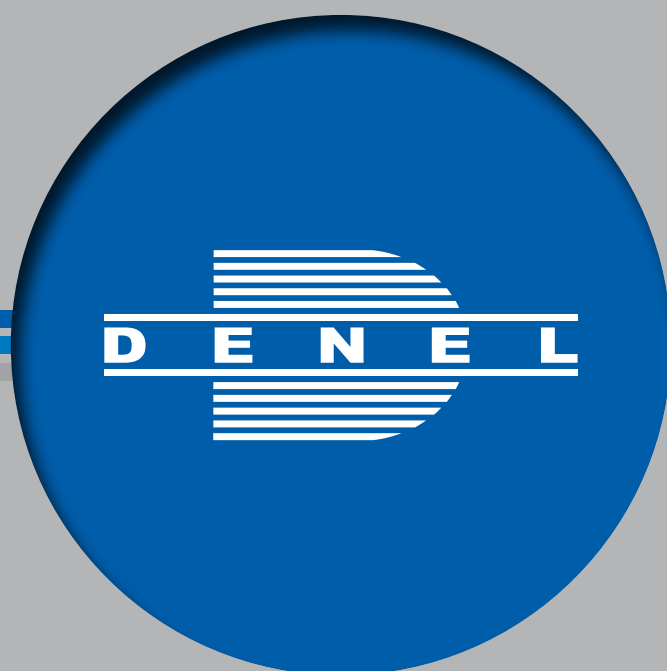
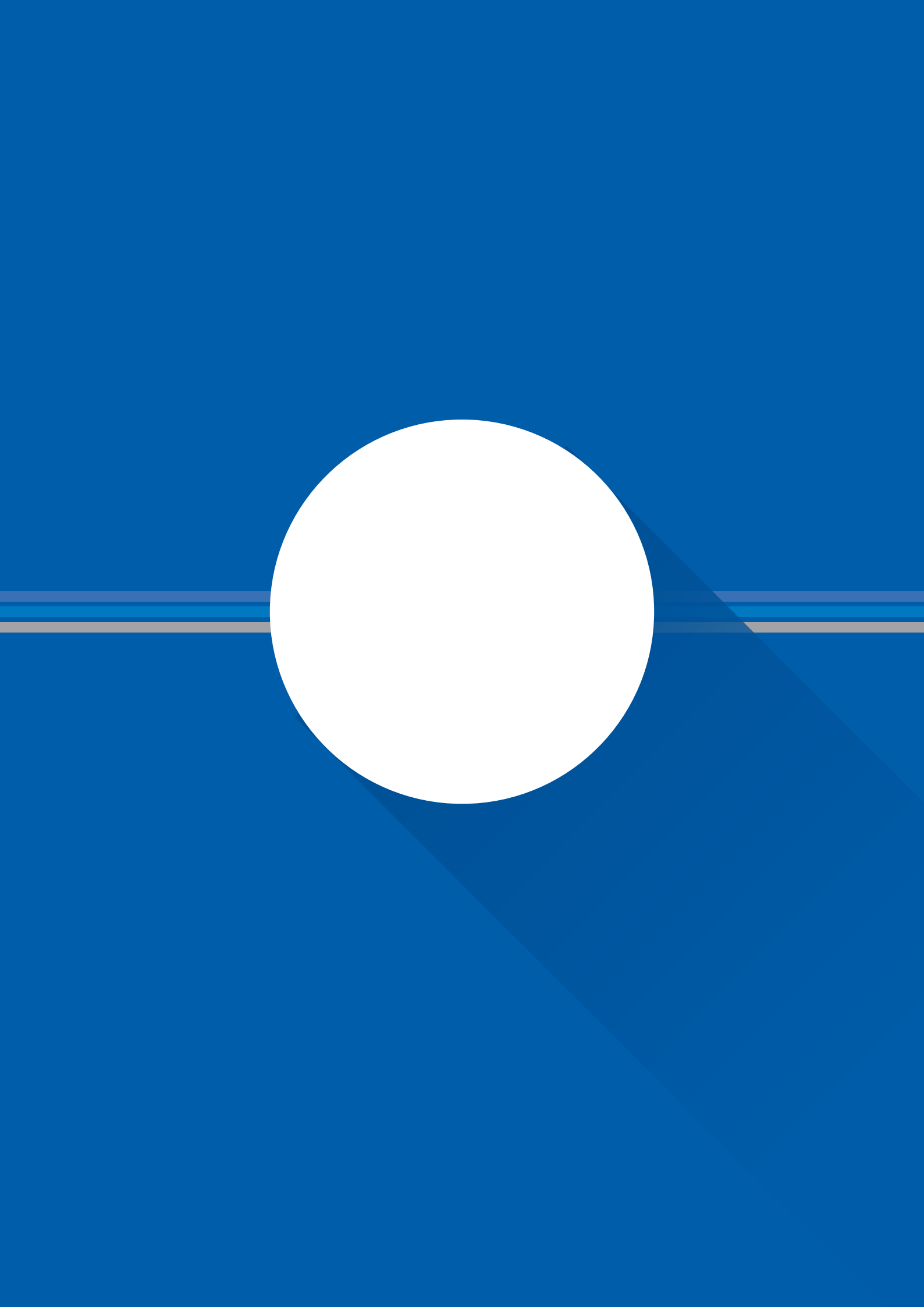


DENEL GROUP
INTEGRATED REPORT
TWENTY 15/16



Reliable Defence Security
and Technology Solutions Partner





"He who refuses to obey cannot
command."

~Kenyan proverb

ABOUT THIS REPORT



REPORTING FRAMEWORKS

- » This report takes cognisance of the integrated reporting requirements of the King III Report on Corporate Governance and the International Integrated Reporting Framework.
- » This report contains some elements of standard disclosures of one of the globally recognised best reporting practices frameworks, the Global Reporting Initiative (GRI G4).
- » The GRI G4 indicators are included in the GRI content index. The index is provided on pages 230 to 234 and indicates Denel's full, partially or non compliance against reporting indicators. Where data measurement techniques are not in place, descriptions of the relevant compliance activities are provided.



REPORTING BOUNDARY

- » This integrated report presents a transparent, comprehensive and comparable view of the financial, operating, social and sustainability performance of Denel SOC Ltd to a broad range of stakeholders for the year ended 31 March 2016.
- » Non-financial information presented in the report relates to Denel, its operating business units, subsidiaries and associated companies, unless otherwise stated.
- » Financial information includes information regarding associated companies.



ASSURANCE

- » The external auditors were engaged to assure financial information, whilst most of the non-financial information presented in this integrated report was assured by a number of service providers through various processes, i.e. B-BBEE verification, ISO certification, organisational climate assessment, etc.

This report outlines the group's outlook and further aims to highlight opportunities and challenges faced by Denel, as well as planned actions to address the same.

In line with Denel's inclusive approach, corporate contact details are provided on page 236.

Key acronyms used in this report are listed below ¹

ACI	African, Coloured and Indian	MEDDS	Mechem explosives and drug detection system
AGM	Annual general meeting	MRAP	Mine-resistant ambush protected
B-BBEE	Broad-based black economic empowerment	MRO	Maintenance, repair and overhaul
DAe	Denel Aerostructures SOC Ltd	OEM	Original equipment manufacturer
DAv	Denel Aviation	OHSAS	Occupational health safety assessment series
DD	Denel Dynamics	OTR	Denel Overberg Test Range
Denel Asia	Denel Asia LLC	PLS	Pioneer Land Systems LLC
Denel ISM	Denel Integrated Systems and Maritime	PMP	Denel Pretoria Metal Pressings
DLS	Denel Land Systems	R&D	Research and development
DoD	Department of Defence	R/Rand/ZAR	South African Rand
DoD&MV	Department of Defence and Military Veterans	RDM	Rheinmetall Denel Munition (Pty) Ltd
DPE	Department of Public Enterprises	SA	South Africa(n)
DTA	Denel Technical Academy	SAAF	South African Air Force
dti	Department of Trade and Industry	SANDEF	South African National Defence Force
DVS	Denel Vehicle Systems (Pty) Ltd	SANSA	South African National Space Agency
EBIT	Earnings before interest and taxation	SOC	State-owned company
EE	Employment equity	TD	Tawazun Dynamics LLC
ESD	Enterprise supplier development	TMA	Turbomeca Africa (Pty) Ltd
GCEO	Group Chief Executive Officer	UAV	Unmanned aerial vehicle
GCFO	Group Chief Financial Officer	UAVS	Unmanned aerial vehicle system
ISO	International Standards Organization	UN	United Nations
LMT	LMT Holdings SOC Ltd (RF)		

1. A list of abbreviations and acronyms is provided in glossary on pages 234 to 235.

CONTENTS

This report outlines the group's outlook and focuses on opportunities and risks faced by Denel, as well as planned actions to address the same (refer pages 80 to 81). The planned actions take into account business priorities, risks and recommendations made by various stakeholders.

Denel is committed to sustainable development and strives to respond positively to the economic, social and natural environmental imperatives where it conducts business. These principles are embedded in the group's corporate strategy and values, which are reflected in the financial and economic decisions made by the group. Denel actively identifies material matters through engagements with both internal and external stakeholders, and considers the group's risk management processes and feedback from sustainability indices in managing the group. This process ensures that Denel's corporate responsibility programmes remain relevant and meaningful to the group's stakeholders, and reflects the changing landscape of its corporate responsibility.

The board of directors, through the audit and risk, social and ethics and personnel, remuneration and transformation committees, acknowledges, oversees and reports on the key strategies, risks and sustainability matters of the group. Denel's most significant and material issues are discussed throughout the integrated report, as well as in the directors' report on pages 137 to 140.



This integrated report is available on Denel's website www.denel.co.za

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PART ONE

GROUP OVERVIEW

ONE

DENEL IS PROUDLY SOUTH AFRICAN

Denel is a high-tech global defence and security equipment manufacturer and provider of related services and solutions, as well as full lifecycle support. The group has been a turnkey defence solution supplier for more than two decades, cutting across land, sea and air domains.



COMMERCE AND INDUSTRY

- » Product, service and solution offerings continue to evolve, taking into account Denel's strategy and client requirements;
- » Denel's approach to foreign markets transcends beyond selling products;
- » Solutions are designed to meet end-user requirements, including capability transfers;
- » Denel also provides full lifecycle support which reduces the cost of ownership;
- » Innovative applications have been leveraged from our defence technology base, amongst others to improve rail safety, crime prevention and surveillance, asset protection, etc.;
- » The successful deployment of the Rooivalk combat helicopter during UN peacekeeping operations in Africa has focused international attention on the technological capabilities of the SA defence industry; and
- » Denel has expanded its RG-vehicle range (family of mine-resistant 4x4 light armoured vehicles), as well as its armoured personnel carriers (APC) based on the well-known Casspir mine-resistant vehicle. As a result, keen interest was shown by clients, globally.

**Successful
deployment of the
Rooivalk**
during UN peacekeeping
operations in Africa



EMPLOYMENT AND SKILLS DEVELOPMENT

- » Provides quality employment opportunities in a high-tech environment, as well as artisan competency development;
- » Denel plays a key role in SA's skills development initiatives, spending R65m (2014/15: R65m) towards skills development;
- » Denel, including associated companies, employs 7 164 (2014/15: 6 931) employees;
- » Supports an estimated 21 000 indirect jobs;
- » Schools outreach programme:
 - Denel's youth development flagship programme focussing on mathematics, science, English and life science;
 - 400 (2014/15: 455) learners supported by the programme;
 - Matriculants who participated in Denel's Maths and Science enrichment programmes, received a 100% pass rate during the 2015 year-end exams.
 - The 230 Grade 12 learners raked in 117 distinctions and more than 60% of the class received exemptions for university studies.
 - One of the participants in the Denel programme, Given Mkhwanazi, was recognised as the second best achiever in Mpumalanga, whilst
 - Abongile Booi emerged as one of the top learners in the North West.
 - Ernest Molelle achieved eight distinctions and received a national award from the Minister of Basic Education, Ms Angie Motshekga.



TECHNOLOGY ADVANCEMENT

- » R&D and intellectual property development investment of R550m (2014/15: R467m);
- » Contribution through programmes like Rooivalk in peacekeeping initiatives;
- » Knowledge-based value added manufacturing;
- » Partnerships with global OEMs;
- » Rejuvenating space capability via Spaceteq; and
- » Advanced high-technology manufacturing, i.e. contribution to the success of the Airbus A400M, the world's most advanced military airlifter.

Ranked among the
**world's top
100**
global defence
manufacturers

**R&D
investment of
R550m**

Supports an estimated
21 000
indirect jobs



SUSTAINABLE GROWTH

- » Denel is consolidating on the gains of a number of strategic decisions and initiatives;
- » Increased export revenue by 58% to R4 764m (2014/15: R3 040m);
- » The company's future is positive, with an order book of more than R29bn, almost four-times the year under review's revenue of R8 228m (2014/15: R5 852m); and
- » One of the highest order books in Denel's history, providing us with a stable platform for future growth, expansion and sustainability.



GLOBAL COMPETITIVENESS

- » Denel, for the first time ever, was ranked among the world's top 100 global defence manufacturers;
- » Denel is the second largest defence company in the southern hemisphere;
- » Earn foreign currency through export revenue; and
- » Positively impacting on foreign relations.



NATIONAL SECURITY AND PEACEKEEPING

- » Denel supplies a significant portion of its annual activities to the local defence and security cluster; and
- » Contributes to SA's strategic military independence and defence stature.



COUNTERTRADE AND OFFSET

- » Denel's strategy is not only to offset obligations but to create long-lasting strategic partnerships for mutual benefit.



ENVIRONMENTAL RESPONSIBILITY

- » ISO certifications;
- » Regular environmental studies;
- » Clean air manufacturing;
- » Land rehabilitation; and
- » Monitoring energy utilisation.



HUMANITARIAN INVOLVEMENT

- » Building on an exceptional track record as a world leader in humanitarian demining; and
- » A valued partner in the UN's efforts to combat the scourge of landmines.

OUR VISION, STRATEGIC DRIVERS AND VALUES

Denel is a strategic state-owned company driven by its vision, strategic drivers and values.

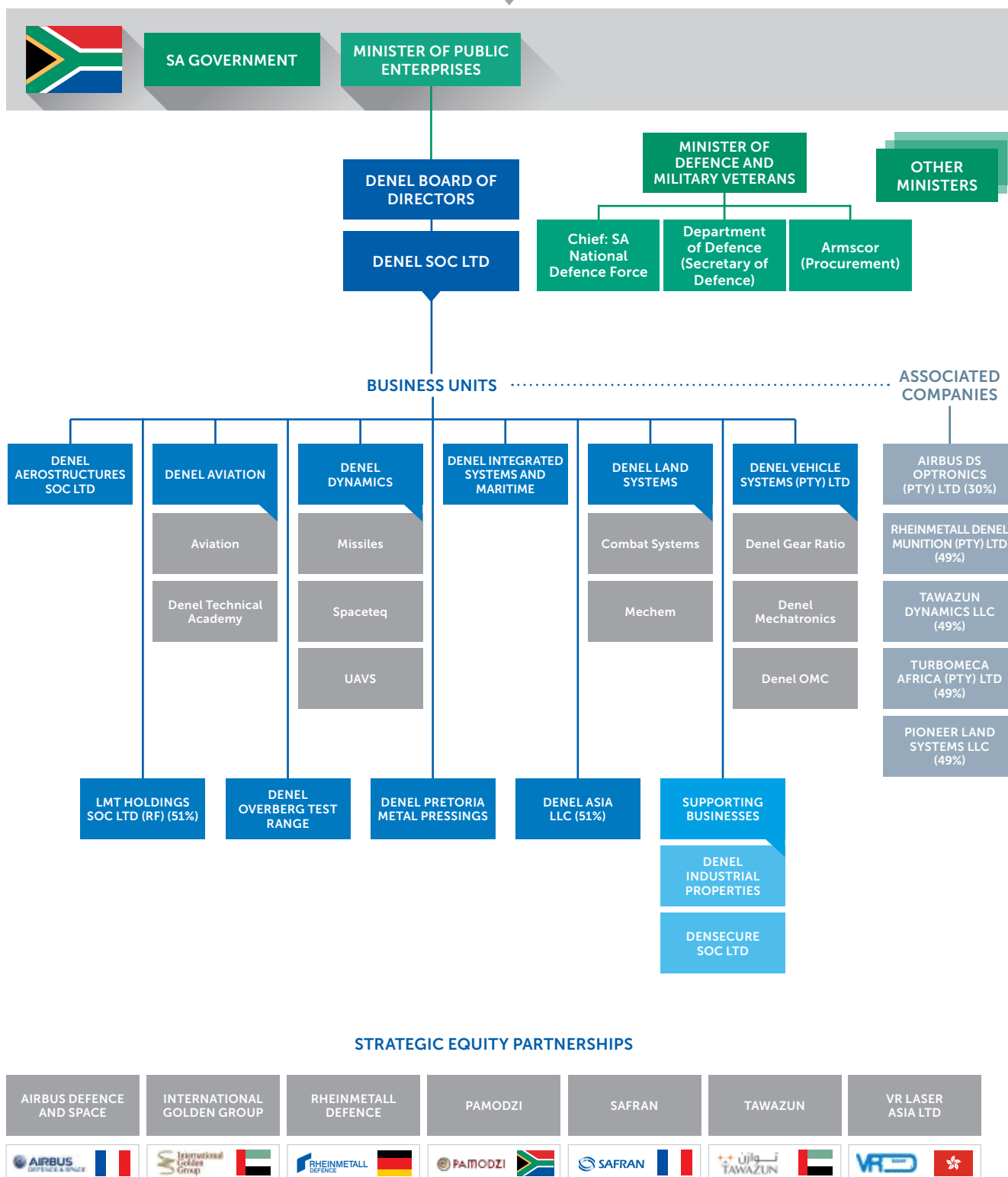
VISION	STRATEGIC DRIVERS	KEY OBJECTIVES	TO BE STATE
The state-owned credible SA strategic partner for innovative defence, security and related technology solutions	Improve customer and other stakeholder relationships in support of a strong, long-term order book	<ul style="list-style-type: none"> » Significant increase in the order book that can be converted into cash generated revenue » Strong relationship with customers and stakeholders » Leverage smart partnerships 	A dynamic, vibrant, financially sustainable, transformed and profitable organisation
	Increase productivity, efficiency and profitability	<ul style="list-style-type: none"> » Focused managing of working capital » Operational excellence in contract execution » Optimise cost structure » Lucrative contracting » Profitable cash returns » Restructuring debt profile » Strong balance sheet 	
	Enhance capabilities and foster innovation	<ul style="list-style-type: none"> » Deliver differentiated and sustainable value » Leveraging current product lines » Meeting customers' requirements » Selective and focused R&D investment particularly in areas of expertise and core strengths 	
	Create a dynamic and vibrant organisation	<ul style="list-style-type: none"> » An entrenched culture driving a transformed, high performance and innovative organisation » Attract, develop and retain talent » Good governance 	

Denel is a catalyst to transform the SA society which also deepens the industrial knowledge base

VALUES	PERFORMANCE	INTEGRITY	INNOVATION	CARING	ACCOUNTABILITY
	 <p>We embrace operational excellence</p>	 <p>We are honest, truthful and ethical</p>	 <p>We create sustainable, innovative solutions</p>	 <p>We care for people, customers, communities and the environment</p>	 <p>We take responsibility for our actions</p>

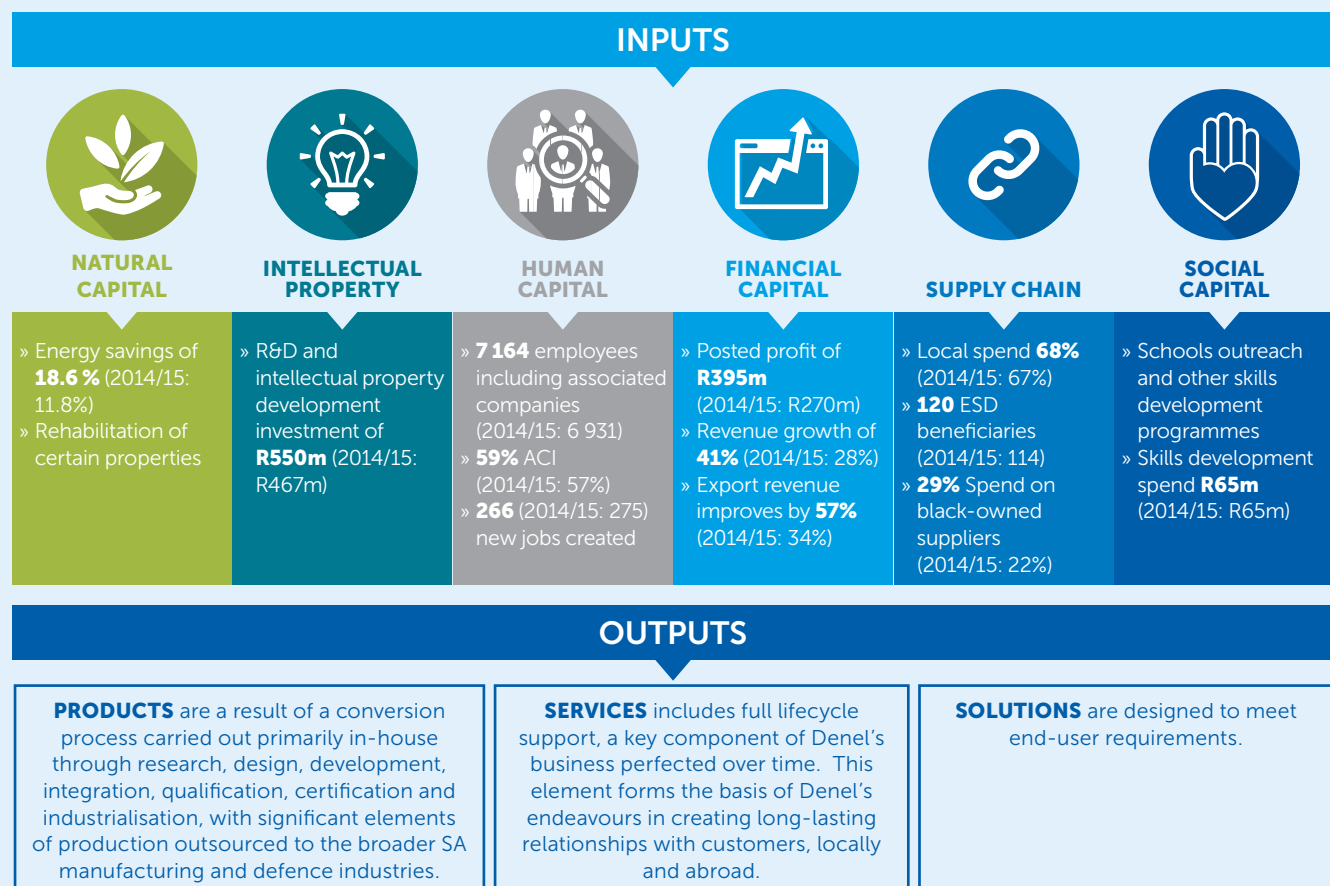
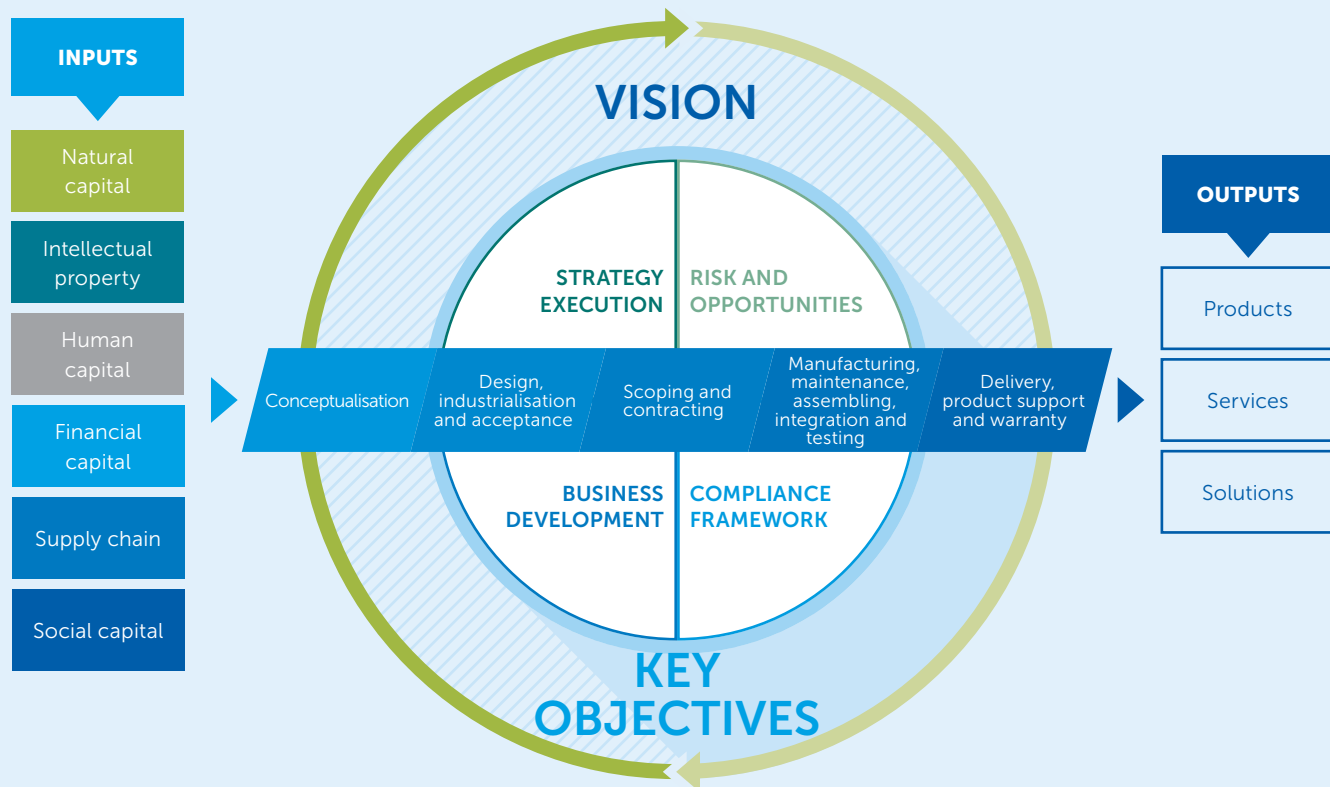
ORGANISATIONAL STRUCTURE

DELIVERING OUR STRATEGY THROUGH OUR ORGANISATIONAL STRUCTURE ¹



1. Denel's shareholding is 100%, unless stated otherwise.

BUSINESS MODEL



DENEL CAPABILITIES

					
AEROSPACE	ARTILLERY	INFANTRY	NAVAL	SECURITY AND BORDER CONTROL	TRAINING AND OTHER
Aerostructures	105mm LEO guns	Active missile protection	20mm guns	Ammunition	Artisan qualification
Aircraft bombs	155mm G5 towed guns	Air defence systems	Ammunition	Light weapons	Commercial brass strips
Air-to-air missiles	155mm G6 self-propelled guns	Ammunition	DPS-35 guns	MEDDS	Energetic materials
Air-to-surface missiles	Charges and propellants	Anti-armour missiles	Periscopes	Mine clearing	Engineering training
Aircraft OEM, MRO and upgrade solutions	Laser rangefinders	Anti-materiel rifles	Umkhonto missiles	MRAP vehicles	Humanitarian services including demining
Ejection cartridges		Automatic grenade launchers	Warheads	Seeker 200 and 400	Mine clearing training
Engines and gearboxes		APC vehicles		Surveillance equipment	Mining drill bits
Inflight testing		Combat vehicles			Rocket motors
Manpower supply		Laser rangefinders			Warheads
Precision-guided bombs		Machine guns			
Satellite development		Pyrotechnics			
Stabilised gimbals		RG vehicles			
UAVS		Surface-to-air missiles			
Warheads		Vehicle turrets			
		Warheads			

Further details of Denel's activities, products, services and solutions are provided in the performance review section on pages 32 to 46.



PART TWO

DIRECTORS' STATEMENTS

TWO

CHAIRMAN'S REPORT



I am pleased to lead Denel during the execution of its strategy into the next phase of the company's growth trajectory. Since I came into office in the second quarter of the financial year under review, I had the privilege of being exposed to various elements of the business. The board and I have invested a considerable amount of time in understanding the business, its strategic direction, strengths and challenges.

On appraisal of the strategy, it was clear that Denel's key strategic drivers remain largely intact, therefore our view has been to strengthen the execution of the group's strategy and set the business on a growth trajectory.

The strategy was primarily focused on growing profitable revenues, which is characterised by a strong order book and continues to inform the strategic thrust going forward. The focus areas in this phase of our strategy include financial sustainability, improving productivity and operational efficiencies underpinned by strong governance. Building a financially sustainable Denel will be rooted in maintaining a healthy order book through strategic partnerships in selected markets, including diversification to other markets, improved working capital management and debt reduction.

The acquisition of BAE Systems Land Systems South Africa (Pty) Ltd (LSSA) was concluded at the beginning of the financial year under review. LSSA has been successfully integrated into the greater Denel group which resulted in rebranding the business, including a name change to Denel Vehicle Systems (Pty) Ltd.

In growing Denel's order book and in view of the potential opportunities presented by the Asian market, the board approved the establishment of a company in Asia through a strategic partnership with VR Laser Asia, called Denel Asia LLC. Subsequent to finalising due approval processes, this company was established in Hong Kong. This partnership brings access to markets in a region where Denel had been blacklisted for more than a decade, as well as the ever so important funding for business development activities.

In line with Denel's objective to enhance its product offerings, the business continues to pursue strategic involvement in niche areas. We are also advanced in establishing a maritime capability, which will incorporate strategic partnerships and the rejuvenation of the local maritime industry. This capability enables Denel to be a logical partner to the DoD in playing

a key role in maritime projects such as "Project Hotel" and "Project Biro".

We are proud of the results achieved during the financial year under review and believe that it created a platform from which to execute Denel's strategy successfully. The excellent performance can be attributed to Denel's most important asset, its employees. Our people's resilience and dedication towards creating a sustainable Denel is highly appreciated.

TRANSFORMATION

While we appreciate that some goals have been achieved with regards to transformation, the board is of the opinion that a lot more effort is required to achieve the desired state in the short- to medium-term. Although the generic B-BBEE codes have been amended, Denel achieved a Level 4 B-BBEE rating (2014/15: Level 2 B-BBEE rating, based on the old codes). The impact of the changes in the codes cuts across all industries and as a result, Denel reviewed and adjusted its transformation plans accordingly. The key priority areas for improvement include supply chain transformation, as well as employment equity. Management has committed itself to redoubling efforts to achieve and improve performance with regards to transformation objectives.

GOVERNANCE

During the year under review, the shareholder rotated the board. The new board, under my leadership, had to be fully involved from early on in its term to ensure that oversight was not compromised and that management received the necessary board support in executing their responsibilities.

The transition was, however, not without challenges as initial engagements with the executive directors unfortunately led to the board placing some of the executives on suspension. The matter has since resulted in the board taking a decision not to renew the employment contract of the GCEO, Mr R Saloojee. All the remaining

matters have also been closed. The board would like to thank the interim executives Zwelakhe Ntshepe (acting GCEO) and Odwa Mhlwana (acting GCFO) for their focus and drive to ensure that the business still delivers on its mandate. The interim executives are progressing well into developing a revised strategic framework to form the basis for the next growth phase of the business. I look forward to report on the results of Denel's revised strategy in our integrated report for 2016/17.

The diversity of the board members in terms of their professional backgrounds encourages constructive debate and deliberations in handling board matters to arrive at the best possible decision, taking the interests of Denel and its stakeholders into account at all times. The board and its various committees met regularly during the year under review, with both the attendance and contributions of the individual members in discussions, being excellent. I wish to thank my fellow board members who have supported me with their counsel and valuable guidance throughout this period.

APPRECIATION

First and foremost, I wish to extend my gratitude to all Denel employees, without whom the success of Denel would not be possible.

On behalf of the board, I extend my appreciation to all our stakeholders for their continued support during the 2015/16 financial year. We recognise that maintaining your trust and support is pivotal to the company in delivering on its mandate. I thank the Honourable President, Mr JG Zuma, The Honourable Minister of Public Enterprises, Ms Lynne Brown, the Honourable Deputy-Minister, Mr Bulelani Gratitude Magwanishe, the Director-General, Mr Mogokare Richard Seleke and Department Officials for their commitment and support to Denel during the year under review. I also wish to thank the Honourable Minister of the DoD&MV, Ms Nosiviwe Mapisa-Nqakula, the Honourable Deputy-Minister, Mr Kebby Maphatsoe, the Secretary of Defence,

Dr Sam Gulube, Chairman of the Armscor board, Admiral Johannes Mudimu, the CEO of Armscor, Mr Kevin Wakeford and officials of the DoD&MV, the SANDF and Armscor for their continued support, guidance and commitment to Denel throughout the year. I further thank the Honourable Minister of Science and Technology, Ms Naledi Pandor and Director General, Dr Phil Mjwara, as well as the board and management of SANSA for their support in finalising matters that required their urgent attention. A special word of gratitude to the chief of the SANDF, General Solly Shoke and his command council.

I thank the chairperson of the Portfolio Committee on Public Enterprises, Ms Dipuo Letsatsi-Duba, as well as the chairperson of the Select Committee on Communications and Public Enterprises, Ms Ellen Prins, for their oversight role and support to Denel.



Lugisani Daniel Mantsha
Chairman of the Denel board

GROUP CHIEF EXECUTIVE OFFICER'S REPORT



I am extremely proud of Denel's performance during the year under review. It reflects the resilience and hard work of Denel employees who have ventured on despite the challenging environment that prevailed during the year. Denel, for the first time ever, was ranked among the world's top 100 global defence manufacturers, as well as the second largest defence company in the southern hemisphere. This creates a greater awareness of the qualities and capabilities of SA's defence manufacturing sector and opens up new opportunities.

Denel's strategy remains focused on building a self-sustaining business, which includes:

- » Growing the business by increasing its order book;
- » Leveraging strategic partnerships;
- » Increasing productivity, efficiency and profitability;
- » Optimising its cost structure through operational excellence;
- » Enhancing capabilities and fostering innovation; and
- » Creating a dynamic and vibrant organisation.

Denel is excited with the progress so far in the completion of the strategy review cycle. The strategy review cycle is supported by the board, which forms the basis for growing our business and moving Denel "from good to great".

GROWING THE BUSINESS

The essence of the growth strategy is to maintain a continuous increase in the order book through strengthening relationships with customers and other stakeholders, as well as leveraging on existing partnerships globally to secure future business. We are working on a number of initiatives to grow and diversify our business offerings.

LEVERAGING STRATEGIC PARTNERSHIPS

Denel Vehicle Systems (Pty) Ltd

We have progressed extensively in integrating the business into the greater Denel. The group is now able to manufacture, design, develop and supply military vehicle systems, covering firepower, mobility and support, thus providing a full turnkey landward solution.

This landward capability is of strategic importance for supporting current and future landward requirements of the SANDF. Denel's landward capability continues to be the single largest

contributor to revenue into the foreseeable future.

Denel Asia LLC

The Asia Pacific market is the fastest growing outside the United States (US), with defence industry experts estimating that half of future global defence sales will come from Asia Pacific markets. In the 2015/16 financial year Denel's export revenue accounted for 58% (2014/15: 52%) of its total revenue with the primary markets emanating from Asia Pacific, Europe, Middle East and South America. Within this region, Denel is positioning itself for major programmes in India. There are a number of opportunities that Denel Asia will be pursuing in this market, mainly in the artillery domain.

Commercial aviation opportunities

Denel prides itself on its extensive capabilities in the aviation-related MRO space. We are continuously seeking strategic partnerships to entrench Denel as a prominent civil aviation MRO player with specific focus on sub-Saharan Africa, creating a baseload through fellow SOCs operating civil aviation aircraft.

INCREASING PRODUCTIVITY, EFFICIENCY AND PROFITABILITY

Operational highlights

» Oryx

Denel concluded the avionics upgrade of 39 of the SAAF's Oryx medium transport helicopters in March 2016 after delays that were encountered in the development phase. The Oryx replaced the Aerospatiale SA330 Puma in SAAF service. The helicopter forms the backbone of the SAAF's rotary wing transport fleet and has been deployed on the African continent

for peace support operations, i.e. the Democratic Republic of Congo (DRC). Denel is the primary design authority of the Oryx and primary MRO provider with responsibility for their continued airworthiness.

» Rooivalk

The deployment of the Rooivalk combat helicopter in active service by the SANDF in support of peacekeeping and enforcement operations in the DRC has focused global attention on the extent and depth of Denel's capabilities in a highly competitive technology environment. The successful deployment revived interest in the long-term positioning of the helicopter from both SAAF and potential international clients.

Denel is in discussions with the SAAF and the DoD regarding the upgrade of the Rooivalk fleet (Mk1F), as well as development of a new Rooivalk (Mk2) for both local and export markets. An order has been placed by Armscor for Denel as OEM of the Rooivalk to conclude a study on obsolescence and future supportability, and definition of a solution for the new Rooivalk. Earlier this year, the capabilities of the Rooivalk were demonstrated to delegations from across the globe with an expressed interest in the Rooivalk. This demonstration was widely supported by the SAAF and the broader DoD and SANDF.

A next generation Rooivalk programme is strategically positioned as a SA flagship programme requiring stronger inter-governmental collaboration within selected markets. This strategy is relentlessly pursued with support from our own government.

The essence of the growth strategy is to maintain a continuous increase in the order book through strengthening relationships with customers and other stakeholders, as well as leveraging on existing partnerships globally to secure future business. We are working on a number of initiatives to grow and diversify our business offerings.



» **Hoefyster**

Denel is concluding the final phases of the SA Army's new infantry fighting vehicle development programme and it is expected that development will be completed by the end of the 2016/17 financial year. The industrialisation and production commenced without any significant delays.

Late January saw the first real major project milestone in the production when the programme reached the stage of Product Baseline One (PBL One). This milestone comes on the back of extensive testing, including an especially arduous one, called "bush break", when test drivers use the vehicle to break through dense bush, which would ordinarily be impenetrable to the man on foot. DLS will provide five Badger variants to the army – the section unit, equipped with the 30mm Camgun, the mortar equipped unit, a unit fitted with missiles and a fire support and control unit. An ambulance Badger for the South African Military Health Services (SAMHS) is also part of the overall contract that will eventually see 242 Badgers, in nine different variants, delivered to the SANDF.

» **Mbarc**

The Mbarc contract for the development and supply of precision-guided munitions has experienced various challenges over the past few years as a result of the highly complex technical nature of the development phase. However, during the year under review we progressed very

well on our catch-up plan which saw the delivery of 250 weapons on Mbarc I and 350 weapons on Mbarc II, as well as the successful integration thereof onto the customer's platforms as per contractual terms. The weapon system was deployed in operational conditions with very positive feedback from the users. One of our strategic partners successfully assembled and tested the weapon kits in the United Arab Emirates (UAE), paving the way for future collaboration. The contract has played a significant role in building up capacity in the SA defence related industry.

During the 2016/17 financial year our focus will be on the production of the imaging infrared version of the weapon.

» **A-Darter**

The follow-on contract for the production of A-Darter was placed towards the end of the previous financial year and the programme is progressing well. An additional contract was secured to integrate the missile onto the Brazilian FX2 aircraft.

OPTIMISING ITS COST STRUCTURE THROUGH OPERATIONAL EXCELLENCE

We are implementing strategic initiatives that seek to improve operational efficiencies across the business. This includes the establishment of an aeronautical complex incorporating the aviation MRO, upgrades, systems integration and aerostructure

manufacturing into one business, as well as the rationalisation of the cost structure across our major operating business units.

ENHANCING CAPABILITIES AND FOSTERING INNOVATION

Maritime

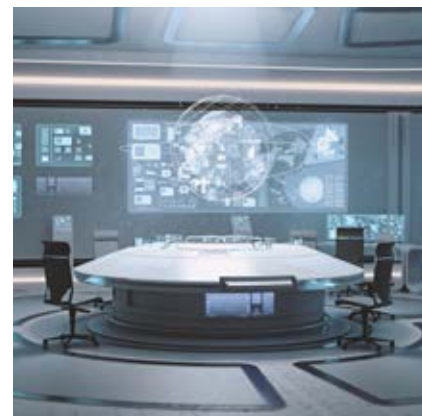
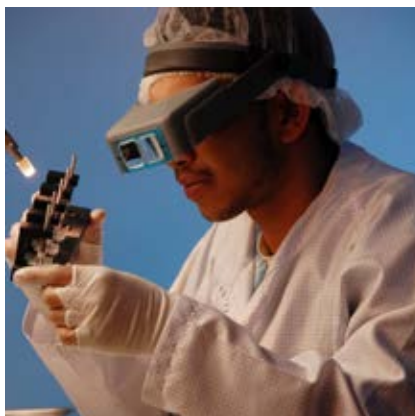
Denel considers it strategically important to provide a wide spectrum of capabilities to its customers, ranging from landward defence, aerospace, maritime, as well as command and control. Through our recently established business unit, Denel ISM, we will become a strategic partner to the SA Navy, as well as the broader SA shipbuilding and -repair industry.

Command and Control

Denel's current capabilities in the complex systems integration domain place the business in a position of strategic partnership with the SANDF and the security cluster in executing their requirements. We remain focused on enhancing our existing capabilities in this domain through a series of options, including collaboration with third parties, internal investment, as well as strategic acquisitions.

Research and development

Denel continues to invest in innovative solutions for the future and has invested R550m on R&D and intellectual property development, through a combination



of self- and client-funded investments. We have worked on the Small African Regional Aircraft (SARA) concept and have developed a full-scale mock-up in this regard as part of the R&D process. Artillery requirements have evolved over years and Denel continues to invest a significant amount in the wheeled self-propelled 155mm 52-calibre G6 gun-howitzer. Other initiatives include working on extending the range and accuracy of some of our missiles, as well as enhancements to our vehicle product offerings. Denel places specific emphasis on developing the concept of an African military truck together with our partners including the DoD, Armscor and Council of Scientific and Industrial Research (CSIR). This initiative is equally supported by the defence industry at large.

CREATING A DYNAMIC AND VIBRANT ORGANISATION

We are pleased by the results of the employee engagement survey, results which indicated that generally our employees are engaged in understanding Denel's vision and purpose, engagement in work and attention to quality and customer focus. This implies a very strong alignment to delivering on the core mandate of Denel, personal commitment in doing great work and focusing where it counts most, i.e. delivery to market. The results confirmed that we are on track in creating a dynamic and vibrant organisation.

National socio-economic objectives such as job creation, transformation

and enterprise development, as well as the development of our youth and disabled people are as much a priority as the group's financial and operational performance. Denel is the leader in transformation in the defence industry, in particular with regards to representivity of engineers and technical expertise. The board has challenged us to do more with regards to employment equity and supply chain transformation. We have refocused our transformation plans accordingly to ensure that we expedite transformation throughout the group and across all disciplines.

OUTLOOK

Spending trends in some of Denel's markets are reflective of the escalating conflict and tensions in many parts of the world. However, lower oil prices are likely to affect the cash reserves of some countries and their spending on defence going forward. We are well-positioned in these markets to participate in identified opportunities and have had success in the recent past which paves the way for future interaction.

Similarly, we expect that defence spending in Africa will increase in response to genuine security needs arising from insurgent and rebel groups, the rise of piracy, economic growth and emerging regional arms races. Africa is key to our business development strategy and we continue to pursue various opportunities, i.e. peacekeeping initiatives on the continent.

APPRECIATION

I acknowledge our shareholder and thank the Honourable Minister of Public Enterprises, Ms Lynne Brown, the Honourable Deputy-Minister, Mr Bulelani Magwanishe, the Parliamentary Committee, the Director-General of the DPE, Mr Mogokare Richard for their continuous guidance and support. I extend my appreciation to the Honourable Minister of the DoD&MV, Ms Nosiviwe Mapisa-Nqakula, the Honourable Deputy-Minister, Mr Kebby Maphatsoe, the Secretary of Defence, Dr Sam Gulube, the chief of the SANDF, General Solly Shoke, Armscor, organised labour and industry partners for their support and contribution.

Lastly, I bid farewell to our previous board and would like to thank the current board for the confidence and support they have extended to me and my executive team during the financial year under review. The board's oversight with specific emphasis on strict governance during this challenging year cannot go unnoticed, for that I thank you.

Zwelakhe Ntshepe

Acting group chief executive officer



PART THREE

PERFORMANCE REVIEW

FINANCIAL PERFORMANCE



STRATEGIC OBJECTIVE

[To ensure a dynamic, financially sustainable, and profitable organisation through delivering effectively on its mandate whilst managing resources efficiently.]

Revenue



R8 228m
grows by
≈ **41%**

Export revenue
R4 764m
improves by
≈ **57%**

Local revenue
R3 464m
improves by
≈ **23%**

Debt equity ratio
1.6

Equity position
≈ **R2 321m**

Borrowings
R3 717m
increases by
≈ **R1 559m**

Cash balance
R2 003m
improves by
≈ **R94m**

Net profit
R395m
improves by
≈ **R125m**



Significant R&D investment
≈ **R550m**

Normalised OPEX
15%↓

EBIT
R637m
≈ **8%**

FOCUS AREAS



Profitable cash returns, i.e. conversion of at least 80% of operating profit to cash from operations



Restructuring the debt profile of the group to align the balance sheet to the debt repayment plans, as well as the government guarantee profile

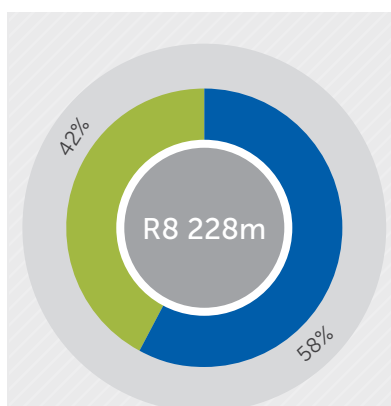


Managing revenue growth to sustainable levels, with focus on managing working capital



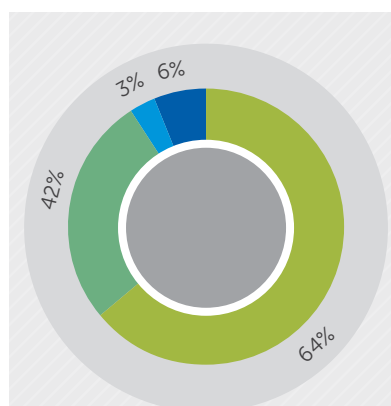
Streamlining investment in the future of Denel on business development infrastructure, R&D, etc.

REVENUE 2015/16



● Local R3 464m
● Export R4 764m

VALUE DISTRIBUTION 2015/16



● Material and services
● Salaries and relevant costs
● Providers of capital
● Continuation and expansion

1. The funds included in cash and short-term deposits are available on demand, except for the amount relating to the Hoefyster project which is ringfenced, R1 139m (2014/15: R1 275m).

EXTRACTS FROM THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

	GROUP		
	2015/16 Rm	2014/15 Rm	2013/14 Rm
CONSOLIDATED INCOME STATEMENTS AND STATEMENTS OF COMPREHENSIVE INCOME ¹			
Revenue	8 228	5 852	4 588
Gross profit	1 672	1 137	899
Other income	288	137	204
Other operating expenses	(1 455)	(939)	(879)
EBIT	637	399	282
Net finance costs	(203)	(123)	(92)
Net profit for the year	395	270	194
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION ²			
Non-current assets	3 113	2 458	2 293
Current assets	9 733	7 145	5 712
Cash and short-term deposits	2 003	1 909	1 513
Total assets	13 002	9 687	8 089
Equity	2 321	1 927	1 664
Borrowings	3 717	2 158	1 875
CONSOLIDATED STATEMENTS OF CASH FLOWS ³			
Net cash flows (used in)/from operating activities	(683)	281	474
Net cash flows used in investing activities	(995)	(177)	(206)
Net cash flows from/(used in) financing activities	1 541	292	(52)
RETURNS %			
Net profit to revenue ⁴	5%	5%	4%
Gross profit to revenue ⁴	20%	19%	20%
EBIT ⁴	8%	7%	6%
Normalised operating expenses to revenue	15%	17%	19%
RATIOS			
Debt/equity ratio ⁴	1.6:1	1.1:1	1.1:1
Current asset ratio ⁴	1.6:1	1.7:1	2.3:1
Revenue per employee (Rm) ⁴	1,6	1,3	1,1

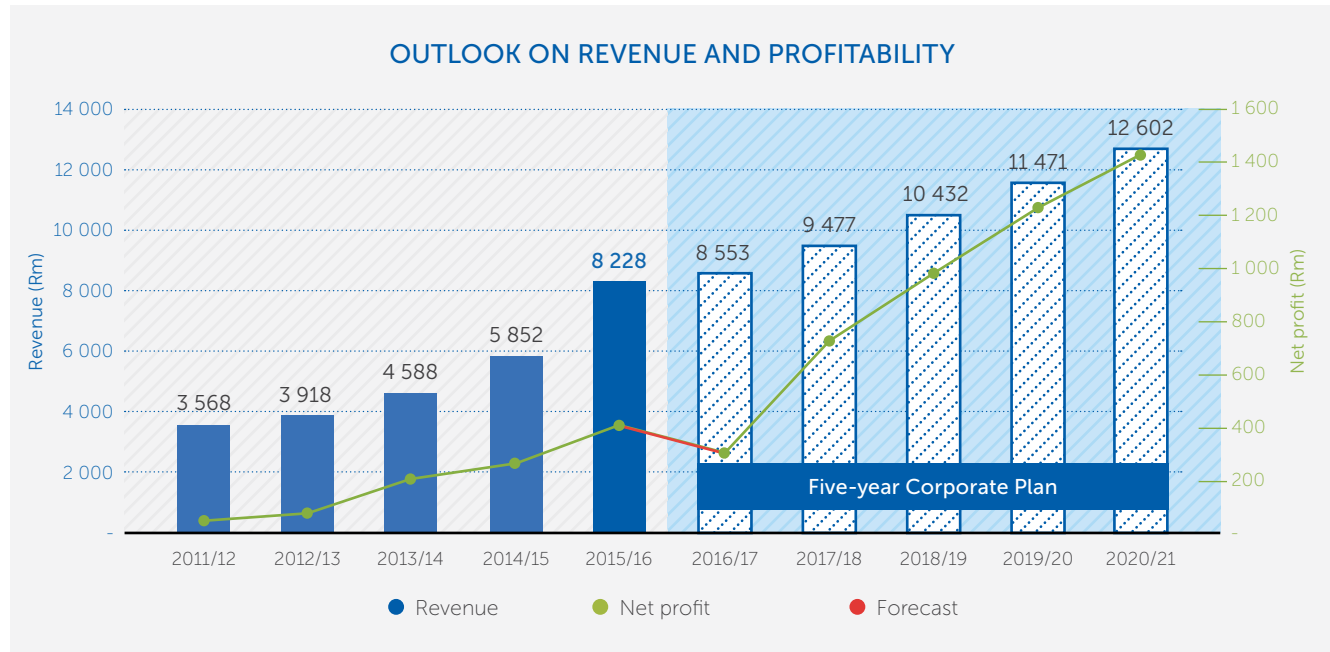
1. Refer consolidated income statements and statements of comprehensive income, page 143.

2. Refer consolidated statements of financial position, page 142.

3. Refer consolidated statements of cash flows, page 145.

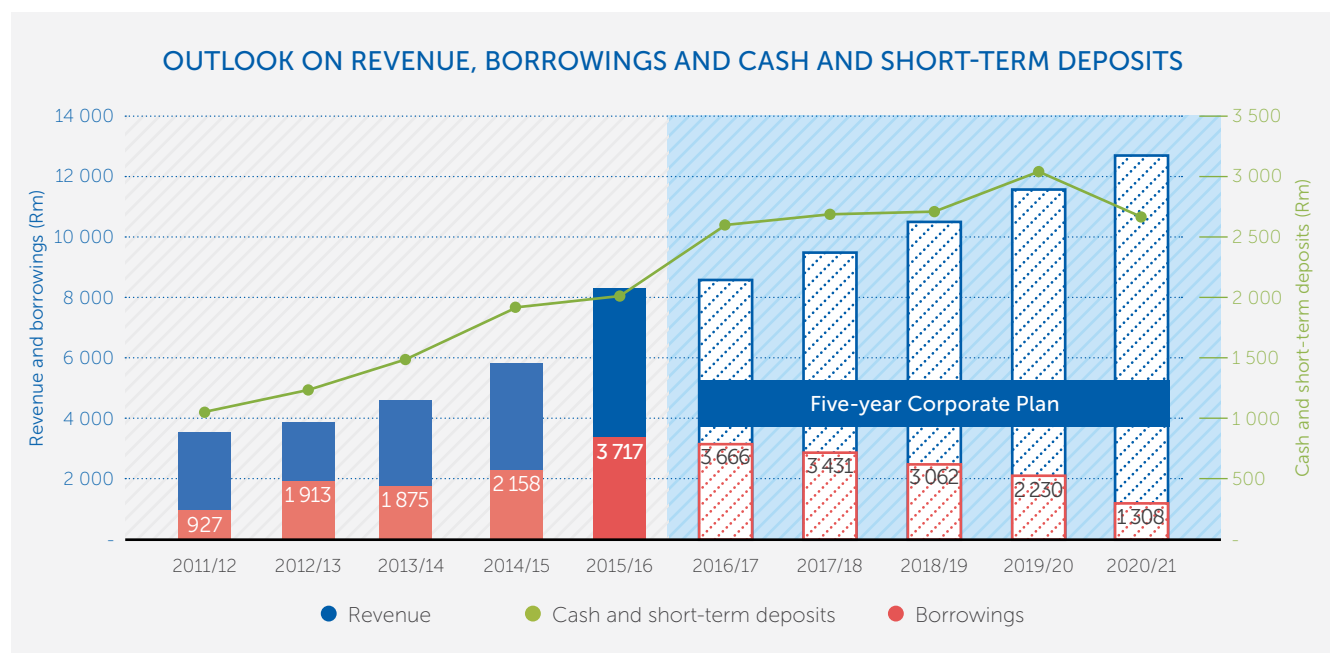
4. Refer ten-year review, page 29.

BUSINESS OUTLOOK



Denel achieved phenomenal growth, i.e. revenue more than doubled over the past five years from R3.6bn in 2011/12 to R8.2bn in 2015/16. This has placed significant strain on our cash resources, as well as on the Denel business model. The group therefore remains highly geared with debt of R3.7bn (2014/15: R2.2bn), of which about 45% is due in the next 12 months. This debt will be refinanced on maturity of the guarantee. Despite these challenges the Denel business model (refer page 10) has proven to be robust, with profit margins maintained, programmes efficiently executed and financial support by government and financial institutions secured.

Where sufficient critical mass to commercially support strategic and sovereign capabilities was the main concern a few years ago, the focus of the business for the next few years will be on improving the quality of income, managing our growth, improving profitability of the group and reduction of debt. Strategic initiatives in support of these objectives includes the integration of DAe and DAv, Denel ISM and DLS, restructuring of DD, plant renewal and rationalisation at PMP, as well as the restructuring of the land solutions businesses. The impact of these initiatives is being managed in a socially responsible manner with minimal job losses being envisaged.





The Five-year Corporate Plan demonstrates strong financial performance with steady revenue growth, improving profitability, as well as a stronger balance sheet with improvement in Denel's solvency position and a reduction in borrowings. The positive financial performance continues to be largely due to contracts moving from development into the production phase, the multi-year order book in excess of R29bn (2014/15: R35m) and the restructuring actions undertaken. Continued efficient programme execution, cost optimisation, stricter working capital management and resource planning will be important in enabling delivery of the key projects and internal cash generation. In order to manage the impact on working capital, the group has targeted revenue growth of between 10% and 15% at a maximum and EBIT of 10% in the medium-term.

Denel is also reviewing the fixed assets that are either no longer core to the business or underutilised. Over the past few years an extensive process was followed to dispose of the recently rehabilitated Philippi site. The process to dispose of the Philippi site will be concluded during the 2016/17 financial year. Similarly other non-core assets will be realised in the short- to medium-term.

Despite the reduction in the oil prices that has an impact on a number of Denel's customers, increased regional tension and global security concerns continue to inform the defence acquisition strategies of our customers and we are experiencing an increase in the demand of our products, services and solutions in these markets specifically.

CAPITAL MARKET

The capital market has responded positively in its continued support of Denel. It is our assessment that the market based its confidence in Denel on key fundamentals that remain in place and the outlook of this business, which continues to paint a positive picture as highlighted above. Denel successfully raised R400m unsecured debt during November 2015, as well as the refinancing of a R815m bond in January 2016.

In addition, FitchRatings confirmed Denel's credit rating as AAA long-term and F1+ short-term. The rating relies heavily on government support as indicated in the Fitch report. Fitch has indicated that Denel's rating would be influenced should the government guarantee not be extended, in that Denel may be rated on a stand-alone basis. Although Denel is concerned about the possibility of a

sovereign rating downgrade, it should not influence the rating or the ability to secure funding in the capital market. Denel only issues local paper and we believe local investors still prefer government and bank paper due to liquidity. Denel could see a pickup in the liquidity spreads but does not foresee a negative influence on our liquidity.

DEBT PROFILE

Denel has a R3bn Domestic Medium-Term Note (DMTN) programme, which is updated on a regular basis to comply with Johannesburg Stock Exchange (JSE) listing requirements. The DMTN programme allows for short- and long-term debt issuance to fund the group. The debt consists of a R585m five-year corporate bond and short-term commercial paper of R1.265bn, which are issued for a 12-month, 18-month and a 3- to 6-month basis, as and when required. Unsecured debt issued under the DMTN programme amounts to R690m that matures in 2018.

The gearing ratio is set to improve as Denel continues to post profits and normalises its growth, thereby reducing its dependency on borrowings. Due to the high working capital requirements on long-term contracts, the growth foreseen in the Five-year Corporate Plan will be funded by

maintaining an acceptable level of debt. The government guaranteed portion of the bonds and commercial paper is issued to mature no later than 30 September 2017. National Treasury has agreed to extend this guarantee with a condition in principle, that it be reduced with at least R650m by 2020 and Denel is on track to reduce its reliance on the guarantee as per expectation. To give effect to this, Denel will apply for the renewal of the government guarantee during the 2016/17 financial year.

FINANCIAL RESULTS

Denel, in continuation of its ongoing profitability trajectory since 2011/12 posted another record net profit of R395m during the 2015/16 financial year (2014/15: R270m). This is largely attributable to Denel's biggest programme moving from a development phase into production, as well as catching up on previously

delayed programmes. This, together with the contribution of the newly acquired DVS business unit has resulted in Denel achieving a record high revenue growth.

The major currencies that Denel deals in fluctuated extensively in the latter part of the year and had a positive impact of R110m (2014/15: R15m negative impact). Denel mitigates the risk through the use of hedging instruments. Currency exposures are hedged based on an 18-month rolling period, which requires any currency exposure forecast for the next 18 months to be covered. Hedging instruments consist of forward exchange contracts and, to a limited extent, currency collars. More details are discussed in the notes to the consolidated annual financial statements on pages 146 to 226.

Denel's EBIT is R637m (2014/15: R399m) which demonstrates the significant impact

of finance costs as a result of Denel's debt levels.

If we normalise earnings, the once-off impact of the impairment of a significant development asset to the value of R159m (2014/15: Rnil) should be added back. Denel reviewed this development asset related to Seeker 400 UAVS, for which the company has yet to conclude a production contract and concluded that the asset was to be impaired.

Other items that affected the results include the restructuring provision related to the rightsizing of some of the business units in line with the operational efficiency and cost optimisation driver, as well as an adjustment to the value of inventory due to non-conformance to standards of the customer. A thorough root cause analysis has been undertaken and implementation or corrective actions completed.

Denel, in continuation of its ongoing profitability trajectory since 2011/12 posted another record net profit of R395m during the 2015/16 financial year (2014/15: R270m). This is largely attributable to Denel's biggest programme moving from a development phase into production, as well as catching up on previously delayed programmes.

	GROUP	
	2015/16	2014/15
	Rm	Rm
Normalised earnings analysis		
EBIT	637	399
Once-off items	159	(28)
Reversal of property, plant and equipment impairment	-	(28)
Impairment of Seeker 400 development asset	159	-
Restructuring provision	28	-
Valuation of Philippi property ¹	(162)	-
Unrealised foreign exchange losses/(gains)	(110)	15
Inventory written-off	57	-
	609	386

RISK MANAGEMENT

Denel has adopted an integrated risk management model as detailed on page 79. Financial risk is managed through the group financial and treasury policies, directives and procedures approved by the board. Risks related to programme and contract execution are identified, monitored and managed continuously by management through various forums (refer

page 61), including formal programme review meetings. Risks related to human capital retention, development and transformation are managed through HR and transformation forums. The risk items and mitigation plans are evaluated regularly by management, the A&R committee and both the internal and external auditors.

1. Refer notes 4 and 10 to the consolidated annual financial statements, pages 146 to 226.

VALUE ADDED STATEMENT

for the year ended 31 March 2016

Value added is a measure of the wealth that the group has created in its operations by adding value to the cost of materials and services purchased. The statement shows how wealth was created and how it was shared amongst employees, the providers of funds and the capital re-invested in the group for continuation and expansion of operations.

	Notes ¹	GROUP			
		2015/16		2014/15	
		Rm	%	Rm	%
Revenue	2	8 228		5 852	
Less: Cost of materials and services purchased		(5 431)		(3 678)	
Value added		2 797		2 174	
Add:					
Finance income	6.2	77		53	
Other income	4	288		137	
Wealth created		3 162		2 364	
Distributed as follows:					
Employees: Salaries and relevant costs ²	3	2 278	72,1	1 776	75,2
Providers of capital		297	9,4	180	7,6
Finance costs	6.1	280	8,9	176	7,4
Non-controlling interest	21	17	0,5	4	0,2
Government					
Tax (refer note A)		61	1,9	12	0,5
Re-invested in the group for continuation and expansion		526	16,6	396	16,7
Depreciation	3	131	4,1	126	5,3
Profit for the year		395	12,5	270	11,4
Wealth distributed		3 162	100,0	2 364	100,0

NOTE A

Tax

Tax paid and provided for:		61	12
Current tax	7	61	3
Total tax	7	39	6
Less: Deferred tax	7	22	(3)
Rates and taxes paid to local authorities		-	9
Net skills development		15	11
UIF contributions by employer		8	7
		84	30

The total amount reflected above excludes the following amounts collected by the group on behalf of Government:

Net VAT		(218)	17
Charged on revenue		618	571
Levied on purchases		(836)	(554)
Employees' taxation		504	367
UIF contributions by employees		8	7
		294	391

1. Refer to the notes to the consolidated annual financial statements, pages 146 to 226.

2. Directors' remuneration is excluded from Employees: Salaries and relevant costs. Directors' remuneration are disclosed in detail on pages 75 to 77.

TEN-YEAR REVIEW

as at 31 March 2016

There have been significant improvements in Denel's financial performance since 2010/11. The following table illustrates the group's ten-year financial performance:

	2015/16	2014/15	2013/14	2012/13	2011/12	2010/11	2009/10	2008/9	2007/8	2006/7
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
CONSOLIDATED INCOME STATEMENTS AND STATEMENTS OF COMPREHENSIVE INCOME ¹										
Revenue	8 228	5 852	4 588	3 918	3 568	3 252	3 610	3 924	3 818	3 268
Gross profit	1 672	1 137	899	826	862	503	578	639	600	754
Other operating expenses	(1 455)	(939)	(879)	(940)	(958)	(897)	(846)	(1 285)	(1 082)	(1 257)
Operating profit	505	335	224	117	100	(314)	(162)	(463)	(233)	(387)
Net finance costs	(203)	(123)	(92)	(107)	(84)	(120)	(139)	(73)	(61)	(143)
Depreciation	(131)	(126)	(128)	(97)	(93)	(93)	(92)	(112)	(108)	(132)
Profit/(Loss) before taxation	434	276	190	82	49	110	(236)	(508)	(312)	(494)
Profit/(Loss) after taxation for the year from continuing operations	395	270	194	71	41	111	(246)	(533)	(321)	(507)
Income tax expense	(39)	(6)	4	(11)	(8)	1	(10)	(25)	(9)	(13)
Non-controlling interest in profit/(loss)	17	4	-	-	-	(47)	(65)	(91)	(13)	(1)
EBIT	637	399	282	189	133	230	(97)	(435)	(251)	(351)
Profit/(Loss) for the year	395	270	194	71	41	111	(246)	(533)	(347)	(549)

CONSOLIDATED STATEMENTS OF CASH FLOWS ²

Cash flows (used in)/from operations ³	(701)	281	474	(151)	360	178	(344)	(806)	72	(1 015)
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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION ⁴

Non-current assets	3 113	2 458	2 293	2 177	2 131	2 110	1 677	1 623	1 476	1 348
Current assets	9 733	7 145	5 712	4 497	3 420	2 921	3 343	3 107	3 607	2 616
Assets held for sale	156	84	84	104	91	7	-	9	58	540
Total assets	13 002	9 687	8 089	6 778	5 642	5 038	5 020	4 739	5 140	4 504
Current liabilities	6 212	4 094	2 484	2 465	3 659	3 704	3 671	3 446	3 081	3 000
Non-controlling interest	19	3	6	8	-	-	(34)	31	102	6
Non-current loans and borrowings	1 995	888	1 616	1 406	101	101	101	53	1	2
Current loans and borrowings	1 722	1 270	259	507	1 865	1 845	1 943	1 074	234	833
Total equity surplus	2 321	1 927	1 664	1 472	695	654	609	849	1 328	633

1. Refer consolidated income statements and statements of comprehensive income, page 143.

2. Refer consolidated statements of cash flows, page 145.

3. Capital repayment amount of R69m on Interest bearing borrowings were incorrectly included as Interest paid in the consolidated statement of cash flows, 2014/15 for both group and company. Refer note 27.2.

4. Refer consolidated statements of financial position, page 142.

	2015/16	2014/15	2013/14	2012/13	2011/12	2010/11	2009/10	2008/9	2007/8	2006/7
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
RETURNS %										
Gross profit to revenue	20,3	19,4	19,6	21,1	24,2	15,5	16,0	16,3	15,7	23,1
Other operating expenses to revenue	17,7	16,0	19,2	24,0	26,8	27,6	23,4	32,7	28,3	38,5
Operating profit/(loss) to revenue	6,1	5,7	4,9	3,0	2,8	(9,7)	(4,5)	(11,8)	(6,1)	(11,8)
Net profit/(loss) to revenue	4,8	4,6	4,2	1,8	1,1	3,4	(6,8)	(13,6)	(9,1)	(16,8)
Operating profit/(loss) to average total assets	4,5	3,8	3,0	1,9	1,9	(6,2)	(3,4)	(9,9)	(4,8)	(8,4)
Operating profit/(loss) to ordinary shareholders' interest ¹	23,8	18,7	14,3	10,8	14,4	(48,0)	(26,6)	(54,5)	(17,5)	(61,1)
RATIOS										
Debt/equity ratio	1,6	1,1	1,1	1,3	2,8	3,0	3,4	1,3	0,2	1,3
Current asset ratio	1,6	1,7	2,3	1,8	0,9	0,7	0,8	0,9	1,2	0,9
Net finance cost cover	2,1	2,2	2,1	0,8	0,7	1,2	(1,6)	(6,9)	(5,2)	(3,5)
Revenue per employee (Rm)	1,6	1,3	1,1	0,9	0,8	0,7	0,7	0,8	0,5	0,4
STATISTICS										
Number of shares in issue (million) ²										
Class A ordinary shares	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	976
Class B ordinary shares	225	225	225	225	225	225	225	225	225	40
Total shares	1 225	1 225	1 225	1 225	1 225	1 225	1 225	1 225	1 225	1 016
Number of employees ³	5 114	4 559	4 136	4 219	4 716	4 716	5 090	5 067	7 276	7 634

1. The ratio was calculated using the average ordinary shareholders' interest.

2. Refer note 20.2.

3. For 2015/16, including associated companies, Denel employed 7 164 (2014/15: 6 931) employees.

PERFORMANCE AGAINST THE SHAREHOLDER'S COMPACT

Denel commits to key performance areas with its shareholder on an annual basis which is documented in the Shareholder's Compact. Performance against the contracted targets is continuously monitored by the board and reported to the shareholder on a quarterly basis. We are pleased that Denel has outperformed the contracted targets in most areas. The performance achieved by the group for the year under review, compared to the contracted targets, is provided in the table below:

STRATEGIC INTENT	KEY PERFORMANCE AREA	KEY PERFORMANCE INDICATOR	TARGETS	ACTUAL
STRATEGIC ROLE IN THE PROVISION OF DEFENCE CAPABILITIES	Security of supply and retention of capabilities in areas required by the DoD&MV	Retained strategic capabilities in support of the DoD&MV's requirements as per register (%)	100	100
	Programme delivery	Achieving contracted cash flow targets	85	100
STRATEGIC ECONOMIC ROLE	Investment in R&D	Self-funded R&D as a % of revenue ¹	3	1
BUSINESS SUSTAINABILITY	Sales	Increase in revenue year-on-year	20	41
	Profitability management	EBIT margin (%)	6	8
	Cash from operating activities	Cash flow from operating activities as a % of revenue	5	9
	Order cover	Orders concluded in respect of the coming year as a % of revenue budget for that year	70	87
	Operating expenditure	Operating costs as a % of revenue	21	18
SOCIO-ECONOMIC OBJECTIVES	Maximise the appointments from designated groups in order to address employment equity requirements	ACI as % of total appointments	80	83
		Women as % of total appointments ²	40	35
	Preferential procurement and enterprise development	Procurement from black-owned suppliers as % of local spend	15	29
		% Recognised spend in terms of B-BBEE	80	101
		Black woman-owned as a % of total local spend	3	9
		Black youth-owned as a % of total local spend	1,5	2,0
		Small and emerging enterprises suppliers developed	20	40
	B-BBEE level	B-BBEE contributor level (old codes) ³	Level 3	Level 2
	Training spend	% of employee cost	3	3
	Skills development – scarce and critical skills	Total number of engineering trainees (bursaries and internships)	100	107
		Total number of technician and artisan trainees	110	150
		Total number of DTA artisan and technical skills trainees (DTA students enrol during January of each year) ⁴	350	213
	Employment – direct jobs created	Increase number of jobs	150	266

1. Not fully met partly due to a significant increase in revenue of 41% (2014/15: 28%).

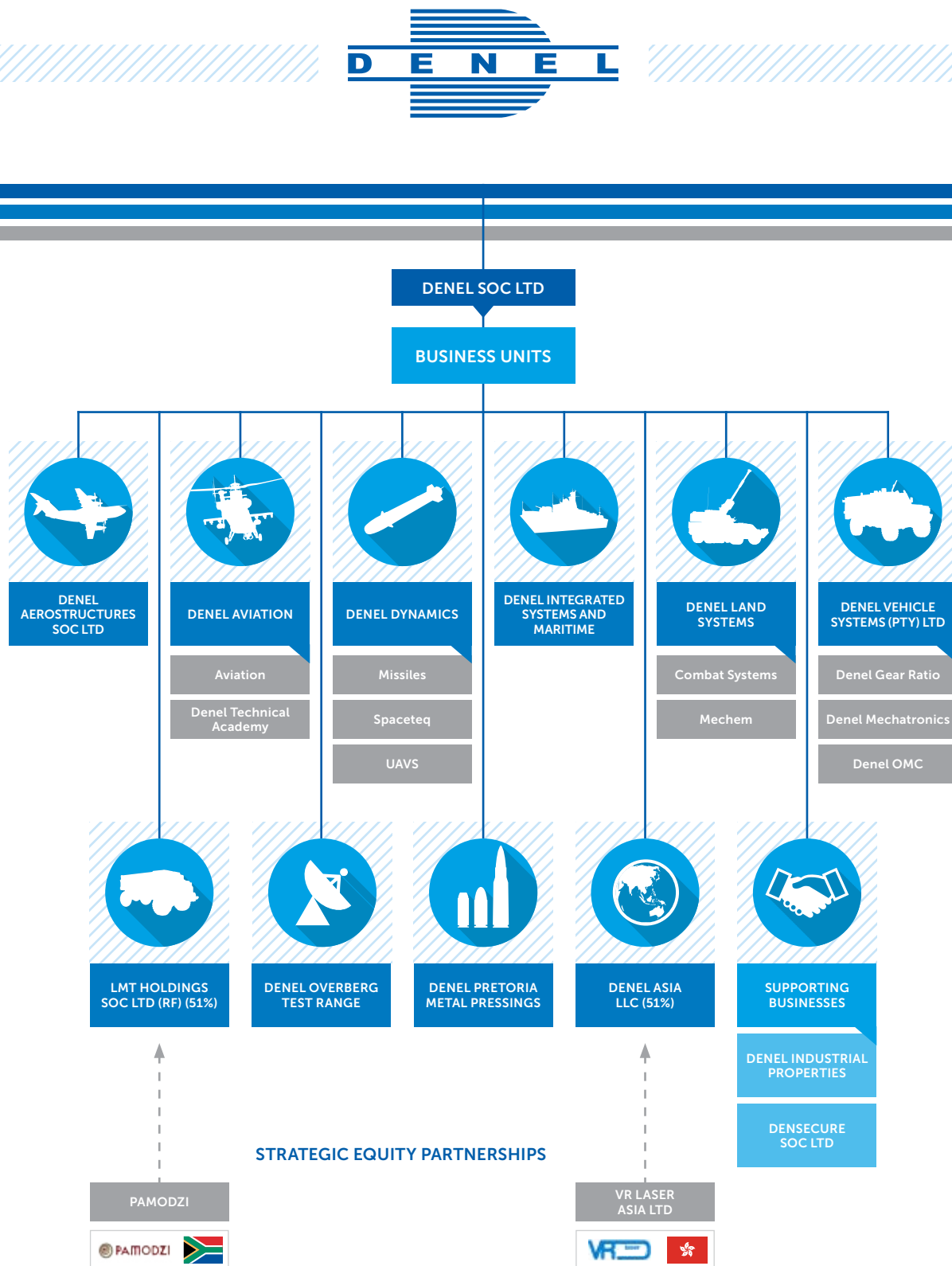
2. Increased from 30% in 2014/15 to 35%. Denel participates in various programmes that target female learners, refer pages 100 to 101.

3. Achieved level 4 on the new B-BBEE codes. The impact of the amendment cut across all industries and as a result, Denel reviewed and adjusted its transformation plans accordingly. The key priority areas for improvement include supply chain transformation, as well as employment equity.

4. Due to limited funding Denel could only accommodate 213 students during the year under review. Denel targets specific sources to attract its pool of talent and create its skills pipeline, refer page 105.



BUSINESS UNITS



Denel's shareholding is 100%, unless stated otherwise.

DENEL AEROSTRUCTURES SOC LTD



[DAe is the leading aerospace company in Africa – a powerhouse in aerospace design and manufacturing for the military and commercial aviation sectors. As a strategic partner in global programmes the company continues to build on its long-standing reputation of innovation, quality and specialised solutions in aerospace design and manufacturing. DAe uses advanced manufacturing technologies to design and produce complex composite and metallic aircraft structures, which it supplies to OEMs and other aerostructure suppliers.]

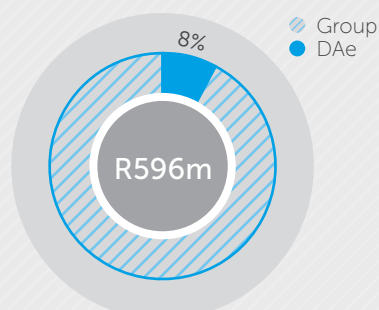
MAIN ACTIVITIES, INCLUDING KEY PRODUCTS AND SERVICES

- » The design, development, manufacturing, supply and support activities of the Airbus A400M wing-to-fuselage fairing (WFF) and top shells (TS) structural components. In addition to these design-to-build work packages, DAe was also awarded the build-to-print work packages of the ribs, spar and sword (RSS) for the vertical tail fin and ISO-Locks and central guide vertical restraint system (CGVR) for the cargo hold system of the aircraft;
- » Collaborative research with partners such as the dti (Aerospace Industry Support Initiative), the CSIR and Airbus Defence and Space; and
- » Providing engineering support to other Denel business units, such as engineering support on the Rooivalk combat support helicopter programme, design support on the Seeker 400 UAVS and Hoefyster project.

KEY HIGHLIGHTS AND ACHIEVEMENTS

- » DAe concluded on all main restructuring activities linked to the turnaround strategy;
- » Reversed a loss of R328m (2009/10) and achieved break-even in 2015/16;
- » The key project, A400M WFF/TS deliverables (>70% of the business), remain on schedule and on quality; and
- » Achieve roadmaps developed for SARA and Rooivalk.

CONTRIBUTION TO GROUP REVENUE 2015/16



	2015/16 Rm	2014/15 Rm	Growth %
Revenue	621	468	33
Export revenue	583	419	39
EBIT	7	(19)	137

Note: The financial indicators in the table above represent the business unit performance, including intergroup activities.

447
employees



B-BBEE
5
Level

DENEL AVIATION

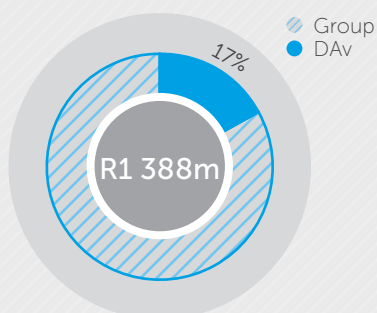


[As the OEM of the Rooivalk combat support helicopter, DAv is also the design authority of the Oryx medium transport helicopter and the Cheetah multi-role fighter aircraft. DAv is an accredited and certified provider of aircraft MRO solutions (including upgrades and systems integration) for both fixed- and rotary-wing aircraft, associated components and ground support equipment. DAv, through the DTA, provides apprenticeship training in several trades from general engineering trades to advanced aircraft type training.]

MAIN ACTIVITIES, INCLUDING KEY PRODUCTS AND SERVICES

- » Rooivalk OEM, Oryx and Cheetah design authority and comprehensive MRO, engineering and flight test services, upgrade solutions, systems integration, certification and continued airworthiness support;
- » Accredited MRO service centre for Airbus Helicopters Super Puma AS332, Puma SA330, Squirrel AS350 and Bo105 helicopters;
- » Primary MRO provider for the SAAF Oryx and Rooivalk helicopters with responsibility for continued aircraft airworthiness;
- » Accredited Lockheed Martin Hercules Service Centre for C-130 and L-100 aircraft with a sound and well-positioned infrastructure offering a wide range of MRO services for both transport and tactical fixed-wing aircraft, including the Cheetah and Mirage fighter aircraft platforms;
- » Accredited Airbus Helicopters dynamic component repair and overhaul centre for depot-level maintenance for Puma and Super Puma helicopters including depot level maintenance for avionics, electrical, oxygen and hydro-mechanical components. The facility is also accredited by the South African National Accreditation System (SANAS) to carry out repairs and calibration of ground support and test equipment;
- » Through the DTA, Denel provides advanced and type training, as well as apprenticeship training for the aerospace, engineering and defence industries;
- » Accredited MRO centre for Russian Helicopters in Africa for the Mi-8 and Mi-17 variants of helicopters;
- » Approved by the South African Civil Aviation Authority (SACAA), the European Aviation Safety Agency (EASA) and the Aircraft Maintenance Organisation (AMO) for civil registered aircraft;
- » Certified to the AS9100C Aerospace Standard and ISO9001:2008 Standard by Bureau Veritas International; and
- » Certified by the South African Bureau of Standards (SABS) to the OHSAS18001 safety standard and ISO14001 Environmental Standards.

CONTRIBUTION TO GROUP REVENUE 2015/16



	2015/16 Rm	2014/15 Rm	Growth %
Revenue	1 407	1 155	22
Export revenue	275	185	49
EBIT	89	68	31

Note: The financial indicators in the table above represent the business unit performance, including intergroup activities.

KEY HIGHLIGHTS AND ACHIEVEMENTS

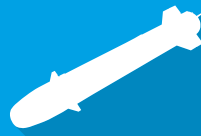
- » DAv has been commissioned to do an obsolescence and supportability study to inform both the upgrade of the current Rooivalk Mk1F baseline and future development of a Rooivalk Mk2 for both local and export markets;
- » DAv continued to ensure availability of aircraft for the SAAF as primary customer and other defence forces both on the African continent and externally through its service offering;
- » Support to Transnet National Ports Authority in the operation of its helicopters for marine services was successfully executed;
- » Successful completion of project Drummer 2; and
- » The DTA was successful in executing a major contract for the training of aircraft artisan for a country in West Africa.

702
employees



B-BBEE
5
Level

DENEL DYNAMICS



[DD is an innovative leader in advanced systems technology. The core business includes tactical missiles and precision-guided weapons, as well as the design, development and manufacturing of tactical UAVS and high-speed target systems. DD also develops satellite systems for the SA Government through SANSA.]

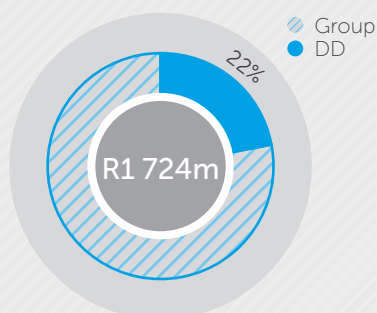
MAIN ACTIVITIES, INCLUDING KEY PRODUCTS AND SERVICES

- » The current range of missile products and systems includes the A-Darter air-to-air missile system, the Umkhonto-IR air defence missile system, the Ingwe and Mokopa anti-armour missile systems, Ingwe Portable Launch System, precision-guided munitions and the Umbani and Raptor II stand-off weapons;
- » Denel's UAVS portfolio includes the battle-proven Seeker 200, newly qualified Seeker 400 and Skua high-speed target drone system. The latest addition being Hungwe, a small UAV for tactical requirements is currently under development; and
- » Spaceteq develops space solutions to solve a number of real life challenges for national, as well as international clients through space based systems. The product range includes the earth observation satellite system.

KEY HIGHLIGHTS AND ACHIEVEMENTS

- » The A-Darter 5th generation air-to-air missile qualification phase is nearing completion and DD received a production contract for the SAAF, as well as integration contract for the Brazilian FX2 programme;
- » Beyond visual range missile technologies and airframe tested successfully in flight and can now progress towards programmed and guided flight trials to demonstrate technology readiness for full-scale development;
- » Successful sea acceptance trials of the Umkhonto SAM missile on a navy vessel for an international customer, as well as first batch of missile delivered;
- » Delivered the Ingwe weapon system on EC635 helicopter successfully with an initial batch of missiles. The user has deployed the system and is testing it operationally;
- » Successful user evaluations were done in SA for Ingwe mounted on an international infantry combat vehicle in collaboration with DLS;
- » Mokopa integrated on the Lynx helicopter is complete and a first batch of missiles delivered to the client;
- » The Umbani bomb kit was produced at high volumes and successfully deployed and tested operationally;
- » Seeker 400 factory and flight acceptance tests completed successfully during the year under review and the certification is in progress. Client crew training underway; and
- » The system definition review milestone for the satellite project was achieved in December 2015.

CONTRIBUTION TO GROUP REVENUE 2015/16



	2015/16 Rm	2014/15 Rm	Growth %
Revenue	1 821	1 490	22
Export revenue	1 242	836	49
EBIT	120	122	(2)

Note: The financial indicators in the table above represent the business unit performance, including intergroup activities.

861
employees



B-BBEE
5
Level

DENEL INTEGRATED SYSTEMS AND MARITIME



[The formation of a new business unit within the Denel group was announced in December 2014 and Denel ISM was officially established during April 2015. Our vision is to be the trusted sovereign technology partner and systems integrator to the maritime and sovereign security sectors in the realisation and through life support of complex systems. Denel ISM's mission is to contribute to the promotion of peace, safety and security in the defence and security markets by delivering and supporting complex, multi-disciplinary systems in partnership with defence, security and maritime stakeholders.]

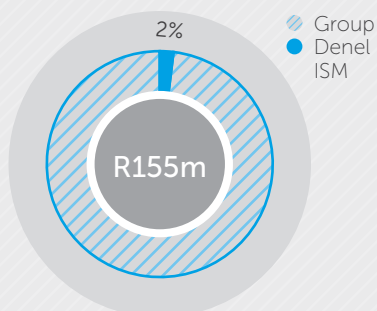
MAIN ACTIVITIES, INCLUDING KEY PRODUCTS AND SERVICES

- » With the addition of Denel ISM to the Denel Group, the company is able to apply its systems engineering and programme management capabilities, grown out of the defence industry, into the maritime and sovereign security domains;
- » Denel ISM's primary maritime strategic objective is to partner with Armscor and the SA Navy to rejuvenate the naval dockyard facilities in Simon's Town and Durban. Our key objective is to ensure maximum operational availability of the SA Navy fleet. Through strategic investment initiatives, Denel ISM plans to improve the facilities to attract additional commercial refit and upgrade work, all of which is aligned in support of Operation Phakisa's objective of growing the ocean economy; and
- » Existing projects in the form of GBADS and ACHILLES have provided a foundation for Denel ISM to become the SA Government's preferred trusted sovereign security technology partner. As systems integrator, our focus areas include cyber security, disaster management, border security, C4ISR, and electronic warfare, with comprehensive support to the SAPS, state security and wider security cluster stakeholder community.

KEY HIGHLIGHTS AND ACHIEVEMENTS

- » Process to transfer management and operation of the Simon's Town and Durban Naval Dockyard to Denel is well-advanced;
- » Submitted multi-billion rand proposals for Naval acquisition programmes;
- » Support to the border management agency and Department of Home Affairs;
- » Support to the Gauteng Disaster Management Centre; and
- » MoUs signed with various security technology partners.

CONTRIBUTION TO GROUP REVENUE 2015/16



	2015/16 Rm	2014/15 Rm	Growth %
Revenue	422	n/a	100
Export revenue	-	n/a	100
EBIT	(17)	n/a	100

Note: The financial indicators in the table above represent the business unit performance, including intergroup activities.

44
employees



B-BBEE
3
Level

DENEL LAND SYSTEMS



[DLS who was a finalist in the best company to work for in South Africa 2015 is a consolidated, project-based, leading systems designer and integrator of combat turrets, artillery and infantry systems, small arms and armoured vehicles. As part of DLS, the Mechem business unit is a global leader in creating a safer environment through the provision of solutions for the clearance of explosive remnants of war (ERW), as well as mine- and ballistic-protected vehicle design and manufacture for customers such as the UN, other international agencies, governments and commercial customers globally.]

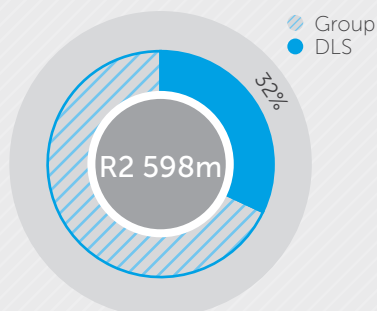
MAIN ACTIVITIES, INCLUDING KEY PRODUCTS AND SERVICES

- » High-end technology and engineering capabilities to take complex systems and products through their entire lifecycle, providing product and logistic support, including qualification, maintenance, upgrades and eventual decommissioning, as required;
- » The development of the Badger family of new generation infantry combat vehicles, under project Hoefyster;
- » Utilising state-of-the-art, modular combat turret variants, equipped with home-grown GI-30 rapid-fire cannon (30mm CamGun) and 60mm breech-loading long-range mortar systems;
- » Other products and systems include artillery systems, combat turrets, vehicles systems and rapid-fire small- and medium-calibre weapons, of which a wide range of highly competitive, world-class products is available;
- » Mechem utilises a range of technologies, services and products in the ERW clearance applications. The technologies employed include manual demining, battle area clearance, stockpile destruction and explosive ordnance disposal, vehicle-mounted demining, mechanical demining, landmine surveys, range clearance, quality assurance and victim assistance;
- » MEDDS, a unique remote scent detection capability, used in the identification of mines, explosives, drugs and other contraband, significantly improves the success of detecting banned and dangerous substances; and
- » The design and manufacture of mine-protected vehicles, e.g. Casspir.

KEY HIGHLIGHTS AND ACHIEVEMENTS

- » The production baseline for the Badger fleet leader has been approved, allowing for industrialisation and production;
- » Major milestones reached on the AV8 turret system contract are the completion of the light combat turret (LCT) 30 product baseline and the assembly of 20 LCT30 systems by a Malaysian client.
- » Order from SAPS for MRO of R5 rifles delivered successfully;
- » Mechem completed various demining or ERW clearing projects in various African countries, delivering large tracts of land and roads clear of mines and other ERW. This supports countries and their citizens in returning their lives to normality;
- » Mechem has also expanded its camp provision and management contracts with the UN in African conflict areas;
- » The new generation Casspir vehicle continues to generate interest and the UN has awarded a 24 month long-term agreement to Mechem for the supply of Casspirs; and
- » Mechem was awarded a contract by South African National Parks (SANParks) as their dog service provider in the Kruger National Park.

CONTRIBUTION TO GROUP REVENUE 2015/16



	2015/16 Rm	2014/15 Rm	Growth %
Revenue	2 603	1 627	60
Export revenue	1 761	1 089	62
EBIT	139	65	114

Note: The financial indicators in the table above represent the business unit performance, including intergroup activities.

715
employees



B-BBEE
5
Level

DENEL VEHICLE SYSTEMS (PTY) LTD



[DVS, a subsidiary of Denel, is a land systems defence business providing turnkey vehicle systems to police and armed forces in the local market and selected export markets. DVS has three divisions, i.e. Denel OMC, Denel Gear Ratio and Denel Mechatronics. Denel OMC is a supplier of armoured vehicles. It designs, develops, manufactures, upgrades and supports a wide range of armoured vehicles from heavy combat vehicles to armoured patrol vehicles including mine-protected vehicles. Denel Gear Ratio manufactures gearboxes and components which encompasses a process of design, development, manufacturing and after-sales support. Denel Mechatronics is a supplier of fire directing and related fire control sub-systems which encompasses a process of design, development, manufacturing and after-sales support. DVS has developed close relationships with the SANDF, the SA Army, SAPS, Armscor, key strategic international customers and a number of other local customers, suppliers and collaborators.]

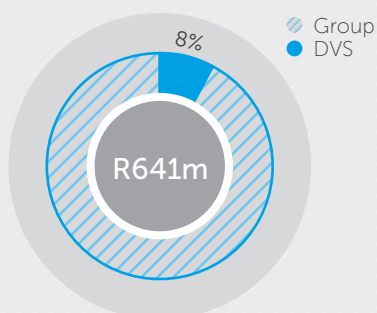
MAIN ACTIVITIES, INCLUDING KEY PRODUCTS AND SERVICES

- » Denel OMC - Supplier of armoured vehicles. It designs, develops, manufactures, upgrades and supports a wide range of armoured vehicles from combat vehicles to armoured patrol vehicles including mine-protected vehicles. The product range includes the RG31, RG32, N35, international product support (spares) and maintenance and configuration control support to the SA Army military vehicle fleet;
- » Denel Gear Ratio - Manufactures gearboxes and components which encompasses a process of design, development, and after-sales support. The product range includes gearboxes, transfer cases and railway traction gears; and
- » Denel Mechatronics - Supplier of fire directing systems and related fire control subsystems which encompasses a process of design, development, manufacturing and after-sales support. The product range includes advanced sights for combat systems (i.e. Badger), platform independent weapons subsystems, remote unmanned turrets incorporating latest defence technologies, turret integration, electronics integration and unmanned aerial targets.

KEY HIGHLIGHTS AND ACHIEVEMENTS

- » Improved relationship with the SANDF;
- » Key strategic contracts signed with a customer in the UAE for the development and supply of N35 vehicles. Total estimated value of the contracts is R1.2bn; and
- » Contract signed with an African country for the supply of RG32M navy patrol vehicles.

CONTRIBUTION TO GROUP REVENUE 2015/16



	2015/16 Rm	2014/15 Rm	Growth %
Revenue	664	n/a	100
Export revenue	274	n/a	100
EBIT	90	n/a	100

Note: The financial indicators in the table above represent the business unit performance, including intergroup activities.

520
employees



B-BBEE

7
Level

LMT HOLDINGS SOC LTD (RF)



LMT specialises in ballistic, landmine and improvised explosive devices (IEDs) protection and the integration of these protection technologies into armoured vehicles, and has the ability to design and manufacture mine-protected vehicles with amongst others, flat or semi-flat floor mine protection.]

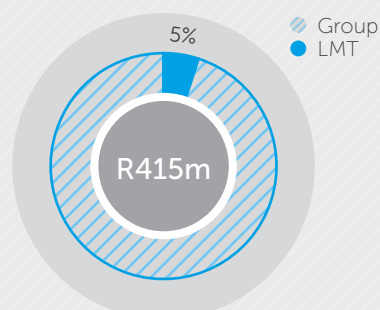
MAIN ACTIVITIES, INCLUDING KEY PRODUCTS AND SERVICES

- » LMT covers the full value chain, from R&D, design, full-scale production to after-sales support and training. The product portfolio consists of armoured cabs and armoured containers to 4x4 armoured vehicles providing very high levels of ballistic, landmine and IED protection whilst still retaining exceptional on- and off-road mobility. Products currently in service are the LM5, LM8 and LM13 armoured vehicles, with the LM14 MRAP vehicle currently in development;
- » Product development consists of 'best of its class' design centre and a fully equipped prototype workshop to manufacture vehicles up to the product baseline; and
- » Production capability includes full-scale hull fabrication and complete vehicle assembly of up to 20 vehicles per month.

KEY HIGHLIGHTS AND ACHIEVEMENTS

- » Delivery of 79 LM8 vehicles and 24 LM13 vehicles to a Middle East client;
- » Contracts to supply LM5 vehicles to countries in Africa; and
- » Design and development of the LM14 MRAP vehicle in only nine months following rapid prototype principles.

CONTRIBUTION TO GROUP REVENUE 2015/16



	2015/16 Rm	2014/15 Rm	Growth %
Revenue	422	231	83
Export revenue	413	205	101
EBIT	45	13	246

Note: The financial indicators in the table above represent the business unit performance, including intergroup activities.

283
employees



B-BBEE

6
Level

DENEL OVERBERG TEST RANGE



OTR is a versatile missile and aircraft test range that specialises in rendering performance evaluation and verification services on in-flight systems. It provides support for the qualification of airborne systems, as well as validating the operational effectiveness of military systems for SA's military-industrial users, international defence forces and armament industries.]

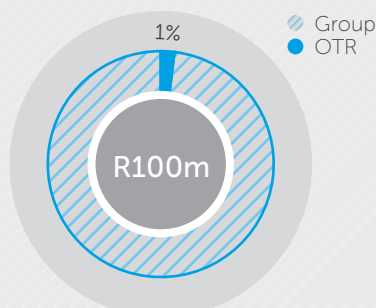
MAIN ACTIVITIES, INCLUDING KEY PRODUCTS AND SERVICES

- » Flight tests on sophisticated missile, rocket, bomb and guided munitions systems;
- » Evaluation and measurement of aircraft performance, avionic system evaluation, carriage and release clearance of ordnance and other payloads;
- » Measurement of trajectories of all types of bombs, as well as other guided and unguided munitions; and
- » Execution of anti-tank tests, helicopter-based tests, and electronic warfare tests; and
- » Mobile test range support services in remote locations for flight tests on weapon systems, as well as launch support during space missions.

KEY HIGHLIGHTS AND ACHIEVEMENTS

- » Provided in-flight test services to the SANDF in terms of a multi-year contract with the DoD&MV;
- » Conducted test campaigns for European and South East Asian clients, involving a naval exercise and testing of air defence weapons, as well as rocket firings for a new client;
- » Hosted the Rheinmetall Denel Defence day. During the two days more than 20 different weapon systems were demonstrated to more than 300 foreign delegates from 57 countries;
- » Secured a contract to provide flight test support services at two test sites in Europe. This will be the first flight test support provided outside OTR; and
- » Continued with technology renewal programme focused on upgrading capabilities to meet client requirements, including the replacement of the time-base system and the tracking radar's calibration system.

CONTRIBUTION TO GROUP REVENUE 2015/16



	2015/16 Rm	2014/15 Rm	Growth %
Revenue	116	170	(32)
Export revenue	37	87	(57)
EBIT	14	15	(7)

Note: The financial indicators in the table above represent the business unit performance, including intergroup activities.

165
employees



B-BBEE
5
Level

DENEL PRETORIA METAL PRESSINGS



PMP is an integrated manufacturer of small- and medium-calibre ammunition and technology-related products and services for military and commercial use. PMP's products are widely used by many customers, including the SANDF, SAPS and other security agencies, locally and abroad. These include small- and medium-calibre ammunition for soldiers, police or for weapons mounted on fighting vehicles, helicopters, fighter aircraft and navy vessels. The company supplies handgun and rifle ammunition to the commercial sector, with its hunting ammunition being acclaimed by local and international users. It also provides the mining industry with drill bits and brass strip to various commercial entities.]

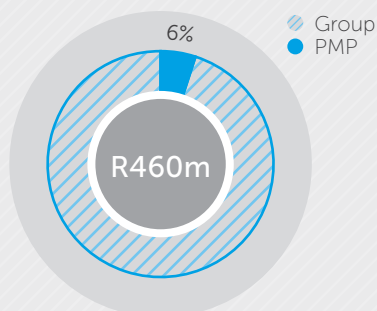
MAIN ACTIVITIES, INCLUDING KEY PRODUCTS AND SERVICES

- » Small-calibre ammunition ranging from 5.56mm to 12.7mm and medium-calibre ranges of ammunition from 20mm to 35mm that conform to international military standards;
- » Percussion caps of all types, as well as links for various small- and medium-calibre rounds;
- » Power cartridges, rocket motors and canopy fragilisation systems for the safe ejection of pilots from aircraft;
- » Probit rock drill bits for the mining industry;
- » Primary explosives and explosive products for commercial use in the private sector;
- » PMP's non-ferrous foundry and rolling plant produces up to 80tons of brass strip daily. A major portion is used for the manufacture of ammunition by PMP, with the remainder of the brass strip sold to both local and international commercial markets; and
- » Pro-Amm, Standard, Super and African Elite ranges of hunting ammunition have established a reputation for quality, accuracy and reliability in SA, as well as in the European and US markets.

KEY HIGHLIGHTS AND ACHIEVEMENTS

- » Successfully integrated NAMMO 12.7mm multi-purpose projectiles into PMP manufactured cartridge cases as part of the strategic alliance forged with the Nammo AS, the Norwegian based company. Further collaboration in similar endeavours are in the pipeline and are expected to yield fruits in the near future;
- » Successful in getting the first export orders of the weapon and ammunition of the 20X42mm Inkunzi PAW weapon system. Given the interest shown in the system, more orders are expected for this unique and niche product;
- » In the final stages of manufacturing components for the first demonstrator of the automatic version of the 20x42mm weapon system to be known as the iNkunzi Strike to be launched soon. Further development will be based upon this demonstrator unit; and
- » Teamed up with the Ohotnik group in Russia and successfully shipped commercial ammunition into the Russian market. This is the first foray into non-traditional markets and augurs well for growth in the region going forward.

CONTRIBUTION TO GROUP REVENUE 2015/16



	2015/16 Rm	2014/15 Rm	Growth %
Revenue	503	828	(39)
Export revenue	179	219	(18)
EBIT	(61)	38	(261)

Note: The financial indicators in the table above represent the business unit performance, including intergroup activities.

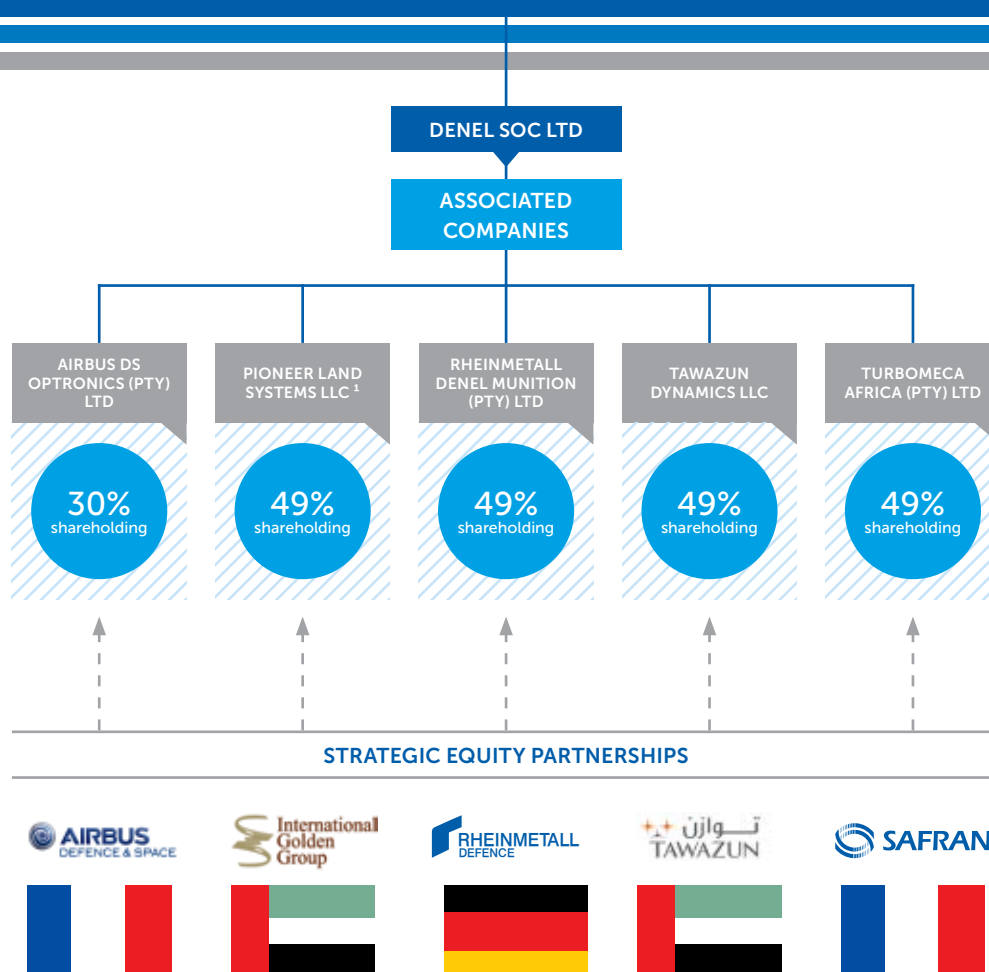
1 166
employees



B-BBEE

4
Level

ASSOCIATED COMPANIES



Denel's shareholding is 100%, unless stated otherwise.

1. Pioneer Land Systems LLC is a company only starting with its operations during the 2016/17 financial year.

AIRBUS DS OPTRONICS (PTY) LTD

30%



[Airbus DS Optronics (30% shareholding) is a global supplier involved in the development and production of optronics, optical and precision-engineered products for military and security applications.]

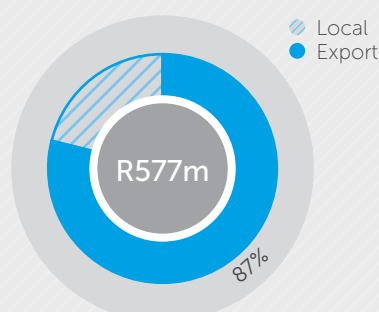
MAIN ACTIVITIES, INCLUDING KEY PRODUCTS AND SERVICES

- » The company's main activities include the supply of optical sensors, optical head-trackers, laser rangefinders, as well as targeting surveillance and sighting systems, to a spectrum of domestic and international defence and security customers.

KEY HIGHLIGHTS AND ACHIEVEMENTS

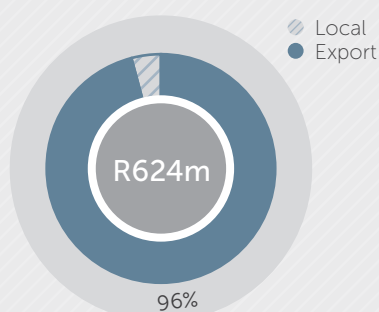
- » Completion of development of latest state-of-the-art stabilised gimbal observation system (Argos II) and first deliveries to export customers; and
- » Delivery of new technology tracking laser rangefinder to the SA Navy.

REVENUE 2015/16



	2015/16 Rm	2014/15 Rm	Growth %
Revenue	577	624	(8)
Export revenue	502	599	(16)
EBIT	60	56	7

REVENUE 2014/15



296
employees



RHEINMETALL DENEL MUNITION (PTY) LTD

49%



RDM (49% shareholding) specialises in the design, development and manufacture of large- and medium-calibre ammunition and is a world leader in the field of artillery, mortar and infantry systems and plant engineering. Its business focus is on Asia, the Middle East, South America, South Africa, other African countries and Europe via Rheinmetall AG.

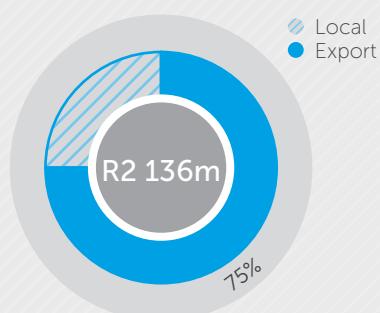
MAIN ACTIVITIES, INCLUDING KEY PRODUCTS AND SERVICES

- » Its product portfolio includes large-calibre ammunition (76mm to 155mm), artillery projectiles, propellant, charges, pyrotechnic carriers, mortar bombs, 40mm grenades and various missile subsystems. Plant engineering for various filling and lapping facilities is also part of the product portfolio.

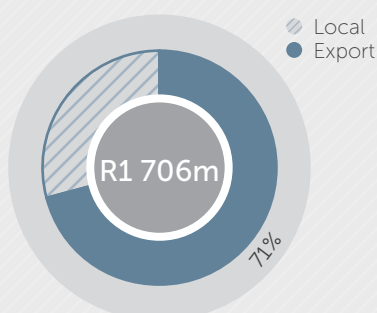
KEY HIGHLIGHTS AND ACHIEVEMENTS

- » The solid foundation that was laid for turnaround and sustainable growth and profitability is visible and was demonstrated with an EBIT margin of 9.7%;
- » Major achievement was a further strong increase in booked orders, with a value of more than R5bn (multi-year projects from Tawazun Dynamics, Rheinmetall Waffe Munition and International Golden Group (IGG) PJSC); and
- » The first year of the RDM Academy was successfully completed. RDM evaluated the candidates and all nine have been successfully placed in permanent positions across the company.

REVENUE 2015/16



REVENUE 2014/15



	2015/16 Rm	2014/15 Rm	Growth %
Revenue	2 136	1 706	25
Export revenue	1 602	1 204	33
EBIT	213	178	20

1 416
employees



**TAWAZUN
DYNAMICS LLC****49%**

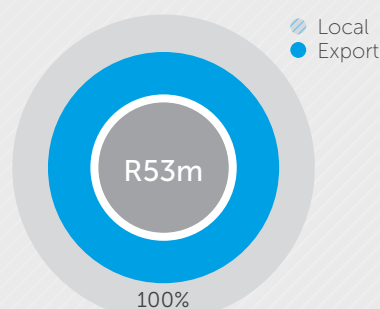
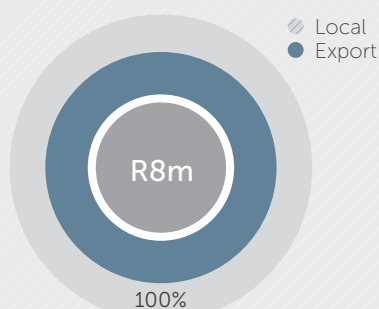
TD (49% shareholding) is a supplier of precision-guided munitions based in the UAE. It is an associated company of Denel as of 1 April 2013 and is in the start-up phase of the business, with a strategic intent to contribute to the industrial capacity of the UAE. The partnership creates synergy by utilising the technologies, skills and geo-political relationships of the two countries in a mutually beneficial way. It has a key trading relationship with Denel and the wider SA defence related industries, directly and indirectly enhancing the commercial success of all the parties.]

MAIN ACTIVITIES, INCLUDING KEY PRODUCTS AND SERVICES

- » The company's main activities are to install, sub-assemble, manufacture, as well as maintain and provide spare parts for precision-guided munitions for a spectrum of domestic and international defence and security customers, from its modern facilities in the Tawazun Industrial Park outside Abu Dhabi; and
- » Developing indigenous industrial skills is a key focus area.

KEY HIGHLIGHTS AND ACHIEVEMENTS

- » Production facility operational – all operational and support functions in place;
- » Activated an initial six-year contract with a value of more than R5bn to manufacture precision-guided munitions;
- » Significant progress towards ISO9001 certification, as well as certification from Abu Dhabi Environmental Health and Safety Centre which is intended to be in line with ISO14001 for environmental management and ISO18001 for OHS;
- » Significant progress of various new product developments; and
- » It is anticipated that TD will be profitable from 2016/17, based on delivery success and a strong long-term order book.

REVENUE 2015/16**REVENUE 2014/15**

	2015/16 Rm	2014/15 Rm	Growth %
Revenue	53	8	563
Export Revenue	53	8	563
EBIT	(83)	(81)	(2)

The functional currency is AED. Results reflected in 2016 are converted at R1=3.75028AED

100
employees



TURBOMECA AFRICA (PTY) LTD

49%



TMA is the world leader in design, manufacturing and sale of gas turbines for small- and medium- powered helicopters, and has more than 50 years' experience of cooperation in SA. In civil aviation, 34% of SA turbine helicopters are fitted with TM turbine-shaft engines. In military aviation, 75% of SA turbine helicopters are fitted with TM turbo-shaft engines. TMA (49% shareholding) has advanced local manufacturing capability and strategic MRO capability for local and international markets.

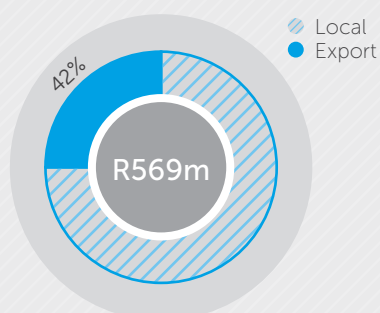
MAIN ACTIVITIES, INCLUDING KEY PRODUCTS AND SERVICES

- » TMA enables Denel to meet one of its strategic objectives to provide sovereign capabilities, e.g. SAAF helicopter fleet support;
- » Access to markets and technical skills provided by Safran affords the business the opportunity to operate on a commercial basis;
- » Advanced aerospace technology through skills and capabilities have been established during the development of the Rooivalk and will continue to be key for its ongoing support and upgrade; and
- » The high technology steel, aluminium and magnesium machining capability, including manufacture of vital parts with special process capabilities, provides the ability to attract programmes for Aerospace offset obligations.

KEY HIGHLIGHTS AND ACHIEVEMENTS

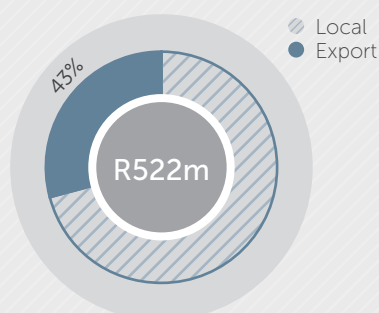
- » Improvements in maintenance and repair activities of engines and accessories, resulting in a minimum turnaround time for customers, specifically Makila and Arrius, with resulting in a reduction of work in progress;
- » Continued delivery of Rolls-Royce Tay gearboxes as single-source supplier and achieving the customer on-time delivery target at 85%;
- » Continued improvements in internal efficiencies, ensuring continued profitability; and
- » Maintained B-BBEE rating at a level 5 contributor.

REVENUE 2015/16



	2015/16 Rm	2014/15 Rm	Growth %
Revenue	565	522	8
Export revenue	237	253	(6)
EBIT	28	75	(63)

REVENUE 2014/15



238
employees







PART FOUR

CORPORATE GOVERNANCE

FOUR

DENEL BOARD OF DIRECTORS

The board is responsible for the strategic direction and oversight of the company.



LUGISANI DANIEL MANTSHA (46)

BJuris, LLB

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the board as chairman on 24 July 2015

DENEL BOARD COMMITTEE

MEMBERSHIPS: Chairman of the board

OTHER DIRECTORSHIPS: Lugisani Daniel Attorneys and Lugisani Management

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Legal and business



RIAZ SALOOJEE (53)

Executive national security programme (joint staff course/SANDF), BGen (retired), Senior command and staff course (SAAF), Junior command and staff course (SA Army), Certificate (strategic management) (UP)

GROUP CHIEF EXECUTIVE OFFICER

DENEL BOARD COMMITTEE

MEMBERSHIPS: Permanent invitee to the audit and risk, personnel, remuneration and transformation and social and ethics committees

DIRECTORSHIPS: Chairman of LMT, non-executive director of Aerospace Maritime and Defence Industries Association (AMD) and RDM, former CEO of a number of defence companies, including Metatek, Grintek Integrated Defence Solutions, Saab South Africa and Saab International (sub-Saharan Africa), former soldier, held various positions within the Defence Force, including advisor on transformation and human resources management, later leaving the force as a BGen and former member of the South African Air Force Reserve Council

RELEVANT SKILLS, EXPERTISE AND

EXPERIENCE: Vast leadership experience, business development and marketing, negotiation skills, mergers and acquisitions, international defence and customer experience, as well as significant experience working in sub-Saharan Africa

Appointed as group chief executive officer in January 2012 (suspended 23 September 2015 and terminated 8 April 2016)



FIKILE MHLONTLO (47)

BCompt, BCompt (Hons), CA (SA), attended various leadership courses

GROUP CHIEF FINANCIAL OFFICER

DENEL BOARD COMMITTEE

MEMBERSHIPS: Permanent invitee to audit and risk, personnel, remuneration and transformation and social and ethics committees

DIRECTORSHIPS: Non-executive director of DAe, LMT, Densecure SOC Ltd, RDM, TD and Airbus DS Optronics (Pty) Ltd, trustee of Denel Post-Retirement Trust, former director and audit partner of one of the big four audit firms, held various management positions and member of the LoveLife audit and risk committee

RELEVANT SKILLS, EXPERTISE AND

EXPERIENCE: Leadership in financial management, financial reporting and discipline, corporate governance, understanding of audit processes and strategy formulation

Appointed to the group executive committee in October 2008 (suspended 23 September 2015)


**MPHO KGOMONGOE
(40)**

BCom

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the board on 24 July 2015

DENEL BOARD COMMITTEE

MEMBERSHIPS: Interim chairperson of the audit and risk committee

OTHER DIRECTORSHIPS: None

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Auditing and risk management


PINKIE MAHLANGU (41)

BProc, Certificate (business rescue proceedings)

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the board on 24 July 2015

DENEL BOARD COMMITTEE

MEMBERSHIPS: Member of the personnel, remuneration and transformation committee

OTHER DIRECTORSHIPS:

Director of Amogelang Thato Tradings and Projects, Bungela Trading Projects and SV Mahlangu Inc

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Legal


**NONYAMEKO
MANDINDI (49)**

BSc (Quantity Surveying), Diploma (Project management), Certificate (housing finance), strategic agility certificate, property development programme, pPublic-private partnership (PPP) skills and competency development training programme

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the board on 24 July 2015

DENEL BOARD COMMITTEE

MEMBERSHIPS: Member of the personnel, remuneration and transformation committee

OTHER DIRECTORSHIPS:

Independent non-executive director of Hudaco Industries Ltd, Hudaco Trading (Pty) Ltd and independent chairperson of SVA International (Pty) Ltd

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Leadership, strategy, business turnaround and operations, infrastructure planning and investment, property asset management, organisational change and development


REFILOE MOKOENA (53)

BJuris, LLB

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the board on 24 July 2015

DENEL BOARD COMMITTEE

MEMBERSHIPS: Member of the social and ethics committee

OTHER DIRECTORSHIPS:

Non-executive director of Road Accident Fund (RAF), alternate non-executive director of State Information Technology Agency (SITA), executive director of Morakana Minerals Development Strategists, director of PriRef, Right Play Trading 110 (dormant), Bathopele Mining Investments, Mageza Raffee Mokoena Attorneys, Ref-Dave Properties, Hemmy Buoy, Livhuwani Coal Merchant, Basadi Auctioneers, Fine Rest Funeral Services, Kayvee Business Enterprises, Akani Aviation Leadership Initiative SA, Luso Mining and Industrial Supplies, Mokoena-Msiza, Luso Africa Development, Link Oil, SA Hydro Environmental Services, Agricultural Innovations and Management Services, Obaratile Aids Initiative, Refiloe Leruo Investments

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Corporate compliance and regulatory

Note: Denel board members on this page are in alphabetical order.



NKOPANE MOTSEKI (50)

Certificate (forensic investigations and crime intelligence), attended various intelligence courses, currently studying LLB (UNISA)

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the board in July 2011

DENEL BOARD COMMITTEE MEMBERSHIPS: Member of the social and ethics committee

OTHER DIRECTORSHIPS: Director of Gau Gold Investments, Matuba Holdings, Mzantsi Veterans Minerals and Energy Resources and Mzantsi Veterans Petroleum and Lubricants, previously held various executive roles in different organisations, including National Intelligence Agency (NIA) and Matjhabeng local municipality

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Policy development, experience in intelligence, security, strategy, media liaison and customer care



THAMSANQA JUSTUS MSOMI (44)

BA (Law)

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the board on 24 July 2015

DENEL BOARD COMMITTEE MEMBERSHIPS: Member of the audit and risk committee

OTHER DIRECTORSHIPS: Executive director of Mpezama Consulting (Pty) Ltd (dormant)

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Legal, policy development, implementation and execution and governance



THEMBA NKABINDE (62)

MBA, BMil, Project management programme

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the board on 24 July 2015

DENEL BOARD COMMITTEE MEMBERSHIPS: Chairman of the personnel, remuneration and transformation committee

OTHER DIRECTORSHIPS: Strategic equity partner of Aurecon, director of B-CAT Military (Pty) Ltd and SA Intelligence Fire Fighting High Tech Co (Pty) Ltd

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Defence, project management and business leadership



KHUMBUDZO NTSHAVHENI (39)

MBA, BA (Hons) (Labour Relations), BA (Hons) (Development Studies), BA (Political Science)

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the board on 24 July 2015

DENEL BOARD COMMITTEE MEMBERSHIPS: Chairperson of the social and ethics committee and member of the audit and risk committee

OTHER DIRECTORSHIPS: Trustee of Bokamoso BA Rona Investment Trust, non-executive director of Limpopo Tourism Agency, director of Muro Energy (Pty) Ltd

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Governance, information communication technology (ICT), business and operational management

Note: Denel board members on this page are in alphabetical order.



DENEL EXECUTIVES

The executives are responsible for overseeing the day-to-day management of the group's affairs, executing the decisions of the board, strategy development and financial performance.

DENEL GROUP EXECUTIVES



RIAZ SALOOJEE (53)

GROUP CHIEF EXECUTIVE OFFICER

Executive national security programme (joint staff course/SANDF), BGen (retired), Senior command and staff course (SAAF), Junior command and staff course (SA Army), Certificate (strategic management) (UP)

DENEL BOARD COMMITTEE

MEMBERSHIPS: Permanent invitee to the audit and risk, personnel, remuneration and transformation and social and ethics committees

DIRECTORSHIPS: Chairman of LMT, non-executive director of Aerospace Maritime and Defence Industries Association (AMD) and RDM, former CEO of a number of defence companies, including Metatek, Grintek Integrated Defence Solutions, Saab South Africa and Saab International (sub-Saharan Africa), former soldier, held various positions within the Defence Force, including advisor on transformation and human resources management, later leaving the force as a BGen and former member of the South African Air Force Reserve Council

RELEVANT SKILLS, EXPERTISE AND

EXPERIENCE: Vast leadership experience, business development and marketing, negotiation skills, mergers and acquisitions, international defence and customer experience, as well as significant experience working in sub-Saharan Africa

Appointed as group chief executive officer in January 2012 (suspended 23 September 2015 and terminated 8 April 2016)



FIKILE MHLONTLO (47)

GROUP CHIEF FINANCIAL OFFICER

BCompt, BCompt (Hons), CA (SA), attended various leadership courses

DENEL BOARD COMMITTEE

MEMBERSHIPS: Permanent invitee to audit and risk, personnel, remuneration and transformation and social and ethics committees

DIRECTORSHIPS: Non-executive director of DAe, LMT, Densecure SOC Ltd, RDM, TD and Airbus DS Optronics (Pty) Ltd, trustee of Denel Post-Retirement Trust, former director and audit partner of one of the big four audit firms, held various management positions and member of the LoveLife audit and risk committee

RELEVANT SKILLS, EXPERTISE AND

EXPERIENCE: Leadership in financial management, financial reporting and discipline, corporate governance, understanding of audit processes and strategy formulation

Appointed to the group executive committee in October 2008 (suspended 23 September 2015)



ELIZABETH AFRICA (55)

GROUP COMPANY SECRETARY

BAdmin, Company secretary studies, Executive development leadership diploma

DIRECTORSHIPS: Trustee of DenRet and member of Ethics Institute of SA

RELEVANT SKILLS, EXPERTISE AND

EXPERIENCE: Experience in Companies Act, King III, corporate governance, JSE and NYSE listing requirements, securities exchange and Sarbanes Oxley, drafting and implementation of financial policies, financial administration

Appointed as group company secretary in November 2009 (suspended 23 September 2015)

**ZWELAKHE NTSHEPE (58)**

GROUP EXECUTIVE: BUSINESS DEVELOPMENT AND CORPORATE AFFAIRS, ACTING GROUP CHIEF EXECUTIVE OFFICER

Post-graduate diploma (Management studies), MBA

DENEL BOARD COMMITTEE

MEMBERSHIPS: Invitee to the board, audit and risk, personnel, remuneration and transformation and social and ethics committees

DIRECTORSHIPS: Former non-executive director of Airbus DS Optronics (Pty) Ltd, stockbroker in New York and held various management positions

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Business management, negotiation skills, marketing and business development

Appointed to the group executive committee in September 2003 and acting group chief executive officer with effect 24 September 2015

**ODWA MHLWANA (39)**

ACTING GROUP CHIEF FINANCIAL OFFICER

NDip (Internal auditing), BCompt, BCompt (Hons), CA (SA)

DENEL BOARD COMMITTEE

MEMBERSHIPS: Invitee to the board, audit and risk, personnel, remuneration and transformation and social and ethics committees

DIRECTORSHIPS: Executive director of DVS and alternate director of LMT and RDM

RELEVANT SKILLS, EXPERTISE

AND EXPERIENCE: Financial planning and reporting and discipline, corporate governance, understanding of audit processes and strategy formulation acquired through various executive and senior finance roles in the auto, banking and defence industries

Appointed as acting group chief financial officer with effect 24 September 2015

**NATASHA DAVIES (44)**

GROUP EXECUTIVE: HUMAN RESOURCES AND TRANSFORMATION

MCom (Business Management), BCur (Hons), Executive leadership programme

DENEL BOARD COMMITTEE

MEMBERSHIPS: Permanent invitee to the personnel, remuneration and transformation and social and ethics committees

DIRECTORSHIPS: Trustee of Denel Retirement Fund (DenRet), former trustee of Denel Medical Benefit Trust (DMBT), as well as former non-executive director of LMT

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Leadership, business management experience, accomplished in all areas of the HR value chain, transformation and change management

Appointed to the group executive committee in July 2013

**JAN WESSELS (57)**

GROUP CHIEF OPERATING OFFICER

BEng (Hons) Electronics, Advanced management diploma

DENEL BOARD COMMITTEE

MEMBERSHIPS: None

DIRECTORSHIPS: Non-executive director of LMT, TD and TMA, former CEO of DD

RELEVANT SKILLS, EXPERTISE

AND EXPERIENCE: Held various management positions, leading business development and programmes execution activities

Appointed to the group executive committee in May 2013

Note: Denel group executives on this page are in alphabetical order.

DENEL BUSINESS UNITS' CHIEF EXECUTIVE OFFICERS



STEPHAN BURGER (58)

CHIEF EXECUTIVE OFFICER: DENEL LAND SYSTEMS

BEng (Mechanical), Post-graduate qualification (System Engineering), Certificate (positive negotiations, finance and quality)

DIRECTORSHIPS: None

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Leadership, business management, product development of defence systems, system integration, business development and general management

Appointed as chief executive officer in November 2004



ISMAIL DOCKRAT (46)

CHIEF EXECUTIVE OFFICER: DENEL INTEGRATED SYSTEMS AND MARITIME

MBA, NDip (Electronics Eng), Certificate (programme management)

DIRECTORSHIPS: Previous non-executive director of DAe and TMA, former CEO of DAe and DAv, CEO of Wesgro, GM at Trade and Investment South Africa, project manager at Armscor

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Strategic leadership, business management, programme management and turnaround management

Appointed as chief executive officer in November 2014



MICHAEL KGOBE (47)

CHIEF EXECUTIVE OFFICER: DENEL AVIATION

Masters (Aeronautical maintenance and production management), Executive leadership programme

DIRECTORSHIPS: Non-executive director of TMA

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Business management, engineering and project management

Appointed as chief executive officer in March 2010



THEO KLEYNHANS (55)

CHIEF EXECUTIVE OFFICER: DENEL AEROSTRUCTURES SOC Ltd

BEng (Electronics), MBL, Executive leadership programme

DIRECTORSHIPS: None

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Engineering, operations and business management and executive leadership

Appointed as chief executive officer in November 2014



TSEPO MONAHENG (52)

CHIEF EXECUTIVE OFFICER: DENEL DYNAMICS

BSc (Physics and Mathematics), BSc (Electronics Eng), MBA

DIRECTORSHIPS: Former deputy CEO of DD

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Leadership, strategy, business development and programme management Appointed as chief executive officer in May 2013



DR STEFAN NELL (52)

CHIEF EXECUTIVE OFFICER: LMT HOLDINGS SOC LTD (RF)

BEng Mech, BEng (Hons) MOT, MEng Mech, Diploma (Data), PhD Eng, MAP

DIRECTORSHIPS: Director of LMT

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Business leadership, strategy, military vehicle engineering, product development, business development, entrepreneurship and operations

Appointed as chief executive officer in March 1999

Note: Denel business units' chief executive officers on this page are in alphabetical order.

**PHALADI PETJE (50)**

CHIEF EXECUTIVE OFFICER: PRETORIA METAL PRESSINGS

BA (Hons) Economics, BEd, PDM (Bus Admin), Diploma (Management), Executive leadership programme

DIRECTORSHIPS: Current non-executive director of DAe, former non-executive director at Mechem, former deputy CEO of PMP

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Strategic planning, business development and business process re-engineering

Appointed as chief executive officer in May 2013

**JOHAN STEYN (58)**

CHIEF EXECUTIVE OFFICER: DENEL VEHICLE SYSTEMS

BEng Mech, BEng (Hons), MBA

DIRECTORSHIPS: Executive director of DVS, former managing director of BAE Systems Land Systems South Africa (Pty) Ltd

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Strategic leadership, operations, programme management, product development of armoured vehicles, system integration, business development, global partnering and negotiations

Appointed as chief executive officer in January 2001

**ABRIE VAN DER WALT (57)**

CHIEF EXECUTIVE OFFICER: DENEL OVERBERG TEST RANGE

MSc (Computer Science), Executive leadership programme

DIRECTORSHIPS: None

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Business management and executive leadership experience

Appointed as chief executive officer in December 2005

Note: Denel business units' chief executive officers on this page are in alphabetical order.

DENEL BUSINESS UNITS' DEPUTY CHIEF EXECUTIVE OFFICERS



ABDUL CARIM (50)

DEPUTY CHIEF EXECUTIVE OFFICER:
DENEL AVIATION

BCom, BAcc, CA (SA)

DIRECTORSHIPS: Non-executive director of DAe, held various CFO roles in government and other SOEs before joining Denel

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Financial management, financial reporting and management accounting

Appointed as deputy chief executive officer in July 2012



MXOLISI MAKHATINI (44)

DEPUTY CHIEF EXECUTIVE OFFICER:
DENEL LAND SYSTEMS

BSc (Electronic Eng), NDip (Electrical Eng), MSAIEE

DIRECTORSHIPS: Former chairman of the AMD marketing workgroup

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Specialist experience in the design of control systems, manufacturing, programme and business management, business development and marketing

Appointed as deputy chief executive officer in July 2012



BRIDGET SALO (39)

DEPUTY CHIEF EXECUTIVE OFFICER:
DENEL OVERBERG TEST RANGE

MPAdm, HPAdm, BTech (Public Management), NDip (Public Management and Administration)

DIRECTORSHIPS: None

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Human resources and human capital management, transformation and change management, leadership, business management and corporate governance

Appointed as deputy chief executive officer in December 2014



DENISE WILSON (58)

DEPUTY CHIEF EXECUTIVE OFFICER:
DENEL DYNAMICS

BSc (Hons), MSc (Eng), Executive leadership programme

DIRECTORSHIPS: None

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Engineering, operations and business management and executive leadership experience

Appointed as deputy chief executive officer in December 2014



VICTOR XABA (36)

DEPUTY CHIEF EXECUTIVE OFFICER AND BUSINESS DEVELOPMENT EXECUTIVE MANAGER: DENEL AEROSTRUCTURES

NDip (Chemical Eng), BTech (Quality), Diploma (Project Management), Senior management programme

DIRECTORSHIPS: None

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Process engineering, operations, project management, business development and marketing

Appointed as deputy chief executive officer in December 2014

Note: Denel business units' deputy chief executive officers in alphabetical order.

DENEL GROUP MANAGERS**FORTUNE LEGOABE (40)****GROUP LEGAL COUNSEL,
ACTING GROUP COMPANY
SECRETARY**

*BJuris, LLB, Executive leadership
programme*

**DENEL BOARD COMMITTEE
MEMBERSHIPS:** None

DIRECTORSHIPS: None

**RELEVANT SKILLS, EXPERTISE
AND EXPERIENCE:** Corporate
law, compliance, litigation,
intellectual property law,
business management,
strategic leadership, stakeholder
engagement, mentorship and
coaching

Appointed as group legal
counsel in July 2011 and acting
group company secretary with
effect 24 September 2015

**DENNIS MLAMBO (58)****GROUP SUPPLY CHAIN
EXECUTIVE**

*BCom, Diploma (Production
Management), Certified balanced
scorecard specialist, SHEQ training,
Executive management training*

DIRECTORSHIPS: Former
director of Ntsukumani (Pty) Ltd,
executive member of the State-
owned Enterprises Procurement
Forum

**RELEVANT SKILLS, EXPERTISE
AND EXPERIENCE:**

Business processes
design and optimisation,
strategy formulation and
implementation, supply chain
management, corporate
governance and risk and
business management

Appointed as group
supply chain executive in
October 2012

**VUYELWA QINGA (52)****GROUP COMMUNICATION
MANAGER**

*BJournalism and media studies,
Management development
programme*

DIRECTORSHIPS: Council
member of UP, director of
Cyniline (Pty) Ltd

**RELEVANT SKILLS, EXPERTISE
AND EXPERIENCE:** Strategic
leadership, corporate
communication, media
relations, image and reputation
management and stakeholder
engagement

Appointed as group
communication manager in
May 2013

**THEMBA ZWELIBANZI
(52)****GROUP RISK AND
COMPLIANCE MANAGER**

*BCom, Advanced programme risk
management, Diploma (Human
Resources), Graduate Diploma
(Company direction)*

DIRECTORSHIPS: Permanent
invitee to the audit and risk,
social and ethics committees,
member of DAe's audit and risk
committee, trustee of DMBT,
AMD Arms Control work group
member, council member of
SACCI, Densecure SOC Ltd
board member

**RELEVANT SKILLS, EXPERTISE
AND EXPERIENCE:** Risk
management, corporate
governance, change
management and negotiations
skills

Appointed as risk and
compliance manager in
June 2006

Note: Denel group managers in alphabetical order.

HOW WE ARE GOVERNED



RECOGNITION FOR GOOD CORPORATE GOVERNANCE AND REPORTING

- » Rated as a leading and well-governed SOC by the Centre for Corporate Governance at University of Stellenbosch in 2012
- » Recognised for excellence in corporate reporting by Nkonki Inc in top five SOC's in 2012, 2013 and 2014
- » Recognised by the JSE and Chartered Secretaries Southern Africa for excellence in corporate reporting with a Merit award in 2014

The board is committed to sound governance and ensures that the group's business is conducted in accordance with the highest standards of corporate governance. Risk management and internal control systems are in place, designed in accordance with best practice and in compliance with the King Code of Governance Principles and the King Report on Governance (King III report) recommendations, as well as the governance requirements of the Companies Act, no. 71 of 2008 (Companies Act), as amended. Denel adheres to the King III report on corporate governance.

Governance principles and the main duties of the chairman/chairperson, committees and group chief executive officer (GCEO) are clearly documented. The board charter includes a schedule of matters reserved for the board and the terms of reference of various board committees. The governance framework has been developed to meet the group's strategic objectives and compliance requirements, whilst balancing the interests of stakeholders, minimising and avoiding conflicts of interest and practicing good corporate behaviour. Sound corporate governance practices are embedded in our values, culture and processes.

The group is managed in an efficient, accountable, transparent and ethical manner. This ethos is embedded in all the group's activities and thus Denel's governance framework encompasses more than compliance with legislation.

board are individually and collectively aware of their responsibilities to the group's stakeholders and each director brings experience, independence and judgement.

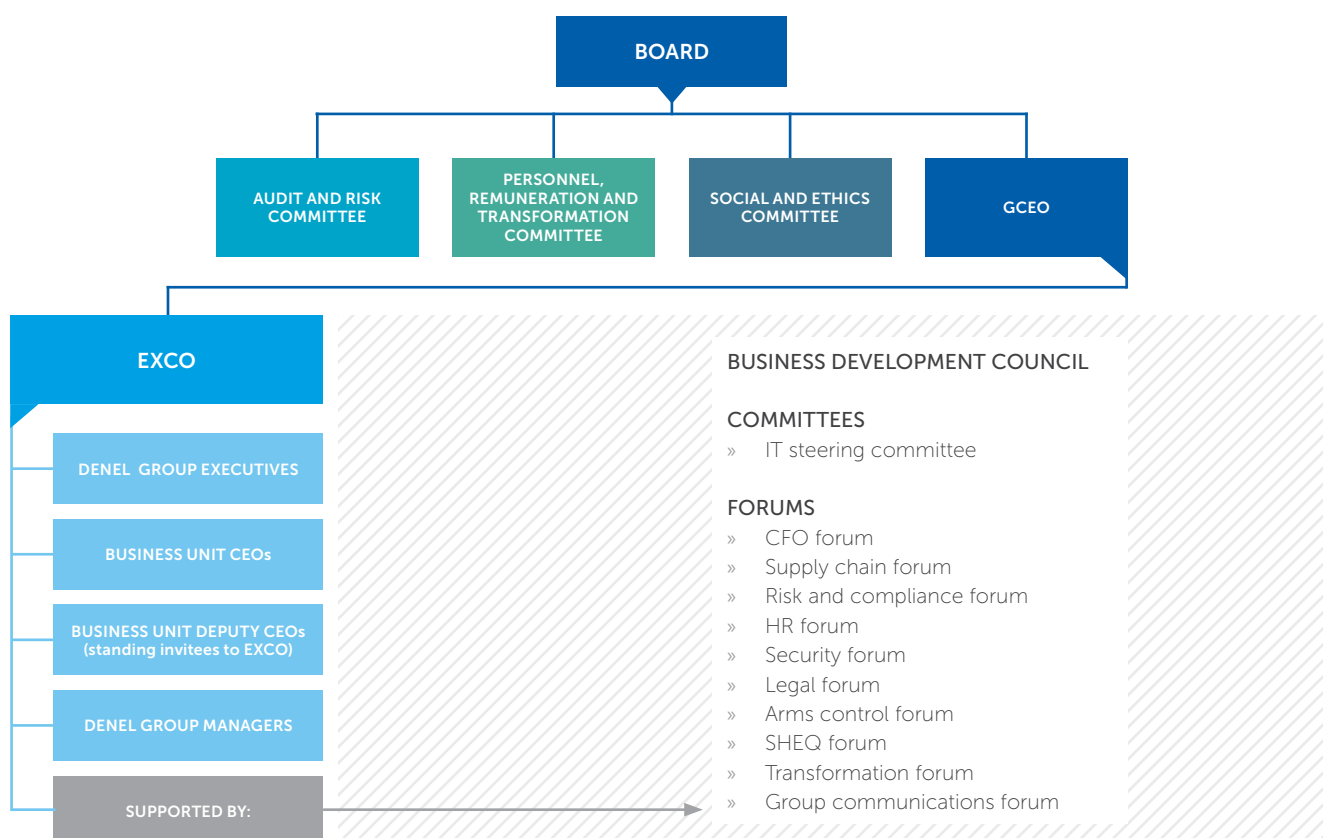
The governance structure is as follows:

- » The board has delegated certain responsibilities to appropriate board committees to support it in its oversight responsibility;
- » Statutory boards and relevant subcommittees are in place at subsidiaries;
- » The group executive committee of Denel (EXCO), inclusive of Denel group executives and business unit chief and deputy chief executive officers (CEOs), addresses critical and material business issues; and
- » Business unit EXCOs deal with operational issues and elevate specific matters to group EXCO.

RESPONSIBILITY AND ACCOUNTABILITY

The board provides leadership and strategic oversight, and oversees the internal control environment sustaining value to the company's shareholder and stakeholders. The board ensures adherence to principles of good governance and accountability as espoused in the King III report and its board charter. All of the members of the

Denel's governance structure provides each function with the necessary authority to effectively address their responsibilities. A schematic illustration of the governance structure is depicted below:

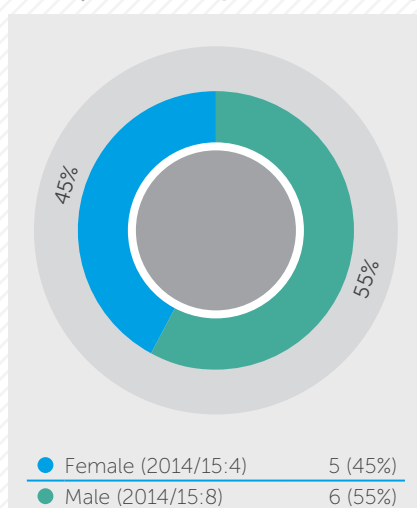


The day-to-day governance is the responsibility of Denel's management, which regularly reports to the board and its subcommittees. The board and the respective committee chairmen/chairpersons play an important role in addressing the governance issues that arise from time to time. These board members have regular interactions with executive directors, senior management and other stakeholders.

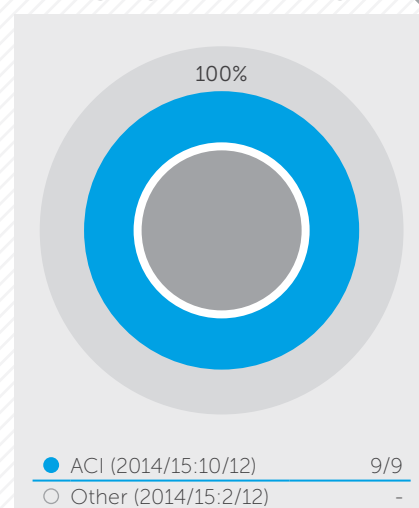
BOARD STRUCTURE

The group has a unitary board, comprising two executive directors, the GCEO and the GCFO, as well as nine non-executive directors, who all meet the board's independence criteria in terms of being free from any business relationship that could generally hamper their objectivity or judgement on the business and activities of the group.

MALE/FEMALE BOARD MEMBERS



ACI BOARD MEMBERS



APPOINTMENT AND RETIREMENT OF DIRECTORS

In terms of Denel's Memorandum of Incorporation (MOI), the shareholder appoints the chairman, GCEO and non-executive directors. The remaining executive director is appointed by the board with the approval of the shareholder.

The shareholder reviews the composition of the board on an annual basis, which ensures the rotation of directors at appropriate intervals and the board remains dynamic in its thinking and abilities. The term of office for the non-executive directors is a period of three years subject to annual review and confirmation by the shareholder at the AGM. Retiring non-executive directors are eligible for re-appointment and their retirement is staggered to ensure continuity. The executive directors comprise the GCEO and group chief financial officer (GCFO) who are appointed on long-term contracts. During the year, the GCEO and GCFO were placed on special leave pending the outcome of an investigation by the board. The MOI stipulates that should an executive director be placed on suspension he or she may no longer be an executive director of the company. On 24 September 2015, Mr ZN Ntshepe and Mr ZM Mhlwana were appointed as acting group chief executive officer and acting group chief financial officer respectively and they have been attending to board matters in an ex-officio capacity.

The shareholder takes cognisance of the group's needs in terms of skills, experience, diversity, size of the company and demographics in appointing the non-executive directors. The term of office of most of the board members expired at the AGM held on 23 July 2015. A new board was appointed at a special AGM on 24 July 2015. More details are contained on pages 50 to 52.

FORMALISATION OF DIRECTOR APPOINTMENTS AND REMUNERATION

The executives have contracts of employment with the company and are subject to Denel's conditions of service. The non-executive directors have their

appointments formalised through a letter of appointment from the shareholder. The appointment letter indicates the non-executive directors' terms of office, legislation governing their appointment, as well as information pertaining to their remuneration.

Remuneration for non-executive directors is based on the shareholder remuneration guidelines, approved by the shareholder representative and confirmed at the AGM. The shareholder approved a 5.3% increase in fees for non-executive directors at the AGM held on 23 July 2015. Denel pays non-executives a fee based on their attendance of meetings.

DIRECTORIAL INDEPENDENCE, EFFECTIVENESS AND PERFORMANCE EVALUATION

The independence of directors is considered with reference to ensuring that directors act in the best interest of the company as guided by the King III report, the Companies Act and best practice. Accordingly, the independence of individual non-executive directors is considered at every board meeting and evaluated annually by a firm of governance experts as part of the board's effectiveness review. A board effectiveness review was not performed during the current year but is planned for early in the new financial year to ensure continual improvement of the board, as well as ensuring that governance best practice is applied.

The shareholder's decision regarding the appointment of the non-executives for the 2016/17 financial year will be discussed at the AGM scheduled for 23 August 2016.

MANAGING CONFLICT OF INTEREST

The board subscribes to the principle of effective management of conflicts of interest and that fundamental conflicts should be avoided. At each board and subcommittee meeting, directors declare their interests regarding any agenda item to prevent personal interests of a director taking precedence over those of the company. In addition, directors' interests are declared by the individual

directors in a register which is presented to the shareholder at every AGM for consideration. Board members who have personal interests in a matter under discussion disclose their interests and recuse themselves from the meeting. For the period under assessment directors declared that they had no interests regarding any of the agenda items tabled at either the board or committee meetings. Similar practice applies to all employees of the group.

BOARD INDUCTION AND SHARING OF INFORMATION

New directors undergo a detailed induction to ensure a comprehensive understanding of Denel's legislative framework, governance processes, delegation of authority and business operations. Directors are continuously briefed on relevant new legislation and regulations. A board induction was held on 24 July 2015 to introduce the new board to Denel, its operations and products, services and solutions.

Continuous training includes the board meetings being held at different business units to allow the directors an opportunity to interact with business units' executives. The practice includes circulating quarterly reports to the board members to keep them abreast of developments outside of the scheduled board meetings. Directors are also invited to attend some of the exhibitions in which Denel is involved, allowing them to experience first-hand the products and services that the group offers.

The board and the executive management also attends seminars and workshops to keep abreast of any new legislation, regulations or information that they should be aware of in carrying out their duties. Industry experts are invited from time-to-time to provide the board with first-hand information pertaining to the industry, new legislation or governance matters that the board should be aware of, e.g. Defence Review. All non-executive directors have access to management and the records of the group, as well as to external professional advisors, should the need arise.

GROUP COMPANY SECRETARY

The group company secretary is responsible for developing systems and processes that enable the board to discharge specific functions efficiently and effectively. She is responsible for advising the board on corporate governance issues, setting the annual plan for the board in conjunction with the chairman and monitoring compliance with the Public Finance Management Act, no. 1 of 1999 (PFMA), the Companies Act and other relevant legislation, as well as keeping the board updated on new relevant legislation. All directors have access to her services and guidance.

BOARD MEMBERS ATTENDANCE FOR THE YEAR ENDING 31 MARCH 2016

BOARD MEMBER	BOARD	A&R COMMITTEE	S&E COMMITTEE	P,R&T COMMITTEE	AGM
BOARD MEMBERS APPOINTED BY THE SHAREHOLDER ON 24 JULY 2015					
Mr LD Mantsha (Chairman)	9/9	-	-	-	-
Ms M Kgomongoe	9/9	9/9	-	-	-
Ms PM Mahlangu ¹	8/9	2/2	-	4/4	-
Mr TD Mahumapelo ²	9/9	9/9	-	-	-
Ms N Mandindi	9/9	-	-	4/4	-
Ms R Mokoena	7/9	-	3/3	-	-
Mr NJ Motseki	9/12	-	2/3	-	-
Mr TJ Msomi	7/9	8/9	-	-	-
Lt-Gen (retired) TM Nkabinde	8/9	-	-	4/4	-
Ms KPS Ntshavheni	9/9	7/9	3/3	-	-
BOARD MEMBERS ROTATED BY THE SHAREHOLDER ON 23 JULY 2015					
Ms MJ Janse van Rensburg (Interim chairperson) ³	3/3	1/1	-	1/1	1/1
Adv G Badela	2/3	-	-	2/3	1/1
Dr GC Cruywagen	2/3	1/1	1/1	1/1	1/1
Ms Z Mathenjwa	3/3	0/1	-	0/1	1/1
Mr M Msimang	2/3	-	1/1	-	1/1
Mr BF Ngwenya	3/3	-	-	-	1/1
Prof SM Nkomo	2/3	-	1/1	3/3	1/1
Adv MS Ntshikila	3/3	-	-	2/3	1/1
Mr MV Ratshimbilani	3/3	-	-	3/3	1/1
EXECUTIVE BOARD MEMBERS					
Mr R Saloojee ⁴	6/6	3/3	0/2	2/2	1/1
Mr F Mhlontlo ⁴	5/6	3/3	1/2	2/2	1/1
Mr Z Ntshepe ⁵	6/6	2/5	2/2	2/3	-
Mr ZM Mhlwana ⁵	6/6	2/3	2/2	3/3	-

1. Attend A&R meetings as an observer
2. Resigned 16 March 2016
3. Interim chairperson from 15 August 2014
4. Suspended from 23 September 2015
5. Acting from 24 September 2015
- Note applicable

BOARD MEETINGS

The board has four scheduled meetings annually, in addition to the AGM. Special board meetings are also held as the need arises. During the year the newly appointed board held various meetings and engagements with management in addition to the usual scheduled board meetings in order to familiarise themselves with the business.

BOARD MEETING AND AGM ATTENDANCE FOR THE YEAR ENDING 31 MARCH 2016

BOARD MEMBER	BOARD MEETINGS													AGM
	Total	11 May 2015	Special 28 May 2015	26 Jun 2015	Special 24 Jul 2015	10 Sep 2015	23 Sep 2015	Special 4 Nov 2015	25 Nov 2015	Special 7 Dec 2015	Armscor board 9 Dec 2015	Special 27 Jan 2016	25 Feb 2016	23 Jul 2015
Ms M J Janse van Rensburg (Acting chairperson) ¹	3/3	√	√	√	-	-	-	-	-	-	-	-	-	√
Mr R Saloojee ²	6/6	√	√	√	√	√	√	-	-	-	-	-	-	√
Mr F Mhlontlo ²	5/6	√	A	√	√	√	√	-	-	-	-	-	-	√
Mr Z Ntshepe ³	6/6	-	-	-	-	-	-	√	√	√	√	√	√	-
Mr ZM Mhlwana ⁴	6/6	-	-	-	-	-	-	√	√	√	√	√	√	-
Mr G Badela ¹	2/3	√	A	√	-	-	-	-	-	-	-	-	-	√
Dr G C Cruywagen ¹	2/3	√	A	√	-	-	-	-	-	-	-	-	-	√
Ms Z B Mathenjwa ¹	3/3	√	√	T	-	-	-	-	-	-	-	-	-	√
Mr N J Motseki	9/12	√	√	√	A	√	A	√	√	√	A	√	√	√
Mr M Msimang ¹	2/3	√	A	√	-	-	-	-	-	-	-	-	-	√
Mr B F Ngwenya ¹	3/3	√	√	√	-	-	-	-	-	-	-	-	-	√
Prof S M Nkomo ¹	2/3	√	A	√	-	-	-	-	-	-	-	-	-	√
Adv M S Ntshikila ¹	3/3	√	√	√	-	-	-	-	-	-	-	-	-	√
Mr M V Ratshimbilani ¹	3/3	√	√	√	-	-	-	-	-	-	-	-	-	√
Mr LD Mantsha (Chairman) ⁵	9/9	-	-	-	√	√	√	√	√	√	√	√	√	-
Ms M Kgomongoe ⁵	9/9	-	-	-	√	√	√	√	√	√	√	√	√	-
Mr TD Mahumapelo ⁵	9/9	-	-	-	√	√	√	√	√	√	√	√	√	-
Ms PM Mahlangu ⁵	8/9	-	-	-	√	√	A	√	√	√	√	√	√	-
Ms N Mandindi ⁵	9/9	-	-	-	√	√	√	√	√	√	√	√	√	-
Ms R Mokoena ⁵	7/9	-	-	-	√	A	A	√	√	√	√	√	√	-
Mr TJ Msomi ⁵	7/9	-	-	-	√	A	√	A	√	√	√	√	√	-
Lt-Gen (retired) TM Nkabinde ⁵	8/9	-	-	-	√	√	√	√	√	√	√	√	A	-
Ms KPS Ntshavheni ⁵	9/9	-	-	-	√	√	√	√	√	√	√	√	√	-

1. Term of office ended on 23 July 2015

A Apology

2. Suspended from 23 September 2015

T Via telecon

3. Acting GCEO from 24 July 2015

√ Attended

4. Acting GCFO from 24 September 2015

- Not applicable

5. Appointed 24 July 2015

All documents that are submitted to the board for discussions are meticulously prepared by the executives, taking into account matters arising from previous board meetings, ensuring completeness and other relevant matters for the board's consideration. Non-executive directors have unfettered access to the executive team and any other employees of the group to seek explanations and clarifications on any matters prior to or following a board meeting. This facilitates the board's discussions and assists them in reaching fast but informed decisions.

BOARD COMMITTEES

The board has established and delegated specific roles and responsibilities to three standing committees, namely the audit and risk (A&R) committee, the personnel remuneration and transformation (P, R&T) committee and the social and ethics (S&E) committee. All the standing committees are chaired by independent non-executive directors.

Each committee's role, responsibilities and membership are in accordance with their terms of reference as approved by the board. These terms of reference are reviewed annually to ensure they remain in line with relevant regulations, company requirements and best practice in corporate governance.

In line with the company's MOI, the A&R committee meets four times a year and the other board committees at a minimum meet three times a year. Executives are regular attendees at the board committee meetings in line with their roles and responsibilities.

The minutes of the committee meetings, including the chairman's reports, are included in the board meeting pack for information to keep the board abreast of the activities of the committees. Significant matters discussed at these committee meetings are recommended and debated by the board prior to the board approving such matters.



AUDIT AND RISK COMMITTEE

Membership of the A&R committee, including its chairperson, comprises only independent non-executive directors, with the executive directors as standing invitees to the committee meetings. Members of the A&R committee have considerable experience in various fields, including risk management, commercial and legal experience necessary to oversee and guide the board. These include the audit and risk functions, corporate governance, the governance of risk and information technology (IT) risk. The appointment of members of the A&R committee is reconsidered and voted on at every AGM.

The committee's terms of reference are reviewed and updated annually for relevant new legislation and best practice. The terms of reference include the committee's mandate, which is to ensure the integrity of financial reporting, the adequacy of governance, soundness of the internal control environment and the robustness of risk management processes. The roles and responsibilities of the committee are detailed in the report of the A&R committee on pages 132 to 133.

The A&R committee chairperson meets regularly with the external auditors, the internal auditors and the GCFO to consider the audit plans, the scope and status of the audits and progress on resolving significant issues.

The A&R committee has an annual work plan to ensure that all relevant matters are covered by the agendas of the meetings planned for the year as laid out in its terms of reference. The invitees to the A&R committee meetings include the two executive directors, internal and external auditors, the group treasury manager, the group risk and compliance manager and other executives responsible for the company's operations, when necessary. The A&R committee also meets with the internal and external auditors without the presence of management to enhance independence.

The A&R committee is also responsible for monitoring the combined assurance model detailing significant business processes, line management monitoring, internal audit and external assurances, as well as audits performed by regulators. This model is used to assess the appropriateness of assurance over risk and controls provided to the board. Discussions regarding the extent to which the various assurance providers rely on each other's work or where overlaps are unavoidable, take place continuously. Denel is in the process of strengthening some of the more critical management assurance processes to ensure they are effective and adding value.

SUMMARY OF THE ROLES AND RESPONSIBILITIES OF THE A&R COMMITTEE

CURRENT A&R COMMITTEE MEMBERS

- » Ms M Kgomongoe (Interim chairperson)
- » Mr TJ Msomi
- » Ms KPS Ntshavheni

- 1 Adequately review the integrity of internal financial controls;
- 2 Agree the scope of the external auditors' work and their fees;
- 3 Consider matters emanating from the group's ethics hotline, planned management actions and the results of enquiries;
- 4 Consider the combined assurance model, assessing levels of assurance that is provided by auditors, regulators, management and other appropriate assurance providers;
- 5 Consider treasury controls and related risk management processes;
- 6 Ensure that all pertinent risks are covered by audit activities;
- 7 Ensure that there is sufficient cooperation between the organisation's various assurance providers;
- 8 Evaluating all IT governance matters, with emphasis on the effect that IT has on processes and internal controls;
- 9 Identify and manage financial risks;
- 10 Monitor the performance of the internal audit function;
- 11 Oversee the integrity of integrated reporting;
- 12 Provide assurance on the identified risks;
- 13 Review the effectiveness of the group's internal controls;
- 14 Review the integrated report, including the consolidated annual financial statements, and considering reports of the auditors on the consolidated financial statements; and
- 15 Review risk registers, paying attention to risks, mitigation actions and overall risk management.

The committee fulfilled its responsibilities as set out in the report of the A&R committee on pages 132 to 133.

A&R COMMITTEE MEETINGS ATTENDANCE FOR THE YEAR ENDING 31 MARCH 2016

A&R MEMBER	A&R COMMITTEE MEETINGS											
	Total	22 May 2015	10 Jun 2015	Induction 25 Aug 2015	Special 9 Sep 2015	Special 6 Oct 2015	Special 14 Oct 2015	22 Oct 2015	Special 19 Nov 2015	Special 18 Jan 2016	16 Feb 2016	Special 11 Mar 2016
Dr GC Cruywagen (Chairman) ¹	1/1	√	√	-	-	-	-	-	-	-	-	-
Ms MJ Janse van Rensburg ¹	1/1	√	√	-	-	-	-	-	-	-	-	-
Ms ZB Mathenjwa ¹	0/1	A	A	-	-	-	-	-	-	-	-	-
Ms M Kgomongoe (Interim chairperson) ²	9/9	-	-	√	√	√	√	√	√	√	√	√
Mr TD Mahumapelo ²	9/9	-	-	√	√	√	√	√	√	√	√	√
Mr TJ Msomi ²	8/9	-	-	√	√	√	√	√	√	A	√	√
Ms KPS Ntshavheni ²	7/9	-	-	√	√	A	√	√	√	√	√	A
STANDING INVITEES												
Mr R Saloojee ³	3/3	-	√	√	√	-	-	-	-	-	-	-
Mr F Mhlontlo ³	3/3	-	√	√	√	-	-	-	-	-	-	-
Mr Z Ntshepe ⁴	2/5	-	-	-	-	-	√	√	-	A	A	A
Mr ZM Mhlwana ⁵	2/3	-	-	-	-	-	-	√	-	-	√	A
Ms PM Mahlangu ⁶	2/2	-	-	-	-	-	-	-	-	-	√	√
INVITEES												
Prof SM Nkomo (Chairperson)	1/1	√	-	-	-	-	-	-	-	-	-	-
Mr G Badela	1/1	√	-	-	-	-	-	-	-	-	-	-
Adv MS Ntshikila	0/1	A	-	-	-	-	-	-	-	-	-	-
Mr MV Ratshimbilani	1/1	√	-	-	-	-	-	-	-	-	-	-

1. Term of office ended on 23 July 2015

2. Appointed 24 July 2015

3. Suspended from 23 September 2015

4. Acting GCEO from 24 September 2015

5. Acting GCFO from 24 September 2015

6. Requested to attend meetings as from 1 February 2016 as observer

A Apology

√ Attended

- Not applicable

SOCIAL AND ETHICS COMMITTEE

The S&E committee comprises only independent non-executive directors, including the chairperson who is confirmed at every AGM. The executive directors are standing invitees to committee meetings and relevant EXCO members attend the committee meetings by invitation. External experts as proposed in the regulations are nominated and appointed by the board to the committee as and when necessary.

The committee advises the board on good corporate citizenship and ethical relationships, and reports to the board and the shareholder on the group's commitment in this regard. The committee's terms of reference are reviewed and updated annually.

The committee has an annual work plan and the committee ensures that it meets all monitoring and reporting responsibilities within the annual cycle. The committee further considered the group's corporate and social investment (CSI), transformation and enterprise development (ED) initiatives, occupational health and safety (OHS), stakeholder management, as well as the ethics policy.

SUMMARY OF THE TERMS OF REFERENCE OF THE S&E COMMITTEE

CURRENT S&E COMMITTEE MEMBERS

- » Ms KPS Ntshavheni (Chairperson)
- » Ms R Mokoena
- » Mr N J Motseki

- 1 Consider substantive national and international regulatory developments of social and ethics management;
- 2 Ensure that the group account for its decision-making processes and the results thereof;
- 3 Evaluate policies and measures in place to prevent fraud and corruption;
- 4 Evaluate the adequacy of the stakeholder engagement model, monitoring its status and from time to time assessing the effectiveness thereof;
- 5 Facilitate a sustainable ethical corporate culture within the group;
- 6 Obtain acceptable assurance of the group's ethical performance;
- 7 Monitor labour and employment matters;
- 8 Monitor the group's activities, ensuring the promotion of equality, as well as the prevention of unfair discrimination;
- 9 Report on actual ethical performance;
- 10 Review and approve the group's CSI policy and strategy, as well as the progress thereon;
- 11 Review material risks and liabilities relating to the group's code of ethics;
- 12 Review OHS policies and monitor the effectiveness thereof; and
- 13 Review transformation strategies, progress on initiatives and improvement plans.

S&E COMMITTEE MEETINGS ATTENDANCE FOR THE YEAR ENDING 31 MARCH 2016

S&E MEMBER	S&E COMMITTEE MEETINGS				
	Total	8 Jun 2015	Induction 21 Aug 2015	29 Oct 2015	9 Feb 2016
Prof SM Nkomo (Chairperson) ¹	1/1	√	-	-	-
Dr GC Cruywagen ¹	1/1	√	-	-	-
Mr M Msimang ¹	1/1	√	-	-	-
Ms KPS Ntshavheni (Chairperson) ²	3/3	-	√	√	√
Ms R Mokoena ²	3/3	-	√	√	√
Mr NJ Motseki ²	2/3	-	A	√	√
STANDING INVITEES					
Mr R Saloojee ³	0/2	A	A	-	-
Mr F Mhlontlo ³	1/2	√	A	-	-
Mr Z Ntshepe ⁴	2/2	-	-	√	√
Mr ZM Mhlwana ⁵	2/2	-	-	√	√

1. Term of office ended on 23 July 2015

2. Appointed 24 July 2015

3. Suspended from 23 September 2015

4. Acting GCEO from 24 September 2015

5. Acting GCFO from 24 September 2015

A Apology

√ Attended

- Not applicable

PERSONNEL, REMUNERATION AND TRANSFORMATION COMMITTEE

Denel has a committee that oversees personnel, remuneration and transformation issues, referred to as the P, R&T committee. The P, R&T committee comprises only independent non-executive directors and its scope of responsibilities is detailed in the terms of reference of the committee and reviewed and approved annually by the board.

The P, R&T committee gives assurance that remuneration arrangements with employees support the strategic objectives of Denel and enable the recruitment, motivation and retention of senior executives while also complying with the requirements of regulation.

The P, R&T committee's responsibilities include reviewing the design and management of Denel's remuneration and reward principles, policies and implementation strategies

Details of the company's EE practices and performance during the year, as well as the challenges in this regard, are provided in the people and transformation section on pages 94 to 109.

The performance of each executive is assessed relative to the prevailing business climate and market conditions, as well as key predetermined targets. In accordance with principles of good governance, the executives being evaluated are recused from the meeting. Full details of the group's remuneration philosophy and payments for all directors are available on pages 75 to 77.

Standing invitees to the committee's meetings include the two executive directors, the group executive: HR and transformation and any other executives whose roles and responsibilities are relevant to the matters under consideration.



SUMMARY OF THE TERMS OF REFERENCE OF THE P, R&T RESPONSIBILITIES

CURRENT P, R&T COMMITTEE MEMBERS

- » Lt-Gen (retired)
TM Nkabinde (Chairman)
- » Ms PM Mahlangu
- » Ms N Mandindi

1

Ensure that appropriate programmes, resources and internal committees are in place to drive transformation;

2

Evaluate the performance of the Denel executives and for setting appropriate remuneration;

3

Oversee the group's performance in respect of EE, transformation and employees development, taking into consideration the legal requirements and monitoring of targets set by the shareholder;

4

Oversee the skills development and retention of critical skills and talent; and

5

Recommend transformation commitments and targets for approval by the board.

P, R&T COMMITTEE MEETINGS ATTENDANCE FOR THE YEAR ENDING 31 MARCH 2016

P, R&T MEMBER	P, R&T COMMITTEE MEETINGS							
	Total	Special 6 May 2015	22 May 2015	8 Jun 2015	Induction 25 Aug 2015	29 Oct 2015	Special 9 Nov 2015	10 Feb 2016
Prof SM Nkomo (Chairperson) ¹	3/3	√	√	√	-	-	-	-
Mr G Badela ¹	2/3	√	√	A	-	-	-	-
Adv MS Ntshikila ¹	2/3	√	A	√	-	-	-	-
Mr MV Ratshimbilani ¹	3/3	√	√	√	-	-	-	-
Lt-Gen (retired) TM Nkabinde (Chairman) ²	4/4	-	-	-	√	√	√	√
Ms PM Mahlangu ²	4/4	-	-	-	√	√	√	√
Ms N Mandindi ²	4/4	-	-	-	√	√	√	√
STANDING INVITEES								
Mr R Saloojee ³	2/2	-	-	√	√	-	-	-
Mr F Mhlontlo ³	2/2	-	-	√	√	-	-	-
Mr Z Ntshepe ⁴	2/3	-	-	-	-	√	A	√
Mr ZM Mhlwana ⁵	3/3	-	-	-	-	√	√	√
INVITEES								
Ms MJ Janse van Rensburg	3/3	√	√	√	-	-	-	-
Dr GC Cruywagen	1/1	-	√	-	-	-	-	-
Ms ZB Mathenjwa	0/1	-	A	-	-	-	-	-

1. Term of office ended on 23 July 2015

2. Appointed 24 July 2015

3. Suspended from 23 September 2015

4. Acting GCEO from 24 September 2015

5. Acting GCFO from 24 September 2015

A Apology

√ Attended

- Not applicable

GROUP COMPANY SECRETARY

The group company secretary is responsible for developing systems and processes that enable the board to discharge specific functions efficiently and effectively. During the year the company secretary was placed on special leave pending the outcome of an investigation by the board. The role of the group company secretary is fulfilled by Ms F Legoabe in an acting capacity. She is

responsible for advising the board on corporate governance issues, setting the annual plan for the board in conjunction with the chairman and monitoring compliance with the Public Finance Management Act, no. 1 of 1999 (PFMA), the Companies Act and other relevant legislation, as well as keeping the board updated on new relevant legislation. All directors have access to her services and guidance.

EXECUTIVE COMMITTEE

The EXCO is chaired by the GCEO and includes all business unit CEOs with the deputy CEOs as standing invitees detailed on page 56 to 58. The responsibilities of the committee include overseeing the day-to-day management of the group's affairs, executing the decisions of the board, strategy development and reviews of the group's values, safety performance, operations and financial performance. The exco meets on a regular basis.

EXCO MEETINGS ATTENDANCE FOR THE YEAR ENDING 31 MARCH 2016

EXCO MEMBER	EXCO MEETINGS										
	Total	Strategy 12 May 15	Strategy 13 May 15	Special 23 Jun 15	18 Aug 2015	Special 16 Oct 2015	Budget 26 Oct 2015	19 Nov 2015	Budget 27 Nov 2015	2 Feb 2016	Special 23 Feb 2016
Mr R Saloojee ¹	3/4	√	A	√	√	-	-	-	-	-	-
Mr F Mhlontlo ¹	4/4	√	√	√	√	-	-	-	-	-	-
Mr Z Ntshepe ²	10/10	√	√	√	√	√	√	√	√	√	√
Mr ZM Mhlwana ³	5/6	-	-	-	-	√	√	A	√	√	√
Ms N Davies	10/10	√	√	√	√	√	√	√	√	√	√
Mr J Wessels	6/10	√	√	A	A	√	√	√	√	A	A
Mr S Burger	9/10	√	√	√	√	√	√	√	√	A	√
Mr I Dockrat	9/10	√	√	√	√	A	√	√	√	√	√
Mr M Kgobe	9/10	√	√	√	√	√	√	√	√	A	√
Mr T Monaheng	7/10	√	√	√	√	A	√	√	√	A	A
Mr P Petje	8/10	√	A	√	A	√	√	√	√	√	√
Mr T Kleynhans	9/10	√	√	√	√	√	√	√	√	A	√
Mr A van der Walt	6/10	√	√	V	A	A	√	A	√	A	V

Business units' deputy CEOs are standing invitees to the EXCO (refer page 58). The attendance register of the standing invitees to the EXCO are available for review at the registered office of the company secretary (refer page 140).

- | | | |
|---------------------------------------|--------------------|------------------|
| 1. Suspended from 23 September 2015 | A Apology | √ Attended |
| 2. Acting GCEO from 24 September 2015 | V Video conference | - Not applicable |
| 3. Acting GFEO from 24 September 2015 | | |



**Ethics Institute
of South Africa**
NFP 1999/020697/08

**ACT WITH INTEGRITY,
COMPETENCE AND RESPECT**

**MEMBERSHIP OF
ETHICSSA REPRESENTS A
COMMITMENT TO**

- » Identifying with EthicsSA's values of "Building an ethically responsible society"; and
- » Showing commitment to advancing standards of ethical conduct in your sphere of influence.

CODE OF ETHICS

Denel's values, as set out on page 8, underpin its code of ethics and are addressed to all stakeholders who have an interest in the group's activities and the way the group conducts business. The group's code of ethics includes details of how the group plans to implement its values and vision, as well as guidance on ethical standards and how to achieve them.

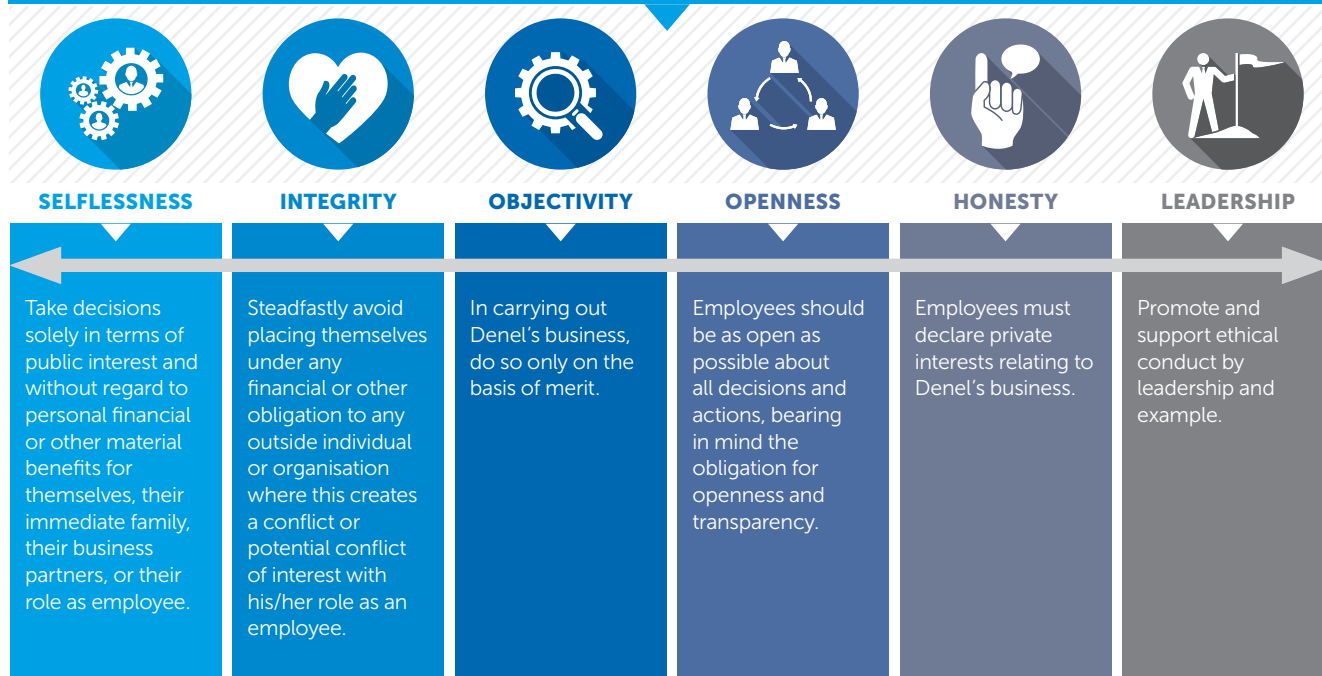
Denel has strengthened policies and processes to ensure employees have clear guidance to make ethical choices and understand the due diligence required in all business decisions. Denel's code of ethics was updated during the year and sets clear expectations for directors, employees, suppliers, clients and other stakeholders.

Regular awareness training regarding the code and our ethical standards helps us to embed a culture of responsible business conduct throughout the company. Denel is a member of the Ethics Institute of South Africa (EthicsSA).

Denel aims to communicate openly and transparently with all stakeholders regarding the group's approach to responsible business conduct. The group has an independently-operated whistle-blowing mechanism that is operated by an independent organisation (refer page 82). External stakeholders have also been made aware of the company's ethics policy and hotline via our procurement and legal departments. For more detail on fraud prevention and related issues, refer to pages 81 to 82.

Ethics matters are monitored and reported to both the A&R and the S&E committees.

PRINCIPLES OF DENEL'S CODE OF ETHICS



INTERNAL CONTROL

The board oversees the system of internal control within Denel, whereas the implementation and functioning of these systems rest with the executive management. The A&R committee is presented with a formal review of the effectiveness of the group's internal controls on a regular basis. This review is informed by the combined assurance matrix, which identifies significant processes and assurances that are being provided. There are reports from management on specific areas, internal audit, external audit and other independent assurance providers that are tabled from time to time.

EFFECTIVE INTERNAL CONTROL PROCESSES WITHIN DENEL

Enable executive management to deal with rapidly changing economic and competitive environments, change in customer requirements/demands and priorities, as well as restructuring to ensure future growth;

Ensure the reliability of the group's consolidated financial statements and compliance with relevant laws and regulations;

Keep the group on course towards growth and profitability;

Promote efficiency and reduce risks; and

Provide reasonable assurance regarding achieving Denel's objectives, i.e. effectiveness and efficiency of its operations.

INTERNAL AUDIT

The function of the independent internal audit is to objectively appraise the adequacy and effectiveness of Denel's systems of internal control. This function has been outsourced to an audit firm. There is an internal audit charter in place, which regulates the interaction between the group, management, internal auditors and the board. The charter is tabled annually to the A&R committee for consideration and approval.

The internal auditors report administratively to the GCEO and have unrestricted access to the chairperson of the A&R committee and to the chairman of the board, and regularly report to the A&R committee. The board is confident that the internal auditors have discharged their duties fully in terms of the internal audit charter.

BUSINESS UNITS

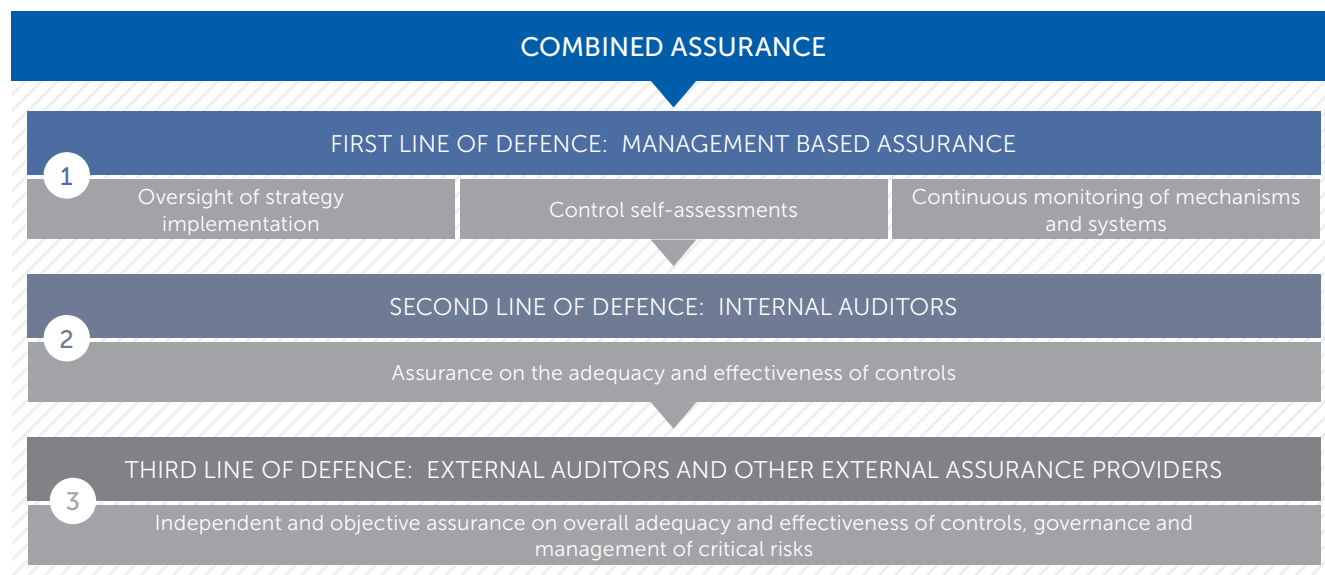
Denel business units follow the group policies, governance and financial control systems and comply with the PFMA, Companies Act and other relevant legislation, including that of foreign countries where it conducts business.

Business units are accountable to the GCEO. This is further enhanced by each business unit CEO being part of the group EXCO, as well as each business units' CEOs been standing invitees to the group EXCO (refer pages 56 to 58). Apart from the business development council, IT steering committee, various forums are held regularly, i.e. arms control, business development, CFO, HR, legal, risk and compliance, security, SHEQ, supply chain and transformation forum, where not only

operational matters are discussed, but also topics that are relevant to executive management and the leaders of the group in implementing the group's strategies successfully.

COMBINED ASSURANCE

Denel has adopted a combined assurance matrix in order for the board to appreciate the effectiveness of the system of internal control and risk management in the organisation. The combined assurance approach ensures coordination among the different assurance providers, prevents unintended audit duplication and audit fatigue and optimises audit costs. Denel also uses the combined assurance as input to the three-year rolling audit plan for the following year.



Assurance is provided through management self-assessments, observations and other related monitoring activities, including the risk management process, internal audit, external audit, as well as various external bodies. External bodies involved in Denel include the National Key Point Secretariat, National Conventional Arms Inspections and Audit Directorate, Armscor, SABS, Deutscher Kraftfahrzeug-Überwachungs-Verein (German Motor Vehicle Inspection Association) (Dekra), OEMs and SANAS. Whilst internal audit is risk-based and assesses the control environment, management assurance covers all critical business process and their performance. Internal audit completes its assurance processes based on the approved audit his plan designed for Denel's risk profile. External audit follows a specific audit scope approved by the A&R committee and as and where appropriate, places reliance on internal audit work.

The effectiveness of Denel's system of internal control, financial, operational and other regulatory controls is continuously reported to and assessed by the A&R committee to enable the board to discharge its oversight responsibilities.

REMUNERATION REPORT

The P, R&T committee gives assurance that remuneration arrangements with employees support the strategic objectives of Denel and enable the recruitment, motivation and retention of senior executives while also complying with the requirements of regulation.

The P, R&T committee's responsibilities include reviewing the design and management of Denel's remuneration and reward principles, policies and implementation strategies so as to:

DEMONSTRATE to stakeholders that governance procedures are followed in the appointment of executive directors and senior executives of the group.

ENSURE that performance parameters of senior executives and executive directors are set and reviewed in accordance with the Shareholder's Compact.

ENSURE that the group's executive directors and senior executives are fairly rewarded for their individual contribution to the group's overall performance.

DEMONSTRATE to all stakeholders that senior executives do not determine their own remuneration.

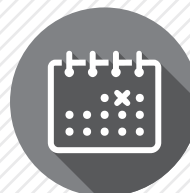
REVIEWS and RECOMMENDS to the board for approval the performance remuneration pay-out based on the policy.

REMUNERATION

Remuneration at Denel comprises total guaranteed remuneration packages and short-term incentives. **Short-term incentive** performance pay is a portion of an employee's salary package that is at risk and is paid annually if both organisational and individual performance targets are met. **Total guaranteed packages** are inclusive of company contributions towards retirement fund and medical aid.



Total guaranteed package



Short-term incentive



Remuneration

BENEFITS

DENEL RETIREMENT FUND

- » Denel employees belong to DenRet, a defined contribution fund, which is a separate legal entity managed by a board of trustees.
- » The retirement funding income is based on a percentage of the total guaranteed package and is a basis for calculating retirement fund contributions.



DENEL MEDICAL AID

- » The mandatory company medical aid scheme is Discovery Health.
- » Employees are exempt from underwriting or waiting periods and are able to choose a health plan based on their individual needs.



NON-FINANCIAL RECOGNITION

- » **Informal:** these are spontaneous and implemented with minimal planning and effort.
- » **Awards for specific achievements and activities:** these are tailored to reward specific achievements or behaviour desired most in the group.
- » **Formal:** recognition programmes used to formally acknowledge significant contributions, e.g. long-service awards and specific achievement awards.

EXECUTIVE DIRECTORS REMUNERATION

The P, R&T committee reviews the remuneration of the executives. In doing this review, the committee considers market benchmarks, internal pay parity, individual performance, as well as the guidelines on remuneration for SOCs provided by the DPE. Annual salary increases as approved by the shareholder at the AGM.

The following amounts were either paid or accrued to the executive directors during the year:

	FIXED REMUNERATION	COMPANY CONTRIBUTIONS	TOTAL	
	R'000	R'000	2015/16 R'000	2014/15 R'000
EXECUTIVES DIRECTORS				
Mr R Saloojee ¹	4 193	532	4 725	4 180
Mr F Mhlontlo ¹	3 131	366	3 497	3 489
Sub total	7 324	898	8 069	7 669
PRESCRIBED OFFICERS				
Mr ZN Ntshepe ²	2 504	259	2 763	2 204
Mr ZM Mhlwana ³	1 696	210	1 906	-
Mr JM Wessels	2 026	271	2 297	2 115
Ms N Davies	1 886	238	2 124	1 659
Sub total	8 112	978	9 090	5 978
Total	15 436	1 876	17 312	13 647

- ¹ Suspended from 23 September 2015
- ² Acting GCEO from 24 September 2015
- ³ Acting GCFO from 24 September 2015

SHORT-TERM INCENTIVES

Payment of short-term incentives, referred to as performance pay, is linked to the performance of the company and the individuals. Individuals qualify for performance pay when performance targets have been exceeded based on gain share principles. The relevant performance pay pool is determined based on the excess of net profit achieved above the performance target. Other performance indicators are used to moderate the performance pay allocations.

The following short-term incentives were either paid or accrued to the executives during the year:

	TOTAL	
	2015/16 R'000	2014/15 R'000
EXECUTIVE DIRECTORS		
Mr R Saloojee ¹	-	2 086
Mr F Mhlontlo ¹	-	1 656
Sub total	-	3 742
PRESCRIBED OFFICERS		
Mr ZN Ntshepe ²	1 246	1 028
Mr ZM Mhlwana ³	1 356	-
Mr JM Wessels	1 068	990
Ms N Davies	1 018	780
Sub total	4 688	2 798
Total	4 688	6 540

- ¹ Suspended from 23 September 2015
- ² Acting GCEO from 24 September 2015
- ³ Acting GCFO from 24 September 2015

LONG-TERM INCENTIVES

Denel has in the past not implemented a long-term incentive scheme, despite it being provided for in the DPE remuneration guidelines for SOCs. This was mainly due to financial challenges experienced by the group at the time. In the light of improving financial performance, the board has recently approved the implementation of such a scheme for qualifying executives and this is subject to the shareholder's approval.

NON-EXECUTIVE DIRECTORS' REMUNERATION

The P, R&T committee assists the board in reviewing non-executive directors' fees for discussion with the shareholder. Market benchmarks and the DPE's remuneration guidelines for SOCs are used to determine and make recommendations on non-executive directors' fees for presentation at the AGM for consideration and approval by the shareholder. At the AGM held on 23 July 2015, the shareholder approved a 5.3% (2014/15: 5%) increase in fees for non-executive directors.

The following amounts were either paid or accrued to the non-executive directors during the year:

NON-EXECUTIVE DIRECTORS	TOTAL	
	2015/16 R'000	2014/15 R'000
BOARD MEMBERS APPOINTED BY THE SHAREHOLDER ON 24 JULY 2015		
Mr LD Mantsha (Chairman)	597	-
Ms M Kgomongoe	343	-
Ms PM Mahlangu	187	-
Mr TD Mahumapelo ¹	278	-
Ms N Mandindi	212	-
Ms R Mokoena	171	-
Mr NJ Motseki	238	111
Mr TJ Msomi	235	-
Lt-Gen (retired) TM Nkabinde	205	-
Ms KPS Ntshavheni	321	-
Sub total	2 787	111
BOARD MEMBERS ROTATED BY THE SHAREHOLDER ON 23 JULY 2015		
Ms MJ Janse van Rensburg (Interim chairperson) ²	274	647
Adv G Badela	83	176
Dr GC Cruywagen	124	342
Ms Z Mathenjwa	70	193
Mr M Msimang	78	155
Mr BF Ngwenya	70	140
Prof SM Nkomo	146	293
Adv MS Ntshikila	99	103
Mr MV Ratshimbilani	104	109
Sub total	1 048	2 158
BOARD MEMBERS THAT RESIGNED DURING THE 2014/15 FINANCIAL YEAR		
Mr NR Kunene (Chairman) ³	-	294
Prof T Marwala ³	-	49
Ms B Paledi ³	-	35
Sub total	-	378
Total	3 835	2 647

1. Resigned 16 March 2016

2. Interim chairperson from 15 August 2014

3. Resigned 15 August 2014

RISK GOVERNANCE

DENEL'S RISK PROFILE IS INFLUENCED BY

- » Competition for commercial and high-end skills;
- » Global and local trends;
- » Global contracting dynamics;
- » Regulatory changes;
- » Social change; and
- » Technology advancements.

Denel's risk governance process emphasises continuous anticipation and identification of risks, as well as the deployment of resources and the implementation of measures by the executive management to respond to risks and opportunities in order to create value for the shareholder.

RISK GOVERNANCE PROCESS

Denel's enterprise-wide risk management system is a combination of Committee of Sponsoring Organisations of the Treadway Commission (COSO) and ISO31000 principles. Risk assessment is embedded in the strategy process, the execution of significant transactions, as well as the delivery of products and services from conception to delivery.

The risk management process includes the gathering and analysis of global and local trends in order to anticipate, respond to, align emerging risks and opportunities and as a result inform strategic and operational decisions and implementing an effective system of internal control. This includes delegations of authority, regulation of significant transactions and compliance processes.

The board is ultimately responsible for risk governance and has assigned the risk oversight to the A&R committee, which is supported by the S&E committee and the P, R&T committee on pertinent issues.

The EXCO is responsible to the board regarding the implementation of a robust system of risk management and internal control. The EXCO has appointed competent persons and promulgated policies and procedures to monitor high-risk areas.

Denel adopted a combination of a top-down and bottom-up approach to risk assessment and uses business units and group EXCO's risk assessments in developing the group risk profile.

Each business unit addresses internal control issues as they arise and also dedicates time (at least twice a year) to formally assess the internal control environment and address specific risks.

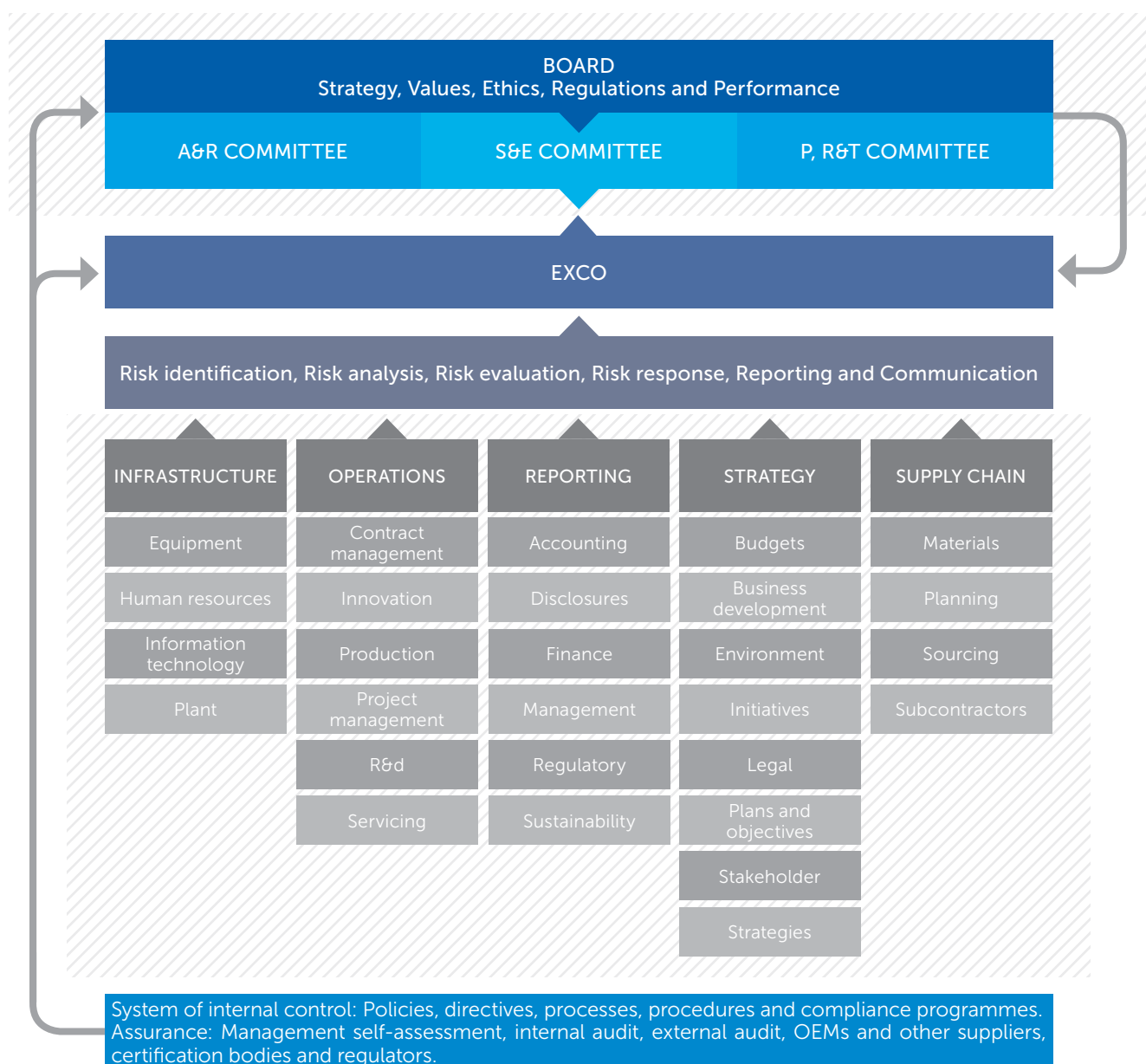
This ensures risks are mitigated at the appropriate levels of management throughout the group.

At least twice a year, executive management undertakes a rigorous strategic planning process, which includes the identification of risks and opportunities, as well as assigning responsibilities for mitigation, reporting and monitoring of risks. Risk mitigation strategies shall be integrated into strategic and operational activities, processes and policies of the organisation.

Denel recognises the complexities of operating in a contract environment and has implemented processes to manage programme risks throughout the contract lifecycle of pre-proposal, proposal, design, development and execution at each business unit under the oversight of executive management.

The broad risk categories include financial, programme management, safety and environmental management and IT. An update is tabled at the A&R committee for discussion and review.

The integrated risk management model is illustrated below:



Financial risk is managed through the group financial and treasury policies, directives and procedures approved by the board. Risks related to programme and contract execution are monitored and managed continuously by management through various forums at business unit level, including formal programme review meetings. Risks related to human capital retention, development and transformation are managed through HR and transformation forums at business unit and group level.

Denel has adopted various management systems, ISO9001, ISO14001 and OHSAS18001, on which workplace, environmental management and product safety processes are based. IT risk is managed via the IT governance framework and policy and managed at business unit level and by the IT steering committee.

Denel continues to monitor macro-economic trends and specifically falling oil prices. The diversified markets have proven to be an effective mitigation strategy to falling oil prices.

The company's top ten risks that could have a material impact on Denel's business are detailed below, including the relevant key success factors, impact, affected stakeholders, opportunities and mitigations. The mitigations have been implemented and are duly monitored by both the board as well as the EXCO.

RISK DESCRIPTION	KEY SUCCESS FACTORS	IMPACT(S)	AFFECTED STAKEHOLDERS	OPPORTUNITIES	MITIGATIONS
Ageing plant (PMP) (cost of maintenance, competitiveness and compatibility with latest technology requirements)	<ul style="list-style-type: none"> » Cost effective, low maintenance plant » Technology and production competitive plant » Safe and environmentally efficient plant 	<ul style="list-style-type: none"> » Operating cost » State of technology » Competitiveness 	<ul style="list-style-type: none"> » Customers » Funders » Employees 	<ul style="list-style-type: none"> » Efficient and modern technology 	<ul style="list-style-type: none"> » Robust plant maintenance to prevent/repair component failures. » Robust quality control and assurance to maintain production integrity. » Stringent safety and environmental management practices to prevent/reduce related risks. » Recapitalisation of the plant to meet current and future production requirements.
Contracting models for high risk and often low margin programmes impacting costs profitability and delivery timelines	<ul style="list-style-type: none"> » Mutually beneficial contract terms and conditions » Optimal risk sharing and mitigation on complex contracts 	<ul style="list-style-type: none"> » Onerous terms and conditions » Scope changes » Cost overruns » Disputes 	<ul style="list-style-type: none"> » Customers » Subcontractors » Material suppliers » Employees 	<ul style="list-style-type: none"> » Process enhancements » Customer relations 	<ul style="list-style-type: none"> » Peer reviewed high-risk contracts for optimal risk sharing and mitigation. » Align of contract terms and conditions to cater for optimal risk sharing and mitigation of high-risk contracts. » Continuous monitoring of performance against contract terms and conditions for mutual benefit.
High cost structure impacting overall profitability	<ul style="list-style-type: none"> » Competitive » Optimal cost structure » Adaptable/flexible cost structure 	<ul style="list-style-type: none"> » Operations efficiency » Profitability margins 	<ul style="list-style-type: none"> » Funders » Employees 	<ul style="list-style-type: none"> » Improving operating efficiencies 	<ul style="list-style-type: none"> » Implement measures to contain costs. » Increase throughput to reduce cost » Implement measures for efficiency improvements.
HR skills acquisition and retention	<ul style="list-style-type: none"> » Skilled and motivated employees » Critical skills and talent retention » Transformed work environment 	<ul style="list-style-type: none"> » Quality of workforce » Nature and level of skills climate » EE » Labour turnover 	<ul style="list-style-type: none"> » Employees » Organised labour » Shareholder 	<ul style="list-style-type: none"> » Transformed workforce and climate 	<ul style="list-style-type: none"> » Implement HR and transformation strategy addressing: <ul style="list-style-type: none"> • Skills acquisition and retention; and • EE focussing on females and people with disabilities.
Legal and regulatory developments	<ul style="list-style-type: none"> » Compliance with: <ul style="list-style-type: none"> • applicable laws • regulations • standards » Group policies 	<ul style="list-style-type: none"> » Registration and licences to operate » Permits to import/export controlled items » Statutory obligations 	<ul style="list-style-type: none"> » Suppliers » Customers » Regulators 	<ul style="list-style-type: none"> » Closer working relations with stakeholders to improve regulatory compliance 	<ul style="list-style-type: none"> » Maintain and embed pertinent legal, regulatory and standard requirements in business processes and policies. » Continuous evaluation of business activities to ensure their compliance with the latest legal and regulatory requirements and standards. » Implement systems to ensure applicable permits and/or licences are obtained and related conditions complied with. » Raise awareness among employees on pertinent compliance matters. » Continuous monitoring, enforcement and oversight of compliance.
Order cover (pockets of low and high optimal order cover for different products within and between business units)	<ul style="list-style-type: none"> » Seamless contractor-customer requirement planning 	<ul style="list-style-type: none"> » Idle capacity 	<ul style="list-style-type: none"> » Subcontractors » Material suppliers 	<ul style="list-style-type: none"> » Revised business model for new opportunities 	<ul style="list-style-type: none"> » Medium- to long-term alignment of acquisition requirements with execution plans. » Effective capacity planning to meet peak execution demand. » Alignment of supplier plans to meet customer requirements.
Solvency and liquidity (funding of new large contracts, cash flow)	<ul style="list-style-type: none"> » Cash from operations » Optimal working capital 	<ul style="list-style-type: none"> » Fund large contracts » Working capital requirements » Debt levels 	<ul style="list-style-type: none"> » Customers » Subcontractors » Material suppliers » Funders 	<ul style="list-style-type: none"> » Accelerate delivery » Seek alternative sources of funding » Improved contracting 	<ul style="list-style-type: none"> » Align of programme execution performance to positive working capital. » Continuously implementing measures for optimal funding model.

RISK DESCRIPTION	KEY SUCCESS FACTORS	IMPACT(S)	AFFECTED STAKEHOLDERS	OPPORTUNITIES	MITIGATIONS
Speed of technology development and advancement	<ul style="list-style-type: none"> » Competitive products and processes » Embedded R&D and innovated culture 	<ul style="list-style-type: none"> » Product development » Product competitiveness » Process and product innovation 	<ul style="list-style-type: none"> » Customers » Research institutions » Suppliers » Employees 	<ul style="list-style-type: none"> » Stronger relations with research institutions » Innovation focussed R&D 	<ul style="list-style-type: none"> » Review and development of product roadmaps. » Strategic application of customer- and self-funded R&D. » Leverage relations with research institutions. » Promote innovation among employees.
Technical and scheduling risks arising from complex programmes resulting in delivery delays increasing cost, reducing margins and incurring penalties	<ul style="list-style-type: none"> » Robust project management capacity, processes and skills » Seamless and cost effective supply chain » Effective, quality and timeous subcontractor delivery » Effective contracts management 	<ul style="list-style-type: none"> » Programme slippages » Penalties » Cost overruns » Reputational damage 	<ul style="list-style-type: none"> » Customers » Subcontractors » Material suppliers » Employees 	<ul style="list-style-type: none"> » Improved specifications, estimation and contracting 	<ul style="list-style-type: none"> » Independent review of the programme value chain for effectiveness and efficiency. » Robust internal reviews of programme performance by Denel executives. » Joint contractor-customer programme reviews. » Stringent quality control and assurance.
Timing of order placement (bulk of orders received towards year-end)	<ul style="list-style-type: none"> » Strong order book to sustain the group » Predictable orders and operationally and financially sustainable group 	<ul style="list-style-type: none"> » Plant and resources efficiency » Working capital requirements 	<ul style="list-style-type: none"> » Customers » Subcontractors » Funders » Employees 	<ul style="list-style-type: none"> » Flexible plant capacity and resource planning 	<ul style="list-style-type: none"> » Focussed BD activities to develop markets for key capabilities. » Introduction of new capabilities. » Development of new markets.

FRAUD AND CORRUPTION

Denel's values of integrity, the principles of the UN Global Compact and the requirement of the PFMA to prevent financial misconduct and fraud, inform Denel's fraud and corruption prevention strategy. The S&E committee advises the board on good corporate citizenship and ethical relationships in implementing the group strategy.

CORRUPT CONDUCT CAN TAKE MANY FORMS

- » Conflicts of interest;
- » Taking/offering bribes;
- » Dishonestly using influence;
- » Blackmail;
- » Fraud;
- » Theft;
- » Embezzlement;
- » Forgery;
- » Nepotism; and
- » Favouritism.

FRAUD AND CORRUPTION AWARENESS

Denel continuously raises awareness among employees regarding the system of internal controls, including the delegations of authority, supply chain and other policies aimed at protecting the organisation's assets and reputation, preventing fraud and corruption and promoting ethical conduct. The system provides for segregation of duties to promote transparency and accountability at various levels of the group.

The values of Denel, ethics and fraud and corruption prevention awareness are included in the group's induction programme. Additionally, fraud and corruption prevention awareness is continuously promoted through the groups newsletters and other forms of communication.

A total of 102 (2014/15: 157) employees attended the programme during 2015/16.

DETECTION OF FRAUD AND CORRUPTION

Management continuously interrogates financial, HR and supply chain information to detect possible instances of fraud and corruption as part of the day-to-day control activities.

Fraud detection tests were also included in the external and internal auditors' procedures with no evidence of fraud and corruption been found for the year under review.

Denel constantly refines the parameters of its continuous control monitoring (CCM) system to increase data accuracy and improve the detection of discrepancies in the procurement and payment environment which might be susceptible to fraud and corruption. Internal audit reviewed all discrepancies and no instances of fraud were identified.



WHISTLE-BLOWING

Denel has an independent, confidential hotline accessible to all stakeholders, through which fraudulent and unethical behaviour may be reported. The hotline number is published on the intranet and website, as well as on supplier and customer orders, in the group's newsletter and communicated on noticeboards. Seven cases were reported through the hotline and none was to be fraud-related.

Denel is comfortable that the CCM process, diligent management assessments, as well as external and internal audit procedures that include the Auditor-General requirements of supply chain fraud risk assessment, highlighted no instances of fraud and are effective in complementing fraud and corruption detection.

PREVENTION OF FRAUD AND CORRUPTION

- » Live Denel's corporate culture;
- » Make employees aware, i.e. whistle-blowing;
- » Implementation of adequate and effective internal controls; and
- » Regular review of the effectiveness of internal controls implemented by management.

To report suspected incidents of fraud and corruption employees and stakeholders call

0800 20 48 80

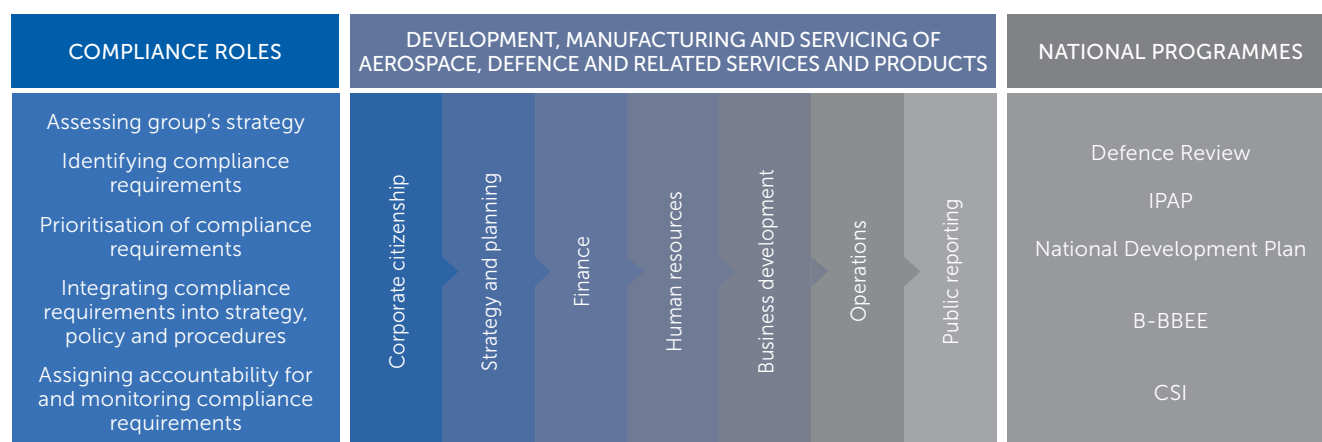
LEGAL, REGULATORY AND PUBLIC POLICY COMPLIANCE

The nature of Denel's business requires assessment of and integration of legal, regulatory and public policy requirements into the strategy and operational processes of the group to meet its contractual, moral and corporate citizenship obligations. As a SOC trading globally, the observation of

laws that govern the group and its activities forms the foundation for good corporate governance and demonstrates stewardship and responsibility to the shareholder and other stakeholders. No material non-compliances were identified during the year under review.

LEGAL COMPLIANCE FRAMEWORK

Denel has implemented systems to enable the company to meet its legal and regulatory obligations regarding protection of confidential information, occupational health and safety, the environment, quality management, as well as industry and trading requirements. The framework is illustrated in the diagram below:



Legislation: Civil Aviation, Companies Act, Competition Act, Conventional Arms Control, Employment Equity, Environmental, Exchange Control, Firearms, Labour, PFMA, Prevention of Corruption, Proliferation of Weapons of Mass Destruction, Protection of Personal Information, Public Procurement and Tax.

CONVENTIONAL ARMS CONTROL COMPLIANCE

Denel conducts business globally, with various international customers, which are generally defence forces of countries, in line with internationally acceptable practice and SA foreign policy. These include countries in Africa, Europe, Middle East, South East Asia and South America. Denel is governed by the strictest of legislation and rules with regards to how we do business, which includes end-user requirements.

The products, services and solutions that we sell are controlled items and fall within the scope of the National Conventional

Arms Control Act (NCACA). The National Conventional Arms Control Committee (NCACC) is a statutory body chaired by a Minister, reports to Parliament and oversees the transfer of controlled items, ensuring that SA arms trade and transfer policies conform to internationally accepted practice.

In terms of the act, an entity that trades in conventional defence equipment or renders foreign military assistance must be in possession of a permit authorised by the committee and issued by the Directorate of Conventional Arms Control (DCAC).

Permits are required for armaments development and manufacturing,

marketing, contracting, exporting, importing or transferring of conventional arms, which includes weapons, ammunition, vessels (land, sea and air) designed for war, articles of war and related systems, components, technologies and dual-use goods or services.

The use of weapons represents both the greatest protection against and the greatest threat to peace and security. Therefore, it is quite natural that the export of defence materiel needs to be surrounded by restrictions and regulations.

THE SA GOVERNMENT ADHERES TO THE FOLLOWING INTERNATIONAL TREATIES, AGREEMENTS, ARRANGEMENTS, NORMS AND PRACTICES ON CONVENTIONAL ARMS

Convention on Prohibitions or Restrictions on the Use of Conventional Weapons which may be Deemed to be Excessively Injurious or to have Indiscriminate Effects (CCW).

Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on Their Destruction.

Wassenaar Arrangement.

Missile Technology Control Regime (MTCR).

The Hague Code of Conduct against Ballistic Missile Proliferation (HCOC).

UN Register of Conventional Arms.

United Nations Programme of Action to Prevent, Combat and Eradicate the Illicit Trade in Small Arms and Light Weapons in All Aspects.

The SADC "Protocol on the Control of Firearms, Ammunition and Other Related Materials".

Source: http://www.cdpsp.mil.za/conv_arms_control/ncacc.htm



Denel's business entails the development, manufacturing and servicing of defence and aerospace equipment, which involves controlled items that fall within the scope of the NCACA. Accordingly Denel business units:

1. Are **REGISTERED with the DIRECTORATE FOR CONVENTIONAL ARMS CONTROL (DCAC)**. The registration certificate of each business unit is consistent with the scope of the business that the business unit carries on based on its unique activities as it relates to controlled items. This certificate is renewable every three years;
2. **APPLY for MARKETING PERMITS** that list the products the business unit seeks to market in line with the scope of the registration certificate. No Denel business unit may market controlled items without a valid marketing permit issued by the DCAC;
3. **APPLY TO THE NCACC** for a contracting permit in order to enter into a contract which involves controlled items. The contracting permit describes the product/service to be delivered and specifies quantities of controlled items involved. Where applicable, applications for contracting permits are accompanied by an end-user certificate;
4. **APPLY TO THE DCAC** for an export or import permit before importing or export any of the controlled items specified in the contracting permit. Business units may not import or export controlled items without permits issued by the DCAC; and
5. As necessary, **SUBMIT RECONCILIATIONS to the DCAC** regarding actual export/imports against the contracting permit.

The act also requires that Denel put in place an internal compliance programme to ensure effective managing of controlled items. Each business unit has a formal system to administer controlled items. The system includes appointment and training of responsible persons and employees directly involved with controlled items, a record-keeping system, maintenance of permit conditions and management inspections and audits conducted by compliance staff, internal audit and the National Conventional Arms Control Audit and Inspection Directorate. The system is continuously evaluated to identify and address deficiencies.

QUALITY COMPLIANCE

Denel believes that efficient production, product performance, product aesthetics, product safety and end-user experience are descriptors of quality and are inseparable. Through various policies and procedures Denel seeks to infuse quality in the culture of the organisation. The attention given to design to specifications, investment in testing and qualification facilities are means by which quality is embedded in the strategy and operations of the group. The quality system ensures that quality requirements are integrated in product design, tender, product development, manufacturing and after-service delivery processes.

Denel has adopted ISO9001 as quality management system and all business units are certified in this regard. Business units underwent recertification audits by the various certification bodies and they retained their certifications during the year. At the same time, some of Denel's business unit facilities and processes are accredited by OEMs and specific accreditation bodies as part of the quality management system. Certification and accreditation status of the various business units are provided in the table below:

BUSINESS UNIT	MANAGEMENT SYSTEM		SYSTEM MAINTENANCE		FACILITY ACCREDITATION		PROCESS ACCREDITATION	
	STANDARD	CERTIFICATION BODY	LAST AUDIT DATE	NEXT AUDIT DATE	OEM	NEXT AUDIT DATE	PROCESS NAME	NEXT AUDIT DATE
DAe	AS9100	Bureau Veritas	Jun 2015	May 2016	Airbus		Special Process NADCAP	In process
DAv	ISO9001; AS9100C Part 145 Part 141 (DTA) Part 145 (TNPA Project)	SABS Bureau Veritas Bureau Veritas SACAA SACAA EASA SACAA	Aug 2015 Nov 2015 Sept 2015 Jul 2015 Nov 2015 May 2015 Mar 2016	Aug 2016 Oct 2016 Sept 2016 Jul 2016 Sept 2016 May 2016 Mar 2017	Airbus Lockheed Martin	Jul 2016 May 2016	SANAS Calibration Labs	Aug 2016
DD	ISO9001	Bureau Veritas	Apr 2015	Apr 2016	n/a	n/a	ISO/IEC 17025 (Calibration Facility)	Mar 2016
DLS	ISO9001	Dekra	May 2015	Apr 2016	n/a	n/a	n/a	n/a
DVS	ISO9001	Bureau Veritas	OMC - Mar 2016 Gear Ratio - Feb 2016 Mechatronics - Mar 2016	Mar 2017	n/a	n/a	n/a	n/a
LMT	ISO9001	Dekra	Nov 2015	Nov 2016	n/a	n/a	n/a	n/a
OTR	ISO9001	SABS	Sept 2015	Jul 2016	n/a	n/a	n/a	n/a
PMP	ISO9001	SABS	Oct 2015	Jul 2016	n/a	n/a	n/a	n/a

In addition to regular self-assessments, Denel's quality management systems were audited by the relevant certification and accreditation bodies. No material deviations were identified.

STAKEHOLDER ENGAGEMENTS



STRATEGIC OBJECTIVE

[Purposely using dialogue as a strategic support function to drive key messages to all stakeholders and strengthen the relationships of the Denel group with both internal and external stakeholders. Denel defines stakeholders as any individual or group that has a material interest in or is in some way affected by the business of the Denel group.**]**

The group's stakeholder management programme is focused on building, strengthening and maintaining strong support and long-term relationships with employees, customers and other key stakeholders. We regard stakeholder engagements and the management thereof, similarly to our CSI, as an investment into Denel's public license to operate. Stakeholder engagement is a key part of our corporate social responsibility as this often yields returns when the business requires support from outside its formal structures.

The key focus area, emanating from the restructuring and integration of the group, has been the consolidation of the group's stakeholders into a single database. This started with a stakeholder mapping process to identify and prioritise engagement levels with all stakeholders. As a result our integrated stakeholder engagement plan guides our interactions and is centrally coordinated between corporate communications and public affairs, business development and all the Denel business units. Regular engagements are held with different groups of stakeholders, many of which are aimed at building, strengthening and in some cases presenting a strong business case to a potential client.

As a state-owned entity, Denel values its interaction with Parliament and provides regular updates on the state of its business to the Portfolio Committee on Public Enterprises, the Select Committee on Communications and Public Enterprises, as well as the Portfolio Committee on

Defence and Military Veterans. The company has further hosted a number of parliamentary delegations on oversight visits to various Denel facilities throughout the year under review. Another critical area of interaction is the area of providing comprehensive responses to parliamentary questions that members posed to the Minister of Public Enterprises.

Denel hosted a number of visiting delegations, representatives of various governments, as well as existing and prospective customers on a regular basis. During the year under review the company has also participated in a number of international defence and security related trade exhibitions.

Internally, employees were mainly engaged through three key programmes,

- » Values campaign;
- » Change management and communication; and
- » Organisational culture change.

The intention was to drive and strengthen the integration of the group and improve the internal environment in line with the broader organisational changes. Structural changes within the Denel group have necessitated targeted employee communication improving alignment between strategy, structure and people. Other media platforms included publications like the Denel News and Denel Insights. The GCEO and business unit CEOs communicated directly with employees throughout the year.

MY DENEL. MY VALUES

Our journey from "Good to Great". To get to **greatness** it is upon each one of us to live the values in our daily lives.

Among the key engagements that have taken place within the group, we can highlight the following:

STAKEHOLDERS	ISSUES	HOW?	OUTCOMES/ACHIEVEMENTS
Denel's shareholder, Parliament and government departments, i.e.: <ul style="list-style-type: none"> » DPE » DIRCO » DoD&MV » Dti » National Treasury » NCACC » Portfolio Committees » Select Committee 	<ul style="list-style-type: none"> » Cognisance of Denel's vision, values and business objectives; » Defining the role Denel can play in government's developmental agenda and strategic objectives; » Denel's operational and financial performance; » Government support for export opportunities and industry participation; » Key performance areas; » Support for Denel's business activities, both locally and abroad; and » Transformation and advances in employment equity, B-BBEE, diversity management and skills and enterprise development. 	<ul style="list-style-type: none"> » AGM; » Board engagements with the shareholder; » Hosting Ministers and senior executives at various Denel events; » Frequent meetings with senior management of stakeholder departments and agencies; » Interaction with portfolio committees, select committee incl. oversight visits; and » Shareholder's Compact engagements and bilateral meetings with DPE. 	<ul style="list-style-type: none"> » Compounded support for marketing activities; » Extended focus on value of stakeholder relations; » Financial support from National Treasury; » Increased capacity for Denel to enable the group to contribute to national developmental objectives; » Insight in Denel's values and business objectives; » Positioning Denel as a global leader in the design, development and manufacturing of top quality products, solutions and services; » Underpinned Denel's value-add to SA; and » Visible contributions by Denel towards national priorities.
Clients, including: <ul style="list-style-type: none"> » AMD » Armscor » Diplomatic community » DoD&MV » International clients » Local commercial clients » SANDF » SAPS » Suppliers 	<ul style="list-style-type: none"> » Establish Denel's role of being an industry catalyst; » Denel as custodian of core strategic and sovereign capabilities; » DoD&MV budget priorities and constraints; » Elevate product ranges, services, solutions and new capabilities; » Exhibit Denel's products and technology, incl. services and solution capabilities to wider audiences; » Performance and programme delivery; » R&D; and » Support for the release of key orders. 	<ul style="list-style-type: none"> » Contributions to broader SA defence industry; » Frequent interaction with key decision-makers at events and meetings; » Hosting of foreign delegations and defence attachés; and » Organise a supplier day to share information on doing business with Denel to potential suppliers. » Partake in international and local exhibitions and shows; and » Stakeholder visits to various Denel campuses. 	<ul style="list-style-type: none"> » Achieved >85% of contracted milestones for the year under review; » Better understanding of Denel's values, business objectives and challenges; » Broadening of the business for supply opportunities; » Cognisance of issues; » Export revenue improved by 57% (2014/15: 34%) for the year under review. » Increased knowledge of product range and solution requirements; » Continue to maintain all strategic capabilities for the SANDF; » Obtain letters of support in time; » Promote marketing activities; » R550m (2014/15: R467m) investment in R&D; and » Strong order book R29m.
Internal audiences i.e.: <ul style="list-style-type: none"> » Employees » Organised labour 	<ul style="list-style-type: none"> » Continuation of sound labour relations; » Focus on business and strategy updates; » Fostering integration across the Denel group; » Living Denel's values and strategic objectives; » Sharing general information about key business developments. 	<ul style="list-style-type: none"> » Denel communications forum, held monthly to coordinate messages among the business units; » Dialogue via message boards, e-mail and intranet; » Employee functions and celebrations of national days as a group; » Frequent meetings with organised labour and professional organisations; » Frequent publications, i.e. Denel News; » "From the GCEO's Desk" communication and infogrammes to employees; » Road shows and site visits by GCEO and senior executives; and » Strategic leadership forums. 	<ul style="list-style-type: none"> » Cognisance of Denel's values and strategic objectives; » Continuous support and alignment with strategic decisions taken; » Embrace the Denel group brand; » Firm employer/employee relationships; » Increased productivity; » Living Denel's values; » Moving from "Good to Great"; » Pride in the company and its achievements; » Sense of unity; » Synchronise communication activities among business units; and » Well informed and empowered employees.

STAKEHOLDERS	ISSUES	HOW?	OUTCOMES/ACHIEVEMENTS
» Media	<ul style="list-style-type: none"> » Acknowledge Denel as a strategic national asset; » Focus on Denel's contribution to broader SA society; » In-depth knowledge of Denel's business and objectives; and » Promoting transparency and the free-flow of information. 	<ul style="list-style-type: none"> » Continuous contribution to national discourse through thought leadership; » Demonstrating and adverts promoting brand Denel; » Frequent interaction via events and media briefings; » Frequent media statements and responses to media queries; » One-on-one interviews with senior leadership and spokespersons on selected media; and » Participation of Denel spokespeople on radio and TV. 	<ul style="list-style-type: none"> » Cognisance of Denel's business and objectives among media; » Increased exposure of Denel to national and international audiences; » Coverage of Denel's activities and achievements; » Reinforce Denel's as a credible strategic partner for innovative defence and security related technology and responsible corporate citizen; and » Strategic support to Denel's marketing activities.
» Financial institutions and investors	<ul style="list-style-type: none"> » Business focus and strategy updates; » Financial performance and prospects; » Increased cognisance of Denel's business objectives; and » Transparency of general information about key business developments. 	<ul style="list-style-type: none"> » Frequent engagements with various recible financial institutions and investors; and » Investor roadshows by GCEO and other Denel executives. 	<ul style="list-style-type: none"> » Cognisance of decisions taken by management; » Improved understanding of Denel's business model; and » Increased financial and trade assistance.

Denel's media relations programme is intended to effectively and on a sustainable basis profile Denel, its leadership, products and services in both commercial and industry media. Denel's activities, achievements and challenges have been communicated to the media in an integrated approach.

Denel's media campaign in the financial period under review showcased our people, products, technology and innovation. The campaign strengthened Denel's reputation as a premier manufacturer and supplier of defence products and solutions, a caring company and one that is playing a key role in SA's skills development initiatives.

Denel has generated some positive media coverage in the period under review and has had peaks with the amount of exposure received around the annual results coverage and the 'Defence Technology Made Easy' book launch. Coverage towards the last six months of the year was mostly negative due to a myriad of factors.

Media coverage of the annual financial results of the previous financial year's was largely positive and a fair amount of reputational and monetary value was achieved. This was an opportunity for the Minister of Public Enterprises, Ms Lynne Brown, the outgoing chairperson and the GCEO to highlight the company's positive

financial results its sustained revenue growth and strong order book drive. It also set out Denel's new growth era for the year ahead. The Minister also announced the new board of directors via media coverage.

Media interaction took place through strategic media conferences, hosted by the GCEO and business units' CEOs. Media statements announcing new developments, publishing articles in selected magazines and newspapers, radio and TV interviews were some of the channels Denel used in its marketing initiatives. Denel's main focus was to demonstrate to the people of SA "Why Denel is good for SA".

BE PART OF THE DENEL SOCIAL MEDIA MOVEMENT





Among the important announcements covered by the media are:

HEADLINES	EXTRACTS FROM PRESS RELEASES
Denel group takes high-tech defence system to South American markets April 2015	<ul style="list-style-type: none"> » Opportunities for SA defence and security products in South and Latin America are growing and Denel is stepping up its marketing efforts in these key markets, says the GCEO of Denel SOC Ltd, Riaz Saloojee, as the Denel group prepares for its participation at the LAAD 2015 trade and exhibitions show in Rio de Janeiro. » LAAD is South and Latin America's premier defence exhibition and between the 14th and 17th April; more than 700 exhibitors from 50 countries will be showcasing their products and systems at this biennial event.
Denel brings strong offerings in missile, turrets and aviation technology April 2015	<ul style="list-style-type: none"> » Defence equipment and systems produced by SA's high-technology group, Denel SOC Ltd, can meet all the requirements of South and Latin American countries and can even be further adapted for additional specific requirements of clients. » The CGEO of the state-owned Denel group, Riaz Saloojee, says the company has significantly expanded its range since its last participation in LAAD with the addition of business units responsible for space technology, command and control, systems integration, maritime security and cyber warfare among new capabilities.
Africa Day message from Denel May 2015	<ul style="list-style-type: none"> » Today people across the continent are celebrating Africa Day. Denel has deep roots on the African continent and we have elevated the African market to be a primary focus area for our business. » Denel Mechem's active involvement in Explosive Remnants of War clearance across the continent and the role of the SANDF in peacekeeping operations on the continent are well documented. Denel is exceptionally proud of the role played by our people, products and systems to make these missions successful.
Denel book will radically change SA's maths, science and technology landscape June 2015	<ul style="list-style-type: none"> » A new book supported by Denel is set to forever change the understanding of post-school application of Mathematics, Science and Technology education for the SA learners when it is launched to the public on Tuesday 30th June. » The launch of 'DEFENCE TECHNOLOGY MADE EASY', a book aimed at demystifying the technology that drives the defence industry for school learners, will create greater awareness about innovation and post-school opportunities that derive from Maths, Science and Technology education.
Denel to offer wide-ranging products to African defence leaders July 2015	<ul style="list-style-type: none"> » Denel's ability to provide African security forces with integrated defence solutions will be highlighted at a summit of defence decision-makers to be held in Tshwane on the 6th and 7th July. » The Land Forces Africa conference at the Heartfelt Arena in Thaba Tshwane will bring together heads of defence forces, military planners and analysts from more than 44 countries on the African continent for a two-day event. » "This is an opportunity for Denel to showcase our prowess as Africa's leading defence manufacturer and to demonstrate the quality of our products, systems and technology to people who take the important decisions about future acquisitions," says the Group Executive Business Development: Zwelakhe Ntshepe.
A strong order book, growing profits and diversified product offering confirm Denel as Africa's high-tech powerhouse July 2015	<ul style="list-style-type: none"> » Denel is consolidating on the gains of a number of strategic decisions, including the turnaround the company embarked on over three years ago. The company's future is positive, with an order book of more than R35bn; triple the value of secured orders of a few years ago and a six-fold annual revenue cover. » In addition, we are pursuing a number of significant opportunities totalling R37bn. We are quite confident that more than half of these opportunities will be concluded in the short- to medium-term. This is the highest order book in Denel's history and provides us with a stable platform for future growth, expansion and sustainability.
Denel enters top 100 of global defence companies August 2015	<ul style="list-style-type: none"> » Defence and technology company, Denel, is now ranked among the top 100 global defence manufacturers and the second largest in the southern hemisphere. » The ranking is done by the international publication, Defense News, and based on an analysis of revenue achieved during the 2014/15 financial year. This is the first time that Denel has entered the global top 100 list in the company's history. » GCEO, Riaz Saloojee, says the ranking reflects the rapid growth in the company's revenue over the past four years, from R3.2bn in 2011 to R4.6bn in 2014/15. Since the publication of the report Denel announced a further 28% increase in revenue for the 2014/15 financial year.

HEADLINES	EXTRACTS FROM PRESS RELEASES
Pioneering women celebrated at Denel through pictures and words August 2015	 <ul style="list-style-type: none"> » The contribution of women to the growth of Denel and their role in SA's high-tech defence industry are being celebrated through a distinctive photographic exhibition during August. » Denel's facilities at its campuses across SA have been turned into "art galleries" with photographs of female staff members adorning the shop floors and office corridors. » "We are showcasing the talented women within the Denel group and highlighting their achievements in an industry that is often perceived to be male-dominated," says Vuyelwa Qinga the Group Head: Corporate Communications and Public Affairs.
Combat games played in true military environment August 2015	<ul style="list-style-type: none"> » Cheetah fighter jets, Puma helicopters, armoured vehicles and artillery shells will provide the backdrop for a unique weekend of paintball and simulated warfare hosted by Denel. Paintball warriors will be able to crawl through helicopter hulls and take cover behind abandoned tanks while navigating the battlefield in the first ever Denel Combat Tournament. » This will be the first time that decommissioned military vehicles and aircraft will be utilised to simulate battleground conditions adding new dimensions to the sport of paintball, says Vuyelwa Qinga, the Group Head: Corporate Communications and Public Affairs for Denel.
Denel products on show in London September 2015	<ul style="list-style-type: none"> » Denel's growing status in the global defence industry is on display in London this week when the SA technology company is participating in the Defence and Security Equipment International (DSEI 2015). » GCEO, Riaz Saloojee says Denel has expanded the range of its products and services and improved the capabilities of many of its systems since the last DSEI, the largest international defence exhibition in the world. » New acquisitions and the establishment of a new business unit, Denel Integrated Systems and Maritime, enabled the group to move deeper into the command and control and cyber security environments. Denel is now listed among the top 100 defence companies in the world and the second largest in the southern hemisphere.
Dubai air show an opportunity for Denel to market its aerospace capabilities November 2015	<ul style="list-style-type: none"> » Denel will showcase its expanding capabilities in both the defence and civilian aerospace industry at the Dubai Air Show. » The biennial event in the United Arab Emirates is an opportunity for Denel to market its products and technical abilities directly to defence and civilian decision-makers. More than 65 000 trade visitors are expected to attend the five day show including senior executives from most of the world's leading aircraft manufacturers.
New contracts to boost Denel's armoured vehicle business November 2015	<ul style="list-style-type: none"> » DVS has concluded a contract of more than R900m with NIMR in the UAE for the development and supply of advanced mine-protected vehicles. » This contract for N35 is one of the largest received by DVS in recent years and will provide work for two of the company's major business units for the next 24 months. » Zwelakhe Ntshepe, Group Executive Business Development, says the new contract confirms Denel's leadership role in landward mobility and mine-protected vehicles. It is one of several contracts awarded to DVS since it joined the Denel group earlier this year.
Combat proven Rooivalk gives winning edge to forces November 2015	<ul style="list-style-type: none"> » The successful deployment of the Rooivalk combat helicopter during peacekeeping operations in Africa has focused international attention on the technological capabilities of the SA defence industry. » The highly mobile helicopter – designed and manufactured by Denel SOC Ltd – turned the tide of hostilities in the DRC when it was first deployed in support of the United Nations Force Intervention Brigade in November 2013. » The Acting GCEO of Denel, Zwelakhe Ntshepe, says the Rooivalk is proof that SA is able to design and manufacture defence systems that are among the best in the world. Defence and aerospace products designed and manufactured by Denel are featured prominently at the Dubai Air Show exhibition in Dubai this week.
Denel voices strong support for growth of aerotropolis in Gauteng November 2015	<ul style="list-style-type: none"> » Denel supports the development of an Aerotropolis in Ekurhuleni and its potential to transform the economy of the Gauteng City Region. » Mr Victor Xaba, the deputy chief executive of DAe, a subsidiary of Denel SOC, says the growth of an 'airport city' – Aerotropolis – in Ekurhuleni will bring major benefits to industry and the high-tech manufacturing industry in the province. » Mr Xaba is one of the speakers at a three-day conference on the Aerotropolis master plan hosted by the Ekurhuleni Metropolitan Municipality where the Premier of Gauteng, David Makhura, will deliver the keynote address.



HEADLINES	EXTRACTS FROM PRESS RELEASES
Denel-trained youth clear land for housing development in the city of Tshwane December 2015	<ul style="list-style-type: none"> » Newly-trained young people temporarily employed by Denel are clearing a former military training ground for a new housing development in Tshwane. The programme offers short-term employment for 20 young people and will add to the pool of skills available to Denel for its international demining operations. » Denel Mechem has been called in to inspect a two million square metre piece of vacant land next to Lotus Gardens in Pretoria West that has been earmarked for new community housing. Mechem is a global leader in demining and clearance of unexploded ordnance and has participated in UN-led demining operations in countries such as South Sudan, Afghanistan, Somalia and the DRC.
Denel honours top-performing students who excel in science and technology January 2016	<ul style="list-style-type: none"> » Matriculants who participated in Denel's Maths and Science enrichment programmes in Gauteng, Mpumalanga and the North West received a 100% pass rate in the 2015 year-end exams. The 230 Grade 12 learners raked in 117 distinctions and more than 60% of the class received exemption for university studies. » One of the participants in the Denel programme, Given Mkhwanazi, was recognised as the second best achiever in Mpumalanga while Abongile Booï emerged as one of the top learners in the North West. Also, Ernest Molelle, a learner from Reiger Park High School achieved eight distinctions and received a national award from the Minister of Basic Education, Ms Angie Motshekga.
Casspir Eland joins Denel's impressive vehicle stable January 2016	<ul style="list-style-type: none"> » Denel has expanded the range of its recovery vehicles based on the well-known Casspir mine-resistant system and is responding to keen interest shown by clients on the African continent. » The latest addition to the Mechem vehicle line-up is the Casspir Eland, a heavy-duty recovery vehicle. The Eland is a 6X6 configuration based on the well-known Casspir NG2000 series – a vehicle that has gained a global reputation for protection, power, manoeuvrability and comfort for passengers and crew.
The power of the Rooivalk on show during a three day demonstration February 2016	<ul style="list-style-type: none"> » The formidable combat capability of the Rooivalk Attack Helicopter, one of the most advanced weapon systems produced by the SA defence industry, will be on display during the demonstration to a wider audience this week. » Members of various defence forces, defence analysts, the defence industry and the media are attending a demonstration of the Denel Rooivalk equipped with the Denel Mokopa missile, ballistic rockets and cannons at OTR in the southern Cape.
Trusted Casspir adds firepower to its mine-protection qualities February 2016	<ul style="list-style-type: none"> » The versatility and range of Denel's Casspir mine-protected vehicles has been expanded to accommodate the firepower requirements of different clients. This will attract the interest of defence clients looking for a versatile and cost-effective family of mine-resistant vehicles. » The general manager of Mechem, Ashley Williams, says the Casspir is one of the most-trusted global brands for defence and police forces who require mobility and superior protection against landmines, roadside bombs and automatic rifle fire.
Security concerns and smuggling lead to rising demand for canine sleuths March 2016	<ul style="list-style-type: none"> » Escalating global concerns about aviation safety and border security are contributing to a rapid growth in demand for SA-trained sniffer dogs. » Mechem is one of the world's most-trusted breeders and trainers of canine detectives and its four-legged sleuths have a well-earned reputation for sniffing out explosives, drugs, smuggled animal products and other contraband. » Ashley Williams, the general manager of Mechem, says there is a global shortage of quality working dogs. Regional tensions and recent incidents of terrorism on passenger airlines have led to a comprehensive rethink about security measures at airports and border posts.
Denel finally speaks out on Gupta deal April 2016	<ul style="list-style-type: none"> » The board said Denel executives were in ongoing contact with National Treasury clarifying Denel's legal compliance in establishing Denel Asia. No further comment would be made on this matter until such discussions with Treasury were concluded. » "We have been assured that through our shareholder department DPE (public enterprises) we will engage with Treasury to clarify our full compliance with the PFMA (Public Finance Management Act)," said the statement. » The board says it will continue the process of communicating and giving support to all the relevant stakeholders. » "As the board, we are totally committed to ensuring that Denel is managed with good governance and sound business practices," it said.



PART FIVE

SOCIAL RESPONSIBILITY

FIVE

PEOPLE AND TRANSFORMATION



STRATEGIC OBJECTIVE

[Ensure that the organisation has a motivated, innovative and empowered workforce and that the company's programmes seek to ensure that the environment is representative, diverse vibrant and engaged.]

"Let's focus on what makes us who we are: Our values. If we do that, we can measure our greatness in the quality of our people, our products and the services we deliver".
Zwelakhe Ntshepe
Acting GCEO

WE DELIVER ON OUR STRATEGIC OBJECTIVE THROUGH OUR PEOPLE MANAGEMENT MODEL



2ND ANNUAL GROUP CEO AWARDS



The 2nd Annual Group CEO Awards took place on 27 May 2016 with a wide range of achievers and contributors to Denel's winning culture recognised for their contributions. The awards were given in six categories, representing Denel's "PIICA" values, i.e. **P**erformance, **I**nnovation, **I**ntegrity, **C**aring and **A**ccountability, as well as the Rooivalk GCEO Excellence Award.

The various awards are named to reflect some of our iconic products that have built and sustained Denel's reputation in the global defence and technology arenas over the past five decades. Speaking at the awards function, the acting GCEO, Zwelakhe Ntshepe, said "I am confident that we will continue on our journey from **'good to great'**", and eventually reach most of our strategic objectives, because Denel has made investing in intellect, innovation and our **human capital a priority**".

In his well-known book on business leadership – "Good to Great: Why some Companies make the Leap, and others don't", the author, Jim Collins, makes the telling point that "greatness is not a function of circumstance. Greatness is largely a matter of conscious choice and discipline".

This annual event is a yardstick against which we measure Denel's own journey from good to great.

We celebrated individuals and teams reflecting Denel's core values in their daily business. Our values come to life as we relate to clients, customers and other stakeholders. Every day and every hour we make conscious choices which contribute not only to our personal growth, but also to the expanding business of our own business unit and the entire Denel group.

We have deliberately chosen to name the GCEO Awards after our iconic products which have proudly carved the Denel brand in global markets. Products that represent the best that the South African defence industry and indeed, our manufacturing sector, can bring into the global defence market, i.e. the Rooivalk combat helicopter, the G6 artillery system, the Casspir mine-protected vehicle, the Umkhonto missile, our participation in the A400M programme and our world-class munitions.

Denel has made investing in intellect, innovation and our human capital a priority. We focus on what makes us who we are: Our values. If each employee does that, we can then measure our greatness in the quality of our people, our products and the services we deliver, as well as the successes we achieve in both, locally and abroad.

**"Your beliefs become your thoughts,
Your thoughts become your words,
Your words become your actions,
Your actions become your habits,
Your habits become your values,
Your values become your destiny."**

~ Mahatma Gandhi

... AND THE WINNERS ARE

THE MUNITIONS PERFORMANCE AWARD

This award is given to an employee or team that embraces operational excellence and demonstrates this by working efficiently, effectively and maintaining high quality standards.



D3 Components Team - DAV

Neels Pieters, Pieter Hansen, Bertus McDonald, Andre de Man, Tonie Annandale, Donald Johnson, Blackie van der Berg, Anton Joubert, JR Coetzee, Lood vd Merwe, Refilwe Makhoba, William Msomi, Mario Smith and Pieter Anderson.

The winner's story (out of eight nominees):

The team observed that over the years under-delivery of components to SAAF for the Oryx aircraft led to a reduction in flying hours and committed to improve on this. In the past financial year the team made sure that there was an oversupply of the components without any defects which enabled SAAF to execute its mandate of safe-keeping our borders by having available aircraft.

THE UMKHONTO INTEGRITY AWARD

Named after the Umkhonto missile this award recognises an employee/ team that exhibits honesty, truthfulness and ethical conduct by "doing the right thing", even when no one is watching.



Abrie van der Walt collecting the award on behalf of Kim Meyer - OTR

Tsepo Monaheng (CEO DD), Zwelakhe Ntshepe (acting GCEO) and Abrie van der Walt (CEO OTR).

The winner's story (out of five nominees):

Kim took it upon herself to bring to management's attention an error on the leave system that would have benefited her if she had not pointed it out. She displayed a high level of integrity by doing this.

THE CASSPIR CARING AWARD

Named after Denel's market-leading mine-protected vehicle, this award recognises individuals or teams that demonstrate caring for fellow employees, customers, communities and the environment.



Graham Denniston - DAV

Zwelakhe Ntshepe (acting GCEO), Graham Denniston and Ismail Dockrat (CEO Denel ISM).

The winner's story (out of six nominees):

Graham lives the value of caring in and outside of work. He has together with his family taken in two young women who were part of DTA's apprentice training. This shows how colleagues are living our values beyond the workplace.

THE AIRBUS INNOVATION AWARD

This accolade is given to an employee or team that has created sustainable, innovative solutions that advance Denel's business objectives.



Umkhonto Detector Dewar team - DD
Zwelakhe Ntshepe (acting GCEO), members of the Umkhonto Detector Dewar team and Victor Xaba (Deputy CEO DAe).

The winner's story (out of seven nominees):

The team manufactured the highly specialised sensor for the Umkhonto Seeker, something that has placed Denel and South Africa on the map. This has significantly improved performance of the missile in spotting targets. The team also did the development within the agreed time-frame and within budget.

THE G6 ACCOUNTABILITY AWARD

This is given in recognition of a team or individual who have demonstrated an exceptional sense of responsibility for their actions and behave in a manner that demonstrates that they regard Denel as if it were their own company.



Ribs and Spar team - DAe
Zwelakhe Ntshepe (acting GCEO), members of the Ribs and Spar team and Abrie van der Walt (CEO OTR).

The winner's story (out of five nominees):

The team's commitment and dedication to what they do saw one of Aestructures' major clients Airbus calling on the team to improve the fit of the Ribs and Spar which had become a challenge over a 2-year period. The team provided a design proposal which was subsequently approved by Airbus. This boosted Aestructures' credibility with the client and further reinforced relations between the two companies.

THE ROOIVALK GCEO EXCELLENCE AWARD

This accolade is given to an individual or team that are living and exhibiting the company's values, excelling in terms of performance, executing their tasks with passion, striving for zero-defect and getting this right the first time.



Joint winners Japie Pretorius and Tebogo Chauke - DLS
Zwelakhe Ntshepe (acting GCEO), Japie Pretorius and Abdul Carim (CFO DAe).

The winner's story (out of eight nominees):

The team went out of their way in managing a large team of people to complete the upgrade and repair of the first G5's MK3As. This project was completed on time amid challenges related to obsolete parts, technical problems and supplier performance. As a result of superior delivery on this contract, the chief of the SA Army is considering replacing 6 G5s with T5s mounted guns.

DENEL GROUP SPORTS LEAGUE AWARD: NETBALL

NETBAL TEAM - DAe

Our PIICA values
unite us all and
make us to be the
best!

DENEL GROUP SPORTS LEAGUE AWARD: SOCCER

SOCCER TEAM - DAe

FOCUS AREAS



Talent management
Ensure that Denel's skills requirements will be adequately met in the short-, medium- and long-term.



Leadership development
Ensure that Denel's leaders are adequately equipped to lead change within an ever changing business landscape.



Culture
Improve the level of diversity and inclusivity within the existing workforce, while creating an environment that promotes engagement and satisfaction of a diverse workforce profile.



Workforce capability
Ensure that current and future skills requirements are identified and developed.



WORKFORCE ANALYSIS

DEMOGRAPHIC REPRESENTIVITY



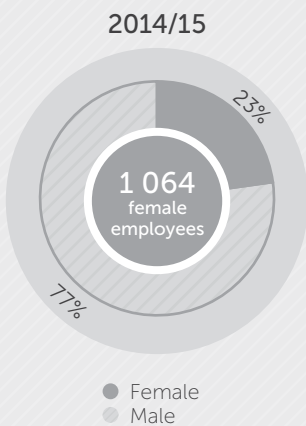
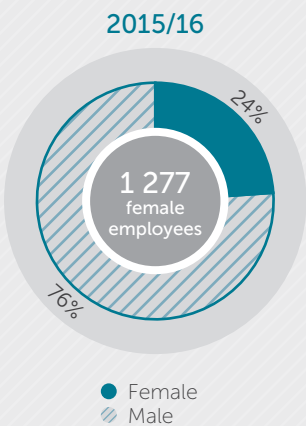
2015/16	● Black	59%
	▨ White	41%
2014/15	● Black	57%
	▨ White	43%
2013/14	● Black	52%
	▨ White	48%

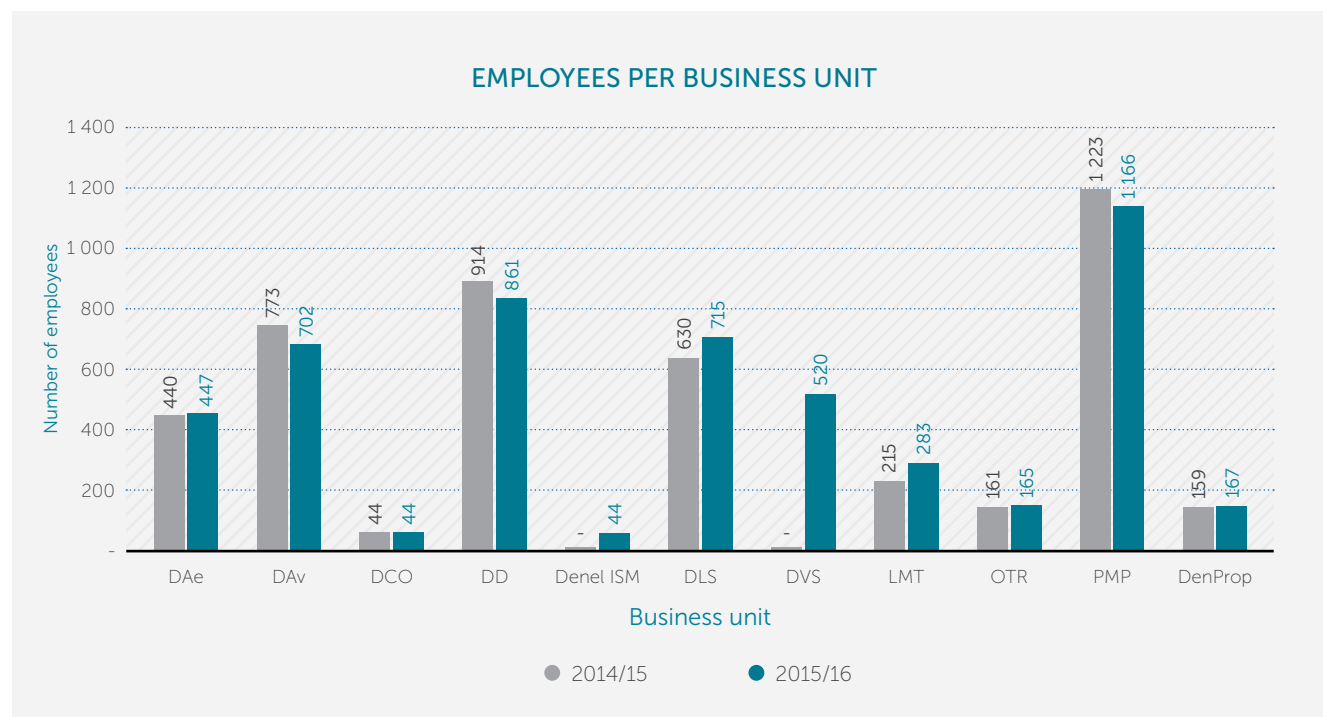
5 114
employees



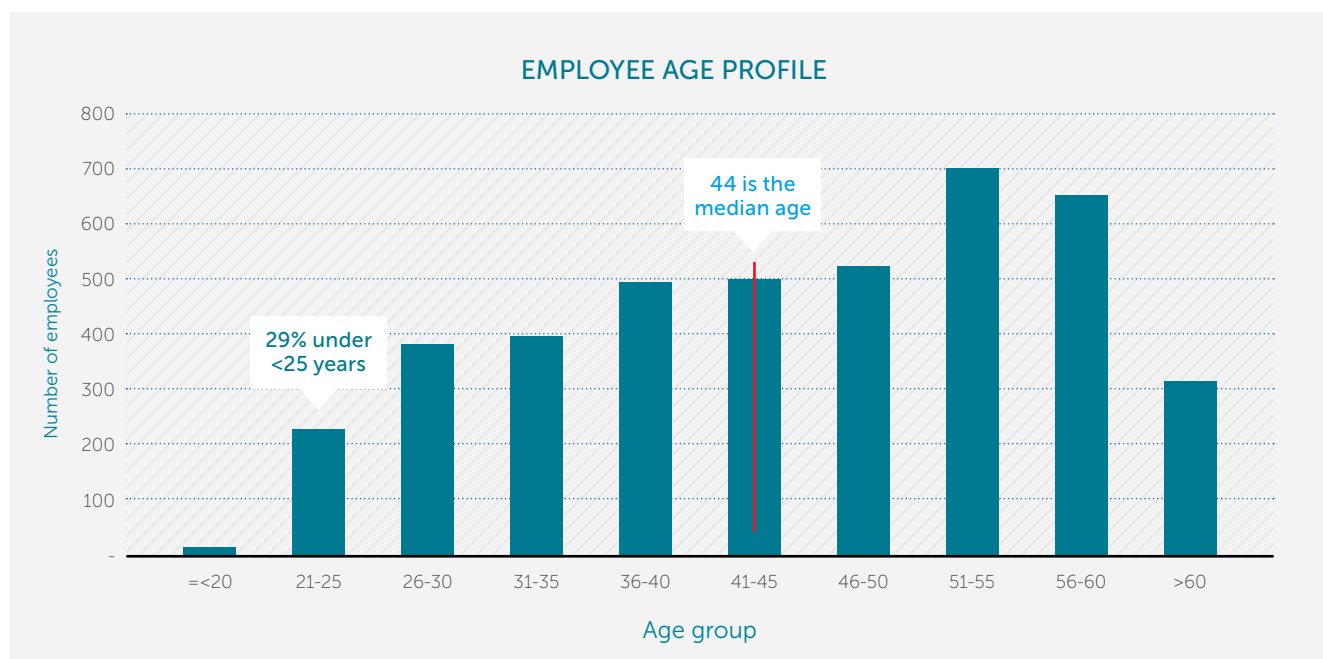
4 283
Permanent employees
(2014/15: 3 901)
831
Fixed-term contractors
(2014/15: 658)

GENDER PROFILE





Denel's workforce complement increased from 4 136 (2014/15) to 5 114 during the year under review. With the acquisition of DVS, 520 employees joined Denel as of 29 April 2015.



The median age of Denel employees is 44 years. For Denel this signifies a good balance between younger inexperienced employees and more mature seasoned professionals. Horizontal succession planning ensures that employees nearing their retirement age have competent successors to ensure business continuity.

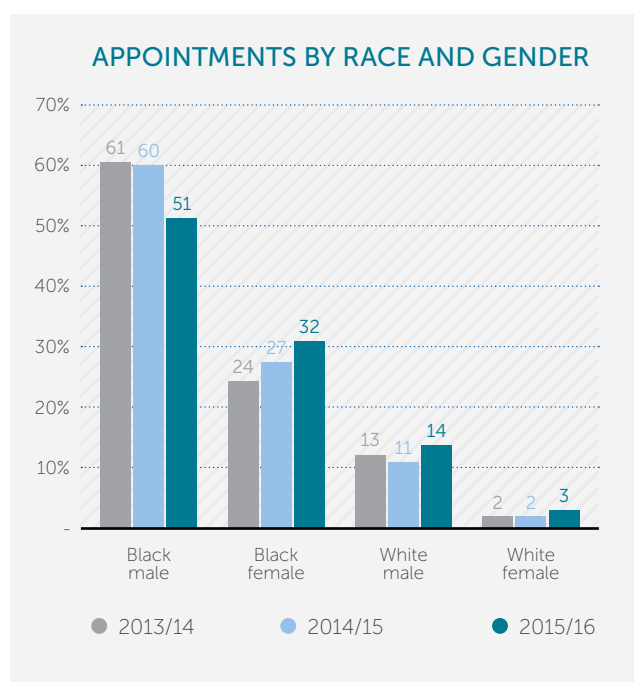
OCCUPATIONAL BAND CATEGORIES

OCCUPATIONAL BAND CATEGORIES	2015/16		2014/15		2013/14	
	BLACK	WHITE	BLACK	WHITE	BLACK	WHITE
Executive management	8	4	8	3	8	3
Senior management	28	28	22	28	27	35
Management	116	228	109	227	90	217
Professional personnel	1 885	1 451	1 639	1 364	1 302	1 415
Administrative personnel	294	193	264	177	243	194
Support personnel	194	107	158	98	168	104
Trainees	193	25	164	25	138	23
General workers	303	57	246	27	159	10
Sub total	3 021	2 093	2 610	1 949	2 135	2 001
Total	5 114		4 559		4 136	

The table above reflects the core employee mix per occupational band, demonstrating improvements made over the past three years. There has been a marked improvement of 7% (2014/15: 5%) in representivity since 2013/14, especially within the management and professional personnel occupational categories.

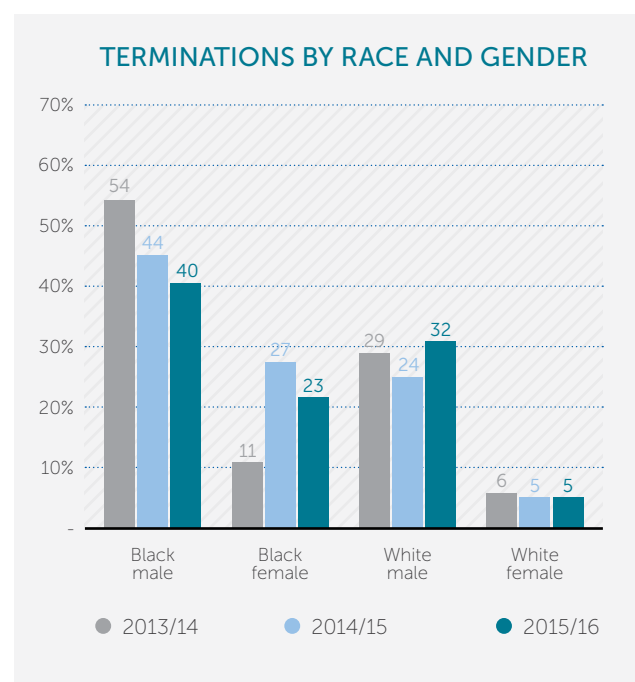
APPOINTMENTS

The graph below illustrates employee appointments by race and gender:



TERMINATIONS

The graph below illustrates employee terminations by race and gender:



Attrition at Denel remains below the industry norm and is 5% of permanent employees, which has remained unchanged from the previous reporting period.

DENEL WILL CONTINUE TO ATTRACT TALENT THROUGH RECRUITMENT CHANNELS SUCH AS:

- » Utilising its own skills development pipeline;
- » Head-hunting;
- » Recruitment websites;
- » Social media platforms;
- » Recruitment agencies etc.

≈ **83% ACI**
(2014/15: 87%)



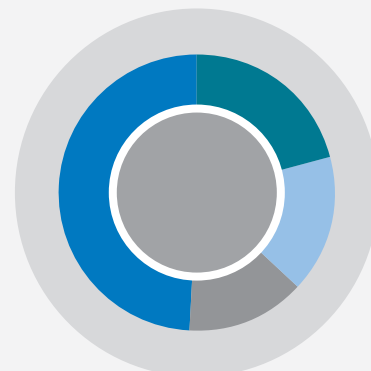
≈ **35% female**
(2014/15: 30%)

new jobs created
≈ **266**
(2014/15: 275)

≈ **584 appointments**
(2014/15: 824)

INDUSTRIAL RELATIONS

Labour relations within Denel remain positive and constructive. Of the total workforce 51% (2014/15: 54%) is affiliated to one of the recognised unions as illustrated. The labour environment is considered stable and no labour unrest was experienced at Denel during the year under review. Various platforms within the group have been established to regularly interact with unions.



21%	Numsa (2014/15: 23%)
16%	Solidarity (2014/15: 15%)
14%	UASA (2014/15: 16%)
49%	Non-unionised (2014/15: 46%)

TALENT ACQUISITION AND ATTRACTION

Denel has identified six categories of employees which, if unable to attract, develop or retain, pose the most significant risk to the sustainability of the group. These are:

- » Engineers
- » Scientists
- » Technicians/technologists
- » Artisans
- » Project/programme managers
- » Executive and senior leaders

ATTRACTION OF WOMEN

Because the defence industry is traditionally perceived to be male dominant, Denel has a challenge in increasing women representation as part of our workforce.

In order to attract and improve the representivity of women within the organisation, Denel participates in various programmes that target female learners.

- » The defence industry is traditionally perceived to be male dominant and we are working towards better representation of women.
- » We employ **1 227** female employees, an increase of 163 from 2014/15, with **16.5%** of our executives and managers being female.
- » **56%** of the non-executive Denel board members are female.

FEMALE LEARNER PROGRAMMES



GirlEng is a mechanism used to recognise and attract high potential mathematics and science students, nurture and mentor them to enter the field of engineering.



Technogirl is a three-year job-shadowing programme that exposes girls to mathematics, science and technology careers and is aimed at learners in grades 11 and 12.



SAWomEng is a recognised non-profit organisation at the forefront of tackling issues regarding gender gaps in the engineering environment.



Cell C Take a girl child to work is an annual event where female learners are hosted for the day to showcase the various aviation careers available.

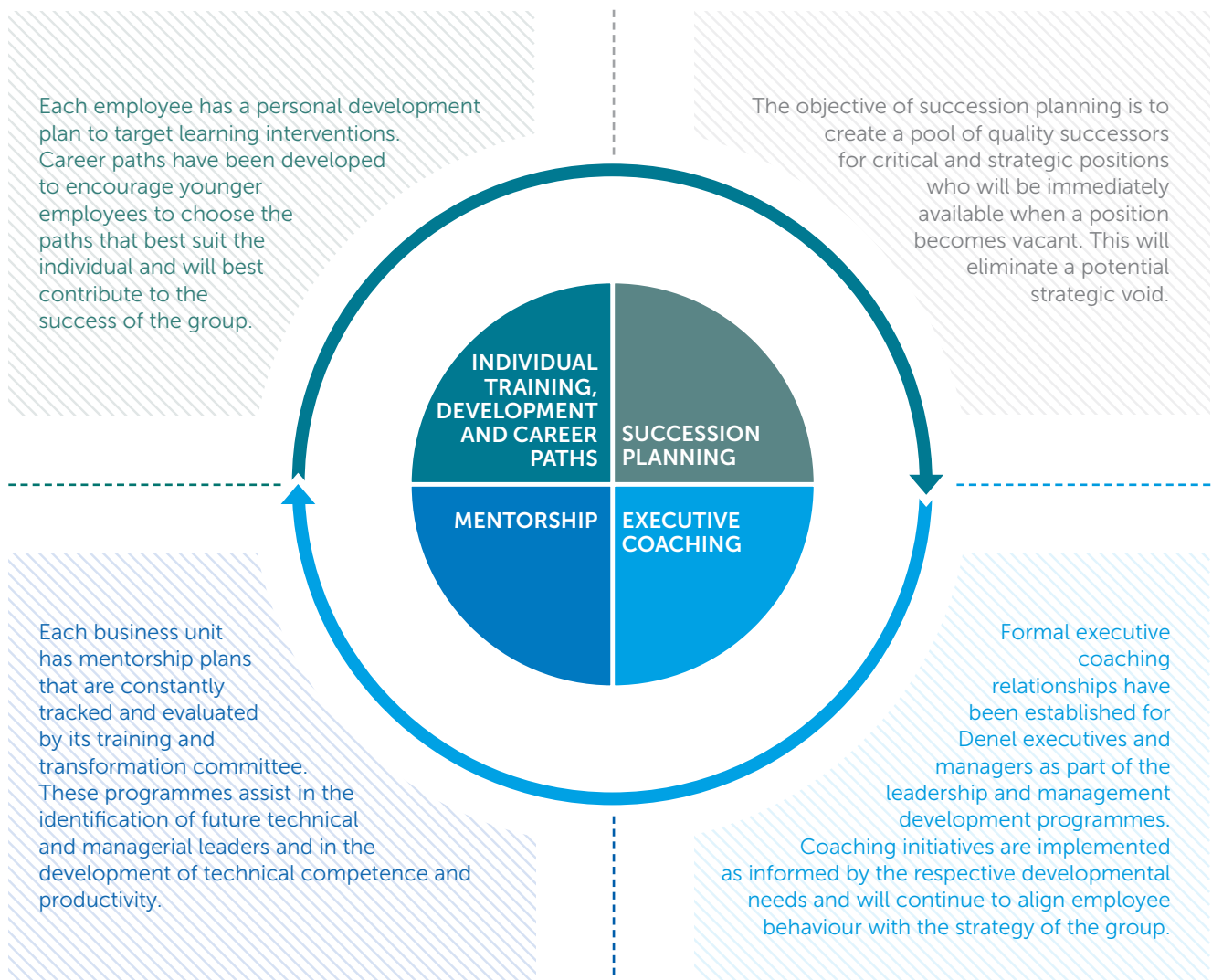
LEARNING AND DEVELOPMENT

DEVELOPING A CULTURE OF LEARNING

Denel spends 3% of its payroll annually on skills development of its employees. Employees have development plans, which assist in identifying their areas for development. These plans cater for short-term training courses and also allow for employees to obtain a bursary towards a formal qualification.

Technical competence is built up over a long period of time and various programmes exist to ensure technical competencies are developed and enhanced. Succession planning remains a key initiative within the organisation. Denel's approach includes both vertical and horizontal succession. This ensures that top talent is identified for leadership positions and also that employees with critical skills nearing retirement have competent successors.

Mentoring programmes are also implemented throughout the Denel group and ensure that inexperienced employees have experienced mentors available for all work related challenges.



LEADERSHIP DEVELOPMENT

Leadership development remains a key focus for Denel. The Leadership Development Framework launched during the previous financial year has yielded excellent results. The first academic programme based on the new Leadership Development Framework kicked off at Henley Business School during the previous financial year.

The programme called Denel Trailblazers has four offerings for junior, middle, senior and executive management aimed at developing a new breed of leadership within Denel while addressing certain competencies based on the three pillars of the programme as outlined below:



HEAD LEADERSHIP

- » Practical judgement
- » Strategic orientation
- » Organisational alignment
- » Strategy development and execution
- » Business insight
- » Critical thinking and problem solving
- » Financial management acumen
- » Delegation and empowerment
- » Negotiating
- » Dealing with ambiguity and uncertainty
- » Effective business communication
- » Self-management
- » Understand systems and context of operation
- » Decision-making
- » Managing in a matrix organisation
- » Managing virtual teams



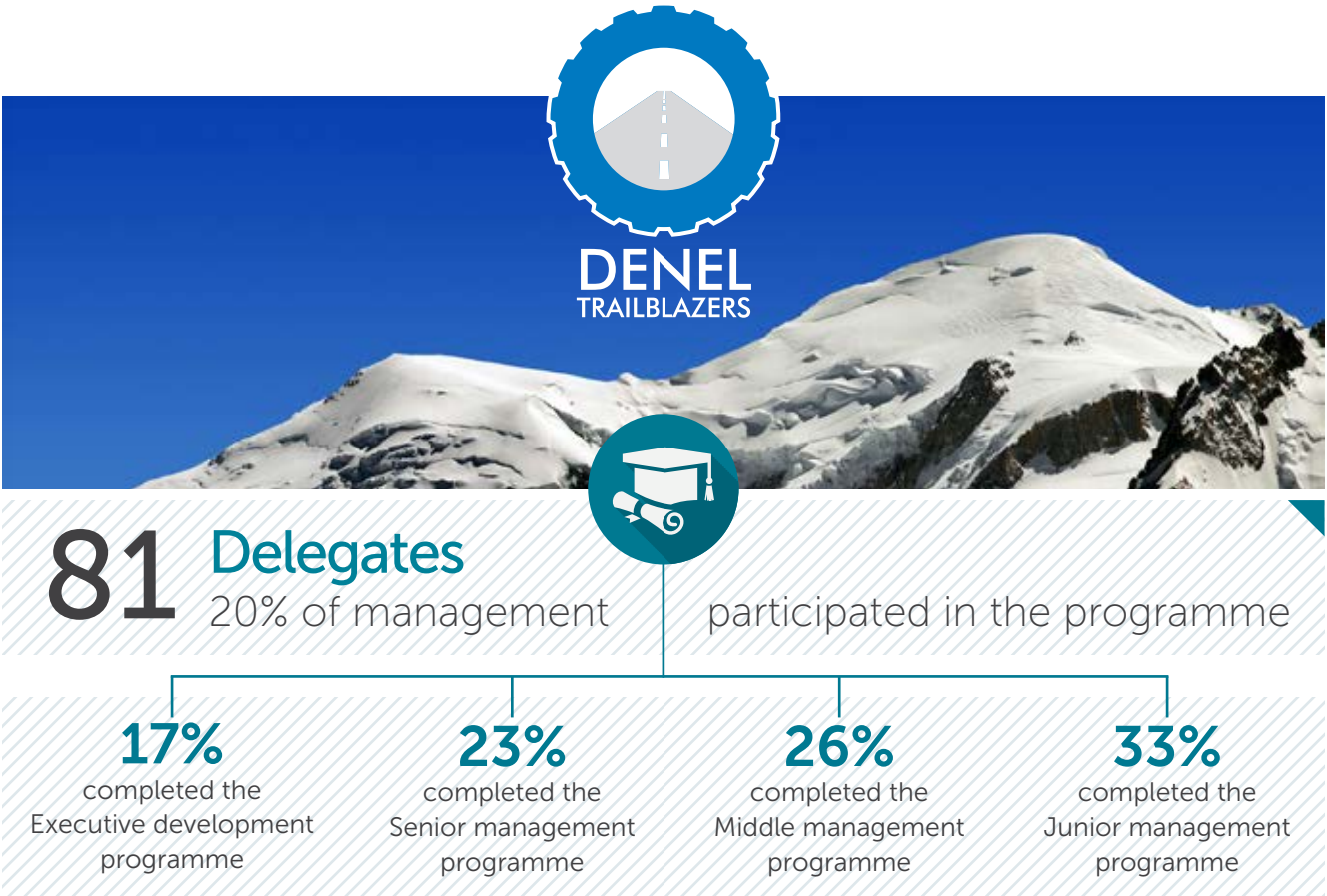
HEART LEADERSHIP

- » Inspiring trust
- » Talent optimisation
- » Motivating others
- » Team development
- » Relationship building
- » Emotional intelligence
- » Managing transformation
- » Political networking
- » Conflict management
- » Collaboration
- » Transformational leadership
- » Creating a culture of engagement
- » Personal presence as a leader
- » Understand organisational culture
- » Diversity management
- » Understand specific cultures in Denel markets
- » Customer orientation
- » Living Denel values
- » Leading cross-cultural teams
- » Stakeholder mobilisation



GUTS LEADERSHIP

- » Risk appetite
- » Entrepreneurship
- » Innovation
- » Focused drive
- » Action-orientated
- » Creativity
- » Implementation and follow through
- » Resilience



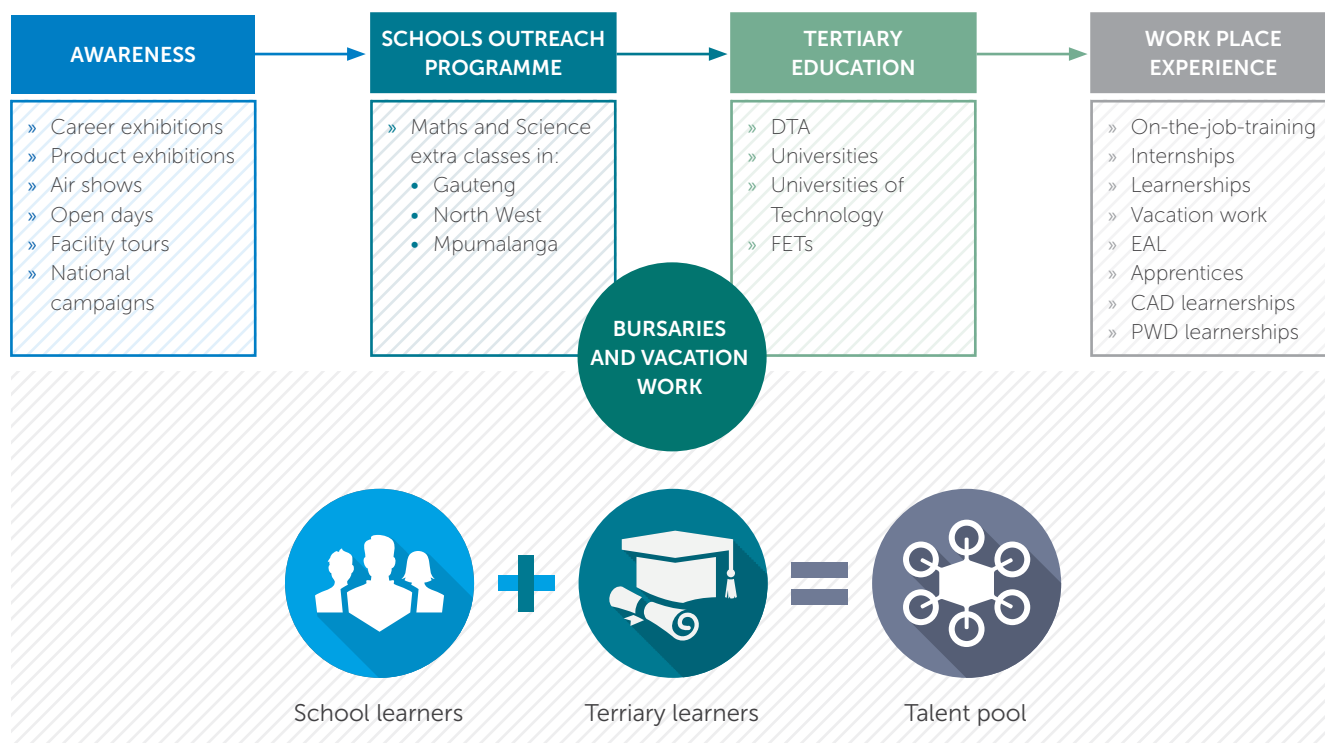
The delegates were required to complete action learning projects, which allowed them to choose and focus on one of the organisational challenges and provide well researched solutions that had to be implemented and efficacy determined. Although done on a small scale, i.e. departmental level, the projects had to be scalable in order to be deemed effective. The programme culminated in a graduation held in March this year.



Executive Management Trailblazers from left to right: Albert Africa, Natasha Davies, Denise Govender, Veronica Qezu, Celia Malahlala, Dean Khumalo, Mxolisi Makhathini, Vuyokazi Xaxa, Mahendra Reddy, Thivian Vadivelu and Mike Kgobe.

FUTURE TALENT

Denel invests extensively in the development of employees, but also in the development of future talent through its various skills development programmes. The diagram below illustrates Denel's talent pipeline model:



AWARENESS

Denel targets specific sources to attract its pool of talent and create its skills pipeline. Denel exhibits at various career expos showcasing its products and services, participates in the various national campaigns, conducts facility tours and hosts learners at air shows and other trade fairs. These activities stimulate interest among the youth and assist Denel in acquiring talent for its various skills programmes. More detail is discussed on pages 111 to 113.

SCHOOLS OUTREACH PROGRAMME

There are a total of 400 learners currently participating in the mathematics and science outreach programme in three provinces. Participating Gauteng schools include: Olievenhoutbosch Secondary School, Reiger Park, Steve Tshwete Secondary School and Springs Etwatwa Rafedile Centre.

Denel's youth development flagship programme is its schools outreach programme. This programme is fashioned on a Saturday and holiday-school concept and assists learners with additional classes in mathematics, science, English and life science. In Gauteng Denel engineers volunteer their personal time and are involved in tutoring learners on Saturdays. The programme is also running in the

North West and Mpumalanga where learners from surrounding schools are brought to a central venue and taught by teachers from the Department of Basic Education.

TERTIARY INSTITUTIONS

Cooperation with academic institutions is pivotal to ensuring that human capital and technology development are in sync. These relationships also provide a platform for the attraction of top talent. The company played an active role in participating in various top university career fairs nationally, including Pretoria, Cape Town, Stellenbosch, KwaZulu-Natal, Witwatersrand, Johannesburg, North West and Nelson Mandela Metropolitan universities, where our employer value proposition was proudly displayed. Students often visit our facilities where our products are showcased and are able to interact with employees to gain a better understanding of their chosen career.



DENEL TECHNICAL ACADEMY

Denel's artisan training academy offers SACAA certified courses and several other advanced and type training courses, and remains an artisan training 'hub' that develops skills particularly for the aerospace industry. DTA delivers technical training and is currently not geared to deliver other skills development programmes, e.g. management training.

The academy creates a foundation for future employability of young learners, trainees and apprentices. Denel offers the first year of theoretical and practical training required to complete both aerospace and engineering related trade qualifications.

DTA TRAINED

- » 523 learners on short courses (2014/15: 656);
- » 213 learners in their first year of a trade qualification (2014/15: 355); and
- » 42% (2014/15: 39%) of these apprentices were sponsored by Denel.

THE DTA PROGRAMME IN SHORT

- » The programme runs from January to November of each year and applications close at the end of October of the preceding year.
- » Learners spend a minimum of 1 400 hours/35 weeks at the school.
- » The courses include a combination of theory and practice which varies according to the trade as stipulated by the South African Qualifications Authority (SAQA).
- » After successful completion, learners are required to perform on-the-job training for a further 24 to 36 months.
- » Thereafter they return to DTA for a six-week intensive trade test preparation period prior to completing their trade test at a registered assessment centre.

AVIATION RELATED TRADES

Aircraft avionician

Aircraft electrician

Instrument mechanic

Mechanic

Radiotrician

Structural worker

ENGINEERING TRADES

Electrician

Fitter and turner

Machine tool millwright

Tool and jig maker

Turner machinist

Welder

OTHER

Advanced aircraft training courses

Aircraft type-specific training courses

Trade testing

Trade test preparation



BURSARIES ARE OFFERED IN THE FOLLOWING ENGINEERING DISCIPLINES:

- » Electronic
- » Mechanical
- » Industrial
- » Software/Computer
- » Mechatronic

BURSARIES AND VACATION WORK

Bursaries for students in relevant technical disciplines are used as a means of creating a skills pool for future needs. Students are taken into the bursary programme annually and are individually mentored and supported throughout their studies. It is our practise that the bursars who complete their university studies are employed within the group.

Many of the Denel business units require advanced technical skills to conduct their business. Accordingly, processes are required to ensure that highly skilled technical employees stays abreast of advances in technology. Bursaries are also offered to employees to assist their long-term development and enable them to make a stronger contribution in their current and future roles. Denel sponsored 82 bursary students in various years of study towards obtaining degrees in the disciplines mentioned above.

Vacation work is also made available to these learners to familiarise them with a real workplace environment.

WORKPLACE EXPERIENCE

Apprentice training

Denel recruits top talent for its apprenticeship programme and offers permanent work opportunities to learners who have excelled both academically and practically. Increasing the apprenticeship scheme is critical to ensure that sufficient apprentices are trained for industry, which is in line with the government's developmental agenda. Refer to DTA mentioned on page 105.

Internships

Graduates mostly from technical disciplines, are employed on internship programmes by various business units. This allows the graduates to acquire critical workplace skills, whilst simultaneously affording business units the opportunity to assess the graduates' employability, although they are not bound to employ these graduates on a full-time basis.

Vacation work

Denel offers vacation work opportunities for engineering students who are required to gain workplace experience in order to complete their qualifications.

ORGANISATIONAL CLIMATE

Employee engagement is an indicator of the emotional commitment the **employee** has to the organisation and its goals. This emotional commitment means that **employees** actually care about their work and their company. They take positive action to further the organisation's reputation and interests.

There are various engagement studies globally, but we have used the Aon Hewitt's '2015 Trends in Global Employee engagement' as a benchmark, which found that **62%** of the global workforce is engaged. The respondents were representative of the race and gender of employees across all occupational categories. Denel has achieved an overall engagement score of **74%**.

EMPLOYMENT ENGAGEMENT SURVEY RESULTS HIGHLIGHTS



11-22 MAY
2015

2 834
employees
have been
heard

64%
Response
rate*

74%
Group
employee
engagement
index

Respondents
AGE
profile

18-24
5.2%

25-34
21.2%

35-44
23.2%

45-54
26.6%

55-60
16.6%

60+
6.6%

* At time of survey, 11-22 May 2015



WORKPLACE PERFORMANCE



Employees are committed to quality and continuous improvement.



Customer focus drives performance within the company.

83%

of employees are
performance driven
across the group

Employees on the whole are most strongly engaged in understanding the vision and purpose, engagement in work and attention to quality and customer focus. This implies a very strong alignment to delivering on the core mandate of Denel, personal commitment to doing great work and focusing where it counts most, i.e. delivery to market.

The top three organisational values which employees relate to are: Performance; Innovation and Integrity.

VALUES, VISION AND PURPOSE



There's a strong sense of personal commitment to contributing to a successful culture across the group.

83%

of employees are aligned with our group values, vision and purpose.

Three values that employees mostly associate with across the group:



PERFORMANCE

We embrace operational excellence



INTEGRITY

We are honest, truthful and ethical



INNOVATION

We create sustainable, innovative solutions

When asked about the current culture in Denel, employees identified the top three cultures as:

27%

PERFORMANCE

18%

PARTICIPATIVE

17%

FLEXIBLE/
INCLUSIVE

Organisational climate surveys have previously been conducted within the Denel group. However, they are not comparable due to a different survey construct. Ongoing organisational interventions will continue to ensure sustainability of these results.

EMPLOYEE WELL-BEING

Employee well-being forms an important part of the HR strategy and focuses on occupational health, physical and psychological well-being. All business units have a risk-based occupational health programme delivered through an occupational health clinic, which includes access to psychological counselling. Denel hosts wellness days to encourage employees to take responsibility for their health and healthy living. During these events medical risk assessments are done and voluntary HIV counselling and testing encouraged. Denel participates in the various national health campaigns, such as HIV/Aids and cancer awareness. The annual Denel road-race encourages employees to make exercise part of healthy living and inspires both professional

and novice runners to participate. Denel also engages its employees in fun days that take different forms at the various campuses.

REMUNERATION AND BENEFITS

The philosophy underpinning remuneration is that people should be rewarded for making a positive and appropriate difference to Denel through their performance and contributions to achieve the vision, strategic drivers, values and objectives to enable Denel in becoming a dynamic, vibrant, financially sustainable, transformed and profitable organisation. Salaries are based on a total cost to company method, which includes retirement funding and medical aid. Short-term incentives are also available, which

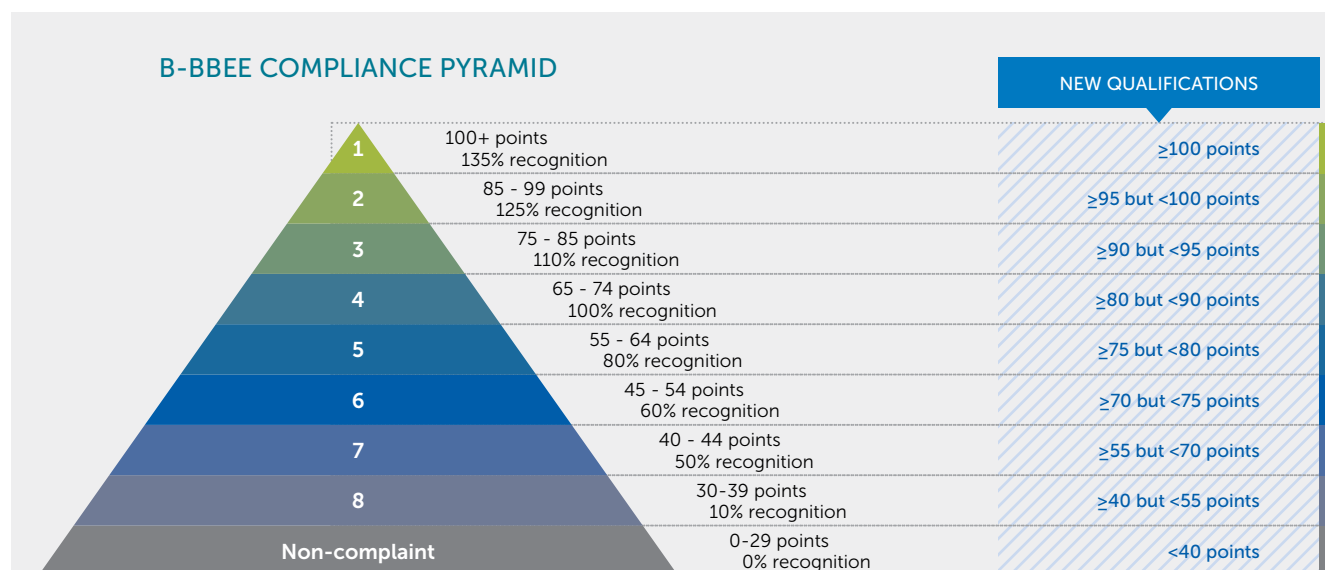
are dependent on company and individual performance.

Long-serving employees with more than ten years of service at Denel are formally recognised and acknowledged.

B-BBEE PERFORMANCE

The B-BBEE rating was conducted by Mosela Rating Agency, a 100% black and 100% black women-owned company.

This year marks the first time that Denel was rated on the new codes which have an entirely new construct. When compared with the old codes, companies would be downgraded by two levels due to an elevated point scoring mechanism, as illustrated below.

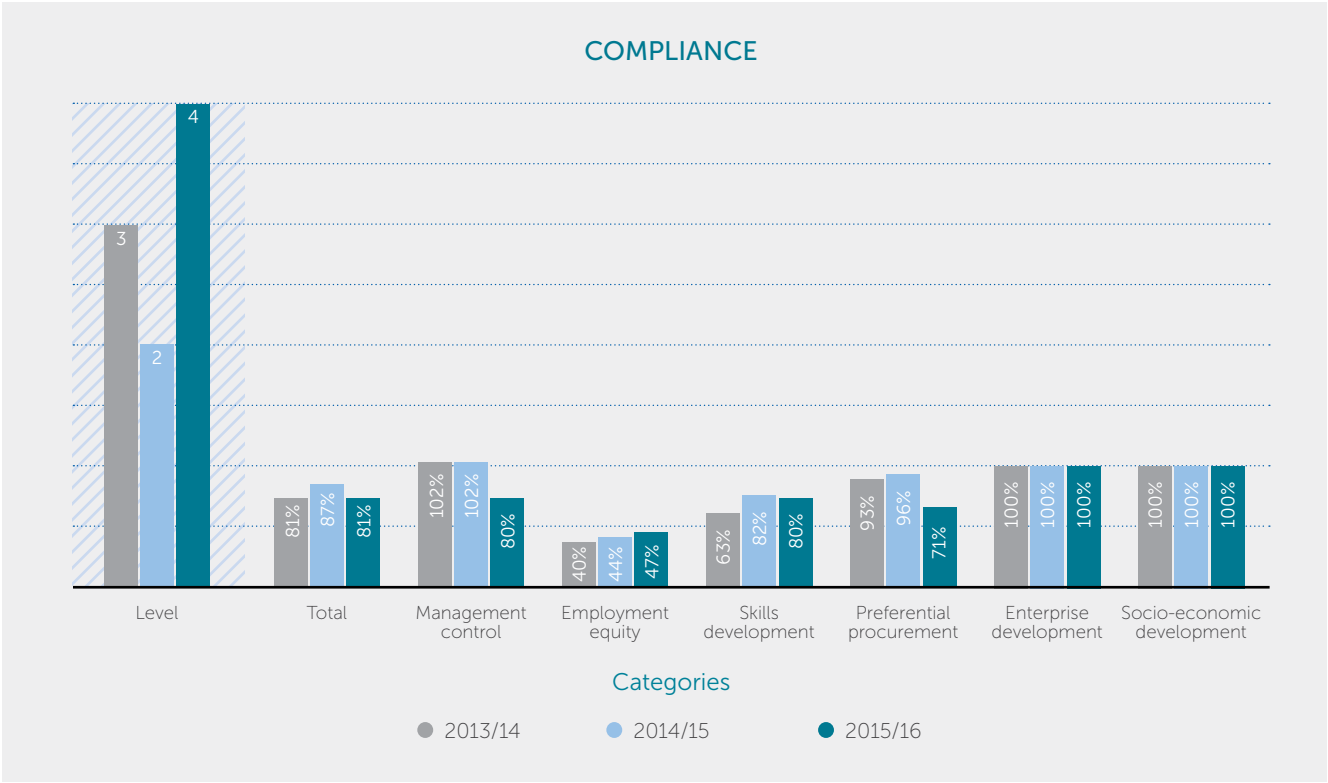


The table below shows a comparison of Denel's performance using both the old and the new codes for the 2015/16 financial year.

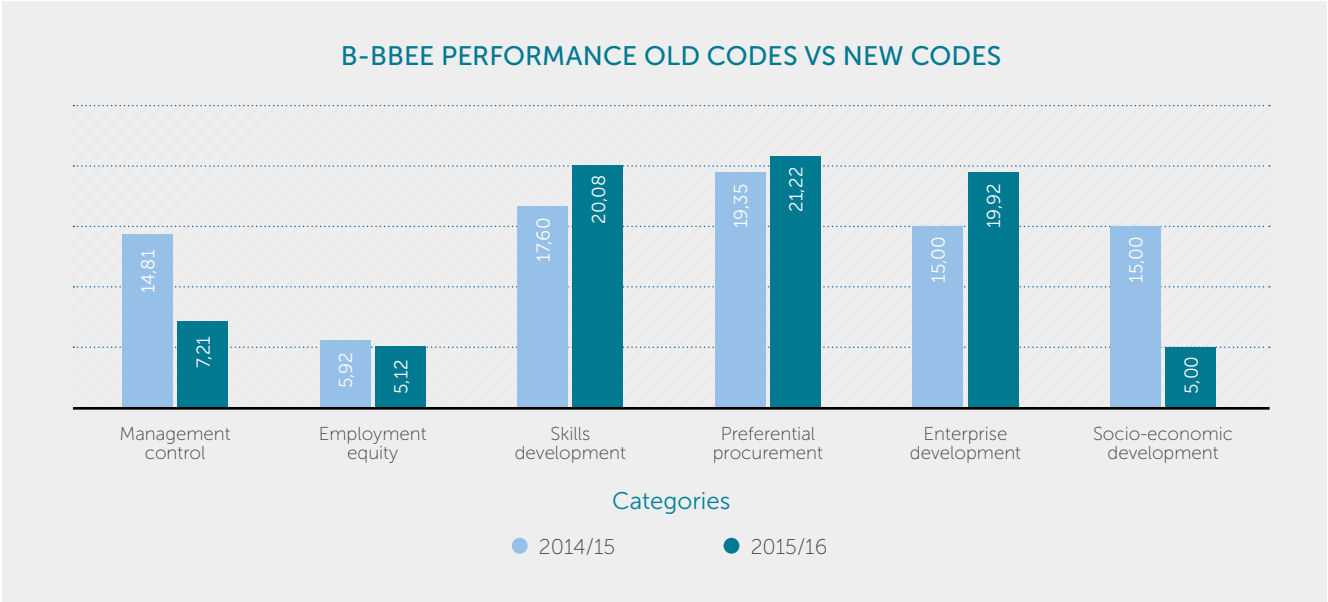
BEE CATEGORY	ELEMENT	OLD CODES		NEW CODES	
		WEIGHTING	LEVEL 2 SCORE	WEIGHTING	LEVEL 4 SCORE
Direct empowerment	Management control	15	14.81	9	7.21
HR development	Employment equity	15	5.92	11	5.12
Indirect empowerment	Skills development	20	17.60	25	20.08
	Preferential procurement	20	19.35	30	21.22
	Enterprise development	15	15.00	20	19.92
	Socio-economic development	15	15.00	5	5.00
Total		100	87.68	100	80.55 ¹

1. Two bonus points awarded for graduation of ED beneficiaries to SD and for creating jobs a result of SD ED initiatives

The graph below provides a comparative analysis for the past three years:



Below is a graphical presentation of the performance for the year under review's comparing the old and the new codes:



CORPORATE SOCIAL INVESTMENT



STRATEGIC OBJECTIVE

[Denel's corporate social investment programmes target mainly youth to improve, empower and transform their lives in an attempt to ensure that they are given the opportunity to contribute meaningfully to the economy. The programme further focuses on education and skills acquisition as a critical enabler in the fight to eradicate poverty, inequality and unemployment.]



Denel's corporate social investment (CSI) programmes are rooted in the government's priorities of alleviating poverty, inequality and unemployment. In this respect, Denel uses skills development interventions that mainly focus on science, technology, engineering and mathematics (STEM) as a critical activator for the achievement of these priorities. These interventions are further used to contribute towards the economic development of marginalised communities. In the year under review Denel programmes had a direct impact on close to 80 000 young people throughout the country. This resulted in encouraging the learners' participation and uptake in STEM subjects, which serve as a pipeline from which institutions of post-school education and training can draw students for technical and engineering careers.

Denel's top young achievers were honoured at an event addressed by the Deputy Minister of Public Enterprises, Mr Bulelani Magwanishe. The event honoured top performers in four categories: high school learners from our schools outreach programme; bursary holders; interns and learnership beneficiaries; artisans and Denel Technical Academy graduates.

Matriculants who participated in our maths and science enrichment programmes in Gauteng, Mpumalanga and the North West, received a 100% pass rate in the 2015 year-end exams. The 230 grade 12 learners raked in 117 distinctions and more than 60% of the class received exemptions for university studies.

One of the participants, Given Mkhwanazi, was recognised as the second best achiever in Mpumalanga, while Abongile Booi emerged as one of the top learners in the North West. Also, Ernest Molelle, a learner from Reiger Park High School

achieved eight distinctions and received a national award from the Minister of Basic Education.

Our contribution to the training of young engineers, scientists and artisans in South Africa is proven by the achievements of students and high school learners who benefit from the company's bursary and educational programmes. Deputy Minister Magwanishe congratulated Denel for contributing to South Africa's economic development through education and training.

Some of our business units have long-standing partnerships with schools such as Olievenhoutbosch and Steve Tshwete in Tshwane, Etwatwa Secondary School in Benoni and Vaal Reefs Technical High School in Orkney.

We also attract some of the best and brightest young minds in South Africa through our internship and bursary programmes. This demonstrates our commitment to remain a global leader in the defence, security and technology sectors.

During the 2015 academic year we provided bursaries to 82 students at various universities and they achieved a 100% pass rate. We take great pride in the achievements of the students who are graduating in engineering disciplines and are contributing to the country's skills base in the fields of technology, advanced manufacturing and design.

Apprentices who attend the Denel Technical Academy in Kempton Park were also honoured at the prize-giving function. The academy offers tertiary training to 213 first year students who then continue to gain practical experience in industry before returning to Denel to qualify as apprentices.



Below is a list of all the activities Denel embarked on in addressing the challenge of technical skill shortages:



AWARENESS INITIATIVES

Career exhibitions

R560k - with impact on 45 000 Grade 10-12 learners

- » Denel participates in various career exhibitions nationally in order to expose learners to the various careers available for science, engineering and technology.

University exhibitions

R150k - with impact on average 1 000 learners at eight universities

- » Denel participates in various university career exhibitions in order to attract talent for our engineering academy.

Air shows

R162k - with impact on 15 000 Grade 10-12 learners

- » Learners from disadvantaged communities get exposed to the world of aviation through air shows. The events ensure that learners are provided with information about the company and possible future careers and they also get to do aviation-related activities.

DPE initiatives

R109k - with impact on 3 300 Grade 8-12 learners

- » Various career exhibitions in various areas attended by the Minister of Public Enterprises, Deputy Minister and other high-ranking officials.



CHARITY CAMPAIGNS

Donations to welfare organisations

R20k

- » Various welfare organisations were supported by Denel on an ad-hoc basis.

Mandela day

R80k - with impact on 100 beneficiaries

- » Denel donated a structure for a vegetable garden to Zodwa school for the disabled to ensure self-sustenance for meals. This structure will ensure that vegetables grow in all seasons.
- » Bought groceries for a feeding scheme for 46 disadvantaged children from a special school that offers a vocational curriculum.
- » Donated a stove, clothes, blankets and mattresses to the Xola home for the disabled in Soshanguve.

Charity support initiatives

Employee volunteerism

- » Tekkie day is an annual fundraising campaign for a large mix of carefully selected welfare organisations.
- » Slipper day where employees purchase stickers to help "Reach for a Dream" fulfil the dreams of children who have been diagnosed with a life-threatening illness.



EDUCATION INITIATIVES

Maths and science outreach programme

R2.7m - with impact on 400 learners across provinces

- » The programme is aimed at addressing the technical skills shortage due to non-participation and poor performance by learners in mathematics and physical science especially in the previously disadvantaged communities. The programme is currently running in the North West, Mpumalanga and Gauteng provinces. In Gauteng engineers employed at various Denel business units are involved in tutoring these learners on Saturdays without expectation of a reward.

Mini chess programme

R44k - with impact on 50 learners - Philena Primary School in Gauteng

- » Assist with maths and science skills.

Maths formula booklets

R43k - with impact on 1 000 learners

- » Denel donates maths formula booklets that explain concepts to learners in a simplified manner.

Mobile laboratories

R165k - with impact on all learners at Olievenhoutbosch Secondary School

- » Mobile laboratories were donated to assist centres where there are no facilities.

Technogirl

R44k - with impact on 250 female Grade 9-11 learners

- » This is an initiative of the Department of Women which involves a job-shadowing programme for girls. It provides structured job-shadowing during school holidays to assist learners to make informed career choices and encourages learners to take relevant maths and science subjects.

Teacher support

R74k - with impact on 120 Grade 0-7 learners at schools in the Western Cape

- » Denel pays the salaries of extra teachers so that the school can accommodate more learners from the area. Learners from the area would have to commute extensively if they were not accommodated in these local schools.

Donations to local schools

R18k - with impact on Grade 0-7 learners in and around OTR

- » Donations to local schools.



SPORT INITIATIVES

Denel Road Race community marathon

R72k - with impact on 3 000 employees and community

- » Denel annually sponsors a road race in Centurion. Participants can participate in either a formal 10 or 21km or the fun run/walk races.

School sport support

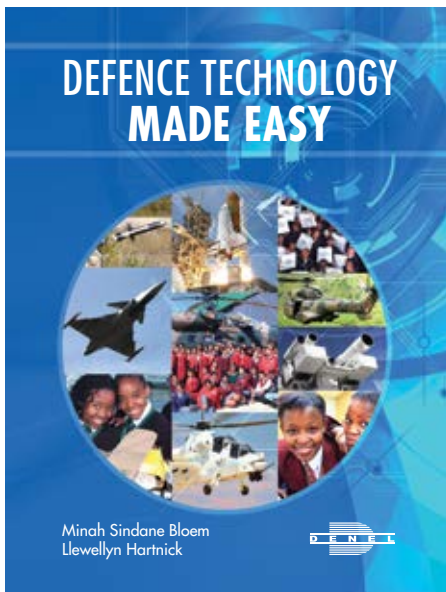
R71k - with impact on 60 youth members

- » Denel sponsors athletics in Elim and a local rugby club in Arniston, both in the Western Cape.

Tennis development

R50k - with impact on 90 learners at Irene Middle School

- » Denel sponsors a tennis development programme.



INFRASTRUCTURE DEVELOPMENT

Science laboratory revamped

R42k - with impact on 1 000 learners - Mamelodi High School

- » Denel revamped the science laboratory using our own engineers.

Revamped a library

R318k - with impact on 100 learners - Tembisa

- » Revamped and donated books to a library at the OR Tambo Primary School.

Contributed to the building of a school

R211k - with impact on 100 learners - Mpumalanga

- » Contributed towards the building of a school.



HEALTH INITIATIVES

Provision of dignity packs

R67k - with impact on 200 Grade 8-12 learners

- » Denel donates sanitary protection and dignity packs to learners in disadvantaged communities to avoid absenteeism due to lack of sanitary protection. Girls who cannot afford sanitary protection miss approximately five days of school a month, which amounts to 60 missed school days a year per learner.

SUPPLY CHAIN MANAGEMENT



STRATEGIC OBJECTIVE

[Acquiring products and services of high quality, which is cost-effective and timeous in the execution of the group's core operations whilst at the same time supporting transformation initiatives.]

SUPPLY CHAIN COMPETENCY DEVELOPMENT

Equip relevant employees with correct competencies. Competency assessment done during the year identified limitations in the critical supply chain competencies. A personal development plan has been developed for the identified employees and the process to reskill has begun in earnest.

TOTAL PROCUREMENT SPEND R6.5BN ¹

R873m (29%) Spend on black-owned suppliers (2014/15: R622m)

R274m (9%) Spend on black women-owned suppliers (2014/15: R246m)

R60m (2%) Spend on black youth-owned suppliers (2014/15: R54m)

101% Recognised spend (2014/15: 93%)

120 Number of ESD beneficiaries (2014/15: 114)

40 ESD suppliers supply into the core business of Denel (2014/15: 25)

1. Statistics are calculated based on local spend excluding spend with government institutions, as well as other B-BBEE exclusions.

FOCUS AREAS



Getting value for Denel's spend with emphasis on smart contracting and collaboration amongst the business units to exploit the group's purchasing power.



Increasing the group's procurement spend on black-owned, black women, black youth, military veterans and companies owned and managed by black people with disabilities.



Targeting qualifying small or emerging black-owned companies for development with the ultimate goal of making them strategic/key suppliers.



Transformation of the current strategic/key supplier base.



Increase spend on local suppliers in order to reduce dependence on imports and foreign suppliers.

The group's supply chain is a key enabler in delivering on and executing programmes.

SUPPLY CHAIN ACTIVITIES COMMITMENT

Denel, through its supply chain activities, is committed to ethical business dealings, SA's economic growth, increased spend on black suppliers as part of black economic empowerment, reduction in unemployment and poverty, focused development of eligible black suppliers, with a specific focus on emerging black SMMEs and increased support for locally manufactured products.

LOCAL SPEND

In absolute terms the local spend increased from R3.1bn to R4.4bn, for the year under review. In percentage terms it remained the same as in the previous financial year as a result of a large portion of spend being attributed to high-value products specified by the OEMs and product designers. We are currently engaging OEMs with a view to localising a sizeable part of the imported component. Denel together with other SOCs are working closely with the dti to identify products that are currently imported with a view to designating them for local manufacture, either partially or fully.

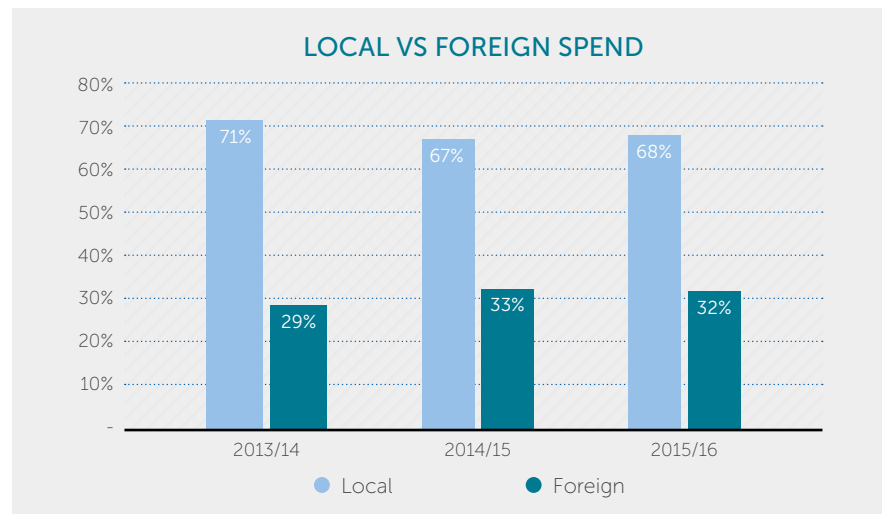
SPEND ON BLACK-OWNED COMPANIES

The trend in spend on black-owned and black women-owned companies continues to improve with better than targeted performance year-on-year. As far as black youth-owned companies and companies owned by black people with disabilities are concerned, it remains a challenge to find suitable companies in this category that operate in the high-tech arena and currently only a handful are supplying into Denel's core business. Other suppliers in these categories have been included in the ESD programme and it is anticipated that an improvement will be reported in targeted spend in the two categories of suppliers in the next financial year.

Denel started tracking spend on companies owned and managed by military veterans during 2015/16 and reported R10m spend towards these companies during the year under review.

ENTERPRISE AND SUPPLIER DEVELOPMENT STRATEGY/ PROGRAMME

The group's ESD strategy was reviewed in the last quarter of 2015/16 with a view to improving the success rate of the companies that join the programme. One of the shortcomings identified in the programme was the lack of business opportunities afforded some participants on the programme. This effectively means that the focus is not only on the development of the said companies based



on the agreed development plans, but to monitor the level of business that the said companies get access to. That has also resulted in companies on the programme being given multi-year contracts to ensure they are developed and able to grow and be sustainable. Lastly, the focus in the new approach is also reducing the number of ESD beneficiaries and increasing the intensity of the development of companies on the programme. It is worth noting that 40 of the 120 companies on the programme has developed into fully fledged suppliers to Denel.

SMART PROCUREMENT

It is imperative that whilst the group pursues its transformational goals, attention be given to the development of relevant supply chain personnel. This intervention has already been initiated and it will equip them with the competencies necessary to achieve the group's objectives. The smart procurement approach can only be realised if the relevant people are equipped with the competencies required to achieve success. The key elements of smart procurement entail:

- » Planning and developing an appropriate sourcing or procurement strategy for high value and critical transactions.
- » Exploiting the purchasing power of the group by collaborating when commonly used products and services must be procured.
- » Negotiating wisely to reduce risks against Denel and consistently ensure transactions or contracts deliver value for Denel.

- » Incorporating elements in contracts that drive transformation in the supplier environment.

There are pockets of success in the group that are testimony to the gradual traction that this process has assumed thus far. With increased focus on smart procurement, and recognising those who are living examples thereof, the future will certainly be great for Denel.

Whilst there is compliance with the PPPFA, isolated transactions were identified as reflected on page 226, note 36 of the consolidated annual financial statements where non-compliance existed. These areas of non-conformance are receiving the necessary attention by management to ensure that this does not recur in future.

TENDERS/CONTRACTS AWARDED DURING THE FINANCIAL YEAR UNDER REVIEW

The total number of tenders (>R1m) awarded was 66 (2014/15: 44) and 14 (2014/15: 4) were awarded to foreign suppliers. The encouraging trend is that of the 52 (2014/15: 40) tenders awarded to local companies 12 (18%) (2014/15: 23 (58%)) were awarded to black-owned companies and 11 (17%) (2014/15: 8 (20%)) were awarded to black woman-owned companies. Denel will continue to identify products and services that may be ring-fenced for small and emerging black companies in order to increase its spend on black-owned companies.

OCCUPATIONAL HEALTH AND SAFETY



STRATEGIC OBJECTIVE

[Implement a robust OHS system to prevent occupational accidents and diseases that may cause harm and fatalities at the workplace.]

Denel recognises that the interaction between and among people, processes, machines and the broader work environment has a direct impact on the well being of employees and that an effective OHS should cut across all business units and be infused in the culture of the organisation. In order to achieve this, Denel adopts a comprehensive approach to OHS and puts measures in place to determine the effectiveness of the OHS programme. Denel implements formal OHS systems to ensure that as a minimum its business units meet both the moral and legal obligation with regard to workplace safety. It continuously assesses risks and applies engineering measures to reduce or eliminate OHS hazards, implement safe work procedures, provide protective equipment to prevent or reduce exposure, monitor occupational diseases and raise OHS awareness. The primary objective of Denel is to implement a robust OHS system to protect and preserve the well-being of employees during the course of their work. Denel uses lost time injury frequency rate (LTFIR) as the key measure for OHS performance.

OCCUPATIONAL HEALTH AND SAFETY SYSTEM AND PERFORMANCE

Responsibility for a safe work environment rests with business unit CEOs who implement an OHS system that meets legal requirements and is OHSAS18001 based, which ensure a culture of accountability and responsibility for workplace safety and the involvement of employees at all levels of the organisation. The OHS programme involves a clearly communicated OHS policy, appointment of OHS representatives and well-functioning safety committees comprising employee and management representatives.

OHS practitioners work with management and employees to conduct hazard identification and risk assessments, conduct job safety analysis, provide written safe work instructions, material safety data sheets for hazardous chemicals and effective supervision of high risk activities at the workplace.

All business units are required to be OHSAS18001 certified by the end of 2016 and to retain their certification going forward. The status of certification at the various business units is reflected in the table below:

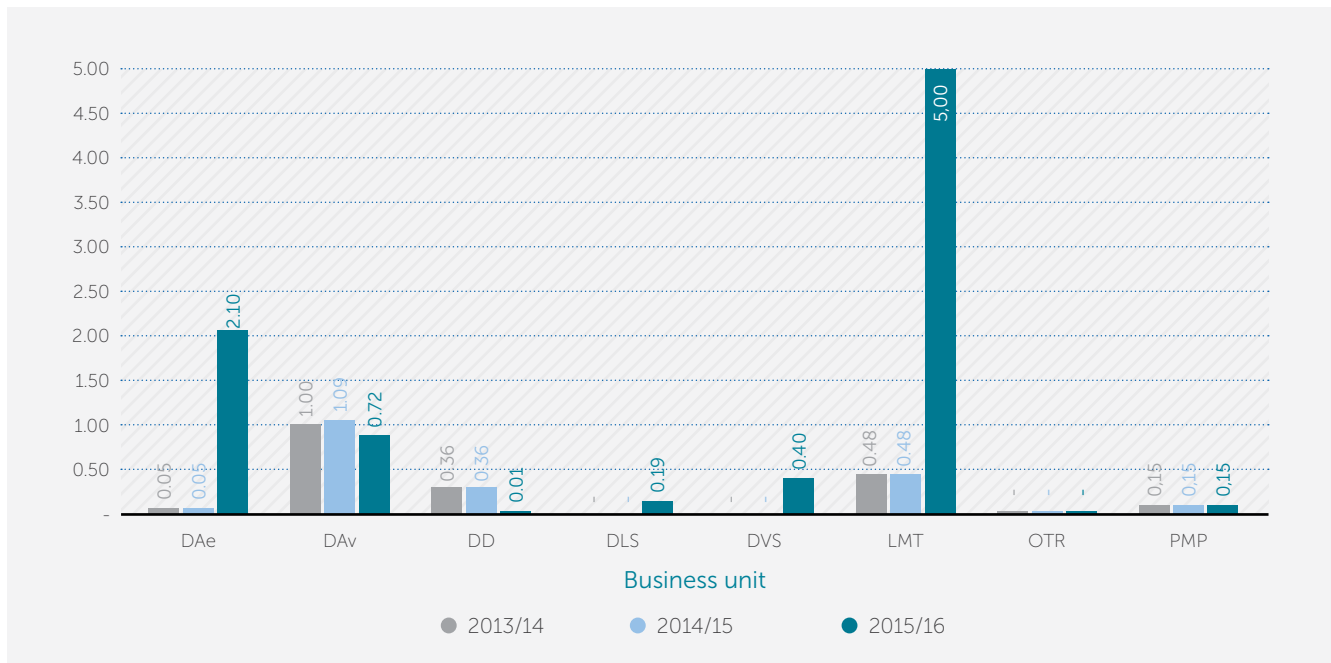
BUSINESS UNIT	CERTIFIED	CERTIFICATION BODY	CERTIFICATE RETENTION RECORD		
			2015/16	2014/15	2013/14
DAe	Sept 2015	SABS	©		
DAv	Mar 2013	SABS	√	√	
DD	Jun 2015	Bureau	©		
DLS	May 2013	DEKRA	√	√	
Denel Gear Ratio	Mar 2014	Bureau Veritas	√	√	
Denel Mechatronics	Jun 2015	Bureau Veritas	√	√	
Denel OMC	Jul 2014	Bureau Veritas	√	√	
LMT	In process	DEKRA	Δ		
OTR	In process	SABS	Δ		
PMP	2007	SABS	√	√	√

© First certification in three years

√ Certification retained after annual re-certification audit by the certification body

Δ First stage assessment conducted or in process and certification in 2016/17

Denel targets a LTIFR of less than 0.8 and the current LTIFR of individual business units are depicted below:



During the year under review the deviation from the target at LMT and DAe was due to slipping in the machine shop area and the incorrect handling of tools and equipment in composite cleaning room areas. Corrective action has been taken to prevent recurrence.

Thanks to the programmes and procedures that are in place, the organisation has maintained a good safety record and no incidents resulting in fatalities were experienced during 2015/16.

OCCUPATIONAL HYGIENE SURVEYS

Denel conducts occupational hygiene surveys to identify environmental stressors, including illumination, noise, ventilation, hazardous chemical substances, as well as ergonomics in order to mitigate exposure and comply with applicable legislation. The frequency of surveys is governed by legal requirements and each business unit follows a roster according to which surveys are conducted. During 2015/16 illumination, noise, ventilation, HCS and lead dust surveys were conducted at DLS, DVS and PMP respectively and no significant deviations were identified.

OCCUPATIONAL MEDICINE

Pre-employment, periodic and exit medical examinations are conducted at Denel's occupational health centres operated by qualified occupational health and occupational medicine practitioners. This especially involves those employees engaged in high-risk occupations as required by the OHS Act no. 85 of 1993, which assists in determining health baselines, appropriate placements and mitigation of occupational diseases, especially in regard to high-risk jobs.

Procedures undertaken during the year under review are tabulated below:

PROCEDURE	DAe		DAv		DD		DLS		DVS ¹		LMT		OTR		PMP	
	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15
Pre-exit medicals	12	65	268	100	70	40	338	53	86	n/a	56	121	-	-	23	186
Periodic medical	167	249	365	115	56	101	76	169	116	n/a	-	-	-	-	536	177
Biological	-	-	2	-	58	69	75	23	20	n/a	-	-	12	9	217	122
Hearing tests	-	-	1	-	26	-	23	18	30	n/a	56	121	-	-	477	477
Laser eye testing	-	-	617	-	35	2	-	-	-	n/a	56	121	-	-	-	-

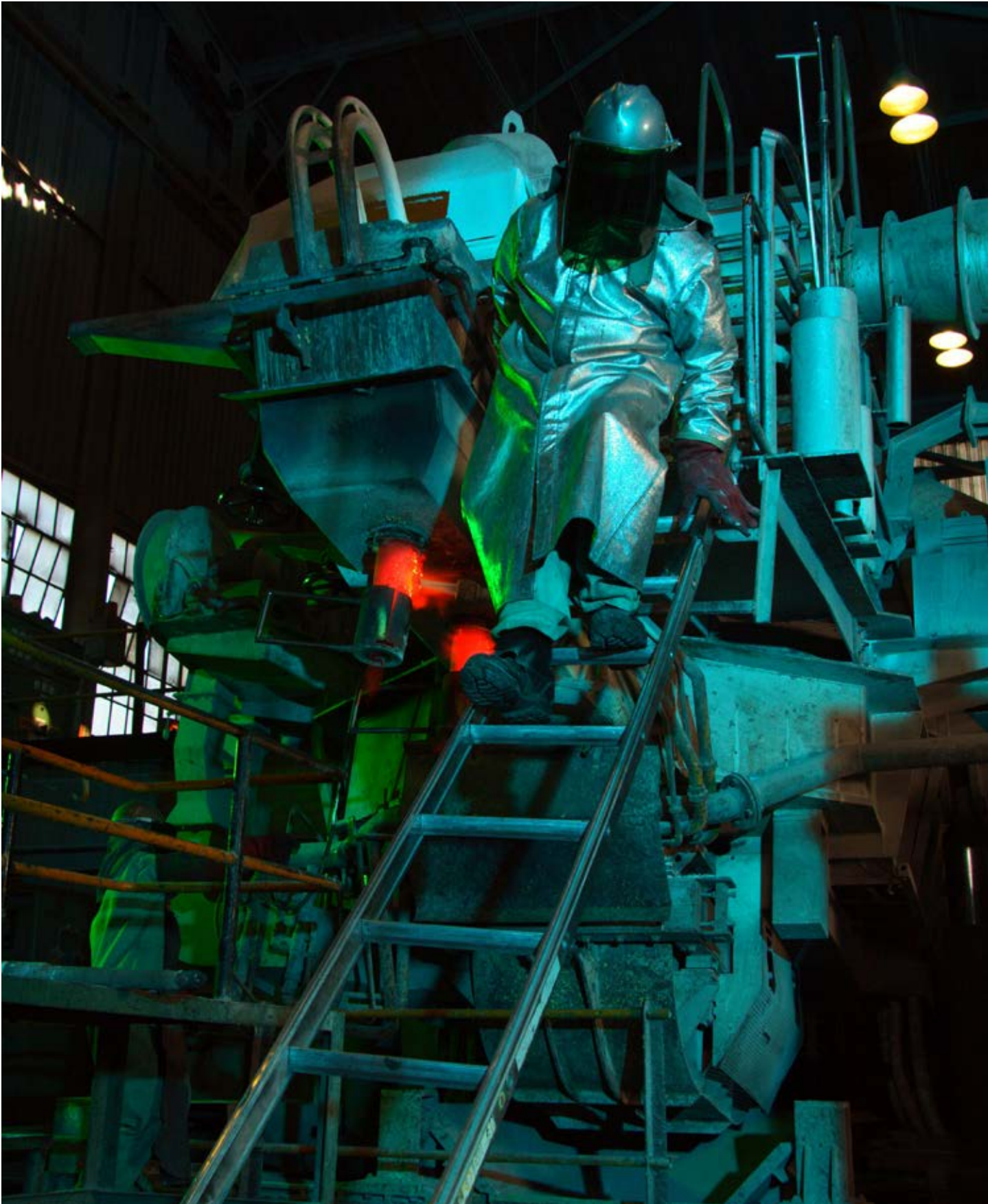
1. DVS has only joined the Denel group on 29 April 2015, thus no comparative figures.

OCCUPATIONAL HEALTH AND SAFETY TRAINING AND AWARENESS

Denel increases awareness through communication and safety training of own employees and subcontractors. Training regarding incident investigations, first-aid emergencies, safety risk assessments, as well as hazardous chemical substances and explosives, reduces the probability of incidents and accidents. Safety training and awareness statistics are tabulated below, indicating the number of employees trained per business unit since 2013/14:

TRAINING OFFERED	DAe			DAv			DD			DLS			DVS	LMT			OTR			PMP		
	2015/16	2014/15	2013/14	2015/16	2014/15	2013/14	2015/16	2014/15	2013/14	2015/16	2014/15	2013/14	2015/16 ¹	2015/16	2014/15	2013/14	2015/16	2014/15	2013/14	2015/16	2014/15	2013/14
OHS induction	75	48	-	57	38	82	42	47	105	303	362	106	22	265	294	-	-	10	8	-	180	9
HCS	9	67	-	11	-	9	42	22	32	23	22	35	-	-	-	-	-	-	-	526	80	180
MSD sheets	9	-	-	-	-	-	-	22	-	5	22	35	-	38	49	-	-	-	-	526	100	-
Spill kit	39	-	8	-	-	-	-	7	-	5	22	-	24	-	-	-	-	-	-	-	-	75
Scaffolding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	14	-	-	-	12	-
OHS representatives	8	28	-	-	-	3	4	26	16	-	10	6	18	3	3	-	-	-	-	-	12	2
Hazard and risk assessments	22	-	5	-	-	2	-	-	-	5	2	3	-	-	-	-	1	1	-	22	14	2
Explosives areas	-	-	-	20	11	-	12	37	18	-	-	6	-	-	-	-	-	-	-	-	272	240
Legal training for supervisors	5	11	-	-	-	7	-	-	-	-	-	-	-	-	-	-	-	-	1	-	23	-
First-aiders	11	33	-	-	9	17	10	30	12	-	36	15	10	8	8	-	1	-	11	64	53	-
Fire fighters	40	-	74	-	10	11	17	26	16	-	-	-	13	7	8	-	-	-	1	-	122	-
Emergency team members	-	-	-	2	-	-	-	2	-	-	-	-	-	-	-	-	-	5	6	-	122	-
Incident investigators	21	19	-	1	-	4	5	-	-	11	-	1	-	1	1	-	-	-	3	20	9	-
Crane and forklift operators	44	45	87	-	40	34	50	27	33	-	30	19	36	18	10	10	31	15	45	-	20	-
Lead training	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	60
Noise induced hearing	100	-	-	-	-	4	-	-	-	-	-	1	-	-	-	-	-	-	-	-	-	311
Vessels under pressure	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3
Health and safety awareness	150	435	-	-	749	-	34	113	111	401	283	235	-	266	294	-	-	-	11	23	43	879
Working and heights	-	-	-	-	-	-	-	-	-	9	-	15	-	-	-	-	-	-	-	-	-	-
Pallet stacker	38	-	-	-	21	-	5	-	-	-	-	-	-	3	3	-	-	-	-	-	-	-
SHE supervisor	-	-	-	2	3	-	-	-	-	7	-	-	-	1	1	-	-	-	-	-	-	-
Sling inspection	12	-	-	29	14	-	-	-	-	5	-	-	-	1	1	-	-	-	-	-	-	-
High voltage switching	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2	-	-	-	-
Fall arrest training	-	-	-	-	-	-	-	-	-	42	-	-	-	-	-	-	3	14	-	-	-	-
Professional driving permit	-	-	-	-	-	-	-	-	-	-	-	-	8	3	3	-	-	-	-	-	-	-
Snake identity and bite treatment	-	-	-	-	-	-	-	-	-	-	-	-	5	-	-	-	-	-	-	-	-	-
Breathing apparatus	-	-	-	-	-	-	-	-	-	-	-	-	19	-	-	-	-	-	-	-	-	-

1. DVS has only joined the Denel group since 29 April 2015, thus no comparative figures.





PART SIX

ENVIRONMENTAL RESPONSIBILITY

SIX

ENVIRONMENTAL RESPONSIBILITY



STRATEGIC OBJECTIVE

[Continuously improve environmental management activities and operations including minimising waste and preventing pollution]

HIGHLIGHTS

- » DAe and DD obtained ISO14001 first certification.
- » No instances of non-compliance with environmental laws and regulations were identified nor fines levied as a result.
- » Spent R11m (2014/15: R5m) on environmental protection and related expenditure; and
- » Achieved 18.6% (2014/15: 11.8%) in energy savings, which translated into equivalent CO₂ emissions of 22 640 metric tonnes.

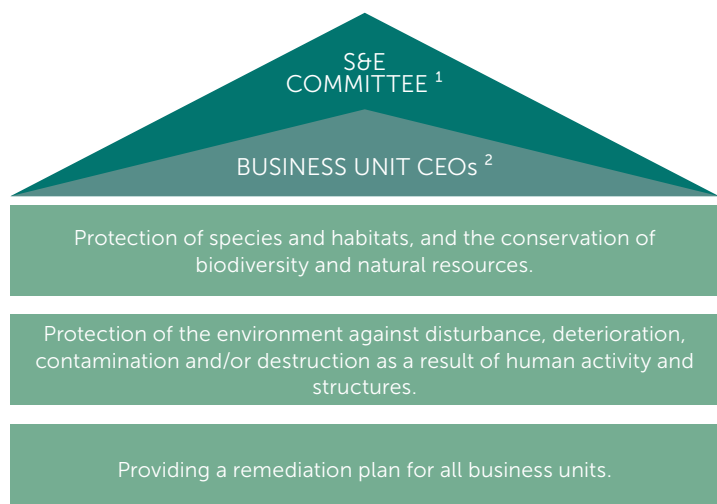


Whilst the positive impact of the business on the economic and social environment is also outlined in this report, Denel is equally aware of the negative effects industrial activities have on the environment and the need to mitigate these for future generations. Managing environmental impacts arising from its business activities throughout the value chain is underpinned by the company's corporate values of caring and accountability. Denel has put in place processes to ensure that the organisation anticipates, identifies, assesses and responds to these systematically to protect and rehabilitate the environment.

MANAGING MATERIAL ENVIRONMENTAL IMPACTS

Environmental aspects and impacts are considered throughout the design, manufacture, packaging and transportation processes. This is part of an integrated environmental management process. Environmental impact studies and environmental risk assessments are embedded in the business units' processes.

KEY ENVIRONMENTAL OBJECTIVES



1. Business units CEOs appointed to execute environmental responsibility
2. S&E committee provides oversight

In order to ensure accountability and responsibility for the environment, Denel has appointed the business unit CEOs to execute the overall responsibility for environmental management and incorporated the environmental management processes into the SHE systems of the business units.

Denel's environmental management system is based on the principles of ISO14001 and provides guidelines and minimum requirements for each core business unit. The status of the business units' ISO14001 certification is tabulated below.

DENEL SUBSCRIBES TO ISO14001 AND REQUIRES ALL ITS BUSINESS UNITS TO BE ISO14001 CERTIFIED

BUSINESS UNIT	CERTIFICATE	CERTIFICATION BODY	CERTIFICATE RETENTION RECORD		
			2015/16	2014/15	2013/14
DAe	Sept 2015	SABS	©		
DAv	Mar 2013	SABS	√	√	
DD	Jun 2015	Bureau Veritas	©		
DLS	May 2013	DEKRA	√	√	
Denel Gear Ratio	Mar 2014	Bureau Veritas	√	√	
Denel Mechatronics	Jun 2015	Bureau Veritas	√	√	
Denel OMC	Jul 2014	Bureau Veritas	√	√	
LMT	In process	Dakra	Ω		
OTR	Nov 2000	SABS	√		
PMP	2007	SABS	√	√	√

© First certification

√ Certification retained after annual re-certification audit by the certification body

Δ First stage assessment conducted or in process and certification in 2016/17

Ω Process commenced

DAv, DLS, PMP and DVS maintained their certifications, whilst DAe and DD were certified for the first time. OTR has made progress towards re-certification, whilst LMT has commenced with the process for certification. The environmental aspects discussed below have been identified as material for the Denel group and are managed, monitored and reported on a regular basis.

ENERGY AND CARBON EMISSIONS

Denel is committed in reducing energy consumption and its carbon footprint by investing in energy and carbon mitigation strategies. Our 2020 vision is to improve energy efficiency and reduce our direct greenhouse gas emission by at least 20%. As at end March 2016, we have successfully reduced our electricity consumption by 18.6% compared to the base year resulting in the mitigation of 22 640 metric tonnes of CO₂ equivalent emissions. The addition of the newly acquired DVS, mainly a production facility, has increased our energy footprint. Should DVS be excluded, Denel would have recorded the lowest energy consumption over the past eight years. DVS has been integrated into our energy efficiency programme and several improvement areas have already been identified.

Underlying Denel's objectives of reducing energy consumption and carbon footprint has been the determination of sources of carbon in order to take appropriate steps to effectively manage it. The environmental management employees were trained in the identification of sources and quantification of carbon within scope 1 and 2 based on Department for Environment, Food and Rural Affairs (UK) (DEFRA) CO₂ equivalent emissions process which is an international benchmark.

This is the second year of reporting on CO₂ emissions. Denel identified and quantified carbon sources at the various campuses as tabulated below:

CAMPUS	ELECTRICITY	LIQUID PETROLEUM GAS	COAL	HEAVY FUEL OIL	AVIATION TURBINE FUEL	PETROL	DIESEL	PARAFFIN
	kWh	kg	kg	litres	litres	litres	litres	litres
DVS								
2015/16	8 828 681	18 896	-	-	-	28 012	26 719	-
2014/15 ¹	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Houwteq								
2015/16	1 149 507	-	-	-	-	-	-	-
2014/15	1 134 657	-	-	-	-	-	-	-
Irene								
2015/16	18 511 767	-	-	-	-	48 936	28 020	-
2014/15	17 993 683	-	-	-	-	57 796	32 490	-
Kempton Park								
2015/16	30 977 537	80 866	-	411 920	363 313	23 616	42 634	-
2014/15	32 104 831	189 072	-	1 157 279	369 255	25 502	49 200	-
LMT								
2015/16	1 824 763	-	-	-	-	24 656	36 650	-
2014/15 ²	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lyttelton								
2015/16	9 223 303	-	-	-	-	33 199	37 574	-
2014/15	9 267 445	-	-	-	-	43 859	42 313	1 000
PMP								
2015/16	24 715 256	70 297	2 116 580	-	-	86 115	74 851	31 110
2014/15	29 277 916	91 677	1 717 341	-	-	74 412	137 210	1 480
OTR								
2015/16	5 862 023	-	-	-	-	63 288	155 810	-
2014/15	6 060 779	-	-	-	-	88 787	146 009	-
Total								
2015/16	101 092 837	170 059	2 116 580	411 920	363 313	307 822	402 258	31 110
2014/15	95 839 311	280 749	1 717 341	1 157 279	369 255	290 356	407 222	2 480

1. DVS has only joined the Denel group on 29 April 2015, thus no comparative figures.

2. Information not available

Carbon sources reflected in tonnes CO₂ equivalent emissions at the various campuses are tabulated below:

CAMPUS	ELECTRICITY	LIQUID PETROLEUM GAS	COAL	HEAVY FUEL OIL	AVIATION TURBINE FUEL	PETROL	DIESEL	PARAFFIN
DVS								
2015/16	8 829	56	-	-	-	64	72	-
2014/15 ¹	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Houwteq								
2015/16	1 150	-	-	-	-	-	-	-
2014/15	1 134	-	-	-	-	-	-	-
Irene								
2015/16	18 512	-	-	-	-	113	75	-
2014/15	17 994	-	-	-	-	133	87	-
Kempton Park								
2015/16	30 978	238	-	1 235	922	54	114	-
2014/15	32 105	556	-	3 490	939	59	131	-
LMT								
2015/16	1 825	-	-	-	-	57	98	-
2014/15 ²	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lyttelton								
2015/16	9 223	-	-	-	-	76	101	-
2014/15	9 267	-	-	-	-	101	113	3
PMP								
2015/16	24 715	207	5 220	-	-	198	200	79
2014/15	29 278	270	4 047	-	-	171	366	4
OTR								
2015/16	5 862	-	-	-	-	146	417	-
2014/15	6 061	-	-	-	-	204	390	-
Total								
2015/16	101 094	501	5 220	1 235	922	708	1 077	79
2014/15	95 839	826	4 047	3 490	939	668	1 087	7

1. DVS has only joined the Denel group on 29 April 2015, thus no comparative figures.

2. Information not available

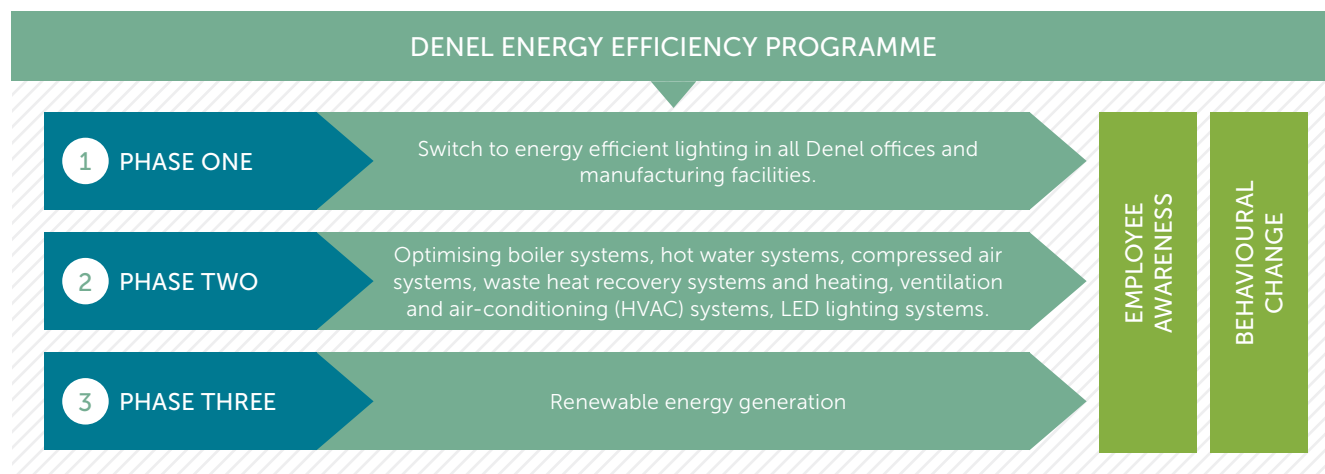
Scope 1 and 2 emissions based on DEFRA CO₂ equivalent emissions

ENERGY EFFICIENCY PROGRAMME

Denel is committed to reducing carbon footprint where applicable; however, electricity remains the main source of carbon in Denel. We continue to drive the energy efficiency programme that has been in place for a number of years as part of the environmental management programme to address energy efficiency and reduce consumption.

Denel requires stable and affordable energy to operate its plants and ensure uninterrupted business activities. Denel's broad-based energy efficiency programme was rolled out for the first time in 2012/13 and is in its third year of implementation. The organisation continues to participate in Eskom's energy conservation scheme (ECS). Denel is a signatory to the 49M pledge to maintain the reduction of electricity consumption at 10% by becoming more energy efficient especially in light of the current energy supply constraints and rising costs.

Denel has made significant advancements in the energy efficiency improvement programme over the recent years and has developed a three-tier plan which is reviewed and updated annually. Denel has made considerable progress in implementing the programme, which led to a 19.5% reduction in electricity consumption during 2015/16. Denel conducts on going energy savings awareness road shows as part of instilling responsible energy consumption behaviour in the workplace.



ENERGY EFFICIENCY IMPROVEMENT PROGRAMME		
ACTIVITY	DESCRIPTION	POTENTIAL IMPACT
SMART METERING	Metering the electricity consumption provides the necessary data to make more informed energy management decisions. Smart metering has been installed at all of our main electricity incomers and energy intensive equipment.	Ability to effectively track and manage electricity usage and expenditure
ENERGY EFFICIENT LIGHTING	Completed energy efficient lighting installations at all of the Gauteng campuses resulting in significant savings with short payback periods. A percentage of the savings realised will be used to fund additional energy efficient lighting solutions such as LED in future.	Estimated at 20GWh
GEYSER SYSTEMS	Replace conventional electric geysers with solar water heaters and/or heat pumps. These technologies reduce the amount of electricity used for water heating by up to 80%. Commenced with the replacement of the most energy intensive hot water systems and envisage replacing all conventional water heating systems by 2017.	Estimated at 0.5GWh
DEMAND CONTROL AND TIME LOAD SWITCHING	Denel has identified several areas where effective demand control and time load switching technology can be integrated and has completed installation on an HVAC system and cooling towers.	Estimated at 1GWh
COMPRESSED AIR SYSTEMS	Compressed air is responsible for approximately 10% of the energy consumption at the Kempton Park campus. Replacement of outdated and energy intensive compressed air systems with modern system that is more efficient in terms of its output and associated energy consumption is currently underway.	Estimated at 1GWh
BOILER AND STEAM SYSTEMS	The existing boiler at the Kempton Park campus currently operates using heavy fuel oil (HFO) to produce hot water required at the surface treatment facility. It is oversized, located too far from where the heating is required, has passed its life expectancy and is costing a significant amount to maintain and keep in service. A new energy efficient and adequately sized steam boiler system will be installed and will have the option to be modified to burn biomass, a lower carbon emitting fuel, at a future date. A detailed engineering design has been completed and the procurement process is underway.	Estimated at 275 000 litres of HFO
POWER FACTOR CORRECTION	In an electric power system, a load with a low power factor (PF) draws more current than a load with a high PF for the same amount of useful power transferred. The higher currents increase the energy lost in the distribution system. low PF can be corrected with a passive network of capacitors or inductors. Denel corrects PF at the main incomer where it is metered in order to benefit by recording a lower maximum demand (kVA). PF levels are constantly monitored to ensure optimum efficiency.	Estimated avoidance of over 34 000kVA in unnecessary maximum demand by effectively maintaining PF.

GREEN TECHNOLOGY: Denel's vision is to minimise the environmental impact by transitioning to low or no carbon fuel sources in the future. We are already in the process of identifying available and suitable options to reduce our dependence on carbon emitting fossil fuels. The transition and investments in this area form part of a long-term strategy and are envisaged to unfold in the coming years.

WATER

SA is a water-scarce country and Denel continuously strives to use water efficiently. Business units have water management plans in place to manage and promote the efficient use of this resource. Denel's challenge is to balance its objective of reducing water consumption, while at the same time maintaining operations and facilities for a growing company. Denel has managed to successfully reduce its water consumption during the 2015/16 financial year in relation to the previous financial year.

The implementation of a grey water system and rainwater harvesting remain focus areas. Denel has large roof surfaces with a potential to collect vast amounts of rainwater. Rainwater harvesting has the potential for considerable savings by reducing dependence on water supplied by the local municipalities. This will ensure that rainwater is collected from roof surfaces, stored, filtered and piped to processes where the water is required, i.e. evaporative coolers, cooling towers, watering of gardens, etc. In addition, plans are in process to improve water leak detection and thus reduce water wastage on Denel premises.

LAND STEWARDSHIP AND NATURE CONSERVATION

Denel operations include explosive and chemical related activities where the risk of contamination and pollution of the environment is inherent in the process. Denel implements systems to detect and mitigate the adverse effects of its operations on the environment, which includes procedures to handle or prevent material spillages that may contaminate land. The system also includes the emergency response procedures in the SHE management system to respond to major incidents.

Nature conservation plans are in place where the objective is to protect, conserve and manage protected areas and species and to focus on game, veld and water conservation. These plans are aligned with the objectives of the National Environmental Management Act (NEMA).

General plans and remediation work conducted during the year include continued collaborating with government and other stakeholders, with the Overberg district municipality and Marine and Coastal Management regarding the Overberg coastal management programme.

OTR occupies 43 000ha on the western and eastern sector of a conservation area which requires stringent environmental management practices and as a result is of particular importance in our environmental management plans. Denel continues to monitor and protect the Cape Town Philippi site, as well as the Wellington site where the acid plant is undergoing remediation.

DENEL OVERBERG TEST RANGE LAND CONSERVATION

OTR is located near the southernmost tip of Africa between Waenhuiskrans and Cape Infanta and the terrain is managed as

CAMPUS	WATER CONSUMED (ML)		
	2015/16	2014/15	2013/14
Irene	99	109	68
Kempton	314	351	315
Lyttelton	60	52	70
PMP	273	352	366
OTR	65	83	87
Houwteq	6	43	5
LMT ¹	2	n/a	n/a
DVS ²	18	n/a	n/a
Total	837	990	911

1. Water consumption information not available
2. DVS has only joined the Denel group on 29 April 2015, thus no comparative figures.

VARIETY OF SPECIES AT OTR

FLORA



Cera Argenteum
(Ceratocaryum argenteum)

Leuca Decorum Star
(Leucadendron laurum)

Leuca Tortum Female
(Luecadendron linifolium)

Pro. Red
(Protea obtusifolia)

Pro. Red Repens
(Protea Repens)

Pro. Susannea
(Protea Susannea)

Sta. Glass-eyes
(Staavia radiata)

FAUNA



Bontebok
(Damaliscus pygargus)

Eland
(Taurotragus oryx)

Kudu
(Tragelaphus strepsiceros)

Red Hartebeest
(Alcelaphus buselaphus)

Springbok
(Antidorcas marsupialis)

part of the greater De Hoop conservation area (approximately 60 000ha combined) one of the few relatively untouched nature areas remaining along SA's southern coast. Apart from its scenic beauty this facility harbours a unique diversity of ecosystems with its greatest value being its extensive stretches of unspoilt mountain and coastal vegetation and the exceptionally rich and varied marine life along the unspoiled coastline.

The environmental management system at OTR responds to the unique ecological management requirements between the test range and the adjacent pristine De Hoop Nature Reserve, De Hoop Marine Protected Area, as well as the Air Force Base Overberg. The environmental management process includes identifying indigenous and alien plants to mitigate adverse environmental effects. The single

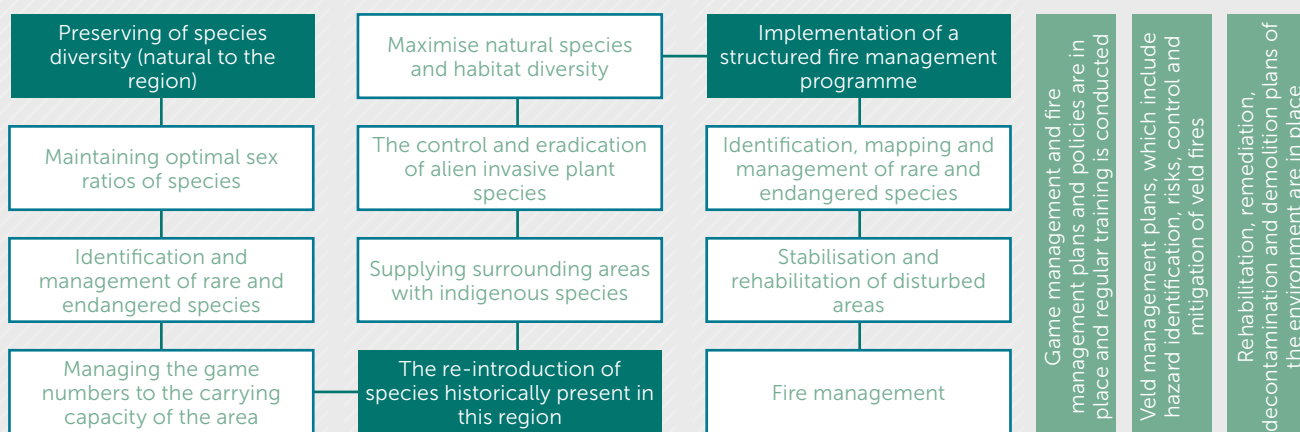
largest threat to the natural vegetation and ecosystems at the range is posed by alien invasive plant species, such as the Rooikrans. The mechanical eradication of these adult trees coupled with the biological control of the seed of these trees, constitutes a holistic approach to effectively manage and control these alien plants.

Over the past seven years, the mechanical control of Rooikrans in collaboration with the Department of Environmental Affairs, resulted in 3 000ha of land being successfully cleared. During 2014/15 another 3 000ha of land were cleared of aliens, predominantly Rooikrans. The range's own environmental team is continuously monitoring previously cleared areas. Biological control of Rooikrans by means of the gall-fly introduced at the range during 2000 continues to show

visible signs of success. This has resulted in lesser seed formation and lower rate of new Rooikrans trees flowering.

Through a comprehensive campaign to ensure that the indigenous game and wildlife of the area are preserved, OTR continues to promote conservation in the area. Considerable success has been achieved with the re-introduction of the Cape Mountain Zebra into the region with a herd of over 90 of this species located in this region. Various other game, such as the bontebok and eland have also managed to thrive in this region due to the intensive interventions by OTR supported by CapeNature.

The primary objectives for game conservation are to manage and maximise species natural to this area according to ecological sustainable methods, through:



Excellent progress was made with the alien eradication programme, which is aligned with government departmental water conservation programmes. To date this programme has resulted in the clearing of almost 6 000ha.

In addition, a rich legacy of prehistoric remains and historical buildings and sites are found along the range's coastal area. Although there are no proclaimed national monuments on OTR terrain, all historical buildings of architectural merit, the 'viswywers' (stone fish traps) and other important archaeological sites like Strandloper shell middens have been charted and are conserved. The striking Melkkamer homestead situated on the bank of the De Hoop Vlei was transferred to CapeNature and restored to its original splendour.

Other conservation activities

PMP occupies 480ha, with various animal species including springbuck, impala, blesbuck, eland, kudu, blue wildebeest, red hartebeest, zebra and ostrich on site. There are four kinds of intruder plants on the terrain, namely lantanas, milkweeds, black wattle trees and the pom-pom flower. The intruder plants are continuously being monitored and eradicated before they become a serious problem. Fire breaks are carried out before the winter season to protect the game area from veld fires generated outside the premises. Block fires are also carried out to ensure that there is good grazing with the start of the summer season. Similar activities are carried out at Denel's other campuses.

WASTE PRACTICES AND RECYCLING

Denel's environmental management processes include standard operating procedures for management of both hazardous and non-hazardous waste. The recycling or disposal of hazardous substances, as well as segregation and separation of hazardous substances are addressed in these procedures that are reviewed on a regular basis.

Environmental management processes also ensure that valid permits from the local authorities for the storage and handling of hazardous substances, as well as water discharges are in place and conditions applicable thereto are met to ensure legal compliance. The use and safe disposal of chemical substances, domestic and hazardous waste, as well as recyclable waste are managed in a responsible manner. Denel uses reputable waste removal suppliers.

Details of hazardous and general waste disposed and recycled are indicated in the table below:

TYPE OF WASTE	DISPOSAL/RECYCLING METHOD AND COMMENTS	2015/16	2014/15	2013/14
Hazardous waste disposed (tons)	Disposed of at special landfills, where waste is treated in an environmentally friendly manner. Safe disposal certificates are received.	332	158	70
Hazardous waste disposed (kl)	Disposed of at special landfills where the waste is treated in an environmentally friendly manner. Relates to soluble cutting oil and water only. Safe disposal certificates are received from waste contractors.	611	1 178	1 617
Hazardous waste recycled (tons)	Recycled as part of environmental management.	370	29	25
Non-hazardous disposed (tons/m ³)	Disposed of at normal landfills by waste removal companies or own transport.	237	110	61
Non-hazardous disposed (tons/m ³)	Disposed of at normal landfills by waste removal companies or own transport.		838	525
Non-hazardous waste recycled (tons)	Recycled paper, plastics, tins and metal shavings, which are sold to recycling companies or dealers.	537	666	28 027

At most of its business units Denel screens suppliers using environmental criteria and will extend these screenings to all campuses. The company is not aware of any potential or actual negative environmental impacts that could arise from its supply chain environment.



PART SEVEN

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

SEVEN

REPORT OF THE AUDIT AND RISK COMMITTEE

The A&R committee presents this report for the financial year ended 31 March 2016. This report has been prepared based on the requirements of the South African Companies Act No. 71 of 2008 as amended, the King Code of Governance Principles for South Africa 2009 and the Public Finance Management Act (PFMA).

DUTIES PERFORMED

During the year ended 31 March 2016, the A&R committee has convened at least four times in order to discharge both its statutory and board responsibilities. Attendance of meetings, date of appointments, and qualifications of the members are included on pages 67 and 51 to 52. The board is satisfied that it has discharged its responsibilities in accordance with the King Code, the Companies Act and the PFMA, and further responsibilities assigned to it by the board as contained in the terms of reference. In conduct of its duties the board has, inter alia, performed the following functions

In respect of internal control, management of risk and compliance with legal and regulatory provision

- » Reviewed the effectiveness of internal controls;
- » Reviewed the group's compliance with legal, environmental and regulatory provisions;
- » Reviewed the assurance provided as contained in the combined assurance model;
- » Reviewed the group's policies on risk assessment and management, including fraud and IT risks as they relate to financial reporting, together with the going concern assessment, and found them to be sound;
- » Reviewed the board's declaration of interest; and
- » Reviewed the effectiveness of systems and process of risk management and the mitigation thereof.

In respect of internal and external audit

- » Considered the reports of the internal and external auditors on the group's systems of internal control, including financial controls, risk management and maintenance of effective internal control systems.

- » Significant issues raised and the adequacy of corrective action in response thereto were reviewed;
- » Reviewed the activities of the internal audit function, including committee's charter, terms of reference and committee's 2015/16 work plan which were approved by the board
- » Coordination with the external auditors, the reports of significant investigations and the responses of management to specific recommendations and
- » Reviewed the independence and objectivity of the external auditors.

In respect of information technology

- » Reviewed the adequacy and effectiveness of the control framework and governance structures implemented within the IT environment.

In respect to the effectiveness of the external auditors

SizweNtsalubaGobodo supported by Kwinana and Associates, are the independent external auditors. The external auditors were appointed at the AGM of 19 July 2012 for the 2012/13 to 2016/17 financial years.

During this financial year, the following functions were performed:

- » Reviewed and approved the external audit plan, the budgeted and final fee for the reporting period and the terms of engagement of the external auditors;
- » Pre-approved all audit and permissible non-audit services that the external auditors provide;
- » Reviewed the external audit and evaluated the quality of the external audit process and concluded it to be satisfactory;

- » Reviewed the external auditors' report and obtained assurances from the external auditors that adequate accounting records were being maintained; and
- » Reviewed the findings and recommendations of the external auditors and confirmed that no unresolved issues of concern exist between the group and the external auditors in relation to the group.

In respect to the oversight of financial and non-financial reporting and disclosure

- » Reviewed the consolidated annual financial statements prior to submission to and approval by the board, and satisfied itself that they fairly present the consolidated and separate results of operations, cash flows, and the financial position of Denel and comply, in all material respects, with the relevant provisions of the Companies Act and International Financial Reporting Standards (IFRS);
- » Reviewed the adequacy, reliability and accuracy of financial information provided by management;
- » Met separately with management, the external auditors and internal auditor, at least bi-annually;
- » Confirmed the going concern as the basis of preparation of the consolidated annual financial statements; and
- » Reviewed any significant legal and tax matters and considered any concerns identified that could have a material impact on the financial statements.

INTERNAL CONTROLS

The A&R committee is of the opinion that the internal accounting controls are adequate to ensure that financial records may be relied upon for preparing the consolidated annual financial statements, and accountability for assets and liabilities is maintained. This opinion is based on the information and explanations given by management regarding various processes and initiatives aimed at improving the internal control environment and the integrity of information, discussions with the internal audit, as well as the independent external auditors on the results of their respective audits.

EXPERTISE AND EXPERIENCE OF THE GROUP CHIEF FINANCIAL OFFICER AND FINANCE FUNCTION

The A&R committee has satisfied itself that the acting GCFO has appropriate expertise and experience. The A&R committee has considered, and has satisfied itself, of the appropriateness of the expertise, the adequacy of resources of the finance function and experience of the senior members of management responsible for the function.

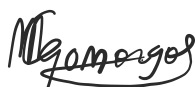
CONCLUSION

Based on the results of the formal review of the group's system of controls and risk management, nothing significant has come to the attention of the A&R committee to indicate any material breakdown in the functioning of the controls, procedures and systems during the year under review. The A&R committee is satisfied that the consolidated annual financial statements are based on appropriate accounting policies, supported by reasonable and prudent judgements and estimates.

The A&R committee has evaluated the consolidated annual financial statements of Denel and the group at year ended 31 March 2016 based on the information provided to it, considers that they comply, in all material respects, with the requirements of the Companies Act, the PFMA and IFRS. The A&R committee has recommended to the board that no material uncertainties existed to negatively impact the going concern of the group and all units in the group.

The A&R committee recommended the consolidated annual financial statements and the integrated report for the year ended 31 March 2016 for approval by the board on 21 June 2016.

On behalf of the A&R committee.



Ms Mpho Kgomongoe

Interim chairperson of the audit and risk committee

INDEPENDENT AUDITORS REPORT

TO PARLIAMENT ON THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS OF DENEL SOC LTD

FOR THE YEAR ENDED 31 MARCH 2016

INTRODUCTION

We have audited the consolidated and separate financial statements of the Denel SOC Ltd and its subsidiaries set out on pages 142 to 226, which comprise the consolidated and separate statement of financial position as at 31 March 2016, the consolidated and separate statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

ACCOUNTING AUTHORITY'S RESPONSIBILITY FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with IFRS and the requirements of the PFMA and the Companies Act, and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Denel SOC Ltd and its subsidiaries as at 31 March 2016 and their financial performance and cash flows for the year then ended, in accordance with IFRS and the requirements of PFMA and the Companies Act.

OTHER MATTERS

We draw attention to the matters below. Our opinion is not modified in respect of these matters.

OTHER REPORTS REQUIRED BY THE COMPANIES ACT

As part of our audit of the financial statements for the year ended 31 March 2016, we have read the Directors' report, the report of the A&R committee, Company Secretary's certificate and the integrated report for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate annual financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate annual financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, we have a responsibility to report findings on the reported performance information against predetermined objectives of selected objectives presented in the annual report, compliance with legislation and internal control. We performed tests to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, we do not express an opinion or conclusion on these matters.

PREDETERMINED OBJECTIVES

We performed procedures to obtain evidence about the usefulness and reliability of the reported performance

information of the following selected objectives presented in the annual performance report of the group for the year ended 31 March 2016:

- » Strategic role in the provision of defence capabilities – page 30
- » Business sustainability – page 30
- » Socio-economic objective – page 30

We evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. We further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's framework for managing programme performance information (FMPPi).

We assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

We did not identify any material findings on the usefulness and reliability of the reported performance information for the following objectives:

- » Strategic role in the provision of defence capabilities
- » Business sustainability
- » Socio-economic objective

ADDITIONAL MATTER

Achievement of planned targets

Refer to the annual performance report on page 30, for information on the achievement of the planned targets for the year.

Compliance with legislation

We performed procedures to obtain evidence that the company had complied with legislation regarding financial matters, financial management and other related matters. We did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

Internal control

We considered internal control relevant to our audit of the consolidated and separate financial statements, annual performance review and compliance with legislation. We did not identify any significant deficiencies in internal control.

Other reports

We draw attention to the following engagements that could potentially impact on the entity's financial, performance and compliance related matters. Our opinion is not modified in respect of these engagements that are either in progress or have been completed.

Audit-related services and special audits

Five agreed-upon procedure engagements were performed during the reporting period solely to confirm that the issue of commercial notes complies in all respects with the relevant provisions of the Commercial Paper Regulations issued by the Registrar of Banks as required by paragraph 3(5) (j) for commercial paper, issued under the Denel SOC Limited ZAR3 billion domestic medium term note programme.



Loganathan Govender

SizweNtsalubaGobodo Incorporated
Director
Registered Auditor

29 July 2016

20 Morris Street East
Woodmead

**Sizwe
Ntsaluba
Gobodo** 

AUDIT • ADVISORY • FORENSICS

STATEMENTS OF RESPONSIBILITY

DIRECTORS' STATEMENT

The board of directors is pleased to present its report and the audited consolidated annual financial statements for the year ended 31 March 2016.

The directors are responsible for the integrity and fair presentation of the consolidated annual financial statements of Denel SOC Ltd and its subsidiaries. The consolidated annual financial statements presented on pages 132 to 226 have been prepared in accordance with IFRS, the Companies Act and PFMA. These consolidated annual financial statements have been prepared in accordance with appropriate accounting policies and include amounts based on judgements and estimates made by management. The directors have supervised the preparation of information included in the integrated report and are responsible for both its accuracy and consistency.

The directors are responsible for going concern and are satisfied that at the time of approving the consolidated annual financial statements it is appropriate to use the going concern basis in preparing these consolidated annual financial statements. In arriving at this conclusion, the directors considered the solvency and cash position at 31 March 2016, the cash requirements for at least 12 months from that date and the borrowing facilities available. It also took into account the strong order book, robust business plan and prospects for the future. The going concern, including additional factors that were considered, is discussed in more detail on page 139 of this report.

The external auditors are responsible for independently auditing and reporting on the consolidated annual financial statements. The independent auditors' report appears on pages 134 to 135.

During the year under review, the directors retained full and effective control over the group and monitored management in implementing the approved plans, risk management and strategies. The board is satisfied that the risk management processes are effective.

The directors are of the opinion that the consolidated annual financial statements fairly present the financial position of Denel SOC Ltd and its subsidiaries and the results of their operations and cash flows for the year ended 31 March 2016.

The consolidated annual financial statements of Denel SOC Ltd for the year ended 31 March 2016, as set out on pages 132 to 226, have been prepared under the supervision of Mr Odwa Mhlwana CA (SA) and were approved by the board of directors on 26 July 2016 in terms of the Companies Act and the PFMA and are signed on their behalf by:



Lugisani Daniel Mantsha
Chairman of the board



Zwelakhe Ntshepe
Acting group chief executive officer

CERTIFICATE BY THE GROUP COMPANY SECRETARY

The company secretary certifies that the company has lodged with the Companies and Intellectual Property Commission all such returns as are required of a public company in terms of the Companies Act and that all such returns are true, correct and up to date.



Fortune Legoabe
Acting group company secretary

DIRECTORS' REPORT

The financial results in this report are based on the results of the Denel group and in context the term 'group' refers to the company, its subsidiaries and associated companies. The nature of the group's business is described on pages 6 to 11, as well as in the operations section on pages 32 to 46 of this report.

FINANCIAL AND OPERATIONAL REVIEW

The results for the financial year under review can be analysed as below:

	GROUP	
	2015/16	2014/15
	Rm	Rm
Revenue	8 228	5 852
Gross profit	1 672	1 137
Other income	288	137
Operating expenses	(1 455)	(939)
EBIT	637	399
Net finance costs	(203)	(123)
Net profit	395	270

Denel posted a profit of R395m (2014/15: R270m), a significant improvement from the prior year. The results of the year under review can be attributed to an improvement in revenue compared to the prior year, as well as continued cost saving initiatives. In addition, the results of DVS which was acquired on 29 April 2015, contributed R75m to the net profit of the group. For further information refer to the financial results section on pages 142 to 226.

EXTERNAL INTEREST EXPENSE ON BORROWINGS

The group is funded mainly by interest-bearing borrowings which are backed by government guarantees. The average borrowings amounted to R3.162bn (2014/15: R2.101bn) throughout the year resulting in net external interest paid of R256m (2014/15: R153m). This amount excludes the unwinding of interest on long-term provisions and interest received on pension assets. Refer to the funding section of this report on page 138.

IMPAIRMENT OF ASSETS

Impairment assessments were performed on assets that demonstrated possible impairment indicators. The Seeker 400 UAV self-funded development asset was built up over a number of years; however, there has been no progress in finding an international launch customer for the

product. There are also no indications that the local customer will procure further units at this stage. The development asset to the value of R159m has been fully impaired.

The net value included in the consolidated annual financial statements is R159m (2014/15: R29m).

SIGNIFICANT CONTRACTS

The contracts discussed below had a significant impact on the reported financial results, or will continue to have an impact on the group's performance.

HOEFYSTER

Denel is contracted by the local customer for the development and production of the new-generation infantry combat vehicle product system (Badger), namely the Hoefyster project. The development phase is near completion with the base-line of the section variant being released for series production. The production phase was contracted in 2014, to be executed over a period of ten years and is largely on track with the first complete systems set to be delivered towards the end of 2016/17. The base value of the programme is R9.4bn and revenue of R676m (2014/15: R350m) was recognised during the 2015/16 financial year.

HEAVY ARMoured FIGHTING VEHICLE

Denel was contracted during 2011 by a South East Asian country to develop, manufacture, supply, deliver and commission a turret for a fleet of 8x8 armoured fighting vehicles. The contract requires industrial participation in the buyer's country and as a result the production and assembly are taking place in that country.

The contract execution has been extended by two years to nine years due to the economic situation in the end-user country. The required industrial participation activities have been implemented and the first systems have been successfully manufactured, assembled and tested in the end-user country. The base value of the programme is R3.7bn and revenue of R1.193bn (2014/15: R590m) was recognised during the 2015/16 financial year.

AIR-TO-AIR MISSILE

The development of the A-Darter 5th generation air-to-air missile, a highly sophisticated missile, in a collaboration programme between the governments of SA and Brazil, is now in the qualification phase. The final qualification test to demonstrate performance will be performed within the 2016 calendar year.

The value of the programme is R2bn and revenue of R100m (2014/15: R169m) was recognised during the year. The follow-on production contract for the SAAF with a value of R921m was placed on Denel during March 2015 and revenue to the value of R119m was recognised during the year. Denel also received a contract valued at R358m to integrate A-Darter onto the Brazilian FX2 aircraft.

SEEKER 400

Denel has been investing in the development of the Seeker 400, a new competitive UAVS, since 2010/11 and completed development in 2016. During 2015/16 the Seeker 400 produced for the SANDF system acceptance test was completed and significant progress has been made with certification. The client's system is technically sound and being used

to train the client's crew, with technical and operational crew training now completed and external pilot training still underway, while evidence in support of certification is being presented to the client. The value of the programme is R354m with R276m invoiced to date.

ANTI-ARMOUR MISSILE

Denel was contracted for the supply and integration of the Mokopa long-range anti-armour missile on a helicopter platform for a North African client. All the on-board guidance equipment for the helicopters was delivered this year, as well as the first batch of production missiles.

The value of the programme is R370m and revenue of R74m (2014/15: R136m) was recognised during the year.

SURFACE-TO-AIR MISSILE

Denel was contracted for the supply of the Umkhonto infrared surface-to-air missile systems for two frigates currently under construction for a North African client. The production of the fire control equipment has been completed and installation onto the first vessel is complete. Installation onto the second vessel has commenced.

The total contract value is R800m and revenue of R157m (2014/15: R251m) was recognised during the year.

PRECISION-GUIDED MUNITIONS

Denel concluded a contract during 2010/11 to the value of R1.2bn for the sale of Al Tariq precision-guided munitions with a follow-on contract to the value of R400m concluded in 2014/15. The programme experienced a number of delays during the development phase, resulting in a production lag which has been recovered. A total of 350 full weapons kits plus 320 sub-kits were delivered to date. The programme conducted a series of successful flight trials on the newly developed imaging infrared Seeker and production was activated.

A centre of excellence for manufacturing of these weapons is being established in the buying country as a part of a joint venture established by Denel and that

country's partner, which also contributes to Denel's offset programme. The programme accounted for revenue of R428m (2014/15: R299m) during the year.

LIGHT VEHICLE PROGRAMMES

Denel concluded contracts during 2013/14 with a Middle East client for the supply of 60 multi-purpose combat vehicles, two protected transport vehicles and 79 special operations vehicles. Deliveries of the protected transport and special operations vehicles were concluded. 24 of the multi-purpose combat vehicles were delivered during the financial year. The remaining 36 multi-purpose combat vehicles will be delivered during the 2016/17 financial year.

The combined value of the contracts is R1bn and revenue of R380m was recognised during the 2015/16 financial year.

A400M

Denel was contracted during 2005/6 as a programme partner for the design, development, manufacture, supply and supporting activities of the WFF, TS and RSS structural components for the Airbus A400M. The Airbus contract was historically loss-making and the DPE indemnified these losses up to R1.6bn. During the year, Denel delivered 25 WFF and 24 TS ship sets.

Denel was awarded additional A400M work packages. The manufacturing work relates to the aircraft's cargo-hold system and consists of the ISO-locks and central guide vertical restraint system. The total programme value of the five work packages amounts to R3.6bn and revenue of R540m (2014/15: R407m) was recognised during the year.

AVIONICS AND NAVIGATION UPGRADE

Denel was contracted during 2007 for the upgrade of the on-board avionics and navigation system of the Oryx helicopter. It was a fixed price, fixed-term contract for an amount of R492m that was originally due to be completed by June 2012. It included the development and qualification of an upgrade baseline to be implemented on 39 aircraft. However, due to extended

engineering and flight test efforts the programme was delayed. During 2013/14, a contract variation order addressing changes in timelines was received from the client with a provision for onerous contracts of R156m being created. The revised completion date of January 2016 was met during the current financial year, with all 39 aircraft being modified and delivered to the SAAF.

The programme accounted for revenue of R29m (2014/15: R68m) during the year. The remaining provision for onerous contracts of R156m in respect of this project was fully utilised during the current year.

DENEL MEDICAL BENEFIT TRUST

The group provides a post-retirement medical subsidy to current and former employees who were appointed before 1 April 2000. The assets and liabilities are accounted for separately in the trust and are not included in the consolidated annual financial statements of the group. The group has longevity and investment risk exposure as it is expected to fund actuarial losses that may arise. Although certain businesses have been unbundled from the group, the total liability remains with Denel. Owing to these risks, the group is in the process of implementing a voluntary settlement that will ensure the financial risk to the group terminates, whilst the qualifying employees continue to receive the benefit.

To date 83.4% of the qualifying beneficiaries have accepted the settlement offer made by Denel in lieu of the post-employment medical subsidy. Denel will ensure that through due process the open-ended liability is terminated in terms of the remaining beneficiaries. The actuarial value of the fund and other disclosures are provided in note 33.1 of the consolidated annual financial statements.

FUNDING

Denel increased its Domestic Medium-Term Note (DMTN) programme from R2.2bn to R3bn in order to fund the growth of the company. Of the R3bn an amount of R1.85bn is government guaranteed and the guarantee matures on 30 September 2017. Denel will apply to the shareholder to

have this guarantee extended for a further five-year period. Denel raised guaranteed interest-bearing borrowings through the DMTN with a coupon value of R1.74bn (2014/15: R1.74bn). The debt consists of an R615m one-year corporate bond, R585m five-year corporate bond and short-term commercial paper of R650m. The balance of the DMTN of R460m is unsecured and R690m is utilised by means of a five-year bond maturing in June 2018. The group's borrowings are at an average interest rate of 7.76% (2014/15: 7.16%) that includes an average overnight borrowing rate of 8.00% (2014/15: 7.16%) and an average commercial paper programme interest rate of 7.50% (2014/15: 6.93%), which resulted in borrowing cost of R252m (2014/15: R153m) during the year.

FitchRatings re-affirmed Denel's long-term rating at AAA(zaf) and short-term rating F1+(zaf) with a stable outlook during the year. The rating agency is relying strongly on continued shareholder support, strong operational performance that is led by DLS and DD, as well as Denel's large order book of more than R20bn. The agency further noted increased leverage with the LSSA acquisition and adequate liquidity.

The cash on hand together with the cash forecast for the next 12 months indicates that the group will be liquid for the foreseeable future. During the year under review, Denel managed cash and working capital tightly, ensuring minimal exposure to liquidity risk.

GOING CONCERN

The directors evaluated the appropriateness of the going concern assumptions used in the preparation of the consolidated annual financial statements and in particular considered the matters summarised below:

- » The solvency and liquidity position of the group as at 31 March 2016;
- » The availability of sufficient funds, including borrowing facilities, to meet the group's requirements over the next 12 months;
- » The forecasted shareholder's equity for the foreseeable future will remain positive;

- » The positive business results projected over the next five years and risks identified in the business plan underpinned by the confirmed order book of R20bn; and
- » The shareholder continues to view Denel as a strategic asset and has in the past made a written undertaking that it will endeavour to assist the directors in maintaining its going concern status and extended the R1.85bn guarantee from one to five years during 2012/13.

Based on the factors above, the directors are satisfied that Denel has adequate reserves and cash resources to continue operating as a going concern. The consolidated annual financial statements were therefore prepared on the basis of a going concern.

INTERNAL CONTROLS

The group has implemented a system of internal controls which is reviewed by the A&R committee on a quarterly basis. The board is satisfied that the system of internal controls is effective.

COMPLIANCE WITH LAWS AND REGULATIONS

The group has implemented a compliance process to meet applicable legal and regulatory requirements. The process entails implementing systems to ensure compliance with existing and emerging legislation. It further monitors the system, detects and addresses deficiencies that may lead to non-compliance. The board is satisfied that the group has in all material respects complied with the provisions of the PFMA, the Companies Act and other applicable legislation.

SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES

The interests in subsidiaries, associated companies and joint ventures are set out in note 8, 12 and 13 of the consolidated annual financial statements.

The group has implemented a compliance process to meet applicable legal and regulatory requirements. The process entails implementing systems to ensure compliance with existing and emerging legislation. It further monitors the system, detects and addresses deficiencies that may lead to non-compliance.

CAPITAL EXPENDITURE

The board approved capital expenditure of R342m (2014/15: R296m) whereas an amount of R261m (2014/15: R156m) was utilised, mainly in upgrading the business units' production facilities.

SHARE CAPITAL AND SHARE PREMIUM

The authority to issue shares vests in the shareholder. Directors do not have the authority to issue shares of the company. There was no change in the authorised share capital of the company for the financial year under review.

DIVIDENDS

No dividend was recommended for 2015/16 (2014/15: Rnil).

COMPLIANCE WITH ACCOUNTING STANDARDS

The consolidated annual financial statements comply with IFRS.

AUDITORS

The consolidated annual financial statements are audited by SizweNtsalubaGobodo. The statutory auditor for the forthcoming year will be confirmed at the AGM scheduled for 23 August 2016.

DIRECTORATE

The following directors were rotated by the shareholder at the AGM held on 23 July 2015:

- » Ms MJ Janse van Rensburg
- » Adv G Badela
- » Dr GC Cruywagen
- » Ms Z Mathenjwa
- » Mr M Msimang
- » Mr BF Ngwenya
- » Prof SM Nkomo
- » Adv MS Ntshikila
- » Mr MV Ratshimbilani

The shareholder appointed the following board members at a special AGM on 24 July 2015:

- » Mr LD Mantsha (Chairman)
- » Ms M Kgomongoe
- » Ms PM Mahlangu
- » Ms N Mandindi
- » Ms R Mokoena
- » Mr NJ Motseki
- » Mr TJ Msomi
- » Lt-Gen (retired) TM Nkabinde
- » Ms KPS Ntshavheni

Further details regarding the board of directors are discussed on pages 50 to 52.

GROUP COMPANY SECRETARY

The acting group company secretary for the period under review was Ms Fortune Legoabe. Her business and postal addresses, which are also the address of the registered office of the company, are stated below:

Denel Building Corporate Office
Nellmapius Drive
Irene
Gauteng
South Africa

PO Box 8322
Centurion
0046
South Africa

SUSPENDED EXECUTIVES

Following the suspension of three senior executives in connection with the acquisition of a subsidiary that was concluded during the current financial year, the parties have terminated the employment relationships in the following manner:

- » Mutual agreement for the company secretary and the GCFO, effective 31 July 2016 and 31 August 2016 respectively
- » Regarding the GCEO, the company opted not to renew his contract of employment and released him early from his contractual service to the company.

EVENTS AFTER REPORTING PERIOD

In order to identify events after the reporting period, all material matters affecting the Denel group between the approval of the consolidated annual financial statements and the publication of this report were taken into account.

No other matters arose between the financial year-end and the date of this report.



CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

as at 31 March 2016

		GROUP		COMPANY	
		2015/16	2014/15	2015/16	2014/15
	Notes	Rm	Rm	Rm	Rm
ASSETS					
Non-current assets		3 113	2 458	3 233	2 386
Property, plant and equipment	9	1 210	915	685	683
Investment properties	10	680	590	671	581
Intangible assets	11	335	207	36	192
Investments in subsidiaries	12			1 341	430
Investments in associated companies	13	840	733	500	500
Deferred tax assets	14	48	13	-	-
Current assets		9 733	7 145	8 376	6 524
Inventories	15	2 341	1 511	1 685	1 282
Trade and other receivables	16	5 028	3 520	4 542	3 250
Other financial assets	17.1	361	204	361	204
Cash and short-term deposits	18.2	2 003	1 909	1 788	1 788
Income tax receivables		-	1	-	-
Non-current assets held for sale	19	156	84	156	84
Total assets		13 002	9 687	11 765	8 994
EQUITY AND LIABILITIES					
Equity					
Issued capital	20.2	1 225	1 225	1 225	1 225
Share premium	20.3	4 951	4 951	4 951	4 951
Revaluation reserve		43	43	43	43
Accumulated loss		(3 917)	(4 295)	(4 332)	(4 604)
Total equity attributable to equity holders of the parent		2 302	1 924	1 887	1 615
Non-controlling interest	21	19	3		
Total equity		2 321	1 927	1 887	1 615
Non-current liabilities		4 469	3 666	4 219	3 657
Loans and borrowings	22	1 995	888	1 973	880
Advance payments received	23	2 100	2 528	1 937	2 528
Provisions	24.1	373	249	309	249
Deferred tax liabilities	14	1	1	-	-
Current liabilities		6 212	4 094	5 659	3 722
Trade and other payables	25	2 154	1 306	1 829	1 189
Loans and borrowings	22	1 722	1 270	1 917	1 270
Other financial liabilities	17.2	331	175	277	175
Advance payments received	23	1 431	940	1 224	730
Income tax payables		11	2	-	-
Provisions	24.2	560	399	412	358
Preference dividends payable	21	3	2		
Total liabilities		10 681	7 760	9 878	7 379
Total equity and liabilities		13 002	9 687	11 765	8 994

CONSOLIDATED INCOME STATEMENTS AND STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 March 2016

	Notes	GROUP		COMPANY	
		2015/16	2014/15	2015/16	2014/15
		Rm	Rm	Rm	Rm
CONTINUING OPERATIONS					
Revenue	2	8 228	5 852	6 614	5 230
Cost of sales	3	(6 556)	(4 715)	(5 355)	(4 175)
Gross profit		1 672	1 137	1 259	1 055
Other income	4	288	137	428	205
Other operating expenses	3	(1 455)	(939)	(1 189)	(874)
Operating profit		505	335	498	386
Finance costs	6.1	(280)	(176)	(289)	(182)
Finance income	6.2	77	53	63	46
Share of profit of associated companies	13	132	64		
Profit before tax		434	276	272	250
Income tax expense	7	(39)	(6)	-	-
Total comprehensive income for the year net of tax		395	270	272	250
Profit for the year is attributable to:					
Equity holders of the parent		378	266		
Non-controlling interest	21	17	4		
		395	270		

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 March 2016

	Notes	Total equity attributable to equity holders of the parent					Non-controlling interest	Total equity
		Issued capital	Share premium	Revaluation reserve ¹	Accumulated loss	Total		
		Rm	Rm	Rm	Rm	Rm	Rm	Rm
GROUP								
Balance at 1 April 2014		1 225	4 951	43	(4 561)	1 658	6	1 664
Preference dividends payable	21						(3)	(3)
Issue of preference shares	21	-	-			-	4	4
Preference share buy back	21	-	-			-	(8)	(8)
Total comprehensive income				-	266	266	4	270
Profit for the year					266	266	4	270
Other comprehensive income				-	-	-	-	-
Balance as at 31 March 2015		1 225	4 951	43	(4 295)	1 924	3	1 927
Preference dividends payable	21						(1)	(1)
Issue of preference shares	21	-	-			-	-	-
Preference share buy back	21	-	-			-	-	-
Total comprehensive income				-	378	378	17	395
Profit for the year					378	378	17	395
Other comprehensive income				-	-	-	-	-
Balance as at 31 March 2016		1 225	4 951	43	(3 917)	2 302	19	2 321
COMPANY								
Balance at 1 April 2014		1 225	4 951	43	(4 854)	1 365		
Total comprehensive income				-	250	250		
Profit for the year					250	250		
Other comprehensive income				-	-	-		
Balance as at 31 March 2015		1 225	4 951	43	(4 604)	1 615		
Total comprehensive income				-	272	272		
Profit for the year					272	272		
Other comprehensive income				-	-	-		
Balance as at 31 March 2016		1 225	4 951	43	(4 332)	1 887		

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the year ended 31 March 2016

	Notes	GROUP		COMPANY	
		2015/16	2014/15 Restated ¹	2015/16	2014/15 Restated ¹
		Rm	Rm	Rm	Rm
OPERATING ACTIVITIES					
Net cash flows (used in)/from operating activities		(701)	281	(711)	308
Receipts from customers		6 682	5 256	5 263	4 663
Payments to suppliers and employees		(7 254)	(5 657)	(5 757)	(5 031)
Cash utilised in operations	27	(572)	(401)	(494)	(368)
Increase in advance payments received	23	33	774	(98)	753
Interest paid	6.3	(230)	(169)	(240)	(163)
Interest received	6.3	77	47	65	41
Dividends received	4 & 13	25	32	56	45
Income tax paid		(34)	(2)	-	-
INVESTING ACTIVITIES					
Net cash flows used in investing activities		(995)	(177)	(1 029)	(137)
Purchases of property, plant and equipment	9	(158)	(146)	(107)	(124)
Proceeds from sale of property, plant and equipment		1	3	-	-
Purchases of intangible assets	11	(10)	(34)	(10)	(34)
Repayments of loan advance to associated companies		-	-	-	117
Acquisition of subsidiaries	13	(828)	-	(828)	-
Advances to subsidiaries				(84)	(96)
Net cash flows before financing activities		(1 696)	104	(1 740)	171
FINANCING ACTIVITIES					
Net cash flows from financing activities		1 559	292	1 740	300
Repayments of interest bearing borrowings		(1 282)	(1 952)	(1 275)	(1 948)
Proceeds from interest bearing borrowings		2 841	2 253	3 015	2 249
Preference share buy back from non-controlling interest	21	-	(8)	-	-
Decrease in cash managed on behalf of associated companies		-	(1)	-	(1)
Net (decrease)/increase in cash and cash equivalents		(137)	396	-	471
Cash and cash equivalents:					
At the beginning of the year		1 909	1 513	1 788	1 317
Subsidiary acquired	8	231	-	-	-
At the end of the year	18	2 003	1 909	1 788	1 788

1. Refer note 27.2.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

1. ACCOUNTING POLICIES

1.1 CORPORATE INFORMATION

Denel SOC Ltd is a company incorporated and domiciled in the Republic of South Africa. The consolidated annual financial statements are presented in South African Rand (ZAR), rounded off to the nearest million (Rm) unless stated otherwise.

The consolidated annual financial statements for the year ended 31 March 2016 comprise the company, its subsidiaries and associated companies.

1.2 STATEMENT OF COMPLIANCE

The consolidated annual financial statements have been prepared in accordance with IFRS, the Companies Act and the PFMA. The principal accounting policies adopted in the preparation of the consolidated annual financial statements are set out below:

BASIS OF PREPARATION

The consolidated annual financial statements are prepared on the historic cost basis, with the exception of derivative financial instruments, financial instruments at fair value through profit or loss, and investment properties, which are measured at fair value.

The preparation of the consolidated annual financial statements in conformity with IFRS, requires management to exercise its judgement, as well as make certain critical accounting estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. The actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the consolidated annual financial statements and estimates with a significant risk of material adjustment in the following financial year are discussed in note 1.3.

CHANGES IN ACCOUNTING POLICIES, RECLASSIFICATIONS AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year.

BASIS OF CONSOLIDATION

The consolidated annual financial statements reflect the financial position and operating results of the company, its subsidiaries and associated companies. The accounting policies have been applied consistently throughout the group.

An investee is consolidated in the group annual financial statements only if the group has control over the investee. The group controls an investee if the group has:

- » Power over the investee i.e. existing rights that give it the current ability to direct the relevant activities of the investee;
- » Exposure or rights to variable returns from its involvement with the investee; and
- » The ability to use its power over the investee to affect its returns, regardless of whether the power is exercised.

When the group has less than a majority of the voting or similar rights of an investee, the group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- » The contractual arrangement with the other vote holders of the investee;
- » Rights arising from other contractual arrangements; and
- » The group's voting rights and potential voting rights.

Where the company's interest in a subsidiary is less than 100%, the portion attributable to outside shareholders is reflected in non-controlling interest (refer note 21). Transactions with non-controlling interests are treated as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between the consideration paid and relevant share acquired is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity where there is no loss of control.

The group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control mentioned earlier. The consolidation of a subsidiary commences when the group obtains control over the subsidiary and ceases when the group loses control over the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated annual income statements and statements of comprehensive income from the date the group gains control until the date the group ceases to control the subsidiary.

INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES

When the group ceases to have control, any retained interest in the subsidiary is re-measured at its fair value, with the change in the carrying amount recognised in profit or loss and the de-recognition of the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control ceases. The fair value is the initial carrying amount for the purpose of subsequent accounting for the retained interest as an associated company, joint venture or financial asset.

Associated companies are those entities in which the group holds an equity interest and has significant influence, but which are not subsidiaries or joint ventures. The consolidated annual financial statements include the group's share of total recognised profits or losses of associated companies on an equity accounting basis, from the date significant influence commences until the date that significant influence ceases. Where the financial year-end of an associated company is different from that of the group, the share of recognised profit or loss of that associated company is not adjusted to account for the difference in year-end. When the group's share of losses exceeds its interest in an associated company, the group's carrying amount is reduced to Rnil and recognition of further losses is discontinued, except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the relevant associated company.

The considerations made in determining significant influence or joint control is similar to those necessary to determine control over subsidiaries.

SEPARATE FINANCIAL STATEMENTS

In the separate annual financial statements, investment in subsidiaries and associated companies that are not classified as held for sale in terms of *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*, are accounted for at cost, less any impairment.

TRANSACTIONS ELIMINATED ON CONSOLIDATION

All inter-group transactions, balances and unrealised gains and losses are eliminated in preparing the consolidated annual financial statements. Unrealised gains arising from transactions with associated companies are eliminated to the extent of the group's interest in the company.

1.3 SIGNIFICANT JUDGEMENTS AND ESTIMATES

In the process of applying the group's accounting policies, the following judgements and estimates have been made, which are considered to have the most significant effect on the amounts recognised in the consolidated annual financial statements:

1.3.1 JUDGEMENTS

REVENUE, CONTRACT RISKS AND ONEROUS CONTRACTS

Management made significant judgements on the following contracts/programmes (for a more detail discussion refer to the directors' report on pages 137 to 142):

Rooivalk contract

The provision for the contract loss has been determined based on the cabinet memorandum (decision) of June 2008, representing both the customer and the shareholder. Management made certain assumptions regarding the cost to completion, i.e. estimated labour hours, material costs and escalations, in line with the cabinet memorandum.

A400M contract

The contract costs to completion on the A400M contract have been calculated based on management's best estimates regarding labour hours, material costs and escalations, taking into account the technical and industrial uncertainties attached to the programme.

ASSOCIATED COMPANIES

When considering control over an investment, the group considers the following facts which are significant to the shareholder' agreements for all associates whether:

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

- » Denel has only one equity partner for each of the associated companies and the equity partner holds the majority of the shareholding;
- » Denel and the equity partner will fund the company or guarantee funding, if additional funding is needed, in the same ratio as their shareholding;
- » The equity partner has the right to appoint the majority of the board members;
- » The equity partner has the right to appoint the CEO and CFO; and
- » The equity partners are responsible for the day to day running and performance of the companies.

Where a material associated company uses accounting policies that differ from those of Denel, the associated company's financial statements are adjusted to reflect uniform accounting policies in applying the equity method.

DEFERRED TAX ASSET

Management has made a judgement that there will be future taxable profit against which the deferred assets may be utilised. The group currently has an orderbook of more than R29bn which is expected to translate to future taxable profit in the upcoming years.

1.3.2 ESTIMATES

REVENUE, CONTRACT RISKS AND ONEROUS CONTRACTS

The group accounts for a group of contracts, whether with a single customer or several customers as a single construction contract when the contracts are so closely inter-related that they are, in effect, part of a single project with an overall profit margin.

The group uses the percentage of completion method in accounting for recognising its contract revenue. The stage of completion is determined based on the costs incurred to date as a percentage of total estimated cost of each contract.

Contract revenue comprises the initial amount of revenue agreed in the contract, contract variation orders (CVOs) and claims, as well as incentive payments.

Business units in the group evaluate cost to completion on all contracts to determine the extent of revenue to be recognised, as well as to assess the profitability of a contract. In the instance where costs exceed expected revenue, a provision for contract losses is raised. In determining the cost to completion, the following assumptions are used:

- » Labour hours are estimated based on a review of the outstanding functionalities and the experience of the project managers in conducting similar processes, as well as their understanding of the requirements. In cases where the process requires new and unique work, anticipated hours are used;
- » The average labour rates are determined from known company labour rates based on normal capacity (determined during the annual budget process) for specialists and specific functional areas, depending on the mix of various processes and work content;
- » Manufacturing overheads are allocated pro rata according to *IAS 11 Construction Contracts*. Indirect costs are not specifically allocated to a product or an activity;
- » Material costs are based on the engineering or production bills of material together with the latest material prices available. This also includes the purchasing price, import and purchasing levies, freight and handling costs and all direct procurement costs, less discounts and subsidies on purchases;
- » Inflation and rates of exchange adjustments are made based on information supplied by reputable banks; and
- » Technical obsolescence on aircraft and missile contracts where rapidly changing technology may result in a re-engineering requirement on these systems.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

The group's impairment assessments of property, plant and equipment are based on fair value less cost of disposal using the estimated fair value of the assets less the estimated costs of disposal. Impairment assessments were performed on assets that demonstrated possible impairment indicators or change to originally determined indicators, including available capacity against the requirements.

Product warranties

Anticipated warranty cost is based on the technical risk estimations in terms of single opportunity production contracts and historical data in terms of repetitive production type contracts. The estimation is based on past experience (proven results) and varies per type of contract. This is expressed as a percentage of cost of sales, ranging from nil to 10%, and is determined at the quotation phase and reviewed on a regular basis.

Site restoration

Certain business units within the group carry out manufacturing and testing activities that contaminate the land on which they are situated. Management performed a detailed study in consultation with external specialists in the Denel Land Systems business unit that was identified as the most likely area to have such contamination. Following the study, a high-level review of the remaining business units was performed, taking into consideration the results of the study and the nature of their business activities.

An estimate of the provision was determined based on consideration of the most stringent but realistic remediation objectives, based on current and future potential land-uses for the sites with due consideration given to the current legislative framework and local best practice.

In determining the provision for decommissioning, three key component costs were considered, namely:

- » Remediation of contaminated land (typically soils and waste materials);
- » Decommissioning of plant and equipment; and
- » Demolition of buildings.

The amount raised as a provision was based on the detail study performed, taking into account the expected timing of decontamination ranging between three and 30 years. The anticipated future cash flows determined, based on a long-term inflation rate of 5.9% (2014/15: 5.9%) have been discounted at an interest rate of 10% (2014/15: 8.3%), which is based on the risk-free rate of return and the expected long-term inflation rate.

COUNTERTRADE

The group endeavours to fulfil its countertrade obligations as indicated in note 26.5 of the consolidated annual financial statements. Certain obligations have been transferred to participating parties by means of back-to-back agreements.

Estimates used in calculating these obligations are as follows:

- » Obligations for countertrade vary between 60% and 100% of export revenue;
- » Calculation of possible liquidated damages or cost of exchanging credits should the group not fulfil its obligations is based on negotiations to exchange countertrade credits or the maximum penalty payable (between 4% and 8.5%) of the obligation as mentioned above; and
- » Exchange rates as at year-end have been used to convert the obligations to ZAR.

POST-EMPLOYMENT BENEFIT OBLIGATIONS

The cost of the post-employment medical benefits is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, mortality rates and medical cost inflation. Due to the long-term nature of this plan, such estimates are subject to significant uncertainty.

1.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**1.4.1 REVENUE RECOGNITION****CONTRACT REVENUE**

Contract revenue and costs relating to long-term construction contracts are recognised in profit or loss in proportion to the stage of completion of the project at year-end if the outcome of a contract can be estimated reliably. However, when the outcome of a contract cannot be reliably measured, revenue is recognised to the extent of contract costs incurred that are probable of being recovered, while contract costs are recognised in the period in which they are incurred. Expected losses on contracts are recognised immediately and in full and where it is probable that the total costs will exceed total revenue, the expected loss is also recognised immediately. An expected loss is recognised as an expense. Depending on the nature of the contract, the stage of completion is determined as follows:

- » For specific identified development contracts of sub-assemblies where there is a significant amount of uncertainty, the stage of completion is based on the extent of achievement of predetermined milestones within the contract. These significant uncertainties are only satisfied once customer certification takes place.
- » On all other contracts, the stage of completion is determined with reference to costs incurred to date as a percentage of total estimated costs.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

Contract revenue comprises:

- a) The initial amount of revenue agreed in the contract;
- b) Variations in contract work and incentive payments:
 - i) To the extent that it is probable that it will result in revenue; and
 - ii) It can be reliably measured.
- c) A claim is an amount that the group seeks to collect from the customer or another party as reimbursement for costs not included in the contract price. The measurement of the amounts of revenue arising from claims is subject to a high level of uncertainty and often depends on the outcome of negotiations. Therefore, claims are included in contract revenue only when:
 - i) Negotiations have reached an advanced stage such that it is probable that the customer will accept the claim; and
 - ii) The amount that is probable will be accepted by the customer and can be measured reliably. An expected loss on a contract is recognised immediately in profit or loss.

SALE OF GOODS, SERVICES AND SOLUTIONS

Revenue from sale of goods, services and solutions comprises the invoiced value of goods, services and solutions net of value-added tax (VAT), rebates and discounts.

Revenue from the sale of goods is recognised in profit or loss when significant risks and rewards of ownership have been transferred to the buyer and the amount of revenue can be measured reliably.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods and continuing management involvement with the goods.

INCOME FROM INVESTMENT PROPERTIES

Income from investment properties comprises mainly rental income received in terms of rental agreements and is recognised on a straight-line basis over the lease terms. The group shall recognise the aggregate cost of incentives granted as reduction of rental income over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished.

FINANCE INCOME AND COSTS

Finance income comprises mainly interest income on funds invested.

Finance income is recognised using the effective interest rate method when it is determined that such income will accrue to the group.

Finance costs mainly comprise interest expense on borrowings, unwinding of the discount on provisions and impairment losses recognised on financial assets.

OTHER INCOME

Other income is any income that accrues to the group from activities that are not part of the normal operations and is recognised as it is earned.

DIVIDENDS RECEIVED

Dividends are recognised in profit or loss when the right to receive the payment is established.

GOVERNMENT GRANTS RECEIVED

Government grants are recognised at fair value when there is reasonable assurance that the grant will be received and all relevant conditions will be complied with.

Where the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

1.4.2 PROVISIONS

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. The impact of the periodic unwinding of the discount is recognised in profit or loss as finance cost as it occurs.

Further details in this regard are contained in note 24.

1.4.3 TAXES

Income tax for the year comprises current and deferred tax. Income tax is recognised in profit or loss, except to the extent that it relates to items recognised directly in other comprehensive income (OCI).

Current tax expense is the expected tax payable on the taxable income (the results for the year, adjusted for items that are not taxable or not deductible) for the year. The group's liability for current taxation is calculated using tax rates and laws that have been enacted or substantially enacted at the reporting date and any adjustments relating to prior years.

Taxes are deferred for temporary differences between the values in the statement of financial position according to IFRS and according to their tax base. Deferred tax is not provided for the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss. Deferred tax is recognised in full on temporary differences arising from investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax liability is recognised to the extent that the carrying value of an asset is greater than its tax base, or where the carrying value of a liability is less than its tax base.

A net deferred tax asset is regarded recoverable and therefore only recognised when, on the basis of all available evidence, it is probable that future taxable profit will be available against which the temporary differences (including carried forward tax losses) can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related taxation benefit will realised.

Deferred tax assets and liabilities are recognised on a net basis for each tax entity.

Deferred tax is measured at the tax rates expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at the reporting date. Deferred tax is measured on a non-discounted basis.

Revenue, expenses and assets are recognised net of the amount of VAT except:

- » Where the VAT incurred on the purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item applicable; and
- » Receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated annual statements of financial position.

1.4.4 FINANCIAL INSTRUMENTS

The group initially recognises financial assets and liabilities on the trade date at which the group becomes a party to the contractual provisions of the instrument.

NON-DERIVATIVE FINANCIAL INSTRUMENTS

Non-derivative financial instruments comprise loans receivable, trade and other receivables, cash and cash equivalents, borrowings and trade and other payables.

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Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below:

FINANCIAL ASSETS

The group has the following classes:

- » Financial assets at fair value through profit or loss; and
- » Loans and receivables (including insurance receivables and cash and cash equivalents).

The group currently does not hold any held-to-maturity or available-for-sale assets.

LOANS RECEIVABLE

Loans receivable are subsequently measured at amortised cost. The amortised cost is determined using the effective interest rate method. Where a loan has been impaired, the impairment loss is recognised as an expense in profit or loss in the period in which the impairment has occurred.

TRADE AND OTHER RECEIVABLES

Trade and other receivables are carried at amortised cost less impairment losses. Impairment losses are recognised in profit or loss and are measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the original effective rate of receivables. Once an impairment loss has been recognised, recovery proceedings are continued. Impairment losses are decreased in subsequent periods only if the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts, and investments in money market instruments with an original maturity of three months or less, all of which are available for use, unless otherwise stated.

FINANCIAL LIABILITIES

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity.

Financial liabilities are initially measured at fair value less transaction costs that are directly attributable to the raising of the funds, and are subsequently carried at amortised cost. Any difference between the proceeds, net of transaction costs and the redemption value is recognised in profit or loss over the period of the borrowing.

BORROWINGS

After initial recognition, interest bearing borrowings are measured at amortised cost using the effective interest rate method. Amortised cost is calculated after having taken into account any issue costs, discounts and premium on settlement. Interest-bearing borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months from the reporting date.

TRADE AND OTHER PAYABLES

After initial recognition, trade and other payables are stated at amortised cost. Gains and losses on the de-recognition process are recognised in profit or loss.

DERIVATIVE FINANCIAL INSTRUMENTS

The group holds derivative financial instruments to hedge its exposure to foreign exchange risks arising from operational activities, and its exposure to volatility in commodity prices. The group does not hold these derivative financial instruments for trading purposes. Subsequent to initial recognition, derivative financial instruments are stated at fair value. Any gains or losses on the measurement of the derivative financial instruments are recognised in profit or loss. The fair value of derivative financial instruments is determined by reference to the quoted market price for assets held or liabilities to be settled at the reporting date.

EMBEDDED DERIVATIVES

Embedded derivatives are separated from the host contract and accounted for separately. The group contracts in various currencies based on the preference and location of the customer. Where the economic characteristics and risks of the host contract and the embedded derivative are not closely related, then the embedded derivative is recognised separately. The embedded derivative is measured at fair value through profit or loss.

Foreign exchange embedded derivatives are brought into account when the group has entered into contracts denominated in foreign currencies, which are neither the measurement currencies of parties to the contract, nor the currencies in which those commodities are routinely traded in international commerce except if such currency is a common currency. Denel views the United States Dollar (USD), Pound Sterling (GBP) and Euro (EUR) as common currencies.

All foreign exchange embedded derivatives are measured at fair value. Gains or losses arising on subsequent measurement of embedded derivatives are recognised in profit or loss. The embedded derivative assets or liabilities are released to revenue, cost of sales, operating costs or a related asset to reflect a ZAR host contract at the initial expected forward rate when risks and rewards pass to customers or the group.

OFFSET

Where a legally enforceable right of offset exists for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the asset simultaneously, or to settle on a net basis, all related financial effects are offset.

DE-RECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is de-recognised where:

- » The contractual rights to receive cash flows from the asset have expired; or
- » The group retains the contractual right to receive cash flows from the asset, but has assumed an obligation to pay it in full without material delay to a third party under a 'pass-through' arrangement; or
- » The group has transferred its contractual rights to receive cash flows from the asset and either:
 - a) Has transferred substantially all the risks and rewards of the asset of ownership; or
 - b) Has neither transferred nor retained substantially all the risks and rewards of ownership of the asset, but has transferred control of the asset.

Where the group has transferred its contractual rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the group could be required to repay.

Financial liabilities

A financial liability is de-recognised when the obligation under the liability is discharged, cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

1.4.5 FOREIGN CURRENCIES

FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the annual financial statements of each of the group's business units are measured using the currency of the primary economic environment in which the business unit operates (the functional currency). The consolidated annual financial statements are presented in ZAR, which is the group's functional and presentation currency.

RECORDING OF FOREIGN TRANSACTIONS

Foreign exchange transactions are accounted for at the foreign exchange rate ruling at the date of the transaction..

TRANSLATION OF FOREIGN CURRENCY TRANSACTIONS

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to ZAR at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the prevailing date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to ZAR at foreign exchange rates ruling at the dates the fair value was determined.

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1.4.6 INVESTMENT PROPERTIES

Investment properties comprise property held to earn rentals, for long-term capital appreciation or both, and are not occupied by the group. Investment properties are treated as long-term investments and are initially measured at cost. Investment property shall be recognised as an asset when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost of the investment property can be measured reliably. All costs including the transaction costs of the property are included on initial recognition.

Subsequent to initial recognition, investment properties are carried at fair value, determined annually by independent external registered appraisers. Changes in fair value are recognised in profit or loss. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction. This falls into level 3 of the fair value hierarchy.

The valuations are prepared by considering the aggregate of the net annual rentals receivable from the properties and where relevant, associated costs. A yield that reflects the specific risks inherent in the net cash flows is then applied to the net annual rentals to arrive at the property valuation. The range of RSA yields applied for each type of property is included below:

- » Offices 10% to 15%
- » Manufacturing 10% to 15%

Valuations reflect, where appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting of vacant accommodation and the market's general perception of their creditworthiness, the allocation of maintenance and insurance responsibilities between lessor and lessee, and the remaining economic life of the property. It has been assumed that whenever rental reviews or lease renewals are pending with anticipated revisionary increases, all notices and, where appropriate, counter-notices have been served validly and within the appropriate time.

Income from investment properties is accounted for as described in the revenue recognition policy. Compensation from third parties for investment property that was impaired, lost or given up is recognised in profit or loss when the compensation becomes receivable.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes for subsequent recording. When the group begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property, which is measured based on the fair value model, and is not reclassified as property, plant and equipment during the development.

A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the group holds it to earn rentals and for capital appreciation or both. Any such property interest under an operating lease is classified as an investment property and carried at fair value. Lease payments are accounted for as described in the accounting policy for leases.

1.4.7 PROPERTY, PLANT AND EQUIPMENT

The cost of an item of property, plant and equipment is recognised as an asset when it is probable that future economic benefits associated with the item will flow to the entity; and the cost of the item can be measured reliably. On initial recognition the assets are measured at cost.

Land is stated at its original cost price adjusted for impairment and is not depreciated. Other items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

The cost of an item of property, plant and equipment includes all costs that are incurred in order to bring the asset into a location and condition necessary to enable it to operate as intended by management and includes the cost of materials, direct labour and the initial estimate, where applicable, of the costs of dismantling and removing the item and restoring the site on which it is located.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment and depreciated separately.

Subsequent costs are included in the asset's carrying value or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the specific asset will flow to the group and the cost can be measured reliably.

Repairs and maintenance costs are recognised in profit or loss during the year in which it is incurred.

DEPRECIATION

Depreciation is provided on the straight-line basis which, it is estimated, will reduce the carrying amount of the assets to their residual values at the end of their useful lives. Lease improvements on leasehold properties are depreciated over the period of the lease or the expected useful life, whichever is the shorter period.

The estimated useful lives are as follows:

- » Buildings 20 to 50 years;
- » Plant, machinery and equipment 3 to 60 years;
- » Vehicles 5 years;
- » Office furniture 3 to 20 years; and
- » Computer equipment 3 to 5 years

The determination of the useful economic life and residual values of property, plant and equipment is subject to management estimation. The group annually reviews all of its depreciation rates and residual values to take account of any changes in circumstances, and any changes that could affect prospective depreciation charges and asset carrying values.

SUBSEQUENT EXPENDITURE

Subsequent expenditure relating to an item or part of an item of property, plant and equipment is capitalised when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the part that is replaced is de-recognised in accordance with the principles set out below. All other costs are recognised in profit or loss as an expense when incurred.

DE-RECOGNITION

The carrying amount of an item of property, plant and equipment shall be de-recognised at the earlier of:

- a) The date of disposal; or
- b) The date when no future economic benefits are expected from its use or disposal.

Gains and/or losses on de-recognition of items of property, plant and equipment are recognised in profit or loss.

TRANSFER TO INVESTMENT PROPERTIES

When an item of property, plant and equipment is transferred to investment properties following a change in its use, it is transferred to investment properties at its fair value at date of transfer. Any differences arising at the date of transfer between the carrying amount of the item immediately prior to the transfer and its fair value is recognised in other comprehensive income if it is a gain and in profit or loss if it is a loss.

SPARE PARTS

Major spare parts and servicing equipment qualify as property, plant and equipment when the group expects to use them for more than 12 months. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

1.4.8 LEASES

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the group are classified as finance leases. At inception of the lease, assets and liabilities acquired in terms of finance leases are capitalised at the lower of fair value and present value of the minimum lease payments of the leased property. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if it is not practical to determine the incremental borrowing rate is used. Initial direct costs are added to the amount recognised as an asset. The asset is depreciated over the shorter of estimated useful life and lease term. The capital element of future obligations under the leases is included as a liability in the consolidated statements of financial position. Lease payments are allocated using the effective interest rate method to determine the lease finance cost, which is expensed over the lease period, and the capital repayment, which reduces the liability to the lessor.

Leases, where the lessor retains the risks and rewards of ownership of the underlying asset, are classified as operating leases.

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Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. The group shall recognise the aggregate benefit of incentives received as reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the leasee's benefit from the use of the leased asset.

The interest expense component of finance lease payments is recognised in profit or loss using the effective interest rate method.

1.4.9 INTANGIBLE ASSETS

Intangible assets that are acquired separately by the group are initially measured and recognised at cost. Such cost are recognised only if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. Subsequently, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets with a finite useful life are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation is charged to profit or loss on the straight-line basis over the estimated useful lives of intangible assets. The amortisation period and amortisation method are reviewed annually and any change is treated as a change in estimate.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

RESEARCH AND DEVELOPMENT COSTS

Research costs are expensed in the year in which they are incurred. Development costs are capitalised only when the group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the ability of resources to complete and the availability to measure reliably the expenditure during the development. Development costs initially recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are reviewed annually and are expensed if they no longer meet the criteria for capitalisation.

The amortisation of capitalised development costs commences once the product or service becomes available for sale or use. Capitalised development costs are amortised over the period of expected future economic benefits associated with the specific asset.

PATENTS

Patents are recognised at cost if it is probable that future economic benefits will flow to the group. Amortisation is charged on a systematic basis over the estimated useful lives of patents, where its legal rights determine the amortisation periods.

COMPUTER SOFTWARE

Computer software is initially measured and recognised at cost. Subsequently, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a systematic basis over the estimated useful life of the software. The useful life of computer software is estimated to be between three and five years. Annual license fees on software are expensed in the year of accrual.

BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring costs) of the acquired business at fair value.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash generating units, or groups of cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- » Represents the lowest level within the group at which the goodwill is monitored for internal management purposes; and
- » Is not larger than a segment based on the group's reporting format determined in accordance with *IFRS 8 Segment Reporting*.

Where goodwill forms part of a cash-generating unit or group of cash generating units, and part of the operation within that unit is disposed, the goodwill associated with the operation disposed is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed in this circumstance is measured based on the relative values of the operation disposed and the portion of the cash generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill, is recognised in profit or loss.

A bargain purchase arising on acquisition is recognised immediately in profit or loss.

1.4.10 IMPAIRMENT

FINANCIAL ASSETS

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

NON-FINANCIAL ASSETS

The carrying amounts of the group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. Internal and external indicators are considered. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of non-financial assets is the greater of their fair value less cost of disposal and value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined based on the cash generating unit to which the asset belongs.

For intangible assets that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

REVERSALS OF IMPAIRMENT

An impairment loss in respect of receivables carried at amortised cost is reversed if the subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. Any subsequent reversal of an impairment loss is recognised in profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date.

An impairment loss in respect of goodwill is not reversed.

In respect of other non-financial assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the impairment loss was recognised.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Such reversal is recognised in profit or loss. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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1.4.11 INVENTORIES

Inventories are measured at the lower of cost or net realisable value using the first-in-first-out (FIFO) formula. Net realisable value is the estimate of the selling price in the ordinary course of business less the cost of completion and selling expenses. The weighted average basis is used for certain inventory items, such as chemicals and liquids where it is not practical to apply the FIFO basis. The standard cost method is used where the results approximate the actual cost. Under a standard costing system the cost of a product is determined using predetermined rates for the material, labour and overhead expenses based on manufacturing specifications. Where inventory has been acquired on extended credit terms, the cost is adjusted with the interest expense and recognised over the payment period in profit or loss. Where trade discounts, rebates and similar items are received, it is deducted in determining the cost of inventory.

The following specific methods are applied in determining cost price:

RAW MATERIALS AND BOUGHT-OUT COMPONENTS

These are valued at direct cost of purchase plus the other costs incurred to bring it to their present location and condition.

WORK-IN-PROGRESS AND FINISHED PRODUCTS

These are valued at cost and include the cost of purchase of direct materials, direct labour, allocated variable and fixed production overheads based on normal production levels.

CONSUMABLE INVENTORIES

Consumable inventories, such as spare parts and maintenance equipment, are valued at the direct cost of purchase and classified as inventory.

1.4.12 BORROWING COSTS

Borrowing costs incurred on qualifying assets under construction are capitalised up to the date the assets are substantially complete. Capitalisation is suspended during extended periods in which active development is interrupted. All other borrowing costs are recognised as finance costs when incurred.

1.4.13 ADVANCE PAYMENTS RECEIVED FROM REVENUE CONTRACTS

In the case of comprehensive and/or long-term revenue contracts, advance payments are negotiated with local and foreign customers. These funds are used to finance the execution of contracts, which include advance payments to suppliers, finance long-lead inventory items and work-in-progress. Guarantees are provided to customers for advance payments received. Advance payments received are recognised as a current liability for an amount that is estimated to be settled within one year from reporting date and as a non-current liability for the amount to be settled after one year from reporting date. Advance payments received in foreign currency are recognised at the ruling spot rate on the date of receipt. Guarantees provided are disclosed as contingent liabilities.

1.4.14 EMPLOYEE BENEFITS

PENSION OBLIGATIONS

The group participates in a defined contribution fund, the assets of which are held in a separate trustee administered fund.

The group's obligations for contributions to the defined contribution retirement fund are recognised as an expense in profit or loss in the year to which they relate.

OTHER POST-RETIREMENT OBLIGATIONS

The group provides post-retirement medical aid contribution subsidies to qualifying retirees. The expected cost of this benefit is accrued over the period of employment and is funded by the Denel Medical Benefit Trust. Independent qualified actuaries carry out valuations of these obligations on an annual basis (refer note 33.1)

1.4.15 COUNTERTRADE OBLIGATIONS

Countertrade obligations arise when the group has entered into export contracts where the buyer's country requires countertrade by the group or where the group has entered into local defence contracts that require the group to impose countertrade obligations on suppliers in favour of SA on all imported content. Countertrade obligations can be a percentage of the value of the export contract up to 100%. The buyer's country normally requires a combination of the following to discharge the obligation:

- » Procurement of products and services from suppliers in the buyer's country; or
- » Participation in a business venture or a form of investment in the buyer's country is prescribed.

Countertrade obligations are disclosed as contingent liabilities, and are only brought into account as liabilities to the extent that there are present obligations to settle.

1.4.16 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (which includes a measure of segments' assets). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the EXCO of Denel SOC Ltd.

1.4.17 HEDGE ACCOUNTING

For the purpose of hedge accounting, hedges are classified as:

- » Fair value hedges when hedging the exposure to changes in the fair value of a recognised non-asset or non-liability or an unrecognised firm commitment; and
- » Hedges of a net investment in a foreign operation.

If a fair value hedge meets the conditions for hedge accounting, any gain or loss on the hedged item attributable to the hedged risk is included in the carrying amount of the hedged item and is recognised in profit or loss.

If an effective hedge of a forecast transaction subsequently results in the recognition of a financial asset or financial liability, the associated gain or loss recognised in equity are recognised in profit or loss in the same period in which the asset or liability affects profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

If a hedge of a net investment in a foreign entity meets the condition for hedge accounting, the portion of the gain or loss on the hedging instruments that is determined to be an effective hedge is recognised in OCI and the ineffective portion is recognised in profit or loss. On disposal of a foreign entity, the gain or loss recognised in equity is transferred to profit or loss as a reclassification adjustment.

Hedge accounting is discontinued on a prospective basis when the hedge no longer meets the hedge accounting criteria (including when it becomes ineffective), when the hedge instrument is sold, terminated or exercised when, for cash flow hedges, the forecast transaction is no longer expected to occur or when the hedge designation is revoked.

1.4.18 NON-CURRENT ASSETS HELD FOR SALE

Assets are classified as non-current assets held for sale if the carrying amount would be recovered mainly through a sale transaction and not through continued use. This condition is regarded as met when a sale is highly probable; the asset or disposal group is available for immediate sale in its present condition and when management is committed to the sale. A business unit to be partially disposed, which remains to be consolidated, is not classified as held-for-sale.

Immediately before classification as held-for-sale, the measurement of the assets is done in accordance with applicable IFRS's. Then, on initial classification as held-for-sale, non-current assets or disposal groups are recognised at the lower of carrying amount and fair value less costs to its subsequent disposal.

Impairment losses on initial classification as held-for-sale are recognised in profit or loss. Gains, limited to previously recognised impairment losses and losses on subsequent measurement, are also recognised in profit or loss.

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1.5 STANDARDS, INTERPRETATIONS AND AMENDMENTS ISSUED THAT ARE NOT YET EFFECTIVE

The following accounting standards, interpretations and amendments to publish accounting standards which are relevant to Denel but not yet effective, have not been adopted in the current year. The group is currently in the process of evaluating the detailed requirements of the following amendments to assess the possible impact on the group's financial statements:

Standard, interpretation and amendments	Title	Effective date
IFRS 9	Financial Instruments – Guidance on classification and measurement, impairment, hedge accounting and de-recognition. This standard replaces <i>IAS 39 Financial Instruments: Recognition and Measurement</i> .	1 Jan 2018
IFRS 15	Revenue from Contracts from Customers – Provides a single, principle based five-step model to be applied to all contracts with customers.	1 Jan 2018
IFRS 16	Leases – New standard that requires a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.	1 Jan 2019
IAS 1	Presentation of Financial Statements – Disclosure initiative amendments designed to encourage entities to apply professional judgement in determining what information to disclose in their financial statements	1 Jan 2016
IAS 7	Statement of Cash Flow – Disclosure initiative: entities are to disclose information about changes in their financing liabilities.	1 Jan 2017
IAS 12	Income Taxes – Recognition of deferred tax assets for unrealised losses narrow-scope amendment to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.	1 Jan 2017
IAS 16	Property, Plant and Equipment – Amendment establishes that the principle for the basis for the calculation of depreciation is the expected pattern of consumption of the future economic benefits of an asset.	1 Jan 2016
IAS 38	Intangible Assets – basis for the calculation of amortisation is the expected pattern of consumption of the future economic benefits of an asset.	1 Jan 2016
Annual improvements 2012-2014 cycle		
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations – Amendments clarifying that a change in the manner of disposal of a non-current asset or disposal group held for sale is considered to be a continuation of the original plan of disposal, and accordingly, the date of classification as held-for-sale does not change.	1 Jan 2016
IAS 27	Consolidated and Separate Financial Statements – Amendments to IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associated companies in their separate financial statements.	1 Jan 2016

IFRS 9 FINANCIAL INSTRUMENTS

The completed standard comprises guidance on classification and measurement, impairment hedge accounting and de-recognition. This standard introduces the following:

- » A new approach to the classification of financial assets, which is driven by the business model in which the asset is held and their cash flow characteristics. A new business model was introduced which does allow certain financial assets to be categorised as "fair value through other comprehensive income" in certain circumstances. The requirements for financial liabilities are mostly carried forward unchanged from **IAS 39**. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk;
- » The model introduces a single impairment model being applied to all financial instruments, as well as an "expected credit loss" model for the measurement of financial assets;
- » **IFRS 9** contains a new model for hedge accounting that aligns the accounting treatment with the risk management activities of an entity, in addition enhanced disclosures will provide better information about risk management and the effect of hedge accounting on the financial statements; and
- » **IFRS 9** carries forward the de-recognition requirements of financial assets and liabilities from **IAS 39**.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 provides a single, principle-based five-step model to be applied to all contracts with customers. The five steps in the model comprise of identifying the contract, identifying performance obligations in the contract, determining the transaction price, allocating transaction price to performance obligations in the contract and recognising revenue when (or as) the entity satisfies a performance obligation.

IFRS 16 LEASES

IFRS 16 provides a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying **IAS 7 Statement of Cash Flows**.

IAS 1 PRESENTATION OF FINANCIAL STATEMENTS

Amendments designed to encourage entities to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that entities should use professional judgement in determining where and in what order information is presented in the financial disclosures.

IAS 7 STATEMENT OF CASH FLOWS

Amendment requires entities to disclose information about changes in their financing liabilities. The additional disclosures will help investors to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as foreign exchange gains or losses).

IAS 16 PROPERTY, PLANT AND EQUIPMENT AND IAS 38 INTANGIBLE ASSETS

Amendment establishes that the principle for the basis of depreciation and amortisation is the expected pattern of consumption of the future economic benefits of an asset. Clarifying that revenue is generally presumed to be an inappropriate basis for measuring the consumption of economic benefits in such assets.

IAS 27 CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associated companies in their separate financial statements.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

	GROUP		COMPANY	
	2015/16	2014/15	2015/16	2014/15
	Rm	Rm	Rm	Rm
2 REVENUE				
Contract revenue ¹	8 120	5 748	6 496	5 118
Income from investment properties ²	108	104	118	112
	8 228	5 852	6 614	5 230
3 COST OF SALES AND OTHER OPERATING EXPENSES				
Continuing operations				
Cost of sales	6 556	4 715	5 355	4 175
Other operating expenses	1 455	939	1 189	874
	8 011	5 654	6 544	5 049
Cost of sales and other operating expenses are arrived at after taking the following items into account:				
Amortisation of intangible assets (refer note 11)	16	12	12	12
Software	16	12	12	12
Auditors' remuneration	14	13	11	11
Current year	13	11	11	9
Previous year's under accrual	-	1	-	1
Other	1	1	-	1
Costs of inventories recognised as an expense (refer note 15)	3 025	1 637	1 868	1 223
Depreciation (refer note 9)	131	126	100	90
Buildings	20	16	17	14
Computer equipment	20	19	18	16
Office furniture	3	2	2	2
Plant and machinery	77	79	52	48
Vehicles	11	10	11	10
Directors' remuneration ^{3 and 4}	12	14	12	14
Executive directors	8	11	8	11
Non-executive directors	4	3	4	3
Impairment raised/(reversed)	119	(68)	176	(26)
Intangible assets (refer note 11)	163	-	159	-
Inventories	(57)	(21)	2	(23)
Property, plant and equipment (refer note 9)	-	(44)	-	-
Trade and other receivables (refer note 16)	13	(3)	15	(3)
Loss on disposal of assets	1	2	-	-
Property, plant and equipment (refer note 27)	1	2	-	-
Operating expenses for investment properties	201	156	200	156

1. Contract revenue also includes the sale of goods, services and solutions.

2. No lease incentives were granted during 2015/16 (2014/15: Rnil).

3. Detailed remuneration is fully disclosed in the remuneration section of the corporate governance report, pages 75 to 77. Executive directors' remuneration is included from date of appointment as director.

4. Directors' remuneration is excluded from Employees: Salaries and relevant costs.

	GROUP		COMPANY	
	2015/16	2014/15	2015/16	2014/15
	Rm	Rm	Rm	Rm
3 COST OF SALES AND OTHER OPERATING EXPENSES (continued)				
Operating lease payments ¹	96	81	81	71
Buildings	87	66	74	59
Computer equipment	5	10	4	9
Office furniture	3	3	3	2
Plant and machinery	1	2	-	1
Research and development costs ²	544	416	523	408
Employees: Salaries and relevant costs ³	2 278	1 776	1 704	1 541
Medical fund contributions	108	86	85	78
Pension costs: Defined contribution plan	154	120	120	107
Services costs	1 912	1 550	1 447	1 339
Staff and related provisions	49	19	7	16
Termination benefits	38	1	28	1
Other long-term benefit contributions	17	-	17	-
4 OTHER INCOME				
Administration and management fees	4	6	23	12
Dividends received			56	45
Government grants received	18	7	18	7
Fair value adjustment on investment properties (refer note 10)	162	56	162	56
Net gains of financial instruments (refer note 5)	50	33	107	31
Profit on disposal of property, plant and equipment (refer note 27)	1	1	-	-
Other ⁴	53	34	62	54
	288	137	428	205
5 NET GAINS ON FINANCIAL INSTRUMENTS				
Settled transactions	(60)	48	(82)	47
Gains	156	95	134	85
Losses	(216)	(47)	(216)	(38)
Fair value adjustments	(4)	(112)	75	(112)
Gains	267	65	186	65
Losses	(271)	(177)	(111)	(177)
Firm commitments re-measurement	114	97	114	96
Gains	177	130	177	129
Losses	(63)	(33)	(63)	(33)
Refer note 4	50	33	107	31

1. No lease incentives were received during 2015/16 (2014/15: Rnil).

2. The R&D costs are mainly customer funded. This does not include an amount of R6m (2014/15: R32m) charged against provisions and Rnil (2014/15: R19m) that has been capitalised.

3. Directors' remuneration is excluded from Employees: Salaries and relevant costs. Directors' remuneration are disclosed in detail on pages 75 to 77.

4. Other is mainly made up of scrap sales, insurance claims, low claim bonuses, discount received, as well as skills development levy rebates received.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

	GROUP		COMPANY	
	2015/16	2014/15	2015/16	2014/15
	Rm	Rm	Rm	Rm

6 NET FINANCE COSTS

The amounts below relate to financial instruments measured at amortised cost (financial liabilities, loans and receivables):

6.1 FINANCE COSTS

Current interest bearing loans and borrowings	174	34	172	34
Non-current interest bearing loans and borrowings	87	121	87	120
Inter-group finance costs			11	7
Finance costs on financial liabilities	261	155	270	161
Unwinding of discount on provisions (refer note 24.3)	19	21	19	21
	280	176	289	182

6.2 FINANCE INCOME

Gross interest received	77	53	62	46
Inter-group finance income			1	-
	77	53	63	46
Net finance costs	203	123	226	136

6.3 RECONCILIATION

Interest paid

Finance costs (refer note 6.1)	280	176	289	182
Add back: Unwinding of discount on provisions	(19)	(21)	(19)	(21)
Movement in interest accrued for the year	(31)	(4)	(31)	(4)
Discount (premium) on borrowings		18	1	6
As per the consolidated statements of cash flows	230	169	240	163

Interest received

Finance income (refer note 6.2)	77	53	63	46
Movement in interest receivable for the year	-	(6)	2	(5)
As per the consolidated statements of cash flows	77	47	65	41

	GROUP		COMPANY	
	2015/16	2014/15	2015/16	2014/15
	Rm	Rm	Rm	Rm
7 INCOME TAX EXPENSE				
SA normal tax ¹				
Current tax	61	3	-	-
Deferred tax (refer note 14)	(22)	3	-	-
	39	6	-	-
	%	%	%	%
Reconciliation of tax rate				
Effective tax rate	9,1	2,2	-	-
Adjustment in tax rate due to:	18,9	25,8	28,0	28,0
Exempt income	3,6	1,3	5,7	5,0
Revaluation decrease on land ²	-	(1,9)	-	(2,1)
Deferred tax asset not recognised	13,0	17,9	26,0	21,9
Share of associated companies	8,5	6,5		
Other	(6,2)	2,0	(3,7)	3,2
SA Normal tax rate	28,0	28,0	28,0	28,0
	Rm	Rm	Rm	Rm
The calculated tax losses available for offset against future taxable income are as follows:				
Calculated income tax losses	3 147	2 979	2 263	1 608
Capital gains tax losses	348	160	348	160
Total calculated tax losses	3 495	3 139	2 611	1 768
Calculated tax losses utilised	-	-	-	-
Net available calculated tax losses	3 495	3 139	2 611	1 768

1. No provision for SA normal tax has been made for any of the companies within the group that are in an assessed loss position.
2. The revaluation decrease on land 2014/15 refers to the land of the old Philippi site that was transferred to "asset held for sale", refer note 19. The production facility of this site was relocated and the land was restored for township development. It came to Denel's attention that the fair value of this specific land decreased on the transfer to "asset held for sale". The fair value was determined based on an offer to purchase the land. The value of the land was negatively effected when the Airports Company (ACSA) indicated new runways to be build with aircraft approach and landing to take place over the property. The resulting noise pollution caused a drop in property value. With the exception of the land mentioned, all investment properties increased in fair value.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

	COMPANY
	2015/16
	Rm

8 ACQUISITION AND ESTABLISHING OF SUBSIDIARIES

8.1 ACQUISITION OF DENEL VEHICLE SYSTEMS (PTY) LTD

On 29 April 2015 Denel acquired 100% of the issued ordinary shares of BAE Systems Land Systems South Africa (Pty) Ltd, an unlisted company, whose core business is the provision of protected vehicle solutions. The opportunity to acquire this business was ideal for Denel to complete its landwards strategy with a world-class design-manufacturing-log support capability, a vast range of combat-proven vehicles and proven client credibility, including a strong NATO customer base. The acquisition purchase consideration was R828m on the understanding that Denel, through this wholly owned subsidiary, would gain access to relevant opportunities, broaden its landward capability for a new product range and thereby maximise synergies. Since the acquisition of BAE Systems Land Systems South Africa (Pty) Ltd its name was changed to Denel Vehicle Systems (Pty) Ltd.

The fair value of the identifiable assets and liabilities of DVS as at date of acquisition were:

ASSETS

Non-current assets

Property, plant and equipment (refer note 9) ¹	274
Intangible assets (refer note 11) ²	51
Deferred tax assets	13

Current assets

Inventories ³	119
Trade and other receivables	146
Cash and short-term deposits	231
Income tax receivables	16

Total assets	850
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LIABILITIES

Non-current liabilities

Provisions	111
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Current liabilities

Trade and other payables	119
Other financial liabilities	4
Advance payments received	30

Total liabilities	264
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Total identifiable net assets at fair value	586
Goodwill arising on acquisition ⁴	242

Purchase consideration	828
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1. The property, plant and equipment were valued at R274m (carrying amount at acquisition R144m). Refer note 9.

2. The intangible assets include internal generated intellectual properties valued at R51m (carrying amount at acquisition R21m).

3. Inventory at fair value of R119m after taking into account impairment of R180m, refer note 15.

4. The goodwill of R242m comprises the value of the expected synergies arising from the acquisition. None of the goodwill recognised is expected to be deductible for income tax purposes. From date of acquisition, Denel Vehicle Systems (Pty) Ltd has contributed R664m of revenue and R102m to net profit before tax of the group. Refer note 8.

8 ACQUISITION AND ESTABLISHING OF SUBSIDIARIES (continued)**8.2 ESTABLISHING OF DENEL ASIA CO LTD**

With Denel being a reliable defence security and technology solutions partner, it makes business sense in extending our footprint into the Asia Pacific defence market through the establishment of Denel Asia LLC. Denel Asia will focus its marketing attention on countries such as India, Singapore, Cambodia, Indonesia, Pakistan, Vietnam and the Philippines, which have all announced their intentions to embark on major new defence acquisitions and grow their research and development budgets in the next four years. Denel is positioning itself for major programmes in India, which programmes are premised on the "Buy Make India" concept. There are a number of opportunities that Denel Asia will be pursuing in the market, mainly in the artillery domain.

There were no acquisitions of subsidiaries during the 2014/15 financial year.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

	Land and buildings	Computer equipment	Office furniture	Plant and machinery	Vehicles	Assets under construction ¹	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
9 PROPERTY, PLANT AND EQUIPMENT							
GROUP							
2015/16							
Carrying value at 1 April	289	67	12	514	33	26	915
Additions	33	13	3	74	12	5	135
Business acquired (refer note 8)	77	3	2	61	1	-	144
Capitalised leases (refer note 22)	-	-	-	23	-	-	23
Depreciation for the year (refer note 3)	(20)	(20)	(3)	(77)	(11)	-	(131)
Disposals	-	(1)	-	-	-	-	(1)
Fair value at first consolidation	130	-	-	-	-	-	130
Reclassification ²	11	-	-	(11)	-	(11)	-
Transfer to intangible assets	-	(5)	-	-	-	-	(5)
Carrying value at 31 March	520	57	14	584	35	20	1 210
Cost	744	274	51	1 853	130	20	3 052
Accumulated depreciation and impairment	(224)	(217)	(37)	(1 269)	(95)	-	(1 842)
Carrying value at 31 March	520	57	14	584	35	20	1 210
2014/15							
Carrying value at 1 April	268	62	7	485	39	9	861
Additions	39	22	7	73	5	18	146
Depreciation for the year (refer note 3)	(16)	(19)	(2)	(79)	(10)	-	(126)
Disposals	(1)	-	-	(3)	-	-	(4)
Impairment reversal for the year (refer note 3) ³	-	2	-	42	-	-	44
Reclassification ²	(1)	-	-	(1)	2	(1)	-
Transfer to intangible assets	-	-	-	(3)	-	-	(3)
Written off	-	-	-	-	(3)	-	(3)
Carrying value at 31 March	289	67	12	514	33	26	915
Cost	471	223	31	1 601	113	26	2 439
Accumulated depreciation and impairment	(182)	(156)	(19)	(1 087)	(80)	-	(1 524)
Carrying value at 31 March	289	67	12	514	33	26	915

Registers of property, plant and equipment are open for inspection at the business units of the group.

1. Assets under construction were financed by funds available within the group.
2. During the year under review Assets under construction of R11m (2014/15: nil) were completed and transferred to the category, Land and buildings. The amount mainly consists of the upgrade of buildings taking place at OTR.
3. None of the already impaired property, plant and equipment were reinstated during the year under review for both the group and company. Owing to the operating losses within the aerospace business unit, its property, plant and equipment had been impaired to the extent that the business unit was in a loss-making position for the projected future. Subsequently, at the end of each financial year management assessed for indications whether the situation still existed or had improved. On this assessment it was evident that the business unit had now turned around and was able to make profits in the foreseeable future. This was mainly as a result of additional orders that it had received and resulted in the optimal use of some of the assets that had been impaired. The recoverable amount was then recalculated taking into account these orders and resulting in positive future cash flows relating to these assets utilising an 8% discount rate. This resulted in a reversal of impairment of R44m for the group and Rnil for the company during the 2014/15 financial year.

	Land and buildings	Computer equipment	Office furniture	Plant and machinery	Vehicles	Assets under construction ¹	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
9 PROPERTY, PLANT AND EQUIPMENT (continued)							
COMPANY							
2015/16							
Carrying value at 1 April	278	64	10	298	33	20	683
Additions	29	8	2	56	12	7	107
Depreciation for the year (refer note 3)	(17)	(18)	(2)	(52)	(11)	-	(100)
Reclassification ²	11	-	-	(11)	-	(11)	-
Transfer to intangible assets (refer note 11)	-	(5)	-	-	-	-	(5)
Carrying value at 31 March	301	49	10	291	34	16	685
Cost	497	180	29	1 253	121	16	2 080
Accumulated depreciation and impairment	(196)	(131)	(19)	(962)	(87)	-	(1 395)
Carrying value at 31 March	301	49	10	291	34	16	685
2014/15							
Carrying value at 1 April	256	59	7	295	38	9	655
Additions	37	21	5	55	6	12	124
Business acquired (refer note 8)	-	-	-	-	-	-	-
Capitalised leases (refer note 22)	-	-	-	-	-	-	-
Depreciation for the year (refer note 3)	(14)	(16)	(2)	(48)	(10)	-	(90)
Reclassification ²	(1)	-	-	(1)	2	(1)	-
Transfer to intangible assets	-	-	-	(3)	-	-	(3)
Written off	-	-	-	-	(3)	-	(3)
Carrying value at 31 March	278	64	10	298	33	20	683
Cost	457	207	27	1 219	111	20	2 021
Accumulated depreciation and impairment	(179)	(143)	(17)	(921)	(78)	-	(1 338)
Carrying value at 31 March	278	64	10	298	33	20	683

1. Assets under construction were financed by funds available within the group.

2. During the year under review Assets under construction of R11m (2014/15: nil) were completed and transferred to the category, Land and buildings. The amount mainly consists of the upgrade of buildings taking place at OTR.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

	GROUP		COMPANY	
	2015/16	2014/15	2015/16	2014/15
	Rm	Rm	Rm	Rm
10 INVESTMENT PROPERTIES				
Fair value at 1 April	590	534	581	525
Fair value adjustment (refer note 4)	162	56	162	56
Transfer to assets held for sale (refer note 19)	(72)	-	(72)	-
Fair value at 31 March	680	590	671	581

Valuations of investment properties were carried out at the year-end by registered independent external appraisers, who have appropriately recognised professional qualifications and experience in the location and nature of the property being valued. The valuation is determined on valuation techniques that utilises unobservable inputs thus falling into level 3 of the fair value hierarchy. The highest and best use of the investment properties does not differ from its current use. Changes in fair value are recognised in profit or loss.

For further detail on investment properties, refer to accounting policies, note 14.6 on page 153.

The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Inter-relationship between key observable inputs and fair value measurement
Disclosed cash flows: The valuation model considers the present value of net cash flows to be generated from the property, taking into account expected rental growth rate, void periods, occupancy rate, lease incentive costs such as rent-free periods and other costs not paid by tenants. The expected net cash flows are discounted using risk-adjusted discount rates. Among other factors, the discount rate estimation considers the quality of a building and its location (prime vs secondary), tenant credit quality and lease terms.	<ul style="list-style-type: none"> » Expected market rental growth (6-7%, weighted average 4.5%) » Void periods (average six months after the end of each lease) » Occupancy rate (90-95%, weighted average 93%) » Rent-free periods (six months period on new leases required). » Risk-adjusted discount rates (11.25%, weighted average 13.1%). 	<p>The estimated fair value would increase/decrease if:</p> <ul style="list-style-type: none"> » Expected market rental growth were higher/lower; » The occupancy rate were higher/lower; » Rent-free periods were shorter/longer; or » The risk-adjusted discount rate were low.

	GROUP		COMPANY	
	2015/16	2014/15	2015/16	2014/15
	Rm	Rm	Rm	Rm
11 INTANGIBLE ASSETS				
11.1 CATEGORIES				
Development costs	35	164	5	158
At cost	221	188	188	182
Accumulated amortisation and impairment	(186)	(24)	(183)	(24)
Goodwill ^{1 and 2}	259	9	-	-
At cost	331	79	-	-
Accumulated impairment	(72)	(70)	-	-
Software	33	26	23	26
At cost	198	124	159	124
Accumulated amortisation and impairment	(165)	(98)	(136)	(98)
Other ³	8	8	8	8
At cost	34	8	8	8
Accumulated amortisation and impairment	(26)	-	-	-
Carrying value at 31 March	335	207	36	192

- On 29 April 2015, Denel acquired 100% of the issued ordinary shares of BAE Systems Land Systems South Africa (Pty) Ltd, an unlisted company, which provides protected vehicle solutions. Denel has acquired the company to broaden its landward capability for a new product range. The acquisition was for a purchase consideration of R828m on the understanding that Denel would partner with the company on relevant opportunities and thereby maximise synergies. The goodwill of R242m comprises the value of the expected synergies arising from the acquisition. Since acquisition the name was changed to Denel Vehicle Systems (Pty) Ltd. Intangible assets under business acquired total R21m, consisting of software (R13m) and goodwill on business combination (R8m, after impairment of R2m). Refer note 8 and 35.
- On 11 May 2012, Denel acquired 51% of the issued ordinary shares of LMT Holdings (Pty) Ltd, an unlisted company, whose core business is in the provision of protected vehicle solutions. LMT Holdings (Pty) Ltd (RF) has three subsidiaries, i.e. LMT Products (Pty) Ltd, LMT Engineering (Pty) Ltd and LMT Properties (Pty) Ltd. The company has acquired LMT Holdings (Pty) Ltd to broaden its landward capability for a new product range. The acquisition was for a purchase consideration of R100 on the understanding that Denel would partner with the company on relevant opportunities and thereby maximise synergies. The goodwill of R9m (2014/15: R9m) comprises the value of the expected synergies arising from the acquisition. Since acquisition the name was changed to LMT Holdings SOC Ltd (RF).
- Intellectual property related to the development and industrialisation of the 20 X 42mm Neopup Personal Area Weapon.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

	GROUP		COMPANY	
	2015/16	2014/15	2015/16	2014/15
	Rm	Rm	Rm	Rm
11 INTANGIBLE ASSETS (continued)				
11.2 RECONCILIATION				
Development costs				
Carrying value at 1 April	164	145	158	139
Capitalised during the year	5	19	6	19
Fair value at first consolidation	29	-	-	-
Impairment for the year ¹	(163)	-	(159)	-
Carrying value at 31 March	35	164	5	158
Goodwill				
Carrying value at 1 April	9	9	-	-
Acquisition external (refer note 8) ²	242	-	-	-
Business acquired (refer note 8)	8	-	-	-
Carrying value at 31 March	259	9	-	-
Software				
Carrying value at 1 April	26	28	26	28
Amortisation for the year (refer note 3)	(16)	(12)	(12)	(12)
Business acquired (refer note 8) ¹	13	-	-	-
Transfer from property, plant and equipment (refer note 9)	5	-	5	-
Capitalised during the year	5	10	4	10
Carrying value at 31 March	33	26	23	26
Other				
Carrying value at 1 April	8	-	8	-
Capitalised during the year	-	8	-	8
Carrying value at 31 March	8	8	8	8
Carrying value at 31 March	335	207	36	192

1. During 2010 Denel started to capitalise the development cost of the Seeker 400 having the view that the cost could be reliably measured and it was probable that future economic benefits will flow from this asset. An order was received from a client to whom delivery is in process of completion. However, Denel has not received additional orders either from this client or any other client for this product. Marketing efforts are still continuing to secure confirmed orders, however management does not have reasonable comfort that an order will be secured in the immediate future. Thus in terms of IAS 36 Impairment of Assets, management concluded that the recoverable amount of the investment is Rnil and a decision was taken to impair the entire Seeker 400 investment. An impairment loss amounting to R159m (2014/15: Rnil) has therefore been recognised as at 31 March 2016.

2. Refer footnote 1 and 2 on page 166.

	COMPANY	
	2015/16	2014/15
	Rm	Rm
12 INVESTMENTS IN SUBSIDIARIES		
Unlisted shares	2 541	1 713
Net loans	191	108
Amounts due by subsidiaries	386	336
Amounts due to subsidiaries	(195)	(228)
Gross investments	2 732	1 821
Accumulated impairment	(1 391)	(1 391)
Carrying value at 31 March	1 341	430
Reconciliation of carrying value of investments in subsidiaries:		
Gross investments	2 732	1 821
Accumulated impairment	(1 391)	(1 391)
Carrying value at 31 March	1 341	430
The accumulated impairment loss on investments in subsidiaries is as follows:		
Unlisted shares	1 055	1 055
Balance at 1 April	1 055	1 055
Impairment for the year	-	-
Loans	336	336
Balance at 1 April	336	336
Impairment for the year	-	-
	1 391	1 391

BAE Systems Land Systems South Africa (Pty) Ltd was acquired on 29 April 2015, with a subsequent name change to Denel Vehicle Systems (Pty) Ltd. Denel ASIA Co Ltd was established in Hong Kong on 29 January 2016. Refer note 8 and 11 for further details.

Financial instruments are managed by the group's treasury function. The A&R committee of the board oversees the group's treasury operations and has an established policy for the management of credit risk arising from treasury activities, refer note 31.1, page 199. The Net loans are in actual fact entity's cash (bank overdraft), i.e.:

- » Cash managed by the group's treasury function.
- » Cash comprises cash on hand and demand deposits.
- » Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
- » Cash equivalents that are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.
- » Bank overdrafts which are repayable on demand form an integral part of an entity's cash management. In these circumstances, bank overdrafts are included as a component of cash and cash equivalents. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.

100% of the shares held in Denel Vehicle Systems (Pty) Ltd have been ceded in relation to the loan to Nedbank (refer note 22.5).

A detailed breakdown of the investments in subsidiaries is contained in note 35.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

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13 INVESTMENTS IN ASSOCIATED COMPANIES

13.1 ESTABLISHMENT OF ASSOCIATED COMPANIES

As part of the turnaround strategy that was agreed with government Denel embarked on a process to seek partners to share technology, development cost and funding, access to markets and assist in management. During this process a number of equity partners were identified which would have synergy with specific business entities within Denel. Denel negotiated equity partnership agreements which led to the formation of new companies.

A company is an "associated company" for the group, if Denel has significant influence and which is neither a subsidiary nor a joint venture. Significant influence is their power to participate in the financial and operating policy decisions of the company, but not control or joint control over those policies. Control is the power to govern the financial and operating policies of a company in order to obtain benefits from its activities. Although Denel has significant influence over its associated companies, it has no control or joint control over its associated companies w.r.t. their financial and operating policy decisions.

Management took into account judgements stipulated on page 148 of the accounting policy in making this decision.

Associated company	Equity partner	Denel SOC Ltd		Equity partner	
		Shareholding %	Number of board members	Shareholding %	Number of board members
Airbus DS Optronics (Pty) Ltd	Airbus DS Optronics GmbH ¹	30	1	70	5
Rheinmetall Denel Munitions (Pty) Ltd	Rheinmetall Waffe Munition GmbH ¹	49	2	51	3
Pioneer Land Systems LLC	International Golden Group PJSC ²	49	2	51	3
Tawazun Dynamics LLC	Tawazun Holding ²	49	2	51	3
Turbomeca Africa (Pty) Ltd	Turbomeca SAS and Safran SA ³	49	3	51	5

The above mentioned information was used in management's judgement that Denel did not exercise control over these companies and therefore, will disclose these companies as associate companies.

Airbus DS Optronics is a global supplier in the development and production of optronics, optical and precision-engineered products for military and security applications.

RDM specialises in the design, development and manufacturing of large and medium-calibre ammunition, and is a world leader in the field of artillery, mortar and infantry systems and plant engineering.

PLS will market, sell and manufacture landward vehicles and weapon systems and supply ancillary services in support of such products.

TD is a UAE-based global supplier of precision guided munitions.

TMA is a world leader in design, manufacturing and sale of gas turbines for small- and medium-powered helicopters.

The financial year-end of all Denel's associated companies is 31 December.

1. Company is incorporated in Germany.

2. Company is incorporated in the UAE.

3. Both companies are incorporated in France.

	GROUP		COMPANY	
	2015/16	2014/15	2015/16	2014/15
	Rm	Rm	Rm	Rm
13 INVESTMENTS IN ASSOCIATED COMPANIES (continued)				
13.2 NET INVESTMENT IN ASSOCIATED COMPANIES				
Cost of investments in associated companies	500	500	500	500
Unlisted shares	500	500	500	500
Net share of results in associated companies	340	233		
Share of current year profit before tax	161	95		
Share of current year tax	(29)	(31)		
Share of current year profit after tax ¹	132	64		
Dividends paid	(25)	(32)		
Accumulated profit at 1 April	233	201		
Net investments in associated companies	840	733	500	500

The total comprehensive loss attributable to Tawazun Dynamics LLC for the year-end 31 December 2016 was R100m. As per the company's accounting policy and in accordance with IAS 28, "Investments in Associates and Joint Ventures", paragraph 38, the associate's share of losses is only recognised up to the value of the investment in the associate which is, R23m (2014/15: R23m). The remaining attributable comprehensive loss of R77m (2014/15: Rnil) will be offset against future generated profits of the associate company before an investment is recognised in the company's accounting records. The associated company is expected to make a profit in the next financial year.

None of the investments in associated companies was impaired during the year under review (2014/15: Rnil).

1. Refer consolidated income statements and statements of comprehensive income, page 143.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

	GROUP	
	2015/16	2014/15
	Rm	Rm

13 INVESTMENTS IN ASSOCIATED COMPANIES (continued)

13.3 EXTRAS FROM AUDITED ANNUAL FINANCIAL STATEMENTS

RDM has elected to designate hedges as cash flow hedges for hedge accounting purposes whereas Denel's accounting policy is to designate hedges as fair value hedges. For disclosure purposes, RDM's annual financial statements were restated to reflect Denel's accounting policy in this regard. RDM is considered to be a material associated company as a result of the quantitative nature of its results and is disclosed separately.

The following represents the summarised restated financial information of RDM:

Total assets	2 563	1 883
Non-current assets	314	457
Current assets	2 249	1 426
Total liabilities	1 946	1 051
Non-current liabilities	313	148
Current liabilities	1 633	903
Net assets	617	832
Group's share of associated company's net assets	302	408
Revenue	2 136	1 706
Group's share of revenue	1 047	836
Profit before tax	206	173
Group's share of profit before tax	101	85

The other associated companies' figures are not material, thus for disclosure purposes, figures are aggregated. The following represents the summarised financial information of the associated companies other than RDM:

Total assets	3 298	2 553
Non-current assets	533	226
Current assets	2 765	2 327
Total liabilities	2 887	2 086
Non-current liabilities	1 474	1 471
Current liabilities	1 413	615
Net assets	411	467
Group's share of associated companies' net assets	138	229
Revenue	1 185	1 154
Group's share of revenue	473	447
Profit before tax	158	39
Group's share of profit before tax	60	10

A detailed breakdown of the investments in associated companies is contained in note 35.

	GROUP		COMPANY	
	2015/16	2014/15	2015/16	2014/15
	Rm	Rm	Rm	Rm
14 DEFERRED TAX				
Deferred tax assets	48	13	-	-
Deferred tax liabilities	(1)	(1)	-	-
	47	12	-	-
Movement of deferred tax assets and liabilities:				
Balance at 1 April	12	15	-	-
Business acquired (refer note 8)	13	-	-	-
Income statement (refer note 7)	22	(3)	-	-
	47	12	-	-
Net deferred tax asset comprises:				
Provisions	313	227	249	213
Advance payments received	1 014	973	885	912
Amounts due to customers for work invoiced, not yet performed	115	91	115	91
Other tax deductible differences	270	319	259	292
Capital allowances	52	20	49	17
Limit deferred tax asset to liability	(950)	(966)	(933)	(965)
Assessed loss	-	5	-	-
	814	669	624	560
Net deferred tax liability comprises:				
Capital allowances	(218)	(154)	(163)	(134)
Doubtful debt allowance	(4)	-	(4)	-
Prepayments made	(3)	(5)	(3)	(5)
Amount due from customers for contract work	(449)	(448)	(448)	(416)
Section 24 allowance on prepayments received	(2)	(44)	-	-
Other taxable differences	(91)	(6)	(6)	(5)
	(767)	(657)	(624)	(560)

For certain companies in the group, the deferred tax asset on the calculated tax loss is limited to the amount of the deferred tax liability. For the other companies, depending on future taxable profits, the entire deferred tax asset is recognised. Had a full deferred tax asset been recognised on the calculated tax loss, the value of the deferred tax asset at year-end would have been R1 647m (2014/15: R1 543m) for the group and R1 557m (2014/15: R1 055m) for the company.

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for the year ended 31 March 2016

	GROUP		COMPANY	
	2015/16	2014/15	2015/16	2014/15
	Rm	Rm	Rm	Rm
15 INVENTORIES				
Inventories are valued at the lower of cost or net realisable value and is categorised as follows:				
Consumable inventory	128	100	127	100
Finished products	498	351	485	351
Raw materials and bought-out components	498	296	351	149
Work-in-progress	1 217	764	722	682
	2 341	1 511	1 685	1 282
Impairment account reconciliation				
Balance at 1 April	141	162	131	154
Business acquired (refer note 8.1)	180	-	-	-
Impairment for the year (refer note 3)	43	8	21	6
Impairment reversal for the year (refer note 3)	(100)	(29)	(19)	(29)
Realised through disposal	(11)	-	-	-
	253	141	133	131
Amount relating to inventories which was recognised as an expense during the year (refer note 3)	3 025	1 637	1 868	1 223
Inventory purchased during the financial year	3 855	2 128	3 150	1 618
Inventory purchased during the financial year				
Denel reviewed inventory items that were previously treated as slow moving and identified items to the value of R19m (2014/15: R18m) for group, R19m (2015/16: R8m) for company that will be used in future projects. This resulted in a reversal of the provision for slow moving inventory.	19	18	19	18

	GROUP		COMPANY	
	2015/16	2014/15	2015/16	2014/15
	Rm	Rm	Rm	Rm
16 TRADE AND OTHER RECEIVABLES				
Financial assets (refer note 31.4)	2 704	1 197	2 258	1 106
Trade receivables (refer note 31.1)	2 647	1 125	2 195	1 048
Inter-group trade receivables			25	6
Interest receivables (refer note 31.1)	3	3	1	3
Sundry receivables (refer note 31.1)	54	69	37	49
Non-financial assets	2 324	2 323	2 284	2 144
Work performed not yet invoiced	1 599	1 600	1 599	1 484
Prepayments and advances made	557	695	528	632
Straight line receivables	21	21	21	21
Sundry receivables	147	7	136	7
	5 028	3 520	4 542	3 250
ACCUMULATED IMPAIRMENT				
Financial assets	57	41	57	41
Impairment account reconciliation				
Balance at 1 April	41	47	41	47
Business acquired	3	-	-	-
Impairment for the year (refer note 3)	17	6	16	6
Impairment reversal for the year (refer note 3)	(4)	(9)	(1)	(9)
Recovered during the year	-	(2)	-	(2)
Written off as non-collectible	-	(1)	1	(1)
	57	41	57	41

Trade receivables are non-interest bearing and are generally on 30 to 90 day terms. Specific impairments are made for identified doubtful debts.

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for the year ended 31 March 2016

	GROUP		COMPANY	
	2015/16	2014/15	2015/16	2014/15
	Rm	Rm	Rm	Rm

17 OTHER FINANCIAL ASSETS AND LIABILITIES

17.1 OTHER FINANCIAL ASSETS

Derivatives	73	17	73	17
Foreign exchange contracts	73	17	73	17
Firm commitments	288	187	288	187
Foreign exchange contracts designate as fair value hedges	138	68	138	68
Foreign exchange options designate as fair value hedges	150	119	150	119
	361	204	361	204

17.2 OTHER FINANCIAL LIABILITIES

Derivatives	272	164	218	164
Foreign exchange contracts	122	46	68	46
Foreign exchange options	150	118	150	118
Firm commitments	59	11	59	11
Foreign exchange contracts designate as fair value hedges	59	11	59	11
	331	175	277	175

18 CASH AND CASH EQUIVALENTS

18.1 CASH AND CASH EQUIVALENTS COMPRISE

Cash and short-term deposits (refer note 18.2) ¹	2 003	1 909	1 788	1 788
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18.2 CASH AND SHORT-TERM DEPOSITS

Cash in bank	651	170	615	111
Local banks	274	75	249	16
Foreign banks	377	95	366	95
Deposits	213	464	34	402
Local call deposits	213	464	34	402
Cash restricted for use ²	1 139	1 275	1 139	1 275
Local banks	1 139	1 275	1 139	1 275
Refer note 18.1, 31.1, 31.3 and 31.4	2 003	1 909	1 788	1 788

1. Cash and cash equivalents are as per the consolidated statements of cash flows. The weighted average effective interest rate on call deposits is 5.5% (2014/15: 5.4%). Interest on cash bank is earned at market rates.
2. The funds included in cash and short-term deposits are available on demand, except for the amount relating to the Hoefyster project which is ringfenced, R1 139m (2014/15: R1 275m).

	GROUP		COMPANY	
	2015/16	2014/15	2015/16	2014/15
	Rm	Rm	Rm	Rm
19 NON-CURRENT ASSETS HELD FOR SALE				
Balance at 1 April	84	84	84	84
Transfer from investment properties (refer note 10)	72	-	72	-
	156	84	156	84

The asset held for sale in respect of investment properties relates to the Philippi facility. The negotiations relating to the sale of the property as at 31 March 2016, are at an advanced stage with a 10% deposit received 2015/16. Final payment to be received is scheduled before end of August 2016.

20 SHARE CAPITAL AND SHARE PREMIUM

20.1 AUTHORISED CAPITAL

1 000 000 000 Class A ordinary shares of R1 each	1 000	1 000	1 000	1 000
232 455 747 Class B ordinary shares of R1 each	232	232	232	232
	1 232	1 232	1 232	1 232

20.2 ISSUED CAPITAL

Shares at par value

Class A ordinary shares	1 000	1 000	1 000	1 000
Class B ordinary shares	225	225	225	225
	1 225	1 225	1 225	1 225

20.3 SHARE PREMIUM

Balance at 1 April	4 951	4 951	4 951	4 951
Premium on shares issued during the year	-	-	-	-
	4 951	4 951	4 951	4 951

At year-end, the number of issued Class A ordinary shares were 1 000 000 000 (2014/15: 1 000 000 000) and the number of issued Class B ordinary shares were 225 056 663 (2014/15: 225 056 663).

The unissued shares are under the control of the South African Government, which is the sole shareholder. The Class B ordinary shares are limited in that any reduction of share capital must first be written off against the Class B ordinary share plus any premium thereon, before any reduction of Class A ordinary shares may occur.

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for the year ended 31 March 2016

	GROUP		COMPANY	
	2015/16	2014/15	2015/16	2014/15
	Rm	Rm	Rm	Rm
21 NON-CONTROLLING INTEREST				
Balance at 1 April	3	6		
Preference shares issued	-	4		
Preference shares bought back	-	(8)		
Share of net profit in subsidiary ¹	17	4		
Preference dividends payable	(1)	(3)		
	19	3		
22 LOANS AND BORROWINGS				
Interest bearing loans and borrowings				
Finance lease (refer note 22.1)	14	-	-	-
Secured loan (refer note 22.2)	400	-	400	-
Secured mortgage (refer note 22.3)	2	2	-	-
Unsecured bonds (refer note 22.4)	1 573	872	1 573	872
Other	6	14	-	8
Non-current portion of interest bearing loans and borrowings	1 995	888	1 973	880
Current portion of interest bearing loans and borrowings	1 722	1 270	1 917	1 270
Finance lease (refer note 22.1)	4	-	-	-
Secured loan (refer note 22.2)	455	1	455	1
Secured mortgage (refer note 22.3)	1	1	-	-
Unsecured bonds (refer note 22.4)	315	815	315	815
Commercial paper (refer note 22.5 and 31.3)	200	450	200	450
Current portion of non-current borrowings included in current liabilities	747	3	947	4
Total interest bearing loans and borrowings	3 717	2 158	3 890	2 150

1. Refer to the consolidated income statements and statements of comprehensive income, page 143.

	2015/16		
	Within one	One to five	Total
	year	years	
	Rm	Rm	Rm
22 LOANS AND BORROWINGS (continued)			
22.1 FINANCE LEASE			
Future minimum lease payments	5	16	21
Interest	(1)	(2)	(3)
Present value of minimum lease payments	4	14	18

During the financial year a decision was made to finance a high-speed five-axis milling machine, called "Zimmerman". The total capital amount was EUR 1.3m (R23m) (2014/15: EUR nil, Rnil). Interest is charged at a fixed rate of 5.75% per annum, with capital payable half-yearly and interest quarterly. The lease agreement determined 10 capital instalments of EUR 114 750 of which the final capital instalment will be on 4 October 2020, with the final interest payment on 10 December 2020. No finance loan existed for the year under review for the company, Denel SOC Ltd.

No finance loan existed during the 2014/15 financial year for both group and company.

22.2 SECURED LOAN

Secured loan from Absa by Denel SOC Ltd for a period of two years to the amount of R400m. Interest is payable every three months. Repayment of loan on 24 April 2017. The interest rate is linked to JIBAR + 1.5%.

Secured loan from Nedbank also by Denel SOC Ltd to the amount of R455m for a period of six months expiring 29 July 2016. Interest is payable every five months. Repayment of the loan on 1 June 2016. The interest is linked to JIBAR + 2.65%.

No secured loan existed during the 2014/15 financial year for both group and company. The loan is secured against the 100% shareholding of Denel SOC Ltd in Denel Vehicle Systems (Pty) Ltd. Refer note 12.

22.3 SECURED MORTGAGE

The secured mortgage relates to a mortgage bond by LMT SOC Ltd (RF). The carrying value of the asset is R9.5m (2014/15: R9m). The bond is repayable in monthly instalments of R61 079 and the interest rate of 9.25% (2014/15: 8.25%) per annum is directly link to the prime interest rate. The final instalment will be in July 2018.

22.4 UNSECURED BONDS

Denel registered a R3bn (2014/15: R2.2bn) Domestic Medium Term Note (DMTN) programme with the JSE. Under the programme Denel could raise senior and/or subordinated notes up to the facility limit of R3bn (2014/15: R2.2bn). The programme contains cross-default (indebtedness of outstanding amount equals or exceeds 1% (2014/15: 1%) of total asset of issuer) and negative pledge clause (which precludes the company from encumbering any assets or revenue of the company or any subsidiary in favour of any borrowing, without making effective provision whereby all notes shall be directly secured equally and rateable with such relevant borrowings).

The government guarantee, guarantees irrevocably and unconditionally the punctual performance by the issuer of payment of principal and/or interest. In terms of the guarantee, the guarantor waives all rights of subrogation indemnity and subordinates any claims which it may have in favour of the note holders. Therefore, in the event that the issuer cannot honour payment the guarantor will repay the debt. The guarantee expires on 30 September 2017.

The borrowings have been raised through the issuance of one- and eighteen-month bonds totalling R1.4bn (2014/15: R1.4bn). The three-year bond was re-financed on 28 January 2016. Two five-year bonds were issued on 28 January 2013 and 10 June 2013 at interest rates of 6.86% and 7.92% respectively and matures on 29 September 2017 and 10 June 2018. Of the total borrowings, R1.85bn (2014/15: R1.85bn) are backed by a five-year government guarantee. During the reporting period, R400m unsecured debt was raised through the DMTN programme that matures on 10 June 2018. The interest rate is linked to JIBAR. Refer to note 3.1.2.

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22 LOANS AND BORROWINGS (continued)

22.5 COMMERCIAL PAPER

Rate	Issue date	Maturity date	Rm
2015/16			
3-month JIBAR + 0.95%	20 November 2015	19 November 2016	200
Fixed rate 8.75%	28 January 2016	17 January 2017	200
3-month JIBAR + 1.05%	25 February 2016	27 February 2017	150
3-month JIBAR + 1.05%	3 March 2016	3 March 2017	100
			650
2014/15			
3-month JIBAR + 0.25%	21 May 2014	21 November 2014	200
3-month JIBAR + 0.3%	26 August 2014	25 February 2015	150
3-month JIBAR + 0.3%	3 September 2014	3 March 2015	100
3-month JIBAR + 0.9%	21 November 2014	20 November 2015	200
3-month JIBAR + 0.09%	25 February 2015	25 February 2016	150
3-month JIBAR + 0.09%	3 March 2015	3 March 2016	100
			900

The commercial paper programme is a five-year debt instrument issued as part of the DMTN programme. The DMTN is registered for R2.2bn (2014/15: R2.2bn). R1.85bn (2014/15: R1.85bn) of the notes are secured by a government guarantee.

The undrawn borrowing facilities available for future operating activities amount to R275m (2014/15: R440m) and USD50m (2014/15: USD50m). Refer note 31.4 for fair value.

	GROUP		COMPANY	
	2015/16	2014/15	2015/16	2014/15
	%	%	%	%

22.6 WEIGHTED AVERAGE EFFECTIVE INTEREST RATES¹

Finance lease (fixed rate)	3,2	-	-	-
Local secured loans (floating rate)	8,5	-	8,5	-
Secured mortgage (floating rate)	9,3	8,3	-	-
Local unsecured loans (fixed rate)	7,6	5,9	7,6	5,9
Current bank borrowings (floating rate)	8,4	6,9	8,4	6,9

1. Both fixed and floating rates disclosed are per annum

	GROUP		COMPANY	
	2015/16	2014/15	2015/16	2014/15
	Rm	Rm	Rm	Rm
22 LOANS AND BORROWINGS (continued)				
22.7 SUMMARY OF MATURITY OF BORROWINGS				
Maturing:				
Within three months	752	1	947	1
Between three and twelve months	970	1 269	970	1 269
Between one and two years	1 976	7	1 955	7
Between two and three years	2	2	1	1
Between three and five years	10	873	10	872
After five years	7	6	7	-
	3 717	2 158	3 890	2 150
23 ADVANCE PAYMENTS RECEIVED				
Non-current advance payments received	2 100	2 528	1 937	2 528
Current advance payments received	1 431	940	1 224	730
Total advance payments received	3 531	3 468	3 161	3 258
The carrying amount of the advance payment is expected to be settled as follows:				
Between three and twelve months	228	199	228	124
Less than one year	1 203	741	996	606
Between one and two years	552	609	552	609
Between two and three years	336	437	336	437
Between three and five years	277	537	277	537
More than five years	935	945	772	945
Refer note 26.1	3 531	3 468	3 161	3 258

Since 2012/13 the group has entered into large long-term contracts on which advance payments were received.

These advance payments will be settled over a period of up to twelve years and therefore the portion of the liability that will be settled more than twelve months after the reporting period is classified as non-current.

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	GROUP		COMPANY	
	2015/16	2014/15	2015/16	2014/15
	Rm	Rm	Rm	Rm
24 PROVISIONS				
24.1 NON-CURRENT PROVISIONS				
Contract risks and onerous contracts	3	-	-	-
Product warranty and recall	113	40	102	40
Site restoration	207	209	207	209
Countertrade	50	-	-	-
	373	249	309	249
24.2 CURRENT PROVISIONS				
Contract risks and onerous contracts	21	25	11	25
Performance guarantees (refer note 26.1) ¹	55	44	55	44
Product warranty and recall	144	69	91	60
Site restoration	7	7	7	7
Countertrade	71	49	62	49
Insurance provision ¹	9	7	-	-
Other ¹	253	198	186	173
	560	399	412	358
Provisions	933	648	721	607

1. Non-current provision for 2015/16 Rnil and (2014/15) Rnil

	Contract risks and onerous contracts	Performance guarantees ¹	Product warranty and recall	Site restoration	Counter- trade	Insurance	Other	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
24 PROVISIONS (continued)								
24.3 RECONCILIATION								
GROUP								
2015/16								
Balance at 1 April	25	44	109	216	49	7	198	648
Business acquired ¹	-	-	69	-	42	-	-	111
Charged to the income statement	22	11	117	-	31	2	251	434
Realised	(24)	-	(29)	-	-	-	(193)	(246)
Unused amounts reversed	(1)	-	(10)	(18)	(1)	-	(3)	(33)
Unwinding of discount on provisions ²	2	-	1	16	-	-	-	19
	24	55	257	214	121	9	253	933
2014/15								
Balance at 1 April	56	39	81	222	46	7	195	646
Charged to the income statement	-	5	70	-	17	-	198	290
Realised	(34)	-	(36)	(6)	(5)	-	(192)	(273)
Unused amounts reversed	-	-	(7)	(17)	(9)	-	(3)	(36)
Unwinding of discount on provisions ²	3	-	1	17	-	-	-	21
	25	44	109	216	49	7	198	648
COMPANY								
2015/16								
Balance at 1 April	25	44	100	216	49	-	173	607
Charged to the income statement	9	-	110	-	14	-	190	323
Realised	(24)	11	(13)	-	-	-	(177)	(203)
Unused amounts reversed	(1)	-	(5)	(18)	(1)	-	-	(25)
Unwinding of discount on provisions ²	2	-	1	16	-	-	-	19
	11	55	193	214	62	-	186	721
2014/15								
Balance at 1 April	54	39	77	222	46	-	170	608
Charged to the income statement	-	5	66	-	17	-	173	261
Realised	(32)	-	(37)	(6)	(5)	-	(167)	(247)
Unused amounts reversed	-	-	(7)	(17)	(9)	-	(3)	(36)
Unwinding of discount on provisions ²	3	-	1	17	-	-	-	21
	25	44	100	216	49	-	173	607

1. Refer note 8.

2. Refer note 6.1.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

24 PROVISIONS (continued)

24.4 CATEGORIES

CONTRACT RISKS AND ONEROUS CONTRACTS

The provision for onerous contracts comprises expected losses on contracts where the expected benefits to be derived from a contract are lower than the unavoidable costs of meeting the obligation. The provision for contract risk comprises potential risks on contracts that are in progress, based on the technical and financial risk profile of each contract.

PERFORMANCE GUARANTEES

Performance guarantees are issued by the group for contracts that are in progress. These performance guarantees are carried as contingent liabilities and are raised as provisions when the group has a present legal or constructive obligation to settle them.

PRODUCT WARRANTY AND RECALL

The provision for product warranty comprises legal and constructive obligations of the group in respect of products delivered that are still under warranty. The provision for product recall comprises the estimated cost that the group will incur in the event of a specific product recall.

PROVISIONS RELATING TO INSURANCE CONTRACTS

The provision is in respect of claims that have been incurred but not reported to the insurance subsidiary.

COUNTERTRADE

The group has entered into several export sales contracts that give rise to certain countertrade obligations. The obligations vary and are calculated as a percentage of the export sales contract value. A provision for countertrade is raised once the group has a present legal or constructive obligation to settle them.

SITE RESTORATION PROVISION

The provision is for estimated costs for decontamination and site restoration. A provision for site restoration is recognised when the obligation arises as a result of the group's activities.

OTHER PROVISIONS

Other provisions comprise the following:

Retrenchment costs

As a result of the restructuring of a particular contract, certain employees have been identified for retrenchment and will be awarded retrenchment packages. The retrenchment provision has been calculated based on the remuneration and the number of years of service of the affected persons, as well as specific terms negotiated with individuals or their labour representatives. The carrying amount included in other provisions is R35m (2014/15: R7m) for the group and the company.

Variable remuneration

Provision is made for all employees based on achieving certain performance targets. The amounts provided are based on an agreed percentage of employees' remuneration. The carrying amount included in other provisions is R201m (2014/15: R190m) for the group and R144m (2014/15: R165m) for the company.

Legal costs and disputes

The provision relates to legal costs for disputes, labour issues and damages resulting from alleged non-performances in which the group or units within the group are involved, also refer to provisions for performance guarantees which relates to legal action. The carrying amount included in other provisions is Rnil (2014/15: Rnil) for both group and company.

	GROUP		COMPANY	
	2015/16	2014/15	2015/16	2014/15
	Rm	Rm	Rm	Rm
25 TRADE AND OTHER PAYABLES				
Financial liabilities (refer note 31.2 and 31.4)	1 741	979	1 417	863
Trade payables	1 277	655	1 032	568
Inter-group trade payables			29	16
Interest accrued	46	15	46	15
Other accruals	418	309	310	264
Non-financial liabilities	413	327	412	326
Amounts due to customers for work invoiced not yet performed	412	326	412	326
Other non-financial liabilities	1	1	-	-
	2 154	1 306	1 829	1 189

Trade payables are non-interest bearing and are normally settled between 30 and 90 days. Other payables are also non-interest bearing, and are settled as they fall due in accordance with respective agreements. Interest payable is settled in accordance with terms.

26 CONTINGENT LIABILITIES

26.1 GUARANTEES

The following guarantees were issued by the group:

Advance payment guarantees	5 440	4 167	5 440	4 167
Guarantees to banks for credit facilities of subsidiaries	629	94	629	94
Guarantees to local authorities	13	8	13	8
Participating guarantees	12	13	12	13
Performance guarantees	1 261	979	1 261	979
Other guarantees	223	168	223	168
Total of guarantees issued	7 578	5 429	7 578	5 429
Guarantees issued on behalf of associated companies	(200)	(212)	(200)	(212)
Advance payment guarantees	-	(74)	-	(74)
Guarantees to banks for credit facilities of subsidiaries	(200)	(94)	(200)	(94)
Guarantees to local authorities	-	(1)	-	(1)
Performance guarantees	-	(33)	-	(33)
Other guarantees	-	(10)	-	(10)
	7 378	5 217	7 378	5 217
Recognised in the consolidated annual financial statements	(3 594)	(3 512)	(3 224)	(3 302)
Advance payments received (refer note 23)	(3 531)	(3 468)	(3 161)	(3 258)
Provision for performance guarantees (refer note 24)	(55)	(44)	(55)	(44)
Other provisions	(8)	-	(8)	-
	3 784	1 705	4 154	1 915

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

26 CONTINGENT LIABILITIES (continued)

26.2 LITIGATION

Litigation comprises legal claims lodged and claims that may be lodged against the group. Owing to the sensitivity of the claims and the measures that will be taken to limit the liabilities, specific disclosure of items may negatively influence the outcome and the group's actions.

The aggregate amount of significant claims lodged against the company not specifically provided for is Rnil (2014/15: Rnil). The directors are of the view that the success of most of the claims against the company is remote and no material losses are expected to materialise from these claims other than that which have already been provided. Details of some of the key issues are provided below:

The group is in dispute with one of its key customers over contractually related matters. This has led to the cancellation of contracts that were in progress and the loss of potential contracts, as well as the call up of related performance guarantees. There are ongoing arbitrations between the parties and indications are that the matters will be resolved. It is not possible at this stage to estimate the potential damages and legal costs involved as the matters are sub judice.

26.3 CONTRACT LOSSES

One of the group's subsidiaries is a programme partner in a design, manufacturing and supply contract for certain aircraft components. The contract has a value of approximately R2.5bn (2014/15: R2.5bn) and an estimated contract loss of approximately R1.4bn (2014/15: R1.4bn). This loss has not been raised as a provision following a written commitment received from the shareholder stating its support including financial for the continuation of the contract despite it being loss-making, as it has certain strategic advantages to the country. During 2012 various onerous terms and conditions to the contract was renegotiated to mitigate risk to the company and shareholder.

26.4 SITE RESTORATION

Provision for site restoration has been calculated and raised, based on certain key assumptions, refer to note 1. A contingency of 15% (2014/15: 15%) of the estimated cost as recommended by the consultants was not included in determining the site restoration provision. The contingency would have been to cover risks arising from the unknown depth of contamination and the volume of the material to be cleaned up. After an initial clean up, the site will be tested for explosive ordnance to assess whether there should be any further clean up, which may impact the provision. Had the contingency been included, the provision would have been increased by R31m (2014/15: R31m) for both group and company.

26.5 COUNTERTRADE

The group has entered into several export sales contracts that give rise to certain countertrade obligations. The obligations vary between 60% and 100% of the export sales contract value.

These countertrade obligations can be fulfilled in one or a combination of the following ways:

- » Production work share and technology transfer.
- » Procurement of products and services from suppliers in the buyer's country.
- » Participation in a business venture in the buyer's country.

The group is constantly in negotiations to find the best mechanisms to fulfil the outstanding countertrade obligations. The group issued guarantees to the value of R80m (2014/15: R61m) to enable the contracting country to raise penalties on non-fulfilment of countertrade obligations.

The group has entered into local defence contracts which require the group to impose countertrade obligations in favour of SA on all imported content. The group has, therefore, entered into back-to-back agreements with the suppliers to ensure that this obligation is offset. The group received bank guarantees from all the said suppliers which were ceded to the client.

The group provides for the cost to settle countertrade obligations when revenue is recognised on the contracts that give rise to the countertrade obligations.

	2015/16			2014/15		
	Export contracts	Local defence contracts	Total	Export contracts	Local defence contracts	Total
	Rm	Rm	Rm	Rm	Rm	Rm
26 CONTINGENT LIABILITIES (continued)						
26.5 COUNTERTRADE (continued)						
The table below summarises the group's countertrade position:						
Countertrade obligation						
Total countertrade obligation	7 370	3 251	10 621	5 304	795	6 099
Obligation discharged	(245)	(541)	(786)	(199)	(367)	(566)
Outstanding obligation	7 125	2 710	9 835	5 105	428	5 533
To be settled by third party	-	(565)	(565)	-	(397)	(397)
Net obligation of the group	7 125	2 145	9 270	5 105	31	5 136
Penalties						
Maximum penalty for non-compliance	693	184	877	502	40	542
Third-party obligation	-	80	80	-	(39)	(39)
Net group exposure	693	264	957	502	1	503
Guarantees issued						
Group issued	75	-	75	61	-	61
Third-party guarantees	-	24	24	-	-	-
	75	24	99	61	-	61
Provision to settle obligation	121	-	121	49	-	49

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for the year ended 31 March 2016

	GROUP		COMPANY	
	2015/16	2014/15	2015/16	2014/15
	Rm	Rm	Rm	Rm
27 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS				
27.1 RECONCILIATION OF PROFIT WITH CASH RETAINED FROM OPERATIONS				
Net profit before tax	434	276	272	250
Adjusted for:	368	197	321	233
Loss on disposal of property, plant and equipment ¹	-	1	-	-
Depreciation ²	131	126	100	90
Amortisation of intangible assets ²	16	12	12	12
Re-measurement of derivatives	48	76	1	76
Re-measurement of firm commitments	(54)	(78)	(54)	(78)
Finance costs (refer note 6.1)	280	176	289	182
Finance income (refer note 6.2)	(77)	(53)	(63)	(46)
Dividends received			(56)	(45)
Decrease in provisions	155	(19)	95	(22)
Impairment raised on intangible assets ²	163	-	159	-
Impairment reversed on property, plant and equipment ²	-	(44)	-	-
Share of profit of associated companies (refer note 12)	(132)	(64)		
Fair value adjustment of investment properties (refer note 4)	(162)	(56)	(162)	(56)
Pension holiday	-	120	-	120
Operating profit before changes in net current assets	802	473	593	483
Changes in net current assets	(1 374)	(874)	(1 087)	(851)
Increase in inventories	(712)	(490)	(403)	(395)
Increase in trade and other receivables	(1 510)	(545)	(1 406)	(548)
Increase in trade and other payables	848	161	722	92
Cash utilised in operations	(572)	(401)	(494)	(368)

1. Refer note 3 and 4.

2. Refer note 3.

2014/15						
GROUP			COMPANY			
Reported	Restated	Variance	Reported	Restated	Variance	
Rm	Rm	Rm	Rm	Rm	Rm	Rm

27 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

27.2 RESTATEMENT OF INFORMATION DISCLOSED IN THE 2014/15 AUDITED CONSOLIDATED ANNUAL FINANCIAL STATEMENTS ¹

Net cash flows from operating activities	212	281	(69)	239	308	(69)
Receipts from customers	5 256	5 256	-	4 663	4 663	-
Payments to suppliers and employees	(5 657)	(5 657)	-	(5 031)	(5 031)	-
Cash utilised in operations	(401)	(401)	-	(368)	(368)	-
Increase in advance payments received	774	774	-	753	753	-
Interest paid	(238)	(169)	(69)	(232)	(163)	(69)
Interest received	47	47	-	41	41	-
Dividends received	32	32	-	45	45	-
Income tax paid	(2)	(2)	-	-	-	-
Net cash flows from financing activities	361	292	69	365	300	65
Repayments of interest bearing borrowings	(1 883)	(1 952)	69	(1 879)	(1 948)	69
Proceeds from interest bearing borrowings	2 253	2 253	-	2 253	2 249	4
Preference share buy back from non-controlling interest	(8)	(8)	-	(8)	-	(8)
Decrease in cash managed on behalf of associated companies	(1)	(1)	-	(1)	(1)	-

GROUP		COMPANY	
2015/16	2014/15	2015/16	2014/15
Rm	Rm	Rm	Rm

28 CAPITAL COMMITMENTS

Approved and contracted for

Property, plant and equipment	59	59	52	31
Land and buildings ²	1	6	-	5
Computer equipment ²	1	4	-	4
Machinery and equipment	55	43	50	16
Office furniture and equipment ²	-	1	-	1
Plant ²	1	4	1	4
Vehicles ²	1	1	1	1

Approved but not contracted for

Property, plant and equipment	1	3	1	3
Machinery and equipment	1	3	1	3
	60	62	53	34

There will be no specific financing arrangements made as these will be financed from available funds and interest bearing borrowings. All expenditure will be incurred in the following financial year. Refer note 3.

1. Capital repayment amount of R69m on interest borrowings were incorrectly included as interest paid in the consolidated statements of cash flows, 2014/15 for both group and company.
2. No capital commitments approved but not contracted for.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

	Buildings	Computer equipment	Office furniture	Plant and machinery	Vehicles	Total
	Rm	Rm	Rm	Rm	Rm	Rm

29 NON-CANCELLABLE LEASES

OPERATING LEASES

The group and company have certain property, plant and equipment held under operating leases. Some of the lease agreements provide for minimum annual lease payments which are due as follows:

GROUP

2015/16

Less than one year	77	5	3	2	-	87
Between one and five years	288	14	10	3	-	315
More than five years	120	-	-	-	-	120
	485	19	13	5	-	522

2014/15

Less than one year	61	3	2	1	-	67
Between one and five years	290	-	8	5	-	303
More than five years	118	-	-	-	-	118
	469	3	10	6	-	488

COMPANY

2015/16

Less than one year	65	4	3	1	-	73
Between one and five years	288	14	10	2	-	314
More than five years	120	-	-	-	-	120
	473	18	13	3	-	507

2014/15

Less than one year	54	2	2	-	-	58
Between one and five years	264	-	8	2	-	274
More than five years	113	-	-	-	-	113
	431	2	10	2	-	445

Non-cancellable leases of buildings includes the Kempton Park site which Denel sold during 2007 to Airports Company South Africa subsidiary, Precinct 2A, on a sale and leaseback basis. The original lease period was five years with an option to extend for a further two periods of five years each, which Denel exercised during 2012. The lease payments are fixed for the ten-year period and quarterly lease payments are based on the purchase value of the property discounted at a fixed interest rate of 9.25% (2014/15: 9.25%). Should Denel extend the lease beyond the current ten-year period, the lease payments will be based on market related rates.

30 RELATED PARTIES

Related party transactions are disclosed in terms of the requirements of the relevant standard. Materiality has been considered in the disclosure of these transactions. Amounts smaller than R0.5m have not been included in the table.

National government and state controlled units

Denel SOC Ltd is fully controlled by its sole shareholder, the SA Government represented by DPE.

The group operates in an economic environment currently dominated by business units directly or indirectly owned by the government. As a result of the constitutional independence of all three spheres of government in SA, only parties within the national sphere of government will be considered to be related parties.

The list of public units in the national sphere of government was provided by the NT.

Post-employment benefit plans

Other related parties also consist of post-retirement benefit plans (refer note 33).

Key management personnel

Key management is defined as individuals with the authority and responsibility for planning, directing and controlling the activities of the business unit. All individuals who are members of the Denel executive committee and the board of directors, as well as the business units' executive committees are regarded as key management.

Close family members of key management personnel are considered to be those family members who may influence, or be influenced by key management in their dealings with the unit. There were no material transactions other than the directors' emoluments detailed in the remuneration section of the governance report.

Business units within the group

Denel SOC Ltd is the ultimate parent company of the group. The company advanced loans to these units in the group during the current and previous financial years as part of the financing plan. Other transactions within the group were on commercial terms and conditions.

A detailed breakdown of the investments in subsidiaries and associated companies is contained in note 35.

Refer note 8, 12 and 13 for further detail.

Terms and conditions of transactions with related parties

During the year the company and its subsidiaries, in the ordinary course of business, entered into various sales and purchase of goods and services with the other related parties of the group. The effect of these transactions is included in the results of the group. These transactions occurred under terms that are no less favourable than those arranged with third parties.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

	2015/16				2014/15			
	National government	Major national public units	Between the company and its subsidiaries	Associated companies	National Government	Major national public units	Between the company and its subsidiaries	Associated companies
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm

30 RELATED PARTIES (continued)

The following transactions were carried out with related parties:

GROUP

Purchases of goods	-	14	441	-	18	256
Sales of goods	1 625	628	10	1 249	428	3
Services rendered	512	30	-	429	-	-
Services received	17	15	-	11	10	-
Lease payments	-	48	-	-	103	-
Lease received	24	-	-	-	15	-
Guarantees issued to related parties	-	-	-	1 650	-	-
Guarantees issued to third parties on behalf of related parties	-	-	124	-	-	-
Guarantees issued to third parties by related parties	-	-	-	1 850	-	-
Finance income	-	-	-	-	-	212
Finance costs	-	-	-	-	-	-
Dividends received	-	-	25	-	-	32
Outstanding balances payable	8	1	158	11	2	83
Outstanding balances receivable	52	159	59	155	78	1
Provision for penalties paid	4	-	-	2	-	-
Advance payments received	-	-	177	1 692	11	-
Advance payments made	-	-	51	-	-	-

	2015/16				2014/15			
	National government	Major national public units	Between the company and its subsidiaries	Associated companies	National Government	Major national public units	Between the company and its subsidiaries	Associated companies
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm

30 RELATED PARTIES (continued)

The following transactions were carried out with related parties:

COMPANY

Purchases of goods	-	14	56	439	-	18	32	256
Sales of goods	1 518	628	3	4	1 215	427	12	3
Services rendered	365	30	65	-	429	103	51	-
Services received	17	15	15	-	11	10	15	-
Lease payments	-	48	-	-	429	103	-	-
Lease received	24	-	11	-	-	15	10	-
Guarantees issued to related parties	-	-	-	-	1 650	-	-	-
Guarantees issued to third parties on behalf of related parties	-	-	-	124	-	-	-	-
Guarantees issued to third parties by related parties	-	-	-	-	1 850	-	-	-
Finance income	-	-	1	-	7	-	-	212
Finance costs	-	-	12	-	-	-	-	-
Dividends received	-	-	31	25	-	-	13	32
Outstanding balances payable	8	1	27	158	11	2	16	83
Outstanding balances receivable	52	159	21	53	155	78	6	1
Provision for penalties paid	4	-	-	-	2	-	-	-
Advance payments received	-	-	-	177	1 692	11	-	-
Advance payments made	-	-	31	51	-	-	-	-

	GROUP		COMPANY	
	2015/16	2014/15	2015/16	2014/15
	Rm	Rm	Rm	Rm

Compensation paid to key management personnel:

Short-term employee benefits	48	41	45	36
Post-employee benefits	3	2	3	2
Share-base payments	2	-	2	-
Termination benefits	7	-	7	-
	60	43	57	38

Compensation paid to key management personnel includes information disclosed in the remuneration section of the governance report, page 75 to 77.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

31 FINANCIAL RISK MANAGEMENT

The group is exposed to various financial risks due to the nature and diversity of its activities and the use of various financial instruments. These risks include:

- » Credit risk;
- » Liquidity risk; and
- » Market risk.

Information about the group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing these risks are included in this note. The group's management of capital is also discussed. Further quantitative disclosures are included throughout the consolidated annual financial statements.

The board of directors has overall responsibility for the establishment and oversight of the group's risk management framework. The board has delegated its responsibility to the A&R committee, which is responsible for the development and monitoring of the group's risk management policies. The committee meets three times a year and regularly reports to the board on its activities. The group's risk management policies are established to identify and analyse the risks faced by the group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the group's activities.

The roles and responsibilities of the A&R committee include:

- » Approval of all counterparties;
- » Approval of new instruments;
- » Approval of foreign exchange transaction company policy;
- » Approval of the investment policy;
- » Approval of corporate treasury policy and procedure manual; and
- » Recommend to the board for approval of the long-term funding requirements.

The A&R committee is assisted in its oversight role by the internal audit department, which undertakes regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the A&R committee.

31.1 CREDIT RISK

Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This risk arises principally from the group's receivables from customers (loans receivable, trade and sundry receivables) and its centralised treasury activities (derivative financial instruments and cash and cash equivalents).

RECEIVABLES FROM CUSTOMERS

The A&R committee of the board has an established policy for the management of credit risk arising on receivables from customers. Under this policy the creditworthiness of potential and existing customers is assessed prior to contracting with new or existing customers. Divisions and subsidiaries are required to review the following before entering into a contract or submitting a proposal to a potential client:

- » The potential client's compliance with statutory and regulatory conditions;
- » The political risk of the potential client's country;
- » The previous business record that the existing client had with business units within the group (includes but is not limited to payment history);
- » The most recent credit rating of the country that the potential customer operates in, from the group's treasury department. Countries are graded by major international banks and these grading are published on a regular basis. The group uses the international publication, "Institutional Investor" as a basis for its country risk assessments; and
- » Whether finance is available to the potential client.

The policy further requires that for specifically identified contracts, the contractual terms must provide for the retention of ownership over goods until full and final payment has been received. Additionally, security for payment must also be contractually stipulated. Security usually takes the form of irrevocable letters of credit, bank guarantees (from first class international banks in acceptable countries)/bonds, promissory notes and credit insurance. In the case of high risk clients who are unable to provide security over future payments, the group may transact with them only on a pre-payment basis.

Overdue amounts are individually assessed and if it is evident that an amount will not be recovered, it is impaired and legal action is instituted to recover the amounts.

31 FINANCIAL RISK MANAGEMENT (continued)**31.1 CREDIT RISK (continued)****FINANCIAL INSTRUMENTS MANAGED BY THE GROUP'S TREASURY FUNCTION**

The A&R committee of the board oversees the group's treasury operations and has an established policy for the management of credit risk arising from treasury activities. Counterparties are assessed based on their official Fitch Ratings rating. Counterparties are approved by the A&R committee. Various rating agency publications and financial news regarding counterparties are regularly monitored by the treasury department. The group limits its exposure by spreading investments over the approved counterparties, as well as by investing with certain counterparties, usually banks with F1 and F1+ short-term ratings, AA long-term ratings and a minimum of R2bn in capital. Treasury is allowed to invest 25% of its portfolio with a counterparty that is F1+ rated and 15% with a counterparty that is F1 rated. Annual bank facilities are negotiated with each bank and is approved by the GCFO.

	2015/16			2014/15		
	Domestic	Foreign	Total	Domestic	Foreign	Total
	Rm	Rm	Rm	Rm	Rm	Rm

CREDIT EXPOSURE AND CONCENTRATION OF CREDIT RISK

The carrying amount of financial assets represents the maximum credit exposure at the reporting date. The following table represents the concentration of risk for all non-derivative financial assets:

GROUP

Trade receivables ¹	327	2 320	2 647	279	846	1 125
Government and related units	245	717	962	211	250	461
Non-government units	82	1 603	1 685	68	596	664
Sundry receivables ¹	53	1	54	69	-	69
Government and related units	3	-	3	51	-	51
Non-government units	50	1	51	18	-	18
Interest receivables ¹	3	-	3	3	-	3
Non-government units	3	-	3	3	-	3
Cash and short-term deposits ²	1 626	377	2 003	1 814	95	1 909
Non-government units	1 626	377	2 003	1 814	95	1 909
	2 009	2 698	4 707	2 165	941	3 106

COMPANY

Trade receivables ¹	313	1 882	2 195	277	771	1 048
Government and related units	232	210	442	210	174	384
Non-government units	81	1 672	1 753	67	597	664
Sundry receivables ¹	36	1	37	49	-	49
Government and related units	3	-	3	31	-	31
Non-government units	33	1	34	18	-	18
Interest receivables ¹	1	-	1	3	-	3
Non-government units	1	-	1	3	-	3
Cash and short-term deposits ²	1 422	366	1 788	1 693	95	1 788
Non-government units	1 422	366	1 788	1 693	95	1 788
	1 772	2 249	4 021	2 022	866	2 888

1. Refer note 16.

2. Refer note 18.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

	2015/16				2014/15			
	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm

31.1 CREDIT RISK (continued)

AGEING

The ageing of financial assets at the reporting date is included below. The ageing categories include:

GROUP

Trade receivables¹	2 647	55	(55)	2 647	1 125	41	(41)	1 125
Not past due	2 089	-	-	2 089	769	-	-	769
Past due								
Less than 30 days	98	-	-	98	139	-	-	139
30 to 60 days	228	-	-	228	70	-	-	70
61 to 90 days	16	-	-	16	30	40	(40)	30
More than 90 days	216	55	(55)	216	117	1	(1)	117
Sundry receivables¹	54	2	(2)	54	69	-	-	69
Not past due, not impaired	54	-	-	54	54	-	-	54
Past due								
Less than 30 days	-	-	-	-	15	-	-	15
Interest receivables¹	3	-	-	3	3	-	-	3
Not past due, not impaired	3	-	-	3	3	-	-	3
Cash and short-term deposits²	2 003	-	-	2 003	1 909	-	-	1 909
Not past due, not impaired	2 003	-	-	2 003	1 909	-	-	1 909
	4 707	57	(57)	4 707	3 106	41	(41)	3 106

COMPANY

Trade receivables¹	2 195	55	(55)	2 195	1 048	41	(41)	1 048
Not past due	1 748	-	-	1 748	727	-	-	727
Past due								
Less than 30 days	46	-	-	46	107	-	-	107
30 to 60 days	169	-	-	169	70	-	-	70
61 to 90 days	16	-	-	16	30	40	(40)	30
More than 90 days	216	55	(55)	216	114	1	(1)	114
Sundry receivables¹	37	-	-	37	49	-	-	49
Not past due, not impaired	37	-	-	37	49	-	-	49
Interest receivables¹	1	-	-	1	3	-	-	3
Not past due, not impaired	1	-	-	1	3	-	-	3
Cash and short-term deposits²	1 788	-	-	1 788	1 788	-	-	1 788
Not past due, not impaired	1 788	-	-	1 788	1 788	-	-	1 788
	4 021	55	(55)	4 021	2 888	41	(41)	2 888

1. Refer note 16.

2. Refer note 18.

	GROUP		COMPANY	
	2015/16	2014/15	2015/16	2014/15
	Rm	Rm	Rm	Rm

31 FINANCIAL RISK MANAGEMENT (continued)**31.1 CREDIT RISK (continued)****SECURITY HELD OVER NON-DERIVATIVE FINANCIAL ASSETS**

Irrevocable Letters of Credit confirmed by foreign banks	347	457	347	457
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31.2 LIQUIDITY RISK

Liquidity risk is the risk that the group will not have sufficient financial resources to meet its obligations when they fall due, or will have to do so at excessive cost. This risk may arise when there are mismatches between receipts and payments. As well as when where there are limited funds available to fund that gap.

The group has a centralised treasury that manages the liquidity of the group taking into account assets, liabilities and commitments to ensure there is sufficient cash within the group as a whole. This ensures that updated cash flow information and projections of future cash flows are received from divisions and subsidiaries on a daily, weekly and monthly basis (depending on the type of funding required). Measures have been introduced to ensure that the cash flow information received is accurate and complete. Further to that the group maintains a range of funding sources and liquidity contingency plans.

The group received a government guarantee of R1.85bn (2014/15: R1.85bn) to raise borrowings. This guarantee expires on 30 September 2017, refer note 22.4).

Surplus funds are deposited in liquid assets (i.e. negotiable certificates or deposits and call deposits) (refer note 18).

UNDRAWN CREDIT FACILITIES

SA Rand (ZARm)	275	300	275	300
US Dollar (USDm)	50	50	50	50

The credit banking facilities are unsecured, bear interest at a rate linked to prime and are subject to annual review. The facilities are in place to ensure liquidity

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Contractual undiscounted cash flows						
	Carrying amount	Total cash flows	Less than three months	Between three and twelve months	Between one and five years	More than five years
	Rm	Rm	Rm	Rm	Rm	Rm

31 FINANCIAL RISK MANAGEMENT (continued)

31.2 LIQUID RISK (continued)

EXPOSURE TO LIQUIDITY RISK

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements:

GROUP

2015/16

Interest bearing loans and borrowings (refer note 22)	3 717	4 104	807	1 031	2 259	7
Trade and other payables (refer note 25)	1 741	1 741	1 535	206	-	-
Derivative financial liabilities (refer note 17.2)	272	272	43	187	42	-
Gaurantees (refer note 26.1)	7 502	7 502	1 065	1 279	3 404	1 754
	13 232	13 619	3 450	2 703	5 705	1 761

2014/15

Interest bearing loans and borrowings (refer note 22)	2 158	2 429	39	1 372	1 004	14
Trade and other payables (refer note 25)	979	979	773	206	-	-
Derivative financial liabilities (refer note 17.2)	164	164	24	136	4	-
Gaurantees (refer note 26.1)	5 217	5 217	719	138	2 588	1 772
	8 518	8 789	1 555	1 852	3 596	1 786

COMPANY

2015/16

Interest bearing loans and borrowings (refer note 22)	3 890	4 246	977	1 027	2 242	-
Trade and other payables (refer note 25)	1 417	1 417	1 256	161	-	-
Derivative financial liabilities (refer note 17.2)	218	218	60	158	-	-
Gaurantees (refer note 26.1)	6 325	6 325	865	1 155	2 552	1 753
	11 850	12 206	3 158	2 501	4 794	1 753

2014/15

Interest bearing loans and borrowings (refer note 22)	2 150	2 410	38	1 371	1 001	-
Trade and other payables (refer note 25)	863	863	702	161	-	-
Derivative financial liabilities (refer note 17.2)	164	164	28	136	-	-
Gaurantees (refer note 26.1)	5 217	5 217	719	138	2 588	1 772
	8 394	8 654	1 487	1 806	3 589	1 772

31 FINANCIAL RISK MANAGEMENT (continued)**31.3 MARKET RISK**

Market risk is the risk that movements in market risk factors, including foreign exchange rates, interest rates and commodity prices will affect the group's revenue and operational costs, as well as the value of its holdings of financial instruments. The objective of the group's market risk management policy is to manage and control market risk exposures to minimise the impact of adverse market movements with respect to revenue protection and to optimise the funding of the business operations.

Business units

The divisions and subsidiaries are responsible for the preparation and presentation of market risk information as it affects the relevant business unit. Information will be submitted to treasury where it is monitored and further analysed to be used in the decision making process. In certain instances a business unit will prepare and use market risk information for its own purposes.

Treasury

Treasury is responsible for reporting to the A&R committee on market risk elements on a quarterly basis. The report submitted includes important positional and hedge information on currency, interest rate and commodities, and is used by the committee to determine the market risk strategy going forward. In addition, key market risk information is reported to the GCFO and executive committee on a weekly and monthly basis respectively.

A significant element of the market risk encountered arises from financial instruments that are managed centrally within the treasury function of the group. These include more complex instruments used for hedging purposes.

Interest rate risk

Interest rate risk arises due to adverse movements in domestic and foreign interest rates. The group is primarily exposed to upward interest rate movements on loans and borrowings. There is no other exposure to fair value interest rate risk as all fixed rate financial instruments are measured at amortised cost.

The A&R committee determines the interest rate risk strategy based on economic expectations and reports received from the treasury department. Treasury department monitors interest rates on a daily basis and the policy is to maintain short-term cash surpluses at floating rates of interest. Interest rate and funding transactions are governed by the authorised treasury procedures manual.

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31 FINANCIAL RISK MANAGEMENT (continued)

31.3 MARKET RISK (continued)

At the reporting date the interest rate profile of the group's interest bearing financial instruments was as follows:

	GROUP		COMPANY	
	2015/16	2014/15	2015/16	2014/15
	Rm	Rm	Rm	Rm
Fixed rate instruments				
Cash and short-term deposits (refer note 18.1)	74	311	14	250
Commercial paper (refer note 22 en 22.5)	200	450	200	450
Loans and borrowings (refer note 22)	613	603	587	595

Fair value sensitivity analysis for fixed rate instruments

The group does not account for any fixed rate financial assets and liabilities at fair value through profit and loss, therefore a change in interest rates at the reporting date would not affect profit or loss.

Variable rate instruments

Cash and short-term deposits (refer note 18.1)	1 929	1 598	1 774	1 538
Loans and borrowings (refer note 22)	3 104	1 555	3 303	1 555

Cash flow sensitivity analysis for variable rate instruments

A change of 50 basis points in interest rates at the reporting date would have increased or decreased profit or loss by the amounts shown below. This assumes that all other variables remain constant. The impact on the group's equity is equal to the impact on the profit or loss.

Cash and cash equivalents

Net effect on profit or loss is equal but opposite for a 50 basis points increase on the financial instruments listed above.

11	2	11	2
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31 FINANCIAL RISK MANAGEMENT (continued)**31.3 MARKET RISK (continued)****CURRENCY RISK**

Currency risk arises from the movement in foreign exchange rates. The group's currency exposures result primarily from the import of raw materials, foreign sales of goods and services, as well as foreign bank account holdings. Foreign exchange embedded derivatives are recognised when the group has entered into contracts denominated in foreign currencies, which are neither the measurement currencies of parties to the contract, nor the currencies in which those commodities are routinely traded in international commerce. Foreign exchange embedded derivatives are not recognised for contracts denominated in a common currency. No speculating in foreign currency is allowed within the group.

Treasury is responsible for the hedging of foreign currency exposure in terms of information received from the divisions and subsidiaries. Currency exposures are hedged based on an 18-month rolling period, which requires any currency exposure forecast for the next 18 months to be covered. Hedging instruments consists of forward exchange contracts and, to a limited extent, currency options. Revaluations of hedged positions are performed on a daily basis to check that these are in line with the underlying foreign exchange policy. The hedging instrument is entered into once the exposure is firm and ascertainable, i.e. there is an underlying contract in place. Currency exposures are reported to the GCFO on a weekly basis and to the executive committee on a monthly basis.

Bank accounts of foreign offices are not hedged. Proceeds received from export contracts that would be used to pay foreign suppliers on the same contract are natural hedged by keeping funds in the CFC accounts.

The group's exposure to currency risk was as follows based on the notional amounts:

	2015/16		2014/15	
	USDm	EURm	USDm	EURm
GROUP				
Assets	533	307	78	74
Trade receivables	42	81	20	35
Controlled foreign currency accounts (CFC)	2	5	2	-
Firm commitments (export revenue)	489	221	56	39
Liabilities	(27)	163	(11)	(10)
Trade payables	(11)	(12)	(2)	(1)
Firm commitments (import)	(16)	175	(9)	(9)
Gross balance sheet exposure	506	470	67	64
Forecast transactions (revenue)	358	208	56	39
Forecast transactions (purchases)	(16)	(175)	(9)	(9)
Gross balance sheet exposure	848	503	114	94
Forward exchange contracts				
Export revenue	(489)	(221)	(56)	(39)
Imports	16	175	9	9
Net exposure	375	457	67	64

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	2015/16		2014/15	
	USDm	EURm	USDm	EURm
31 FINANCIAL RISK MANAGEMENT (continued)				
31.3 MARKET RISK (continued)				
CURRENCY RISK (continued)				
COMPANY				
Assets	533	307	78	74
Trade receivables	42	81	20	35
Controlled foreign currency accounts (CFC)	2	5	2	-
Firm commitments (export revenue)	489	221	56	39
Liabilities	(27)	163	(11)	(10)
Trade payables	(11)	(12)	(2)	(1)
Firm commitments (import)	(16)	175	(9)	(9)
Gross balance sheet exposure	506	470	67	64
Forecast transactions (revenue)	358	208	56	39
Forecast transactions (purchases)	(16)	(175)	(9)	(9)
Gross balance sheet exposure	848	503	114	94
Forward exchange contracts				
Export revenue	(489)	(221)	(56)	(39)
Import	16	175	8	9
Net exposure	375	457	66	64
Strengthening of the SA Rand				
Group	24	62	12	6
Company	24	62	12	6

A 5% strengthening of the Rand against the above currencies at 31 March would have increased/(decreased) profit or loss by the above mentioned amounts.

A 5% weakening of the Rand against the above currencies at 31 March would have had an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant. The impact on the group's equity is equal to the impact on the profit or loss.

	2015/16			2014/15		
	Foreign currency notional amount	Local currency	Fair value	Foreign currency notional amount	Local currency	Fair value
	R	Rm	Rm	R	Rm	Rm
31 FINANCIAL RISK MANAGEMENT (continued)						
31.3 MARKET RISK (continued)						
CURRENCY RISK (continued)						
FOREIGN CURRENCY DERIVATIVES						
GROUP						
Foreign exchange contracts						
Revenue contracts						
Euro (EUR)	221 311 733	6 042	6 177	39 106 436	514	541
Australian Dollar (AUD) ¹	-	-	-	2 868	-	-
Sterling (GBP)	360 144	8	8	-	-	-
Switzerland (CHF)	5 934 796	92	93	1 556 488	25	21
US Dollar (USD)	489 128 520	18 786	19 830	56 160 446	680	711
	24 928	26 108		1 219	1 273	
Purchase contracts						
Euro (EUR)	175 128 868	3 896	3 941	8 917 638	119	118
Australian Dollar (AUD) ^{2 and 3}	87 600	-	-	146 775	-	-
Sterling (GBP)	7 450 919	714	732	1 473 709	18	26
Switzerland (CHF)	13 410 216	206	206	426 345	-	-
US Dollar (USD)	15 620 439	244	258	8 753 734	109	112
	5 060	5 137		246	256	
COMPANY						
Foreign exchange contracts						
Revenue contracts						
Euro (EUR)	214 440 296	4 789	4 805	39 106 436	514	541
Australian Dollar (AUD) ¹	-	-	-	2 868	-	-
Sterling (GBP)	360 144	8	8	-	-	-
Switzerland (CHF)	5 934 796	92	93	1 556 488	25	21
US Dollar (USD)	423 787 592	6 342	6 348	56 160 446	680	711
	11 231	11 254		1 219	1 273	
Purchase contracts						
Euro (EUR)	169 783 973	2 873	2 895	8 917 638	119	118
Australian Dollar (AUD) ^{2 and 3}	87 600	-	-	146 775	-	-
Sterling (GBP)	4 242 349	92	93	1 473 709	18	26
Switzerland (CHF)	13 410 216	206	206	426 345	-	-
US Dollar (USD)	14 966 801	221	225	8 753 734	109	112
	3 392	3 419		246	256	

The fair value of foreign currency derivatives are disclosed in note 17. The above foreign exchange contracts existed at 31 March.

- 2014/15: Revenue contracts: Foreign currency notional amount AUD2868, Local currency R51 637, Foreign currency R34 965.
- 2015/16: Purchase contracts: Foreign currency notional amount AUD87 600, Local currency R8 287, Foreign currency R108 879.
- 2014/15: Purchase contracts: Foreign currency notional amount AUD146 775, Local currency R15 778, Foreign currency R22 103.

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		Foreign currency notional amount (R)						
		2015/16				2014/15		
		One year	Two years	Three to five years	Total	One year	Two years	Three to five years
					Total			
31 FINANCIAL RISK MANAGEMENT (continued)								
31.3 MARKET RISK (continued)								
CURRENCY RISK (continued)								
FOREIGN CURRENCY DERIVATIVES								
GROUP								
Foreign exchange contracts								
Revenue contracts								
Euro (EUR)	221 311 733	-	-	221 311 733	39 106 436	-	-	39 106 436
Australian Dollar (AUD) ¹	-	-	-	-	2 868	-	-	2 868
Sterling (GBP)	360 144	-	-	360 144	-	-	-	-
Switzerland (CHF)	5 934 796	-	-	5 934 796	1 556 488	-	-	1 556 488
US Dollar (USD)	459 400 487	29 728 033	-	489 128 520	54 854 146	1 306 300	-	56 160 446
Purchase contracts								
Euro (EUR)	171 235 033	2 688 548	1 205 287	175 128 868	8 917 638	8 666 308	(8 666 308)	8 917 638
Australian Dollar (AUD) ^{2 and 3}	87 600	-	-	87 600	146 775	-	-	146 775
Sterling (GBP)	6 092 139	1 358 780	-	7 450 919	1 473 709	-	-	1 473 709
Switzerland (CHF)	13 318 838	-	91 378	13 410 216	426 345	-	-	426 345
US Dollar (USD)	15 620 439	-	-	15 620 439	8 307 484	446 250	-	8 753 734
COMPANY								
Foreign exchange contracts								
Revenue contracts								
Euro (EUR)	214 440 296	-	-	214 440 296	39 106 436	-	-	39 106 436
Australian Dollar (AUD) ¹	-	-	-	-	2 868	-	-	2 868
Sterling (GBP)	360 144	-	-	360 144	-	-	-	-
Switzerland (CHF)	5 934 796	-	-	5 934 796	1 556 488	-	-	1 556 488
US Dollar (USD)	423 787 592	-	-	423 787 592	54 854 146	1 306 300	-	56 160 446
Purchase contracts								
Euro (EUR)	168 252 931	325 755	1 205 287	169 783 973	8 917 638	-	-	8 917 638
Australian Dollar (AUD) ^{2 and 3}	87 600	-	-	87 600	146 775	-	-	146 775
Sterling (GBP)	4 109 139	133 210	-	4 242 349	1 473 709	-	-	1 473 709
Switzerland (CHF)	13 318 838	-	91 378	13 410 216	426 345	-	-	426 345
US Dollar (USD)	14 966 801	-	-	14 966 801	8 307 484	446 250	-	8 753 734

1. 2014/15: Revenue contracts: Foreign currency notional amount AUD2868, Local currency R51 637, Foreign currency R34 965.

2. 2015/16: Purchase contracts: Foreign currency notional amount AUD87 600, Local currency R8 287, Foreign currency R108 879.

3. 2014/15: Purchase contracts: Foreign currency notional amount AUD146 775, Local currency R15 778, Foreign currency R22 103.

2015/16				2014/15		
	Foreign currency notional amount	Local currency	Fair value	Foreign currency notional amount	Local currency	Fair value
	Rm	Rm	Rm	Rm	Rm	Rm
31 FINANCIAL RISK MANAGEMENT (continued)						
31.3 MARKET RISK (continued)						
CURRENCY RISK (continued)						
FIRM COMMITMENTS						
Foreign currencies						
Export transactions						
Firm commitments relating to foreign exchange contracts						
Euro (EUR)	5	77	84	1	11	11
Sterling (GBP)	1	11	10	-	-	-
Switzerland (CHF)	1	4	4	-	-	-
US Dollar (USD)	46	705	705	9	105	113
		797	803		116	124
Firm commitments relating to foreign exchange options						
Euro (EUR)	10	170	177	3	40	41
US Dollar (USD)	59	729	572	64	682	563
		899	749		722	604
Import transactions						
Firm commitments relating to foreign exchange contracts						
Euro (EUR)	13	196	212	8	115	106
Sterling (GBP)	1	3	3	-	1	1
Switzerland (CHF)	1	15	14	-	4	4
US Dollar (USD)	1	7	7	-	-	-
		221	236		120	111

Contracts (sale or purchase) denominated in a foreign currency, which is neither a common currency, the measurement currency of any party to the contract, nor the currency in which the commodity is routinely traded in international commerce, contains a foreign exchange embedded derivative (to sell or buy the equivalent amount of foreign currency), is separated and accounted for at fair value even though the contract is not recognised. Denel views the USD, GBP and EUR as common currencies.

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	Foreign currency notional amount (m)							
	2015/16				2014/15			
	One year	Two years	Three to five years	Total	One year	Two years	Three to five years	Total

31 FINANCIAL RISK MANAGEMENT (continued)

31.3 MARKET RISK (continued)

CURRENCY RISK (continued)

FIRM COMMITMENTS

Foreign currencies

Maturity table

Export contracts

Firm commitments relating to foreign exchange contracts

Euro (EUR)	5	-	-	5	1	-	-	1
Sterling (GBP)	1	-	-	1	-	-	-	-
Switzerland (CHF)	1	-	-	1	-	-	-	-
US Dollar (USD)	46	-	-	46	9	-	-	9

Firm commitments relating to foreign exchange options

Euro (EUR)	10	-	-	10	3	-	-	3
US Dollar (USD)	59	-	-	59	64	-	-	64

Import transactions

Firm commitments relating to foreign exchange contracts

The maturity of all import transaction firm commitments is within one year.

Commodity risk

As at 31 March 2016 the group had no commodity swap contracts (2014/15: Nil).

	Loans and receivables	Liabilities at amortised cost	At fair value through profit or loss	Carrying amount	Fair value
	Rm	Rm	Rm	Rm	Rm
31 FINANCIAL RISK MANAGEMENT (continued)					
31.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES					
The categorisation of each class of financial asset and liability, including their fair values, are included below:					
GROUP					
2015/16					
Financial assets					
Cash and cash equivalents (refer note 18.1 and 18.2)	2 003			2 003	2 003
Other financial assets (refer note 17.1)			361	361	361
Trade and other receivables (refer note 16)	2 704			2 704	2 704
	4 707		361	5 068	5 068
Financial liabilities					
Interest bearing borrowings (refer note 22)		(3 717)		(3 717)	-
Other financial liabilities (refer note 17.2)			(331)	(331)	(331)
Preference dividends payable		(3)		(3)	(3)
Trade and other payables (refer note 25)		(1 741)		(1 741)	(1 741)
		(5 461)	(331)	(5 792)	(2 075)
Net financial assets/(liabilities)	4 707	(5 461)	30	(724)	2 993
2014/15					
Financial assets					
Cash and cash equivalents (refer note 18.1 and 18.2)	1 909			1 909	1 909
Other financial assets (refer note 17.1)			204	204	204
Trade and other receivables (refer note 16)	1 197			1 197	1 197
	3 106		204	3 310	3 310
Financial liabilities					
Interest bearing borrowings (refer note 22)		(2 158)		(2 158)	(2 145)
Other financial liabilities (refer note 17.2)			(175)	(175)	(175)
Preference dividends payable		(2)		(2)	(2)
Trade and other payables (refer note 25)		(979)		(979)	(979)
		(3 139)	(175)	(3 314)	(3 301)
Net financial assets/(liabilities)	3 106	(3 139)	29	(4)	9

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	Loans and receivables	Liabilities at amortised cost	At fair value through profit or loss	Carrying amount	Fair value
	Rm	Rm	Rm	Rm	Rm
31 FINANCIAL RISK MANAGEMENT (continued)					
31.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)					
The categorisation of each class of financial asset and liability, including their fair values, are included below:					
COMPANY					
2015/16					
Financial assets					
Cash and cash equivalents (refer note 18.1 and 18.2)	1 788			1 788	1 788
Other financial assets (refer note 17.1)			361	361	361
Trade and other receivables (refer note 16)	2 258			2 258	2 258
Subsidiaries: Loans and receivables (refer note 12)	386			386	386
	4 432		361	4 793	4 793
Financial liabilities					
Loans and borrowings (refer note 22)		(3 890)		(3 890)	(3 890)
Other financial liabilities (refer note 17.2)			(277)	(277)	(277)
Trade and other payables (refer note 25)		(1 417)		(1 417)	(1 417)
Subsidiaries: Loans and borrowings (refer note 12)		(195)		(195)	(195)
		(5 502)	(277)	(5 779)	(1 889)
Net financial assets/(liabilities)	4 432	(5 502)	84	(986)	2 904
2014/15					
Financial assets					
Cash and cash equivalents (refer note 18.1 and 18.2)	1 788			1 788	1 788
Other financial assets (refer note 17.1)			204	204	204
Trade and other receivables (refer note 16)	1 106			1 106	1 106
Subsidiaries: Loans and receivables (refer note 12)	336			336	336
	3 230		204	3 434	3 434
Financial liabilities					
Loans and borrowings (refer note 22)		(2 150)		(2 150)	(2 136)
Other financial liabilities (refer note 17.2)			(175)	(175)	(175)
Trade and other payables (refer note 25)		(863)		(863)	(863)
Subsidiaries: Loans and borrowings (refer note 12)		(228)		(228)	(228)
		(3 241)	(175)	(3 416)	(3 402)
Net financial assets/(liabilities)	3 230	(3 241)	29	18	32

31 FINANCIAL RISK MANAGEMENT (continued)**31.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)****DETERMINATION OF FAIR VALUES****Non-derivative financial instruments**

Quoted market prices at reporting date have been used to determine the fair value of loan and receivables and interest bearing borrowings. Where there is no quoted market price a valuation technique, most commonly discounted cash flows, was used. For trade receivables and payables the fair value was determined using discounted cash flow method at market related interest rate. All other financial assets and liabilities carrying amount approximates fair value.

Derivative financial instruments

The fair value of derivative financial instruments is determined using accepted valuation techniques and incorporating market quoted prices.

Fair value hierarchy

The group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- » Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- » Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- » Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

During the year there were no transfers between any of the levels of fair value measurements.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

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31 FINANCIAL RISK MANAGEMENT (continued)

31.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

The categorisation of each class of financial asset and liability, including their fair values, are included below:

	Carrying amount	Fair value	Level 1	Level 2	Level 3	Total
	Rm	Rm	Rm	Rm	Rm	Rm
GROUP						
2015/16						
ASSETS						
Assets measured at fair value						
Investment properties (refer note 10)	680	680	-	-	680	680
Other financial assets (refer note 17.1)	361	361	-	361	-	361
Non-current assets held for sale (refer note 19)	156	156	-	-	156	156
Assets not measured at fair value						
Cash and cash equivalents (refer note 18.1 and 18.2)	2 003	2 003	-	2 003	-	2 003
Trade and other receivables (refer note 16)	2 704	2 704	-	2 704	-	2 704
Net value	5 904	5 904	-	5 068	836	5 904
LIABILITIES						
Liabilities measured at fair value						
Other financial liabilities (refer note 17.2)	(331)	(331)	-	(331)	-	(331)
Liabilities not measured at fair value						
Loans and borrowings (refer note 22)	(3 717)	(3 717)	-	(3 717)	-	(3 717)
Preference dividends payable	(3)	(3)	-	(3)	-	(3)
Trade and other payables (refer note 25)	(1 741)	(1 741)	-	(1 741)	-	(1 741)
	(5 792)	(5 792)	-	(5 792)	-	(5 792)
Net value	112	112	-	(724)	836	112

31 FINANCIAL RISK MANAGEMENT (continued)**31.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)**

The categorisation of each class of financial asset and liability, including their fair values, are included below:

	Carrying amount	Fair value	Level 1	Level 2	Level 3	Total
	Rm	Rm	Rm	Rm	Rm	Rm
GROUP						
2014/15						
ASSETS						
Assets measured at fair value						
Investment properties (refer note 10)	590	590	-	-	590	590
Other financial assets (refer note 17.1)	204	204	-	204	-	204
Non-current assets held for sale (refer note 19)	84	84	-	-	84	84
Assets not measured at fair value						
Cash and cash equivalents (refer note 18.1 and 18.2)	1 909	1 909	-	1 909	-	1 909
Trade and other receivables (refer note 16)	1 197	1 197	-	1 197	-	1 197
Net value	3 984	3 984	-	3 310	674	3 984
LIABILITIES						
Liabilities measured at fair value						
Other financial liabilities (refer note 17.2)	(175)	(175)	-	(175)	-	(175)
Liabilities not measured at fair value						
Loans and borrowings (refer note 22)	(2 158)	(2 145)	-	(2 145)	-	(2 145)
Preference dividends payable	(2)	(2)	-	(2)	-	(2)
Trade and other payables (refer note 25)	(979)	(979)	-	(979)	-	(979)
	(3 314)	(3 314)	-	(3 301)	-	(3 301)
Net value	670	670	-	9	674	683

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31 FINANCIAL RISK MANAGEMENT (continued)

31.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

The categorisation of each class of financial asset and liability, including their fair values, are included below:

	Carrying amount	Fair value	Level 1	Level 2	Level 3	Total
	Rm	Rm	Rm	Rm	Rm	Rm
COMPANY						
2015/16						
ASSETS						
Assets measured at fair value						
Investment properties (refer note 10)	671	671	-	-	671	671
Other financial assets (refer note 17.1)	361	361	-	361	-	361
Non-current assets held for sale (refer note 19)	156	156	-	-	156	156
Assets not measured at fair value						
Cash and cash equivalents (refer note 18.1 and 18.2)	1 788	1 788	-	1 788	-	1 788
Subsidiaries: Loans and receivables (refer note 12)	386	386	-	386	-	386
Trade and other receivables (refer note 16)	2 258	2 258	-	2 258	-	2 258
Net value	5 620	5 620	-	4 793	827	5 620
LIABILITIES						
Liabilities measured at fair value						
Other financial liabilities (refer note 17.2)	(277)	(277)	-	(277)	-	(277)
Liabilities not measured at fair value						
Loans and borrowings (refer note 22)	(3 890)	(3 890)	-	(3 890)	-	(3 890)
Subsidiaries: Loans and borrowings (refer note 12)	(195)	(195)	-	(195)	-	(195)
Trade and other payables (refer note 25)	(1 417)	(1 417)	-	(1 417)	-	(1 417)
	(5 779)	(5 779)	-	(5 779)	-	(5 779)
Net value	(159)	(159)	-	(986)	827	(159)

31 FINANCIAL RISK MANAGEMENT (continued)**31.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)**

The categorisation of each class of financial asset and liability, including their fair values, are included below:

	Carrying amount	Fair value	Level 1	Level 2	Level 3	Total
	Rm	Rm	Rm	Rm	Rm	Rm
COMPANY						
2014/15						
ASSETS						
Assets measured at fair value						
Investment properties (refer note 10)	581	581	-	-	581	581
Other financial assets (refer note 17.1)	204	204	-	204	-	204
Non-current assets held for sale (refer note 19)	84	84	-	-	84	84
Assets not measured at fair value						
Cash and cash equivalents (refer note 18.1 and 18.2)	1 788	1 788	-	1 788	-	1 788
Subsidiaries: Loans and receivables (refer note 12)	336	336	-	336	-	336
Trade and other receivables (refer note 16)	1 106	1 106	-	1 106	-	1 106
Net value	3 518	3 518	-	3 434	665	4 099
LIABILITIES						
Liabilities measured at fair value						
Other financial liabilities (refer note 17.2)	(175)	(175)	-	(175)	-	(175)
Liabilities not measured at fair value						
Loans and borrowings (refer note 22)	(2 150)	(2 136)	-	(2 136)	-	(2 136)
Subsidiaries: Loans and borrowings (refer note 12)	(228)	(228)	-	(228)	-	(228)
Trade and other payables (refer note 25)	(863)	(863)	-	(863)	-	(863)
	(3 416)	(3 402)	-	(3 402)	-	(3 402)
Net value	102	116	-	32	665	697

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32 CAPITAL MANAGEMENT

The board's policy is to maintain a strong capital base to maintain stakeholder confidence and to sustain future development of the business. The group considers its capital to comprise of total equity. The group may adjust its capital structure by way of issuing new shares and is dependent on its shareholder for additional capital, as required. The group manages its capital structure in light of changes in economic conditions and the board of directors monitors the capital adequacy, solvency and liquidity of the group on a continuous basis. Refer directors' report, page 138 for more information.

The capital resources of the group has been depleted during the past years as a result of loss-making contracts and inadequate orders to optimise the labour and capital intensive operations throughout the group. A turnaround strategy was developed during 2006 which was approved by the key stakeholders, including the Executive Authority and the Cabinet. This required the shareholder to inject R5.2bn for the successful implementation of the strategy.

Since the approval of the strategy, the group has been recapitalised by a total of R4.2bn. The shareholder has also provided a government guarantee totalling R1.85bn to enable the group to raise borrowings. Refer note 22.5 and 31.2.

The group further strives to negotiate advance payments from clients in business transactions that require high investment in working capital over a long delivery lead times.

There were no changes in the group's approach to capital management during the year.

The company is not subject to externally imposed capital requirements. However, one of the company's subsidiaries, Denecure SOC Ltd, is a wholly owned captive insurer and therefore, has certain externally imposed capital requirements.

The minimum capital requirements applicable to Denecure SOC Ltd were maintained at all times during the year. In accordance with SA insurance legislation and regulations, the company is required to maintain a minimum Capital Adequacy Requirement (CAR) ratio of 1. This means the company is required to hold regulatory admissible net assets of greater than 1 to the solvency capital requirement, as at the reporting date, the company has a CAR ratio of 6.6 (2014/15: 6.3).

33 POST-RETIREMENT OBLIGATIONS

The group offers pension and post-retirement benefits through a defined contribution plan and a defined benefit plan.

33.1 DENEL MEDICAL BENEFIT TRUST

The group provides post-retirement medical aid contribution subsidies to qualifying retirees. The subsidies are funded by contributions made into a separate trustee administrated fund. Denel does not make annual contributions as the trust is fully funded. However, R26m (2014/15: R21m) was contributed during the year under review to reimburse the trust for the impact of early retirements.

The fund is valued annually by independent actuaries using the projected unit credit method. The result of the valuation carried out at 31 March 2016 indicated the trust is over-funded. There are currently no unrecognised actuarial losses, past services cost and contribution holidays due to the group. Therefore, there is no actuarial surplus recognised on the statement of financial position and no plan assets are recognised due to statutory requirements. The DMBT's expected long-term investment return was based on the yields of the R186 South African Government bond plus a risk premium of 1.25% per annum.

The group has longevity and investment risk exposure as it is expected to fund actuarial losses that may arise and is exploring the possibility of limiting its exposure through a voluntary settlement process. For further detail refer to the directors' report, pages 137 to 140.

	2015/16	2014/15
	R'000	R'000
33 POST-RETIREMENT OBLIGATIONS (continued)		
33.1 DENEL MEDICAL BENEFIT TRUST (continued)		
The actuarially calculated liability compared to assets is as follows for the defined benefit plans:		
Change in defined benefit funded obligation		
Present value of funded obligations at 1 April	521	611
Service cost benefits earned during the year	3	4
Interest cost on projected benefit obligation	41	52
Actuarial losses	47	37
Benefits paid	(26)	(32)
Member voluntary payout exits from scheme	(52)	(151)
Present value of funded obligations at 31 March	534	521
Change in plan assets		
Fair value of plan assets at 1 April	1 314	1 328
Expected return on plan assets	104	115
Actuarial losses	-	59
Employer and member contributions	-	21
Benefits paid	(26)	(32)
Member voluntary payout exits from scheme	(51)	(177)
Fair value of plan assets at 31 March	1 341	1 314
Fund excess	807	793
Excess not recognised	(807)	(793)
Unrecognised actuarial gains	-	-
Net benefit expenses		
Service cost	3	4
Interest cost	41	52
Expected return on plan assets	104	115
Net actuarial loss recognised during the year	47	96
Income	195	267
	%	%
The principal actuarial assumptions used for accounting purposes were:		
Expected return on plan assets	9,9	9,7
Expected medical inflation	9,4	7,7
	Number	Number
The beneficiary members from the funds are as follows:		
Active members	82	161
Retired members	845	1 217

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

	2015/16		2014/15	
	Increase	Decrease	Increase	Decrease
	%	%	%	%

33 POST-RETIREMENT OBLIGATIONS (continued)

33.1 DENEL MEDICAL BENEFIT TRUST (continued)

A 1% change in assumed healthcare cost trend rates would have the following effects on the defined benefit obligation

11 9 11 9

	2015/16	2014/15	2013/14	2012/13	2011/12	2010/11
	Rm	Rm	Rm	Rm	Rm	Rm

Amounts for the current and previous five years are as follows:

Defined benefit obligation	(534)	(521)	(611)	(759)	(755)	(674)
Plan assets	1 341	1 314	1 328	1 168	1 057	1 151
Surplus	807	793	717	409	302	477
Experience adjustments on plan liabilities	(5)	23	(35)	(25)	(25)	(4)

33.2 DENEL RETIREMENT FUND

The group has established a retirement fund scheme that covers all qualifying employees. This fund is a defined contribution plan and is governed by the Pension Funds Act of 1956 (Act No. 24 of 1956). The contributions are charged to the income statement as incurred.

34 SEGMENT REPORTING

Segment information is presented in respect of the group's operating segments. These operating segments are based on the group's management and reporting structure. Segment results, assets and liabilities include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis.

Unallocated items are shown as reconciling items between the segments and the consolidated information.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one period.

Transfer price between operating segments is set at cost plus 10% (2014/15: 10%) of segment revenue, and segment results include transfers between operating segments and these transfers are eliminated on consolidation.

Business segments

The group comprises the following main operating segments:

- » Aerostructures: Denel Aerostructures SOC Ltd;
- » Aerospace Systems: Denel Asia Co Ltd , Denel Dynamics and Denel Overberg Test Range;
- » Aviation: Denel Aviation;
- » Land and Maritime Solutions: Denel ISM, Denel Land Systems, Denel Vehicle Systems (Pty) Ltd and LMT Holdings SOC Ltd (RF);
- » Munitions: Denel Pretoria Metal Pressings; and
- » Non-core, mainly consist of corporate office, treasury functions, as well as property management and are not directly related to the business segments identified. This segment also includes segments that are not separated due to their immateriality, e.g. Densecure SOC Ltd.

The results of business units with revenue less than 10% (2014/15: 10%) of the group revenue are aggregate within an operating segment which products and services closest relate to that of the specific business unit.

More detail on the business units is stated in the performance operational overview section, pages 32 to 41.

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	Aerostructures	Aerospace Systems	Aviation	Land and Maritime Solutions	Munitions	Non-core	Consolidation entries	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
34 SEGMENT REPORTING (continued)								
2015/16								
Segment revenue	621	1 937	1 407	3 846	503	378	(439)	8 228
Revenue from external customers	596	1 824	1 388	3 809	460	151		8 228
Inter-group revenue	25	113	19	37	43	227	(439)	-
Contribution	7%	22%	17%	46%	6%	2%		100%
Segment result	7	134	89	256	(61)	223	(143)	505
Net finance income/(costs)	9	(20)	6	39	(9)	(228)	-	(203)
Share of results of associated companies							132	132
Income tax expense	-	-	-	(38)	-	(1)		(39)
Net profit/(loss) for the year	16	114	95	257	(70)	(6)	11	395
Segment assets	852	2 496	931	4 340	1 044	7 369	(4 078)	12 954
Deferred tax assets								48
Total assets								13 002
Segment liabilities	520	1 890	530	3 787	563	5 103	(1 713)	10 680
Deferred tax liabilities								1
Total liabilities								10 681
Cash flows from:								
Operating activities	(13)	186	(2)	(57)	(331)	(82)	(402)	(701)
Investing activities	(4)	(46)	4	(557)	24	(1 501)	1 085	(985)
Financing activities	17	(130)	(2)	531	307	1 721	(885)	1 559
Capital expenditure	38	36	15	35	17	27	168	168
Impairment losses raised/(reversed)	5	149	2	46	-	(83)		119
Depreciation/amortisation i.r.o. segment assets	18	44	14	37	12	22		147
Revenue from National Government	33	55	1 021	965	63	24		2 161
Significant non-cash items								
Fair value adjustment	-	-	-	-	-	162		162

	Aerostructures	Aerospace Systems	Aviation	Land and Maritime Solutions	Munitions	Non-core	Consolidation entries	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
34 SEGMENT REPORTING (continued)								
2014/15								
Segment revenue	468	1 660	1 155	1 857	828	319	(435)	5 852
Revenue from external customers	460	1 604	1 130	1 813	702	143		5 852
Inter-group revenue	8	56	25	44	126	176	(435)	-
Contribution	8%	27%	19%	31%	12%	3%		100%
Segment result	(19)	137	68	77	37	77	(42)	335
Net finance income/(costs)	6	(19)	1	28	(4)	(135)	-	(123)
Share of results of associated companies							64	64
Income tax expense	-	-	-	(1)	-	(5)		(6)
Net profit/(loss) for the year	(13)	118	69	104	33	(63)	22	270
Segment assets	773	2 276	760	3 548	791	-	1 526	9 674
Deferred tax assets								13
Total assets								9 687
Segment liabilities	457	1 785	453	3 194	241	-	1 629	7 759
Deferred tax liabilities								1
Total liabilities								7 760
Cash flows from:								
Operating activities	(79)	(125)	(24)	534	(27)	(172)	174	281
Investing activities	(15)	(63)	(19)	(24)	(17)	(71)	32	(177)
Financing activities	94	184	43	698	45	(564)	(208)	292
Capital expenditure	17	64	19	20	18	42	-	180
Impairment losses (reversed)/raised	(67)	10	(19)	-	(12)	20		(68)
Depreciation/amortisation i.r.o. segment assets	34	42	12	19	12	19		138
Revenue from National Government	33	53	826	478	288	-		1 678
Significant non-cash items								
Fair value adjustment	-	-	-	-	-	56		56

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	2015/16				2014/15			
	Share capital issued ¹	Share investment by Denel SOC Ltd ¹	Amounts owing to/(by) Denel SOC Ltd ¹	Effective/percentage shareholding	Share capital issued ¹	Share investment by Denel SOC Ltd ¹	Amounts owing to/(by) Denel SOC Ltd ¹	Effective/percentage shareholding
	Rm	Rm	Rm	%	Rm	Rm	Rm	%

35 SUBSIDIARIES AND ASSOCIATED COMPANIES

The following unlisted companies are subsidiaries of Denel SOC Ltd and its subsidiaries:

Denel Aerostructures SOC Ltd	1 689	1 689	191	100	1 689	1 689	108	100
Densecure SOC Ltd	8	8	-	100	8	8	-	100
LMT Holdings SOC Ltd (RF) ²	27	16	-	51	27	16	-	51
Denel Vehicle Systems (Pty) Ltd (refer note 8)	25	828	-	100				
Total investment		2 541	191			1 713	108	
Aggregated amounts less than R0.5m ^{1 and 3}	-	-	-		-	-	-	
Less: Accumulated impairment of investment (refer note 12)		(1 055)	(336)			(1 055)	(336)	
Net investment of Denel SOC Ltd (refer note 12)		1 486	(145)			658	(228)	

Subsidiary shareholding by LMT Holdings SOC Ltd (RF), a subsidiary of Denel SOC Ltd ⁴

LMT Products SOC Ltd	-	-	-	51	-	-	-	51
LMT Engineering SOC Ltd	-	7	-	51	-	7	-	51
LMT Properties SOC Ltd	-	-	-	51	-	-	-	51
Net investment of LMT Holdings SOC Ltd (RF)		7	-			7	-	

The country of incorporation of subsidiaries are not different from Denel, except for Denel Asia Co Ltd which is a Hong Kong-based company. Refer note 8.

Non-controlling interest voting rights are not different from % shareholding.

1. Amounts smaller than R0.5m due to rounding are not reflected against the units but in aggregate on this page.
2. This includes R16m (2014/15: R16m) preference shares.
3. The investment made in Denel Asia Co Ltd, was less than R0.5m, refer note 8.2 and 12.
4. Shares are not held by the group but effective management control is exercised in these business units.

	2015/16				2014/15			
	Share capital issued ¹	Share investment by Denel SOC Ltd ¹	Amounts owing to/(by) Denel SOC Ltd ¹	Effective/ percentage shareholding	Share capital issued ¹	Share investment by Denel SOC Ltd ¹	Amounts owing to/(by) Denel SOC Ltd ¹	Effective percentage shareholding
	Rm	Rm	Rm	%	Rm	Rm	Rm	%
35 SUBSIDIARIES AND ASSOCIATED COMPANIES (continued)								
The following unlisted companies are associated companies of Denel SOC Ltd and its subsidiaries:								
Turbomeca Africa (Pty) Ltd	-	49	-	49	-	49	-	49
Airbus DS Optronics (Pty) Ltd	-	57	-	30	-	57	-	30
Rheinmetal Denel Munition (Pty) Ltd	-	371	-	49	-	371	-	49
Tawazun Dynamics LLC	-	23	-	49	-	23	-	49
Net investment of Denel SOC Ltd (refer note 13.2)		500	-			500	-	
Associated company shareholding by Denel Vehicle Systems (Pty) Ltd, a subsidiary of Denel SOC Ltd								
Pioneer Land Systems LLC ²	-	-	-	49				
Net investment of Denel Vehicle Systems (Pty) Ltd		-	-					

	2015/16	2014/15
	Rm	Rm
Aggregated profit of subsidiaries	47	1

The country of incorporation of of associated companies are not different from Denel, except for Tawazun Dynamics LLC and Pioneer Landsystems LLC which are both UAE based companies.

All associated companies are strategic to the business activities of Denel.

1. Amounts smaller than R0.5m due to rounding are not reflected against the units but in aggregate on this page.
2. Equity partnership was established between International Golden Group PJSC and Denel Vehicle Systems (Pty) Ltd. The agreement was entered into on 5 February 2014. Apart from the issuing of 100 non-divisible non-negotiable shares @ UAD 3 000 per share in 2014, no other transactions to date took place. International Golden Group PJSC holds 51% in Pioneer Land Systems LLC whilst Denel Vehicle Systems (Pty) Ltd holds 49% of the shares issued. Refer note 13.

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	GROUP		COMPANY	
	2015/16	2014/15	2015/16	2014/15
	Rm	Rm	Rm	Rm
36 IRREGULAR EXPENDITURE				
Balance at 1 April	-	-	-	-
Irregular expenditure incurred in the prior year identified in current year ¹	5	-	5	-
Irregular expenditure identified in current year ²	42	-	40	-
Tax clearance certificates not obtained ³	2	-	2	-
Irregular expenditure awaiting condonation	49	-	47	-

Possible irregular expenditure incurred by Denel Vehicle Systems (Pty) Ltd

Denel acquired all the shares in BAE Systems Land Systems South Africa (Pty) Ltd on 29 April 2015, resulting in Denel Vehicle Systems (Pty) Ltd being a Schedule 2 entity in terms of the PFMA Act from the date of acquisition. As a Schedule 2 entity, Denel Vehicle Systems (Pty) Ltd was required to comply with the requirements of both the PFMA and PPPFA Acts, as well as the Treasury Regulations in relation to procurement and contract management from 29 April 2015 onwards. Management of Denel have applied to the Minister of Finance to exempt Denel Vehicle Systems (Pty) Ltd from the requirements of the legislation and regulations relating to procurement and contract management for the period ended 31 March 2016 to enable the management of the entity to develop internal control systems to ensure compliance with all the relevant requirements. As at the reporting date of the consolidated annual financial statements, engagements with the Minister of Finance were still on going, thus management is not aware whether the exemption will be provided or declined.

In the instance that the exemption is declined the following cases of potential irregular expenditure have been identified:

	Number of cases	Rm
Valid tax clearance not inspected before the issue of bids	14	5
Deviations from the procurement process not adequately approved	7	2
	21	7

Disciplinary steps taken/criminal proceedings

The cases are still being investigated to determine if any disciplinary steps/criminal proceedings are required.

- Seven (7) cases have been identified for expenditure incurred in the prior financial year for bids in which valid tax clearance certificates had not been evaluated at the time of the issue of the bids to suppliers, at both group and company level.
- Thirty three (33) at group level (twenty nine (29) relating to Denel SOC Ltd) instances have been identified where expenditure has been incurred on bids in which deviations were undertaken from the procurement process which were not adequately approved in terms of the supply chain management policy.
- Eight (8) instances have been identified in which bids were issued to suppliers without the entity adequately evaluating valid tax clearance certificates as is required in the group supply chain policy.





PART EIGHT

INFORMATION SERVICE

EIGHT

GRI CONTENT INDEX

We have provided some GRI disclosures in the 2015/16 integrated report. The disclosures provided are set out in the table below, with a reference to where in the document the information may be found.

REFERENCE	DESCRIPTION	INTEGRATED REPORT REFERENCE/ COMMENT	PAGE
STRATEGY AND ANALYSIS			
G4-1	Statement from the most senior decision-makers of the organisation about the relevance of sustainability to the organisation and the organisation's strategy for addressing sustainability.	Group chief executive officer's report	16-19
G4-2	Description of key impacts, risks, and opportunities, including rights as defined by national laws and relevant internationally recognized standards.	Risk Governances	80-83
ORGANISATIONAL PROFILE			
G4-3	Report the name of the organisational.	About this report	Inside Cover
G4-4	Report the primary brands, products, and services.	Overview of Denel business model	11
G4-5	Report the location of the organisation's headquarters.	Corporate contact details	236
G4-6	Report the number of countries where the organisation operates, and names of countries where either the organisation has significant operations or that are specifically relevant to the sustainability topics covered in the report.	Organisational Structure	9
G4-7	Report the nature of ownership and legal form	Organisational Structure	9
G4-9	Report the scale of the organisation (including total number of employees, operations, net sales).	People and transformation, Organisational Structure Financial performance.	94-109 9 23
G4-10	Report the total number of employees by employment contract and gender and the total number of permanent employees by employment type and gender.	People and transformation	94-109
G4-11	Report the percentage of total employees covered by collective bargaining agreements.	People and transformation	100
G4-12	Describe the organisation's supply chain.	Supply chain management	114-115
G4-13	Report any significant changes during the reporting period regarding the organisation's size, structure, ownership, or its supply chain including expansions.	Group chief executive officer's report Note 8 of the consolidated annual financial statements	16-19 166-167
G4-14	Report whether and how the precautionary approach or principle is addressed by the organisation.	We do not currently apply the precautionary approach	
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES			
G4-17	List all entities included in the organisation's consolidated financial statements.	Organisational Structure	9
G4-18	Explain the process for defining the report content and the Aspect Boundaries and how the organisation has implemented the Reporting Principles for Defining Report Content.	About this report	9
G4-20	For each material Aspect, report the Aspect Boundary within the organisation.	Not applicable, we have not reported on material Aspects	
G4-21	For each material Aspect, report the Aspect Boundary outside the organisation.	Not applicable, we have not reported on material Aspects	
G4-22	Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements.	Ten year review Note 27.2 of the consolidated financial statements	28 193
G4-23	Report significant changes from previous reporting periods in the Scope and Aspect Boundaries.	Not applicable	

REFERENCE	DESCRIPTION	INTEGRATED REPORT REFERENCE/ COMMENT	PAGE
STAKEHOLDER ENGAGEMENTS			
G4-24	Provide a list of stakeholder groups engaged by the organisation	Stakeholder engagements	86-91
G4-25	Report the basis for identification and selection of stakeholders with whom to engage.	Stakeholder engagements	86-91
G4-26	Report the organisation's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process.	Stakeholder engagements	86-91
G4-27	Report key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting. Report the stakeholder groups that raised each of the key topics and concerns.	Stakeholder engagements	86-91
REPORT PROFILE			
G4-28	Reporting period for information provided.	About this report	Inside Cover
G4-29	Date of most recent previous report.	31 March 2015	
G4-30	Reporting cycle.	We report annually	
G4-31	Provide the contact point for questions regarding the report or its contents.	Corporate contacts details	236
G4-32	Report the 'in accordance' option the organisation has chosen, the GRI Content Index for the chosen option and the reference to the External Assurance Report, if the report has been externally assured.	Not applicable. This report contains some GRI disclosure.	
G4-33	Report the organisation's policy and current practice with regard to seeking external assurance for the report, report the scope and basis of any external assurance provided, the relationship between the organisation and the assurance providers and whether the highest governance body or senior executives are involved in seeking assurance for the organisation's sustainability report.	About this report Audit and Risk committee	Inside cover, 132-133
GOVERNANCE			
G4-34	Report the governance structure of the organisation, including committees of the highest governance body. Identify any committees responsible for decision-making on economic, environmental and social impacts.	How we are governed	60-74
G4-35	Report the process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees.	How we are governed	61
G4-36	Report whether the organisation has appointed an executive-level position or positions with responsibility for economic, environmental and social topics, and whether post holders report directly to the highest governance body.	How we are governed	61

REFERENCE	DESCRIPTION	INTEGRATED REPORT REFERENCE/ COMMENT	PAGE
G4-37	Report processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics. If consultation is delegated, describe to whom and any feedback processes to the highest governance body.	How we are governed	61
G4-38	Report the composition of the highest governance body and its committees including executive and non-executive directors, independence, tenure, number of each individual's other significant positions and commitments, the nature of the commitments and gender.	Corporate governance How we are governed	50-59 60-74
G4-39	Report whether the Chair of the highest governance body is also an executive officer (and, if so, his or her function within the organisation's management and the reasons for this arrangement).	The Chair is a non-executive director. Denel Board of Directors	50
G4-40	Report the nomination and selection processes for the highest governance body and its committees, and the criteria used for nominating and selecting highest governance body members (including diversity, independence, expertise and experience relating to economic, environmental and social topics).	How we are governed	62
G4-41	Report processes for the highest governance body to ensure that conflicts of interest are avoided and managed and whether conflicts of interest are disclosed to stakeholders (including cross board membership and related party disclosure).	How we are governed Note 30 Related Parties	60-74 195
G4-42	Report the highest governance body's and senior executives' roles in the development, approval, and updating of the organisation's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts.	How we are governed	62
G4-43	Report the measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics.	How we are governed	62
G4-44	Report the processes for evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics and whether such evaluation is independent or not, and its frequency. Report whether such evaluation is a self-assessment.	How we are governed	62
G4-45	Report the highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities. Include the highest governance body's role in the implementation of due diligence processes.	How we are governed	60-74
G4-46	Report the highest governance body's role in reviewing the effectiveness of the organisation's risk management processes for economic, environmental and social topics.	How we are governed	60-74
G4-47	Report the frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities.	Risk governance	78-83

REFERENCE	DESCRIPTION	INTEGRATED REPORT REFERENCE/ COMMENT	PAGE
G4-48	Report the highest committee or position that formally reviews and approves the organisation's sustainability report and ensures that all material Aspects are covered.	Not applicable as material Aspects are not reported on but the Audit and Risk Committee is responsible to ensure the integrity of the information presented.	
G4-49	Report the process for communicating critical concerns to the highest governance body.	Risk governance	78-83
G4-50	Report the nature and total number of critical concerns that were communicated to the highest governance body and the mechanism(s) used to address and resolve them.	Risk governance	78-83
G4-51	Report the remuneration policies for the highest governance body and senior executives (including performance pay, equity based pay, bonuses, deferred or vested shares, sign on bonuses, termination payments and clawbacks).	Remuneration report	75-77
G4-52	Report the process for determining remuneration.	Remuneration report	75-77
ETHICS AND INTEGRITY			
G4-56	Describe the organisation's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics.	Corporate governance	72
G4-57	Report the internal and external mechanisms for seeking advice on ethical and lawful behaviour, and matters related to organisational integrity, such as helplines or advice lines.	Our vision, strategic drivers and values Corporate governance	8 81-82
G4-58	Report the internal and external mechanisms for reporting concerns about unethical or unlawful behaviour, and matters related to organisational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines.	Our vision, strategic drivers and values Corporate governance	8 81-82

GLOSSARY

ACRONYM	FULL DESCRIPTION
A&R	Audit and risk
AAD	Africa Aerospace and Defence Exhibition
ACI	African, Coloured and Indian
AED	United Arab Emirates Dirham
AGM	Annual general meeting
AISI	Aerospace Industry Support Initiative
AMD	South African Aerospace, Maritime and Defence Industries Association
AMO	Aircraft Maintenance Organisation
APC	Armoured personnel carriers
B-BBEE	Broad-based black economic empowerment
Board	Denel board of directors
BRICS	Brazil, Russia, India, China and South Africa
Business unit	Denel's operating divisions or subsidiary
C4ISR	Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance
CCM	Continuous control monitoring
CCW	Certain Conventional Weapons
CEO	Chief executive officer
CFC	Controlled foreign currency
CFO	Chief financial officer
CGVR	Central guide vertical restraint
CHF	Swiss Franc
Companies Act	South African Companies Act, no. 71 of 2008
COSO	Committee of sponsoring organisations of the Treadway Commission
CSI	Corporate social investment
CSIR	Council for Scientific and Industrial Research
CVO	Contract variation order
DAe	Denel Aerostructures SOC Ltd
DAv	Denel Aviation
DCAC	Directorate of Conventional Arms Control
DD	Denel Dynamics
Dekra	Deutscher Kraftfahrzeug-Überwachungs-Verein (German Motor Vehicle Inspection Association)
Denel Asia	Denel Asia LLC
Denel ISM	Denel Integrated Systems and Maritime
DenRet	Denel Retirement Fund
Dept	Department
DIRCO	Department of International Relations and Cooperation
Denel ISM	Denel Integrated Systems and Maritime
DLS	Denel Land Systems
DMBT	Denel Medical Benefit Trust
DMTN	Domestic Medium Term Note
DoD	Department of Defence
DoD&MV	Department of Defence and Military Veterans
DPE	Department of Public Enterprises
DPS	Damage per second
DRC	Democratic Republic of the Congo

ACRONYM	FULL DESCRIPTION
DST	Department of Science and Technology
DTA	Denel Technical Academy
dti	Department of Trade and Industry
DVS	Denel Vehicle Systems (Pty) Ltd
EAL	Engineering Academy of Learning
EASA	European Aviation Safety Agency
EBIT	Earnings before interest and taxation
ECS	Energy Conservation Scheme
EthicsSA	Ethics Institute of South Africa
ED	Enterprise development
EE	Employment equity
ERW	Explosive remnants of war
ESD	Enterprise supplier development
EUR	Euro
EXCO	Group executive committee of Denel
GBADS	Ground Based Air Defence Systems
GBP	British Pound Sterling
GCEO	Group chief executive officer
GCFO	Group chief financial officer
GHG	Greenhouse gas
Government/ SA Government	South African Government
GRI G4	Global Reporting Initiative
HCOC	Hague Code of Conduct Against Ballistic Missile Proliferation
HR	Human resources
IAS	International accounting standards
ICT	Information communication technology
IDEX	UAE International Defence Exhibition
IED	Improvised explosive device
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IGG	International Golden Group (GG) PJSC
IIRF	International Integrated Reporting Framework
IP	Intellectual Property
IPAP	Industrial Policy Action Plan
ISO	International Standards Organisation
ISR	Intelligence, surveillance and reconnaissance
IT	Information technology
King III	The King Code of Governance Principles and the King Report on Governance, effective 1 March 2010
LEO	Law enforcement officers
LCT	Light combat turren
LLC	Limited liability company
LMT	LMT Holdings SOC Ltd (RF)
LOCATS	Low cost aerial target systems
LSSA	BAE Land Systems South Africa (Pty) Ltd

ACRONYM	FULL DESCRIPTION
LTIFR	Lost Time Injury Frequency Rate
MEDDS	Mechem explosives and drug detection system
MoD	Ministry of Defence
MOI	Memorandum of Incorporation
MoU	Memorandum of Understanding
MRAP	Mine-resistant ambush protected
MRO	Maintenance, repair and overhaul
MTCR	Missile Technology Control Regime
Nadcap	National Aerospace and Defence Contractors Accreditation Programme
NAMMO AS	Nordic Ammunition Company
NCACA	National Conventional Arms Control Act
NCACC	National Conventional Arms Control Committee
NECSA	Nuclear Energy Corporation of South Africa
NGP	New Growth Path
NIA	National Intelligence Agency
NIMR	NIMR Automotive LLC
NIP	National Industrial Participation
NT	National Treasury
NUMSA	National Union of Metal Workers of South Africa
OCI	Other comprehensive income
OEM	Original equipment manufacturer
OHS	Occupational health and safety
OHSAS	Occupational Health Safety Assessment Series
OPEX	Operating expenditure
OTR	Denel Overberg Test Range
PBL One	Product Baseline One
PAA	Public Audit Act, no. 25 of 2004
PFMA	Public Finance Management Act, no. 1 of 1999
PIICA	Performance, integrity, innovation, caring and accountability
PLS	Pioneer Land Systems LLC
PMP	Denel Pretoria Metal Pressings
PPP	Public-private partnership
P,R&T	Personnel, remuneration and transformation
PRASA	Passenger Rail Agency of South Africa
(Pty) Ltd	(Proprietary) Limited
RAF	Road Accident Fund
R&D	Research and development
R/Rand/ZAR	South African Rand
RDM	Rheinmetall Denel Munition (Pty) Ltd
RF	Ring-fenced
RG-vehicle	Family of mine-resistant 4x4 light armoured vehicles
RSS	Ribs, spars and sword
Rm	South African Rand million
S&E	Social and ethics
SA	South Africa(n)

ACRONYM	FULL DESCRIPTION
SAA	South African Airways
SAAF	South African Air Force
SABS	South African Bureau of Standards
SACAA	South African Civil Aviation Authority
SACCI	South African Chamber of Commerce and Industry
SADC	Southern African Development Community
SAMHS	South African Military Health Services
SANAS	South African National Accreditation System
SANDF	South African National Defence Force
SANSA	South African National Space Agency
SANParks	South African National Parks
SAPS	South African Police Services
SARA	Small African Regional Aircraft
SAWomEng	South Africa Women in Engineering
SAX	South African Express
SED	Socio-economic development
SETA	Sector Education and Training Authority
SGD	Singapore Dollar
Shareholder	South African Government
SHE	Safety, health and environment
SHEQ	Safety, health, environment and quality
SITA	State Information Technology Agency
SMME	Small, medium and micro enterprise
SOC	State-owned company
SOE	State-owned entity
TCTA	Trans-Caledon Tunnel Authority
TD	Tawazun Dynamics LLC
THRIP	Technology and Human Resources for Industry Programme
TISA	Trade and Investment South Africa
TMA	Turbomeca Africa (Pty) Ltd
TNPA	Transnet National Ports Authority
TS	Top shells
UAE	United Arab Emirates
UASA	United Association of South Africa
UAV	Unmanned aerial vehicle
UAVS	Unmanned aerial vehicle systems
UK	United Kingdom
UN	United Nations
UNISA	University of South Africa
UP	University of Pretoria
US	United States
USA	United States of America
USD	United States Dollar
VAT	Value Added Tax
WFF	Wing-to-fuselage fairing

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