



PRESENTATION TO PUBLIC ENTERPRISES PORTFOLIO COMMITTEE

Messrs Zoli Kunene, Riaz Saloojee, Fikile Mhlontlo, Mike Ngidi & Ms Martie van Rensburg

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OVERVIEW OF 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 VALUES ENHANCING POSITIVE BEHAVIOR

DENEL GROUP VALUES (PIICA)

-  **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 OUR ACTIONS.



CUSTOMER FOCUS

EFFICIENCY

GROWTH

STRATEGIC APPROACH

PROFITABILITY & SUSTAINABILITY

External Environment - Stakeholders

- Secure revenue growth – new markets - diversification, partnerships, leverage technology
- Stakeholder relationships – local partnerships, industry collaboration, sustainability
- Respected SA company – Branding and re-positioning, NGP
- Dynamic Africa strategy

Implementation:

- Multi-disciplinary task team
- Work stream champions

AS-IS STATE

STRATEGY & LEADERSHIP

- Sales drive: BD capacity, deal closure focus
- Operational excellence: programme delivery, efficiency, technology strategy
- Cash and profitability management: restructuring, cost efficiency
- Respect SA company: skills, transformation, motivated staff, sustainability, organisational culture, employer of choice

TO BE STATE
3 YEARS

Internal Environment - Organisation

To be State

- Double revenue
- Home market support + mixed revenue (50:50)
- Strong balance sheet
- Optimised cost structure
- Operational excellence
- Increase R&D investment
- Modernised technology
- 7% net return
- BBBEE Level 2
- Respected SA company

As-is State - Positive factors

- Solid opportunity pipeline
- Improved financial performance
- Aerostructures viable
- Improved programme performance
- BBBEE Level 3 – transformation to improve
- Strong human capital base
- Solid conventional technology base

As-is state - Negative factors

- Stakeholder alignment challenges
- BD capacity + sales drive
- Overall net loss making
- Sustainability at risk (future state)
- Internal efficiencies need to improve
- Sub-optimal R&D levels (4% of T/O)
- Weak asymmetrical warfare technology base

HIGH-LEVEL STRATEGIC INTERVENTIONS

The strategic focus is on improving business development, operations, transformation and financial performance. Strategic interventions include:

- Integrating business development, focusing on key campaigns, establishing regional offices and business intelligence functions
- Consolidating businesses and streamlining governance across the group.
- Recent appointment of deputy CEO's at divisional level to ensure transformation, strengthening of leadership and succession planning
- Embarking on cost optimisation and streamlining support services

DENEL GROUP BUSINESS CLUSTERS

DENEL GROUP

DEFENCE

DENEL INTEGRATED SYSTEMS SOLUTIONS
DENEL AVIATION & DPS
DENEL LAND SYSTEMS
TURBOMECA AFRICA
PMP
DENEL DYNAMICS MISSILES
RHEINMETALL DENEL MUNITION

SECURITY

DENEL DYNAMICS UAVS
MECHEM
CARL ZEISS OPTRONICS

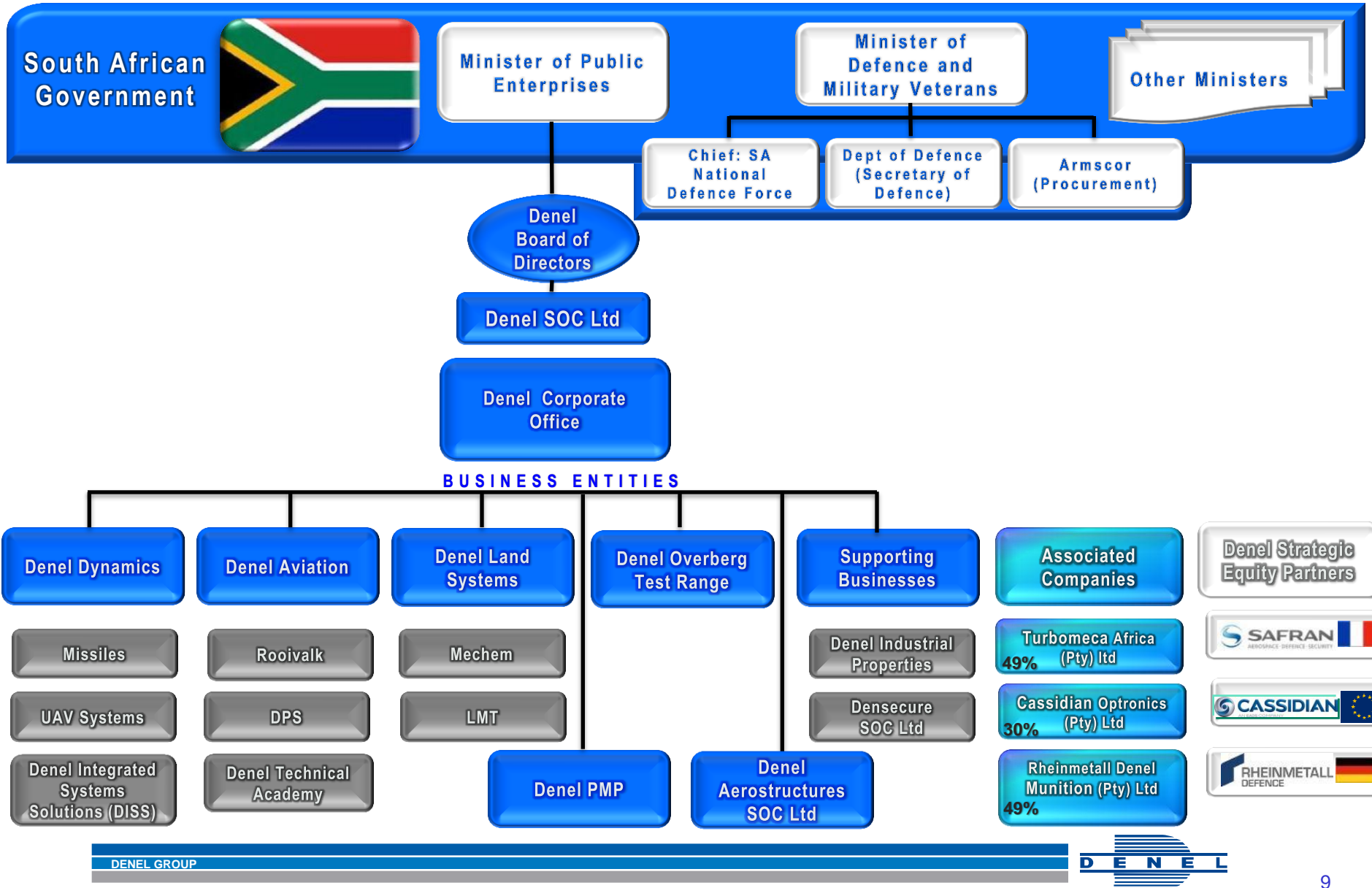
CERTIFICATION & TRAINING

DENEL OVERBERG TEST RANGE
DENEL TECHNICAL ACADEMY

AEROSTRUCTURES

DENEL AEROSTRUCTURES

DENEL GROUP STRUCTURE



CORE PRODUCT PORTFOLIO

Humanitarian demining services and products

Maintenance repair and overhaul

Unmanned
Aerial vehicles



Aerostructures



Technical
Training

Engineering
services

Munitions and
sub components

Land based systems
(Artillery, Infantry
and Armour systems)



Mine Protected
Vehicles

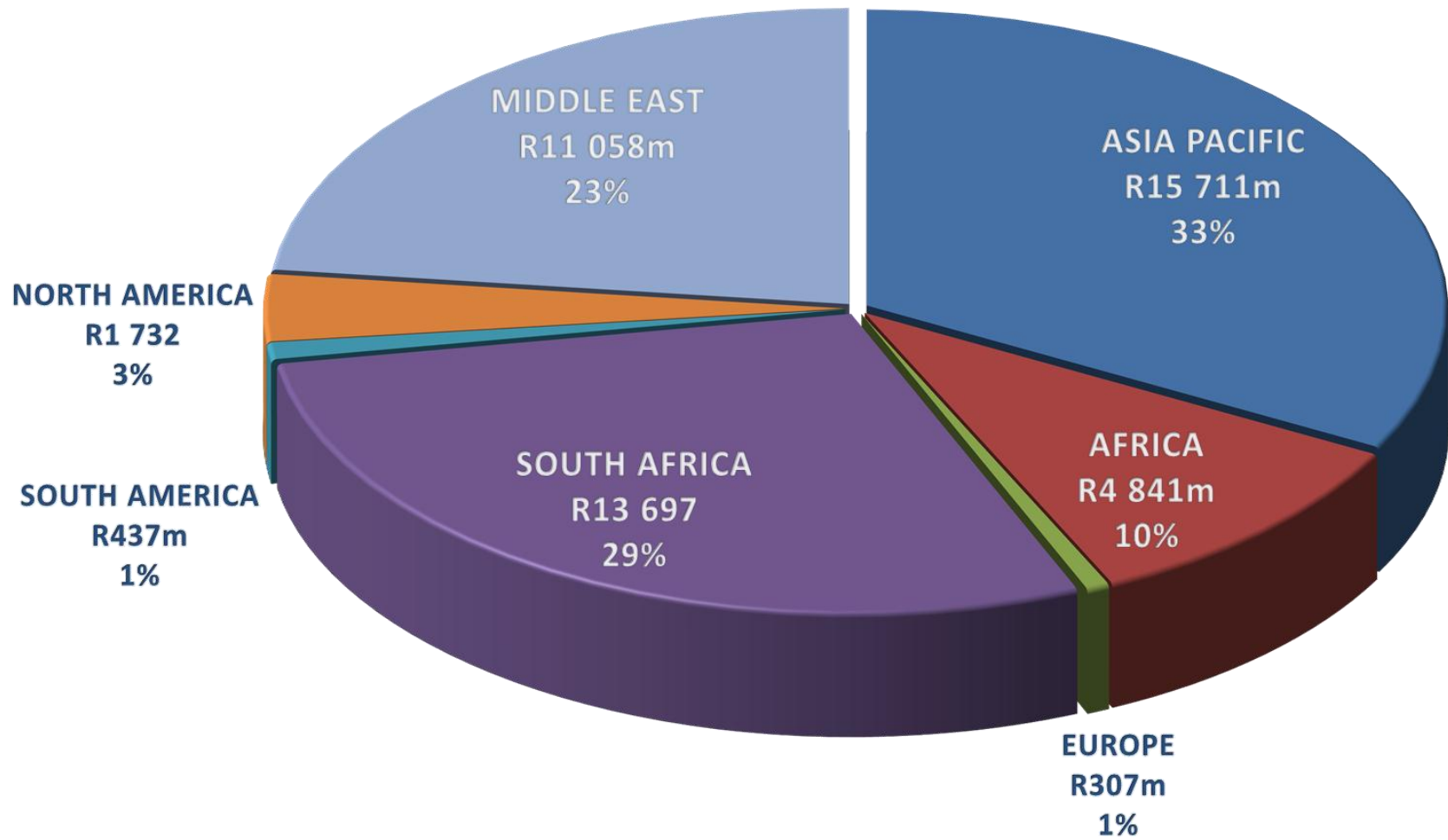
Command and Control

Missiles

MAJOR PROGRAMMES

Business Entity	Contract
DLS	Project HOEFYSTER - New generation ICV AV8 Turret export order
DSA	A400M – Wing-to-Fuselage (WFF) / Top Shells (TS), ISO locks
DISS	GBADS requirements
Denel Dynamics	A-Darter missile Guided munitions export programme
Denel Aviation	Rooivalk programme Ecuador Cheetah project Oryx avionics upgrade MRO programmes (SAAF and Russian helicopter)
Mechem	UN Demining Contracts – Border control freight clearance
Denel UAVS	Seeker II - Re-engineering and payload enhancement projects Seeker 400 – Next generation UAV

OPPORTUNITY PIPELINE BY REGION CURRENTLY R48BN



Contribution

National Security and Peacekeeping

- Contribution to RSA strategic military independence & defence stature (AU & G20)
- Full life-cycle support
- Customised solutions to meet unique SANDF requirements
- Products suited to African theatre e.g. fire power support & landward
- MRO, demining and post conflict support
- FOREX savings – reduced cost of ownership
- Security of supply

Industrial Strategy, IPAP 2 and NGP

-
- High tech manufacturing
 - High value add exports/forex - 2012: R1 329m, 2011: R1 045m
 - Aerospace & advanced materials (DAe)
 - Total R&D spend (incl. client funded) = 2012: R752m, 2011: R789m
 - Industrial upgrading
 - Target of 70% procurement from local supplier base on major acquisition programmes
 - Support to industry through supply chain interventions

ECONOMIC IMPACT (cont.)

Global competitiveness

Contribution

- Global supply chain integration through Associate companies
- Revenue/employee at R757k – needs to be at least R1m
- Capital replacement ratio < 5% p.a. – needs to be 10% to 20%
- Self funded R&D is less than 4%/sales – needs to increase

Employment and Skills Development - NGP

- Quality/high tech employment
- 6500 direct jobs
- Supporting 30 000 jobs in industry
- 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 DAe (composites – lighter and stronger materials) for aviation fuel efficiency and CO² reductions
- Land rehabilitation programmes underway
- 10% target reduction on all energy resources used for manufacturing

CONTRIBUTION TO THE DEVELOPMENTAL STATE

Contribution

- Existing civilian applications of Denel's technology:
 - PMP - explosives and drill bits for mining industry
 - Mechem – contraband detection, Rhino poaching, cargo scanning
 - Zeiss Optronics – Gimbles (SAPS), observation vehicle
 - Dynamics – UAVS for Rhino poaching in KNP
- Skills diffusion include SALT, composites (yacht building), encryption technology for prepaid electricity meters
- However, Denel's strategic roadmap is currently confined to defence technology - SOC can play a greater role in national and regional security:
 - Expand collateral value into broader developmental role
 - Growth strategy in the process of being developed – coupled with a new technology strategy
 - Expansion of capability into civilian market:
 - Civil security market
 - Interoperable command and control systems
 - UAVS for environmental management
 - Border control technologies
 - Civilian aircraft MRO
 - Ordinance clearance for mining operations
 - SKA & Space programme - Houwteq



Civilian (dual-use)
applications

SUPPORT REQUIRED RELATING TO NEW BUSINESS

- **Challenges include**
 - Competition from developed economies due to home-market defence cuts
 - Alignment between military acquisitions and industrial strategy
 - International clients seeking indigenous solutions
 - Growing geo-political influences
 - Lack of growth in domestic spend
- **Support required**
 - SANDF support: Development and production orders
 - UAVS for border protection
 - A-Darter: Joint programme with Brazil
 - Hoefyster development order – 8 X 8 Turret order
 - Implement a strategic framework agreement
 - Political and diplomatic support
 - Bi-Lateral defence cooperation agreements
 - Proactive promotion of Denel business implementation of the recommendations of the Defence Review

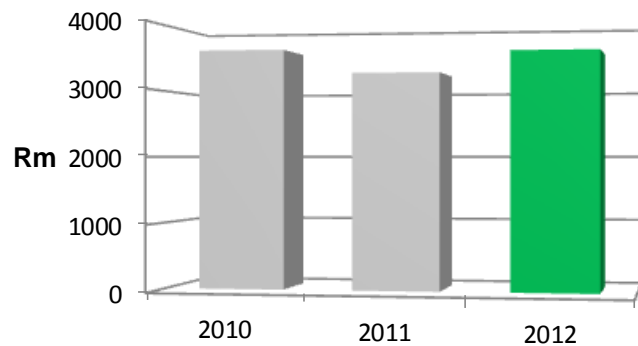
FINANCIAL PERFORMANCE

KEY FINANCIAL HIGHLIGHTS: 2011/12

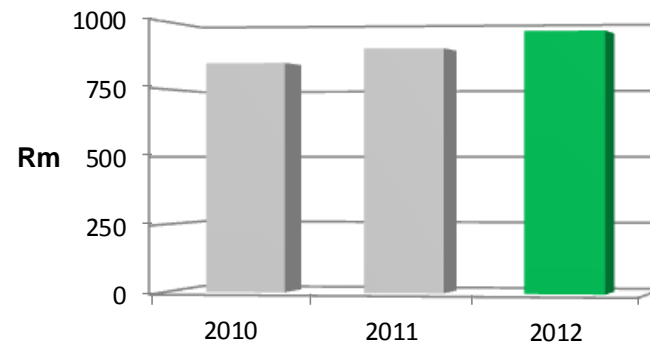
	2012	2011
Order pipeline	R48bn	R44bn
Revenue	R3 568m	R3 252m
Net profit (loss)	R41m	R111m
• Denpen Surplus	-	R463m
• Interest on borrowings	(R84m)	(R120m)
• Income from associates	R33m	R81m
Cash generated/(utilised) during the year	R210m	(R23m)
Cash generated/(utilised) during the year (excluding advance payments received)	(R297)	(R281m)
Equity position	R695m	R654m
Debt	R1 850m	R1 850m
Unqualified external audit report	✓	✓
• Going concern matter of emphasis	✓	✓
Effective internal audit	✓	✓

GROUP RESULTS

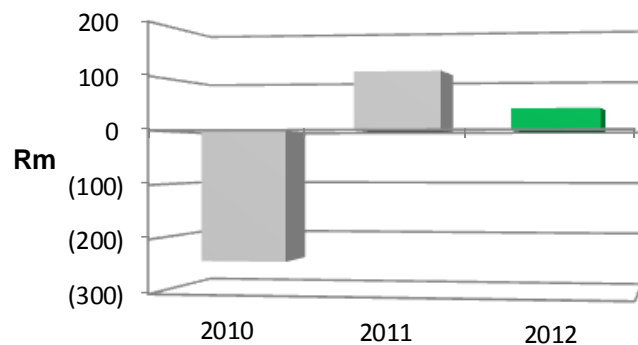
Sales



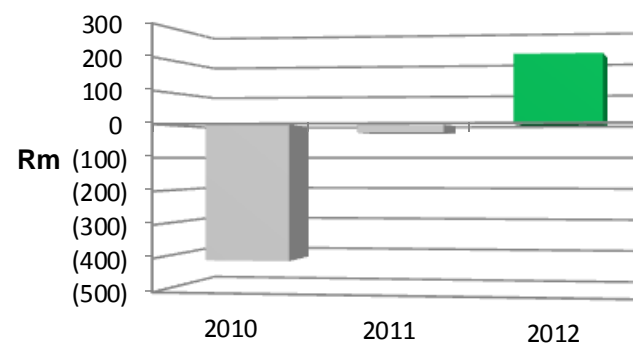
Opex



Net profit/(loss)

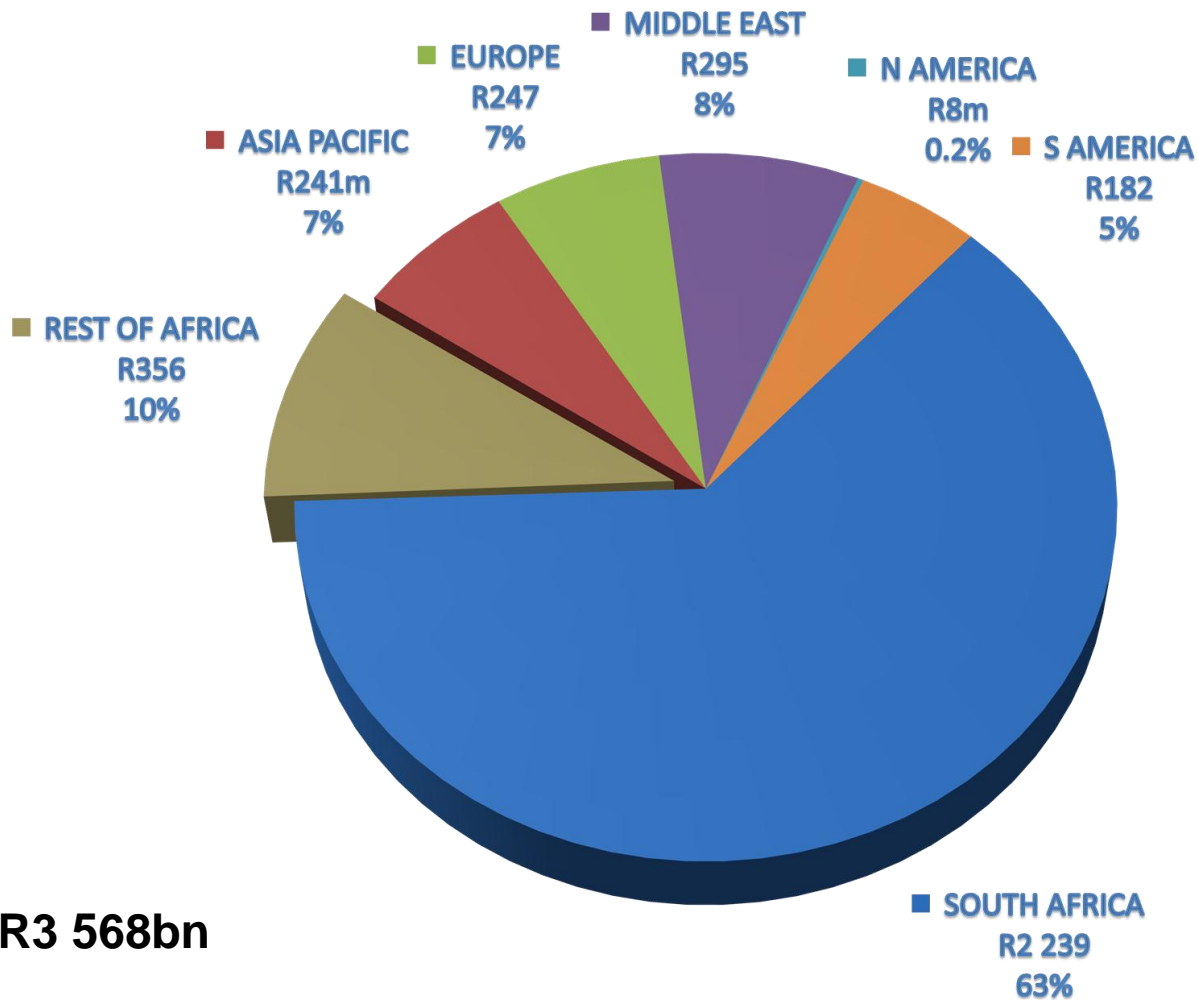


Net cash flows



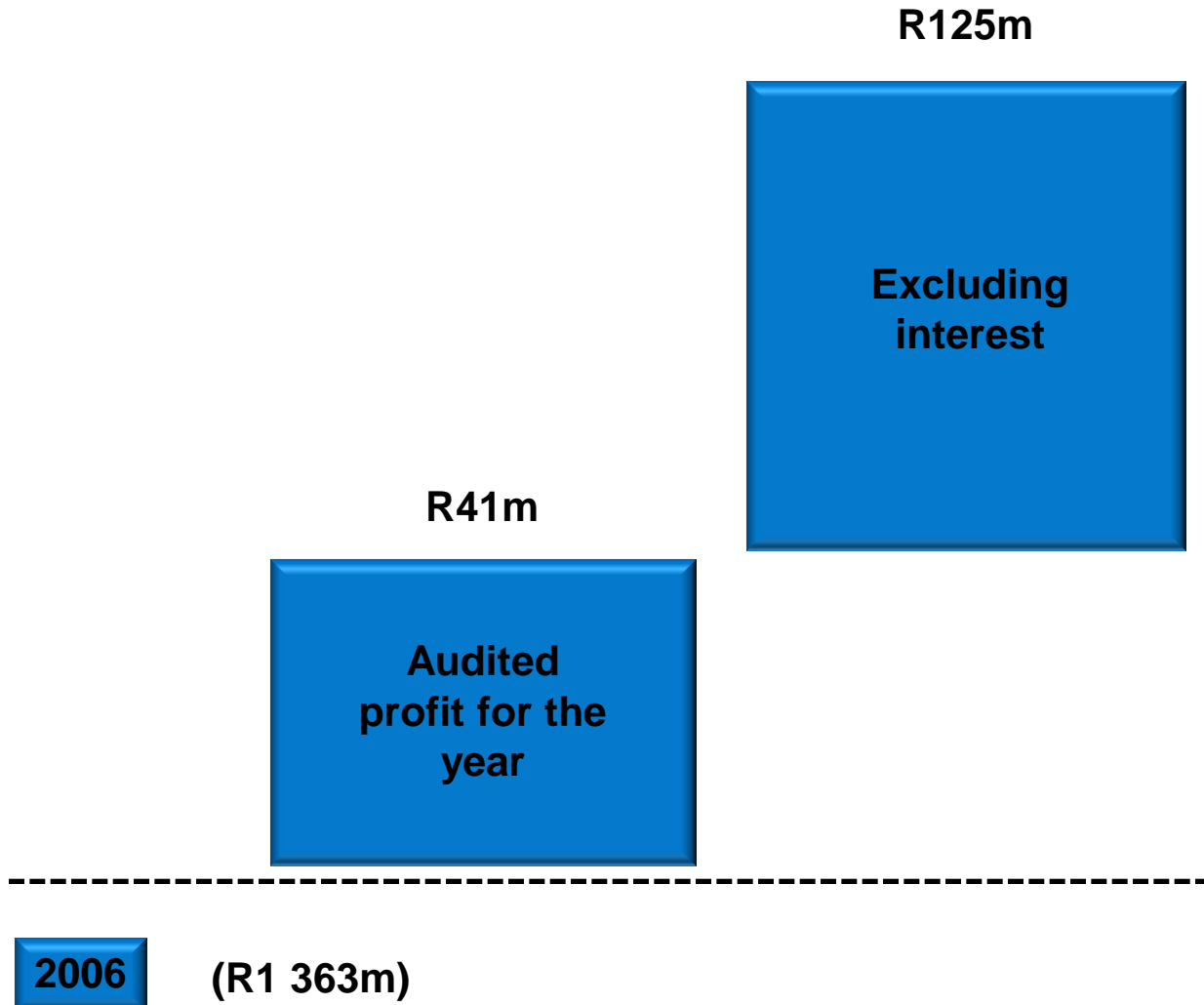
DENEL SALES 2011/12 - REGIONAL PERSPECTIVE

In 2011/12 the rest of Africa accounted for 10% of sales



Total: R3 568bn

DENEL ACHIEVES A PROFIT OF R41m FOR 2012, BUT IS SIGNIFICANTLY IMPACTED BY INTEREST ON DEBT



PERFORMANCE AGAINST SHAREHOLDER'S COMPACT ACHIEVING MOST OF ITS KPA's

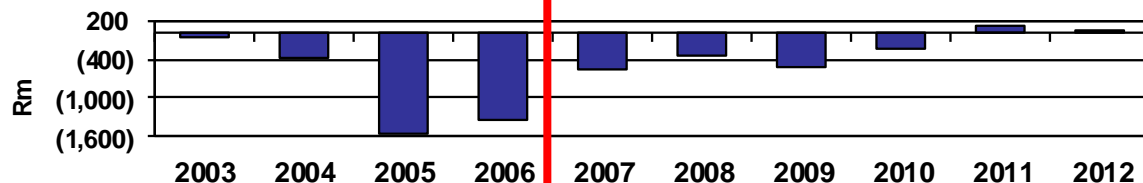
Key performance area	Achieved
Retention of capabilities in areas required by the DoD&MV	Green
Maximise access to local markets	Green
Contracted SANDF/DoD&MV programmes	Green
Promote advanced manufacturing goals of the country	Green
Investment in research and development	Green
Profitability management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

EFFECTIVE SYSTEM OF INTERNAL CONTROL

- Clean internal and external audit
- Strong governance structures and cultures
 - Rated as a leading and well governed SOC by the Centre for Corporate Governance in Africa at the University of Stellenbosch among 21 Schedule 2 companies, in a report published on 11 October 2012
 - Recognised for excellence in corporate reporting, achieving top position in annual report, disclosures for ethical leadership, corporate citizenship and board directors remuneration. Review conducted by Nkonki Inc. and results released on 15 June 2012
- 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
- Sound functioning of Board and Board Sub-committees
- No concerns regarding the internal control environment

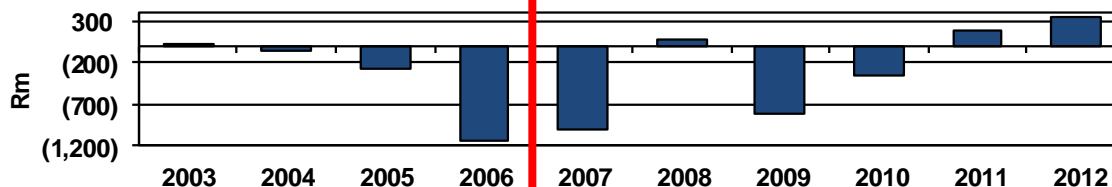
DENEL CONTINUES TO SHOW PROGRESS TOWARDS SELF-SUSTAINABILITY

Profits/(losses)



The group has continued to improve on historic losses through restructuring and turnaround interventions

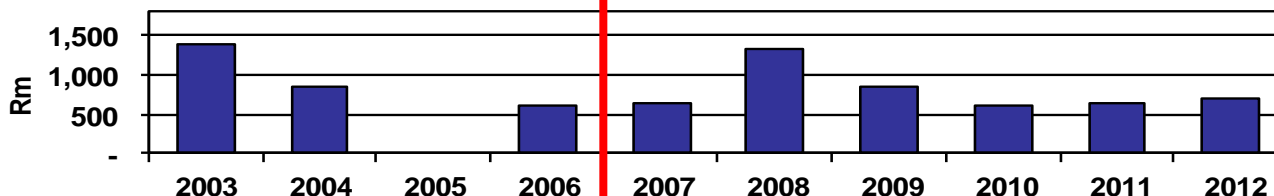
Cash from operations



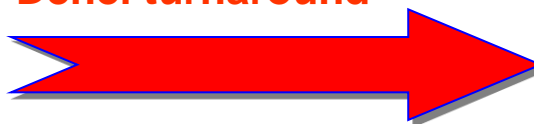
Revised strategy introduced in March 2012. Strong focus on:

- Increasing sales
- Further restructuring to reduce overheads
- Profitability
- Leadership and transformation

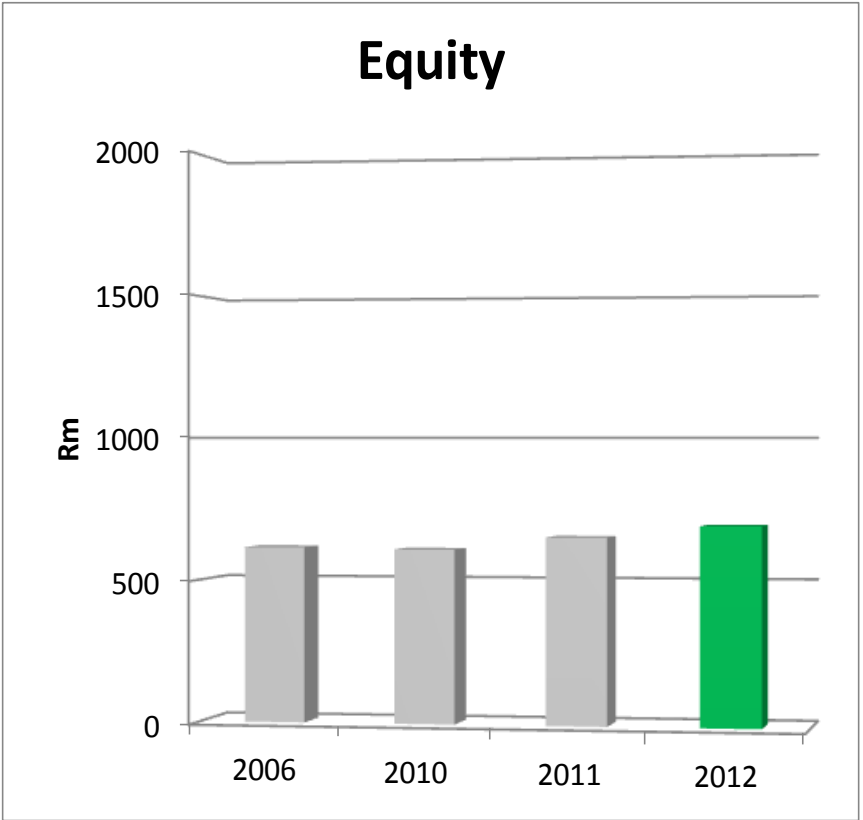
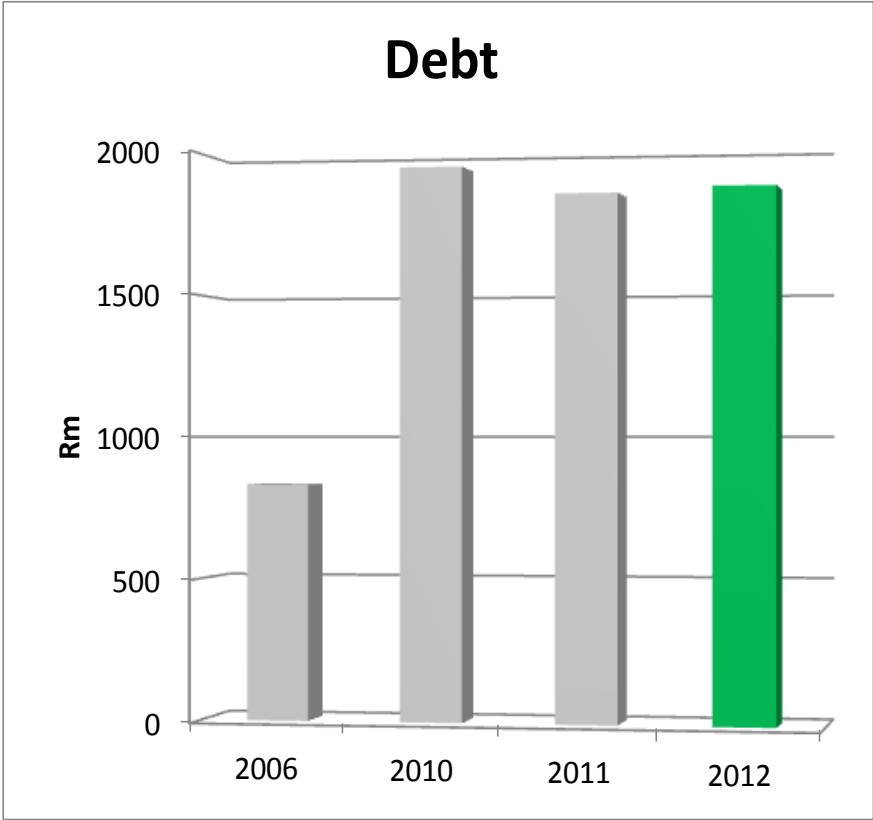
Solvency



Denel turnaround



DEBT AND EQUITY LEVELS ARE VERY CONCERNING



INCOME STATEMENT: 31 MARCH 2012

	Group	
	Mar-12 Actual Rm	Mar-11 Actual Rm
Revenue	3 568	3 252
Cost of sales	(2 706)	(2 749)
Gross profit	862	503
Gross profit as % of sales	24%	15%
Other income	196	80
Other operating expenses	(958)	(897)
Operating costs as % of sales	(27%)	(28%)
Operating loss	100	(314)
Surplus allocation	-	463
Share of profit of associates	33	81
Profit/(loss) before interest and tax (EBIT)	133	230
Net interest	(84)	(120)
Income tax expense	(8)	1
Net profit/(loss)	41	111

BALANCE SHEET: 31 MARCH 2012

	YEAR-END	
	Mar-12 Rm	Mar-11 Rm
Non-current assets	2 131	2 110
Current assets	3 420	2 921
Inventories	624	570
Trade receivables	614	539
Other receivables	616	513
Prepayments made	220	105
Cash and short-term deposits	1 094	954
Assets held for sale	91	7
Total assets	5 642	5 038
Total equity	695	654
Non-current liabilities	1 288	680
Loans and borrowings	101	101
Advance payments received	920	205
Provisions	260	369
Current liabilities	3 659	3 704
Trade and other payables	826	658
Loans and borrowings	1 865	1 845
Advance payments received	447	655
Provisions	470	501
Total liabilities	3 659	3 704
Total equity and liabilities	5 642	5 038

CASH FLOW STATEMENT: 31 MARCH 2012

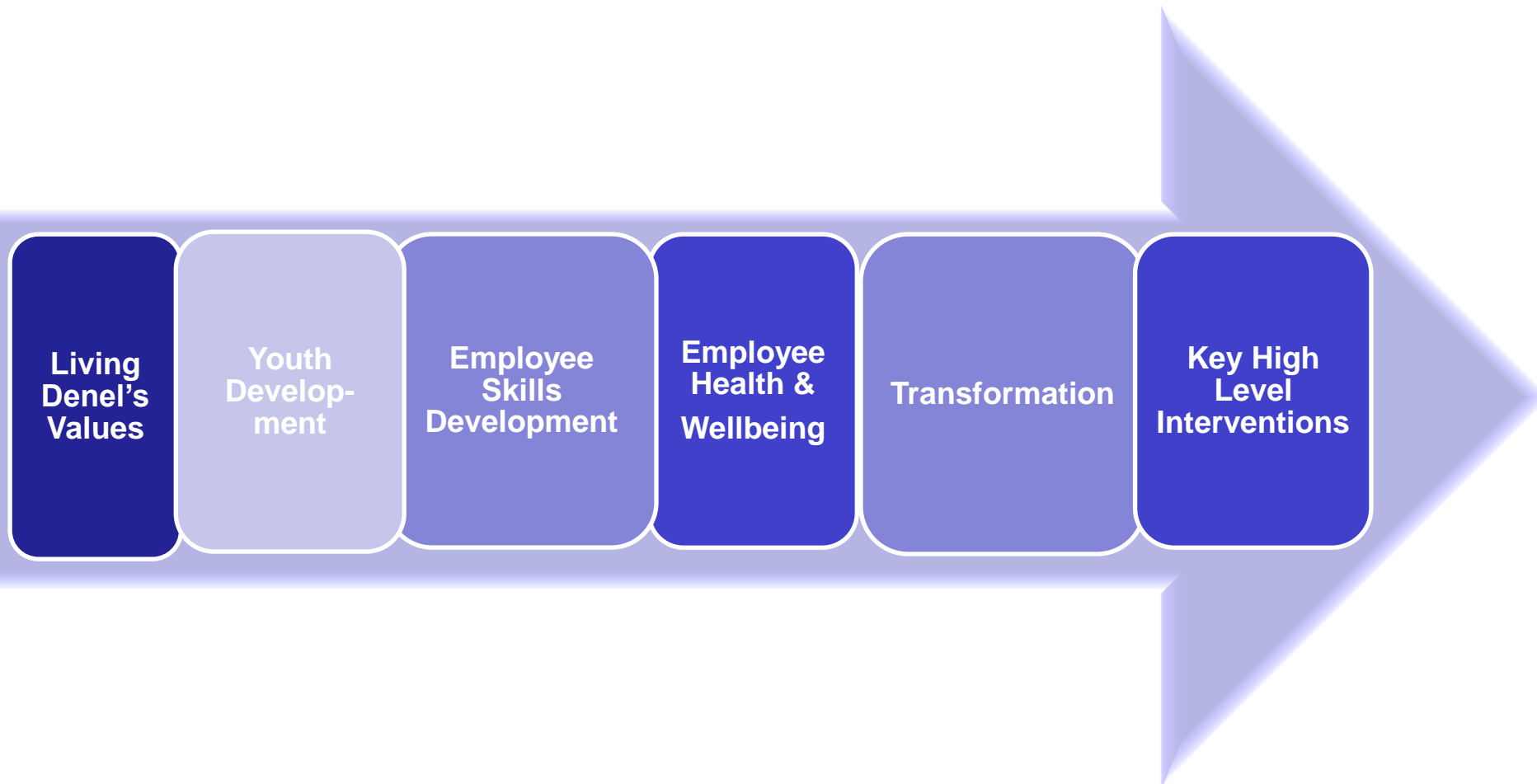
	Year-end	
	Mar-12 Rm	Mar-11 Rm
Net cash flows used in operating activities, before taking into account:	(20)	59
- Net flows to fund provisions	(171)	(196)
- Net advance receipts from customers	507	258
Net cash flows used in operating activities	316	121
Finance costs, net of investment income	44	57
Net cash flows used in investing activities	(150)	(201)
Net cash flows used in financing activities	(70)	(203)
Net increase/(decrease) in cash	140	(226)

KEY FINANCIAL ISSUES

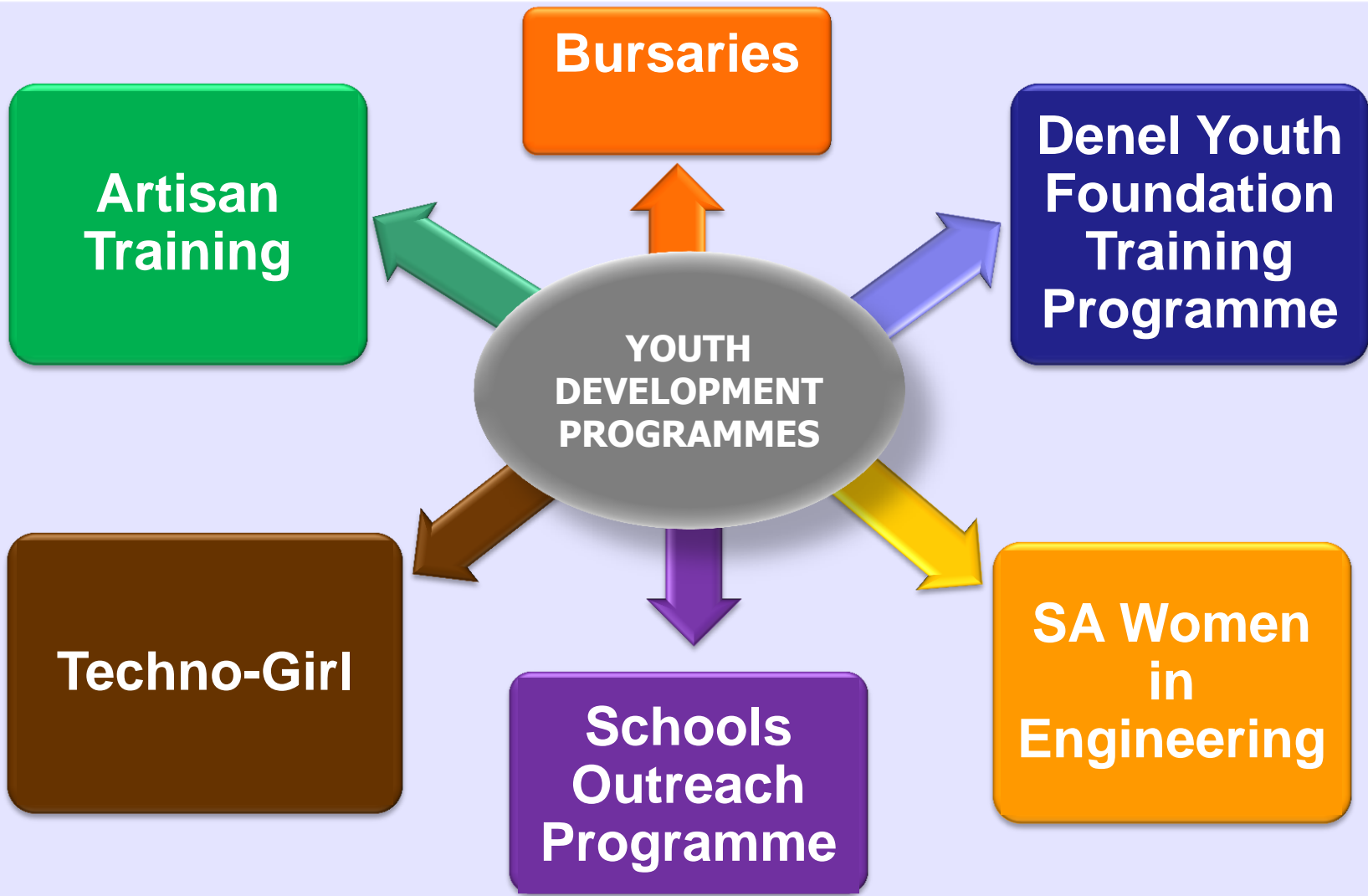
- Debt / equity ratio concerning as the company has R1.85bn debt at March 2012
- Solvency R695m, very low for organization the size of Denel
- Applied for recapitalisation of R2.7bn. R700m allocated in support of Denel Aerostructures, not yet disbursed to date.
- Recapitalised in the past enabled repayment of debt, legacy issues and investments
- Need for sustainable funding model for the company

HR & TRANSFORMATION

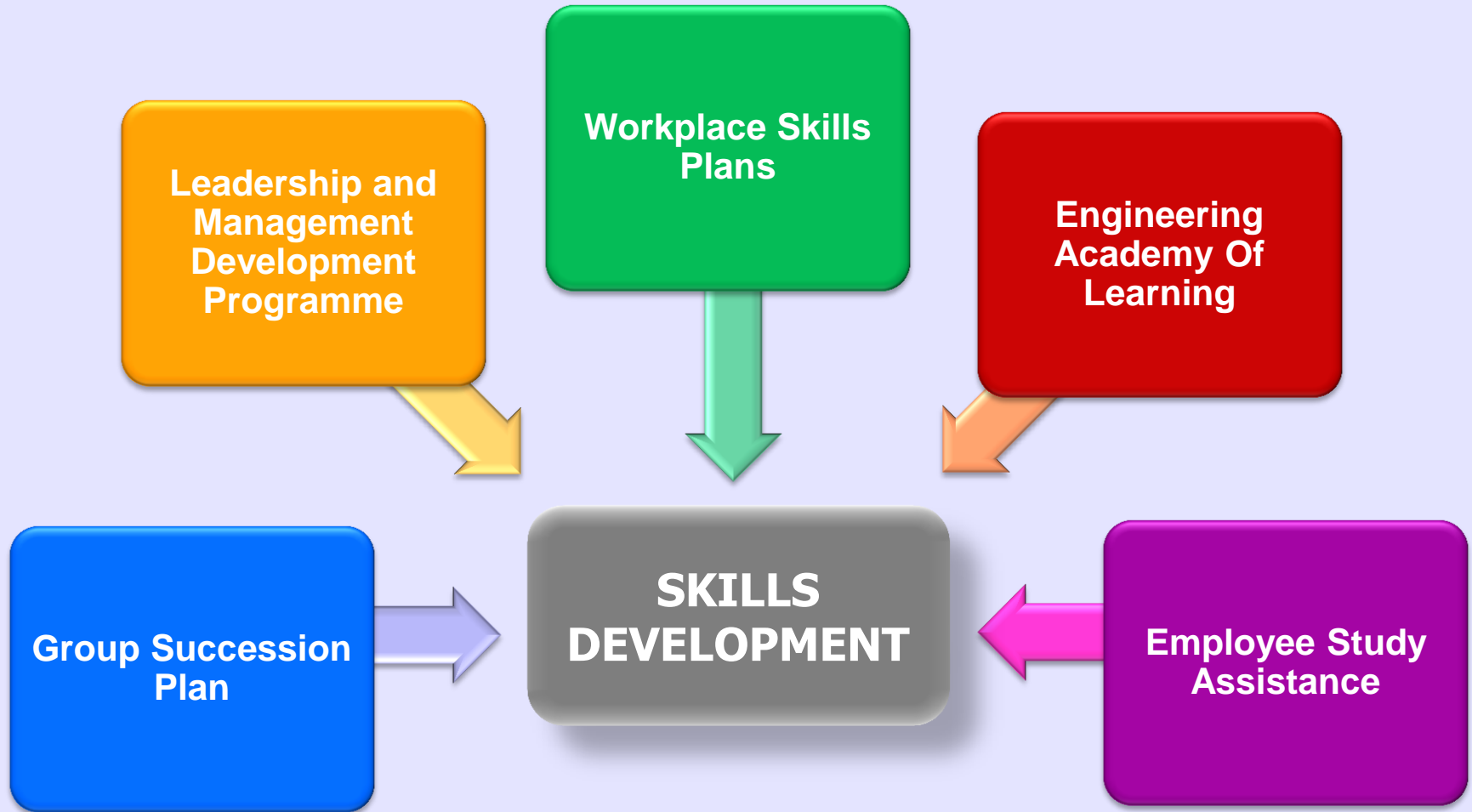
HUMAN RESOURCES AND TRANSFORMATION



YOUTH DEVELOPMENT INTERVENTIONS



EMPLOYEE SKILLS DEVELOPMENT INITIATIVES



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**
 - Denel's flagship programme is its artisan training academy, within DTA - enrolls learners for different aviation and general apprenticeships.
 - Enrolls approximately **300 apprentices per annum**, but with additional funding, could enroll 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;
 - DTA offers SACAA-certified courses and several other advanced courses.

ENSURING ACCESSIBLE SUPPORT FOR LEARNERS

- **Schools outreach programme**

- 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.
- The programme is currently running in the Gauteng and North-West Provinces.
- Three of Denel's six divisions participate in these programmes
- This programme is currently fully funded by Denel at a direct cost of R1.2m per year.



INSPIRING THE YOUTH (ESP WOMEN) TO ENTER THE INDUSTRY

- **Collaborations with tertiary institutions**
 - Initiatives have been developed which include visits to universities to improve Denel's ranking as a Group.
 - Denel participates in Engineering Career Fairs at various Universities, Sci-Bono and Aviation week and intends to expand to others.
- **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
 - Denel supports DTI's techno-girl programme

ATTRACTING SKILLS INTO THE INDUSTRY

These programmes target students from various tertiary institutions.

- **Bursaries**

- Primary tool for bringing young engineers and scientists into the group to counter the ageing workforce profile.
- Bursars are taken into the programme annually and are individually mentored and supported.
- Denel provides the bursars with vacation work and mentors.
- Over 90% of the bursars that complete their university studies have been employed in the group.
- Denel's hands-on approach ensures bursars are fully supported so that they obtain their qualifications and join the group.
- Denel offers bursaries to about 30 engineering students per year.

BUILDING AND MAINTAINING RELATIONSHIPS WITH TERTIARY INSTITUTIONS

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

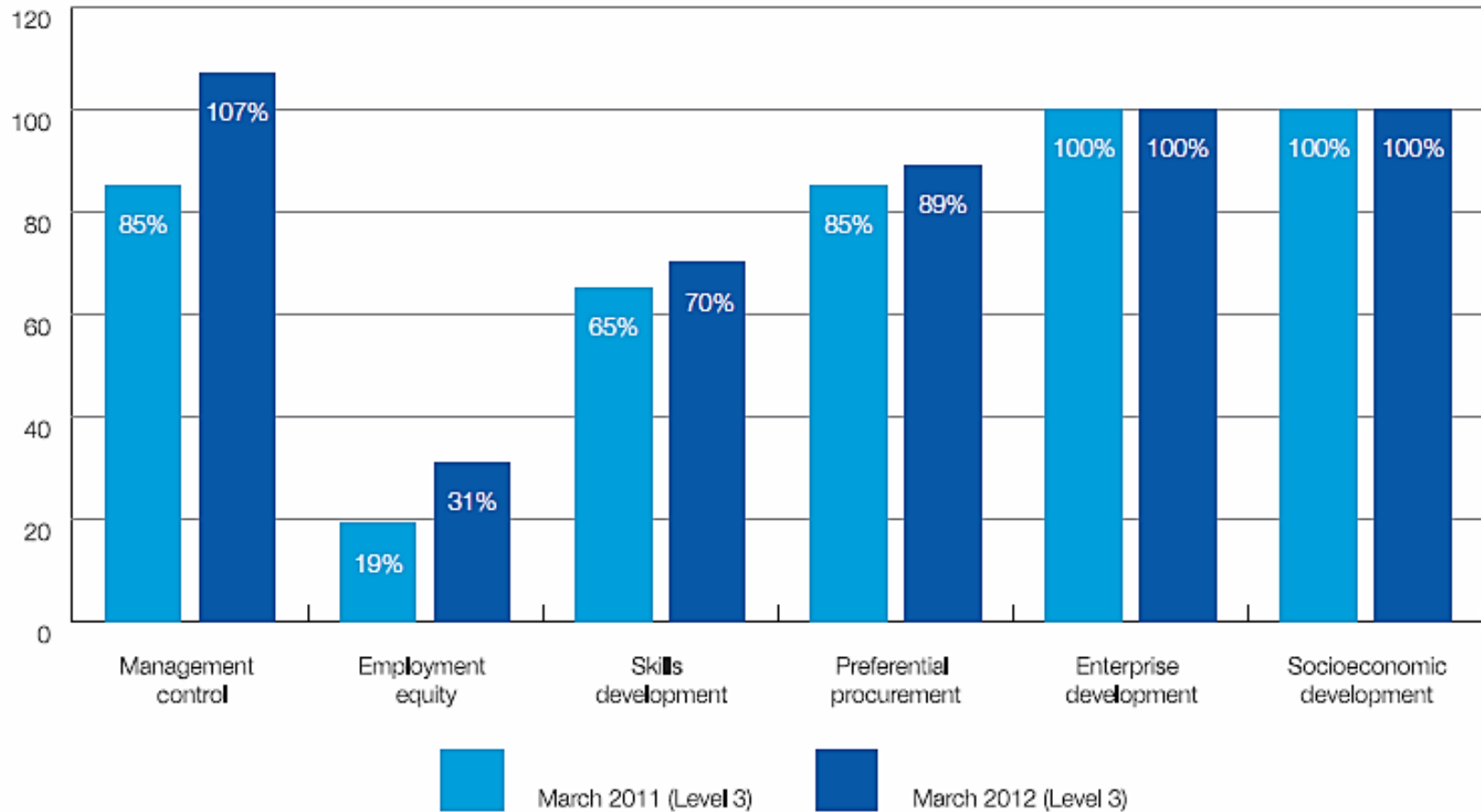


EMPLOYEE WELLBEING IS CENTRAL TO DENEL'S SUCCESS

- **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
 - HIV/Aids testing is encouraged



B-BBEE SCORECARD



MONITORING OF TRANSFORMATION PERFORMANCE

- Denel believes in **genuine** Transformation that is sustainable and adds value
 - **Transformation Committees** chaired by the business entity CEO
 - **Human Resources and Transformation** weighs 15% of the total CEO's performance contract each year.
- Denel has improved in all aspects of B-BBEE with an overall improvement score of 82% (2010: 76%). **This score makes Denel a 138% B-BBEE contributor and adds value to our customers.**
- 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 INTERVENTIONS FOR 2012/13



IN CONCLUSION

KEY ISSUES

- Strengthening balance sheet
 - Recapitalisation allocation of R700m to support Denel Aerostructures, needs to be disbursed to Denel as soon as possible
 - Need for development of a sustainable funding model going forward
- Denel to continue its journey to self sustainability and profitability
 - Significant order pipeline – support is required
- Placement of cardinal programmes with Denel – key to sustainability
 - Hoefyster production order, GBADS 2
- Progress in relationship with Armscor - joint Denel/Armscor team established
 - Need for strategic framework
- Need for alignment of state aircraft acquisitions with growing the local aerospace industry
 - Process to be actioned by the DPE
 - Workshop to be held with SAA and DPE

KEY ISSUES

- Investing in the development of own staff and contribution to skills development in South Africa
- Continue introducing high performance culture
 - Achieved 91% of technical milestones on DoD orders
 - International accreditations maintained
 - Effective system of internal control and governance demonstrated by clean audits

THANK YOU