



PRESENTATION TO THE NA PORTFOLIO COMMITTEE ON PUBLIC ENTERPRISES

CHAIRMAN, AGCEO, AGCFO, GHR AND GCOMMS

26 October 2016

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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



7 164 employees

5 114 employees at core business units

2 050 employees at Associates

3336 Engineers, Scientists and Technicians

Annual turnover ± R8.2bn

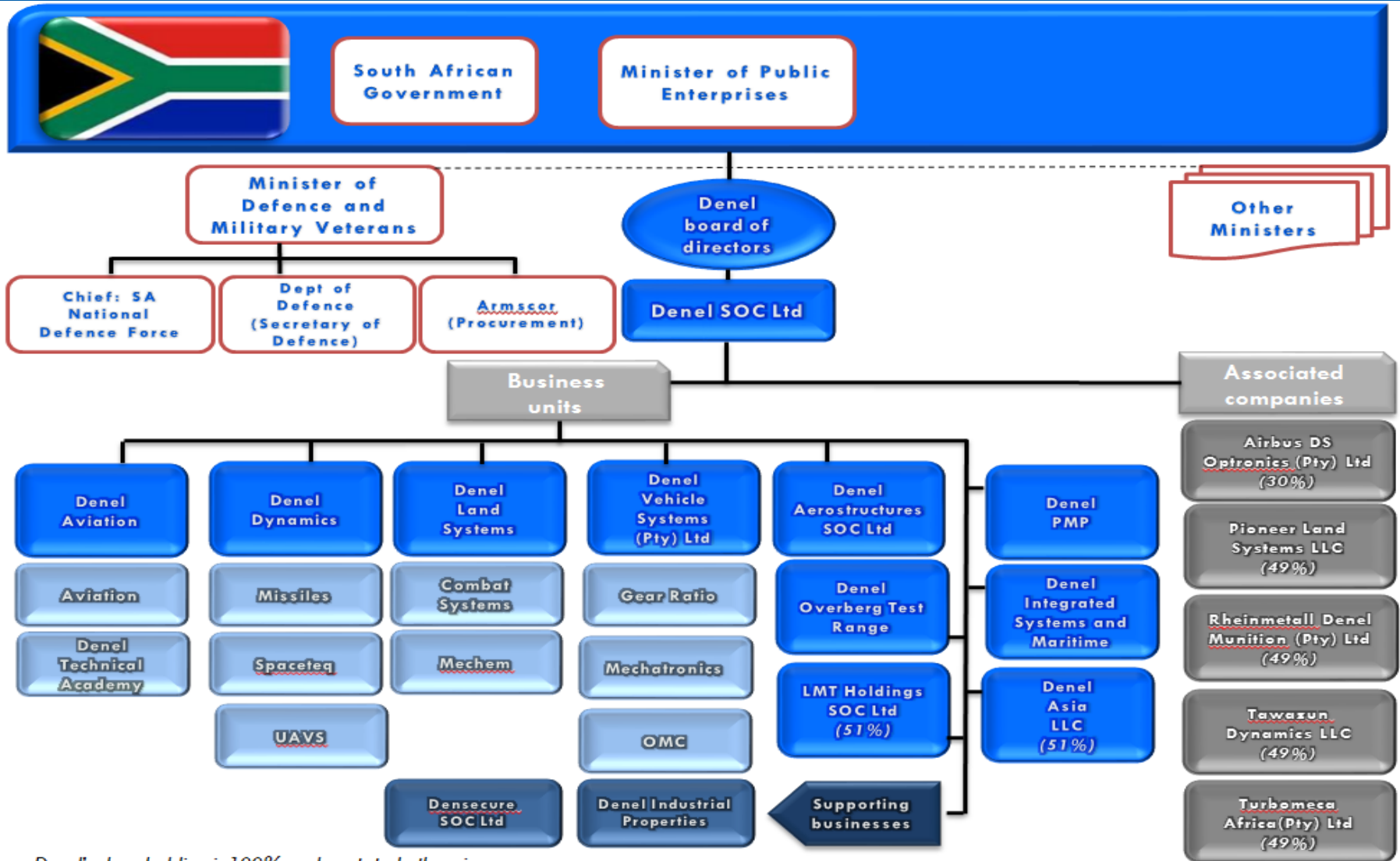
Exports around 58%

12 Plants throughout South Africa

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



DENEL CORPORATE STRUCTURE



Denel's shareholding is 100%, unless stated otherwise.

Strategic equity partnerships



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

THE MANDATE OF DENEL



PREVIEW TO THE INTEGRATED REPORT – STRATEGY RECOVERY

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

- Create strong alignments within the group and with Government and Armscor;
- Coordination between the Group to manage strategic stakeholder relationships;
- Focused and sustained penetration of selected international markets; and
- Tight monitoring of Denel sales opportunity pipeline and capture plans

Ensure on-time and on-cost deliveries on major programmes

- Enhance the contract term and conditions formulation and negotiation process with customers'
- Strengthen project management capabilities and capacities;
- Create a seamless integrated process that links bid development with design and manufacturing; and
- Improve management of working capital



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

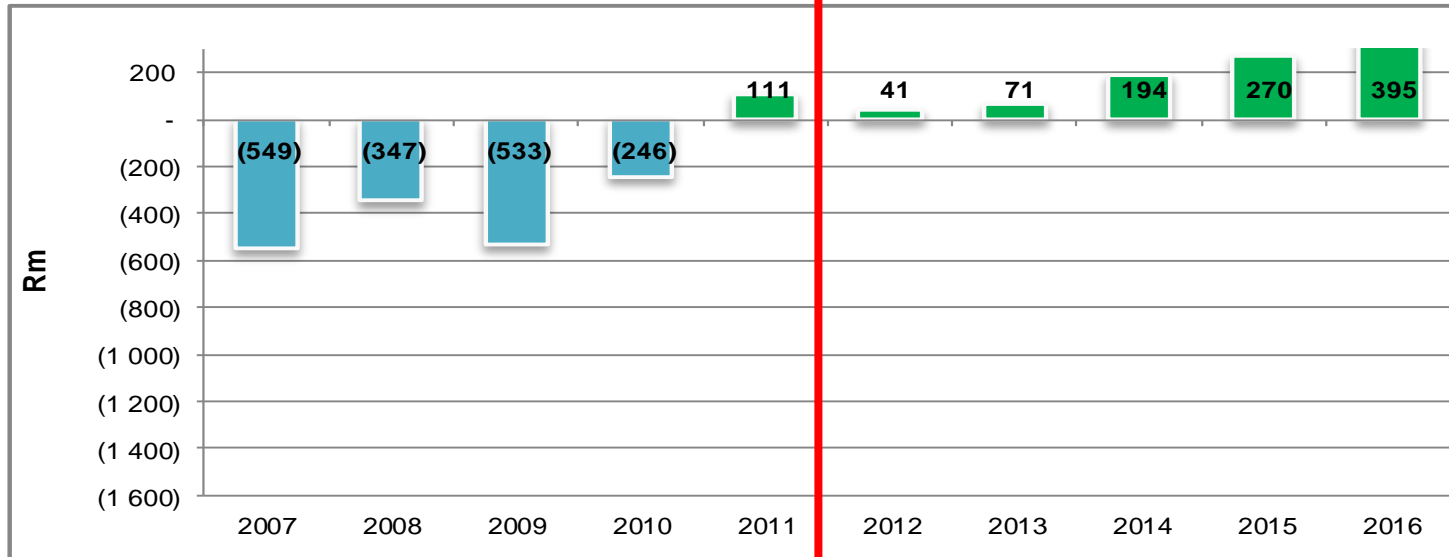
- Inter-governmental entities requiring bank guarantees from one another tying up capital and costing the fiscus for no value;
- Negotiate with the international clients to accept corporate guarantees instead of bank guarantees;
- Government guarantees;
- Working capital management; and
- Alternate sources of funding

DENEL'S STRATEGY

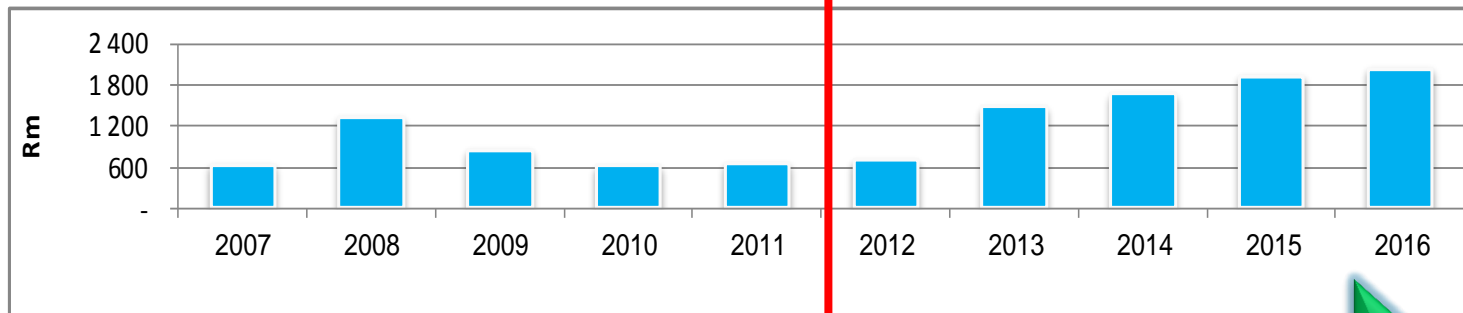


DENEL CONTINUES TO SHOW PROGRESS

Profits/(losses)



Solvency



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

The strategic focus is on increasing profitable cash returns by aggressively driving business development, as well as enhancing technology and capabilities, whilst continuing transformation and efficiency imperatives

Denel turnaround

SHAREHOLDER'S COMPACT : KPIs - 31 MARCH 2016

Strategic intent	Key performance areas	Key performance indicators	Target %	Actual %
STRATEGIC ROLE IN THE PROVISION OF DEFENCE CAPABILITIES	Security of supply and retention of capabilities in areas required by the DoD&MV	Retained strategic capabilities in support of the DoD&MVs requirements as per register	100	100
	Programme delivery	Achieving contracted cash flow targets	85	100
STRATEGIC ECONOMIC ROLE	Investment in R&D	Self-funded R&D as a % of revenue	3	1
BUSINESS SUSTAINABILITY	Sales	Increase in revenue year-on-year	20	41
	Profitability management	EBIT margin	6	8
	Cash from operating activities	Cash flow from operating activities as a % of revenue	5	11
	Order cover	Orders concluded in respect of the coming year as a % of revenue budget for that year	70	87
	Operating expenditure	Operating costs as a % of revenue	21	18
SOCIO-ECONOMIC OBJECTIVES	Maximise the appointments from designated groups in order to address employment equity requirements	ACI as % of total appointments	80	83
		Women as % of total appointments	40	35
	Preferential procurement and enterprise development	Procurement from black owned suppliers as % of local spend	15	29
		% Recognised spend in terms of B-BBEE	80	101
		Black woman-owned as a % of total local spend	3	9
		Black youth-owned as a % of total local spend	1.5	2.0
		Number of small and emerging enterprises suppliers developed	20	40
	B-BBEE level	B-BBEE contributor level (old codes)	Level 3	Level 2
	Training spend	Training spend as a % of employee cost	3	3
	Skills development – scarce and critical skills	Total number of engineering trainees (bursaries and internships)	100	107
		Total number of technician and artisan trainees	110	150
		Total number of DTA artisan and technical skills trainees (DTA students enrol in January of each year) ⁴	350	213
Employment – direct jobs created	Increase in number of jobs	150	266	

SHAREHOLDER'S COMPACT : KPIs - 31 MARCH 2016

- **Self funded R&D as a percentage of Revenue**
 - The target of 3% was not met due to the significant increase in revenue of 41%.
- **Women as a percentage of total appointments**
 - This has shown improvement from previous years and Denel is committed to improve further.
- **DTA artisan and technical trainees**
 - Not met due to limited funding available.

INTEGRATED REPORT

INTEGRATED REPORT: 31 MARCH 2016

The integrated report 2015/16 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

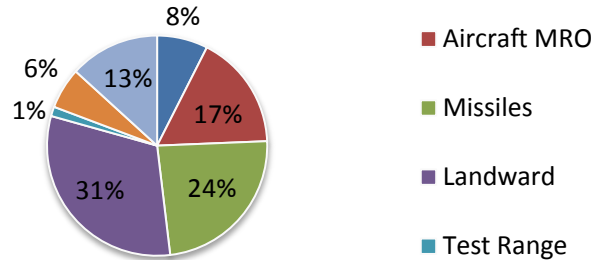
Pursue financial recovery and stability by achieving bankable profits and increasing market share, achieving revenue targets, as well as reducing costs

Revenue R8,225m



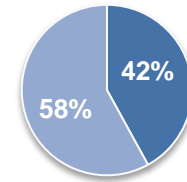
41%

Revenue analysis



Revenue

Local Foreign

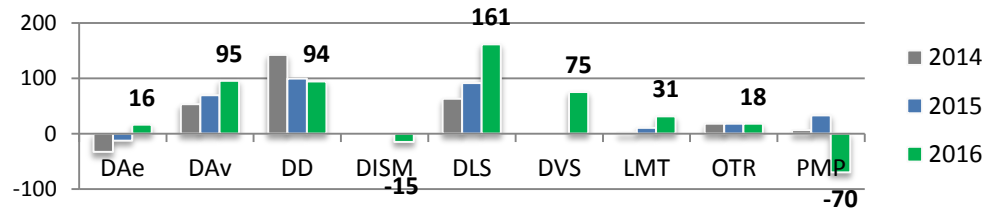


Net profit R395m

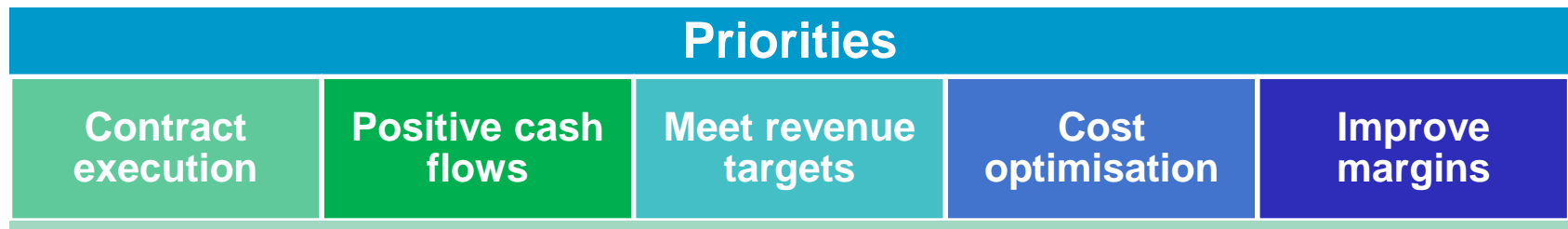
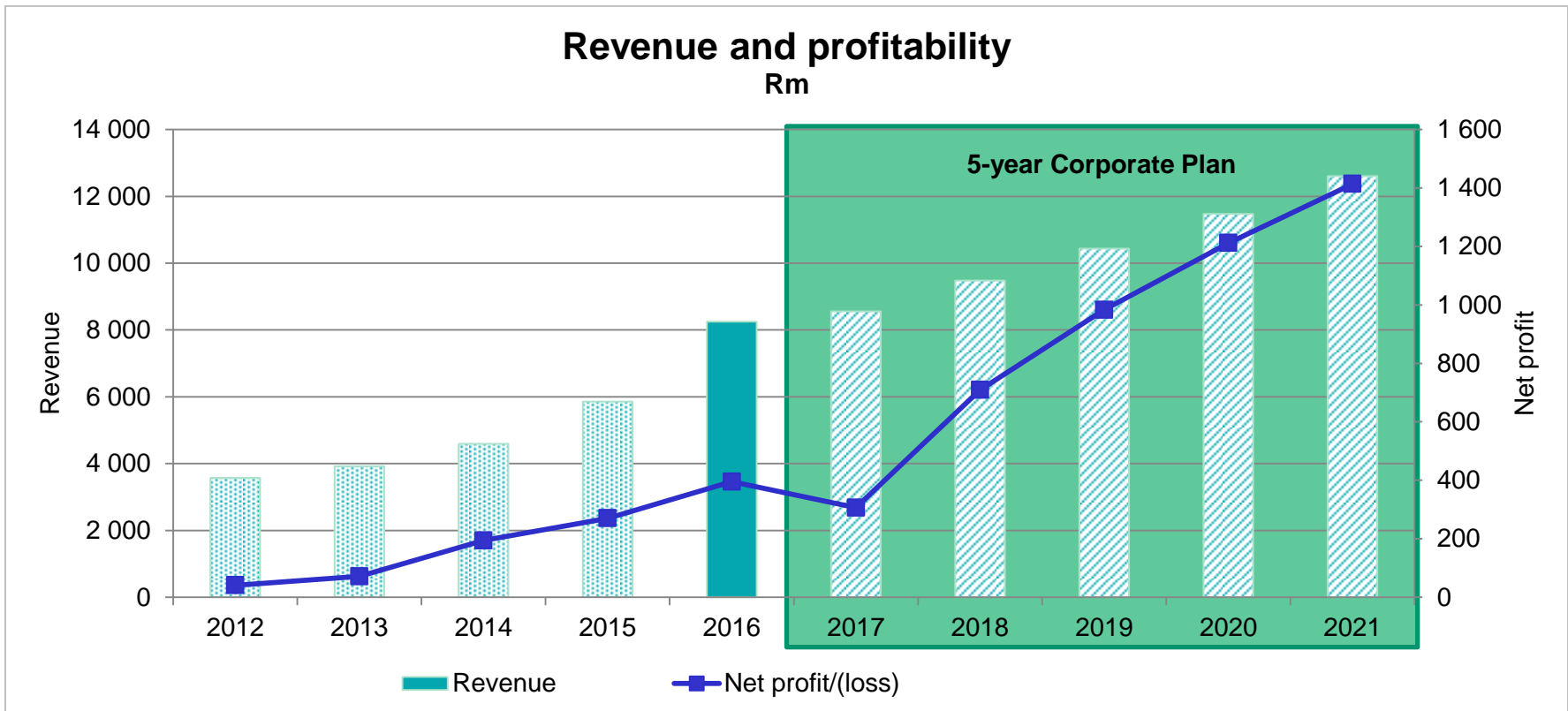


R125M

Net profit per entity



10 YEAR OVERVIEW: SALES AND PROFIT



GROUP FINANCIAL PERFORMANCE 31 MARCH 2016

	2015/16	2014/15	2013/14	2012/13	2011/12	2010/11
	%	%	%	%	%	%
RETURNS %						
Gross profit/(loss) to revenue	20.3	19.4	19.6	21.1	24.2	15.5
Other operating expenses to revenue	17.7	16.0	19.2	24.0	26.8	27.6
Operating profit/(loss) to revenue	6.1	5.7	4.9	3.0	2.8	(9.7)
Net profit/(loss) to revenue	4.8	4.6	4.2	1.8	1.1	3.4
RATIOS						
Debt/equity ratio	1.6	1.1	1.1	1.3	2.8	3.0
Current asset ratio	1.6	1.7	2.3	1.8	0.9	0.7
Net finance cost cover	2.1	2.2	2.1	0.8	0.7	1.2
Revenue per employee (Rm)	1.6	1.3	1.1	0.9	0.8	0.7

- Maintained an average 20% gross profit margin over last 6 years;
- Improved normalised Operating expenditure margin of 15% in 2015/16 (when excluding impairments and restructuring provision);
- Focus continues to be on efficient programme execution, cost optimisation and resource planning;
- Increased reliance on debt for funding due to project cycles; and
- Working capital management continues to be key in improving cash position as well maintaining acceptable debt levels.

IRREGULAR EXPENDITURE 2015/16

- Denel **acquired** all of the shares in **DVS on 28 April 2015** thus resulting in DVS being a Schedule 2 entity in terms of the PFMA from the date. As a Schedule 2 entity DVS was required to comply with the requirements of the PFMA, PPPFA and the Treasury Regulations in relation to procurement and contract management from 29 April 2015 onwards. **Management of Denel SOC have applied to the Minister of Finance to exempt DVS** from the requirements of the legislation and regulations relating to procurement and contract management for the period ended 31 March 2016 to enable the management of the entity to develop internal control systems to ensure compliance with the requirements. **As at the reporting date** of the consolidated financial statements, **engagements with the Minister of Finance were still on going**, thus management is not aware whether the exemption will be provided or declined. The **possible irregular expenditure** is **R7m**.

HUMAN RESOURCES & TRANSFORMATION

PROGRESS WITH DELIVERING ON OUR MANDATE

Contribute to socio-economic objectives including skills development and transformation

7 164 employees

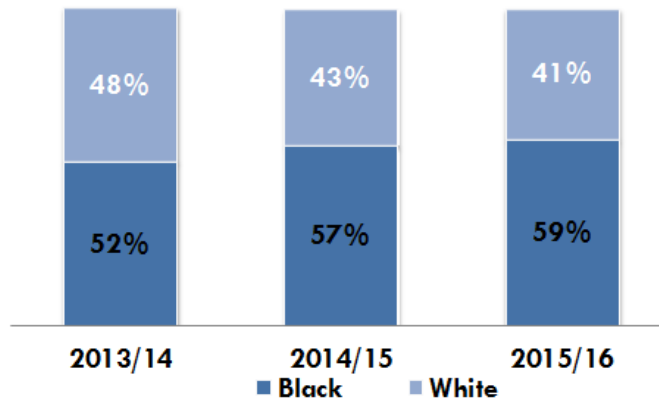


- 4 283 Permanent employees (2014/15: 3 901)
- 831 Fixed-term contractors (2014/15: 658)

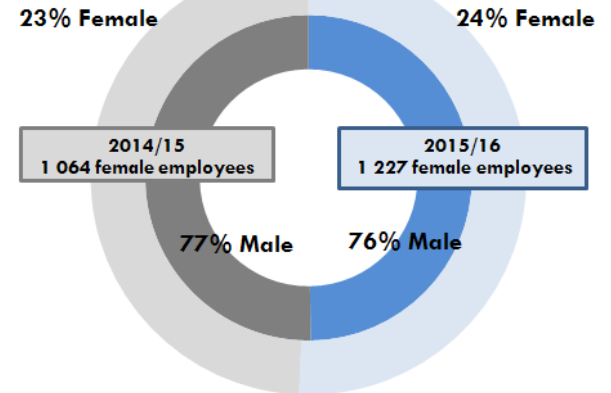
**B-BBEE
LEVEL 4 NEW
CODES**

REPRESENTIVITY

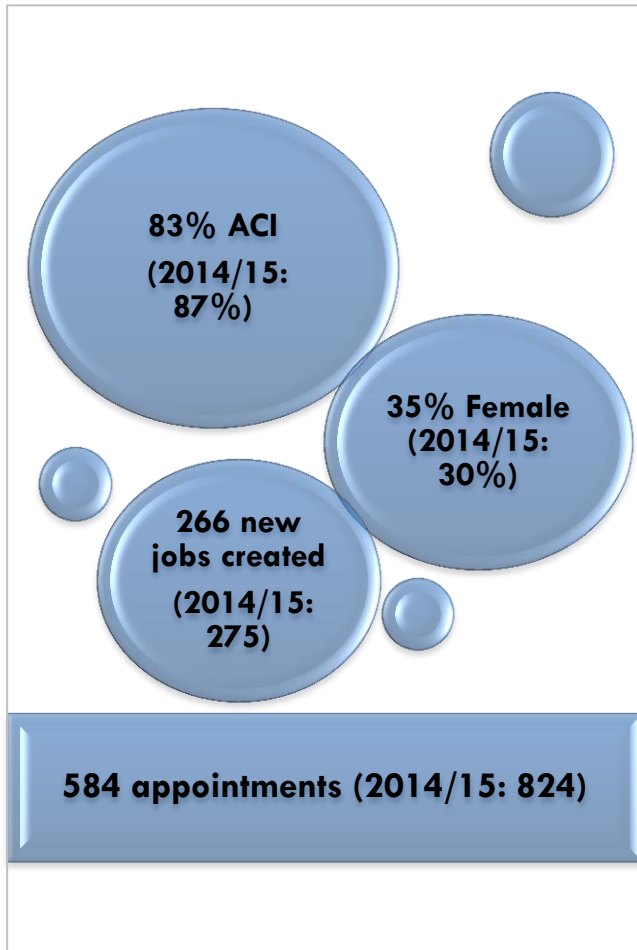
DEMOGRAPHIC REPRESENTIVITY



GENDER PROFILE



FEMALE REPRESENTATION



1 227 WOMEN



15%

56% BOARD REPRESENTATION



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



Technogirl is 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.



SAWomEng is a recognised non-profit organisation at the forefront of tackling issues regarding gender gaps in the engineering environment.

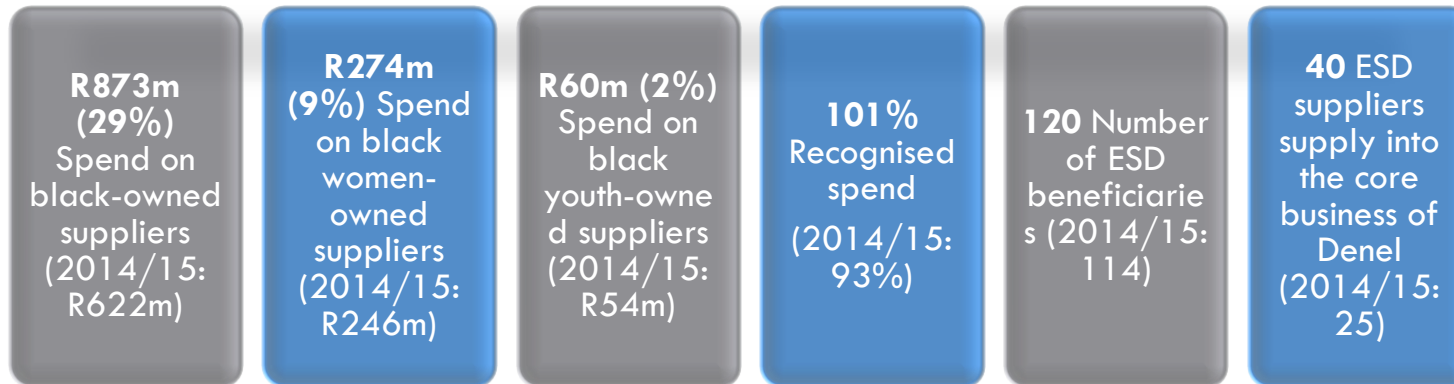


Cell C Take a girl child to work is an annual event where female learners are hosted for the day to showcase the various aviation careers available.

**SUPPLY CHAIN, CORPORATE
SOCIAL INVESTMENT &
ENVIRONMENT**

SUPPLY CHAIN MANAGEMENT

TOTAL PROCUREMENT SPEND



Key focus areas :

- Getting value from smart contracting
- Increasing procurement spend on black owned, black women, black youth, Military veterans and black persons with disabilities;
- Targeting small emerging black businesses;
- Reduce reliance on imports; and
- Transformation of the current key supplier base.

CSI IN RESPONSE TO THE MANDATE

Contribute to socio-economic objectives including skills development and transformation



R560k spent on Career exhibitions to expose learners to careers in science and technology.

Infrastructure development including a revamped library at a Gauteng school (R571k)

Sport initiatives with an impact on 3000 employees (R193k)

Education initiatives including maths and science initiatives in North west, Mpumalanga and Gauteng provinces

Charity initiatives in order to meet the most needs of the society and alleviate impacts of poverty.

THANK YOU

