STATE OF AFFAIRS: DENEL
PRESENTATION TO THE JOINT STANDING COMMITTEE ON DEFENCE
2 JUNE 2011
CONTENTS

• Overview of Denel

• Build up to Denel’s Strategy

• Turnaround progress achieved

• Positioning Denel for growth

• Group initiatives

• Denel’s value-add to South Africa
  • National Growth Path
  • Other

• Key strategic matters
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.
Purpose
To provide strategic defence technology, product and service solutions to the South African Defence and Security communities and international customers

Vision
To be the respected South African provider of innovative Defence, Security and related technologies
DENEL PRODUCT/SERVICE PORTFOLIO

Humanitarian demining services and products

UAVS. (Unmanned Aerial vehicles)

Aerostructures

Engineering services

Land based systems (Artillery, Infantry and Armour systems)

Command and Control

MRO (Maintenance repair and overhaul)

Technical Training

Munitions and sub components

Mine Protected Vehicles

Missiles

Denel’s product/services portfolio are supplied by several business entities and three associated companies.
DENEL GROUP STRUCTURE

South African Government

Minister of Public Enterprises

Minister of Defence and Military Veterans

Other Ministers

Chief: SA National Defence Force

Dept of Defence (Secretary of Defence)

Armscor (Procurement)

Denel Group Structure

Business Entities

Denel (Pty) Ltd

Denel Board of Directors

Denel Dynamics

Denel SAAB Aerostructures

Denel Land Systems

(Overberg Test Range)

Supporting Businesses

Total foreign employees in all Equity Partnership businesses < 10

Revenue distribution for the Denel Group in 2009/10:

Local

Denel: 61%

Export

39%

Incl. Associates: 53%

47%

Personnel employed by Denel Group:

Denel: 4,724

Ass. Companies: 1,770

TOTAL: 6,494 (Feb 2011)

Includes approx. 470 Engineers & Scientists

6 x multiplication factor on SA Economy

Denel Strategic Equity Partners

Associated Companies

SAFRAN

ZEISS

RHEINMETALL

Denel Industrial Properties

Denel Technical Academy

Turbomeca Africa (Pty) Ltd

Carl Zeiss Optronics (Pty) Ltd

Rheinmetall Denel Munition (Pty) Ltd

Denel Aviation

Mechem (Pty) Ltd

Denel PMP

Denel Integrated Systems Solutions (DISS)

Denel Logistics

Roodvalk

DPS

Denel Dynamics

Missiles

UAV Systems

DENEL GROUP
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• Key strategic matters
• Denel was set-up in 1992 with a capital of R2 billion
• Denel posted significant losses year on year since 1998, except in 2001 when it posted R40 million profit owing to a once off pension fund holiday
• The reserves and capital has been significantly eroded due to these losses by 2004, necessitating a change in strategy in 2005/06
DoD Budget pressures:
- Personnel related costs
- Facility maintenance priority
- Operations outside borders
- Military Veterans added to DoD
- Border control added

Expected DoD priorities:
- Border protection (surveillance, vehicles, ammunition, cyber, Command & Control)
- Landward defence renewal (vehicles, artillery, ammunition)
- Air Force (Maritime patrol, C-130 replacement, heavy lift, UAV's)
- Shifting of risks to OEMs’ – fixed price contracts

The domestic defence budget has constricted considerably over the last two decades, Denel must make sure that we are in position to leverage future opportunities.

World bank recommendation: Defence should not be less than 2% of GDP

<table>
<thead>
<tr>
<th>Country</th>
<th>% GDP</th>
<th>Country</th>
<th>% GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysia</td>
<td>2.3%</td>
<td>Turkey</td>
<td>4%</td>
</tr>
<tr>
<td>China</td>
<td>1.5%</td>
<td>Pakistan</td>
<td>4.5%</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>9.3%</td>
<td>India</td>
<td>2.6%</td>
</tr>
<tr>
<td>Brazil</td>
<td>2.6%</td>
<td>Russia</td>
<td>3.9%</td>
</tr>
</tbody>
</table>
BUILD-UP TO DENEL’S STRATEGY
INACCESSIBLE GLOBAL DEFENCE SPEND

Contracts awarded by US Department of Defence*

<table>
<thead>
<tr>
<th>Component</th>
<th>US companies</th>
<th>NATO companies</th>
<th>Other companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total military purchases</td>
<td>89%</td>
<td>11%</td>
<td>0%</td>
</tr>
<tr>
<td>Spend on products in which Denel does not participate</td>
<td>~360</td>
<td>~170</td>
<td>~55</td>
</tr>
<tr>
<td>Total spend on products in which Denel participates</td>
<td>~100%</td>
<td>~53%</td>
<td>~47%</td>
</tr>
<tr>
<td>USA</td>
<td>23%</td>
<td>9%</td>
<td>15%</td>
</tr>
<tr>
<td>NATO excluding USA</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Rest of World</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

NATO land vehicle example

<table>
<thead>
<tr>
<th>Component</th>
<th>National companies</th>
<th>Other NATO companies</th>
<th>Non-NATO companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total military purchases</td>
<td>76%</td>
<td>22%</td>
<td>2%</td>
</tr>
<tr>
<td>Spend on products in which Denel does not participate</td>
<td>~360</td>
<td>~170</td>
<td>~55</td>
</tr>
<tr>
<td>Total spend on products in which Denel participates</td>
<td>~100%</td>
<td>~53%</td>
<td>~47%</td>
</tr>
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<td>15%</td>
</tr>
<tr>
<td>NATO excluding USA</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Rest of World</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* FY2000 awards
Source: Forecast International; World bank; team analysis

Note: significant global industry consolidation and intense competition in Denel's traditional developing country markets from large defence companies

ROUGH ESTIMATES

- Near impossible for independent contractors to serve USA and NATO countries
- Competition to serve remaining markets is intense:
  - Exports from major US and European players
  - Development of domestic industries (e.g., India, Israel)
  - Political constraints and alignments
RESTRICTURING PHASE I: TURNAROUND STRATEGY

The Five Pillars of the Macro Strategy

1. Secure privileged access to a guaranteed minimum portion of South Africa’s defence development and procurement spend.

2. Partner with state agencies to do joint business planning and to establish export marketing responsibilities. These two factors translate into the ‘captive market’ and ‘political support’ that make international major defence prime contractors successful.

3. Focus on growing the commercially viable businesses where Denel has real technological leadership. Denel’s other businesses will be ring-fenced, operated under management contracts or exited.

4. Secure equity business partnerships with major global players.

5. Raise capabilities and productivity to world-class levels.

Implement effective transformation and people management throughout the organisation.

FOUNDATION STONE
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• Build up to Denel’s Strategy

• Turnaround progress achieved

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• Group initiatives

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  • National Growth Path
  • Other

• Key strategic matters
DENEL’S JOURNEY TO SUSTAINABILITY

4 years to 2010

Denel 2007-2010 steps taken

- Operations decentralised – accountability / entrepreneurial
- Disposal of non-core entities
- Governance policies implemented, internal control systems and processes improved
- Entity boards, audit and risk committees, risk management and financial discipline
- Restructuring and retrenchments
- Strategic equity partnerships: technology and international market access

Denel 2005/6 Challenges

- Workforce 10,000
- Limited market access
- Centralised organisation
- Poor stakeholder alignment
- Governance challenges
- Poor programme management
- Lack of commercial culture
- Poor human capital development and transformation

2010:
Def/Sec/Cert: Profit R200m
Aerostructures: Loss R283m
Gross margin: 16%
Staff Turnover: 4.5%
Order pipeline: R25bn
Level 4 BBBEE rating

Transformation initiatives

Improved programme performance

Business development initiatives

Performance management

Leadership development

Def/Sec/Cert. – Loss R1.3bn
Aerostructures – Loss R300m
Gross Margin: 5%
Staff turnover: 13.8%

Local client relationship and stakeholder alignment improvements, 61% of revenue
TRANSFORMATION ACHIEVEMENTS TO DATE

ACHIEVEMENTS 2009/10

• Transformation Committees in place and functional.
• A central reporting system is in place.
• Steady progress made in addressing inequalities.
• Transformation Policy recently approved by Denel Board.
• Climate Survey Index: 43% in 2006; 50% in 2008; Benchmark 60%

OTHER MAJOR ACHIEVEMENTS

<table>
<thead>
<tr>
<th>Entity</th>
<th>Compliance Status 2008/9</th>
<th>Compliance Status 2009/10*</th>
</tr>
</thead>
<tbody>
<tr>
<td>DLS</td>
<td>Level 8</td>
<td>Level 4</td>
</tr>
<tr>
<td>OTB</td>
<td>Level 5</td>
<td>Level 5</td>
</tr>
<tr>
<td>DISS</td>
<td>Not an entity in 2009</td>
<td>Level 5</td>
</tr>
<tr>
<td>DTA</td>
<td>Level 8</td>
<td>Level 4</td>
</tr>
<tr>
<td>Aviation</td>
<td>Level 4</td>
<td>Level 4</td>
</tr>
<tr>
<td>Mechem</td>
<td>Level 9</td>
<td>Level 6</td>
</tr>
<tr>
<td>PMP</td>
<td>Level 8</td>
<td>Level 5</td>
</tr>
<tr>
<td>Denprop</td>
<td>Level 9</td>
<td>Level 6</td>
</tr>
<tr>
<td>Dynamics</td>
<td>Level 6</td>
<td>Level 5</td>
</tr>
<tr>
<td>DSA</td>
<td>Level 9</td>
<td>Level 6</td>
</tr>
</tbody>
</table>

B-BBEE PERFORMANCE PER ENTITY 2009/10

<table>
<thead>
<tr>
<th>Entity</th>
<th>BBBEE spend from total Procurement spend</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005/6</td>
</tr>
<tr>
<td></td>
<td>Rm</td>
</tr>
<tr>
<td>Group Score</td>
<td>18%</td>
</tr>
</tbody>
</table>

* Status valid until March 2011
IMPACT OF STRATEGIC EQUITY PARTNERSHIPS (1)

• Major investment in new plant, equipment and skills development - DTI Industrial Strategy

• Access to new markets (NATO) and capital

• Increased high value-added exports (fiscus, local suppliers etc.)

• Significant increase in self-funded R&D / technology development

• Centres of Excellence established:
  – Specialised steel and alloy gear manufacturing - TMA
  – Engine & gearbox manufacturing and MRO - TMA
  – Hand held optical systems, laser range finders, head trackers, airborne observation equipment - CZO
  – New optical manufacturing facility established in September 2010 - CZO
  – New generation 105mm & 155mm ammunition - RDM
  – All forging work carried out in SA (discontinued in Germany) - RDM

• Security of supply to the SANDF
## IMPACT OF STRATEGIC EQUITY PARTNERSHIPS (2)

<table>
<thead>
<tr>
<th>ENTITY¹</th>
<th>DENEL SHARE</th>
<th>INDUSTRIAL UPGRAADING</th>
<th>REVENUE GROWTH²</th>
<th>REVENUE / EMPLOYEE</th>
<th>NET PROFIT</th>
<th>R&amp;D SPEND³</th>
<th>ORDER BOOK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turbomeca Africa (Pty) Ltd. (2003) (TMA)</td>
<td>49%</td>
<td>Major overhaul of plant and efficiencies created</td>
<td>123%</td>
<td>R1.7m</td>
<td>11.2%</td>
<td>N/A</td>
<td>R320m</td>
</tr>
<tr>
<td>Carl Zeiss Optronics (Pty) Ltd (2007) (CZO)</td>
<td>30%</td>
<td>New world class production facilities established</td>
<td>122%</td>
<td>R1.8m</td>
<td>16.8% vs. (55.6%) in 2002</td>
<td>9%</td>
<td>R795m</td>
</tr>
<tr>
<td>Rheinmetall Denel Munition (Pty) Ltd (2008) (RDM)</td>
<td>49%</td>
<td>3 Year CAPEX programme: R250m</td>
<td>28%</td>
<td>R0.5m</td>
<td>8.2% vs. (3.3%) in 2007</td>
<td>5.2%</td>
<td>R2,2bn</td>
</tr>
</tbody>
</table>

¹ Golden Share Agreements in place to ensure security of supply and retention of technology and business activity in SA  
² Since inception of the partnership  
³ Self-funded R&D spend as a percentage of total revenue per annum
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2009 STRATEGIC DRIVERs – VALUES DRIVEN LEADERSHIP

- **Improved Access to Sustainable Markets**
  - Equity Partnerships (Existing and New), Export Growth, Local Spend (Home Market Support)

- **Operational Excellence**
  - Performance, People, Skills Development, Outsourcing, Supplier Development

- **Deepen Relationships with Defence Community and State Agencies**
  - Joint Planning, International Marketing Support, Technology and IP Development, Skills Transfer, Programme Delivery

- **Strengthen Governance and Financial Management**
  - Sustainability, Risk Management, Compliance, Cash Flow Management and Contracting

- **Towards a Respected South African Company**
  - Transformation, BBBEE, Employment Equity, CSI, Branding
## STRATEGIC DRIVERS: KEY KPI PERFORMANCE

<table>
<thead>
<tr>
<th>Strategic Driver</th>
<th>KPI</th>
<th>Year-end March 2010</th>
<th>Year-end March 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved market access</td>
<td>Revenue growth</td>
<td>R3 610m</td>
<td>R3 924</td>
</tr>
<tr>
<td></td>
<td>Order cover</td>
<td>108%</td>
<td>104%</td>
</tr>
<tr>
<td>Operational excellence</td>
<td>Milestones achieved</td>
<td>92%</td>
<td>84%</td>
</tr>
<tr>
<td></td>
<td>Contract loss provisions</td>
<td>R313m</td>
<td>R445m</td>
</tr>
<tr>
<td></td>
<td>Stock holding</td>
<td>R713m</td>
<td>R879m</td>
</tr>
<tr>
<td></td>
<td>GP margin</td>
<td>16%</td>
<td>16%</td>
</tr>
<tr>
<td></td>
<td>Revenue/employee</td>
<td>R0.7m</td>
<td>R0.8m</td>
</tr>
<tr>
<td>Deepen relationship with the Defence community</td>
<td>Conclusion of key contracts</td>
<td>Denel end state project</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Golden share targets</td>
<td>Achieved</td>
<td></td>
</tr>
<tr>
<td>Strengthen governance and financial management</td>
<td>Operating cost margin</td>
<td>23%</td>
<td>32%</td>
</tr>
<tr>
<td></td>
<td>Net loss</td>
<td>R246m</td>
<td>R533m</td>
</tr>
<tr>
<td></td>
<td>Net working capital</td>
<td>R810m</td>
<td>R816m</td>
</tr>
<tr>
<td></td>
<td>Governance and compliance</td>
<td>New Companies Act, King 3, Internal and External Audit, Hotline</td>
<td></td>
</tr>
<tr>
<td>Towards a respected SA company</td>
<td>R&amp;D funding, indigenous products, NGP, IPAP, exports, FDI, BBBEE, SMME suppliers;job multiplier</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Denel’s sales mix increased internationally through co-development, strategic equity partnerships and entrepreneurial culture.
## MAJOR PROGRAMMES

<table>
<thead>
<tr>
<th>Business Entity</th>
<th>Contract</th>
<th>Client</th>
<th>Contract Value</th>
<th>Projected Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>DLS</td>
<td>Project HOEFYSYTER - New Generation ICV</td>
<td>DoD</td>
<td>R8,3bn</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rheinmetall Artillery Export Teaming</td>
<td>Rheinmetall</td>
<td>€15m</td>
<td></td>
</tr>
<tr>
<td>DSA</td>
<td>A400M - WFF/Top Shells</td>
<td>Airbus Military</td>
<td>R1,450bn</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Gripen Rear Fuselage/Pylons</td>
<td>Saab</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Agusta A109 production</td>
<td>AgustaWestland</td>
<td>R350m</td>
<td></td>
</tr>
<tr>
<td>TMA/DSA</td>
<td>Steel heat-treatment</td>
<td>TMA; Rolls-Royce; Turbomeca France</td>
<td>+ R200m</td>
<td></td>
</tr>
<tr>
<td>DISS</td>
<td>Project GUARDIAN /PROTECTOR – GBADS Capability</td>
<td>DoD</td>
<td>R801m/ R0m</td>
<td></td>
</tr>
<tr>
<td>Denel Dynamics</td>
<td>Project ASSEGAAL - A-Darter Missile</td>
<td>RSA DoD and Brazil</td>
<td>R1,1 bn</td>
<td></td>
</tr>
<tr>
<td>Denel Aviation</td>
<td>Project IMPOSE - Rooivalk Programme</td>
<td>DoD</td>
<td>+R8bn/ R130m</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Project DRUMMER 2 - Oryx Avionics upgrade</td>
<td>DoD</td>
<td>R460m</td>
<td></td>
</tr>
<tr>
<td>RDM</td>
<td>HOEFYSYTER/ACROBAT/DoD annual munitions orders</td>
<td>DoD</td>
<td>&gt;R300m</td>
<td></td>
</tr>
</tbody>
</table>
Denel’s FY10 loss of R246m due to:
- DSA – R328m
- Interest mainly due to no recapitalisation – R139m

Key action to reduce losses:
- DSA: Turnaround plan
- Apply for recapitalisation to repay debt
- Cost cutting initiative
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DENEL’S JOURNEY TO SUSTAINABILITY
4 years to 2010

Denel 2007-2010 steps taken

- Denel operations decentralised
- Restructuring and retrenchments
- Governance policies implemented, internal control systems and processes improved
- Performance management
- Business development initiatives
- Equity partnerships providing investment and access to markets
- Disposal of non-core entities

Denel 2005/6 Challenges

- Workforce 10,000
- Export orientated company
- Centralised organisation
- Poor stakeholder alignment
- Governance challenges
- Poor programme management
- Ageing plant and equipment
- Poor human capital development and transformation

18 months to 2012

Vision:
To be the respected South African provider of innovative Defence, Security and related technologies

- Business development: Double revenue
- Cost-cutting: Supply Chain Shared Services
- Strengthen financial position Working Capital
- Strategic Partnerships
- Restructure DSA
- Companies Act / King III
- Local client relationship and stakeholder alignment improvements, 61% of revenue

2010:
Def/Sec/Cert: Profit R200m
Aerostructures: Loss R283m
Gross margin: 16%
Staff Turnover: 4.5%
Order pipeline: R25bn
Level 4 BBBEE rating

Leadership development

Entity boards, audit and risk committees, risk management and financial discipline

Improved programme performance

Def/Sec/Cert. – Loss R1.3bn
Aerostructures – Loss R300m
Gross Margin: 5%
Staff turnover: 13.8%
DENEL OPPORTUNITIES PIPELINE – R43bn

Local vs. International

- Local (South Africa): 23%
- International: 77%

Opportunities per region

- Africa: 5%
- Europe: 2%
- Middle East: 40%
- South America: 0.4%
- Asia: 30%
- South Africa: 23%
DENEL SAAB AEROSTRUCTURES (1)

• **Overview**
  − SAAB has exited the business through exercise of put option.
  − Net Loss of R328m in 2009/10 (FY09: R453m)
  − Improved performance for 2010/11 expected due to restructuring—audit in process

• **Restructuring**
  − Production efficiencies, lean manufacturing, improved supply chain management
  − Payroll related costs decreased to align with order book
  − Reduction in rental costs through space optimisation – reduced by 32%.
  − Shared services and outsourcing of non-core activities.

• **Operations**
  − The operational turnaround of the business continues with a marked improvement in delivery, quality and retention of international accreditations.
  − Airbus in particular has expressed satisfaction with DSA’s performance on the A400M programme.
  − Margins on all contracts are under pressure.
**DENEL SAAB AEROSTRUCTURES (2)**

### Operational turnaround drive – STEP Programme

<table>
<thead>
<tr>
<th>Key Indicators:</th>
<th>Status:</th>
<th>Performance:</th>
<th>Comment:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>STEP Improvements:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improve on-time full kitting point achievement</td>
<td>✔️</td>
<td>▶️</td>
<td>From 70% to 85%</td>
</tr>
<tr>
<td>Reduced material cost of the Bill of Material of the WFF</td>
<td>✗️</td>
<td></td>
<td>Reduction in WFF Material cost of 36% (R 1.4 M per ship set)</td>
</tr>
<tr>
<td>Reduced production scrap</td>
<td>✗️</td>
<td>▶️</td>
<td>Scrap is 1.7% of sales versus 3% benchmark according to industry standards</td>
</tr>
<tr>
<td>Deliveries to Turbomeca Africa (Pty) Ltd (TMA)</td>
<td>✔️</td>
<td>▶️</td>
<td>From 30% to 90%</td>
</tr>
<tr>
<td>On time deliveries for the A400 M Programme</td>
<td>✔️</td>
<td>▶️</td>
<td>Delivered MSN 6 thus far with exceptional feedback from A400 M Head of Programme</td>
</tr>
<tr>
<td>Production throughput</td>
<td>✔️</td>
<td>▶️</td>
<td>Actual throughput exceed Targeted throughput month on month for the year of 2010/11</td>
</tr>
<tr>
<td>Production lead times</td>
<td>✗️</td>
<td>▶️</td>
<td>Good progress made thus far but requires further focus</td>
</tr>
<tr>
<td><strong>Other improvements:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sale of Steel Heat Treatment facility to TMA</td>
<td>✔️</td>
<td>▶️</td>
<td>Facility sold on 31 March 2011</td>
</tr>
<tr>
<td>Improved Long Term Procurement Agreements coverage</td>
<td>✔️</td>
<td>▶️</td>
<td>Greater than 70% coverage with a 12% reduction in material costs</td>
</tr>
<tr>
<td>Stock accuracy in stores</td>
<td>✔️</td>
<td>▶️</td>
<td>Increased from 65% to 98%</td>
</tr>
<tr>
<td>Outsourcing non core activities such as:</td>
<td>✗️</td>
<td>▶️</td>
<td>Converting fixed costs into variable costs</td>
</tr>
<tr>
<td>Conventional machining, Chemical stores, Tool manufacturing etc.</td>
<td>✗️</td>
<td>▶️</td>
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<tr>
<td>Improved procurement Management: Reduction in obsolete stock provision</td>
<td>✔️</td>
<td>▶️</td>
<td>R 20 M per annum to below R 1 M for 2010/11</td>
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</table>
Denel SAAB Aerostructures (contd.)

- **Quality**
  - Maintained NADCAP accreditations within Composites, Heat Treatment, Non Destructive Testing, Surface Treatment/Paint and Shot Peening.

- **Business Development:**
  - DSA was down selected by international OEM to supply Business Jet Winglets (Negotiations ongoing).

- **Alternatives for DSA:**
  - **Domestic Transfer to Aerosud**
    - Aerosud submitted an unsolicited conditional proposal to acquire DSA in December 2010.
    - Discussions are on-going – 2 key conditions remain outstanding
    - Further announcements can only be made once the discussions have been finalised.
    - Denel to proceed with transaction only if Airbus cancels agreement with Denel incl. cancellation of PCG
  
  - **Revised Business Plan (in Process)**
    - Building a robust revenue pipeline - international OEM’s targeted
    - Re-negotiation of commercial terms with key customers such as Airbus
    - Optimising cash flow through effective supply chain management
    - Space optimisation, shared services, outsourcing, more variable costs
    - Strengthen balance sheet – better working capital, recapitalisation
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  • Other
• Key strategic matters
## DENEL’S VALUE-ADD: NGP CONTRIBUTION

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<tr>
<td>Re-position to acquire greater % share of the RSA DOD conventional capital budget</td>
<td>VH</td>
<td>VH</td>
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<tr>
<td>Re-position to acquire greater % of the growing DOD non-conventional equipment and support budget</td>
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<tr>
<td>Attract coherent Gov support for increased Export Sales of Military Products</td>
<td>H</td>
<td>VH</td>
<td>VH</td>
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<tr>
<td>Increase Export Sales of Military Technology and Collaboration with G20 countries</td>
<td>VH</td>
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<td>VH</td>
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<tr>
<td>Acquire increased R&amp;D funds from existing government agencies and lead applied research programmes (DOD, DST, DTI)</td>
<td>VH</td>
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</tbody>
</table>

VH = Very High; H = High
## DENEL’S VALUE-ADD: NGP CONTRIBUTION

<table>
<thead>
<tr>
<th>Diversify: Consumables and sophisticated Safety Equipment for RSA Mining Industry to extend life of mines, subject to commercial viability</th>
<th>VH</th>
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<tbody>
<tr>
<td>Diversify: Nuclear precision component manufacture for RSA programmes</td>
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<tr>
<td>Diversify: Participate in Green Industries initiatives</td>
<td>H</td>
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<td>VH</td>
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<tr>
<td>Increase Skills Development: increase training in maths &amp; science for school learners and targeted schools support programmes</td>
<td>H</td>
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<tr>
<td>Increase Skills Development: Engineer Bursaries</td>
<td>VH</td>
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<tr>
<td>Increase Skills Development: Internship Program</td>
<td>VH</td>
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</table>

VH = Very High; H = High
SKILLS DEVELOPMENT APPROACH

• Strategy recently approved by the Board
• Denel believes in a holistic approach to skills development
• Denel requires high technology and unique technical skills e.g. aerodynamicists, systems engineers etc.
• Model is therefore more qualitative than quantitative
• Established partnerships with universities, secondary schools and other agencies to enhance its ability to develop skills
Background

Denel dedicates a significant amount from its own resources for employee skills development. In the previous financial year, the company spent R26.7m (unaudited) and has budgeted to spend 3% of payroll in the current financial year. Key skills development initiatives are:

- **UNISA SBL DENEL Leadership and Management Development Programme**
  - Launched in 2009 in collaboration with Unisa SBL.
  - The three levels of the Unisa SBL Programmes covers the junior, senior and executive level education.
  - Lecturing commences in July 2011.

- **Engineering Academy of Learning**
  - Denel launched an Engineering Academy in 2009 as a means of ensuring that newly qualified engineers are afforded an opportunity to be shown the ropes in a co-ordinated fashion.
  - There are currently 20 Junior Engineers registered in this programme.

- **Engineering Internship**
  - This is an internship programme which currently, houses 11 learners The learners are mostly funded by Denel with assistance from ISETTA SETA.
• **Workplace Skills Plans**
  – Entities, as part of their skills development processes, develop workplace skills plans that deal with training which is core or statutory for their businesses.

• **Mentorships**
  – Each entity has a mentorship plan that is constantly monitored by the relevant Transformation Committee and the entity’s Personnel and Remuneration Committee. These programmes assist in the identification of future technical and managerial leaders and on the development of technical competence and productivity.

• **Career Paths**
  – Career paths have been developed to encourage younger employees to choose paths that would best contribute to the success of the Group and that best suit the employee.

• **Internal Bursaries**
  – Bursaries are awarded to employees in order to augment their development in areas that are complementary to the jobs they perform. To date 74 (2009: 96) employees have been granted bursaries to do Masters in Engineering, BCom, BTech, MBA and various other fields of studies.

• **Employee study loans**
  – Study loans are granted to employees who wish to further their studies in fields of their choice.
Youth Development Programmes

Denel’s social investment focuses on the development of maths, science and technology capability. To this effect, our pre-employment programs are rooted firmly on working with learners and tertiary students to either encourage them to take up mathematics and science at high school, or to provide those who have already matriculated with funds to study engineering, science etc.

- **Apprentice training**
  - Denel Technical Academy (DTA) supports Denel’s strategic objectives through the training of apprentices.
  - DTA trains about 300 apprentices annually towards their qualification as artisans.

- **Bursaries**
  - Approximately 30 new bursars are sponsored annually for Engineering studies.
  - Over and above the financial aid, Denel provides bursars with vacation work and mentors.
  - To date, over 90% of the bursars that complete their university studies are employed in the group.

- **Denel Youth Foundation Training Programme**
  - This is a matric Bridging Programme for learners who have failed matric and require a second chance.
  - The Programme used to take in approximately 300 learners per year but due to reduced funding, it only currently takes in about 50 learners per year.

- **TOPP Programme Learnership**
  - Denel has currently 2 learners trained to become Chartered Accountants through the TOPP Programme.
  - The TOPP programme is a South African Institute of Chartered Accountants (SAICA) learnership registered with the FASSET SETA.

- **Collaboration with tertiary institutions**
  - Partnerships have been built with established engineering faculties from to ensure that relevant technology is sustained.
  - Through the Armscor Ledger Fund, Denel sponsors students for post graduate studies.
SKILLS DEVELOPMENT (4)

- **Schools outreach programme**
  - Offers learners from **Grade 10 to grade 12** tuition by tutors and also by Denel’s own engineers on Saturdays.
  - The programme is currently running in Gauteng and the North-West Province. Currently fully funded by Denel at a cost of **R 1.2m per year**.
  - Supported about **80 learners** in the previous financial period.

- **Women in Engineering**
  - A collaborative relationship was established with the **SA Women in Engineering Programme (SAWOMENG)** spearheaded by a group of young female engineers who have a passion for female learners to enter the field of engineering, science and technology.
  - Denel spends about **R100k to fund** this programme per year.
## DENEL’S VALUE-ADD: OTHER

<table>
<thead>
<tr>
<th>KEY AREAS</th>
<th>IMPACT</th>
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</table>
| National security                                 | • Strategic military independence of the RSA  
• Full life cycle support  
• Reduced cost of ownership  
• Foreign exchange savings  
• Integrity of South Africa’s defence stature - African Union and G20  
• Support for border protection |
| Peacekeeping & civilian campaigns                 | • Products uniquely suited to the African theatre  
• MRO support  
• 2010 FIFA World Cup and Rhino Poaching campaign  
• Crime prevention initiatives |
| Industrial strategy and competitiveness:          | • R1,4bn in export earnings in 2009/10  
• IP/knowledge creation and cross-leveraging in other industries eg:  
  – Rail safety  
  – SALT telescope  
  – Telecoms  
  – Automotive  
  – Crime fighting  
• Total (R&D) investment in 2009/10: R1bn (2008/09: R1,2bn)  
• Major Capex spend in TMA, DSA, CZO and RDM |
### DENEL’S VALUE-ADD: OTHER (cont)

<table>
<thead>
<tr>
<th>KEY AREAS</th>
<th>IMPACT</th>
</tr>
</thead>
</table>
| Skills development:              | • 30 000 jobs supported in industry  
• CIRCA 70% of procurement from local suppliers  
• Stable skills pipeline  
• Denel Technical Academy: youth and artisan training  
• Engineering bursary, internship, Saturday Schools Programme and mentorship programmes |
| Supplier base                    |                                                                                                                                       |
| Technical skills                 |                                                                                                                                       |
| JIPSA                            |                                                                                                                                       |
| ASGISA                           |                                                                                                                                       |
| Quality jobs: sustainable livelihoods |                                                                                                                                    |
| Environment:                     | • ISO 14001 certification and compliance  
• High tech industries: clean air production  
• Advanced materials (composites) - reduction of carbon emissions by aircraft |
| Kyoto Protocol                   |                                                                                                                                       |
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FUNDING AND SOLVENCY

• Recapitalisation of R3.5bn received – repayment of debt, legacy issues and losses
• Continued losses of DSA (FY10: -R328m; FY09: -R?m) - requiring shareholder funding
• Debt / equity ratio projected at R212m equity and R1.85bn of debt at March 2011
  – Debt trap requires recapitalisation of ± R2bn
• Considering the solvency, debt level and latest loss forecasts, Denel requires recapitalisation to strengthen balance sheet.
June 2008 End State Cabinet Memorandum (follow-up Cabinet memorandum reqd)

- Cabinet memorandum: June 08
- Stakeholder alignment
  - Joint DPE/DoD engagements with NT participation
- Key capabilities products and technologies required by the DoD/SANDF
  - Classification sovereign/ strategic
  - Hard exit, retention and investment decisions required
- Proposals: June 2008 Cabinet Memorandum
  - Minimum multi-year orders for key industries/product systems
  - Finality on Rooivalk, DISS, strategic equity partnerships, Denel Aviation/SAAF partnership
  - Activating intended/funded projects
  - Executing specific development contracts
BUSINESS DEVELOPMENT

- **Opportunity pipeline R44bn**
  - Technical specifications
  - Commercial terms and conditions
  - Political and diplomatic support – partnering with state agencies
    - Bi-Lateral agreements

- **Challenges include**
  - Increased competition from developed economies due to defence cuts
  - Alignment between military acquisitions and industrial strategy
  - Better value for lower spend
  - Growing geo-political influences

- **Critical Skills**
  - Attraction, development and retention of critical and core skills