



DENEL ANNUAL REPORT: 31 MARCH 2009

Portfolio Committee on Public Enterprises

Talib Sadik, Group Chief Executive Officer

Fikile Mhlontlo, Group Financial Director

Patience Mushungwa, Group Executive, HR and Transformation

AGENDA

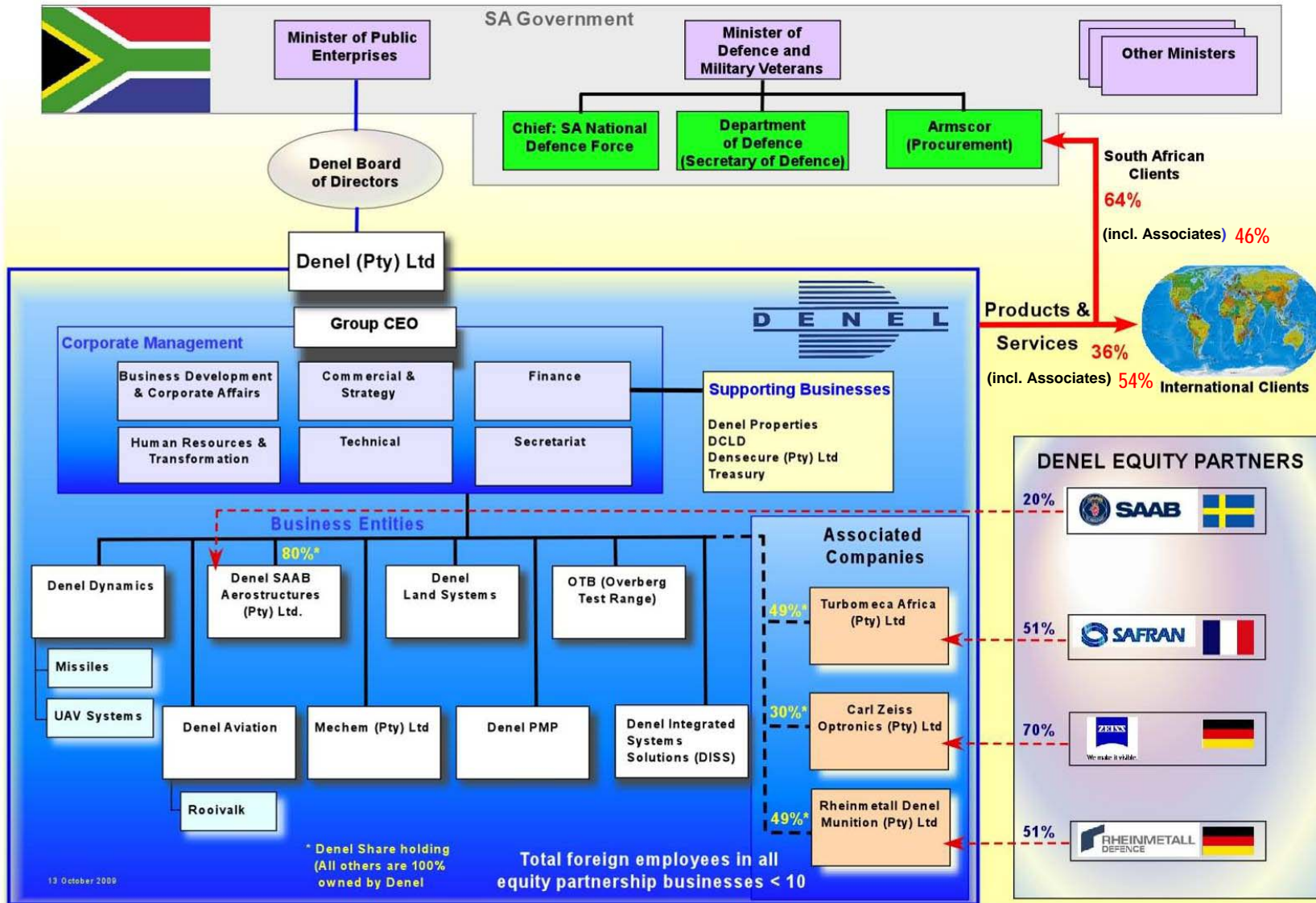
1. Company overview
2. Restructuring Phase I: Turnaround strategy and progress
3. Overview of performance: 31 March 2009
4. Phase 2: Growth strategy

AGENDA

1. Denel company overview
 - Organisational chart and values
 - Denel business entities
 - Associated companies
2. Restructuring Phase I: Turnaround strategy and progress
3. Overview of performance: 31 March 2009
4. Phase 2: Growth strategy




DENEL OVERVIEW: GROUP STRUCTURE

Personnel employed by Denel Group:	
Denel:	5 249
Ass. Companies:	2 181
TOTAL:	7 430
Includes approx.	528
Engineers & Scientists	
6 X multiplication factor on SA Economy	



DENEL HAS DEVELOPED GROUP VALUES TO UNDERPIN THE DRIVERS AND THE ORGANISATION

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.

DENEL OVERVIEW: BUSINESS ENTITIES (1)

ENTITY	ESTABLISHED	MAIN ACTIVITIES	LOCAL SALES	MAIN GLOBAL MARKETS	EMPLOYEES	BBBEE STATUS
Denel Dynamics	1963 Institute Rocket Research CSIR <small>(prior to Kentron 1978)</small>	Missiles & Guided Weapons, and Unmanned Aerial Vehicles (UAV).	57,4%	Europe Africa Middle East	797	6
Denel Aviation	1968 (As Atlas Aircraft Corporation)	Fixed and rotary wing maintenance, repair and overhaul (MRO).	93,0%	Africa	1,270	4
Denel Saab Aero-structures (Pty) Ltd	2005 (Part of Atlas)	Designs, manufactures, and assembles composites and metallic aircraft subsystem structures.	71,2%	Europe	805	Rating in process
Mechem (Pty) Ltd	1960 (As part of CSIR)	Mine action services; battle area clearance solutions; contraband detection services; mine protected vehicles and ancillary equipment.	0.5%	Middle East Africa	56	Rating in process

BBBEE target for the Group is to achieve minimum of level 5 by the end of the 2010 financial year

DENEL OVERVIEW: BUSINESS ENTITIES (2)

ENTITY	ESTABLISHED	MAIN ACTIVITIES	LOCAL SALES	MAIN GLOBAL MARKETS	EMPLOYEES	BBBEE STATUS
Denel Land Systems	1950 (As Defence production Office)	Design, develop, integration and maintenance of artillery systems, combat turrets and light weapons.	82.0%	Middle East Asia Pacific South America	434	Rating in process
PMP	1938	Small and medium calibre ammunition as well ejection cartridges and some commercial products.	44,4%	Middle East Africa Asia Pacific Europe	1,425	8
OTB	1985	Multi-purpose Test Range specialising in in-flight systems performance measurements.	67,4%	Europe Asia Pacific	172	Rating in process
Denel Integrated Systems Solutions	2009	Ground Based Air Defence solutions	100%	Local only	50	Rating in process

BBBEE target for the Group is to achieve minimum of level 5 by the end of the 2010 financial year

DENEL OVERVIEW: ASSOCIATED COMPANIES

ENTITY	ESTABLISHED	MAIN ACTIVITIES	LOCAL SALES	MAIN GLOBAL MARKETS	EMPLOYEES	BBBEE STATUS
Turbomeca Africa (Pty) Ltd *	2001 (Part of Atlas)	The world leader in design, manufacturing and sale of gas turbine engines for small and medium power for helicopters.	58%	Europe Africa	265	Rating in process
Carl Zeiss Optronics (Pty) Ltd *	2007 (Part of Kentron)	Global supplier of a wide range of electro-optical products.	65%	Europe Middle East	286	Rating in process
Rhein-metall Denel Munition (Pty) Ltd *	2008 1974 (Somchem, Naschem and Swartklip)	Supplier of munitions (artillery ammunition, mortars, bombs, large calibre ammunition, pyrotechnics, missile motors and warheads as well as energetic materials).	49%	Europe North America Asia Pacific South America	1,630	Rating in process

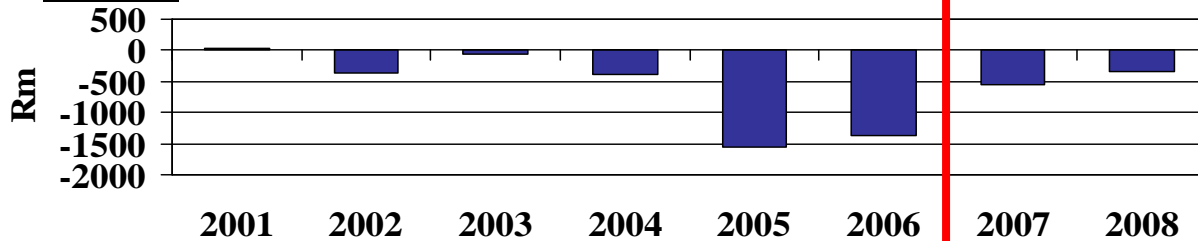
BBBEE target for the Group is to achieve minimum of level 5 by the end of the 2010 financial year

AGENDA

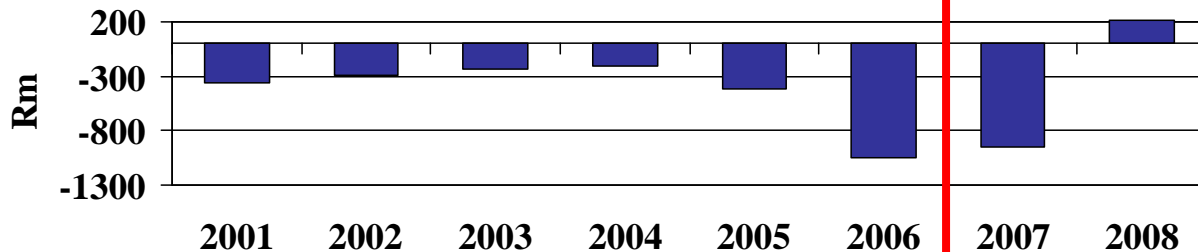
1. Denel company overview
2. Restructuring Phase I: Turnaround strategy and progress
 - Historical financial performance
 - Denel Phase I strategy for turnaround
 - Key achievements 2006 to 2008
3. Overview of performance: 31 March 2009
4. Phase 2: Growth strategy

HISTORICAL FINANCIAL PERFORMANCE

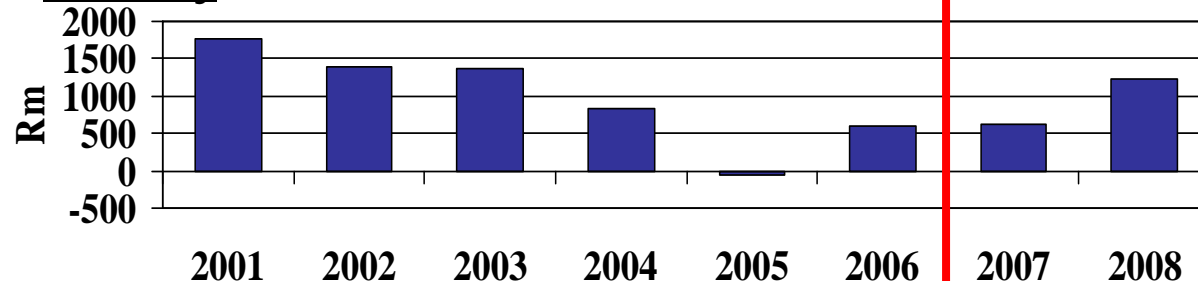
Losses



Cash utilised



Solvency



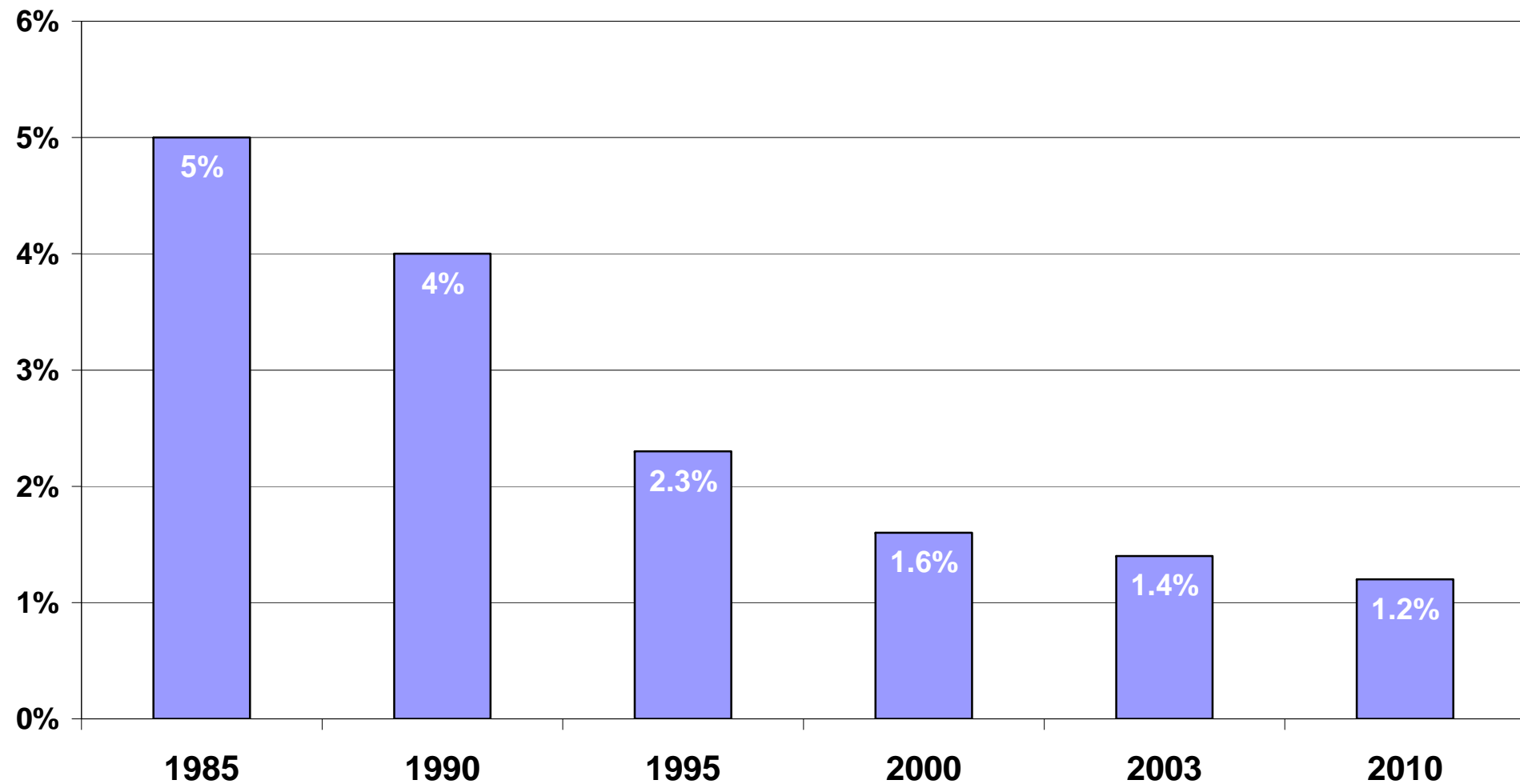
- Denel posted significant losses year on year since 1998, except in 2001 when it posted R40 million profit owing to a once off pension fund holiday.
- Losses from 2005 to 2008 caused by:
 - Loss of export markets
 - High interest cost resulting from loans.
 - Legacy contracts – Umkhonto, Raptor, UAV's, Airbus, Agusta & Rooivalk.
 - Inadequate orders resulting in under-utilisation of labour and facilities.
 - Equity partnership restructuring starting to have effect from 2007.
- Reserves and capital were significantly eroded due to these losses by 2004, necessitating a review and change of the strategy in 2005/06.

Turnaround strategy introduced



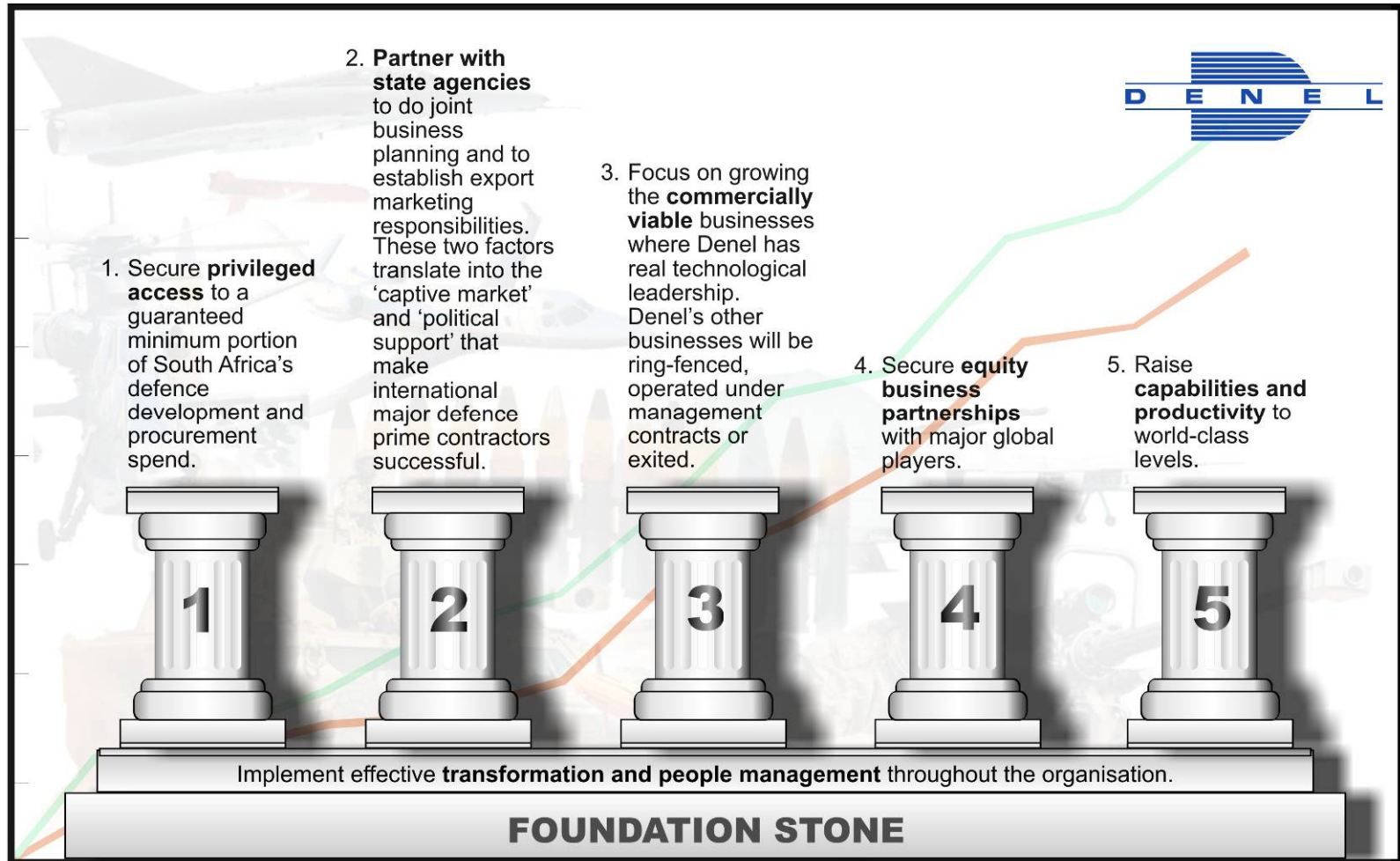
DEFENCE SPEND

Defence Spend % of GDP



RESTRUCTURING PHASE I: TURNAROUND STRATEGY

The Five Pillars of the Macro Strategy



KEY ACHIEVEMENTS: 2006 - 2008

STRATEGY:

- Denel operations restructured and de-centralised:
 - Business Development
 - Programme management
 - Governance
 - Compliance
- Received R3.5bn recapitalisation to restore solvency
 - Settled debt
 - Funded capital expenditure projects and equity injections into Newco's
 - Funded working capital requirements and operating losses
- Disposed of non-core businesses and properties to the value of R1bn
 - Repaid corporate bond of R825m

KEY ACHIEVEMENTS: 2006 - 2008

STRATEGIC EQUITY PARTNERSHIPS:

- Rationale:
 - Market access
 - Access to capital and industrial know-how
 - Increased self-funded R&D levels, development of IP & technology
- Three partnerships concluded:
 - Carl Zeiss Optronics (Germany)
 - Rheinmetall Defence (Germany)
 - Saab AB (Sweden)
- Equity partnership control measures - Golden Share and IP Agreements:
 - Protect security of supply to the DoD
 - Prevent disposal of technology and assets
 - Protection of IP, enable joint development of IP and increased R&D funding
 - Committed to human capital development

KEY ACHIEVEMENTS: 2006 - 2008

- **Turbomeca Africa** (51% sold to the SAFRAN Group in 2003)
 - Significant inefficiencies, high costs and a loss of R100m prior to disposal
 - Major overhaul of plant and efficiencies achieved
 - World-wide centre of excellence for Artouste and Turmo engines
 - Single-source supplier of gearboxes and spares to Rolls-Royce
 - The business has turned around and is sustainably profitable
 - Current order cover: 110% for current year; Total order book = R320,4m
 - Current revenue per employee: R1, 299m
- **Carl Zeiss Optronics** (Carl Zeiss of Germany acquired 70% in 2007)
 - R120m loss prior to disposal, with significant risks and inefficiencies
 - New world-class production facilities established
 - Significant increase in throughput resulting in revenue doubling
 - Sales per employee have increased from R0.8m to R1,6m
 - Business is turning around, expected to be profitable in 2008/9
 - Current order cover: 111% for current year; Total order book: R795m
 - Current revenue per employee: R1,7m

KEY ACHIEVEMENTS: 2006 - 2008

- **Rheinmetall Denel Munition** (Rheinmetall Defence acquired 51% in 2008)
 - Loss as high as R146m in 2005, minimum R&D expenditure
 - Outdated plant, machinery and industrial processes
 - 3 year CAPEX of R250m to modernise plant underway
 - Strong revenue pipeline in excess of R2 bn
 - Business is turning around, self-sustainable in 2008/09
 - Current order cover: 97,6% for current year; Total order book: R2206,7m.
 - Current revenue per employee:R0,692mm
- **Denel Saab Aerostructures** (Saab AB acquired 20% in 2007)
 - Outdated plant, machinery and industrial processes
 - Business faced major risk on A400M
 - Completion of A400M industrial recapitalisation programme
 - Composites - NADCAP accreditation
 - Machining
 - Special Processes and sheet metal
 - The business has, however, not turned around
 - Turnaround drive and further restructuring underway
 - Current order cover: 126% for current year; Total order book: R995m
 - A400M contracted revenue R13bn over 15 years
 - Current revenue per employee:R0,472m

KEY ACHIEVEMENTS: 2006 - 2008

GOVERNANCE:

In 2007, Denel was reported to the Independent Regulatory Board of Auditors for PFMA/Companies Act transgressions, including:

- Not having an effective system to prevent fruitless and wasteful expenditure
- Not maintaining certain statutory documentation at a subsidiary company level
- Not concluding a Shareholder's Compact
- Not implementing a risk management strategy / fraud prevention plan.

Denel has addressed all findings over the past 2 years:

- Significant improvement in integrity of financial information
 - Financial management systems and capacity
 - Revenue recognition and contract loss provisions
- Published sustainability report in the annual report
- Entity Audit and Risk Committees established
- Effective outsourced internal audit function
- Unqualified audit reports for the past 2 years

KEY ACHIEVEMENTS: 2006 - 2008

BUSINESS DEVELOPMENT:

- Significant progress made in creating a culture of directing RSA defence spend to domestic suppliers
- Domestic sales grown from 47% in 2006 to 64% in 2009
- Major RSA DoD contracts secured include:
 - Hoefyster (Badger) Infantry Fighting Vehicle (total R8,3bn of which R1,1bn development contract activated with contract)
 - A-Darter 5th generation air-to-air missile development (R1,1bn: RSA and Brazil funded)
- PMP received follow-on orders from BAE Systems, UK for supply of brass ammunition components
- Mechem completed numerous demining projects in Eritrea, the DRC and Sudan under UN mandate
- In addition to the test services performed for the SANDF, OTB was also contracted for such services by German, Italian, Singaporean and Spanish air forces
- Order book, inclusive of confirmed contracts, increased from R3,749 bn in 2006 to R17,765 bn in 2009

KEY ACHIEVEMENTS: 2006 - 2008

TECHNICAL:

- Instituted targeted industrial recapitalisation programmes at key Denel entities to ensure effective execution of contractual mandates.
- Focused technical interventions to establish efficient technical practices and procedures to underpin operational performance and show progressive improvement in service delivery.
- Targeted recovery strategies on legacy contracts to reduce risk exposure.
- Initiation of corporate Supply Chain Forum to implement world-class practices and processes, including preferential procurement and stock management.
- Quantum improvement in operational effectiveness and programme management through doubling of DoD order intake since 2006 whilst initially maintaining and now exceeding world-class annual service delivery targets for military programmes in some instances.
- Implementation of proactive programme as well as technical risk management practices and procedures to underpin sustainable operational excellence and technology focus, with significantly improved contractual performance visible on the Ground Based Air Defence System (GBADS 1), A-Darter, C-130, Oryx, Badger and artillery export programmes as well as PMP and UAV business areas.
- Exemplary operational performance being delivered by Turbomeca Africa (Pty) Ltd, Rheinmetall Denel Munitions (Pty) Ltd and Carl Zeiss Optronics (Pty) Ltd.

KEY ACHIEVEMENTS: 2006 - 2008

HR AND TRANSFORMATION (1):

- Organisational Climate Survey conducted in 2006
- A performance management and reward strategy developed and implemented from 2007 onwards
- Transformation strategy and framework launched in 2007
- Establishment of functional Transformation Committees at all entities
- Follow up Organisational Climate conducted in 2008 to track progress made since 2006. Visible improvement in Denel's transformation goals, with the organisation's culture index now at 50%, compared to 43% in 2006 (benchmark is 60%+)
- Introduction of B-BBEE Framework as part of Transformation Programme in 2008
- Two entities already have B-BBEE ratings of levels 6 and 4 respectively
- Significant reduction in turnover of technical and core skills in the two year period (35% down to 17%)

KEY ACHIEVEMENTS: 2006 - 2008

HR AND TRANSFORMATION (2):

- Direct employment of approximately 3 500 technically skilled employees including in excess of 400 specialist engineers and scientists, sustaining over 30 000 technical jobs in South Africa
- Skills pipeline for development of advanced engineering, scientific, technology and artisan competencies
- High-end skills development and retention initiatives
 - Denel Centre for Learning and Development (DCLD)
 - Denel Youth Foundation Training Program focuses on upgrading matric mathematics and science
 - Engineering bursary, internship and mentorship programmes
 - Schools outreach programme designed to encourage learners to consider mathematics and science as subject of choice

AGENDA

1. Denel company overview
2. Restructuring Phase I: Turnaround strategy and progress
3. Overview of performance: 31 March 2009
 - Financial
 - Strategy
 - Governance
 - Business Development
 - Technical
 - Human Resources & Transformation
 - Denel's value add to the RSA
4. Phase 2: Growth strategy

2009 PERFORMANCE OVERVIEW: FINANCIAL INCOME STATEMENT - 31 MARCH 2009

Description	31-Mar-07 Actual Rm	31-Mar-08 Actual Rm	31-Mar-09 Actual Rm
Sales	3,268.1	3,818.1	3,923.7
- Local	1,548.0	2,163.1	2,506.8
- Export	1,720.1	1,655.0	1,416.9
Gross profit	754.0	599.6	638.5
<i>Gross profit as % of sales</i>	23%	16%	16%
Operating costs	1,257.4	965.4	1,084.4
<i>Operating costs as % of sales</i>	38%	25%	28%
Net interest (paid)/received	(143.0)	(60.5)	(73.3)
Normalised (loss)/profit	(610.1)	(307.2)	(241.9)
Once off items	61.0	(40.0)	(302.0)
Net (loss)/profit	(549.1)	(347.2)	(543.9)
<i>Net (loss)/profit as % of sales</i>	-17%	-9%	-14%

2009 PERFORMANCE OVERVIEW: FINANCIAL BALANCE SHEET

Description	31-Mar-08	31-Mar-09	
	Actual <i>Rm</i>	Actual <i>Rm</i>	Budget <i>Rm</i>
ASSETS			
Non current assets	1,475.8	1,850.4	1,874.8
Current assets	3,606.8	3,106.8	2,888.4
<i>Cash at hand</i>	879.5	489.5	743.1
<i>Trade and other debtors</i>	1,129.3	1,374.3	1,129.3
<i>Inventories</i>	1,072.2	878.8	852.0
<i>Prepayments made</i>	190.2	90.4	65.7
Assets held for sale	57.7	9.0	63.1
Total Assets	5,140.3	4,966.2	4,826.3
EQUITY AND LIABILITIES			
Share holder's equity	1,327.5	849.0	2,284.3
Non current liabilities	720.9	671.8	645.1
Current liabilities	3,080.7	3,445.4	1,885.2
<i>Trade creditors</i>	753.0	843.8	650.6
<i>Short term loan</i>	234.2	1,074.5	0.4
<i>Prepayments received</i>	902.3	675.0	582.5
Liabilities held for sale	11.2	-	11.7
Total equity and liabilities	5,140.3	4,966.2	4,826.3

2009 PERFORMANCE OVERVIEW: FINANCIAL CASH FLOW STATEMENT

Description	31-Mar-08	31-Mar-09	
	Actual <i>Rm</i>	Actual <i>Rm</i>	Budget <i>Rm</i>
Cash utilised in operations	97.7	(800.6)	(1,049.1)
Interest received (paid)	(9.6)	26.7	(79.4)
Taxation paid	(16.1)	(33.2)	(12.6)
Cash flow from operating activities	72.0	(807.1)	(1,141.1)
Net cash from investment activities	149.5	(357.2)	(596.4)
Investment in Property plant and equipment	(270.4)	(292.1)	(369.1)
Other investment activities	419.9	(65.1)	(227.3)
Cash flow excluding financing activities	221.5	(1,164.3)	(1,737.5)
Cash flow from financing activities	399.5	892.6	1,518.5
Cash flow from borrowings	(832.2)	774.3	-
Proceeds from share capital issued	933.0	-	1,700.0
Other investment activities	298.7	118.3	(181.5)
Net increase/(decrease in cash and cash equivalents)	621.0	(271.7)	(219.0)

2009 KEY ACHIEVEMENTS: STRATEGY

- Denel growth strategy, operating model and revised strategic drivers developed
 - Implementation has commenced across Denel entities
- Denel “end-state” implementation plan in process
 - Classification of Defence capabilities outstanding
 - Implementation of end-state proposals outstanding
- All businesses have turned around except for Missiles and DSA
 - DISS and DLS remain risk businesses until key DoD contracts are secured
- Denel SAAB Aerostructures:
 - Business case and high-level strategy for DSA defined
 - Shareholders Agreement revised: Board reconstituted to increase Denel’s representation and strengthen the Board
 - DSA turnaround programme launched
 - Major operational improvements achieved in manufacturing efficiencies
 - Doubled throughput
 - Green status with all customers (Airbus, Agusta, SAAB, TMA)
 - Opportunities to broaden shareholder base and increased collaboration explored

2009 KEY ACHIEVEMENTS: STRATEGY

- Dynamics Missiles
 - Efficiency review of business finalised
 - Strategic rationale for the transaction:
 - Business sustainability
 - Market access
 - IP and technology development
 - Increased self-funded R&D levels
 - Access to working capital funding
 - Increased scale leading to higher rate of capacity utilisation/industrialisation in Dynamics and supplier base
 - Advanced stage of negotiations with strategic equity partner reached
- Dynamics UAV's
 - Exploratory discussions with strategic investor to secure market access
- Pretoria Metal Pressings (PMP): Efficiency review finalised

2009 KEY ACHIEVEMENTS: GOVERNANCE

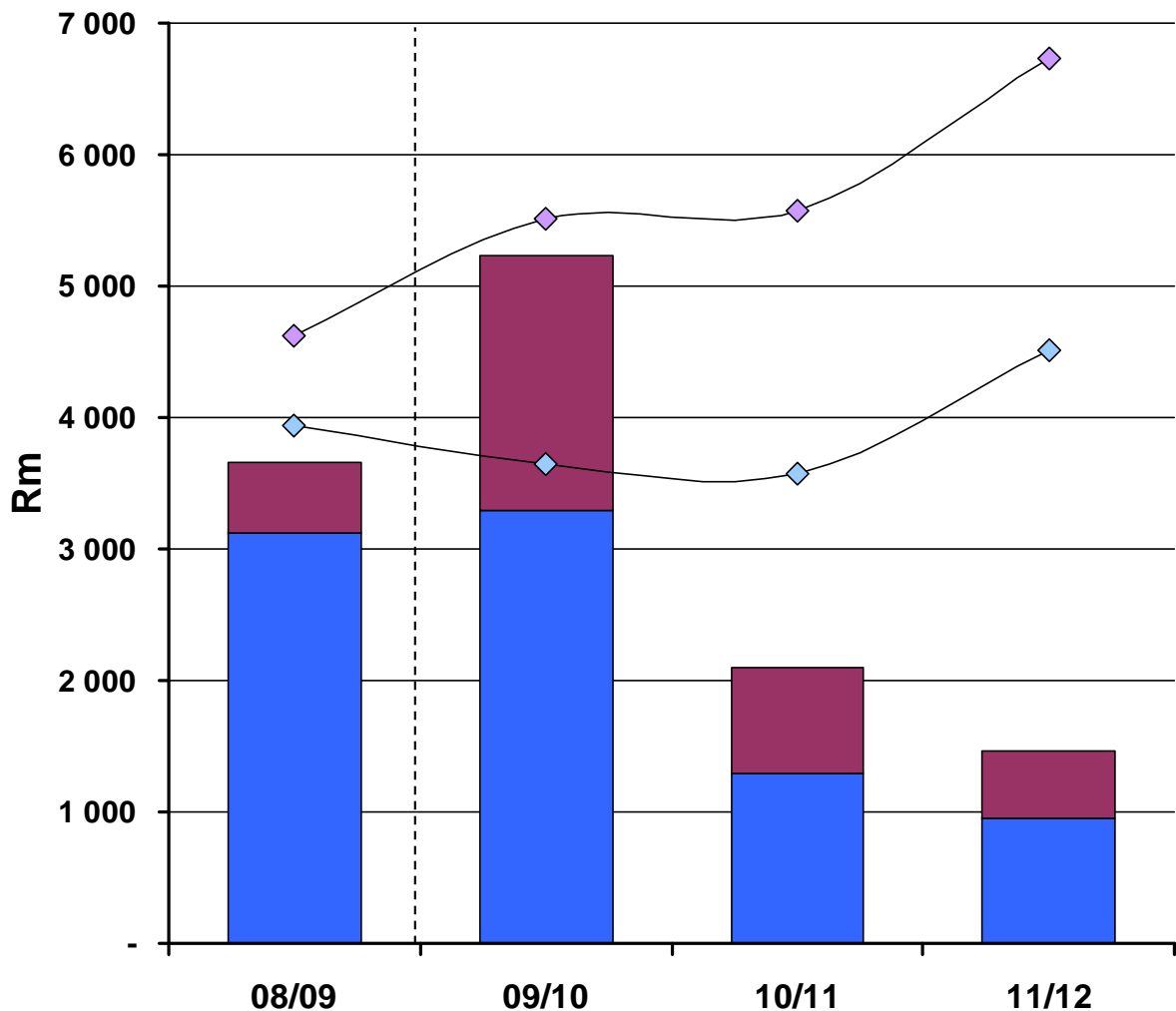
- All key policies affecting governance and risk have been updated and systems and processes strengthened across Denel
- Entity Boards and Audit and Risk Committees were strengthened by appointment of non-Denel members as non-executive members
- Unqualified audit requirements were added in the performance management reviews of the entities
- Oversight was strengthened at Denel Group level by appointing additional board members with legal and risk management skills
- A project to streamline the governance process across Denel is in process
- A compliance manual has been developed and compliance with legislation is reported at all Group Audit and risk Committee meetings
- Fraud prevention plan implemented throughout the Group
- Denel started reporting on general legal compliance, ethics and fraudulent cases

2009 KEY ACHIEVEMENTS: BUSINESS DEVELOPMENT

- Further improvements in cooperation with RSA State Agencies as well as in improving relationship with the DoD
 - Denel local orders increased to 64% of total sales (up from was 45% in 2006)
- Revenue per employee increased:
 - From R353 000 to R774 000 (Associates: R1m)
- Denel branding awareness programme launched
- Supply of network centric solutions by Carl Zeiss Optronics in support of Border patrol and SAPS with airborne surveillance and live data feeds (R100m)
- Significant new orders concluded:
 - Aircraft maintenance, repair and overhaul contracts (R600m per annum)
 - Denel Land Systems won important foreign contracts to supply infantry weapons including machine guns, mortar systems, the NTW-20 anti-materiel rifle and the AGL grenade launcher and co-development of a new-generation artillery system
 - A new contract for UAV system concluded with foreign customer (R240m)
 - PMP in final stages of concluding significant extension of order with BAE Systems, UK, for the supply of brass ammunition components
- Assisted in obtaining orders for equity partners as part of the golden share agreement (Carl Zeiss: R90m over 3 years; RDM: ± R300m per annum)

2009 KEY ACHIEVEMENTS: BUSINESS DEVELOPMENT

CONSOLIDATED ORDER PIPELINE



Associated Companies

Denel

Total Budget

Denel Budget

Comparative Order Cover % (End of August 2009)

Denel / Associates

08/09: 79% / 79%

09/10: 90% / 104%

10/11: 36% / 40%

11/12: 21% / 23%

(As at end August 2009)

Note: Total Order Book

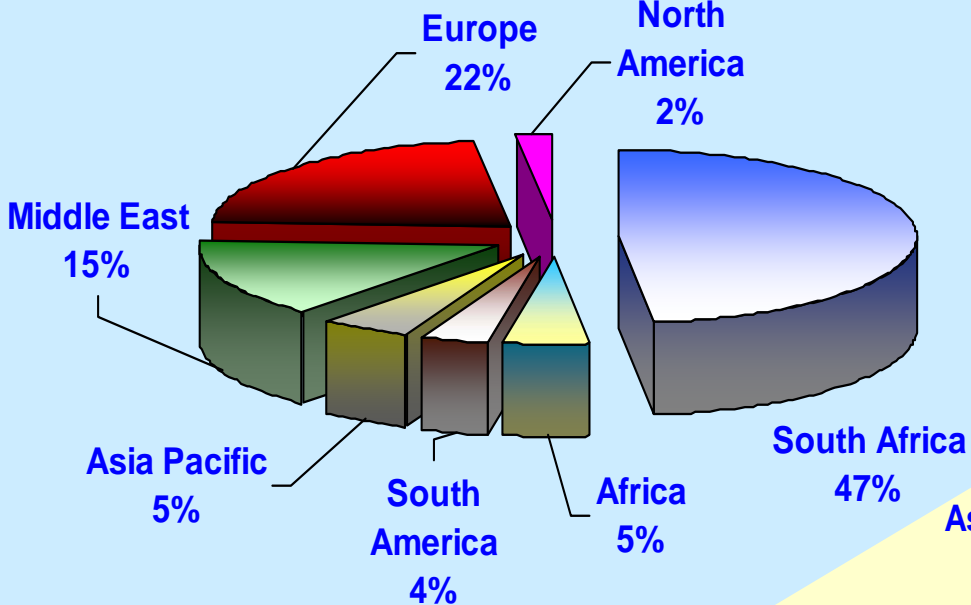
1/04/2006: Rm3 749 *

31/07/2009: Rm17 765 * (Including confirmed contracts)

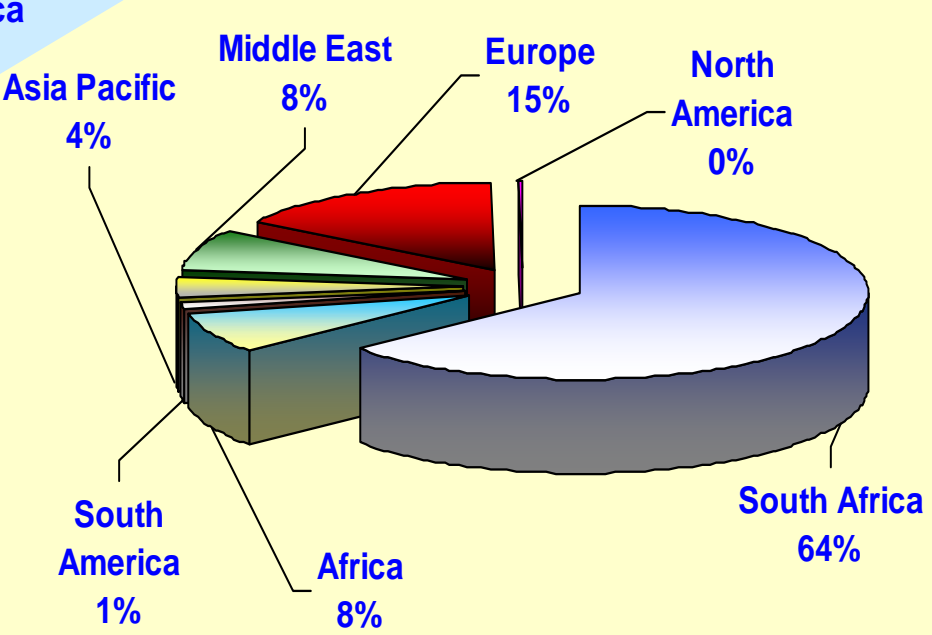
* Figures of Associated Companies included

2009 KEY ACHIEVEMENTS: BUSINESS DEVELOPMENT SHIFT IN MARKETS

SALES: 2005/06



SALES: 2008/09



2009 KEY ACHIEVEMENTS: TECHNICAL

- Finalisation of industrial recapitalisation programme at Denel Saab Aerostructures (R400m) and establishment of advanced large-structure composite manufacturing processes
 - Specific aggressive turnaround interventions launched at DSA
- Quantum improvement in operational effectiveness and programme management
 - Successes achieved in the Ground Based Air Defence System (GBADS), A-Darter, C-130, Oryx, and Badger programmes as well as UAV business area
- Denel Aviation became Africa's first official Lockheed Martin service centre for the C-130/L100 transport aircraft.
- Mechem completed numerous demining projects in Eritrea, the DRC and Sudan under UN mandate

2009 KEY ACHIEVEMENTS: TECHNICAL

- OTB carried out test services for the SANDF, the German Air Force and Navy, as well as the Italian, Spanish and Singaporean Air Forces
- Sustainable technology base to enable DoD to develop, acquire and support products uniquely suited to the African theatre of operation, including mandated peace support missions
- Denel Dynamics successfully tested the A-Darter missile for guided flight and excelled in agreed technology transfer milestones with assigned Brazilian Air Force and industry seconded personnel
- IP creation and cross-leveraging from other industries (globally defence industry is a key incubator)
- Implementation of a proactive industrial participation management process to maximise industrial return for the RSA as well as international client base

2009 KEY ACHIEVEMENTS: TECHNICAL TECHNOLOGY AND R&D INVESTMENT

RESEARCH AND DEVELOPMENT EXPENDITURE TO SECURE A SUSTAINABLE MANUFACTURING BASE

<u>Entity</u>	<u>Own Funds</u>		<u>Client Funds</u>		<u>Total</u>	
	% Sales	(RM)	%Sales	(RM)	% Sales	(RM)
Denel Entities	1,1%	R45m	¹⁾ 29,3%	R1 148m	30,4%	R1 192m
Associates	²⁾ 6,1%	R81m	1,4%	R19m	7,5%	R100m
TOTAL	2,4%	R126m	22,2%	R1 167m	24,6%	R1 292m

NOTES:

- 1) High client funded R&D due to a number of major projects being in the development phase (e.g. A-Darter, Badger combat vehicle, A400M, etc)
- 2) The commitment of equity partners to technology development is clear from the high internally funded R&D in the Associated Companies

2009 KEY ACHIEVEMENTS: TECHNICAL TECHNOLOGY AND R&D

Total R&D Investment > R1,2 billion

- Sovereign missile capability with niche design, development and manufacturing capacity within Denel, associate companies and local manufacturing base
- Security of supply of world-leading munitions range, with state of the art propellant, chemical engineering and metallurgical competencies
- Independence in brass/pure copper extrusions
- Advanced gearbox, composite structures, combat turret as well as artillery design, development, manufacture, qualification and certification
- World-leading landmine protection/clearance and ballistic protection technologies
- Certified local Maintenance, Repair and Overhaul capabilities meeting international accreditation standards
- State of the art photonics capabilities and associated product/component design, development and manufacturing capacity
- Development of an expanded local engineering and manufacturing supply chain
- Retention of appropriate wind tunnel and mathematical modelling capabilities
- Operational testing/certification and space launch vehicle support

Active participation in DST technology forums: Optronics, photonics, UAVs, micro-electronics, autonomous guidance control and advanced materials.

2009 KEY ACHIEVEMENTS: HR AND TRANSFORMATION

- Entities prepared annual Transformation Plans according to Group Transformation Guidelines (Agreed at Transformation Committee and signed off by the Group CEO)
- Climate Improvement Plans developed at all Entities, emanating from climate survey results. Next climate survey targeted to take place in August 2011
- Monitoring mechanisms established to track and measure performance against agreed Transformation targets and timelines
- People and Transformation is a KPA for each entity CEO
- Stretch targets implemented to drive increased performance at Group and entity level (including B-BBEE rating of level 5)
- Technical exposure / training opportunities to over 5 500 SA school learners and university students
- Established Denel values

2009 KEY ACHIEVEMENTS: HR AND TRANSFORMATION

DENEL GROUP SKILLS PROFILE

	WHITE		AFRICAN		COLOURED		INDIAN		TOTAL
	M	F	M	F	M	F	M	F	
MANAGEMENT	394	37	43	23	22	2	16	7	544
ENGINEERS	385	33	23	3	4	0	25	4	477
SCIENTISTS	37	7	1	3	3	0	0	0	51
TECHNOLOGISTS	736	56	93	30	60	18	18	0	1 011
ARTISANS	1167	68	835	235	168	89	14	2	2 578
OTHER	395	483	716	298	519	328	19	11	2 769
TOTAL	3 114	684	1 711	592	776	437	92	24	7 430

As at end August 2009 (includes Associated Companies)

DENEL'S VALUE ADD TO THE RSA (1)

KEY AREAS	IMPACT	STATUS
National security - 1998 White Paper:	<ul style="list-style-type: none"> • Life cycle support • Reduced cost of ownership • Foreign exchange savings • Integrity of South Africa's defence stature, particularly in the African Union and the G20 environment • Security of supply from Strategic Equity Partners (SEP's) protected through Golden Share Agreements 	
Peacekeeping	<ul style="list-style-type: none"> • Products uniquely suited to the African theatre • Fire power support: artillery, munitions, Rooivalk • Landward vehicles: Hoefyster • Small arms manufacture • MRO support 	
Industrial strategy and competitiveness: <ul style="list-style-type: none"> • High tech. development • High value added exports and Forex earnings • R&D investment • Industrial upgrading 	<ul style="list-style-type: none"> • Advanced manufacturing • R2,4bn in export earnings in 2008/09 • Intellectual Property (IP)/knowledge creation and cross-leveraging in other industries (globally, the defence industry is a key incubator of IP) • Total (R&D) investment in 2008/09: R1,2bn • Major Capex spend in TMA, DSA, CZO and RDM • Major increase in revenue per employee in SEPs 	

DENEL'S VALUE ADD TO THE RSA (2)

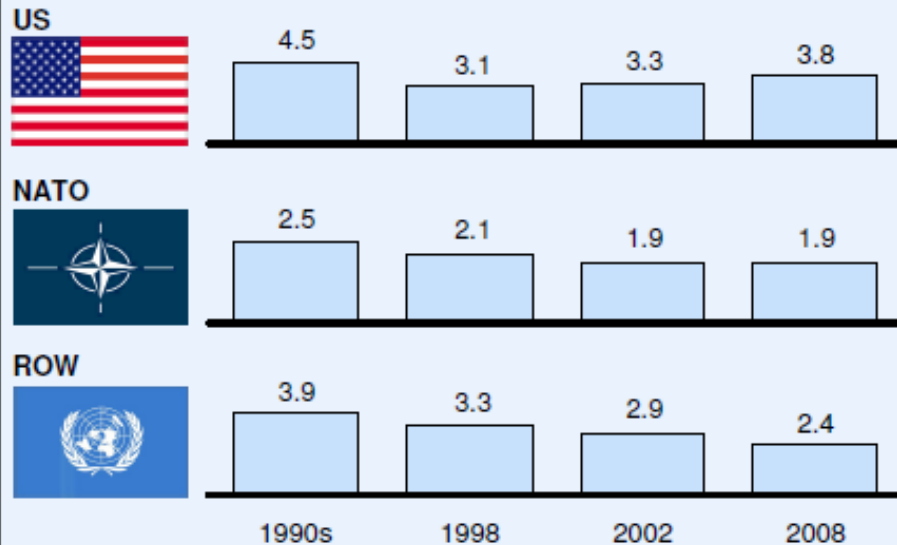
KEY AREAS	IMPACT	STATUS
<p>Employment and skills development:</p> <ul style="list-style-type: none"> • Supplier base • Technical skills • JIPSA • ASGISA • Quality jobs: sustainable livelihoods 	<ul style="list-style-type: none"> • 7 400 direct jobs • 30 000 jobs supported in industry • CIRCA 70% of procurement from local suppliers • Stable skills pipeline for development of advanced engineering, scientific, technology and artisan competencies • Denel Centre for Learning and Development (DCLD) and Denel Youth Foundation Training Programme as well as entity programmes focused on artisan training and upgrading mathematics and science competencies • Engineering bursary, internship, Saturday Schools programmes and mentorship programmes • Denel skills infusion across SA industries (e.g. many engineers participating in programmes such as the electric car of DST, PBMR and SALT telescope programmes are ex-Denel employees) 	
<p>Environment: Kyoto Protocol</p>	<ul style="list-style-type: none"> • ISO 14001 certification and compliance • High tech industries: clean air production • Advanced materials (composites - lighter and stronger materials) production by DSA resulting in reduction of carbon emissions by aircraft • Land rehabilitation programme by RDM 	

AGENDA

1. Denel company overview
2. Restructuring Phase I: Turnaround strategy and progress
3. Overview of performance: 31 March 2009
4. Phase 2: Growth strategy
 - Current market conditions
 - Strategic drivers for growth
 - Key challenges in introducing strategy
 - Priorities moving forward

BUDGETS ARE DECREASING & THE NATURE OF CONFLICT IS CHANGING WITH RESULTING SHIFTS IN TECHNOLOGY

Budget development % of GDP



General shift from platforms to services

- Lower budgets are increasing systems' life requirement, driving growth for upgrading and services (e.g., leasing)
- Military are increasingly outsourcing maintenance to drive efficiency and focus on front-line
- Reduced budgets coupled with lower threat levels and dearth of breakthrough technology result in lower new systems sales

Major market shifts

Historic environment

Open range battlefields



Old military structures



Military block scenarios



Current and future environment

Increased importance of urban battle-grounds



New missions – peacekeeping, out-of-area



New scenarios – terrorism, drug wars



- Long-term shift from heavy vehicles and large calibre to lighter vehicles, smaller calibre weapons and reconnaissance
- Network-centric warfare, C⁴I set to shift growth from large hardware to components, software and integration businesses

LOOKING AHEAD - THE GLOBAL FINANCIAL CRISIS WILL IMPACT ON DENEL

- **Global financial crisis:**
 - Competition to intensify in developing markets - need for alliances and partnerships
 - Focus on growth in niche areas and improve efficiencies
 - DoD will need to prioritise capabilities and focus spend
 - Troop mobility and landward renewal expected to be priority for the DoD
 - Assist the DoD in maintenance and procurement saving
 - Need to focus on growth pockets: manned platform business, fire power and munitions
- **Shifts in technology:**
 - SA has exceptional design and engineering skills
 - Significant demand for unmanned platforms (UAVs) – pursue growth in this area
 - Level 5 systems engineering skills will be critical for the future
 - Need to invest in new technology/product development
 - Leverage relationship & technology with SEPs (environmental, nanotech., A.I.)
 - Explore other high tech areas eg. physical/digital security/crime fighting
- **Emerging powers:**
 - SA and Denel well positioned with Brazil eg A-Darter
 - India impasse needs to be resolved
 - Partner with developing countries to transfer technology eg. UAVs, A-Darter

MARKET SHIFTS MEAN THAT DENEL NEEDS TO FOCUS ON PRODUCT/ TECHNOLOGY DEVELOPMENT

CHANGE DRIVERS	STATUS
Rapid deployment	Green
Homeland defence	Orange
Soldier modernization	Orange
C4I (command & control systems)	Red
Systems Integration	Orange
Peace keeping / enforcement	Green
Airlift capability	Orange
Advanced materials	Green
Reconnaissance	Green
Sensors	Green
Humanitarian	Green
Precision strike	Orange
After-market services	Orange

DENEL RECENTLY LAUNCHED ITS STRATEGIC DRIVERS TO ACHIEVE SELF-SUSTAINABILITY

Improved Access to Sustainable Markets

New markets, Equity Partnerships, Home Market Support

Operational Excellence

Performance, People, Skills Development, Outsourcing, Supplier Development

Deepen Relationship with DoD and State Agencies

Joint planning, Export Support, Technology and IP Development, Skills Transfer, Programme Delivery

Strengthen Governance and Financial Management

Risk Management, Compliance, Cash Flow Management and Contracting

Towards a Respected South African Company

Transformation, BBBEE, SED, Branding



CUSTOMER FOCUS

EFFICIENCY

GROWTH

KEY KPIs HAVE BEEN DEVELOPED TO MONITOR IMPLEMENTATION OF THE STRATEGIC DRIVERS

Strategic drivers

Improved Access to Sustainable Markets

Operational Excellence

Deepen Relationship with DoD and State Agencies

Key KPIs

- Revenue growth (local and export)
- Sales pipeline
- Conversion rate (pipeline to order cover)
- Order cover

- Milestone achievements
- Contract loss provisions (incl. penalties)
- Stock holding and scrap rates
- Gross profit margin: > 25%
- Revenue/employee
- Performance ratings (Bell curve)

- Conclusion of key contracts
- Golden share targets
- Quarterly strategic and programme meetings

KEY KPIs HAVE BEEN DEVELOPED TO MONITOR IMPLEMENTATION OF THE STRATEGIC DRIVERS (Contd.)

Strategic drivers

Strengthen Governance and Financial Management

Towards a Respected South African Company

Key KPIs

- Operating costs: < 20%
- Net profit margin: 10%
- Net working capital: <= 20%
- Funding levels: Solvency and liquidity
- Governance (unqualified audits, risk man., policy updates)
- Compliance (no litigations & regulatory issues)

- Technology spend
- Standards and accreditations achieved
- Skills profile
- Self-sustainability
- Export earnings
- SED spend
- Denel branding and roll out

IMPLEMENTATION OF THE DRIVERS WILL BE DRIVEN AT ALL LEVELS IN THE ORGANISATION

Levels

Mechanism

Timing

Shareholder

- Reports
- Presentations

- Monthly and quarterly

Group

- Denel Board & Comm meetings
- Exco meetings
- CEO fora
- Programme, Bus. Dev. and HR fora
- SLF

- Quarterly
- Monthly
- Quarterly
- Quarterly/monthly
- Bi-annual

Entity Boards

- Strategic drivers and KPIs to be part of board packs
- Boards / Committees to monitor alignment and implementation

- Quarterly
- Quarterly

Entities

- Exco reports
- ERP system – KPIs

- Monthly
- Monthly

PRIORITIES MOVING FORWARD (1)

STRATEGY:

- Obtain shareholder support for Denel's strategy implementation
- Execute growth strategy
- Monitor strategy implementation across all entities
- Conclusion of remaining Equity partnerships
- Leverage technologies:
 - Focus technology spend and product development
 - Spin-off of technologies for commercial application

FINANCE:

- Attend to Denel's interim funding needs
- Finalise solvency and liquidity requirements
- Achieve targeted margins at all entities
- Ensure progress towards self-sustainability of Denel Group

PRIORITIES MOVING FORWARD (2)

GOVERNANCE:

- Refine entity Boards and Audit and Risk Committee Charters and clearly define the roles and responsibilities of the entities
- Align the delegation of authority with Denel's decentralised structure
- Align Denel's corporate governance and risk management policies and practices with King III and the new companies act.
- Optimise Denel's compliance programme by aligning the entities SHEQ systems with ISO 9001, ISO 14001 and OHASAS 18001 standards to achieve certification for all entities by 2012.
- Partner with regulatory bodies to improve aviation and arms control related legislation and regulation compliance.

PRIORITIES MOVING FORWARD (3)

BUSINESS DEVELOPMENT:

- Retention of key existing customers, RSA and globally
- Resolving the India issue
- Developing new targeted markets to grow export base
- Constant environmental scanning for opportunities and threats
- Ensure political support for export market development and securing orders
- Leverage SEP/Alliances to grow order books through stable exports
- Focus orders to be secured
 - Rooivalk orders; GBADS 2; Hoefyster Production
 - DA/SAAF MRO partnering
 - Improved order cover and multi-year orders
 - Key export orders
 - Support in securing golden share orders for equity partnerships
 - Exploiting current technology to expand our asymmetric warfare capabilities

PRIORITIES MOVING FORWARD (4)

TECHNICAL:

- Consistently delivering to contracted specification, within planned costs and associated timelines.
- Stable long-term (multi-year) order cover to achieve industrial sustainability without reliance on government support.
- Ensuring full control over all technical resources to deliver effectively on programme requirements whilst meeting financial targets without fail.
- Recruitment, development and retention of appropriate engineering and technical competence that is representative of our demographic dispensation.
- Investing an appropriate amount of income in own R&D/technology to ensure operational continuity.
- Development of an appropriate BBBEE/SMME supplier base that is integrated with Denel and the wider SA defence-related industry sector.

PRIORITIES MOVING FORWARD (5)

HUMAN RESOURCES AND TRANSFORMATION:

- In striving towards being recognised as a respected South African company, all Denel entities and associate companies are in the process of obtaining verified BBBEE ratings, with the group aiming to achieve a collective Level 5 contributor rating by year-end.
- Major emphasis and focus on bursary, internship and youth training programmes
- Follow-up climate survey (Group)
- Introduction of succession planning in the Group
- Continue with the leadership and management development programme

DENEL HAS DEVELOPED GROUP VALUES TO UNDERPIN THE DRIVERS AND THE ORGANISATION

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.

Implementation

IMPLEMENTATION PAN

(Multi-level, multi-faceted and reinforced over period to ensure effectiveness)

- Living the values
- CEO Forum
- Staff meetings
- Poster boards
- Emails and flyers
- Animated video
- Newsletters
- Screensavers
- Key rings /pocket cards
- Annual “Values Awareness Month”

Thank you