Annual Report 2008

DENEL

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PROFILE

Denel (Pty) Ltd was established on 1 April 1992 as a private company, incorporated in terms of the Companies Act No. 61 of 1973, with the Government of South Africa as the sole shareholder. It is listed as a Schedule 2 Public Entity in terms of the Public Finance Management Act (PFMA). The head office of the Denel Group is situated in Centurion, South Africa. The Group's subsidiaries and divisions (which are referred to as business entities in this report) operate from various locations within South Africa and abroad.

SCOPE OF REPORT

This Annual Report covers the financial year 1 April 2007 to 31 March 2008 and includes a report on sustainability. The Sustainability Report considers the economic, environmental, social and technical performance of the Group for the financial year under review, and is the first step towards fully complying with the Global Reporting Initiative (GRI) requirements. The full Annual Report is also available on Denel's website (www.denel.co.za).

NATURE OF BUSINESS

The Group operates in the military aerospace and landward defence environment and has developed innovative technologies in several niche areas, such as artillery, munitions, missiles and Unmanned Aerial Vehicles (UAVs). The Group's main activities are conducted through its core businesses and include engineering, manufacturing, and research and development, as well as support of proprietary and other products throughout their life cycles. Its businesses are well positioned to act as specialist contractors to global defence suppliers.

An executive management team oversees the operations of each business entity. A notional Board of Directors (Board) is appointed for each division, and each subsidiary has a separate Board of Directors. In entities where Denel has a minority shareholding, a member of Denel's executive committee sits on the Board of these entities.

The Minister of Public Enterprises appoints an independent Board of Directors for Denel (Pty) Ltd that oversees the executive committee responsible for the day-to-day management of the Company.

As a state-owned enterprise, Denel conforms to the requirements of good governance and abides by the PFMA and other regulatory prescripts.

FINANCIAL HIGHLIGHTS (GROUP)

Item	2008 R million	2007 R million
Gross revenue	3,894.3	3,309.8
Loss for the year	347.2	549.1
Cash flow before financing activities	221.5	(945.5)
Interest bearing borrowings	235.0	834.0
Total assets	5,140.3	4,503.7
	Number	Number
Average employees	7,276	7,634

HIGH-LEVEL ORGANISATIONAL STRUCTURE

- **DENEL GROUP**
  - **AEROSPACE**
    - **Denel Dynamics**
      - Denel Intergrated Systems Solutions [1]
      - Unmanned Aerial Vehicles [1]
      - Missiles [1]
    - **Denel Aviation**
      - Rooivalk [1]
      - Maintenance, Repair and Overhaul [1]
      - Denel Saab Aerostructures (Pty) Ltd [2]
    - **Overberg Toetsbaan** [2]
  - **LAND SYSTEMS**
    - **Denel Land Systems: Lyttleton** [1]
    - **Denel Munitions**
      - Denel Land Systems: Western Cape [1]
      - Naschem [1]
      - Pretoria Metal Pressings [1]
    - Mechem
      - Mechem (Pty) Ltd [2]
      - Mechem Countermining (incorporated in Bosnia) [2]
  - **SUPPORT SERVICES AND OTHER**
    - **Denel Property Group** [3]
    - **Corporate Services** [3]
    - **Carl Zeiss Optronics (Pty) Ltd** [4]
    - **Turbomeca Africa (Pty) Ltd** [4]
    - **Cosource (Pty) Ltd** [5]

[1] *Divisions*
[2] *Subsidiaries*
[3] *Consists of subsidiaries and divisions within the Group*
[4] *Associated companies*
[5] *Subsidiaries held for sale*

CHAIRMAN'S STATEMENT

Since 2005 when we embarked on the total restructuring and turnaround of the business, Denel has been in a recovery mode. It is with pleasure that I note that Denel has once again posted an increase in revenue and cash reserves and has reduced the loss for the third consecutive year. The turnaround strategy is premised on the positioning of the Group as a preferred supplier of equipment and services to the South African security forces and establishing itself as a world-class player within the supply chain of major international companies.

Dr SP Sibisi - Chairman

This strategy continues to provide direction to the Group and significant progress has been made in achieving the stated outcomes. One of the key strategic objectives set out for the Group was to secure privileged access to the defence budget. This is a challenge in the South African context as the country's defence-related industries are exposed to the uncertainty brought about by the declining defence budget. As a rule, defence contracts take years to conclude and could be further delayed or even terminated in times of budgetary constraints. Despite this, some progress has been made and initiatives adopted have resulted in the awarding of the Hoefyster and the A-Darter programmes to the Group.

In the previous year we reported the establishment of Denel Saab Aerostructures (Pty) Ltd, a company in which Denel (Pty) Ltd has a 80.0% shareholding and Saab AB (publ) (Sweden) has a 20.0% shareholding. During the current year another equity partnership was concluded between Denel and the German company, Carl Zeiss Optronics GmbH, for the Optronics business in which we have retained a minority shareholding of 30.0%. Further, an agreement has been reached with Rheinmetall Waffe Munition GmbH to acquire a shareholding in the Munitions business. This transaction will be concluded in the new financial year.

Whilst we are reporting solid progress for the year ended March 2008, our interventions to turn the Group around had to deal with many legacy issues from earlier years such as the Rooivalk programme,

onerous contracts and the loss of certain export business, some of which will also impact future years.

Numerous deliberations were held with the Shareholder in order to assess the commercial viability of the business and these have resulted in Cabinet approving certain business models and funding strategies that will ensure the sustainability of the Group into the foreseeable future. The Shareholder has also granted Denel a Government Guarantee, enabling it to raise borrowings to fund its operations for the year ahead. An application for further recapitalisation of the Group has been made.

Denel has concluded a Shareholder's Compact with the South African Government, on which we report in the Directors' Report on page 64.

On behalf of the Board, I would like to thank the Minister of Public Enterprises, Alec Erwin, and the Director-General of Public Enterprises, Portia Molefe, for their tremendous support during the past year. I would also like to take this opportunity to thank the Board for its strategic direction and contribution to the organisation.

Given the amount of unprecedented change the Group has undergone in recent years, it remains for me to thank the outgoing Group Chief Executive Officer (CEO), Shaun Liebenberg, for his contribution during his term and to management and staff for their continued support and commitment. At the same time, I wish to congratulate his successor, Talib Sadik, who is taking up the reins in an acting capacity at an exciting point in Denel's history and look forward to his successful tenure at the helm of Denel.

DR SIBUSISO SIBISI
CHAIRMAN

GROUP CHIEF EXECUTIVE OFFICER'S REPORT

Denel has managed to improve on its financial performance once again although it has posted a loss for the financial year. We have continued to make progress in our financial performance. All the business entities have met their targets, improved their operations, and have expanded their business prospects. The Group continues on its quest to improve its operational capability in building its long-term financial strength and success.

Mr S Liebenberg - Group CEO

In analysing Denel's performance, it is perhaps more appropriate that one takes a longer term view than just the immediate past financial year. From this broad perspective, the Company is in the process of successfully completing its unbundling process. Today, it is positioning itself as a state-owned enterprise, with equity investments in successful and self-sustainable incorporated businesses in line with the macro-strategy embarked upon since 2005. This strategy had the fundamental aim of transforming the Group and its people, and to create a commercially viable, sustainable and globally competitive enterprise. We have made much progress in instilling this commercial orientation across all our businesses and the subsidy and bureaucratic mindset that existed previously has been turned into one of financial discipline and good governance.

The Company has faced various challenges in the past few years, including those relating to funding. However, the South African Government, as Shareholder, opted not to close Denel at what would have been a huge cost to the taxpayer, but rather to rebuild a value-adding enterprise on par with its world-class counterparts in the global defence and aerospace market. This culminated in the formulation of the turnaround plan in mid-2005, which showed that a recapitalisation of the Company in the amount of R 5.2 billion would be required. We have since received R 3.5 billion which was used to repay debts and to fund working capital. The balance of R 1.7 billion, once approved by the Shareholder, will be used to purchase new plant and equipment,

restructure the businesses and processes, technology upgrades and skills development, and fund working capital. The balance of the recapitalisation is critical to the completion of the turnaround strategy of the Company.

A closer look at the macro strategy reveals some aspects that require further and more immediate attention. One of the areas identified at the outset was the securing from the Department of Defence (DoD) of 'privileged access' for the defence-related industry – not only for Denel. This concept, taken from wide spread practice in the international community, refers to a local industry getting support from Government as its local client, in many instances of up to 70.0% of defence spend. This support is lacking in the South African context, more so with the decline, in real terms, of the defence budget over the past years.

With such a small defence spend, South Africa can ill-afford to have disparity between the planning of its defence-related industry's capacity (i.e. engineering and manufacturing) and DoD's expendi-ture. The local industry had envisaged 'privileged access' to mean having greater visibility of defence expenditure and participation in joint planning with the DoD in order to meet its requirements. This further envisaged the tender processes favouring the local industry and the DoD contracting on a longer term and multi-year procurement basis, thus assisting to manage the local industry's cash flows, supply chains and resources.

Another area of some concern is stakeholder alignment. Whilst we have made progress in this area, especially on the vertical axis (Minister and the Department of Public Enterprises (DPE), Denel's Board of Directors, management and staff, including organised labour), there is the imperative need for closer cooperation between the Company and the DoD, Armscor, the South African National Defence Force (SANDF) and the National Treasury.

Entities in the aerospace and defence environment can only survive and prosper if they have access to large amounts of research and development funding, technical and management expertise and, more importantly, access to global markets. Denel's businesses can only achieve this with the introduction of international equity partners. In the past 36 months, two out of a possible eight such partnerships were thus concluded. This positioning will reduce the financial burden to the Shareholder, whilst retaining the high technology capabilities for South Africa.

A vital part of the strategy was to assess Denel's businesses for commercial viability. It is important to note that the initial 36 months of the restructuring process is coming to an end. During this period, some 80.0% of the focus has been on the strategy with 20.0% on improving efficiency, productivity and margin. In the next 36 months, 80.0% of the focus and effort should be on efficiency, productivity and margin improvement.

The businesses are now well positioned as 'prime' contractors in the local market and will participate in the supply chain of their international partners, Original Equipment Manufacturers (OEMs) and other suppliers. Significant opportunities have been identified that the businesses can take advantage of, especially in the munitions, land systems, aviation maintenance and aerostructures environments.

Our employees play a key role in driving the strategy. Denel therefore places a premium on skills development and training, as well as on retaining scarce and specialised skills. We have implemented a group-wide Performance Management System (PMS) coupled with attractive incentives. Acting on the results of the climate survey, all the businesses have started to address employee concerns, including transformation, and the Company's concern around the retention of specialised skills. All of this will go a long way to make Denel an employer of choice and contribute to the Company's turnaround.

Our mandate from the Shareholder was to turn the business around and I am confident that this report, along with the previous two financial years, shows significant progress. The outstanding issues as outlined above are not insurmountable.

It is my conviction that should the Board and executive management be given the support of the Shareholder to conclude the turnaround journey as defined, Denel will achieve its objective of being a competitive, sustainable and viable business.

In writing my last report as the Group Chief Executive Officer of Denel, I would like to thank Mr Alec Erwin, the Minister of Public Enterprises, Ms Portia Molefe, the Director-General of Public Enterprises and her staff, the Chairman, Dr Sibusiso Sibisi, and my fellow directors, as well as my executive management team for their unwavering support. I would also like to acknowledge the tremendous support I had from numerous other stakeholders in South Africa and abroad. Our staff and labour organisations have remained committed, despite great uncertainties over the years.

I thank you all.

SHAUN LIEBENBERG
GROUP CHIEF EXECUTIVE OFFICER

BOARD OF DIRECTORS

Dr SP Sibisi
Mr S Liebenberg [1]
Ms SH Chaba
Dr BG Halse

Mr A Hirsch
Mr LC Jones

[1] *Executive*

Mr NR Kunene
Ms CC Mulder
Ms N Nyembezi-Heita
Mr MS Phalatse

Mr MT Sadik [1]
Mr CML Savage
Ms T Seretse

EXECUTIVE COMMITTEE

Mr S Liebenberg	Group CEO and Chairman
Mr MT Sadik	Group Financial Director
Mr ZN Ntshepe	Group Executive: Business Development and Corporate Affairs
Ms TP Mushungwa	Group Executive: Tranformation (Appointed June 2007)
Ms AC Kinley	Group Executive: Strategy Implementation
Mr HM Ivy	Group Executive: Human Resources
Maj Gen (Ret) OA Schür	Group Executive: Special Projects (Appointed February 2008)
Ms T Swiegelaar	Group Executive: Commercial
Ms CVV Ramphele	Group Company Secretary
Ms P Baloyi	*Group Executive: Corporate Affairs (Retired October 2007)*
Mr JM Sekhasimbe	*Group Executive: Supply Chain, ICT and Transformation (Resigned May 2007)*

BUSINESS ENTITY ACTIVITIES

The Group's operations in the aerospace and landward defence systems sectors are conducted through its core businesses. The achievements for the financial year under review in these business units are summarised below.

1. Denel Aviation

Denel Aviation is a military Maintenance, Repair and Overhaul (MRO) business, seeking to expand its position as a strategic partner to the South African Air Force (SAAF). With more than 40 years experience in this field, the entity aims to leverage off its capability base to support the local and international manufacturers of rotary and fixed wing aircraft and clients by providing MRO services.

Denel Aviation has achieved Aviation Maintenance Organisation (AMO) status, and received Eurocopter's MRO accreditation The accreditation provides for maintenance and repair of the Puma and Alouette helicopters, as well as for the mechanical and dynamics components on the Oryx and Rooivalk fleets.

New opportunities exist with many Eurocopter products in the region and approximately 150 Lockheed C-130 aircraft are available for servicing and overhaul in the African market alone.

Engagement with AgustaWestland, Saab AB, BAE Systems and Airbus has been initiated in anticipation of agreed local MRO support for the new platforms that are being delivered to the SAAF from these companies.

Strategically, the SAAF must retain appropriate South African aviation MRO skills, and OEM accreditation to support tactical deployment of state assets, while limiting foreign exchange and lifecycle risks. Denel Aviation has obvious synergies with the SAAF's MRO activities and this has helped to strengthen the case for consolidating the two entities. The aim of such consolidation is to ensure improved availability of the SAAF fleet while delivering a more efficient and cost-effective service across the product lines assigned to Denel Aviation.

Part of the long-term support vision is the conclusion of a long-term umbrella contract with the SAAF for assigned MRO responsibilities, which will result in improved utilisation of skills, facilities and infrastructure.

2. Denel Dynamics

Denel Dynamics is dedicated to the domains of missiles and UAVs. In 2007, it absorbed the Denel Integrated Systems Solutions (DISS) business unit, which is responsible for the Ground-Based Air Defence System (GBADS) programme.

The business undertook a major drive to improve the execution of its contracts within revised timescales in order to reduce losses associated with legacy contracts in particular, while performance to specification, on time and within cost has become the focus of a new business culture.

Furthermore, due to the technical requirements associated with the type of business, it remains a challenge to retain required minimum levels of technical infrastructure and support systems. Engaging with the Department of Science and Technology (DST) in supporting Denel Dynamics' key technological facilities, like Detek, showed promising results.

Notable marketing achievements during the year were the preliminary selection of the Umkhonto air defence missile for the Swedish Navy and the

follow-up orders received for Seeker UAV system from a customer in the Middle East.

Developments and improvements to several products are ongoing with a view to remain at the forefront of identified niche markets. These include missiles and their launching systems, missile protection systems, long endurance UAVs and fire control systems.

Various potential international partnerships were identified during the year and are currently being pursued as part of the development of a sustainable business strategy for the entity. It is expected that these relationships will be finalised during the 2008/09 financial year.

Denel Dynamics remains focused on niche export markets with its aim directed towards client countries that the Government has identified for long-term bilateral relationships. In most cases, future export contracts are expected to result from, or be underpinned by some degree of bilateral defence cooperation agreement with these countries.

3. Denel Saab Aerostructures (Pty) Ltd

As the primary aerostructures facility operating at this level in Africa, Denel Saab Aerostructures (Pty) Ltd (DSA) designs, manufactures and assembles composite and metallic aircraft subsystem structures in cooperation with suppliers of aircraft such as Airbus, Boeing, Saab and AgustaWestland.

The company was incorporated on 1 February 2007 and Saab AB (publ) (Sweden) became a minority (20.0%) equity partner in August 2007. Saab AB also has management control of the business entity, and it is expected that this partnership will enable DSA to introduce international best practice, processes and technologies, improve executive and operational management, and to ensure successful delivery on its contractual obligations. It will further leverage access for DSA to join in new programmes via Saab AB who is already a first tier supplier to Airbus and Boeing.

In line with the revised turnaround strategy, DSA initiated several improvement programmes. These include a leadership development programme that is currently running throughout DSA and the upgrade of production facilities. The focus in the new financial year will be to qualify these facilities and industrialise parts manufacture. Processes have been developed with a view to improving delivery performance to achieve industry benchmarks.

With the current revolution in the aviation market structure, technology and procurement, DSA is well positioned in the aerostructures market sector. This is supported by the anticipated annual growth in world air traffic of 4.9%, which is expected to hold for the next 20 years.

The aerostructures market (28.0% of the value of an aircraft) is estimated at some US$ 27 billion annually and is expected to reach US$ 35 billion in 2010. The commercial aerostructures market is forecast



to be a long-term growth market, whilst the military market is seen to be slowing down.

Moreover, DSA is developing strategic relationships with its main customers, which include a risk-and-revenue-sharing partnership on the Airbus A400M military transporter and long-term supplier agreements such as the one currently being reviewed with AgustaWestland on the A109/ A119 light military and commercial helicopters.

4. Denel Land Systems

Denel Land Systems (DLS) is a landward defence system solutions business with its primary focus on the provision of products to the SANDF, for which it acts as a prime contractor. It also serves international customers as a system integrator and subsystem supplier.

DLS undertakes development, production, qualification, maintenance and upgrades of infantry systems, artillery gun systems, combat turrets and rapid-fire small/ medium calibre arms. With its unique balance of technologies and engineering capabilities, DLS takes complex systems or products through their entire lifecycle, from conceptualisation to production. DLS also provides product support and eventual decommissioning if required by the client.

It has an impressive range of products and systems, the most outstanding of which is the development of the 'Hoefyster' family of new generation infantry fighting vehicles, now designated 'Badger'. Having been awarded the Armscor contract during the current year, DLS is busy with the development phase in anticipation of a full production order within the allocated financial ceiling of this programme.

During the past year, DLS was awarded an Armscor contract under Project 'Acrobat', to develop and supply an integrated 60mm long-range mortar system and its associated equipment, including training simulators, to the SANDF.

A large portion of the components are sourced from the South African industry, with only core parts still being manufactured in-house at DLS.

DLS has strategic alliances with several major international companies. Besides its alliance with the United Arab Emirates (UAE) based International Golden Group (IGG), it also formed a partnership with an industrial partner, Al Jaber, who will be involved in upgrading the G6 artillery vehicle platforms. DLS also signed a strategic alliance with Germany's Rheinmetall Waffe Munition GmbH to act as main contractor for the 155mm G6 artillery system in other countries.

5. Denel Munitions

Denel Munitions is an integrated producer of ammunition and associated chemical products. Its portfolio of ammunition ranges from small calibre (5.56mm to 12.7mm) and medium calibre (20mm to 35mm) to large calibre (76mm to 155mm) military and commercial ammunition.

These include artillery projectiles, charges and pyrotechnic carriers, mortar bombs and various

subsystems, as well as a range of ammunition for direct fire machineguns and rifles. Munitions also supplies critical subsystems like rocket motors, propellants, warheads and safety-and-arming devices for the Denel Dynamics range of missiles and guided weapons.

Denel Munitions operates seven plants in three primary locations, namely the Western Cape, North West Province and Gauteng.

Denel's large calibre artillery ammunition systems, long-range mortar bombs and medium calibre ammunition have long been regarded as being at the forefront of munitions technology in the world. This has resulted in Denel Munitions making successful inroads in the export market during the 1990s and early 2000s as its local market declined.

One of the significant highlights of the year included a 40mm grenade order from the United Kingdom Ministry of Defence for which the first batch of deliveries took place in March 2008. Denel Munitions in the Western Cape entered the Swedish market with minefield breaching systems last year, and delivered its first systems in March 2008.

In terms of product development, Denel Munitions has invested significantly in the full range of mortar ammunition. Several new products were qualified in 2007, with others destined to complete qualification during 2008/09 so as to enhance their competitive edge in the international market place.

As part of the ongoing restructuring process an agreement was signed with Rheinmetall Waffe Munition GmbH of Germany to acquire a 51.0% shareholding in Denel Munitions subject to certain suspensive conditions and regulatory conditions being met. It is envisaged that the transaction will be finalised by 1 August 2008.

This transaction will give Denel Munitions access to previously inaccessible markets and the opportunity to adapt its processes in line with international best practices.

6. Mechem (Pty) Ltd

Mechem (Pty) Ltd, a wholly owned subsidiary of Denel (Pty) Ltd, provides landmine removal, battle area clearance and contraband detection services to commercial clients all over the world, including the United Nations (UN).

It was incorporated on 1 April 2007 with its own board of directors and board subcommittees.

Though traditionally a very small entity within the erstwhile Denel group, it has proven to be a business with unique and strong capabilities in the global market over the recent years. Mechem is acknowledged to be one of the largest de-mining companies in the world and arguably the largest UN contractor for de-mining services.

During the year, Mechem successfully conducted de-mining operations in support of UN peacekeeping operations in Sudan, Eritrea and the Democratic Republic of Congo. Its contribution in Sudan was substantially expanded by foreign donor funds.



Towards the end of the financial year Mechem delivered six re-manufactured Mamba Mine Protected Vehicles (MPVs) to African Union (AU) peacekeeping forces.

Whilst a downward trend is predicted in de-mining funding in the short to medium term, Mechem is confident it would sustain its business into the medium term. Mechem has therefore made the strategic decision to diversify its business into the detection of contraband, using the unique 'Mechem Explosives and Drug Detection System' (MEDDS), and to revive its capability in the field of MPVs. However, clearing battle areas and the explosive remnants of war is still very relevant and will continue to be a focus area in future.

7. Overberg Toetsbaan

The Overberg Toetsbaan (OTB) is a versatile missile and aircraft test range near the southernmost tip of Africa that specialises in performance measurement of in-flight systems for local and international clients.

Its spectrum of services range from tests of short range guided munitions for land, sea and air combat, to evaluations of standoff weapons and aircraft performance.

OTB provides testing facilities that are secure and safe. This includes performing detailed tests, safety and environmental management design, managing the deployment of instrumentation and execution of the test, as well as carrying out the analysis and evaluation of results.

During the past year OTB conducted tests for the German and Italian air forces on their missile and standoff weapon systems respectively. The Singapore air force also tested an air defence system, having returned to OTB for the sixth time, whilst the Spanish air force has also shown interest in testing at OTB.

As in past years when OTB supported Boeing and National Aeronautics and Space Administration (NASA), it gave telemetry launch support (for the first time) to the European space agency when the 'Jules Verne' spacecraft was launched in March 2008. OTB had to deploy its mobile telemetry systems to New Zealand in order to supply real-time data to the launch centre in French Guyana.

New systems were acquired to upgrade OTB's technology, thus creating significant improvements in the test range's capabilities that would enhance its service to clients.

As reported last year, OTB is currently the subject of a study into the feasibility of establishing an integrated South African Defence Evaluation and Research Institute (DERI).

SUSTAINABILITY REPORT

The report covers high level issues and also endeavours to provide specific information around the activities of each business entity where applicable to ensure that the various segments of the Group's broader stakeholder community are catered for.

INTRODUCTION

Sustainability management

As a major global trade player, contributing to the economic development of the country, the Group acknowledges its responsibility regarding the sustainability of the economic, environmental, and social conditions. To this end, it has embarked on a process of developing a policy and aligning structures to incorporate performance at various levels in line with the elements of sustainability reporting.

Sustainability vision

Besides the financial and operational sustainability, the Group plays a strategic role to advance the Government's socio-economic developmental objectives. Of particular note, Denel is committed to:

- Acting as a catalyst for advanced manufacturing in the broader economy;
- Playing a role in the introduction and distribution of new technologies, business processes and standards to the manufacturing sector and in the development of small- and medium-sized business enterprises;
- Supporting the objectives of the Government's Accelerated and Shared Growth Initiative for South Africa (AsgiSA) programme, especially insofar as opening its high technology training facilities to other state-owned enterprises and the private sector with a view to developing the highly sought technical skills;
- Developing strategies to retain appropriate skills required for the business and for the development of high technology products for the sustainability of the industry; and
- Contributing to the objectives of Broad-Based Black Economic Empowerment (B-BBEE) and employment equity.

It is acknowledged that this report is a first step towards full compliance with the GRI requirements. As the process evolves, firm objectives and targets against which business entities and subsidiaries will be measured are set, reporting will be significantly improved. We have included, at the end of this report, a table indicating all the GRI requirements and our progress towards compliance with these to date.

The Sustainability Report will be available in printed format and on the website as part of this Annual Report. This report has not been subjected to a formal audit, however, future reports will be subjected to a formal audit process.

Materiality

This Sustainability Report is intended to cover the pertinent issues relating to sustainability in addition to statutory reporting required by the Shareholder.

The report covers high level issues and also endeavours to provide specific information around the activities of each business entity where applicable to ensure that the various segments of the Group's broader stakeholder community are catered for.

MATERIAL ISSUES

Risk management

Effective risk management is essential for meeting the Group's financial and other objectives, for maintaining safe and secure operations, as well as for protecting the Group's integrity and reputation. A risk management framework is in place and outlines the organisation's risk management philosophy, processes, responsibilities and governance structures.

Executive management is tasked with the implementation of a robust process of risk management to give the Board confidence that risks are managed to the benefit of the Group, at the same time enabling the Board to discharge its responsibility. The Group Audit and Risk Committee oversees and monitors the risk management process. Critical success factors for risk management include, ensuring the following:

- That executive management is conversant with their roles and responsibilities and principles with regard to risk management and they drive a culture in the organisation that supports this process;
- That the process of identification and mitigation of risk forms part of all strategic and business plans;
- That risks and returns are considered in the process of maximising shareholder value while responding to the needs of other stakeholders;
- That links are established between risk management strategies and project/ programme management;
- That the respective risk owners execute risk controls, while executive management drives policy and strategy;
- That risk owners in various functions are trained on risk management and they provide periodic risk management briefings;
- That the risk register is an invaluable input to the internal and external audit plans to ensure risk-based audits;
- That risk management key performance indicators (KPIs) form part of the overall business performance indicators; and
- That the cost of managing insurable risks is not only measured but is critically analysed to ensure efficient application of resources.

Each business entity has a sub-Audit and Risk Committee that monitors compliance with risk management policies and the effectiveness thereof as part of its mandate. All significant matters are reported to the Group Audit and Risk Committee.

Through a risk assessment process the following significant risks together with initiatives and controls to mitigate them were identified for the Group:

Significant risks	Controls and initiatives to mitigate significant risks
Access to funding	- Constant engagement with the Shareholder to secure a Government Guarantee and recapitalisation - Maintain the Domestic Medium Term Note (DMTN) programme, which facilitates the raising of short-term and long-term debt from the market - Maintain the current Fitch Ratings at AA long-term and F1+ short-term - Appointment of a leading merchant bank who will take on the role of arranger, dealer and lead manager - Focus on meeting contractual milestones on time to secure planned cash flows - Ensure additional work-streams that will mitigate delays in critical technical milestones, so that alternate invoicing can be secured to augment planned cash flows

Significant risks	Controls and initiatives to mitigate significant risks
Defence procurement practices	- Began a process of engaging with the relevant stakeholders to ensure that local procurement practices are aligned with international best practice
Order cover	- New strategies have been developed to access new markets and consolidate existing ones - Entered into partnerships with international equity partners to gain access to sustainable new markets
Skills shortage	- Implemented a comprehensive skills development programme, that is monitored at various levels throughout/ across the Group - Retention programme to ensure a stable skilled complement of human capital - Agreements with equity partners to ensure that there is transfer of knowledge and skills
Compliance	- Developed a compliance framework to improve the existing systems and in process of implementing it throughout/ across the Group given the corporatisation of various entities - Certain entities within the Group are accredited by relevant OEMs and are subject to regular evaluation - Certain entities have received ISO 9001 and ISO 14001 certification respectively
Unprofitable legacy contracts	- Specific risk management processes were implemented to execute contractual milestones to mitigate slippages and cost escalations - Systems have been implemented for evaluating new contracts to ensure that value-adding and financially viable contracts are entered into
Currency risk	- The Group trades globally and as such is exposed to currency risk. Strategies to mitigate this risk are outlined on page 140 in note 32 of the group annual financial statements
Contracting and contract execution	- Each entity has established a programme management process that focuses management's efforts on achieving contracted milestones to specification, within cost and on time. Formal records are kept of all meetings and reviews, with clearly assigned actions and target dates for execution of remedial actions - Progress on risks related to contract execution and other contractual matters are discussed and analysed by both programme and finance management - Established a programme management forum for the Group to provide guidance and promote best practice - Each entity reports significant programmes and related risks together with mitigation plans to their boards, who are then responsible for reporting significant matters to the main Board - A best-practice assessment of programme management was commissioned on three high-value programmes and the findings from this are being addressed
Supply chain risk	- Supply chain reviews were conducted, with optimisation processes initiated to mitigate supply chain risks and ensure the most cost-effective supply chain to meet contractual obligations - A Supply Chain Governance Framework was developed to provide guidance to businesses to ensure supply chain operational excellence within the Group

Stakeholder engagement

As a state-owned enterprise, Denel engages with numerous stakeholders including the Government of South Africa, as the Shareholder who is represented by the DPE. The DoD and National Treasury are significant government stakeholders that are critical to the sustainability of the Group. The Group also plays a significant role in the South African Defence Related Industry (SADRI) due to its current market share in the local industry. The table below reflects the Group's engagements with stakeholders during the financial year under review.

Stakeholders	Engagement		Material issues	Denel's response to material issues	Reference in Annual Report
	Frequency	Type			
Employees	Quarterly meetings with trade unions	- Meetings and forums - Correspondence	- Information sharing - Business focus - Business performance	- Continuous feedback and updates	- Sustainability Report

Shareholder	Ongoing	- Shareholder's Compact
		- Monthly and quarterly reporting
		- Various correspondence
		- Business entity reviews
		- Direct engagement
			- Strategy formulation
			- Performance reviews:
			  - Technical
			  - Financial
			  - Risks
			- Funding
			- Equity partnerships
				- Aligned and implemented revised strategy
				- Strategic direction relating to non-performance and challenges
				- Requested funding through guarantees and recapitalisation
				- Reported according to expectations
				- Concluded two equity partnerships and in the process of finalising others
					- Chairman's Report
					- Group CEO's Report
					- Directors' Report

Stakeholders	Engagement		Material issues	Denel's response to material issues	Reference in Annual Report
	Frequency	Type			
DoD/ Armscor	Ongoing	- Correspond-ence - Direct engagement - Business entity reviews - Programme reviews	- Privileged access - Order cover - Preferrencial local procurement - Organisational restructuring - Equity partnerships - Contractual performance - Recovery strategies - Technology reviews - Marketing support	- Discussions are ongoing	- Group CEO's Report - Directors' Report - Risk management
National Treasury	Ongoing	- Shareholder's Compact - Monthly and quarterly reporting - Various cor-respondence - Direct engagement	- Funding - Organisational restructuring - Equity partnerships	- Engagement dependent on approvals from Minister of Finance, DPE and Cabinet	- Directors' Report
SADRI	Ongoing	- Various forums	- Strategy formulation - Product development - Integrated marketing	- Denel currently leading discussions on privileged access for SADRI	- Group CEO's Report - Directors' Report - Business entity reviews
DST and The Council for Scientific and Industrial Research (CSIR)	Ongoing	- Direct engagement - Monthly reporting - Programme reviews	- Skills development - Technology development - Limited product development	- Denel subsidiaries engaging CSIR/ Armscor - Executive participating in strategic reviews	

Economic performance

Significant financial assistance was received from the South African Government as a direct shareholder. Further details are provided in the Directors' Report of the Annual Report.

Ten-Year review

The following table illustrates the ten-year performance of the Group. The Group had challenges that impacted on its financial performance over the last five years. The financial results indicate an improvement in the loss for the year for the third consecutive financial year which can be attributed to the successful implementation of the agreed turnaround strategy. This can also be attributed to the stringent control exercised in the restructuring of the Denel business entities into commercially sustainable entities and exiting non-viable businesses.

Ten-Year review (Group) for the year ended 31 March 2008

	2008 [1]	2007 [1]
	R million	R million
INCOME STATEMENT		
Turnover	3,818.1	3,268.1
(Loss)/ profit before net finance costs and income from associated companies	(232.7)	(386.8)
Net finance cost (before capitalised interest)	60.5	143.0
Depreciation	108.1	131.7
(Loss)/ profit before taxation	(316.3)	(500.9)
Taxation expense	(5.0)	(6.4)
(Loss)/ profit after taxation from continuing operations	(321.3)	(507.3)
Minority interests in (loss)/ profit	(12.7)	(0.6)
(Loss)/ profit for the year	(347.2)	(549.1)
Cash outflow before financing activities	221.5	(945.5)
BALANCE SHEET		
Non-current assets	1,475.8	1,348.3
Current assets	3,606.8	2,615.5
Non-current assets held for sale	57.7	539.9
Total assets	5,140.3	4,503.7
Total equity	1,327.5	632.7
Minority interests	102.3	6.0
Non-current interest bearing borrowings	0.8	1.5
Current liabilities	3,080.7	2,999.9
Current interest bearing borrowings	234.2	832.5
STATISTICS		
Total number of shares in issue (million)		
Class A ordinary shares	1,000.0	976.1
Class B ordinary shares	225.1	40.3
Total shares	1,225.1	1,016.4
RETURNS (%)		
Operating (loss)/ profit to turnover	(6.1)	(11.8)
Operating (loss)/ profit to average total assets	(4.8)	(8.4)
Operating (loss)/ profit to ordinary shareholder's interest [2]	(17.5)	(61.1)
RATIOS		
Debt/ equity ratio [2]	0.2	1.3
Current asset ratio	1.2	0.9
Net finance cost cover	(5.2)	(3.5)
Average number of employees	7,276	7,634

[1] *The 2005, 2006, 2007 and 2008 balances are compiled in accordance with IFRS. The financial years before 2005 are stated according to SA GAAP.*
[2] *Due to the negative equity, the operating loss to average ordinary shareholder's interest and the debt/ equity ratio for 2005 are undefined.*

2006 [1]	2005 [1]	2004	2003	2002	2001	2000	1999
R million	R million	R million	R million	R million	R million	R million	R million
(restated)							
2,773.2	3,572.1	4,442.2	4,372.4	3,904.3	3,621.1	3,445.9	3,271.8
(1,076.3)	(1,314.7)	62.2	203.2	(285.8)	41.6	(219.9)	(791.6)
187.8	104.0	120.0	109.0	55.0	8.4	30.8	20.7
150.1	156.6	121.0	107.2	95.9	97.6	108.9	113.2
(1,291.4)	(1,403.0)	(357.6)	(43.6)	(347.8)	38.9	(191.2)	(728.5)
(19.3)	(12.7)	26.8	28.6	11.0	12.2	12.5	13.5
(1,310.7)	(1,415.7)	(384.4)	(72.2)	(358.8)	26.7	(203.7)	(742.0)
(0.1)	4.7	(6.9)	0.4	4.4	2.6	2.4	3.2
(1,363.4)	(1,560.7)	(377.5)	(72.6)	(363.2)	24.1	(206.1)	(745.2)
(1,060.9)	(422.2)	(200.8)	(229.0)	(290.7)	(354.5)	(78.6)	(644.9)
1,601.4	2,173.2	1,349.6	1,414.8	1,243.9	1,167.1	1,095.5	1,137.2
2,724.1	2,410.0	2,742.3	2,839.2	2,756.7	2,686.8	2,731.5	2,688.1
351.7	67.7	-	-	-	-	-	-
4,677.2	4,650.9	4,091.9	4,254.0	4,000.6	3,853.9	3,827.0	3,825.3
614.8	(15.8)	843.7	1,388.3	1,415.7	1,773.9	1,747.3	1,953.4
6.6	6.7	9.2	20.0	18.1	13.1	10.6	10.6
832.1	847.9	832.1	840.9	26.9	4.4	1.2	96.6
1,937.7	2,887.6	2,346.8	1,960.0	2,543.4	1,958.3	1,896.5	1,548.8
14.1	520.2	75.7	8.7	351.5	150.6	95.4	2.0
849.2	401.9	401.9	401.9	401.9	401.9	401.9	401.9
40.3	40.3	40.3	40.3	40.3	40.3	40.3	40.3
889.5	442.2	442.2	442.2	442.2	442.2	442.2	442.2
(38.8)	(36.8)	1.4	4.6	(7.2)	1.1	(6.4)	(24.2)
(23.1)	(30.1)	1.5	4.8	(7.3)	1.1	(5.7)	(20.7)
(175.1)	-	7.5	14.9	(20.4)	2.4	(11.1)	(31.9)
1.4	-	1.1	0.6	0.3	0.1	0.1	0.1
1.4	0.8	1.2	1.4	1.1	1.4	1.4	1.7
(6.9)	(13.5)	(3.0)	(0.4)	(6.3)	4.6	(6.2)	(35.2)
8,850	9,942	10,925	10,878	10,768	10,375	11,090	12,471

Value Added Statement (Group) for the year ended 31 March 2008

Indirect economic impact

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

	2008		2007	
	R million	%	R million	%
Turnover	3,818.1		3,268.1	
Less: Cost of materials and services purchased	(2,209.4)		(1,714.6)	
Value added	1,608.7		1,553.5	
Add:				
Finance income	76.1		38.5	
Other income	249.8		116.6	
Wealth created	1,934.6		1,708.6	
Distributed as follows:				
Employees: Salaries and relevant costs	2,020.9	104.5	1,888.5	110.6
Providers of capital	123.9	6.4	180.9	10.6
Interest on borrowings	136.6	7.1	181.5	10.6
Minority interests	(12.7)	(0.7)	(0.6)	-
Government				
Tax (refer note A)	28.0	1.4	56.6	3.3
Re-invested in the Group for continuation and expansion	(238.2)	(12.3)	(417.4)	(24.4)
Depreciation (refer note 3)	108.1	5.6	131.7	7.7
Development costs amortised (refer note 3)	0.9	-	-	-
Accumulated loss	(347.2)	(17.9)	(549.1)	(32.1)
Wealth distributed	1,934.6	100 .0	1,708.6	100.0
Note A				
Tax				
Tax paid and provided for:	28.0		56.6	
Current tax	14.4		33.0	
Total tax	5.0		6.4	
Deferred tax	9.4		26.6	
Regional Service Council levies	-		1.8	
Rates and taxes paid to local authorities	13.6		21.8	
Ad Valorem excise duties	-		-	
Customs and excise duties included in cost of materials and services purchased	4.6		5.4	
	32.6		62.0	
The total amount reflected above excludes the following amounts collected by the Group on behalf of Government:				
Net VAT	90.5		(31.4)	
Charged on sales	401.9		192.2	
Levied on purchases	(311.4)		(223.6)	
Employees' taxation	183.5		164.1	
UIF contributions	9.6		8.6	
	283.6		141.3	

Product and service development

As the activities of the Group vary from one business to the next, technological improvements are specific and focused on areas where the technology is required. In keeping with ever-changing global markets, innovative technological developments are identified and new generation platforms are developed in conjunction with the SADRI and its customer base. Denel subsidiaries are also key in maintaining the necessary technology base required by the DoD/ Armscor in the service of the RSA. Hence the Group has formed specific business entities to act as technology incubators for niche capabilities that are not replicated in other establishments or facilities, thus adding a strategic meaning to such entities in addition to their manufacturing capacity to deliver agreed products and services to the DoD/ SANDF and wider defence community.

Business entities have dedicated departments responsible for research and development headed up by senior managers. Specific budget allocations are made in relation to certain target achievements with built in performance measures. Product development is also conducted in conjunction with clients to agreed specifications and requirements.

Product health and safety, and compliance with laws and regulations

The Group recognises that it operates in a highly technical and restricted environment with stringent requirements, where quality and safety of products are an inherent part of the product offering. Internationally recognised systems are implemented in the design and manufacturing processes of products while complying with stringent product safety and regulatory requirements. As responsible contractors, the business entities participate in the required qualification and certification procedures of client nations and continue to deliver their technical expertise for the assigned life of military products under the maintenance contracts received from their international client base.

Product safety requirements are incorporated in the design of the products, prior to manufacturing. Customer requirements form part of the specification and design and are monitored through stringent quality assurance systems applicable in the aerospace and defence industries.

Business entities have appropriate safety, quality and environmental management functions that are critical to the manufacturing process, as well as accredited facilities with suitably qualified staff, where appropriate, whose main responsibility is to ensure quality and safety of products. The processes take into account the safety of products during storage, transportation, operation and disposal. Specific procedures are followed to test the integrity of materials to ensure quality and safety of products. Quality tests are conducted on all products and services, and improvements are made continuously.

Operating manuals are developed depending on the complexity of the product and clients are trained on safe operating procedures depending on need. Compliance is monitored through the various safety, health, environment and quality management systems.

The Group also belongs to various industry forums and associations, where industry specific requirements including changes in legislation are deliberated on.

It is reported elsewhere in this report that a process was initiated to develop a comprehensive compliance programme, which will improve assurance on various operating processes.

ETHICS AND LEGISLATIONS

Ethics

The Group realises that its reputation depends on the activities and behaviour of its employees and the officials conducting business on its behalf, which makes integrity an important ingredient of its value system. As mentioned in the Directors' Report, an Ethics Policy is in place, implemented by each business entity and monitored by the Group Audit and Risk Committee. The policy requires all employees to act with the utmost good faith, integrity, commits the Group to sound business practices, and compliance with laws and regulations.

The Ethics Policy identifies high-risk areas, such as fraud and corruption. The policy is made available to employees when joining the Company and is also available on the intranet. Training on employee ethics has been included in the anti-fraud and anti-corruption awareness programme of each entity. Furthermore, a poster programme has been introduced to publicise the Ethics Policy.

A whistle-blowing system was implemented whereby fraudulent activities and other cases of unethical behaviour may be reported, in a secure and confidential manner. To this end, a fraud hotline, independently operated by KPMG's Ethics Line, has been put in place and communicated widely through posters and letters to employees. A senior manager has been appointed at each business entity to receive reports from the hotline, initiate investigations, and reports back to the business entities' Audit and Risk Committees, as well as to the Group Audit and Risk Committee, and manages the process to ensure appropriate solutions to the matters raised.

Bribery and corruption

The Group's value chain involves engagement with business partners at various levels and complex supply chain processes across international borders. This situation has potential to expose employees to fraud and corruption, which could negatively impact the reputation of the Group and ultimately its sustainability.

To respond to this, a fraud prevention policy and response plan was implemented. The Board and the Group Audit and Risk Committee play an oversight role in the implementation of key processes and policies to prevent fraud and corruption. Of particular note, the policy provides for procedures to regulate the conduct of representatives and contracted employees acting on behalf of the Group, for conducting due diligence on prospective suppliers, and for directors and senior employees to disclose their interests in businesses.

Management of compliance with laws and regulations

The Group operates in a highly regulated environment, which compels it to implement effective compliance systems. Consequently, the Group Company Secretary was appointed as the custodian of compliance at Group level, whilst dedicated senior managers have been appointed at business entity level to champion compliance on behalf of the entity's CEO. A comprehensive compliance programme has been developed and selected employees received high-level training on legislation that could have a material impact on Denel's business. Compliance systems have been implemented to ensure compliance with, amongst others, legislation relating to the arms trade, as well as other relevant protocols.

Denel is a member of the South African Aerospace, Maritime and Defence Industries Association (AMD) through which it participates in public policy development.

Suppliers and procurement

During the year under review a process of rolling out Black Economic Empowerment (BEE) implementation was embarked on to ensure compliance with the requirements of the B-BBEE Codes of Good Practice (CoGP). The process included the development of strategies and plans for BEE.

A total of 100 employees including senior and middle management were given an intensive one-day training on the codes. A process of developing a current state diagnostic assessment of compliance to the B-BBEE codes is underway. The next step is to develop a BEE Framework for the Group and set targets to meet the scorecard requirements.

While developing supporting internal practices and training Denel business entities are actively pursuing opportunities to subcontract manufacturing and services to BEE/ SMME companies. During the coming years these efforts will be enhanced through directed supply chain development, mentorship and accreditation of emerging BEE/ SMME enterprises.

Environmental performance

The responsibility for environmental management has been devolved to business entities, with requisite resources and structures. Whilst effective environmental management systems are being run, it is acknowledged that in order for effective and accurate environmental accountability to be established, a comprehensive and integrated approach must be developed to ensure challenging targets are set and that business entities' performances are monitored accordingly. It is worth noting that efforts were put into energy conservation during the financial year under review, details of which are given below (energy saving initiatives).

Environmental Management System

Each entity is required to put in place environmental management systems to comply with legislation and best practice. The programmes should be based on industry regulatory requirements and environmental management-related legislation, as well as the ISO 14001 standard. The following table illustrates the status of the Environmental Management System (EMS) within the Group.

Business entity	EMS	Comment
Denel Aviation	In the process of aligning its EMS with ISO 14001 in preparation for certification in 2010.	[1]
Denel Dynamics	A project is underway to prepare the entity for ISO 14001 certification by August 2008.	The entity has a comprehensive EMS in place that incorporates a waste management programme.
DSA	The entity is implementing an EMS, which is based on ISO 14001. The certification audit is planned for December 2009.	A legal review was conducted whereafter a legal register was completed as part of the EMS.
DLS: Lyttleton	The entity is implementing an EMS based on ISO14001. Certification of the system is planned for November 2009.	A legal compliance audit on safety, health and environmental requirements was conducted in March 2008 and deviations are being addressed.
La Forge	The entity is implementing an EMS based on ISO14001. Certification of the system is planned for November 2009.	[1]
Naschem	The entity is ISO 14001 certified and has maintained its certification since 1997.	[2]
DLS: Western Cape	The entity has been ISO 14001 certified since 2005 and has maintained its certification through SABS in February 2008.	[2]

[1] *No comments as the process is in progress*
[2] *No comments as the entity is ISO 14001 certified*

Business entity	EMS	Comment
PMP	The entity has a well-established EMS, which is based on ISO 14001 and has been certified by the SABS since 2003.	[2]
Mechem	The entity's environmental management processes are integrated with other management systems.	[1]
OTB	The entity is ISO 14001 certified EMS.	[2]

[1] *No comments as the process is in progress*
[2] *No comments as the entity is ISO 14001 certified*

Energy saving initiatives

The following initiatives were embarked on to save energy at all business entities:

- Adapting operations to cater for electricity supply such as scheduling equipment with high electricity usage to run only during off-peak periods where possible and incorporating electricity efficiency requirements in new plants;
- Raising awareness among employees and encouraging them to implement energy saving initiatives;
- Installing secondary electricity meters for all critical production and office areas and progressively converting to energy saving lighting;
- Installing auto-switches to switch off lights at specific times, switching to lower-power devices and improving efficiency of air conditioning units;
- All new machines and equipment should comply with energy efficient requirements; and
- Dedicated committees or task teams have been formed to implement the energy saving initiatives.

An evaluation of the impact of these programmes on electricity consumption will be performed and adapted continually.

Waste management

The Group is committed to waste reduction and recycling. Waste is categorised according to hazardous and domestic waste and disposed in terms of each business entity's waste management programme. The table below is a summary of waste generated and disposed per entity. It must be noted that in this report the various business entities use different units of measurement and means are being devised to ensure uniform unit measures.

Business entity	Hazardous waste			General domestic waste	
	Description	Quantities		Quantities	
		2008	2007	2008	2007
Denel Aviation	Comprises mainly of liquid chemical solvents	808 ℓ	492 ℓ	[1]	[1]
Denel Dynamics	Comprises mainly of chemicals	±2,500 ℓ	±2,500 ℓ	18,000 kg	20,000 kg
DSA	Comprises of cyanide waste, potassium dichromate, cyanide en strip, adrox 188, chrome 3 sludge, silver nitrate aluminium oxide sand, and heat treatment salt	37,200 ℓ 2,710 kg	28,730 ℓ 2,650 kg	[1]	[1]
DLS: Lyttleton	Comprises mainly of chemical effluents	845,930 ℓ	657,000 ℓ	6,000 kg	6,000 kg
La Forge	Comprises of used oil and cutting fluids, fluorescent lights, oil contaminated waste	3,300 kg	8,000 kg	17,500 kg	17,500 kg
Naschem	Comprises mainly of fluids and chemical contaminated waste	20,050 ℓ 6,585 kg	39,150 ℓ 5,931 kg	30,000 kg	34,000 kg
DLS:Western Cape	Comprises of chemical contaminated waste	11,260 kg	20,460 kg	4,955 kg	34,260 kg
PMP	Comprises of chemical contaminated waste	1,560 kg	1,270 kg	39,200 kg	30,800 kg
Mechem	[2]	-	-	[1]	[1]
OTB	Comprises of chemical waste, inflorescent tubes, oil filters and anti-freeze bottles, chemically contaminated water, chemical residue, water and used oil mix, and used thinners	2,000 kg 630 ℓ	1,000 kg 1,150 ℓ	17,000 kg	15,000 kg

[1] *Waste removed by the landlord*
[2] *Waste management programme not formalised*

All entities have outsourced the removal of hazardous waste to waste removal companies to ensure that it is suitably disposed or recycled. Business entities will continue improving their waste management programmes during the forth coming years.

EMPLOYEES

Employment

Denel is an equal opportunity employer. Given the technical nature of the business, skills development is critical for the sustainability of the Group and the industry at large, especially in the area of succession planning. The following table illustrates Denel's employee profile:

	2008		2007	
	Number	%	Number	%
Total Employees	7,276	100.0	7,634	100.0
Management [1]				
Total Managers	496	6.8	493	6.5
White managers	396	79.8	395	80.1
Black managers	100	20.2	98	19.9
Race				
White employees	3,606	49.6	3,983	52.2
Black employees	3,670	50.4	3,651	47.8
Gender				
Male employees	5,612	77.1	5,954	78.0
Female employees	1,664	22.9	1,680	22.0

[1] *For the year under review 11.1% (2007: 10.8%) of the total number of managers are female.*

Labour relations

The Group adopts a consultative management style at all levels of the organisation. Of particular note, consultative structures are formed at both company and shop floor levels. In addition, a group-wide labour forum was established which meets four times a year. The forum is attended by representatives of organised labour, human resources professionals, the various business entities' CEOs and the Denel Group Executives. The Forum discusses all strategic matters affecting employees in the workplace.

Occupational health and safety

It is the responsibility of the CEO of each business entity to ensure a safe work environment. To achieve this, each business entity develops and implements policies and systems to address health and safety at the workplace. Safety, health and environmental committees, which are constituted by management and employee representatives, meet regularly to address safety matters.

No fatalities occurred due to industrial accidents during the year under review. Overall, the Disabling Injury Frequency Rate (DIFR) was below one, which is a good achievement given the hazardous nature of some of the business operations. The status of health and safety systems in the Group is summarised below:

Business entity	Management system status	DIFR performance			Number of employees receiving safety related training
		Target 2008	Actual 2008	Actual 2007	
Denel Aviation	The system is based on OHSAS 18001 Certification of the systems is planned for 2010	≤1.00	-	0.94	205
Denel Dynamics	The system meets the requirements of the Occupational Health and Safety Act	≤0.50	0.13	-	132
DSA	The system meets the requirements of the Occupational Health and Safety Act	≤1.00	-	0.74	187
DLS: Lyttleton	The system is based on OHSAS 18001 Certification is planned for November 2009	≤1.00	0.51	0.05	163
La Forge	The system is based on OHSAS 18001	≤0.80	-	-	-
Naschem	The system is based on OHSAS 18001 Certification is scheduled for December 2008	≤0.80	0.90	0.17	93
DLS: Western Cape	The system is based on OHSAS 18001 Certification is scheduled for March 2009	≤0.80	0.67	0.64	163
PMP	The system is based on OHSAS 18001 The entity has been certified	≤0.80	0.34	0.26	41
Mechem [1]	The system is based on legal requirements	Targets not set	Targets not set	Targets not set	Targets not set
OTB	The system is based on OHSAS 18001	≤2.00	0.65	1.21	45

[1] *Mechem will set targets to measure its DIFR with effect from 2008*

In addition to the above, the Group adopts an Employee Wellness Programme (EWP), which integrates health management system with the in-house medical scheme, UMED. The scheme makes provision for a network of health care providers such as psychologists, occupational health service practitioners, nurses and medical doctors. These practitioners operate on the site clinics and attend to 'injuries on duty', conduct pre- and post-medical screening, psychological counselling and management of life threatening diseases. It is acknowledged that the EWP is still in its infancy and that more effort is still required in this regard.

Employee training and skills development

In a significant way, it is human resources and development of human capital that underpin the macro strategy of the Group. Significant effort and financial resources were devoted to training and development of its employees. Denel spent 7.0% of its total payroll on training and development during the financial year under review, well above the stipulated industry level of 1.0%.

Training spend	R million
Black candidates (African, Coloured and Indian)	6.6
White females	0.7
White males	4.3
Total	**11.6**

Technical skills development

Given the technical nature of the business, skills development is critical for the sustainability of the Group especially in the area of succession planning. In addition to various other initiatives, technical skills development is provided mainly through the Denel Bursary Programme and the Denel Centre for Learning and Development (DCLD). These programmes are in partnership with tertiary institutions to address critical skills development.

Denel Bursary Programme

Since its inception, the Denel Bursary Programme continues to provide a pool of potential new entrants into the business. During the year under review, bursaries were granted to 68 students as follows:

External bursars 2008 (number of students)

Field of study	African		Coloured		Indian		White		Total
	Male	Female	Male	Female	Male	Female	Male	Female	
Aeronautical	4	1	2	-	4	2	1	-	14
Mechanical	5	2	-	-	1	-	7	1	16
Chemical	5	1	-	-	1	-	-	-	7
Industrial	-	-	-	-	-	-	-	3	3
Computer	1	-	-	-	-	-	3	2	6
Electronic/ Electrical	10	1	2	-	-	-	6	3	22
Total	**25**	**5**	**4**	**-**	**6**	**2**	**17**	**9**	**68**

Total cost of external bursaries	R 3.2 million

Denel Centre for Learning and Development

DCLD was set up to create a 'hub' that specialises in training and development of skills in the aircraft, engineering and related trades. The centre collaborates with relevant Sector Education and Training Authorities (SETAs) to ensure accreditation in these fields. Results over the years have been excellent and these students are sought after by industries in South Africa and abroad. The DCLD has also ventured into partnerships with institutions including CSIR, the electricity utility, Eskom, and private organisations so as to remain viable as a self-sustaining entity. The objective is to have students from these organisations help subsidise private students who find the cost of enrolling too high.

Given that South Africa's annual intake of apprentices has plummeted from 30,000 to 3,000 in the past 30 years, DCLD plays a pivotal role in replacing artisans lost through labour turnover. Students trained by DCLD are placed in the companies participating in the programme, and other students, sponsored by SETA, are released into the market without any further financial obligation. In this way, DCLD makes a significant contribution to the growth and development summit target for the training of unemployed learners. Enrollment figures for the financial year under review are as follows:

	African		Coloured		Indian		White		Total
	Male	Female	Male	Female	Male	Female	Male	Female	
Denel	7	2	-	-	-	-	3	-	12
Private	42	20	2	-	8	-	43	4	119
AMOSA companies	20	8	2	-	-	-	5	-	35
Foreign private	4	-	-	-	-	-	-	-	4
Foreign companies	22	-	-	-	-	-	-	-	22
Eskom	58	37	1	-	-	-	1	-	97
Total	**153**	**67**	**5**	**-**	**8**	**-**	**52**	**4**	**289**



Transformation

Transformation is seen as a concerted effort to create a new culture where performance and delivery are drivers of success. In order to create a motivated, innovative and empowered workforce that is adaptable to change, a framework for transforming the Group was developed and implemented in June 2007, having taken the following into consideration:

- The outcome of a group-wide climate survey;
- Legislative imperatives i.e. the Employment Equity Act, Skills Development Act and B-BBEE CoGP; and
- The Group's five-pillar macro-strategy.

From these, eight generic elements were adopted to provide direction to business entities in the implementation of transformation plans.

Element	Objective
Representative workforce	To have a workforce that is representative of the South African demographics
Training and development	To utilise training and development effectively to support and accelerate transformation, and to develop technically skilled people for the industry
Participation management	To develop and maintain a culture of employee participation
Shareholder relations	To embrace and live the expectations of the Shareholder
Black Economic Empowerment	To establish and develop designated SMME suppliers and to achieve BEE compliance
Social responsibility	To contribute to technical skills development of disadvantaged people within the community
Organisational climate	To embed the values of the organisation in order to maintain a climate conducive to constructive transformation
Executive championship	Commitment of the leadership to transformation through taking accountability and leading by example

IMPLEMENTATION PROCESS

Transformation plans

Each business entity has developed a transformation plan with sub-elements relevant to that entity. Targets are aligned to the eight generic elements and are tracked quarterly on a group-wide basis.

Business entity transformation committees

Each entity has established a functional and representative transformation committee, which is chaired by its CEO. The committee is composed of human resources practitioners, organised labour, representatives from non-unionised employees and management.

The committee's role is:

- To ensure consultation and communication with employees via their representatives (i.e. provide inputs and comments on the entity's transformation plan);
- To maintain progress of projects and focus areas;
- To ensure all actions, projects and initiatives align to the main objective of transformation in the Group; and
- To ensure regular feedback on progress to all employees and other relevant stakeholders.

Committees can evaluate new projects/ proposals for cost effectiveness, relevance and other dimensions. The committee can give input and recommendations to management on targets and timelines in terms of whether or not they are realistic given specific circumstances unique to that entity.

The responsibility to effect transformation lies with the CEOs of the specific business entities.

Transformation progress report

An external assessor evaluated transformation performance throughout the Group during March 2008.

The following method was used to evaluate and align the scores to Denel's Performance Management System:

Definition	Transformation
Transforming	60.0% - 100.0%
Showing commitment	40.0% - 59.0%
Insufficient evidence of change	0.0% - 39.0%

The overall average of 64.8% for the Group indicates that it is transforming.

The table below lists the Denel entity transformation scores in descending order.

Entity	Transformation score (%)	Transformation status
Overall Average - Denel (Pty) Ltd	64.80	Transforming
Denel Aviation	77.50	
Denel Dynamics	67.96	
DSA	68.70	
DLS: Lyttleton	68.50	
Naschem	60.60	
PMP	64.73	
Mechem	61.94	
OTB	64.52	
Deniprop	63.93	
Corporate Office	63.65	
DLS: Western Cape	57.80	Showing commitment
DCLD	58.17	

HIV/ AIDS programme

The theme of 'Touching me, touching you' was adopted since all individuals are affected in one way or another by HIV/ Aids. The programme is accessible through a toll-free telephone service, managed by an outsourced partner and offers a confidential 24-hour counselling service. All employees are encouraged to make use of this facility through induction programmes and Social Plan offices throughout the Group.

Corporate social investment

Denel's programmes are focused on areas that have a long-term developmental impact for society, and include the following:

Denel Youth Foundation Training Programme

The Denel Youth Foundation Training Programme (DYFTP) is a well-established youth training programme dedicated to increasing participation and improving the performance of learners in mathematical, scientific and accounting disciplines, as well as life skills in general in order to prepare them for the world of work. The DYFTP is designed to benefit learners from previously disadvantaged and poor communities, especially from the rural areas in South Africa and had a 100.0% pass rate last year.

The DYFTP started in 1994 as the Kentron Bridging School with an intake of 120 learners from Gauteng. Of the 120 learners, the Office of the Auditor-General sponsored 20 and their main focus was on financial disciplines. The remainder studied Mathematics and Science. In 2001, the DoD joined Denel in placing 250 learners on the programme each year. To date, 1,750 learners have benefited from the programme, most of who are employed by the different armed services in the DoD.

During the year under review the programme accomodated for 295 learners, who were sponsored by the DoD (250), Transnet (30), Denel (5) and the DPE (10). The sponsorship amounts varied from R 18.1 million invested by Denel, the DoD and the DPE. African Defence Systems (ADS) and Transnet granted some learners bursaries, for the 2008 academic year.

Schools Outreach Programme

The Schools Outreach Programme (SOP) is an initiative based in the North West Province. It currently has 20 learners and 4 educators focusing on upgrading Mathematics and Science symbols for learners in grades 10 to 12. The objective of the programme is for the learners to achieve a pass rate of at least 60.0% in their Grade 12 mathematics and science subjects. Costs for tuition, transport and refreshments are carried by Transnet and DCLD provides the project management support.

The following results illustrates the achievements of the programme:

- 75.0% of the learners obtained A to C symbols in English on Higher Grade (HG);
- 90.0% obtained A to C symbols in Life Orientation (HG);
- 50.0% obtained A to C symbols in Mathematics (HG); and
- 15.0% obtained A to C symbols in Physical Science (HG).

Aviation Week

Initiated by the Gauteng Department of Education and the private sector, the Sci-Bono Discovery Centre is located in the cultural precinct of Newtown in Johannesburg. This is a platform to encourage participation in fun-filled activities directly connected to the subjects of mathematics, science and technology. Denel Aviation hosted a series of workshops, exhibitions and demonstrations to 3,748 learners during the Aviation Week, as well as aircraft design competitions, which have proven to be highly popular.

Key contacts

The following individuals can be contacted on +27 12 671 1911 for contributions and feedback:

- Ms Patience Mushungwa — Group Executive: Human Resources and Transformation
- Mr Themba Zwelibanzi — Group Risk Manager
- Mr Bilaal Khan — Group Accountant

Table of material issues

√ = fully complied with × = not complied with ◊ = partially complied with

Aspect	Core/ Addi-tional	No.	GRI G3 indicator	2008 rating	Where disclosure is made: Annual Report	Page(s)
Vision and strategy indicators						
Strategy and analysis	C	1.1	Statement from the most senior decision maker of the organisation i.e. CEO or Chairperson, about the relevance of sustainability to the organisation and its strategy	◊	Chairman's Statement Group CEO's Report	6 - 7 8 - 10
	C	1.2	Description of key impacts, risks and opportunities	◊	Sustainability Report - Risk management	 24 - 25
Organi-sational profile	C	2.1	Name of organisation	√	Front cover Contact details	 169
	C	2.2	Primary brands, products, and/ or services	√	Profile Business Entity Activities	4 17 - 21
	C	2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries and joint ventures	√	Profile - High-level Organisational Structure	 5
	C	2.4	Location of organisation's headquarters	√	Contact details	169
	C	2.5	Number of countries where the organisation operates, and the names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	×		
	C	2.6	Nature of ownership and legal form	√	Profile - Scope of report Sustainability Report - Stakeholder engagement	 4 26 - 27
	C	2.7	Markets served (including geographic breakdown, sectors served and types of customers/ beneficiaries)	◊	Profile - Nature of business Business Entity Activities	 4 17 - 21
	C	2.8	Scale of reporting organisation	√	Ten-Year review	27 - 29
	C	2.9	Significant changes during the reporting period regarding size, structure, or ownership	√	Chairman's Statement Directors' Report - Key Performance Indicators *(Exit of non-viable and non-core businesses)*	6 - 7 65
	C	2.10	Awards received in the reporting period	×		
Report profile	C	3.1	Reporting period for information provided	√	Profile - Scope of report	 4
	C	3.2	Date of most recent previous report (if any)	N/A[1]		
	C	3.3	Reporting cycle	√	Profile - Scope of report	 4
	C	3.4	Contact point for questions regarding the report or its contents	√	Sustainability Report - Key contacts	 43

[1] *This is the Group's first Sustainability Report*

Aspect	Core/ Addi-tional	No.	GRI G3 indicator	2008 rating	Where disclosure is made: Annual Report	Page(s)
Vision and strategy indicators						
Report scope and boundary	C	3.5	Process for defining report content	◊	Sustainability Report - Materiality	 23
	C	3.6	Boundary of the report (i.e. countries, divisions, subsidiaries)	√	Profile - Scope of report	 4
	C	3.7	State any specific limitations on the scope or boundary of the report	√	Profile - Scope of report	 4
	C	3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations and other entities that can significantly affect comparability from period to period and/ or between organisations	√	Notes to the group annual financial statements - Basis of preparation - Basis of consolidation	 83 - 84 84
	C	3.9	Data measurement techniques and the basis of calculations, including assumptions and techniques underlying estimations applied to the compilation of the indicators and other information in the report	√	Sustainability Report - Waste management Notes to the group annual financial statements - Corporate information	 34 - 35 84 - 102
	C	3.10	Explanation of the effect of any restatements of information provided in earlier reports, and the reasons for such restatement, i.e. mergers and acquisitions	N/A[1]		
	C	3.11	Specific changes from previous reporting periods in the scope, boundary or measurement methods applied in the report	N/A[1]		
GRI content index	C	3.12	Table identifying the location of the standard disclosures in the report	√	Table of material issues	44 - 52
Assurance	C	3.13	Policy and current practice with regard to seeking external assurance for the report. If not included in the assurance report accompanying the sustainability report, explain the scope and basis of any external assurance provided. Also explain the relationship between the reporting organisation and the assurance provider	×		

[1] *This is the Group's first Sustainability Report*

Aspect	Core/ Addi-tional	No.	GRI G3 indicator	2008 rating	Where disclosure is made: Annual Report	Page(s)
Vision and strategy indicators						
Govern-ance, commit-ments and engagement	C	4.1	Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, i.e. setting strategy or organisational oversight	√	Directors' Report - The Board of Directors - Board committees - Group Audit and Risk Committee - Group Personnel and Remuneration Committee - Executive Committee	 69 - 70 70 70 - 71 71 71
	C	4.2	Indicate whether the Chairperson of the highest governance body is also an executive officer (if so, their function within the organisation's management and the reasons for this arrangement)	√	Directors' Report - The Board of Directors	 69 - 70
	C	4.3	For organisations that have a unitary board structure, state the number of members of the highest governance body that are independent and/ or non-executive members	√	Director' Report - The Board of Directors	 69 - 70
	C	4.4	Mechanisms for shareholders and employees to provide recommendations/ directions to the highest governance body	◊	Directors' Report - Relationship with the Shareholder	 72
	C	4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives, and the organisation's performance (including social and environmental performance)	√	Directors' Report - Group Personnel and Remuneration Committee	 71
	C	4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	◊	Sustainability Report - Ethics - Bribery and corruption Directors' Report - The Board of Directors Notes to the group annual financial statements - Related parties	 31 - 32 32 69 - 70 137 - 140
	C	4.7	Processes for determining the qualifications and expertise of the members of the highest governance body for guiding the organisation's strategy on economic, environmental and social topics	×		
	C	4.8	Internally developed statements of mission/ values, codes of conduct and principles relevant to economic, environment and social performance, and the status of their implementation. Explain the degree to which these are applied across the organisation in different regions and department/ units, and relate to internationally agreed standards	√	Directors' Report - Code of ethics Sustainability Report - Transformation	 72 40 - 42
	C	4.9	Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct and principles	◊	Directors' Report - Group Audit and Risk Committee Sustainability Report - Risk management	 70 - 71 24 - 25
	C	4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental and social performance	×		

Aspect	Core/ Addi-tional	No.	GRI G3 indicator	2008 rating	Where disclosure is made: Annual Report	Page(s)
Vision and strategy indicators						
Commit-ment to external initiatives	C	4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	×		
	C	4.12	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or endorses	√	Sustainability Report - Suppliers and procurement - Environmental performance - Occupational health and safety - Transformation	 32 33 - 35 36 - 38 40 - 42
	C	4.13	Memberships in associations, such as industry associations, and/ or national/ international advocacy organisations in which the organisation has positions in governance bodies, participates in projects or com-mittees, provides substantive funding beyond routine membership dues, or views membership as strategic	√	Sustainability Report - Management of compliance with laws and regulations	 32
Stakeholder engagement	C	4.14	Lists of stakeholder groups engaged by the organisation	◊	Sustainability report - Stakeholder engagement - Value Added Statement (Group)	 26 - 27 30
	C	4.15	Basis for identification and selection of stakeholders with whom to engage	◊	Sustainability report - Stakeholder engagement	 26 - 27
	C	4.16	Approach to stakeholder engagements, including frequency of engagement by type and by stakeholder group	◊	Sustainability report - Stakeholder engagement	 26 - 27
	C	4.17	Key topics and concerns that have been raised through stakeholder engagements, and how the organisation has responded to those key topics and concerns, including through its reporting	◊	Sustainability report - Stakeholder engagement	 26 - 27
Economic indicators						
Economic perform-ance	C	EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compen-sation, donations and other community investments, retained earnings, and payments to capital providers and governments	◊	Sustainability Report - Ten-Year review	 27 - 29
	C	EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	×		
	C	EC3	Coverage of the organisation's defined benefit plan obligations	√	Notes to the group annual financial statements - Employee benefits - Pension and other post-retirement obligations	 97 - 98 157 - 161
	C	EC4	Significant financial assistance received from the South African Government	√	Sustainability Report - Economic performance Directors' Report - Borrowings - Going Concern	 27 59 62

Aspect	Core/ Addi-tional	No.	GRI G3 indicator	2008 rating	Where disclosure is made: Annual Report	Page(s)
Economic indicators						
Market presence	A	EC5	Range of ratios of standard entry level wages compared to local minimum wages at significant locations of operation	×		
	C	EC6	Policies, practices and proportion of spending on locally-based suppliers at significant locations of operation	◊	Sustainability Report - Suppliers and procurement	32
	C	EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation	×		
Indirect economic impacts	C	EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in kind or pro bono engagement	×		
	A	EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts	◊	Sustainability Report - Value-added statement (Group)	30
Environmental indicators						
Materials	C	EN1	Materials used by weight or volume	×		
	C	EN2	Percentage of materials used that are recycled input materials	×		
Energy	C	EN3	Direct energy consumption by primary energy source	×		
	C	EN4	Indirect energy consumption by primary energy source	×		
	A	EN5	Energy saved due to conservation and efficiency improvements	◊	Sustainability Report - Energy saving initiatives	34
	A	EN6	Initiatives to provide energy efficient/ renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives	×		
	A	EN7	Initiatives to reduce indirect energy consumption and reductions achieved	×		
Water	C	EN8	Total water withdrawal by source	×		
	A	EN9	Water sources significantly affected by withdrawal of water	×		
	A	EN10	Percentage and total volume of water recycled and re-used	×		
Biodiversity	C	EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	×		
	C	EN12	Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high bio-diversity value outside protected areas	×		
	A	EN13	Habitats protected or restored	×		
	A	EN14	Strategies, current actions and future plans for managing impacts on biodiversity	×		
	A	EN15	Number of IUCN Red List Species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	×		

Aspect	Core/ Additional	No.	GRI G3 indicator	2008 rating	Where disclosure is made: Annual Report	Page(s)
Environmental indicators						
Emissions, effluents and waste	C	EN16	Total direct and indirect greenhouse gas emissions by weight	×		
	C	EN17	Other relevant indirect greenhouse gas emissions by weight	×		
	A	EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	×		
	C	EN19	Emissions of ozone-depleting substances by weight	×		
	C	EN20	NOx, SOX and other significant air emissions by type and weight	×		
	C	EN21	Total water discharge by quality and destination	×		
	C	EN22	Total weight of waste by type and disposal method	◊	Sustainability Report - Waste management	34 - 35
	C	EN23	Total number and volume of significant spills	×		
	A	EN24	Weight of transported, imported, exported or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III and VIII, and percentage of transported waste shipped internationally	◊	Sustainability Report - Waste management	34 - 35
	A	EN25	Identity, size, protected status and biodiversity value of water bodies and related habitats significantly affected by the organisation's discharges of water and run-off	×		
Products and services	C	EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	◊	Sustainability Report - Environmental Management System - Waste management	33 - 34 34 - 35
	C	EN27	Percentage of products sold and their packaging materials that are reclaimed by category	×		
Compliance	C	EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	×		
Transport	A	EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce	×		
Overall	A	EN30	Total environmental protection expenditures and investments by type	×		
Social indicators						
Employment	C	LA1	Total workforce by employment type, employment contract, and region	◊	Sustainability Report - Employment	36
	C	LA2	Total number and rate of employee turnover by age group, gender and region	×		
	A	LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operation	×		

Aspect	Core/ Addi-tional	No.	GRI G3 indicator	2008 rating	Where disclosure is made	
					Annual Report	Page(s)
Social indicators						
Labour/ manage-ment relations	C	LA4	Percentage of employees covered by collective bargaining agreements	×		
	C	LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements	×		
Occu-pational health and safety	A	LA6	Number of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes	◊	Sustainability Report - Occupational health and safety	36 - 38
	C	LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region	◊	Sustainability Report - Occupational health and safety	36 - 38
	C	LA8	Education, training, counselling, prevention, and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases	√	Sustainability Report - Occupational health and safety - HIV/ AIDS	36 - 38 42
	A	LA9	Health and safety topics covered in formal agreements with trade unions	×		
Training and educa-tion	C	LA10	Total training spend by employee category	◊	Sustainability Report - Employee training and skills development	38
	A	LA11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	◊	Sustainability Report - Technical skills development	38 - 39
	A	LA12	Employees receiving regular performance and career development reviews	◊	Group CEO's Report	10
Diversity and op-portunity	C	LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership and other indicators of diversity	◊	Directors' Report - The Board of Directors - Group Audit and Risk Committee - Group Personnel and Remuneration Committee - Executive Committee Sustainability Report - Employment	 69 - 70 70 - 71 71 71 36
	C	LA14	Ratio of basic salary of men to women by employee category	×		
Strategy and man-agement	C	HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening	×		
	C	HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	×		
	A	HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	×		

Aspect	Core/ Addi-tional	No.	GRI G3 indicator	2008 rating	Where disclosure is made: Annual Report	Page(s)
Social indicators						
Non-dis-crimination	C	HR4	Total number of incidents of discrimination and actions taken	×		
Freedom of asso-ciation and collective bargaining	C	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	×		
Child labour	C	HR6	Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour	×		
Forced and compulso-ry labour	C	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	×		
Security practices	A	HR8	Percentage of security personnel trained in the organi-sation's policies or procedures concerning aspects of human rights that are relevant to operations	×		
Indigenous rights	A	HR9	Total number of incidents of violations involving rights of indigenous people and actions taken	×		
Commu-nity	C	SO1	Nature, scope and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities, including entering, operating and exiting	×		
Commu-nity	C	SO2	Percentage and total number of business units analysed for risks related to corruption	×		
	C	SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures	×		
	C	SO4	Actions taken in response to incidents of corruption	×		
Public policy	C	SO5	Public policy positions and participation in public policy development and lobbying	◊	Sustainability Report - Product health and safety, and compliance with laws and regulations - Ethics and legislations	 31 31 - 35
	A	SO6	Total value of financial and in-kind contributions to political parties, politicians and related institutions by country	×		
Anti-com-petitive behaviour	A	SO7	Total number of legal actions for anti-competitive behaviour, anti-trust and monopoly practices, and their outcomes	×		
Compli-ance	C	SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	×		

Aspect	Core/ Addi-tional	No.	GRI G3 indicator	2008 rating	Where disclosure is made: Annual Report	Page(s)
Social indicators						
Customer health and safety	C	PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and service categories subject to such procedures	◊	Sustainability Report - Product health and safety, and compliance with laws and regulations	31
	A	PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes	×		
Products and serv-ices	C	PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements	◊	Sustainability Report - Product health and safety, and compliance with laws and regulations	31
	A	PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcome	×		
	A	PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	×		
Marketing communi-cation	C	PR6	Programmes for adherence to laws, standards and voluntary codes related to marketing communications, including advertising, promotion and sponsorship	×		
	A	PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship, by type of outcome	×		
Customer privacy	C	PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	×		
Compliance	A	PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	×		


100 000

INDEPENDENT AUDITORS' REPORT TO THE MINISTER OF PUBLIC ENTERPRISES

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

REPORT ON THE FINANCIAL STATEMENTS

We have audited the annual financial statements and group annual financial statements of Denel (Proprietary) Limited ('Group'), which comprises of the Directors' Report, the balance sheet and the consolidated balance sheet as at 31 March 2008, the income statement, the statement of changes in equity, the cash flow statement for the year ended 31 March 2008, and a summary of significant accounting policies and other explanatory notes, as set out on pages 57 to 165.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Public Finance Management Act, No. 1 of 1999 and the Companies Act, No. 61 of 1973. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility for the financial statements

Our responsibility is to express an opinion on these 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 whether the financial statements are free from material misstatement. The audit was also planned and performed to obtain reasonable assurance that our duties in terms of sections 27 and 28 of the Public Audit Act, 25 of 2004, have been complied with.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement on the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements present fairly, in all material respects, the financial position of the Company and of the Group as of 31 March 2008, and their financial performance and their cash flows for the year ended in accordance with IFRS and in the manner required by the Public Finance Management Act, No. 1 of 1999 and the Companies Act, No. 61 of 1973.

Without qualifying our opinion, we draw attention to the following matters:

Going concern

The Group has continued to post significant losses which have accumulated to R 4.3 billion at year-end. It is uncertain when the Group will return to profitability. In addition, the Group forecasts that it will experience cash flow challenges in the near future and, as a result, it has obtained written confirmation from its Shareholder that funding will be made available. The Group is, therefore, dependent on the Shareholder for financial support and on financial institutions for short-term loan facilities. These conditions, along with other matters detailed in the Directors' Report on page 62, indicate the existence of material uncertainties, which may cast significant doubt about the Group's ability to continue as a going concern.

Rooivalk contract loss provision

The provisions include an amount of R 385 million in respect of an estimate of costs to complete the Rooivalk programme. The provision is based on assumptions and scope of work which have changed over time due to ongoing negotiations with the client, changes in market conditions and changes in the interpretation of the work required to bring the contract to its conclusion. As detailed in the Directors' Report on page 62 to 63, this programme has significant risks and other material uncertainties.

REPORT ON THE PERFORMANCE INFORMATION

We have reviewed the Key Performance Indicators in the Directors' Report on pages 64 to 67.

Directors' responsibility

The Company's directors have additional responsibilities as required by section 55(2)(a) of the Public Finance Management Act to ensure that the Annual Report and audited annual financial statements fairly present the performance of the Group against the predetermined objectives.

Responsibility of the auditors

We conducted our engagement in accordance with section 13 of the Public Audit Act read with General Notice 516 of 2008, issued in the Government Gazette No. 21021 of 9 May 2008. In terms of the foregoing our engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditors' judgment.

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

Opinion

There were no significant issues noted that cause us to believe that the performance information included in the Annual Report require modification.

Ernst & Young Inc.
Director: Fikile Mhlontlo
Registered Auditor
Johannesburg
xx xx 2008

SizweNtsaluba VSP
Director: Rakesh Bhika
Registered Auditor
Johannesburg
xx xx 2008

REPORT OF THE GROUP AUDIT AND RISK COMMITTEE IN TERMS OF REGULATION 27.1 OF THE PUBLIC FINANCE MANAGEMENT ACT, 1 OF 1999, AS AMENDED

The Group Audit and Risk Committee reports that it has adopted appropriate formal terms of reference as its audit committee charter and has discharged its responsibilities as contained therein.

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

- The effectiveness of internal controls;
- The risk areas of the entity'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 entity'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, the reports of significant investigations and the responses of management to specific recommendations; and
- The independence and objectivity of the external auditors.

The committee is of the opinion that, 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 result of their audits, the internal accounting controls are adequate to ensure that the financial records may be relied upon for preparing the group annual financial statements, and accountability for assets and liabilities is maintained.

Other than what is reported in the Directors' Report, nothing significant has come to the attention of the committee indicating any material breakdown in the functioning of these controls, procedures and systems during the period under review.

The committee is satisfied that the group annual financial statements are based on appropriate accounting policies, supported by reasonable and prudent judgments and estimates.

The committee has evaluated the group annual financial statements of Denel (Pty) Ltd for the year ended 31 March 2008 and based on the information provided to it, considers that they comply in all material respects, with the requirements of the Companies Act, 61 of 1973, as amended, and the Public Finance Management Act, as amended, as well as the International Financial Reporting Standards.

Furthermore, the Group Audit and Risk Committee concurs that the adoption of the going concern premise in the preparation of the group annual financial statements is appropriate. At its meeting of 8 July 2008, the committee recommended the adoption of the group annual financial statements by the Board of Directors.

CHANTYL MULDER
CHAIRMAN OF THE GROUP AUDIT AND RISK COMMITTEE

DIRECTORS' REPORT

During the financial year under review, the Directors retained full and effective control over the Group and monitored management in implementing the plans and strategies approved.

STATEMENT OF RESPONSIBILITY

The Board of Directors (Directors) hereby present their report and the audited group annual financial statements for the year ended 31 March 2008.

The Directors are responsible for the preparation, integrity and fair presentation of the group annual financial statements of Denel (Pty) Ltd and its subsidiaries (Group). The group annual financial statements presented on pages 78 to 165 have been prepared in accordance with International Financial Reporting Standards, the South African Companies Act No. 61 of 1973 and the Public Finance Management Act No. 1 of 1999. These group 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 Annual Report and are responsible for both its accuracy and consistency.

The Directors are satisfied that at the time of approving the group annual financial statements it is appropriate to use the going concern basis in preparing these financial statements. In arriving at this assessment, the Directors considered the cash position of the Group at 31 March 2008, the cash requirements for at least 12 months from that date, incremental borrowing facilities available and funding commitments made by the Shareholder. The going concern assumption is discussed in more detail in page 62 of this report.

The external auditors are responsible for independently auditing and reporting on the group annual financial statements. The report of the independent auditors appears on page 54 to 55.

During the year under review, the Directors retained full and effective control over the Group and monitored management in implementing the plans and strategies approved.

The Directors are of the opinion, based on the information available to date, that the group annual financial statements fairly present the financial position of Denel (Pty) Ltd and its subsidiaries and the results of its operations and cash flow for the year ended 31 March 2008, and that the Code of Corporate Practices has been adhered to.

The group annual financial statements for the year ended 31 March 2008, set out on pages 78 to 165 were approved by the Directors on xx in terms of the Public Finance Management Act and the Companies Act and are signed on their behalf by:

DR SIBUSISO SIBISI
CHAIRMAN OF THE BOARD

TALIB SADIK
ACTING GROUP CHIEF EXECUTIVE OFFICER

DIRECTORS' REPORT (CONTINUED)

The Directors are pleased to present their report on the annual financial statements of the Group and Company for the year ended 31 March 2008. The results of the Group during the past year reflect that Denel has once again managed to reduce its losses. In the context of the financial statements, the term 'Group' refers to the Company, its subsidiaries and associated companies.

The annual financial statements fully set out the results of the Group. Key matters that we believe are pertinent to the appreciation of the current year financial results are discussed further in this report. The nature of the Group's business is described in the section headed 'Business Entity Activities' of this Annual Report.

COMPLIANCE WITH ACCOUNTING STANDARDS

The group annual financial statements comply with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations. In the 2007/08 financial year, the Group adopted IFRS 7 *Financial Instruments: Disclosures*, and IFRIC 9 *Reassessment of Embedded Derivatives*. The adoption of the new standards have increased disclosure relating to the impact of financial instruments on the Group's position and performance, as well as the nature and extent of risks arising from these financial instruments and the manner in which the Group manages these risks. The new disclosures are included throughout the financial statements. There has been no effect on the financial position or results and the comparative disclosures have been revised where required.

Furthermore, additional disclosures relating to the Group's objectives, policies and procedures, as well as some quantitative disclosures relating to the management of capital have been provided as required by the amendment to IAS 1 *Presentation of Financial Statements*.

FINANCIAL PERFORMANCE

Financial overview (Group)

	2008	2007	Variance	
Key areas	R million	R million	R million	%
Operating results				
Turnover	3,818.1	3,268.1	550.0	16.8 ⇧
Gross profit	599.5	754.0	(154.5)	20.4 ⇩
Loss for the year	347.2	549.1	201.9	36.8 ⇩
Balance sheet				
Shareholder's equity	1,327.5	632.7	694.8	109.8 ⇧
Cash on hand	963.6	338.4	625.2	185.2 ⇧

Turnover increased by 16.8% to R 3.8 billion from the previous year as a result of additional export and local orders secured, delivery of previously delayed contracts and recognition of revenue from accelerated deliveries on the Hoefyster programme. Additional losses on onerous contracts contributed to the lower gross profit for the current year.

The loss for the year improved by 36.8% to R 347.2 million compared to R 549.1 million of the previous year. This was achieved through savings in operating costs and profits on the sale of non-core properties and after taking into account unbudgeted costs arising from the restructuring of the Group, which includes the loss on disposal of investments in entities.

The Group's net equity position has improved to R 1.3 billion mainly as a result of the recapitalisation of R 933.0 million and after adjusting for the net loss of R 347.2 million.

Cash on hand improved by R 625.2 million resulting from the receipt of advance payments closer to year-end and an improvement in the debt collection process. The Group repaid the Corporate Bond of R 825 million during the year and the short-term loan outstanding of R 150.0 million at year-end was repaid on 29 April 2008.

Restructuring

Losses amounting to R 131.8 million were incurred as a result of Denel disposing of its majority shareholding in certain entities and entering into strategic equity partnerships. In addition, an impairment of R 43.0 million was recorded against the Group's shareholding in Denel Saab Aerostructures (Pty) Ltd.

Provisions

Provisions in the current year increased by R 124.7 million from R 1,349.9 million in the previous year. Provisions are raised for expected losses on contracts, performance guarantees, product warranty and recall, land restoration, as well as the staff-related provisions.

Provisions are reviewed and adjusted or reversed annually depending on the assessment of the risk and reward or if it is no longer probable that an outflow of economic benefit will be required to settle an obligation.

Borrowings

The Denel Corporate Bond of R 825 million matured on 16 August 2007 and was repaid mainly from the proceeds of a land sale. A R 2.0 billion DMTN programme was registered on 3 August 2007. The DMTN programme allows for short-term and long-term debt issuance to fund the Company for the next five years. The Group's borrowings as at 31 March 2008 include commercial paper of R 150 million issued in terms of the DMTN programme, of which R 65 million is at the rate of 30 basis points above the Johannesburg interbank agreed rate (JIBAR) and R 85 million at 40 points above JIBAR.

The Company is planning to borrow R 1.3 billion during 2008/09 to fund its operations. The borrowings will be drawn down in three tranches in order to minimise interest cost. The first tranche will take place during August 2008 and will be rolled over a three-month basis until May 2009.

CORPORATE STRATEGY

The turnaround strategy is premised on the positioning of the Group as the preferred supplier of equipment and services to South Africa's security forces and establishing itself as a world-class supplier in the aerospace and defence supply chain.

It is therefore incumbent on a viable Denel to build a sustainable source of revenue, through an appropriate strategy, which encapsulates productivity improvements and capability development. The strategy is articulated through five pillars being:

- Secure 'privileged access' (to South African defence spend);
- Engage 'state agencies';
- Evaluate commercial viability (fix or exit) of business entities;

- Create equity-based relationships/ formal alliance partnerships; and
- Raise productivity and capabilities to world-class standards.

The five-pillar strategy has as its foundation, transformation and people. Denel has embarked on a process of rolling out the new B-BBEE CoGP. A transformation framework and rollout plan was developed and implemented. The codes will be fully adopted by the end of the next financial year with firm objectives and targets in place against which business entities and subsidiaries will be measured.

Some of the key achievements to date, in the implementation of the strategy, are presented in the paragraphs that follow.

Notable progress has been made in developing relationships and access to decision makers in various state departments. The areas of engagement included:

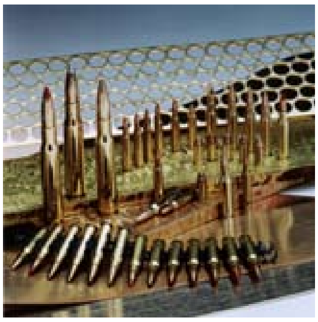
- Securing a minimum of 70.0% of defence spending for the local industry;
- Recognition of local capability and conferring to the local industry preferred supplier status (subject to meeting price and performance standards);
- Long-term and/ or, multi-year contracts to be awarded to the local defence industry;
- Strategic alignment to the framework for technology development and manufacturing capacity development; and
- Agreeing on standardised procurement policies and practices.

In addition, a team appointed by the Cabinet comprising of the DoD, the DPE and National Treasury was formed to identify defence spending that should be directed to contractors in areas where SADRI has a capacity and competitive advantage. On 11 June 2008, Cabinet considered the recommendations and gave its support. Due to Denel's strategic importance and the impact of the decisions at hand, the recommendations for a final decision were referred to Cabinet's Committee for the Economic Sector. On 25 June 2008, Cabinet in the main approved the recommendations.

As part of the strategy, bottom-up analyses were conducted at the business entities in order to define and propose further steps in the turn-around. Based on the structured assessments which included a review of strategic military importance and commercial viability, recommendations were developed for Rooivalk, Land Systems, Dynamics and Aviation MRO. These recommendations on the restructuring and future funding needs were presented to Cabinet. There was broad support for the recommendations by the Cabinet on the restructuring proposals and the necessary funding requirements for their implementation.

A joint planning forum comprising industry, the DoD, the SANDF and Armscor will be established to ensure long-term visibility, enhanced coordination and production planning. Some of the areas that will be considered by the joint planning forum include proposals for:

- Rooivalk: To reach agreement on the deployment baseline and delivery timelines;
- Land Systems: To assess, amongst others, opportunities for national consolidation of the business, enter into an equity partnership with a major international supplier to ensure long-term



utilisation and access to global markets and for DoD to place a production order on Hoefyster of a sufficient size (at least two battalions);
- Dynamics: To actively explore equity partnership opportunities to secure longer-term contracts and right-size the organisation to reduce the fixed-cost base and ensure sufficient DoD funding on certain propgrammes; and
- Aviation: To consolidate its operations with SAAF's MRO capabilities to ensure maximum operability of SAAF's aircraft is achieved and that there is elimination of the duplication of function and cost that currently exists.

The process of disposing of the Group's non-core businesses and assets, which was launched in the 2005/06 financial year, continued successfully during the current year. All non-core businesses have been disposed save for Cosource (Pty) Ltd, which was disposed after year-end.

The following progress has been made with regard to finalising equity partnerships:

- DSA: Saab AB (publ) (Sweden) acquired a 20.0% minority equity stake during August 2007. Saab AB has been contracted to manage the business with key performance arears encompassing the following amongst others:

  - Introduction of international best practice, processes and technologies;
  - Improvement of executive and operational management;
  - Ensuring successful delivery on contractual obligations;
  - Ensuring that cash flow, profit and loss and turnover targets are achieved; and
  - Leveraging access to international markets for DSA.
- Carl Zeiss Optronics (Pty) Ltd: Denel Optronics was incorporated as a separate statutory entity during the financial year under review and Carl Zeiss GmbH acquired a 70.0% stake in this company in July 2007, and needs to ensure the following:

  - Access to profitable international markets;
  - Provision of strategic direction and investment in new product development, which will result in the full utilisation of facilities; and
  - Provision of skills development in various aspects of the business.
- Denel Munitions: An agreement has been signed with Rheinmetall Waffe Munition GmbH to acquire a 51.0% shareholding in this business. The agreement is subject to certain suspensive conditions being met and other regulatory approvals. It is anticipated that this transaction will be concluded by 1 August 2008;
- Dynamics: Discussions with equity partners are at an advanced stage and are expected to be concluded during the 2008/09 financial year; and
- A proposal for an equity partnership for the DLS: Lyttleton entity is currently under consideration and it is expected to be concluded during the 2008/09 financial year.

The business processes and plans are subject to rigorous interrogation processes. Performance reviews are conducted on a regular basis to identify problem areas, define management actions and mitigate areas of concern.

The Directors are satisfied with the progress of the strategy implementation and believe that it will unlock business value and return the Group to profitability.

Going Concern

The Directors evaluated the appropriateness of the going concern assumption used in the preparation of the group annual financial statements focusing on funding commitments made by the Shareholder, cash requirements for 12 months from the balance sheet date, the solvency and cash position at year-end and borrowing facilities. The Directors considered the following:

- The shareholders equity of the Group has improved steadily over the past three financial years as a result of reduced losses and recapitalisation of the Group. The Shareholder provided financial support to Denel by means of a recapitalisation of R 3.5 billion over the past three years. A request for additional funding in the form of a recapitalisation has been put to the Shareholder and will be discussed as part of the Medium Term Expenditure Framework process;
- The forecast shareholder's equity for the 2008/09 financial year remains positive and represents an improvement from the previous year after taking into account a projected loss and recapitalisation for the year ahead;
- The Shareholder views Denel as a strategic asset and has made a written undertaking that it will endeavour to assist the Directors in maintaining its going concern status;
- The cash flow forecast incorporating the cash on hand at year-end, the cash receivable from the short-term borrowing and the cash receivable from the recapitalisation requested from Government is expected to have a positive cash position as at 31 March 2009. In addition, the Group has positive reserves as at year-end and is forecast to maintain this position to the end of the next financial year;
- A Government Guarantee for R 880 million was received on 8 July 2008 and a further guarantee of R 420 million will be received by 31 August 2008 to support the short-term borrowing that will be raised to meet the funding requirements of the Group for the 2008/09 financial year; and
- Denel has requested a further recapitalisation of R 1.7 billion from its Shareholder. The Directors anticipate that this amount will be received during the 2008/09 financial year, and will be used to repay the short-term borrowing, as well as to meet future working capital requirements.

Based on the above factors, the Directors are satisfied that Denel has adequate reserves and cash resources to continue operating as a going concern for the 12 month period from 31 March 2008. The group annual financial statements are, therefore, prepared on this basis.

The ability of the Group to continue as a going concern in the long-term is dependent on the following:

- Successful implementation of the business turnaround strategy and the recommendations of the Cabinet-appointed task team, which is expected to restore the Group to profitability on a sustainable basis;
- Receiving a Government Guarantee of R 420.0 million by 31 August 2008; and
- Receiving the recapitalisation of R 1.7 billion by 31 March 2009.

Should the interventions referred to above not materialise and sufficiently address the profitability and liquidity issues, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

Rooivalk

The Rooivalk contract was entered into during the 1980s with the intention to develop and manufacture an attack helicopter for use by the SANDF. Twelve helicopters were delivered to the DoD over a period of time with the last delivery during 2004. Delivery was undertaken with concessions on certain work that was outstanding in terms of the original contract. Denel was also contracted to provide technical support for a period of 30 years from date of delivery.

The primary challenges facing Denel in meeting its obligations are linked to the extended period over which the programme has been executed particularly in light of technological advancements made in the aviation industry. The required skills base to complete the final technical milestones has been eroded substantially, thus adding further pressure on the delivery timelines linked to the programme.

In the 2004/05 financial year, Denel raised a provision of R 680 million in respect of estimated future costs to complete the programme to the original contractual terms and conditions, as well as to qualify the aircraft to meet international aviation standards. Expenditure over the years has been allocated against this provision and as at 31 March 2008, the balance thereof amounted to R 385 million. As a standard procedure, management reviewed the estimated costs to completion, including the processes and assumptions used to fulfill the obligations under the contract and its related contract variation orders at year-end. As a result, the provision was adjusted to account for cost escalations over the period amounting to R 108 million. At the same time, the Group, in discussions with the customer, took a decision that certain service and support functionalities would not be undertaken. The cost associated with this work amounted to R 150 million.

The SANDF participates in peace support operations thus necessitating armed helicopter support. The Rooivalk helicopter is considered to be a viable option to satisfy this need, and should be completed to meet the revised functional specifications. In considering this need for an armed helicopter capability, Cabinet has decided that Rooivalk should be certified to meet the revised functionality within the existing allocated financial resources. The aircraft will have a scaled down weapons system and should be delivered by September 2008, failing which the Group will incur penalties. The basis for determining the penalties has not been agreed upon. Denel is committed to meeting the milestones as directed by Cabinet. However, it will require the full support of Armscor and the DoD to execute the revised mandate. Once achieved, this technical baseline should be maintained for a period of five years. In light of the finite assigned life of the Rooivalk system, the existing contractual terms and conditions will require revision.

As with any integrated electro-mechanical system, latent defects could materialise which may require remedial action by the original designer and manufacturer. In the recent past, Denel has rectified certain latent defects in subsystems. However, no agreement has been reached regarding the possible future risks, Denel has proposed to the relevant stakeholders that this risk be borne by the customer. Discussions are underway with regards to the delivery timeframes, revised baseline and the responsibility for the liability relating to latent defects.

Other matters

During the financial year, certain material events occurred which had a significant impact on the financial statements and continue to impact on the financial performance of the Group.

Hoefyster

Denel was contracted for the development and production of the Hoefyster to the value of R 8.3 billion. To date, only the order for the development portion of the contract with a value of R 1 billion has been placed with the Group and the balance of the contract relating to the production is still outstanding subject to the successful conclusion of the development order.

Provision for losses on an export contract

Denel entered into an export contract in July 2000 with a value of approximately € 6.5 million. The programme has since encountered technical problems and has significantly fallen behind on its delivery schedule. A provision of R 26.7 million for the qualification, penalty costs and completion of the contract was raised. In addition, the debtor of R 2.5 million has been provided for in full. Subsequent to year-end, Denel was notified by the client of its intention to cancel the contract and impose penalties.

At this stage the total exposure cannot be measured and a contingent liability has been disclosed in the financial statements.

Subordination agreements

The Group has subordinated loans of R 182 million advanced to three business entities in favour of other creditors limited to their respective equity deficit balances, until such time as assets exceed liabilities fairly valued.

SHAREHOLDER'S COMPACT

The compact between the Shareholder (represented by the Minister of Public Enterprises) and Denel (Pty) Ltd, defines, confirms and strengthens:

- Denel's objective;
- The strategic objectives to be attained by Denel; and
- The key performance areas and indicators to measure Denel's performance.

Annual budgets are based on the strategic direction set out in the Corporate Plan. The KPIs are contained in the Shareholder's Compact and are used to measure performance against the budget and other appropriate targets. Progress is reported on a regular basis to the Directors, Executive Authority and the National Treasury.

Key Performance Indicators

As required by Section 55(2) (a) of the PFMA, the performance of Denel against these KPIs is presented below.

KPIs	KPI criteria	Achieved	Contracted
Capital/ financial efficiency			
Profitability ratios	Gross profit margin	15.9%	19.1%
	Operating cost as % of revenue	29.5%	34.2%
	EBIT margin	(7.2%)	(13.7%)
Management effectiveness	Net loss margin	(8.8%)	(15.3%)
	Return on total equity	(25.8%)	(61.0%)
	Salary cost as a % of sales	41.7%	50.5%
Liquidity ratios	Current ratio	1.2	1.5
	Acid ratio	0.8	1.0

KPIs	KPI criteria	Achieved	Contracted
Capital/ financial efficiency			
Cash cycle days	Debtor collection period	114 days	86 days
	Creditor payment period	59 days	104 days
Order cover	Confirmed orders as a % of sales	76.0%	70.0%
Investment	Capex as a % of revenue	7.7%	12.8%
	Product development as a % of revenue	1.2%	2.7%
Debt and gearing	Debt/ equity ratio	0.2	0.7
	Interest cover	nil	nil
Business performance			
Measurable indicators			
Sales	- Total export sales	- R 1,654 million	- R 1,983 million
Costs	- Reduction of corporate office costs to revenue ratio - Other cost reduction initiatives	- 2.9% - 29.5% for 2007/08	- From 3.0% - 2.0% - Reduce operating cost to revenue from 34.2% to 20.0% over a five year period
Exit of non-viable and non-core businesses	- Consolidation of the Denel Property Group - Evaluation of all non-viable businesses and development of turn around/ exit strategies	- Consolidation of the Denel Property Group (Deniprop) complete - Disposals completed during 2007/08: - Land - SPP - Optronics' mechanical workshop and Printed Circuit Board facility	- All Denel properties consolidated into Deniprop - Disposal of all non-core properties and assets (SPP, Cosource, and various other properties) and value realised R 681 million
	- Actual disposals of non-core and non-viable businesses and value realised	- Value realised R 732 million - In process of disposal - Cosource disposal effective April 2008 and finalised June 2008 - Kasteelpark vacant land rezoning and transfer to Curamed is being delayed by the Tshwane Metro Council	
Improvements of governance and risk management policies and systems	- Substantive progress made in the finalisation and implementation of policies and systems - Measures taken to avoid reportable irregularities	- Boards and Audit and Risk Committees have been established for all entities - Risk management systems are in place at all the entities - Core policies relating to the PFMA have been implemented - Company secretarial activities have been assigned to specific individuals to ensure statutory compliance. No reportable irregularities were reported during 2007/08	- Compliance with the Protocol on Corporate Governance, the PFMA and all relevant guidelines

KPIs	KPI criteria	Achieved	Contracted
Business performance			
Compliance with legislation	- Compliance with the PFMA, B-BBEE codes, the Employment Equity Act, the Labour Relations Act and the National Conventional Arms Control Committee (NCACC) (2002)	- The first phase of the compliance programme has been completed - Individuals have been appointed at entity level to ensure compliance with legal and regulatory frameworks, including the NCACC - The implementation of B-BBEE CoGP has commenced as part of the transformation programme	- Compliance with legislation Reporting to the Shareholder - Representative on compliance achieved
Best endeavour indicators			
Progress towards the consolidation of the business and the establishment of manufacturing clusters	- Substantive progress made, subject to cost considerations and/ or commercial viability	- The operational merger of the MRO capabilities of Denel and the SAAF was approved by Cabinet on 25 June 2008 - An agreement has been negotiated to consolidate the UAV business of Denel and another local UAV supplier. This is subject to certain conditions being met	- Progress to be reported only
Partnerships with foreign and local companies Alignment of product lines to strategy	- Substantive progress in finalising equity partnerships and local collaborative partnerships - Reduction/ closure of loss making product lines	- An equity partnership was concluded between Denel Optronics and Carl Zeiss GmbH with Carl Zeiss GmbH acquiring 70.0% of shares in the business - An equity partnership was concluded between DSA and Saab AB (publ) (Sweden) with Saab AB acquiring 20.0% shares in the entity - An agreement has been signed with Rheinmetall Waffe Munition GmbH to aquire a share of 51.0% of Denel's Munitions business - The process of seeking partnerships for other businesses is under way - Proposals which include aligning product lines to strategy for all Denel's core businesses have been approved by Cabinet	- Progress to be reported only

KPIs	KPI criteria	Achieved	Contracted
Best endeavour indicators			
Sales	- Percentage of revenue from domestic sales (including SANDF sales) - Significant new contracts signed with clients abroad	- Local sales increased from 47.8% of total sales in 2006/07 to 57.3% in 2007/08 - No significant export contracts signed in 2007/08	- Progress to be reported only
Management of programmes Contracting and contract management	- Review the performance of major programmes on a quarterly basis - Improvement in the management of major programmes - Substantive progress made in reducing slippage and delays on major contracts - Improvements in contracting and contract management skills and systems - Entering into higher profit margin contracts - Alignment of scope, specifications and costs in contracts - Minimising of penalties and under recoveries - Improvements in client satisfaction - Information on reduction of backlogs where possible	- A programme management system is in place to address technical progress, risks, costs and delivery schedules in order to prevent slippages and penalties - New contract proposals are interrogated and approved in terms of Denel's delegation of authority - Interrogation of financial performance on programmes is done at entity and group level - A group-wide programme management forum has been established to benchmark best practices and to share knowledge - Oversight function has been improved by reporting significant programmes to the Denel Board	- A report on programme and contract management is presented to the Group Audit and Risk Committee annually in October

CAPITAL EXPENDITURE

During the year the Board approved capital expenditure of R 328 million of which R 270 million (2007: R 118 million) has been utilised, mainly in the upgrade of the business entity 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 has been no change in the authorised share capital of the Company for the financial year under review.

During the year, the Company issued 23,895,537 fully paid-up Class A ordinary shares of R 1.00 each and 184,813,916 fully paid up Class B ordinary shares, at a premium of R 724.3 million to the South African Government for a total amount of R 933.0 million as part of the recapitalisation of the Company.

DIVIDENDS

No dividend was recommended for the 2007/08 year.

CORPORATE GOVERNANCE

The Group is committed to the principles of good corporate governance as recommended by the Protocol on Corporate Governance in the Public Sector and the King II Report. The directors are aware of their responsibilities towards the company and its stakeholders. Governance structures are in place to continuously improve accountability, integrity and the standard of reporting in order to facilitate informed decision-making.

The Board of Directors

In terms of the provisions of the Articles of Association of the Company, the Minister of Public Enterprises, acting on behalf of the Government appoints the Board of Directors. During the year under review the Board comprised of 13 members, of which 11 are non-executive directors.

The Board is responsible for providing leadership, strategic oversight and effective control over the affairs of the Group. It sets the strategic objectives of the Group, agrees on performance criteria and delegates authority for managing the everyday affairs of the Company to the Group CEO. The roles of Chairman and Group CEO are separated with a clear division of responsibilities.

The Board, as outlined in the Company's delegation of authority, reserves specific matters for decision-making. These include the approval of:

- Group strategy, long-term business plans and annual budgets;
- Policies with a strategic impact on the business;
- The annual financial statements of the Group;
- Major capital projects;
- Risk management strategies; and
- Levels of materiality.

Management is held accountable through quarterly reviews of their performance against agreed upon targets.

Board committees assist the Directors to discharge their duties. The composition of the Board committees and their terms of reference are reviewed from time to time with a view to keeping them current. The committees have due regard to their roles as advisory bodies, except in instances where the Board has delegated specific decision-making powers to them. The Board is regularly informed of the activities of the various committees and of the proceedings of committee meetings.

The Board and its committees receive complete and timeous information to enable the directors to fully discharge their duties. All directors have access to the services of the Group Company Secretary and to independent professional advice when necessary. The Group Company Secretary is responsible for the effective functioning of the Board and for guidance to the Board on matters of corporate governance.

During the year under review the Board has updated its charter. The Board also conducted a self-evaluation exercise facilitated by the Institute of Directors of Southern Africa to measure its effectiveness. No material deficiencies were noted and the functioning of the Board was found to be effective, especially in regard to the following:

- The workings and output of the Group Audit and Risk Committee whereby the committee is seen to be fulfilling its mandate and playing an important part in the effective working of the Board;
- The general conduct and direction of Board meetings, as well as the management of conflicts of interest within the Board;
- The monitoring of KPIs of the organisation by the Board;
- The appropriateness of the Board charter which allows directors to seek outside professional expertise where appropriate; and
- The performance of the Group Personnel and Remuneration Committee, although there is still a need to focus on retention of key people in ensuring that succession plans are in place.

The Board at year-end was composed of the following non-executive directors:

- Dr SP Sibisi (*Chairman of the Board and Group Personnel and Renumeration Committee*)
- Dr BG Halse
- Mr A Hirsch
- Ms CC Mulder (*Chairman of the Group Audit and Risk Committee*)
- Ms N Nyembezi-Heita
- Mr MS Phalatse
- Mr LC Jones
- Mr NR Kunene
- Ms SH Chaba
- Mr CML Savage
- Ms T Seretse

And the following executive directors:

- Mr S Liebenberg (*Group CEO*)
- Mr MT Sadik (*Group FD*)

The Group CEO, Mr S Liebenberg, resigned on 31 May 2008 and Mr MT Sadik, the Group FD, was appointed as Acting Group CEO from 1 June 2008

Directors' emoluments are disclosed on page 74 to 75 of this report.

Board committees

The terms of reference of the two Board committees and their composition were reviewed and approved by the Board during the past year. The Board agreed that the Group Audit and Risk Committee, as well as the Group Personnel and Remuneration Committee should continue with the activities as defined in the relevant terms of reference, which are summarised below.

Group Audit and Risk Committee

The Group Audit and Risk Committee consists of four non-executive directors and an external independent member and is chaired by a non-executive director.

The purpose of the committee is to assist the Board to effectively discharge its oversight responsibilities. The main functions of the committee are to:

- Ensure the integrity, reliability, accuracy and objectivity of Group's accounting and financial reporting systems;
- Ensure that appropriate systems are in place and maintained to identify and mitigate risks, and to evaluate compliance with all applicable laws and codes of conduct;
- Ensure the adequacy and effectiveness of the internal audit, risk and compliance functions;
- Submit recommendations to the Board regarding the appointment and fees of the external auditors;
- Review the scope, quality and objectivity of the statutory audit;
- Monitor the independence of the auditors and set guidelines for the rendering of non-audit services by them; and
- Oversee treasury operations. An independent treasury expert, Mr NR Boqo, has been appointed to the committee to assist it on treasury related issues.

The committee met three times during the year and has complied with its terms of reference. The external and internal auditors attend these meetings and have unrestricted access to the committee and its chairman. The committee, as part of the audit process, agrees to the audit scope and the level of auditing to which the internal control systems should be subjected. The committee also met with the auditors independently of senior management.

Audit sub-committees operate at business entity and subsidiary level and report their findings to the Group Audit and Risk Committee.

The Group Audit and Risk Committee conducted a self-evaluation exercise to measure its effectiveness. No significant concerns were raised and the committee is of the view that it has properly executed its duties.

Group Personnel and Remuneration Committee

The committee consists of three non-executive directors.

The committee reviews and makes recommendations to the Board on the Company's remuneration strategies and policies and approves the remuneration levels and benefits of the Company's senior executives. The main functions of the committee are to:

- Ensure that the Company's employees are rewarded for their individual contributions to the Company's overall performance in a fair and transparent manner;
- Ensure that transformation, succession and development plans are in place, and to monitor progress against agreed upon targets; and
- Monitor the ethical conduct of the Company and its employees.

In implementing the Group's retention strategy, the committee approved a variable remuneration scheme for the first time for all employees. This scheme is seen by the Board as a positive initiative to retain staff and recognise their efforts. Therefore, performance criteria aligned to the objectives of the Company were set beforehand. Staff provisions at year-end include an amount of R 161 million that was raised for employees who had met the pre-set criteria.

The committee met twice during the year and has complied with its terms of reference, which are reviewed and approved by the Board on an annual basis.

Executive Committee

The Board delegates the day-to-day management of the Company to the Group CEO, who is assisted by the Executive Committee. The Executive Committee is responsible for the effective management of all operational activities, acts as a medium of communication and coordination between the various business units, ensures regular financial reports are presented to the Board.

The Executive Committee meets at least once a month or as the need arises.

The composition of the Executive Committee at year-end was as follows:

- Mr S Liebenberg
  Group CEO and Chairman
- Mr MT Sadik
  Group FD
- Ms AC Kinley
  Group Executive: Strategy Implementation
- Ms T Swiegelaar
  Group Executive: Commercial
- Mr HM Ivy
  Group Executive: Human Resources
- Mr ZN Ntshepe
  Group Executive: Business Development and Corporate Affairs
- Ms TP Mushungwa
  Group Executive: Transformation
- Maj Gen (Ret) OA Schür
  Group Executive: Special Projects
- Ms CVV Ramphele
  Group Company Secretary



Relationship with the Shareholder

The Company has maintained sound communication with its Shareholder. The Minister of Public Enterprises attended a number of board meetings in order to inform the Board of the Shareholder's views on the Group's strategic direction. At the same time, the Board took the opportunity to communicate to the Minister their concerns regarding Denel's liquidity problems and that it is crucial that Government provide the final recapitalisation of R 1.7 billion to ensure Denel's turnaround strategy is adequately implemented.

Internal control

An important aspect of the Board's oversight role is to review the effectiveness of the company's internal control systems.

The Group's systems of internal financial and operational controls are designed to provide reasonable assurance regarding the integrity and reliability of the group annual financial statements, to adequately safeguard assets against material losses, to ensure proper authorisation and recording of transactions, to minimise operating risks and to ensure disaster recovery planning. The current systems support the identification and management of risks affecting the Group and are continuously reviewed as circumstances change and new risks emerge.

Internal audit

The function of internal audit is to appraise the adequacy and effectiveness of the Group's systems, internal controls and accounting records. This function, which is outsourced to PricewaterhouseCoopers, reports administratively to the Group CEO. The internal auditors have unrestricted access to the Chairman of the Group Audit and Risk Committee and to the Chairman of the Board of Directors.

Risk management

The risk management process is in place and is a vital tool for protecting the Group's integrity and reputation and enables it to meet its financial and other objectives.

Management is primarily responsible for the continuous identification, assessment and mitigation of risks. The Board is ultimately responsible for the Group's risk management system and for reviewing its effectiveness. The Group Audit and Risk Committee was tasked to oversee the risk management process. (A more comprehensive overview of Denel's risk management process is given in the Sustainability Report of this Annual Report).

Code of ethics

The Group's Ethics Policy requires all employees to act with the utmost good faith and integrity and commits the Group to sound business practices, as well as to compliance with applicable legislation.

A fraud prevention policy, a response plan and fraud hotline were implemented. The plan includes identification of fraud risks and fraud scams, whilst promoting whistle blowing, ethical standards and integrity, as well as raising anti-fraud awareness among employees.

The fraud hotline number, +27 800 204 880, is operated by an independent organisation and the employees have been made aware of it through an extensive communication campaign.

Board meetings

The Board met six times during the year. The attendance at board and committee meetings was as follows:

Board of Directors	Board meetings (5)[1] + (1)[1] Special		Group Audit and Risk Committee (3)[1]		Group Personnel and Remuneration Committee (2)[1]		AGM (1)[1]
	Composition	Attendance	Composition	Attendance	Composition	Attendance	Attendance
Dr SP Sibisi	Chairman	6			Chairman	2	1
Mr S Liebenberg	Group CEO	6	Invitee		Invitee		1
Ms SH Chaba	Member	6			Member	2	-[2]
Dr BG Halse	Member	5					-[2]
Mr A Hirsch	Member	4	Member	2			-[2]
Mr LC Jones	Member	6	Member	3			1
Mr NR Kunene	Member	6					1
Ms CC Mulder	Member	6	Chairman	3			1
Ms N Nyembezi-Heita	Member	5					1
Mr MS Phalatse	Member	6			Member	2	1
Mr MT Sadik	Group FD	6	Invitee				1
Mr CML Savage	Member	5	Member	3			1
Ms T Seretse	Member	6					
Mr R Boqo	[3]		Member	3			

[1] *Number of meetings*
[2] *Apologies*
[3] *Mr NR Boqo is an external independent member of the Group Audit and Risk Committee.*

PUBLIC FINANCE MANAGEMENT ACT

Compliance with the PFMA and Treasury Regulations is addressed by internal risk management and internal audit processes. The Directors confirm that as far as they can ascertain, Denel has complied with the relevant provisions of the PFMA and Treasury Regulations in all material respects.

COMPANIES ACT

In terms of section 268 G (d) of the Companies Act, 1973 (Revised), the Directors confirm that the Company has lodged with the Registrar all such returns as are required by the Act.

Group Company Secretary: Ms CVV Ramphele

The business and postal addresses are:

Denel (Pty) Ltd	
Nellmapius Drive	PO Box 8322
Irene	Centurion
Gauteng	0046
Republic of South Africa	Republic of South Africa

DIRECTORS' AND EXECUTIVE COMMITTEE MEMBERS' EMOLUMENTS

The following amounts were either paid or accrued to the Directors and Executive Committee members during the year:

Executive Directors and Executive Committee members

Emoluments	Total	Remu-neration	Allow-ances	Perform-ance bonus	Loss of office	Contribu-tions made: Pension and medical
	R'000	R'000	R'000	R'000	R'000	R'000
2008						
Mr S Liebenberg	8,352	3,415	462	4,095	-	380
Mr MT Sadik	3,650	2,014	162	1,236	-	238
Mr HM Ivy	1,377	769	95	390	-	123
Maj Gen (Ret) OA Schür [1]	75	61	7	-	-	7
Ms PC Baloyi [2]	1,001	344	43	184	382	48
Ms AC Kinley	2,469	1,513	96	715	-	145
Mr JMS Sekhasimbe [3]	1,896	99	28	-	1,755	14
Ms TP Mushungwa [4]	1,037	539	144	264	-	90
Mr ZN Ntshepe	1,318	665	184	371	-	98
Ms T Swiegelaar	1,610	986	54	457	-	113
Ms CVV Ramphele	320	230	50	-	-	40
Total	**23,105**	**10,635**	**1,325**	**7,712**	**2,137**	**1,296**
2007						
Mr S Liebenberg	7,397	3,261	527	3,250	-	359
Mr MT Sadik	2,439	1,332	116	825	-	166
Mr HM Ivy	832	545	64	148	-	75
Ms PC Baloyi	979	637	74	186	-	82
Ms AC Kinley	2,013	1,378	96	406	-	133
Mr ZN Ntshepe	1,099	639	151	218	-	91
Ms T Swiegelaar	1,295	870	55	269	-	101
Mr JMS Sekhasimbe	780	525	165	-	-	90
Total	**16,834**	**9,187**	**1,248**	**5,302**	**-**	**1,097**

[1] *Maj Gen (Ret) OA Schür: appointed to the Executive Committee, February 2008*
[2] *Ms PC Baloyi: resigned from the Executive Committee, October 2007*
[3] *Mr JMS Sekhasimbe: resigned from the Executive Committee, May 2007*
[4] *Ms TP Mushungwa: appointed to the Executive Committee, June 2007*

Non-Executive Directors

Emoluments	2008 R'000	2007 R'000
Dr SP Sibisi (Chairman)	650	650
Dr IM Phillips	-	39
Ms CC Mulder	67	85
Ms N Nyembezi-Heita	48	43
Dr BG Halse	40	48
Mr MS Phalatse	71	28
Mr CML Savage	59	8
Ms S Chaba	63	8
Ms T Seretse	56	8
Mr LC Jones	39	16
Mr NR Kunene	56	24
Subtotal	**1,149**	**957**
Mr NR Boqo	10	-
Total	**1,159**	**957**

POST BALANCE SHEET EVENTS

The following matters arose post balance sheet between 31 March 2008 and 15 July 2008:

- On 1 April 2008, the Company disposed of its shareholding in Cosource (Pty) Ltd to Columbus Technologies (Pty) Ltd for R 7.2 million;
- On 11 June 2008, Cabinet considered the recommendations of a task group appointed by it on the commercial sustainability and funding requirements of Denel's core entities and referred these recommendations for final decision to its Cabinet's Committee for the Economic Sector;
- On 25 June 2008, Cabinet's committee for the Economic Sector considered and approved the recommendations on the future commercial viability of Denel's core entities; and
- On 8 July 2008, the Shareholder issued a Government Guarantee of R 880 million.


3

Group Annual Financial Statements

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DENEL

CONSOLIDATED BALANCE SHEETS

as at 31 March 2008

	Notes	Group 2008 R million	Group 2007 R million	Company 2008 R million	Company 2007 R million
ASSETS					
Non-current assets		1,475.8	1,348.3	1,661.3	1,457.3
Property, plant and equipment	10	966.9	851.5	761.4	807.7
Investment properties	11	117.1	88.9	117.1	88.8
Intangible assets	12	31.5	8.7	31.5	8.7
Investments in subsidiaries	13			433.8	257.9
Investments in associated companies	14	91.3	60.9	81.2	30.6
Loans receivable	15	14.5	22.5	14.5	22.5
Deferred tax assets	16	254.5	315.8	221.8	241.1
Current assets		3,606.8	2,615.5	2,885.0	1,992.5
Inventories	17	1,072.2	1,066.6	684.3	733.1
Trade and other receivables	18	1,405.1	1,146.6	1,161.5	925.0
Reinsurance asset	19	17.2	16.0		
Derivative financial assets	20.1	148.7	47.9	135.8	47.9
Cash and cash equivalents	21	963.6	338.4	903.4	286.5
Non-current assets held for sale	5.3	57.7	539.9	23.3	409.7
Total assets		5,140.3	4,503.7	4,569.6	3,859.5
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the parent					
Issued share capital	22	1,225.1	1,016.4	1,225.1	1,016.4
Share premium	22	4,251.3	3,527.0	4,251.3	3,527.0
Other reserves		11.9	44.0	10.9	43.3
Accumulated loss		(4,263.1)	(3,960.7)	(4,223.1)	(4,101.9)
Total equity attributable to equity holders of the parent		1,225.2	626.7	1,264.2	484.8
Minority interests	23	102.3	6.0		
Total equity		1,327.5	632.7	1,264.2	484.8
Non-current liabilities		720.9	856.4	664.3	722.0
Interest bearing borrowings	24	0.8	1.5	0.8	1.5
Provisions	25.1	481.3	549.4	441.7	479.4
Deferred tax liabilities	16	238.8	305.5	221.8	241.1
Current liabilities		3,080.7	2,999.9	2,641.1	2,652.7
Trade and other payables	26	753.0	626.6	583.0	528.1
Derivative financial liabilities	20.2	184.7	116.4	182.0	113.9
Interest bearing borrowings	24	234.2	832.5	234.2	832.0
Advance payments received	27.1	902.3	609.2	861.9	546.6
Provisions	25.2	993.3	800.5	780.0	632.1
Tax liabilities		13.2	14.7	-	-
Non-current liabilities held for sale	5.3	11.2	14.7	-	-
Total liabilities		3,812.8	3,871.0	3,305.4	3,374.7
Total equity and liabilities		5,140.3	4,503.7	4,569.6	3,859.5

CONSOLIDATED INCOME STATEMENTS

for the year ended 31 March 2008

		Group		Company	
		2008	2007	2008	2007
	Notes	R million	R million	R million	R million
REVENUE	2.1	3,894.3	3,309.8	3,213.3	3,347.7
TURNOVER	2.2	3,818.1	3,268.1	3,050.9	3,042.7
COST OF SALES	3	(3,218.6)	(2,514.1)	(2,481.9)	(2,326.8)
GROSS PROFIT		599.5	754.0	569.0	715.9
OTHER INCOME	4	249.8	116.6	298.2	361.3
OPERATING EXPENSES	3	(1,082.0)	(1,257.4)	(912.4)	(1,242.2)
LOSS BEFORE NET FINANCE COSTS AND INCOME FROM ASSOCIATED COMPANIES		(232.7)	(386.8)	(45.2)	(165.0)
Net finance costs		(60.5)	(143.0)	(107.9)	(145.9)
Finance expenses	8.1	(136.6)	(181.5)	(181.6)	(197.7)
Finance income	8.2	76.1	38.5	73.7	51.8
Share of results of associated companies	14	(23.1)	28.9		
LOSS BEFORE TAXATION		(316.3)	(500.9)	(153.1)	(310.9)
Taxation expense	9	(5.0)	(6.4)	-	(4.6)
LOSS AFTER TAXATION FROM CONTINUING OPERATIONS		(321.3)	(507.3)	(153.1)	(315.5)
Loss for the year from discontinued operations	5.1	(25.9)	(41.8)	(0.5)	-
LOSS FOR THE YEAR		(347.2)	(549.1)	(153.6)	(315.5)
LOSS FOR THE YEAR IS ATTRIBUTABLE TO:					
Equity holders of the parent		(334.5)	(548.5)		
Minority shareholders		(12.7)	(0.6)		
		(347.2)	(549.1)		

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 March 2008

		Attributable to the equity holders of the parent			
		Share capital	Share premium	Revaluation reserves [1]	Contingency reserves [2]
	Notes	R million	R million	R million	R million
Group					
Balance at 31 March 2006		889.5	3,086.9	43.3	1.7
Shares issued	22	126.9	440.1		
Transfers to accumulated loss				-	(1.0)
Loss for the year					
Balance at 31 March 2007		1,016.4	3,527.0	43.3	0.7
Shares issued	22	208.7	724.3		
Shares issued by subsidiary to minority shareholders					
Transfers (from)/ to accumulated loss				(32.4)	0.3
Loss for the year					
Balance at 31 March 2008		1,225.1	4,251.3	10.9	1.0
Company					
Balance at 31 March 2006		889.5	3,086.9	43.3	-
Shares issued	22	126.9	440.1		
Loss for the year					
Balance at 31 March 2007		1,016.4	3,527.0	43.3	-
Shares issued	22	208.7	724.3		
Transfers to accumulated loss				(32.4)	-
Loss for the year					
Balance at 31 March 2008		1,225.1	4,251.3	10.9	-

[1] *The revaluation reserves originated when properties were transferred from property, plant and equipment to investment properties*
[2] *In terms of the Short-term Insurance Act, Densecure (Pty) Ltd is required to raise a contingency reserve of 10.0% of premiums written, less approved reinsurance (as defined in the Short-term Insurance Act, 1998). The reserve can only be utilised with prior permission of the Registrar of Insurance.*

Attributable to the equity holders of the parent			
Accumulated loss	Total	Minority interests	Total equity/ (deficit)
R million	R million	R million	R million
(3,413.2)	608.2	6.6	614.8
	567.0	-	567.0
1.0	-	-	-
(548.5)	(548.5)	(0.6)	(549.1)
(3,960.7)	626.7	6.0	632.7
	933.0	-	933.0
	-	109.0	109.0
32.1	-	-	-
(334.5)	(334.5)	(12.7)	(347.2)
(4,263.1)	1,225.2	102.3	1,327.5
(3,786.4)	233.3		
	567.0		
(315.5)	(315.5)		
(4,101.9)	484.8		
	933.0		
32.4	-		
(153.6)	(153.6)		
(4,223.1)	1,264.2		

CONSOLIDATED CASH FLOW STATEMENTS

for the year ended 31 March 2008

	Notes	Group 2008 R million	Group 2007 R million	Company 2008 R million	Company 2007 R million
CASH FLOW FROM/ (UTILISED IN) OPERATING ACTIVITIES		72.0	(1,015.0)	258.8	(683.8)
Cash receipts from customers		3,820.5	3,195.1	3,045.1	2,907.9
Cash paid to suppliers and employees		(4,145.0)	(4,094.2)	(3,268.2)	(3,724.3)
Cash utilised in operations	28.1	(324.5)	(899.1)	(223.1)	(816.4)
Increase/ (decrease) in advance payments received		422.2	(42.8)	450.3	(56.4)
Interest paid		(80.2)	(96.9)	(125.2)	(113.2)
Interest received		70.6	43.9	68.2	56.8
Dividend received	4	-	-	88.6	250.0
Tax paid		(16.1)	(20.1)	-	(4.6)
CASH FLOW FROM/ (UTILISED IN) INVESTING ACTIVITIES		149.5	69.5	24.1	(263.2)
Acquisition of property, plant and equipment	10	(270.4)	(118.1)	(107.4)	(100.0)
Proceeds on disposal of property, plant and equipment		443.6	12.1	442.8	12.2
Acquisition of investment properties		-	(5.1)	-	(0.1)
Proceeds on disposal of investment properties		175.1	227.8	58.2	-
Acquisition of intangible assets		(27.6)	(5.9)	(26.2)	(3.4)
Acquisition of business	6	-	(55.7)	-	(55.7)
Decrease of loans receivable		8.1	5.8	8.1	5.8
Proceeds on disposal of divisions and subsidiaries		27.8	-	44.7	-
Cash movement as a result of entities disposed		(213.0)	-	(35.1)	-
Repayments of loan advance to associated companies		5.9	8.6	5.9	8.6
Investments in subsidiaries		-	-	(366.9)	(130.6)
CASH FLOW BEFORE FINANCING ACTIVITIES		221.5	(945.5)	282.9	(947.0)
CASH FLOW FROM FINANCING ACTIVITIES		399.5	555.0	334.0	554.6
Repayments of interest bearing borrowings		(832.2)	(12.0)	(831.7)	(12.4)
Proceeds from interest bearing borrowings		148.6	-	148.6	-
Proceeds from share capital issued		933.0	567.0	933.0	567.0
Proceeds from minority shareholder		66.0	-	-	-
Increase in cash managed on behalf of an associated company		84.1	-	84.1	-
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		621.0	(390.5)	616.9	(392.4)
CASH AND CASH EQUIVALENTS:					
AT THE BEGINNING OF THE YEAR		338.4	730.2	286.5	678.9
Cash movement of entities held for sale		4.2	(1.3)	-	-
AT THE END OF THE YEAR	21	963.6	338.4	903.4	286.5

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2008

1 CORPORATE INFORMATION

Denel (Pty) Ltd is a company incorporated and domiciled in South Africa. The group annual financial statements are presented in South African Rand (Rand), rounded off to the nearest million.

The group annual financial statements for the year ended 31 March 2008 comprise the Company, its subsidiaries and associated companies.

1.1 Statement of compliance

The group annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of preparation

The group annual financial statements are prepared on the historic cost basis, with the exception of derivative financial instruments, financial instruments at fair value through profit and loss, and investment properties, which are measured at fair value.

The preparation of group annual financial statements in conformity with IFRS requires management to make judgements, 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 the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing 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 significant effect on the group annual financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1.2.

Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted the following new and amended IFRS and IFRIC interpretations during the year: IFRS 7 *Financial Instruments: Disclosures,* the amendments to IAS 1 *Presentation of Financial Statements – Capital Disclosures* and IFRIC 9 *Reassess-ment of Embedded Derivatives*. The adoption of these revised standards and interpretations impacted the type and amount of disclosures made in these financial statements, but had no impact on the reported profits or financial position of the Group. In accordance with the transitional requirements of the standards, the Group has provided full comparative information. The principle effects of these changes are as follows:

IFRS 7 *Financial Instruments: Disclosures*
This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements.

IAS 1 *Presentation of Financial Statements – Capital Disclosures*
This amendment requires the Group to make new disclosures to enable users of the financial

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2008

statements to evaluate the Company's objectives, policies and processes for managing capital. These new disclosure are shown in note 33.

IFRIC 9 *Reassessment of Embedded Derivatives*
IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.

Basis of consolidation

The group 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 by the Group entities.

Subsidiaries

Subsidiaries are companies in which the Group has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. Typically this will be where the Company holds more than 50.0% of the voting rights, including potential voting rights that are currently exercisable or convertible, controls the composition of the Board of Directors, or is significantly exposed to the risks of or enjoys the benefits of ownership. Subsidiaries are consolidated from the date on which effective control is transferred to the Group, up until the date control ceases.

In the separate financial statements, investments in subsidiaries, jointly controlled entities 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.

Associated companies

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 group annual financial statements include the Group's share of total recognised gains and losses of associated companies on an equity accounting basis, from the date significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associated company, the Group's carrying amount is reduced to nil 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 an associated company.

Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and/ or losses for the Group that are recorded in profit or loss.

Transactions eliminated on consolidation

All inter-company transactions, balances and unrealised gains and losses are eliminated in preparing the group annual financial statements. Unrealised gains arising from transactions with associated companies and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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 group 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 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 of the initial amount of revenue agreed in the contract and claims and incentive payments.

Business entities 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.

Product warranties

Anticipated warranty cost is based on the technical risk estimations in terms of single opportunity production contracts, and historical data in terms of repetitive production type contracts. The estimation is based on past experience (proven results) and varies per type of contract. This is expressed, as a percentage of cost of sales, ranging from nil to 10.0%, is determined at the quotation phase and is reviewed on a regular basis.

Site restoration

Certain divisions within the Group carry out manufacturing and testing activities that contaminate the land on which they are situated. In accordance with the applicable legislation and the Group's environmental policy in respect of decontamination, a site restoration provision has been raised.

Management performed a detailed study in consultation with external specialists in the Land Systems business segment, which was identified as the most likely area to have such contamination. Following the study, a high level review of the remaining business segments was performed taking into consideration the results of the study and the nature of their business activities.

A conservative 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.

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for the year ended 31 March 2008

In determining the provision for decommissioning, three key component costs were considered, namely remediation of contaminated land (typically soils and waste materials), decontamination 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 3 and 30 years. The anticipated future cash flows have been discounted at a real interest rate, which is based on the risk free rate of return and the expected long-term inflation rate.

Counter trade

The Group endeavours to fulfil its counter trade obligations as indicated in note 27.3 of the group 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 counter trade vary between 60.0% and 100.0% of export sales.
- Calculation of possible liquidated damages or cost of exchanging credits should the Group not fulfil its obligations is based on negotiations to exchange counter trade credits or the maximum penalty payable (between 4.0% and 8.5%) of the obligation as mentioned above.
- Exchange rates as at year-end have been used to convert the obligations to South African Rand.

Post employment benefit obligations

The cost of defined benefit pension plans and other post employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

1.3 Summary of significant accounting policies

1.3.1 Revenue recognition

Sale of goods and services

Revenue 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.

Contracts

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 then revenue is recognised to the extent of contract costs incurred that is probable of being recovered, while contract costs are recognised in the period in which they incurred. Depending on the nature of the contract, the stage of completion is determined as follows:

- For the development of aircraft 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 client certification takes place.
- On all other contracts, the stage of completion is determined by reference to costs incurred to date as a percentage of total estimated costs.

A group of contracts, whether with a single customer or with several customers, are treated as a single construction contract when the contracts are so closely inter-related such that they are, in effect, part of a single project with an overall profit margin.

Contract revenue comprises:

a) The initial amount of revenue agreed in the contract; and
b) Variations in contract work and incentive payments:

    i) To the extent that it is probable that they will result in revenue; and
    ii) They are capable of being 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.

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 rental income.

Finance income and expenses

Finance income comprises interest income on funds invested.

Interest income is recognised using the effective interest method when it is determined that such income will accrue to the Group.

Finance expenses comprise interest expenses 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 method.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2008

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.

Dividents

Dividend income is recognised in profit or loss when the right to receive payment is established.

1.3.2 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 resale.

Assets are classified as non-current assets held for sale if the carrying amount would be recovered principally through sale and not continuing use.

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 and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale are included in profit or loss. Gains, limited to previously recognised impairment losses and losses on subsequent measurement are included in profit or loss.

1.3.3 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 a finance cost as it occurs.

1.3.4 Taxes

Income tax for the year comprises of current and deferred tax. Income tax is recognised in profit or loss, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date and any adjustments relating to prior years.

Deferred tax is provided in full using the balance sheet liability method for 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. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to apply for the year when the asset is realised or the liability is settled based on tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is only recognised to the extent that it is probable that future profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related taxation benefit will realise. Secondary Tax on Companies (STC) that arises from the distribution of dividends is recognised at the same time as the liability to pay the related dividend.

1.3.5 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, as well as 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 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 comprises 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.

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 method. Amortised cost is calculated after having taken into account any issue costs, discounts and premium on settlement.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2008

Trade and other payables

Trade and other payables are stated at amortised cost. Gains and losses on the derecognition 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. 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 balance sheet date.

Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately. Where the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not 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.

All foreign exchange embedded derivatives are measured at fair value. Gains or losses arising on subsequent measurement of forward exchange contracts and options are included in profit or loss.

The embedded derivative assets or liabilities are released to sales, cost of sales, operating costs or a related asset to reflect a Rand 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 set-off 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.

Derecognition of financial assets and financial liabilities

Financial assets

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

1.3.6 Foreign currencies

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The group annual financial statements are presented in Rands, which is the Company's functional and presentation currency.

Recording of foreign transactions

All foreign exchange transactions are accounted for at the foreign exchange rate ruling at the date of the transactions.

Translation of foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Rand 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 Rand at foreign exchange rates ruling at the dates the fair value was determined.

1.3.7 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 values are recorded 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.

The valuations are prepared by considering the aggregate of the net annual rents receivable from the properties and where relevant, associated costs. A yield, which 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 10.0% - 15.0%
- Manufacturing 10.0% - 15.0%

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 credit-worthiness, 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 rent reviews or lease renewals are pending with anticipated reversionary increases, all notices and, where appropriate, counter notices have been served validly and within the appropriate time.

Rental income from investment property is accounted for as described in the revenue policy

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

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for rentals. 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.

When an item of property, plant and equipment is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity if it is a gain. Upon disposal of the item, the gain is transferred to retained earnings. Any loss arising in this manner is recognised immediately in profit or loss.

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 a 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 or for capital appreciation or both. Any such property interest under an operating lease is classified as an investment property is carried at fair value. Operating leases are treated as finance leases. Lease payments are accounted for as described in the accounting policy for leases.

1.3.8 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.

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property.

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 property are depreciated over the period of the lease or the expected useful life whichever is the shorter period.

The estimated useful lives are as follows:

• Buildings	20 - 50 years
• Plant	3 - 40 years
• Machinery and equipment	3 - 60 years
• Vehicles	5 years
• Office furniture and accessories	3 - 20 years
• Computer equipment	3 - 5 years

The useful lives and the residual values of items of property, plant and equipment are reassessed annually.

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.

Derecognition

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 derecognition of items of property, plant and equipment are included in profit or loss.

Spare parts

Major spare parts and servicing equipment qualify as property, plant and equipment when the Group expects to use them during more than one period. 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.

1.3.9 Leases

The determination of whether an arrangement is or contains a lease, is based on the substance of the arrangement at inception date, whether the fulfilment of the arrangement is dependent on the use of the specific asset or assets, or the arrangement contains a right to use the assest. For arrangements entered into prior to 1 April 2005, the date of inception is deemed to be 1 April 2005, in accordance with the transitional requirements of IFRIC 4.

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 balance sheet. 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.

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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.

1.3.10 Intangible assets

Intangible assets that are acquired separately by the Group are measured on initial recognition 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 the amortisation method reviewed at least at each financial year-end and any change is treated as a change in an 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. Development costs are reviewed annually and are expensed where they do not qualify for capitalisation.

The amortisation of capitalised development costs commences once the product or service becomes available for sale or use. Costs are amortised over the period of expected economic benefit.

Patents

Patents are recognised at cost if it is probable that future economic benefits will flow to the Group. Amortisation is charged on a systematic basis over the estimated useful lives of patents, where its legal rights determine the amortisation periods.

Computer software

Computer software is measured on initial recognition 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 not exceeding three 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) 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 either the Group's primary or the Group's secondary reporting format determined in accordance with IAS 14 *Segment Reporting*.

Where goodwill forms part of a cash-generating unit (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 directly in profit or loss.

1.3.11 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 balance sheet 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

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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 balance sheet 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.

1.3.12 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 may be 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 the 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 its present location and condition.

Work-in-progress, finished products and contracts-in-progress

These are valued at cost and include the cost of purchase of direct materials, direct labour, allocated variable and fixed production overheads based on normal production levels.

Consumable inventories

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

Property development

Property development is valued at cost and includes directly attributable transaction costs, costs of purchases of property, development costs, construction costs and borrowing costs.

1.3.13 Borrowing costs

Borrowing costs incurred on 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 an expense when incurred.

1.3.14 Advance payments received from sales contracts

In the case of comprehensive and/ or long-term sales contracts, advance payments are negotiated with local and foreign clients. 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 clients for advance payments received. Advance payments received are recognised as a current liability. 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.

1.3.15 Employee benefits

Pension obligations

The Group operates a defined benefit and a defined contribution plan, the assets of which are held in separate trustee administered funds. The pension plans are funded by payments from employees and by the relevant Group entities based on the recommendations of independent qualified actuaries.

For defined benefit plans, the pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of provid-ing pensions is charged to profit or loss to spread the regular cost over the service lives of employees in

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accordance with the advice of qualified actuaries who carry out a full valuation of the plan every three years. The pension obligations are measured as the present value of the estimated future cash outflows using interest rates of government securities that have terms of maturity approximating the terms of the related liability.

Actuarial gains and losses that exceed 10.0% of the greater of the present value of the Group's pension obligations and the fair value of the plan assets are amortised over the expected average remaining service lives of the participating employees.

The Group's obligations for contributions to the defined contribution pension plans are recognised as an expense in profit or loss in the year to which they relate. Actuarial gains are not recognised in the group annual financial statements.

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.

1.3.16 Counter trade obligations

Counter trade obligations arise when the Group has entered into export contracts where the buyer's country requires counter trade by the Group. Counter trade obligations can be a percentage of the value of the export contract up to 100.0%. 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; and/ or
- Participation in a business venture in the buyer's country or prescribes a form of investment in the buyer's country.

Counter trade obligations are disclosed as contingent liabilities, and are only brought into account as liabilities to the extent that there are present obligations to settle.

1.3.17 Segment reporting

A reportable segment is a distinguishable component of the Group that is engaged either in providing products or services (business segments), or in providing products or services within a particular economic environment (geographical segments), which is subject to risks and rewards that are different from those of other segments. All of the Group's segments are within the same economic environment, hence no geographical segments.

1.3.18 Insurance contracts

An insurance contract is a contract that transfers significant insurance risk from policyholder to insurer. An assessment of whether recognised insurance liabilities are adequate is performed at each reporting date, using current estimates of future cash flows under insurance contracts. If the assessment shows that the carrying amount of insurance liabilities (less related deferred acquisition costs and related intangible assets) is inadequate in light of the estimated future cash flows, the entire deficiency is recognised in profit or loss.

Reinsurance contracts held

Contracts entered into by the Company with reinsurers under which the Group is compensated for losses on one or more insurance contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets, which are dependent on the expected reinsurance claims and benefits arising under the related reinsured insurance contracts. These assets consist of short-term receivables due from reinsurers. The amounts recoverable from or due to reinsurers are measured in terms of each reinsurance contract.

Reinsurance assets are assessed for impairment at each balance sheet date. A reinsurance asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due, and that event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. Impairment losses on reinsurance assets are recognised in profit or loss.

Receivables and payables related to insurance contracts

Insurance receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

1.3.19 Impact of Standards, Interpretations and Amendments that are not yet effective

At the date of authorisation of the group annual financial statements for the year ended 31 March 2008, the following Standards and Interpretations were in issue but not yet effective:

Standard/ Interpretation	Title	Issue date	Effective date
IAS 1	*Presentation of Financial Statements (Revised)*	September 2008	1 January 2009
IFRS 2	IFRS 2 *Amendment - Share-based Payments: Vesting Conditions and Cancellations*	January 2008	1 January 2009
IFRS 3	*Business Combinations (Revised)*	January 2008	1 July 2009
IFRS 8	*Operating Segments*	November 2006	1 January 2009
IAS 23	*Borrowing Costs (Revised)*	March 2007	1 January 2009
IAS 27	*Consolidated and Separate Financial Statements (Revised)*	January 2008	1 July 2009
IAS 32	IAS 32 *Amendments - Financial Instruments: Presentation* IAS 1 *Presentation of Financial Statements (Revised): Puttable Financial Instruments and Obligations Arising on Liquidation*	February 2008	1 January 2009
IFRIC 12	*Service Concession Arrangements*	November 2006	1 January 2008
IFRIC 13	*Customer Loyalty Programmes*	June 2007	1 July 2008
IFRIC 14	*The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*	July 2007	1 January 2008

IFRS 2, IAS 32, IFRIC 12, IFRIC 13 and IFRIC 14 are not applicable to the business of the Group and will therefore have no impact on future group annual financial statements.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2008

The directors are of the opinion that the impact of the application of the remaining standards will be as follows:

IAS 1 *Presentation of Financial Statements (Revised)*

The revision of IAS 1 affects the presentation of comparative information upon a retrospective application of an accounting policy or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements, as well as affects the reporting of owner changes and non-owner changes in equity. The revision of IAS 1 also introduces the statement of comprehensive income.

The Group plans to adopt the revised IAS 1 in its 2010 financial year. The revised standard will have no impact on the results of the Group.

IFRS 3 *Business Combinations*

The main revisions made were:

- The scope was broadened to cover business combinations involving only mutual entities and business combinations achieved by contract alone.
- The definitions of a business and a business combination were amended and additional guidance was added for identifying when a group of assets constitutes a business.
- For each business combination, the acquirer must measure any non-controlling interest in the acquiree either at fair value or as the non-controlling interest's proportionate share of the acquiree's net identifiable assets. Previously, only the latter was permitted.
- The requirements for how the acquirer makes any classifications, designations or assessments for the identifiable assets acquired and liabilities assumed in a business combination were clarified.
- The period during which changes to deferred tax benefits acquired in a business combination can be adjusted against goodwill has been limited to the measurement period (through a consequential amendment to IAS 12 *Income Taxes*).
- An acquirer is no longer permitted to recognise contingencies acquired in a business combination that do not meet the definition of a liability.
- Costs the acquirer incurs in connection with the business combination must be accounted for separately from the business combination, which usually means that they are recognised as expenses (rather than included in goodwill).
- Consideration transferred by the acquirer, including contingent consideration, must be measured and recognised at fair value at the acquisition date. Subsequent changes in the fair value of contingent consideration classified as liabilities are recognised in accordance with IAS 39, IAS 37 or other IFRSs, as appropriate (rather than by adjusting goodwill). The disclosures required to be made in relation to contingent consideration were enhanced.
- Application guidance was added in relation to when the acquirer is obliged to replace the acquiree's share-based payment awards; measuring indemnification assets; rights sold previously that are reacquired in a business combination; operating leases; and valuation allowances related to financial assets such as receivables and loans.
- For business combinations achieved in stages, having the acquisition date as the single measurement date was extended to include the measurement of goodwill. An acquirer must remeasure any equity interest it holds in the acquiree immediately before achieving control at its acquisition date fair value and recognise the resulting gain or loss, if any, in profit or loss.

The Group plans to adopt the revised IFRS 3 in its 2011 financial year. As no business combinations are currently planned, the statement will have no impact on the Group.

IFRS 8 *Operating Segments*

IFRS 8 was issued as part of the convergence project with the US Financial Accounting Standards Board. This new standard replaces IAS 14 *Segment Reporting* and adopts a management approach to segment reporting as required in the US Standard SFAS 131 *Disclosures about Segments of an Enterprise and Related Information*. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. This information may be different from that reported in the balance sheet and income statement and entities will need to provide explanations and reconciliations of the differences.

Additional disclosures required by IFRS 8 are:

- For all entities:
  - Information about products and services;
  - Information about geographical areas; and
  - Information about major customers.
- The factors used to identify an entity's reportable segments.
- For each reportable segment, information is disclosed only if included in the results reported to the Chief Operating Decision Maker (CODM). Items currently required by IAS 14 plus the following are to be considered:
  - Interest revenue;
  - Interest expense;
  - Income tax expense or income; and
  - Segment liabilities, if such information is reviewed by the CODM.
- An explanation of the measurement basis used to determine the amounts disclosed.
- A reconciliation between total reportable segment items with the amounts disclosed in the group annual financial statements for revenues, profit or loss, assets, liabilities and other material items.

The Group will adopted by IFRS 8 for the first time in its financial reporting period ending 31 March 2010.

The additional disclosure will not have any financial impact.

IAS 23 *Borrowing Costs (Revised)*

The Group will be required to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset, and recognise other borrowing costs as an expense in the period in which it incurs them.

The Group plans to adopt IAS 23 in its 2009 financial year. The Group's current accounting policy agrees to this amendment, therefore the amendment will have no effect on the Group's numbers.

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for the year ended 31 March 2008

IAS 27 *Consolidated and Separate Financial Statements (Revised)*

The main amendments made were:

- The term 'minority interest' was replaced by the term 'non-controlling interest', with a new definition.
- An entity must attribute total comprehensive income to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. The previous version required excess losses to be allocated to the owners of the parent, except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.
- Requirements were added to specify that changes in a parent's ownership interest in a subsidiary that does not result in the loss of control must be accounted for as equity transactions. The previous version did not have requirements for such transactions.
- Requirements were added to specify how an entity measures any gain or loss arising on the loss of control of a subsidiary. Any such gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The previous version required the carrying amount of an investment retained in the former subsidiary to be regarded as its cost on initial measurement of the financial asset in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

The amendments also changed the structure of IAS 27, by moving some paragraphs within the standard. The paragraphs were renumbered for ease of reading.

The Group plans to adopt the revised IAS 27 in its 2011 financial year. As the results of future transactions cannot be anticipated, the impact of the changes cannot be determined.

	Group 2008 R million	Group 2007 R million	Company 2008 R million	Company 2007 R million
2 Revenue				
2.1 Revenue comprises				
Turnover	3,818.1	3,268.1	3,050.9	3,042.7
Royalties received	0.1	3.2	0.1	3.2
Dividend received	-	-	88.6	250.0
Finance income	76.1	38.5	73.7	51.8
	3,894.3	3,309.8	3,213.3	3,347.7
2.2 Turnover comprises				
Sale of goods and services	3,834.3	3,260.6	2,994.6	3,021.3
Income from investment properties	41.4	33.5	56.3	21.4
Total turnover	3,875.7	3,294.1	3,050.9	3,042.7
Less: Discontinued operations	(57.6)	(26.0)	-	-
	3,818.1	3,268.1	3,050.9	3,042.7
3 Cost of sales and operating expenses				
Total cost of sales from continuing operations	3,218.6	2,514.1	2,481.9	2,326.8
Cost of sales	3,260.2	2,544.5	2,481.9	2,326.8
Less: Discontinued operations	(41.6)	(30.4)	-	-
Total operating expenses from continuing operations	1,082.0	1,257.4	912.4	1,242.2
Operating expenses	1,127.5	1,294.1	912.4	1,242.2
Less: Discontinued operations	(45.5)	(36.7)	-	-
	4,300.6	3,771.5	3,394.3	3,569.0
Cost of sales and operating expenses are arrived at after taking the following items into account:				
Amortisation of intangible assets (refer note 12)	3.5	5.6	2.5	5.6
Development costs	0.9	-	-	-
Software	2.6	5.5	2.5	5.5
Patents	-	0.1	-	0.1
Impairment (reversed)/ raised	(8.1)	295.1	(53.7)	336.5
Property, plant and equipment (refer note 10)	4.5	8.4	4.5	8.4
Assets held for sale (Property, plant and equipment)	9.9	-	-	-
Intangible assets (refer note 12)	43.0	17.4	-	17.4
Investments in subsidiaries	-	-	44.5	47.3
Inventories	23.1	92.3	(13.9)	88.6
Trade and other receivables	(88.6)	177.0	(88.8)	174.8
Auditors' remuneration	22.7	22.5	16.6	20.4
Current year	20.1	19.7	15.0	17.7
Previous year's under accrual	1.4	2.1	1.0	2.1
Other services	1.2	0.7	0.6	0.6

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2008

	Group		Company	
	2008	2007	2008	2007
	R million	R million	R million	R million
3 Cost of sales and operating expenses (continued)				
Cost of sales and operating expenses are arrived at after taking the following items into account (continued):				
Research and development costs	569.6	449.7	507.7	447.2
Depreciation (refer note 10)	108.1	131.7	99.6	125.9
Buildings	17.1	23.6	17.0	23.2
Plant and machinery	55.7	64.8	52.0	61.3
Vehicles and office furniture	8.2	7.2	5.7	6.4
Computer equipment	27.1	36.1	24.9	35.0
Operating expenses for investment properties	66.8	63.5	103.9	49.9
Operating lease rentals	46.2	10.4	43.0	7.9
Buildings	35.2	3.0	33.6	1.3
Plant and machinery	3.8	3.4	3.0	2.8
Vehicles and office furniture	3.2	2.3	2.5	2.1
Computer equipment	4.0	1.7	3.9	1.7
Directors' remuneration [1]	12.6	10.1	12.5	10.1
Executive directors	11.4	9.8	11.4	9.8
Non-executive directors	1.2	1.0	1.2	1.0
Consultation fees	68.2	42.6	62.7	39.5
Income from subsidiaries			64.3	32.8
Rent			15.7	4.6
Interest			3.3	21.4
Administration fees			12.5	6.0
Other			32.8	0.8
Inventory purchases	1,761.7	1,547.7	1,392.1	1,522.1
Loss on disposal of assets	133.8	4.7	133.4	1.5
Property, plant and equipment	2.0	1.4	1.6	1.2
Investment properties	-	2.9	-	-
Intangible assets	-	0.2	-	0.2
Disposal of entity	131.8	-	131.8	-
Subsidiaries and divisions	-	0.2	-	0.1
Staff costs	2,020.9	1,888.5	1,471.5	1,444.8
Services costs	1,577.1	1,565.8	1,124.0	1,204.3
Staff and related provisions	234.0	104.7	184.6	58.4
Medical fund contributions	102.3	103.9	77.6	86.3
Termination benefits paid	8.1	27.5	2.9	17.4
Pension costs: Defined contribution plan	95.8	83.6	81.0	76.7
Pension costs: Defined benefit plan	0.7	1.0	0.7	1.0
Other long-term benefit contributions	2.9	2.0	0.7	0.7

[1] *Detailed remuneration is fully disclosed in the Directors' Report. Executive directors' remuneration included is from date of appointment as director.*

	Group		Company	
	2008	2007	2008	2007
	R million	R million	R million	R million
4 Other income				
Administration and management fees	0.4	-	12.9	6.0
Royalties received	0.1	3.2	0.1	3.2
Commission received	0.2	0.3	0.1	0.1
Fair value adjustment on investment properties	22.4	24.6	22.4	24.6
Profit on disposal of subsidiaries and divisions (refer note 5.2)	2.1	-	2.1	-
Net derivative gains on held-for-trading financial instruments (refer note 7)	45.1	11.1	35.4	9.3
Surplus apportionment: Denel Supplementary Provident Fund	-	16.0	-	16.0
Profit on disposal of property, plant & equipment	90.3	10.0	89.5	9.9
Profit on disposal of investment properties	46.2	-	-	-
Dividend received	-	-	88.6	250.0
Other	48.2	52.6	47.1	42.2
	255.0	117.8	298.2	361.3
Less: Discontinued operations	(5.2)	(1.2)	-	-
	249.8	116.6	298.2	361.3

5 Non-current assets held for sale and discontinued operations

The Board approved a strategy to exit all identified non-core business entities and assets within the Group, as well as enter into equity partnerships for the core businesses.

The following disposals and equity partnership arrangements were concluded during this financial year:

- Specialised Protein Products (Pty) Ltd: The Group's shareholding in the company was disposed on 29 February 2008.
- Denel Optronics Division: The business of the division was disposed to Denel Optronics (Pty) Ltd on 29 June 2008 (a 100.0% owned subsidiary), except for a small portion of the business which was disposed externally. On 20 July 2008, the company issued shares to Carl Zeiss GmbH which diluted the Group's shareholding to 30.0% at which stage the company became an associated company. The company changed its name to Carl Zeiss Optronics (Pty) Ltd on that date.
- The disposal of the properties adjacent to the OR Tambo International Airport have been finalised during the year.

The Group is in negotiations with interested parties for the following transactions:

- Bonaero Park (Pty) Ltd property portfolio: The disposal of the property portfolio of Bonaero Park was substantially concluded during the year, with the transfer of investment property of R 6.8 million (2007: R 9.1 million) still to be finalised.
- Cosource (Pty) Ltd: Negotiations for the disposal of the Group's shareholding was finalised after year-end and the effective date of disposal was 1 April 2008.

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for the year ended 31 March 2008

	Discontinued Operations		Disclosed as held for sale	
	Optronics' PCB and Machine Shop	SPP (Pty) Ltd	Cosource (Pty) Ltd	Total
	R million	R million	R million	R million
5 Non-current assets held for sale and discontinued operations (continued)				
5.1 The results are as follows:				
Group				
2008				
Revenue and other income	-	19.6	43.2	62.8
Expenses, exchange losses and interest	(0.5)	(48.2)	(39.8)	(88.5)
Pre-tax (loss)/ profit	(0.5)	(28.6)	3.4	(25.7)
Tax	-	-	(0.2)	(0.2)
(Loss)/ profit after tax	(0.5)	(28.6)	3.2	(25.9)
Net cash flows attributable				
Cash flow utilised (in)/ from operating activities	-	(24.6)	6.2	(18.4)
Cash flow utilised in investment activities	-	-	(2.0)	(2.0)
Cash flow from financing activities	-	24.6	-	24.6
Total cash flow	-	-	4.2	4.2
2007				
Revenue and other income	-	12.4	13.6	26.0
Expenses, exchange losses and interest	-	(33.2)	(34.6)	(67.8)
Pre-tax loss	-	(20.8)	(21.0)	(41.8)
Net cash flows attributable				
Cash flow utilised (in)/ from operating activities	-	(47.8)	0.5	(47.3)
Cash flow utilised in investment activities	-	-	(2.3)	(2.3)
Cash flow from financing activities		-	0.5	0.5
Total cash flow	-	(47.8)	(1.3)	(49.1)
Company				
2008				
Pre-tax loss	(0.5)	-	-	(0.5)
2007				
Pre-tax profit/ (loss)	-	-	-	-

No tax is applicable as the entities are in a loss making position.

	Group		Company	
	2008	2007	2008	2007
	R million	R million	R million	R million
5 Non-current assets held for sale and discontinued operations (continued)				
5.2 The proceeds on the disposal of discontinued operations are as follows:				
Net asset value	25.7	-	4.6	-
Profit on disposal	2.1	-	2.1	-
Selling price	27.8	-	6.7	-
Net cash flow on disposal	27.8	-	6.7	-
Profit on discontinued operations	2.1	-	2.1	-
The assets and liabilities disposed of were as follows:				
Non-current assets	15.5	-	2.5	-
Current assets	12.6	-	2.7	-
Total assets	28.1	-	5.2	-
Total liabilities	(2.4)	-	(0.6)	-
Net assets	25.7	-	4.6	-
5.3 Non-current assets and liabilities held for sale				
Assets				
Property, plant and equipment	1.0	352.1	-	328.2
Investment properties	30.1	158.9	23.3	81.5
Intangible assets	11.9	11.3	-	-
Other non-current assets	0.2	0.2	-	-
Inventories	1.6	4.7	-	-
Trade and other receivables	7.1	11.1	-	-
Cash and cash equivalents	5.8	1.6	-	-
	57.7	539.9	23.3	409.7
Liabilities				
Interest bearing borrowings	7.2	7.2	-	-
Non-current provisions	-	0.5	-	-
Trade payables and other payables	2.4	4.7	-	-
Advance payments received	0.7	1.0	-	-
Current provisions	0.7	1.3	-	-
Tax liabilities	0.2	-	-	-
	11.2	14.7	-	-

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2008

	Group 2008 R million	Group 2007 R million	Company 2008 R million	Company 2007 R million
6 Acquisition of business				
During the prior year, Denel Aviation, a division of the Company, acquired the D2 workshop as a going concern. The D2 workshop is a MRO facility for components for rotor wing aircrafts. The acquisition of the workshop was necessary for the Company to be accredited by Eurocopter to support the Oryx helicopter.				
The fair value of the identifiable assets and liabilities of the D2 workshop at acquisition date were:				
Assets	-	37.9	-	37.9
Property, plant and equipment (refer note 10)	-	7.3	-	7.3
Inventories	-	25.0	-	25.0
Trade and other receivables	-	5.6	-	5.6
Liabilities	-	4.0	-	4.0
Trade and other payables	-	4.0	-	4.0
Net assets	-	33.9	-	33.9
Goodwill arising from acquisition (refer note 12)	-	21.8	-	21.8
Total consideration	-	55.7	-	55.7
7 Net derivative gains on held-for-trading financial instruments				
7.1 Net foreign exchange (losses)/ gains	(3.0)	12.6	(12.7)	10.8
Losses on settled transactions	(37.6)	(73.7)	(26.3)	(72.4)
Gains on settled transactions	67.5	69.3	64.1	65.3
Losses on revaluations	(69.1)	(185.7)	(66.5)	(183.4)
Gains on revaluations	36.2	202.7	16.0	201.3
7.2 Net gains/ (losses) on commodity swaps	48.1	(1.5)	48.1	(1.5)
Losses on revaluations	-	(3.6)	-	(3.6)
Gains on revaluations	48.1	2.1	48.1	2.1
	45.1	11.1	35.4	9.3

	Group		Company	
	2008	2007	2008	2007
	R million	R million	R million	R million
8 Net finance cost incurred on financial instruments not at fair value through profit and loss				
The amounts below relate to financial instruments measured at amortised cost (financial liabilities, loans and receivables)				
8.1 Finance expenses				
Current interest bearing borrowings	26.7	6.3	26.4	4.5
Non-current interest bearing borrowings	40.8	108.1	40.5	107.9
Secured	-	0.1	-	0.1
Finance leases	0.4	1.1	0.4	106.9
Unsecured	40.4	106.9	40.1	0.9
Inter-group finance expenses			44.6	16.4
Less: Discontinued operations	(1.0)	(1.9)	-	-
	66.5	112.5	111.5	128.8
Unwinding of discount on provisions	70.1	69.0	70.1	68.9
Total finance expense	136.6	181.5	181.6	197.7
8.2 Finance income				
Gross interest received	76.4	38.5	70.4	30.4
Less: Discontinued operations	(0.3)	-	-	-
	76.1	38.5	70.4	30.4
Inter-group finance income			3.3	21.4
Total finance income	76.1	38.5	73.7	51.8
Net finance costs	60.5	143.0	107.9	145.9

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2008

	Group		Company	
	2008	2007	2008	2007
	R million	R million	R million	R million
9 Taxation expense				
SA Normal tax				
Current tax	14.6	33.0	-	4.6
Deferred tax (refer note 16)	(5.4)	(19.2)	-	-
Movement in temporary differences	(5.0)	(19.2)	-	-
Change in tax rate	(0.4)	-	-	-
Share of associated companies	(4.0)	(7.4)	-	-
Current tax	-	-	-	-
Deferred tax	(4.0)	(7.4)	-	-
	5.2	6.4	-	4.6
Less: Discontinued operations	(0.2)	-	-	-
	5.0	6.4	-	4.6

No provision for SA Normal tax has been made for a majority of the companies within the Group as they have assessed losses.

	%	%	%	%
Reconciliation of tax rate				
Effective tax rate	(0.7)	(1.7)	-	-
Reduction in tax rate due to:	29.7	30.7	29.0	29.0
Exempt income	(16.4)	19.6	(51.3)	23.3
Capital profits	-	-	-	-
Deferred tax asset not recognised	51.6	11.8	63.9	8.3
Non-taxable capital gain on property, plant and equipment	-	(0.2)	-	-
Taxable capital gains	5.8	(0.4)	14.3	-
Share of associated companies	1.4	2.0	-	-
Other	(12.7)	(2.1)	2.1	(2.6)
SA Normal tax rate	29.0	29.0	29.0	29.0

	Estimated assessed losses	Assessed losses	Estimated assessed losses	Assessed losses
	R million	R million	R million	R million
The estimated assessed losses available for set-off against future taxable income are as follows:				
Assessed losses	4,390.0	4,815.3	4,073.3	4,216.6
Capital gains tax assessed losses	6.2	11.6	(47.2)	11.2
Computed assessed losses	4,396.2	4,826.9	4,026.1	4,227.8
Assessed losses utilised to create deferred tax asset	(2.2)	(8.6)	-	-
Net available assessed losses	4,394.0	4,818.3	4,026.1	4,227.8

	Land and buildings R million	Plant and machinery R million	Vehicles and office furniture R million	Computer equipment R million	Total R million
10 Property, plant and equipment					
Group					
2008					
Carrying amount at 1 April	473.4	302.7	26.4	49.0	851.5
Additions	14.8	219.3	12.0	24.3	270.4
Capitalised leases	-	-	0.7	-	0.7
Business disposed	-	(9.4)	(0.1)	(0.5)	(10.0)
Disposals	(0.7)	(5.6)	(0.1)	(1.6)	(8.0)
Reclassification	(6.3)	6.0	0.2	0.1	-
Transfer to investment properties (refer note 11)	(5.9)	-	-	-	(5.9)
Transfer to non-current assets held for sale	(19.0)	-	-	(0.2)	(19.2)
Impairment for the year (refer note 3)	-	(4.5)	-	-	(4.5)
Depreciation for the year (refer note 3)	(17.1)	(55.7)	(8.2)	(27.1)	(108.1)
Carrying amount at 31 March	439.2	452.8	30.9	44.0	966.9
Cost	647.2	1,429.4	88.5	162.0	2,327.1
Accumulated depreciation and impairment	(208.0)	(976.6)	(57.6)	(118.0)	(1,360.2)
Carrying amount at 31 March	439.2	452.8	30.9	44.0	966.9
Carrying amount of encumbered assets at 31 March (refer note 24)	-	1.9	0.1	1.1	3.1
2007					
Carrying amount at 1 April	792.3	327.4	28.9	66.2	1,214.8
Additions	28.6	61.2	8.4	19.9	118.1
Capitalised leases	-	-	0.2	-	0.2
Business acquired	-	7.3	-	-	7.3
Disposals	(0.1)	(1.5)	(0.8)	(1.1)	(3.5)
Reclassification	21.1	(18.4)	(3.1)	0.4	-
Transfer to investment properties (refer note 11)	(16.7)	-	-	-	(16.7)
Transfer to non-current assets held for sale	(328.2)	-	-	(0.4)	(328.6)
Impairment for the year (refer note 3)	-	(8.5)	-	0.1	(8.4)
Depreciation for the year (refer note 3)	(23.6)	(64.8)	(7.2)	(36.1)	(131.7)
Carrying amount at 31 March	473.4	302.7	26.4	49.0	851.5
Cost	671.5	1,441.2	84.2	221.8	2,418.7
Accumulated depreciation and impairment	(198.1)	(1,138.5)	(57.8)	(172.8)	(1,567.2)
Carrying amount at 31 March	473.4	302.7	26.4	49.0	851.5
Carrying amount of encumbered assets at 31 March (refer note 24)	-	1.9	1.4	4.1	7.4

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2008

	Land and buildings R million	Plant and machinery R million	Vehicles and office furniture R million	Computer equipment R million	Total R million
10 Property, plant and equipment (continued)					
Company					
2008					
Carrying amount at 1 April	461.6	275.5	24.3	46.3	807.7
Additions	14.8	64.5	3.6	17.8	100.7
Capitalised leases	-	-	0.6	-	0.6
Acquired from subsidiaries	6.7	-	-	-	6.7
Disposals	(0.7)	(5.1)	-	(1.6)	(7.4)
Disposal of division	-	(11.0)	(6.0)	(0.6)	(17.6)
Disposal to subsidiaries	-	(0.3)	-	-	(0.3)
Reclassification	(6.3)	6.0	0.3	-	-
Transfer to investment properties (refer note 11)	(5.9)	-	-	-	(5.9)
Transfer to non-current assets held for sale	(19.0)	-	-	-	(19.0)
Impairment for the year (refer note 3)	-	(4.5)	-	-	(4.5)
Depreciation for the year (refer note 3)	(17.0)	(52.0)	(5.7)	(24.9)	(99.6)
Carrying amount at 31 March	434.2	273.1	17.1	37.0	761.4
Cost	640.9	1,229.3	59.5	148.6	2,078.3
Accumulated depreciation and impairment	(206.7)	(956.2)	(42.4)	(111.6)	(1,316.9)
Carrying amount at 31 March	434.2	273.1	17.1	37.0	761.4
Carrying amount of encumbered assets at 31 March (refer note 24)	-	1.9	0.1	1.1	3.1

	Land and buildings R million	Plant and machinery R million	Vehicles and office furniture R million	Computer equipment R million	Total R million
10 Property, plant and equipment (continued)					
2007					
Carrying amount at 1 April	785.2	323.0	28.5	65.6	1,202.3
Additions	23.1	51.6	6.9	18.4	100.0
Capitalised leases	-	-	0.2	-	0.2
Business acquired (refer note 6)	-	7.3	-	-	7.3
Disposals	(0.1)	(1.3)	(0.9)	(1.2)	(3.5)
Disposal of division	-	(16.5)	(0.8)	(2.1)	(19.4)
Reclassification	21.5	(18.8)	(3.2)	0.5	-
Transfer to investment properties (refer note 11)	(16.7)	-	-	-	(16.7)
Transfer to non-current assets held for sale	(328.2)	-	-	-	(328.2)
Impairment for the year (refer note 3)	-	(8.5)	-	0.1	(8.4)
Depreciation for the year (refer note 3)	(23.2)	(61.3)	(6.4)	(35.0)	(125.9)
Carrying amount at 31 March	461.6	275.5	24.3	46.3	807.7
Cost	658.4	1,297.9	76.1	194.5	2,226.9
Accumulated depreciation and impairment	(196.8)	(1,022.4)	(51.8)	(148.2)	(1,419.2)
Carrying amount at 31 March	461.6	275.5	24.3	46.3	807.7
Carrying amount of encumbered assets at 31 March (refer note 24)	-	1.9	1.4	4.0	7.3

Registers of property, plant and equipment are open for inspection at the business entities of the Group, by the Shareholder or authorised representatives.

Owing to the continued losses at a number of the entities within the Group, the property, plant and equipment has been assessed for impairment. IAS 36 *Impairment of Assets* provides that the recoverable amount of an asset is the higher of its net selling price and its value in use. Where the recoverable amount was based on the value in use, a discount rate of 10.35% (2007: 10.25%) was used.

Certain property, plant and equipment was impaired due to a lack of orders and there is no new business foreseen in the near future that will utilise these assets. In the case of the two subsidiaries that are to be disposed, the recoverable amount was based on the net selling price that represents the offers received to purchase these companies.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2008

	Group		Company	
	2008	2007	2008	2007
	R million	R million	R million	R million
11 Investment properties				
Fair value at 1 April	88.9	137.3	88.8	128.9
Additions	-	5.1	-	0.1
Transfer from property, plant and equipment (refer note 10)	5.9	16.7	5.9	16.7
Fair value adjustment	22.4	24.6	22.4	24.6
Transfer to non-current assets held for sale	(0.1)	(94.8)	-	(81.5)
Fair value at 31 March	117.1	88.9	117.1	88.8

Valuations of investment properties were carried out at the year-end by registered independent external appraisers, who have appropriate 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.

	Group		Company	
	2008	2007	2008	2007
	R million	R million	R million	R million
12 Intangible assets				
Development costs	-	-	-	-
At cost	107.1	115.7	106.6	115.2
Accumulated amortisation and impairment	(107.1)	(115.7)	(106.6)	(115.2)
Software	27.1	4.3	27.1	4.3
At cost	40.1	22.0	40.1	22.0
Accumulated amortisation	(13.0)	(17.7)	(13.0)	(17.7)
Patents	-	-	-	-
At cost	-	6.2	-	2.0
Accumulated amortisation	-	(6.2)	-	(2.0)
Goodwill	4.4	4.4	4.4	4.4
At cost	64.8	21.8	21.8	21.8
Accumulated impairment	(60.4)	(17.4)	(17.4)	(17.4)
Carrying amount at 31 March	31.5	8.7	31.5	8.7

	Group		Company	
	2008	2007	2008	2007
	R million	R million	R million	R million
12 Intangible assets (continued)				
Reconciliation				
Development costs				
Carrying amount at 1 April	-	-	-	-
Capitalised during the year	1.4	2.5	-	-
Disposals	-	-	-	-
Amortisation for the year (refer note 3)	(0.9)	-	-	-
Transfer to non-current assets held for sale	(0.5)	(2.5)	-	-
Carrying amount at 31 March	-	-	-	-
Software				
Carrying amount at 1 April	4.3	9.4	4.3	9.4
Additions	26.2	3.4	26.2	3.4
Disposals	-	(0.2)	-	(0.2)
Business disposed	(0.8)	-	(0.9)	-
Reclassification	-	(2.8)	-	(2.8)
Amortisation for the year (refer note 3)	(2.6)	(5.5)	(2.5)	(5.5)
Carrying amount at 31 March	27.1	4.3	27.1	4.3
The carrying amount of software encumbered is R nil million (2007: R 1.5 million) (refer note 24)				
Patents				
Carrying amount at 1 April	-	0.3	-	0.3
Amortisation for the year (refer note 3)	-	(0.1)	-	(0.1)
Reclassification	-	(0.2)	-	(0.2)
Carrying amount at 31 March	-	-	-	-
Goodwill				
Carrying amount at 1 April	4.4	-	4.4	-
Additions	43.0	21.8	-	21.8
Impairment for the year (refer note 3)	(43.0)	(17.4)	-	(17.4)
Carrying amount at 31 March	4.4	4.4	4.4	4.4
Carrying amount at 31 March	31.5	8.7	31.5	8.7

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2008

	Group		Company	
	2008	2007	2008	2007
	R million	R million	R million	R million
13 Investments in subsidiaries				
Unlisted shares			830.3	370.8
Net loans			(173.1)	490.9
Due by subsidiaries			204.8	720.9
Due to subsidiaries			(377.9)	(230.0)
Gross investments			657.2	861.7
Accumulated impairment			(223.4)	(603.8)
Carrying amount at 31 March			433.8	257.9
Loans to subsidiaries of R 182.3 million (2007: R 561.1 million) have been subordinated in favour of other creditors of the subsidiaries. The subordination agreements will remain effective until such time that the subsidiaries involved retain solvency.				
A detailed breakdown of the investments in subsidiaries is contained in note 36.				
Reconciliation of carrying amount				
Gross investments			657.2	861.7
Accumulated impairment			(223.4)	(603.8)
Carrying amount at 31 March			433.8	257.9
Accumulated impairment loss is as follows:				
Unlisted shares			41.1	42.7
Balance at 1 April			42.7	40.9
Impairment for the year			-	1.8
Impairment reversed for the year			(1.6)	-
Loans			182.3	561.1
Balance at 1 April			561.1	515.6
Subsidiaries disposed			(424.9)	-
Impairment for the year			46.1	45.5
			223.4	603.8

	Group		Company	
	2008	2007	2008	2007
	R million	R million	R million	R million
14 Investments in associated companies				
The Group holds a 49.0% interest in Turbomeca Africa (Pty) Ltd. The year-end of Turbomeca Africa (Pty) Ltd is 31 December.				
The Group holds a 30.0% interest in Carl Zeiss Optronics (Pty) Ltd since 21 July 2007. The year-end of Carl Zeiss Optronics (Pty) Ltd is 30 September.				
Cost of investments in associated companies				
Unlisted shares	104.8	49.4	105.9	49.4
Loans	24.7	30.6	24.7	30.6
Accumulated impairment	-	-	(49.4)	(49.4)
	129.5	80.0	81.2	30.6
Net share of results of associated companies	(38.2)	(19.1)		
Share of current year (loss)/ profit before tax	(23.1)	28.9		
Share of current year tax	4.0	7.4		
Share of current year (loss)/ profit after tax	(19.1)	36.3		
Accumulated loss at 1 April	(19.1)	(55.4)		
Net investments in associated companies	91.3	60.9	81.2	30.6
The accumulated impairment loss is as follows:				
Unlisted shares				
Balance at 1 April	-	-	49.4	49.4
Impairment for the year	-	-	-	-
	-	-	49.4	49.4

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2008

		Group		Company	
		2008	2007	2008	2007
		R million	R million	R million	R million
14	Investments in associated companies (continued)				
	The following represents the summarised financial information of the associated companies:				
	Total assets	746.0	265.9		
	Non-current assets	69.4	42.8		
	Current assets	676.6	223.1		
	Total liabilities	(574.4)	(204.0)		
	Non-current liabilities	(92.5)	(50.9)		
	Current liabilities	(481.9)	(153.1)		
	Net assets	171.6	61.9		
	Group share of associated companies' net assets	65.8	30.3		
	Revenue	503.9	288.0		
	Group share of revenue	216.7	141.1		
	Group share of (loss)/ profit before tax	(23.1)	28.9		
	A detailed breakdown of the investment in the associated companies is contained in note 36.				
15	Loans receivable				
	Loans at amortised cost	22.5	29.6	22.5	29.6
	Less: Current portion of loans receivable included in trade and other receivables (refer note 18)	(8.0)	(7.1)	(8.0)	(7.1)
		14.5	22.5	14.5	22.5

The loan to SITA has a balance of R 18.8 million (2007: R 23.0 million) and earns interest at a fixed rate of 9.0% per annum. The loan is repayable in fixed monthly instalments with the last instalment payable on 31 March 2012. The loan is secured by a mortgage bond over certain land and buildings owned by SITA.

The loan receivable from the shareholders of Sybase SA (Pty) Ltd has a balance of R 3.7 million (2007: R 6.6 million) and earns interest at a fixed rate of 9.5% per annum. The loan is repayable in annual instalments with the final instalment payable on 1 February 2009. The loan is secured by a cession of the shares of the buyer.

	Group		Company	
	2008	2007	2008	2007
	R million	R million	R million	R million
16 Deferred tax				
Deferred tax assets	254.5	315.8	221.8	241.1
Deferred tax liabilities	(238.8)	(305.5)	(221.8)	(241.1)
	15.7	10.3	-	-
Movement of deferred tax assets and liabilities:				
Balance at 1 April	10.3	(8.9)	-	-
Per income statement	5.4	19.2	-	-
	15.7	10.3	-	-
Net deferred tax asset comprises:				
Provisions	382.1	390.0	358.9	380.1
Intangible assets	11.3	-	-	-
Advanced payments received	241.8	165.3	241.3	158.5
Customers invoiced work not performed	7.7	-	7.7	-
Embedded derivative liabilities	5.9	12.5	5.9	11.8
Other tax deductible differences	0.1	54.9	-	-
Limit deferred tax asset to liability	(394.6)	(309.3)	(392.0)	(309.3)
Assessed loss	0.2	2.4	-	-
	254.5	315.8	221.8	241.1
Net deferred tax liability comprises:				
Property, plant and equipment allowances	(178.7)	(188.4)	(176.5)	(184.6)
Property, plant and equipment allowances for capital gains tax	-	(18.9)	-	(18.4)
Prepayments made	-	(0.2)	-	-
Work performed not invoiced	(18.9)	(36.5)	(12.8)	(25.8)
Embedded derivative assets	(20.9)	(5.1)	(17.3)	(5.1)
Affected foreign exchange contracts	(8.3)	-	(8.3)	-
Doubtful debt allowance	(4.4)	(5.6)	(4.2)	(5.1)
Reinsurance asset	(4.8)	(4.7)	-	-
Other taxable differences	(2.8)	(46.1)	(2.7)	(2.1)
	(238.8)	(305.5)	(221.8)	(241.1)

For certain companies in the Group, no deferred tax asset has been recognised for the assessed loss and deductible temporary differences due to the uncertainty of the timing and the amount that could be recovered against future taxable income. For profitable companies in the Group, depending on future taxable profits, a deferred tax asset has been recognised.

Had a deferred tax asset been recognised, the value of the deferred tax asset at year-end would have been R 2,722.3 million (2007: R 1,713.5 million) for the Group and R 1,462.0 million (2007: R 1,532.1 million) for the Company.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2008

		Group		Company	
		2008	2007	2008	2007
		R million	R million	R million	R million
17	**Inventories**				
	Inventories are valued at the lower of cost and net realisable value and is categorised as follows:				
	Raw materials and bought-out components	329.8	381.8	190.9	240.5
	Work-in-progress	215.8	263.0	210.7	259.8
	Contracts-in-progress	246.8	204.6	20.1	21.8
	Property development	1.8	2.5	-	-
	Finished products	223.7	171.9	208.7	166.5
	Consumable inventory	54.3	47.5	52.3	44.5
	Spare parts	1.6	-	1.6	-
	Less: Disclosed as non-current assets held for sale	(1.6)	(4.7)	-	-
		1,072.2	1,066.6	684.3	733.1
	Accumulated impairment	445.5	431.0	350.8	372.7
	Included in cost of sales is an amount of R 1,530.0 million (2007: R 1,511.9 million) for the Group and R 1,219.8 million (2007: R 1,530.2 million) for the Company relating to inventory which was recognised as an expense during the year.				
18	**Trade and other receivables**				
	Financial assets	755.1	753.7	649.4	709.0
	Trade receivables	708.1	712.2	604.1	665.4
	Trade receivables: Inter-group			7.7	16.6
	Interest accrued	5.9	1.4	5.9	1.4
	Other receivables	33.1	33.0	23.7	18.5
		747.1	746.6	641.4	701.9
	Current portion of loans receivable (refer note 15)	8.0	7.1	8.0	7.1
	Non-financial assets	657.0	403.9	512.1	216.0
	Amount due from customers for contract work	451.3	213.3	381.8	176.5
	Prepayments and advances made	190.2	185.1	115.2	35.6
	Other receivables	15.5	5.5	15.1	3.9
	Less: Disclosed as non-current assets held for sale	(7.0)	(11.0)	-	-
		1,405.1	1,146.6	1,161.5	925.0
	Accumulated impairment				
	Financial assets	95.7	76.4	92.4	69.9
	Non-financial assets	8.9	129.2	8.9	129.2
		104.6	205.6	101.3	199.1

Trade receivables are non-interest bearing and are generally on 30 to 90 day terms. Specific impairments are made for identified doubtful debts.

	2008			2007		
	Receivables			Receivables		
	Trade	Other	Total	Trade	Other	Total
	R million	R million	R million	R million	R million	R million
18 Trade and other receivables (continued)						
Impairment account reconciliation (individually impaired)						
Group						
Balance at 1 April	74.5	1.9	76.4	8.7	-	8.7
Impairment losses recognised	70.4	0.9	71.3	67.2	1.9	69.1
Written off as uncollectible	(3.6)	-	(3.6)	(0.4)	-	(0.4)
Recovered during the year	(24.7)	-	(24.7)	(1.0)	-	(1.0)
Impairment losses reversed	(12.0)	-	(12.0)	-	-	-
Businesses disposed	(8.9)	(2.8)	(11.7)	-	-	-
	95.7	-	95.7	74.5	1.9	76.4
Company						
Balance at 1 April	68.0	1.9	69.9	7.0	-	7.0
Impairment losses recognised	69.1	-	69.1	62.3	1.9	64.2
Written off as uncollectible	(3.6)	-	(3.6)	(0.4)	-	(0.4)
Recovered during the year	(24.6)	-	(24.6)	(0.9)	-	(0.9)
Impairment losses reversed	(9.2)	-	(9.2)	-	-	-
Businesses disposed	(7.3)	(1.9)	(9.2)	-	-	-
	92.4	-	92.4	68.0	1.9	69.9

	Group		Company	
	2008	2007	2008	2007
	R million	R million	R million	R million
19 Reinsurance asset				
Balance at 1 April	16.0	12.5		
Reinsurance income	1.2	3.5		
	17.2	16.0		

Densecure (Pty) Ltd , a subsidiary of the Company, has a reinsurance asset with Santam Risk Finance Ltd, under which a performance bonus is payable to Densecure (Pty) Ltd when the annual premium paid exceeds the amount deductible in terms of costs and claims during the year.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2008

	Group		Company	
	2008	2007	2008	2007
	R million	R million	R million	R million
20 Derivative financial assets and liabilities				
20.1 Derivative financial assets				
Derivatives	74.1	30.2	74.1	30.2
Foreign exchange contracts	26.2	28.1	26.2	28.1
Commodity swaps	47.9	2.1	47.9	2.1
Embedded derivatives				
Foreign exchange embedded derivatives	74.6	17.7	61.7	17.7
	148.7	47.9	135.8	47.9
20.2 Derivative financial liabilities				
Derivatives	163.8	73.4	161.1	73.3
Foreign exchange contracts	150.0	69.8	147.3	69.7
Foreign exchange options	12.5	-	12.5	-
Commodity swaps	1.3	3.6	1.3	3.6
Embedded derivatives				
Foreign exchange embedded derivatives	20.9	43.0	20.9	40.6
	184.7	116.4	182.0	113.9
21 Cash and cash equivalents				
Deposits				
Local call deposits	897.7	248.1	840.1	198.0
Cash in bank	71.3	91.5	63.1	88.2
Local banks	17.6	65.9	9.7	63.8
Foreign banks	53.7	25.6	53.4	24.4
Cash on hand	0.4	0.4	0.2	0.3
	969.4	340.0	903.4	286.5
Less: Disclosed as non-current assets held for sale	(5.8)	(1.6)	-	-
	963.6	338.4	903.4	286.5

Cash and cash equivalents are as per the cash flow statement. The weighted average effective interest rate on call deposits was 9.76% (2007: 7.5%). Interest on cash in bank is earned at market rates. The funds included in cash and cash equivalents are available on demand.

	Group		Company	
	2008	2007	2008	2007
	R million	R million	R million	R million
22 Share capital				
Authorised				
1,000,000,000 Class A ordinary shares of R1 each	1,000.0	1,000.0	1,000.0	1,000.0
232,455,747 Class B ordinary shares of R1 each	232.5	232.5	232.5	232.5
	1,232.5	1,232.5	1,232.5	1,232.5
Issued				
Shares at par value				
Class A ordinary shares	1,000.0	976.1	1,000.0	976.1
Balance at 1 April	976.1	849.2	976.1	849.2
Shares issued during the year	23.9	126.9	23.9	126.9
Class B ordinary shares	225.1	40.3	225.1	40.3
Balance at 1 April	40.3	40.3	40.3	40.3
Shares issued during the year	184.8	-	184.8	-
	1,225.1	1,016.4	1,225.1	1,016.4
Share premium				
Balance at 1 April	3,527.0	3,086.9	3,527.0	3,086.9
Premium on shares issued	724.3	440.1	724.3	440.1
	4,251.3	3,527.0	4,251.3	3,527.0

At year-end, the number of issued Class A ordinary shares were 1,000,000,000 (2007: 976,104,463) and the number of issued Class B ordinary shares were 225,049,663 (2007: 40,235,747).

During the year, 23,895,537 (2007: 126,836,290) Class A ordinary shares and 184,813,916 (2007: nil) Class B ordinary shares were issued, at a premium of R 724.3 million (2007: R 440.1 million).

The unissued shares are under the control of the South African Government which is the sole shareholder. The Class B shares have a preference right in terms of a capital reduction scheme.

	Group		Company	
	2008	2007	2008	2007
23 Minority interests				
Balance at 1 April	6.0	6.6		
Additional minority interests due to shares issued by subsidiary	109.0	-		
Share of net loss of subsidiaries	(12.7)	(0.6)		
	102.3	6.0		

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2008

	Group		Company	
	2008	2007	2008	2007
	R million	R million	R million	R million
24 Interest bearing borrowings				
Finance leases	0.8	1.5	0.8	1.5
Gross amount	2.3	9.2	2.3	9.0
Less: Current portion included in current liabilities	(1.5)	(7.7)	(1.5)	(7.5)
The Rand-denominated finance lease liabilities bear interest ranging between 11.5% (2007: 8.7%) and 16.6% (2007: 12.0%) linked to prime rate.				
These leases are secured by certain property, plant and equipment to the value of R 3.1 million (2007: R 7.4 million) (refer note 10), as well as certain intangible assets to the value of R nil million (2007: R 1.5 million) (refer note 12).				
Local unsecured loan	-	-	-	-
Denel Corporate Bond (DEN1)	-	824.5	-	824.5
Unsecured loan of minority shareholders	7.2	7.2	-	-
Gross amount	7.2	831.7	-	824.5
Less: Current portion included in current liabilities	-	(824.5)	-	(824.5)
Less: Disclosed as non-current liabilities held for sale	(7.2)	(7.2)	-	-
The Rand-denominated bonds were redeemed on 16 August 2007 and bear interest at 12.8% per annum payable semi-annually in arrears on 16 February and 16 August. The bonds were unsecured but carry a negative pledge which precludes the Company from encumbering any assets or revenues of the Company or material subsidiary in favour of any other interest bearing borrowings, without making effective provision whereby all the bonds shall be directly secured equally and rateable with such relevant borrowings.				
Non-current portion of interest bearing borrowings	0.8	1.5	0.8	1.5
Current portion of interest bearing borrowings	234.2	832.5	234.2	832.0
Bank overdraft	-	0.3	-	-
Commercial paper	148.6	-	148.6	-
Cash managed on behalf of an associated company	84.1	-	84.1	-
Current portion of non-current interest bearing borrowings included in current liabilities	1.5	832.2	1.5	832.0
Total interest bearing borrowings	235.0	834.0	235.0	833.5

The undrawn borrowing facilities available for future operating activities amount to R 668.0 million (2007: R 954.0 million). Refer to note 32 for fair value.

	Group 2008 %	Group 2007 %	Company 2008 %	Company 2007 %
24 Interest bearing borrowings (continued)				
Weighted average effective interest rates				
Local unsecured loans (fixed rate)	11.1	12.8	12.8	12.8
Local finance leases (floating rate)	13.2	11.3	11.1	11.3
Unsecured loan of minority shareholders	10.0	10.0		
Short-term bank borrowings (floating rate)	11.0	8.6	11.0	8.6
	R million	**R million**	**R million**	**R million**
Summary of maturity of borrowings				
Maturing by 31 March 2008	-	832.5	-	832.0
Maturing by 31 March 2009	234.2	1.5	234.2	1.5
Maturing after 31 March 2009	0.8	-	0.8	-
	235.0	834.0	235.0	833.5

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2008

	Less than 3 months R million	Between 3 and 12 months R million	Between 1 and 5 years R million	Later than 5 years R million	Total R million
24 Interest bearing borrowings (continued)					
Finance leases					
Group					
2008					
Minimum lease payments	0.6	0.9	0.9	-	2.4
Interest	-	-	(0.1)	-	(0.1)
Principal	0.6	0.9	0.8	-	2.3
2007					
Minimum lease payments	2.0	6.1	1.6	-	9.7
Interest	(0.1)	(0.3)	(0.1)	-	(0.5)
Principal	1.9	5.8	1.5	-	9.2
Company					
2008					
Minimum lease payments	0.6	0.9	0.8	-	2.3
Interest	-	-	(0.1)	-	(0.1)
Principal	0.6	0.9	0.7	-	2.2
2007					
Minimum lease payments	2.0	5.9	1.6	-	9.5
Interest	(0.1)	(0.3)	(0.1)	-	(0.5)
Principal	1.9	5.6	1.5	-	9.0

The majority of these finance leases relate to computer equipment leased over a period of three years. The interest rate is linked to the prime rate. The computer equipment will ordinarily be replaced by new equipment at the end of the lease term. There is an option to extend the leases at reduced monthly instalments.

	Group		Company	
	2008	2007	2008	2007
	R million	R million	R million	R million
25 Provisions				
25.1 Non-current provisions	481.3	549.4	441.7	479.4
Contract risks and onerous contracts	245.0	336.6	205.4	266.1
Product warranty and recall	61.9	55.2	61.9	55.2
Site restoration	173.8	157.1	173.8	157.1
Other	0.6	1.0	0.6	1.0
Less: Disclosed as non-current liabilities held for sale	-	(0.5)	-	-
25.2 Current provisions	993.3	800.5	780.0	632.1
Contract risks and onerous contracts	440.7	412.9	309.1	293.7
Performance guarantees	98.4	128.7	98.4	128.7
Product warranty and recall	63.6	53.3	63.3	53.3
Site restoration	27.4	-	27.4	-
Other	349.6	193.9	281.8	156.4
Insurance	14.4	13.0	-	-
Less: Disclosed as non-current liabilities held for sale	(0.8)	(1.3)	-	-
	1,474.6	1,349.9	1,221.7	1,111.5

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2008

	Contract risks and onerous contracts	Performance guarantees	Product warranty and recall	Other	Insurance provision	Site restoration	Disclosed as held for sale	Total
	R million	R million	R million	R million	R million	R million	R million	R million
25 Provisions (continued)								
Reconciliation								
Group								
2008								
Balance at 1 April	749.5	128.7	108.5	194.9	13.0	157.1	(1.8)	1,349.9
Realised	(194.9)	-	(12.3)	(77.5)	-	(1.2)	0.8	(285.1)
Unused amounts reversed	(41.3)	(44.0)	(4.2)	(37.1)	-	-	-	(126.6)
Unwinding of discount on provisions	48.9	-	5.2	-	-	16.1	(0.1)	70.1
Charged to profit or loss	123.5	13.7	35.5	279.4	1.4	29.2	(0.4)	482.3
Businesses disposed	-	-	(7.2)	(9.5)	-	-	0.7	(16.0)
	685.7	98.4	125.5	350.2	14.4	201.2	(0.8)	1,474.6
2007								
Balance at 1 April	1,117.4	65.9	93.1	217.2	12.3	121.5	(2.9)	1,624.5
Realised	(264.4)	(5.7)	(38.1)	(134.0)	-	-	1.4	(440.8)
Unused amounts reversed	(354.1)	(10.8)	(17.3)	(48.9)	(2.1)	-	-	(433.2)
Unwinding of discount on provisions	56.4	-	-	-	-	12.6	(0.1)	68.9
Charged to profit or loss	194.2	79.3	70.8	160.6	2.8	23.0	(0.2)	530.5
	749.5	128.7	108.5	194.9	13.0	157.1	(1.8)	1,349.9
Company								
2008								
Balance at 1 April	559.8	128.7	108.5	157.4	-	157.1	-	1,111.5
Realised	(160.9)	-	(11.9)	(57.4)	-	(1.2)	-	(231.4)
Unused amounts reversed	(11.4)	(44.0)	(3.8)	(33.1)	-	-	-	(92.3)
Unwinding of discount on provisions	48.8	-	5.2	-	-	16.1	-	70.1
Transfer to subsidiaries	-	-	(7.9)	(10.8)	-	-	-	(18.7)
Charged to profit or loss	78.2	13.7	35.1	226.3	-	29.2	-	382.5
	514.5	98.4	125.2	282.4	-	201.2	-	1,221.7
2007								
Balance at 1 April	1,115.9	65.9	93.1	211.0	-	121.5	-	1,607.4
Realised	(263.2)	(5.7)	(38.1)	(103.6)	-	-	-	(410.6)
Unused amounts reversed	(335.9)	(10.8)	(17.3)	(35.0)	-	-	-	(399.0)
Unwinding of discount on provisions	56.3	-	-	-	-	12.6	-	68.9
Transfer to subsidiaries	(202.9)	-	-	(15.4)	-	-	-	(218.3)
Charged to profit or loss	189.6	79.3	70.8	100.4	-	23.0	-	463.1
	559.8	128.7	108.5	157.4	-	157.1	-	1,111.5

25 Provisions (continued)

Contract risks and onerous contracts

The provision for onerous contracts comprises the 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, is 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 of 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 for claims that have been incurred but not reported to the insurance subsidiary.

Site restoration provision

In accordance with the applicable legislation and the Group's environmental policy in respect of decontamination, a site restoration provision has been raised. A provision for site restoration is recognised when the obligation arises as a result of the Group's activities.

Other provisions

Other provisions comprise of the following:

Retrenchment costs

As a result of the restructuring within the Group, 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 effected persons, as well as specific terms negotiated with individuals or their labour representatives. The carrying amount included in other provisions is R 22.8 million (2007: R 15.1 million).

Accumulated leave

The provision for accumulated leave is calculated per employee based on leave days due and the individual's remuneration package. The carrying amount included in other provisions is R 109.5 million (2007: R 120.6 million).

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 R 161.2 million (2007: R 18.7 million).

Legal costs and disputes

The provision relates to anticipated legal costs and damages for cases in which the Group or entities within the Group are involved. The carrying amount included in other provisions is R 28.2 million (2007: R 23.8 million).

Counter trade

The Group has entered into several export sales contracts that give rise to certain counter trade obligations. The obligations vary and are calculated as a percentage of the export sales contract value. A provision for counter trade is raised once the Group has a present legal or constructive obligation to settle them. The carrying amount included in other provisions is R 13.5 million (2007: R 10.2 million).

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2008

	Group		Company	
	2008	2007	2008	2007
	R million	R million	R million	R million
26 Trade and other payables				
Financial liabilities	727.4	566.5	555.4	463.3
Trade payables	606.0	440.5	436.3	331.7
Trade payables: Inter-group			6.8	13.7
Interest accrued	15.6	28.8	15.6	28.8
Other accruals	105.8	97.2	96.7	89.1
Non-financial liabilities	28.0	64.8	27.6	64.8
Amounts due to customers for work invoiced, not yet performed	27.6	64.8	27.6	64.8
Other non-financial liabilities	0.4	-	-	-
Less: Disclosed as non-current liabilities held for sale	(2.4)	(4.7)	-	-
	753.0	626.6	583.0	528.1

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 respective agreements (refer note 24).

27 Contingent liabilities

27.1 Guarantees

The following guarantees were issued by the Group:

	Group 2008 R million	Group 2007 R million	Company 2008 R million	Company 2007 R million
Advance payments guarantees	1,223.2	926.5	1,223.2	926.5
Performance guarantees	701.8	690.2	701.8	690.2
Participating guarantees	3.8	53.8	3.8	53.8
Guarantees to local authorities	4.6	4.4	4.6	4.4
Guarantees to banks for credit facilities of subsidiaries	20.1	20.1	20.1	20.1
Sundry guarantees	78.6	98.4	78.6	98.4
Total guarantees issued	2,032.1	1,793.4	2,032.1	1,793.4
Guarantees issued on behalf of Carl Zeiss Optronics (Pty) Ltd	(96.3)	-	(96.3)	-
Advance payments guarantees	(93.5)	-	(93.5)	-
Sundry guarantees	(2.8)	-	(2.8)	-
	1,935.8	1,793.4	1,935.8	1,793.4
Recognised in the financial statements	(1,000.7)	(737.9)	(960.3)	(675.3)
Advance payments received	(902.3)	(609.2)	(861.9)	(546.6)
Provision for performance guarantees	(98.4)	(128.7)	(98.4)	(128.7)
	935.1	1,055.5	975.5	1,118.1

27 Contingent liabilities (continued)

27.2 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 R 44.5 million (2007: R 42.7 million). The directors are of the opinion that the success of most of the claims against the Company is remote and no material losses are expected to realise from these claims.

The Group is in dispute with one of its key customers over contractually related matters. This has led to the cancellation of current, and the loss of potential contracts, as well as the call up of related performance guarantees. The customer has notified the South African Government of its intention to proceed with the matter. It is expected that the matter may involve legal proceedings in a South African Court. It is not possible at this stage to estimate the potential damages and legal costs involved as the Group has not been formally notified of the proceedings.

The Group is disputing the validity of a teaming agreement that was signed with a foreign contractor for the supply of a specific subsystem in April 2004. The Group was of the opinion that the agreement had lapsed and has subsequently requested suppliers, including the set contractor, to quote for the supply of the subsystem. The set contractor claims that the Group is violating the exclusivity contained in the teaming agreement and has applied for an interdict against the Group to continue with the process. The Group and the contractor are currently in negotiations to resolve the issue. If negotiations are not successful, the Group may be liable for a claim of approximately R 35.9 million.

27.3 Counter trade

The Group has entered into several export sales contracts that give rise to certain counter trade obligations. The obligations vary between 60.0% and 100.0% of the export sales contract value.

These counter trade 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 buyers' country;
- Participation in a business venture in the buyers' country; and/ or
- Exchange of counter trade obligations with companies from the buyers' countries that have counter trade obligations in South Africa.

The total value of the counter trade obligations based on sales already recognised is R 445.6 million (2007: R 219.1 million), translated at the year-end spot rate. The Group has successfully negotiated agreements to exchange counter trade obligations. The Group is constantly exploring options to settle future counter trade obligations. The Group issued guarantees to the value of R 11.4 million for penalties on non-fulfilment of counter trade obligations.

The maximum penalty applicable for counter trade obligations based on sales already recognised, excluding obligations already settled, is R 19.3 million (2007: R 6.8 million). Of this amount, R 14.8 million (2007: R 3.6 million) has been provided for as part of the other provisions (refer note 25).

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2008

	Group and Company	
	2008	2007
	R million	R million
27 Contingent liabilities (continued)		
27.3 Counter trade (continued)		
The counter trade obligations to be discharged are as follows:		
Within one year	278.6	-
Within two years	20.7	162.6
Within three years	19.8	-
Later than three years	126.5	56.5
Third party obligation	404.7	320.8
Obligations based on deliveries	850.3	539.9
Counter trade obligations already discharged	(483.3)	(123.7)
Obligations to be settled by third party	(404.7)	(320.8)
Counter trade obligation credits	(37.7)	95.4
Obligations based on future deliveries	346.4	16.7
Net counter trade obligations	308.7	112.1

The Group has entered into certain export contracts in which a third party is responsible for the counter trade obligation. However, the counter trade authority in the third party's country is holding the Group responsible. The maximum liquidating penalties concerning these contracts are R 34.4 million (2007: R 27.3 million) and have been taken into account in the disclosure above.

The Group has entered into a local defence contract which requires the Group to impose counter trade obligations in favour of South Africa on all imported content. The Group has therefore entered into back-to-back agreements with the suppliers to ensure that this obligation is offset. A further contract was signed with the local client but the counter trade agreement still needs to be finalised.

The Group received bank guarantees from all the said suppliers which were ceded to the client. A portion of the estimated foreign content is not yet contracted and the Group is currently carrying an obligation for which a bank guarantee to the value of R 2.8 million (2007: R 2.8 million) was issued to the client to cover any liquidating penalties in case the counter trade obligation is not met. The Group is constantly in negotiations to conclude any outstanding portion of the counter trade obligation.

27.4 Contract losses

The Group entered into contracts with values of approximately R 1,066.0 million (2007: R 916.0 million) which have estimated contract losses of approximately R 926.0 million (2007: R 923.0 million) at 31 March 2008. This loss has not been raised as a provision following a written commitment received from the Shareholder stating its support for the continuation of the contract despite it being loss making, as it has certain strategic advantages to the country. The support committed includes financial aspects limited to certain specified amounts. The latter has been considered as future claims for contract accounting evaluation purposes and as a result no losses have been recognised.

27 Contingent liabilities (continued)

27.5 Penalties

The Group has a contract with one of its customers that indicates that should delivery be late, penalties will be charged ranging from 0.5% to 10.0% of the full contract value. As at 31 March 2008, delays have been experienced on the contract and a penalty provision was raised based on the lower range of 0.5%. Negotiations are currently in progress with the customer and it is not envisaged that the full 10.0% will be levied. Should the upper range be enforced by the customer, the Group would be liable for an additional R 13.7 million.

A customer has notified the Group, subsequent to year-end, of its decision to cancel a current contract . At this stage, it is not possible to estimate the potential damages and other related costs as these have not yet been communicated to the Group and the Group is still in negotiation with the customer.

27.6 Rooivalk subsystems

A reliability problem was identified with one of the Rooivalk subsystems. The Group has provided for 50.0% of the expected costs for rectification. Negotiations are currently underway with the client to contribute the remaining amount of R 34 million representing 50.0% of the expected costs.

27.7 Unrecorded invoices received

A subsidiary of the Group is disputing an invoice of R 18 million from one of its key suppliers for goods delivered in 2000. There are no records of such goods having been received and not paid for. The subsidiary has requested that supporting documents, establishing a liability on the entity, be furnished or a credit note be processed for this invoice. There are questions on issuing an invoice seven years after delivery. At this stage the entity does not believe that they are liable for the balance and as such have not accounted for it.

27.8 Site restoration

A minimum 15.0% contingency amounting to R 43.9 million has been included in the cost estimate that was not included in the provision. The contingency rate is based on unknown depth of contamination and volume of material to be cleaned up. After the initial clean up the site will be tested for explosive ordinates to assess whether there should be any further clean up.

27.9 Taxes

The Group contracted with a foreign-based customer, however, made a local supply. The transaction was zero rated for VAT purposes, as the customer made representation that they did not have a local presence and, therefore, was not liable for VAT. Subsequent to year-end, based on professional advice, the customer is required to register for VAT. This means that the Group has to pay the Output VAT to the tax authorities together with potential penalties and interest. An investigation is in process and the customer, together with the entity concerned, has approached the local tax authorities and await a ruling on the matter. As a result of the discussions, the Group is unable to quantify the potential liability. The Group, however, has contracted with the customer on the basis that the customer is liable for all taxes and subsequent penalties and interest.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2008

	Group		Company	
	2008	2007	2008	2007
	R million	R million	R million	R million
28 Notes to the cash flow statement				
28.1 Reconciliation of profit with cash retained from operations				
Net loss before tax	(316.3)	(500.9)	(153.1)	(310.9)
Adjusted for:	229.6	(116.9)	228.4	(260.4)
Loss from discontinued operations (refer note 5.1)	(25.9)	(41.8)	(0.5)	-
Profit on disposal of property, plant and equipment [1]	(88.3)	(8.6)	(87.9)	(8.7)
(Profit)/ loss on disposal of investment properties [1]	(46.2)	2.9	-	-
Loss on disposal of intangible assets [1]	-	0.2	-	0.2
(Profit)/ loss on disposal of subsidiaries and divisions [1]	(2.1)	0.2	(2.1)	0.1
Loss on disposal of entities [1]	131.8	-	131.8	-
Depreciation [1]	108.1	131.7	99.6	125.9
Amortisation of intangible assets [1]	3.5	5.6	2.5	5.6
Revaluation of derivatives	48.5	127.9	43.9	127.8
Revaluation of embedded derivatives	(79.0)	(106.8)	(63.7)	(109.2)
Net interest paid [2]	60.5	143.0	107.9	145.9
Dividend received	-	-	(88.6)	(250.0)
Increase/ (decrease) in provisions	70.5	(343.5)	58.9	(346.5)
Impairment raised on property, plant and equipment [1]	4.5	8.4	4.5	8.4
Impairment raised on other intangible assets [1]	43.0	17.4	-	17.4
Impairment raised on investments in subsidiaries [1]	-	-	44.5	47.3
Share of loss/ (profit) of associated companies [3]	23.1	(28.9)	-	-
Fair value adjustment of investment properties [4]	(22.4)	(24.6)	(22.4)	(24.6)
Operating loss before changes in net current assets	(86.7)	(617.8)	75.3	(571.3)
Changes in net current assets:	(237.8)	(281.3)	(298.4)	(245.1)
Increase in inventories	(113.9)	(58.0)	(64.3)	(36.9)
Increase in receivables	(324.3)	(265.3)	(360.0)	(292.1)
Increase in reinsurance asset	(1.2)	(3.5)	-	-
Increase in trade and other payables	206.3	65.2	125.9	83.9
Other movements: Disclosed as non-current assets held for sale	(2.8)	(3.7)	-	-
Other movements: Disclosed as non-current liabilities held for sale	(1.9)	(16.0)	-	-
Cash utilised in operations	(324.5)	(899.1)	(223.1)	(816.4)

1 *Refer note 3*
2 *Refer note 8*
3 *Refer note 14*
4 *Refer note 4*

	Group		Company	
	2008	2007	2008	2007
	R million	R million	R million	R million
28 Notes to the cash flow statement (continued)				
28.2 Disposal of divisions to subsidiaries				
Property, plant and equipment			15.1	19.4
Intangible assets			0.9	-
Investments in subsidiaries			0.4	-
Inventories			110.4	289.2
Trade and other receivables			128.5	245.0
Derivative financial assets			1.6	2.1
Trade and other payables			(57.7)	(123.6)
Derivative financial liabilities			(1.6)	(3.8)
Interest bearing borrowings			-	-
Advance payments received			(135.0)	(48.6)
Provisions			(18.3)	(218.3)
Group share of net assets disposed			44.3	161.4
Cash and cash equivalents			35.1	1.1
Profit on disposal			-	-
Total sale consideration			79.4	162.5
Non-cash payment received			(62.5)	(162.5)
Share investment			(62.5)	-
Loans			-	(162.5)
Cash flow on disposal			16.9	-
28.3 External disposal of entities				
Property, plant and equipment	15.5	-	2.5	-
Inventories	6.6	-	2.7	-
Trade and other receivables	6.0	-	-	-
Trade and other payables	(1.2)	-	(0.1)	-
Interest bearing borrowings	-	-	-	-
Provisions	(1.2)	-	(0.5)	-
Net investments in subsidiaries	-	-	21.1	-
Group share of net assets disposed	25.7	-	25.7	-
Cash and cash equivalents	-	-	-	-
Profit on disposal	2.1	-	2.1	-
Total sale consideration	27.8	-	27.8	-
Cash flow on disposal	27.8	-	27.8	-

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2008

	Group		Company	
	2008	2007	2008	2007
	R million	R million	R million	R million
28 Notes to the cash flow statement (continued)				
28.4 Subsidiary disposed due to dilution of share holding				
Property, plant and equipment	7.6	-		
Intangible assets	0.8	-		
Inventories	105.6	-		
Trade and other receivables	71.1	-		
Derivative financial assets	2.2	-		
Trade and other payables	(66.6)	-		
Derivative financial liabilities	(2.0)	-		
Advance payments received	(129.1)	-		
Provisions	(15.4)	-		
	(25.8)	-		
Cash and cash equivalents	213.0	-		
Group share of net assets disposed	187.2	-		
Loss on disposal	(131.8)	-		
Investment in associated companies	(55.4)	-		
Cash flow on disposal	-	-		
29 Capital commitments				
Approved and contracted for	113.8	88.4	40.6	49.8
Land and buildings	2.2	18.8	2.2	18.8
Property, plant and equipment	107.8	62.8	34.6	24.2
Vehicles and office furniture	0.5	2.3	0.5	2.3
Computer equipment	3.3	4.5	3.3	4.5
Approved but not contracted for	0.3	43.0	0.3	43.0
Land and buildings	-	5.0	-	5.0
Property, plant and equipment	0.2	20.3	0.2	20.3
Vehicles and office furniture	-	2.3	-	2.3
Computer equipment	0.1	15.4	0.1	15.4
	114.1	131.4	40.9	92.8

No specific financing arrangement for capital expenditure will be done as these will be financed from available funds, share capital and interest bearing borrowings. All expenditure will be incurred in the next financial year..

	Buildings R million	Plant and machinery R million	Vehicles and office furniture R million	Computer equipment R million	Total R million
30 Non-cancellable leases					
Operating leases					
2008					
Less than one year	63.9	1.3	0.8	1.3	67.3
Between one and five years	251.0	3.0	0.8	2.6	257.4
More than five years	-	-	-	-	-
	314.9	4.3	1.6	3.9	324.7
2007					
Less than one year	0.5	0.4	-	1.6	2.5
Between one and five years	-	1.4	0.2	6.5	8.1
	0.5	1.8	0.2	8.1	10.6

The Group and the Company has certain property, plant and equipment held under operating leases. Some of the lease agreements provide for minimum annual lease payments which are due as above.

31 Related parties

Related party transactions are disclosed in terms of the requirements of the relevant standard. The materiality has been considered in the disclosure of these transactions. Amounts smaller than R 0.1 million have not been included in the table below.

National Government and state controlled entities

Denel (Pty) Ltd is fully controlled by its sole shareholder, the Government, represented by the DPE.

The Group operates in an economic environment currently dominated by entities directly or indirectly owned by the Government. As a result of the constitutional independence of all three spheres of Government, only parties within the national sphere of Government will be considered to be related parties. The list of public entities in the national sphere of Government was provided by the National Treasury.

Post-employment benefit plans

Other related parties also consist of post retirement benefit plans (refer note 34).

Key management personnel

Key management is defined as individuals with the authority and responsibility for planning, directing and controlling the activities of the entity. All individuals who are members of the Denel Executive Committee up to the Board of Directors 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 entity. There are no material transactions other than the directors' emoluments detailed in the Directors' Report.

Entities within the Group

Denel (Pty) Ltd is the ultimate parent company of the Group. The Company advanced loans to these entities in the Group during the current and previous year as part of the financing plan. Other transactions within the Group were on commercial terms and conditions.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2008

	National Government R million	Major national public entities R million	Between the Company and its subsidiaries R million	Associated companies R million	Other R million
31 Related parties (continued)					
The following transactions were carried out:					
Group					
2008					
Purchases of goods	94.9	23.2	-	14.0	22.2
Sale of goods	1,369.0	8.3	-	30.1	22.8
Services rendered	333.1	2.2	-	4.7	42.8
Services received	19.1	26.7	-	22.8	37.1
Leases	0.1	40.9	-	7.1	-
Sale of properties and other assets	-	606.0	-	-	-
Purchases of properties and other assets	-	0.4	-	-	-
Provision of guarantees	543.6	48.7	-	106.3	-
Settlement of liabilities on behalf of the entity	3.8	-	-	-	-
Interest received	-	2.1	-	3.8	-
Interest paid	0.1	-	-	10.4	-
Outstanding balances payable	4.2	0.3	-	106.8	67.1
Outstanding balances receivable	197.7	22.2	-	32.1	23.7
Advance payments received	570.6	-	-	-	-
Doubtful debt allowances	3.5	-	-	0.1	-
2007					
Purchases of goods	62.8	6.0	-	35.6	7.9
Sale of goods	770.8	27.4	-	8.3	0.1
Services rendered	337.8	12.0	-	1.5	10.1
Services received	28.1	30.2	-	17.8	-
Provision of guarantees	229.8	4.6	-	10.0	-
Interest received	-	2.6	-	3.2	-
Outstanding balances payable	47.7	1.4	-	4.0	0.4
Outstanding balances receivable	198.3	30.2	-	38.7	-
Advance payments received	216.7	-	-	-	-
Doubtful debt allowances	7.5	-	-	0.7	-

	National Government R million	Major national public entities R million	Between the Company and its subsidiaries R million	Associated companies R million	Other R million
31 Related parties (continued)					
Company					
2008					
Purchases of goods	86.9	22.7	157.9	14.0	2.3
Sale of goods	1,115.4	8.3	27.0	30.1	-
Services rendered	130.3	2.2	3.8	1.8	-
Services received	16.4	26.0	45.3	22.0	8.9
Leases	0.1	40.9	15.7	-	-
Sale of properties and other assets	0.1	492.0	-	-	-
Purchases of properties and other assets	-	0.4	-	7.8	-
Provision of guarantees	543.6	48.7	7.8	106.3	-
Settlement of liabilities on behalf of the entity	3.8	-	-	-	-
Interest received	-	2.1	3.3	3.8	-
Interest paid	-	-	44.6	10.4	-
Outstanding balances payable	2.2	0.3	384.7	106.2	4.9
Outstanding balances receivable	193.5	22.2	212.5	30.0	-
Advance payments received	569.4	-	-	-	-
Doubtful debt allowances	3.5	-	-	-	-
2007					
Purchases of goods	47.8	5.4	174.8	35.6	7.9
Sale of goods	769.6	26.9	27.0	8.3	0.1
Services rendered	155.5	4.7	6.8	-	10.1
Services received	26.4	22.5	139.2	17.8	-
Leases	-	-	4.6	-	-
Provision of guarantees	229.8	4.6	0.7	10.0	-
Interest received	-	2.5	21.4	3.2	-
Interest paid	-	-	16.5	-	-
Outstanding balances payable	25.3	1.1	243.8	3.9	0.4
Outstanding balances receivable	125.2	30.1	737.5	33.7	-
Advance payments received	194.3	-	-	-	-
Doubtful debt allowances	7.5	-	-	-	-

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2008

	Group		Company	
	2008	2007	2008	2007
	R million	R million	R million	R million
31 Related parties (continued)				
Compensation paid to key management personnel				
Short-term employee benefits	27.9	22.0	22.9	22.0
Post-employee benefits	1.5	1.6	1.5	1.6
Termination benefits	2.1	2.0	2.1	2.0
	31.5	25.6	26.5	25.6

32 Financial risk management

The Group is exposed to various financial risks due to the nature and diversity of the activities performed by the Group and the use of various financial instruments. These risks include:

- Credit risk
- Liquidity risk
- 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 group 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 Group Audit and Risk Committee, which is responsible for the development and monitoring of the Group's risk management policies. The committee reports 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 Group Audit and Risk Committee include:

- Approval of all counter parties;
- 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
- Approval of long-term funding requirements.

The Group Audit and Risk Committee is assisted in its oversight role by Internal Audit, which undertakes regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Group Audit and Risk Committee. The committee appointed an external independent treasury expert in assisting the committee in overseeing treasury operations.

32 Financial risk management (continued)

32.1 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 Group Audit and Risk Committee and the Board has an established a policy for the management of credit risk arising on receivables from customers. Under this policy, the creditworthiness of potential and existing customers is assessed prior to contracting with new or existing customers. Divisions and subsidiaries are required to review the following before entering into a contract or submitting a proposal to a potential client:

- The potential client's compliance with statutory and regulatory conditions;
- The political risk of the potential client's country;
- The previous business records that the existing client had with entities within the Group (includes but is not limited to payment history);
- The most recent credit rating of the country 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.

Certain entities within the Group also require potential customers to first be rated by a credit agency prior to entering into a supply contract with them.

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 Department

The Group Audit and Risk 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. Counter parties are assessed based on their official Fitch Ratings. Counterparties are approved by the Group Audit and Risk 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 Fitch Ratings' F1 and F1+ short-term ratings, AA long-term ratings and a minimum of R 1 billion in capital. Treasury is allowed to invest 20.0% of its portfolio with a counterparty that is F1+ rated and 15.0% with a counterparty that is F1 rated. Annual counterparty limits per bank facility are negotiated with each bank and is approved by the CEO.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2008

	2008			2007		
	Domestic R million	Foreign R million	Total R million	Domestic R million	Foreign R million	Total R million
32 Financial risk management (continued)						
32.1 Credit risk (continued)						
Credit exposure and concentrations of credit risk						
The carrying amount of financial assets represents the maximum credit exposure at the reporting date. The following table represents the Group's concentrations of risk for all non-derivative financial assets:						
Group						
Trade receivables	264.8	443.3	708.1	295.6	416.6	712.2
Government and related entities	194.0	311.7	505.7	212.2	207.2	419.4
Non-government entities	70.8	131.6	202.4	83.4	209.4	292.8
Sundry receivables	32.9	0.2	33.1	31.2	1.8	33.0
Government and related entities	18.7	-	18.7	18.1	-	18.1
Non-government entities	14.2	0.2	14.4	13.1	1.8	14.9
Interest receivable (non-government)	5.9	-	5.9	1.4	-	1.4
Loans receivable (non-government)	22.5	-	22.5	29.6	-	29.6
Non-current	14.5	-	14.5	22.5	-	22.5
Current	8.0	-	8.0	7.1	-	7.1
Carrying amount	326.1	443.5	769.6	357.8	418.4	776.2
Company						
Trade receivables	250.9	353.2	604.1	277.7	387.7	665.4
Government and related entities	190.2	286.4	476.6	212.2	207.2	419.4
Non-government entities	60.7	66.8	127.5	65.5	180.5	246.0
Sundry receivables	23.7	-	23.7	16.7	1.8	18.5
Government and related entities	11.1	-	11.1	5.8	-	5.8
Non-government entities	12.6	-	12.6	10.9	1.8	12.7
Interest receivable (non-government)	5.9	-	5.9	1.4	-	1.4
Loans receivable (non-government)	22.5	-	22.5	29.6	-	29.6
Non-current	14.5	-	14.5	22.5	-	22.5
Current	8.0	-	8.0	7.1	-	7.1
Carrying amount	303.0	353.2	656.2	325.4	389.5	714.9

	2008				2007			
	Receivables not impaired	Receivables impaired	Impairment	Carrying amount	Receivables not impaired	Receivables impaired	Impairment	Carrying amount
	R million	R million	R million	R million	R million	R million	R million	R million
32 Financial risk management (continued)								
32.1 Credit risk (continued)								
Credit exposure and concentrations of credit risk (continued)								
Ageing The ageing of financial assets at the reporting date is included below. The ageing categories include:								
Group								
Trade receivables	707.6	96.2	(95.7)	708.1	705.1	81.6	(74.5)	712.2
Not past due	492.8	-	-	492.8	459.0	-	-	459.0
Not past due, but impaired	-	40.7	(40.7)	-	-	1.5	-	1.5
Past due								
Less than 30 days	121.2	0.1	(0.1)	121.2	92.3	-	-	92.3
30 to 60 days	22.4	0.1	(0.1)	22.4	56.1	-	-	56.1
61 to 90 days	17.7	0.1	-	17.8	48.4	10.1	(10.1)	48.4
More than 90 days	53.5	55.2	(54.8)	53.9	49.3	70.0	(64.4)	54.9
Other receivables	33.1	-	-	33.1	32.4	2.5	(1.9)	33.0
Not past due, not impaired	25.4	-	-	25.4	20.0	-	-	20.0
Not past due, but impaired	-	-	-	-	-	-	-	-
Past due								
Less than 30 days	7.1	-	-	7.1	12.3	-	-	12.3
30 to 60 days	-	-	-	-	-	-	-	-
61 to 90 days	-	-	-	-	0.1	2.5	(1.9)	0.7
More than 90 days	0.6	-	-	0.6	-	-	-	-
Interest accrued	5.9	-	-	5.9	1.4	-	-	1.4
Not past due, not impaired	5.9	-	-	5.9	1.4	-	-	1.4
Loans receivable	22.5	-	-	22.5	29.6	-	-	29.6
Not past due, not impaired								
Current portion	8.0	-	-	8.0	7.1	-	-	7.1
Non-current portion	14.5	-	-	14.5	22.5	-	-	22.5
	769.1	96.2	(95.7)	769.6	768.5	84.1	(76.4)	776.2
Less: Disclosed as non-current assests held for sale	(7.0)	(0.1)	0.1	(7.0)	(10.8)	(1.6)	1.6	(10.8)
	762.1	96.1	(95.6)	762.6	757.7	82.5	(74.8)	765.4

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2008

	2008				2007			
	Receivables not impaired	Receivables impaired	Impairment	Carrying amount	Receivables not impaired	Receivables impaired	Impairment	Carrying amount
	R million	R million	R million	R million	R million	R million	R million	R million
32 Financial risk management (continued)								
32.1 Credit risk (continued)								
Credit exposure and concentrations of credit risk (continued)								
Company								
Trade receivables	604.1	92.4	(92.4)	604.1	658.3	75.1	(68.0)	665.4
Not past due	441.2	-	-	441.2	438.9	-	-	438.9
Not past due, but impaired	-	40.7	(40.7)	-	-	1.5	-	1.5
Past due								
Less than 30 days	112.0	0.1	(0.1)	112.0	92.1	-	-	92.1
30 to 60 days	12.5	0.1	(0.1)	12.5	48.7	-	-	48.7
61 to 90 days	11.9	0.1	(0.1)	11.9	35.3	10.1	(10.1)	35.3
More than 90 days	26.5	51.4	(51.4)	26.5	43.3	63.5	(57.9)	48.9
Other receivables	23.7	-	-	23.7	17.8	2.6	(1.9)	18.5
Not past due, not impaired	23.2	-	-	23.2	16.1	-	-	16.1
Not past due, but impaired	-	-	-	-	-	-	-	-
Past due								
Less than 30 days	-	-	-	-	1.6	-	-	1.6
30 to 60 days	-	-	-	-	-	-	-	-
61 to 90 days	-	-	-	-	-	2.6	(1.9)	0.7
More than 90 days	0.5	-	-	0.5	0.1	-	-	0.1
Interest accrued	5.9	-	-	5.9	1.4	-	-	1.4
Not past due, not impaired	5.9	-	-	5.9	1.4	-	-	1.4
Loans receivable	22.5	-	-	22.5	29.6	-	-	29.6
Not past due, not impaired								
Current portion	8.0	-	-	8.0	7.1	-	-	7.1
Non-current portion	14.5	-	-	14.5	22.5	-	-	22.5
	656.2	92.4	(92.4)	656.2	707.1	77.7	(69.9)	714.9

	Group		Company	
	2008	2007	2008	2007
	R million	R million	R million	R million
32 Financial risk management (continued)				
32.1 Credit risk (continued)				
Security held over non-derivative financial assets				
Irrevocable confirmed Letters of Credit				
Confirmed by local bank	67.6	28.0	67.6	28.0
Confirmed by foreign bank	12.2	-	12.2	-
Unconfirmed Letters of Credit	3.2	36.9	3.2	36.9
Credit insurance cover	1.3	1.8	1.3	1.8
	84.3	66.7	84.3	66.7

32.2 Liquidity risk

The centralised treasury manages the liquidity structure of the Group's assets, liabilities and commitments so as to ensure that cash flows are sufficiently balanced within the Group as a whole. Updated cash flow information and projections of future cash flows are received from divisions and subsidiaries on a daily, weekly and monthly basis (depending on the type of funding required). Measures have been introduced to ensure that the cash flow information received is accurate and complete.

Surplus funds are deposited in liquid assets (i.e. negotiable certificates of deposits and call deposits) (refer note 21).

	Group 2008 R million	Group 2007 R million	Company 2008 R million	Company 2007 R million
Undrawn credit facilities				
General banking facilities	668.0	954.0	668.0	954.0

The general banking facilities are unsecured, bear interest at a rate linked to prime, have no specific maturity date and are subject to annual reviews. The facilities are in place to issue Letters of Credit, bank guarantees and ensure liquidity.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2008

	Contractual undiscounted cash flows					
	Carrying amount	Total cash flow	Less than 3 months	Between 3 and 12 months	Between 1 and 5 years	More than 5 years
	R million	R million	R million	R million	R million	R million
32 Financial risk management (continued)						
32.2 Liquidity risk (continued)						
Exposure to liquidity risk						
The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements:						
Group						
2008						
Interest bearing borrowings	150.1	159.6	150.6	0.9	8.1	-
Loans from associated companies	84.1	84.1	84.1	-	-	-
Trade and other payables	727.4	727.4	611.2	116.2		-
Derivative financial liabilities	163.8	163.7	29.7	112.3	21.7	-
	1,125.4	1,134.8	875.6	229.4	29.8	-
2007						
Interest bearing borrowings	834.0	841.9	4.7	828.4	8.8	-
Trade and other payables	566.5	542.9	421.8	121.1	-	-
Derivative financial liabilities	73.4	73.6	9.3	52.4	11.9	-
	1,473.9	1,458.4	435.8	1,001.9	20.7	-
Company						
2008						
Interest bearing borrowings	150.1	152.4	150.6	0.9	0.9	-
Loans from associated companies	84.1	84.1	84.1	-	-	-
Trade and other payables	555.4	555.4	443.4	112.0	-	-
Derivative financial liabilities	161.1	161.0	46.7	92.6	21.7	-
	950.7	952.9	724.8	205.5	22.6	-
2007						
Interest bearing borrowings	833.5	834.2	4.3	828.3	1.6	-
Trade and other payables	463.3	439.7	320.0	119.7	-	-
Derivative financial liabilities	73.3	73.4	9.2	52.3	11.9	-
	1,370.1	1,347.3	333.5	1,000.3	13.5	-

32 Financial risk management (continued)

32.3 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.

Divisions and subsidiaries

The divisions and subsidiaries are responsible for the preparation and presentation of market risk information as it affects the relevant entity. Information will be submitted to treasury where it is monitored and further analysed to be used in the decision making process. In certain instances, an entity will prepare and use market risk information for its own purposes.

Treasury

Treasury is responsible for reporting to the Group Audit and Risk 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 Chief Financial Officer 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 downward interest rate movements on floating investments purchased and to the interest rate risk in repricing forward exchange contracts. There is no other exposure to fair value interest rate risk as all fixed rate financial instruments are measured at amortised cost.

The Group Audit and Risk Committee determines the interest rate risk strategy based on economic expectations and reports received from treasury. Treasury 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 Group's Treasury Department's procedures manual.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2008

	Group		Company	
	2008	2007	2008	2007
	R million	R million	R million	R million
32 Financial risk management (continued)				
32.3 Market risk (continued)				
At the reporting date the interest rate profile of the Group's interest bearing financial instruments was as follows:				
Fixed rate instruments				
Denel Corporate Bond (DEN1)	-	824.5	-	824.5
Commercial paper	148.6	-	148.6	-
Finance leases	2.3	9.2	2.3	9.0
Loans receivable	22.5	29.6	22.5	29.6
Variable rate instruments				
Cash and cash equivalents	969.4	340.0	903.4	286.5

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/ (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.

	Group 2008	Group 2007	Company 2008	Company 2007
Cash and cash equivalents	4.5	1.5	4.5	1.5

Net effect on profit or loss is equal but opposite for a 50 basis points increase on the financial instruments listed above.

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. No speculating in foreign currency is allowed within the Group.

The Group's Treasury Department is responsible for the hedging of foreign currency exposure in terms of information received from the divisions and subsidiaries. Currency exposures are hedged based on an 18 month rolling period, which requires any currency exposure forecast for the next 18 months to be covered. Hedging instruments consists of forward exchange contracts and, to a limited extent, currency options. Revaluations of hedged positions are performed on a daily basis to check that these are in line with the underlying Foreign Exchange Policy. The hedging instrument is entered into once the exposure is firm and ascertainable i.e. there is an underlying contract in place. Currency exposures are reported to the Chief Financial Officer on a weekly basis and to the Executive Committee on a monthly basis.

32 Financial risk management (continued)

32.3 Market risk (continued)

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 also not hedged. Amounts in the foreign bank accounts representing proceeds received and awaiting conversion to Rand are hedged by foreign currency derivatives.

The Group's exposure to currency risk was as follows based on the notional amounts:

	2008			2007		
	US Dollar (USD) million	Euro (EUR) million	Sterling (GBP) million	US Dollar (USD) million	Euro (EUR) million	Sterling (GBP) million
Group						
Assets	82.7	24.8	-	125.0	5.9	3.0
Trade receivables	17.3	13.4	-	27.4	4.0	3.0
Controlled Foreign Currency accounts (CFC)	0.2	-	-	1.4	0.4	-
Embedded derivatives (exports)	65.2	11.4	-	96.2	1.5	-
Liabilities	(4.0)	(4.1)	(0.2)	(2.9)	(0.1)	(0.1)
Trade payables	-	-	-	(0.1)	(0.1)	(0.1)
Embedded derivatives (imports)	(4.0)	(4.1)	(0.2)	(2.8)	-	-
Gross balance sheet exposure	78.7	20.7	(0.2)	122.1	5.8	2.9
Estimated forecast sales	27.8	6.4	32.1	13.3	12.1	25.7
Estimated forecast purchases	(1.7)	(6.1)	(0.6)	(4.3)	(6.3)	(0.3)
Gross exposure	104.8	21.0	31.3	131.1	11.6	28.3
Forward Exchange Contracts						
Exports	(66.8)	(18.9)	(33.4)	(99.3)	(32.8)	(26.1)
Imports	1.9	10.2	1.0	2.2	5.3	0.2
Foreign Currency Options (Zero Cost Collars)						
Exports	(7.4)	(1.9)	-	-	-	-
Net exposure	32.5	10.4	(1.1)	34.0	(15.9)	2.4

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for the year ended 31 March 2008

	2008			2007		
	US Dollar (USD) million	Euro (EUR) million	Sterling (GBP) million	US Dollar (USD) million	Euro (EUR) million	Sterling (GBP) million
32 Financial risk management (continued)						
Company						
Assets	79.0	24.8	-	125.0	5.9	3.0
Trade receivables	13.6	13.4	-	27.4	4.0	3.0
Controlled Foreign Currency accounts (CFC)	0.2	-	-	1.4	0.4	-
Embedded derivatives (exports)	65.2	11.4	-	96.2	1.5	-
Liabilities	(4.0)	(4.1)	(0.2)	(2.9)	(0.1)	(0.1)
Trade payables	-	-	-	(0.1)	(0.1)	(0.1)
Embedded derivatives (imports)	(4.0)	(4.1)	(0.2)	(2.8)	-	-
Gross balance sheet exposure	75.0	20.7	(0.2)	122.1	5.8	2.9
Estimated forecast sales	17.8	0.8	32.1	11.7	6.4	25.7
Estimated forecast purchases	0.7	0.5	0.3	(3.3)	(2.3)	(0.3)
Gross exposure	93.5	22.0	32.2	130.5	9.9	28.3
Forward Exchange Contracts						
Exports	(56.8)	(13.3)	(33.4)	(97.8)	(27.1)	(25.7)
Imports	(0.5)	3.6	-	1.1	1.4	0.1
Foreign Currency Options (Zero Cost Collars)						
Exports	(7.4)	(1.9)	-	-	-	-
Net exposure	28.8	10.4	(1.2)	33.8	(15.8)	2.7
A 5.0% strengthening of the Rand against the following currencies at 31 March would have increased/ (decreased) profit or loss by the following amounts:						
Group	9.8	(0.5)	(1.0)	4.1	(1.9)	(3.3)
Company	11.7	(0.5)	(1.0)	4.5	(1.9)	(3.0)

A 5.0% weakening of the Rand against the above currencies at 31 March would have had an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant. The impact on the Group's equity is equal to the impact on the profit or loss.

	2008			2007		
	Foreign currency notional	Local currency	Fair value	Foreign currency notional	Local currency	Fair value
	million	R million	R million	million	R million	R million
32 Financial risk management (continued)						
32.3 Market risk (continued)						
Foreign currency derivatives						
The fair value of foreign currency derivatives are disclosed in note 20						
The following foreign exchange contracts existed at 31 March:						
Purchase contracts						
US Dollar (USD)	11.9	78.0	79.7	6.5	48.4	48.0
Euro (EUR)	5.0	53.0	53.7	8.0	76.6	78.6
Sterling (GBP)	0.7	11.6	11.9	2.4	34.3	34.6
Singapore Dollar (SGD)	0.1	0.7	0.9	-	-	-
Other		7.6	9.9		2.4	2.3
		150.9	156.1		161.7	163.5
Sales contracts						
US Dollar (USD)	78.5	614.7	656.4	161.8	1,084.8	972.5
Euro (EUR)	15.3	155.7	161.8	33.2	306.6	324.7
Sterling (GBP)	33.4	500.8	561.1	26.2	377.8	325.1
Singapore Dollar (SGD)	5.1	29.4	30.7	6.8	27.4	24.2
Australian Dollar (AUD)	-	-	-	3.4	19.7	20.4
Other		1.6	2.1		2.4	2.3
		1,302.2	1,412.1		1,818.7	1,669.2
The following foreign exchange options existed at 31 March:						
Sales contracts						
Euro (EUR)	-	-	-	0.7	6.1	6.1
		-	-		6.1	6.1

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for the year ended 31 March 2008

	2008				2007			
	Foreign currency notional amount				Foreign currency notional amount			
	Million	Million	Million	Million	Million	Million	Million	Million
	1 Year	2 Years	3 - 5 Years	Total	1 Year	2 Years	3 - 5 Years	Total
32 Financial risk management (continued)								
32.3 Market risk (continued)								
Maturity table								
Foreign exchange contracts								
Purchase contracts								
US Dollar (USD)	6.7	2.6	2.6	11.9	6.5	-	-	6.5
Euro (EUR)	5.0	-	-	5.0	7.3	0.7	-	8.0
Sterling (GBP)	0.7	-	-	0.7	2.4	-	-	2.4
Singapore Dollar (SGD)	0.1	-	-	0.1	-	-	-	-
Sales contracts								
US Dollar (USD)	72.8	5.7	-	78.5	143.7	18.1	-	161.8
Euro (EUR)	15.3	-	-	15.3	24.6	8.6	-	33.2
Sterling (GBP)	33.4	-	-	33.4	26.2	-	-	26.2
Singapore Dollar (SGD)	5.1	-	-	5.1	6.8	-	-	6.8
Australian Dollar (AUD)	-	-	-	-	3.4	-	-	3.4
Foreign exchange options								
Sales contracts								
Euro (EUR)	-	-	-	-	0.7	-	-	0.7

Foreign exchange and embedded derivatives

Contracts (imports and exports) denominated in a foreign currency, which is neither the measurement currency of any party to the contract nor the currency in which the commodity is routinely traded in international commerce, contains a foreign exchange embedded derivative (to sell or buy the equivalent amount of foreign currency), is separated and accounted for at fair value even though the contract is not recognised.

	2008			2007		
	Foreign currency notional amount	Local currency	Fair value	Foreign currency notional amount	Local currency	Fair value
	million	R million	R million	million	R million	R million
Foreign currencies						
Export transactions						
US Dollar (USD)	45.5	271.4	279.5	82.1	554.5	529.4
Euro (EUR)	1.5	15.3	20.1	1.5	14.1	14.6
		286.7	299.6		568.6	544.0
Import transactions						
US Dollar (USD)	5.0	42.0	43.7	2.7	24.4	20.1

	2008				2007			
	Foreign currency notional amount				Foreign currency notional amount			
	Million	Million	Million	Million	Million	Million	Million	Million
	1 Year	2 Years	3 - 5 Years	Total	1 Year	2 Years	3 - 5 Years	Total
32 Financial risk management (continued)								
32.3 Market risk (continued)								
Maturity table								
Export transactions								
US Dollar (USD)	38.1	6.1	1.3	45.5	37.5	44.1	0.5	82.1
Euro (EUR)	1.5	-	-	1.5	1.5	-	-	1.5
Import transactions								
US Dollar (USD)	4.3	0.7	-	5.0	2.1	0.5	0.1	2.7

Commodity risk

Commodity risk arises from the movement in commodity prices. The Group purchases mainly two commodities as raw material, i.e. copper and zinc. The risk is managed by hedging the purchase price using commodity swap contracts. No transactions of a speculative nature are entered into.

Commodity swap derivatives

The fair value of the commodity swap derivatives are disclosed in note 20.

	2008			2007		
		Local currency	Fair value		Local currency	Fair value
	Units in tons	R million	R million	Units in tons	R million	R million
The following commodity swap contracts existed at 31 March:						
Copper swaps	2,488	123.9	171.5	3,105	148.1	144.5
Zinc swaps	1,051	22.2	21.2	1,350	30.6	32.7
		146.1	192.7		178.7	177.2

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	2008				2007			
	Units in tons				Units in tons			
	1 Year	2 Years	3 - 5 Years	Total	1 Year	2 Years	3 - 5 Years	Total
32 Financial risk management (continued)								
32.3 Market risk (continued)								
Maturity table								
Copper swaps	1,749	739.0	-	2,488	1,313	1,088	704	3,105
Zinc swaps	765	286.0	-	1,051	600	475	275	1,350

	Notes	Loans and receivables R million	Liabilities at amortised cost R million	Held for trading R million	Carrying amount R million	Fair value R million
32.4 Fair value of financial assets and liabilities						
The categorisation of each class of financial asset and liability, including their fair values, are included below:						
Group						
2008						
Financial assets						
Loans receivable	15	22.5	-	-	22.5	24.6
Associated companies: Loans receivable	14	24.7	-	-	24.7	24.7
Trade and other receivables	18	747.1	-	-	747.1	747.1
Derivative financial assets	20.1			148.7	148.7	148.7
Cash and cash equivalents	21	969.4	-	-	969.4	969.4
Financial liabilities						
Interest bearing borrowings	24	-	(158.1)	-	(158.1)	(158.1)
Associated companies: Borrowings	24		(84.1)		(84.1)	(84.1)
Trade and other payables	26	-	(727.4)	-	727.4)	(727.4)
Derivative financial liabilities	20.2	-	-	(184.7)	(184.7)	(184.7)
		1,763.7	(969.6)	(36.0)	758.1	760.2
Less: Disclosed as held for sale		(15.2)	12.4	-	(2.8)	(2.8)
		1,748.5	(957.2)	(36.0)	755.3	757.4

	Notes	Loans and receivables R million	Liabilities at amortised cost R million	Held for trading R million	Carrying amount R million	Fair value R million
32 Financial risk management (continued)						
32.4 Fair value of financial assets and liabilities (continued)						
Group (continued)						
2007						
Financial assets						
Loans receivable	15	29.6	-	-	29.6	33.5
Associated companies: Loans receivable	14	30.6	-	-	30.6	30.6
Trade and other receivables	18	746.6	-	-	746.6	746.6
Derivative financial assets	20.1	-	-	47.9	47.9	47.9
Cash and cash equivalents	21	340.0	-	-	340.0	340.0
Financial liabilities						
Interest bearing borrowings	24	-	(841.2)	-	(841.2)	(857.7)
Trade and other payables	26	-	(566.5)	-	(566.5)	(566.5)
Derivative financial liabilities	20.2	-	-	(116.4)	(116.4)	(116.4)
		1,146.8	(1,407.7)	(68.5)	(329.4)	(342.0)
Less: Disclosed as held for sale		(16.9)	11.6	-	(5.3)	(5.3)
		1,129.9	(1,396.1)	(68.5)	(334.7)	(347.3)
Company						
2008						
Financial assets						
Loans receivable	15	22.5	-	-	22.5	24.6
Associated companies: Loans receivable	14	24.7	-	-	24.7	24.7
Subsidiaries: Loans receivable		22.5	-	-	22.5	22.5
Trade and other receivables	18	641.4	-	-	641.4	641.4
Derivative financial assets	20.1	-	-	135.8	135.8	135.8
Cash and cash equivalents	21	903.4		-	903.4	903.4
Financial liabilities						
Interest bearing borrowings	24	-	(150.9)	-	(150.9)	(150.9)
Associated companies: Borrowings	24	-	(84.1)	-	(84.1)	(84.1)
Trade and other payables	26	-	(555.4)	-	(555.4)	(555.4)
Subsidiaries: Borrowings		-	(377.9)	-	(377.9)	(377.9)
Derivative financial liabilities	20.2	-	-	(182.0)	(182.0)	(182.0)
		1,614.5	(1,168.3)	(46.2)	400.0	402.1
Less: Disclosed as held for sale		-	-	-	-	-
		1,614.5	(1,168.3)	(46.2)	400.0	402.1

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	Notes	Loans and receivables R million	Liabilities at amortised cost R million	Held for trading R million	Carrying amount R million	Fair value R million
32 Financial risk management (continued)						
32.4 Fair value of financial assets and liabilities (continued)						
Company (continued)						
2007						
Financial assets						
Loans receivable	15	29.6	-	-	29.6	33.5
Associated companies: Loans receivable	14	30.6	-	-	30.6	30.6
Subsidiaries: Loans receivable		159.8	-	-	159.8	159.8
Trade and other receivables	18	701.9	-	-	701.9	701.9
Derivative financial assets	20.1	-	-	47.9	47.9	47.9
Cash and cash equivalents	21	286.5	-	-	286.5	286.5
Financial liabilities						
Interest bearing borrowings	24	-	(833.5)	-	(833.5)	(850.1)
Trade and other payables	26	-	(463.3)	-	(463.3)	(463.3)
Subsidiaries: Borrowings		-	(230.0)		(230.0)	(230.0)
Derivative financial liabilities	20.2	-	-	(113.9)	(113.9)	(113.9)
		1,208.4	(1,526.8)	(66.0)	(384.4)	(397.1)
Less: Disclosed as held for sale		-	-	-	-	-
		1,208.4	(1,526.8)	(66.0)	(384.4)	(397.1)

Determination of fair values

Non-derivative financial instruments

Quoted market prices at reporting date have been used to determine the fair value of loans, 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 trade payables, the fair value was determined using the discounted cash flow method at market related interest rate.

All other financial assets and liabilities carrying amounts approximate fair values.

Derivative financial instruments

The fair value of derivative financial instruments is determined using accepted valuation techniques and incorporating market quoted prices.

33 Capital management

The Board's policy is to maintain a strong capital base so as to maintain stakeholder confidence and to sustain future development of the business. The Group considers its capital to comprise of total equity. The Group may adjust its capital structure by way of issuing new shares and is dependent on its Shareholder for additional capital, as required. The Group manages its capital structure in light of changes in economic conditions and the Board of Directors monitors the capital adequacy, solvency and liquidity of the Group on a continuous basis.

33 Capital management (continued)

The capital resources of the Group have been depleted during the past five 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 2005, which was approved by the key stakeholders, including the Executives Authority and Cabinet. This required the Shareholder to inject R 5.2 billion for the successful implementation of the strategy.

Since the approval of the strategy, the Group has been recapitalised by a total of R 3.5 billion. The Board has since requested the final recapitalisation payment of R 1.7 billion be made in 2008/09 year from the Shareholder.

In the interim, the Shareholder provided a Government Guarantee of R 1.3 billion to enable the Group to raise borrowings. The recapitalisation of R 1.7 billion will be used to repay the borrowings by end of the 2008/09 financial year. The Group further strives to negotiate advance payments from clients in business transactions that require high investments in working capital over a long delivery lead times. There were no changes in the Group's approach to capital management during the year.

The Company is not subject to externally imposed capital requirements. However, one of the Company's subsidiaries, Densecure (Pty) Ltd, is a wholly owned captive insurer and therefore, has certain externally imposed capital requirements.

The minimum capital requirements applicable to Densecure (Pty) Ltd were maintained at all times during the year. The Company maintains a solvency margin higher than the statutory requirement of 25.0%. The table below summarises the capital requirements at the end of the year:

	Group	
	2008	2007
	R million	R million
Capital and reserves attributable to equity shareholder	56.4	51.6
Premiums written	18.3	17.1
	%	%
Actual solvency margin	308.2	301.8

34 Pension and other post-retirement obligations

The Group offers pension and post-retirement benefits through two defined contribution plans and two defined benefit plans.

34.1 Denel Pension Fund

The Group has a pension fund scheme that covers certain employees. This fund is a defined benefit plan and is fully funded. The assets of the funded plan are held independently of the Group's assets in a separate trustee-administered fund that is governed by the Pension Funds Act of 1956 (Act no 24 of 1956).

This fund is valued by independent actuaries every three years. The latest full statutory actuarial valuation was prepared for 31 December 2006. For the purpose of preparing the group annual financial statements, the actuarial valuation was performed in accordance with IAS 19 *Employee Benefits*, as at 31 March 2008. The result of the IAS19 valuation indicated an actuarial surplus of R 1,640.7 million (2007: R 2,092.8 million). The statutory valuation, which is performed using different assumptions to the IAS19 valuation, indicated a surplus of R 777.0 million at 31 December 2006.

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34 Pension and other post-retirement obligations (continued)

34.1 Denel Pension Fund (continued)

The fund surplus apportionment date was set at 31 December 2003. In the Surplus Apportionment Scheme of the fund, no provision was made (2007: R nil million) for an employer refund, being the continuation of the contribution holiday after the Second Amendment Act to the Pension Fund Act of 1956, promulgated 7 December 2001, as the employer made a payment to the fund.

Following the approval of the surplus apportionment scheme by the Financial Services Board (FSB) on 15 December 2006, the fund proceeded with the payment of the surplus claims to former members to the value of R nil million (2007: R 690,0 million) to approximately nil (2007: 52,328) former members.

The Group expects to contribute R 0.9 million to this defined benefit pension plan in 2009.

The actuarially calculated liability compared to assets is as follows for the defined benefit plans:

34.2 Denel Medical Benefit Trust

The Group provides post-retirement medical aid contribution subsidies to qualifying retirees. These subsidies are funded by contributions made into a separate trustee administrated fund.

The fund is valued annually by independent actuaries using the projected unit credit method. The result of the valuation carried out at 31 March 2008 indicated a surplus of R 817.4 million (2007: R 938.1 million).

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 balance sheet.

Due to the current surplus of this fund, the Group contributes to the fund when a member goes on an early retirement and it is therefore unable to determine the contribution for 2009.

	Denel Pension Fund		Denel Medical Benefit Trust	
	2008	2007	2008	2007
	R million	R million	R million	R million
34 Pension and other post-retirement obligations (continued)				
34.2 Denel Medical Benefit Trust (continued)				
Change in defined benefit funded obligation				
Present value of funded obligations at 1 April	3,243.0	2,495.2	1,106.3	899.8
Service cost benefits earned during the year	2.3	2.3	23.0	26.2
Interest cost on projected benefit obligation	252.6	181.0	99.6	81.0
Actuarial losses/ (gains)	339.2	40.0	(119.3)	129.5
Benefits paid	(589.8)	(166.0)	(33.3)	(30.2)
Member contribution	0.5	0.5	-	-
Past service costs	-	690.0	-	-
Present value of funded obligations at 31 March	3,247.8	3,243.0	1,076.3	1,106.3
Change in plan assets				
Fair value of plan assets at 1 April	5,335.8	4,519.4	1,880.9	1,505.3
Expected return on plan assets	459.2	354.8	169.3	135.5
Actuarial (gains)/ losses	(323.5)	626.1	(91.4)	261.3
Employer and member contribution	6.8	1.5	7.5	9.0
Benefits due	-	-	(39.3)	-
Benefits paid	(589.8)	(166.0)	(33.3)	(30.2)
Fair value of plan assets at 31 March	4,888.5	5,335.8	1,893.7	1,880.9
Fund excess	1,640.7	2,092.8	817.4	774.6
Excess not recognised	1,640.7	2,092.8	817.4	774.6
Unrecognised actuarial losses/ (gains)	662.6	(754.7)	-	-
Net benefit expenses				
Service cost	2.3	2.3	23.0	26.2
Interest cost	252.6	181.0	99.6	81.0
Expected return on plan assets	(459.2)	(354.9)	(169.3)	(135.5)
Net actuarial (gains)/ losses losses recognised during the year	-	-	(119.3)	129.5
(Expense)/ income	(204.3)	(171.6)	(166.0)	101.2

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2008

	Denel Pension Fund		Denel Medical Benefit Trust	
	2008	2007	2008	2007
	%	%	%	%
34 Pension and other post-retirement obligations (continued)				
34.2 Denel Medical Benefit Trust (continued)				
The principal actuarial assumptions used for accounting purposes were:				
Expected return on plan assets	9.75	8.75	10.25	9.00
Future salary increase	7.25	6.00		
Future pension increase	7.50	6.00		
Discount rate	9.25	8.00		
Inflation rate	6.25	5.00		
Expected medical inflation			8.25	7.00

The Denel Pension Fund's expected long-term return is based on the expected long-term returns on equities, cash and bonds.

The Medical Benefit Trust'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.

	Number	Number	Number	Number
The beneficiary members from the funds are as follows:				
Active members	37	45	2,994	3,296
Retired members	3,198	3,399	2,853	2,859

	2008 R million	2007 R million	2006 R million	2005 R million	2004 R million
34 Pension and other post-retirement obligations (continued)					
34.2 Denel Medical Benefit Trust (continued)					
Amounts for the current and previous four periods are as follows:					
Denel Pension Fund					
Defined benefit obligation	(3,247.8)	(3,243.0)	(2,495.2)	(2,203.1)	(1,799.9)
Plan assets	4,888.5	5,335.8	4,519.4	3,621.8	3,024.8
Surplus/ (deficit)	1,640.7	2,092.8	2,024.2	1,418.7	1,224.9
Experience adjustements on plan liabilities	278.0	18.9	64.8	130.2	(0.3)
Experience adjustments on plan assets	(323.5)	626.2	721.7	460.1	192.0
Denel Medical Benefit Trust					
Defined benefit obligation	(1,076.3)	(1,106.3)	(899.8)	(855.5)	(800.7)
Plan assets	1,893.7	1,880.9	1,505.3	1,145.5	956.3
Surplus/ (deficit)	817.4	774.6	605.5	290.0	155.6
Experience adjustements on plan liabilities	(9.7)	17.8	(37.4)	(4.5)	(23.4)

	2008	
	Increase	Decrease
A 2.0% change in assumed healthcare cost trend rates would have the following effects:		
Effect on defined benefit obligation	348.9	(238.6)

34.3 Denel Retirement Fund

The Group has established a retirement fund scheme that covers all qualifying employees except for those who are members of the Denel Pension Fund. 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 profit or loss as incurred.

34.4 Denel Supplementary Provident Fund

The Group had a supplementary provident fund for qualifying executives to enhance pension benefits. The fund is operated as a defined contribution plan, except for a few remaining members whose final benefits are linked to their salary. During the 2001/02 financial year, the Board resolved to liquidate the fund and the liquidation process commenced in May 2003. The fund was finally liquidated during the previous year and the Company received an amount of R 16.0 million during the previous year as part of the surplus apportionment scheme.

The Company has no further liability in respect of this fund.

35 Segment reporting

Segment information is presented in respect of the Group's business segments. These business segments are based on the Group's management and reporting structure. The Group's only geographical segment is South Africa. Segment results, assets and liabilities include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis. Unallocated items are shown as reconciling items between the segments and the consolidated information. Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one period. Transfer pricing between business segments are set at cost plus 10.0% segment revenue and segment results include transfers between business segments and these transfers are eliminated on consolidation.

Business segments

The Group comprises the following main business segments:

- **Aerospace:** This business segment focuses on airframe structural and system design, the development of systems,

	Aerospace		Land Systems	
	2008	2007	2008	2007
	R million	R million	R million	R million
Segment revenue	2,239.2	2,126.9	1,885.7	1,500.4
Sales to external customers	2,025.8	1,772.2	1,722.1	1,404.6
Inter-group sales	213.4	354.7	163.6	95.8
Segment result	(219.9)	(264.7)	(76.9)	(117.2)
Finance charges				
Share of results of associated companies				
Taxation				
Loss for the year before discontinuing operations				
Loss of discontinued operations				
Loss for the year				
Segment assets	2,444.7	1,789.5	1,853.3	1,365.0
Deferred tax assets				
Total assets				
Segment liabilities	2,098.0	2,055.5	1,507.9	910.3
Deferred tax liabilities				
Total liabilities				
Cash flows from:				
Operating activities	(104.0)	(856.7)	266.5	(178.2)
Investing activities	(200.5)	(87.1)	(71.1)	140.9
Financing activities	963.8	(725.6)	55.6	70.3
Capital expenditure	189.3	(55.5)	65.9	(37.5)
Impairment losses	102.4	257.6	30.3	45.4
Impairment losses reversed	(147.0)	(1.8)	(44.1)	(20.2)
Depreciation/ amortisation in respect of segment assets	36.1	59.9	49.3	52.7
Significant non-cash items				
Fair value adjustment	-	-	-	-
(Profit)/ loss on disposal of property, plant and equipment	(0.5)	(3.4)	0.7	(5.0)
(Profit)/ loss on disposal of investment properties	-	-	-	-
Loss on disposal of intangible assets	-	-	-	-

the design and manufacturing of optical and laser products, as well as measurement of in-flight systems performance.

- **Land systems:** This business segment supplies propellants, explosives and pyrotechnics, as well as design, development, manufacturing, integration and product support expertise for artillery ballistic systems. The business segment also specialises in heavy calibre ordnance consumables, the production of consumables for small military and commercial arms, as well as in post-war and peacekeeping missions.
- **Non-core:** This business segment comprises of all the Group's non-core divisions and subsidiaries, i.e. Deniprop, Dendustri, Irenco and Cosource (Pty) Ltd.
- **Support Services and Other:** Corporate activities mainly consist of corporate office and treasury functions and are not directly related to the business segments identified. This segment also includes segments that are not separated due to their immateriality, i.e. Densecure (Pty) Ltd.

Non-Core		Support Services and Other		Elimination		Total	
2008 R million	2007 R million	2008 R million	2007 R million	2008 R million	2007 R million	2008 R million	2007 R million
239.1	190.7	43.2	37.2	(589.1)	(587.1)	3,818.1	3,268.1
45.1	71.2	25.1	20.1	-	-	3,818.1	3,268.1
194.0	119.5	18.1	17.1	(589.1)	(587.1)	-	-
155.8	21.7	(146.0)	(21.4)	54.3	(5.2)	(232.7)	(386.8)
						(60.5)	(143.0)
						(23.1)	28.9
						(5.0)	(6.4)
						(321.3)	(507.3)
						(25.9)	(41.8)
						(347.2)	(549.1)
1,108.3	1,411.2	4,647.0	4,827.7	(5,167.5)	(5,205.5)	4,885.8	4,187.9
						254.5	315.8
						5,140.3	4,503.7
309.6	1,039.2	3,092.7	2,818.3	(3,434.2)	(3,257.8)	3,574.0	3,565.5
						238.8	305.5
						3,812.8	3,871.0
(47.9)	(242.0)	(37.0)	245.0	(5.6)	6.1	72.0	(1,025.8)
602.7	16.7	86.0	(51.2)	(54.6)	61.0	362.5	80.3
(353.4)	237.0	66.2	(1,949.2)	(332.7)	2,922.5	399.5	555.0
14.0	(26.0)	1.2	(1.1)	-	-	270.4	(120.1)
11.2	4.7	162.6	-	11.0	-	317.5	307.7
(2.7)	(0.5)	-	(0.9)	-	-	(193.8)	(23.4)
24.3	22.6	1.9	2.1	-	-	111.6	137.3
22.4	24.6	-	-	-	-	22.4	24.6
(88.5)	(0.2)	-	-	-	-	(88.3)	(8.6)
(46.2)	2.9	-	-	-	-	(46.2)	2.9
-	-	-	0.2	-	-	-	0.2

	2008	
	Share capital issued [1]	Share investment by Denel (Pty) Ltd [1]
	R million	R million
36 Subsidiaries and associated companies		
The following unlisted companies are subsidiaries or associated companies of Denel (Pty) Ltd and its subsidiaries:		
Shareholding by holding company		
Aero Properties (Pty) Ltd [3]	-	-
Bonaero Park (Pty) Ltd [3]	27.0	126.1
Cosource (Pty) Ltd [2]	52.4	45.9
Denel Informatics Marketing in Africa (Pty) Ltd [3]	-	-
Denel International Ltèe (incorporated in Mauritius)	-	-
Denel Personnel Solutions (Pty) Ltd	-	-
Denel Properties (Pty) Ltd [3]	-	-
Denel Saab Aerostructures (Pty) Ltd	653.1	587.1
Densecure (Pty) Ltd	8.0	8.0
Informatics Personnel Solutions (Pty) Ltd	-	-
La Forge Manufacturing (Pty) Ltd	-	-
Mechem (Pty) Ltd	63.1	63.1
Skew Road Properties (Pty) Ltd [3]	-	-
Specialised Protein Products (Pty) Ltd	-	-
Nomakhaya Property Services (Pty) Ltd [3]	-	-
Denel Do Brasil Tecnologia Aplicada E Participacoes Limitada (incorporated in Brazil)	-	-
Mechem Countermining DOO (incorporated in Bosnia) [2]	-	-
Community Pension Informatics (Pty) Ltd	-	-
Total investments		830.2
Aggregated amounts less than R 0.1 million		0.1
Less: Accumulated impairment of investments		(41.1)
Net investments of Denel (Pty) Ltd		789.2
Shareholding by subsidiaries		
Jagarve (Pty) Ltd [3]	-	-
Nisec (Pty) Ltd	-	-
BWyz Distributions SA (Pty) Ltd	-	-
Talkwyz Services (Pty) Ltd	-	-
Tier2Tier Automotive (Pty) Ltd	-	-
Associated companies		
Turbomeca Africa (Pty) Ltd	-	49.4
Carl Zeiss Optronics (Pty) Ltd	-	56.5
Total investments		105.9
Less: Accumulated impairment of investments		(49.4)
Net investments of Denel (Pty) Ltd		56.5

	2008	2007
	R million	R million
Aggregated loss of subsidiaries	(96.5)	(68.0)

[1] *Amounts smaller than R 0.1 million are not reflected in this page*
[2] *Shares are not held by the Group but effective management control is exercised in these entities*
[3] *Denel Property Group*

2008		2007			
Due to/ (by) Denel (Pty) Ltd [1]	Effective shareholding	Share capital issued [1]	Share investment by Denel (Pty) Ltd [1]	Due to/ (by) Denel (Pty) Ltd [1]	Effective shareholding
R million	%	R million	R million	R million	%
-	100.0	-	-	32.0	100.0
(160.3)	100.0	27.0	126.1	(152.4)	100.0
3.1	51.7	52.4	45.9	3.1	51.7
(0.2)	100.0	-	-	-	100.0
59.6	100.0	-	-	59.6	100.0
(68.4)	100.0	-	-	(73.5)	100.0
39.0	100.0	-	-	36.9	100.0
(102.8)	80.0	187.1	150.3	121.0	100.0
-	100.0	8.0	8.0	-	100.0
-	100.0	-	-	-	100.0
103.1	100.0	-	-	80.1	100.0
(46.2)	100.0	-	-	-	-
-	100.0	-	3.6	(1.0)	100.0
-	-	-	-	421.1	100.0
-	73.0	-	-	-	73.0
-		-	-	-	
-		-	-	0.8	
-	100.0	-	-	-	100.0
(173.1)			333.9	527.7	
-			0.1	-	
(182.3)			(42.8)	(561.1)	
(355.4)			291.2	(33.4)	
-	100.0	-	-	-	100.0
-	100.0	-	-	-	100.0
-	45.3	-	-	-	45.3
-	51.7	-	-	-	51.7
-	41.4	-	-	-	41.4
24.7	49.0	-	49.4	30.6	49.0
-	30.0		-	-	-
24.7			49.4	30.6	
-			(49.4)	-	
24.7			-	30.6	

GLOSSARY

AAD	Africa Aerospace and Defence
ADS	African Defence Systems
AGM	Annual General Meeting
AMD	South African Aerospace, Maritime and Defence Industries Association
AMO	Aviation Maintenance Organisation
AMOSA	Accredited Movers of Southern Africa
AsgiSA	Accelerated and Shared Growth Initiative for South Africa
AU	African Union
AUD	Australian Dollar
B-BBEE	Broad-Based Black Economic Empowerment
BEE	Black Economic Empowerment
Board	Board of Directors
CEO	Chief Executive Officer
CFC	Controlled Foreign Currency
CFO	Chief Financial Officer
CODM	Chief Operating Decision Maker
CoGP	Codes of Good Practice
CSDP	Competitive Supplier Development Policy
CSIR	Council for Scientific and Industrial Research
DCLD	Denel Centre for Learning and Development
DENIPROP	Denel Property Group
DERI	Defence Evaluation and Research Institute
DIFR	Disabling Injury Frequency Rate
DISS	Denel Integrated Systems Solutions
DLS	Denel Land Systems
DMTN	Domestic Medium Term Note
DoD	Department of Defence
DPE	Department of Public Enterprises
DPS	Denel Personnel Solutions (Pty) Ltd
DSA	Denel Saab Aerostructures (Pty) Ltd
DST	Department of Science and Technology
DYFTP	Denel Youth Foundation Training Programme
EADS	European Aeronautics and Defence Systems
EE	Employment Equity
EMS	Environmental Management System
EUR	Euro
EWP	Employee Wellness Programme
FD	Financial Director
FIFO	First in First Out
FSB	Financial Services Board
GBADS	Ground-Based Air Defence System
GBP	British Sterling Pound
Government	South African Government
GRI	Global Reporting Initiative
HG	Higher Grade
IAS	International Accounting Standards
ICT	Information and Communications Technology
ICV	Infantry Combat Vehicle
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IGG	International Golden Group
Inc.	Incorporated
ISO	International Standards Organisation
IUCN	International Union for Conservation of Nature
JIBAR	Johannesburg Interbank Agreed Rate
KPI	Key Performance Indicator
LRA	Labour Relations Act
Mechem	Mechem (Pty) Ltd and Mechem Countermining (incorporated in Bosnia)
MEDDS	Mechem Explosives and Drug Detection System
MPV	Mine Protected Vehicle
MRO	Maintenance, Repair and Overhaul
NASA	National Aeronautics and Space Administration
NCACA	National Conventional Arms Control Act
NCACC	National Conventional Arms Control Committee
No.	Number
NOx	Nitrogen oxides Act
OEM	Original Equipment Manufacturer
OHSAS	Occupational Health Safety Assessment Series
OTB	Overberg Toetsbaan
PFMA	Public Finance Management Act
PMP	Pretoria Metal Pressings
PMS	Performance Management System
(Pty) Ltd	(Proprietary) Limited
Rand	South African Rand
RSA	Republic of South Africa
SA	South Africa
SAAF	South African Air Force
SABS	South African Bureau of Standards
SAC	Satellite Application Centre
SADRI	South African Defence Related Industries
SANDF	South African National Defence Force
SETA's	Sector Education and Training Aythorities
SFAS	Statement of Financial Accounting Standards
SGD	Singapore Dollar
SHEQ	Safety, Health, Environment and Quality
SITA	State Information Technology Agency
SMME	Small, Medium and Micro Enterprises
SOE	State-Owned Enterprise
SOP	Schools Outreach Programme
SOX	Sarbanes Oxley Act
SPP	Specialised Proptein Products (Pty) Ltd
STC	Secondary Tax on Companies
UAE	United Arab Emirates
UAV	Unmanned Aerial Vehicle
UK MoD	United Kingdom Ministry of Defence
UN	United Nations
US	United States
USD	United State Dollar
VAT	Value Added Tax
WMS	Weapons Management System

NOTES

NOTES

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Designed and Produced by:
Puisano Business Development Group (Pty) Ltd
a founding member of the Phamandla Consortium
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Chief Graphic Designer: Philip Jean Geel   Assistant Designer: Marc Everitte

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