



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.

DENEL PURPOSE AND VISION

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

MRO (Maintenance repair and overhaul)

UAVS. (Unmanned Aerial vehicles)



Aerostructures



Engineering services

Land based systems (Artillery, Infantry and Armour systems)



Technical Training

Munitions and sub components

Mine Protected Vehicles

Command and Control

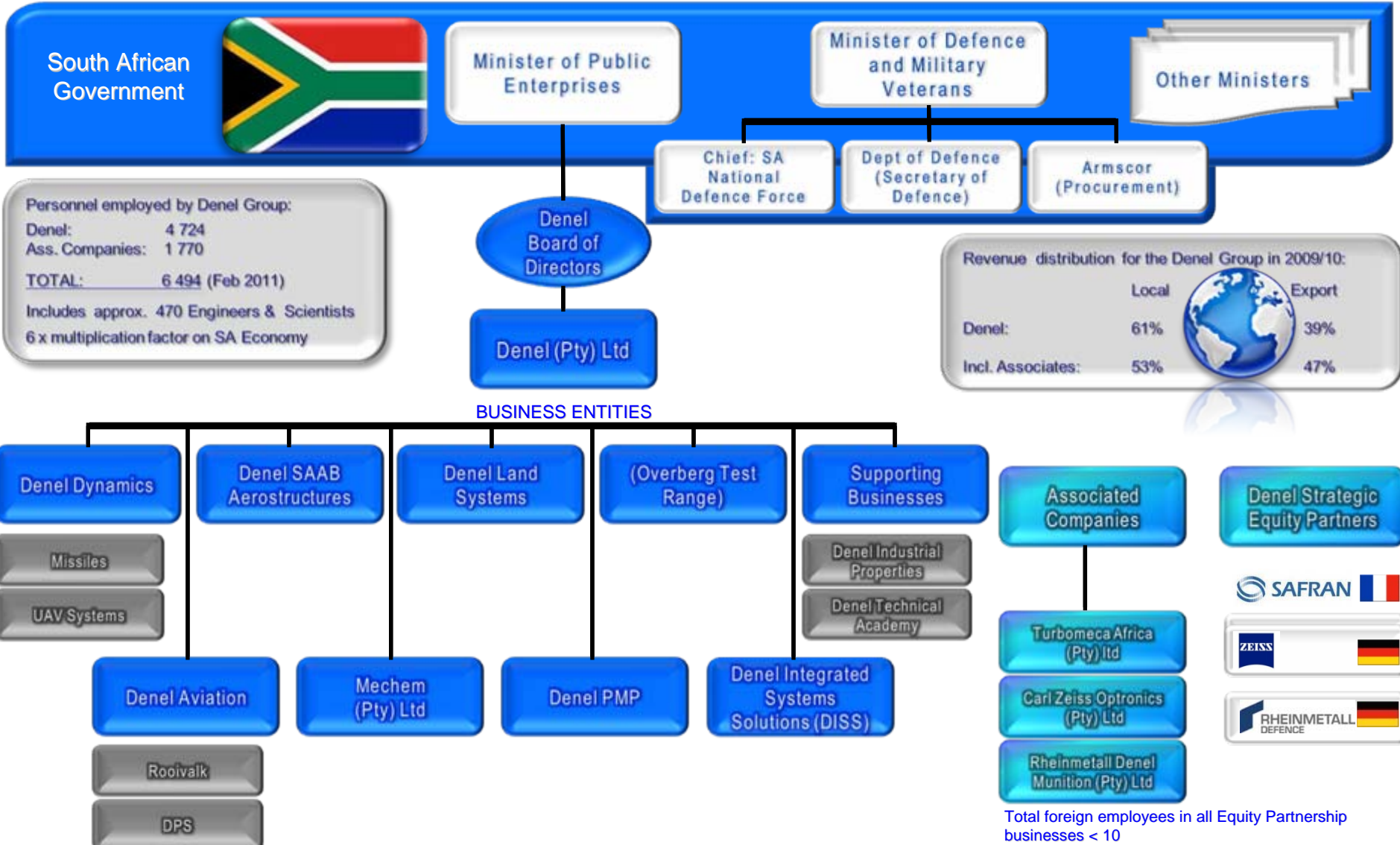
Missiles

Denel's product/services portfolio are supplied by several business entities and three associated companies

DENEL GROUP



DENEL GROUP STRUCTURE



Total foreign employees in all Equity Partnership businesses < 10

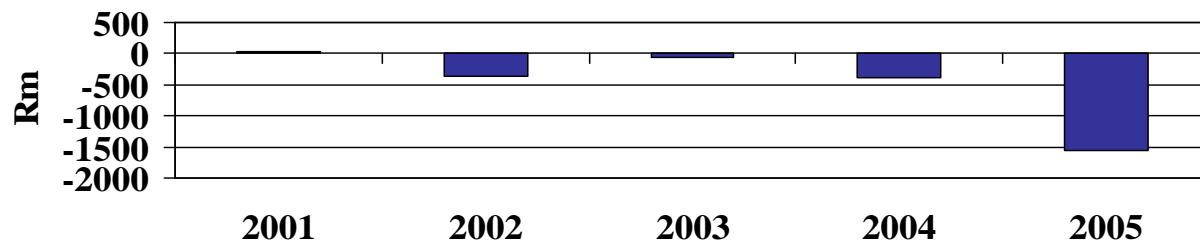
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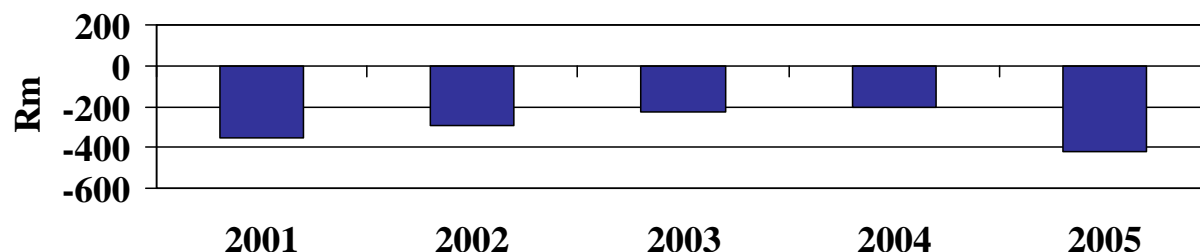
BUILD-UP TO DENEL'S STRATEGY

FINANCIAL SUMMARY – PRE 2005/06

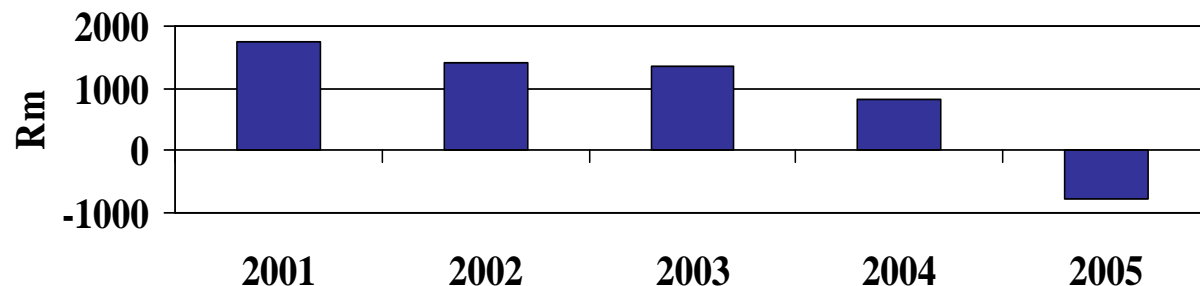
Losses



Cash utilised



Solvency

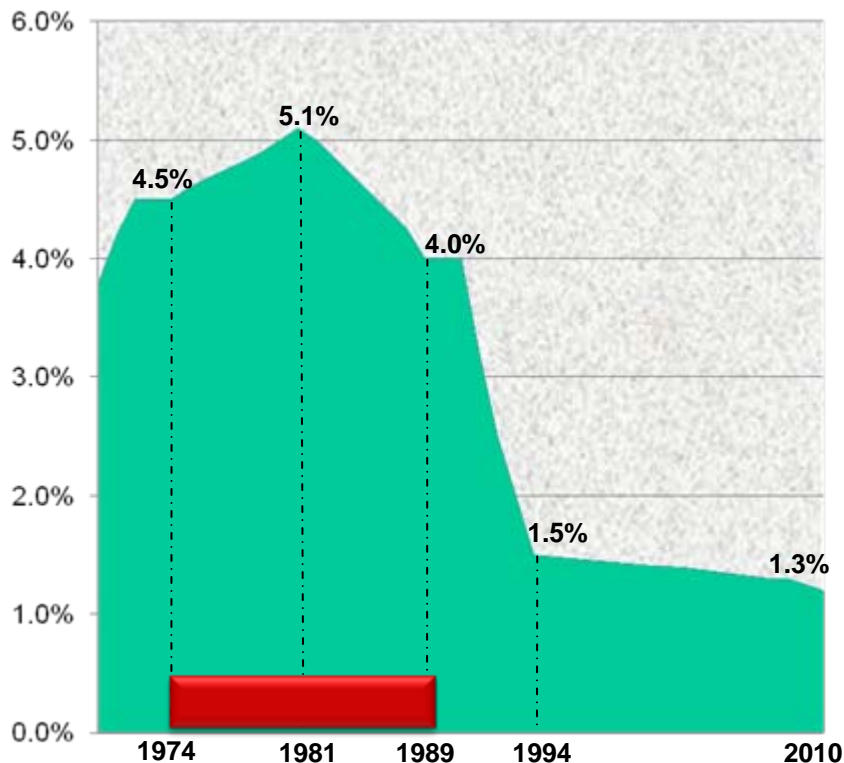


- Denel was set-up in 1992 with a capital of R2 billion
- Denel posted significant losses year on year since 1998, except in 2001 when it posted R40 million profit owing to a once off pension fund holiday
- The reserves and capital has been significantly eroded due to these losses by 2004, necessitating a change in strategy in 2005/06

BUILD-UP TO DENEL'S STRATEGY

SA DEFENCE SPEND

Defence Budget as % of GDP



Source: Beeld, 5 May 2010

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

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

Country	% GDP	Country	% GDP
Malaysia	2.3%	Turkey	4%
China	1.5%	Pakistan	4.5%
Saudi Arabia	9.3%	India	2.6%
Brazil	2.6%	Russia	3.9%

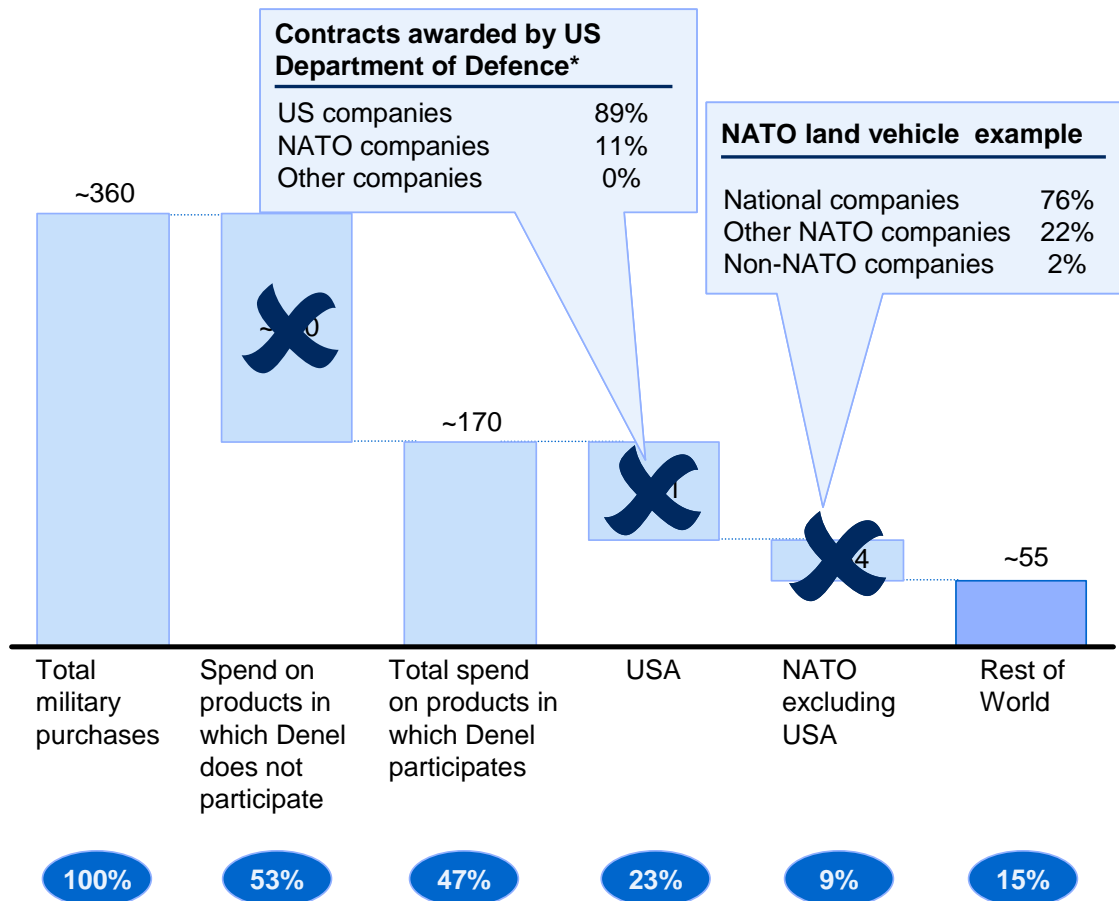
The domestic defence budget has constricted considerably over the last two decades, Denel must make sure that we are in position to leverage future opportunities

BUILD-UP TO DENEL'S STRATEGY

INACCESSIBLE GLOBAL DEFENCE SPEND

\$b

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

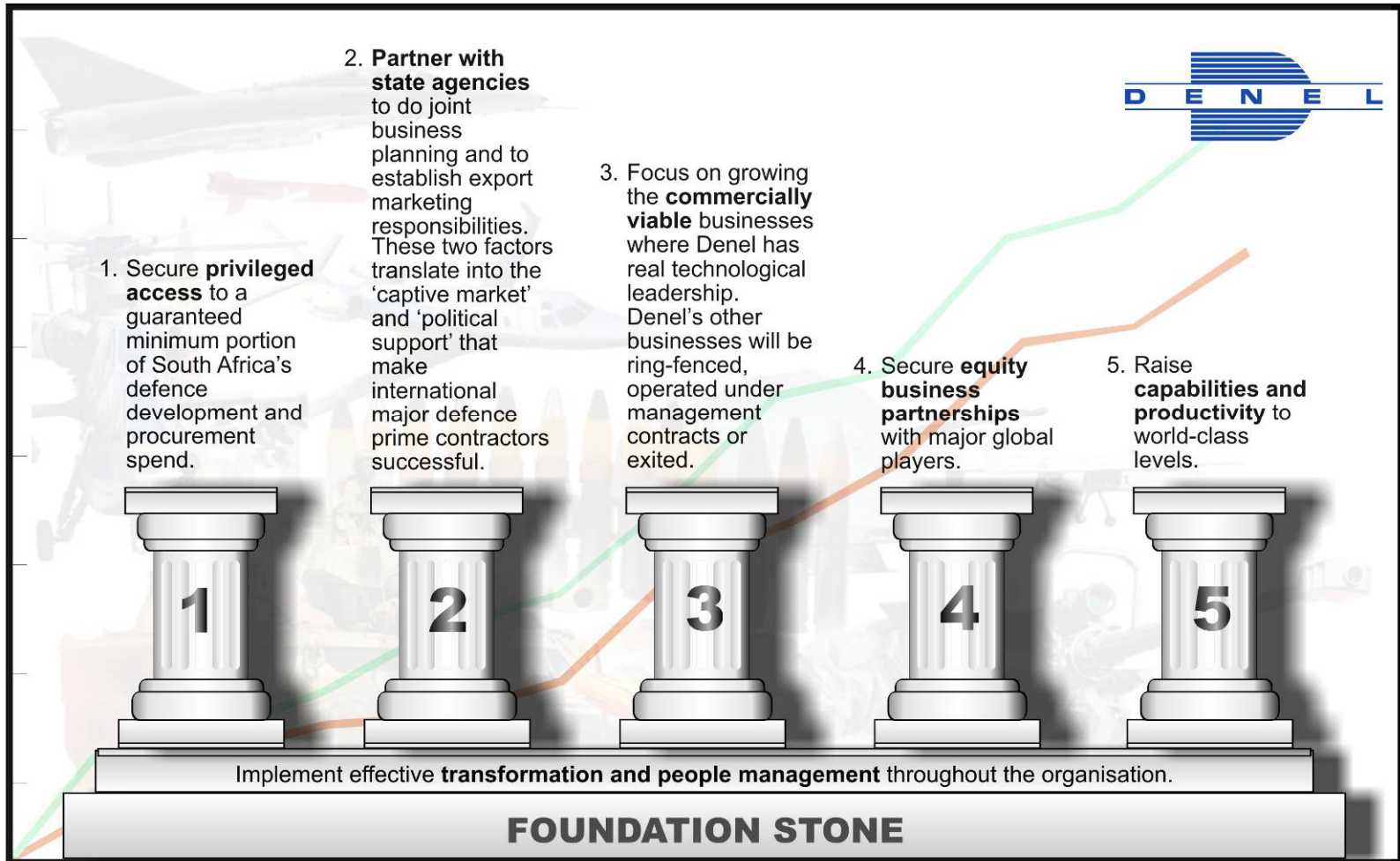
* FY2000 awards

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

RESTRUCTURING PHASE I: TURNAROUND STRATEGY

The Five Pillars of the Macro Strategy



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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

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

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

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

Transformation initiatives

Improved programme
performance

Business development
initiatives

Performance management

Leadership development

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

BBBEE spend from total Procurement spend

2005/6	2006/7	2007/8	2008/9	2009/10
<i>Rm</i>	<i>Rm</i>	<i>Rm</i>	<i>Rm</i>	<i>Rm</i>
334	380	235	269	584
18%	21%	9%	10%	28%

GROUP B-BBEE STATUS 2009/10

	Target	Actual
GROUP SCORE	Level 5	Level 4

B-BBEE PERFORMANCE PER ENTITY 2009/10

Entity	Compliance Status 2008/9	Compliance Status 2009/10*
DLS	Level 8	Level 4
OTB	Level 5	Level 5
DISS	Not an entity in 2009	Level 5
DTA	Level 8	Level 4
Aviation	Level 4	Level 4
Mechem	Level 9	Level 6
PMP	Level 8	Level 5
Denprop	Level 9	Level 6
Dynamics	Level 6	Level 5
DSA	Level 9	Level 6

* 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)

ENTITY ¹	DENEL SHARE	INDUSTRIAL UPGRADING	REVENUE GROWTH ²	REVENUE / EMPLOYEE	NET PROFIT	R&D SPEND ³	ORDER BOOK
Turbomeca Africa (Pty) Ltd. (2003) (TMA)	49%	Major overhaul of plant and efficiencies created	123%	R1.7m	11.2% vs. (55.6%) in 2002	N/A	R320m
Carl Zeiss Optronics (Pty) Ltd (2007) (CZO)	30%	New world class production facilities established	122%	R1.8m	16.8% vs. (50%) in 2007	9%	R795m
Rheinmetall Denel Munition (Pty) Ltd (2008) (RDM)	49%	3 Year CAPEX programme: R250m	28%	R0.5m	8.2% vs. (3.3%) in 2007	5.2%	R2,2bn

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

DENEL GROUP VALUES (PIICA)

Performance
WE EMBRACE OPERATIONAL EXCELLENCE.

Integrity
WE ARE HONEST, TRUTHFUL AND ETHICAL.

Innovation
WE CREATE SUSTAINABLE INNOVATIVE SOLUTIONS.

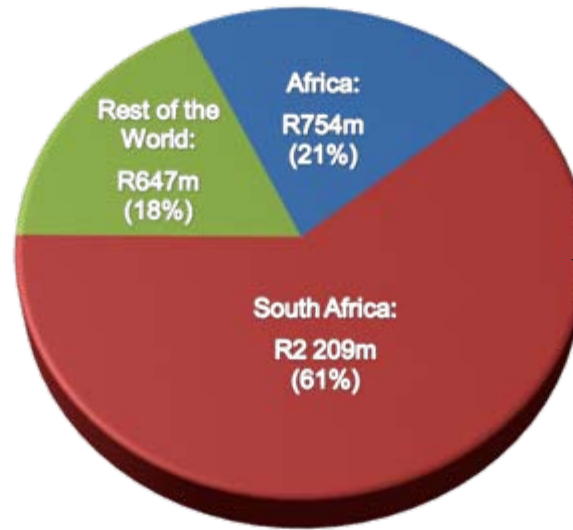
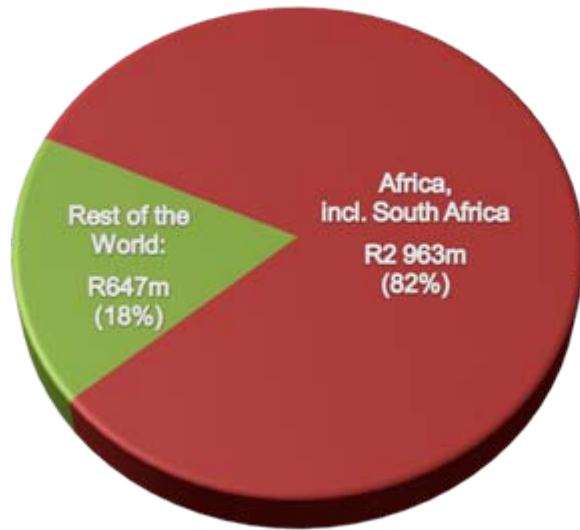
Caring
WE CARE FOR OUR PEOPLE, CUSTOMERS,
COMMUNITIES, NATIONS AND THE ENVIRONMENT.

Accountability
WE TAKE RESPONSIBILITY FOR OUR ACTIONS.

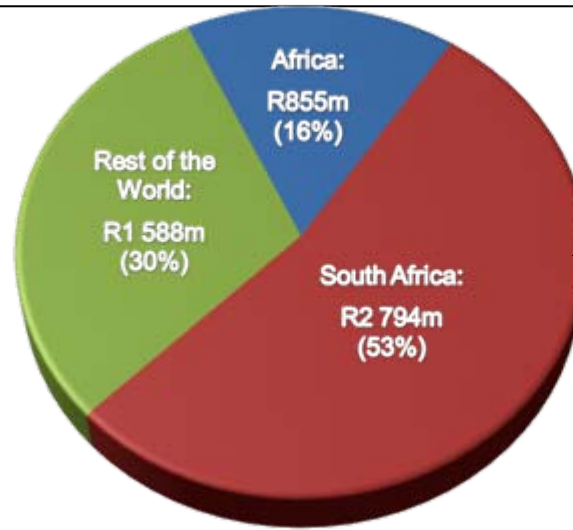
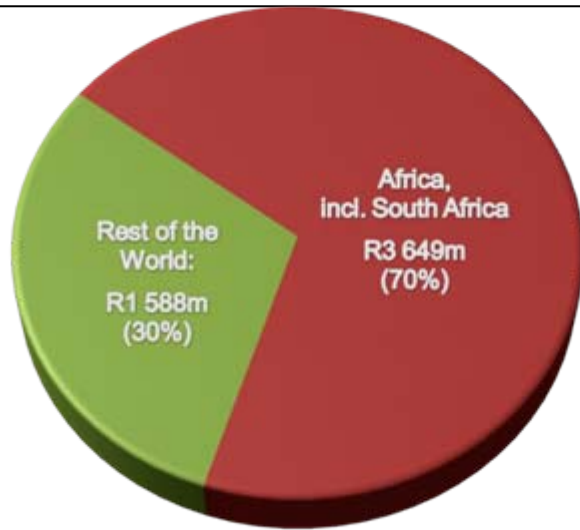
STRATEGIC DRIVERS: KEY KPI PERFORMANCE

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

DENEL SALES 2009/10



Excluding Associated Companies



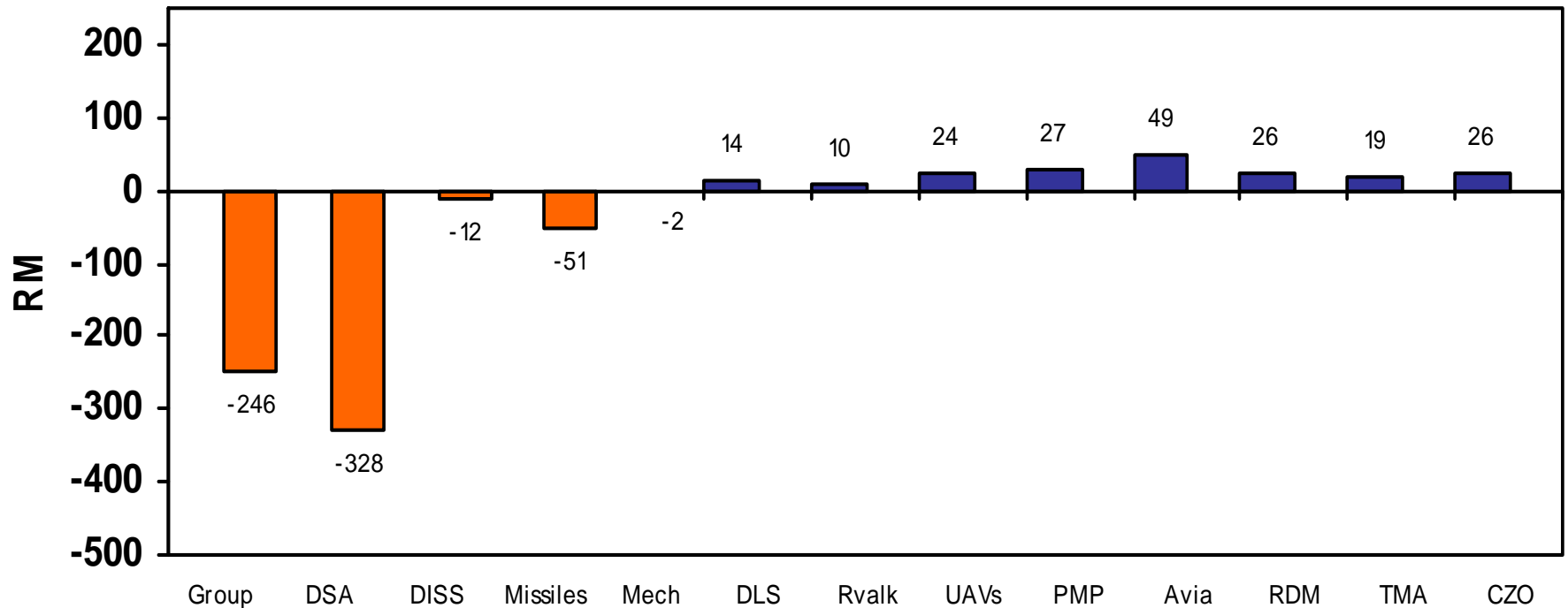
Including Associated Companies

Denel's sales mix increased internationally through co-development, strategic equity partnerships and entrepreneurial culture

MAJOR PROGRAMMES

Business Entity	Contract	Client	Contract Value	Projected Status
DLS	Project HOFYSTER - New Generation ICV	DoD	R8,3bn	
	Rheinmetall Artillery Export Teaming	Rheinmetall	€15m	
DSA	A400M - WFF/Top Shells	Airbus Military	R1,450bn	
	Gripen Rear Fuselage/Pylons	Saab		
	Agusta A109 production	AgustaWestland	R350m	
TMA/DSA	Steel heat-treatment	TMA; Rolls-Royce; Turbomeca France	± R200m	
DISS	Project GUARDIAN /PROTECTOR – GBADS Capability	DoD	R801m/ R0m	
Denel Dynamics	Project ASSEGAAI - A-Darter Missile	RSA DoD and Brazil	R1,1 bn	
Denel Aviation	Project IMPOSE - Rooivalk Programme	DoD	±R8bn/ R130m	
	Project DRUMMER 2 - Oryx Avionics upgrade	DoD	R460m	
RDM	HOFYSTER/ACROBAT/DoD annual munitions orders	DoD	>R300m	

ENTITY PERFORMANCE: AT 31 MARCH 2010



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

18 months to 2012

Denel 2007-2010 steps taken

Denel operations decentralised

Restructuring and retrenchments

Governance policies implemented, internal control systems and processes improved

Performance management

Equity partnerships providing investment and access to markets

Business development initiatives

Disposal of non-core entities

Leadership development

2005/6:
Def/Sec/Cert. – Loss R1.3bn
Aerostructures – Loss R300m
Gross Margin: 5%
Staff turnover: 13.8%

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

Business development:
Double revenue

Cost-cutting :
Supply Chain
Shared Services

Strengthen financial position
Working Capital

Strategic Partnerships

Restructure DSA

Companies Act /
King III

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

Vision:

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

Transformation initiatives

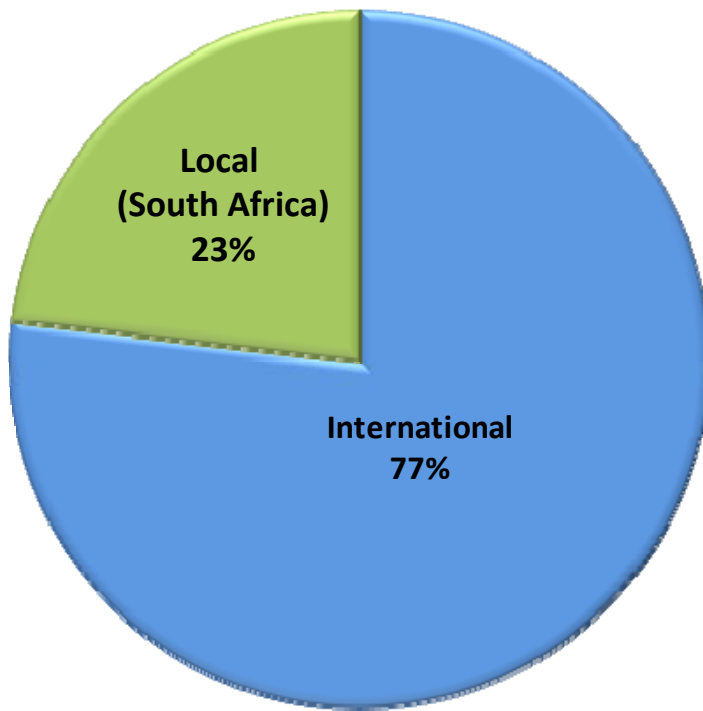
Improved programme performance

Local client relationship and stakeholder alignment improvements, 61% of revenue

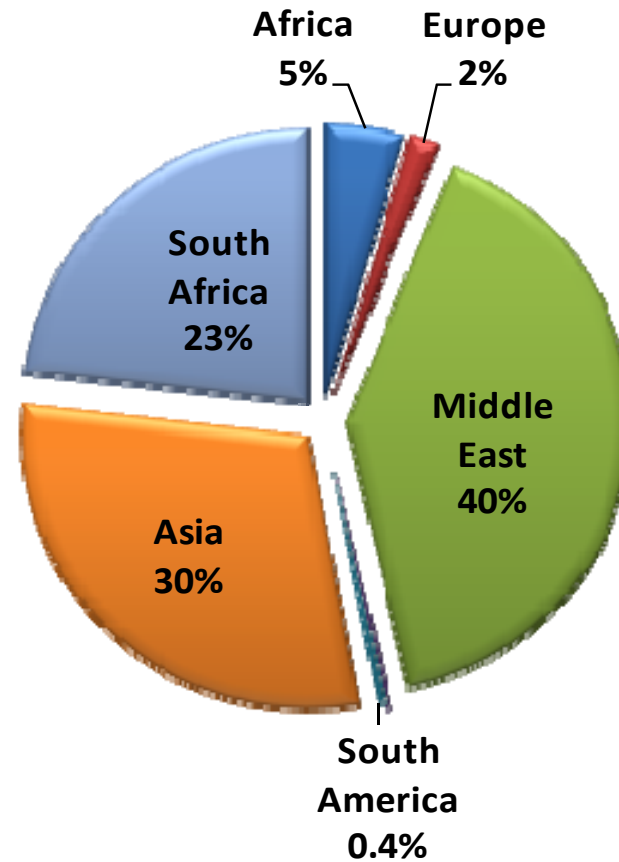
Entity boards, audit and risk committees, risk management and financial discipline

DENEL OPPORTUNITIES PIPELINE – R43bn

Local vs. International



Opportunities per region



DENEL SAAB AEROSTRUCTURES (1)

- **Overview**

- DSA remains loss-making, impacting on the financial performance of the Denel Group.
- 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

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

DENEL SAAB AEROSTRUCTURES (3)

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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DENEL'S VALUE-ADD: NGP CONTRIBUTION

	Primary Jobs: Professionals	Secondary Jobs: Workers	Foreign Exchange: Earning	Foreign Exchange: Saving	Contribution to "Green" Economy Initiatives	Contribution to "Alternate Energy" Initiatives	Contribution to "Extend Mining Potential"
<u>Re-position</u> to acquire greater % share of the RSA DOD conventional capital budget	VH	VH		VH			
<u>Re-position</u> to acquire greater % of the growing DOD non-conventional equipment and support budget	VH	VH		VH			
<u>Attract</u> coherent Gov support for increased Export Sales of Military Products	H	VH	VH				
<u>Increase</u> Export Sales of Military Technology and Collaboration with G20 countries	VH		VH				
<u>Acquire increased</u> R&D funds from existing government agencies and lead applied research programmes (DOD, DST, DTI)	VH	H			H	H	H

VH = Very High; H = High

DENEL'S VALUE-ADD: NGP CONTRIBUTION

	Primary Jobs: Professionals	Secondary Jobs: Workers	Foreign Exchange: Earning	Foreign Exchange: Saving	Contribution to "Green" Economy Initiatives	Contribution to "Alternate Energy" Initiatives	Contribution to "Extend Mining Potential"
<u>Diversify:</u> Consumables and sophisticated Safety Equipment for RSA Mining Industry to extend life of mines, subject to commercial viability	VH	H					VH
<u>Diversify:</u> Nuclear precision component manufacture for RSA programmes	H	VH		VH	VH	VH	
<u>Diversify:</u> Participate in Green Industries initiatives	H	H			VH	H	
<u>Increase Skills Development:</u> increase training in maths & science for school learners and targeted schools support programmes	H	H					
<u>Increase Skills Development:</u> Engineer Bursaries	VH						
<u>Increase Skills Development:</u> Internship Program	VH						

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

SKILLS DEVELOPMENT (1)

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.

SKILLS DEVELOPMENT (2)

- **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.

SKILLS DEVELOPMENT (3)

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

KEY AREAS	IMPACT
National security	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Products uniquely suited to the African theatre • MRO support • 2010 FIFA World Cup and Rhino Poaching campaign • Crime prevention initiatives
Industrial strategy and competitiveness: <ul style="list-style-type: none"> • High tech. manufacturing • High value added exports • Skills development • Technology incubators 	<ul style="list-style-type: none"> • R1,4bn in export earnings in 2009/10 • IP/knowledge creation and cross-leveraging in other industries eg: <ul style="list-style-type: none"> – 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)

KEY AREAS	IMPACT
<p>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"> • 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
<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) - reduction of carbon emissions by aircraft

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

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 \pm R2bn
- Considering the solvency, debt level and latest loss forecasts, Denel requires recapitalisation to strengthen balance sheet.

DENEL END STATE PROJECT

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