

A photograph of a Denelcor exhibition stand featuring several robotic arms and mechanical components. The stand is white with blue and yellow accents. In the background, there are screens displaying images of military personnel and equipment. The overall lighting is blue and white.

# DENEL insights



FOCUSSING ON

A momentous  
moment for SA

Denel to grow  
market share in Africa

Denel's new  
acquisition

AAD EDITION  
2012



## Editor's note

The Aerospace and Defence expo (AAD) is one of the most important events in our calendar which presents a platform for marketing the world's most sophisticated aerospace and defence products.

It is an opportunity for Denel to not only position itself as a leader in the industry, but also to boost its goals of youth and skills development and to demonstrate to ordinary South Africans the strategic value it brings to the country.

Unlike other global expos, the show is open for the last two days to members of the public, for thrilling air shows and a glimpse into the high-tech world of the aerospace and defence sectors.

More than 40 000 industry players visited the AAD 2012 during its three trade days, including official delegations from 31 countries. The exhibition was held in Tshwane at the Waterkloof Air Base from 19-23 September.

The success of the AAD is likely to boost Denel's plans to play a catalytic role in the growth of the aerospace industry and to be a strategic partner to government in the implementation of initiatives envisaged in the Industrial Policy Action Plan (IPAP).

The IPAP has identified the aerospace sector as one of the clusters earmarked for industrial policy interventions – noting its capacity to develop indigenous products and technology – strengthening South Africa's high-end manufacturing capabilities and its significant multiplier effect on job creation

The AAD Exhibition confirmed the growing international interest – especially from Africa – in the products and services offered by the local defence and aerospace industry, most notably from companies in the Denel Group.

It also confirmed Denel's position as the premier manufacturer of cutting-edge defence products and provider of security related services on the African continent. Denel made great strides in expanding business opportunities in both the aerospace and landward defence sectors in the market during the week.

The AAD was also an opportunity for Denel to further its ongoing work in youth development. Read about the enormous effort that Denel, as a premier sponsor of the Youth Development Programme, made towards giving children once-in-a-lifetime opportunities.

Highlights of the AAD week included:

- Denel announced a strengthening of its landward defence manufacturing capabilities through acquiring LMT Holdings, a local manufacturer of armoured vehicles.

- Denel announced a joint venture with Denel Dynamics and the Abu Dhabi-based Tawazun Holdings. The new company, Tawazun Dynamics, will be responsible for the development, integration and manufacturing of precision-guided weapon systems to the air force of the United Arab Emirates and other international clients.

- In the aerospace sector, Denel signed partnership agreements with four of the world's largest manufacturers of helicopters and fixed-wing aircrafts. The agreement with Denel Aerostructures (DAe) and Italy-based Alenia Aermacchi will enable DAe to participate in future manufacturing and assembling of aeronautical structures and spare parts.

- This follows closely on the signing of a renegotiated agreement with Airbus Military confirming Denel Aerostructures as the only top-tier supplier of parts outside Europe for the A400M, the world's most advanced airlifter.

- Denel signed agreements with Russian Helicopter and Irkut Corporation as well as Ukraine-based Antonov for Denel Aviation to be the preferred provider of maintenance, repair and overhaul (MRO) services.

- Another growth market – the provision of humanitarian demining services – was strengthened with the release of the latest version of the CASSPIR mine-protected vehicle. The upgraded CASSPIR NG2000 will be in great demand from multinational peacekeeping forces because of the unequalled protection it provides against landmines, roadside bombs and automatic rifle fire.

- Denel also hosted the Chairman's lunch and the Group CEO's lunch where we were graced by the presence of key stakeholders including the Minister and Deputy Minister of DoD, the Secretary of Defence, the Chief of SANDF and all the Chiefs of Services.

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# Denel recognised as “best-governed” SOC

For the second time this year, Denel has been given an award for good corporate governance. It was named as the best-performing State-owned Company (SOC) for corporate governance in a study conducted by the University of Stellenbosch at an awards event on Thursday, 10 October.

This recognition follows a previous award in June where Denel was recognised for excellence in corporate reporting. The company achieved top position in annual report disclosures for 2011, for ethical leadership and corporate citizenship, as well as in boards, directors and remuneration, including independence.

“We are finding that more and more, Denel is being recognised for its commitment to good corporate governance, strong leadership as well as its transparency in financial reporting,” said Riaz Saloojee, the Group CEO of Denel.

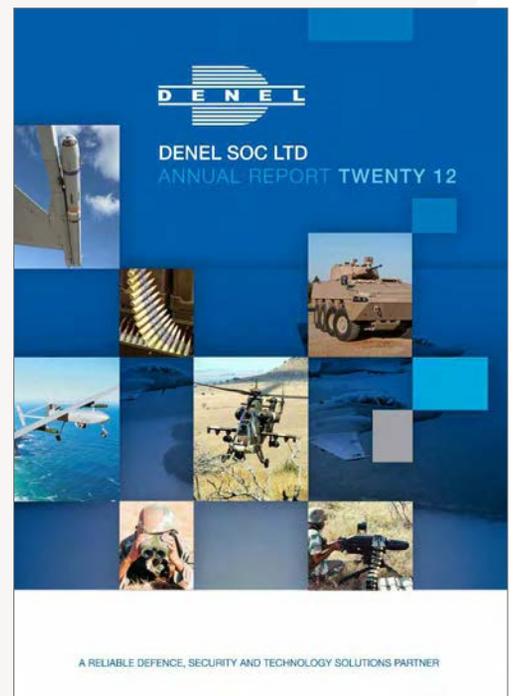
The study was conducted by the Centre for Corporate Governance at the University of Stellenbosch. The researchers looked at 96 indicators across all SOCs including the composition and functioning of boards and their ability to give strategic direction; accountability, particularly financial and audits; the relationship of enterprises with stakeholders; social and environmental factors; and the quality of reporting.

Mr Saloojee said the study recognises the manner in which Denel reports on the company’s financial performance. Denel has made significant financial improvements in recent years – including a return to profitability over the past two years after more than a decade of posting losses.

“We continue embarking on a comprehensive turnaround strategy that is starting to deliver results. The company is on the road to sustainability based on improved operational performance, containments of costs and an aggressive move into new markets for Denel’s quality products and services – especially in Africa and the Middle East,” he said.

Denel’s Group Chief Financial Officer, Fikile Mhlontlo said the improved performance of Denel over the past two years can be attributed to a growth in the order pipeline for new business combined with rigorous financial controls, improved efficiencies and cost containment measures across the operations.

Denel has continued to receive ‘clean audit’ reports recognising the quality of its financial management and controls.



■ Riaz Saloojee, Denel Group CEO.



■ Fikile Mhlontlo, Denel Group Chief Financial Officer.



## A momentous moment for South Africa – Minister Gigaba

In what was described as a momentous moment for South Africa by Malusi Gigaba, Minister of Public Enterprises, Denel marked the start of AAD week with the signing of Denel Aerostructures' (DAe) renegotiated agreement with Airbus Military at its Kempton Park campus on Monday, 17 September.

DAe manufactures the wing to fuselage fairings and the fuselage top shells for the A400M. This new agreement will make production economically viable and sustainable.

The event was attended by Minister Gigaba, Antonio Rodriguez-Barberán, the Senior Vice-President of Airbus Military, Zoli N R Kunene, the Chairman of the Board of Denel and Riaz Saloojee, Group CEO.

"You have extraordinary people at DAe – working very hard," said Antonio Rodriguez-Barberan. Speaking about the agreement, he said: "This reaffirms Airbus Military's commitment to South Africa

and its industrial partners and suppliers in the country. With series production of the A400M ramping up ahead of the first deliveries next year, it is comforting to know that we have a dependable partner in Denel Aerostructures which can be relied upon to provide top quality work, on-time and within budget."

Minister Gigaba said: "Today is a momentous day for South Africa, Denel Aerostructures and Airbus." He highlighted that Airbus Military and Denel had been strategic partners since 2005. "

He said the new agreement demonstrates the confidence of major global aerospace companies in the abilities of the local manufacturing sector. "The relationship between Airbus and Denel takes us another step further towards the growth of a fully-fledged South African aerospace industry."

"This is why government considers Denel, and DAe in particular, and the aerospace industry, as a national strategic asset." He pointed out that DAe's

losses were now, for the first time, below R100-million and that the company was projecting it would break even by 2016/2017.

Zoli Kunene, Denel Board Chairman said, "We are immensely proud to be part of the A400M supply chain and are looking forward to a strong, sustained relationship with Airbus Military."

Ismail Dockrat, CEO of Denel Aerostructures, said the company has already ramped up its production of vital parts for the A400M that will be delivered to customers in the coming months. DAe is one of a select few companies outside of Europe responsible for the design and manufacturing of vital parts on the high-speed turboprop aircraft.

Denel's participation in the programme has already brought significant benefits to the local aerospace industry. The new agreement will stabilise local supply chains and give experience to smaller sub-contractors to perform work on a global programme.



■ Ismail Dockrat (CEO of DAe) receiving an A400M model from Andreas Thürmagel (Head of Industrial Operations/Customer Service Management Senior Manager Airbus Operations) in appreciation and acknowledgement of DAe's commitment to the A400M programme.

■ From left: Ismail Dockrat, Antonio Rodriguez-Barberán, Minister Gigaba and Riaz Saloojee.





## Denel to grow its share of African defence market



■ Zwelakhe Ntshepe sharing the strategy.

Denel provided stakeholders with an outline of their Africa strategy at a function held at the Denel chalet on Wednesday, 19 September.

Zwelakhe Ntshepe, Group Executive Business Development, said the company was embarking on a marketing drive to increase the sales of its products and services to other countries on the African continent.

The plan is to establish permanent marketing offices in different regions in Africa and to increase its range of products and service offerings to the continent. Africa currently constitutes 27% of its total export sales but the company has identified promising opportunities to significantly increase this revenue.

The bulk of opportunities will be in the humanitarian demining services done by Denel Mechem but there should also be strong growth in maintenance, repair and overhaul services in the aviation sector, unmanned aerial vehicles and infantry systems.

Denel's approach is to establish strategic partnerships with local companies and create in-country capabilities in the markets it sells to.

Denel Board member, Felix Ngwenya said that the sale of defence equipment follows on South Africa's strengthened diplomatic relations with other African countries. In addition, South Africa plays a prominent role in a number of continent-wide and regional initiatives and provides strategic support to the UN and African Union-sponsored peace-making and peace-keeping operations.





## Denel's new acquisition



■ Riaz Saloojee announcing the Denel LMT acquisition, with Stefan Nell, LMT; Stephan Burger, Denel Land Systems CEO; and Sinah Phochana.

Shortly after the official opening of the AAD, Denel held a media event to announce it had acquired a majority stake in the local vehicle engineering company, LMT Holdings.

Standing next to a display of some of Denel's flagship products, Riaz Saloojee, Group CEO told assembled journalists that this transaction would significantly strengthen Denel's position as a leading systems supplier and manufacturer in landward defence and the armoured vehicle market.

The new company will combine Denel Land Systems' proven capabilities as a defence systems integrator and manufacturer of high-firepower products with LMT's strengths in ballistic and landmine protection and design and production of vehicle platforms.

The partnership with Pamodzi, will strengthen Denel's access to existing and new markets and will promote the objectives of Broad-based Black Economic Empowerment and SME development in the South African Defence Industry.

In terms of the new structure, Denel will be a 51% shareholder in LMT Holdings with the remainder of

the shares belonging to Pamodzi Holdings with 29% and the founding members of LMT with 20%. LMT and its design and manufacturing facilities in Watloo will become part of Denel's specialist landward defence cluster which also includes Denel Land Systems and Denel Mechem.

"Through the combined strength of the three companies concerned, we now have the ability to design and manufacture complete vehicle systems to meet the requirements of our primary client, the South African National Defence Force, and compete successfully in the export market. This provides us with a complete vehicle capability – combining all the required elements of mobility, firepower, and protection," said Saloojee.

Sindi Dlamini, the Chief Financial Officer (CFO) of Pamodzi Investment Holdings said, "We are excited about this new venture as it lends itself to the type of projects that Pamodzi favours. Pamodzi is always keen on projects that not only keep shareholders happy but those that benefit the broader society.

"This particular project will address and support some of our governments' key priorities such as skills transfer, transformation as well as youth

empowerment. Pamodzi is delighted to form part of this historic milestone that will bring about fruitful partnerships that involve both the private and public sector."

LMT Holdings is a privately-owned engineering and manufacturing company established in 1999. It adds to the Denel Group an established reputation for innovative, quality products and a strong foothold in international markets for mine-protected vehicles, hulls and cabs as well as product testing, simulations, maintenance and support of products.

"LMT is looking forward to a prosperous future with our new shareholders and will benefit from the entrepreneurial culture from Pamodzi and the long and proud history of Denel.

"The capabilities of LMT in the fields of protection and mobility will enhance the firepower and systems integration capabilities already well entrenched in Denel Land Systems, thereby positioning Denel for participation in the supply of land vehicle systems in South Africa, the rest of Africa and the Middle East," said Dr Stefan Nell, the CEO of LMT.



## Denel expands its international footprint

In the first deal of its kind, Denel used the AAD as a platform to announce to the industry an international partnership with Denel Dynamics and an Abu Dhabi-based company.

Denel has established a joint venture with Abu Dhabi-based, Tawazun Holdings, to make guided weapons systems in Abu Dhabi. This entails the development, manufacturing, assembly and integration of precision-guided weapon systems as well as product system management services to the defence force of the United Arab Emirates and other international clients.

The JV trading as Tawazun Dynamics, will be 51% owned by Tawazun Holdings and 49% by Denel. Geographically, this is the first deal of its kind for Denel Dynamics where the partnership is located outside of South Africa, creating an international footprint.

Riaz Saloojee, the Group Chief Executive, of Denel, says the joint venture will strengthen Denel's reputation as a global defence manufacturer and provide it with another important foothold in a strategically important region.

"Denel possesses world-class technology, systems and processes and a proven ability to transform conventional air munitions into precision-guided weapon systems. This high-level skills investment will be our core contribution to the newly established company," said Saloojee. "In terms of skills development and production Denel Dynamics will sustain current local jobs and there is scope for further development. In addition, due to the downstream enabling effect of the Denel business on smaller South African suppliers, it will continue to develop and enhance local industry."

Manufacturing will be central to Tawazun Dynamics' operations. This will enable Denel Dynamics, traditionally a very strong development house with a relatively small production capacity, to expand and strengthen another side to its business.

Tawazun Holdings is a strategic investment holding company focused on defence and specialised manufacturing, owned by the Government of Abu Dhabi. The Tawazun Dynamics production facility will be located in the Tawazun Industrial Park in Al-Ajban, on the outskirts of Abu Dhabi.

Saloojee said Denel has enjoyed a very productive long-term relationship with the United Arab Emirates and the new company will help to strengthen and deepen these ties. The UAE is strategically located in the global markets and is investing strongly in industrial knowledge-building.

The Chief Executive Officer of Tawazun Holding, H.E. Saif Mohamed Al Hajeri, said, "The creation of Tawazun Dynamics marks the next chapter of Tawazun's continued focus on the development of the UAE as the leading regional hub in defence and specialised engineering and manufacturing. It is critical for us to work with partners who share our long-term vision and our organisational values. We believe that Denel, with its focus on operational excellence, corporate governance and sustainable growth, matches our own ambitions and that our partnership will be a long-term and mutually-beneficial one."

The project is part of efforts by the UAE's main exporting emirate to boost the non-oil economy to 56 percent of gross domestic product by 2020 and 64 percent in 2030, from 41 percent in 2005 to 2007. "The creation of Tawazun Dynamics marks the next chapter of Tawazun's continued focus on the development and diversification of the UAE's industrial base," said Tawazun Holding chief executive Saif Mohamed al Hajeri.



"It is critical for us to work with partners who share our long-term vision and our organisational values. We believe that Denel, with its focus on operational excellence, corporate governance and sustainable growth, matches our own ambitions and that our partnership will be a long-term and mutually-beneficial one." H.E. Saif Mohamed Al Hajeri.



Images above: Courtesy of Alenia Aermacchi

# MOU signed with Alenia Aermacchi

Denel and Italian aerospace company, Alenia Aermacchi, signed a Memorandum of Understanding (MOU) at the AAD on 20 September. This agreement will form the basis for discussions on future projects and collaborations between the two companies on major manufacturing ventures, training programmes, maintenance and high-level technical support in Africa.

Alenia Aermacchi is part of the Finmeccanica group and a leader in the design and manufacturing of advanced aeronautics products with a range that spans from supersonic fighter jets to regional transport aircraft.

This memorandum is another important step for Denel in strengthening its working relationships with major original equipment manufacturers in the global aerospace environment.

“In terms of this memorandum, Denel and Alenia will pursue a number of joint opportunities. The relationship with Alenia Aermacchi fits perfectly with Denel’s strategic vision to grow its presence in the African market and be a strategic partner of choice for most of the global defence manufacturers,” said Riaz Saloojee, Denel’s Group CEO.

“Through this venture we will stimulate the growth of South Africa’s own future aerospace industry and support the national objectives to strengthen the country’s high-technology manufacturing sector.”

Giuseppe Giordo, Chief Executive Officer of Alenia Aermacchi, commented: “This agreement with a leading African player is extremely important to strengthen the position of our company in a growing economic environment. Alenia Aermacchi products represent the perfect solution for the demanding requirements of the African air forces and airlines.

Alenia Aermacchi has a long product tradition in Africa with over 750 aircraft delivered to African air forces. We also have a fruitful industrial collaboration in South Africa with more than 250 Impala trainer and light attack aircraft produced in the country”.

Ismail Dockrat, CEO of Denel Aerostructures said Denel recently completed a restructuring which includes the establishment of a strong and diversified aviation and aerostructures division at the Kempton Park Campus. “We believe that this venue, located next to the O R Tambo International has the potential to grow into a fully-fledged aerospace hub which can attract some of the global players in the industry but also stimulate growth in small- and medium sized companies who can for be integrated into the international supply chains,” he said.



■ Riaz Saloojee with Giuseppe Giordo.



Image courtesy of Alenia Aermacchi





Images above courtesy of Irkut Corporation

## MOU with Irkut Corporation

Denel announced a memorandum of understanding (MOU) with the Irkut Corporation at the AAD, a move which will take the relationship between the two companies to a new and higher level.

Denel has been engaging with Irkut, a Russian aircraft manufacturer, for some months now and an agreement on co-operation was signed at the Farnborough International Air Show in England in July.

“This memorandum will further structure our relationship leading to Denel Aviation becoming a maintenance, repair and overhaul (MRO) centre for Irkut’s wide range of aircraft, including fighter jets and commercial planes,” said Riaz Saloojee, Group CEO.

“Denel Aviation has set itself the objective to strengthen its market position as the leading provider of MRO services in Africa. This means that we want to grow our capacity to service most of models and makes of rotary and fixed wing aircraft that are currently flying on the continent.

“This agreement with Irkut demonstrates the benefits that are flowing from South Africa’s membership of the BRICS group of nations – most notably Brazil, Russia and India. It has opened up new markets for South African industry and presents an opportunity to participate in multinational projects and partnerships.

“The agreements signed will significantly broaden Denel Aviation’s footprint on the continent and position us as a reliable solutions provider to maintain the bulk of the aircraft types flying in Africa,” said Saloojee.



## Denel Aviation signs agreement with Russian Helicopters

At one of the key media events at AAD, Denel announced the signing of an agreement between Denel Aviation and Russian Helicopters to create a helicopter servicing hub. This makes Denel Aviation the only company in sub-Saharan Africa accredited to perform MRO services on Russian Helicopter products.

“Today we create a synergy between one of the world’s most respected producers of rotary wing aircraft and Africa’s leading provider of MRO services and the design authority of iconic products such as the Rooivalk combat support helicopter,” said Riaz Saloojee, Group CEO.

“This will significantly expand the company’s business in Africa and strengthen Denel Aviation’s position as the premier provider of MRO services on the continent. It is also in line with the new marketing drive within the broader Denel Group to expand our footprint in Africa and increase the sales of our products and services,” he added.

Mike Kgobe, CEO of DAV, said this aligned with plans to become the maintenance hub for most of the modern commercial and military aircraft operating in sub-Saharan Africa.

“Civil aviation is a high-growth market in Africa and Russian Helicopters is well positioned to be a market leader on the continent for years to come,” said Russian Helicopters CEO, Dmitry Petrov.

“We see great potential for our helicopters in countries across Africa and are delighted to be working with Denel Aviation to provide a complete customer care programme for our clients on the continent,” Mr Petrov said.

MRO accreditation includes a lengthy process of training and auditing of skills, equipment and facilities. From October, Denel Aviation technical staff will attend an intensive training programme on the latest Russian Helicopters technology and procedures in the eastern Siberian city of Novosibirsk.

Teams of Denel Aviation engineers and technicians can be deployed at short notice to perform emergency repair work on helicopters across the continent. For deeper-level MRO work, the aircraft can be transported to the company’s facilities.

“Our knowledge of the African geography and climatic conditions and the track record of our products that have been extensively deployed in operational conditions, make us a logical partner of choice to the military and civilian markets on the continent,” said Kgobe.





## A popular venue – the Youth Development Programme at AAD

Three thousand children from all over South Africa streamed in through the doors of the Youth Development pavilion at the AAD – over a three day period – to learn more about the wonders of an exciting industry.

It was one of the more popular venues at the expo with two visits from the Minister of Defence and Military Veterans Ms Nosiviwe Mapisa-Nqakula as well as a visit from the Minister of Public Enterprises Malusi Gigaba who joined the children in the SAAF plane simulator.

The children were all given a complimentary copy of a maths and science dictionary to help their studies and to reinforce the importance of these two subjects. These dictionaries are more than a conventional dictionary and are an important study aid explaining formulas and theorems.

Zizikazi Mlokoti, Manager of the Denel Youth Foundation Training Programme, hosted groups of children from as far afield as the North West, Mpumalanga and the Free State. They were given talks on career choices and bursary options. Denel

engineers, artisans and staff from the marketing and human resources departments gave lectures to the children in a specially designed “theatre”.

“We were really pleased with the response and think it went really well. We were flattered that the MoD visited us so often and she told us how pleased she was with the work being done. We were also pleasantly surprised with the visit from the DPE Minister,” said Mlokoti.



■ Zizikazi Mlokoti, Manager of the Denel Youth Foundation Training Programme with Zoli NR Kunene, Chairman of the Denel Board, who visited the stand.



## South African teenagers spread their wings

Forty eight excited children flew for the first time in a glamorous one day tour to the AAD expo. The Mpumalanga learners left Nelspruit on Thursday, 20 September and flew to the Waterkloof Airforce Base in a DC-130.

The trip was organised by Denel with the assistance of Priscilla Themba, Chairperson of the Select Committee for Labour and Public Enterprises. Themba wanted the children to learn more about youth development programmes on career and bursary opportunities.

Denel approached the South African Air Force to sponsor a trip in one of their aircrafts to bring the children from Mpumalanga to Waterkloof Air Force Base. The trip in a C130 included a military escort to and from their plane and a tour of the American air force planes, described by airmen as "pretty cool gigs".

The learners toured all the transport planes at the base, all of which had seen action in Iraq and Afghanistan. They walked around the world's "biggest gas station", an aerial-refueller which carries 200 000 pounds of fuel for in-flight refuelling of bombers, Nato planes and fighter jets. It can also be used as a flying hospital.

These were underprivileged children from the rural areas, many of whom had never seen an airport or had ever been in an aeroplane before. It was an experience of a lifetime – flying for the first time and enjoying the YDP activities!

## School learners get the treat of their lives

Denel Board Chairman Zoli N R Kunene treated 30 underprivileged children to a day at the AAD. The Chairman requested that Denel extend an invitation to two farm schools in the Free State areas.

The learners were from the Glen Ash School in Bethlehem and Libertas in Senekal. Nomsa Mchunu, a teacher from Glen Ash said the children had found the whole experience very exciting: "They learnt a lot of new things and were exposed to different career options," she said. They were given presentations and talks on career opportunities in the industry and treated to a tour of the expo including a visit to US military

airplanes parked on the Waterkloof tarmac. The children were selected on academic abilities and interests.

The Chairman, accompanied by Sinah Pochana, Group Communications Manager, walked from the Denel stand to the Youth Development stand to meet the children. "I'm extremely proud to be part of the team that ensured that 48 learners from Mpumalanga and 30 learners from Free State attend the AAD. It was a life changing experience for the learners and they thoroughly enjoyed every moment. I'm pretty sure we can expect pilots and engineers of the future!" said Pochana.



■ Zoli NR Kunene, (back row, second from right) treated these children to a day at the AAD, with Sinah Pochana, (back row centre).