# PRESENTATION TO SELECT COMMITTEE ON LABOUR AND PUBLIC ENTERPRISES

**Mr Riaz Saloojee, Mr Fikile Mhlontlo & Mr Mike Ngidi**

**2 May 2012**

# CONTENTS


- Overview of Denel
- Performance against Shareholder's Compact
- Financial progress
- Financial and Governance: 31 March 2011
- Business Development
- Major Programmes
- Human Resources & Transformation
- Denel's value-add to South Africa
- Critical strategic matters
- Conclusion

# DENEL'S MANDATE

In terms of the Shareholders Compact, Denel's key role is to:

- Supply strategic defence capabilities and technology to the SANDF on a commercially viable basis.
- Act as a catalyst for advanced manufacturing in the broader economy.
- Export products to improve revenue.

# DENEL VISION AND PURPOSE

## VISION

**The credible State Owned South African strategic partner for innovative Defence, Security and related technology solutions**

## PURPOSE

As a values driven SOC, Denel's purpose is to:

- Supply the RSA defence & security environment with strategic technology capability, products, services, and support.
- Leverage indigenous capability to access selected export markets.
- Contribute to the 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.

# DENEL PRODUCTS & SERVICES OFFERED TO SANDF, PROMOTED IN OVER 50 COUNTRIES AND UNITED NATIONS

Humanitarian demining services and products

MRO (Maintenance repair and overhaul)

UAVS. (Unmanned Aerial vehicles)

Technical Training

Aerostructures

Engineering services

Munitions and sub components

Mine Protected Vehicles

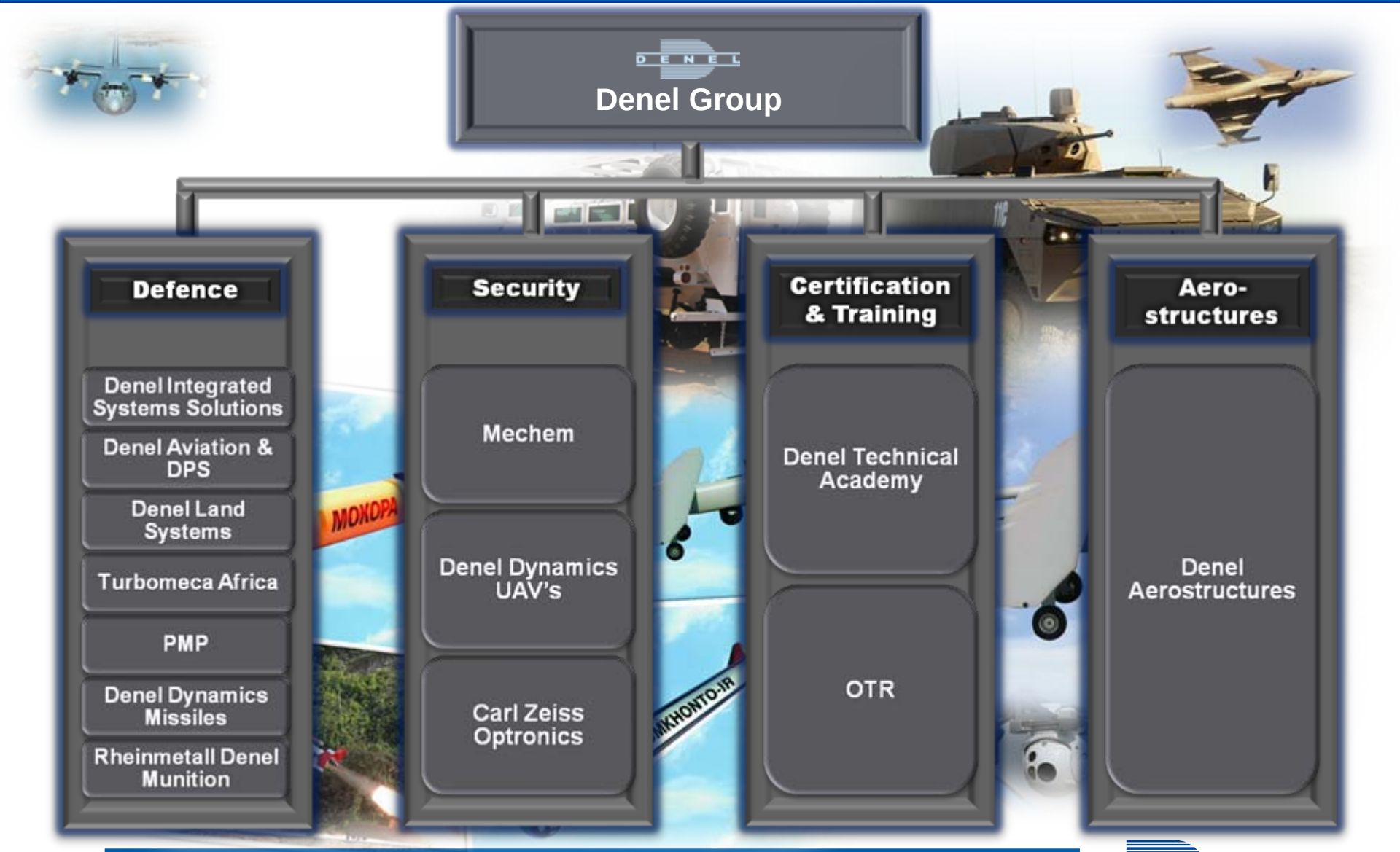
Land based systems ( Artillery, Infantry and Armour systems)

Command and Control

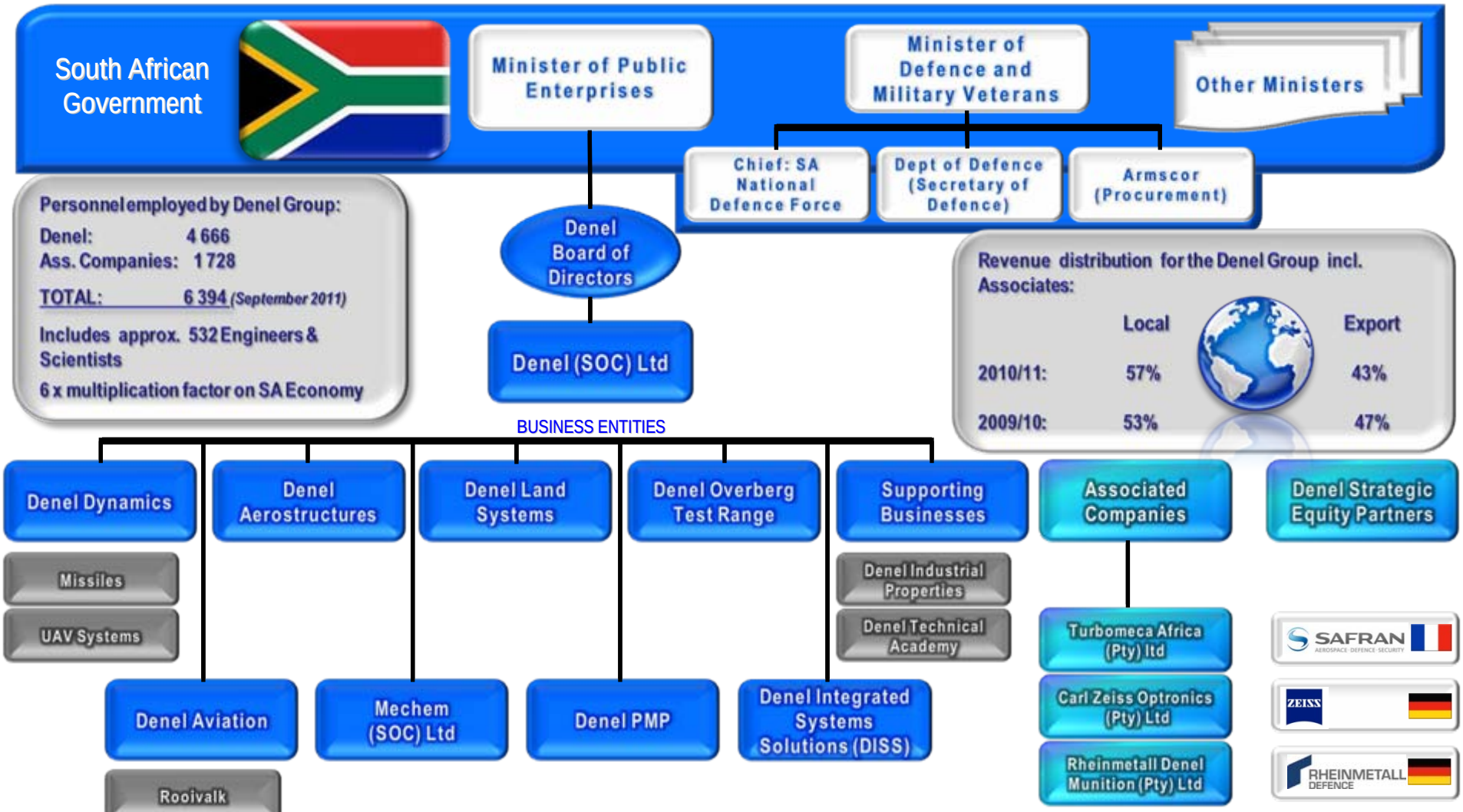
Missiles

Manufactured by 13 business entities, 6 400 direct employees and over 30 000 indirect through multiplier effect, with 10 offices outside SA

# DENEL OPERATES IN FOUR INDUSTRIAL CLUSTERS



# DENEL GROUP STRUCTURE



# CONTENTS


- Overview of Denel
- Performance against Shareholder's Compact
- Financial progress
- Financial and Governance: 31 March 2011
- Business Development
- Major Programmes
- Human Resources & Transformation
- Denel's value-add to South Africa
- Critical strategic matters
- Conclusion

# DENEL ACHIEVES ITS STRATEGIC INTENT IN MOST KPA'S

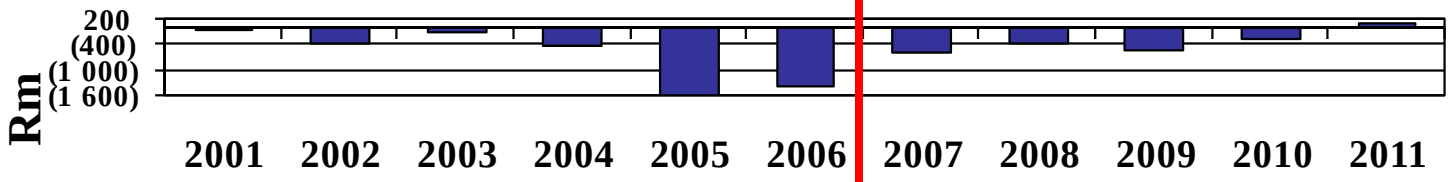
| **Key performance area** | Achieved |
|---|---|
| Retention of capabilities in areas required by the DoD&MV | |
| Maximise access to local markets | |
| Contracted SANDF/DoD&MV programmes | |
| Promote advanced manufacturing goals of the country | |
| Investment in research and development | |
| Profitability management | |
| Reduce debt and gearing | |
| Improve cash management | |
| Healthy sales pipeline | |
| Productivity improvement | |
| Optimise operating expenditure | |
| Contribution to economic transformation (including attainment of key supplier development) | |

# CONTENTS

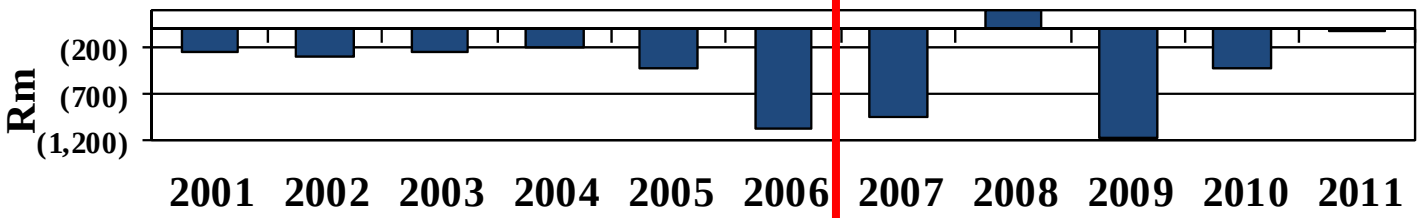

- Overview of Denel
- Performance against Shareholder's Compact
- Financial progress
- Financial and Governance: 31 March 2011
- Business Development
- Major Programmes
- Human Resources & Transformation
- Denel's value-add to South Africa
- Critical strategic matters
- Conclusion

# DENEL CONTINUES TO SHOW PROGRESS TOWARDS SELF-SUSTAINABILITY

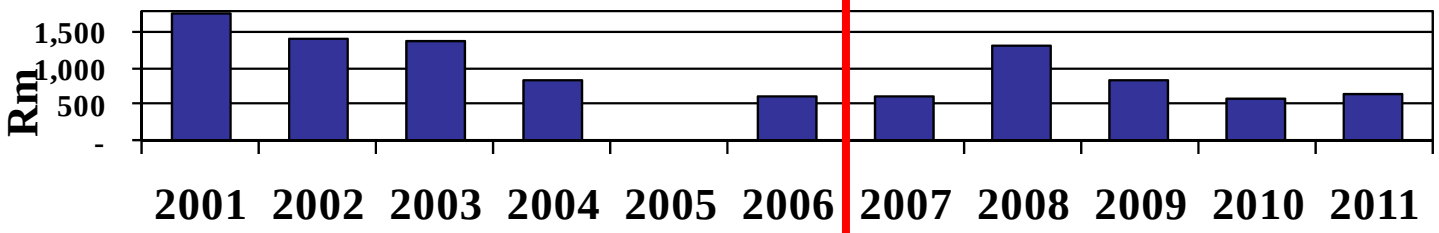
## Losses




## Cash utilised



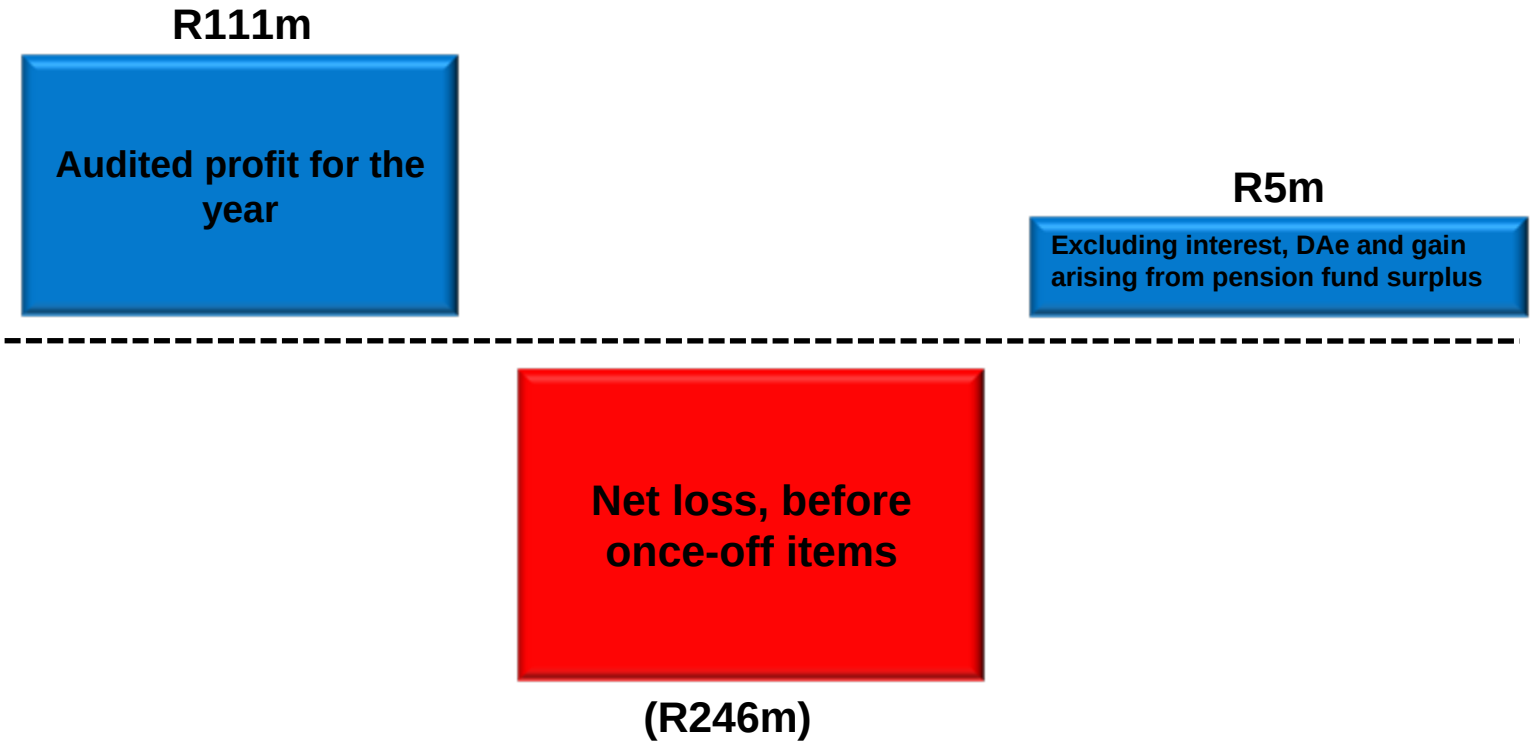

## Solvency



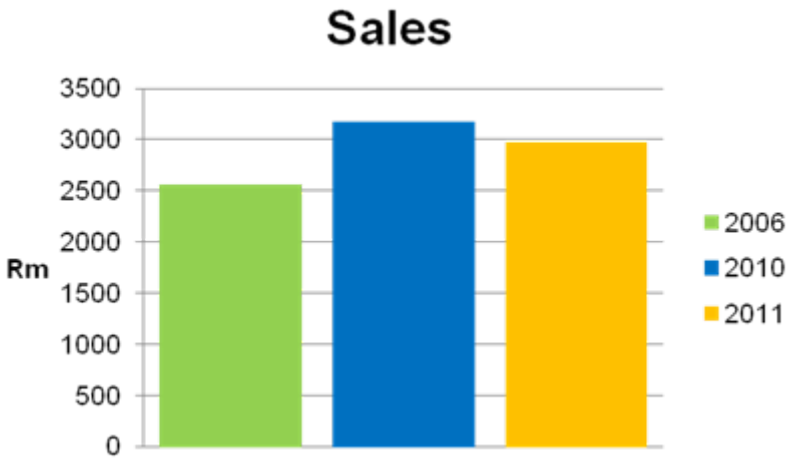

Turnaround strategy introduced

**The Group continues to improve on historic losses**

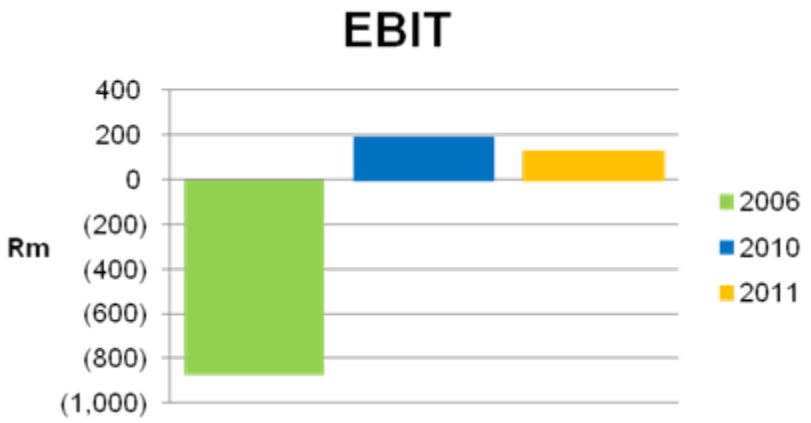
# DENEL ACHIEVES A PROFIT OF R111M

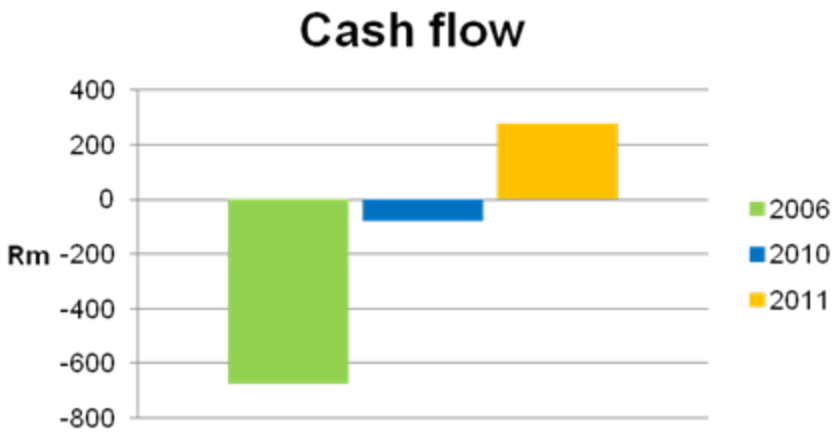


# DEFENCE, SECURITY AND CERTIFICATION CLUSTERS

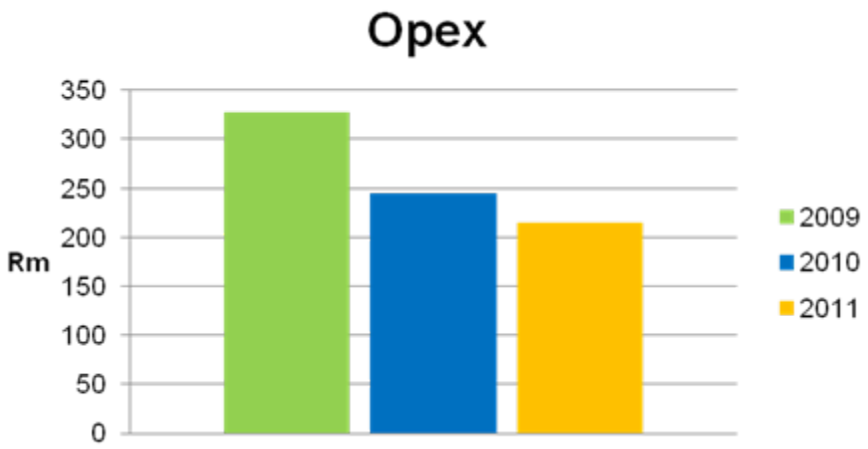


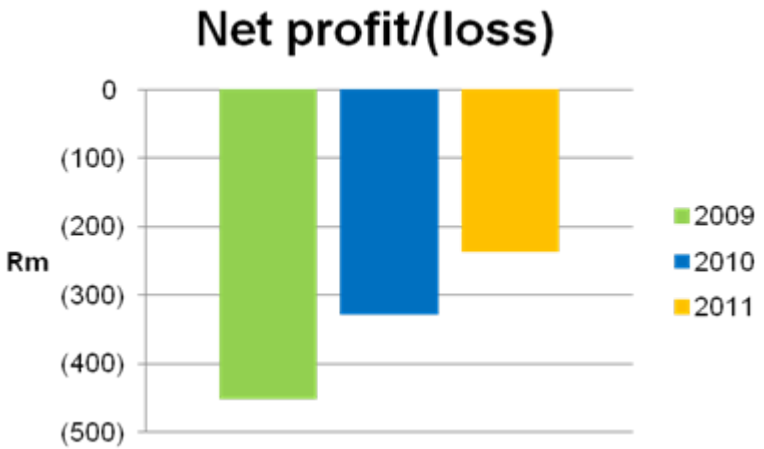

**Defence, Security and Certification clusters generates positive EBIT and cash**

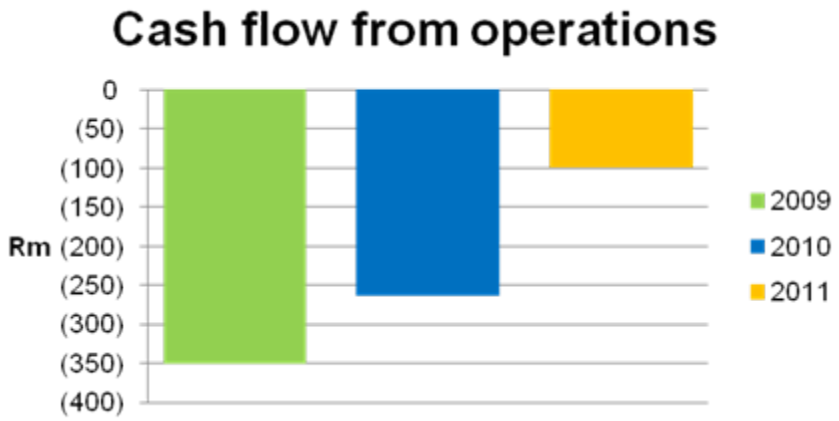


# RESULTS ACHIEVED BY AEROSTRUCTURES



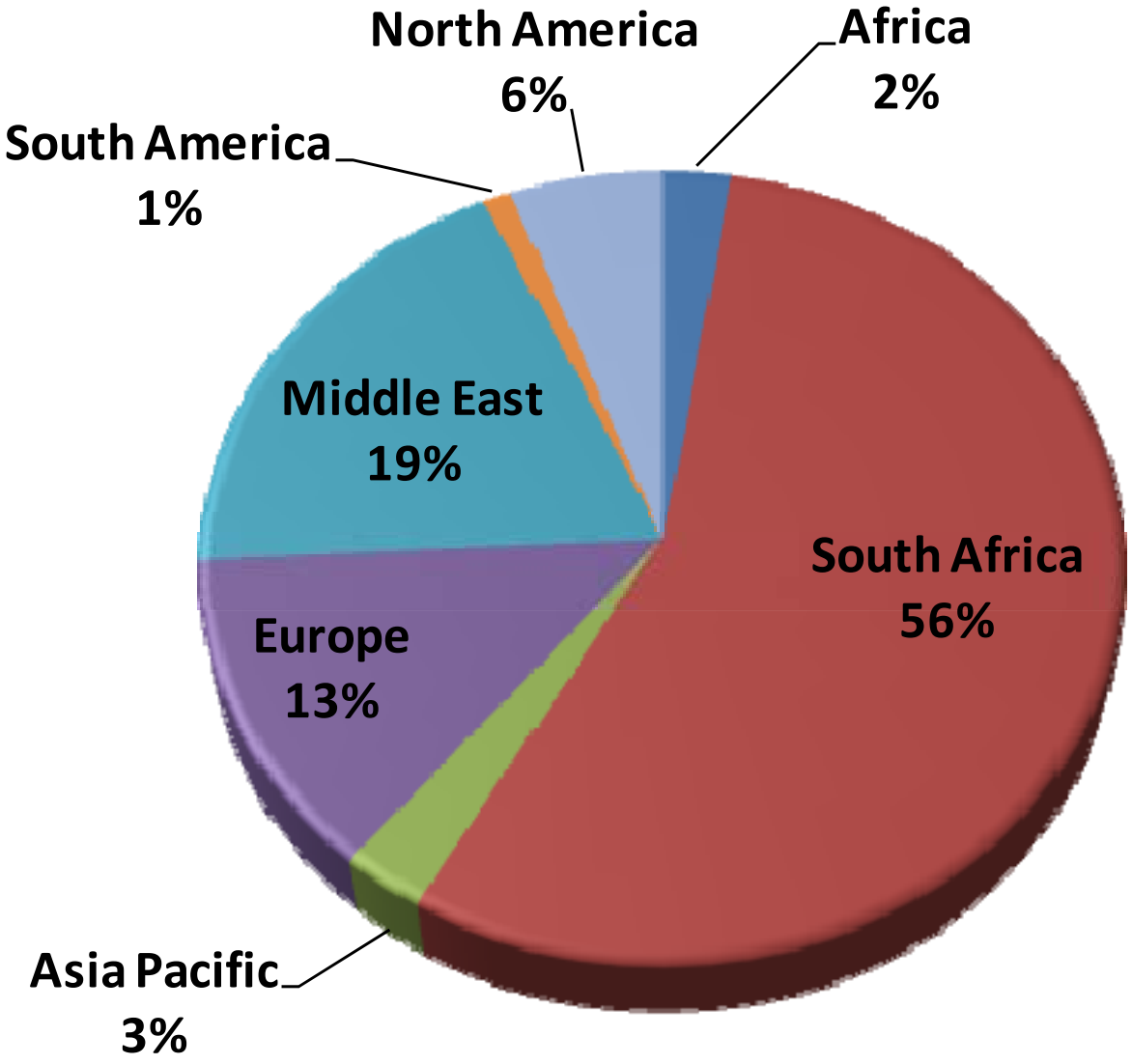
# CONTENTS

- Overview of Denel
- Performance against Shareholder's Compact
- Financial progress
- Financial and Governance: 31 March 2011
- Business Development
- Major Programmes
- Human Resources & Transformation
- Denel's value-add to South Africa
- Critical strategic matters
- Conclusion

# GROUP INCOME STATEMENT: 31 MARCH 2011

| | Group | |
|---|---|---|
| | **Mar-11 Rm** | **Mar-10 Rm** |
| Revenue | 3 252 | 3 610 |
| **Gross profit** | **503** | **578** |
| **Gross profit as % of sales** | **15%** | **16%** |
| Other income | 80 | 106 |
| Other operating expenses | ( 897) | ( 846) |
| **Operating costs as % of sales** | **(28%)** | **(23%)** |
| **Operating loss** | **( 314)** | **( 162)** |
| Closed Pension Fund surplus | 463 | - |
| Share of profit of Associates | 115 | 79 |
| **Profit/(loss) before interest and tax (EBIT)** | **264** | **( 83)** |
| Net interest | ( 120) | ( 139) |
| Income tax expense | ( 33) | ( 24) |
| **Net profit/(loss)** | **111** | **( 246)** |

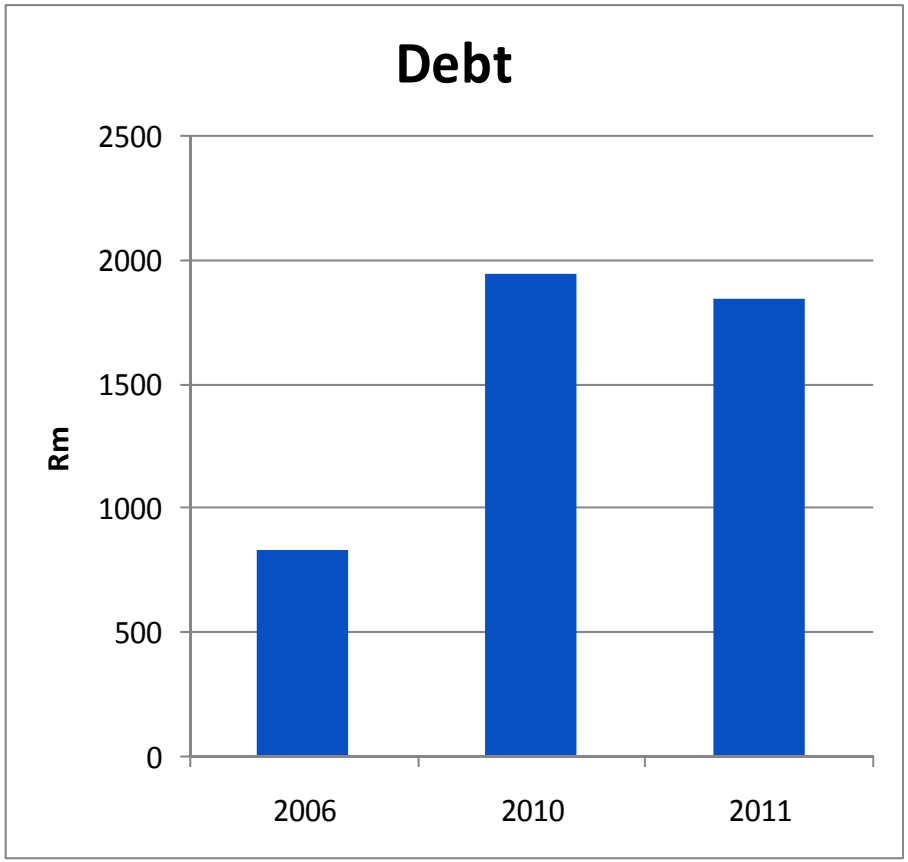
# DENEL ACTUAL SALES FOR 2010/11
## (INCLUDING ASSOCIATED COMPANIES)

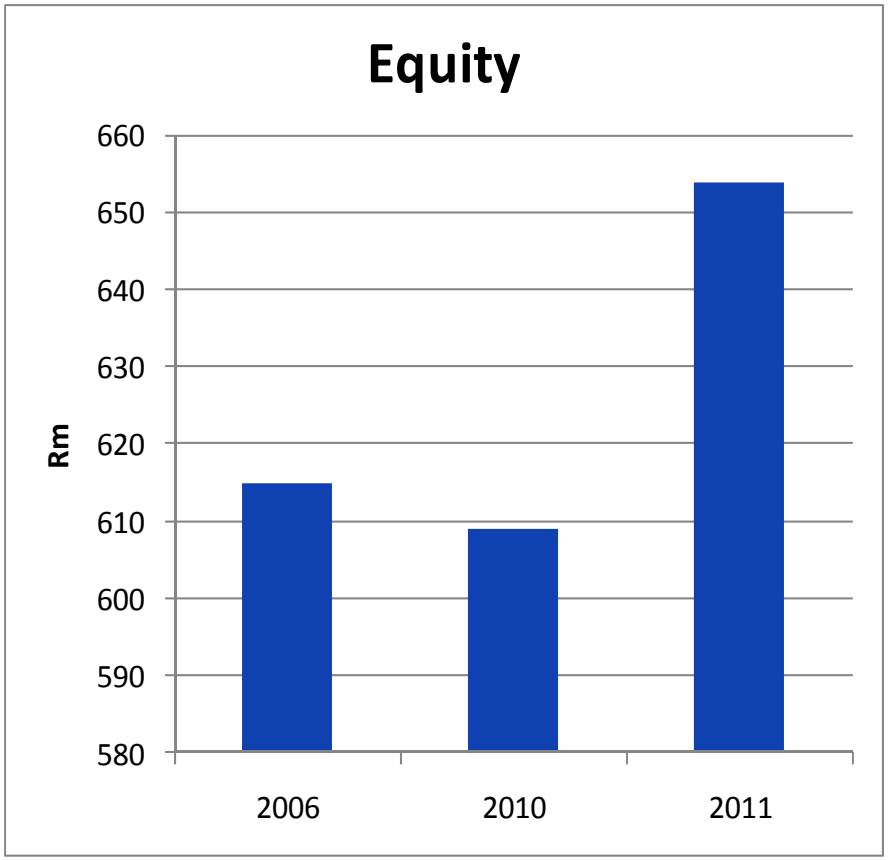


# GROUP BALANCE SHEET AS AT 31 MARCH 2011

| | YEAR-END | |
|---|---|---|
| | Actual Mar-11 Rm | Actual Mar-10 Rm |
| **Non-current assets** | **2 110** | **1 677** |
| **Current assets** | **2 921** | **3 343** |
| Inventories | 570 | 713 |
| Trade and other debtors | 1 326 | 1 490 |
| Advance payments made | 105 | 102 |
| Cash & cash equivalents | 920 | 1 038 |
| **TOTAL ASSETS** | **5 038** | **5 020** |
| **Total equity** | **654** | **609** |
| **Non-current liabilities** | **475** | **457** |
| **Current liabilities** | **3 909** | **3 954** |
| Creditors | 658 | 633 |
| Interest bearing borrowings | 1 845 | 1 943 |
| Advance payments received | 860 | 602 |
| **TOTAL EQUITY AND LIABILITIES** | **5 038** | **5 020** |

# DENEL'S DEBT AND EQUITY LEVELS CONTINUE TO BE CONCERNING



# GROUP CASH FLOW STATEMENT

| | YEAR-END | |
|---|---|---|
| | Actual Mar-11 Rm | Actual Mar-10 Rm |
| Net cash flows from/(used in) operating activities | ( 137) | ( 134) |
| Net advance receipts from customers | 258 | ( 73) |
| Finance costs, net of investment income | 57 | ( 137) |
| Net cash flows used in investing activities | ( 201) | ( 72) |
| Net cash flows (used in)/from financing activities | ( 203) | 904 |
| **Net increase/(decrease) in cash** | **( 226)** | **488** |

# DENEL CONSISTENTLY ACHIEVES CLEAN AUDIT

- Clean internal and external audit
- Further strengthening of governance structures
- Complied with local and international codes, laws and regulations
- Sound functioning of Board and Board Sub-committees
- Risk governance processes are in place
  - Fraud prevention and anti-corruption including fraud hotline
  - Ethics policy
  - Compliance processes
- Implementation of King III Code of Corporate Governance
  - Stakeholder management
  - IT governance
  - Sustainability reporting
- No significant concerns regarding the internal control environment
- New Board appointed – effective 7 July 2011
- New Companies Act – performing gap analysis and devising implementation plan

# NEED TO STRENGTHEN BALANCE SHEET TO FUND GROWTH

- Recapitalised in the past to enable repayment of debt, legacy issues and investments
- Continued losses of Aerostructures (FY11:-R237m; FY10:– R328m; FY09: -R453m)
- Debt / equity ratio concerning with R1.85bn of debt at March 2011
  - Debt level's high requiring recapitalisation
  - Solvency R400m, very low for organization the size of Denel
- Denel is experiencing low funding levels – in the short term, using overdraft facilities
- Denel is a high working capital investment company and requires on-going funding and support
- Pressure on bank facilities, i.t.o additional borrowings and issue of bank guarantees
- Current bank facilities of R5bn needs to be increased to R10bn to support growth
- Urgent need to have the balance sheet strengthened

# CONTENTS

- Overview of Denel
- Performance against Shareholder's Compact
- Financial progress
- Financial and Governance: 31 March 2011
- Business Development
- Major Programmes
- Human Resources & Transformation
- Denel's value-add to South Africa
- Critical strategic matters
- Conclusion

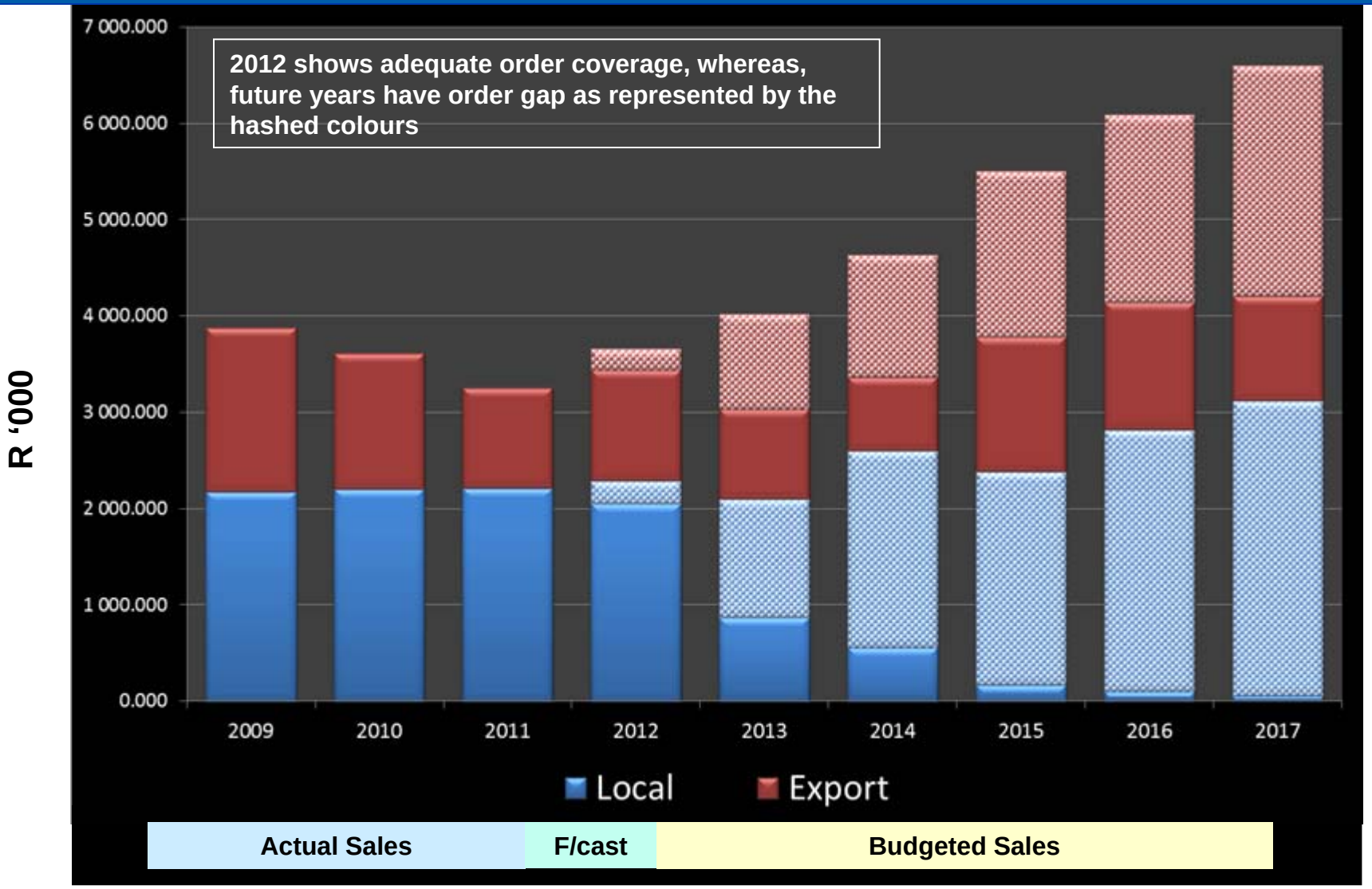
# CRITICAL ORDERS

The following multi-year orders, that form part of the future revenue plan, are critical to secure as this will significantly reduce revenue risk:

- Local orders to be secured:
  - SANDF - Hoefyster (Infantry Fighting Vehicle Programme)
  - SANDF - GBADS Phase II (Ground Based Air Defence Programme)
  - SAAF - A-Darter Missile Programme
  - SANDF & SAPS - Small Medium Calibre Orders

- Export orders to be secured:
  - A-Darter programme linked order
  - Umbani programme finalisation

# REVENUE AND ORDER COVER STATUS



# CONTENTS

- Overview of Denel
- Performance against Shareholder's Compact
- Financial progress
- Financial and Governance: 31 March 2011
- Business Development
- Major Programmes
- Human Resources & Transformation
- Denel's value-add to South Africa
- Critical strategic matters
- Conclusion

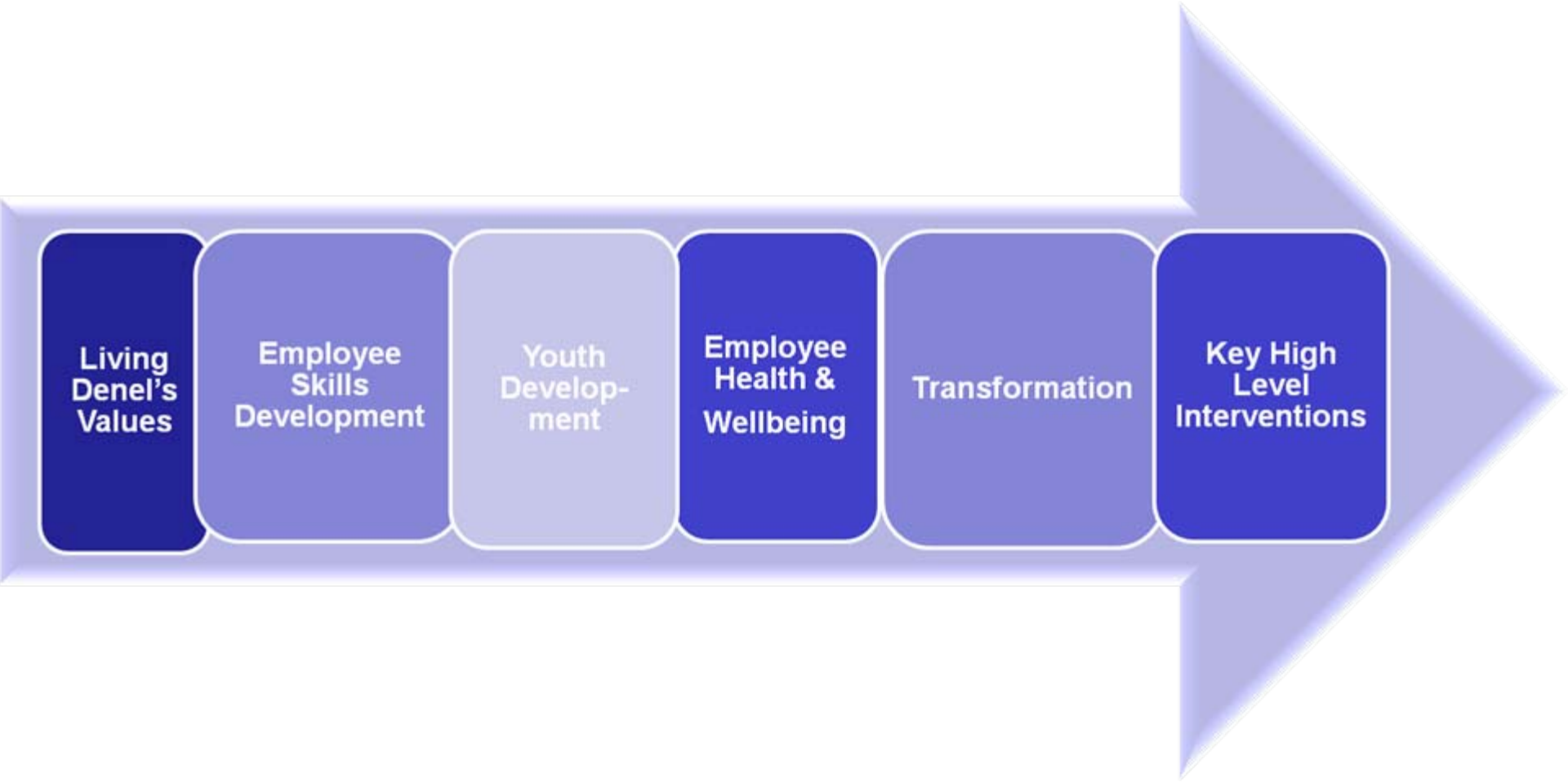
# MAJOR PROGRAMMES

| Business Entity | Contract |
|---|---|
| DLS | Project HOEFYSTER - New Generation ICV<br>8x8 Turret order and Malaysia Turret order |
| DSA | A400M – Wing-to-Fuselage (WFF) / Top Shells (TS) |
| DISS | GBADS requirements |
| Denel Dynamics | A-Darter Missile and Mbarc stand-off weapon |
| Denel Aviation | Rooivalk Programme |
| | Ecuador Cheetah Project |
| | Oryx Avionics upgrade |
| Mechem | UN Demining Contracts – Border control freight clearance |
| Denel UAVs | Seeker 200 - Re-engineering project<br><br>Seeker 400 – Next generation UAV |
| Carl Zeiss Optronics | Periscope development and support contract |

# CONTENTS

- Overview of Denel
- Performance against Shareholder's Compact
- Financial progress
- Financial and Governance: 31 March 2011
- Business Development
- Major Programmes
- Human Resources & Transformation
- Denel's value-add to South Africa
- Critical strategic matters
- Conclusion

# HUMAN RESOURCES AND TRANSFORMATION



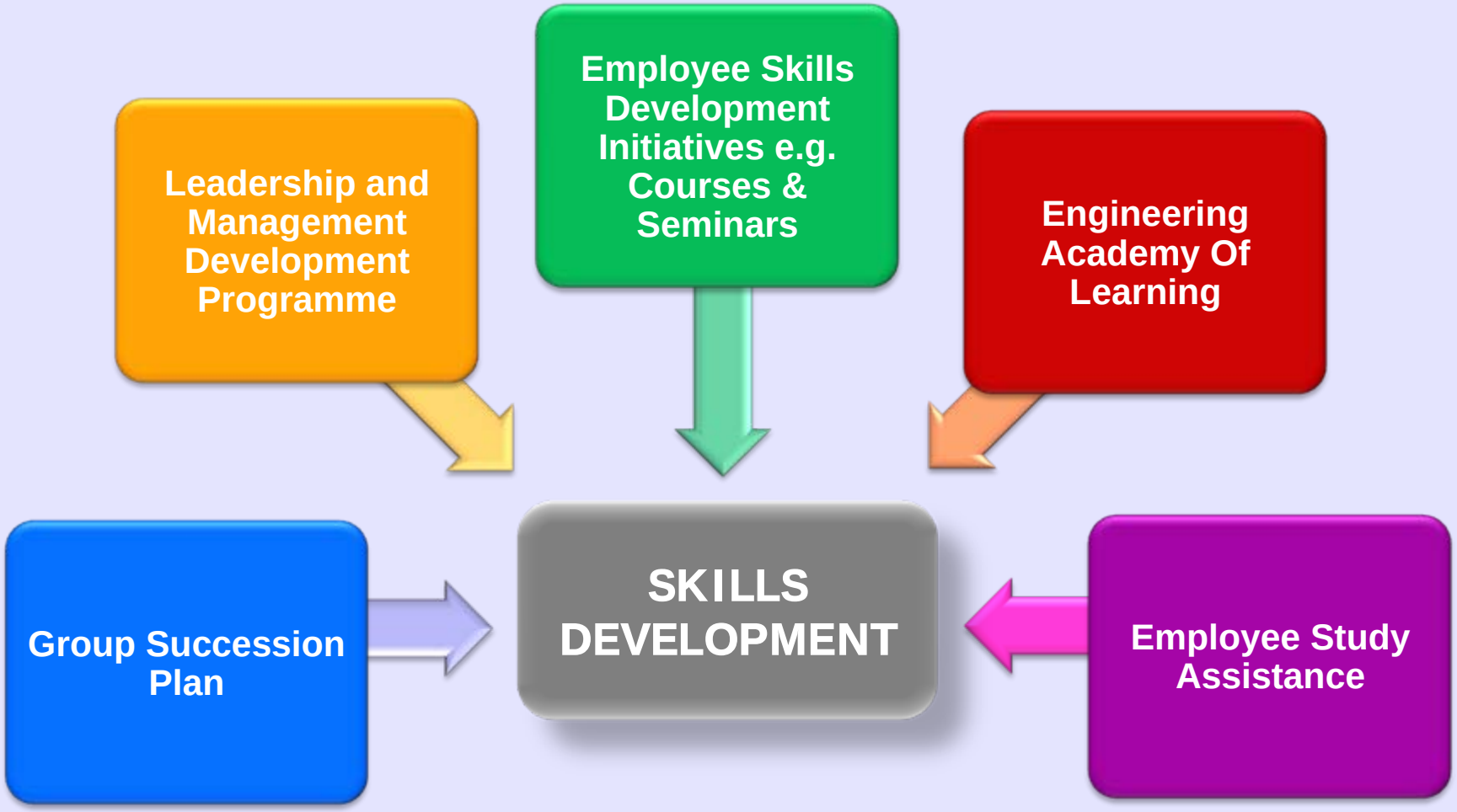
# DENEL VALUES ENHANCE POSITIVE BEHAVIOR & DRIVE GROWTH

**CUSTOMER FOCUS**

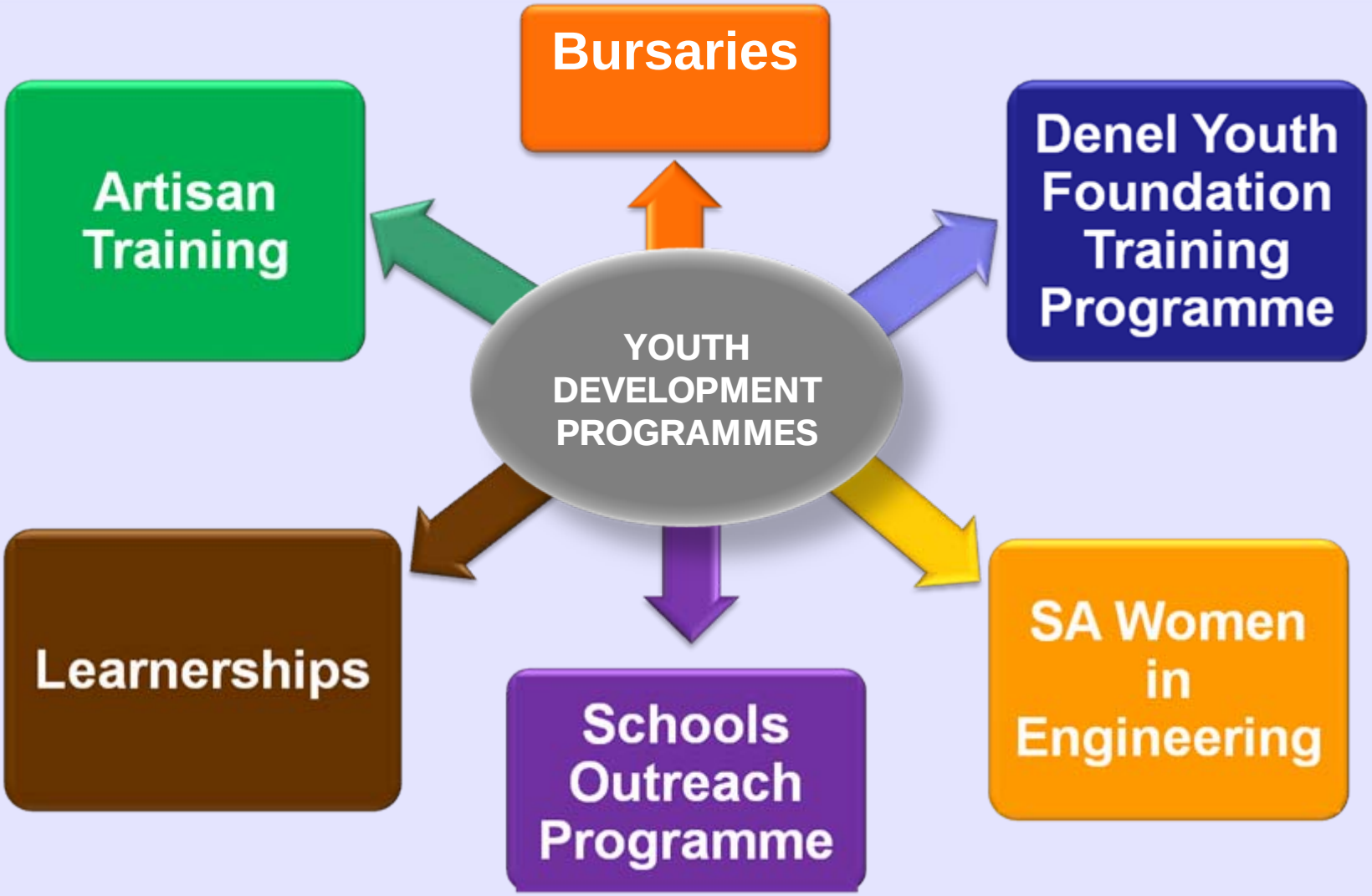
**EFFICIENCY**

**GROWTH**

# EMPLOYEE SKILLS DEVELOPMENT INITIATIVES



# YOUTH DEVELOPMENT INTERVENTIONS



# YOUTH DEVELOPMENT PROGRAMMES OVERVIEW

To address the challenge of skills shortages, Denel has focused its social investment resources and efforts to the **development of mathematics and science**.

Rooted firmly on working with learners to either **encourage them to take mathematics and science at high school**, or to provide **bursaries to study engineering and science**.

# TRAINING COURSES TO DEVELOP HIGHLY SOUGHT-AFTER SKILLS: DENEL TECHNICAL ACADEMY (DTA)

- **Artisan training**

o Denel's flagship programme is its artisan training academy, within DTA - enrolls learners for different aviation and general apprenticeships.

o Enrolls approximately **300 apprentices per annum**, but with additional funding, could enrol a greater number. Training is offered in the following:

- ✓ Aircraft related disciplines of avionician, electrician, radiotrician, instrument mechanic, structural worker, mechanic;
- ✓ Electrician, fitter and turner, machine tool millwright, tool and jig maker, turner and machinist and welding;

o DTA offers SACAA-certified courses and several other advanced courses.

# PROACTIVE RESPONSE TO THE SKILLS SHORTAGE IN THE INDUSTRY

- **Denel Youth Foundation Training Programme**

o The Denel Youth Foundation Training Programme **(DYFTP)** - matric bridging facility.

o Pro-actively respond to the challenge of lack of skills supply especially in the engineering, science and the technical fields.

o **Learners are sourced from all nine provinces** and are provided with accommodation.

o Some learners **achieving distinctions** as a result of the programme.

# ENSURING ACCESSIBLE SUPPORT FOR LEARNERS

- **Schools outreach programme**

o Other youth development programmes such as the schools outreach programme, where learners from grade 8 to 12 are offered tuition, in some cases by Denel engineers on weekends.

o The programme is currently running in the Gauteng and North-West Provinces**.**

o This programme is currently fully **funded by Denel at a direct cost of R1.2m per year**.

- **Learnerships**

o Denel participated in the **TOPP Programme in 2010/11**.

The TOPP Programme is a South African Institute of Chartered Accountants (SAICA) learnership registered with the FASSET SETA.

# INSPIRING THE YOUTH (ESP WOMEN) TO ENTER THE INDUSTRY

- **Women in Engineering**
  - Partnered with the SA Women in Engineering.
  - Spearheaded by a group of young female engineers who have a passion of encouraging female learners to enter the field of engineering, science and technology.
  - Denel funds this programme along with other organisations
- **Collaborations with tertiary institutions**
  - Denel Dynamics was rated No. 3 by SAGRA (SA Graduate Recruiters Association)
  - Initiatives have been developed which include visits to universities to improve Denel's ranking as a Group.
  - Denel participated in Engineering Career Fairs at various Universities, Sci-Bono and Aviation week and intends to expand to others.

# ATTRACTING SKILLS INTO THE INDUSTRY

These programmes target students from various tertiary institutions.

- **Bursaries**

o Primary tool for bringing young engineers and scientists into the group to counter the ageing workforce profile.

o Bursars are taken into the programme annually and are individually mentored and supported.

o Denel provides the bursars with vacation work and mentors.

o Over 90% of the bursars that complete their university studies have been employed in the group.

o Denel's hands-on approach ensures bursars are fully supported so that they obtain their qualifications and join the group

o Denel currently has 55 bursars based at various universities across the country that are studying engineering and another 14 that are pursuing other qualifications.

# BUILDING AND MAINTAINING RELATIONSHIPS WITH TERTIARY INSTITUTIONS

- Denel has built a **close relationship with various engineering faculties at universities for technology programmes**.
- Denel **sponsors postgraduate studies** through this fund the Armscor Ledger Fund. Often, recipients of this funding have opportunities to present their academic papers overseas.
- Denel also continuously c**ollaborates with engineering faculties at various tertiary institutions** to increase the number of student engineers, so as to increase the general pool of engineering skills in the country.

# EMPLOYEE WELLBEING IS CENTRAL TO DENEL'S SUCCESS

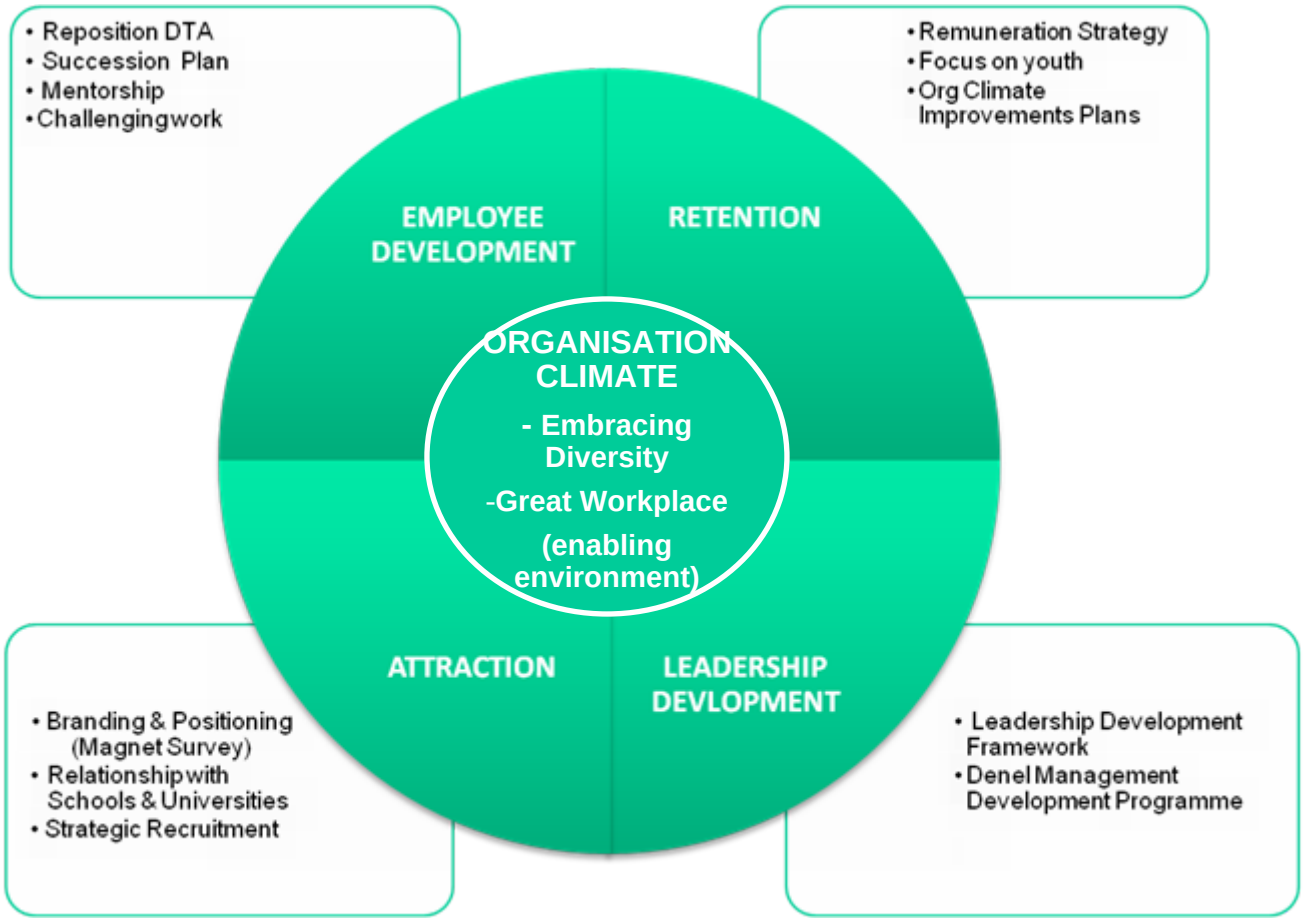
- **Wellness Programmes**
  - Wellness days held to check blood pressure, cholesterol, sugar diabetes, etc.
  - Most Denel work sites have in-house clinics and healthcare facilities
  - Road shows and interactive workshops, dealing with wellness and personal finance
  - Cancer and Shavathon days

- **Programmes in support of HIV/AIDS Awareness**
  - Awareness sessions held for one week per year
  - Posters and banners are displayed during the national HIV/AIDS awareness week
  - Industrial theatre artists invited to raise awareness

# MONITORING OF TRANSFORMATION PERFORMANCE

- Denel believes in **genuine** Transformation that is sustainable and adds value
  - **Transformation Committees** chaired by the business entity CEO/General Manager
  - **Human Resources and Transformation** weighs 20% of the total CEO's/General Manager's performance contract each year.
- Denel has improved in all aspects of B-BBEE with an overall improvement score of 76% (2010: 69%). **This score makes Denel a 110% B-BBEE contributor and adds value to our suppliers**.
- Challenges: Levels of diversity (Employment Equity), Skills Development and Preferential Procurement.
- The group's target is to maintain a Level 3 B-BBEE score.

# KEY HIGH LEVEL INTEVENTIONS FOR 2012/13



# CONTENTS

- Overview of Denel
- Performance against Shareholder's Compact
- Financial progress
- Financial and Governance: 31 March 2011
- Business Development
- Major Programmes
- Human Resources & Transformation
- Denel's value-add to South Africa
- Critical strategic matters
- Conclusion

# DENEL'S VALUE-ADD TO SOUTH AFRICA

**National Security and Peacekeeping**

Contribution

- RSA strategic military independence & defence stature (AU & G20)
- Full life-cycle support
- Customised solutions to meet unique SANDF requirements
- Internal security and border control
- MRO, demining and post conflict support
- FOREX savings for the client – reduced cost of ownership
- Security of supply as a result of local defence manufacturing capability

**Industrial Strategy, IPAP 2 and NGP**

- High tech manufacturing
- High value add exports = 2011: R1.3bn, 2010: R1.4bn
- Aerospace & advanced materials (Aerostructures)
- R&D spend (incl. client funded) = >R1bn for the last 3 years
- IP creation and cross leveraging to other industries
- Global supply chain integration
- Major industrial investment: Aerostructures, TMA, CZO and RDM
- Procurement from local industry through supply chain interventions

# DENEL'S VALUE-ADD TO SOUTH AFRICA

**Employment and Skills Development - NGP**

Contribution

- Quality/high tech employment
- 6400 direct jobs
- Supporting over 30 000 technical jobs in industry
- Global exposure to technical employees
- Artisan training, bursaries, internships, DTA, mentorship and youth training programmes
- Developing skills pipeline for advanced engineering, technology development and certified artisan competencies

**Environment**

- ISO 14001 certification and compliance
- High tech industry – clean air production
- Advanced materials produced by Aerostructures (composites – lighter and stronger materials) for aviation fuel efficiency and $CO^2$ reductions
- Land rehabilitation programmes

# CONTENTS

- Overview of Denel
- Performance against Shareholder's Compact
- Turnaround progress
- Financial Highlights
- Business Development Status
- Major Programmes
- HR & Transformation
- Denel's value-add to South Africa
- Critical strategic matters
- Conclusion

# PRIORITIES

- Strengthening Denel's Balance Sheet
  - Repayment of debt
  - Convert opportunity pipeline
  - Cost and efficiency optimisation

- Continuation of turnaround strategy to achieve sustainability of Aerostructures:
  - Successful re-negotiation of Airbus contract
  - Sustainable business case
  - Grow order book
  - Cash and profitability management
  - Skills development and retention
  - IPAP 2 – Sector Development Plan

- Smart partnerships between Denel and key State Agencies
  - Well coordinated political support for exports

# CONTENTS

- Overview of Denel
- Performance against Shareholder's Compact
- Turnaround progress
- Financial Highlights
- Business Development Status
- Major Programmes
- HR & Transformation
- Denel's value-add to South Africa
- Critical strategic matters
- Conclusion

# CONCLUSION

- Denel continuing its path to sustainability and profitability
- Strengthening balance sheet
  - Significant order pipeline
  - Growing order book
  - Optimising efficiency and costs
- Developing and growing talent in South Africa
- Introducing high performance culture
  - Achieved 91% of technical milestones on DoD orders
  - International accreditations maintained
  - Skills development, leadership development and transformation
  - Strengthening risk management and compliance
  - Clean internal and clean external audit

# THANK YOU