



## ANNUAL REPORT 2014-15

# PRESENTATION TO PUBLIC ENTERPRISES PORTFOLIO COMMITTEE

28 October 2015

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- **OVERVIEW OF DENEL**
- **FINANCIAL PERFORMANCE**
- **HUMAN RESOURCES AND TRANSFORMATION**
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# OVERVIEW OF DENEL

# DENEL AT A GLANCE

- Fully owned by SA Government
- Reports to Minister of Public Enterprises
- Company established in 1992
- Some facilities exist > 50 years



6 900 employees

4 600 employees at core business units

2 300 employees at Associates

3003 Engineers, Scientists and Technicians

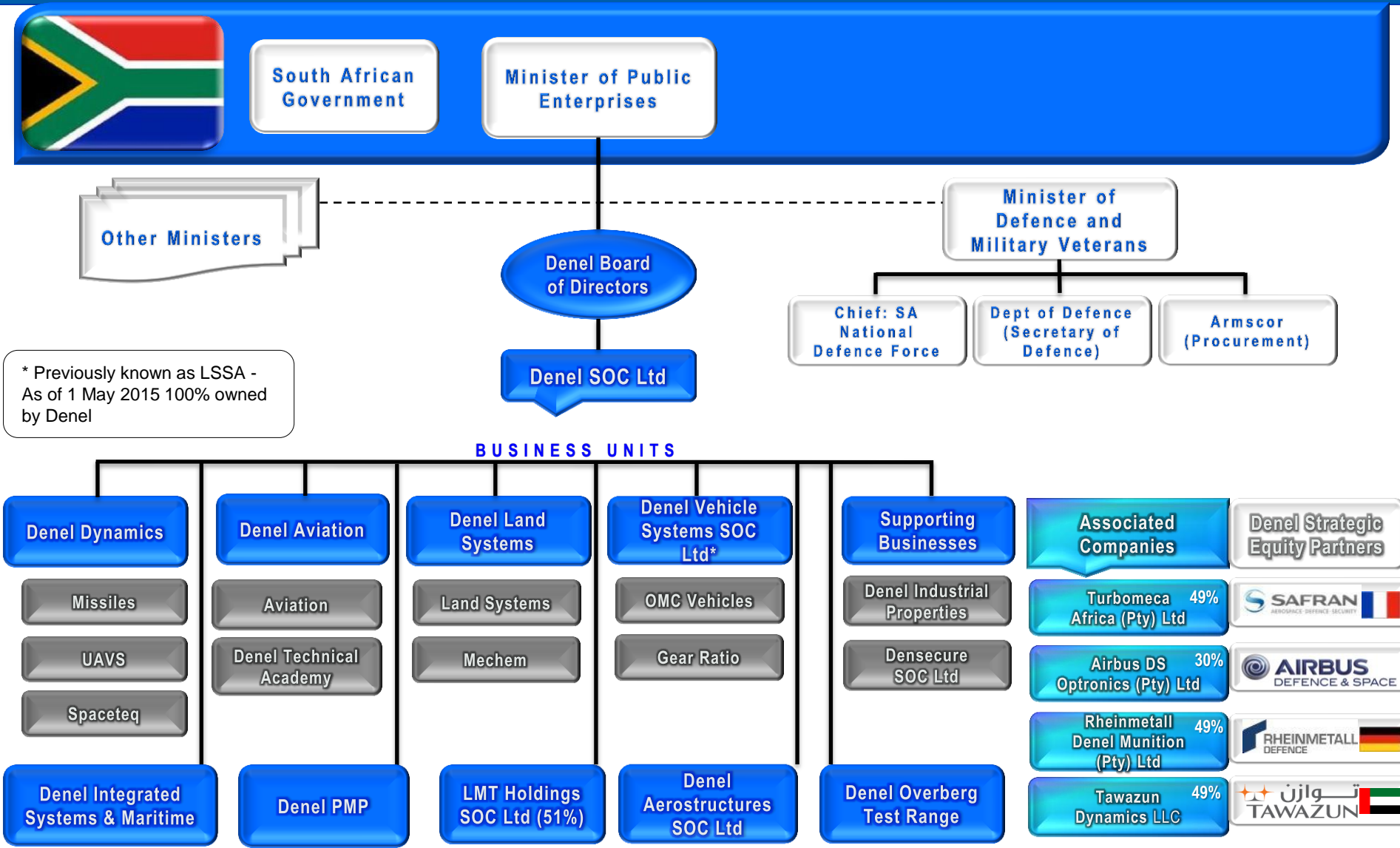
Annual turnover ± R5.8bn

Exports around 52%

12 Plants throughout South Africa

- Largest manufacturer of defence equipment in SA
- Experienced in supplying and supporting of equipment around the globe

# DENEL GROUP STRUCTURE



\* Previously known as LSSA - As of 1 May 2015 100% owned by Denel

# DENEL FACILITIES



Denel Aviation (DAv)

Denel Aerostructures (DAe)

Airbus Optronics

Denel Dynamics (DD)

Turbomeca Africa (TMA)

Pretoria Metal Pressings (PMP)

Denel Land Systems (DLS)

Mechem

Denel Vehicle Systems (DVS)

Rheinmetall Denel Munition – North (RDM)

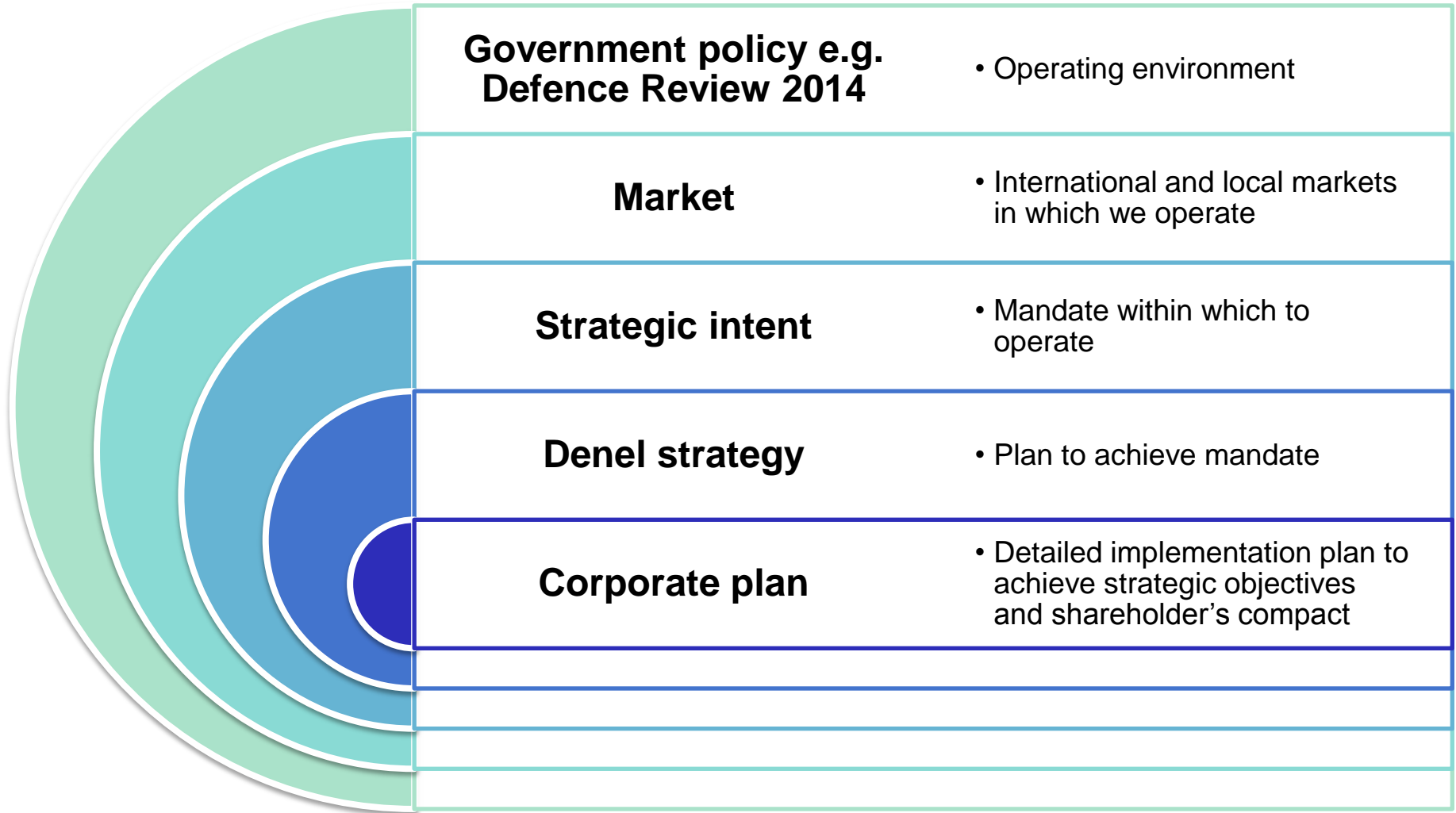
Rheinmetall Denel Munition Western Cape (RDM)

Overberg Test Range (OTR)

www.mapsopensource.com

# DENEL STRATEGY

# STRATEGY FORMULATION FRAMEWORK



**Shareholder's Compact tracks and monitors progress against the implementation of the strategic objectives**



# SA DEFENCE REVIEW 2014

- That the defence industry must be supported and prioritised as a strategic manufacturing sector
- Emphasises the importance of the defence industry & Denel as a strategic national asset
- Stresses the importance of the strategic relationship between the DoD and the defence industry
- Directs that Denel be the custodian of the Maritime as well as Command and Control (C2) capabilities
- In formulating Denel's strategy, the Defence Review is taken into account
- The review places certain obligations on Denel; describes the company as follows:

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

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

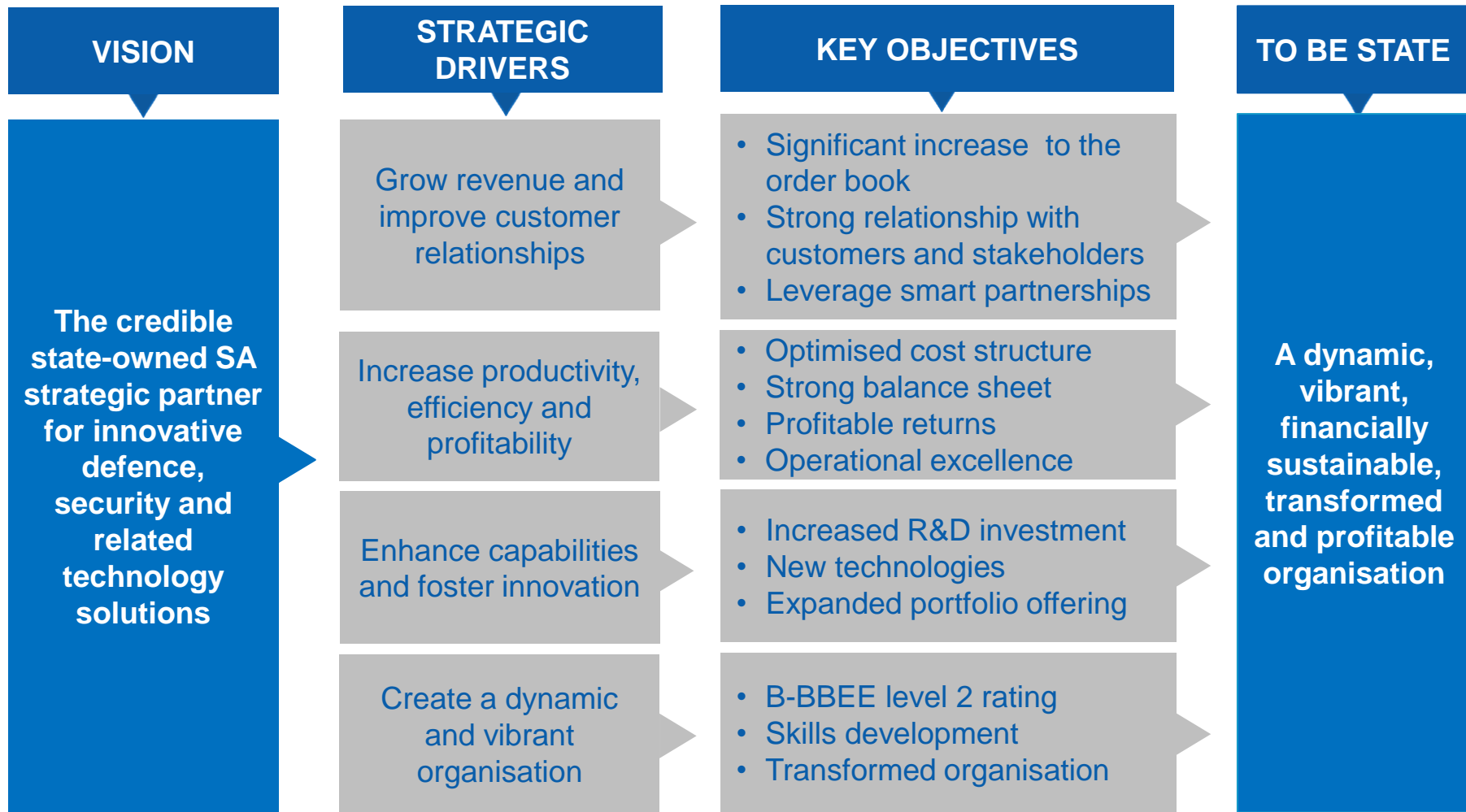
# THE DENEL MANDATE PER SHAREHOLDER COMPACT

- 
- Support and maintain the DoD's sovereign and strategic industrial defence capabilities in an efficient and sustainable manner
  - Contribute to industrial development towards the building of a dynamic defence related industrial cluster and to act as a catalyst for advanced manufacturing
  - Long term growth strategy aimed at increasing sales, product portfolio and service offerings
  - Pursue financial recovery and stability based on achieving profitability targets by increasing market share and achieving its revenue targets, as well as reducing costs
  - Ensure on-time and on-cost deliveries on major programmes
  - Contribute to socio-economic objectives including skills development and transformation
  - Compliance with local and international policies, regulations and treaties as well as regulations and laws of the jurisdictions of where Denel conducts business

# SHAREHOLDER COMPACT: KPIs - 31 MARCH 2015

Strategic intent	Key Performance Area	Key Performance Indicator	Contracted	Achieved
<b>STRATEGIC ROLE IN THE PROVISION OF DEFENCE CAPABILITIES</b>	Security of supply and 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	Milestone achieved per DoD contract deliverables	85%	>97%
<b>STRATEGIC ECONOMIC ROLE</b>	Investment in R&D	Self-funded R&D as a % of revenue	3%	2%
<b>BUSINESS SUSTAINABILITY</b>	Revenue	Increase in revenue year-on-year	12%	28%
	Profitability management	EBIT margin	4.50%	7%
	Cash from operating activities	Cash-flow from operating activities before working capital changes as a % of revenue	2%	8%
	Order cover	% of orders concluded in respect of the coming year as a % of revenue budget for that year	60%	77%
	Operating expenses	Operating expenses as a % of revenue	23%	16%
<b>SOCIO-ECONOMIC OBJECTIVES</b>	Maximise the appointments from designated groups in order to address employment equity requirements	ACI as % of total appointments	75%	87%
		Women as % of total appointments	20%	30%
	Local content	Local procurement as % of total procurement	70%	67%
	Preferential procurement and enterprise development	Procurement from black-owned suppliers, as % of local spend	20%	22%
		B-BBEE (recognised spend as a % of local spend)	70%	96%
		Black woman owned as defined in the B-BBEE codes (% of local spend)	3%	8%
		Black youth owned as defined, (% of local spend)	3%	1%
		Small and emerging enterprises suppliers developed to supply to the core business	20	25
	B-BBEE level	B-BBEE contributor level (old codes)	Level 3	Level 2
	Training spend	% of employee cost	3%	4%
	Skills development – scarce and critical skills	Total number of engineering trainees (bursaries and internships)	90	92
		Total number of artisan trainees	100	157
		Total number of technician trainees	-	9
		Total number of DTA artisan and technical skills trainees (enrolments during the year)	300	355
Employment – direct jobs created	Increase number of jobs	100	275	
Corporate social investment	Spend on CSI as specified in the B-BBEE codes	1%	2%	

# VISION AND STRATEGIC FOCUS



# DENEL SPECTRUM OF CAPABILITIES

Denel is well organised in support of the following key capability areas:

## **LANDWARDS**

- Combat systems (infantry, armour and artillery)
- Vehicles – protection and mobility
- MRO of Military Vehicles (MRO = Maintenance, Repairs and Overhaul)

## **AIR**

- Combat helicopter (Rooivalk)
- Aerostructures (A400M)
- MRO (Transport a/c, helicopters and turbine engines)

## **MARITIME**

- LSI (lead systems integration)
- MRO

## **MULTISERVICE**

- C4I (Command, Control, Communications , Computer Intelligence) & LSI
- Small, medium and large calibre guns and ammunition
- Missiles
- UAVS (Unmanned Aerial Vehicle Systems)
- Electronic Warfare
- Optronic Sensors

# DENEL GROWTH AREAS

## DENEL IS STRENGTHENING CURRENT CAPABILITIES

Notable examples:

- Rooivalk (Upgrade and new build baseline)
- Artillery (Modernised T5 & G6 offerings)
- Missiles (Beyond visual range Marlin & UAV launched missiles e.g. Impi)
- Military MRO (B-vehicles, naval dockyard, combat a/c, Russian helicopters incl. engines)
- Demilitarise operations for the safe destruction of small-medium-large calibres ammunitions
- Satellite related products & services to DoD (currently exclusively civilian application)
- UAVS supplied to other fellow SOCs
- Armoured Vehicles (New Generation Armoured Vehicles)

## DENEL IS DIVERSIFYING INTO NEW CAPABILITIES

Notable examples:

- Non-lethal riot-control products (both from PMP & RDM)
- C4I and LSI offered to civil security sector (e.g. SAPS)
- SARA – potential to rejuvenate the local aviation sector
- Civil MRO

# RESEARCH AND DEVELOPMENT

Developing new defence systems is globally done primarily through customer funding. Companies invest their own R&D effort in the initial stages to proof concepts only, or to research new areas of speciality but the major cost to fully develop and industrialise a system cannot be commercially recovered through product sales only

Denel has invested R467m (R348m client-funded and R119m self-funded) in initial phases of R&D



Denel is the biggest recipient of funded R&D from the DoD/Armcor (current focus areas include Marlin missile and soon Rooivalk 2 definition phase)

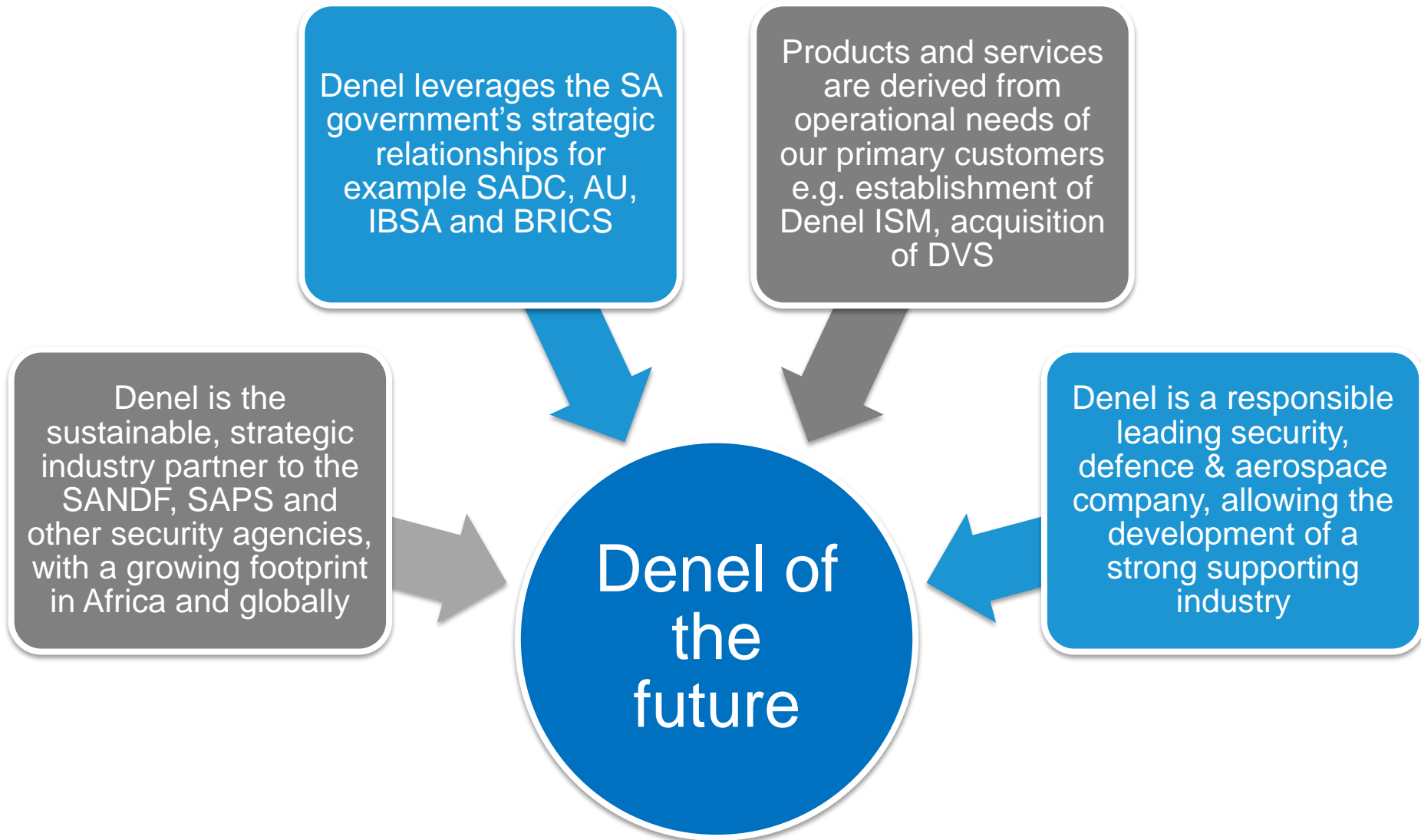


Most local and export systems contracts provide for completion of development and industrialisation within the cost base of the contract

Denel's primary research partner is the CSIR, and there is a drive to widen and deepen this relationship to future important areas e.g. C4I, radar, aerostructures, satellite sensors, border security, etc.

Denel works closely with Armcor to manage research work-packages in selected areas at the various universities identified and funded by Armcor. The goal is primarily to develop future HR capacity.

# DENEL OF THE FUTURE





# INTEGRATED REPORT

# INTEGRATED REPORT: 31 MARCH 2015

The integrated report 2014/15 incorporates the following key sections:

- Chairman and GCEO reports
- Financial performance including performance against shareholder's compact
- Operational overview, including high level business unit information
- Corporate governance, including risk governance, remuneration, stakeholder engagement
- Social responsibility information, including people management, CSI, occupational health and safety and supply chain information
- Environmental responsibility
- Annual financial statements
  - Consolidated statements of financial position
  - Consolidated income statements
  - Consolidated statements of cash flows

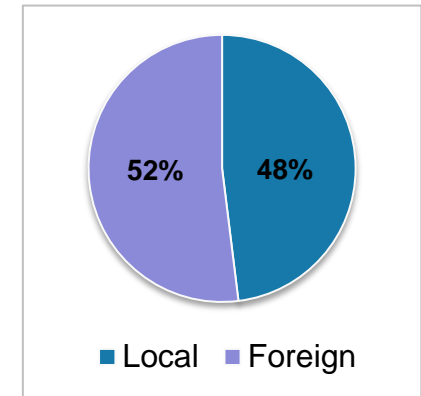
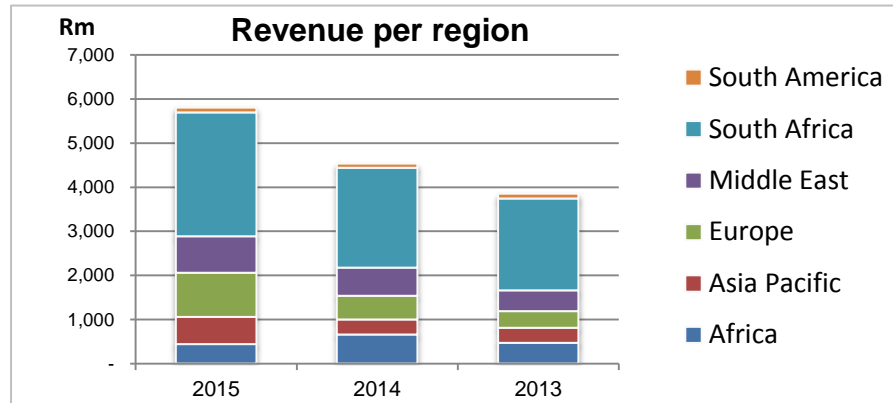
# PROGRESS WITH DELIVERING ON OUR MANDATE

Pursue financial recovery and stability by achieving profitability targets and increasing market share, achieving revenue targets, as well as reducing costs

Revenue R5,852m



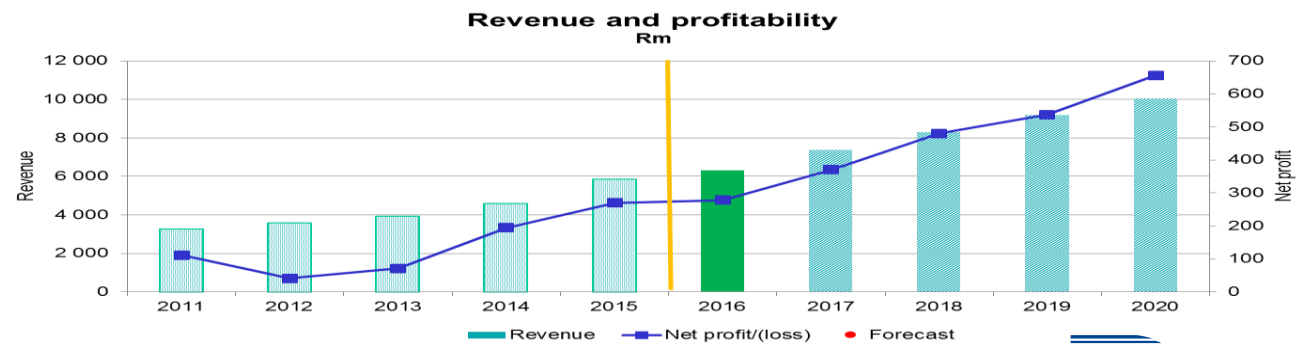
28%



Net profit R270m

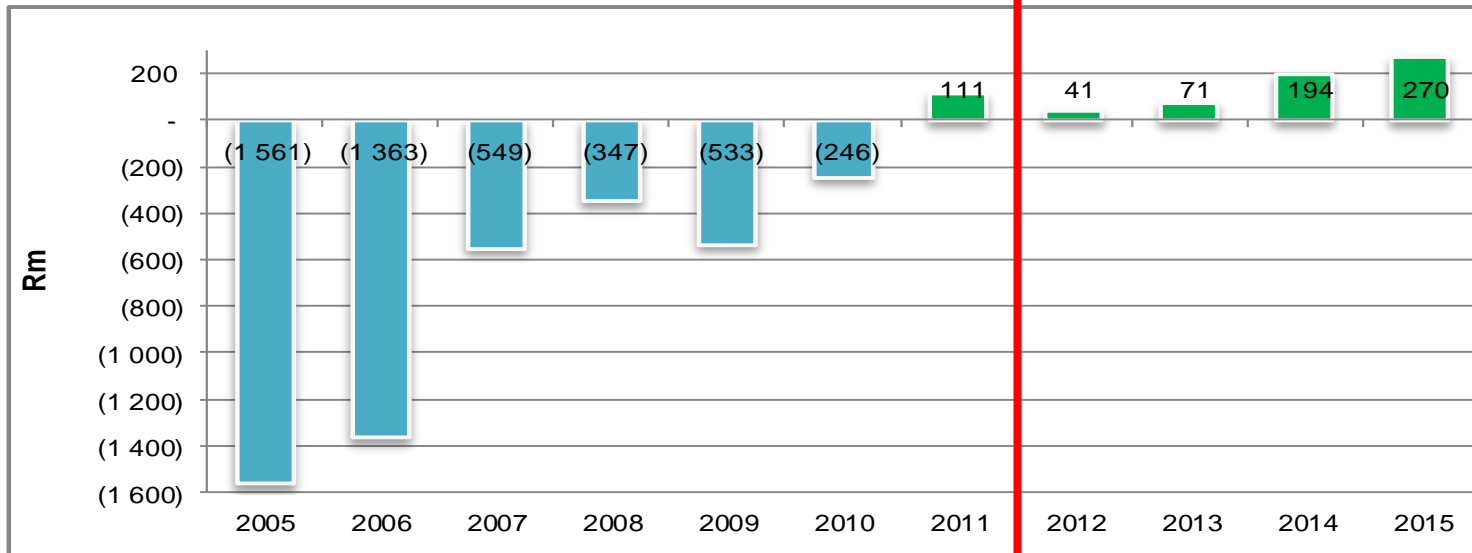


R76M

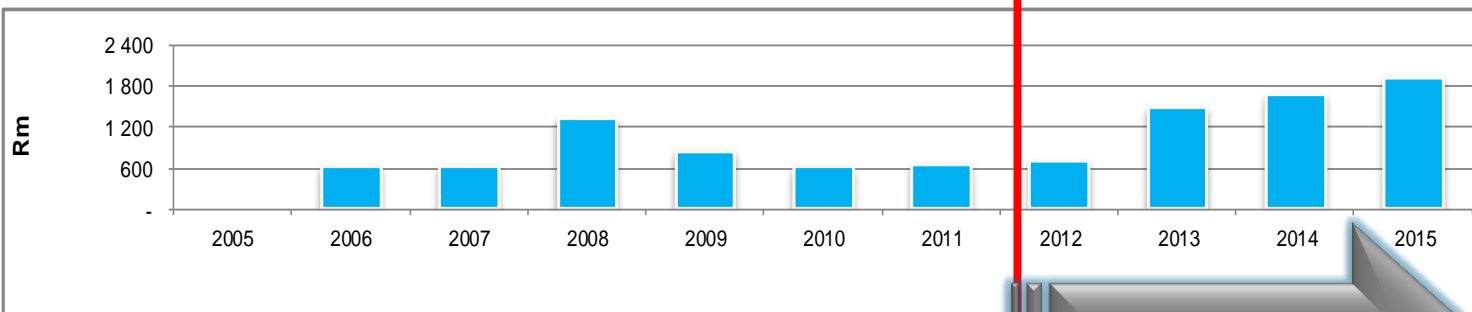


# GROWING TOWARDS FINANCIAL SUSTAINABILITY

## Profits/(losses)



## Solvency



The group continues to improve on historic results through restructuring and turnaround interventions. Denel has posted profits for five consecutive years

Strategy includes growing profitable revenue by aggressively driving business development, enhancing technology and capabilities, whilst also driving transformation and efficiency imperatives

Denel turnaround

# GROUP BALANCE SHEET: 31 MARCH 2015

	Actual Mar-15 Rm	Actual Mar-14 Rm
<b>Non-current assets</b>	<b>2 458</b>	<b>2 293</b>
<b>Current assets</b>	<b>7 145</b>	<b>5 712</b>
Inventories	1 511	1 020
Trade and other receivables	3 521	2 930
Loans and receivables	-	117
Other financial assets	204	132
Cash and short-term deposits	1 909	1 513
<b>Assets held for sale</b>	<b>84</b>	<b>84</b>
<b>Total assets</b>	<b>9 687</b>	<b>8 089</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Total equity</b>	<b>1 927</b>	<b>1 664</b>
<b>Total liabilities</b>	<b>7 760</b>	<b>6 425</b>
Loans and borrowings	2 158	1 875
Advance payments received	3 468	2 694
Provisions	648	646
Trade and other payables	1 306	1 100
Other financial liabilities	180	110
<b>Total equity and liabilities</b>	<b>9 687</b>	<b>8 089</b>

Denel remains heavily invested in working capital on the back of growth and ongoing interventions to convert balances to cash

# CASH FLOW STATEMENT: 31 MARCH 2015

	Actual Mar-15 Rm	Actual Mar-14 Rm
<b>Net cash flows from/(used in) operating activities</b>	<b>212</b>	<b>474</b>
Receipts from customers	6 030	5 201
Payments to suppliers and employees	(5 657)	(4 674)
Other movements	(161)	(53)
<b>Net cash flows used in investing activities</b>	<b>(177)</b>	<b>(206)</b>
<b>Net cash flows from/(used in) financing activities</b>	<b>361</b>	<b>(52)</b>
<b>Net cash generated</b>	<b>396</b>	<b>216</b>
Balance at the beginning of the year	1 513	1 297
<b>Balance at the end of the year</b>	<b>1 909</b>	<b>1 513</b>

# PROGRESS WITH DELIVERING ON OUR MANDATE

**Compliance with local and international policies, regulations and treaties as well as regulations and laws of the jurisdictions where Denel conducts business**

## Recognition for good corporate governance and reporting

Recognised for excellence in corporate reporting by Nkonki Inc. in top five SOCs in 2012, 2013 and 2014

Recognised by the JSE and Chartered Secretaries Southern Africa for excellence in corporate reporting with a Merit award in 2014

**Strong governance structures and cultures**

### Risk governance processes are 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

# HUMAN RESOURCES & TRANSFORMATION

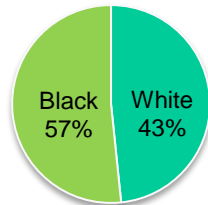


# PROGRESS WITH DELIVERING ON OUR MANDATE

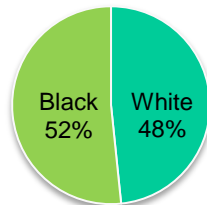


6 931 employees

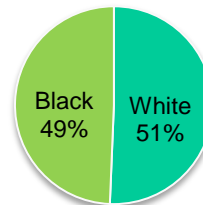
2015



2014



2013



REPRESENTIVITY 8%

*Our attraction strategies are working:*

- 824 new employees appointed
- 87% were ACI
- 30% were female
- 275 jobs created

Contribute to socio-economic objectives including skills development and transformation

**B-BBEE LEVEL 2**



**EMPOWERLOGIC**  
Your Logical Empowerment Solution

Broad Based Black Economic Empowerment Verification Certificate

A Consolidated Verification Certificate Issued to

Denel SOC Ltd

**Level 2 Contributor**

Measured Entity (Full List of Entities Listed on Page 2 of Certificate)

Company Name Denel SOC Ltd  
 Registration Number 1992/001337/07  
 VAT Number Refer p2 of Certificate  
 Address Irene Campus  
 Nellmapius Drive  
 0046

BEE Status	
BBBEE Status Level	Level 2
Element Points Obtained	EO: 0 points; MC: 15.25 points; EE: 6.54 points; SD: 16.44 points; PP: 19.25 points; ED: 15 points; SED: 15 points
Black Ownership	State Owned Company
Value Adding Vendor	Yes
BEE Procurement Recognition	125%
Issue Date	30/04/2015
Expiry Date	29/04/2016
Certificate Number	ELC5521GENBB
Version	Final
Applicable Scorecard	Specialised Enterprise - Generic
Applicable BBBEE Codes	Generic Codes Gazetted on 9 February 2007

BEE Procurement Recognition Levels		
Level	Qualification	%
1	≥ 100 Points	136%
2	≥ 85 but < 100	125%
3	≥ 75 but < 85	110%
4	≥ 65 but < 75	100%
5	≥ 55 but < 65	80%
6	≥ 45 but < 55	60%
7	≥ 40 but < 45	50%
8	≥ 30 but < 40	10%
Non-Compliant	< 20	0%



EmpowerLogic (Pty) Ltd  
 Reg. No. : 1995/000523/07  
 BBBEE Verification Agency

*Per E Ackroyd*  
 Per E Ackroyd CA(SA)  
 Member - Verification Committee

SANAS Accredited



BVA018

Enquiries  
 Tel: 086 111 4003  
 Fax: 086 505 7384  
[verification@empowerlogic.co.za](mailto:verification@empowerlogic.co.za)  
[www.empowerlogic.co.za](http://www.empowerlogic.co.za)

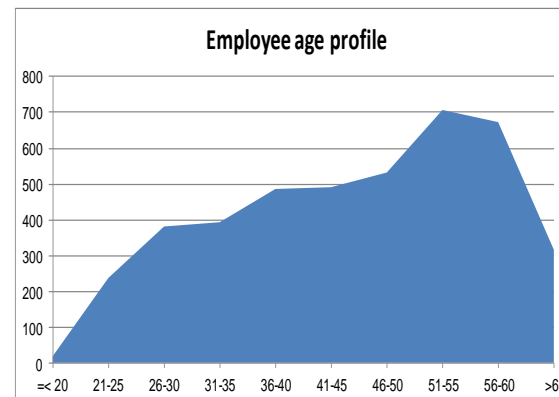
This certificate is the result of an independent and impartial verification of the BBBEE status of the measured entity measured against the Codes of Good Practice on Broad Based Black Economic Empowerment. The objective of our verification is to verify the validity and accuracy of the BBBEE status represented by the measured entity. EmpowerLogic is not responsible for ensuring completeness of information provided to support the BBBEE status. This certificate must be validated at [www.bbbescorecards.co.za/search/new](http://www.bbbescorecards.co.za/search/new) before reliance is placed thereon. EmpowerLogic does not take responsibility for certificates that have not been validated.

# EMPLOYEE DEMOGRAPHICS: 31 MARCH 2015

Detailed demographics of employees excluding associates are as follows:

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	10	7	1	1	3	0	25	5	41	10	50
Management	45	21	16	6	15	6	209	18	285	51	336
Professional Staff	1 019	289	160	80	80	10	1 238	125	2 495	507	3 003
Administrative Staff	91	117	21	29	0	6	39	138	151	290	441
Support Staff	75	42	24	9	3	5	55	43	157	99	256
Trainees	81	54	9	1	14	5	22	3	126	63	189
General workers	179	36	26	4	1	0	24	3	230	43	273
Total	1 505	566	257	131	118	32	1 615	335	3 495	1 064	4 559

*25% of the workforce under 35 years of age*



# FEMALE REPRESENTATION

## WOMEN

The defence industry is traditionally perceived to be male dominant. Denel is continuously working towards better representation of women. We employ 1 064 female employees and 16.5% of our executives and managers are female. In order to improve the representivity of women within the organisation, Denel participates in various programmes that target female learners, such as:



A mechanism used to recognise and attract high potential mathematics and science students, nurture and mentor them to enter the field of engineering



A three-year job-shadowing programme that exposes girls to mathematics, science and technology careers and is aimed at learners in grades 11 and 12



A recognised non-profit organisation at the forefront of tackling issues regarding gender gaps in the engineering environment



An annual event where female learners are hosted for the day to showcase the various aviation careers available

# ORGANISATIONAL CULTURE

## VALUES

- 

**PERFORMANCE**  
WE EMBRACE OPERATIONAL EXCELLENCE
- 

**INTEGRITY**  
WE ARE HONEST, TRUTHFUL AND ETHICAL
- 

**INNOVATION**  
WE CREATE SUSTAINABLE INNOVATIVE SOLUTIONS
- 

**CARING**  
WE CARE FOR OUR PEOPLE, CUSTOMERS, COMMUNITIES, NATIONS AND THE ENVIRONMENT
- 

**ACCOUNTABILITY**  
WE TAKE RESPONSIBILITY FOR ALL OUR ACTIONS

## LEADERSHIP



**HEAD LEADERSHIP** is about intelligence, focuses on cognitive abilities, i.e. knowledge, skills, experience, capabilities. It ensures that a learning organisation is created, and encourages learning and reflection which ensures personal mastery and collective team mastery. These competencies crucify mediocrity and encourage excellence as a standard.

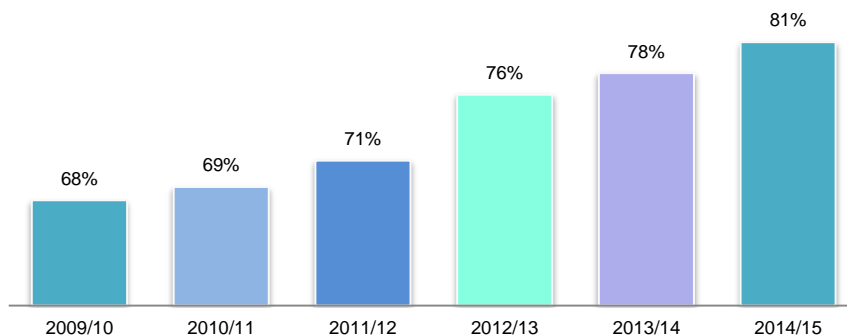


**HEART LEADERSHIP** is built on values driven behaviour, attuned to the needs and aspirations of followers, aligned to the moral imperative of integrity, efficacy and humility. This pillar encourages emotional intelligence and embraces transformational, servant and ethical leadership principles.



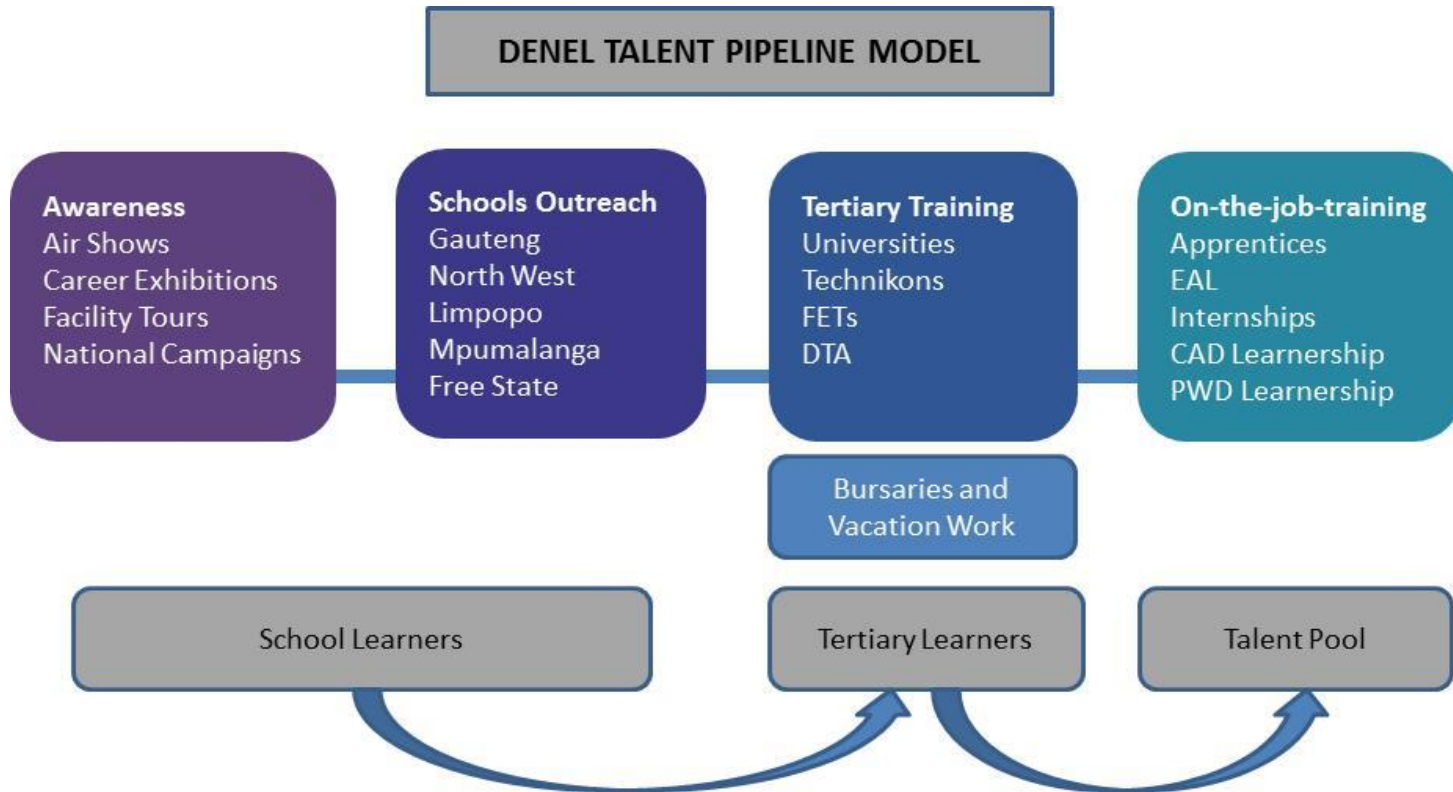
**GUTS LEADERSHIP**, is about the drive to achieve results, includes risk taking, perseverance, fierce resolve, courage, unwavering zeal and unremitting zest in pursuing a goal or goals.

## ORGANISATIONAL CLIMATE



# SKILLS DEVELOPMENT PROGRAMME

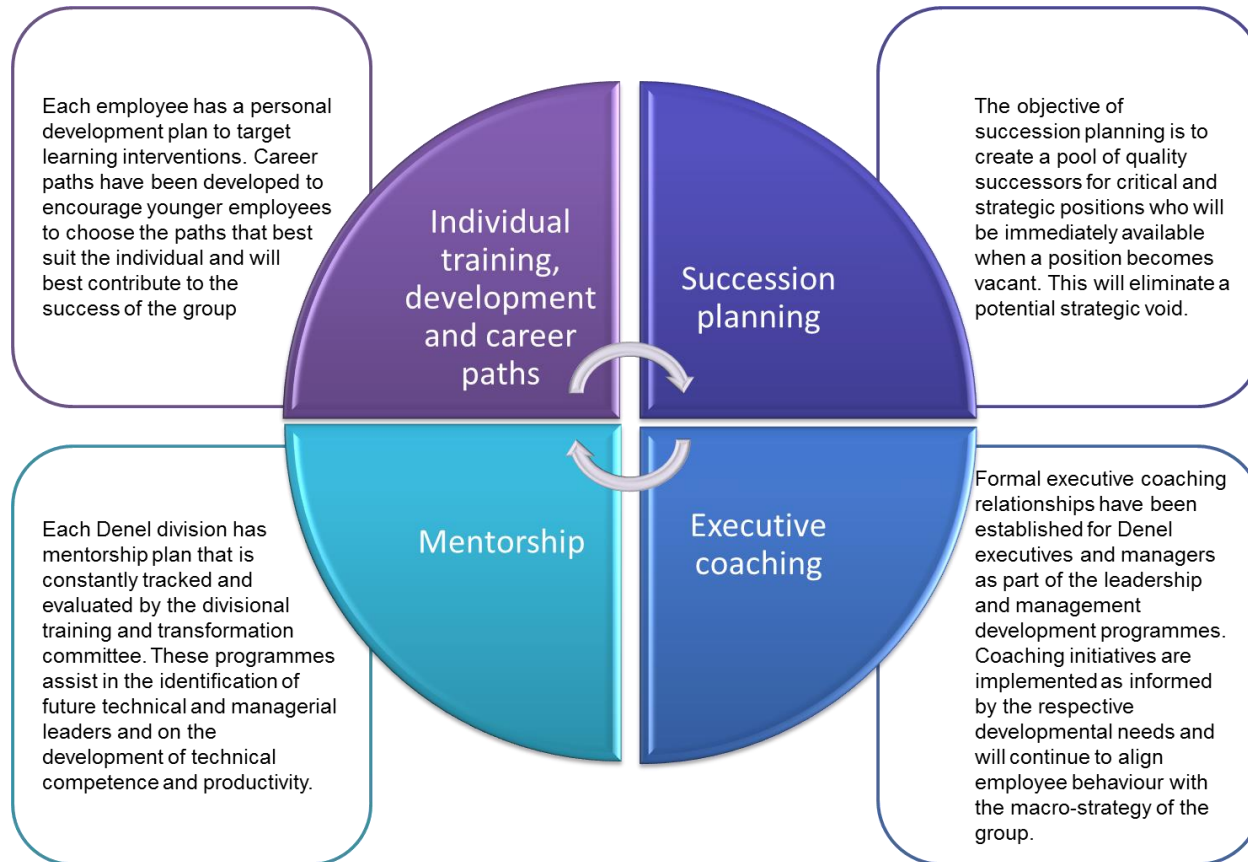
800 LEARNERS SPONSORED



455 SCHOOL'S OUTREACH PARTICIPANTS

340 BURSARS, APPRENTICES, TECHNICIANS, INTERNS

# EMPLOYEE FOCUSED SKILLS DEVELOPMENT



4% of payroll spent on employee training

# SUPPLY CHAIN, CORPORATE SOCIAL INVESTMENT & ENVIRONMENT



# TRANSFORMING SOCIETY THROUGH SUPPLY CHAIN

## DENEL'S SUPPLY CHAIN STRATEGY CONTINUES TO INCLUDE:

- Maximising local content in its programmes and better support for the local defence industry;
- Equitable sharing of supply chain opportunities and driving increased participation by black-owned businesses;
- Exploiting purchasing power to drive down costs and create value; and
- Targeting black-owned companies for development to supply into the core business of Denel.

### FOCUS AREAS

- Getting value for the Denel group spend with emphasis on smart contracting and collaboration amongst the business units to exploit their purchasing power;
- Increasing the group spend on black-owned, black women-owned, black youth-owned and companies owned and managed by black people with disabilities;
- Identification and selection of small or emerging black-owned companies for development with the ultimate goal of supplying into the core business of Denel; and
- Increase spend on local suppliers in order to reduce dependence on imports and foreign suppliers.

### HIGHLIGHTS

- Spend on black-owned companies increased from 11% of total local spend to a 22%;
- Spend on black women-owned companies increased from 2.8% to 8.1%;
- Spend on black youth-owned companies estimated at 1% of total spend;
- Number of ESD companies increased from 67 to 114;
- 25 (2013/14: 20) of the ESD companies were developed to supply into the core business of Denel;
- Total ESD cost incurred increased from R6m to R17.3m;
- Recognised spend increased from 90% to 93.3%; and
- Local spend of 67.4% of total spend.



# OTHER SUPPLY-CHAIN INTERVENTIONS

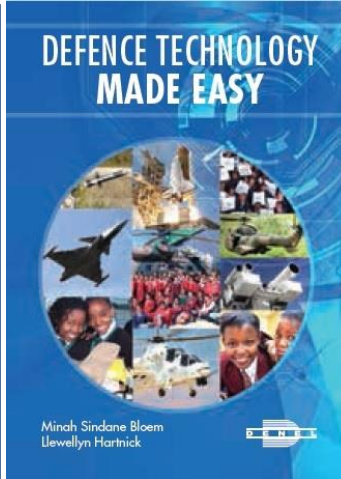
- Preferential procurement and supplier development
  - Total local procurement Spend of R3.1bn in FY15
  - Spend on Black-owned companies in FY15 R684m
  - Spend on black women companies in FY15 R251m
  - Denel achieved a score of 93% on preferential procurement under the B-BBEE codes
- Various supplier development initiatives implemented
  - Training, free office space and the development of 114 black owned businesses

# SUPPORT TO MILITARY VETERANS

- PMP's enterprise and supplier development programme
  - Training provided to 20 MVs
  - 2 Supervisors
  - 18 general workers
    - Total Cost: R10 500
- Contract to a MV for the recovery of old ammunition - as part of demilitarization.
  - R 2.2m
- R1.9m worth of machinery donated to MV company
- DLS spent ± R3.3m on Sebenza – a freight-forwarding company partly owned by MV in 2014

# CSI IN RESPONSE TO THE MANDATE

Contribute to socio-economic objectives including skills development and transformation



Spending R65m towards skills development within the financial year

Schools outreach programme (SOP)\* in North West, Gauteng, Free State, Limpopo and Mpumalanga (455 participants)

Saturday school by Denel volunteer engineers who provide extra tuition to learners in Maths and science

Various other initiatives, including, a mini-chess programme, donating sport kits, financial support to two primary schools, etc.

\*SOP in Gauteng: Olivenhoutbosch, Etwatwa, Reigerpark; North West: Orkney; Free state: Thaba Nchu; Limpopo: Glen Cowie/Jane Furse; Mpumalanga: Masibekela

# 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.

## HIGHLIGHTS

- No instances of non-compliance with environmental laws and regulations;
- No complaints or concerns regarding environmental matters filed;
- No significant fines were levied nor non-monetary sanctions imposed;
- Denel recorded the lowest electricity usage in the last 7 years.
- Spent R5m (2013/14: R14m) on environmental protection and related expenditure; and
- Achieved 11.8% (2013/14: 10.3%) in energy savings which translated to equivalent emissions of 12 800 metric tonnes of CO<sub>2</sub>

# CONCLUSION

# PROGRESS WITH DELIVERING ON OUR MANDATE

Support and maintain the DoD's sovereign and strategic industrial defence capabilities in an efficient and sustainable manner

- Denel plays a significant role in industrial development through our R&D programmes, manufacturing and maintenance activities, infrastructure and a strong human capital base
- Denel supplies about 50% of its annual activities to the local defence and security cluster
- Denel is known for the G6 – recently lots of interest in this product
- Hoefyster production order (R8.4bn over a period of 10 years) awarded to Denel - demonstrating confidence in our capabilities
- Contribution to national peacekeeping initiatives through capabilities – e.g Rooivalk





# PROGRESS WITH DELIVERING ON OUR MANDATE *(Cont'd)*

Contribute to industrial development towards the building of a dynamic defence related industrial cluster and to act as a catalyst for advanced manufacturing

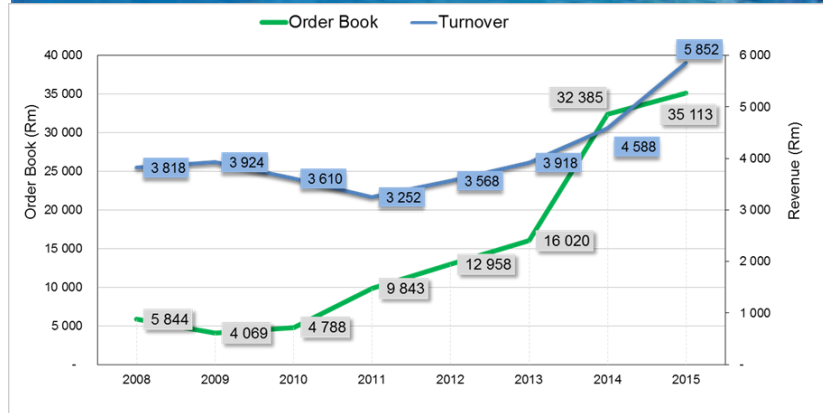


- Advanced high technology manufacturing, e.g. Denel contribution to the success of the A400M, the world's most advanced military airlifter
- Defence and civilian application of Denel products, such as mining drill bits, UAVs for surveillance, etc.
- Building on an exceptional track record as a world leader in humanitarian demining and a valued partner in United Nations (UN) efforts to combat the scourge of landmines
- Rejuvenating our space capability through Spaceteq

# PROGRESS WITH DELIVERING ON OUR MANDATE *(Cont'd)*

Long term growth strategy aimed at increasing sales, product portfolio and service offerings

- Concluded multi-year orders >R35bn order book
- Pursuing new opportunities >R20bn
- Focussed business development in key markets e.g. Brazil, UAE, Africa and Malaysia
- Leveraging country bi-lateral relationships BRICS, SADC and AU
- Pursuing defence but also commercial opportunities including SOC to SOC relations e.g. UAVs, space, drill bits, etc.
- Leveraging of significant contracts (e.g. Rooivalk, Mbarc, Al-Tariq, A400M and Hoefyster) for new work





# THANK YOU

