates are depicted below:

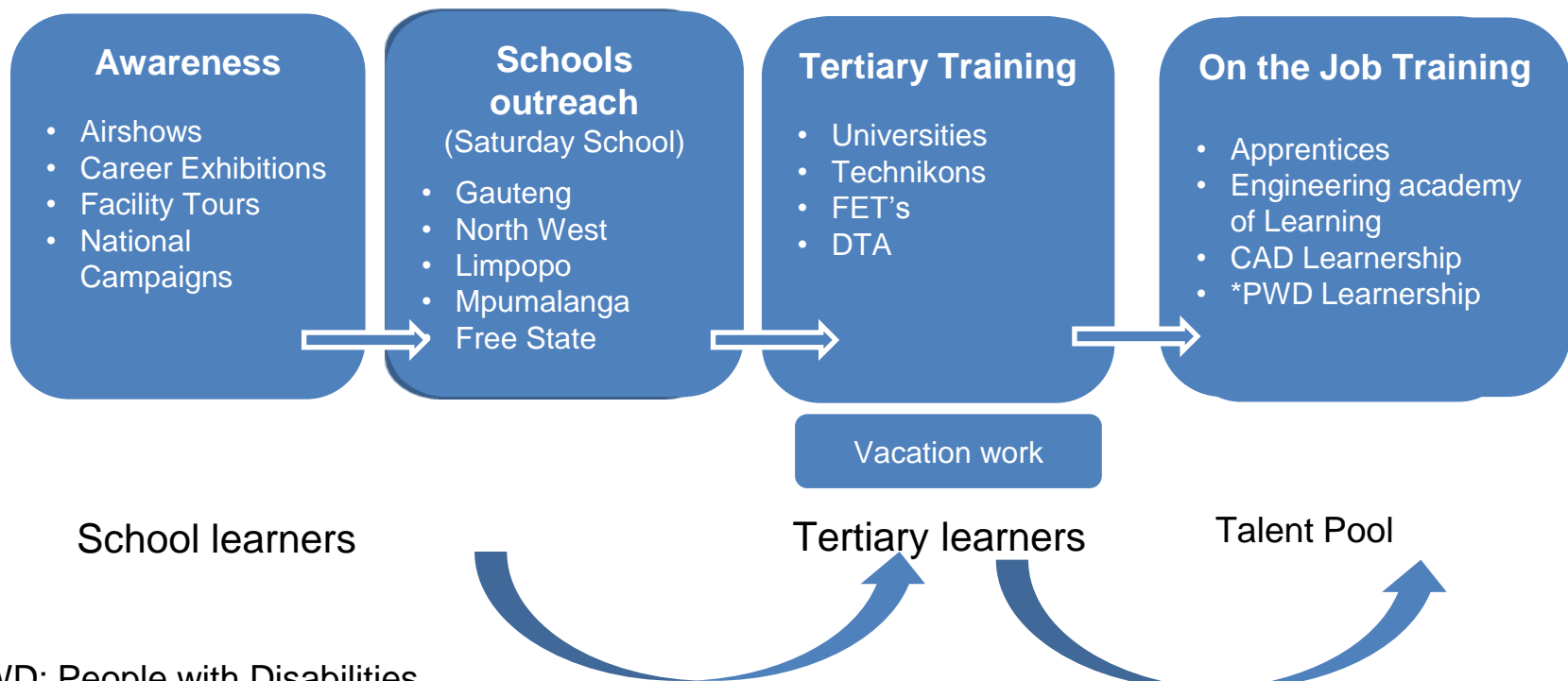
Job categories	African		Coloured		Indian		White		TOTAL		Total per category
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	
Executive management	5	0	0	1	2	0	3	0	10	1	11
Senior management	16	4	2	2	5	0	28	5	51	11	62
Management	32	17	19	3	11	8	198	19	260	47	307
Professional Staff	832	196	131	69	67	8	1 296	118	2 326	391	2 717
Administrative Staff	94	95	20	26	0	6	46	150	160	277	437
Support Staff	94	36	26	6	4	4	59	43	183	89	272
Trainees	79	42	10	1	7	3	16	3	112	49	161
General workers	112	17	16	6	0	0	16	2	144	25	169
Total	1 264	407	224	114	96	29	1 662	340	3 246	890	4 136

To improve representation of females within Denel the following interventions are being implemented:

- Schools outreach programme target = 70% female;
- Bursaries (engineers & artisans) target = 70% female;
- Collaboration with organisations that spearhead female representation in engineering disciplines i.e. GirlEng; SAWomEng and Technogirl.

TALENT PIPELINE MODEL

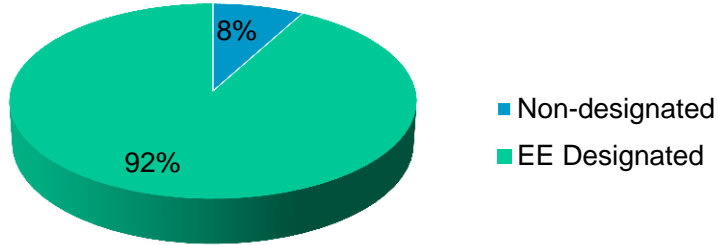
- Denel employs mainly Scientists, Engineers and Technical employees
- Capabilities constitute **scarce skills** and these take time to train
- In response, Denel has robust **learning and skills development initiatives** including **mentorship and succession planning**
- The talent pipeline model is depicted below:



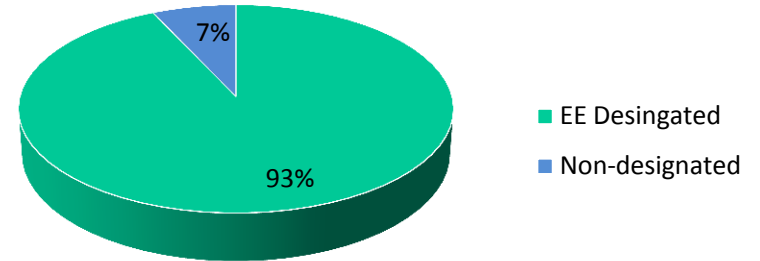
*PWD: People with Disabilities

LEARNING AND DEVELOPMENT

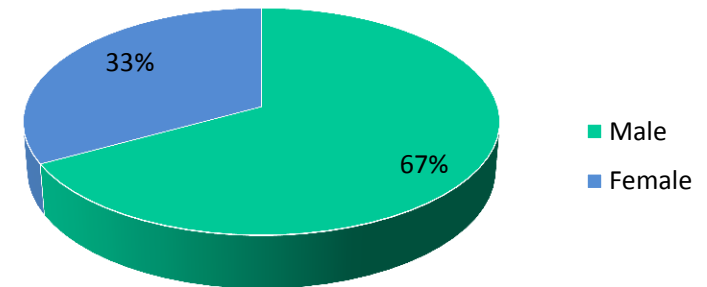
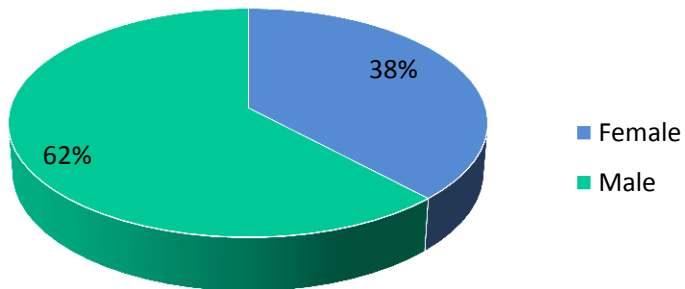
ENGINEERING BURSARIES



APPRENTICES SPONSORED



249 Learners sponsored



3% of payroll spent on employee training

DENEL TECHNICAL ACADEMY

AVIATION RELATED TRADES

Aircraft avionician

Aircraft electrician

Instrument mechanic

Mechanic

Radiotrician

Structural worker

GENERIC TRADES

Fitter and turner

Electrician

Machine tool
millwright

Tool and jig maker

Turner machinist

Welder

OTHER

Advanced aircraft
training courses

Aircraft type specific
training courses

Trade test preparation

Trade testing

Denel trains over 250 artisans per annum

ATTRACTING, DEVELOPING AND RETAINING WOMEN

To improve the representivity of women:

- Various programmes **targeting female learners from school to university graduates to broaden the talent pool to appoint female employees** from.
- Additional **programmes run internally to develop and retain female employees**

Table below reflects Denel programmes to address gender representivity:

Programme	Qty	Cost of programme	Targeted allocation	Actual allocation towards women
Schools Outreach Programme	450	R500 000	70%	R350 000
Bursaries	90	R10 800 000	50%	R5 400 000
Artisanship	35	R3 500 000	50%	R1 750 000
Computer Assisted Drawing Learnership	7	R2 100 000	50%	R1 050 000
Admin Learnership (PWD)	12	R1 200 000	100%	R1 200 000
Leadership Development Programme	65	R2 925 000	60%	R1 755 000
Engineering Academy of Learning	35	R12 000 000	50%	R6 000 000
TOTAL SPEND				R17 505 000*

* Excludes ordinary skills development expenditure i.e. statutory training, internal bursaries, job related training or sponsorships

YOUTH DEVELOPMENT

Bursaries

- >80 bursaries offered to students for Electronic, Mechanical, Industrial, Software / Computer and Mechatronic Engineering

Vacation Work

- Engineering students offered compulsory practical training during the year – a requirement towards graduation
- Denel divisions provide 6-weeks' vacation work over December-January; each student assigned to meaningful project related work

Learnerships

- **CAD (Computer Assisted Drawing) Learnership**

One year programme with theoretical and practical components. Learners employed permanently after successful completion

- **Administration Learnership (for People With Disabilities)**

A 1-year programme to improve representation of PWD's. Learners employed permanently after successful completion



YOUTH DEVELOPMENT PROGRAMMES

Schools Outreach Programme (SOP)

- Denel's youth development flagship programme
- Grade 11 to Grade 12 Learners offered extra **Maths, Science, English and Life Science** classes on Saturdays and holidays by qualified teachers from the local community
- Programme currently in Gauteng, North-West Province Limpopo, Mpumalanga and Free State
- Since inception in North West in 2005, programme has achieved a **100% matric pass rate with university acceptance**
- Gauteng Saturday school implemented by **Denel volunteer engineers** - extra tuition in Maths and Science at Steve Tshwete Secondary; Olievenhoutbosch Secondary, Reigerpark Secondary and Springs Etwatwa Rafedile centre



Denel's SOP yielded excellent matric results:

- 20 students from North West received university acceptance with a total of 44 distinctions. One learner achieved an aggregate of 90% and three others an average over 80%;
- Gauteng Springs Etwatwa programme (120 learners) achieved 100% matric pass rate with 86% of the learners qualifying for university entrance - Top learner achieved 7 distinctions, a further 15 learners achieved 6 distinctions; and
- Reigerpark programme (45 learners) achieved an average pass rate of 92% in mathematics and 62% in science.

ENGINEERING ACADEMY OF LEARNING (EAL)

- Development of graduate Engineers to be productive quicker
- Engineers exposed to all aspects of high technology development - from design through to development, construction and qualification of a system
- This simulated product development environment also enhances their project management capacity by ensuring products are delivered within the required time lines and within budget

The interns of 2013 were tasked to design and build a smart grenade and launcher that will launch a 40mm grenade into a window off-set from the original launch direction



INTERNSHIP PROGRAMME

- Graduates employed on internship programmes to allow graduates to **acquire critical workplace skills**, whilst we assess the graduates' employability.
- One of our interns - Lumka Msibi - travelled to the Antarctica for three months to assist with Science and Weather research.
- An aeronautical engineer, Lumka has been selected on a volunteer basis to participate in the South African Antarctic Expedition summer relief voyage.



Lumka Msibi heads off to Antarctica.

ENVIRONMENTAL & SOCIO-ECONOMIC IMPACTS

ENVIRONMENTAL RESPONSIBILITY

Key environmental objectives:

- Protection of species and habitats, and the conservation of biodiversity and natural resources;
- Protection of the environment against disturbance, deterioration, contamination and/or destruction as a result of human activity and structures;
- Providing a remediation plan for all business units;
- Providing a healthy working environment for its personnel.

Energy consumption and related expenditure are monitored against the predetermined objectives. The total expenditure for the group is R93m with a total consumption of 100 GWh. Denel has achieved 10.3% vs the targeted 10% savings against the baseline. Progress made in curtailing energy consumption as depicted in the graph

Highlights:

No instances of non-compliance with environmental laws and regulations

No grievances regarding environmental matters filed

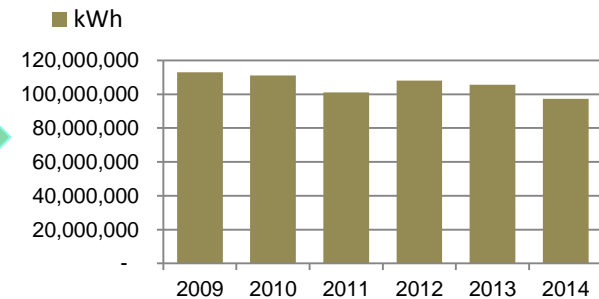
No fines were levied nor non-monetary sanctions imposed

Spent R14m on environmental protection and related expenditure

Established a Green Team

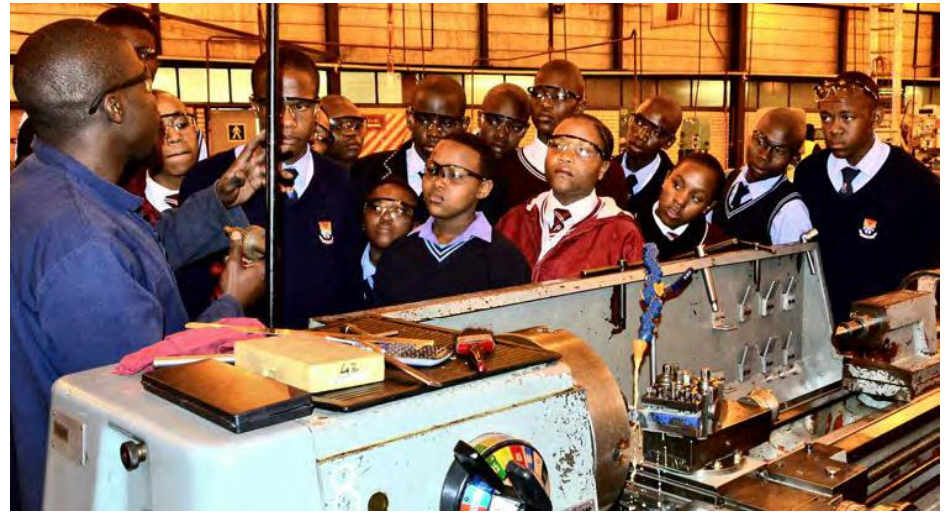
Commenced carbon footprint assessment for the 2013/14 year

Group electricity usage



CONTRIBUTING TO A DEVELOPMENTAL STATE

Denel hosted the DPE Free State Youth Camp at its Kempton Park hostel. 100 of the best performing learners in Grade 10 and 11 in Free State schools were invited to the youth camp during which they were exposed to various careers within state-owned companies.



CONTRIBUTING TO A DEVELOPMENTAL STATE (2)

Denel implemented a number of **CSI interventions within the Ingquza Hill municipality in the Eastern Cape** during October 2013 including:

- Installation of the **Telematics Learner Support System**
- Hosting a **career expo in collaboration with other SOCs and the Department of Higher Education and Training**
- Provided **over 400 maths dictionaries to the 4 local high schools and library**
- Creating a source of **clean drinking water for local communities** by funding four boreholes



CONTRIBUTING TO A DEVELOPMENTAL STATE (3)

During Youth Month, Denel painted a dormitory, provided food hampers and donated sports kits **Via Nova School in Gauteng**. Via Nova School is a school for learners with special educational needs from throughout Gauteng and other provinces.



Denel introduced the 'Mini-Chess Programme' to **Philena Primary School in Olievenhoutbosch**. The programme uses chess to teach learners about Maths and Science

THANK YOU