



DENEL

INTEGRATED REPORT 2014/15







RELIABLE DEFENCE SECURITY AND TECHNOLOGY SOLUTIONS PARTNER

This report takes cognisance of the integrated reporting requirements of the King III Report on Corporate Governance and the International Integrated Reporting Framework. The sustainability information included throughout the report is based on the requirements of one of the globally recognised best reporting practice frameworks, the Global Reporting Initiative (GRI). Denel has declared a C application level in terms of GRI 3.1 and is still exploring the application of G4, which will only be effective for the year ending 31 December 2015. A comparison of the G4 and GRI 3.1 indicators is included in the *GRI content index*. The index is provided on pages 210 to 216, and indicates Denel's reporting against core indicators. Where data measurement techniques are not in place, descriptions of the relevant activities are provided. The external auditors were engaged to assure consolidated annual financial statements and performance information, whilst most of the non-financial information presented in the integrated report was assured by a number of service providers through various processes, i.e. B-BBEE verification, board evaluation, ISO certification, organisational climate assessment, etc.

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

In line with Denel's inclusive approach, *corporate contact details* are provided on page 219.

Key acronyms used in this report are listed below. A list of abbreviations and acronyms is provided on pages 217 to 218.

ACRONYM	FULL DESCRIPTION	ACRONYM	FULL DESCRIPTION
AAD	Africa Aerospace and Defence exhibition	**MEDDS**	Mechem explosives and drug detection system
ACI	African, Coloured and Indian	**MoU**	Memorandum of Understanding
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	**OTR**	Denel Overberg Test Range
DD	Denel Dynamics	**PMP**	Pretoria Metal Pressings
DLS	Denel Land Systems	**R&D**	Research and development
DoD	Department of Defence	**RDM**	Rheinmetall Denel Munition (Pty) Ltd
DoD&MV	Department of Defence and Military Veterans	**SA**	South Africa(n)
DPE	Department of Public Enterprises	**SAAF**	South African Air Force
DTA	Denel Technical Academy	**SANDF**	South African National Defence Force
dti	Department of Trade and Industry	**SANSA**	South African National Space Agency
EBIT	Earnings before interest and taxation	**SAPS**	South African Police Service
EE	Employment equity	**SED**	Socio-economic development
Government	South African government	**SOC**	State-owned company
HR	Human resources	**SOE**	State-owned entity
ISO	International Standards Organization	**Tawazun Dynamics**	Tawazun Dynamics LLC
IT	Information technology	**TMA**	Turbomeca Africa (Pty) Ltd
LMT	LMT Holdings SOC Ltd	**UAVS**	Unmanned aerial vehicle system

INTEGRATED REPORT
2014/15

ABOUT THIS REPORT

This integrated report presents a transparent, comprehensive and comparable view of the financial, operating, social and sustainability performance of Denel SOC Ltd for the year ended 31 March 2015 to a broad range of stakeholders. This report outlines the group's outlook and further aims to highlight opportunities and challenges faced by the group, as well as planned actions to address the same. The planned actions take into account business priorities, risks and recommendations made by stakeholders.

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

The board of directors oversees and reports on the key strategies, risks and sustainability matters of the group. This is done through the relevant committees, namely, audit and risk, personnel, renumeration and transformation, and social and ethics committees. The group's most significant and material issues are discussed throughout the integrated report, as well as in the *directors' report* on pages 121 to 124. Non-financial information presented in the report relates to Denel, its operating divisions and subsidiaries (business units), unless otherwise stated. Financial information includes information regarding associated companies.

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PART ONE
GROUP OVERVIEW

Denel has been a turnkey defence solution supplier for many years cutting across the land, sea and air domains. The recent consolidation strategies are in line with the recommendations of the 2014 Defence Review.

OVERVIEW OF DENEL

Denel is a significant global defence and security equipment manufacturer, as well as provider of related services, with more than 50% of its revenue earned from exports. The product offering continues to evolve taking into account the strategy and client requirements. Denel has a presence in SA, Africa, the Middle East, Southeast Asia, South America and Europe.

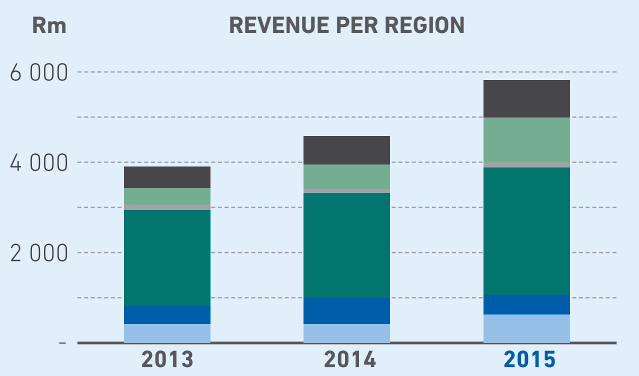
Products and services include combat turrets, artillery and vehicle systems, missiles, command and control, MRO of aircraft, avionics upgrades, testing of airborne systems, munitions, design and manufacturing of aerostructure components, satellite development, as well as humanitarian services including demining.

Solutions are designed to meet unique user requirements and Denel provides full lifecycle support. Research, design, development, integration, qualification, certification and industrialisation of products are carried out primarily in-house, with significant elements of production outsourced to the broader SA manufacturing and defence industries. It is a fact that many innovative applications have been leveraged from the defence technology base, amongst others to improve rail safety, crime prevention, and surveillance, protection of assets, mining drill bits and commercial brass strip.

Further details of Denel's activities, products and services are provided in the *performance review* section on pages 24 to 47.

Denel posted financial results during the year under review that are showing steady improvement as summarised below:

	2015 Rm	2014 Rm	CHANGE %
Revenue	5 852	4 588	28
Export revenue	3 040	2 275	34
EBIT	399	282	41



B-BBEE RATING PER BUSINESS UNIT	2015 LEVEL	2015 SCORE %	2014 LEVEL	2014 SCORE %
DAe	2	87.41	2	85.08
DAv	2	86.58	2	86.27
DD	2	87.15	3	83.13
DLS	3	83.51	3	80.68
OTR	3	83.92	3	81.70
PMP	2	85.01	3	75.82
LMT	4	67.08	4	65.42
GROUP	2	87.43	3	76.00

B-BBEE 2

Denel has achieved a **LEVEL 2 B-BBEE** rating, demonstrating its commitment to transformation. All Denel business units have improved their individual scores.

6 931 employees

Denel as a Proudly SA company contributes to national interests as summarised below:

Industrial development strategy:

- R&D investment of R467m;
- Contribution through programmes like Hoefyster and Rooivalk;
- Rejuvenating space capability; and
- Advanced high-technology manufacturing, i.e. contribution to the success of the Airbus A400M, the world's most advanced military airlifter.

Humanitarian involvement – building on an exceptional track record as a world leader in humanitarian demining and a valued partner in United Nations (UN) efforts to combat the scourge of landmines.

National security and peacekeeping:

- Denel supplies close to 50% of its annual activities to the local defence and security cluster; and
- Contributes to SA's strategic military independence and defence stature.

Global competitiveness:

- Largest defence company in Africa with a global presence;
- Earn foreign currency through export revenue; and
- Positively impacting foreign relations.

Employment and skills development – providing quality employment opportunities in a high-tech environment, as well as engineering and related competency development:

- Spending R65m towards skills development;
- Denel, including associated companies, employs 6 931 employees;
- Supports an estimated 20 000 indirect jobs;
- Schools outreach programme; and
- DTA trained 355 artisans.

Countertrade and offset – good progress in delivering offset solutions in some of our buying regions, such as the Middle East, Far East and South America.

Environmental responsibility – ISO certifications, regular environmental studies, clean air manufacturing, land rehabilitation and reduced energy utilisation, etc.

MATERIAL ISSUES

We identify most of our material issues through engagements at executive committee level and various interactions with stakeholders throughout the year. Significant issues are considered at executive committee, subcommittee and board meetings, mainly in terms of how these issues would affect the strategic direction of the business, the workforce, profitability and the sustainability of the business.

We identify stakeholders that could be affected by these issues. Stakeholders include Denel's shareholder the DPE, employees, trade unions, customers, suppliers, business partners, the communities in which we operate and providers of capital.

SIGNIFICANT MATTERS OF INTEREST					
Denel's capabilities and on-going product development	Compliance with arms conventions and related regulations	Extent of dependence on government funding	Employee and youth empowerment	Denel is not as well-known outside of the defence industry	Key risks and impact on the business

Denel's capabilities and on-going product development

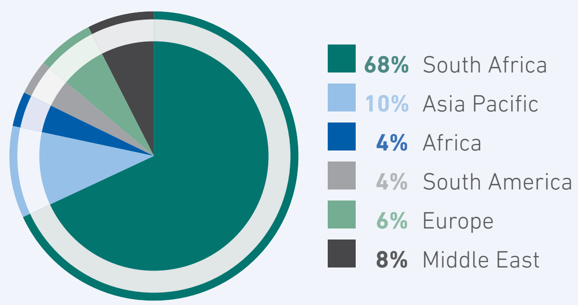
Denel was founded with a strong emphasis on a high-technology defence capability to safeguard country sovereignty and national interests. These capabilities have evolved and matured over the years. The SA Royal Mint was converted to an ammunition factory in 1938, marking the beginning of the PMP business unit. During the early years, Denel produced aircraft rockets and heavy ammunition. It later moved on to design, develop and manufacture guided weapons, electro-optical systems and subsystems, as well as manufacturing of assault rifles, advanced turret and artillery systems. The group further directed its investment towards areas such as artillery, combat vehicles, UAVS and MRO.

Over the years, Denel invested vast amounts in the upgrading of capabilities and developing new products. Denel has recently diversified into the space domain, and is considering selected mergers and acquisitions in order to continue improving its product offering. For further details regarding capabilities refer to the outputs of the *business model* on pages 12 and 13.

Compliance with arms conventions and related regulations

Denel conducts business with various international customers, which are generally defence forces of countries, in line with internationally acceptable practice and SA's foreign policy. These include countries in the Middle East, Southeast Asia, Africa, South America and Europe as illustrated in the orders concluded per region graph. Denel is governed by the strictest of legislation and rules with regards to how we do business, which includes the details of end-users.

ORDERS CONCLUDED PER REGION



Denel's products are controlled items and fall within the scope of the National Conventional Arms Controlled 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's 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. Further details in this regard can be found on page 76 of the report.

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

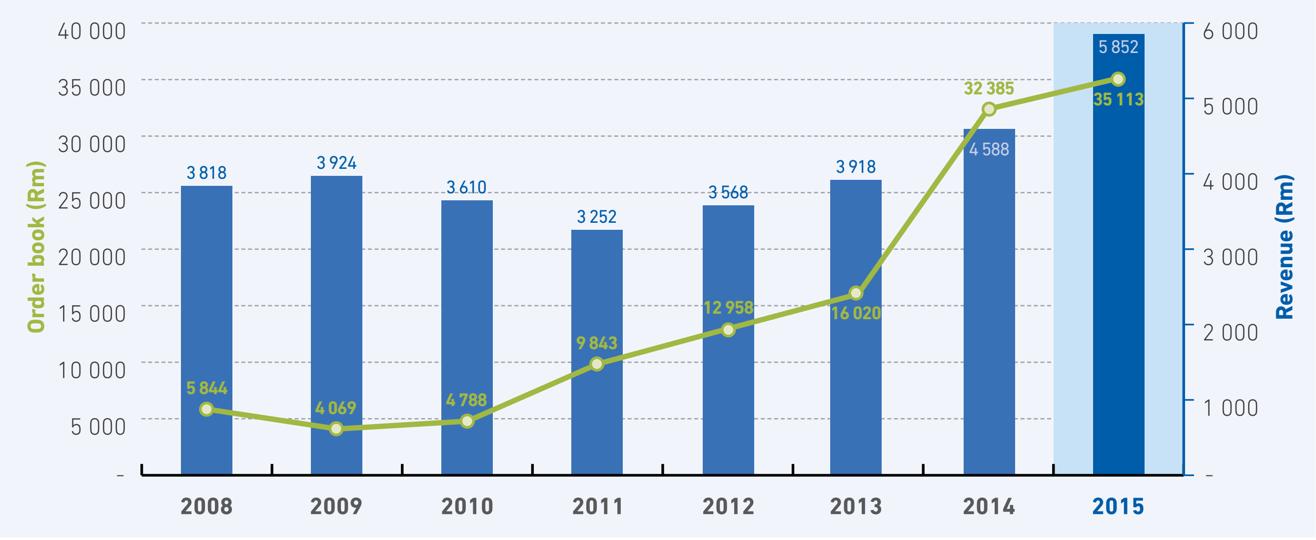
The SA government adheres to the following international treaties, agreements, arrangements, norms and practices on conventional arms:

- 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".

Extent of dependence on government funding

Denel has been posting positive financial results since 2011. The company has a significant order book ensuring sustainability in the medium- to long-term. The company has a fairly strong balance sheet with equity reserves of R1.9bn, refer to the *consolidated annual financial statements,* pages 126 to 206.

Details regarding the cumulative order cover and annual revenue are reflected below:



The company has registered a Domestic Medium-Term Note (DMTN) programme of R2.2bn that allows for short- and medium-term debt issuance. Of the R2.2bn, an amount of R1.85bn is government guaranteed and the guarantee matures on 30 September 2017. Denel will engage the shareholder to have this guarantee extended for a further period considering that the company is in a growth phase and needs to continue strengthening its balance sheet.

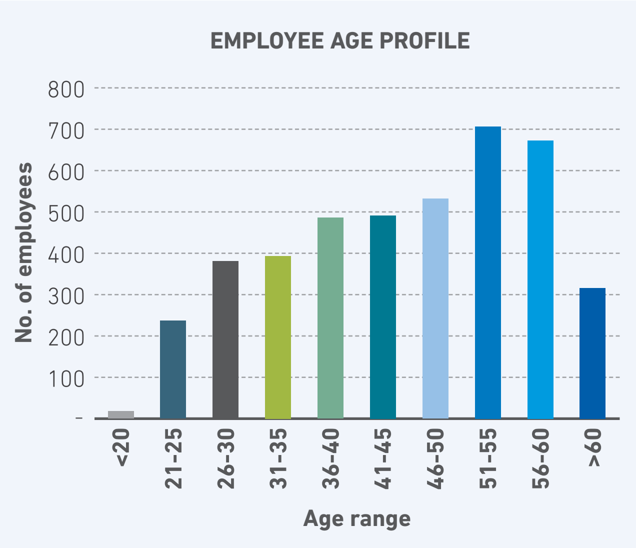
Denel has raised various facilities on the strength of its balance sheet that enables the company to meet its operational requirements. Accordingly, Denel does not receive direct financial assistance from the government.

Employee and youth empowerment

Employee development is a focus area, with targeted succession and mentoring processes in place. For further information, refer to *people and transformation*, pages 84 to 97.

Close to 25% of Denel's employees are under the age of 35. Appointments of youth (<35 years) during the year comprised 64% of all appointments. This signifies a good balance between younger inexperienced employees and more mature seasoned professionals. Denel has succession planning in place to create a pool of quality successors for critical and strategic positions to improve immediate availability when a position becomes vacant, eliminating a strategic void, thereby purposefully developing individuals in preparation for future strategic positions. The company has identified key positions group-wide for succession planning, as well as key individuals who are approaching retirement age. Incumbents, predominantly young ACIs with high potential, have been identified to be groomed as future successors.

Denel's current estimated spend on black youth-owned companies is around 1% of total spend. The projections are that spend in this category will increase considering the number of companies on Denel's enterprise supplier development (ESD) programme that are youth-owned.



Denel also continues its other youth development activities, including focused skills development activities as discussed in *people and transformation*, pages 84 to 97.

Denel is not as well-known outside of the defence industry

Denel is a premier manufacturer and supplier of defence products and solutions, a caring company that is playing a key role in SA's skills development initiatives. During interactions with some of our stakeholders it was clear that Denel is viewed as a significant contributor to national interests, however the company is not as well-known outside of the defence industry in SA.

We have refocused our media campaign to showcase our people, products, technology and innovation, as well as to highlight socio-economic and skills development involvement. In addition, Denel is working on further repositioning itself to the public. More information regarding *stakeholder engagement* is discussed on pages 78 to 81.

Key risks and impact on the business

Companies in the defence and security industry are faced with various complex business issues and operational risks. In the context of Denel, these are mitigated by an extensive risk management programme as discussed on pages 72 to 77.

Denel has manufacturing plants that are dependent on a continuous supply of electricity. It is foreseen that load shedding will continue to be a business risk, at least over the short- to medium-term. Denel takes into account load shedding schedules in operational planning and maintains close and constant liaison with Eskom account managers and Metros, where applicable. Plans include upgrading generators and/or linking more facilities to generators.

Denel's operations did not suffer material losses as a result of load shedding during the year under review.

OUR VISION AND STRATEGIC DRIVERS

VISION	STRATEGIC DRIVERS	KEY OBJECTIVES	TO BE STATE
The credible state-owned SA strategic partner for innovative defence, security and related technology solutions	Grow revenue and improve customer relationships	• Significant increase in the order book • Strong relationship with customers and stakeholders • Leverage smart partnerships	A dynamic, vibrant, financially sustainable, transformed and profitable organisation
	Increase productivity, efficiency and profitability	• Optimised cost structure • Strong balance sheet • Profitable returns • Operational excellence	
	Enhance capabilities and foster innovation	• Increased R&D investment • New technologies • Expanded portfolio offering	
	Create a dynamic and vibrant organisation	• B-BBEE level 2 rating • Skills development • Transformed organisation	

PURPOSE

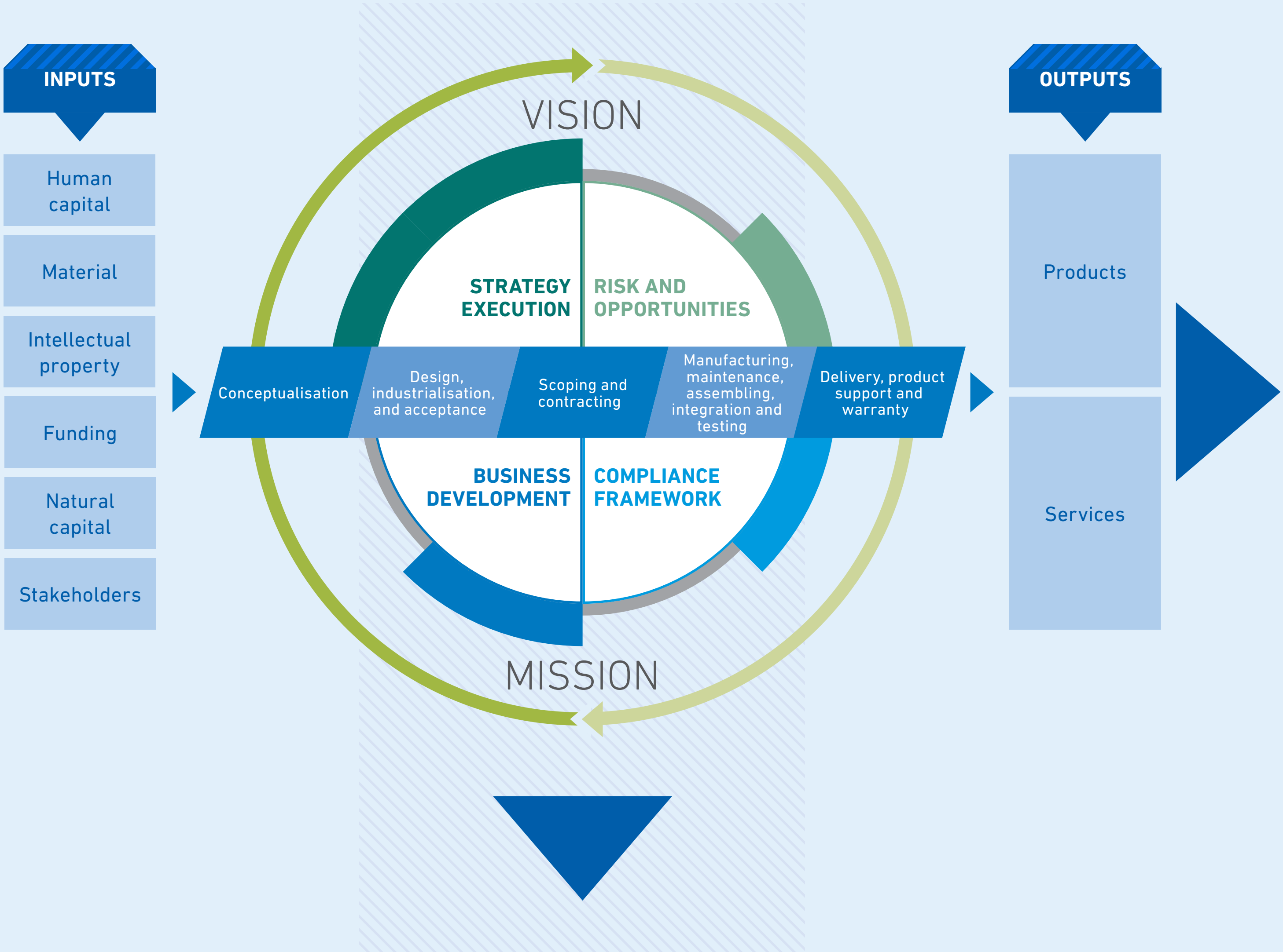
Supply SA defence and security environment with strategic technology capability, products, services and support

Leverage indigenous capability to access selected export markets

Contribute to socio-economic imperatives of government, such as:
- Job creation, skills development and social investment
- Enhancing the local technology and manufacturing base
- Supplier development
- Exploiting commercial use of technology
- Foreign policy and regional security objectives

Be a responsible corporate citizen to ensure:
- Good governance and sustainability
- Transformation and employee well-being

BUSINESS MODEL



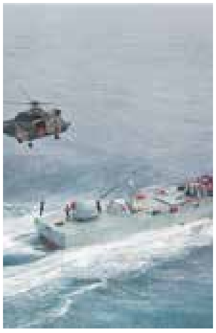
OUTCOMES

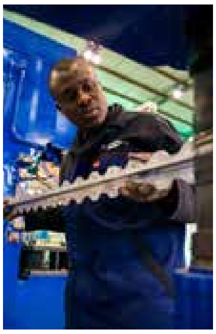
Natural capital		Intellectual property	Human capital	Financial capital	Supply chain	Social capital
Energy savings of 11.8%	Rehabilitation of certain properties	Invested R467m in R&D and intellectual property development	Employed 6 931 employees	Posted net profit of R270m	Local spend 67.4%	Schools outreach, artisan training and other skills development programmes

OUTPUTS - DENEL CAPABILITIES

ARTILLERY	SECURITY AND BORDER CONTROL	NAVAL	AEROSPACE	LANDWARDS	TRAINING AND OTHER
155mm G6 Self-Propelled Guns	Seeker 200 and 400	20mm Guns	Inflight Testing	Anti-Armour Missiles	Artisan Qualification
155mm G5 Towed Guns	Light Weapons	Umkhonto Missiles	Aerostructures	Active Missile Protection	Engineering Training
105mm Leo Guns	Ammunition	DPS-35 Guns	Aircraft MRO	Air Defence Systems	Mine Clearing Training
Charges and Propellants	MEDDS	Ammunition	Manpower Supply	Combat Vehicles	Mining Drill Bits
Laser Range-Finders	MRAP Vehicles	Periscopes	Air-to-Air Missiles	Vehicle Turrets	Rocket Motors
	Surveillance Equipment	Warheads	Precision-Guided Bombs	Machine Guns	Warheads
	Mine Clearing		UAVS	Ammunition	Energetic Materials
			Satellite Development	Anti-Materiel Rifles	Humanitarian Services including Demining
			Ejection Cartridges	Automatic Grenade Launchers	
			Aircraft Bombs	MRAP Vehicles	
			Engines and Gearboxes	Pyrotechnics	
			Stabilised Gimbals	Laser Range-Finders	
			Warheads	Warheads	





PART TWO
DIRECTORS' STATEMENTS

Denel is in a growth phase, which presents both opportunities and challenges. This presents an opportunity to strengthen stakeholder engagements and invest in relevant resources and skills development.

CHAIRMAN'S REPORT

I am privileged to have served as the interim chairman of Denel during the year under review, having served as a board member, as well as the chairman of the audit and risk committee since 2010.

MARTIE J JANSE VAN RENSBURG

I have visited operating sites, attended exhibitions, interacted with management and met with key stakeholders on various business matters. I found the opportunities to be engaging and, at the same time, inspiring as I noted the company's determination to meet stakeholders' needs, and their recognition of Denel as an important strategic partner.

STRATEGY AND PERFORMANCE

Denel's strategy is focused on growing revenues and ensuring the business is managed optimally in terms of productivity and efficiency. We have overseen the strategy implementation over the years, and are excited that it is resulting in Denel becoming a sustainable business.

The success of the strategy is evidenced by the improved financial performance for the 2014/15 year. We are pleased that revenue is growing significantly year-on-year as the orders secured in previous years are executed. Denel has become a significant global player earning more than half of its revenue from exports. I have no doubt that this augurs well for the country in terms of earning foreign currency and contributing to the enhancement of international relationships. In addition, the efforts in previous years to streamline the business operations are paying off and consequently, the business continues to post profits.

We view the 2014 Defence Review as a significant enabler in achieving Denel's long-term strategy and ambitions. We have taken into account that the Review designates Denel as a national security asset, with the primary purpose of designing, developing, manufacturing and supporting defence matériel. It further assigns the custodianship of sovereign or strategic defence capabilities, technologies and abilities. We are pleased that there is close alignment between Denel's strategy and the Defence Review.

During the year, we placed a special focus on enhancing capabilities and modernising the product offering. We approved the acquisition of BAE Systems Land Systems South Africa (LSSA), a company that is strong in the manufacturing of heavy military vehicles and the undertaking of related maintenance. This business is strategic and significant from a national security point of view. It is also complementary to Denel's current capabilities and strategically positions the company for future opportunities in a number of markets.

We have positioned Denel to participate in maritime, as well as in command and control, as these are strategic and sovereign capabilities. In order to further enhance these capabilities, the group is planning to acquire a majority stake in a well-established command and control business.

Denel is in a significant growth phase and as a board we are monitoring how the company responds to the current growth prospects in terms of deploying resources. We are presented regularly with a forward-looking analysis which informs Denel as to requirements for the future execution of programmes. The company strategically balances the available resources against those required for the execution of programmes. The growth phase is viewed as an opportunity to strengthen stakeholder engagements, improve facilities, increase investment in relevant resources and skills development initiatives.

In the context of concluded orders of more than R35bn to be executed over the next seven to ten years, the order pipeline, Defence Review and the improved stakeholder relationships, we are more than ever assured that Denel is on the correct strategic path.

SOCIO-ECONOMIC DEVELOPMENT

Denel prides itself on being a learning and development organisation employing highly skilled engineers and scientists. The company runs schools outreach programmes, provides bursaries to university engineering students, internships to engineering graduates and trains artisans in aviation and related trades. Post-matric programmes comprise 340 students and schools programmes involve 455 students. Schools supported are in the North West province, Limpopo, Mpumalanga, Gauteng, Free State and Western Cape. We have during the year:

- Provided infrastructure such as a fully furnished library at the OR Tambo Primary school in Boksburg. The project was undertaken in collaboration with St Dominic's School for Girls that provided library and media centre management skills to the teachers.
- Contributed to the building of a school in Moteti, Mpumalanga in an area where learners had to walk many kilometres to attend school.
- Donated a brand new telematics system and computers to the Vaal Reefs Technical High School in the North West, to be used by learners of four high schools in the area.
- Donated Maths formulae booklets which explain concepts to learners in a simplified manner to 3 000 learners from various provinces.

In addition to the youth development initiatives mentioned above, close to 25% of Denel's employees are under the age of 35. During the year 64% of all appointments made were younger than 35 and in the youth category. There is a good balance between younger inexperienced employees and more mature seasoned professionals. The board is convinced that Denel is emerging as a leader in transformation in the defence industry, in particular with regards to representivity of engineers and technical expertise. Black employees now comprise 57% and females represent 23% of the workforce.

We track the spend on black youth-owned companies and the level of spend is set to increase in this category given the number of companies on Denel's ESD programme that are youth-owned. These interventions are in line with our youth development initiatives and we are proud to be able to contribute to the national imperatives in this manner.

GOVERNANCE

I took over the reins from my colleague Mr Zoli Kunene, whose term expired and who retired as chairman and member of the board at the AGM of 15 August 2014. Two other non-executive board members, Prof T Marwala and Ms B Paledi, also retired at the AGM. The terms of the remaining board members were extended to the next AGM to be held on 23 July 2015.

The board and our various committees met regularly during the year and both the attendance and contributions of the directors were excellent. I wish to thank my fellow board members who have supported me with their counsel and valuable guidance throughout this period. They have been valued independent board members and I wish to thank them for the contributions they have made during their time with the group and wish them well in their future endeavours.

One of the defining features of Denel's journey has been the ability to incorporate the values we subscribe to into the business. We have ensured that systems are in place to maintain and strengthen a culture of good governance and business ethics. Denel is committed to honesty and openness in its business dealings with employees, customers, suppliers and other stakeholders.

We welcome the incoming board members and wish them success in the pursuit of Denel's strategy.

APPRECIATION

I thank the Minister of Public Enterprises, Ms Lynne Brown, her Deputy Minister, Mr Bulelani Magwanishe, the acting Director-General, Ms Matsietsi Mokholo, and the DPE officials for their commitment and support to Denel during the current financial year. I also thank the Minister of the DoD&MV, Ms Nosiviwe Mapisa-Nqakula, Deputy Minister, Mr Kebby Maphatsoe, the Secretary of Defence, Dr Sam Gulube, the Chief of the SANDF, Gen Solly Shoke and officials of the DoD&MV, the SANDF and Armscor for their continued support, guidance and commitment to Denel throughout the year.

I acknowledge the support received from the Minister of Finance, Mr Nhlanhla Nene and the Director-General of the National Treasury, Mr Lungisa Fuzile. I further acknowledge the support by the Deputy Minister of Finance, Mr Mcebisi Jonas.

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

I commend the executive management team for their sterling leadership and resourcefulness during the year and extend my thanks to all the employees of Denel for contributing to the excellent results through their dedication and ingenuity. I would like to conclude in wishing the Denel team a rewarding "good to great" journey.

Martie v Rensburg

Martie J Janse van Rensburg
Interim Chairman

GROUP CHIEF EXECUTIVE OFFICER'S REPORT

The year under review was a remarkable one for Denel and we have grown revenue by more than a billion rand, representing 28% growth year-on-year. Exports constitute 52% of revenue and are important for Denel and the country.

RIAZ SALOOJEE

The year under review was a remarkable one for Denel and we have grown revenue by more than a billion rand, representing 28% growth year-on-year. Exports constitute 52% of revenue and are important for Denel and the country. The profit margin is improving with EBIT reaching close to 7% of revenue. These financial results extend our track record of uninterrupted growth since 2011. Our success is not only evidenced by this year's results, but also projected in our five-year corporate plan.

In terms of our strategy, we continue to focus on revenue growth, productivity and efficiency, enhancing our capabilities and developing our people. Our vision incorporates acknowledging that we are a good company with tremendous potential, but we have to take the company to greater heights and as such we have an internal slogan "taking Denel from good to great". This vision includes turning Denel into a valuable sustainable national asset. We are extremely positive about the future of Denel in terms of financial performance, meeting shareholder expectations and leading in all aspects of transformation.

Denel plays a leadership role in the defence and aerospace sectors in SA. This was accentuated by Denel's strong presence during the last AAD, where we occupied an anchor position. Our stand at the AAD showcased the wide range of well-established, high-tech Denel products. We attracted interest from more than 70 international delegations during the trade days and a large number of visitors when the show was opened to the public. The exhibition was preceded by the inaugural Denel Aerospace, Maritime and Defence conference, a high-octane gathering that drew more than 200 key role players in the industry. The conference was the first of its kind in SA and provided an opportunity to discuss the future of the local industry with particular reference to the 2014 Defence Review.

GROWING REVENUE

Denel's order book amounts to more than R35bn, triple the secured orders of a few years ago and a six-fold annual revenue cover. The order book comprises contracts mainly in our traditional products, i.e. missiles, artillery, military vehicles and aerostructures. The value of the order book continues to be the highest in the history of the company, providing a stable foundation for future growth and sustainability. In addition, we are pursuing a number of significant opportunities totalling R37bn, including artillery and missiles systems. While it is acknowledged that concluding any orders takes several months ranging between 24 to 60 months, our assessments are that R23bn opportunities will be concluded in the short- to medium-term.

Our strategy acknowledges that clients nowadays require more than just products, but also systems, technology transfer and exchange of skills. Accordingly, we have successful collaborative partnerships with countries in the Middle East, Southeast Asia and South America. These collaborations, by their very nature, contribute to long-term relationships between countries and support other collaborative initiatives such as BRICS.

Geopolitical tensions around the world such as those caused by terrorist attacks, near civil wars, as well as other incidents that have an impact on safety have led to heightened security awareness in many countries. These developments led to increased demand for defence products and services as governments seek to protect their citizens and assets. In addition, some of these countries are looking to modernise their defence platforms and technologies including spending on cyber security, C4ISR and the application of military technologies in civil security. It is anticipated that our traditional markets will increase their defence spend in line with these global developments. We have added new capabilities and products to our stable as mentioned below and are geared to respond to the emerging requirements of our clients.

ENHANCING CAPABILITIES

In the 2013/14 report we highlighted that we would be paying particular attention to enhancing our capabilities and modernising our product offering. Denel has been a global name in landward defence for many decades and a leader in the development of long-range artillery and mechanised infantry vehicles. We recently acquired the LSSA business and welcome this business into our stable. The business is involved in landward systems, notably turrets, gears, vehicle design and manufacturing, vehicle sights, as well as low cost aerial target systems (LOCATS). The recent acquisition is in line with our strategy to achieve revenue growth and improve efficiencies while, at the same time, modernising technology and capabilities.

We consider it vitally important that we provide a wide spectrum of capabilities to our customers, ranging from landward defence, aerospace, maritime, as well as command and control. It has been a longstanding question as to why Denel had limited presence in the maritime environment. It is within this context that we have repositioned our capabilities through Denel Integrated Systems and Maritime. We are joining forces with a local specialist company to collaborate on future electronic warfare programmes and also positioning ourselves to acquire a stake in a command and control business. We foresee playing a key role in a number of defence initiatives that are in the pipeline such as projects Hotel and Biro, as well as a number of civil security projects.

I strongly believe there should be on-going close collaboration between Denel and the defence community to enable us to identify new capabilities to add to our stable and meet the requirements of the 2014 Defence Review. We are undeterred in maximising cooperation with our stakeholders, supplying cost efficient, innovative and competitive solutions. We have strengthened our traditional capabilities in landward defence, turret systems, guided missiles and UAVs and will provide clients with integrated defence solutions across land, sea, air, space and cyber space platforms.

PRODUCT DEVELOPMENT

The Rooivalk, a state-of-the-art combat support helicopter, has long been held as an example of what we can achieve as South Africans. The successful deployment of the Rooivalk by the SAAF in the eastern Democratic Republic of the Congo (DRC) for peace enforcement operations, complemented by demonstrations on the two public viewing days at AAD and at the air capability demonstration hosted by the SAAF at its weapons range, has confirmed the stature of the aircraft. We are excited by the latest developments, i.e. the upgrade of the Rooivalk fleet, as well as the possibility of an opportunity to develop the new Rooivalk.

The Small African Regional Aircraft (SARA) project – a locally developed passenger aircraft to serve regional destinations, was launched at AAD and received widespread positive media coverage. The rapid growth in air travel on the African continent has created a demand for a new generation aircraft that can fly point-to-point and link regional centres that are not currently accessible for passenger flights. This project is in line with SA's Aerospace Sector Development Plan which has identified aerospace as a priority sector. We are collaborating with academics and post-graduate students at local universities to develop a technology demonstrator for SARA, with a key objective to give opportunities to young engineers and artisans entering the industry in the next decade.

Denel has a strong track record of on-time delivery of complex projects, which meets the exacting standards of the defence and aerospace industries. These are the qualities and capabilities which we can also offer to the rail industry. We are excited about the prospect of being a valuable partner in SA's largest ever investment in strategic rail infrastructure. Denel has recently secured an order to manufacture luggage racks and internal structures of the coaches over a ten-year period, which positions Denel well to participate in future rail opportunities.

Artillery requirements have evolved over the years and Denel invested in the development of a modern 155mm 52-calibre G6-52 wheeled self-propelled gun-howitzer. The new gun boasts an auto-laying and auto-ammunition handling capability, driven by a modern V8 engine. The advantages of this new gun system include increased accuracy, a higher rate of fire, improved mobility, more efficient maintainability and requiring a smaller number of crew members. The turret of the gun is autonomous and can be fitted on other chassis like that of a battle tank. The availability of the G6-52 has opened up a number of markets.

The PMP plant is old, with some equipment dating back as far as the sixties. The old equipment has resulted in increasing maintenance costs and the plant set-up requires more labour than new contemporary ones. Denel has embarked on a plant renewal process with a view to improving productivity and competitiveness to ensure sustainability whilst meeting strategic national security and developmental objectives. The

Award winners together with the GCEO, Denel management, board members and representative of DPE

renewal will be conducted over the next five to seven years and will assist PMP to grow its revenue base.

OPERATIONAL EXCELLENCE

During 2014/15, we successfully delivered against all our programmes as evidenced by the substantial growth in revenue and profitability. A number of operational successes contributed to achieving the strategic objective of operational efficiency and productivity. Significant programmes have moved to production after completing years of complex development and these long-term production programmes provide a sound baseload for the future. Further details regarding operational performance are discussed in the *operations review* on pages 33 to 35.

Our humanitarian involvement continues to demonstrate Denel's commitment to peacekeeping processes throughout the world, but also demonstrates our versatility and capacity to provide high-level support and advice to activities outside of the defence and security environment. We provide a number of humanitarian services in various countries and recently expanded our presence in Somalia, providing vital life support services to UN-led initiatives to broker peace and build democracy in the strife-torn East African country.

OUR PEOPLE

We are making good on our commitment to "grow our own timber" and to provide career growth opportunities to colleagues who show leadership potential and are prepared to commit themselves to Denel. We recently teamed up with the Henley Business School to design a customised leadership development programme that can meet Denel's specific needs and requirements. We are proud that we have appointed two women into key leadership positions as deputy CEOs of business units. This strengthens our conscious efforts to promote gender equality in Denel.

We realise how important our people are and have recently acknowledged a number of our employees for living our values during the inaugural GCEO Awards. The awards recognised individuals who have added greatly to Denel's reputation in the market place and in broader society and best personified the values which underpin the way in which the company conducts its business.

We are committed to investing in the training of young engineers, scientists and artisans at tertiary level and promoting the teaching of maths, science and technology among high school learners. We are very proud to be attracting some of the brightest students in the country by offering bursaries for engineering studies and internship opportunities at Denel. Top students from Denel's bursary programme and high school enrichment initiatives were honoured for outstanding academic performance at the Young Achievers Awards function in January 2015. This was an opportunity to highlight the accomplishment of young people whose lives have been positively influenced by Denel's investment in bursaries, internships, teaching and mentoring programmes.

We are mindful of the fact that ultimate success in our environment can only be achieved through teamwork.

SUPPLIER DEVELOPMENT

It is often difficult for emerging enterprises to become part of the supply chains of established manufacturers, and our intention is to continuously open up and facilitate these processes. Denel is committed to a 'South Africa first'

During 2014/15, **we successfully delivered** against all our programmes as evidenced by the **substantial growth in revenue** and **profitability.**

approach to procurement with a particular focus on black-owned, women-owned and youth-owned enterprises. We held a very successful supplier day with emerging entrepreneurs who want to make breakthroughs in the defence and high-tech manufacturing sectors. We are also working with our primary suppliers in the private sector to ensure their transformation strategies are aligned with ours. In this way, we are making a substantial contribution to the accelerated transformation of the entire SA defence industry.

SUSTAINABILITY

Denel is an open and transparent company in line with global guidelines and regulations for business ethics. We have embedded management systems, risk management processes and policies that govern ethical business conduct, including the prevention of fraud and corruption at all levels of our organisation. This is augmented by our Code of Ethics.

Our business practices adhere strictly to general occupational health, safety and environmental prescripts. Reporting on sustainable development is provided throughout the integrated report.

OUR FUTURE

Denel's outlook continues to be positive taking into account that the group has an order book in excess of R35bn. In addition to orders concluded, we are pursuing prospects that are at various stages of maturity. Whilst our industry remains competitive, we are optimistic that identified opportunities being pursued will be realised. We expect our revenue to double within the next five years.

APPRECIATION

I acknowledge our shareholder and thank the Minister, Deputy Minister, the Parliamentary Committees and the acting Director-General of DPE for their continuous guidance and support. I extend my appreciation to the Minister and Deputy Minister of DoD&MV, Secretary of Defence, the Chief of the SANDF, all of the Arms of Service, Armscor, SAPS, organised labour and industry partners for their continued support and contribution.

My gratitude goes out to the Denel board and the chairman for their leadership, valuable contribution and support in a year in which we made some important strategic decisions.

We are very proud of our achievements in our endeavours to becoming a great company and I wish to thank our executive team and employees for the roles they are playing in this regard. Without them we could not sustain the growth that we have seen in recent years. 2015/16 will be a year of consolidating initiatives for Denel as the group builds on its positive financial results over the past five years and prepares the ground for a period of further growth in the future.

Riaz Saloojee
Group Chief Executive Officer

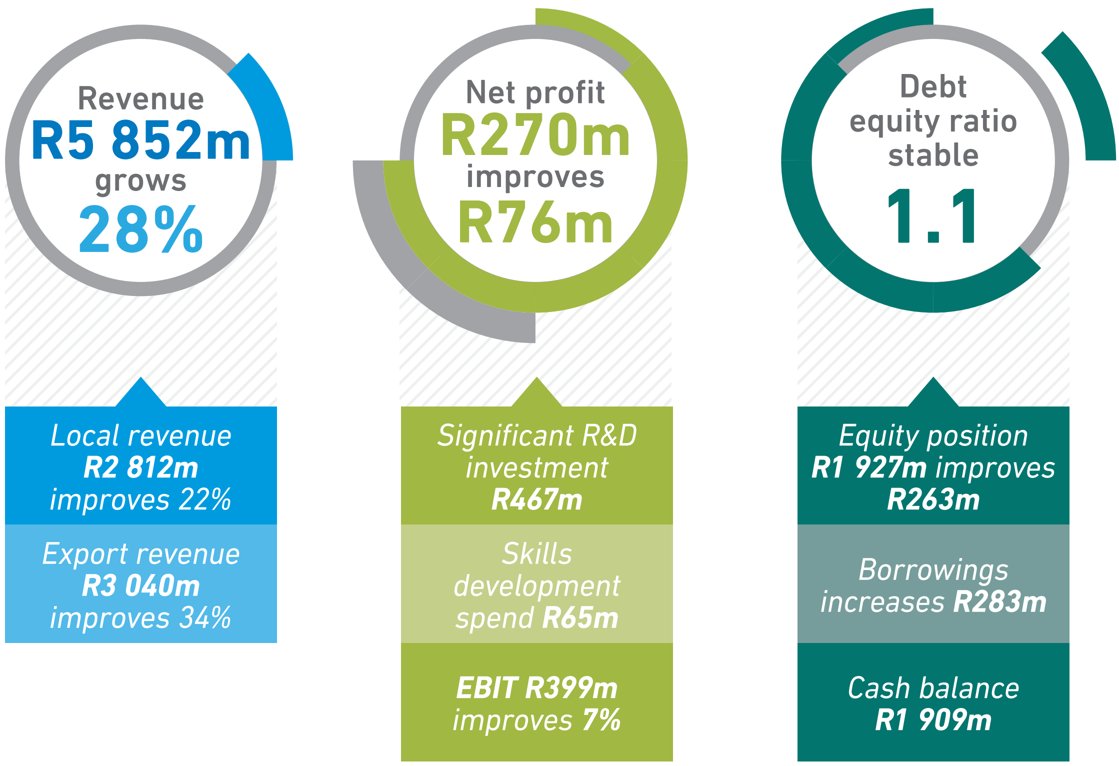
PART THREE
PERFORMANCE REVIEW

The success of the strategy is evidenced by the improved financial performance for the 2014/15 year.

FINANCIAL DIRECTOR'S REPORT

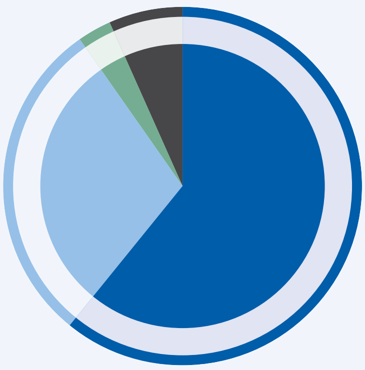
Denel posted improved financial results during the year under review, with EBIT significantly better than the prior year.

FIKILE MHLONTLO



	GROUP		
	2015	**2014**	**2013**
	Rm	**Rm**	**Rm**
EXTRACTS FROM THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS [1]			
Income statements and statements of comprehensive income			
Revenue	5 852	4 588	3 918
Gross profit	1 137	899	826
Other income	137	204	231
Other operating expenses	(939)	(879)	(940)
Share of profit of associated companies	64	58	72
EBIT	399	282	189
Net finance costs	(123)	(92)	(107)
Net profit for the year	270	194	71
Statements of financial position			
Cash and cash equivalents	1 909	1 513	1 297
Total assets	9 687	8 089	6 778
Equity	1 927	1 664	1 472
Borrowings	2 158	1 875	1 913
Ratios			
Debt/equity ratio	1.1:1	1.1:1	1.3:1
Current asset ratio	1.7:1	2.3:1	1.8:1

[1] *Refer to the full set of consolidated annual financial statements on pages 126 to 206*



VALUE DISTRIBUTION

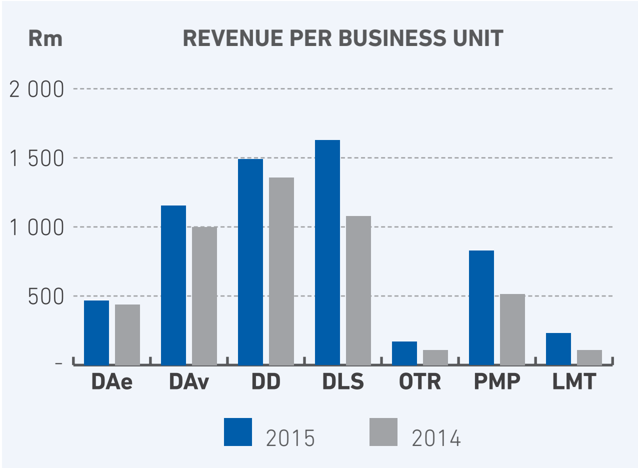
- **61%** Material and services
- **29%** Salaries and relevant costs
- **3%** Providers of capital
- **7%** Continuation and expansion

REVENUE

Revenue growth is the key pillar in the Denel strategy. One of the key elements is landward, which includes programmes such as Hoefyster, AV-8 at DLS and the vehicle programmes at LMT. These areas contributed approximately R700m to the 2014/15 revenue growth as these programmes have moved from the development phase to production.

DD has continued to contribute significantly to the revenue line. Growth in DAv is noted, as additional MRO is required by some countries. PMP achieved record sales during the year. PMP's offering includes brokering services, which are generally once-off in nature and contributed R191m in additional revenue.

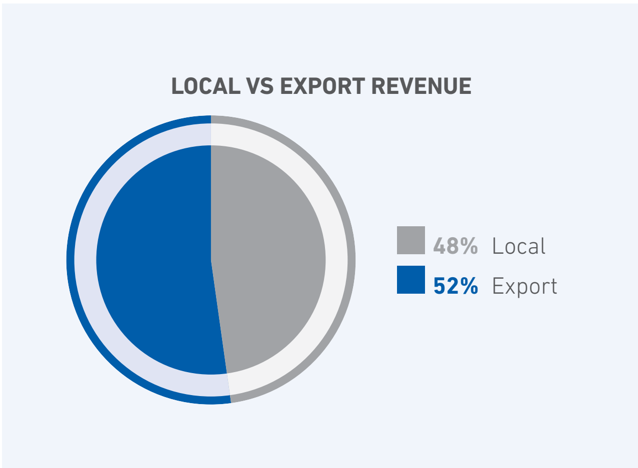
We have seen revenue increasing in all business units. The export revenue increased significantly and now comprises 52% of total revenue.



PROFITABILITY

Denel posted improved financial results during the year under review, with EBIT significantly better than the prior year. Other income comprises adjustments to the value of property in line with market values, the impact of foreign exchange and sundry income. Operating costs continue to be managed conservatively in line with our efficiency objective. The operating costs increased by 7%, which is acceptable considering the level of revenue growth.

We are pleased that profitability is improving year-on-year, but accept that there is room for further improvement. One of the areas of focus going forward will be improving margins. Margin challenges are due to changes in the revenue mix as a significant amount related to PMP brokering services which are generally at lower margins. Taking into account all of the factors above, net profit improved by R76m to R270m.

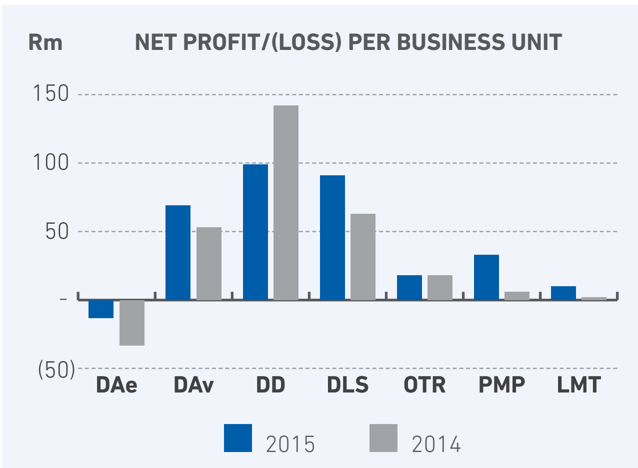


FINANCIAL STRUCTURE AND LIQUIDITY

Business operations are funded through a combination of cash generated, short- and medium-term bank credit facilities, corporate bonds and commercial paper. Denel has access to funding from various sources.

The defence industry requires high upfront working capital investment, and this often places defence companies in a challenging position from a cash management point of view. Despite this, Denel has adequate cash facilities to mitigate any liquidity risk. The group generated positive cash from operations of R212m for the year. The cash resources increased from R1.5bn in the prior year to R1.9bn at the end of 2014/15.

The average borrowings amounted to R1.990bn throughout the year resulting in external interest of R153m excluding unwinding of interest on long-term provisions. Borrowings are higher than prior years as additional working capital was required to fund programme execution.



We are pleased that **profitability** is **improving year-on-year**, but accept that there is room for further improvement. One of the areas of focus going forward will be **improving margins**.

CREDIT RATINGS

Denel borrows only from the capital market and the price of corporate debt is influenced by its credit rating. FitchRatings re-affirmed Denel's long-term rating at AAA(zaf) and short-term rating F1+(zaf) with a stable outlook. The rating agency relies on Denel's strong order book of R35bn, the success of the financial turnaround which led to Denel reporting profits over the past five years and continued shareholder support. The agency further noted that Denel has managed to diversify its revenue base away from the SA defence sector with more than 50% of revenue now generated from exports. FitchRatings expects the export business to remain an important aspect of Denel's revenue growth.

RISK MANAGEMENT

Denel has risk management processes in place as detailed on pages 72 to 77. Risk items include strategic business challenges, compliance and sustainability. The risk items and mitigation plans are evaluated regularly by management, the A&R committee, the board and the auditors.

BUSINESS OUTLOOK

The world economy is showing signs of recovery, however, the impact of the continued slow recovery in the developed countries, a slowdown in China, tighter global financial conditions, political instability, terrorism and weather-related shocks could have a bearing on the economy. Lower oil prices could have a further negative impact. Whereas the global economy has been fairly subdued in the recent past, Denel is largely unaffected due to trading with some of the emerging economies that are growing at a steady rate.

In the context of the 2014 Defence Review, SA is projected to prioritise its procurement plans for armoured personnel carriers, logistics vehicles, light artillery, aerial weaponry, and combat support ships. The positive stakeholder environment, with notable support from our main client and our shareholder, positions Denel well to play a significant role in these opportunities when they mature.

VALUE ADDED STATEMENT

for the year ended 31 March 2015

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 capital and the capital re-invested in the group for continuation and expansion of operations.

		GROUP			
		2015		2014	
	NOTES [1]	Rm	%	Rm	%
Revenue	2	5 852		4 588	
Less: Cost of material and services purchased		(3 678)		(2 856)	
Value added		2 174		1 732	
Add					
Finance income	6.2	53		48	
Other income	4	137		204	
Wealth created		2 364		1 984	
Distributed as follows:					
Employees: Salaries and relevant costs		1 776	75.2	1 516	76.3
Providers of capital		180	7.6	140	7.1
Finance costs	6.1	176	7.4	140	7.1
Non-controlling interest	21	4	0.2	-	-
Government					
Tax (refer note A)		12	0.5	6	0.3
Re-invested in the group for continuation and expansion		396	16.7	322	16.3
Depreciation	3	126	5.3	128	6.5
Profit for the year		270	11.4	194	9.8
Wealth distributed		2 364	100.0	1 984	100.0
Note A					
Tax					
Tax paid and provided for:		12		6	
Current tax	7	3		(5)	
Total tax	7	6		(4)	
Less: Deferred tax	7	(3)		(1)	
Rates and taxes paid to local authorities		9		11	
Net skills development		11		9	
UIF contributions by employer		7		7	
		30		22	
The total amount reflected above excludes the following amounts collected by the group on behalf of government:					
Net VAT		17		68	
Charged on revenue		571		525	
Levied on purchases		(554)		(457)	
Employees' taxation		367		333	
UIF contributions by employees		7		7	
		391		408	

[1] *Refer to the notes to the consolidated annual financial statements*

The Rooivalk, a state of the art combat support helicopter, has long been held as an example of what we can achieve as South Africans. The successful deployment of the Rooivalk by the SAAF in the eastern Democratic Republic of the Congo (DRC) for peace enforcement operations, complemented by demonstrations on the two public viewing days at AAD and at the air capability demonstration hosted by the SAAF at its weapons range, has confirmed the stature of the aircraft.

TEN-YEAR REVIEW
as at 31 March 2015

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 Rm	2014 Rm	2013 Rm	2012 Rm	2011 Rm	2010 Rm	2009 Rm	2008 Rm	2007 Rm	2006 Rm
CONSOLIDATED INCOME STATEMENTS										
Revenue	5 852	4 588	3 918	3 568	3 252	3 610	3 924	3 818	3 268	2 773
Gross profit/(loss)	1 137	899	826	862	503	578	639	600	754	(131)
Other operating expenses	(939)	(879)	(940)	(958)	(897)	(846)	(1 285)	(1 082)	(1 257)	(1 155)
Operating profit/(loss)	335	224	117	100	(314)	(162)	(463)	(233)	(387)	(1 076)
Net finance costs	(123)	(92)	(107)	(84)	(120)	(139)	(73)	(61)	(143)	(188)
Depreciation	(126)	(128)	(97)	(93)	(93)	(92)	(112)	(108)	(132)	(150)
Profit/(Loss) before taxation	276	190	82	49	110	(236)	(508)	(312)	(494)	(1 291)
Profit/(Loss) after taxation for the year from continuing operations	270	194	71	41	111	(246)	(533)	(321)	(507)	(1 311)
Income tax expense	(6)	4	(11)	(8)	1	(10)	(25)	(9)	(13)	(19)
Non-controlling interest in profit/(loss)	4	-	-	-	(47)	(65)	(91)	(13)	(1)	-
EBIT	399	282	189	133	230	(97)	(435)	(251)	(351)	(1 103)
Profit/(Loss) for the year	270	194	71	41	111	(246)	(533)	(347)	(549)	(1 363)
CONSOLIDATED STATEMENTS OF CASH FLOWS										
Cash flows from operations	212	474	(151)	360	178	(344)	(806)	72	(1 015)	(1 132)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION										
Non-current assets	2 458	2 293	2 177	2 131	2 110	1 677	1 623	1 476	1 348	1 601
Current assets	7 145	5 712	4 497	3 420	2 921	3 343	3 107	3 607	2 616	2 724
Assets held for sale	84	84	104	91	7	-	9	58	540	352
Total assets	9 687	8 089	6 778	5 642	5 038	5 020	4 739	5 140	4 504	4 677
Current liabilities	4 094	2 484	2 465	3 659	3 704	3 671	3 446	3 081	3 000	1 938
Non-controlling interest	3	6	8	-	-	(34)	31	102	6	7
Non-current loans and borrowings	888	1 616	1 406	101	101	101	53	1	2	832
Current loans and borrowings	1 270	259	507	1 865	1 845	1 943	1 074	234	833	14
Total equity	1 927	1 664	1 472	695	654	609	849	1 328	633	615

	2015 %	2014 %	2013 %	2012 %	2011 %	2010 %	2009 %	2008 %	2007 %	2006 %
RETURNS										
Gross profit/(loss) to revenue	19.4	19.6	21.1	24.2	15.5	16.0	16.3	15.7	23.1	(4.7)
Other operating expenses to revenue	16.0	19.2	24.0	26.8	27.6	23.4	32.7	28.3	38.5	41.7
Operating profit/(loss) to revenue	5.7	4.9	3.0	2.8	(9.7)	(4.5)	(11.8)	(6.1)	(11.8)	(38.8)
Net profit/(loss) to revenue	4.6	4.2	1.8	1.1	3.4	(6.8)	(13.6)	(9.1)	(16.8)	(49.2)
Operating profit/(loss) to average total assets	3.8	3.0	1.9	1.9	(6.2)	(3.4)	(9.9)	(4.8)	(8.4)	(23.1)
Operating profit/(loss) to ordinary shareholder's interest [1]	18.7	14.3	10.8	14.4	(48.0)	(26.6)	(54.5)	(17.5)	(61.1)	(175.1)
RATIOS										
Debt/equity ratio	1.1	1.1	1.3	2.8	3.0	3.4	1.3	0.2	1.3	1.4
Current asset ratio	1.7	2.3	1.8	0.9	0.7	0.8	0.9	1.2	0.9	1.4
Net finance cost cover	2.2	2.1	0.8	0.7	1.2	(1.6)	(6.9)	(5.2)	(3.5)	(6.9)
Revenue per employee (Rm)	1.3	1.1	0.9	0.8	0.7	0.7	0.8	0.5	0.4	0.3
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	976	849
Class B ordinary shares	225	225	225	225	225	225	225	225	40	40
Total shares	1 225	1 225	1 225	1 225	1 225	1 225	1 225	1 225	1 016	890
Number of employees [3]	4 559	4 136	4 219	4 716	4 716	5 090	5 067	7 276	7 634	8 850

[1] *The ratio was calculated using the average ordinary shareholder's interest*
[2] *Refer note 20.2*
[3] *For 2014/15, including associated companies, Denel employs 6 931 (2013/14: 6 555) 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	CONTRACTED	ACHIEVED
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	100%	100%
	Programme delivery	Milestone achieved per DoD contract deliverables	85%	>97%
Strategic economic role	Investment in R&D	Self-funded R&D as a % of revenue [1]	3%	2%
Business sustainability	Revenue	Increase in revenue year-on-year	12%	28%
	Profitability management	EBIT margin	4.5%	7%
	Cash from operating activities	Cash flow from operating activities before working capital changes as a % of revenue	2%	8%
	Order cover	% of orders concluded in respect of the coming year as a % of revenue budget for that year	60%	77%
	Operating expenses	Operating expenses as a % of revenue	23%	16%
Socio-economic objectives	Maximise the appointments from designated groups in order to address employment equity requirements	ACI as % of total appointments	75%	87%
		Women as % of total appointments	20%	30%
	Local content	Local procurement as % of total procurement [2]	70%	67%
	Preferential procurement and enterprise development	Procurement from black-owned suppliers as a % of local spend	20%	22%
		B-BBEE (recognised spend as a % of local spend)	70%	96%
		Black woman-owned as % of local spend	3%	8%
		Black youth-owned – owners under 35, as a % of local spend [3]	3%	1%
		Small and emerging enterprises suppliers developed to supply to the core business (number of beneficiaries)	20	25
	B-BBEE level	B-BBEE contributor level (old codes) [4]	Level 3	Level 2
	Training spend	% of employee cost	3%	4%
	Skills development – scarce and critical skills	Total number of engineering trainees (bursaries and internships)	90	92
		Total number of artisan trainees	100	157
		Total number of technician trainees	-	9
		Total number of DTA artisan and technical skills trainees (enrolments during the year)	300	355
	Employment – direct jobs created	Increase number of jobs	100	275
	Corporate social investment	Spend on CSI	1%	2%

1 *Not fully met partly due to significant increase in revenue*
2 *This ratio was affected by a significant brokering transaction, otherwise the ratio would have been 75%*
3 *A new area of measurement and focus on improving youth involvement through enterprise development initiatives*
4 *B-BBEE codes applied refer to the 2007 Codes of Good Practice*

OPERATIONS

The Denel order book is in excess of R35bn, and the focus is on converting an additional R23bn opportunities to contracts in the short- to medium-term. The growth as a result of the increased order book brings challenges, including production ramp-up, programme execution and resource planning. Specifically larger contracts, such as the turret contract for a Southeast Asian client, the Airbus A400M work package, the Al-Tariq stand-off weapons contract and the Hoefyster contract are maturing and reaching full capacity. Comprehensive human resources and capital programmes are in place to ensure successful execution of these projects. The following management interventions contribute to improved operations in the group:

PILLAR 1

Closer and strategic relationships with both the DoD&MV/ Armscor and major export clients:

- Sharing of long-term planning expectations enables structured HR and facility planning interventions
- Multi-year rather than one-year contracting provides base-load stability in operations

PILLAR 2

Recruitment and skills development (pipeline):

- Continue with the pipeline model taking in young, high-potential candidates through the bursary, internship and mentorship programmes
- Developing a model of easier migration of skills within Denel between business units, temporary or permanent, to serve "hotspot" areas
- Special HR interventions on a case-by-case as required, in particular where experienced, specialised skills are required and where the normal development process of youngsters may be too slow

PILLAR 3

External suppliers and subcontractors:

- The optimal model for internal manufacturing versus strategic outsourcing through supplier development is a theme at all the business units
- Widen the SA industrial base and progress with enterprise development. Each business units is developing a wider supplier base
- Maturity of the SA supplier base for specific technologies

PILLAR 4

Plant, equipment and operational infrastructure:

- Business units are well-equipped to execute their growth plans from a capital and infrastructure perspective
- Normal spend continues to ensure the upkeep of these facilities
- Future focus areas include the closer collaboration with Ekhuruleni regarding the development of the Aerotropolis
- Undertaking plant renewal at PMP over the next five years

PILLAR 5

Continuous business optimisation:

- Various on-going programmes that are cutting across functional areas that are dealing with operational efficiencies and translating into tangible financial improvement
- Energy conservation is one notable cross-cutting area

Denel's R&D approach is to self-fund the initial exploration phase of new developments from internal resources, and then to collaborate with clients and partners to jointly fund the full-scale development and industrialisation phases of new systems.

Denel is modernising its product offering in some of the capability areas to ensure competitiveness. The plan incorporates investment in certain technologies, renewing plant at PMP, upgrading infrastructure and developing capabilities for the future, such as space, C4ISR, as well as artillery. As previously mentioned, Denel is positioning itself to meet the objectives of the 2014 Defence Review.

CAPABILITY DEVELOPMENT

The 2014 Defence Review sets clear expectations for Denel as a state-owned defence contractor and the role it should play in support of the SANDF. It highlights a number of strategic and sovereign capabilities that should reside with Denel, including that of maritime and command and control. Denel has made significant progress in broadening its capability areas including the repositioning of its integration capability in Denel Integrated Systems and Maritime, which is charged with supporting and maintaining maritime systems, naval MRO, command and control, as well as intelligence, surveillance and reconnaissance (ISR) systems. The decision to be a key player in the command and control domain will provide the SA defence and security sector with full independence in this vital area of national security.

In addition, Denel acquired LSSA a vehicle capability involved in landward systems, notably turrets, gears, vehicle design and manufacturing, as well as MRO in order to augment its current landwards capabilities.

RESEARCH AND DEVELOPMENT THE KEY TO FUTURE COMPETITIVENESS

Denel's R&D approach is to self-fund the initial exploration phase of new developments from internal resources, and then to collaborate with clients and partners to jointly fund the full-scale development and industrialisation phases of new systems. A good example of this strategy is the Al-Tariq precision weapon system, where Denel, DoD and the UAE contributed in unison to the successful development and industrialisation of an advanced new weapon system. This model enables the quickest access to market for new products.

Denel's R&D efforts are focussed both on the expansion of existing capabilities and product portfolios, as well as establishing new ones. During 2015, R&D projects were executed in support of existing capabilities such as artillery, mortar, missile, UAV and armoured vehicle variants. It also included consideration of new small- and medium ammunition calibres, as well as expanding test range capabilities.

New capability areas focus on future requirements such as the concept SARA, a locally-developed passenger aircraft to serve regional travel requirements. Denel is leading the SARA concept research project which is a government and industry-wide initiative. The process includes collaboration with four SA universities and the Council for Scientific and Industrial Research (CSIR). The first scale-model of a proposed design for the SARA was unveiled at AAD. Denel signed a memorandum of agreement with the CSIR during 2013, and both entities are in the process of deepening the working relationship. In addition, programmes are in place with universities to better support the need for skilled resources in Denel and the wider industry.

As the OEM and custodian of the Rooivalk IP, Denel is excited to be part of the future of the Rooivalk programme. The current Rooivalk Mk1F baseline as deployed will require a midlife upgrade due to future additional functional requirements. Denel is in discussions with the SAAF regarding the Rooivalk roadmap to define and upgrade the current Rooivalk baseline, as well as the possible development and manufacturing of additional aircraft at a Rooivalk Mk2 baseline. Denel has proposed an implementation plan to the SAAF and the DoD&MV is expediting allocation of funding to the programme. The proposed development of Rooivalk will be a catalyst to revive capabilities for technology development and manufacturing enhancement in the local industry.

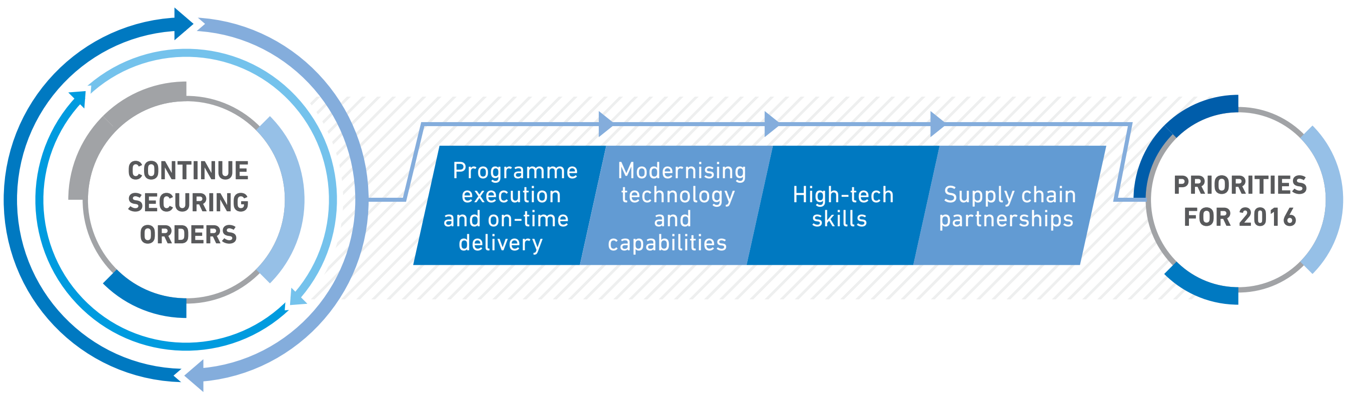
Denel has identified certain elements of rail manufacturing in which the company can participate using its manufacturing capabilities, such as aircraft body structures which are similar to railway coaches. Denel is executing an order to manufacture luggage racks and internal structures of the coaches which positions Denel well to participate in future rail opportunities.

OPERATIONAL EXCELLENCE

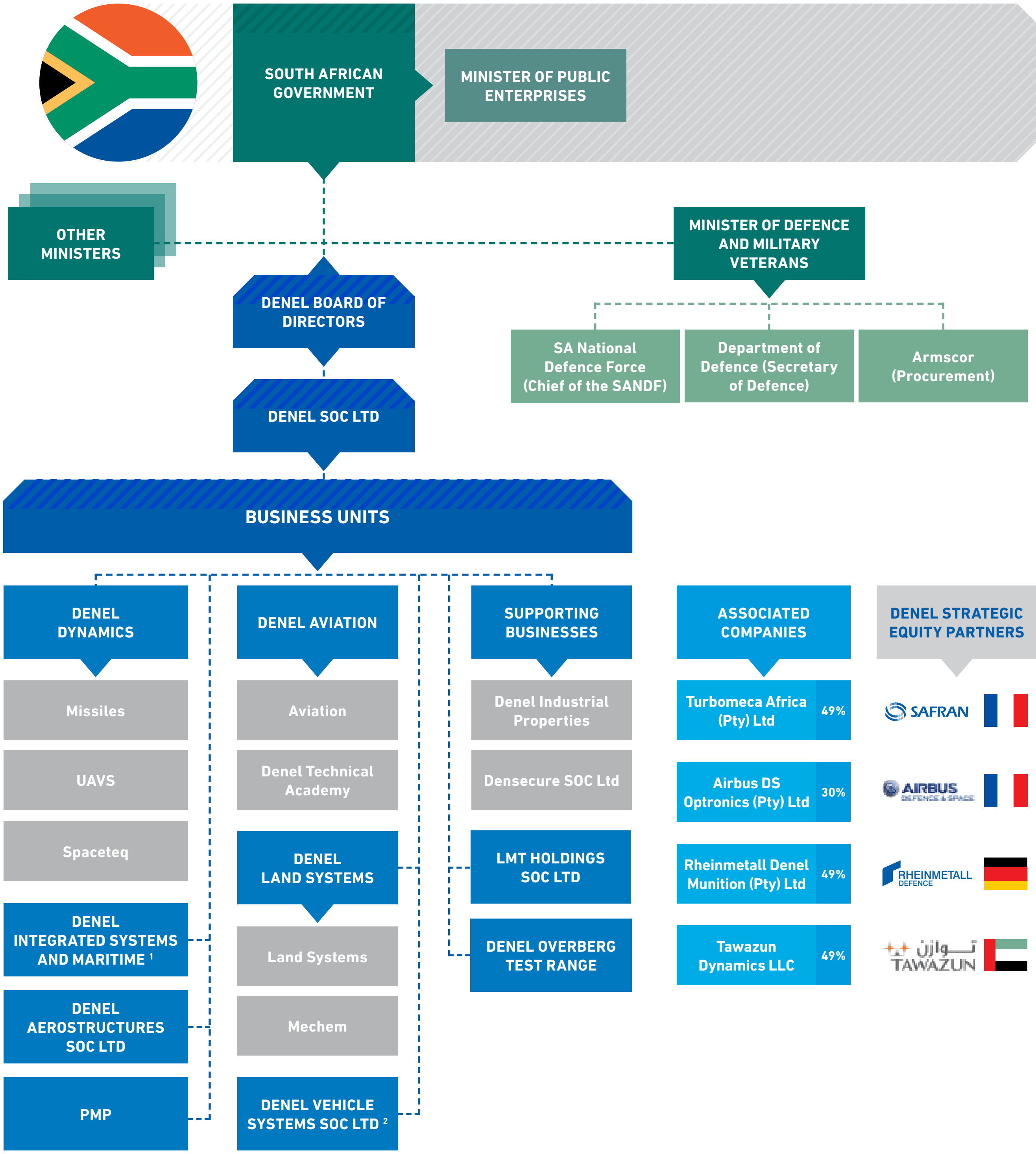
As evidenced by the revenue growth, 2014/15 was a busy year in terms of programme execution. The following were noteworthy developments:

- The Seeker 400, the latest and most advanced UAV, has completed flight testing and is now in production for our local customer. The Seeker 400 has the ability to carry two different payloads at a time, such as synthetic aperture radar, electro-optical sensors or electronic and communication sensors. The payloads can be interchanged in the field, allowing the Seeker 400 to be tailored for different tactical situations;
- The A-Darter 5th generation air-to-air missile has undergone further testing. During the most recent test, the missile was launched from a SAAF Gripen fighter and successfully deployed at a target drone on a perpendicular trajectory to the launch aircraft. It is expected that production will commence before the end of 2015/16;
- The infantry combat vehicle contract, Hoefyster, is on track with platform production on schedule, the missile system successfully tested and the new 30mm CamGun exceeding expectations. The vehicle has been developed in numerous variants, including command, section, mortar, missile, ambulance and fire support derivatives. The common turret structure, fitted with different weapon modules, as well as a common platform, with variant-specific fits, will simplify logistic support and reduce the cost of through-life support;
- The contract to develop, manufacture, supply, deliver and commission turrets for 8x8 armoured fighting vehicles is progressing well with four turret kits being delivered per month. A major milestone reached during the year includes the delivery of the first anti-tank guided weapon missile variant;
- The development and production of the first two prototypes on the contract for the production of 60 4x4 vehicles were successfully concluded. In addition, the first three production units were delivered on the development and production contract of 79 4x4 vehicles; and
- The wing-to-fuselage fairing (WFF) and top shells (TS) production rate on the A400M contract was increased from 16 ship sets to 24 ship sets during the year. In addition, Denel was awarded a fourth multimillion-rand contract to manufacture and produce key components on the aircraft.

A critical aspect of Denel's strategy is growing revenue through securing identified opportunities. The focus in operations will remain to continuously improve the execution of major programmes. This will be achieved through enhanced human resource capacity, improved plant and equipment, deepened and widened supplier partnerships with the industry and the use of cutting-edge technology.



ORGANISATIONAL STRUCTURE



[1] Operational as of 1 April 2015
[2] Previously known as LSSA - As of 28 April 2015 100% owned by Denel

BUSINESS UNITS

DENEL AEROSTRUCTURES

DAe uses advanced manufacturing technologies to design and produce complex composite and metallic aircraft structures. DAe is positioned as a Tier 1 and 2 supplier in the global aerospace supply chain, supplying aerostructures to OEMs and Super Tier 1 customers, such as Airbus. DAe is working with local Tier 3 and 4 parts manufacturing suppliers as part of developing and growing the domestic national aerospace supply.

MAIN ACTIVITIES, INCLUDING KEY PRODUCTS AND SERVICES

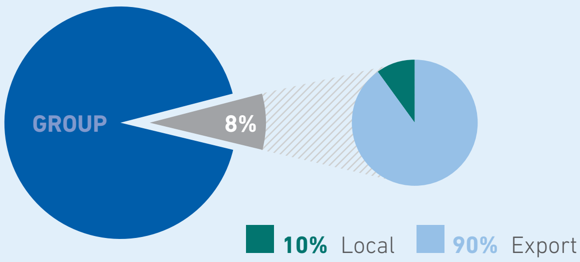
The design, qualification, industrialisation, detail manufacture and assembly of the Airbus A400M WFF, TS and vertical tail plane ribs, spars and sword (RSS);

The manufacture and assembly of the empennage for the Gulfstream G150 aircraft;

The manufacture and supply of ultra high-cycle fatigue and natural fibre composites for AISI; and

Providing engineering support to other Denel business units, parts manufacturer for the Rooivalk combat support helicopter programme and Seeker 400 UAVS design support.

DAe 8% OF DENEL REVENUE



	2015 Rm	2014 Rm	CHANGE %
Revenue	468	438	7
Export revenue	419	361	16
EBIT	(19)	(44)	70

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

B-BBEE LEVEL 2

440 employees

KEY HIGHLIGHTS AND ACHIEVEMENTS

- A400M programme delivery - Increased WFF and TS production rate from 16 ship sets in 2013/14 to 24 ship sets in 2014/15 with successful on-time and on-quality deliveries to the customer;
- France, Airbus A400M cargo ramp door toe panels, from Stelia Aerospace - DAe has been awarded a contract for the Airbus A400M cargo ramp door toe panels;
- Awarded the contract to manufacture the baseboard ducts for the first 200 trains of the Passenger Rail Agency South Africa (PRASA) rolling stock programme estimated at R90m over ten years;
- Retained international Nadcap accreditations in non-destructive testing, composites, chemical processing and heat treatment. Achieved AS9100 revision C accreditation;
- Signed MoU with Airbus and Aerosud - landmark collaborative agreement with Airbus that aims to strengthen the competitiveness of SA's aerospace industry and allow it to bid for more work packages from global manufacturers; and
- Signed a MoU with Strand Aerospace Malaysia covering knowledge transfer and possible subcontracting work.

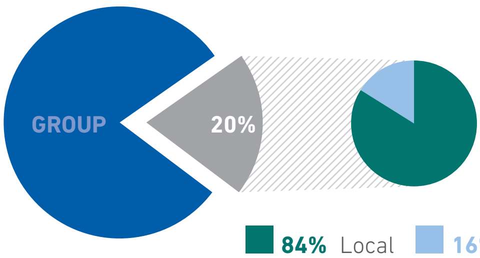
DENEL AVIATION

DAv is the OEM of the Rooivalk combat support helicopter and 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 DTA provides apprenticeship training in several trades to advanced and aircraft type training.

MAIN ACTIVITIES, INCLUDING KEY PRODUCTS AND SERVICES

- Airbus Helicopters-accredited MRO service centre for 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;
- Rooivalk OEM, Oryx and Cheetah design authority and comprehensive MRO engineering support, upgrade solutions, systems integration, certification and flight testing services;
- Lockheed Martin-accredited 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 offering depot-level maintenance of avionics, electrical, oxygen and hydro-mechanical components. The facility is also accredited to carry out repairs and calibration of ground support and test equipment;
- Provides advanced and type training through DTA, 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; and
- 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.

DAv 20% OF DENEL REVENUE



84% Local **16%** Export

	2015 Rm	2014 Rm	CHANGE %
Revenue	1 155	1 000	16
Export revenue	185	176	5
EBIT	68	66	3

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

KEY HIGHLIGHTS AND ACHIEVEMENTS

- As a result of the successful deployment of the Rooivalk, the DoD&MV is supporting a study for the possible 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 both the SAAF and SAPS through efficient MRO operations;
- The AAD and other international shows were ideal platforms for DAv to engage the international market on its engineering and MRO capabilities. Negotiations with current and new clients are at an advanced stage;
- DTA investigating inclusion of a simulation centre in its service offering; and
- Skills supply agreement restructured and extended to 2015/16.

B-BBEE LEVEL 2

773 employees

DENEL DYNAMICS

DD is an innovative leader in advanced systems technology. The core business covers tactical missiles and precision-guided weapons. Designs, develops and manufactures competitive tactical UAVs and high-speed target systems. System integrator of complex systems with a broad spectrum of skills to address higher order systems at capability level, addressing not only system performance, but also in-service sustainability. Develops satellite systems for the SA government and international clients.

MAIN ACTIVITIES, INCLUDING KEY PRODUCTS AND SERVICES

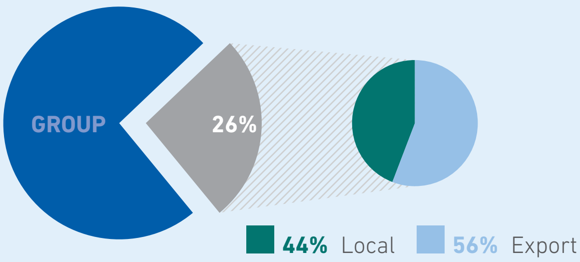
The current range of missile products and systems includes the A-Darter 5th generation air-to-air missile system, the Umkhonto-IR air defence missile systems, the Ingwe and Mokopa anti-armour missile systems, Ingwe Portable Launch System, precision-guided munitions and the Raptor II stand-off weapons;

The UAVS include Seeker 200, Seeker 400 and Skua high-speed target drone systems, as well as Hungwe UAV currently under development;

The system integration includes a ground-based air defence system. The air defence system provides an advanced, integrated air defence capability based on proven products; and

Develops satellite systems for the SA government and also for international clients through Spaceteq.

DD 26% OF DENEL REVENUE



	2015	2014	CHANGE
	Rm	Rm	%
Revenue	1 490	1 357	10
Export revenue	836	684	22
EBIT	122	142	(14)

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

B-BBEE LEVEL 2

914 employees

KEY HIGHLIGHTS AND ACHIEVEMENTS

- Successful product testing and demonstrations:
  - » The A-Darter 5th generation air-to-air missile development was completed as demonstrated at the G3 flight trails. Entering qualification phase;
  - » Significant progress on the beyond visual range (BVR) missile technology demonstrator - to start the flight test series in 2015;
  - » Successful integration of the Umkhonto SAM missile on a navy vessel for an international customer resulting in early deliveries; and
  - » Successful clearance of the Ingwe 5km missile from a light helicopter, resulting in orders for a number of missiles.
- Development of the long-range Al-Tariq guided bomb kit was completed with successful live firings and the first block of 250 production deliveries finalised;
- Seeker 400 performance flight testing was completed successfully during the year under review and the certification is in progress;
- The full EO-SAT Phase 1 contract, to the value of R385m, was awarded to Spaceteq in March 2015; and
- DISS secured contracts for the gun fire control post for the 35mm gun upgrade and the replacement of the Military Image Interpretation Centre for the SAAF.

DENEL LAND SYSTEMS

DLS is a consolidated, project-based, leading systems designer and integrator of combat turrets, artillery and infantry systems, small arms and armoured vehicles. The Mechem business unit is a global leader in creating a safer environment through the provision of solutions for the clearance of 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, and
- Integrating the Ingwe anti-tank missile system into the anti-tank variant of the AMV 8x8 armoured modular vehicle platform.

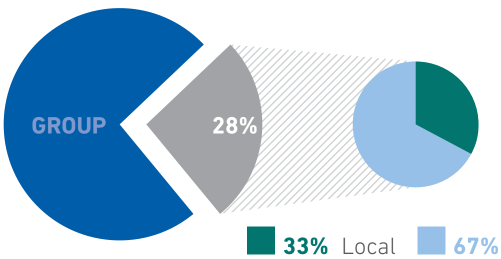
Other products and systems include artillery systems, combat turrets, vehicles systems and rapid-fire small- and medium-calibre weapons, of which a wide range of highly competitive, world-class products are available;

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;

The 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.

DLS 28% OF DENEL REVENUE



	2015 Rm	2014 Rm	CHANGE %
Revenue	1 627	1 078	51
Export revenue	1 089	818	33
EBIT	65	42	55

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

B-BBEE LEVEL 3

630 employees

KEY HIGHLIGHTS AND ACHIEVEMENTS

- The industrialisation and production on Hoefyster phase II ahead of schedule;
- Major milestones reached on the AV8 turret system contract;
- Order from SAPS for MRO of R5 rifles - 1 500 of 1 900 delivered successfully;
- Order for 1 000 SS77 machine guns from a customer in the Middle East;
- 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 near African conflict areas;
- The new generation Casspir vehicle (Casspir NG2000) continues to generate interest, especially in the African market; and
- Mechem awarded a contract by the Nuclear Energy Corporation of South Africa (NECSA) as their dog-service provider.

LMT HOLDINGS

LMT is a protected mobility solutions supplier to local and international clients in the defence and security industries. These include the full lifecycle of design and development, manufacturing and after-sales support of complete systems, subsystems and components. As such, LMT operates on level 2 to 5 of the systems hierarchy and in acquisition (all baselines) and maintenance activities of the system lifecycle.

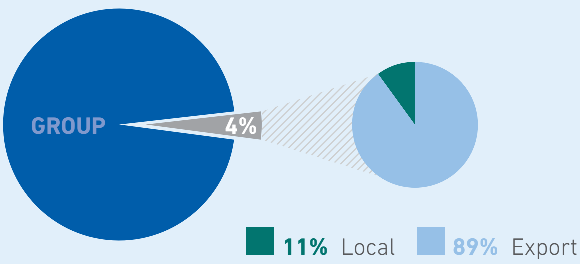
MAIN ACTIVITIES, INCLUDING KEY PRODUCTS AND SERVICES

LMT develops intellectual property unique to ballistic, landmine and improvised explosive device (IED) protection and the integration of these protection technologies into armoured vehicles. It has the ability to design and manufacture mine-protected vehicles with value add to clients with, amongst others, flat or semi-flat floor mine protection. Vehicles with this technology are generally lower and more spacious than vehicles with a conventional V-hull design. Height and space (the derived parameter of mass) are key drivers in the design of protected mobility vehicles;

Capability is key to the success of project Hoefyster, as the Badger vehicle is fitted with flat-floor technology, designed and qualified by LMT; and

Supplied more than 150 armoured cabs to Mercedes Benz. The new HMHP AV92 vehicle is developed in-house by LMT.

LMT 4% OF DENEL REVENUE



	2015 Rm	2014 Rm	CHANGE %
Revenue	231	110	110
Export revenue	205	60	242
EBIT	13	4	225

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

KEY HIGHLIGHTS AND ACHIEVEMENTS

- Successful sign-off on LM13.400 and LM8.360 vehicle prototypes;
- First production models of LM8.360 during February;
- Successful sign-off on PTV development specification and mock-up;
- Two pre-production units on order set for delivery in May 2015; and
- Potential opportunity to build 200 hulls for UAE client.

B-BBEE LEVEL 4

215 employees

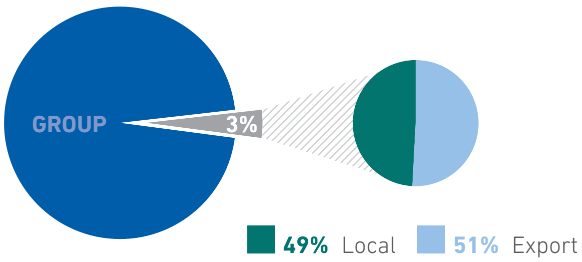
DENEL OVERBERG TEST RANGE

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;
- Execution of anti-tank tests, helicopter-based tests, and electronic warfare tests; and
- Mobile telemetry launch support services in remote locations for space missions, as well as operating a ground station for the transfer of data to and from satellites.

OTR 3% OF DENEL REVENUE



	2015 Rm	2014 Rm	CHANGE %
Revenue	170	109	56
Export revenue	87	27	222
EBIT	15	17	(12)

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

KEY HIGHLIGHTS AND ACHIEVEMENTS

- Provided in-flight test services in terms of a multi-year contract with the DoD&MV;
- Conducted five international test campaigns for European and Southeast Asian clients, involving naval exercises and testing of air defence weapons.
- Provided essential support during the successful testing of Denel's A-Darter air-to-air-missile, as well as the Hoefyster Ingwe missile system;
- Participated in tests on the Al-Tariq development programme;
- Provided remote telemetry support from New Zealand and French Guiana during the ATV5 and two VEGA missions;
- Continued with technology renewal programme focused on upgrading capabilities to meet client requirements; and
- Maintained ISO9001:2008 and ISO14001:2004 certification, which underlines commitment to quality service delivery within environmental management principles.

B-BBEE LEVEL 3

161 employees

PRETORIA METAL PRESSINGS

PMP is an integrated manufacturer of small- and medium-calibre ammunition and technology-related products and services for military, police and commercial use. PMP's products are widely used by many customers, including the SANDF, the SAPS and other security agencies, locally and abroad. These include small- and medium-calibre ammunition for soldiers, police or 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;

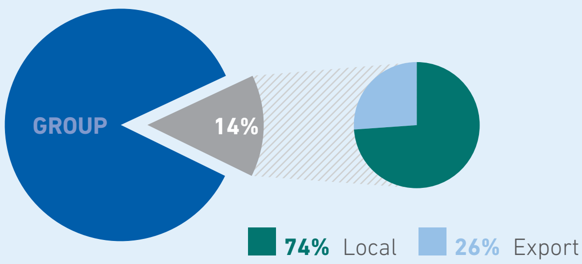
Probit rock drill bits for the mining industry;

Primary explosives and explosive products for commercial use in the private sector;

PMP's non-ferrous foundry and rolling plant produces up to 80 tons 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.

PMP 14% OF DENEL REVENUE



	2015 Rm	2014 Rm	CHANGE %
Revenue	828	515	61
Export revenue	219	150	46
EBIT	38	7	443

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

B-BBEE LEVEL 2

1 223 employees

KEY HIGHLIGHTS AND ACHIEVEMENTS

- After completing the industrialisation of the 30x173mm PRAC-T rounds in 2014, the industrialisation of the APCI-T and SAPHEI-T rounds were completed in March 2015 with 15 000 APCI-T and 88 000 PRAC-T rounds being delivered to the SANDF;
- Good progress was made with the development of a hardened 30x173mm cartridge case for use in the Bushmaster weapon;
- The qualification of the lapping process of the NAMMO (Sweden) 30x173mm APFDS-T projectiles is nearing completion and 12.7mm multipurpose projectiles has been completed;
- Purchased the full rights and IP from NEOPUP for the 20x42mm PAW weapon; and is currently busy with the production of the weapon; and
- PMP's safety record remains excellent with the lost time injury frequency rate (LTIFR) at end March 2015 at 0.46 (2013/14: 0.15), keeping PMP amongst the top 5% of 'safe' businesses in the world.

ASSOCIATED COMPANIES

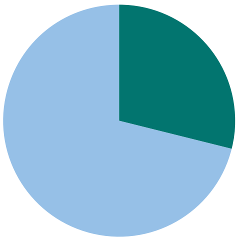
RHEINMETALL DENEL MUNITION (PTY) LTD

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.

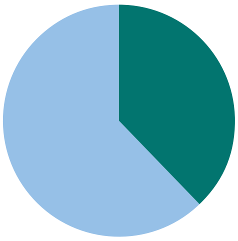
MAIN ACTIVITIES, INCLUDING KEY PRODUCTS AND SERVICES

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.

REVENUE 2015



REVENUE 2014



	2015 Rm	2014 Rm	CHANGE %
Revenue	1 706	1 442	18
Export revenue	1 204	897	34
EBIT	178	110	62

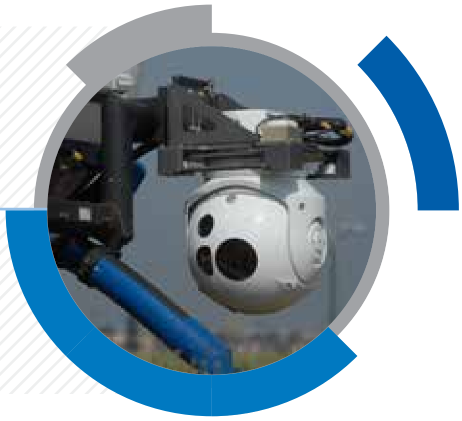
1 761 employees

KEY HIGHLIGHTS AND ACHIEVEMENTS

- RDM laid a solid foundation for turnaround and sustainable growth and profitability;
- Strong increase in booked orders with current value of more than R3.1bn (major booked multi-year projects from Singapore, Saudi Arabia and UAE);
- RDM remains the centre of excellence in Rheinmetall AG and Denel for all 60mm, 81mm and 120mm mortar, as well as 155mm artillery systems worldwide; and
- RDM is financially sound, liquid and solvent with first dividend declaration to shareholders.

AIRBUS DS OPTRONICS (PTY) LTD

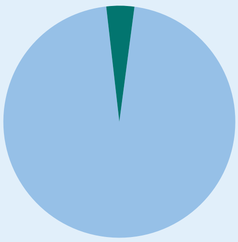
Airbus DS Optronics (30% shareholding) is a global supplier involved in the development and production of optronics, optical and precision-engineered products for military and security applications.



MAIN ACTIVITIES, INCLUDING KEY PRODUCTS AND SERVICES

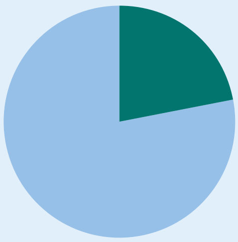
The company's main activities include the supply of optical sensors, optical head-trackers, laser range-finders, as well as targeting surveillance and sighting systems, to a spectrum of domestic and international defence and security customers.

REVENUE 2015



4% Local
96% Export

REVENUE 2014



22% Local
78% Export

	2015 Rm	2014 Rm	CHANGE %
Revenue	624	545	14
Export revenue	599	424	41
EBIT	56	29	93

KEY HIGHLIGHTS AND ACHIEVEMENTS

- Completion of development and delivery of latest technology-based submarine periscope systems; and
- Optics throughput more than doubled due to improved processes and increased CNC investments.

B-BBEE LEVEL 5

280 employees

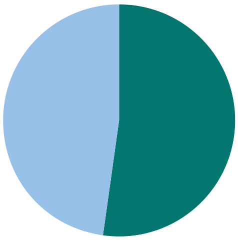
TURBOMECA AFRICA (PTY) LTD

TMA (49% shareholding) 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 since the first Artouste II engine for an Alouette II was delivered in 1960. In civil aviation, 34% of SA's turbine helicopters are fitted with TMA turbine-shaft engines. In military aviation, 75% of SA's turbine helicopters are fitted with TMA turbo-shaft engines.

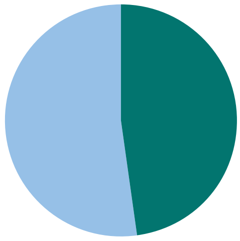
MAIN ACTIVITIES, INCLUDING KEY PRODUCTS AND SERVICES

- Manufacturing of gears, shafts and five-axis high-speed machining of gearbox casings for the Safran group and Rolls-Royce;
- Aerospace gearbox assembly;
- MRO, engine test facilities, parts repair and accessories of Makila, Turmo and Arrius engines;
- In-house heat and surface treatment facility, including shot peening; and
- TMA maintenance centre renders a 24-hour customer service over Sub-Saharan Africa.

REVENUE 2015



REVENUE 2014



	2015 Rm	2014 Rm	CHANGE %
Revenue	522	459	14
Export revenue	253	239	6
EBIT	75	61	23

279 employees

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 WIP reduction;
- Continued delivery of Rolls-Royce gearboxes as single-source supplier and achieving the customer OTD target at 85%;
- Continued improvements in internal efficiencies, ensuring continued profitability; and
- Maintained TMA B-BBEE rating at a level 3 contributor.

TAWAZUN DYNAMICS LLC

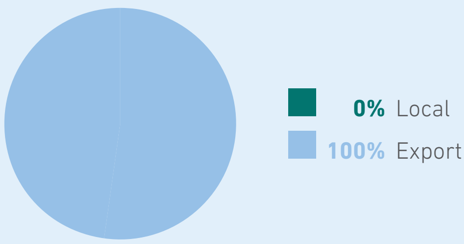
Tawazun Dynamics (49% shareholding) is a supplier of precision-guided munitions based in the UAE. Tawazun Dynamics is an associated company of Denel as of 1 April 2013 and is in the start-up phase of the business, with a strategic intent to contribute to the industrial capacity of the UAE.

MAIN ACTIVITIES, INCLUDING KEY PRODUCTS AND SERVICES

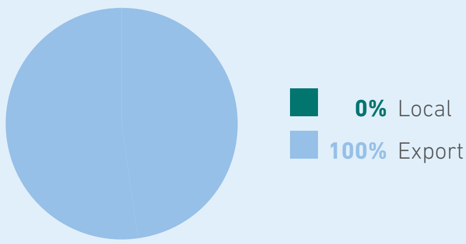
The company's main activities are to install, sub-assemble, manufacture, as well as maintain and provide spare parts for precision-guided munitions for a spectrum of domestic and international defence and security customers, from its modern facilities in the Tawazun Industrial Park outside Abu Dhabi;

Developing indigenous industrial skills is a key focus area.

REVENUE 2015



REVENUE 2014



	2015	2014	CHANGE
	Rm	Rm	%
Revenue	8	1	700
EBIT	(81)	(37)	(119)

The functional currency is AED. Results reflected are converted at R1=0.3009AED

Tawazun Dynamics was in a capacity building phase, and is now positioned to generate profit from its operational base and strong order book.

52
employees

KEY HIGHLIGHTS AND ACHIEVEMENTS

- Production facility operational – all operational and support functions in place;
- Activated an initial six-year contract with a value of 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; and
- Significant success in developing local industrial capacity.

PART FOUR
CORPORATE GOVERNANCE

Denel was recognised for good corporate governance and reporting by Centre for Corporate Governance at University of Stellenbosch, Nkonki Inc. as well as the JSE and Chartered Secretaries of Southern Africa.

DENEL BOARD OF DIRECTORS

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

MARTIE JV RENSBURG (58)

BCom, BCompt(Hons), CTA, CA(SA), Executive Leadership Programme

INDEPENDENT NON-EXECUTIVE DIRECTOR
Appointed to the board in August 2010
Appointed as interim chairman on 15 August 2014

DENEL BOARD COMMITTEE MEMBERSHIPS:
Interim chairman of the board and member of the audit and risk committee.

OTHER DIRECTORSHIPS: Non-executive member of First Rand Bank Wholesale Credit Committee (Africa and Specialised Finance) and chairman of Headstream Holdings (Mauritius) and Headstream Water Holdings (RSA). Held various non-executive director roles including former chairman of Johannesburg Water, as well as the Namibian and Botswana operations of the NMI Group, former non-executive director of Airports Company of SA, NMI Group and the Bond Exchange of SA. Non-executive roles included serving and chairing various audit and risk, human resources, remuneration and nomination committees. Former CEO of Trans Caledon Tunnel Authority.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Senior leadership in executive and non-executive roles, transformation and restructuring of businesses, raising of funding and the associated asset and liability management, negotiation skills, enterprise-wide risk management and the governance of risk, leadership in good governance and strategy formulation. Recipient of the Woman in Water Award in 2002.

RIAZ SALOOJEE (52)

Executive national security programme (joint staff course/ SANDF), Brigadier General (Ret.), senior command and staff course (SAAF), junior command and staff course (SA Army), Certificate in Strategic Management

EXECUTIVE DIRECTOR AND GROUP CHIEF EXECUTIVE OFFICER
Appointed to the board in January 2012

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

OTHER 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 SANDF, including advisor on transformation and human resources management and later leaving the force as a Brigadier General. Former member of the SAAF 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.

FIKILE MHLONTLO (46)

BCompt, BCompt(Hons), CTA, CA(SA), attended various leadership courses, part of the Denel Executive Leadership Programme

EXECUTIVE DIRECTOR AND GROUP CHIEF FINANCIAL OFFICER
Appointed to the board in November 2008

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

OTHER DIRECTORSHIPS: Non-executive director of RDM, Tawazun Dynamics, Airbus DS Optronics, DAe, LMT and Densecure, as well as trustee of Denel Post-Retirement Trust. Former director and audit partner of one of the big four audit firms and held various management positions. Trustee of the LoveLife board and member of the 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.

ADV GHANDI BADELA (56)

MSc (Eng Electromechanical), MSc (Eng Packaging Technology), MSc (Engineering Management), MBA, LLB, attended various courses in leadership and management

INDEPENDENT NON-EXECUTIVE DIRECTOR
Appointed to the board in July 2011

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

OTHER DIRECTORSHIPS: Non-executive director of Abrina 5604 (Sasol Inzalo share scheme), Amagcisa Holdings, Badela Brothers Holdings, Amagcisa Integrated Solutions and CSIR. Member of advisory council of University of Johannesburg Engineering Faculty.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Leadership, entrepreneurship, legal advice, arbitration, mediation and negotiation, relevant industry skills as engineer and business development.

DR GERT CRUYWAGEN (59)

MBSc, PhD, PMD, FIRM(SA), Risk Management Diploma, Certificate Advanced Security Management

INDEPENDENT NON-EXECUTIVE DIRECTOR
Appointed to the board in September 2008

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

OTHER DIRECTORSHIPS: Member of the King Committee on Corporate Governance, chairman of Cruywagen-IRMSA risk foundation. Trustee of GCM Trust, Tsogo Sun Group Medical Aid Scheme and Tsogo Sun Pension Fund, group director of risk of Tsogo Sun Group and lead independent non-executive director of Accelerate Property Fund. Non-executive director of 1652 Optimum. Former chairman of the group risk governance committee of the City of Johannesburg. Honorary life member of Institute of Risk Management (UK) and Institute of Risk Management in SA (IRMSA), as well as founder and honorary member of Polish Risk Management Association (POLRisk) and Russian Risk Management Association (RUSRisk).

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Leadership in corporate governance, the governance of risk, reporting, risk and insurance management, understanding of internal audit and control processes and strategy formulation. SA Risk Manager of the year in 2002 and 2009.

ZIPHOZETHU MATHENJWA (38)

BSc, Certificate in Financial Management and Investments, Post-graduate Diploma in Business Management, Strategic Management and Corporate Governance, MBA, MSc (International Business)

INDEPENDENT NON-EXECUTIVE DIRECTOR
Appointed to the board in July 2011

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

OTHER DIRECTORSHIPS: Non-executive director of Umgeni Water Board, Mitsui & Co African Railway Solutions, Sinafuthi Group, Insika Foundation. Former non-executive director of TMA.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Leadership, governance expertise, marketing, environmental and stakeholder management.

NKOPANE MOTSEKI (49)

Certificate in Forensic Investigations and Crime Intelligence and attended various intelligence courses

INDEPENDENT NON-EXECUTIVE DIRECTOR
Appointed to the board in July 2011

DENEL BOARD COMMITTEE MEMBERSHIPS:
Member of the board.

OTHER DIRECTORSHIPS: Director of Gau Gold Investments, Mzantsi Veterans Minerals and Energy Resources and Mzantsi Veterans Petroleum and Lubricants. Former non-executive director of Matuba Holdings. Previously held various executive roles in different organisations, including intelligence and Matjhabeng local municipality.

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

MAVUSO MSIMANG (73)

BSc, MBA

INDEPENDENT NON-EXECUTIVE DIRECTOR
Appointed to the board in July 2011

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

OTHER DIRECTORSHIPS: Chairman of iSimangaliso Wetland Park Authority, Gidani, Blueprint Holdings, Tourism Business Council of SA, Delphini, Housing Development Agency and WWP-Memeza Holdings. Non-executive director of African Parks Networks Corruption Watch (RF) NPC, Peace Park Foundation, Harmony Gold Mining, Superflex, Investment Solutions and Investment Solutions Unit Trust. Former deputy chairman of Save the Children SA. Trustee of the Oliver and Adelaide Tambo Foundation.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Senior leadership, transformation, restructuring, executive management experience, environmental management, stakeholder relations and good governance.

BAFANA NGWENYA (53)

Certificate in Defence Management, Certificate in Practical Project Management, Strategic Management Certificate

INDEPENDENT NON-EXECUTIVE DIRECTOR
Appointed to the board in July 2011

DENEL BOARD COMMITTEE MEMBERSHIPS:
Member of the board.

OTHER DIRECTORSHIPS: Director of Hellocomms, Winter Robin Investments 9 and director and shareholder of Ngwao-Boswa Professional Services.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Business management, project management, intelligence and security, as well as defence industry knowledge.

PROF STELLA NKOMO (68)

BA (Business Education), MBA, PhD

INDEPENDENT NON-EXECUTIVE DIRECTOR
Appointed to the board in July 2011

DENEL BOARD COMMITTEE MEMBERSHIPS: Chairman of the personnel, remuneration and transformation and of the social and ethics committees.

OTHER DIRECTORSHIPS: Professor and Deputy Dean for Research and Post-graduate Studies in the Faculty of Economic and Management Sciences at the University of Pretoria.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Professor, expert in employment equity and gender in organisations, talent development, human resources and operations director, as well as higher education management.

ADV MELISSA NTSHIKILA (42)

BA, LLB

INDEPENDENT NON-EXECUTIVE DIRECTOR
Appointed to the board in July 2011

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

OTHER DIRECTORSHIPS: Senior government negotiator on labour-related matters in the Department of Public Service and Administration.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Human resources, labour law expertise and labour relations, negotiations skills, as well as legal.

MATODZI RATSHIMBILANI (41)

BProc, Certificate in Business Management, Mining Executive Preparatory Programme and Certificate Prospecting and Mining Law

INDEPENDENT NON-EXECUTIVE DIRECTOR
Appointed to the board in July 2011

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

OTHER DIRECTORSHIPS: Founding director at Tshisevhe Gwina Ratshimbilani Inc. Former chairman of Railway Safety Regulator and non-executive director of TMA.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Specialising in corporate and commercial law, mergers, acquisitions and corporate governance.

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.

RIAZ SALOOJEE (52)

EXECUTIVE DIRECTOR AND GROUP CHIEF EXECUTIVE OFFICER

Executive national security programme (joint staff course/ SANDF), Brigadier General (Ret.), senior command and staff course (SAAF), junior command and staff course (SA Army), Certificate in strategic management

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 SANDF, including advisor on transformation and human resources management and later leaving the force as a Brigadier General. Former member of the SAAF 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 to the group executive committee in January 2012

FIKILE MHLONTLO (46)

EXECUTIVE DIRECTOR AND GROUP CHIEF FINANCIAL OFFICER

BCompt, BCompt(Hons), CTA, CA(SA), attended various leadership courses, part of the Denel Executive Leadership Programme

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

DIRECTORSHIPS: Non-executive director of RDM, Tawazun Dynamics, Airbus DS Optronics, DAe, LMT and Densecure, as well as trustee of Denel Post-Retirement Trust. Former director and audit partner of one of the big four audit firms and held various management positions. Trustee of the LoveLife board and member of the 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 November 2008

ZWELAKHE NTSHEPE (57)

GROUP EXECUTIVE: BUSINESS DEVELOPMENT AND CORPORATE AFFAIRS

Post-graduate Diploma in Management Studies, MBA

DIRECTORSHIPS: Former non-executive director of Airbus DS Optronics, 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

JAN WESSELS (56)

GROUP CHIEF OPERATING OFFICER

BEng(Hons) Electronics, Advanced Management Diploma

DIRECTORSHIPS: Non-executive director of Tawazun Dynamics, LMT, Airbus DS Optronics and TMA.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Held various management positions, including leading business development and programmes execution activities. Former CEO of DD.

Appointed to the group executive committee in May 2013

NATASHA DAVIES (43)

GROUP EXECUTIVE: HUMAN RESOURCES AND TRANSFORMATION

MCom (Business Management), BCur(Hons), part of the Denel Executive Leadership Programme

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

DIRECTORSHIPS: Chairman of Technology and Human Resources for Industry Programme (THRIP), trustee member of Denel Retirement Fund (DenRet) and Denel Medical Benefit Trust (DMBT), as well as 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

STEPHAN BURGER (57)

CHIEF EXECUTIVE OFFICER: DENEL LAND SYSTEMS

BEng (Mechanical), Post-graduate qualification in System Engineering, Certificate in Positive Negotiations, Finance and Quality

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 (45)

CHIEF EXECUTIVE OFFICER: DENEL INTEGRATED SYSTEMS AND MARITIME

MBA, Certificate in Programme Management, NDip Electronics Engineering

DIRECTORSHIPS: Non-executive director INTSIMBI (National Tooling Initiative) and member of UCT GSB Advisory Board. Former non-executive director of DAe and TMA. Former CEO of DAe and DAv, CEO of Wesgro, GM at TISA and 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 (46)

CHIEF EXECUTIVE OFFICER: DENEL AVIATION

Masters in Aeronautical Maintenance and Production Management, Executive Leadership Programme

DIRECTORSHIPS: Non-executive director of TMA. Non-executive director of Commercial Aviation Association of SA.

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

Appointed as chief executive officer in March 2010

THEO KLEYNHANS (54)

CHIEF EXECUTIVE OFFICER: DENEL AEROSTRUCTURES

BEng (Electronics), MBL, Executive Leadership Programme

DIRECTORSHIPS: Executive director of DAe.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Engineering, operations and business management and executive leadership experience. Former deputy CEO of DAe.

Appointed as chief executive officer in November 2014

TSEPO MONAHENG (51)

CHIEF EXECUTIVE OFFICER: DENEL DYNAMICS

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

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Leadership, strategy, business development and programme management. Former deputy CEO of DD.

Appointed as chief executive officer in May 2013

PHALADI PETJE (49)

CHIEF EXECUTIVE OFFICER: PRETORIA METAL PRESSINGS

BA(Hons) Economics, BEd, PDM (Bus Admin), Diploma Management, Executive Business Leadership Programme

DIRECTORSHIPS: Non-executive director of DAe.

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Business management strategic planning, business development, marketing and business process re-engineering. Former deputy CEO of PMP.

Appointed as chief executive officer in May 2013

ABRIE VAN DER WALT (56)

CHIEF EXECUTIVE OFFICER: DENEL OVERBERG TEST RANGE

MSc (Computer Science), Executive Leadership Programme

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

Appointed as chief executive officer in December 2005

ELIZABETH AFRICA (54)

GROUP COMPANY SECRETARY

BAdmin, Company Secretary Studies, Executive Development Leadership Diploma

DIRECTORSHIPS: Trustee of DenRet and member of the 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 and financial administration.

Appointed as group company secretary in November 2009

ABDUL CARIM (49)

DEPUTY CHIEF EXECUTIVE OFFICER: DENEL AVIATION

BCom, BAcc, CA(SA)

DIRECTORSHIPS: Non-executive director of DAe

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Financial management.

Appointed as deputy chief executive officer in July 2012

FORTUNE LEGOABE (39)

GROUP LEGAL COUNSEL

BJuris, LLB, Executive Development Programme

DIRECTORSHIPS: Non-executive director of DAe

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Corporate Law, Commercial Law, Litigation, Intellectual Property Law, Alternative Dispute Resolution and Business management.

Appointed as group legal counsel in July 2011

MXOLISI MAKHATINI (43)

DEPUTY CHIEF EXEUTIVE OFFICER: DENEL LAND SYSTEMS

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

DENNIS MLAMBO (57)

GROUP SUPPLY CHAIN EXECUTIVE

BCom, Diploma in Production Management, Certified Balanced Scorecard Specialist, SHEQ Training and Executive Management Training

DIRECTORSHIPS: Former director of Ntsukumani and executive member of the State-owned Entity Procurement Forum

RELEVANT SKILLS, EXPERTISE AND EXPERIENCE: Business processes design and optimisation, strategy formulation and implementation, supply chain management, corporate governance, risk and business management.

Appointed as group supply chain executive in October 2012

VUYELWA QINGA (51)

GROUP COMMUNICATION MANAGER

BJournalism and Media Studies, Management Development Programme

DIRECTORSHIPS: Council member of UP and director of Cygniline

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

BRIDGET SALO (38)

DEPUTY CHIEF EXECUTIVE OFFICER: DENEL OVERBERG TEST RANGE

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

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 November 2014

DENISE WILSON (57)

DEPUTY CHIEF EXECUTIVE OFFICER: DENEL DYNAMICS

BSc(Hons), MSc Eng, Executive Leadership Programme

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 (35)

DEPUTY CHIEF EXECUTIVE OFFICER: DENEL AEROSTRUCTURES

NDip (Chemical Eng), BTech (Quality), Diploma in Project Management, Senior Management Programme

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

Appointed as deputy chief executive officer in December 2014

THEMBA ZWELIBANZI (51)

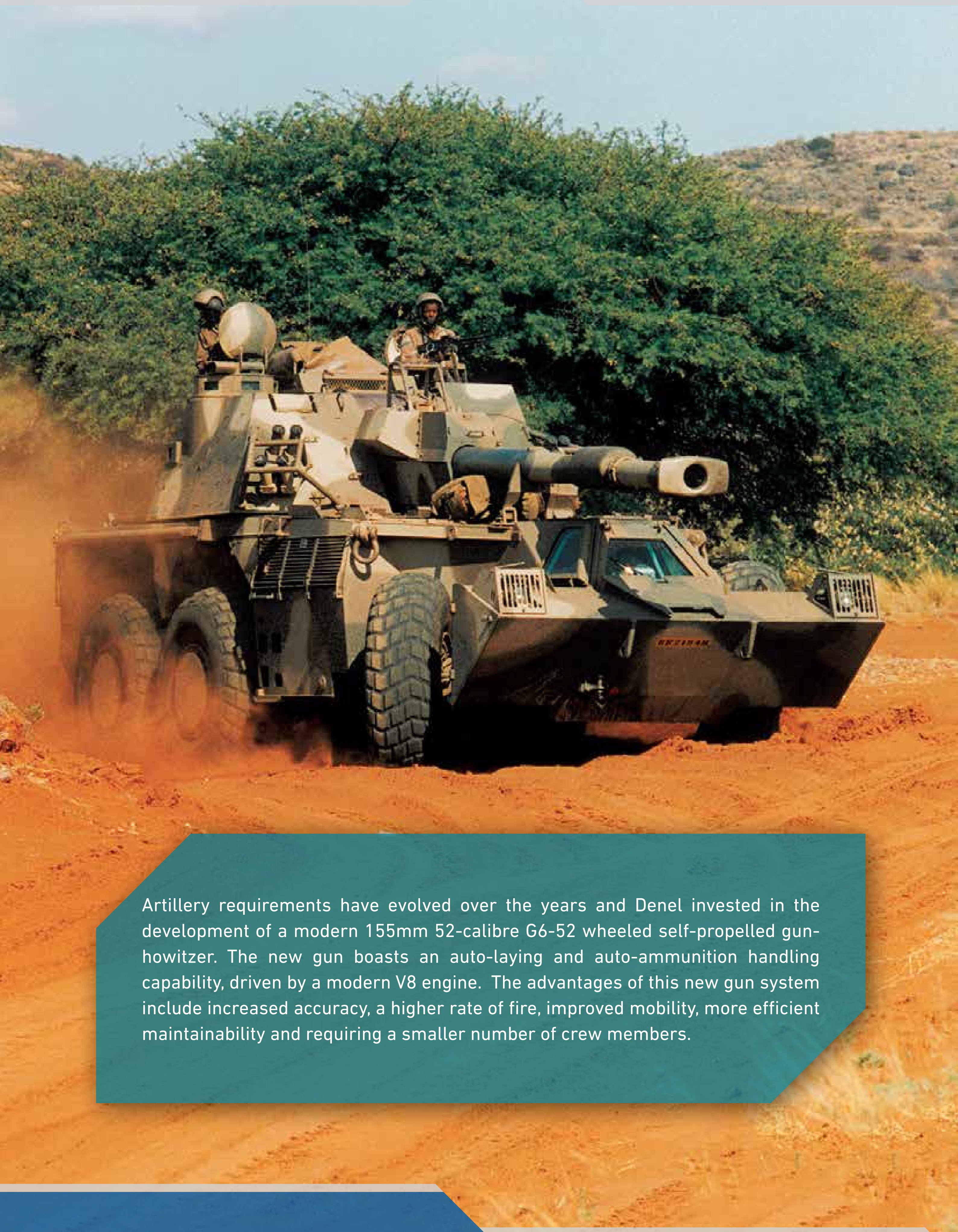
GROUP RISK AND COMPLIANCE MANAGER

BCom, Advanced Programme Risk Management, Diploma Human Resources, Graduate Diploma in Company Direction

DIRECTORSHIPS: Permanent invitee to audit and risk, social and ethics committees, non-executive director and member of DAe audit and risk committee, trustee of DMBT, chairman AMD Arms Control work group, non-executive director and member of the audit, risk and finance committee of SACCI and board member of Densecure.

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

Appointed as risk and compliance manager in June 2006



Artillery requirements have evolved over the years and Denel invested in the development of a modern 155mm 52-calibre G6-52 wheeled self-propelled gun-howitzer. The new gun boasts an auto-laying and auto-ammunition handling capability, driven by a modern V8 engine. The advantages of this new gun system include increased accuracy, a higher rate of fire, improved mobility, more efficient maintainability and requiring a smaller number of crew members.

HOW WE ARE GOVERNED

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.

RECOGNITION FOR GOOD CORPORATE GOVERNANCE AND REPORTING

Rated as a leading and well-governed SOC by Centre for Corporate Governance at University of Stellenbosch in 2012

Recognised for excellence in corporate reporting by Nkonki Inc. in top five SOCs 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 King III recommendations, as well as the governance requirements of the South African 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, 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, compliance requirements, 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. This has been confirmed through recognition for good governance and for excellence in corporate reporting by independent governance reviews.

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 King III and its board charter. All of the members of the board are individually and collectively aware of their responsibilities to the group and each director brings experience and independent judgement in addressing business issues. The board ensures regular reviews of its performance and core governance.

The governance structure is as follows:

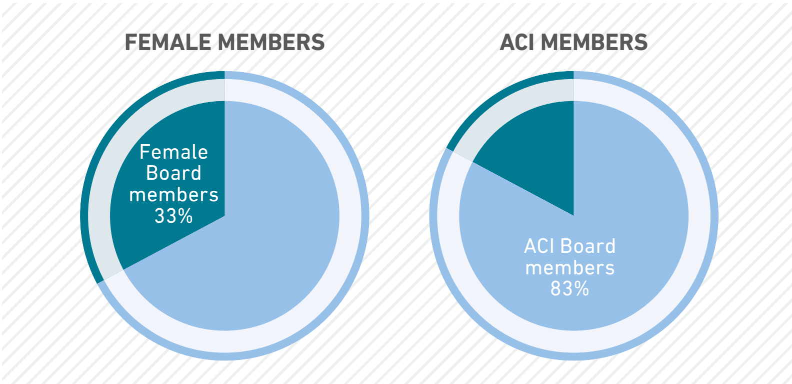
- The board has delegated certain responsibilities to appropriate board committees to support itself in its oversight responsibility;
- Statutory boards and relevant subcommittees are in place at subsidiaries;
- The group executive committee (EXCO), inclusive of group executives and business unit chief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

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 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 GFD, as well as ten 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.



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 structured such that there is a level of continuity.

The executive directors comprise the GCEO and GFD, who both have five-year contracts.

The shareholder takes cognisance of the group's needs in terms of skills, experience, diversity and demographics in appointing the non-executive directors.

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% increase for the non-executive directors at the 15 August 2014 AGM. 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 every year by a firm of governance experts as part of the board's effectiveness review. The board effectiveness review is done to ensure continual improvement of the board, as well as ensuring that governance best practice is applied.

THE AREAS THAT ARE ASSESSED AS PART OF THE EFFECTIVENESS REVIEW INCLUDE:

- Board size and composition;
- Independence;
- Terms of reference;
- Agenda and meeting preparation;
- Board meetings;
- Board functioning and processes;
- Board committees;
- Leadership and support;
- Board effectiveness and evaluation; and
- Board orientation and development.

The 2014/15 review confirmed that the board was effective in performing its oversight role and that the necessary structures and processes are well established and functional. The overall opinion indicated that Denel has a well-functioning and effective board. The evaluation also highlighted that the board is fulfilling its role and responsibilities, and discharging its accountability satisfactorily in comparison to other boards, including private sector boards. The results of the review were considered by the board. These results were submitted to the shareholder representative to consider, in addition to the performance against the Shareholder's Compact and the company strategy, as part of the decision regarding the composition of the board going forward. The shareholder's decision regarding the appointment of the non-executives for 2015/16 will be formalised at the AGM scheduled for 23 July 2015.

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. The induction and continuous training include 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 monthly 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 organisation offers.

The board together with 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.

BOARD MEETINGS

The board has four scheduled meetings annually, in addition to the AGM. Special board meetings are also held as the need arises. 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 it in reaching prompt but informed decisions.

The following table depicts the meetings of the board and the attendance of each member for the period 1 April 2014 to 31 March 2015:

BOARD MEMBER	BOARD MEETINGS						AGM
	TOTAL	SPECIAL 22 MAY 14	26 JUN 14	10 SEP 14	19 NOV 14	11 FEB 15	15 AUG 14
Ms MJ Janse van Rensburg (Interim chairman) [1]	5/5	√	√	√	√	√	√
Mr NR Kunene [2]	1/2	A	√	-	-	-	√
Mr R Saloojee	3/5	A	A	√	√	√	√
Mr G Badela	4/5	√	A	√	√	√	√
Dr GC Cruywagen	5/5	√	√	√	√	√	√
Prof T Marwala [3]	2/2	√	√	-	-	-	√
Ms ZB Mathenjwa	5/5	√	√	√	√	√	√
Mr F Mhlontlo	5/5	√	√	√	√	√	√
Mr NJ Motseki	5/5	√	√	√	√	√	√
Mr M Msimang	5/5	√	√	√	√	√	√
Mr BF Ngwenya	5/5	√	√	√	√	√	√
Prof SM Nkomo	5/5	√	√	√	√	√	√
Adv MS Ntshikila	4/5	√	√	√	A	√	A
Ms B Paledi [3]	0/2	A	A	-	-	-	√
Mr MV Ratshimbilani	4/5	√	A	√	√	√	√

A Apology
√ Attended
[1] Interim chairman from 15 August 2014
[3] Retired 15 August 2014
[2] Chairman retired 15 August 2014

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 COMMITTEES

The board has established and delegated specific roles and responsibilities to three standing committees, namely the A&R committee, the personnel, remuneration and transformation (PR&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 chairpersons' 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 chairman, comprises only independent non-executive directors, with the executive directors as standing invitees to the committee meetings. Members of the committee have considerable financial and 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 IT risk. The appointment of members of the A&R committee are 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 committee chairman meets regularly with the external auditors, the internal auditors, and the GFD to consider the audit plans, the scope, status of the audits and progress on resolving significant issues.

The 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 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 chief financial officers (CFOs) of each business unit are invited to attend the committee meetings to ensure that all information pertaining to the relevant business units is considered and assessed by the committee. 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/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 value-adding.

The committee fulfilled its responsibilities as set out above. Refer to the report of the A&R committee on pages 116 to 117.

ROLE AND RESPONSIBILITY OF THE A&R COMMITTEE

Reviewing the integrated report, including consolidated annual financial statements, and considering reports of the auditors on the financial statements;

Reviewing risk registers, paying attention to risks, mitigation actions, and overall risk management;

Reviewing the effectiveness of the company's internal controls;

Considering matters emanating from the company's ethics hotline, planned management actions and the results of enquiries;

Agreeing the scope of the auditors' work and their fees;

Monitoring the performance of the internal audit function;

Considering the combined assurance model, assessing levels of assurance that is provided by auditors, regulators, management and other assurance providers;

Considering treasury controls and related risk management processes; and

Evaluating all IT governance matters.

Attendance at A&R committee meetings for the period 1 April 2014 to 31 March 2015:

	AUDIT AND RISK COMMITTEE MEETINGS				
BOARD MEMBER	**TOTAL**	**12 JUN 14**	**25 AUG 14**	**12 NOV 14**	**28 JAN 15**
Dr GC Cruywagen (Chairman) [1]	4/4	√	√	√	√
Ms MJ Janse van Rensburg [2]	4/4	√	√	√	√
Ms B Paledi [3]	0/1	A	-	-	-
Ms ZB Mathenjwa	4/4	√	√	√	T
STANDING INVITEES					
Mr R Saloojee	4/4	√	√	√	√
Mr F Mhlontlo	4/4	√	√	√	√

A Apology *[1] Chairman from 15 August 2014* *[2] Chairman up to 15 August 2014*
√ Attended *T Via telecon* *[3] Resigned 15 August 2014*

SOCIAL AND ETHICS COMMITTEE

The S&E committee comprises only independent non-executive directors, including the chairman 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 at its meeting held on 12 June 2015 ensured that the committee met all monitoring and reporting responsibilities within the annual cycle. The committee further considered the company's corporate and social investment, transformation and ED initiatives, OHS, stakeholder management, as well as the ethics policy.

TERMS OF REFERENCE S&E COMMITTEE

- Evaluating policies and measures in place to prevent fraud and corruption;
- Evaluating the code of ethics and how it is implemented throughout the group
- Reviewing the corporate social investment (CSI) strategies and progress thereon;
- Evaluating the stakeholder engagement model, monitoring the status and from time to time assessing effectiveness;
- Reviewing the transformation strategies, progress on initiatives and improvement plans; and
- Reviewing occupational health and safety (OHS) policies and monitoring effectiveness.

Attendance at S&E committee meetings for the period 1 April 2014 to 31 Match 2015:

BOARD MEMBER	SOCIAL AND ETHICS COMMITTEE MEETING			
	TOTAL	12 JUN 14	22 OCT 14	27 JAN 15
Prof SM Nkomo (Chairman)	3/3	√	√	√
Dr GC Cruywagen	3/3	√	√	√
Mr M Msimang	3/3	√	√	√
STANDING INVITEES				
Mr R Saloojee	2/3	√	A	√
Mr F Mhlontlo	2/3	√	A	√

A Apology √ Attended

PERSONNEL, REMUNERATION AND TRANSFORMATION COMMITTEE

Denel has a committee that oversees personnel, remuneration and transformation issues, referred to as the PR&T committee. The PR&T committee comprises only independent non-executive directors. The executive directors are standing invitees to committee meetings and relevant EXCO members attend the committee meetings by invitation. The PR&T committee's scope of responsibilities is detailed in the terms of reference of the committee and reviewed and approved annually by the board. These terms of reference are available from the group company secretary.

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, pages 84 to 97.

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 69 to 71.

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.

RESPONSIBILITIES OF THE PR&T COMMITTEE

Evaluating the performance of the executive management, and for setting appropriate remuneration;

Overseeing the group's performance in respect of EE, transformation and staff development, taking into consideration the legal requirements and monitoring of targets set by the company;

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

Monitoring climate within the organisation and understanding management interventions.

The committee held three scheduled meetings during the 2014/15 financial year, as detailed below:

BOARD MEMBER	PERSONNEL, REMUNERATION AND TRANSFORMATION COMMITTEE MEETINGS				
	TOTAL	SPECIAL 14 MAY 14	11 JUN 14	5 NOV 14	27 JAN 15
Prof SM Nkomo (Chairman)	4/4	√	√	√	√
Mr G Badela	4/4	√	√	√	√
Adv MS Ntshikila	3/4	√	√	A	√
Mr MV Ratshimbilani	2/4	√	A	√	A
STANDING INVITEES					
Mr R Saloojee	3/3	I	√	√	√
Mr F Mhlontlo	2/3	I	√	A	√

A Apology *√ Attended* *I In-committee*

EXECUTIVE COMMITTEE

The EXCO is chaired by the GCEO and includes all business unit CEOs as detailed on pages 54 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 committee meets on a regular basis.

Attendance at EXCO meetings for the period 1 April 2014 to 31 March 2015:

EXCO MEMBER	EXCO MEETINGS									
	TOTAL	STRATEGY 20 MAY 14	STRATEGY 21 MAY 14	SPECIAL 12 AUG 14	27 AUG 14	OPERATIONAL READINESS 28 AUG 14	8 OCT 14	3 NOV 14	4 DEC 14	SPECIAL 17 MAR 15
Mr R Saloojee	9/9	√	√	√	√	√	√	√	√	√
Mr F Mhlontlo	9/9	√	√	√	√	√	√	√	√	√
Ms N Davies	9/9	√	√	√	√	√	√	√	√	√
Mr ZN Ntshepe	3/9	√	√	√	A	A	A	A	A	A
Mr JM Wessels	8/9	√	√	√	√	√	A	√	√	√
Mr S Burger	7/9	√	√	A	√	√	√	√	A	√
Mr I Dockrat [1]	9/9	√	√	√	√	√	√	√	√	√
Mr M Kgobe	9/9	√	√	√	√	√	√	√	√	√
Mr T Kleynhans [2]	2/2	-	-	-	-	-	-	-	√	√
Mr T Monaheng	8/9	√	√	√	√	√	√	A	√	√
Mr P Petje	7/9	√	√	√	√	√	A	A	√	√
Mr A van der Walt	8/9	√	√	V	√	√	√	√	A	V

A Apology *[1] Appointed as CEO: DISM in November 2014* *[2] Appointed as CEO: DAe in November 2014*
V Video conference *√ Attended*

CODE OF ETHICS

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 and clients. Regular awareness training regarding the code and our ethical standards helps us to embed a culture of responsible business conduct throughout the company. The board and the top 100 leaders in Denel attended an ethics course facilitated by the Ethics Institute of SA, which included practical guidance to help employees deal with important ethical issues. Denel became a member of the Ethics Institute of SA in the year under review.

EthicsSA

Ethics Institute of South Africa NFP

1999/020697/08

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.

Denel aims to communicate openly and transparently with stakeholders regarding our approach to responsible business conduct. The group has an independently-operated whistle-blowing mechanism that is operated by an independent organisation. 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 page 75.

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

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.

INTERNAL AUDIT

The function of internal audit is to 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 chairman 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 applicable legislation, including that of foreign countries.

Business units are accountable to the GCEO. This is further enhanced by each business unit CEO being part of the group EXCO. Various forums are held regularly, e.g. the business development council, HR, CFO, COO and supply chain forums, where not only operational matters are discussed, but also topics that are relevant to executive management and the leaders of the group.

REMUNERATION REPORT

The PR&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
- Review and recommend 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. Guaranteed packages are inclusive of company contributions towards retirement fund and medical aid.

Total guaranteed package + **Short-term incentives** =

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 guaranteed package and is a basis for calculating retirement fund contributions

Denel medial 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 organisation
- Formal: recognition programmes used to formally acknowledge significant contributions, e.g. long service awards and specific achievement awards

EXECUTIVE REMUNERATION

The PR&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 provided by the DPE for SOCs. Annual salary increases as approved by the shareholder at the AGM averaged 5% effective 1 April 2014.

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

EXCO MEMBER	FIXED REMUNERATION R'000	COMPANY CONTRIBUTIONS R'000	2015 TOTAL R'000	2014 TOTAL R'000
EXECUTIVE DIRECTORS				
Mr R Saloojee	3 704	476	4 180	3 972
Mr F Mhlontlo	3 130	359	3 489	3 318
Sub Total	**6 834**	**835**	**7 669**	**7 290**
PRESCRIBED OFFICERS				
Ms N Davies [1]	1 520	139	1 659	1 384
Mr JV Morris [2]	-	-	-	2 892
Mr VM Ngidi [3]	-	-	-	140
Mr ZN Ntshepe	1 980	224	2 204	2 094
Maj Gen (Ret.) OA Schür [4]	-	-	-	180
Mr JM Wessels [5]	1 840	275	2 115	1 921
Sub Total	**5 340**	**638**	**5 978**	**8 611**
Total	**12 174**	**1 473**	**13 647**	**15 901**

[1] *Appointed 1 July 2013*
[2] *Resigned 30 September 2013*
[3] *Passed away 27 April 2013*
[4] *Resigned 30 April 2013*
[5] *Appointed as Group COO 1 May 2013*

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:

EXCO MEMBER	2015 R'000	2014 R'000
EXECUTIVE DIRECTORS		
Mr R Saloojee	2 086	1 987
Mr F Mhlontlo	1 656	1 656
Sub Total	**3 742**	**3 643**
PRESCRIBED OFFICERS		
Ms N Davies [1]	780	680
Mr JV Morris [2]	-	463
Mr ZN Ntshepe	1 028	983
Mr JM Wessels [3]	990	900
Sub Total	**2 798**	**3 026**
Total	**6 540**	**6 669**

[1] *Appointed 1 July 2013*
[2] *Resigned 30 September 2013*
[3] *Appointed as Group COO 1 May 2013*

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. 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 effective 1 April 2015.

NON-EXECUTIVE DIRECTORS' REMUNERATION

The PR&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 15 August 2014, the shareholder approved a 5% increase for the non-executive directors.

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

NON-EXECUTIVE DIRECTORS	2015 R'000	2014 R'000
Ms MJ Janse van Rensburg (Interim chairman) [1]	647	283
Mr NR Kunene (Chairman) [2]	294	773
Adv G Badela	176	200
Dr GC Cruywagen	342	310
Prof T Marwala [3]	49	76
Ms ZB Mathenja	193	203
Mr NJ Motseki	111	136
Mr M Msimang	155	222
Mr BF Ngwenya	140	230
Prof SM Nkomo	293	354
Adv MS Ntshikila	103	226
Ms B Paledi [3]	35	167
Mr MV Ratshimbilani	109	209
Total	**2 647**	**3 389**

[1] *Interim chairman from 15 August 2014* [2] *Chairman resigned 15 August 2014* [3] *Resigned 15 August 2014*

RISK GOVERNANCE

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 minimising the negative impact on Denel, as well as maximising value creation.

DENEL'S RISK PROFILE IS INFLUENCED BY:

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

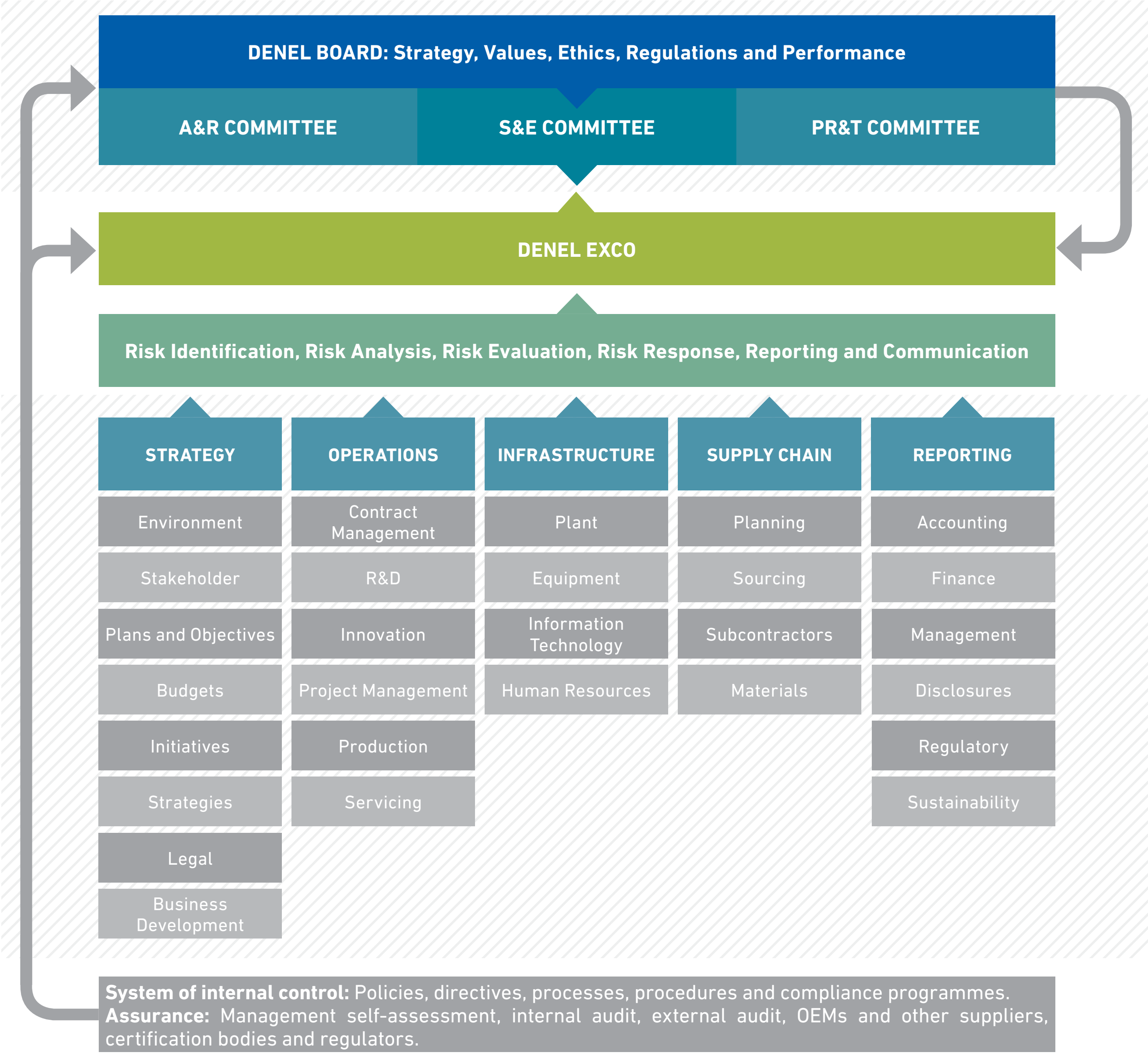
RISK GOVERNANCE PROCESS

Denel's enterprise-wide risk management system is based on a combination of COSO and ISO31000 principles. Risk management 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, and align emerging risks and opportunities to inform strategic and operational decisions. The board is ultimately responsible for risk governance and has put in place an effective system of internal control to detect and prevent losses including damage to Denel's reputation. The delegation of authority is in place to ensure effective decision-making and transparency within the organisation.

The EXCO is responsible to the board regarding risk governance. The group has appointed competent persons and promulgated policies and procedures to monitor high-risk areas. The combined assurance matrix provides an integrated assurance to the board in playing its oversight role regarding the effectiveness of the system of internal control and risk management. The board is supported by the A&R committee in overseeing risk governance. The other board committees also play a role in the risk management process.

Denel uses a combination of a top-down and bottom-up approach to risk management, and uses business units and group EXCO's risk assessments in developing the group risk profile. Business units dedicate time at least twice a year to formally assess the internal control environment and address specific risks. This ensures that risks are mitigated at the appropriate levels of management throughout the group. At least once 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. The broad categories of risks are financial, programme management, human capital, safety management and IT, and are tabled at the A&R committee for discussion and review.

The risk management process 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.

The company's top ten risks are detailed on page 74 including the key success factors, impact, affected stakeholders, opportunities and mitigations. The progress on mitigation plans is monitored by both the board and the EXCO.

The following is a description of risks that could have a material impact on Denel's business:

RISK DESCRIPTION	KEY SUCCESS FACTORS	IMPACT(S)	AFFECTED STAKEHOLDERS	OPPORTUNITIES	MITIGATIONS
Complexities of large and long-term programmes increasing programme risks	» Project management » Supply chain processes » Industrialisation » Subcontractors » HR » Contracting	» Programme slippages » Penalties » Cost overruns » Reputational damage	» Customers » Subcontractors » Material suppliers » Employees	» Additional skills development	» Effective programme management process » Supply chain management processes » Quality assurance processes » Joint Denel/customer programme reviews » Effective HR strategy
Order cover (pockets of low order cover and optimal order cover for some products within and between business units)	» Consistent and continuous orders across all parts of the portfolio	» Pockets of low orders on parts of the portfolio » Idle capacity	» Subcontractors » Material suppliers	» Product development	» Business development » Customer relations management
Timing of order placement (bulk of orders placed towards the end of the year)	» Forward planning » Budget alignment » Efficient acquisition processes » Stakeholder relationships	» Inefficient use of resources » Increased working capital requirements » Meeting operational and financial targets	» Customers » Subcontractors » Material suppliers » Providers of funding » Employees	» Customer relations » Supply chain efficiencies	» Effective stakeholder engagement model » Production ahead of orders » Strong industry support per Defence Review
Business cost structure (high labour and other costs impacting overall business cost structure)	» Increased profitability margins » Optimal operating costs	» Suboptimal business cost structure	» Customers » Providers of funding » Employees	» Improved operating efficiencies	» Cost management
HR (skills acquisition and retention, skills match, ageing top-end skilled workforce, employment equity and leadership below Exco)	» Talent acquisition and management » Learning and development » Performance and rewards » Employee relations » Transformation	» Ageing workforce » Organisational climate » EE » Skills attrition	» Employees » Organised labour » Shareholder	» Amplify current skills incubation processes	» HR and transformation strategy » Communication strategy » Stakeholder engagement model
Keeping pace with ever changing technology and ensuring appropriate investment in R&D	» Customer requirements » Product roadmaps » Research institutions » Technology advances » Latest plant and equipment	» Product offering changes » Inefficient plant » Investment required	» Customers » Lenders » Research institutions » Employees	» Selected plant renewal	» Customer-funded R&D » Self-funded R&D » Continuous scanning of the environment for new requirements » Formal relationships with research institutions, e.g. CSIR
Contracting models for high risk and often low margin programmes impacting costs, profitability and delivery timelines	» Scoping and project definitions » Appropriate terms and conditions » Costing and contracting governance	» Onerous terms and conditions » Scope changes » Cost overruns » Disputes	» Customers » Subcontractors » Material suppliers » Employees	» Process enhancements » Customer relations	» Contract management process » Regular review of contracts » Customer relationship management
Supply chain (outsourced services and products, procurement costs and inefficient practices, as well as operational readiness)	» Optimal value chain » Cost effectiveness » Price competitiveness	» Input costs » Subcontracting risk	» Customers » Subcontractors » Material suppliers » Employees		» Supplier contract management » Quality and performance oversight

RISK DESCRIPTION	KEY SUCCESS FACTORS	IMPACT(S)	AFFECTED STAKEHOLDERS	OPPORTUNITIES	MITIGATIONS
Ageing plant (PMP) (cost of maintenance, competitiveness and compatibility with latest technology requirements)	» Produce at optimal capacity » Cost effective production » Energy and resource efficient plant » Safe plant » Plant capitalisation programme	» Inefficient plant » High cost of maintenance » Compatibility » Competitiveness » Investment required	» Customers » Providers of funding » Employees	» Selected plant renewal	» Maintenance programme » Plant renewal programme
Solvency and liquidity (funding for new large contracts, cash flow)	» Postive cash from operations » Availability of banking facilities » Working capital	» Cash flow negative contracts » High working capital requirements » High levels of debt	» Customers » Subcontractors » Material suppliers » Providers of funding	» Improved business processes » Cash flow positive contracts » Improved business plan	» Peer review of bids » Cash flow management » Cost containment » Contract drafting
Security of energy supply	» Minimal power disruptions	» Business interruptions » Cost of emergency maintenance	» Customers » Subcontractors » Material suppliers » Providers of funding	» Efficient plant – energy consumption » Optimal production planning and contracting	» Energy conservation » Liaison with municipalities

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, and oversees the implementation of the strategy.

FRAUD AND CORRUPTION AWARENESS

Denel has implemented a system of internal controls including the delegation of authority, supply chain and employee ethics policies that promote ethical conduct with the aim of preventing fraud and corruption. The system further includes security procedures to protect assets, and declaration of interests by employees and directors.

Denel has adopted a transparent procurement process that includes formal tender publications, as well as adjudication committees that ensure segregation of duties, and that procurement decisions are taken within the delegated authority.

The code of ethics and business conduct also extends to business partners and other stakeholders. The values of the organisation, as well as the prevention of fraud and corruption are included in the group's induction programme. A total of 157 employees attended the programme during 2014/15.

DETECTION OF FRAUD AND CORRUPTION

Management continuously interrogates financial, HR, and inventory information to detect possible instances of fraud and corruption as part of the day-to-day control activities. In addition, external auditors and internal auditors include fraud detection tests in their audit procedures and have found no evidence of fraud and corruption for the year under review.

Denel continuously 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:

TO REPORT SUSPECTED INCIDENTS OF FRAUD AND CORRUPTION EMPLOYEES AND STAKEHOLDERS CAN CALL 0800 20 48 80

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 company newsletter and communicated on noticeboards. Out of the nine cases reported through the hotline, none were fraud-related, but rather HR matters that were addressed accordingly.

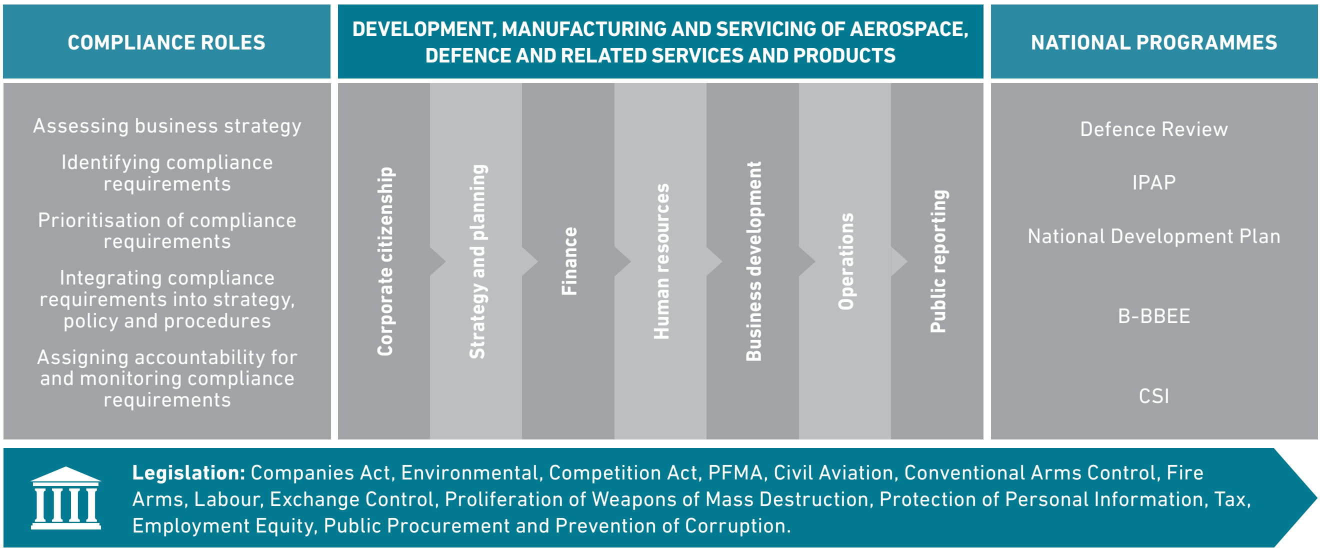
Denel is comfortable that the CCM process, diligent management assessments, as well as external and internal audit procedures that include the Auditor-General requirements of supply chain fraud risk assessment, highlighted no instances of fraud and are effective in complementing fraud and corruption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

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 organisation to meet its contractual, moral and corporate citizenship obligations. The observation of laws that govern the company and its activities forms the foundation for good corporate governance and demonstrates stewardship and responsibility to all stakeholders. No material non-compliances were identified during the year under review.

LEGAL COMPLIANCE FRAMEWORK

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



INDUSTRY COMPLIANCE

The use of weapons represents both the greatest protection against, and the greatest threat to peace and security. It is, thus, quite natural that the export of defence matériel needs to be surrounded by restrictions and regulations. 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 National Conventional Arms Controlled Act (NCACA). The NCACA which establishes the National Conventional Arms Control Committee (NCACC) that oversees the transfer of controlled items in terms of the act requires Denel to apply for and obtain from the authorities:

- Registration certificates for each business unit to conduct its business to develop, manufacture and/or service controlled items;
- Permits to market its products and services and contract with customers on programmes involving controlled items;
- Permits to export and import controlled items; and
- Certificates for destruction and transfer of controlled items, as well as other pertinent authorisations.

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 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. For additional information refer to pages 08 and 09.

QUALITY COMPLIANCE

Denel has appropriate policies, procedures, specifications, laboratories, testing facilities and other control mechanisms to embed quality in the organisation. The quality system ensures that quality requirements are integrated in product design, tender, product development, manufacturing and after-service delivery processes.

In addition to regular self-assessments, Denel's quality management systems were audited by the relevant certification and accreditation bodies as depicted in the table below. No significant deviations were identified.

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 2014	Jun 2015	Airbus		Special Process Nadcap	In process
DAv	ISO9001 AS9100C Part 145 Part 141 (DTA) Part 145 Part 145 (TNPA Project)	SABS Bureau Veritas Bureau Veritas SACAA SACAA EASA SACAA	Aug 2014 Nov 2014 Nov 2014 Nov 2014 Jul 2014 Sept 2014 Jun 2014	Aug 2015 Nov 2015 Nov 2015 Nov 2015 Jul 2015 Sept 2015 Jun 2015	Eurocopter Lockheed Martin	Jun 2015 Dec 2015	SANAS Calibration Labs	Jun 2015
DLS	ISO9001	DEKRA	Apr 2015	Apr 2016	n/a	n/a	n/a	n/a
DD	ISO9001	Bureau Veritas	Apr 2015	Apr 2016	n/a	n/a	ISO/IEC 17025 (Calibration Facility)	Mar 2016
LMT	ISO9001	DEKRA	Nov 2014	Nov 2015	n/a	n/a	n/a	n/a
OTR	ISO9001	SABS	Oct 2014	Sept 2015	n/a	n/a	n/a	n/a
PMP	ISO9001	SABS	Apr 2014	Jul 2015	n/a	n/a	n/a	n/a

COMBINED ASSURANCE

The objective of a combined assurance matrix is to ensure a coordinated approach to assurance activities to optimise costs, avoid duplication, and prevent assurance overload and assessment fatigue. The broadening scope of assurance necessitates an increase in assurance provided in the form of management self-assessments, internal audit and external audit, regulatory bodies, such as the National Key Points Secretariat, National Conventional Arms Control Audit and Inspection Directorate, Armscor, and external bodies for certified systems such as the SABS, DEKRA, as well as accredited processes such as OEMs.

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.

COMBINED ASSURANCE

FIRST LINE OF DEFENCE: MANAGEMENT BASED ASSURANCE

Oversight of strategy implementation | Control self-assessments | Continuous monitoring of mechanisms and systems

SECOND LINE OF DEFENCE: INTERNAL AUDITORS

Assurance on the adequacy and effectiveness of controls

THIRD LINE OF DEFENCE: EXTERNAL AUDITORS AND OTHER EXTERNAL ASSURANCE PROVIDERS

Independent and objective assurance on overall adequacy and effectiveness of controls, governance and management of critical risks

STAKEHOLDER ENGAGEMENT

Regular engagement and effective management of relationships with our stakeholders are a strategic priority. Executives take leadership of the company's engagements with stakeholders, including customers. 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.

Denel has successfully interacted with a broad range of stakeholders in the financial year under review. This includes the shareholder, customers, business associates, and other government departments, our employees, local communities, the media and various other groups. During the past year, Denel hosted the Minister of Public Enterprises, the Deputy Minister, the Director-General and senior management on a number of occasions, notably the AGM and the release of the group's financial results, at meetings of the Denel board, at special functions and at media events where announcements were made about key business developments.

As a state-owned entity, Denel values its interaction with Parliament and provides regular updates on the state of the business to the Portfolio Committee on Public Enterprises and 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. Another critical area of interaction is in the area of providing comprehensive responses to Parliamentary questions that members of Parliament pose to the Ministers.

Denel hosted a number of visiting delegations, representatives of various governments, as well as existing and prospective customers. During this period, the company participated in a number of international defence and security related exhibitions, which included the flagship AAD at the Air Force Base Waterkloof, DSA 2014 in Malaysia, IDEX in the UAE and Land Forces East Africa in Tanzania.

Internal communication programmes including the Values Campaign, Change Management Communication and Organisational Culture Change programmes were focused on integrating and improving the internal environment in line with the broader organisational changes. A number of events hosted at group level to celebrate key national days as SA marked 20 years of freedom and democracy emphasised the fact that the company is driven by a common set of values that are closely aligned to the values of SA's Constitution. The Women's Day, Mandela Day and the GCEO Awards events stood out in having a positive impact among employees.

Employee campaigns were delivered through focused and relevant media platforms, including industrial theatre, poetry and, where it was deemed appropriate, dance. Other media platforms included publications like the monthly Denel News and Denel Insights. The GCEO and business unit CEOs communicated directly with employees throughout the year.

The main stakeholder interactions during the year under review were:

STAKEHOLDER GROUP	ISSUES	HOW	OUTCOMES AND ACHIEVEMENTS
Denel's shareholder, Parliament and government departments » DPE » Portfolio Committees » DoD&MV » dti » National Treasury » DIRCO » NCACC	» Understanding Denel's values, business and objectives » Support for Denel's business activities » Defining the role Denel can play in government's developmental agenda and strategic objectives » Government support for export opportunities and industry participation » Financial performance » Key performance areas » Transformation and advances in EE, B-BBEE, diversity and enterprise development	» Shareholder's Compact engagements and bilateral meetings with DPE » Board engagement with the shareholder » Hosting of Ministers and senior executives at Denel events » Interaction with portfolio committees and oversight visits » Regular meetings with senior management of stakeholder departments and agencies » AGM	» Greater understanding of Denel's values and business objectives » Support for marketing activities » Financial support from National Treasury » Contribution Denel makes to national priorities » Increased focus on value of stakeholder relations » Increased capacity for Denel to contribute to national developmental objectives » Highlight Denel's value-add to SA » Positioning Denel as a global leader in the design, development and manufacturing of top quality products and services

STAKEHOLDER GROUP	ISSUES	HOW	OUTCOMES AND ACHIEVEMENTS
Clients including: » SANDF » DoD&MV » Armscor » SAPS » International clients » Local commercial clients » AMD » Diplomatic community » Suppliers	» Denel as custodian of core strategic and sovereign capabilities » Performance and programme delivery » DoD&MV budget priorities and constraints » Promotion of product ranges and new capabilities » R&D » Showcasing Denel's products and technology to wider audiences » Support for the release of key orders » Demonstrating role of being an industry catalyst	» Regular interaction with key decision-makers at events and meetings » Participation at international and local exhibitions and shows » Contributions to broader SA defence industry » Stakeholder visits to Denel campuses » Hosting of foreign delegations and defence attachés	» Improved order book from R32bn to R35bn » Better appreciation of issues » Timeous obtaining of letters of support » Denel maintained all strategic capabilities for the SANDF » Achieved >97% of contracted milestones for the year under review » R467m investment in R&D » Exports improved by 34% for the year
Internal audiences » Employees » Organised labour	» Affirmation of Denel's values and strategic objectives » Fostering integration across the Denel group » Sharing of general information about key business developments » Business focus and strategy updates » Maintenance of sound labour relations	» Road shows and site visits by GCEO and senior executives » Regular publications – Denel News » From the GCEO's Desk communication and infograms » Communication on message boards, e-mail and intranet » Strategic Leadership Forum meetings » Monthly meetings of Denel Communications Forum to coordinate messages among the business units » Staff functions and celebrations of national days as a group » Regular meetings with organised labour and professional organisations	» Informed and empowered employees » Support for Denel's values and strategic objectives » Positive employer/employee relationships » Pride in the company and its achievements » Greater understanding of strategic decisions taken by management » Higher levels of coordination in communication activities among business units » Increased productivity » Sense of unity and identifying with the Denel group brand
Media	» Foster greater understanding of Denel's business and objectives » Positioning Denel as a strategic national asset » Highlighting Denel's contribution to broader SA society » Promoting the free flow of information and transparency	» Regular interaction via events, media conferences and media briefings » Regular media statements and responses to media queries » Participation of Denel spokespeople on radio and TV » One-on-one interviews with senior leadership and spokespersons on selected media » Advertorials and adverts showcasing Denel brand » Contribution to national discourse through thought leadership	» Positive coverage of Denel's activities and achievements » Greater exposure of Denel to national and international audiences » Improved understanding of Denel's business and objectives among media » Strategic support to Denel's marketing activities » Strengthened reputation of Denel as a credible strategic partner for innovative defence and security related technology and responsible corporate citizen
Financial institutions and investors	» Foster greater understanding of Denel's business objectives » Sharing of general information about key business developments » Financial performance and prospects » Business focus and strategy updates	» Regular engagements » Investor roadshows by GCEO and senior management	» Greater understanding of decisions taken by management » Improved understanding of Denel's business model » Increased financial and trade assistance

Denel has been profiled positively during the past financial year with the group's activities, achievements and challenges communicated in a more integrated manner. Interactions with the media were conducted through strategic media conferences, in the main hosted by the chairman of the board, the GCEO or business unit CEOs. Denel played a major part in the AAD which generated a huge amount of media coverage.

Denel's media campaign 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.

Among the important announcements covered by the media are:

HEADLINE	EXTRACT FROM PRESS RELEASE
Denel PMP set to strengthen its position in local ammunition manufacturing ***June 2014***	Munitions manufacturer Denel PMP will double its turnover to more than R1bn within the next five years in response to strategic requirements in the local market and its growing presence in the rest of Africa. In support of this set target, the CEO of the Pretoria West-based manufacturer, Phaladi Petje, says the company will be embarking on a plant-renewal programme to modernise its machinery and production processes.
Denel to bring defence industry skills to the rail industry ***June 2014***	Denel is poised to use its accumulated technology experience, unique skills and systems to move into the rail industry in support of SA's multi-billion rand overhaul of rolling stock and railway tracks. The state-owned innovative defence, security, aerospace and related technology solutions giant is well-equipped to diversify into rail and other commercial industries given the experience it has gained in the manufacturing of its high-technology products.
Denel's technical and management skills support peace efforts in Somalia ***July 2014***	Denel is rapidly expanding its presence in Somalia, providing vital life support services to UN-led initiatives to broker peace and build democracy in the strife-torn East African country. The company has a specialised business unit which provides a wide range of life support services ranging from facility maintenance, catering and laundry services to trauma medicine and the training of drivers operating the company's mine-protected vehicles.
Sustained revenue growth and strong order book drive Denel's new growth era ***August 2014***	Denel has strengthened its reputation as a high-performing technology powerhouse on the African continent, a global player in the defence and aerospace environments and a company with the capacity to expand its role in the broader manufacturing sectors. The company's financial results for 2013/14 show revenue growth of 17%, improved profits and the largest multi-year order book in its history – more than R30bn to be executed over the next 20 years.
Denel positive about participating at upcoming 8th Africa Aerospace and Defence show ***September 2014***	Denel's strong presence at the biennial AAD exhibition will once again re-confirm the company's leadership within the high-tech aerospace and defence markets on the continent. More than 30 countries will be participating at this year's AAD, where the exhibition space at the venue, Air Force Base Waterkloof, was already sold out by June. The GCEO of Denel, Riaz Saloojee, says there is a resurgent interest in the company's cutting-edge products and systems, and the AAD, which is the biggest defence show on the African continent with more than 300 exhibitors from 30 countries this year, will provide an opportunity for the company to showcase its capabilities to key decision-makers attending the event. Mr Saloojee says the global interest shown in the local defence industry is demonstrated by the growth of the exhibition which attracts industry leaders and decision-makers from across the world.
Global defence trends to be discussed at conference hosted by Denel ***September 2014***	SA's position in the global defence and aerospace industries will be in the spotlight at the inaugural Denel Aerospace and Defence Conference, which brings together military decision-makers, industry leaders, senior public servants and defence sector participants for intense discussions on the challenges and opportunities currently facing the industry. The Denel Aerospace, Maritime and Defence Conference, taking place in Centurion, will feature senior speakers from the SANDF, as well as top decision-makers in the global defence technology environment and government. Riaz Saloojee, the GCEO of Denel, says the conference is an opportunity to get the latest insights about trends in the international defence industry and to determine opportunities for the growth of the local sector. This is the first opportunity to discuss the future of the SA defence industry since the recent release of the 2014 Defence Review.

HEADLINE	EXTRACT FROM PRESS RELEASE
Denel best-placed to meet SA's strategic command and control needs ***September 2014***	Denel's decision to be a key player in the command and control domain will provide the South African defence and security sector with full independence in this vital area of national security. The GCEO of Denel, Riaz Saloojee, says the 2014 Defence Review has identified command and control as "a sovereign defence capability" which should be under full national control and without reliance on any foreign assistance.
Denel targeting market opportunities at Indonesian Defence Show ***November 2014***	Market opportunities for Denel's defence and high-technology products in Southeast Asia will be explored when the company participates in the Indo Defence exhibition in Indonesia in early November. The Group Executive Business Development of Denel, Zwelakhe Ntshepe, says the Asia Pacific region is a priority area for Denel and it will use the opportunities at the four-day international exhibition to strengthen existing ties and look at new export prospects. The 6th annual exhibition held in the capital, Jakarta, will bring together more than 600 companies from 45 countries. Three companies in the group, DLS, DD and PMP, will have a presence at the SA pavilion.
New maritime division to open new business opportunities for Denel ***December 2014***	The establishment of the new DISM will strengthen the company's transition as a high-technology powerhouse and expand the range of products and services we now offer to the SA defence and security sectors. In addition, DISM will add to Denel's existing strengths in the landward and aerospace arenas, while at the same time opening up new markets for the company, enabling us to remain globally competitive, says the GCEO of Denel, Riaz Saloojee. "The creation of DISM is the next step in the evolution of Denel as a company. We are opening up a new strategic area of business that will ensure Denel's activities cover the broader spectrum of defence and security markets and enable us to meet the needs of our primary client, the SANDF, more effectively", says Saloojee.
From the ice to space - Lumka's career continues to rise ***February 2015***	In the past two years Lumka Msibi's career has taken her from the frozen plains of Antarctica to the frontiers of space research. Now, the 24-year old engineer at Denel has received SA's highest award for young ambassadors who promote a positive image of the country. She received the Ubuntu Youth Diplomacy Award at a banquet hosted in Cape Town by the Department of International Relations and Cooperation and attended by Pres. Jacob Zuma. It recognised her contributions "to promote SA as a dynamic country which creates an environment where youth can thrive and help to make the world a better place".
New doors opened for emerging defence and high-technology companies ***March 2015***	Emerging entrepreneurs who want to make breakthroughs in the defence and high technology manufacturing sectors will benefit from a support and development programme managed by Denel. Representatives from a wide range of small and medium enterprises attended a Supplier Development Summit hosted by the state-owned defence and technology group at its Irene campus. Riaz Saloojee, the GCEO of Denel, says the objective is to raise awareness about the products and services offered by the company and to identify opportunities where small businesses can become part of the supply chains.
New alliance to boost SA's electronic warfare capabilities ***March 2015***	Denel has joined forces with local specialist company, GEW Technologies, owned by Airbus, to collaborate on future electronic warfare programmes. The new alliance will significantly strengthen SA's capabilities in an area that has become a primary feature of modern defence systems, says the GCEO of Denel, Riaz Saloojee. "We are combining the experience, reputation and resources of Denel with the specialist technology and expertise offered by GEW Technologies to create an alliance that will best serve the strategic interests of SA". Electronic warfare technology has been singled out in the 2014 Defence Review as a "key technology domain" and a "sovereign capability" which must be under the control of local SA companies.

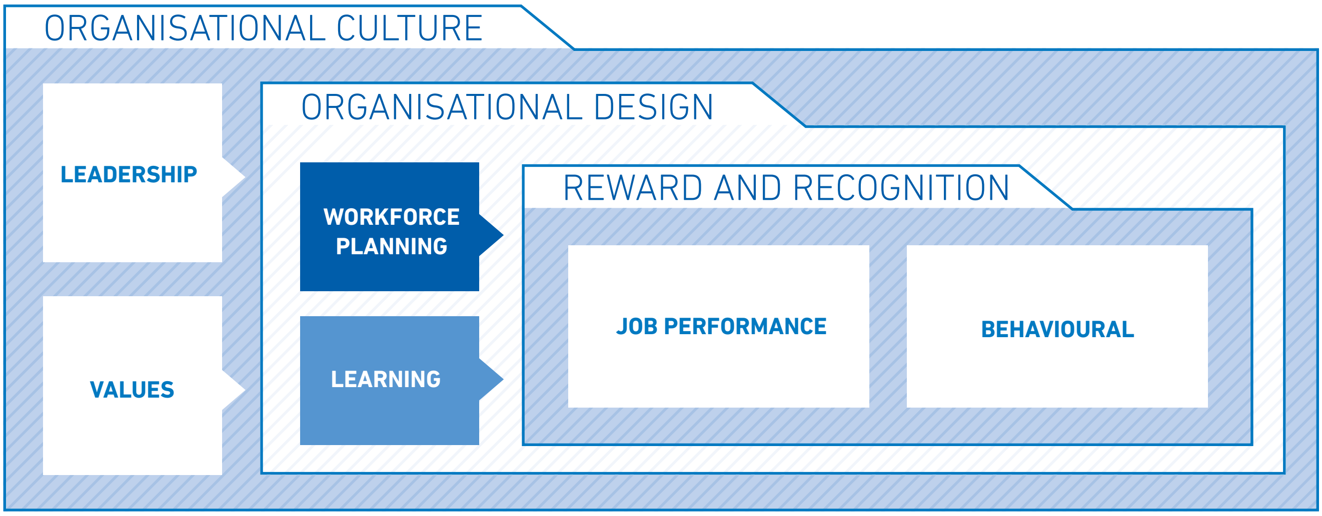
PART FIVE
SOCIAL RESPONSIBILITY

Denel is emerging as a leader in transformation in the defence industry, appointed two female deputy CEOs and achieved B-BBEE level 2 during the year.

PEOPLE AND TRANSFORMATION

Our employees are integral to our success. Our growth strategy is yielding excellent results and has led to Denel being able to create over 400 job opportunities. We are improving the quality of leadership at all levels. This will position Denel to meet business requirements of the future.

One of Denel's strategic objectives is to ensure that the organisation has a motivated, innovative and empowered workforce, and the company's programmes seek to ensure that the environment is representative, diverse and vibrant. We deliver on our strategic objective through our people management model.



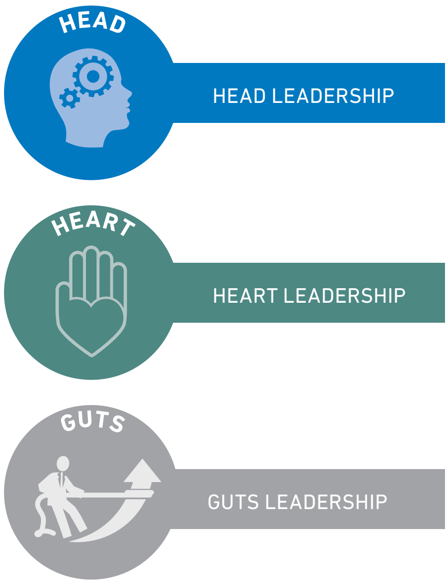
ORGANISATIONAL CULTURE

LEADERSHIP

Denel has overhauled its leadership development framework and its leadership competencies are aligned with the growth strategy and organisational culture change requirements. Denel launched a leadership development programme, the Denel Trailblazer programme. The programme includes competencies in various leadership levels in an organisation to ensure growth.

DENEL TRAILBLAZERS

The leadership philosophy is part of the Denel strategy and incorporates three distinct sets of competencies namely:



The leadership pillars are premised on the Denel values, which are a crucial part of the Denel organisational culture change programme. Each of these leadership pillars have specific competencies which ensure that the leadership culture is multi-dimensional and dynamic.

The programme, which is preceded by a battery of psychometric assessments, is provided by Henley Business School and has four programmes for junior, middle, senior and executive management. The programmes are all action learning based and provide solutions for current organisational challenges and are aligned throughout the various tiers of the programme. The Action Learning Projects require teams to identify and implement a project based on current business challenges. Each programme has a project sponsor who assists the group by providing guidance and access to experts within the company.

HEAD LEADERSHIP is about intelligence, focuses on cognitive abilities, i.e. knowledge, skills, experience, capabilities. It ensures that a learning organisation is created, and encourages learning and reflection, which ensures personal mastery and collective team mastery. These competencies crucify mediocrity and encourage excellence as a standard.

HEART LEADERSHIP is built on values-driven behaviour, attuned to the needs and aspirations of followers, aligned to the moral imperative of integrity, efficacy and humility. This pillar encourages emotional intelligence and embraces transformational, servant and ethical leadership principles.

GUTS LEADERSHIP is about the drive to achieve results, includes risk taking, perseverance, fierce resolve, courage, unwavering zeal and unremitting zest in pursuing a goal or goals.

VALUES

Our values are embedded within the organisation through various organisational development initiatives and are a very important part of the organisational culture change programme. Employees that display these behavioural attributes are acknowledged.

The GCEO Awards launched during the year, recognised individuals who have added greatly to Denel's reputation in the market place and broader society by displaying Denel's values. The awards were given in five categories: Performance, Innovation, Integrity, Caring and Accountability. The various accolades were named to reflect some of the iconic products that have built and sustained Denel's reputation in the global defence and technology arenas over the past five decades.

PERFORMANCE
WE EMBRACE OPERATIONAL EXCELLENCE

INTEGRITY
WE ARE HONEST, TRUTHFUL AND ETHICAL

INNOVATION
WE CREATE SUSTAINABLE INNOVATIVE SOLUTIONS

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

ACCOUNTABILITY
WE TAKE RESPONSIBILITY FOR ALL OUR ACTIONS

GCEO AWARDS NOMINEES

THE MUNITIONS OPERATIONAL EXCELLENCE 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.

- **Top Shell Assembly Team** – DAe
- **MRO Operations Team** – DAv
- **Pam Malinda** – Denel Corporate Office
- **G5 team in the United Arab Emirates** – DLS
- **Umkhonto Test Team** – OTR
- **Karen Graaff** – PMP
- **Terrence Chetty** – Denel Industrial Properties
- **Siphiwe Mthandi** – DD

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.

- **Johan Kriek** – DAe
- **Mientjie Croucamp** – DAv
- **Ayanda Mkatini** – Denel Corporate Office
- **Trevor Chiliza** – DD
- **Jerome Lakey** – OTR
- **John Mathebula** – Denel Industrial Properties
- **Johan Bezuidenhout** – DLS

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.

- **Lebo Dibete** – DAe
- **Bella Ragolane** – Denel Corporate Office
- **Gerda Stander** – DD
- **Demining team** – Mechem
- **Garden Service Team** – OTR
- **Shirley Morris** – PMP
- **Colin Mkhize** – Denel Industrial Properties
- **Quinton Adank** – DAv

THE G6 ACCOUNTABILITY AWARD

This award is given in recognition of a team or an individual who has demonstrated an exceptional sense of responsibility for their actions and who behaves in a manner that demonstrates that he or she regards Denel as if it were their own company.

- **Magriet Vermaak** – DAe
- **Ishmael Moeketsi** – DAv
- **Wilhelm Lutz** – DD
- **Lifalethu Ndhlovu** – Denel Industrial Properties
- **Andrew Lawrence** – OTR
- **Ayanda Mkatini** – Denel Corporate Office

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.

- **Deon van Tonder** – DAe
- **Cheetah C IMU Replacement Team** – DAv
- **Colin Singarum** – Denel Corporate Office
- **Wendell Platt** – DD
- **Warren Faro** – Mechem
- **Terrence Chetty** – Denel Industrial Properties
- **The Command and Destruct Refurbishment Team** – OTR

THE ROOIVALK GCEO EXCELLENCE AWARD

This accolade is given to an individual or team that is 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.

- **Top Shell Assembly Team** – DAe
- **Ayanda Mkatini** – Denel Corporate Office
- **A-Darter GA Team** – DD
- **AV8 Team** – DLS
- **Die Herberg Team** – OTR
- **Shirley Morris** – PMP
- **John Mathebula** – Denel Industrial Properties
- **Mike Weingartz** – DAv

THE MUNITIONS OPERATIONAL EXCELLENCE AWARD

Siphiwe Mthandi,
Guidance and Control – DD

He designed a flight control methodology that adds extended range to the new winged version of the Al-Tariq system. The Strategic Engineering Group at DD was confronted with many technical challenges by the time Siphiwe joined the team. His 'never say die' attitude provided the team with determination and the tenacity to complete the project on time and with all the crucial milestones reached.

Siphiwe has the ability to manage both upwards and downwards within the team and across all functional areas. He is able to harness the wisdom of specialists and work closely with the system engineer while, at the same time, mentoring and developing young engineers and get them excited to solve complex issues.

His colleagues often find him at work on weekends or early in the morning during workdays, solving difficult problems. He never stops and always believes that there is a solution. His diligence has earned him accolades of Denel Dynamics Individual of the Year in 2014; Team of the Year nominee, 2014; and winner of the Strategic Engineering Group recognition award in 2013.

With his passion, resilience, tenacity and sheer determination Siphiwe ensures that projects are delivered on time and to the highest quality standards, He is truly a deserving winner of the Munitions Performance Award.

THE UMKHONTO INTEGRITY AWARD

Johan Bezuidenhout
Business Excellence – DLS

Johan has established himself over many years as the custodian of quality and a pillar of integrity and ethical conduct at DLS. This is best demonstrated through the absolute trust placed in him by management and clients in decisions on the acceptability of products. Johan will never compromise his position to do the right thing, even when there are pressures to contractually deliver on time.

His participation in the delivery of very complex programmes such as Hoefyster and the AV8 has given clients a feeling of trust and confidence. His approach to not compromise on quality and integrity contributes to the reputation of DLS and has become the cornerstone of all programme decisions.

Johan was instrumental in DLS receiving the prestigious Platinum membership from the South African Quality Institute – among an elite group of only five companies. He has been the champion of the process to move DLS from being product-oriented to being excellence-oriented which had a significant impact on the manner in which business is conducted at the business unit. He signifies quality, integrity and honesty and has demonstrated that contractual delivery and product excellence can be achieved simultaneously.

THE CASSPIR CARING AWARD

Quinton Adank
DAv

The Logistics Engineering Manager at DAv volunteered to assist with the construction and handover of a library in Tembisa during the annual Mandela Day activities. When he heard about the corporate social investment project Quinton took it upon himself to find a partner, the St Dominic's Catholic school to provide the books and the teacher support for the new library.

During the construction phase strikes in the metal industry delayed delivery from suppliers and there were serious concerns that the project would not be completed on time. He took over the project management and often stayed at the site until late into the night to ensure that delivery drivers were not intimidated. The unit was delivered and he continued to assist the contractors to guarantee the on-time handover of the library.

On Mandela Day, 18 July 2014, the fully-equipped library was handed over to the O R Tambo School in Tembisa. Quinton remains in contact with both schools to ensure the project does not lose momentum and the learners continue to receive a good quality education and access to the books in the library.

He is a worthy winner of the Denel Caring Award because he demonstrated an ability to achieve results on a project that he deeply cares for through resilience, passion and commitment.

THE G6 ACCOUNTABILITY AWARD

Andrew Lawrence,
Human Resources – OTR

Andrew is one of two employees performing HR functions at OTR. He recently had to fill in and perform the challenging duties of a colleague who was absent for medical reasons and took over responsibilities for remuneration and benefits, as well as payroll processing.

He grabbed this challenge with both hands and took over responsibility for all the tasks in a difficult and unknown environment. He displayed exceptional leadership and took over many new responsibilities, ensuring that all tasks were performed according to the highest standards of accountability, efficiency and professionalism.

Andrew took it upon himself to learn the system and methodology regarding remuneration and ensured that the company's employees and stakeholders received an excellent service. He showed great character by handling the additional pressures while still handling his original duties in an outstanding manner.

and

Ayanda Mkatini
Denel Corporate Office

Ayanda took on additional responsibilities within the HR office but she continued to deliver work of the highest quality, each and every day. She did this with a humble and unassuming – yet highly competent approach to service. She never has an "off day". No task is too big or small for her. She never complains about her workload and completes her assigned tasks on time and according to the highest standards.

A deserving joint-winner of the G6 Award, Ayanda is held in high regard for her dependability, reliability and maintenance of the highest standards of confidentiality.

THE AIRBUS INNOVATION AWARD

The Command and Destruct Refurbishment Team – OTR

The command and destruct (CD) system is a flight termination programme that forms an integral part of OTR's in-flight safety plan. The existing system was old and needed to be replaced with a unit that was only available abroad and at huge costs to the company.

The CD team worked very well together during difficult phases of the subsystem assembly, the rewiring of cables and rust prevention of the technology. The reconfiguration of the main power, from three phase to single phase and the removal of radio frequency interference required an innovative approach from the team.

They explored various creative alternatives and came up with a new set of amplifiers which replaced expensive, obsolete and outdated power amplification technology. The team even built a third back-up system from salvaged electronic equipment.

The new system has no need for dual power generators, will not be affected by future power failures and results in major cost savings for Denel. The expertise accumulated by OTR on this project will be offered to Eskom's power war room.

THE ROOIVALK GCEO EXCELLENCE AWARD

Mike Weingartz
Flight Operations – DAv

Mike is a senior test pilot at DAv. Flight safety is of paramount importance in the aviation and aerospace industries.

During flight testing in Ecuador, Mike was in the back cockpit of the two-seater Cheetah fighter jet. During the flight decompression occurred which caused the front cockpit canopy to shatter. Mike took over the controls of a very unstable jet fighter travelling at high speed. He managed to land the aircraft safely and saved the life of his colleague, Major Alvarez.

Mike recently received one of the highest military orders from Ecuador for his bravery and skills in saving the life of a pilot and safely landing a damaged fighter jet. The award known as the Atahualpa Decoration, in the grade of Grand Cross, is the highest honour to be bestowed on people below the rank of a head of state.

He saved the life of a pilot who was dangling from the aircraft at an altitude which would usually result in death. Mike saw that the pilot was stuck in the cockpit and took over the navigation without clear visibility and landed the aircraft safely. The pilot sustained minor soft tissue injuries and was back in the cockpit weeks later.

Mike's unassuming demeanour and humility is evident as he states that this was "all in a day's job" and did not even mention his near-death experience to his wife when she spoke to him later that night.

ONE OF OUR SHINING STARS

Lumka Msibi continues to put Denel on the map. The 24-year old engineer at Spaceteq has received SA's highest award for young ambassadors who promote a positive image of the country.

She received the Ubuntu Youth Diplomacy Award at a banquet hosted in Cape Town by DIRCO and attended by President Jacob Zuma. She is recognised for her contributions "to promote SA as a dynamic country which creates an environment where youth can thrive and help to make the world a better place."

Lumka participated in a mission to Antarctica on the Summer Relief Voyage which travelled to the southern edge of the world to replenish the SA team at the Antarctica Expedition Base (SANAE). During her time on the icy continent Lumka participated in the upgrade of the Super Dual Auroral Radar Network (SuperDARN) at the research base, SANAE IV. This installation is used to monitor the dynamic space weather and serves as an early warning system for satellites by analysing solar activities.

In November last year she won the first prize among 500 entries in a global competition hosted by the International Astronautics Conference in Toronto, Canada. Her technical paper was based on the research work done in Antarctica but also her involvement in Denel's schools outreach programme.

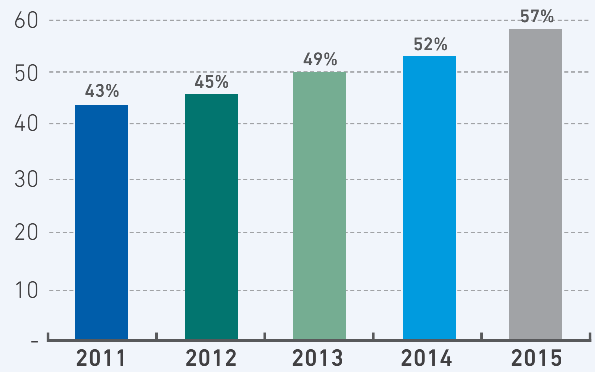
Lumka Msibi after receiving her Ubuntu Youth Diplomacy Award.

ORGANISATIONAL DESIGN

WORKFORCE PLANNING

The Denel group has a workforce of 6 931 comprising 4 559 employees employed at the core business units and 2 372 employees employed by associated companies. The core workforce increased from 4 136 in 2013/14 creating over 400 job opportunities. Of the core workforce, 3 901 are employed on a permanent basis and 658 are employed on fixed-term contracts. Denel has made significant progress during the last five years with regards to improving representivity in the organisation.

% REPRESENTIVITY FROM DESIGNATED GROUPS



The following table reflects the core employee mix per occupational band:

JOB CATEGORIES	2015		2014	
	Black	White	Black	White
Executive Management	8	3	8	3
Senior Management	22	28	27	35
Management	109	227	90	217
Professional Staff	1 639	1 364	1 302	1 415
Administrative Staff	264	177	243	194
Support Staff	158	98	168	104
Trainees	164	25	138	23
General Workers	246	27	159	10
Sub Total	**2 610**	**1 949**	**2 135**	2 001
Total	**4 559**		**4 136**	

TALENT ACQUISITION AND ATTRACTION

Skills attraction is critical in achieving business objectives. A diverse workforce is an advantage to any organisation as this enhances creativity, challenges boundaries and provides a competitive edge.

Skills attraction focuses on EE designated groups, attraction of females, attraction of employees with disabilities, and young black employees, i.e. under the age of 35 years, to ensure diversity is improved.

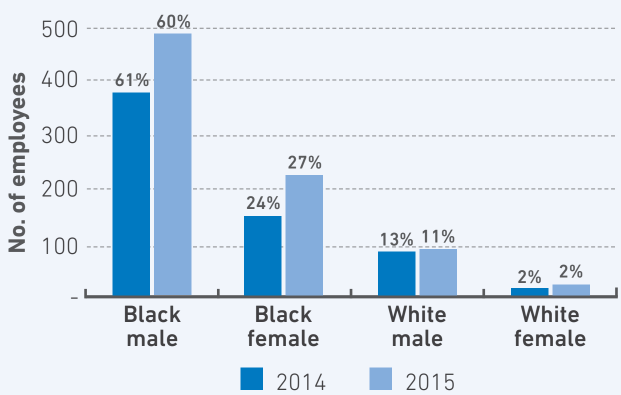
DENEL WILL CONTINUE TO ATTRACT TALENT THROUGH RECRUITMENT CHANNELS SUCH AS:

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

OUR ATTRACTION STRATEGIES ARE WORKING:

- **824 new employees appointed**
- **87% were ACI**
- **30% were female**
- **275 jobs created**

The graph below illustrates appointments by race and gender:



ATTRACTION OF WOMEN

The defence industry is traditionally perceived to be male dominant and we are working towards better representation of women. We employ 1 064 female employees and 16.5% of our executives and managers are female. In addition, 33% of the Denel board members are female including the interim chairman. In order to improve the representivity of women within the organisation, Denel participates in various programmes that target female learners, such as:

GirlEng

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

Technogirl

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

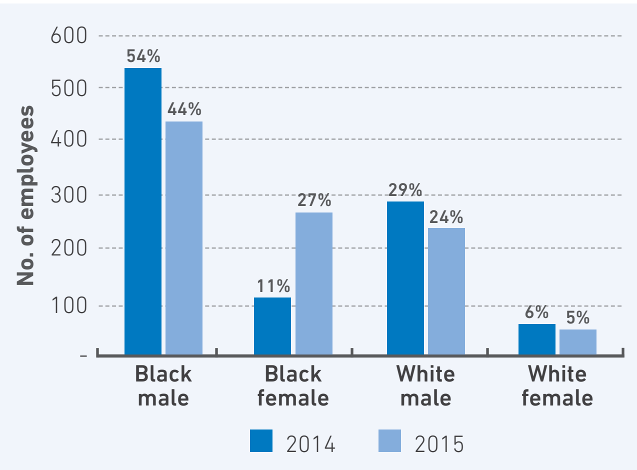
A recognised non-profit organisation at the forefront of tackling issues regarding gender gaps in the engineering environment

Cell C Take a girl child to work

An annual event where female learners are hosted for the day to showcase the various aviation careers available

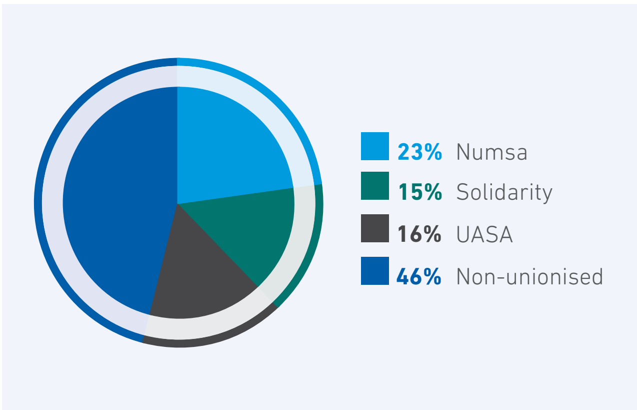
TERMINATIONS

The attrition rate for permanent employees of 5% (2013/14: 5%) for the period under review is below the target of 7%, the benchmark for our industry. The graph below illustrates employee turnover, i.e. resignations, retirements and retrenchments by race and gender:



INDUSTRIAL RELATIONS

Labour relations within Denel is positive and constructive. The labour environment is stable and no labour unrest was experienced at Denel during the year, despite the nationwide Metal Engineering Bargaining Council (MEIBC) strike that took place in July 2014. Of the total workforce 54% is affiliated to one of the recognised unions as illustrated below:



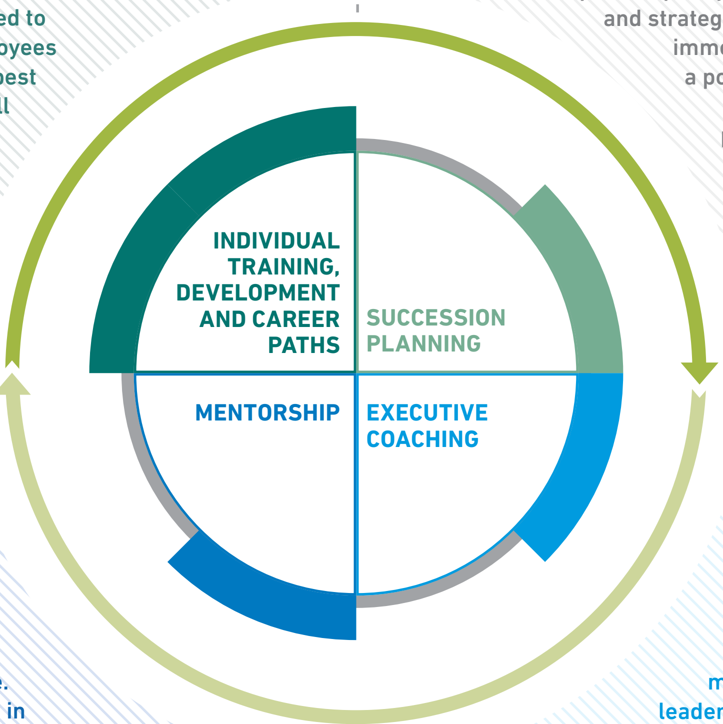
LEARNING AND DEVELOPMENT

EMPLOYEE DEVELOPMENT

Keeping abreast of technological advances is a crucial part of delivering quality solutions to our clients. This can only be achieved by ensuring that a learning culture is embedded within the organisation. In addition to the Trailblazers programme, which is focused on leadership development, several employee development programmes are in place.

Each employee has a personal development plan to target learning interventions. Career paths have been developed to encourage younger employees to choose the paths that best suit the individual and will best contribute to the success of the group.

The objective of succession planning is to create a pool of quality successors for critical and strategic positions who will be immediately available when a position becomes vacant. This will eliminate a potential strategic void.



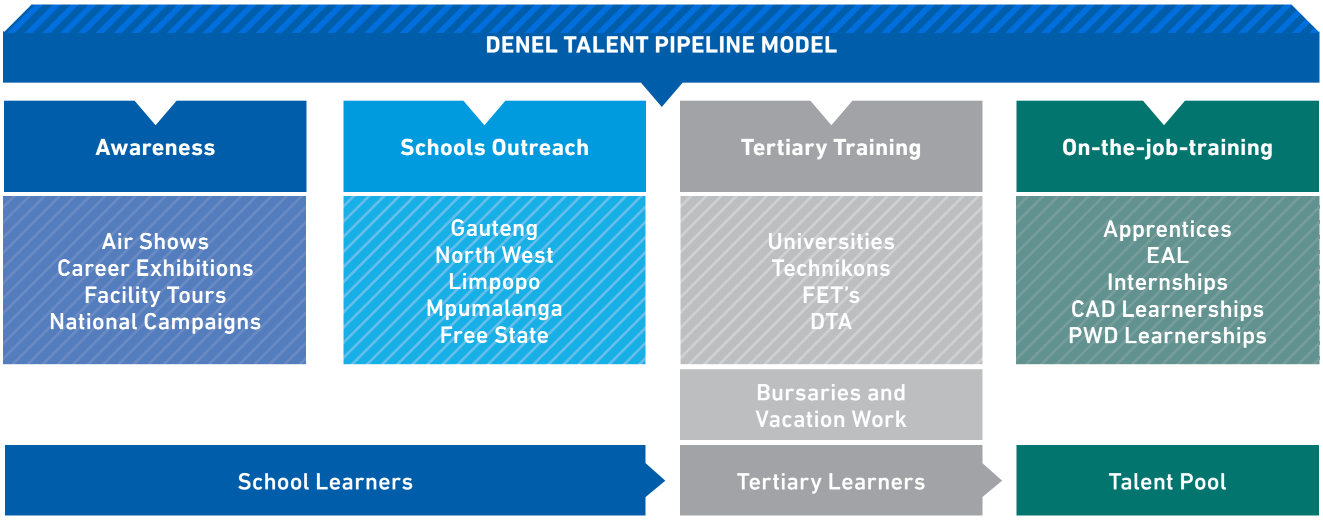
Each business unit has mentorship plans that are constantly tracked and evaluated by its training and transformation committee. These programmes assist in the identification of future technical and managerial leaders and in the development of technical competence and productivity.

Formal executive coaching relationships have been established for Denel executives and managers as part of the leadership and management development programmes. Coaching initiatives are implemented as informed by the respective developmental needs and will continue to align employee behaviour with the strategy of the group.

Three deputy CEOs were appointed as part of the succession planning of the current business unit CEOs at DAe, DD and OTR. Two female deputy CEOs were appointed which is a significant accomplishment for Denel.

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 is involved in CSI activities which create awareness of the importance of mathematics and science amongst youth. 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 amongst the youth and assist Denel in acquiring talent for its various skills programmes.

During the year under review, Denel hosted its inaugural Career Expo at its Irene campus in Centurion where more than a 1 000 learners, mostly from previously disadvantaged schools, were exposed to the various careers available in the defence and security industry and the scholastic requirements for eligibility.

SCHOOLS OUTREACH PROGRAMME

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, Limpopo, Free State and Mpumalanga where learners from surrounding schools are brought to a central venue and taught by teachers from the community.

There are a total of 455 learners currently participating in the mathematics and science outreach programme in the five provinces. Participating schools include: Olievenhoutbosch Secondary School, Steve Tshwete Secondary School, Reigerpark Secondary School and Springs Etwatwa Rafedile centre.

The programme is targeted at grade 11 and 12 learners. These learners apply to be part of the programme during their grade 10 year and need to have a minimum 60% in mathematics and science to be considered. The programme serves as a feeder to the Denel's skills development pipeline and learners are eligible for a bursary to study at a tertiary institution (university/technikon) or at DTA. Matriculants who participated in the programme scored a combined total of 66 distinctions in physical science and maths in the 2014 year-end exams.

TERTIARY TRAINING

As Denel operates in the high-tech space, 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 and gain a better understanding of their chosen career.

DENEL TECHNICAL ACADEMY

Denel's flagship programme is its artisan training academy based on its Kempton Park campus in Gauteng. DTA offers SACAA certified courses and several other advanced and type training courses. DTA has been purposely structured and resourced to deliver technical training, and is not currently 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.

HOW DOES IT WORK?

- 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.

During the 2014/15 financial year DTA trained 355 apprentices enrolled in various fields of artisanship and 656 learners on short courses. A total of 140 first-year learners were fully funded in collaboration with the NSF to complete a trade qualification and 231 apprentices in the various years of qualification were sponsored by Denel during 2014/15. DTA offers rudimentary training opportunities for the first year of apprenticeship in the following fields:

AVIATION RELATED TRADES	GENERIC TRADES	OTHER
Aircraft avionician	Fitter and turner	Advanced aircraft training courses
Aircraft electrician	Electrician	Aircraft type-specific training courses
Instrument mechanic	Machine tool millwright	Trade test preparation
Mechanic	Tool and jig maker	Trade testing
Radiotrician	Turner machinist	
Structural worker	Welder	

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.

Vacation work is also made available to these learners to familiarise them with a real workplace environment. It is our practise that the bursars who complete their university studies are employed within the group.

Denel's hands-on approach ensures bursars are fully supported so that they obtain their qualifications and join the group. During the 2014/15 financial year, Denel sponsored 53 bursary students in various years of study towards obtaining degrees in the disciplines mentioned above.

BURSARIES ARE OFFERED IN THE FOLLOWING DISCIPLINES:

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

ON-THE-JOB TRAINING

APPRENTICESHIPS

Denel is able to recruit top talent for its apprenticeship programme and to offer 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.

ENGINEERING ACADEMY OF LEARNING

The Engineering Academy of Learning (EAL) is a work-based platform that provides for the training of graduate engineers in the form of an internship. This programme enrols 35 graduates each year. The EAL was established to develop and grow graduate engineers to enable them to be productive in as short a time as possible. The EAL uses a multifaceted approach to develop graduates by combining formal courses, on-the-job training and a development project into a one-year internship programme for graduate engineers. Interns spend 50% of their time working within a division on actual projects, and the remaining 50% of their time executing a training product development project and attending various training courses.

In February this year Denel hosted its "Young Achievers" award ceremony where top learners across the various programmes were honoured. The Deputy Minister of Public Enterprises, Mr. Bulelani Mangwanishe gave the keynote address which was very well received by these young bright minds.

INTERNSHIPS

Graduates, mostly from technical disciplines, are employed on internship programmes at the 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.

COMPUTER ASSISTED DRAWING LEARNERSHIP

The computer assisted drawing (CAD) learnership commenced during 2013 with six learners completing the one-year programme. Due to its success it has become an annual programme. The learners successfully completed both their theoretical and practical component of the programme, and commenced permanent employment at Denel.

ADMINISTRATION LEARNERSHIP - PEOPLE WITH DISABILITIES

Another first for Denel, the people with disabilities (PWD) learnership programme started in August 2014, in order to include people with disabilities in our diverse workforce. This one-year administration learnership provides both practical and theoretical training. On successful completion learners will be offered permanent employment where possible. Only female learners have been selected to participate in the programme to assist with improving female representivity within the organisation.

During the year under review, Denel sponsored 340 learners in its various skills programmes, namely apprentices, technicians, engineers, and interns.

TOP ACHIEVERS AWARDS

Top students from Denel's bursary programme and high school enrichment initiatives were honoured at the Young Achievers Awards function earlier in the year. This was an opportunity to highlight the accomplishment of young people, whose lives have been positively influenced by Denel's investment in bursaries, internships, teaching and mentoring programmes.

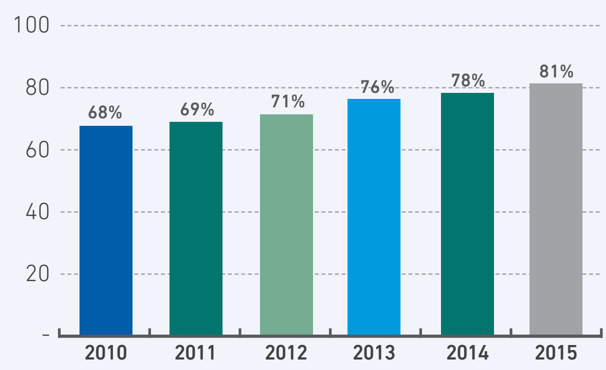
EMPLOYEE WELL-BEING

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.

ORGANISATIONAL CLIMATE

Denel continuously strives to improve the organisational climate and conducts employee organisational climate surveys to assess the general climate and to monitor progress against targeted initiatives. Denel business units are required to implement annual transformation plans to address transformation within their workplaces. The monitoring of progress is conducted internally throughout the year by both the business units' transformation committees and the Denel group transformation office. At the end of each financial year a summative assessment of progress made against the targets set in the business unit transformation plans is conducted by an external independent assessor. Most entities improved their organisational climate score.

ORGANISATIONAL CLIMATE IMPROVEMENT



REWARDS AND RECOGNITION

Denel recognises excellence and successes. This ensures that employees feel valued and encourages additional effort. These recognition mechanisms vary and include performance awards and celebrations, as well as small token payments, used as immediate reinforcement of good performance. One of these mechanisms is the GCEO Awards that are discussed on pages 86 to 88.

CORPORATE SOCIAL INVESTMENT

Denel's corporate social investment (CSI) 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 programmes further focus on education and skills acquisition as a critical enabler in the fight to eradicate poverty, inequality and unemployment. There are a number of activities in which Denel is involved that had an impact on 5 725 learners as detailed below. In addition, Denel incurred costs of R277 000 in respect of learners attending our air shows and expos.

EDUCATION INITIATIVES

MATHS AND SCIENCE OUTREACH PROGRAMME

R2.7M - IMPACTING **455 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, Limpopo, Mpumalanga and Free State provinces. In Gauteng engineers employed at various Denel business entities are involved in tutoring these learners on Saturdays without expectation of a reward.

DONATION OF COMPUTERS

R7K - (**10 COMPUTERS**) MBENGE PRIMARY SCHOOL IN THE EASTERN CAPE

To assist with computer literacy in rural areas.

MINI CHESS PROGRAMME

R42K - IMPACTING **50 LEARNERS** - PHILENA PRIMARY SCHOOL IN GAUTENG

Assist with maths and science skills.

MATHS FORMULA BOOKLETS

R114K - IMPACTING **3 000 LEARNERS** ACROSS PROVINCES

Denel donates Maths formula booklets which explain concepts to learners in a simplified manner.

MOBILE LABORATORIES

R70K - IMPACTING **50 LEARNERS** AT MC ZITHA PRIMARY SCHOOL IN MPUMALANGA

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

TELEMATICS

R151K - IMPACTING **1 800 LEARNERS** AT VAAL REEFS TECHNICAL HIGH SCHOOL IN NORTH WEST

Interactive learner support system which offers revision sessions. Schools in the area that benefit include Mmokeng Secondary School, Thuto Tshebo Middle School and Are Fademeheng Secondary School.

TECHNOGIRL

R50K - IMPACTING **250 FEMALE GRADE 9-11 LEARNERS**

This is an initiative of the Department of Women Affairs 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 maths and science subjects.

TEACHER SUPPORT

R94K - IMPACTING **120 GRADE 0-7 LEARNERS** AT SCHOOLS IN THE WESTERN CAPE

Denel pays the salary for extra teachers so that the school can accommodate more learners from the area. Learners from the area would have to commute extensively if they are not accommodated in these local schools. Schools that benefit include Stoute Kabouter Creche, Wagenhuiskrantz Primary School and Struisbaai Primary School.

SPORT INITIATIVES

DENEL RACE COMMUNITY MARATHON

R63K - IMPACTING **3 000 EMPLOYEES** AND **COMMUNITY**

Denel annually sponsors a road race in Centurion. Participants can participate in either a formal 10 or 21 km or the fun run/walk races. Denel also donated water for a community marathon.

INFRASTRUCTURE DEVELOPMENT

PROVISION OF A FACILITY FOR PRE-SCHOOL CHILDREN

R32K - IMPACTING **40 CHILDREN** - MOOIPLAAS INFORMAL SETTLEMENT

Denel donated a Wendy house and bought groceries for children at the Mooiplaas informal settlement. This crèche has 42 children.

PROVISION OF A LIBRARY

R318K - IMPACTING **500 LEARNERS** - OR TAMBO PRIMARY SCHOOL IN EKHURHLENI

Supplied a fully furnished library to encourage reading. Employees assisted by donating books.

SUPPORTING THE BUILDING OF A SCHOOL

R211K - IMPACTING **500 LEARNERS** - JESUS IS LORD SCHOOL SCHOOL IN LIMPOPO

The community had no school in the area and learners had to walk many kilometres to attend school.

HEALTH INITIATIVES

PROVISION OF DIGNITY PACKS

R11K - IMPACTING 600 GRADE 10-12 LEARNERS

Denel donates sanitary protection/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.

AWARENESS INITIATIVES

CAREER EXHIBITIONS

R508K - IMPACTING **30 000** GRADE 10-12 **LEARNERS**

Denel participates in various career expos nationally in order to expose learners to the various careers available for science engineering technology.

AIR SHOWS

R477K - IMPACTING **5 000** 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.

JOINT AVIATION AWARENESS PROGRAMME (JAAP) AND INTERNATIONAL CIVIL AVIATION DAY (ICAD)

R30K - IMPACTING **25 000** GRADE 10-12 **LEARNERS**

Partnership with other aviation organisations, e.g. SAA, SAX, Mango, ATNS, SAAF, etc. to create awareness and expose learners to aviation-related careers.

SUPPLY CHAIN MANAGEMENT

Our supply chain is a key enabler in delivering on and executing programmes. There has been a significant increase in activities at Denel as major projects move into the production phase. This inevitably resulted in a high proportion of Denel's input costs relating to the supply chain, with material procurement accounting for an average of 62% (2013/14: 57%) of cost of sales. Total measured spend amounted to R4.7bn.

DENEL'S SUPPLY CHAIN STRATEGY CONTINUES TO INCLUDE:

- Maximising local content in its programmes and better support for the local defence industry;
- Equitable sharing of supply chain opportunities and driving increased participation by black-owned businesses;
- Exploiting purchasing power to drive down costs and create value; and
- Targeting black-owned companies for development to supply into the core business of Denel.

FOCUS AREAS

- Getting value for the Denel group spend with emphasis on smart contracting and collaboration amongst the business units to exploit their purchasing power;
- Increasing the group spend on black-owned, black women-owned, black youth-owned and companies owned and managed by black people with disabilities;
- Identification and selection of small or emerging black-owned companies for development with the ultimate goal of supplying into the core business of Denel; and
- Increase spend on local suppliers in order to reduce dependence on imports and foreign suppliers.

HIGHLIGHTS

- Spend on black-owned companies increased from 11% of total local spend to 22%;
- Spend on black women-owned companies increased from 2.8% to 8.1%;
- Spend on black youth-owned companies estimated at 1% of total spend;
- Number of ESD companies increased from 67 to 114;
- 25 (2013/14: 20) of the ESD companies were developed to supply into the core business of Denel;
- Total ESD cost incurred increased from R6m to R17.3m;
- Recognised spend increased from 90% to 93.3%; and
- Local spend of 67.4% of total spend.

LOCAL SPEND

In absolute terms, local spend increased by close to a billion rand despite a significant increase in spend on foreign suppliers due to contractual requirements with OEMs of some of our high-value and key products. The situation is expected to improve as more activities are executed locally, particularly as far as the Hoefyster contract is concerned. Denel continues to engage OEMs to accredit local suppliers for the supply of some of the foreign-sourced products and services. Despite some trade-off between local and foreign-sourced products, the impact on skills development, job creation and transformation on the local economy has been positive.

SPEND ON BLACK-OWNED COMPANIES

The trend in spend on black-owned, black women-owned and black youth-owned companies was considerably better than the plan despite challenges in finding and developing eligible small black companies or emerging micro enterprises. The figures show that the Denel supply chain strategy is bearing fruit. Denel will reach the critical mass of black-owned companies supplying into the core business in the next five years.

Denel will be targeting companies owned and managed by black people with disabilities in future and business units continue to scan the environment for these suppliers. The new metric will be reported on in the new financial year.

ENTERPRISE AND SUPPLIER DEVELOPMENT STRATEGY/PROGRAMME

The group's ESD strategy is delivering good results. Given the number of companies that were placed on the programme, as well as those that graduated from being beneficiaries (and subsequently became fully-fledged suppliers), that confirms the effectiveness of the current strategy. In 2015/16 the momentum will be increased with a view to also increasing the number of participants on the ESD programme. The targeted increase in the number of such companies is ten new companies and will increase the pool of strategic or key black suppliers in Denel.

SMART PROCUREMENT

The group is pursuing its transformational goals and attention is given to the development of relevant supply chain personnel. This intervention is equipping them with the competencies necessary to achieve the group's objectives. The key elements of smart procurement entail:

- 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 are procured;
- Negotiating wisely to reduce risks against Denel and consistently ensure transactions or contracts deliver value for Denel; and
- Incorporating elements in contracts that drive transformation in the supplier environment.

With increased focus on smart procurement, and recognising those who are living examples thereof, the future will certainly be great for Denel.

DENEL SUPPLIER EVENT

Denel held a successful Group Supplier Day on 5 March 2015. The purpose of the event was to invite mainly small and emerging black-owned companies to participate and also to give a selected number of them an opportunity to exhibit their wares. As skills transfer and development is equally important for such companies, a number of large and established suppliers to Denel were also invited with the intention to create partnerships, or to offer business opportunities.

The event was well attended and the number of participants exceeded 1 000 people. Naturally, this offers Denel an opportunity to screen the participants and to offer opportunities for both business and development to them. The process is underway and is likely to yield a large number of eligible beneficiaries of the Denel ESD programme and also business opportunities for a number of the companies.

TENDERS/CONTRACTS AWARDED IN 2014/15

A total number of 44 tenders were awarded of which four were allocated to foreign suppliers. The encouraging trend is that of the 40 tenders awarded to local companies 23 (58%) were awarded to black-owned companies and eight (20%) were awarded to black women-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

Denel has a comprehensive approach to OHS to protect and preserve the well-being of employees in their course of work. Denel ensures a safe working environment for its employees through continuous risk assessment and prioritisation, applying engineering measures to eliminate hazards, safe work procedures, providing protective equipment, preventing and monitoring occupational diseases, as well as raising safety consciousness. Denel's OHS management system meets legal requirements and is based on OHSAS18001.

All business units are required to be OHSAS18001 certified by 2016 and entities not yet certified are at various stages of preparations for certification ranging from aligning their systems with OHSAS18001 to preparatory audits. The status of certification at the various business units is reflected in the table below:

OHSAS18001 CERTIFICATION			
BUSINESS UNIT	CERTIFICATION DATE	PLANNED CERTIFICATION DATE	NEXT ASSESSMENT DATE
DAe	Certification in process	Jun 2015	Mar 2016
DAv	Mar 2013	-	Aug 2015
DD	Certification in process	Jun 2015	Jun 2016
DLS	May 2013	-	Jun 2015
OTR	Certification in process	Sept 2015	Jul 2015
PMP	May 2007	-	Jun 2015
LMT	Certification in process	Nov 2015	-

The SABS conducted an assessment at DAe in December 2014 for OHSAS18001 certification. Deficiencies identified through this assessment are being addressed and a further review by the SABS will be scheduled for early in the new year.

OCCUPATIONAL HEALTH AND SAFETY SYSTEM AND PERFORMANCE

Responsibility for a safe work environment rests with business unit CEOs. A culture of accountability for workplace safety is instilled at all levels of the organisation. This is achieved through appointments of representatives in terms of the OHS Act no. 85 of 1993 and OHS committees that comprise employee and management representatives.

Programmes including identification and conducting of job safety analysis, providing written safe work instructions, material safety data sheets for hazardous chemicals, as well as effective supervision of high risk activities are in place. Visible signage and personal protective clothing improve safety awareness amongst employees. Denel will continue to place emphasis on incident prevention activities and management as the business grows.

Denel targets a lost time injury frequency rate (LTIFR) of less than 0.8 and the current LTIFR of individual businesses is provided in the table below:

	DAe	DAv	DD	DLS	LMT	OTR	PMP
TARGET	<0.8	<0.8	<0.8	<0.8	<0.8	<0.8	<0.8
2015	0.89	0.65	0.22	1.75	-	-	0.46
2014	0.05	1.00	0.36	-	0.48	-	0.15

The deviation from the target at DLS and DAe was due to lost time injuries arising from finger injuries sustained on duty. Hand tools have been introduced instead of using bare hands. Illumination has been improved, work procedures updated and employees trained and made aware of lock-out procedures to mitigate the risk.

Owing 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 2014/15.

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. During the year these surveys were conducted at DAv, DD, DLS and DAe. Apart from minor deviation of the dust extraction in the Composite Laboratory at DD, which was below the required limits and since been rectified, no material deviations were found.

OCCUPATIONAL MEDICINE

Pre-employment, periodic and exit medical examinations are conducted in 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. This 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:

	DAe		DAv		DD		DLS		LMT *		OTR		PMP	
PROCEDURE	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Pre-exit medicals	65	24	100	-	40	49	53	133	-	-	-	-	186	175
Periodic medical	249	260	115	-	101	165	169	148	-	-	-	-	177	586
Biological	-	60	-	-	69	36	23	26	-	-	9	7	122	54
Hearing tests	-	-	-	-	-	34	18	281	-	-	-	-	477	1084
Laser eye testing	-	-	-	-	2	25	-	-	-	-	-	-	-	-

* *In process of putting processes and procedures in place to be able to report on the matters above*

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:

TRAINING TYPE OFFERED	NUMBER OF EMPLOYEES TRAINED PER BUSINESS UNIT													
	DAe		DAv		DD		DLS		LMT *		OTR		PMP	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
OHS induction	48	-	38	82	47	105	362	106	-	-	10	8	180	9
HCS	67	-	-	9	22	32	22	35	-	-	-	-	80	180
MSD sheets	-	-	-	-	22	-	22	35	-	-	-	-	100	-
Spill kit	-	8	-	-	7	-	22	-	-	-	-	-	-	75
Scaffolding	-	-	-	-	-	-	-	-	-	-	-	-	12	0
OHS representatives	28	-	-	3	26	16	10	6	-	-	-	-	12	2
Hazard and risk assessments	-	5	-	2	-	-	2	3	-	-	1	-	14	2
Explosives areas	-	-	11	-	37	18	-	6	-	-	-	-	272	240
Legal training for supervisors	11	-	-	7	-	-	-	-	-	-	-	1	23	-
First aiders	33	-	9	17	30	12	36	15	-	-	-	11	53	-
Fire fighters	-	74	10	11	26	16	-	-	-	-	-	1	122	-
Emergency team members	-	-	-	-	2	-	-	-	-	-	5	6	122	-
Incident investigators	19	-	-	4	-	-	-	1	-	-	-	3	9	-
Crane and forklift operators	45	87	40	34	27	33	30	19	-	10	15	45	20	-
Lead training	-	-	-	-	-	-	-	-	-	-	-	-	-	60
Noise induced hearing	-	-	-	4	-	-	-	1	-	-	-	-	-	311
Vessels under pressure	-	-	-	-	-	-	-	-	-	-	-	-	-	3
Health and safety awareness	435	-	749	-	113	111	283	235	-	-	-	11	43	879
Working and heights	-	-	-	-	-	-	-	15	-	-	-	-	-	-
Pallet stacker	-	-	21	-	-	-	-	-	-	-	-	-	-	-
SHE supervisor	-	-	3	-	-	-	-	-	-	-	-	-	-	-
Sling inspection	-	-	14	-	-	-	-	-	-	-	-	-	-	-
High voltage switching	-	-	-	-	-	-	-	-	-	-	2	-	-	-
Fall arrest training	-	-	-	-	-	-	-	-	-	-	14	-	-	-

* *In process of putting processes and procedures in place to be able to report on the matters above*

PART SIX
ENVIRONMENTAL RESPONSIBILITY

Denel continuously improves environmental management activities and operations, thereby minimising waste, preventing pollution and caring for the environment.

ENVIRONMENTAL RESPONSIBILITY

HIGHLIGHTS

- No instances of non-compliance with environmental laws and regulations;
- No complaints or concerns regarding environmental matters filed;
- No significant fines were levied nor non-monetary sanctions imposed;
- Denel recorded the lowest electricity usage in the last seven years.
- Spent R5m (2013/14: R14m) on environmental protection and related expenditure; and
- Achieved 11.8% (2013/14: 10.3%) in energy savings which translated to equivalent emissions of 12 800 metric tonnes of CO_2.

The positive impact of Denel's business on the economic and social environment is outlined elsewhere in the report, but Denel is aware of the negative effects industrial activities have on the environment. It manages, protects and rehabilitates the environment in line with its environmental management policy. The policy is based on the principles of ISO14001 and provides guidelines and minimum requirements for each core business unit. Denel is committed to continuously improve environmental management activities and operations, thereby minimising waste, preventing pollution and caring for the environment.

MANAGING MATERIAL ENVIRONMENTAL IMPACTS

Environmental responsibilities are addressed 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 included in the business units' processes.

S&E COMMITTEE

BUSINESS UNIT CEOs

KEY ENVIRONMENTAL OBJECTIVES

- Protection of species and habitats, and the conservation of biodiversity and natural resources.
- Protection of the environment against disturbance, deterioration, contamination and/or destruction as a result of human activity and structures.
- Providing a remediation plan for all business units.

CEOs appointed to execute environmental responsibility
S&E committee provides oversight

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

BUSINESS UNIT	CERTIFICATION DATE	CERTIFICATION BODY	PLANNED CERTIFICATION	NEXT CERTIFICATION
DAe	Certification in process	SABS	Jun 2015	May 2016
DAv	2012	SABS	-	Aug 2015
DD	2009	Bureau Veritas	Jun 2015	May 2016
DLS	2009	DEKRA	-	Jun 2015
OTR	2000	SABS	-	Jun 2015
PMP	2003	SABS	-	Jun 2015
LMT	Certification in process	To be determined	May 2016	May 2016

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 to reducing energy consumption and 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%. 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 DEFRA CO_2 equivalent emissions process.

During the first year of reporting on CO_2 emissions, Denel identified and quantified carbon sources at the various campuses as tabulated below:

CAMPUS	ELECTRICITY kWh	LIQUID PETROLEUM GAS kg	COAL kg	HEAVY FUEL OIL litres	AVIATION TURBINE FUEL litres	PETROL litres	DIESEL litres	PARAFFIN litres
Kempton Park	32 104 831	189 072	-	1 157 279	369 255	25 502	49 200	-
PMP	29 277 916	91 677	1 717 341	-	-	74 412	137 210	1 480
Irene	17 993 683	-	-	-	-	57 796	32 490	-
Lyttelton	9 267 445	-	-	-	-	43 859	42 313	1 000
OTR	6 060 779	-	-	-	-	88 787	146 009	-
Houwteq	1 134 657	-	-	-	-	-	-	-
Total	**95 839 311**	**280 749**	**1 717 341**	**1 157 279**	**369 255**	**290 356**	**407 222**	**2 480**

Carbon sources reflected in tonnes CO_2 equivalent emissions at the various campuses are tabulated below:

CAMPUS	ELECTRICITY	LIQUID PETROLEUM GAS	COAL	HEAVY FUEL OIL	AVIATION TURBINE FUEL	PETROL	DIESEL	PARAFFIN
Kempton Park	32 105	556	-	3 490	939	59	131	-
PMP	29 278	270	4 047	-	-	171	366	4
Irene	17 994	-	-	-	-	133	87	-
Lyttelton	9 267	-	-	-	-	101	113	3
OTR	6 061	-	-	-	-	204	390	-
Houwteq	1 134	-	-	-	-	-	-	-
Total	**95 839**	**826**	**4 047**	**3 490**	**939**	**668**	**1 087**	**7**

Scope 1 and 2 emissions based on DEFRA CO_2 equivalent emissions

Denel is in the process of assessing its operations to develop specific objectives and measures to reduce carbon footprint where applicable. However, as electricity remains the main source of carbon, Denel has implemented an energy management policy and efficiency programme which supplements the environmental management programme.

ENERGY EFFICIENCY PROGRAMME

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 second 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% annually by becoming more energy efficient especially in light of the current energy supply constraints and rising costs.

DENEL ENERGY EFFICIENCY PROGRAMME

Phase one
Switch to energy efficient lighting in all Denel offices and manufacturing facilities

Phase two
Optimising boiler systems, hot water systems, compressed air systems, waste heat recovery systems and heating, ventilation and air-conditioning (HVAC) systems

Phase three
Renewable energy generation

Staff awareness

Behavioural change

Denel has made considerable progress in implementing the programme which led to an 11.8% (2013/14: 10.3%) reduction in energy during 2014/15. Denel has exceeded its target of 10% for two consecutive years when compared to the baseline allocation preset in 2012. Total electricity consumption amounted to 96GWh (2013/14: 100GWh) at a total cost of R100m (2013/14: R93m) Denel conducts on-going energy savings awareness road shows as part of instilling responsible energy consumption behaviour in the workplace. A number of measures and projects have been initiated as part of the energy efficiency improvement programme and are tabulated below.

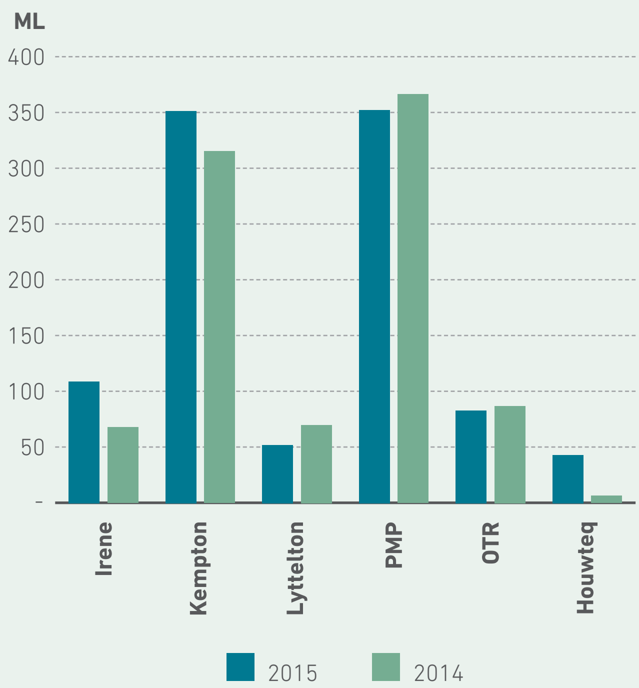
ENERGY EFFICIENCY IMPROVEMENT PROGRAMME		
ACTIVITY	**DESCRIPTION**	**POTENTIAL IMPACT**
SMART METERING	Metering the electricity consumption provides the necessary data to make more informed energy management decisions. Smart metering has been installed at all of our main electricity supply points and 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 that are 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 a modern system that is more efficient in terms of its output and associated energy consumption is currently underway. The project is due for completion in 2015.	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 is underway and the project is due for completion in 2016.	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

South Africa is a water-scarce country and Denel continuously strives to reduce its water consumption from both a cost and environmental viewpoint. Business units have water management plans in place that are used to manage and promote the efficient use of this resource. Our challenge is to use water sparingly and wisely, while at the same time maintaining operations and facilities. The implementation of a grey water system and rainwater harvesting are focus areas. Denel has large roof surfaces with a potential to collect vast amounts of rainwater. Rainwater collected from roof surfaces will be stored, filtered and piped to processes where the water is required, i.e. evaporative coolers, cooling towers, watering of gardens, etc. Rainwater harvesting has the potential to save a considerable amount by reducing dependence on water supplied by the local municipalities. In addition, technical discussions with suppliers are in process to improve water leak detection and thus reduce water wastage.

Water consumption and related expenditure are monitored against predetermined objectives. The water expenditure for the group is R12m (2013/14: R11m) with a total consumption of 990ML (2013/14: 911ML) for the different campuses.

WATER CONSUMPTION PER SITE



LAND STEWARDSHIP AND NATURE CONSERVATION

Explosive and chemical related activities increase the risk of contamination and pollution of the environment. Denel has a system to detect and mitigate the adverse effects of its operations on the environment. The system includes procedures to handle or prevent major spillages that may contaminate land, which are part of the emergency response procedures in the SHE management system. During the year under review two minor spillages of brake fluid and diesel were recorded, corrected and closed down.

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 NEMA.

General plans and remediation work conducted during the year involves Denel collaborating with government and other stakeholders, specifically the Overberg District Municipality and Marine and Coastal Management on discussions of the draft situation analysis report of the Overberg Coastal Management Programme.

The following areas are of particular importance: OTR occupying 43 000ha in a conservation area, the Cape Town Philippi site which has recently been remediated and the Wellington site that is undergoing remediation at the acid plant.

OTR LAND CONSERVATION

Located near the southernmost tip of Africa between Waenhuiskrans and Cape Infanta OTR forms part of the De Hoop conservation area (approximately 60 000ha), one of the few relatively untouched nature areas remaining along SA's southern coast. Apart from its scenic beauty it harbours an unusual 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 unspoilt coastline.

The environmental management system at OTR provides for integrated ecological management 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. A number of initiatives have been implemented, including a programme to identify indigenous and alien plants. 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 six years, the mechanical control of Rooikrans in collaboration with the Department of Environmental Affairs, has 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.

VARIETY OF SPECIES AT OTR

FLORA	FAUNA
Cera Argenteum (Ceratocaryum argenteum)	Bontebok (Damaliscus pygargus)
Leuca Decorum Star (Leucadendron laureolum)	Eland (Taurotragus oryx)
Leuca Tortum Female (Luecadendron linfolium)	Kudu (Tragelaphus strepsiceros)
Pro. Red (Protea obtusifolia)	Red Hartebeest (Alcelaphus buselaphus)
Pro. Red Repens (Protea Repens)	Springbok (Antidorcas marsupialis)
Pro. Susannea (Protea Susannae)	
Sta. Glass-eyes (Staavia radiate)	

Since the establishment of OTR a comprehensive campaign was launched to ensure that the indigenous game and wildlife of the area are preserved. 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:

- Preserving of species diversity (natural to the region)
- Maintaining optimal sex ratios of species
- Identification and management of rare and endangered species
- Managing the game numbers to the carrying capacity of the area
- Maximise natural species and habitat diversity
- The control and eradication of alien invasive plant species
- Supplying surrounding areas with indigenous species
- The re-introduction of species historically present in this region
- Implementation of a structured fire management programme
- Identification, mapping and management of rare and endangered species
- Stabilisation and rehabilitation of disturbed areas
- Fire management
- Game management and fire management plans and policies are in place and regular training is conducted
- Veld management plans, which include hazard identification, risks, control and mitigation of veld fires
- Rehabilitation, remediation, decontamination and demolition plans of the environment are in place

Progress is continuously monitored and mitigation actions implemented where required. Excellent progress was made with the alien eradication programme, which is aligned with government departmental water conservation programmes. The programme has resulted in the clearing of almost 6 000ha over the past three years.

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 'visvywers' (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.

DECOMMISSIONING OF OLD PLANTS

The old acid plant at the Wellington site was decommissioned after a risk assessment. Upgrading the plant was not financially viable and a new plant was built on site. This 20-year-old plant was gradually decommissioned after a risk assessment indicated it was no longer productive and newer, more efficient technology was becoming available.

The project planning and preparation, including a detailed risk assessment for the demolition, were completed and remediation commenced during April 2014. A similar process to the Philippi site was followed for recycling, removal and disposal of debris. The process included building material being sorted, removed and recycled, and glass tubes crushed and relocated to a hazardous waste site. Independent environmental consultants monitored and documented the process followed. The remediation process was completed on 10 July 2014.

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, blackwattle 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 our other campuses.

WASTE PRACTICES AND RECYCLING

As part of standard operating procedures all hazardous substances are stored and handled safely. 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. Denel has valid permits from the local authorities for the storage and handling of these hazardous substances. 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.

TYPE OF WASTE	DISPOSAL/RECYCLING METHOD AND COMMENTS
Hazardous waste disposed (tons)	Disposed of 158 tons (2013/14: 70 tons) at special landfills, where waste is treated in an environmentally friendly manner. Safe disposal certificates are received.
Hazardous waste disposed (kl)	Disposed of 1 178kl (2013/14: 1 617kl) 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.
Hazardous waste recycled (tons)	Recycled 29 tons (2013/14: 25 tons) as part of environmental management.
Non-hazardous disposed (tons/m^3)	Recycled 25 tons (2012/13: 61 tons) as part of environmental management.
Non-hazardous disposed (tons/m^3)	Disposed of 110 tons and 838m^3 (2013/14: 3 562 tons and 525m^3) at normal landfills by waste removal companies or own transport.
Non-hazardous waste recycled (tons)	Recycled 666 tons (2013/14: 28 027 tons) of paper, plastics, tins and metal shavings which are sold to recycling companies or dealers.

Denel screens suppliers using environmental criteria at most of its business units 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.

Securing the Hoefyster production contract during September 2013, the largest contract awarded in Denel's history, a watershed development for the company and the SA industry. The contract has a significant impact on the local industry which forms part of Denel's supply chain.

PART SEVEN

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

Denel is a significant global defence and security equipment manufacturer, as well as provider of related services, with more than 50% of its revenue earned from exports.

REPORT OF THE AUDIT AND RISK COMMITTEE

The A&R committee is independent and consists of three independent, non-executive directors which met four times during the year under review. In line with the amended MOI, the committee meets at least four times per year. Attendance of meetings, date of appointments and qualifications of the members are included on pages 65 and 50 to 51.

TERMS OF REFERENCE

The committee has adopted appropriate formal terms of reference as approved by the board, and is satisfied that it has discharged its responsibilities in accordance with the Companies Act and PFMA, and further responsibilities assigned to it by the board as contained in the terms of reference.

In the conduct of its duties the committee has, inter alia, reviewed:

- The effectiveness of internal controls;
- The risk areas of the group's operations covered in the scope of internal and external audits;
- The adequacy, reliability and accuracy of financial information provided by management;
- Accounting and audit concerns identified through internal and external audits;
- The group's compliance with legal and regulatory provisions;
- The effectiveness of the internal audit function;
- The activities of the internal audit function, including its annual audit plan, coordination with the external auditors, reports on significant investigations and the responses of management to specific recommendations;
- The independence and objectivity of the external auditors;
- The governance of IT and related controls;
- Business misconduct and fraud prevention processes and measures;
- The governance of risk;
- The assurance provided as contained in the combined assurance model; and
- Other matters referred to it by the board or management.

EFFECTIVENESS OF INTERNAL CONTROLS

The 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 internal audit, as well as the independent external auditors on the results of their audits.

Nothing significant has come to the attention of the committee to indicate any material breakdown in the functioning of these controls, procedures and systems during the year under review. The committee is satisfied that the consolidated annual financial statements are based on appropriate accounting policies, supported by reasonable and prudent judgements and estimates.

EXTERNAL AUDITORS' APPOINTMENTS AND INDEPENDENCE

SizweNtsalubaGobodo supported by Kwinana and Associates, are the independent external auditors. The committee has satisfied itself that the external auditors were independent of the group, as set out in the Companies Act, which includes consideration of potential conflicts of interest as prescribed by the Public Audit Act, no. 25 of 2004 (PAA).

The external auditors provided assurance that internal governance processes within their audit firms, support and demonstrate their independence. The committee, in consultation with executive management, agreed to the engagement letter, terms, audit plan and budgeted audit fees for the 2014/15 year.

The external auditors were appointed at the AGM of 19 July 2012 for the 2012/13 to 2016/17 financial years.

INTERNAL AUDIT FUNCTION

The committee has overseen an internal audit process performed according to a risk-based audit plan, taking into account the effectiveness of risk management and internal controls. These evaluations were the main input considered by the board in reporting on the effectiveness of internal controls.

GOVERNANCE OF RISK

The committee oversees the implementation of the policy and plan which ensures that risk is managed by means of risk management systems and processes. The committee is satisfied that the appropriate and effective risk management processes are in place.

EXPERTISE AND EXPERIENCE OF THE GROUP FINANCIAL DIRECTOR AND FINANCE FUNCTION

The committee has satisfied itself that the GFD has appropriate expertise and experience. The 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 this function.

INTEGRATED REPORT

The committee has considered the integrated report, including the consolidated annual financial statements of the Denel group and Denel SOC Ltd for the year ended 31 March 2015, and based on the information provided to it, is satisfied that the integrated report complies in all material respects with the requirements of the Companies Act, the PFMA, International Financial Reporting Standards (IFRS) and the International Integrated Reporting Framework (IIRF). Furthermore, the A&R committee concurs that the adoption of the going concern assumption in the preparation of the consolidated annual financial statements is appropriate.

At its meeting on 10 June 2015, the committee recommended the adoption of the integrated report by the board of directors.

Dr Gert Cruywagen
Chairman of the audit and risk committee

REPORT OF THE INDEPENDENT AUDITORS TO PARLIAMENT

ON THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS OF DENEL SOC LTD FOR THE YEAR ENDED 31 MARCH 2015

INTRODUCTION

We have audited the consolidated and separate annual financial statements of Denel SOC Ltd and its subsidiaries set out on pages 126 to 206, which comprise the consolidated and separate statements of financial position as at 31 March 2015, the consolidated and separate income statements, statements of changes in equity and statements of cash flows 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 annual financial statements in accordance with IFRS, 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 annual 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 annual 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 annual 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 annual financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the consolidated and separate annual 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 controls. 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 annual 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 annual financial statements present fairly, in all material respects, the financial position of Denel and its subsidiaries as at 31 March 2015 and their financial performance and cash flows for the year then ended, in accordance with IFRS, the requirements of the 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 2015, 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 PAA and the general notice issued in terms thereof, we have a responsibility to report findings on the reported performance information against predetermined objectives for the selected objectives presented in the integrated report, non-compliance with legislation and internal controls. 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 for the following selected objectives presented in the *performance review* section of the integrated report on page 32:

- Strategic role in the provision of defence capabilities;
- Strategic economic role;
- Business sustainability; and
- Socio–economic objectives.

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. Refer to the *performance review* section on page 32 for information on the achievement of the planned targets for the year.

Compliance with legislation

We performed procedures to obtain evidence that Denel has 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 controls

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

AUDIT-RELATED SERVICES AND SPECIAL AUDITS

We performed agreed-upon procedures on take balances relating to a subsidiary acquired by Denel effective 28 April 2015. In addition, we performed a financial due diligence and business valuation on a potential business that Denel is considering to acquire. Accordingly, we did not express audit opinions on the work performed.

SizweNtsalubaGobodo Inc

SizweNtsalubaGobodo Inc.
Director: Phumeza Nhantsi
Registered Auditor
Chartered Accountant (SA)
20 Morris Street East
Woodmead
2191
26 June 2015

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 2015.

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 126 to 206 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 2015, 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 123 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 118 and 119.

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 2015.

The *consolidated annual financial statements* of Denel SOC Ltd for the year ended 31 March 2015, as set out on pages 126 to 206, have been prepared under the supervision of Mr Fikile Mhlontlo CA (SA) and were approved by the board of directors on 26 June 2015 in terms of the Companies Act and the PFMA, and are signed on their behalf by:

Martie J Janse van Rensburg
Interim Chairman

Riaz Saloojee
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.

Elizabeth Africa
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 12 to 13, as well as in the *operations review* section on pages 33 to 35 of this report.

FINANCIAL AND OPERATIONAL REVIEW

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

	GROUP	
	2015	2014
	Rm	Rm
Revenue	5 852	4 588
Gross profit	1 137	899
Other income	137	204
Other operating expenses	(939)	(879)
EBIT	399	282
Net finance costs	(123)	(92)
Net profit	270	194

Denel posted a net profit of R270m (2013/14: R194m), 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 implemented. For further information refer to the *consolidated annual financial statements* section on pages 126 to 206.

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 R1.990bn (2013/14: R1.875bn) throughout the year resulting in net external interest paid of R153m (2013/14: R84m). 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 123.

IMPAIRMENT OF ASSETS

In performing impairment assessments, certain machines that were previously impaired, no longer demonstrated indications of impairment and were reinstated. The net value included in the consolidated annual financial statements is R29m (2013/14: R42m).

SIGNIFICANT CONTRACTS

The contracts discussed below had a significant impact on the reported financial results, or will continue to impact 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, namely the Hoefyster programme. The development phase is near completion with the software variant being the only outstanding milestone to be concluded. 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 2015/16. The base value of the programme is R9.4bn and revenue of R350m (2013/14: R176m) was recognised during the year.

HEAVY ARMOURED FIGHTING VEHICLE

Denel was contracted during 2011 by a Southeast Asian country to develop, manufacture, supply, deliver and commission a turret for 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 is executed over a seven-year period during which time the required industrial participation activities must be concluded. Denel is delivering four turret kits per month and is ahead of schedule. The base value of the programme is R3.7bn and revenue of R590m (2013/14: R263m) was recognised during the year.

AIR-TO-AIR MISSILE

The development of A-Darter, a highly sophisticated missile, in a collaboration programme between the governments of SA and Brazil, is approaching the qualification phase. Recent flight testing saw the missile meeting its performance goals to the satisfaction of the clients, however some oscillations were identified in the G3 seeker which resulted in a number of milestones due not being met.

The value of the programme is R2bn and revenue of R169m (2013/14: R152m) was recognised during the year. The follow-on contract with a value of R921m was placed on Denel during March 2015 and will cover the industrialisation of the missile.

SEEKER 400

Denel has been investing in the development of the Seeker 400, a new competitive UAVS, since 2010/11. Significant progress has been made in the Seeker 400 development programme and the performance flight testing was completed successfully during the year under review. The certification of the product is in process.

Denel's investment in the development amounted to R20m (2013/14: R60m) resulting in a total investment of R159m to date. Projects attached to this development accounted for revenue of R55m (2013/14: R89m) during the year.

ANTI-ARMOUR MISSILE

Denel was contracted for the supply and integration of long-range anti-armour missiles on a helicopter platform for a North African client. Guided flight-testing from the helicopter and production of aircraft-mounted launchers has been completed during the year. The missile production process has commenced.

The value of the programme is R370m and revenue of R136m was recognised during the year.

SURFACE-TO-AIR MISSILE

Denel was contracted for the supply of 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 in process of completion. Production of the missile round subsystems has been completed and the integration of the missiles will commence soon with first delivery in February 2016.

The total contract value is R800m and revenue of 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 precision-guided munitions. A follow-on contract to the value of R400m was concluded during the year under review. The programme conducted a series of successful flight trials during the year and a total of 200 kits were successfully delivered. The programme experienced a number of delays during the development phase resulting in a production lag of 300 units.

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 a company in that country. This also contributes to Denel's offset programme. The programme accounted for revenue of R299m (2013/14: R299m) during the year.

LIGHT VEHICLE PROGRAMMES

Denel concluded a contract with a Middle East client during 2013/14 for the development and production of 60 4x4 vehicles. The development and production of the first two prototypes were successfully concluded during the financial year. The prototypes were accepted and signed off by the client and delivery of the production units will take place during the 2015/16 financial year. The value of the programme is R611m and revenue of R95m was recognised during the 2014/15 financial year.

In addition, the client placed an order for the development and production of 79 4x4 vehicles based on a different variant. The development and design was approved by the client and the first three production units delivered during the year. The value of the programme is R171m and revenue of R72m was recognised during the 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 government indemnified the potential losses up to R1.6bn on the basis that the programme is of strategic importance to the country. During the year, Denel increased its production rate from 16 WFF and TS ship sets to 24 ship sets.

Denel was awarded additional A400M work packages and 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 R407m (2013/14: R355m) 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 is a fixed price, fixed-term contract for an amount of R492m that was originally due to be completed by June 2012, and includes 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. The new completion date is scheduled for January 2016 and the programme is on track to meet the newly agreed timeline.

Qualification and certification of the system upgrade has been completed. To date 26 of the 39 aircraft have been modified and some have been released for operational deployment by the customer.

The programme accounted for revenue of R68m (2013/14: R30m) during the year. The provision for onerous contracts in respect of this project is R156m.

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 of the consolidated annual financial statements.

FUNDING

Denel has a registered Domestic Medium-Term Note (DMTN) programme of R2.2bn that allows for short- and medium-term debt issuance. Of the R2.2bn an amount of R1.85bn is government guaranteed and the guarantee matures on 30 September 2017. Denel will only apply to have this guarantee extended for a further period if required. Denel raised guaranteed interest-bearing borrowings through the DMTN with a coupon value of R1.74bn (2013/14: R1.65bn). The debt consists of an R815m three-year corporate bond, R585m five-year corporate bond and short-term commercial paper of R450m. The balance of the DMTN of R350m is unsecured and R290m is utilised by means of a five-year bond maturing in June 2018. The group's borrowings are at an average interest rate of 7.16% (2013/14: 6.57%) that includes an average overnight borrowing rate of 7.16% (2013/14: 6.6%), and an average Commercial Paper Programme interest rate of 6.93% (2013/14: 6.36%), which resulted in borrowing cost of R153m (2013/14: R116m) during the year.

FitchRatings re-affirmed Denel's long-term rating at AAA(zaf) and short-term rating F1+(zaf) with an stable outlook during the year. The rating agency is relying strongly on Denel's strong order book of more than R35bn, the success of the financial turnaround which led to Denel reporting moderate profits over the past five years and continued shareholder support for the group. The agency further noted that Denel has managed to diversify its revenue base away from the SA defence sector with more than 50% of revenue now generated from exports, most notably to the Middle East and Southeast Asia. FitchRatings expects the export business to remain an important aspect of Denel's revenue growth.

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 2015;
- 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 R35bn; 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 this basis.

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 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 AND ASSOCIATED COMPANIES

The interests in subsidiaries and associated companies are set out in note 11, 12 and 35 of the consolidated annual financial statements.

CAPITAL EXPENDITURE

The board approved capital expenditure of R296m, whereas 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 the 2014/15 year (2013/14: 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 July 2015.

DIRECTORATE

The following directors retired at the AGM held on 15 August 2014:

- Mr NR Kunene (chairman up to 15 August 2014)
- Prof T Marwala
- Ms B Paledi

Ms MJ Janse van Rensburg was appointed as the interim chairman. Further details regarding the board of directors are discussed on pages 50 to 53.

GROUP COMPANY SECRETARY

The group company secretary for the period under review was Ms Elizabeth Africa. Her business and postal addresses, which are also the address of the registered office of the company, are stated below:

Denel Building Head Office	PO Box 8322
Nellmapius Drive	Centurion
Irene	0046
Gauteng	South Africa
South Africa	

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.

Denel acquired 100% shareholding of LSSA from BAE Systems PLC, a company that manufactures heavy military vehicles and undertakes related maintenance, for an amount of R855m. The transaction was concluded on 28 April 2015 and funded through borrowings raised from financial institutions.

No other matters arose between the financial year-end and the date of this report.

The Small African Regional Aircraft (SARA) project – a locally developed passenger aircraft to serve regional destinations, was launched at AAD and received widespread positive media coverage. The rapid growth in air travel on the African continent has created a demand for a new generation aircraft that can fly point-to-point and link regional centres that are not currently accessible for passenger flights. This project is in line with SA's Aerospace Sector Development Plan which has identified aerospace as a priority sector.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
as at 31 March 2015

	NOTES	GROUP 2015 Rm	GROUP 2014 Rm	COMPANY 2015 Rm	COMPANY 2014 Rm
ASSETS					
Non-current assets		2 458	2 293	2 386	2 180
Property, plant and equipment	8	915	861	683	655
Investment properties	9	590	534	581	525
Intangible assets	10	207	182	192	167
Investments in subsidiaries	11			430	333
Investments in associated companies	12	733	701	500	500
Deferred tax assets	14	13	15	-	-
Current assets		7 145	5 712	6 524	5 237
Inventories	15	1 511	1 020	1 282	887
Trade and other receivables	16	3 520	2 930	3 250	2 784
Loans and receivables	13	-	117	-	117
Other financial assets	17.1	204	132	204	132
Cash and short-term deposits	18.2	1 909	1 512	1 788	1 316
Cash held on behalf of associated companies	18.3	-	1	-	1
Income tax receivables		1	-	-	-
Non-current assets held for sale	19	84	84	84	84
Total assets		9 687	8 089	8 994	7 501
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		(4 295)	(4 561)	(4 604)	(4 854)
Total equity attributable to equity holders of the parent		1 924	1 658	1 615	1 365
Non-controlling interest	21	3	6		
Total equity		1 927	1 664	1 615	1 365
Non-current liabilities		3 666	3 941	3 657	3 930
Loans and borrowings	22	888	1 616	880	1 607
Advance payments received	23	2 528	2 066	2 528	2 066
Provisions	24.1	249	259	249	257
Deferred tax liabilities	14	1	-	-	-
Current liabilities		4 094	2 484	3 722	2 206
Trade and other payables	25	1 306	1 100	1 189	1 051
Loans and borrowings	22	1 270	259	1 270	259
Other financial liabilities	17.2	175	106	175	106
Advance payments received	23	940	628	730	439
Income tax payables		2	1	-	-
Provisions	24.2	399	387	358	351
Preference dividends payable	21	2	3		
Total liabilities		7 760	6 425	7 379	6 136
Total equity and liabilities		9 687	8 089	8 994	7 501

CONSOLIDATED INCOME STATEMENTS AND STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 March 2015

		GROUP		COMPANY	
		2015	2014	2015	2014
	NOTES	Rm	Rm	Rm	Rm
CONTINUING OPERATIONS					
Revenue	2	5 852	4 588	5 230	4 115
Cost of sales	3	(4 715)	(3 689)	(4 175)	(3 210)
Gross profit		1 137	899	1 055	905
Other income	4	137	204	205	236
Other operating expenses	3	(939)	(879)	(874)	(838)
Operating profit		335	224	386	303
Finance costs	6.1	(176)	(140)	(182)	(150)
Finance income	6.2	53	48	46	45
Share of profit of associated companies	12	64	58		
Profit before tax		276	190	250	198
Income tax expense	7	(6)	4	-	-
Profit for the year		270	194	250	198
Other comprehensive income		-	-	-	-
Total comprehensive income for the year net of tax		270	194	250	198
Profit for the year is attributable to:					
Equity holders of the parent		266	194		
Non-controlling interest	21	4	-		
		270	194		

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 March 2015

		TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT						
	NOTES	Issued capital Rm	Share premium Rm	Revaluation reserve [1] Rm	Accumulated loss Rm	Total Rm	Non-controlling interest Rm	Total equity Rm
GROUP								
Balance at 1 April 2013		1 225	4 951	43	(4 755)	1 464	8	1 472
Preference dividends payable							(2)	(2)
Total comprehensive income					194	194	-	194
Profit for the year				-	194	194	-	194
Other comprehensive income				-	-	-	-	-
Balance as at 31 March 2014		1 225	4 951	43	(4 561)	1 658	6	1 664
Preference dividends payable							(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
COMPANY								
Balance at 1 April 2013		1 225	4 951	43	(5 052)	1 167		
Total comprehensive income				-	198	198		
Profit for the year				-	198	198		
Other comprehensive income				-	-	-		
Balance as at 31 March 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		

[1] *The revaluation reserve relates to fair value adjustments made to property, plant and equipment on reclassification to investment properties*

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the year ended 31 March 2015

		GROUP		COMPANY	
		2015	2014	2015	2014
	NOTES	Rm	Rm	Rm	Rm
OPERATING ACTIVITIES					
Net cash flows from operating activities		212	474	239	404
Receipts from customers		5 256	4 086	4 663	3 614
Payments to suppliers and employees		(5 657)	(4 674)	(5 031)	(4 084)
Cash utilised in operations	27	(401)	(588)	(368)	(470)
Increase in advance payments received	23	774	1 115	753	935
Interest paid		(238)	(116)	(232)	(125)
Interest received		47	38	41	35
Dividends received		32	19	45	29
Income tax paid		(2)	6	-	-
INVESTING ACTIVITIES					
Net cash flows used in investing activities		(177)	(206)	(137)	(268)
Purchases of property, plant and equipment	8	(146)	(216)	(124)	(151)
Proceeds from sale of property, plant and equipment		3	3	-	3
Purchases of intangible assets	10	(34)	(31)	(34)	(29)
Repayments of loan advance to associated companies		-	62	-	62
Acquisition of additional shares in subsidiary		-	(1)	-	-
Acquisition of additional shares in an associated company	12	-	(23)	-	(23)
Repayments of loans and receivables	13	-	-	117	-
Advances to subsidiaries				(96)	(130)
Net cash flows before financing activities		35	268	102	136
FINANCING ACTIVITIES					
Net cash flows from/(used in) financing activities		361	(52)	369	(36)
Repayments of interest bearing borrowings		(1 883)	(1 133)	(1 879)	(1 114)
Proceeds from interest bearing borrowings		2 253	1 120	2 249	1 117
Preference share buy back from non-controlling interest		(8)	-		
Decrease in cash managed on behalf of associated companies		(1)	(39)	(1)	(39)
Net increase in cash and cash equivalents		396	216	471	100
Cash and cash equivalents:					
At the beginning of the year		1 513	1 297	1 317	1 217
At the end of the year	18	1 909	1 513	1 788	1 317

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
for the year ended 31 March 2015

1. CORPORATE INFORMATION

Denel SOC Ltd is a company incorporated and domiciled in SA. 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 2015 comprise the company, its subsidiaries and associated companies.

1.1 STATEMENT OF COMPLIANCE

The consolidated annual financial statements have been prepared in accordance with IFRS and the Companies Act of 2008. 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 1.2.

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.

Control is achieved when the group is exposed, or has rights, to variable returns from its involvement with an investee and has the ability to affect those returns through its power over the investee.

Specifically, the group controls an investee if, and only 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 subsidiaries is less than 100%, the portion attributable to outside shareholders is reflected in non-controlling interests. 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. The consolidation of a subsidiary commences when the group obtains control over the subsidiary and ceases when the group loses control of 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 business unit is re-measured at its fair value, with the change in the carrying amount recognised in profit or loss and it derecognises 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.

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.

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.

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 business unit.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
for the year ended 31 March 2015

1.2 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:

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 and 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.

Management made significant judgements on the following contracts/ programmes (for a more detail discussion refer to the directors' report):

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.

Oryx upgrade programme

The programme is a fixed-price fixed-term contract that was originally due to be completed by June 2012. The cost to completion, i.e. estimated labour hours, material costs and escalations, was revised in line with the anticipated completion date of January 2016.

Impairment of property, plant and equipment

The group's impairment assessments for property, plant and equipment are based on fair value less cost to sell 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 0% 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 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 or 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% (2013/14: 5.8%) have been discounted at an interest rate of 8.3% (2013/14: 8.2%), which is based on the risk-free rate of return and the expected long-term inflation rate.

Associated 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.

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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
for the year ended 31 March 2015

1.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.3.1 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. 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.

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 and services

Revenue from sale of goods and services comprises the invoiced value of goods and services, 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. Lease incentives granted are recognised in profit or loss as an integral part of the total income from investment properties.

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. All borrowing costs are recognised in profit or loss using the effective interest rate method.

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.

1.3.2 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.

1.3.3 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.

Deferred tax is provided in full using the liability method in respect of temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
for the year ended 31 March 2015

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.

1.3.4 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.

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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
for the year ended 31 March 2015

De-recognition of financial assets and financial liabilities financial assets

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised 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 derecognised 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.

1.3.5 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.

1.3.6 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. 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.

1.3.7 PROPERTY, PLANT AND EQUIPMENT

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.

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The estimated useful lives are as follows:

- Buildings 20 to 50 years
- Plant 3 to 40 years
- Machinery and equipment 3 to 60 years
- Vehicles 5 years
- Office furniture 3 to 20 years
- 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 derecognised 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 derecognised 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.

1.3.8 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. Assets acquired in terms of finance leases are capitalised at the lower of fair value and the present value of the minimum lease payments at inception of the lease, and depreciated over the estimated useful life of the asset. 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. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives paid are recognised in profit or loss as an integral part of the total lease expense.

Combined leases with land components and building components are considered separately for classification purposes. At inception of the lease, the minimum lease payments are allocated to the components in proportion to the relative fair values of the leasehold interests in the land element and buildings element of the lease. If this cannot be measured reliably, then the lease is classified as a finance lease, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

The interest expense component of finance lease payments is recognised in profit or loss using the effective interest rate method.

1.3.9 INTANGIBLE ASSETS

Intangible assets that are acquired separately by the group are initially measured and recognised at cost. 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.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

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.

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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.

Negative goodwill arising on acquisition is recognised immediately in profit or loss.

1.3.10 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.

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 costs to sell 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.

1.3.11 INVENTORIES

Inventories are stated on the first-in-first-out (FIFO) basis at the lower of cost price and net realisable value. 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.

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Consumable inventories

Consumable inventories, such as spare parts and maintenance equipment, are valued at the direct cost of purchase and classified as inventory.

1.3.12 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.

1.3.13 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.

1.3.14 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).

1.3.15 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.

1.3.16 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.

1.3.17 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;
- Cash flow hedges when hedging exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction; 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 a cash flow hedge meets the conditions for hedge accounting the portion of the gain or loss on the hedge instrument that is determined to be an effective hedge is recognised in other comprehensive income and the ineffective portion 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.

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1.3.18 DISCONTINUED OPERATIONS AND NON-CURRENT ASSETS HELD FOR SALE

A discontinued operation is a component of the group's business that has either been disposed or is classified as held for sale and that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to its subsequent disposal.

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 (and all assets and liabilities in a disposal group) is done in accordance with applicable IFRSs. 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.

1.4 STANDARDS, INTERPRETATIONS AND AMENDMENTS ISSUED THAT ARE NOT YET EFFECTIVE

At the date of authorisation of the consolidated annual financial statements for the year ended 31 March 2015, the following standards and interpretations were in issue but not yet effective:

STANDARD, AMENDMENTS, OR INTERPRETATION	TITLE	ISSUE DATE	EFFECTIVE DATE
IFRS 9	Financial instruments – Guidance on classification and measurement, impairment, hedge accounting and de-recognition. This standard replaces IAS 39 Financial instruments: Recognition and measurement	Jul 2014	1 Jan 2018
IFRS 10	Consolidated financial statements – Exception to the rule that all subsidiaries must be consolidated	Oct 2012	1 Jan 2014
IFRS 12	New disclosures required for investment entities	Oct 2012	1 Jan 2014
IFRS 15	Revenue from Contracts from Customers – Provides a single, principle-based five-step model to be applied to all contracts with customers	May 2014	1 Jan 2017
IAS 19	Employee benefits - Amendments to employee contributions	Nov 2013	1 Jul 2014
IAS 27	Consolidated and separate financial statements – Account for interests in investment entities	Oct 2012	1 Jan 2014
Annual improvements 2010 – 2012 cycle		May 2012	1 Jul 2014
IFRS 1	First-time adoption of international financial reporting standards – Clarification of the meaning of effective IFRSs		
IFRS 2	Share-based payment – Definitions of performance and service conditions – Definitions of vesting and market conditions		
IFRS 3	Business combinations – Measurement requirements for all contingent consideration assets and liabilities included under IFRS 9		
IFRS 8	Operating segments – Disclosure requirements regarding judgements made in applying aggregation criteria and certain reconciliations		
IFRS 9	Financial Instruments – Measurement requirements for all contingent consideration assets and liabilities included under IFRS 9		
IFRS 13	Fair value measurement – Clarification of the measurement requirements for short-term receivables and payables		
IAS 16	Property, plant and equipment – Amendments to revaluation method: interim financial reporting and segment information for total assets and liabilities		
IAS 24	Related party disclosures – Amendments to the definitions and disclosure requirements for key management personnel		
IAS 38	Intangible assets – Amendments to revaluation method: proportionate restatement of accumulated depreciation		
Annual improvements 2011 – 2013 cycle		Nov 2012	1 Jul 2014
IFRS 3	Business combinations – Amendments scope of formation of joint arrangements		
IFRS 13	Fair value measurement – Clarification that portfolio exception applies to all contracts within the scope of IAS 39 or IFRS 9		
IAS 40	Investment property – Clarification of interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property		

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IFRS 9 Financial instruments

The new standard introduces a new approach to the classification of financial assets. A new business model was introduced which allows certain financial assets to be categorised as "fair value through other comprehensive income" in certain circumstances. Some changes were made to the fair value option for financial liabilities to address the issue of own risk.

The standard introduces the following:

- A single impairment model being applied to all financial instruments, as well as an " expected credit loss" model for the measurement of financial assets; and
- 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 annual financial statements.

The standard carries forward the recognition requirements of the financial assets and liabilities from IAS 39.

The group is in the process of evaluating the impact on the consolidated annual financial statements.

Debt instruments

For subsequent measurement, financial assets that are debt instruments are classified at amortised cost or fair value on the basis of both:

- The business units' business model for managing the financial assets; and
- The contractual cash flow characteristics of the financial asset.

Debt instruments may be subsequently measured at amortised cost if:

- The asset is held within a business model whose objective is to hold the assets to collect the contractual cash flows; and
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of a principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value.

Equity investments

All financial assets that are equity investments are measured at fair value either through OCI or profit or loss. This is an irrevocable choice the entity makes by instrument, unless the equity investments are held for trading, in which case they must be measured at fair value through profit or loss.

IFRS 7 Financial instruments: Disclosures

The amendment amended the required disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

Further amendments to IFRS 7 Financial instruments: Disclosures relate to additional disclosures requirement on the transition from IAS 39 to IFRS 9.

IFRS 10 Consolidated financial statements

The amendment entails an exception to the principle that all subsidiaries must be consolidated. It requires that entities meeting the definition of 'investment entities' must account for investments in subsidiaries at fair value under IFRS 9 Financial instruments, or IAS 39 Financial instruments: Recognition and measurement. The group does not foresee that the standard will significantly impact the group when it is adopted.

IFRS 12 Disclosure of interests in other entities

IFRS 12 Disclosure of interests in other entities is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, associated companies and unconsolidated structured entities. The amendment includes further disclosure required for investment entities. The group does not foresee that the standard will significantly impact the group when it is adopted.

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 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. The group does not foresee that the standard will significantly impact the group when it is adopted.

IAS 19 Employee benefits

Amendments to defined benefit plans regarding employee contributions: The requirements in IAS 19 for contributions from employees or third parties that are linked to service have been amended. The group does not foresee that the standard will significantly impact the group when it is adopted.

IAS 27 Consolidated and separate financial statements

Requirement to account for interests in 'investment entities' at fair value under IFRS 9 Financial instruments, or IAS 39 Financial instruments: Recognition and measurement, in the separate financial statements of a parent. The group does not foresee that the standard will significantly impact the group when it is adopted.

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	GROUP		COMPANY	
	2015	2014	2015	2014
	Rm	Rm	Rm	Rm
2 REVENUE				
Contract revenue [1]	5 748	4 504	5 118	4 023
Income from investment properties	104	84	112	92
	5 852	4 588	5 230	4 115
3 COST OF SALES AND OTHER OPERATING EXPENSES				
Cost of sales and other operating expenses are arrived at after taking the following items into account:				
Amortisation of intangible assets (refer note 10)	12	16	12	16
Software	12	16	12	16
Auditors' remuneration	11	10	9	9
Current year	11	10	9	9
Costs of inventories recognised as an expense (refer note 15)	1 637	1 095	1 223	988
Depreciation (refer note 8)	126	128	90	84
Buildings	16	13	14	11
Computer equipment	19	12	16	11
Office furniture	2	1	2	1
Plant and machinery	79	91	48	50
Vehicles	10	11	10	11
Directors remuneration [2 and 3]	14	14	14	14
Executive directors	11	11	11	11
Non-executive directors	3	3	3	3
Impairment reversed	(68)	(88)	(26)	(21)
Inventories (refer note 15)	(21)	(38)	(23)	(37)
Property, plant and equipment (refer note 8)	(44)	(44)	-	22
Trade and other receivables (refer note 16)	(3)	(6)	(3)	(6)
Loss on disposal of assets	2	1	-	1
Property, plant and equipment (refer note 27)	2	1	-	1
Operating expenses for investment properties	156	105	156	105
Operating lease payments	81	71	71	64
Buildings	66	62	59	58
Computer equipment	10	4	9	3
Office furniture	3	4	2	3
Plant and machinery	2	1	1	-
Research and development costs [4]	416	456	408	454
Staff costs [3]	1 776	1 516	1 541	1 324
Medical fund contributions	86	79	78	73
Pension costs: Defined contribution plan	120	109	107	93
Services costs	1 550	1 298	1 339	1 132
Staff and related provisions	19	23	16	19
Termination benefits	1	7	1	7

1 *Contract revenue also includes the sale of goods and services*
2 *Detailed remuneration is fully disclosed in the remuneration section of the corporate governance report. Executive directors' remuneration is included from date of appointment as director*
3 *Directors' remuneration is excluded from staff costs*
4 *The R&D costs are mainly customer funded. This does not include an amount of R32m (2013/14: R30m) charged against provisions and R19m (2013/14: R21m) that has been capitalised*

		GROUP		COMPANY	
		2015	2014	2015	2014
		Rm	Rm	Rm	Rm
4	**OTHER INCOME**				
	Administration and management fees	6	1	12	5
	Dividends received			45	29
	Government grants received	7	-	7	-
	Fair value adjustment on investment properties (refer note 9)	56	32	56	32
	Net gains on financial instruments (refer note 5)	33	150	31	129
	Profit on disposal of property, plant and equipment (refer note 27)	1	-	-	-
	Other [1]	34	21	54	41
		137	204	205	236
5	**NET GAINS ON FINANCIAL INSTRUMENTS**				
	Settled transactions	48	97	47	76
	Gains	95	142	85	121
	Losses	(47)	(45)	(38)	(45)
	Fair value adjustments	(112)	(36)	(112)	(36)
	Gains	65	56	65	56
	Losses	(177)	(92)	(177)	(92)
	Firm commitments remeasurement	97	89	96	89
	Gains	130	105	129	105
	Losses	(33)	(16)	(33)	(16)
	Refer note 4	33	150	31	129
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	34	16	34	15
	Non-current interest-bearing loans and borrowings	121	104	120	104
	Intergroup finance costs			7	11
	Finance costs on financial liabilities	155	120	161	130
	Unwinding of discount on provisions	21	20	21	20
		176	140	182	150
6.2	**FINANCE INCOME**				
	Gross interest received	53	48	46	45
	Intergroup finance income			-	-
		53	48	46	45
	Net finance costs	123	92	136	105

[1] *Other is mainly made up of scrap sales, insurance claims, low claim bonuses and discount received*

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	GROUP		COMPANY	
	2015	2014	2015	2014
	Rm	Rm	Rm	Rm
7 INCOME TAX EXPENSE				
SA Normal tax [1]				
Current tax	3	(5)	-	-
Deferred tax (refer note 14)	3	1	-	-
	6	(4)	-	-
	%	%	%	%
Reconciliation of tax rate:				
Effective tax rate	2.2	(2.1)	-	-
Adjustment in tax rate due to:	25.8	30.1	28.0	28.0
Exempt income	1.3	1.5	5.0	4.2
Surplus on revaluation	(1.9)	(1.5)	(2.1)	(1.5)
Deferred tax asset not recognised	17.9	22.9	21.9	25.8
Share of associated companies	6.5	8.4	-	-
Other	2.0	(1.2)	3.2	(0.5)
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	2 979	5 039	1 608	3 142
Capital gains tax losses	160	168	160	168
Total calculated tax losses	3 139	5 207	1 768	3 310
Calculated tax losses utilised	-	-	-	-
Net available calculated tax losses	3 139	5 207	1 768	3 310

[1] *No provision for SA normal tax has been made for all companies within the group that are in an assessed loss position*

	Land and buildings	Computer equipment	Office furniture	Plant and machinery	Vehicles	Total
	Rm	Rm	Rm	Rm	Rm	Rm

8 PROPERTY, PLANT AND EQUIPMENT

GROUP

	Land and buildings Rm	Computer equipment Rm	Office furniture Rm	Plant and machinery Rm	Vehicles Rm	Total Rm
2015						
Carrying value at 1 April	268	62	7	485	39	861
Additions	39	22	7	73	5	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)	-	2	-	42	-	44
Reclassification	(1)	-	-	(1)	2	-
Transfer to intangible assets	-	-	-	(3)	-	(3)
Written off	-	-	-	-	(3)	(3)
Carrying value at 31 March	289	67	12	514	33	915
Cost	471	223	31	1 601	113	2 439
Accumulated depreciation and impairment	(182)	(156)	(19)	(1 087)	(80)	(1 524)
Carrying value at 31 March	289	67	12	514	33	915
2014						
Carrying value at 1 April	254	23	7	412	37	733
Additions	27	52	1	121	15	216
Depreciation for the year (refer note 3)	(13)	(12)	(1)	(91)	(11)	(128)
Disposals	-	(1)	-	(1)	(2)	(4)
Impairment reversal for the year (refer note 3)	-	-	-	44	-	44
Carrying value at 31 March	268	62	7	485	39	861
Cost	435	215	24	1 572	114	2 360
Accumulated depreciation and impairment	(167)	(153)	(17)	(1 087)	(75)	(1 499)
Carrying value at 31 March	268	62	7	485	39	861

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	Land and buildings	Computer equipment	Office furniture	Plant and machinery	Vehicles	Total
	Rm	Rm	Rm	Rm	Rm	Rm
8 PROPERTY, PLANT AND EQUIPMENT (continued)						
COMPANY						
2015						
Carrying value at 1 April	256	59	7	295	38	655
Additions	37	21	5	55	6	124
Depreciation for the year (refer note 3)	(14)	(16)	(2)	(48)	(10)	(90)
Reclassification	(1)	-	-	(1)	2	-
Transfer to intangible assets (refer note 10)	-	-	-	(3)	-	(3)
Written off	-	-	-	-	(3)	(3)
Carrying value at 31 March	278	64	10	298	33	683
Cost	457	207	27	1 219	111	2 021
Accumulated depreciation and impairment	(179)	(143)	(17)	(921)	(78)	(1 338)
Carrying value at 31 March	278	64	10	298	33	683
2014						
Carrying value at 1 April	245	22	6	304	37	614
Additions	22	49	2	64	14	151
Depreciation for the year (refer note 3)	(11)	(11)	(1)	(50)	(11)	(84)
Disposals	-	(1)	-	(1)	(2)	(4)
Impairment reversal for the year (refer note 3)	-	-	-	(22)	-	(22)
Carrying value at 31 March	256	59	7	295	38	655
Cost	421	199	22	1 203	112	1 957
Accumulated depreciation and impairment	(165)	(140)	(15)	(908)	(74)	(1 302)
Carrying value at 31 March	256	59	7	295	38	655

Registers of property, plant and equipment are open for inspection at the respective business units of the group. Certain property, plant and equipment were impaired in the recent past, due to a lack of orders, which were re-instated to a value of R44m (2013/14: R42m). No property, plant and equipment were impaired during 2014/15. Plant and machinery includes assets under construction of R26m (2013/14: R9m) for the group and R20m (2013/14: R9m) for the company.

	GROUP		COMPANY	
	2015	2014	2015	2014
	Rm	Rm	Rm	Rm
9 INVESTMENT PROPERTIES				
Fair value at 1 April	534	482	525	473
Fair value adjustment (refer note 4)	56	32	56	32
Transfer from assets held for sale (refer note 19)	-	20	-	20
Fair value at 31 March	590	534	581	525

Valuations of investment properties were carried out at 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. Fair values were determined having regard to recent market transactions for similar properties in the same location as the group's investment properties. The highest and best use of the investment properties do not differ from its current use.

At 31 March 2015, certain investment properties with a carrying value of R9m (2013/14: R9m) were subject to a mortgage bond that forms security for a bank loan (refer note 22.1 for details).

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	GROUP		COMPANY	
	2015	2014	2015	2014
	Rm	Rm	Rm	Rm
10 INTANGIBLE ASSETS				
Development costs	164	145	158	139
At cost	188	169	182	163
Accumulated amortisation and impairment	(24)	(24)	(24)	(24)
Goodwill [1]	9	9	-	-
At cost	79	79	-	-
Accumulated impairment	(70)	(70)	-	-
Software	26	28	26	28
At cost	124	114	124	114
Accumulated amortisation and impairment	(98)	(86)	(98)	(86)
Other [2]	8	-	8	-
At cost	8	-	8	-
Accumulated amortisation and impairment	-	-	-	-
Total carrying value at 31 March	207	182	192	167
Reconciliation				
Development costs				
Carrying value at 1 April	145	122	139	118
Capitalised during the year	19	23	19	21
Carrying value at 31 March	164	145	158	139
Goodwill				
Carrying value at 1 April	9	9	-	-
Acquistion external	-	-	-	-
Carrying value at 31 March	9	9	-	-
Software				
Carrying value at 1 April	28	36	28	36
Amortisation for the year (refer note 3)	(12)	(16)	(12)	(16)
Capitalised during the year	10	8	10	8
Carrying value at 31 March	26	28	26	28
Other [2]				
Carrying value at 1 April	-	-	-	-
Capitalised during the year	8	-	8	-
Carrying value at 31 March	8	-	8	-
Total carrying value at 31 March	207	182	192	167

[1] *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 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 (2013/14: R9m) comprises the value of the expected synergies arising from the acquisition. Due to the similarity in the customer list it is not separable and therefore does not meet the recognition as an intangible asset under IAS 38 Intangible assets. None of the goodwill recognised is expected to be deductible for income tax purposes. Since acquisition the name was changed to LMT Holdings SOC Ltd (RF). Goodwill has been assessed for impairment and not impaired.*

[2] *Intellectual property related to the development and industrialisation of the 20 X 42mm Neopup Personal Area Weapon*

	COMPANY 2015 Rm	COMPANY 2014 Rm
11 INVESTMENTS IN SUBSIDIARIES		
Unlisted shares	1 713	1 710
Net loans	108	14
Amounts due by subsidiaries	336	336
Amounts due to subsidiaries	(228)	(322)
Gross investments	1 821	1 724
Accumulated impairment	(1 391)	(1 391)
Carrying value at 31 March	430	333
Reconciliation of carrying value of investments in subsidiaries:		
Gross investments	1 821	1 724
Accumulated impairment	(1 391)	(1 391)
Carrying value at 31 March	430	333
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

A detailed breakdown of the investments in subsidiaries is contained in note 35.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
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12 INVESTMENTS IN ASSOCIATED COMPANIES

The group holds a 49% interest in Turbomeca Africa (Pty) Ltd. The year-end of TMA is 31 December. TMA is a world leader in design, manufacturing and sale of gas turbines for small- and medium-powered helicopters.

The group holds a 30% interest in Airbus DS Optronics (Pty) Ltd. The year-end of Airbus DS Optronics (Pty) Ltd is 31 December. Airbus DS Optronics (Pty) Ltd is a global supplier in the development and production of optronics, optical and precision-engineered products for military and security applications.

The group holds a 49% interest in Rheinmetall Denel Munition (Pty) Ltd. The year-end of RDM Ltd is 31 December. RDM 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.

The group holds a 49% interest in Tawazun Dynamics LLC. The year-end of Tawazun Dynamics LLC is 31 December. Tawazun Dynamics is a UAE-based global supplier of precision-guided munitions.

	GROUP		COMPANY	
	2015 Rm	2014 Rm	2015 Rm	2014 Rm
Cost of investments in associated companies				
Unlisted shares	500	500	500	500
Net share of results in associated companies	233	201		
Share of current year profit before tax	95	74		
Share of current year tax	(31)	(16)		
Share of current year profit after tax	64	58		
Dividends received	(32)	(19)		
Accumulated profit at 1 April	201	162		
Total net investments in associated companies	733	701	500	500

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 and is disclosed separately.

	GROUP 2015 Rm	GROUP 2014 Rm
The following represents the summarised restated financial information for RDM:		
Total assets	1 883	1 887
Non-current assets	457	468
Current assets	1 426	1 419
Total liabilities	1 051	1 114
Non-current liabilities	148	168
Current liabilities	903	946
Net assets	832	773
Group share of RDM's net assets	408	379
RDM's revenue	1 706	1 427
Group share of RDM's revenue	836	699
Group share of RDM's profit before tax	85	51

	GROUP		COMPANY	
	2015	2014	2015	2014
	Rm	Rm	Rm	Rm
12 INVESTMENTS IN ASSOCIATED COMPANIES (continued)				
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	2 553	1 002		
Non-current assets	226	185		
Current assets	2 327	817		
Total liabilities	2 086	532		
Non-current liabilities	1 471	50		
Current liabilities	615	482		
Net assets	467	470		
Group share of associated companies' net assets	229	180		
Revenue	1 154	1 097		
Group share of revenue	447	434		
Group share of profit before tax	10	24		

A detailed breakdown of investments in the associated companies is contained in note 35.

13 LOANS AND RECEIVABLES

	GROUP 2015 Rm	GROUP 2014 Rm	COMPANY 2015 Rm	COMPANY 2014 Rm
Interest bearing loans and receivables				
Pension asset	-	-	-	-
Gross amount receivable	-	117	-	117
Less: Current portion included in current loans receivable	-	(117)	-	(117)
Total non-current interest bearing loans and receivables	-	-	-	-
Total current interest bearing loans and receivables	-	117	-	117
Refer note 31.1 and 31.4	-	117	-	117

The pension asset relates to the unutilised balance of the pension surplus. DenPen, a defined benefit plan, became a pensioners' only fund on 1 September 2010 following a decision by the trustees and members, and as a result Denel withdrew as a principal employer. The actuarial surplus in the fund mostly arose before the said restructuring was shared on a 50/50 basis between Denel and the members of the fund. The active members were transferred to DenRet. The assets underlining the actuarial surplus allocated to Denel were transferred to DenRet and was accessed by Denel through a contribution holiday which was fully utilised in December 2015.

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	GROUP		COMPANY	
	2015	2014	2015	2014
	Rm	Rm	Rm	Rm
14 DEFERRED TAX				
Deferred tax assets	13	15	-	-
Deferred tax liabilities	(1)	-	-	-
	12	15	-	-
Movement of deferred tax assets and liabilities:				
Balance at 1 April	15	16	-	-
Income statement (refer note 7)	(3)	(1)	-	-
	12	15	-	-
Net deferred tax asset comprises:				
Provisions	227	224	213	211
Property, plant and equipment allowance	-	19	-	17
Advance payments received	973	756	912	701
Amounts due to customers for work invoiced, not yet performed	91	41	91	41
Other tax deductible differences	319	240	292	214
Capital allowances	20	-	17	-
Limit deferred tax asset to liability	(966)	(756)	(965)	(736)
Assessed loss	5	3	-	-
	669	527	560	448
Net deferred tax liability comprises:				
Capital allowances	(154)	(121)	(134)	(121)
Prepayments made	(5)	(2)	(5)	(1)
Amount due from customers for contract work	(448)	(344)	(416)	(323)
Section 24 allowance	(44)	(42)	-	-
Other taxable differences	(6)	(3)	(5)	(3)
	(657)	(512)	(560)	(448)

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 543m (2013/14: R1 982m) for the group and R1 055m (2013/14: R1 375m) for the company.

		GROUP		COMPANY	
		2015	2014	2015	2014
		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	100	83	100	83
	Finished products	351	348	351	339
	Raw materials and bought-out components	296	212	149	106
	Work-in-progress	764	377	682	359
		1 511	1 020	1 282	887
	Accumulated impairment	141	162	131	154
	Amount relating to inventories which was recognised as an expense during the year (refer note 3)	1 637	1 095	1 223	988
	Amount of impairment written back recognised as an expense	29	54	29	53
	Inventory purchased during the financial year	2 128	1 402	1 618	1 209
	Change in estimates				
	Denel reviewed inventory items that were previously treated as slow moving and identified items to the value of R18m that will be used in future projects. This resulted in a reversal of the provision for slow moving inventory.	18	-	18	-
16	**TRADE AND OTHER RECEIVABLES**				
	Financial assets (refer note 31.4)	1 197	1 021	1 106	951
	Trade receivables (refer note 31.1)	1 125	953	1 048	886
	Intergroup trade receivables			6	9
	Interest receivables (refer note 31.1)	3	-	3	-
	Sundry receivables (refer note 31.1)	69	68	49	56
	Non-financial assets	2 323	1 909	2 144	1 833
	Amount due from customers for contract work	1 600	1 230	1 484	1 153
	Prepayments and advances made	695	652	632	653
	Straight line receivables	21	12	21	12
	Sundry receivables	7	15	7	15
		3 520	2 930	3 250	2 784
	Accumulated impairment				
	Financial assets	41	47	41	47
	Impairment account reconciliation:				
	Balance at 1 April	47	63	47	63
	Impairment for the year (refer note 3)	6	4	6	4
	Impairment reversal for the year (refer note 3)	(9)	(10)	(9)	(10)
	Recovered during the year	(2)	(2)	(2)	(2)
	Written off as non-collectible	(1)	(8)	(1)	(8)
		41	47	41	47

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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		GROUP		COMPANY	
		2015 Rm	2014 Rm	2015 Rm	2014 Rm
17	**OTHER FINANCIAL ASSETS AND LIABILITIES**				
17.1	**OTHER FINANCIAL ASSETS**				
	Derivatives	17	20	17	20
	Foreign exchange contracts	17	20	17	20
	Firm commitments	187	112	187	112
	Foreign exchange contracts designate as fair value hedges	68	58	68	58
	Foreign exchange options designate as fair value hedges	119	54	119	54
	Refer note 31.4	204	132	204	132
17.2	**OTHER FINANCIAL LIABILITIES**				
	Derivatives	164	92	164	92
	Foreign exchange contracts	46	36	46	36
	Foreign exchange options	118	56	118	56
	Firm commitments	11	14	11	14
	Foreign exchange contracts designate as fair value hedges	11	14	11	14
	Refer note 31.4	175	106	175	106
18	**CASH AND CASH EQUIVALENTS**				
18.1	**CASH AND CASH EQUIVALENTS COMPRISES**				
	Cash and short-term deposits (refer note 18.2 and 31.4)	1 909	1 512	1 788	1 316
	Cash held on behalf of associated companies (refer note 18.2, 18.3 and 31.4)	-	1	-	1
		1 909	1 513	1 788	1 317
18.2	**CASH AND SHORT-TERM DEPOSITS**				
	Cash in bank	170	219	111	84
	Local banks	75	153	16	18
	Foreign banks	95	66	95	66
	Deposits	1 739	1 294	1 677	1 233
	Local call deposits	1 739	1 294	1 677	1 233
		1 909	1 513	1 788	1 317
	Less: Amount managed on behalf of associated companies (refer note 18.1, 18.3 and 31.4)	-	(1)	-	(1)
		1 909	1 512	1 788	1 316

	GROUP		COMPANY	
	2015	2014	2015	2014
	Rm	Rm	Rm	Rm
18 CASH AND CASH EQUIVALENTS (continued)				
18.3 CASH HELD ON BEHALF OF ASSOCIATED COMPANIES				
Amount managed on behalf of associated companies (refer note 18.1, 18.2 and 31.4)	-	1	-	1

Cash and cash equivalents are as per the consolidated statements of cash flow. The weighted average effective interest rate on call deposits is 5.4% (2013/14: 4.7%). Interest on cash in bank is earned at market rates. 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 275m (2013/14: R658m).

	GROUP 2015 Rm	GROUP 2014 Rm	COMPANY 2015 Rm	COMPANY 2014 Rm
19 NON-CURRENT ASSETS HELD FOR SALE				
Balance at 1 April	84	104	84	104
Transfer to assets held for sale (refer note 9)	-	(20)	-	(20)
	84	84	84	84

The asset held for sale in respect of investment properties relates to the Philippi facility. The negotiations relating to the selling of the property are at an advanced stage.

	GROUP 2015 Rm	GROUP 2014 Rm	COMPANY 2015 Rm	COMPANY 2014 Rm
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 and the number of issued Class B ordinary shares were 225 056 663 (2013/14: 225 056 663).

The unissued shares are under the control of the 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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		GROUP		COMPANY	
		2015 Rm	2014 Rm	2015 Rm	2014 Rm
21	**NON-CONTROLLING INTEREST**				
	Balance at 1 April	6	8		
	Preference shares issued	4	-		
	Preference shares bought back	(8)	-		
	Share of net profit in subsidiary	4	-		
	Preference dividends payable	(3)	(2)		
		3	6		
22	**LOANS AND BORROWINGS**				
	Interest bearing loans and borrowings				
	Secured mortgage (refer note 22.1)	2	3	-	-
	Unsecured bonds (refer note 22.2)	872	1 595	872	1 595
	Other	14	18	8	12
	Non-current portion of interest bearing loans and borrowings	888	1 616	880	1 607
	Current portion of interest bearing loans and borrowings	1 270	259	1 270	259
	Secured mortgage (refer note 22.1)	1	-	1	-
	Unsecured bonds (refer note 22.2)	815	-	815	-
	Commercial paper (refer note 22.3 and 31.3)	450	250	450	250
	Cash managed on behalf of associated companies (refer note 18 and 31.3)	-	1	-	1
	Current portion of non-current borrowings included in current liabilities	4	8	4	8
	Total interest bearing loans and borrowings	2 158	1 875	2 150	1 866

22 LOANS AND BORROWINGS (continued)

22.1 SECURED MORTGAGE

The secured mortgage relates to a mortgage bond by LMT Holdings SOC Ltd (RF). The carrying value of the asset is R9m (2013/14: R9m). The bond is repayable in monthly instalments of R61 079 and the interest rate of 8.25% (2013/14: 8%) per annum is directly linked to the prime interest rate.

22.2 UNSECURED BONDS

Denel registered a R2.2bn DMTN programme with the JSE. Under the programme, Denel could raise senior and/or subordinated notes up to the facility limit of R2.2bn. The programme contains cross-default (indebtedness of the outstanding amount equals or exceeds 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 three- and five-year bonds totalling R1.4bn (2013/14: R1.4bn). The three-year bond was issued on 28 January 2013 at an interest rate of 5.881% and matures 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 respectively. Of the total borrowings, R1.4bn are backed by a five-year government guarantee. The interest rate is linked to JIBAR.

22.3 COMMERCIAL PAPER

The commercial paper programme is a five-year debt instrument issued as part of the DMTN programme. The DMTN is registered for R2.2bn. R1.85bn of the notes are secured by a government guarantee.

Notes were issued on 21 November 2014 to the value of R200m with maturity on 20 November 2015 at an interest rate of 6.992%. Further notes were issued on 25 February 2015 and 3 March 2015 to the value of R150m and R100m with maturity on 25 February 2016 and 3 March 2016 at an interest rate of 7%. The interest rates are linked to JIBAR and includes a credit margin above JIBAR.

The undrawn borrowing facilities available for future operating activities amount to R300m (2013/14: R440m) and USD50m (2013/14: USD50m). Refer to note 31.4 for fair value.

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		GROUP		COMPANY	
		2015	2014	2015	2014
		%	%	%	%
22	**LOANS AND BORROWINGS (continued)**				
22.4	**WEIGHTED AVERAGE EFFECTIVE INTEREST RATES**				
	Secured mortgage (floating rate)	8.3	8.0	-	-
	Local unsecured loans (fixed rate)	5.9	6.6	5.9	6.6
	Current bank borrowings (floating rate)	6.9	6.4	6.9	6.4
		Rm	Rm	Rm	Rm
22.5	**SUMMARY OF MATURITY OF BORROWINGS**				
	Maturing within one year	1 270	259	1 270	259
	Maturing between one and five years	882	1 616	880	1 607
	Maturing after five years	6	-	-	-
		2 158	1 875	2 150	1 866
23	**ADVANCE PAYMENTS RECEIVED**				
	Non-current advance payments received	2 528	2 066	2 528	2 066
	Current advance payments received	940	628	730	439
		3 468	2 694	3 258	2 505
	The carrying amount of the advance payment is expected to be settled as follows:				
	Less than one year	940	628	730	439
	Between one and five years	1583	1415	1583	1415
	More than five years	945	651	945	651
		3 468	2 694	3 258	2 505

From 2012/13 the group 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 (refer note 26.1).

		GROUP		COMPANY	
		2015	2014	2015	2014
		Rm	Rm	Rm	Rm
24	**PROVISIONS**				
24.1	**NON-CURRENT PROVISIONS**				
	Contract risks and onerous contracts	-	10	-	8
	Product warranty and recall	40	40	40	40
	Site restoration	209	209	209	209
		249	259	249	257
24.2	**CURRENT PROVISIONS**				
	Contract risks and onerous contracts	25	46	25	46
	Performance guarantees	44	39	44	39
	Product warranty and recall	69	41	60	37
	Site restoration	7	13	7	13
	Countertrade	49	46	49	46
	Insurance provision	7	7	-	-
	Other	198	195	173	170
		399	387	358	351
	Total provisions	648	646	607	608

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24 PROVISIONS (continued)

Reconciliation

	Contract risks and onerous contracts Rm	Performance guarantees Rm	Product warranty and recall Rm	Site restoration Rm	Counter-trade Rm	Insurance Rm	Other Rm	Total Rm
GROUP								
2015								
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	3	-	1	17	-	-	-	21
	25	44	109	216	49	7	198	648
2014								
Balance at 1 April	84	34	77	244	41	3	305	788
Charged to the income statement	12	5	29	-	9	6	192	253
Realised	(38)	-	(22)	(39)	(2)	(2)	(296)	(399)
Unused amounts reversed	(5)	-	(3)	-	(2)	-	(6)	(16)
Unwinding of discount on provisions	3	-	-	17	-	-	-	20
	56	39	81	222	46	7	195	646
COMPANY								
2015								
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	3	-	1	17	-	-	-	21
	25	44	100	216	49	-	173	607
2014								
Balance at 1 April	86	34	74	244	41	-	283	762
Charged to the income statement	5	5	27	-	9	-	167	213
Realised	(35)	-	(20)	(39)	(2)	-	(275)	(371)
Unused amounts reversed	(5)	-	(4)	-	(2)	-	(5)	(16)
Unwinding of discount on provisions	3	-	-	17	-	-	-	20
	54	39	77	222	46	-	170	608

24 PROVISIONS (continued)

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 R7m (2013/14: R22m) for both 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 R190m (2013/14: R170m) for the group and R165m (2013/14: R145m) 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 refers to provisions for performance guarantees which relates to legal action. The carrying amount included in other provisions is Rnil (2013/14: R3m) for both the group and company.

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	GROUP 2015 Rm	GROUP 2014 Rm	COMPANY 2015 Rm	COMPANY 2014 Rm
25 TRADE AND OTHER PAYABLES				
Financial liabilities (refer note 31.4)	979	955	863	907
Trade payables (refer note 31.2)	655	665	568	629
Intergroup trade payables			16	32
Interest accrued (refer note 31.2)	15	11	15	11
Other accruals (refer note 31.2)	309	279	264	235
Non-financial liabilities	327	145	326	144
Amounts due to customers for work invoiced not yet performed	326	144	326	144
Other non-financial liabilities	1	1	-	-
	1 306	1 100	1 189	1 051

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

	GROUP 2015 Rm	GROUP 2014 Rm	COMPANY 2015 Rm	COMPANY 2014 Rm
The following guarantees were issued by the group:				
Advance payment guarantees	4 167	2 915	4 167	2 915
Guarantees to banks for credit facilities of subsidiaries	94	-	94	-
Guarantees to local authorities	8	8	8	8
Participating guarantees	13	-	13	-
Performance guarantees	979	850	979	850
Other guarantees	168	170	168	170
Total of guarantees issued	5 429	3 943	5 429	3 943
Guarantees issued on behalf of associated companies	(212)	(190)	(212)	(190)
Advance payment guarantees	(74)	(64)	(74)	(64)
Guarantees to banks for credit facilities of subsidiaries	(94)	-	(94)	-
Guarantees to local authorities	(1)	(2)	(1)	(2)
Performance guarantees	(33)	(59)	(33)	(59)
Other guarantees	(10)	(65)	(10)	(65)
	5 217	3 753	5 217	3 753
Recognised in the consolidated annual financial statements	(3 512)	(2 733)	(3 302)	(2 544)
Advance payments received	(3 468)	(2 694)	(3 258)	(2 505)
Provision for performance guarantees (refer note 24)	(44)	(39)	(44)	(39)
	1 705	1 020	1 915	1 209

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 (2013/14: 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 those 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 on-going 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 and an estimated contract loss of approximately 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 were 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 15.0% 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 ordinates 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 R16m (2013/14: R30m) for the group and company.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
for the year ended 31 March 2015

26 CONTINGENT LIABILITIES (continued)

26.5 COUNTERTRADE

The group has entered into several export sales contracts that give rise to certain countertrade obligations. The obligations vary between 60.0% and 100.0% 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 country.
- Participation in a business venture in the buyer country.
- Exchange of countertrade obligations with companies from buyer countries that have countertrade obligations in SA.

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 R61m (2013/14: R53m) 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.

The table below summarises the group's countertrade position:

	2015			2014		
	Export contracts	Local defence contracts	Total	Export contracts	Local defence contracts	Total
	Rm	Rm	Rm	Rm	Rm	Rm
Countertrade obligation						
Total countertrade obligation	5 304	795	6 099	5 675	400	6 075
Obligation discharged	(199)	(367)	(566)	(85)	(372)	(457)
Outstanding obligation	5 105	428	5 533	5 590	28	5 618
To be settled by third party	-	(397)	(397)	-	(20)	(20)
Net obligation of the group	5 105	31	5 136	5 590	8	5 598
Penalties						
Maximum penalty for non-compliance	502	40	542	548	1	549
Third party obligation	-	(39)	(39)	-	(1)	(1)
Net group exposure	502	1	503	548	-	548
Guarantees issued	61	-	61	43	-	43
Group issued	-	-	-	-	1	1
Third party guarantees	61	-	61	43	1	44
Provision to settle obligation	49	-	49	46	-	46

	GROUP		COMPANY	
	2015	2014	2015	2014
	Rm	Rm	Rm	Rm
27 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS				
Reconciliation of profit with cash retained from operations:				
Net profit before tax	276	190	250	198
Adjusted for:	197	31	233	83
Loss on disposal of property, plant and equipment (refer note 3 and 4)	1	1	-	1
Depreciation [1]	126	128	90	84
Amortisation of intangible assets [1]	12	16	12	16
Remeasurement of derivatives	76	6	76	6
Remeasurement of embedded derivatives	-	(4)	-	(4)
Remeasurement of firm commitments	(78)	(65)	(78)	(65)
Finance costs	176	140	182	150
Finance income	(53)	(48)	(46)	(45)
Dividends received			(45)	(29)
Decrease in provisions	(19)	(162)	(22)	(174)
Impairment (reversed)/raised on property, plant and equipment [1]	(44)	(44)	-	22
Share of profit of associated companies (refer note 12)	(64)	(58)		
Fair value adjustment of investment properties (refer note 4)	(56)	(32)	(56)	(32)
Pension holiday	120	153	120	153
Operating profit before changes in net current assets	473	221	483	281
Changes in net current assets	(874)	(809)	(851)	(751)
Increase in inventories	(490)	(307)	(395)	(263)
Increase in receivables	(545)	(668)	(548)	(665)
Increase in trade and other payables	161	166	92	177
Cash utilised in operations	(401)	(588)	(368)	(470)

[1] *Refer note 3*

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
for the year ended 31 March 2015

	GROUP		COMPANY	
	2015	2014	2015	2014
	Rm	Rm	Rm	Rm
28 CAPITAL COMMITMENTS				
Approved and contracted for:				
Property, plant and equipment	59	47	31	39
Land and buildings	6	3	5	1
Computer equipment	4	9	4	9
Machinery and equipment	43	24	16	18
Office furniture and equipment	1	1	1	1
Plant	4	9	4	9
Vehicles	1	1	1	1
Approved but not contracted for:				
Property, plant and equipment	3	–	3	–
Machinery and equipment	3	–	3	–
	62	47	34	39

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.

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 due as follows:

GROUP

	Buildings Rm	Computer equipment Rm	Office furniture Rm	Plant and machinery Rm	Vehicles Rm	Total Rm
2015						
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
2014						
Less than one year	55	4	2	1	-	62
Between one and five years	274	2	6	2	1	285
More than five years	121	-	-	-	-	121
	450	6	8	3	1	468

COMPANY

	Buildings Rm	Computer equipment Rm	Office furniture Rm	Plant and machinery Rm	Vehicles Rm	Total Rm
2015						
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
2014						
Less than one year	51	3	2	-	-	56
Between one and five years	253	2	6	-	1	262
More than five years	110	-	-	-	-	110
	414	5	8	-	1	428

Non-cancellable leases of buildings include the Kempton Park site which Denel sold during 2007 to ACSA's 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 a 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% (2013/14: 9.25%). Should Denel extend the lease beyond the current ten-year period, the lease payments will be based on market related rates.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
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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 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.

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.

	2015				2014			
	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	-	18		256	-	13		242
Sales of goods	1 249	428		3	634	588		3
Services rendered	429	-		-	626	2		-
Services received	11	10		-	10	25		-
Lease payments	-	103		-	-	44		-
Lease received	-	15		-	7	-		-
Guarantees issued to related parties	1 650	-		-	501	-		-
Guarantees issued to third parties on behalf of related parties	-	-		-	-	-		190
Guarantees issued to third parties by related parties	1 850	-		-	1 850	-		-
Finance income	-	-		212	-	-		4
Finance costs	-	-		-	-	-		-
Dividends received	-	-		32	-	-		19
Outstanding balances payable	11	2		83	4	9		122
Outstanding balances receivable	155	78		1	225	29		5
Provision for penalties paid	2	-		-	-	-		-
Advance payments received	1 692	11		-	1 137	-		-
Advance payments made	-	-		-	-	-		-
Allowance of doubtful debts	-	-		-	1	-		-

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

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	2015				2014			
	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)								
COMPANY								
Purchases of goods	-	18	32	256	-	13	43	242
Sales of goods	1 215	427	12	3	571	588	2	-
Services rendered	429	103	51	-	626	2	44	3
Services received	11	10	15	-	10	25	14	-
Lease payments	429	103	-	-	-	44	-	-
Lease received	-	15	10	-	7	-	9	-
Guarantees issued to related parties	1 650	-	-	-	501	-	-	-
Guarantees issued to third parties on behalf of related parties	-	-	-	-	-	-	-	-
Guarantees issued to third parties by related parties	1 850	-	-	-	1 850	-	-	190
Finance income	7	-	-	212	-	-	-	4
Finance costs	-	-	-	-	-	-	11	-
Dividends received	-	-	13	32	-	-	10	19
Outstanding balances payable	11	2	16	83	4	9	32	122
Outstanding balances receivable	155	78	6	1	162	29	9	5
Provision for penalties paid	2	-	-	-	-	-	-	-
Advance payments received	1 692	11	-	-	-	-	-	-
Advance payments made	-	-	-	-	1 137	-	5	-
Allowance of doubtful debts	-	-	-	-	1	-	-	-

	GROUP		COMPANY	
	2015	2014	2015	2014
	Rm	Rm	Rm	Rm
Compensation paid to key management personnel:				
Short-term employee benefits	41	37	36	33
Post-employee benefits	2	2	2	2
Termination benefits	-	7	-	7
	43	46	38	42

Compensation paid to key management personnel includes information disclosed in the remuneration section of the governance report.

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, who 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
- Recommendation to the board for approval of long-term funding requirements.

The A&R committee is assisted in its oversight role by Denel's internal audit department, who undertakes regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the A&R committee.

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31 FINANCIAL RISK MANAGEMENT (continued)

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. Business units 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 gradings 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.

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 FitchRatings rating. Counterparties are approved by the A&R committee and any 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 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 GFD.

31 FINANCIAL RISK MANAGEMENT (continued)

31.1 CREDIT RISK (continued)

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:

	2015 Domestic Rm	2015 Foreign Rm	2015 Total Rm	2014 Domestic Rm	2014 Foreign Rm	2014 Total Rm
GROUP						
Trade receivables (refer note 16)	279	846	1 125	254	699	953
Government and related units	211	250	461	191	163	354
Non-government units	68	596	664	63	536	599
Sundry receivables (refer note 16)	69	-	69	68	-	68
Government and related units	51	-	51	31	-	31
Non-government units	18	-	18	37	-	37
Interest receivables (refer note 16)	3	-	3	-	-	-
Non-government units	3	-	3	-	-	-
Loans and receivables (refer note 13)	-	-	-	117	-	117
Non-government units	-	-	-	117	-	117
	351	846	1 197	439	699	1 138
COMPANY						
Trade receivables (refer note 16)	277	771	1 048	244	642	886
Government and related units	210	174	384	191	163	354
Non-government units	67	597	664	53	479	532
Sundry receivables (refer note 16)	49	-	49	56	-	56
Government and related units	31	-	31	27	-	27
Non-government units	18	-	18	29	-	29
Interest receivables (refer note 16)	3	-	3	-	-	-
Non-government units	3	-	3	-	-	-
Loans and receivables (refer note13)	-	-	-	117	-	117
Non-government units	-	-	-	117	-	117
	329	771	1 100	417	642	1 059

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	2015				2014			
	Receivables not impaired Rm	Receivables impaired Rm	Impairment amount Rm	Carrying value Rm	Receivables not impaired Rm	Receivables impaired Rm	Impairment amount Rm	Carrying value Rm
31 FINANCIAL RISK MANAGEMENT (continued)								
31.1 CREDIT RISK (continued)								
Ageing								
The ageing of financial assets at the reporting date is included below. The ageing categories include:								
GROUP								
Trade receivables (refer note 16)	1 125	41	(41)	1 125	953	47	(47)	953
Not past due	769	-	-	769	725	-	-	725
Past due								
Less than 30 days	139	-	-	139	114	-	-	114
30 to 60 days	70	-	-	70	22	-	-	22
61 to 90 days	30	40	(40)	30	16	-	-	16
More than 90 days	117	1	(1)	117	76	47	(47)	76
Sundry receivables (refer note 16)	69	-	-	69	68	-	-	68
Not past due, not impaired	54	-	-	54	64	-	-	64
Past due								
Less than 30 days	15	-	-	15	-	-	-	-
30 to 60 days	-	-	-	-	4	-	-	4
Interest receivables (refer note 16)	3	-	-	3	-	-	-	-
Not past due, not impaired	3	-	-	3	-	-	-	-
Loans and receivables (refer note13)	-	-	-	-	117	-	-	117
Not past due, not impaired								
Current portion	-	-	-	-	117	-	-	117
	1 197	41	(41)	1 197	1 138	47	(47)	1 138

31 FINANCIAL RISK MANAGEMENT (continued)

31.1 CREDIT RISK (continued)

Ageing (continued)

COMPANY

	2015 Receivables not impaired Rm	2015 Receivables impaired Rm	2015 Impairment amount Rm	2015 Carrying value Rm	2014 Receivables not impaired Rm	2014 Receivables impaired Rm	2014 Impairment amount Rm	2014 Carrying value Rm
Trade receivables (refer note 16)	1 048	41	(41)	1 048	886	47	(47)	886
Not past due	727	-	-	727	688	-	-	688
Past due								
Less than 30 days	107	-	-	107	87	-	-	87
30 to 60 days	70	-	-	70	22	-	-	22
61 to 90 days	30	40	(40)	30	16	-	-	16
More than 90 days	114	1	(1)	114	73	47	(47)	73
Sundry receivables (refer note 16)	49	-	-	49	56	-	-	56
Not past due, not impaired	49	-	-	49	56	-	-	56
Interest receivables (refer note 16)	3	-	-	3	-	-	-	-
Not past due, not impaired	3	-	-	3	-	-	-	-
Loans and receivables (refer note13)	-	-	-	-	117	-	-	117
Not past due, not impaired								
Current portion	-	-	-	-	117	-	-	117
	1 100	41	(41)	1 100	1 059	47	(47)	1 059

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		GROUP		COMPANY	
		2015 Rm	2014 Rm	2015 Rm	2014 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	457	12	457	12

31.2 LIQUIDITY RISK

A centralised treasury 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.

Updated cash flow information and projections of future cash flows are received from business units 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.

The group received government guarantees of R1.85bn to raise borrowings. These guarantees expire on 30 September 2017.

Surplus funds are deposited in liquid assets (i.e. negotiable certificates or deposits and call deposits) (refer note 18).

	GROUP 2015 Rm	GROUP 2014 Rm	COMPANY 2015 Rm	COMPANY 2014 Rm
Undrawn credit facilities				
SA Rand (ZARm)	300	440	300	440
US Dollar (USDm)	50	50	50	50

The credit banking facilities are unsecured, bearing interest at a rate linked to prime and are subject to annual reviews. Facilities are in place to ensure liquidity.

31 FINANCIAL RISK MANAGEMENT (continued)

31.2 LIQUIDITY RISK (continued)

Exposure to liquidity risk

The following are the contractual maturities of financial liabilities, including interest payments, excluding the impact of netting agreements:

		CONTRACTUAL UNDISCOUNTED CASH FLOWS				
	Carrying amount	Total cash flows	Less than 3 months	Between 3 and 12 months	Between 1 and 5 years	More than 5 years
	Rm	Rm	Rm	Rm	Rm	Rm
GROUP						
2015						
Interest bearing loans and borrowings	2 158	2 429	39	1 372	1 004	14
Trade and other payables	979	979	773	206	-	-
Derivative financial liabilities	164	164	24	136	4	-
	3 301	3 572	836	1 714	1 008	14
2014						
Interest bearing loans and borrowings	1 874	2 150	18	357	1 775	-
Loans from associated companies	1	1	1	-	-	-
Trade and other payables	955	955	809	142	4	-
Derivative financial liabilities	92	92	57	35	-	-
	2 922	3 198	885	534	1 779	-
COMPANY						
2015						
Interest bearing loans and borrowings	2 150	2 410	38	1 371	1 001	-
Trade and other payables	863	863	702	161	-	-
Derivative financial liabilities	164	164	28	136	-	-
	3 177	3 437	768	1 668	1 001	-
2014						
Interest bearing loans and borrowings	1 865	2 137	17	356	1 764	-
Loans from associated companies	1	1	1	-	-	-
Trade and other payables	907	907	805	99	3	-
Derivative financial liabilities	92	92	57	35	-	-
	2 865	3 137	880	490	1 767	-

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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 business units 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 GFD 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.

		GROUP		COMPANY	
		2015	2014	2015	2014
		Rm	Rm	Rm	Rm
31	**FINANCIAL RISK MANAGEMENT (continued)**				
31.3	**MARKET RISK**				
	At the reporting date the interest rate profile of the group's interest bearing financial instruments was as follows:				
	Fixed rate instruments				
	Cash and short-term deposits	311	67	250	6
	Commercial paper	450	250	450	250
	Loans and borrowings	603	604	595	604
	Variable rate instruments				
	Cash and short-term deposits	1 598	1 445	1 538	1 310
	Cash managed on behalf of associated companies	-	1	-	1
	Loans and borrowings	1 555	1 271	1 555	1 011
	Loans and other receivables	-	117	-	117
	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.				
	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.	2	8	2	7

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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 business units. 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 GFD 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 exposure to currency risk was as follows based on the notional amounts:

	FOREIGN CURRENCY NOTIONAL AMOUNT			
	2015		2014	
	USD	EUR	USD	EUR
	m	m	m	m
GROUP				
Assets	78	74	68	59
Trade receivables	20	35	28	21
Controlled foreign currency accounts (CFC)	2	-	3	-
Firm commitment (export revenue)	56	39	37	38
Liabilities	(11)	(10)	(20)	(6)
Trade payables	(2)	(1)	(3)	(1)
Firm commitment (import)	(9)	(9)	(17)	(5)
Gross balance sheet exposure	67	64	48	53
Forecast transactions (revenue)	56	39	37	38
Forecast transactions (purchases)	(9)	(9)	(12)	(4)
Gross balance sheet exposure	114	94	73	87
Forward exchange contracts				
Export revenue	(56)	(39)	(37)	(38)
Imports	9	9	17	5
Net exposure	67	64	53	54

	FOREIGN CURRENCY NOTIONAL AMOUNT			
	2015		2014	
	USD	EUR	USD	EUR
	m	m	m	m
31 FINANCIAL RISK MANAGEMENT (continued)				
31.3 MARKET RISK (continued)				
Currency risk (continued)				
COMPANY				
Assets	78	74	68	59
Trade receivables	20	35	28	21
Controlled foreign currency accounts (CFC)	2	-	3	-
Firm commitment (export revenue)	56	39	37	38
Liabilities	(11)	(10)	(20)	(6)
Trade payables	(2)	(1)	(3)	(1)
Firm commitment (import)	(9)	(9)	(17)	(5)
Gross balance sheet exposure	67	64	48	53
Forecast transactions (revenue)	56	39	37	38
Forecast transactions (purchases)	(9)	(9)	(12)	(4)
Gross balance sheet exposure	114	94	73	87
Forward exchange contracts				
Export revenue	(56)	(39)	(37)	(38)
Import	8	9	17	5
Net exposure	66	64	53	54
Strenghtening of the ZAR				
Group	12	6	6	5
Company	12	6	6	5

A 5% strengthening of the ZAR against the above currencies at 31 March would have increased/(decreased) profit or loss by the above mentioned amounts.

A 5% weakening of the ZAR 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.

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31 FINANCIAL RISK MANAGEMENT (continued)

31.3 MARKET RISK (continued)

Currency risk (continued)

Foreign currency derivatives

The fair value of foreign currency derivatives are disclosed in note 17. The following foreign exchange contracts existed at 31 March:

	2015			2014		
	Foreign currency notional amount m	Local currency Rm	Fair value Rm	Foreign currency notional amount m	Local currency Rm	Fair value Rm
GROUP AND COMPANY						
Foreign exchange contracts						
Revenue contracts						
EUR	39	514	541	38	550	563
GBP	-	-	-	4	52	56
CHF	2	25	21	2	17	18
USD	56	680	711	37	394	398
		1 219	1 273		1 013	1 035
Purchase contracts						
EUR	9	119	118	5	66	66
GBP	1	18	26	-	6	6
CHF	-	-	-	2	10	10
USD	9	109	112	17	166	172
		246	256		248	254

31 **FINANCIAL RISK MANAGEMENT (continued)**

31.3 **MARKET RISK (continued)**

Currency risk (continued)

Foreign currency derivatives (continued)

Maturity table

GROUP AND COMPANY

	FOREIGN CURRENCY NOTIONAL AMOUNT							
	2015				2014			
	1 year	2 years	3 - 5 years	Total	1 year	2 years	3 - 5 years	Total
	m	m	m	m	m	m	m	m
Foreign exchange contracts								
Revenue contracts								
EUR	39	-	-	39	32	6	-	38
GBP	-	-	-	-	4	-	-	4
CHF	2	-	-	2	2	-	-	2
USD	55	1	-	56	14	23	-	37
Purchase contracts								
EUR	9	-	-	9	4	1	-	5
GBP	1	-	-	1	-	-	-	-
CHF	-	-	-	-	1	1	-	2
USD	8	1	-	9	15	2	-	17
Foreign exchange options								
Revenue contracts								
USD	-	-	-	-	69	-	-	69

Firm commitments

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, and contain a foreign exchange embedded derivative (to sell or buy the equivalent amount of foreign currency), are 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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	2015			2014		
	Foreign currency notional amount	Local currency	Fair value	Foreign currency notional amount	Local currency	Fair value
	m	Rm	Rm	m	Rm	Rm
31 FINANCIAL RISK MANAGEMENT (continued)						
31.3 MARKET RISK (continued)						
Foreign currencies						
Export transactions						
Firm commitment relating to foreign exchange contracts						
EUR	1	11	11	21	300	318
GBP	–	–	–	4	61	65
CHF	–	–	–	–	3	3
USD	9	105	113	42	455	456
		116	124		819	842
Firm commitment relating to foreign exchange options						
EUR	3	40	41	–	1	1
GBP	–	–	–	–	–	–
CHF	–	–	–	–	–	–
USD	64	682	563	69	680	626
		722	604		681	627
Import transactions						
Firm commitment relating to foreign exchange contracts						
EUR	8	115	106	4	71	68
GBP	–	1	1	–	1	1
CHF	–	4	4	1	16	16
USD	–	–	–	–	–	–
		120	111		88	85

	FOREIGN CURRENCY NOTIONAL AMOUNT							
	2015				2014			
	1 year	2 years	3 - 5 years	Total	1 year	2 years	3 - 5 years	Total
	m	m	m	m	m	m	m	m
31 FINANCIAL RISK MANAGEMENT (continued)								
31.3 MARKET RISK (continued)								
Foreign currencies (continued)								
Maturity table								
Export contracts								
Firm commitment relating to foreign exchange contracts								
EUR	1	-	-	1	21	-	-	21
GBP	-	-	-	-	4	-	-	4
CHF	-	-	-	-	-	-	-	-
USD	9	-	-	9	42	-	-	42
Firm commitment relating to foreign exchange options								
EUR	3	-	-	3	-	-	-	-
GBP	-	-	-	-	-	-	-	-
CHF	-	-	-	-	-	-	-	-
USD	64	-	-	64	69	-	-	69

Import transactions

Firm commitment relating to foreign exchange contracts

The maturity of all import transaction firm commitments is within one year.

Commodity risk

As at 31 March 2015 the group had no commodity swap contracts (2013/14: Rnil).

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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:

	Loans and receivables Rm	Liabilities at amortised cost Rm	At fair value through profit or loss Rm	Carrying amount Rm	Fair value Rm
GROUP					
2015					
Financial assets					
Cash and cash equivalents	1 909			1 909	1 909
Other financial assets			204	204	204
Trade and other receivables	1 197			1 197	1 197
	3 106		204	3 310	3 310
Financial liabilities					
Interest bearing borrowings		(2 158)		(2 158)	(2 145)
Other financial liabilities			(175)	(175)	(175)
Preference dividends payable		(2)		(2)	(2)
Trade and other payables		(979)		(979)	(979)
		(3 139)	(175)	(3 314)	(3 301)
	3 106	(3 139)	29	(4)	9
2014					
Financial assets					
Cash and cash equivalents	1 512			1 512	1 512
Cash held on behalf of associated companies	1			1	1
Loans and receivables	117			117	117
Other financial assets			132	132	132
Trade and other receivables	1 021			1 021	1 021
	2 651		132	2 783	2 783
Financial liabilities					
Associated companies: Loans		(1)		(1)	(1)
Interest bearing borrowings		(1 874)		(1 874)	(1 844)
Other financial liabilities			(106)	(106)	(106)
Preference dividends payable		(3)		(3)	(3)
Trade and other payables		(955)		(955)	(955)
		(2 833)	(106)	(2 939)	(2 909)
	2 651	(2 833)	26	(156)	(126)

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:

	Loans and receivables Rm	Liabilities at amortised cost Rm	At fair value through profit or loss Rm	Carrying amount Rm	Fair value Rm
COMPANY					
2015					
Financial assets					
Cash and cash equivalents	1 788			1 788	1 788
Other financial assets			204	204	204
Trade and other receivables	1 106			1 106	1 106
Subsidiaries: Receivables	336			336	336
	3 230		204	3 434	3 434
Financial liabilities					
Interest bearing borrowings		(2 150)		(2 150)	(2 136)
Other financial liabilities			(175)	(175)	(175)
Trade and other payables		(863)		(863)	(863)
Subsidiaries: Borrowings		(228)		(228)	(228)
		(3 241)	(175)	(3 416)	(3 402)
	3 230	(3 241)	29	18	32
2014					
Financial assets					
Cash and cash equivalents	1 316			1 316	1 316
Cash held on behalf of associated companies	1			1	1
Loans and receivables	117			117	117
Other financial assets			132	132	132
Trade and other receivables	951			951	951
Subsidiaries: Receivables	336			336	336
	2 721		132	2 853	2 853
Financial liabilities					
Associated companies: Loans		(1)		(1)	(1)
Interest bearing borrowings		(1 865)		(1 865)	(1 835)
Other financial liabilities			(106)	(106)	(106)
Trade and other payables		(907)		(907)	(907)
Subsidiaries: Borrowings		(322)		(322)	(322)
		(3 095)	(106)	(3 201)	(3 171)
	2 721	(3 095)	26	(348)	(318)

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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 loans 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

Currently the only financial assets and liabilities that are measured at fair value are the financial assets and liabilities disclosed in note 17 and fall within level 2 of the hierarchy. During the year there were no transfers between any of the levels of fair value measurements.

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 Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
GROUP						
2015						
Assets measured at fair value						
Other financial assets (refer note 17.1)	204	204	-	204	-	204
Assets not measured at fair value						
Cash and short-term deposits (refer note 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
	3 310	3 310	-	3 310	-	3 310
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)	(3 301)	-	(3 301)	-	(3 301)
	(4)	9	-	9	-	9
2014						
Assets measured at fair value						
Other financial assets (refer note 17.1)	132	132	-	132	-	132
Assets not measured at fair value						
Cash and short-term deposits (refer note 18.2)	1 512	1 512	-	1 512	-	1 512
Cash held on behalf of associated companies (refer note 18.3)	1	1	-	1	-	1
Loans and receivables (refer note 13)	117	117	-	117	-	117
Trade and other receivables (refer note 16)	1 021	1 021	-	1 021	-	1 021
	2 783	2 783	-	2 783	-	2 783
Liabilities measured at fair value						
Other financial liabilities (refer note 17.2)	(106)	(106)	-	(106)	-	(106)
Liabilities not measured at fair value						
Loans and borrowings (refer note 22)	(1 875)	(1 844)	-	(1 844)	-	(1 844)
Preference dividends payable	(3)	(3)	-	(3)	-	(3)
Trade and other payables (refer note 25)	(955)	(955)	-	(955)	-	(955)
	(2 939)	(2 908)	-	(2 908)	-	(2 908)
	(156)	(125)	-	(125)	-	(125)

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31 FINANCIAL RISK MANAGEMENT (continued)

31.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

	Carrying amount Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
COMPANY						
2015						
Assets measured at fair value						
Other financial assets (refer note 17.1)	204	204	-	204	-	204
Assets not measured at fair value						
Cash and short-term deposits (refer note 18.2)	1 788	1 788	-	1 788	-	1 788
Subsidiaries: Receivables (refer note 11)	336	336	-	336	-	336
Trade and other receivables (refer note 16)	1 106	1 106	-	1 106	-	1 106
	3 434	3 434	-	3 434	-	3 434
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: Borrowings (refer note 11)	(228)	(228)	-	(228)	-	(228)
Trade and other payables (refer note 25)	(863)	(863)	-	(863)	-	(863)
	(3 416)	(3 402)	-	(3 402)	-	(3 402)
	18	32	-	32	-	32
2014						
Assets measured at fair value						
Other financial assets (refer note 17.1)	132	132	-	132	-	132
Assets not measured at fair value						
Cash and short-term deposits (refer note 18.2)	1 316	1 316	-	1 316	-	1 316
Cash held on behalf of associated companies (refer note 18.3)	1	1	-	1	-	1
Loans and receivables (refer note 13)	117	117	-	117	-	117
Subsidiaries: Receivables (refer note 11)	336	336	-	336	-	336
Trade and other receivables (refer note 16)	951	951	-	951	-	951
	2 853	2 853	-	2 853	-	2 853
Liabilities measured at fair value						
Other financial liabilities (refer note 17.2)	(106)	(106)	-	(106)	-	(106)
Liabilities not measured at fair value						
Associated companies: Loans (refer note 22)	(1)	(1)	-	(1)	-	(1)
Loans and borrowings (refer note 22)	(1 865)	(1 865)	-	(1 835)	-	(1 835)
Subsidiaries: Borrowings (refer note 11)	(322)	(322)	-	(322)	-	(322)
Trade and other payables (refer note 25)	(907)	(907)	-	(907)	-	(907)
	(3 201)	(3 201)	-	(3 171)	-	(3 171)
	(348)	(348)	-	(318)	-	(318)

For non-financial assets refer to the accounting policy note 1.3.10 for the detail of the valuation technique.

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 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 to the directors' report for more information.

The capital resources of the group have 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 and 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 turnaround strategy.

Since the approval of the turnaround 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.

The group further strives to negotiate advance payments from clients in business transactions that require high investment in working capital over 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, Densecure SOC Ltd, is a wholly owned captive insurer and therefore, has certain externally imposed capital requirements.

The minimum capital requirements applicable to Densecure SOC Ltd were maintained at all times during the year. The company maintained a solvency margin higher than the statutory requirement of 25%.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
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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, R21m (2013/14: R3m) 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 2015 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 consolidated statements 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* on pages 121 to 124.

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:

	2015 Rm	2014 Rm
Change in defined benefit funded obligation		
Present value of funded obligations at 1 April	611	761
Service cost benefits earned during the year	4	7
Interest cost on projected benefit obligation	52	51
Actuarial losses/(gains)	37	(140)
Benefits paid	(32)	(29)
Liability buy-out	(151)	(39)
Present value of funded obligations at 31 March	521	611
Change in plan assets		
Fair value of plan assets at 1 April	1 328	1 169
Expected return on plan assets	115	83
Actuarial losses	59	136
Service cost benefits earned during the year	-	-
Employer and member contributions	21	3
Benefits paid	(32)	(29)
Liability buy-out	(177)	(34)
Fair value of plan assets at 31 March	1 314	1 328
Fund excess	793	717
Excess not recognised	(793)	(717)
Unrecognised actuarial gains	-	-
Net benefit expenses		
Service cost	4	7
Interest cost	52	51
Expected return on plan assets	115	83
Net actuarial loss recognised during the year	96	(4)
Income	267	137

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
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33 POST-RETIREMENT OBLIGATIONS (continued)

33.1 DENEL MEDICAL BENEFIT TRUST (continued)

	2015 %	2014 %
The principal actuarial assumptions used for accounting purposes were:		
Expected return on plan assets	9.7	10.3
Expected medical inflation	7.7	8.3
	Number	**Number**
The beneficiary members from the funds are as follows:		
Active members	161	222
Retired members	1 217	1 208

	2015		2014	
	Increase Rm	Decrease Rm	Increase Rm	Decrease Rm
A 1% change in assumed healthcare cost trend rates would have the following effects on defined benefit obligation	11	9	11	9

	2015 Rm	2014 Rm	2013 Rm	2012 Rm	2011 Rm	2010 Rm
Amounts for the current and previous five periods are as follows:						
Defined benefit obligation	(521)	(611)	(759)	(755)	(674)	(681)
Plan assets	1 314	1 328	1 168	1 057	1 151	1 248
Surplus	793	717	409	302	477	567
Experience adjustments on plan liabilities	23	(35)	(25)	(25)	(4)	(33)

33 POST-RETIREMENT OBLIGATIONS (continued)

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 profit or loss 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 year.

Transfer pricing between operating segments is set at cost plus 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 Dynamics and Denel Overberg Test Range;
- Aviation: Denel Aviation;
- Land Systems: Denel Land Systems and LMT Holdings SOC Ltd (RF);
- Munitions: 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% of the group revenue are aggregate within an operating segment which products and services closest relate to those of the specific business unit.

More detail on the business units is stated in the *performance review* sections on pages 37 to 43.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015

34 SEGMENT REPORTING (continued)

	Aerostructures Rm	Aerospace Systems Rm	Aviation Rm	Land Systems Rm	Munitions Rm	Non-core Rm	Consolidation entries Rm	Total Rm
2015								
Segment revenue	468	1 660	1 155	1 857	828	319	(435)	5 852
Revenue to external customers	460	1 604	1 130	1 813	702	143		5 852
Intergroup revenue	8	56	25	44	126	176	(435)	-
Segment revenue 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 profit of associated companies							64	64
Income tax expense	-	-	-	(1)	-	(5)		(6)
(Loss)/Profit 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)	105	212
Investing activities	(15)	(63)	(19)	(24)	(17)	(71)	32	(177)
Financing activities	94	184	43	698	45	(564)	(139)	361
Capital expenditure	17	64	19	20	18	45	-	183
Impairment losses (reversed)/raised	(67)	10	(19)	-	(12)	20		(68)
Depreciation/amortisation in respect of segment assets	34	42	12	19	12	19		138
Revenue from SA National government	33	53	826	478	288	-		1 678
Significant non-cash items								
Fair value adjustment	-	-	-	-	-	56		56

34 SEGMENT REPORTING (continued)

	Aerostructures Rm	Aerospace Systems Rm	Aviation Rm	Land Systems Rm	Munitions Rm	Non-core Rm	Consolidation entries Rm	Total Rm
2014								
Segment revenue	438	1 467	1 000	1 188	515	293	(313)	4 588
Revenue to external customers	429	1 416	983	1 153	490	117		4 588
Intergroup revenue	9	51	17	35	25	176	(313)	-
Segment revenue contribution	9%	31%	21%	25%	11%	3%		100%
Segment result	(44)	158	66	46	6	30	(38)	224
Net finance income/(costs)	11	2	(13)	20	(1)	(111)	-	(92)
Share of profit of associated companies							58	58
Income tax expense	-	-	-	(1)	-	5		4
(Loss)/Profit for the year	(33)	160	53	65	5	(76)	20	194
Segment assets	780	1 676	759	2 677	661	6 109	(4 588)	8 074
Deferred tax assets								15
Total assets								8 089
Segment liabilities	451	1 303	536	2 420	144	3 768	(2 197)	6 425
Deferred tax liabilities								-
Total liabilities								6 425
Cash flows from								
Operating activities	(68)	(236)	55	721	(56)	(139)	197	474
Investing activities	(62)	(85)	(23)	(31)	(16)	(210)	221	(206)
Financing activities	129	323	(32)	(555)	72	427	(416)	(52)
Capital expenditure	62	86	24	30	16	29	-	247
Impairment losses (reversed)/raised	(67)	10	(19)	-	(12)	-		(88)
Depreciation/amortisation in respect of segment assets	42	35	16	17	12	22		144
Revenue from SA National government	63	50	776	237	131	10		1 267
Significant non-cash items								
Fair value adjustment	-	-	-	-	-	32		32

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
for the year ended 31 March 2015

	2015				2014			
	Share capital issued	Share investment by Denel SOC Ltd	Amounts owing to/(by) Denel SOC Ltd	Effective percentage shareholding	Share capital issued	Share investment by Denel SOC Ltd	Amounts owing to/(by) Denel SOC Ltd	Effective percentage shareholding
	Rm	Rm	Rm	%	Rm	Rm	Rm	%
35 SUBSIDIARIES AND ASSOCIATED COMPANIES								
The following unlisted companies are subsidiaries or associated companies of Denel SOC Ltd and its subsidiaries:								
Denel Aerostructures SOC Ltd	1 689	1 689	108	100.0	1 689	1 689	14	100.0
Densecure SOC Ltd	8	8	-	100.0	8	8	-	100.0
LMT Holdings SOC Ltd (RF) [1]	27	16	-	51.0	28	13	-	51.0
Total investment		1 713	108			1 710	14	
Aggregated amounts less than R0.5m [2]		-	-			-	-	
Less: Accumulated impairment of investment (refer note 11)		(1 055)	(336)			(1 055)	(336)	
Net investment of Denel SOC Ltd (refer note 11)		658	(228)			655	(322)	
SHAREHOLDING BY SUBSIDIARY [3]								
LMT Products SOC Ltd	-	-	-	45.9	-	-	-	45.9
LMT Engineering SOC Ltd	1	4	-	51.0	1	4	-	51.0
LMT Properties SOC Ltd	-	-	-	51.0	-	-	-	38.8
Net investment of LMT SOC Ltd (RF) [1]		4	-			4	-	
ASSOCIATED COMPANIES								
Turbomeca Africa (Pty) Ltd		49	-	49.0		49	-	49.0
Airbus DS Optronics (Pty) Ltd		57	-	30.0		57	(1)	30.0
Rheinmetall Denel Munition (Pty) Ltd		371	-	49.0		371	-	49.0
Tawazun Dynamics LLC		23	-	49.0		23	-	49.0
Net investment of Denel SOC Ltd (refer note 12 and 22)		500	-			500	(1)	

	2015	2014
	Rm	Rm
Aggregated profit/(loss) of subsidiaries	1	(23)

The country of incorporation of subsidiaries and that of other associated companies are not different from Denel, except for Tawazun Dynamics LLC which is a UAE-based company.

Non-controlling interest voting rights are not different from their percentage shareholding.

All associated companies are strategic to the business activities of Denel.

1 *This includes R16m (2013/14: R13m) preference shares*

2 *Amounts smaller than R0.5m due to rounding are not reflected against the units but in aggregate on this page*

3 *Shares are not held by the group but effective management control is exercised in these business units*

Employees are integral to Denel's success. The growth strategy is yielding excellent results and has led to Denel being able to create over 400 job opportunities. We are improving the quality of leadership at all levels. This will position Denel to meet business requirements of the future.

PART EIGHT
INFORMATION

For more information about Denel, its business units and associated companies, visit www.denel.co.za

GRI CONTENT INDEX

√ = fully complied with   X = not complied with   Δ = partially complied with   n/a = not applicable

ASPECT	NO. G4	NO. G3.1	GRI G3 INDICATOR	RATING 2015	RATING 2014	RATING 2013	INTEGRATED REPORT REFERENCE	PAGE
SUSTAINABILITY PROFILE								
Strategy and analysis	G4-1	1.1	Statement from the most senior decision-makers of the organisation	√	√	√	Group chief executive officer's report	18-21
	G4-2	1.2	Description of key impacts, risks and opportunities	√	√	√	Material issues Performance review Risk governance	08-10 24-47 72-77
Organisational profile	G4-3	2.1	Name of organisation	√	√	√	About this report	Inside cover
	G4-4	2.2	Primary brands, products, and/or services	√	√	√	Overview of Denel Business model	06-07 12-13
	G4-17	2.3	Operational structure of the organisation	√	√	√	Organisational structure	36
	G4-5	2.4	Location of organisation's headquarters	√	√	√	Corporate contact details	219
	G4-6	2.5	Number of countries where the organisation operates	√	Δ	Δ	Organisational structure Note 35 of the consolidated annual financial statements	36 206
	G4-7	2.6	Nature of ownership and legal form	√	√	√	Organisational structure	36
	G4-6	2.7	Markets served	√	Δ	Δ	Overview of Denel Performance review Stakeholder engagement	06-07 24-47 78-81
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	G4-29	3.2	Date of most recent previous report (if any)	√	√	√	About this report Independent auditors' report Statements of responsibility	Inside cover 118-119 120
	G4-30	3.3	Reporting cycle	√	√	√	About this report Independent auditors' report Directors' report	Inside cover 118-119 121-124
	G4-31	3.4	Contact point for questions regarding the report or its contents	√	√	√	Corporate contact details	219
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	G4-20 G4-21	3.6	Boundary of the report	√	√	√	About this report	Inside cover
		3.7	Limitations on the scope or boundary of the report	√	√	√	About this report	Inside cover
		3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, etc.	√	√	√	About this report	Inside cover
	Removed	3.9	Data measurement techniques and the basis of calculations	√	√	√	About this report	Inside cover
	G4-22	3.10	Explanation of the effect of any restatements of information provided in earlier reports	n/a	n/a	n/a	No information was restated	
	G4-23	3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods	n/a	n/a	n/a	No significant changes from previous reporting periods	
GRI content index	G4-32	3.12	Table identifying the location of the standard disclosures in the report	√	√	√	GRI content index	210-216
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	G4-38	4.3	The number of members of the highest governance body who are independent and/or non-executive members	√	√	√	Denel board of directors How we are governed	50-53 60-63
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	G4-51	4.5	Linkage between compensation for members of the board, senior managers, executives and the organisation's triple-bottom line performance	√	√	√	Remuneration report	69-71
	G4-41	4.6	Processes and highest governance body to ensure conflicts of interest are avoided	√	√	√	How we are governed	60-68
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	G4-16	4.13	Memberships in associations and/or national/international advocacy organisations	√	√	√	Risk governance Occupational health and safety Environmental responsibility	72-77 101-103 106-112
Stakeholder engagement	G4-24	4.14	Lists of stakeholder groups engaged by the organisation	√	√	√	Stakeholder engagement	78-81
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	G4-26	4.16	Approaches to stakeholder engagement	√	√	√	Stakeholder engagement	78-81
	G4-27	4.17	Key topics and concerns that have been raised through stakeholder engagement	√	√	√	Stakeholder engagement	78-81
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	G4-LA10	LA11	Programmes for skills management and lifelong learning	√	√	√	People and transformation	84-97
	G4-LA11	LA12	Percentage of employees receiving regular performance and career development reviews	√	√	√	People and transformation	84-97
Diversity and opportunity	G4-LA12	LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership and other indicators of diversity	√	Δ	Δ	Corporate governance People and transformation	50-81 84-97
Freedom of association and collective bargaining	G4-HR4	HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights	n/a	n/a	n/a	There are no operations within the Denel group in which the right to exercise freedom of association and collective bargaining may be at risk	
Child labour	G4-HR5	HR6	Operations identified as having significant risk for incidents of child labour	n/a	n/a	n/a	Denel does not use child labour	

ASPECT	NO. G4	NO. G3.1	GRI G3 INDICATOR	RATING 2015	RATING 2014	RATING 2013	INTEGRATED REPORT REFERENCE	PAGE
SOCIAL INDICATORS (continued)								
Forced and compulsory labour	G4-HR6	HR7	Operations identified as having significant risk for incidents of forced or compulsory labour, and measures taken to contribute to the elimination of forced or compulsory labour	n/a	n/a	n/a	There are no incidents of forced or compulsory labour within the Denel group	
Community	G4-S01	S01	Nature, scope and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities	√	√	√	Stakeholder engagement Social responsibility	78-81 84-103
Corruption	G4-S03	S02	Percentage and total number of business units analysed for risks related to corruption	Δ	Δ	Δ	Risk governance	72-77
	G4-S04	S03	Percentage of employees trained in organisation's anti-corruption policies and procedures	√	√	√	Risk governance	72-77
	G4-S05	S04	Actions taken in response to incidents of corruption	√	√	√	Risk governance	72-77
Public policy	Guidance	S05	Public policy positions and participation in public policy	√	√	√	Risk governance	72-77
Anti-competitive behaviour	G4-S07	S07	Total number of legal actions for anti-competitive behaviour, anti-trust or monopoly practices	n/a	n/a	n/a	Risk governance	72-77
Compliance	G4-S08 G4-S09 G4-S010 G4-S011	S08	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	√	√	√	Risk governance Environmental responsibility	72-77 106-112
Customer health and safety	G4-PR1	PR1	Lifecycle stages in which health and safety impacts of products and services are assessed for improvement	Δ	Δ	Δ	Occupational health and safety	101-103
	G4-PR2	PR2	Number of incidents of non-compliance with regulations	√	Δ	Δ	Occupational health and safety	101-103
Products and services	G4-PR3	PR3	Type of product and service information required by procedures and percentage of significant products and services subject to information	Δ	Δ	Δ	Risk governance Occupational health and safety	72-77 101-103
	G4-PR5	PR5	Practices related to customer satisfaction	√	Δ	Δ	Stakeholder engagement	78-81

ASPECT	NO. G4	NO. G3.1	GRI G3 INDICATOR	RATING 2015	RATING 2014	RATING 2013	INTEGRATED REPORT REFERENCE	PAGE
ENVIRONMENTAL INDICATORS								
Materials	G4-EN2	EN2	Percentage of materials used that are recycled input materials	√	√	√	Environmental responsibility	110
Energy	G4-EN3	EN3	Direct energy consumption	√	√	√	Environmental responsibility	105
	G4-EN7	EN6	Initiatives to provide energy-efficient based products and services and reductions in energy requirements	√	√	√	Environmental responsibility	106-107
Water	G4-EN8	EN8	Total water consumption	√	√	√	Environmental responsibility	108
Biodiversity	G4-EN11	EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	√	Δ	Δ	Environmental responsibility	108-110
Emissions, effluents and waste	G4-EN12	EN12	Description of significant impacts of activities, products and services on biodiversity in protected areas	√	Δ	Δ	Environmental responsibility	108
	G4-EN23	EN22	Total weight of waste by type and disposal method	√	√	√	Environmental responsibility	110
Products and services	G4-EN27	EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	√	√	√	Environmental responsibility	108
Compliance	G4-EN29	EN28	Monetary value of significant fines and the number of non-monetary sanctions for non-compliance with environmental laws and regulations	√	√	√	Environmental responsibility	106-112
Overall	G4-EN31 G4-EN32 G4-EN33 G4-EN34	EN30	Total environmental protection expenditures by type	√	√	√	Environmental responsibility	106-112

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
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 division 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
CHF	Swiss Franc
Companies Act	South African Companies Act, no. 71 of 2008
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CSI	Corporate social investment
CSIR	Council for Scientific and Industrial Research
DAe	Denel Aerostructures SOC Ltd
DAv	Denel Aviation
DCAC	Directorate of Conventional Arms Control
DD	Denel Dynamics
DenRet	Denel Retirement Fund
Dept	Department
DIRCO	Department of International Relations and Cooperation
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

ACRONYM	FULL DESCRIPTION
DPE	Department of Public Enterprises
DRC	Democratic Republic of the Congo
DST	Department of Science and Technology
DTA	Denel Technical Academy
dti	Department of Trade and Industry
EAL	Engineering Academy of Learning
EASA	European Aviation Safety Agency
EBIT	Earnings before interest and taxation
ECS	Energy Conservation Scheme
ED	Enterprise development
EE	Employment equity
ERW	Explosive remnants of war
ESD	Enterprise supplier development
EUR	Euro
EXCO	Group executive committee of Denel
GBP	British Pound Sterling
GCEO	Group chief executive officer
GFD	Group financial director
GHG	Greenhouse gas
Government	South African government
GRI	Global Reporting Initiative
HCOC	Hague Code of Conduct Against Ballistic Missile Proliferation
HR	Human resources
IAS	International accounting standards
IDEX	UAE Defence Exhibition
IED	Improvised explosive device
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IIRF	International Integrated Reporting Framework
IP	Intellectual property
IPAP	Industrial Policy Action Plan
ISO	International Standards Organization
ISR	Intelligence, surveillance and reconnaissance
IT	Information technology
LMT	LMT Holdings SOC Ltd
LOCATS	Low cost aerial target systems
LSSA	BAE Systems Land Systems South Africa

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 Defense Contractors Accreditation Programme
NAMMO	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
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
PAA	Public Audit Act, no. 25 of 2004
PFMA	Public Finance Management Act, no. 1 of 1999
PMP	Pretoria Metal Pressings
POLRisk	Polish Risk Management Association
PR&T	Personnel, remuneration and transformation
PRASA	Passenger Rail Agency of South Africa
(Pty) Ltd	(Proprietary) Limited
R/Rand/ZAR	South African Rand
R&D	Research and development
RDM	Rheinmetall Denel Munition (Pty) Ltd
Review	2014 Defence Review
RF	Ring fenced
RSA	Republic of South Africa
RSS	Ribs, spars and sword
RUSRisk	Russian Risk Management Association
S&E	Social and ethics
SA	South Africa(n)

ACRONYM	FULL DESCRIPTION
SAA	South African Airways
SAAF	South African Air Force
SACAA	South African Civil Aviation Authority
SACCI	South African Chamber of Commerce and Industry
SADC	Southern African Development Community
SANDF	South African National Defence Force
SANSA	South African National Space Agency
SAPS	South African Police Service
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
Tawazun Dynamics	Tawazun Dynamics LLC
TCTA	Trans-Caledon Tunnel Authority
THRIP	Technology and Human Resources for Industry Programme
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 system
UK	United Kingdom
UN	United Nations
UP	University of Pretoria
US	United States
USA	United States of America
USD	United States Dollar
WFF	Wing-to-fuselage fairing

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