



DENEL PRESENTATION TO THE PORTFOLIO COMMITTEE ON PUBLIC ENTERPRISES

4 MAY 2016

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INTRODUCTION – RECENT MEDIA STATEMENTS







- Denel has been a focus of intense media reporting in the recent weeks, the main topical issues being the formation of a joint venture to establish Denel Asia with VR Laser Asia and the suspension of employees

DENEL GROWTH STRATEGY

Why Partners:

- As part of the strategy to create a financially self sustainable defence business, Denel is expanding into the export market
- 2015/16 financial year, export sales accounted for 52% of total turnover
- This 52% was largely from the following markets:
 - Middle East (UAE, KSA, etc.)
 - Asia Pacific (Malaysia)
 - Europe
 - Americas (Brazil)
- To achieve such global penetration, markets require not just transactional supplies but transfer of know-how through JV models

- Below is the operational JV profile for Denel:

Joint Ventures	Partners	2015/16 Revenue
Turbomeca Africa (Pty) Ltd 51%		R565m
Airbus DS Optronics (Pty) Ltd 51%		R675m
Rheinmetall Denel Munition (Pty) Ltd 51%		R2bn
Tawazun Dynamics LLC 51%		R52m (R2bn indirect benefit)
LMT Holdings SOC Ltd 49%		R438m
Denel Asia 49%		-

HOW PARTNERS ARE SELECTED

How we select partners:

- The process of selecting strategic partners is largely driven by market intelligence and trust relations already existing;
 - e.g. in selecting Tawazun as a strategic partner in the UAE, no public adverts were made.

HOW PARTNERS ARE SELECTED (cont.)

- Specifically with the Denel Asia JV, we approached more than 4 potential partners.
- Key point for Denel in JV partner selection is to avoid or minimise financial / reputational risk

VR Laser

- Ownership of VR Laser SA:
 - Elgasolve (Pty) Ltd owned by Mr Salim Essa – 64.9%
 - Craysure Investments Propriety Limited owned by Westdawn Investments (Mr Rajesh Gupta and Mr Duduzane Zuma) – 25.1%
 - Aerohaven Trading (Pty) Ltd owned by Ms Ragauan – 10%
- VR Laser SA supplies armoured steel, laser cutting and bending (armour works), fabrication and machining
- VR has been doing business with Denel for more than 15 years
 - Fabrication of the hulls for mine protected vehicles (Casspir, RG series, etc.) as well as fabrication of mechanical structures for weapon systems
- The first contract awarded to VR Laser on the Badger Vehicle Project was in 2013. This project in totality is for 264 vehicles and VR Laser's total portion will amount to circa R400 million (not the R10 billion reported).

- VR Laser Asia Limited was incorporated on 20 June 2014 as a private company in Hong Kong
- The sole shareholder and director of VR Laser Asia is Mr Salim Essa
- VR Laser Asia is familiar with the industrial landscape in the region and more specifically in India through non-defence business links
- VR Laser Asia will be funding the operations and business development activities of the JV
- Similar to how the Tawazun JV is structured, Denel will provide its product technology through a manufacturing licence

DENEL ASIA: THE RATIONALE FOR THE JOINT VENTURE

- East-Asia market, particularly India, is the fastest growing defence market in the world
- Defence procurement rules in that market dictate that transfer of technology and capability is critical to such procurement
- Denel had been out of the Indian market for +10 years due to a black-listing
 - This was lifted in 2015 following a thorough investigation that cleared Denel of any wrong-doing
- Up until the black-listing, Denel had spent in excess of circa R500m on business development activities in India
- VR Laser Asia as a potential partner, offered the following:
 - Contribution of R100m to support business development activities and operations of the JV
 - Market and industry knowledge
 - Steel cutting and fabrication IP

DENEL ASIA ESTABLISHMENT PROCESS

- Denel Asia was incorporated in Hong Kong on 29 January 2016 following formal approval process as required by law as follows:

ACTIVITY	DATE	NO OF DAYS
On the 10 th of September 2015 during the first board meeting of the current board, Mr R Saloojee made a presentation whereby he requested the new board to authorise him to pursue the formation of Denel Asia and to find a strategic partner, the board gave him approval as requested		
Pre-notification submission to DPE & NT	29 Oct 15	-
Letter from DPE approving pre-notification (with conditions)	23 Nov 15	24 days
Submission of the PFMA application to both DPE & NT with proof of receipt	11 Dec 15	-
Expiry of the 30 day (reasonable) period allowed for responding by PFMA application	12 Jan 16	30 days from PFMA application 63 days from pre-notification
Registration of the JV in Hong Kong	29 Jan 16	47 days from PFMA application 91 days from pre-notification
1st Letter requesting additional info from NT	5 Feb 16	56 days from PFMA application 98 days from pre-notification

- Up to the 5th of February neither DPE nor NT had written anything to Denel regarding this PFMA application

DENEL ASIA ESTABLISHMENT PROCESS

- Two sections of the PFMA governed the approval process of this transaction were considered (Section 54(2)&(3) and Section 51(g))
- Section 54(2) required that the transaction be subject to approval by the executive authority with notification in writing to the National Treasury
- Section 54(3) stipulates that *if no response is received from the executive authority within 30 days, the applicant may assume that approval has been granted*
- Section 51(1)(g) requires the National Treasury be notified of transactions and be granted reasonable time to provide its approval (as defined in Section 54(3))
- Denel Executives are still engaging with NT through DPE to clarify Denel's legal compliance in establishing Denel Asia

Suspension of Executives

SUSPENSION OF EXECUTIVES & COMPANY SECRETARY

- The former Group CEO, Group CFO and Group Company Secretary were suspended with effect from 23 September 2015
- **Key issues:** Approved funding model for the BAE LSSA transaction was not implemented as per approval
 - BAE LSSA's liquidity to service the loans was misrepresented
- Decision taken to allow an unfettered investigation into BAE Land Systems South Africa (LSSA) acquisition
- Reason for suspension due to facts that transpired after Board and shareholder approval was granted
- Board conducted assessment of transactions as part of its oversight and fiduciary duties

SUSPENSION OF EXECUTIVES & COMPANY SECRETARY

- Denel board has decided not to recommend to the Minister in terms of the MOI the renewal of the former GCEO's contract of employment which was to expire on 31 January 2017
- The board weighed all the factors and was of the view that it would not be in the interest of the company to renew his contract
- The board is also considering a damages claim against the GCEO
- Denel is proceeding with disciplinary action against the other two officials, of which the proceeding have already commenced

In Conclusion

WAY FORWARD AND CONCLUSION

- Discussions to clarify the legal processes for Denel Asia continue with the NT
- Board has reinforced commitment to good governance in Board Media statement issued on 22 April
- Reputation management plan to restore confidence in the Denel brand
- Business continues to deliver on order book and marketing efforts have been intensified
- Financial partners and key clients are regularly updated by management
- Roadshows have been held to engage and reassure all employees

THANK YOU

