DENEL GROUP

MEDIA RELEASE

ISSUE DATE: 9 September 2008
EMBARGO: 13.00 on Tuesday, 9 September 2008

Denel (Pty) Ltd: Financial Results for the year ended 31 March 2008

Denel's Acting Group Chief Executive Officer, Mr Talib Sadik, announced today (Tuesday, 9 September 2008) that the Group showed significantly improved financial results for the year ended 31 March 2008. The Group increased gross revenue to R3 894 million (2007: R3 310 million) and posted a net loss of R347 million (2007: net loss R549 million).

These figures represent an improvement of 17.6% and 36.8% respectively on the previous year's performance.

"We managed to improve the loss for the past year through focusing on core businesses, phasing out of legacy contracts, savings in operating costs and profits on the sale of non-core assets," Sadik explained. "Better contract negotiations including higher advance payment receipts towards the year-end and improvements in our debt collection process helped us to achieve the healthy cash situation."

Of the total turnover 56.8% was from domestic sales (2007: 47.5%) and 43.2% from export sales (2007: 52.5%).

The net loss margin of 9% compares favourably to the previous year's margin of 16.8%. On a normalised basis, the gross profit margin improved from 14.2% to 15.7% and operating cost margin from 34% to 28% due to the higher sales, better contract management, phasing-out of legacy contracts and better cost control.

Denel's capital base improved significantly: shareholder equity increased by almost 110% to R1 328 million (2007: R633 million) due to recapitalisation of R933 million and the lower loss. Cash on hand amounted to R964 million (2007: R338 million), representing an improvement of 185.2 per cent.

"We also repaid the Corporate Bond of R825 million (mainly from the proceeds of the ACSA land sale) resulting in the elimination of long-term debt and raising a short-term loan of R150 million, which was repaid after year-end from internally generated funds," Mr Sadik said.

…more 2008-financials

Included in the net loss of R347 million are once-off restructuring-related costs totalling R175 million arising from equity partnership transactions with leading international defence companies. These are Germany-based Carl Zeiss AG acquiring a 70% stake in Carl Zeiss Optronics (Pty) Ltd, and Sweden-based SAAB AB acquiring a 20% stake in Denel SAAB Aerostructures (Pty) Ltd.

"The Directors and shareholder are satisfied with the progress of our strategy implementation and believe that it will unlock business value and position Denel towards financial self-sustainability," Sadik said. "The Directors considered the appropriateness of the going concern assumption and were satisfied that Denel has adequate reserves and cash resources to continue operating as a going concern for the next 12 months."

In their evaluation, the Directors considered the positive forecasted shareholder's equity for the next financial year, and importantly, the South African Government, as sole shareholder, views Denel as a strategic asset. It undertook to assist in maintaining its going concern status. Consequently, Denel has maintained its Fitch rating of AA long-term and F1+ short-term over the past year, which is reviewed annually.

"Further on Denel's turnaround strategy, I'm pleased to report notable progress, especially in developing relationships with various state agencies, including the DoD, and access to decision makers in several state departments."

Since Denel had embarked on the strategy in 2005, it consistently engaged stakeholders to secure a minimum percentage of defence spending for the local industry – not only for Denel. It also required long-term or multi-year contracts for the South African defence-related industry (SADRI), and preferred supplier status (subject to meeting price and performance standards), as well as standardised procurement policies and practices, as prevalent in global markets.

"An important step forward, in our view, was the appointment of a Cabinet task team comprising the Departments of Defence, Public Enterprises and the National Treasury to jointly work on developing Denel's long-term sustainability. The task team would be identifying defence spending that should be directed to contractors in areas where SADRI has a capacity and competitive advantage; and secure equity partnerships for remaining Denel businesses where relevant." Mr Sadik explained.

This joint task team has to make proposals on important areas, like the Rooivalk. The Cabinet has decided that Rooivalk should be completed and certified to be deployed in the SANDF's peace support operations.

At the close of the financial year Denel and German company, Rheinmetall Waffe Munition GmbH, agreed on an equity partnership for Denel Munitions. Denel was to retain a 49% share, with Rheinmetall taking a majority equity interest of 51%.

…more 2008-financials

“I’m pleased to report that post year-end, the intellectual property and golden share agreements were finalised to ensure amongst others, the retention of the Munitions capability in South Africa and security of supply. All of the remaining suspensive conditions, including regulatory approvals were obtained and the effective date of the transaction was 1 September 2008,” Mr. Sadik said.

Negotiations with other local and international defence companies are under way to conclude partnerships for some of Denel’s other businesses in the near future.

As part of the strategy, all of the non-core businesses have been disposed of, including during the year under review and to date, SPP, CoSource and various non-core properties. Including the proceeds from the ACSA transaction, Denel generated approximately R740 million.

Denel continued with thorough analyses of all of its businesses to ensure sustainable commercial viability. Processes and plans are subject to continued interrogation and performance reviews are conducted on a regular basis to identify problem areas, define management actions and mitigate areas of concern.

“In my capacity as an executive director, I was privileged to be part of the re-engineering of Denel over the past years. We have consistently improved on all aspects of the business with a view to bring Denel to financial health. Oversight Boards, Audit and Risk Committees, and Remuneration Committees are in place across the Denel group. Key policies with direct impact on governance and sustainability have been implemented, including risk management, fraud prevention and response plans, prevention of fruitless and wasteful expenditure, and implementation of a legal and regulatory compliance programme to formalise compliance within the Group. Relations with organised labour unions and staff have improved significantly over the years. Significant improvements have been made in transformation with strong support from our various stakeholders.

“In closing, I would like to thank our Chairman, my fellow directors, management and staff, as well as our equity partners, for their contribution. I also thank Minister Alec Erwin and the Director General of Public Enterprise, Ms Portia Molefe, for their unwavering support in helping us achieve our targets,” Mr Sadik concluded.

Denel’s full Annual Report for 2008 will be available on its website (www.denel.co.za) by the end of this week.

For enquiries contact:

	Mr Abdul Carim	Mr Zwelakhe Ntshepe
	Acting Group CFO	Group Executive Business Development and Corporate Affairs
Tel.:	012 671-2858	012 671 2858
Mobile:	082 940 9413	082 459 3790
Email:	abdulc@denel.co.za	zwelakhen@denel.co.za