

A look at what is happening in and around Denel

CEO'S ADDRESS - 26 APRIL 2007

by Joe Makhafola

Denel (Pty) Ltd. has commenced discussions with reputable international companies and much of our success is owed to the strategy of equity partnerships. This was revealed at the monthly CEO address at head office in Centurion.

The Denel strategy provides for partnering with local and overseas companies to secure market access, improve operational excellence to world-class standards and to access much needed resources to drive investments in research and development, with the aim of returning the company to commercial viability and profitability within a global environment.

Updating staff on the progress made, Group Chief Finance Director, Talib Sadik said the German company Carl Zeiss Optronics has acquired a majority 70% stake in Denel Optronics, subject to fulfilment of suspensive conditions, including Competition Commission and PFMA approval. Denel has also made significant progress in completing some of the key suspensive conditions relating to the Denel-Saab Aerostructures transaction.

Denel is in exploratory discussions with other international entities for them to acquire significant equity stakes in Denel Land Systems, Munitions, Roivalk and Dynamics.

Meanwhile, Denel expects to meet its forecasted loss of R910m, as presented to the Board in October 2006. This is for the financial year 2006/2007. In relative terms, this is a significant improvement of approximately R500 million from R1,4 billion loss posted in the previous financial year.

To improve operational performance, management appointed our internal auditors to review Denel's programmes management systems/processes, including benchmarking our practices to global standards. One of the reasons causing Denel to post losses relates to our past practice of entering into loss-making contracts, referred to as 'Legacy Contracts.' To this end, Denel has engaged the services of a consultancy firm to review certain contracts and to identify opportunities for improving quality, meet budgets, and deliver on time.

The fourth item relates to progress made in disposing of non-core business. Denel is in the process of concluding the sale of the land adjacent to OR Tambo International Airport to ACSA (Airports Company of South Africa), for some R606 million. The money will be used to pay off a significant portion of the corporate bond that matures in August 2007.

Sadik also said the project relating to developing the Centurion campus into a leading Defence Industrial Park is on track and the first phase of the concept development plan will be presented to executive management for approval. This will not only maximize the value of our resources but also ensure that we are using our resources efficiently, he said.

"Initially we asked the government for R5,2 billion and we received written commitment that we will receive R3,5 billion, causing us to run short by R1,6 billion. In addressing the shortfall, we have developed a funding strategy, which will be tabled to the Board for approval."

Did You Know?

- Productivity and capabilities will be elevated to world-class levels through international partners.
- Performance management contracts are to be introduced throughout the Denel group by mid May.
- Linked to the above, will be incentives for meeting your targets.
- There will be four performance appraisals per year, two formal ones in September/October and February/March, and two informal ones.
- Denel received R400 million from Department of Public Enterprises (DPE) as recapitalization on 11 April 2007.
- DPE has commissioned McKinsey & Co. to conduct a Defence Industry Study in South Africa.
- The CEOs and GMs are to engage robustly on transformation issues and take personal ownership.

Like to know more?

Contact:
 Ms Poppie Baloyi
 Group Executive : Corporate Affairs
 Denel Head Office

Phone: (+27) 12 671 2795
 Fax: (+27) 12 671 2793

email: poppieb@denel.co.za