Annual Report 2009

GLOBAL SUPPLIER OF WORLD-CLASS PRODUCTS

DENEL

Contents

Vision, mission and values

Our vision

To be a respected and sustainable entity, serving the needs to world-class standards of its customers in aerospace, landward and maritime defence technology.

Our mission

To be the preferred supplier of strategic defence capabilities to the SANDF, and act as a catalyst for technology advancement in the broader defence economy.

Our values

Performance
We embrace operational excellence.

Integrity
We are honest, truthful and ethical.

Innovation
We create sustainable, innovative solutions.

Caring
We care for people, customers, communities, nations and the environment.

Accountability
We take responsibility for our actions.

Denel (Pty) Ltd (the company) was established on 1 April 1992 as a private company, incorporated in terms of the Companies Act, No. 61 of 1973 (amended), with the Government of South Africa (Government) as the sole shareholder. It is listed as a Schedule 2 Public Entity in terms of the Public Finance Management Act No. 1 of 1999 (PFMA). The head office of the group (Denel) is situated in Centurion, Gauteng, South Africa. The group's subsidiaries, divisions and associated companies (which are referred to as business entities in this annual report), operate from various locations within South Africa and abroad.

Section one

Company profile

Profile

Denel (Pty) Ltd (the company) was established on 1 April 1992 as a private company, incorporated in terms of the Companies Act, No. 61 of 1973 (amended), with the Government of South Africa (Government) as the sole shareholder. It is listed as a Schedule 2 Public Entity in terms of the Public Finance Management Act, No. 1 of 1999 (PFMA). The head office of the group (Denel) is situated in Centurion, Gauteng, South Africa. The group's subsidiaries, divisions and associated companies (which are referred to as business entities in this annual report), operate from various locations within South Africa and abroad.

Scope of report

This annual report covers the financial year 1 April 2008 to 31 March 2009, and is also available on Denel's website (www.denel.co.za). The purpose of this annual report is to provide comparable insight into the operational and financial performance, turnaround strategy and outlook for the future of the group in the context of the defence environment in which the group operates.

Nature of business

Denel operates in the aerospace and landward, as well as maritime defence industries, and has developed technologies over the years in niche areas, such as artillery, composite aerostructures, aircraft maintenance, mine clearance, missiles, munitions, aircraft subassembly, and unmanned aerial vehicles (UAVs). The main business of the group is conducted through its core business entities and associated companies, and includes activities such as engineering, manufacturing, research and development, as well as support of proprietary and other products throughout their life cycles. Complementary to these capabilities, the businesses are well positioned to act as specialist subcontractors to global defence suppliers. The business entity profiles of the core businesses and associated companies are provided on pages 30 to 53.

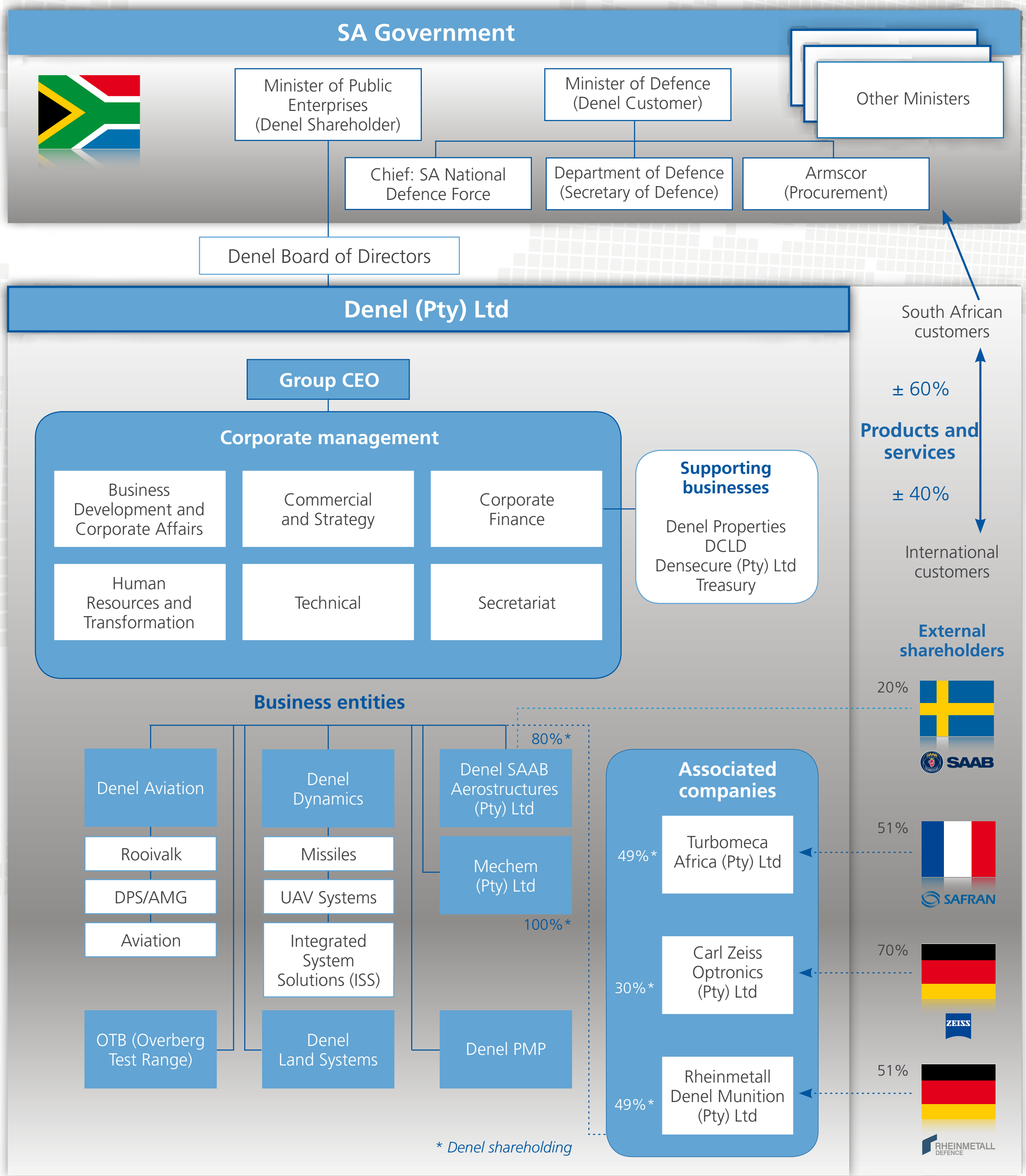
Government considers Denel a strategic asset due to its high-tech engineering, systems supply, maintenance and full life cycle support capabilities to the SANDF, and the role it plays in expanding South Africa's industrial, technological and manufacturing base. This ensures a greater measure of strategic independence for the country, whilst providing the SANDF with cost-effective, tailor-made solutions to prepare for and undertake its missions within and beyond South Africa's borders.

Turnaround strategy

During 2006, a turnaround strategy was formulated to transform the group into a profitable, commercially viable and dynamic organisation in the medium to long-term. Despite numerous challenges, progress has been made implementing the five strategic drivers, namely, secure 'privileged access' to local defence spend, engage 'state agencies', evaluate commercial viability of business entities, create equity-based partnerships and raise productivity and capabilities, supported by people and transformation.

A detailed review of the turnaround strategy and the stringent interventions undertaken to resolve underperformance in certain areas, are provided in the *directors' report* (pages 137-138).

Organisational structure



Denel has a workforce complement of 7 198 (2008: 7 913) employees, of which 2 131 (2008: 637) are employed by associated companies (including 31 expatriates).

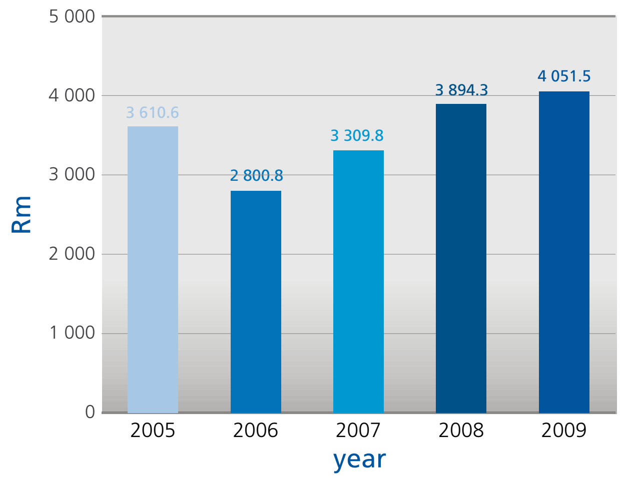
Group financial highlights

Key areas	2009 Rm	2008 Rm	Variance %
Income statement			
Revenue	4 051.5	3 894.3	4.0 ⇧
Turnover	3 923.7	3 818.1	2.8 ⇧
Gross profit	638.5	599.5	6.5 ⇧
Net loss for the year	543.9	347.2	56.6 ⇧
Balance sheet			
Equity	849.0	1 327.5	36.0 ⇩
Cash and short term deposits	489.5	879.5	44.3 ⇩
Ratios	%	%	%
Gross margin	16.3	15.7	3.8 ⇧
Exports as a % of turnover	36.1	43.3	16.7 ⇩

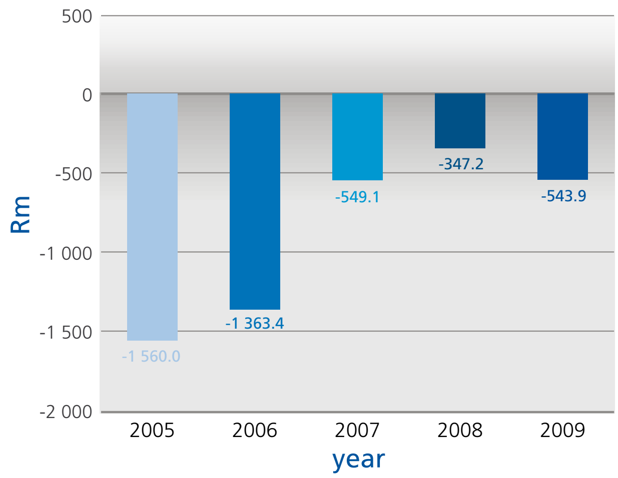
Trend analysis

Denel's key performance indicators (KPIs) are illustrated below, and a detailed explanation and commentary are included as part of the *financial and operational review section* in the *directors' report* (page 131).

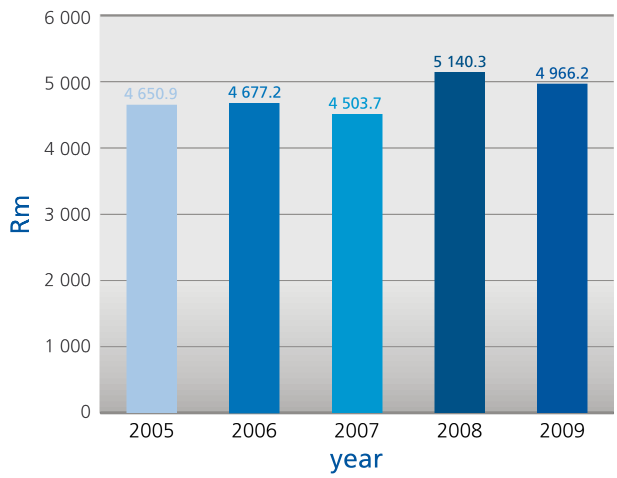
Revenue



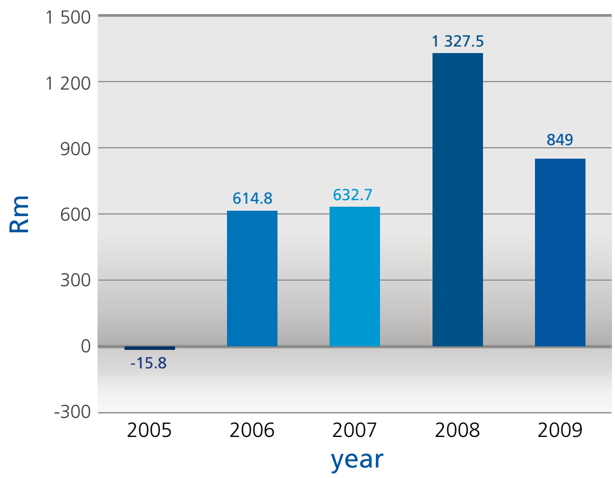
Net loss



Total assets

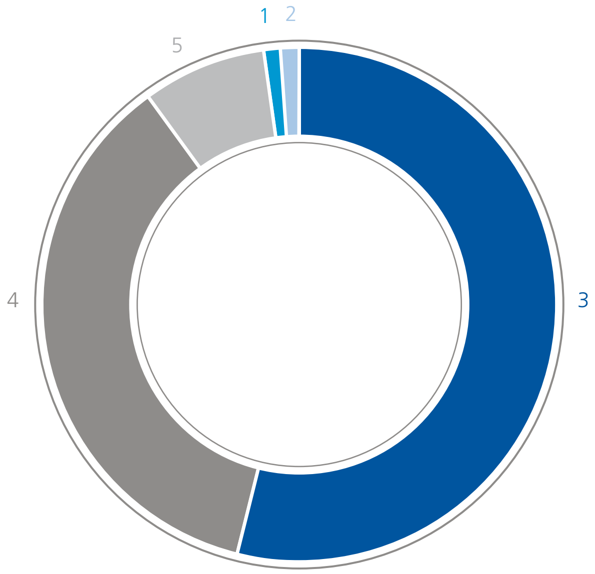


Solvency



Economic value distribution

Denel's economic value distributed is provided below. A comprehensive explanation of its drivers is provided in the *economic impact section* of the *sustainability report* (pages 89 to 97).



Key:

1	Government taxation: R49.2m (2008: R28.0m)
2	Providers of capital: R59.9m (2008: R123.9m)
3	Cost of materials and services purchased including research and development (R&D): R2 712.0m (2008: R2 209.4m)
4	Salaries and related costs: R1 795.0m (2008: R2 020.9m)
5	Depreciation, amortisation and impairment: R111.4m (2008: R108.1m)

Challenges

Although in the 2008 annual report, Denel reported that it was going to obtain the final portion of its recapitalisation, it has not yet been able to secure this portion from its Shareholder. This has resulted in a borrowing position that cannot be sustained. Securing the balance of the recapitalisation is however, crucial to finalise the turnaround strategy of the group, which is discussed throughout this report.

Denel forms part of the global defence industry and as such, is subject to both global government regulations and other regulations within the defence industry.

The world economic recession will undoubtedly restrict global defence expenditure.

Governance

The Minister of Public Enterprises appoints an independent board of directors (board). The role of the board is to provide leadership, strategic oversight and effective control over the affairs of the group, as well as, an oversight role over its executive team responsible for the day-to-day management of the group. Further elaboration on the roles and responsibilities of the board is presented in the *corporate governance report* (page 56).

An executive management team oversees the operations of each business entity. A board of directors has been appointed for each business entity. Members of the group's executive committee are appointed to the divisions', subsidiaries', as well as the associated companies' boards.

" The 'future state' as agreed with the Shareholder is aimed at the group generating sustainable commercial returns, while providing strategic military solutions and socio-economic benefits to South Africa." Chairman

" Denel's turnaround strategy has laid the foundation for being the preferred supplier of strategic defence capabilities to the SANDF, and acting as a catalyst for technology advancement in the broader defence economy." Group chief executive officer

Section two

Directors' statements and profiles

Chairman's statement

" In 2005, Denel was faced with an immense challenge. The business had to redefine itself in the context of significant decreases in domestic defence spend, a global defence market which is largely inaccessible to independent contractors such as Denel and a global industry that has undergone extensive consolidation. "

Historical perspective

In 2005, Denel was faced with an immense challenge. The business had to redefine itself in the context of significant decreases in domestic defence spend, a global defence market which is largely inaccessible to independent contractors such as Denel and a global industry that has undergone extensive consolidation.

In the light of decreased demand on the local front, Denel attempted to survive during the latter part of the 1990s and the early 2000s by diversifying its business into non-defence related businesses and exporting an extensive range of equipment and systems to a wide variety of markets. This did not achieve the commercial viability envisaged, Denel ran into significant financial difficulties and near insolvency in 2004/05. Denel then applied for a recapitalisation from Government of R5,2bn in 2006 and has received direct cash injections of R3,5bn to date.

In 2005, the Shareholder redefined the strategy for Denel aimed at putting Denel on a firm recovery path. The strategy was implemented from the beginning of 2006. The strategy entailed positioning the company to be a prime contractor in the local market and an exporter of products, subsystems, and components. This was developed to ensure that Denel does not take on major prime contracting risks in export markets. A central part of the strategy involves the formation of alliances and equity partnerships with global defence companies, particularly for Denel's businesses where defence markets are inaccessible. In other areas of the business that are able to access export markets such as high-volume consumables (eg small and medium calibre ammunition) and services, the emphasis has been on increasing revenues and performance.

The strategy also entailed the decentralisation of Denel to drive accountability and performance at business unit level. To date, Denel has disposed of non-core businesses and properties to the value of R1bn. A major improvement in governance including the establishment of entity boards, audit and risk committees, an internal audit process across Denel, the fraud hotline and improved financial management systems has been achieved. A key part of the strategy has been an emphasis on transformation, with transformation committees established in all entities. We will continue to strive to achieve this critical objective.

Economic review

The financial year came to a close when the world was faced by unprecedented uncertainty brought about by a global economic meltdown. As we are all aware, South Africa initially appeared to be doing better than many countries, but the effects were nevertheless felt in certain sectors of the economy, notably the manufacturing sector and in particular, companies with high export content.

Similar to world trends, the local defence industry has not yet been directly affected, but could feel the full impact of the economic crisis in due course. It is also likely that the financial bailouts that are granted by governments will further reduce discretionary defence spending worldwide. As already evident in many countries, it is expected that defence budgets will shrink even further, with the developed world specifically reviewing defence budgets and associated acquisition programmes. Hence, competition in Denel's traditional markets is likely to increase as major players in the market search for alternative offset regions for their products and services.

Denel has assessed the possible effects of the economic crisis on its activities and financial results, in the forthcoming year. The budgets of the Denel core entities have been stress tested, against possible identified risks, and there are indications that Denel's exposure to not meeting its approved budget has increased. This is mainly due to a possible reduction of sales revenue resulting in an increase in the budgeted net loss, if the identified risks materialise.

The situation highlights Denel's critical need for ongoing support from the Shareholder, in the form of increased local orders and funding, as discussed throughout this report.

Refinement of Denel's strategy

In the face of economic uncertainties, Denel recently revised its strategic drivers to focus on growth. Thus far, the group has sustained export revenues in a highly competitive environment, at R1 256.7m (2008: R1 215.9m), excluding the Munitions business which was sold during the year. It will, however, require an immense effort to continue this trend. Importantly, the home market is critical for Denel and there will be a major focus on the Department of Defence, Armscor and the Armed Services as key customers. The country's strategic interests are at the forefront of Denel's planning and execution.

During the financial year under review, Denel engaged extensively with the Shareholder on prerequisites for the group to becoming a viable commercial entity that will contribute directly to Government's socio-economic upliftment programmes. The 'future state' as agreed with the Shareholder is aimed at the group generating sustainable commercial returns, whilst providing strategic military solutions and socio-economic benefits to South Africa. Denel also continued to engage the Shareholder regarding the remaining recapitalisation. The balance of the recapitalisation referred to in the *directors' report* (page 136) is still required to ensure conclusion of its restructuring initiatives and to repay current borrowings. Whilst the

recapitalisation is being finalised, the group has to rely on government guarantees to cover short-term funding requirements, which resulted in an interest expense of R85.8m that negatively impacted the bottom line.

As stated in previous annual reports, the Shareholder considers Denel a key driver of technology development in South Africa's industrial sector. Denel's business entities contribute to national security imperatives and ensure an appropriate level of independence for the SANDF to acquire and maintain essential defence capabilities within South African borders.

The Denel board of directors is firmly of the view that the strategic course that has been set for Denel is correct as evidenced by our achievements to date, the retention and growth of a significant part of the defence manufacturing base through the equity partnerships that we have entered into and the rapid turnaround of three of the businesses where partnerships were formed.

Operational review

As mentioned above, Denel views support by the local market as a critical success factor. On the other hand, the group is mindful of domestic budgetary constraints. Hence, the group's approach during the current year under review has been to engage the DoD on the best possible means to address its growing requirements within its budget. It believes the DoD has an important mandate to fulfil within the local, as well as regional geo-political framework, which Denel and the South African defence industry support.

Denel's management ensured that progress was made on turnaround objectives, especially improving the financial performance of most of its business entities. Although some of these businesses have become profitable and are on a stable growth path, there are still financial and operational performance challenges within the group. To this end, there are businesses where firm interventions are still required to complete the restructuring process, namely DSA. These interventions are discussed in this annual report (page 138).

Commitment and appreciation

The board is committed to ensure the success of Denel's turnaround strategy. This is in accordance with the requirements of the Shareholder and key stakeholders, as formulated in the *shareholder's compact* (pages 62 to 67).

The board extends its heartfelt thanks to the Minister of Public Enterprises and the Director-General for their support during the current financial year. As Chairman, I pay tribute to my colleagues on the board who took a keen interest in Denel's affairs, to steer the group to sustainability in the near future.

Denel's executive management team needs to be congratulated on the progress made during the year under review. The executives in the individual businesses and all employees similarly deserve thanks for their efforts, loyalty and commitment.

Dr SP Sibisi
Chairman

Group chief executive officer's report

"Denel has succeeded in improving its financial performance over the past five years by significantly minimising the losses incurred by the group from R1 560.7m in 2005 to R543.9m in the 2009 financial year."

Group financial highlights

Denel has succeeded in improving its financial performance over the past five years by significantly minimising the losses incurred by the group from R1 560.7m in 2005 to R543.9m in the 2009 financial year, refer to the directors' report for detailed financial analysis and comparatives to the prior year.

The current year's financial results are better than expected, and are an indicator that Denel's turnaround strategy is positioning the group towards long-term sustainability. The group's gross profit has grown from a negative 4.7% in 2006 to a positive 16.3% in 2009. Revenue per employee has more than doubled from R316.5k in 2006 to R799.6k in 2009. There is no doubt that the group is on a turnaround path to sustainability.

The current year's financial results have been impacted by DSA's losses of R452.6m and Dynamics' losses of R38.5m, as well as interest on borrowings of R85.8m. Had it not been for these items, Denel would have been profitable in 2009. There are interventions that have been identified and are being implemented with the support of the Shareholder.

Of particular importance, is the fact that Denel's order book is significantly stronger at R16bn (which includes confirmed contracts) at the end of the 2009 financial year, as compared to R3.7bn in 2006. The long-term nature of much of Denel's business provides a better outlook into the future.

Total research and development (R&D) spend has grown to R1 024.1m in 2009 (2008: R782.2m) driven largely by the development of the A-Darter fifth generation air-to-air missile, the Badger infantry vehicle and the A400M military cargo aircraft. This R&D was mainly funded by the group's customers.

Strategy review

Denel's turnaround strategy was launched by the Shareholder in 2006, and in considering this year's financial performance, the group is expected to communicate the progress made to date in the implementation of this strategy. The strategy revision was necessitated by the insolvent position the group found itself in, due to the high level of losses that had been posted since the late 1990s. The group has built a solid business foundation by undertaking the following:

- Concluding three strategic equity partnerships with leading European defence and industrial players namely, Carl Zeiss GmbH (Germany), Rheinmetall Waffe Munition GmbH (Germany) and Saab AB (publ) (Sweden).

- The significant turnaround results achieved by the strategic equity partnerships (through improved order cover and the transfer of world-class industrial systems and processes) are positive:
  - Carl Zeiss Optronics (Pty) Ltd is forecasting a 100% increase in revenue by its financial year-end, 30 September 2009.
  - Rheinmetall Denel Munition (Pty) Ltd's order cover is in excess of 80%, and is expected to post its first profits during its forthcoming financial year, 31 December 2009.
  - Turbomeca Africa (Pty) Ltd's equity partnership entered into before 2006, has continued to grow its profits annually.
- Disposing of its non-core businesses.
- Developing a robust Corporate Governance and Financial Management Framework .
- DSA and Dynamics continued to post significant losses, and interventions are being implemented to turn these business entities onto a path of profitability.

We have revised our strategy to that of growth, focusing on customers, efficiency and governance to ensure continued momemtum towards a sustainable and respected Denel. We believe that the group is entering into the next phase of its restructuring process, which will set the group on the path to growth and self sustainability. We view sustainability to include economic, social and environmental development. The details of these are presented in the *sustainability report* (pages 70 to 123).

Denel's turnaround strategy has laid the foundation for being the preferred supplier of strategic defence capabilities to the SANDF, and acting as a catalyst for technology advancement in the broader defence economy.

Highlights and achievements

Business relationships with some of the key customers improved significantly, in particular with the DoD. There ,however, remains an ongoing need to deepen these business relationships to ensure improved order cover to achieve sustainability.

The improvement in risk management and programme execution has resulted in the turnaround of most of Denel's fully owned business entities. The group is proud of the significant milestones it has achieved during the year under review:

- Dynamics has celebrated the successful testing of the A-Darter missile.
- Aviation became Africa's first accredited Lockheed Martin service centre.

- Mechem has successfully completed demining projects in Eritrea, the Democratic Republic of the Congo (DRC) and Sudan.
- The extension of PMP's multi-year contract with a European company to supply brass cups for the production of ammunition is under negotiation.
- DLS has won significant foreign contracts for infantry weapons, notably machine guns, mortar systems, the NTW-20 anti-material rifle and the AGL grenade launcher.
- OTB performed test services for the SANDF, the German air force and navy, and the Italian and Singaporean air forces.
- DSA completed its capital investment programme, and completed the design of the A400M wing-to-fuselage-fairing.
- Excellent progress in partnering with local and foreign customers in the defence industry.

Challenges

Notwithstanding the successes described above, Denel still faces a number of challenges, namely:

- Continued posting of significant losses by DSA. The Airbus A400M delays may continue to negatively impact the financial results of this business going forward. This financial performance is of great concern. All the necessary support is being sought and interventions are being implemented, such as the implementation of an aggressive turnaround strategy.
- The 'future state' proposals, which include plans to address order shortfalls in excess of R1bn over a five year period and the recapitalisation of Denel, were not tabled or approved by the Cabinet. As a result, Denel has not yet secured further recapitalisation, as detailed in the *directors' report* (page 136).
- The adequacy of the local order cover continues to be a challenge. However, Government continues to support the group, and Denel has engaged with all relevant stakeholders throughout the year including the DoD, the DPE and the NT. The group will continue to engage various government departments with regards to improving its market access both locally and abroad, and to secure the much needed recapitalisation.
- Achieving 2010 financial targets and developing challenging, but realistic long-term objectives.
- Increased R&D expenditure to meet global customer requirements.
- Increase Denel's global presence and access to sustainable new markets.

In addition to the above, Denel is faced with a critical shortage of skilled technicians and engineers, similar to many industries in South Africa. The group is a skill-intensive environment where it remains a challenge to train and retain suitable employees. As indicated in the *skills development section* of the *transformation and employees report* (page 103), the group has a range of initiatives in place to address this problem, yet the shortage of qualified employees, is having an impact in varying degrees on the group's service offering and technology.

Given the current economic recession and limited funding for defence products and related support services, market conditions are challenging.

The above-mentioned challenges are shared with Denel's primary customers, notably the DoD and branches of the SANDF, as well as with the Shareholder, the DPE. As a state-owned enterprise (SOE), the group aligns its skills development initiatives with those of other state-owned enterprises and government entities. The SAAF is also working closely with the group to address the acute shortage of aviation technical employees. In addition, Denel holds organisational climate surveys to improve the working environment. The recent survey showed an improved culture index of 50 in 2009, as opposed to the 43 recorded in 2006.

Outlook

We recognise that for Denel's turnaround strategy to be effective, it must be both dynamic and responsive. Whilst all core business entities within the group are now being managed as effective stand-alone businesses with boards, business plans and governance processes, to reach its long-term goals of profitability and sustainability in a global environment, we need to continue with rigorous, focused interventions.

The other focus area is Dynamics, a business entity which is utilising cash in excess of R100m per annum due to insufficient local orders. Discussions are underway with a key global missiles company, which is considering acquiring an equity stake in Dynamics Missiles. Denel has also opened negotiations with local and international defence companies to establish partnerships for business entities such as Dynamics UAVs and DLS.

We remain focused and committed to transforming Denel into a sustainable and profitable organisation, creating value for its Shareholder.

Appreciation

I take this opportunity to thank my executive management team, and Denel employees, for their contribution during the 2009 financial year. The employees of the associated companies likewise showed tremendous commitment, without which we could hardly have made the extent of progress.

A special word of thanks goes to the Chairman and members of the Denel board for their support to me and the rest of my management team.

Similarly, the Minister and Director-General of Public Enterprises, who gave a strong hand of support whenever Denel needed it. I greatly value their support.

MT Sadik
Group chief executive officer

Board of directors

Dr SP Sibisi (Appointed: 01/06/1998 (Member); 01/08/2005 (Chairman))
BSc (Hons) in Physics, PhD
Chairman, Non-Executive
Directorship: CEO of CSIR

Mr MT Sadik (Appointed: 19/10/2006)
BCom Accounting (Hons), CA (SA), AMP
Executive, group chief executive officer
Directorship: Former executive of SABC, NAIL and De Beers

Ms SH Chaba (Appointed: 26/01/2007)
BA (Economics and Industrial Psychology)
Postgraduate Diploma in HR Management
Diploma in Diagnostic Radiography
Senior Executive: Leadership Programme
Non-Executive
Committee member: Chairman Personnel and Remuneration Committee
Directorship: Former Sasol HR Executive

Dr GC Cruywagen (Appointed: 04/09/2008)
MBSc, PhD, PMD, FIRM(SA)
Non-Executive
Committee member: Audit and Risk Committee
Directorship: Director of Risk of Tsogo Sun Group, Member of King 3 and Convenor of King 3 Risk Workgroup, Non-Executive Director of Dikhololo Limited, Former Executive at Sappi Ltd, Mittal Steel NV and Iscor Ltd

Mr E Godongwana (Appointed: 04/09/2008)
Masters Degree in Financial Economics
Non-Executive
Directorship: Member of Policy Board for Financial Services
Member of ANC National Executive Committee

Dr BG Halse (Appointed: 01/11/2004)
Degree in Business and National Economics
Dr Eng, Dr Honoris Causa (Honorary Doctor)
Non-Executive
Directorship: Former President and CEO of SAAB Group

Mr A Hirsch (Appointed: 14/04/2005)
Degree in Economics, Economic History and History, Visiting scholar at the Harvard Business School from 1998 to 1999
Non-Executive
Directorship: Former Chief Director at DTI
Now serving on various boards

Mr LC Jones (Appointed: 19/10/2006)
BSc Eng (Elec), MSc (Computer Science)
Non-Executive
Committee member: Audit and Risk Committee
Directorship: Previously held senior management positions in Tek Logic, ISIS, Altech and SITA
Currently director of Plessy Telemat

Mr NR Kunene (Appointed: 19/10/2006)
Studies in law
Certificate in Industrial Relations
Non-Executive
Directorship: CEO of Kunene Brothers Holdings
Chairman of Saab Grintek Ltd and Grintek Avation Ltd

Ms NH Maliza (Appointed: 04/09/2008)
BA (Economics and Psychology)
BA (Hons) in Economics
MBA
Non-Executive
Directorship: Former Chief Director of TISA, DTI
Currently serving on various boards

Mr F Mhlontlo (Appointed: 01/11/2008)
BCompt (Hons), CA (SA)
Executive, Group Financial Director
Directorship: Former audit partner and director of one of the big four audit firms

Ms CC Mulder (Appointed: 01/11/2005)
BCompt (Hons), CA (SA)
Non-Executive
Committee member: Chairman Denel Audit and Risk Committee
Directorship: Various responsibilities in SAICA

Mr MS Phalatse (Appointed: 14/04/2005)
Diploma in Labour Relations
Executive Programme in Marketing Management
Non-Executive
Committee member: Personnel and Remuneration Committee
Directorship: Director of various institutions and former Director of Armscor

Mr CML Savage (Appointed: 26/01/2007)
BSc (Eng), MBA
Senior Management in Leadership Development Programme
Non-Executive
Committee member: Personnel and Remuneration Committee, and Audit and Risk Committee
Directorship: Non-Executive Chairman of Tongaat Hulett Ltd

Ms T Seretse (Appointed: 26/01/2007)
LLB, MA, BSc
Non-Executive
Directorship: Held various Ministerial positions in the Botswana Government
Currently holds various directorships

Ms D Vallabh (Appointed: 04/09/2008)
BSc, LLB, LLM
Non-Executive
Directorship: Partner in Webber Wenzel Bowens

Denel executives

Mr MT Sadik (Appointed: 19/10/2006)
BCom Accounting (Hons), CA (SA), AMP
Group chief executive officer
Directorship: Former executive of SABC, NAIL and De Beers

Mr M Bohacek (Appointed 01/09/2008)
Dipl.-Betriebsw. (FH)
Acting CEO: Rheinmetall Denel Munition (Pty) Ltd
Other positions prior to the above one, and/or additional positions currently:
CFO: Rheinmetall Denel Munition (Pty) Ltd
CFO: KS Kolbenschmidt, Czech Republic, a. s.
CEO: Pierburg s.r.o, Czech Republic

Mr AS Burger (Appointed: 01/11/2004)
BEng (Hons) Mechanical
CEO: Denel Land Systems
Design Engineer in Vetkor
Progressed through various positions in the Armscor / Denel up to his current position

Mr I Dockrat (Appointed: 01/10/2006)
MBA, Certificate in Programme Management
NDip Electronics Engineering
CEO: Denel Aviation
Career includes R&D Technologist at CSIR, positions in Armscor, Trade and Investment South Africa and CEO of Wesgro

Mr BPE Garcia (Appointed 01/10/2001)
Msc (Mech.) Eng
CEO: Turbomeca Africa (Pty) Ltd
SAFRAN Group National Executive for South Africa.
Foreign Trade Advisor appointed by French Foreign Trade Minister. Directorship: Turbomeca Africa (Pty) Ltd

Ms AC Kinley (Appointed: 01/11/2008)
BCom Accounting (Hons), CA (SA)
CEO: Denel Saab Aerostructures (Pty) Ltd
Former Group Executive: Strategy Implementation at Denel
Also held the position of Action Deputy Director-General at DPE

Ms ML Lephadi (Appointed: 01/05/2008)
BProc, LLB
Group Company Sectretary
Directorship: Formerly held position of Company Secretary with SAAB Grintek Ltd, SABC and Eskom

Mr F Mhlontlo (Appointed: 06/10/2008)
BCompt (Hons), CA (SA)
Group Financial Director
Directorship: Former audit partner and director of one of the big four audit firms

Mr JV Morris (Appointed: 01/11/2008)
BSc (Hons) (Psychology and Sociology)
MSc (Agricultural Economics)
Group Executive: Strategy and Commercial
Directorships: Served in various positions in the DTI, Trade and Investment South Africa, Deciclion Capital and DPE (Deputy Director-General: Manufacturing)

Ms TP Mushungwa (Appointed: 01/06/2007)
BAdmin (Hons) in Industrial Psychology
Programme in Business Leadership
Currently final year MBL student
Group Executive: Human Resources and Transformation
Directorship: Denel Personnel Solutions (Pty) Ltd

Mr ZN Ntshepe (Appointed: 01/09/2003)
Post Graduate Diploma in Management Studies, MBA
Group Executive: Business Development and Corporate Affairs
Directorship: Former positions as stockbroker in New York,
Manager at New York Hilton and Towers
Programme Director of the Joint Enrichment Programme
Chief Operating Officer of Denel Personnel Solutions (Pty) Ltd

Maj Gen (Ret) OA Schür (Appointed: 01/02/2008)
Senior certificate, various military training and leadership courses
40 year career in the SAAF includes positions as an instructor in an advanced Combat Flying School, Commanding Squadrons as well as leading Directorates at SAAF and DoD Head Quarters
Group Executive: Technical
Directorship: Asst Director Fighter programme,
Director Air Force Acguisition (DAFA)
Director Combat Systems and Chief Director acquisition in the DoD
Was Military Attaché in Switzerland from 1990 to 1994

Mr AJ van der Walt (Appointed: 01/12/2005)
MSc (Computer Science)
Executive Leadership Programme
CEO: OTB
Career includes 8 years in various positions at universities
Progressed through various positions in OTB to his current position

Mr K Viljoen (Appointed 01/10/2001)
BEng (Hons)
Managing Director: Carl Zeiss Optronics (Pty) Ltd
Systems Engineer and Marketing Executive at Eloptro, previously division of Denel (Pty) Ltd
6 years with Carl Zeiss Optronics GmbH (Germany) before being appointed in current position

Mr JM Wessels (Appointed: 01/12/2006)
BEng (Hons)
Advanced Management Diploma
CEO: Denel Dynamics
Former Systems Engineer and Project Manager with the Reunert Group before joining Denel
Progressed through the ranks to his current position

Mr A Williams (Appointed: 01/06/2008)
BMil and various related certificates
CEO: Mechem (Pty) Ltd
27 Years experience as officer in the SANDF, Corps of Engineering
Ended military career as Chief of Staff SA Army Engineering Formation, with rank of Colonel

Mr CP Wolhuter (Appointed: 01/04/1996)
BCom Accounting (Hons), CA (SA)
CEO: Pretoria Metal Pressings
Career includes 13 years in financial positions with Barlow Rand, including Financial Director for Barlow's Group in Namibia
General Manager of AGRA, Namibia

Denel's business is conducted through its core business entities and associated companies. The business entities operate under the guidance and direction of their chief executive officers (CEOs) who are responsible for the management of operations and are assisted by management committees. The CEOs' profiles are provided in the executives section (pages 26 to 27).

Other information, including challenges faced by the group are provided as part of the economic impact section of the sustainability report (pages 89 to 97).

Section three

Business entity *profiles*

Business entity profiles

Core business entities

Denel Aviation

Nature of business

Denel Aviation (Aviation) delivers complete aviation solutions to the defence, aerospace and civil aviation industries through strategic worldwide partnerships with reputable global players in the defence and aerospace industries. Focusing primarily on maintenance, repair and overhaul (MRO) of both rotary and fixed wing aircraft, associated components, ground support and test equipment, Aviation has a depth of aeronautical engineering capability commensurate with its responsibilities as an aircraft original equipment manufacturer (OEM) and design authority. This business entity has been providing full life cycle support services to the SAAF and the greater South African aviation industry in excess of 40 years.

Organisational structure

A division of Denel

Geographic location

Adjacent to OR Tambo International Airport in Kempton Park, Johannesburg

Workforce complement

1 270 employees (2008: 1 357)

Revenue

R1 060.6m (2008: R851m), including export revenue of R63.8m (2008: R99.7m)

Activities, including products, contracts and services rendered

The main activities of Aviation include:

- The **Rotary Wing MRO** performs maintenance, modifications, upgrades and conversions on military and civilian rotary wing aircraft, specialising in Oryx, Rooivalk, Puma SA330, Alouette SE3160 and Eurocopter Squirrel AS350.
- The **Engineering and Flight Test** is the Oryx design authority. It provides MRO engineering support, avionic hardware and software upgrades, mission planning and debriefing, specialist aerospace services, flight testing, information management and qualification.
- **Fixed Wing MRO** is a technical support facility with a sound, well-positioned infrastructure, offering a wide range of maintenance, repair and overhaul services for both military and civilian aircrafts, specialising in C-130 and L100.
- **Component MRO** offers depot level maintenance, repair and overhaul of avionics, electrical, oxygen and components. This facility also repairs and calibrates ground support and test equipment.
- Original equipment manufacturer for the **Rooivalk Attack Helicopter**, a well known aircraft which was exclusively designed and assembled for the SAAF. This involves conducting programme and contract management, including system level engineering for the design, development, industrialisation, manufacture and support.
- **Aviation manpower's** focus is on sourcing and securing skills for customers in the execution of their business objectives and includes labour recruitment, selection, remuneration management, training, administration, and labour interaction.

Aviation is an approved South African Civil Aviation Authority (SACAA) aircraft maintenance organisation (AMO-262). This approval entitles the business entity to perform MRO activities on civil registered aircraft types.

This division is also a Bureau Veritas accredited ISO 9100 (2004) and ISO 9001 (2000) organisation.

It holds a number of aviation certifications, including the European Aviation Safety Agency (EASA) as an aircraft maintenance organisation (AMO).

This entity is Eurocopter accredited as a repair and overhaul centre with depot level capabilities for the Oryx dynamic components and operational and intermediate level capabilities on the Puma, Alouette and Squirrel, a status that the division exclusively holds in the whole of Africa. Aviation is also formally accredited as a Lockheed Martin Hercules C-130 Service Centre, again, making this business entity the only such centre in Africa, and one of nine in the world.

Aviation has an on-site aviation training academy with courses certified by the SACAA.

Customer relations and marketing

As part of Denel's 'future state' engagements, the DoD assigned strategic relevance to the business entity's activities, in support of the country's defence needs.

The following key initiatives were undertaken during the year, aimed at amongst others, enhancing efficiency and productivity, to improve delivery standards and service to global customers:

- Implementation of Goldmine, a customer relationship management (CRM) tool, identified by management as key to enhance the value of customer focus and monitoring of customer satisfaction
- Establishment of a customer joint cash flow planning forum
- Benchmarking against leading global practices
- Implementation of lean business principles
- Supply chain optimisation
- Restructuring of the business entity and exiting of non-core and non-profitable segments within the division
- Implementation of a performance management system linked to financial targets and customer service

Management focus and outlook

During the year under review, management focused on continuing the implementation of the turnaround strategy, with major internal changes being successfully implemented. These have contributed greatly to sound business performance. The key successes and milestones achieved are reported under the highlights and achievements section below.

Although significant business streams, namely the SAAF's Cheetah and Boeing 707 have come to an end, Aviation's business outlook is positive. With the certifications from Eurocopter and Lockheed Martin in place, the business entity has already embarked on extensive marketing initiatives to broaden its presence into Africa, the Middle East and other regions of the world.

Aviation continues to measure itself against the targets of Denel's turnaround strategy, and will dedicate the future years to further improving efficiencies, productivity and margins, whilst starting to implement the group's growth strategy, discussed in the *directors' report* (pages 137 to 138).

Investments and technology improvements

Aviation has embarked on an investment programme in skills and infrastructure to support the following new aircraft platforms:

- Eurocopter AS350 (Squirrel)
- Eurocopter BK117
- Eurocopter BO105
- AgustaWestland A109 LUH
- AgustaWestland Super Lynx
- SAAB Gripen
- BAE Hawk

Highlights and achievements

Include the following:

- As part of the SADRI, Aviation formulated a long-term support vision with the SAAF. This vision was approved by the SAAF Command Council and the business entity has already begun delivering on this, acting as strategic MRO provider to the SAAF.
- Aviation was awarded the contract to manufacture a number of constant current regulators (CCRs) for the new King Shaka airport in Durban, KwaZulu-Natal.
- The Component and Rotary Wing MRO business units performed exceptionally well in the five Eurocopter audits.
- Notable developments were seen in terms of the Drummer 1 programme (an upgrade of mechanical components for the Oryx). All gearbox targets were achieved for the financial year, with work on the tail gearboxes also complete.
- The Drummer 2 programme, which involves upgrading the Oryx on-board communication and navigation systems, has seen Aviation, Armscor and the SAAF formulating the design baseline. This business entity is currently gearing itself up to commence with the prototype aircraft installation phase.
- Rooivalk has made a significant turnaround with respect to delivery and solving challenging developmental issues. The Interim Type Certificate 2 towards the final 1F baseline was achieved on the Rooivalk, and four aircrafts were retrofitted and delivered to the client.
- Final assembly work on the Hawk was completed, with these aircraft delivered to the SAAF on schedule.
- Training was successfully completed for personnel on the Eurocopter AS350 (Squirrel) helicopter. On-aircraft training is now taking place to have the division's technicians licensed, which will enable the division to provide the SAPS with MRO services for these helicopters.
- Level 4 B-BBEE status was achieved following an independent audit by the National Empowerment Rating Agency (NERA).
- Aviation established a Young Leaders Forum where young employees have been given a platform that encourages personal growth, involvement, networking and CEO interaction.
- A grant was awarded by the Transport Education Training Authority (TETA) for the training of apprentices. This will further bolster the strong focus on training outlined in the business entity's workplace skills plan.

Denel Dynamics

Nature of business

Denel Dynamics (Dynamics) is in the domains of missiles, guided weapons and UAVs. Dynamics is a designer, developer, system engineer, manufacturer, supplier and provider of services in all related aspects.

Organisational structure

A division of Denel combining three core business entities, namely, DISS, Missiles and UAVs under one umbrella

Geographic location

Located in Centurion, Gauteng

Workforce complement

838 employees (2008: 841)

Revenue

R801.9m (2008: R685.5m), including export revenue of R308.1m (2008: R232.6m)

Activities, including products and systems

The main activities of Dynamics are:

- The **missiles** business unit designs, develops and assembles missiles, thus proud innovators of missiles. It is the only South African missile house, providing the SANDF with a strategic capability to modify, integrate, upgrade and support missiles and guided weapons.
- **Denel Integrated Systems Solutions** (DISS) is responsible for system level activities of the **Ground-Based Aerial Defence System** (GBADS). It is the main local contractor for **integrated level 5 air defence systems**, and is a specialised supplier of computer command and control products, with the SANDF GBADS as a flagship programme.
- The **UAV** business unit is a proud innovator of competitive UAVs, involved in the design, development and manufacture of world-class UAVs.

The business entity serves as a high-tech training institution for young engineers entering both the defence industry and the high-tech development arena in general, and their range of products and systems include:

- *Air-to-air Missile Systems:* The **A-Darter** is a fifth-generation imaging infrared air-to-air missile system

designed to meet the challenges of future air combat against next-generation fighters, in a hostile ECM environment.

- *Air Defence Missile Systems:* The **Umkhonto-IR** missile is a vertically-launched, high-velocity, infrared homing missile, specifically designed for providing all-round defence against simultaneous air attacks, from multiple combat aircraft (fixed-wing/helicopter) and missiles. The missile and associated subsystems are supplied as a missile group for easy integration into naval combat suites or GBADS.
- *Anti-Armour Missile Systems* (command-guided and semi-active laser seeker): **Ingwe** is a medium-range multi-purpose, anti-armour missile for use by infantry, armour or helicopter forces against modern armoured threats. **Mokopa** is a long-range, precision-guided, anti-armour missile that utilises the semi-active laser guidance concept. Its high-performance, large-calibre tandem warhead will destroy any foreseen armour threat.
- *Stand-off Weapon (guided)*: **Raptor II** is a long-range, precision-guided weapon that can be launched from a variety of aircraft. The Raptor II is an extended range version of the battle-proven **Raptor I** and achieves a longer range by using a rocket booster. **Umbani** (guidance kit for bombs) continues as a technology development programme.
- *Unmanned Air Vehicle Systems for Tactical Reconnaissance and Surveillance:* **Seeker II** is an UAV surveillance system with proven field experience in international markets. It offers reliability and flexibility as a day and night surveillance platform. **Seeker 400** is a new derivative of Seeker, offering extended time-over-target, as well as ability to carry multiple sensor payloads concurrently.
- *High-Speed Target Drone:* The **Skua** is a high-speed target drone, designed to simulate high-speed attack aircraft during land, sea and air combat training exercises and weapons development.
- *Ground-Based Air Defence Systems* **(GBADS)**: Provides an advanced, integrated air defence capability based on proven products. Significant upgrade potential is provided through a design that will accommodate interfaces with future developments.

Customer relations and marketing

Dynamics serves the local and international defence industry, where the customer's country does not have exclusive relationships with major armament exporters, aiming for customer countries where the South African Government has a commitment to long-term bilateral relations. Future export contracts are expected from the countries involved. The SANDF is its primary local customer.

The DoD assigned strategic relevance to Dynamics as part of Denel's turnaround strategy. However, the local defence spend is still insufficient to sustain Dynamics, making it highly dependent on its supply of a small number of world-class products to a limited number of markets. During the year, efficiency audits were conducted, which confirmed the required minimum levels of local spend and that the division's operational processes are efficient.

Dynamics' global footprint accounts for about 38.7% (2008: 34.0%) of its overall revenue as exports, with the DISS business being primarily locally focused, while the UAV business is 99.1% export focused.

The following key steps were taken during the year to increase its global presence and enhance productivity to improve delivery to customers:

- Engaging with stakeholders, namely the DoD, the DPE and the NT, to develop the strategy for the business entity as part of Denel's 'future state'.
- In order to remain sustainable in the long-term, discussions with an international missiles company, to acquire an equity stake in Denel's missiles business are at an advanced stage.
- In addition, Denel is holding discussions with an investor on a possible minority stake in its UAV business.
- Teaming agreements were entered into in order to enhance the joint prospects of securing new business.
- Regular customer surveys are undertaken, and in certain cases the entity's CEO does this at the highest level.
- In all export markets where Dynamics is active, the support of the DoD (military attachés) and Foreign Affairs (embassies) is continually solicited and this involvement has grown significantly during the year.
- Operational improvements over a wide front, including advanced programme management and the upgrade of its ERP system (SAP).
- Implementation of order pipeline management.

The following key successes were achieved:

- Dynamics secured a significant international order for its proven Seeker UAV system towards the end of the financial year.
- Contracts were secured for the anti-armour missile (Ingwe), stand-off guided weapon (Raptor), UAV (Seeker II) and the missile (A-Darter) development contract expansion CVO, plus excellent progress towards an A-Darter export production contract.
- The division has positioned the Umkhonto-IR in several promising, new sustainable markets.
- The business entity was awarded a contract to supply the Ingwe missile for Project 'Hoefyster', the SANDF's new generation infantry combat vehicle, following on to the supply of the missile for the upgraded Ratel MK2 in previous years.
- The division has made substantial progress on the series production for the Raptor precision-guided weapon system for the export market, and also supplied the Mongoose active protection system for international evaluation.

Management focus and outlook

During the year under review, Dynamics focused on the implementation of sustainable business strategies, business development (including building a long-term superior order book), and continued operational and business improvement initiatives.

Although the sustainable business strategy is not yet secured, great strides were made to identify the drivers and parameters to focus on. New investment in equipment, infrastructure and employees, along with improvements in programme management, were made to optimise its successes in the forthcoming year.

New product development and technology investments are heavily reliant on an integrated approach between the DoD, the DPE, the NT, as well as the governments of international partner countries with a long-term strategic relationship with South Africa. Commercial viability will only be achieved and sustained with an actively and continuously managed, multi-faceted interdependent relationship between Dynamics, local stakeholders and a foreign strategic equity partner. Dynamics is a low volume, high fixed cost business, which is reliant on continuous technological investment, strong engineering capabilities, efficient contracting and execution of relatively small production runs. The division's long product development cycles result in a business cycle in excess of five years.

Investments and technology improvements

Several new products are being developed and improved in order for the business entity to remain at the forefront of the market. In all instances, these developments take place in partnership with the DoD, launch customers or with industrial partners in key markets.

The enterprise level ERP system was upgraded in order to increase the level of integration between business processes and to enhance efficiency in the business. A solid base has been established for the next phase of optimisation and continued improvement.

Significant technical development progress has also been made. These include the development of A-Darter missile subsystems, development of the Umkhonto MK2 seeker head as part of the SQ2000 contract, maintenance and improvement of the radar technology base and demonstration of active protection technology on land vehicles.

Highlights and achievements

The following were the division's successes, in addition to those already disclosed in the sections above:

- After years of turmoil, due to restructuring and contracting issues, Dynamics was able to focus on stabilising operations and optimisation.
- Improved programme management effectiveness. The result was improved gross profit margins on programmes.
- Assegaai Contract ramp-up successfully performed for A-Darter with a successful first flight test done at OTB. Noticeable progress made in the following programmes:
  - Developing enhanced seeker functionality for Umkhonto for extended missions
  - Raptor production contracts including improved margins
  - The Mongoose Active Protection System was selected for international army trials.
  - Ratel MK2 upgraded systems introduced into service with Ingwe and the contract was awarded for the development of Project 'Hoefyster's' missile variant.
- A talent management initiative was launched to deal with the development of technical resources. The programme addresses effective recruitment, employee development, deployment of resources on projects, and retention of critical skills. A web-based software tool has been installed to monitor and manage the initiative, by which more than 200 employees are currently being managed.
- Successful flight trials of the A-Darter air-to-air missile.
- The new ALLERT turret system designed around the Ingwe was displayed at several exhibitions where much interest was shown.

Denel Land Systems

Nature of business

Denel Land Systems (DLS) is involved in landward defence systems solutions, with its primary focus on the provision of products to the SANDF. It also serves international customers as a system integrator and subsystem supplier.

DLS has a unique balance of technologies and engineering capabilities. It takes complex systems and/or products through their entire life cycle, from conceptualisation to production. DLS also provides product and logistic support, including qualification, maintenance, upgrades and eventual decommissioning, if required by the customer.

DLS is the proud holder of ISO 9001 quality, ISO 14001 environmental and OHSAS 18001 safety standards.

Organisational structure

A division of Denel

Geographic location

Located in Lyttelton, south of Pretoria, Gauteng

Workforce complement

431 employees (2008: 433)

Revenue

R447.4m (2008: R348.1m), including export revenue of R76.7m (2008: R88.9m)

Activities, including contracts and products

This division has an impressive range of products and systems, the most outstanding of which remains the development of the 'Hoefyster' family of new generation infantry fighting vehicles, now designated '**Badger**'. DLS is busy with the development phase in anticipation of a full production order. The project is utilising DLS's four state-of-the-art modular combat turret variants, equipped with DLS's home-grown **GI-30 (30mm CamGun)** and **60mm breech loading long-range mortar system** and Dynamic's Ingwe anti-tank missile mounted on five variants of the **Patria AMV 8x8** armoured modular vehicle platforms. The aim of Project 'Hoefyster' is to replace the SANDF's ageing fleet of Ratel infantry fighting vehicles.

Other products and systems include the **artillery gun systems**, **combat turrets** and **rapid-fire small and**

medium calibre arms, for which a wide range of highly competitive, world-class and unparalleled products are available.

Customer relations and marketing

DLS serves the local and international landward defence industries, with its primary focus on the provision of products to the DoD. As part of Denel's turnaround strategy, the DoD assigned strategic relevance to the division's activities, in support of the country's defence needs.

DLS accounts for 18.0% (2008: 27.2%) of its revenue as exports.

Having experienced a remarkable turnaround, aimed at, amongst others, enhancing efficiency and productivity to improve delivery to its customers, and having successfully embedded the turnaround principles firmly into the division's operating procedures, it is well positioned to attract more growth and more customers. The turnaround was achieved through a focused strategy, as well as the awarding of Project '*Hoefyster*'.

As part of the group's turnaround strategy the following systems and processes have been put in place to manage and enhance customer relationships, as well as ensure that DLS exceeds delivery expectations of customers:

- A database is in place in which all customer complaints are recorded. This is closely managed to ensure that customers are given satisfactory solutions.
- Customer satisfaction is also ensured through regular visits to the customers and end-users of DLS's systems.
- Detailed analyses of end-user requirements are undertaken before ultimate solutions are recommended to customers.
- DLS partners with international system suppliers to lead system campaigns.
- The division concluded a contract for 40mm automatic grenade launchers for two customers, whilst two foreign defence forces have shown keen interest after evaluating the 40mm AGL.
- The NTW-20 anti-material rifle has seen substantial export success.

Management focus and outlook

The division has restructured and right-sized, with the focus on its core capabilities namely, system integration, turrets, ballistic systems, fire directing systems and the manufacture of strategic gun components. All loss making, non-strategic products have been exited. DLS is well positioned, and its primary marketing focus is to:

- Capture the South African market for infantry weapons and gun-based land defence systems to the local defence force, by securing contracts for several of its specifically identified programmes, and various support contracts.
- Be the prime contractor for Project *'Hoefyster'*. DLS will strive to form strategic supplier relationships with South African industries, to ensure that the competency base of the industry is maintained.
- Secure additional export orders in open markets.
- Carefully select and exploit other business opportunities in new sustainable markets where the probability of success is high due to a positive political climate and a clear competitive advantage.
- Further support international marketing efforts of vehicle builders in order to obtain contracts for turrets.
- Continue to partner with international system suppliers to lead system campaigns in foreign countries.

Investments, research and development, and technology improvements

The focus this year was on the development of the technology to support the highest risk areas of Project *'Hoefyster'*. Maximum emphasis was placed on customer funded technology development. Maintaining technology building blocks is crucial in retaining the strategic capability that is necessary to support a sustainable business.

The following products are currently being developed:

- **Modular Combat Turret**, the current turret is a third generation technology demonstrator. This turret has excellent marketing potential.

- **GI-30 (30mm CamGun)**, the development of this weapon is in the technology demonstrator phase. This cannon is very unique and will have vast export potential when qualified.
- **60mm Breech Loader Long-range Mortar**, the 60mm long back loader range mortar system is a new development in DLS to make provision for the unique turreted 60mm mortar as main weapon for the mortar variant turret for Project 'Hoefyster'. This system, including the mortar variant turret, also has huge marketing potential as it is quite unique in the world.

Studies are ongoing to explore future turret and gun-related technologies, such as real-time dual redundant digital turret networks, auto tracking algorithms, high-speed rotary base junctions and high-pressure seal development for fatigue testing of barrels and breeches.

In the field of infantry weapons, a new concept for a medium calibre machine gun was developed and successfully demonstrated, with the purpose of increasing the market share for machine guns.

Highlights and achievements

Highlights and achievements for the year include:

- An order received for a substantial number of MG4 machine guns and links.
- Development order to the value of R64m for 60mm long-range mortar ammunition.
- A letter of acceptance for a spares contract for the 155mm guns over three years to the value of R27m has been received.
- The contract for the supply of AGL has been sent to the international customer's financial department for the final administration task and issuing of the letter of credit.
- Positive feedback and a follow-up order for part of a large number of SS77 machine guns, is imminent.
- Notification received that DLS has been shortlisted for the requirement of 11 000 machine guns and that negotiations will commence soon.
- DLS has been shortlisted for the supply of G6 artillery systems in association with a leading artillery systems house.

Denel Saab Aerostructures

Nature of business

Denel Saab Aerostructures (DSA) designs and produces complex metallic and composite aerostructures for the aviation industry, which are supplied to aircraft manufacturers, such as Airbus, Saab and AgustaWestland.

Organisational structure

Subsidiary of Denel (Pty) Ltd, in which Saab AB (publ) (Sweden) holds a minority share of 20%

Geographic location

Located adjacent to OR Tambo International Airport in Kempton Park, Johannesburg, Gauteng

Workforce complement

835 employees (2008: 829)

Revenue

R603.7m (2008: R511.6m), including export revenue of R172.5m (2008: R195.8m)

Activities, including contracts and products

The subsidiary's main contracts include the manufacture of:

- Components and assembly of the A400M wing-to-fuselage -fairing (WFF), top shells, and ribs and spars.
- Components and assembly of the AgustaWestland A109 LUH helicopter, including main rotor heads and blades.
- Major structures for the Gripen including pylons, main landing gear units and rear fuselage section.

Customer relations and marketing

DSA serves mainly the international aviation industry. The subsidiary's major customers are Airbus SAS, AgustaWestland, Saab AB and Turbomeca Africa.

The entity has, for a number of years, been posting financial losses, mainly due to operational performance issues. The turnaround is therefore aimed at enhancing efficiency and productivity to improve delivery to customers. The interventions being implemented are phased and include:

- A leadership development programme
- Major upgrade of its production facilities, which is near completion
- Standardised supply chain operations

- Implementation of a visual prioritisation system, changing workflows and management focus to alleviate constraints, implementing self-inspection and improving operations support, from both the planning and industrialisation units
- Daily start-up meetings in all production centres to ensure teams are focused
- Establishment of production flow performance indicators for all technology areas
- Effective support between operational supply and production
- Enhanced programme management, encompassing engineering and operating activities
- Strengthening strategic relationships with main customers
- Monthly engineering status reports for programmes/ projects
- Reduction in the backlog of late production launches, together with improvements to the planning system
- Cost reduction initiatives
- Implementation of a high performance culture in the organisation

Owing to continued changes in the design parameters and technical specifications, the delay of the Airbus A400M military transporter programme have adversely impacted DSA. Prior to the delay, the subsidiary had been under pressure to finalise the design and manufacture of the assigned packages. Negotiations with the customer to revise cost and weight targets to allow for a more equitable participation in the programme, were successful. Government, as Shareholder, together with Denel, is involved in this matter especially in the light of the knock-on effect on stakeholders such as SAAF. The risks associated with the A400M contract are discussed in the *directors' report* (page 134)

Management focus and outlook

During the year, management focused on the implementation of its turnaround drive. The improvement programmes and some of the results thereof are described above.

DSA believes it has a role to play in the aerostructure sector, provided its turnaround is successful.

The entity continues to implement its turnaround drive which is being led jointly by DSA and a leading international management consulting firm, advising companies on issues of strategy, organisation, technology and operations. A steering committee, comprising Denel and DSA management, Saab AB and the DPE, has been appointed to oversee the turnaround.


Investment and technology improvements

DSA invested in extensive upgrades to its facilities enhancing productivity and service delivery to its customers. The upgrade will be completed during the forthcoming financial year. This will also support its turnaround strategy.

Highlights and achievements

The following were achieved, in addition to those already disclosed in the sections above:

- Completion of the design of the wing-to-fuselage-fairing for the A400M, with the acknowledgement of engineering capability by Airbus, particularly in the lightning and bird strike capability together with production readiness capability accreditation from Airbus for Top Shells and the Wing-to-Fuselage-Fairing.
- Production of parts in the DSA facility for the AgustaWestland A109 LUH (previously customer supplied).
- Completion of the manufacturing of structures for the Hawk trainer aircraft , and finalised contracts for Boeing, to supply machined parts for commercial airliners.
- Improvements to production throughput. This phase identified and substantially resolved some of the critical bottlenecks in the production system.
- The introduction of concerto project management tools into industrialisation and the improvement of production support by the industrialisation business unit.
- Launching of project 'Step' as the main vehicle for the continuous improvement drive within operations. The project was launched to ensure that all improvement initiatives are consolidated under one umbrella and that a single change mechanism is applied. Supply chain management, production planning and selected areas within sheet metal and machining have been selected as pilot areas. Project 'Step' will ensure ongoing sustainability of the turnaround activities over the next 24 months.
- First NADCAP accreditations for Composites and Surface Enhancement.

Challenges

The subsidiary experiences the continued posting of significant financial losses and has embarked on a turnaround drive, to address this issue. A formal audit of business continuity was contracted to a management consulting firm, who has confirmed the capacity of this business to achieve a successful turnaround. Following these findings, the consulting firm was contracted to work with DSA management to implement specific interventions, which are believed will positively turn the business around.

Mechem

Nature of business

Mechem specialises in providing humanitarian services through mine action, battle area clearance (BAC), contraband detection and the supply of mine protected vehicles (MPVs) and ancillary equipment to the UN, other international agencies, governments and commercial customers globally. Mechem also houses a fully equipped training centre, where demining, demining management, detection dog handling, explosive ordnance disposal (EOD) and other related courses are offered.

Organisational structure

A wholly owned subsidiary of Denel

Geographic location

Located in Lyttelton, south of Pretoria, Gauteng

Workforce complement

54 employees (2008: 48)

Revenue

R274.6m (2008: R179.2m), including export revenue of R262.9m (2008: R173.8m)

Activities, including products and services rendered

Mechem provides turn-key landmine removal services, battle area clearance and contraband detection solutions, and its range of products and services include:

- The **Mechem Explosives and Drug Detection System (MEDDS)**, a unique remote scent detection capability which utilises detection dogs to detect mines, explosives, drugs and other contraband
- **Specialists canine services**, including the breeding, training and sale of high-quality working dogs
- The **Casspir MPV**, which is rated as the world standard for such vehicles
- **Operational support** to commercial success
- **Range clearance** of military and other ranges contaminated by unexploded ordnance
- **Afrifoot**: Victim/survivor assistance by facilitating the manufacture and supply of low cost lower leg prosthesis

Customer relations and marketing

The majority of Mechem's services are rendered outside the borders of South Africa. The business entity has established a proud international reputation for excellent service delivery, and is internationally recognised as one of the industry's largest demining companies. The humanitarian nature of its services is of strategic importance to its stakeholders and the South African Government.

The business entity places tremendous emphasis on customer satisfaction, focusing on work ethic, transparency and commitment. The following key steps were taken during the year to manage and enhance customer relationships, broaden its customer base and increase its global presence:

- Successfully tendering for demining contracts and subcontracts with several international agencies and companies.
- Focusing on ensuring absolute satisfaction through premium service.

The following successes were achieved in diversifying the business customer base and global footprint:

- These include contracts with partners in various countries, under the auspices of the UN.
- Successful demining operations in support of UN peacekeeping operations in Sudan, Eritrea and the Democratic Republic of the Congo.
- South African Airways (SAA) and DHL Couriers also contracted Mechem for contraband detection services.
- Minimal contract penalties were incurred during the year.

Management focus and outlook

Mechem took a strategic decision to expand and diversify its detection dog business based on its proven MEDDS capability. Following this decision, more than 90 dogs have been sold and the company has offered training to SAPS dog unit members and international dog handlers.

In light of the threat posed by terror groups and the unabated smuggling of drugs and other contraband, great expansion is possible. Mechem believes the revival of its proven capability in the field of MPVs presents a positive diversification of its vehicle business. BAC and the clearance of explosive remnants of war (ERW) also remain relevant and could become a key business in view of infrastructure rebuilding in post-conflict countries.

Despite the predictions of a downward trend in the availability of funding for demining within the short to medium-term, Mechem is confident that its market share should sustain the business at least into the medium-term (three to five years). However, the field of BAC and the clearance of ERW will be more focused in future years.

Mechem has made the strategic decision to diversify its business into the detection of contraband using its unique MEDDS, as well as normal detection dogs.

Investment and technology improvements

The company's focus on product development is towards making its demining and contraband detection operations more efficient and to improve the safety of its workforce.

Mechem successfully introduced the Mechem Deflagration System (MDS) where an incendiary powder is utilised to safely destroy landmines and unexploded ordnance (UXO).

Highlights and achievements

The following achievements were made:

- Mechem realised a net profit on ordinary activities and exceeded its revenue budget. This was mainly as a result of the successful demining operations in support of the UN peacekeeping operations in Sudan, Eritrea and the DRC.
- Mechem successfully demonstrated the MEDDS to the SAPS and to the Minister of Police in Singapore, which could lead to these law enforcement agencies actively using the system in the forthcoming years.
- The business entity's contribution in Sudan was expanded from 1 July 2008 with the award of an additional UN survey contract.
- Mechem successfully facilitated and managed the supply of 60 re-manufactured Casspir MPVs for the AU/UN Hybrid Force in Darfur.

OTB

Nature of business

OTB is a versatile missile and aircraft test range that specialises in the performance measurement of in-flight systems. Its primary business goal is to meet the strategic flight test requirements of South Africa's military-industrial users.

OTB maintained its ISO 9001 and ISO 14000 certification during the current year under review. Although OTB is not yet OHSAS certified, it complies with all the requirements of the standard, and is committed to obtaining the OHSAS certification by mid-2009. OTB successfully passed the first of two major audits towards ISO 9001 (2008) and plans to be certified by November 2009.

Organisational structure

A division of Denel

Geographic location

Located in the remote southernmost tip of Africa, near Bredasdorp, Western Cape

Workforce complement

169 employees (2008: 164)

Revenue

R67.3m (2008: R74.4m), including export revenue of R21.0m (2008: R26.7m)

Activities, including services rendered

The OTB facility provides a turn-key in-flight test service, with services that range from:

- **Testing of short-range guided munitions** for air, land and sea combat, to evaluations of standoff weapons and aircraft performance
- **Conducting detailed tests** coupled with safety and environmental management designs.
- Managing the **deployment of instrumentation** and **execution of tests**
- Providing **mobile telemetry support** in remote locations during space missions, as well as maintaining and employing ground stations for the transfer of data to and from satellites
- Providing flexibility to **undertake multi-purpose applications**. Since final qualification in 1991, it has proved its ability to manage and execute any combination of air, land and sea flight tests, with quality assurance and performance verification services of the highest order.

Customer relations and marketing

The OTB brand is well known and respected in the market and is generally recognised for quality, performance and delivery.

OTB has built an enviable reputation with its customers, and the export sales are 32.6% (2008: 36.8%) of turnover for the year under review.

The division is a commercial enterprise where cost efficiency and customer orientation are of the utmost importance to ensure long-term viability. It strives to provide a one-stop service to its customers. The following systems and processes are in place to effectively manage and consistently meet or exceed delivery expectations of customers:

- Provision is made in OTB's customer satisfaction surveys to suggest improvements to OTB's services. These customer proposals are treated as important, and are implemented, where necessary, to ensure performance excellence.
- The suggestions from customers give OTB a good indication whether the services provided, are meeting or

exceeding standards and are acceptable to the relevant stakeholders.
- Where applicable, issues or concerns raised in the completed customer satisfaction surveys are included in the relevant management reports on the tests which are discussed with the customer in detail, and steps are taken to address these issues.
- As a standard procedure, OTB's test managers are responsible to ensure efficient, fast and friendly service to all customers, from start to finish of any test campaign. Where required, adjustments are made to ensure complete customer satisfaction.
- OTB always ensures that all deliverables to customers are on time as contracted. No penalties for late or non-deliveries were imposed on OTB to date.

Highlights and achievements

The following achievements have been made with regards to customers:

- A new multi-year contract with the DoD for rendering flight test services is now in its second year. The contract provides for the maintenance of facilities, as well as proving of the capabilities to the DoD.
- The satellite ground station on the OTB terrain has once again been contracted by the Department of Communications for the downloading of satellite earth observation data.
- Data support services were provided to Air Force Base Overberg on site, in terms of a multi-year contract.
- OTB was contracted by the United Launch Alliance (ULA) to provide support to spacecraft.
- Following the past success of OTB's mobile telemetry launch support service, which has been a new niche market since 2005, it was contracted to assist in the Kepler mission. OTB was required by the ULA to track a spacecraft.

Management focus and outlook

Instrumentation systems, facilities and business processes are enhanced on a continuous basis. Ageing test and measurement instrumentation presents challenges that need to be addressed, and a long-term technology renewal/capital replacement strategy is being developed.

Investments, research and development, and technology improvements

OTB is a highly sophisticated and capital intensive facility. To keep track of advances in technology and to satisfy changing market requirements, instrumentation systems, facilities and business processes are maintained and enhanced on a continuous basis. The continuous upgrading of the division's systems in order to remain current in terms of test range technology is essential to maintain OTB in a position to market an attractive alternative test venue, to local and international customers.

A long-term technology renewal/capital replacement strategy and plan is currently being developed with the following technology improvements being made during the year:

- Successful completion of several technology development projects, including the command destruct system upgrade and the second phase of the communication system upgrade that will be completed during the forthcoming year.
- A new reference time generator, not available at a reasonable price in the market, was developed in-house, improving the quality and reliability of high-speed video cameras.
- The new communications network now covers the western section of the range, bringing the internet to outstations previously not connected online.

Highlights and achievements

The following were accomplished, in addition to those already disclosed in the sections above:

- The business entity's reputation as a recognised centre for test and evaluation in Europe paves the way for further broadening of its customer base, globally.
- Favourable progress was made in implementing the transformation plan, specifically the succession plan for management and line management positions.

Pretoria Metal Pressings

Nature of business

PMP is an integrated mass manufacturer of small and medium calibre ammunition and technology-related products. The latter includes brass strips, cups and discs, as well as commercial explosives, primers, mining drill bits and escape systems (rocket motors and power cartridges) for aircraft and helicopters.

PMP operates within established systems and has been awarded the prestigious certifications of ISO 9001 for quality, ISO 14001 for the environment and OHSAS 18001 for safety.

Organisational structure

A division of Denel

Geographic location

Located near Atteridgeville, west of Pretoria, Gauteng

Workforce complement

1 218 employees (2008: 1 375)

Revenue

R600.6m (2008: R522.5m), including export revenue of R334.2m (2008: R263.2m)

Activities, including contracts and products

As part of Denel's turnaround strategy, the DoD assigned sovereign relevance to the division's activities, in support of the country's defence requirements and to enhance the integrity and sovereignty of South Africa. PMP produces products that are widely used across the spectrum of the SANDF, including small and medium calibre ammunition for soldiers, land-based systems, helicopters and fighter aircrafts as well as ships, crew escape systems and power cartridges.

Quality and safety of products are an integral part of PMP's product offering. The product range includes:

- **Small calibre ammunition range** from 5,56mm to 12,7mm.
- **Medium calibre range** from 20mm to 35mm.

The small and medium calibre ammunition ranges conform to the most exacting military standards and specifications.

- **High-quality percussion caps** of all types, as well as **links** for various small and medium calibre rounds

- **Power cartridges, rocket motors and canopy fragilisation systems** for the safe ejection of pilots from aircrafts
- **Probit rock drill bits** for the mining industry
- **Commercial explosives and explosive products**
- PMP's non-ferrous foundry and rolling plant produces up to 80 tons of **brass** daily. A major portion is used for the manufacture of ammunition by PMP itself or by international customers, and the balance is used for brass disc manufacturing and sale to the South African commercial market.
- **Pro-amm, standard and super ranges of hunting ammunition** have established a reputation for quality, accuracy and reliability in South Africa, as well as in the European and US markets. The division's apt slogan is 'Masters of the Ammunition Art'.
- A new range, the **African Elite series**, has been launched and is aimed at the top end of the market.

Customer relations and marketing

PMP serves global defence markets, with the local security forces, the SANDF, the SAPS and the Department of Correctional Services (DCS) being its priority customers. Approximately 60% of its turnover is destined for export markets, making PMP a valuable earner of foreign currency.

PMP initiated a factory optimisation programme to improve efficiency and productivity in all areas. This includes:

- A total quality management (TQM) programme
- A performance management system with bi-annual reviews

The division is well positioned, and the following successes were achieved:

- PMP is currently executing a R350m three-year contract for the supply of brass cups and discs to a prime contractor in Europe, and is negotiating a follow-up contract. The value is estimated at R600 to R800 million.
- The customer feedback surveys from major military and commercial markets are positive.
- Concluded a product partnership with South African firm, Gemaco Engineering, to develop the full range of 20mm x 42mm rounds for the Neopup Personal Area Weapon (PAW).

Management focus and outlook

Management focuses on the following areas:

- Increasing the DoD spend to R125m per annum, from levels of approximately R60m

- Upgrading the manufacturing capacity by selected capital investment and rebuilding of machines
- Training of employees and succession planning
- Securing orders in advance to ensure a smoother and more effective production, including cash flows

Investments, research and development, and technology improvements

The division embarks on an ongoing investment in capital expenditure, in addition to a machine rebuild programme.

The two main products under development are:

- The **30mm x 173mm medium calibre round** for Project *'Hoefyster'*
- The **20mm x 42mm medium calibre round** for the Neopup PAW

Highlights and achievements

Includes:

- From a loss making situation several years ago, PMP has progressed well with its turnaround strategy, and profit is budgeted for the forthcoming year.
- All legacy contracts that negatively affected results, have been completed, thus ensuring an improved future business platform.
- The ammunition stocks of the SANDF are close to depletion, and after 13 years of insignificant sales to the SANDF, a healthy increase in sales is being experienced and expected to improve further.
- A new premium range of hunting ammunition (The African Elite Series) was launched in November 2008 and is being very well received by the market. Together with PMP's existing ranges of world-class hunting ammunition (Standard, ProAmm and Super), commercial ammunition sales are expected to show good growth.
- 1 000 000 accident free hours were achieved on 10 September 2008.
- A record turnover for a single month was achieved in March 2009 when R122 million was invoiced. This surpasses the previous record of R89 million achieved in March 2008.

Associated companies

Carl Zeiss Optronics

Nature of business

Carl Zeiss Optronics (Optronics) is a global supplier of optronics (optical-electronics) products.

Organisational structure

An associated company of Denel, following an equity partnership agreement between Denel (30% shareholding) and German firm, Carl Zeiss Optronics GmbH (70% shareholding)

Geographic location

Located in Centurion, Gauteng

Workforce complement

283 employees (2008: 368) of which only four are expatriates

Revenue

R391.9m (2008: R159m)

Activities, including products and services rendered

The company is a global supplier of **sensors, helmet trackers, laser, targeting, surveillance and sighting systems, periscopes and thermal imaging cameras.** It specialises in the **design, development, manufacture** and **after-sales support of electro-optical products for airborne, laser range finding, helmet head tracker systems** and **handheld observation systems** for the global, commercial and military markets.

Management focus and outlook

Optronics maintains a strong focus on its own turnaround strategy and will implement lean practices to further enhance its efficiencies.

Management is confident that future growth will remain positive.

Highlights and achievements

Optronics introduced a comprehensive turnaround strategy under the guidance of Carl Zeiss Optronics GmbH in 2007 comprising the following:

- Complete refurbishment of infrastructure (offices, production facilities and laboratory areas)
- Introduction and implementation of a new ERP system (SAP)
- Implementation of a complete new and reliable information technology system
- Implementation of human resource practices and procedures
- Introduction of new production processes
- Introduction of training plans to improve and maintain skills levels of all employees

The turnaround is well on track and the resulting financial status can be summarised as follows:

- Turnover for its 2009 financial year is expected to double
- Turnover per employee increased from R0.8m to R1.7m since restructuring
- Cash flow is stabilising in a positive range
- Earnings before interest and taxation (EBIT) profitability is expected in 2009
- Contract deliveries are improving and contractual commitments are being achieved

Rheinmetall Denel Munition

Nature of business

Rheinmetall Denel Munition (RDM) is an integrated producer of energetic materials, ammunition and related products.

Organisational structure

RDM was established with effect from1 September 2008, following an equity partnership agreement. German firm, Rheinmetall Waffe Munition GmbH holds the majority shares (51%) with Denel having a 49% holding.

Geographic location

The business entity has its head office in the Western Cape and five plants across South Africa.

Workforce complement

1 575 employees of which only two are expatriates

Revenue

R1.1bn in revenue for the current year

Activities, including products and services rendered

Its product portfolio includes **large calibre ammunition (76mm to 155mm), artillery projectiles, propellant charges and pyrotechnic carriers, mortar bombs, 40mm grenades** and various subsystems. The business entity is also a key supplier of critical subsystems like **propulsion, warheads and safety and arming devices** for Dynamics' range of missiles and guided weapons.

Highlights and achievements

RDM has established a solid foundation for a positive turnaround and is expected to become profitable by 31 December 2009. The business entity introduced a cost restructuring project to improve their bottom line.

Integration with Rheinmetall Waffe Munition GmbH's strategies, policies, procedures and reporting, specifically with the product development, new business development, sales and financial departments, are almost complete.

The order cover for 2009 exceeds 80% with 19% and 20% order cover for 2010 and 2011 respectively. The business entity secured multi-year ammunition contracts in the USA and the UAE, as well as with the SANDF. Contracts with Rheinmetall Waffe Munition GmbH are in process of finalisation to comply with the DoD Frame Agreement which forms part of the equity transaction.

The consolidation of manufacturing facilities, as part of the cost reduction and efficiency improvement drive, is well underway with the project plan for relocation of the Philippi site to Somerset West in its final stage. This project, as well as other investment projects for the upgrade and extension of facilities at Wellington, Somerset West and Boksburg have, in principle, been approved at the business entity's board and execution will commence during the year ending 31 December 2009.

Turbomeca Africa

Nature of business

The company is a world leader in the production and maintenance of helicopter turbine engines.

Organisational structure

Turbomeca Africa (Pty) Ltd (Turbomeca) is owned by Denel (49%) and the French company Turbomeca (51%), part of the Safran Group, since 2002.

Geographic location

Located adjacent to the OR Tambo International Airport in Kempton Park, Johannesburg

Workforce complement

273 employees (2008: 269) of which four are expatriates

Revenue

R474.2m (2008: R344.8m)

Activities, including products and services rendered

Turbomeca supplies **engines** to AgustaWestland, Boeing, Eurocopter and Sikorsky Aircraft Corporation. In South Africa, Turbomeca engines are used in Rooivalk, Oryx and AgustaWestland A109 LUH. It also **manufactures engine components** for Turbomeca, General Electric (GE AE) and Rolls Royce, as well as the **repair** and **overhaul of certain types** of **aero engines**. The overhaul facility is the premier helicopter turbine overhaul facility in Africa, being the only service centre for Turbomeca products on the African continent, responsible for sales, maintenance and customer service, and providing support of its engines in use by the SAAF.

Highlights and achievements

The business entity has had a successful turnaround and continued to grow its profits annually, through improved order cover and transfer of world-class industrial systems and processes.

Denel is committed to the principles of responsible corporate governance as recommended by the Protocol on Corporate Governance in the Public Sector and the King II Report. The group's values of performance, integrity, innovation, caring and accountability will be increasingly important in its drive to deliver its aspirations to be a respected and sustainable entity, serving the needs to world-class standards of its customers in aerospace, landward and maritime defence technologies.

The sustainability report is aimed at providing a balanced, transparent and understandable view of Denel's sustainability activities, during the year. It includes the group's contributions to the economic, social and natural environments in which it conducts its business.

Section four

Corporate governance

Corporate governance report

The directors are aware of their responsibilities towards Denel and its stakeholders. Key business policies and processes are mandated across all business entities and these policies and processes continued to be refined and enhanced with a focus on achieving consistent application across all business entities. Governance structures are in place to continuously improve accountability, integrity and the standard of reporting in order to facilitate informed decision making. The group is at all times required to comply with the laws and regulations of the countries in which it conducts business.

The board of directors

The board comprises 16 members, of which 14 are non-executive directors. The composition of the board is reviewed and updated annually. The composition and profiles of the board members at year-end, are provided in the *board of directors section* (pages 24 to 25).

The changes in directorate during the year under review are disclosed in the *directors' report* (page 139).

Strategy, roles and responsibilities

The board is responsible for providing leadership, strategic oversight and effective control over the affairs of Denel. The board has adopted a board charter which sets out its mandate, that of the board committees, and ensures that all members are aware of:

- Their individual and collective duties and responsibilities
- The various legislation, regulations and policies affecting their conduct
- The principles of corporate governance and that these are applied in their dealings on behalf of the group

The board charter terms of reference forms the basis for the board's responsibilities, and are reviewed and approved by the board on an annual basis. The terms of reference includes the following:

- Delegating authority for managing the everyday affairs of the group to the group chief executive officer
- Ensuring adequacy of systems for financial and operational controls
- Agreeing on performance criteria
- Monitoring performance of approved financial and governance objectives regularly by way of monthly and quarterly reports
- Preventing of irregular, fruitless and wasteful expenditure
- Ensuring adequate planning and budgeting processes
- Ensuring compliance with all relevant laws, regulations and codes of business practice
- Ensuring communication with all stakeholders
- Retaining of full and effective control over the group

The roles of the Chairman and the group chief executive officer are distinct with clear segregation of duties and responsibilities. Denel's delegation of authority outlines that the board reserves specific matters for decision making and responsibility. These include the approval of:

- Group strategy, long-term business plans and annual budgets
- Policies with a strategic impact on the business
- The group annual financial statements
- Major capital projects
- Risk management strategies
- Levels of materiality
- The appointment of senior executives and succession planning

Through performance management reviews, management is held accountable for their performance against agreed upon targets.

Appointment and training

Non-executive directors are appointed by the Shareholder and executive directors are appointed by the board, with the concurrence of the Shareholder. Non-executive directors bring a range of skills, experience and knowledge necessary to govern Denel, whilst executive directors bring professional knowledge, experience and expertise to manage the group to achieve the strategic objectives set by the board.

All newly appointed directors undergo a formal orientation programme which includes site visits to business entities to broaden their understanding of Denel's business environment and operations. They receive further briefings and training on relevant issues to promote a culture of continuous learning.

All directors have access to the services of the Group Company Secretary, who is responsible for the:

- Effective functioning of the board
- Guidance on matters of corporate governance
- Co-ordination of independent professional advice, when necessary

Board effectiveness and evaluation

To measure and assist the board and its committees to constantly improve its effectiveness, the performance of the board and its committees are assessed annually against their respective mandates/terms of reference, by an independent corporate governance expert.

The functioning of the board was found to be effective during an independent evaluation exercise, conducted in the prior year. An independent evaluation of the board and its committees for the year under review, will take place during the first quarter of the 2010 financial year.

Board meetings

The board meets quarterly and at an annual general meeting to consider the group's strategy. Special board meetings are convened as and when necessary, to address specific issues. The Minister of Public Enterprises attended the July 2008 and February 2009 board meetings, and a special meeting was also held in June 2008 with the DPE, to address the funding and going concern issues, as well as the business challenges facing Denel. The attendance of the board members at board meetings for the year under review is reflected in the *meeting attendance section* (page 59).

Board committees

Board committees assist the directors to discharge their duties. The composition of the board committees and their terms of reference as set out in the board charter, are reviewed regularly to keep it in line with corporate governance. The committees have due regard for 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 perform their duties. The board resolved that the Group Audit and Risk Committee, as well as the Group Personnel and Remuneration Committee continue with their activities, as defined by their relevant terms of reference.

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 execute its oversight responsibilities. The main functions of the committee are to:

- Oversee the integrity, reliability, accuracy and objectivity of Denel's accounting and financial reporting systems
- Ensure quality and integrity of the group's annual financial statements
- Ensure that appropriate systems are in place and are maintained to identify and mitigate risks, and to evaluate compliance with 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, objectivity and cost of the statutory audit

- Monitor the independence of the external and internal auditors and set guidelines for the rendering of non-audit services by them.
- Oversee treasury operations. An independent treasury expert, Mr NR Boqo, has been appointed to the committee to assist it with treasury related issues.

The external and internal auditors attend the Group Audit and Risk Committee meetings and have unrestricted access to the members of the Group Audit and Risk Committee and its chairman. The committee, as part of the audit process approves the audit scope and the level of auditing, to which the internal control systems effectiveness is evaluated. The committee also met with the internal and external auditors, separately and independently of senior management, to discuss the state of affairs of Denel.

There are audit subcommittees at each business entity, which also report key findings to the Group Audit and Risk Committee.

The committee met three times during the year and has complied with its terms of reference, which are reviewed and approved by the board on an annual basis. The attendance of the members at these committee meetings for the year is reflected in the *meeting attendance section* of this report (page 59).

Group personnel and remuneration committee

The committee consists of three non-executive directors.

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

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

The committee met five times during the year and has complied with its terms of reference, which are reviewed and approved by the board on an annual basis. The attendance of the members at these committee meetings for the year is reflected in the *meeting attendance section* of this report (page 59).

Group and business entities' executive committees

The board delegates the day-to-day management to the group chief executive officer, as well as to the business entities CEOs, who are assisted by the group executive committee and the business entities' executive managemnt teams respectively. The business entities' CEOs, together with the business entities' executive committees, are responsible for the management at an operational level. The group executive committee coordinates various initiating disciplines, and regularly reports to the board and other stakeholders.

The group executive committee meets at least once a month or as the need arises, and communicates, reviews and agrees on issues and actions of group-wide significance. The composition and profiles of the Group Executive Committee at year-end are provided in the Denel *executives section* (pages 26 to 27).

Meeting attendance

	Denel board			Group audit and risk committee	Group personnel and remuneration committee		
	Total	Pre-scheduled	Special/ short notice		Total	Pre-scheduled	Special/ short notice
Number of meetings	7	6	1	3	5	4	1
Members							
Dr SP Sibisi*[1]	7/7	6/6	1/1		3/3	3/3	
Mr MT Sadik[2]	7/7	6/6	1/1	3/3	5/5	4/4	1/1
Ms SH Chaba‡[3]	5/7	4/6	1/1		5/5	4/4	1/1
Dr GC Cruywagen[4,5]	3/3	3/3		1/1			
Mr E Godongwana[4]	0/3	0/3					
Dr BG Halse	4/7	4/6	0/1				
Mr A Hirsch[6]	4/7	3/6	1/1	2/2			
Mr LC Jones	7/7	6/6	1/1	3/3			
Mr NR Kunene	6/7	5/6	1/1				
Ms NH Maliza[4]	1/3	1/3					
Mr F Mhlontlo[7]	2/2	2/2		2/2	3/3	2/2	1/1
Ms CC Mulder†[10]	6/7	5/6	1/1	3/3	1/1	1/1	
Ms N Nyembezi-Heita[8]	1/4	1/3	0/1				
Mr MS Phalatse	6/7	6/6	0/1		5/5	4/4	1/1
Mr CML Savage[5]	6/7	5/6	1/1	3/3	2/2	1/1	1/1
Ms T Seretse	6/7	5/6	1/1				
Ms D Vallabh[4]	3/3	3/3					
Mr NR Boqo[9]				3/3			

* *Chairman of Denel's board of directors*
† *Chairman of the group audit and risk committee*
‡ *Chairman of the group personnel and remuneration committee*
1 *Resigned as chairman of the group personnel and remuneration committee on 4 November 2008 (for the purposes of good corporate governance)*
2 *Invitee to the group personnel and remuneration committee, as well as the audit and risk committee*
3 *Appointed as chairman of the group personnel and remuneration committee on 18 November 2008*
4 *Appointed as director on 3 September 2008*
5 *Appointed to the group audit and risk committee on 18 November 2008*
6 *Resigned from the group audit and risk committee on 18 November 2008*
7 *Appointed as executive on 6 October 2008 and to the board on 1 November 2008. Invitee to the group audit and risk committee, as well as the group personnel and remuneration committee*
8 *Resigned as director on 4 September 2008*
9 *External independent member of the group audit and risk committee*
10 *Invitee to specific group personnel and renumeration committee*

Stakeholder engagements

Denel recognises the value of regularly engaging with its key stakeholders in its endeavours to achieve a turnaround to profitability and ensure long-term sustainability.

The group has continued to maintain sound communication with its Shareholder. During the year under review, there was a closer working relationship between the DoD, the DPE and Denel. The year was characterised by open, proactive and constructive engagements with the group's key stakeholder, the South African Government.

The nature, extent and outcomes of these engagements are fully described in the comprehensive *stakeholder engagement report*, provided as part of the *sustainability report* (pages 78 to 88).

Internal control

An important aspect of the board's oversight role is to review the effectiveness of Denel'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 disruptions. 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 Denel's systems, internal controls and accounting records. This function, which is outsourced to PricewaterhouseCoopers (PwC), reports administratively to the group chief executive officer. 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 group-wide risk management strategy and processes are communicated to employees to ensure that the risk strategy of the board is incorporated into the culture of the company. Risk management processes include policies and procedures relating to:

- Risk management
- Fraud prevention
- Delegation of authority to management
- Quality control measures

Effective management of risk and opportunity is essential in achieving Denel's objectives and sustainable Shareholder's value. Risk management is a vital tool for protecting the group's integrity and reputation and enables it to meet its financial and other objectives.

Management is responsible for the continuous identification, assessment and responses to risks. The board is ultimately responsible for the group's risk management system and for reviewing its effectiveness. The group audit and risk committee is tasked by the board to oversee the risk management process.

A comprehensive overview of Denel's risk management is provided in the *sustainability report* (pages 73 to 77).

Code of ethics

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

A fraud prevention policy, a response plan and fraud hotline are in place. The plan includes identification of fraud risks, fraud scams, and promotes whistle-blowing, ethical standards and integrity, and raises anti-fraud awareness amongst employees.

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

Further details on ethics, fraud prevention and anti-corruption are provided in the *risk management report* (page 76).

Sustainability reporting

Denel embraces the fact that it has a responsibility to ensure the sustainability of the economic, social and natural environments in which it operates. The monitoring and reporting of sustainability issues is an evolving discipline within the group, and actions are being taken to formalise the company's strategy, governance structures, policies and reporting processes. These will further heighten continued awareness of operating in a sustainable manner and entrench a culture of responsibility towards all aspects of sustainability within the group.

The sustainability report is presented as part of this annual report (pages 70 to 123) and provides comprehensive commentary on its sustainability and transformation efforts, as well as key non-financial performance indicators. The sustainability report aims to present a balanced view and disclose relevant and material information to stakeholders.

Public Finance Management Act

Compliance with the PFMA and Treasury Regulations is primarily addressed by internal risk management and internal audit processes. The board of 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.

Each year, Denel, in consultation with its Shareholder, represented by the Minister of Public Enterprises, agrees its performance objectives, measures and indicators in line with Treasury Regulations under the PFMA. The agreed-upon annual targets are set out in the *shareholder's compact* which is signed by both parties. The performance of the organisation against the Shareholder's current year's targets and objectives are provided in the *shareholder's compact section below* (pages 62 to 67).

The shareholder's compact does not interfere with the normal principles of company law, and the relationship between the Shareholder and the board is preserved. The board ensures that internal controls are in place and that Denel is effectively managed. The shareholder's compact promotes good governance by helping to clarify the board's and the Shareholder's roles and ensures consensus between Denel and its Shareholder on Denel's mandate or objectives.

Shareholder's compact

KPIs	KPI criteria	Achieved	Contracted
Financial efficiency key performance indicators			
Profitability management	Gross profit margin	16.3%	17.0%
	Operating costs as % of revenue	32.7%	33.7%
	EBIT margin	(11.8%)	(17.7%)
Management effectiveness	Net loss margin	(13.9%)	(21.6%)
	Return on assets	(11.0%)	(16.0%)
	Return on equity	(64.1%)	(33.7%)
Staff management	Revenue per employee	R0.8m	R0.5m
	Net loss per employee	(R0.1m)	(R0.1m)
Liquidity ratios	Current ratio	0.9	1.5
	Acid ratio	0.6	1.1
Cash cycle days	Debtor collection period	127.0 days	115.6 days
	Creditor payment period	62.8 days	52.2 days
Investment	Capex as a % of revenue	7.6%	10.6%
	Product development as a % of revenue (Denel funded)	0.9%	1.5%
Debt and gearing	Debt/equity ratio	1.09	0.02
	Interest cover	nil (due to losses)	nil
Operational key performance indicators			
Sales	Total export sales	R1 256.7m	R1 449.5m
	Total domestic sales	R2 667.0m	R2 117.6m
	Domestic sales as a % of revenue (including SANDF revenue)	65.0%	59.4%
Cost management	Reduction of corporate office costs to revenue	2.4%	From 3.0% to 2.0%
	Other cost reduction initiatives	28.7%	Reduce costs to revenue from 34.2% to 20.0% over a five year period
	Operating costs as a % of revenue	32.7%	Reduce costs to revenue from 34.2% to 20.0% over a five year period.
Exit of non-viable and non-core business entities	• Evaluation of all non-viable business entities • Development of turnaround/exit strategies • Actual disposals of non-core and non-viable businesses and value realised	• The remaining non-core business entity namely, PMP Steel Road Pretoria West was disposed of during the year • Value realised R302.5m • Loss on sale before tax R6m	• Disposal of all non-core business entities • Value realised and profit on sale to be reported

KPIs	KPI criteria	Achieved	Contracted
Operational key performance indicators			
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	• All key policies affecting governance and risk have been updated regularly to ensure relevance • A project to streamline the governance process across Denel is in process • The strengthening of boards and audit and risk committees of business entities through the appointment of non-Denel employees as non-executive members has been finalised	• Compliance with the Protocol on Corporate Governance, the PFMA and all relevant guidelines
Compliance with legislation	• Compliance with the PFMA, B-BBEE CoGP, the Employment Equity Act, the Labour Relations Act and the NCACA	• Denel has developed a compliance manual which entails: - Identification of 13 Acts, which are critical for Denel's business and environment, including compliance with the PFMA - Developing risk management plans for specific areas - Identification of areas with specific compliance requirements - Compliance with the Labour Relations Act and Employee Equity Act is monitored through the human resources and transformation processes - Denel is developing risk tolerance levels for all areas including legal and regulatory compliance - Compliance with legislation is reported at all Group Audit and Risk Committee meetings and monthly to the Denel exco	• Compliance with legislation • Reporting to Shareholder representative on compliance achieved and not achieved

KPIs	KPI criteria	Achieved	Contracted
Operational key performance indicators			
Reduce overall liability on the Airbus A400M military transporter programme	• Costs	• 30% price increase for WFF from €300k per shipset to €390k per shipset (s/s), over the programme life	• Targets met and details of deviations from targets
	• Weight	• Risk liability of -€168k per shipset turned into a price increase of +€25k per s/s over the programme life	
	• Delivery	• Budget 13 units: Delivered 4 units (amended by customer)	• Report on the value of the potential claims materialising
	• The reduction of all risks and the reduction of potential claims materialising	• Refer above, contract delayed and riskmitigation is being put in place	
	• Reduction of the overall liability on the programme	• A contract re-negotiation process is underway to reduce the liability, through price increases, and weight and penalty re-negotiations • Owing to the nature and complexity of the contract the extent of the full reduction has not yet been fully quantified	• Quantified value of the reduced overall liability
	• Apportioning costs to Airbus SAS as far as possible to reduce risks and claims	• WFF – no claims accepted by Airbus • TS – claims of R51m were submitted to Airbus for approval (decision pending)	• Quantified value of costs apportioned to Airbus SAS
	• Contract re-negotiations with Airbus SAS to reduce risks, damages, losses, overall liability and claims	• A negotiating team from DSA and Denel Corporate commenced a re-negotiation process with Airbus on 6 March 2008 in Toulouse and signed off the following contract changes for WFF in December 2008: **Weight:** • New guaranteed maximum weight target of 767kg (including Ice Shield) • All future weight penalties would be based on this target, DSA expects to be within this target weight and incur no penalties **Recurring price:** • The new recurring price of €390 000 per shipset was agreed, improved by 30% **Contract improvements:** • The definition of initial price period – limited to order of 188 aircrafts • Weight incentivisation clause, €1 000 for each kg below target • Reduction to the concession penalty clause by 75% • Reduction of the productivity improvement clause by 50% Similar changes to the TS contract are also in progress.	• Report on all contract re-negotiations

KPIs	KPI criteria	Achieved	Contracted
Operational key performance indicators			
Subsidiary operational trends	• Capacity utilisation • Cost of indirect employees versus direct cost • Inventory days of finished goods • Item time on production line	• Overall labour utilisation has improved, as evidenced by the increase in revenue per employee disclosed above, in this table • Indirect salaries R497m (2008: R487m) • Direct salaries R1 121m (2008: R1 127m) • 25.6 days (2008: 25.3 days) • Business cycle in days improved from 108.2 days in 2008 to 105.7 days in the current year	• Trends to be reported
Socio-economic development	• B-BBEE procurement spend • Manufacturing base through B-BBEE • Employment equity • Training	• 2009: R269.3m (2008: R235.5m) • Included in above • Reported as part of the *sustainability report* (page 102) • Reported as part of the *sustainability report* (pages 103 to 107)	• Trends to be reported
Risk	• Foreign exchange exposure • Interest rate exposure • Legal and regulation compliance • Significance and materiality framework	• Group annual financial statements • A Treasury Operations Manual approved by the Group Audit and Risk Committee, sets out and governs the group's treasury activities, which are overseen by the committee • Denel's foreign exchange and interest rate exposure is reported at all Group Audit and Risk Committee meetings, to the Group Financial Director weekly and to the Group Executive Committee on a monthly basis • Denel has developed and distributed to all business entities, a compliance manual, which sets out the legal and regulatory requirements of the group • Legal and regulatory compliance is reported on at all Group Audit and Risk Committee meetings and monthly to the Exco • The board has concluded a framework with the shareholder, which provides guidelines for approval of significant transactions in terms of PFMA and against which all transactions are executed	• Risks to be reported • Risks to be reported • Non-compliance to be reported • Progress to be reported

KPIs	KPI criteria	Achieved	Contracted
Operational key performance indicators			
Risk	• Fraud prevention plan	• The plan has been implemented throughout the group • The fraud hotline number is promoted through various channels, namely posters, briefs, etc	• Progress to be reported
	• Business and continuity plan	• All business entities have developed a business and continuity framework and are in the process of developing related detailed procedures	• Progress to be reported
	• Health and safety	• Health and safety programmes are in place at each business entity, the performance of which is reported in the *sustainability report* (pages 114 to 118)	• Progress to be reported
	• Functional risk in terms of productivity	• Insurance loss ratios of: - Multi aggregate 34.8% (2008: 48.7%) - Liability 3.6% (2008: 14.7%)	• Trends to be reported
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	• Discussions with a foreign entity to aquire an equity stake in Denel's missiles business are at an advanced stage • Denel is holding separate discussions with a potential foreign investor on a minority equity stake in its UAV business • A potential foreign partner has expressed interest in a minority stake in DLS – the local consolidation process will be concluded before entering into a foreign equity partnership	• Progress to be reported to the Shareholder representative
Partnerships with foreign and local companies	• Substantive progress in finalising equity partnerships and local collaborative partnerships	• Refer above	• Progress to be reported to the Shareholder representative
Sales	• Significant new contracts signed with international customers	• Information provided in the highlights and achievement section of the *group chief executive officer's report* and the *business entity profiles report* on pages 21 to 22, and pages 30 to 53 respectively	• Progress to be reported to the Shareholder representative
Alignment of product lines to strategy	• Reduction / closure of loss making product lines	• Refer exit of non-viable and non-core entities on page 62	• Progress to be reported to the Shareholder representative

KPIs	KPI criteria	Achieved	Contracted
Best endeavour indicators			
Management of programmes	• Review the performance of major programmes on a quarterly basis • Improvement in the management of major programmes • Substantive progress made in reducing slippages and delays on major contracts • Legal personnel recruited • Contractual milestones achieved/not achieved, quantitative value there-of and reasons for non achievement • Order book versus actual deliveries • Improvements in contracting and contract management skills and systems	• Proactive programme and risk management processes, which include sound planning and management information to direct operational processes, have been embedded across all business entities • Business entity audit and risk committees have been strengthened with technical representatives to allow proactive reviewing of technical performance • Substantial process re-engineering has taken place in several entities, and restructuring/capital investment plans are being revised to focus on priority interventions that would result in a meaningful contribution to technical performance • Performance review of the major contracts are reported by business entities to the Denel Corporate Office and to the Denel Exco on a monthly basis, as well as all board meetings • The inaugural quarterly DoD contractual performance reviews take place to increase DoD's confidence and improve communication • Each business entity's CEO reports on technical performance	• Progress to be reported to the Shareholder representative
Contracting and contract management	• Entering into higher profit margin contracts • Alignment of scope, specifications and costs • Measures to reduce risk exposure • Minimising penalties and under-recoveries • Improvements in customer satisfaction • Information on the reduction of delays, where possible	• A contracting workshop with Armscor opened the door for positive engagement on effective contracting that would be beneficial for both the customer and the contractor • Single source status and B-BBEE/SMME considerations were discussed • Business entities have documented lessons learnt on legacy contracts	• Progress to be reported to the Shareholder representative

Companies Act

In accordance with the requirements of the Companies Act, No. 61 of 1973 (amended), the directors confirm that the company has lodged with the Registrar all such returns as are required by the Companies Act.

Group company secretary

The role of the Group Company Secretary is to ensure that the board remains cognisant of its duties and responsibilities. In addition to providing the board with guidance on its responsibilities, the Group Company Secretary keeps the board abreast of relevant changes in legislation and best governance practices, as well as overseeing the induction of new directors, and their ongoing training.

The name and address of the Group Company Secretary for the period under review is provided in the *directors' report* (page 144).

Sustainability report

About this report

This sustainability report is aimed at providing a balanced, transparent and understandable view of Denel's sustainability activities, during the year. It includes the group's contributions to the economic, social and natural environments in which it conducts its business. This report demonstrates the group's attitude and commitment to sustainable development, and is a means of communicating with its Shareholder, partners, customers, employees, potential investors, stakeholder communities and the general public.

This report is based on the Global Reporting Initiative (GRI) guidelines (pages 119 to 123) and leading practice within the defence and aerospace industry. It includes Denel's material sustainability issues as defined, and focuses on the group's core business entities. It also provides information on its associated companies where the information was available. The format of the report is outlined on the contents page of this annual report. This sustainability report is the successor to the group's 2008 sustainability report, and to ensure consistency and comparability, the report follows a similar structure to the 2008 report. The GRI content index is provided on pages 119 to 123, and indicates Denel's core indicators reported on. The report is a level C report and has not been independently assured.

As Denel has not yet formalised its sustainability strategy, certain sections reported on may contain limitations as a result of not all data measurement techniques being in place, and may not provide the full impact of all activities. In such instances, detailed descriptions of the activities taking place at the relevant core business entities are provided.

This sustainability report is available as part of this annual report on Denel's website www.denel.co.za.

Sustainability vision

Denel's sustainability vision is aligned to the group's objective of being a respected world-class partner in aerospace, landward, as well as specific maritime defence technologies and associated manufacturing capacities. It recognises that the group's sustainability is dependent on its technical performance, unchallenged quality standards and nurturing of its human capital within a wider South African manufacturing and technology base, and the need to conduct its business with due regard for the group's socio-economic and natural environments.

Sustainability is integral to Denel's strategic objectives and is fully incorporated into the manner in which the group conducts its business, formulates its risk management processes, implements policies to govern behaviour and conduct, and assesses the performance of its employees, managers and executives accordingly.

Denel's values, risk management, and business processes underpin its strategic approach to sustainability and reflect the desire of the group to preserve its future for all its stakeholders.

Denel strives to operate as a highly respected and responsible manufacturer in South Africa, and is committed to implementing management systems that adequately address general health, safety and environmental challenges. It encourages its business entities to implement management standards namely, ISO 9001, ISO 14001, OHSAS 18001. Through directed turnaround strategies and wider management interventions Denel collectively strives to be financially sustainable by 2012.

The ultimate goal is to position Denel as the preferred supplier of equipment and services to the South African security forces and a world-class supplier within the major international supply chain, by implementing robust business processes that take into account safety, health, environment, quality and social issues.

Sustainability policies and strategies

Denel has not yet formalised its sustainability policies and strategies. However, a number of processes and practices are in place to ensure that the group addresses its sustainability requirements. The group anticipates the development of a framework that will ensure an integrated approach, and includes all aspects namely:

- Economy
- Safety
- Health
- Environment
- Human capital
- Transformation performance
- Socio-economic development

R&D is pivotal to Denel's competitiveness and sustainability, as well as its role as a catalyst for advanced manufacturing in the broader economy due to its position in cutting edge technology. R&D is focussed on creating sustainable, innovative solutions through operational excellence. Investment in R&D is also reported as part this report (page 90).

Material issues

This sustainability report covers all material issues of Denel, based on leading practice in the defence and aerospace industry and on GRI reporting guidelines, which demonstrates Denel's commitment to sustainability, refer to the *Global Reporting Initiative section* (pages 119 to 123). The material issues identified include:

- Risk management processes, detailed in the *risk management and accountability section* of this report (pages 73 to 77).
- Compliance with legislation is provided as part of the risk management and accountability section of this report (pages 77 to 78).
- Stakeholder engagements, which will continue to take place in the forthcoming year, and be adjusted based on the results of continued engagements as part of the key *stakeholder engagements section* of this report (pages 78 to 88).
- Understanding customer requirements and the delivery of high-performance products, detailed in the *customer relations section* of the *economic impact* and *business entities' profiles reports* on page 94, and pages 29 to 53 respectively.
- Details of ethical behaviour in the manner Denel conducts its business is provided as part of the *risk management and accountability section* of this report (page 76).
- Safety of products and employees, detailed in the *environmental responsibility section* of this report (pages 114 to 118).

Denel's strategy is based on building a sustainable and a growing business through its recently refined five-drivers, namely:

Improved access to sustainable markets

- Equity partnerships: existing and new partnerships
- Local spend: home market support

Operational excellence

- Performance, people, skills development, outsourcing, supplier development

Deepen relationship with the DoD and state agencies

- Joint planning, international marketing support, technology and IP development, skills transfer, programme delivery

Strengthen governance and financial management

- Risk management, compliance, cashflow management and contracting

Towards a respected South African company

- Transformation, B-BBEE, employment equity, SED, branding

Sustainability commitments

The above drivers demonstrate Denel's commitment to achieving business success and sustainability. Denel's success should be measured in terms of its impact and contributions to the following three performance areas:

- Economic impact, detailed in the *economic impact section* of this report (pages 89 to 97)
- Environmental responsibility, detailed in the *environmental responsibility section* of this report (pages 110 to 118)
- Socio-economic development, detailed in the *socio-economic development section* of this report (pages 97 to 99)

Although Denel's primary focus of its businesses is to maximise shareholder value, the group does take the social and environmental impact associated with such achievement into account.

Economic performance

- Meeting operational and financial targets as outlined in the *shareholder's compact section* (page 62 to 66) to turn Denel into a profitable, growing and sustainable entity.

- Deploying robust management processes and building capabilities in order to meet or exceed productivity targets are set out in the *shareholder's compact section* of the *corporate governance report* (pages 62 to 67). The group's current year's performance against set targets is disclosed in the *shareholder's compact section* of the *corporate governance report* (pages 62 to 67).

Environmental responsibility

Denel recognises that being a world-class partner in aerospace, landward and maritime defence technologies requires it to take responsibility for looking after the environment, in which it operates. In fact, the group considers it a strategic imperative to minimise possible negative environmental effects of its operations and encourages its business partners, suppliers and customers to do the same, namely:

- Implementing environmental management systems that are based on ISO 14001 to meet or exceed group targets with regard to environmental management.
- Setting, meeting and exceeding targets regarding energy consumption.
- Operating as a responsible manufacturer in South Africa.

Details of the group's environmental performance for the year are provided in the *environmental responsibility section* of the *sustainability report* (pages 110 to 118).

Socio-economic development

Denel strives to be a responsible corporate citizen by:

- Promoting a safe and secure work environment for employees, visitors and contractors on the group's premises.

- Implementing SED programmes for the benefit of communities around the group's operations.
- Implementing and setting targets for policies on B-BBEE as it relates to management, employment, training and development, SED and employment equity to empower previously disadvantaged South Africans.
- Creating a climate of openness with the Shareholder, government departments, employees, customers, equity partners, communities and stakeholders affected by Denel's operations.
- Implementing policies that recognise human rights and prevent fraud and corruption in dealings with customers, suppliers and other stakeholders.
- Adopting policies that promote the right to privacy regarding personal and business information gained in the course of business.
- Stakeholder engagements will continue to take place in the forthcoming year, and material issues will be adjusted based on the outcomes of continued engagements.

Details of the group's SED for the current year are presented in the *socio-economic development section* of the *sustainability report* (pages 97 to 99).

Risk management governance and processes

Overview

Denel operates in a competitive and regulated environment which necessitates proactive risk management to protect the interests of stakeholders, meet legal and regulatory requirements, and ensure the sustainability of the group.

Denel embraces effective risk management as a core competency, one that allows for:

- Optimised risk-taking
- Objectiveness
- Transparency

Denel derives 35.0% (2008: 43.3%) of its revenue from exports. Therefore, trends such as the emergence of the global economic crisis, as well as the delays in major multinational aerospace and defence contracts, directly impact the group. The complex and long-term nature of contracts which Denel undertakes are also risk elements that the group is required to take into account in the implementation of its risk management governance and processes. The group implements a risk management policy and plan, which caters for short and long-term uncertainties that the group and the defence industry face. The group considers various scenarios to respond to business risks and ensure safe and secure operations.

Whilst Denel has not established a central safety, health and environmental management committee, business entities are running safety, health and environmental management systems to address pertinent issues.

Audit and risk committees

Audit and risk committees, at group and business entity levels, promote Denel's philosophy of accountability and risk management. The audit and risk committees throughout the group are responsible for risk management, which includes:

- Evaluating the adequacy and efficiency of risk policies, procedures, practices and controls
- Identifying the build-up and concentration of risk
- Developing risk response techniques
- Ensuring formal risk assessments
- Identifying and monitoring key risks
- Facilitating and promoting communication through relevant reporting structures

Executive management develops and maintains a process of risk management to give the board the confidence that risks are being effectively managed. Executive management reports to the audit and risk committees bi-annually regarding the effectiveness of risk management governance and processes implemented at group and business entity level.

Initiatives

Denel's top ten risks identified during the current year under review are:

- Going concern
- Order cover
- Equity partnerships
- Critical skills
- Stakeholder interests
- Contracting
- Legacy business
- Contract execution
- Legal and regulatory compliance
- Reputation

The group has undertaken a number of initiatives to respond to these risks. Highlights on some of the risk responses during the current year are provided in the *group key risks and controls section* of this report (page 75).

The group formalised communication and consultation channels with the DoD, the DPE, the NT, the DTI and the DST, which are pivotal to the execution of the group's mandate. This culminated two forums that meet at specific intervals to:

- Align stakeholder expectations
- Improve co-ordination
- Discuss matters of common interest

Other challenges that are addressed in these forums are Denel's 'future state', contract execution and various strategic issues. Detailed engagements with stakeholders are provided as part of the *sustainability report* (pages 80 to 88). These engagements have gone a long way to assist the group to better understand the expectations of these stakeholders, and the challenges it faces.

Denel implemented a funding strategy, which is based on recapitalisation, and external borrowings, to respond to its liquidity risk. A number of initiatives to improve cost management and operational efficiencies have also been introduced. These include the management of legacy contracts to contain costs and improve cash flow management. Although the group has not yet received all the required funding from its Shareholder, the engagement on the funding strategy has opened channels for future discussions.

Denel continued improving programme controls by strengthening, monitoring and oversight, to ensure cost efficient, quality and timeous delivery. The programme management forum is used as a vehicle to share leading practices in order to improve contract execution. Audit and risk committees at both group and business entity levels consider programme management as a major area of focus for sustainability of the group. Other measures taken include customer feedback and follow-up throughout the programme. These initiatives have contributed positively to programme governance in the group and a culture of continuous improvements is being entrenched and encouraged throughout the group.

Denel has formalised and incorporated its legal and regulatory compliance programme, as core strategic imperatives for sustainable development, which focuses on identified high-risk legislation including aerospace and arms control-related legislation. Denel implemented a compliance manual, developed risk management plans, trained and appointed compliance officers who are the custodians of compliance at business entity level and compliance champions who are responsible for operational aspects of legislation.

Each business entity has ensured that legal and regulatory requirements are integrated throughout the value chain, recognising the importance of ensuring continuous adherence to legislative, regulatory and supervisory requirements as a critical part of effective risk management and sound corporate governance. During the year under review, business entities conducted self assessments to gauge their levels of compliance with the Acts identified as critical to its business activities, and found that they comply in all material respects with these laws. Internal audit will conduct an independent review of legal compliance during the forthcoming year.

Group key risks, controls and initiatives to respond to key risks

Denel's key risks, controls and initiatives to respond to the risks, are tabled below:

Key risks	Key controls and initiatives to respond to key risks
Going concern	• The group audit and risk committee evaluates the solvency position of the group and advises the board accordingly • Implementing a funding strategy, which includes application for recapitalisation, external funding and ongoing interaction with its Shareholder • Implementing cost cutting measures and growth strategies
Order cover	• Leveraging on equity partnerships to gain access to new sustainable markets • Implementing monthly, quarterly and annual executive monitoring of local and foreign orders • Engaging with other state agencies for privileged supplier status • Increased marketing activities to identify new opportunities • Introduced regular customer interfaces
Equity partnerships	• Implementing an equity partner evaluation process • Strengthened executive and non-executive representation on both minority and majority owned business entities' boards to strengthen oversight
Critical skills	• Implemented succession planning and mentorship programmes at various levels of the group • Implemented skills development and talent management programmes • Implementing skills retention programmes • Leveraging on equity partners to ensure skills and knowledge transfer • Conducting climate surveys, diversity management and leadership training
Stakeholder interests	• Regular interaction with portfolio committees • Introduced scheduled meetings with the various government departments that directly impact on Denel's business. Comprehensive details of the engagements which took place with the Shareholder are provided in the *stakeholder engagement section* of this report (pages 78 to 87)
Contracting	• Implementing bidding and contracting approval processes • Ensuring monitoring of contract conditions and/or variations thereof
Legacy business	• Implementing specific risk management measures to respond to further slippages and contain costs • Introduced business entity boards' regular review of contracts
Contract execution	• Regular executive review of programmes • Each business entity continues implementing their own programme management processes to ensure achievement of contracted milestones and specifications, as well as within budget • Review of progress or programme specific risks by both programme and financial management • Progress on significant contracts, related risks and controls are reported to both the group and business entity boards • Programme management effectiveness follow-up reviews were conducted in some of the business entities, to ensure continuous improvement on programme management • Regular subcontractor meetings have been introduced to improve co-ordination of performance • Regular interactions with customers on contract performance have been introduced
Legal and regulatory compliance	• A compliance programme that includes arms control is being applied throughout Denel • Employees responsible for compliance have been trained • The security programme is being applied • Safety, health, environment and quality management systems are being employed • Policies and procedures for critical processes are being implemented and communicated
Reputation	• A media relations programme is being implemented • Monitoring of brand perceptions has been introduced • Employee Ethics Policy is communicated to all employees to address reputation risk • A fraud prevention plan is being implemented and monitored

Fraud prevention and anti-corruption

The PFMA requires SOEs to develop risk management processes and systems of internal control to prevent fraud and protect the assets of the organisation. At the same time, South Africa has enacted legislation on anti-corruption. Denel is susceptible to the risk of fraud and corruption. In line with the principles of good corporate governance, Denel has organisational values that underpin integrity and stewardship.

Paramount to Denel's strategy of preventing fraud and corruption, the group has formalised a fraud prevention plan, as well as an Employee Ethics Policy.

Ethics

Denel implements its ethics policy throughout the group and reports deviations to the relevant audit and risk committees. The policy codifies principles of good governance contained in various policies of the organisation, ranging from procurement to security processes. The procurement policy is the first line of defence against collusions and conflicts of interest. Procurement committees are in place throughout the group to ensure fair evaluation of tenders.

The ethics policy is based on principles of good governance, a set of definitions, values, policies and processes that provides guidance on the principles standards and personal behaviour that employees should bring to their business conduct. It requires all employees to act with the utmost good faith and integrity, whilst a clear system of delegated authority exists at all levels within Denel. It commits the group to sound business practices, as well as compliance with laws and regulations applicable to the group. Denel communicates the policy to employees when joining the group, and also makes it available on the intranet. Updates are regularly communicated to all employees via email and/or posters.

Denel has communicated its whistle-blowing system, whereby fraudulent activities and other cases of unethical behaviour may be reported, in a secure and confidential manner. A confidential fraud hotline independently operated, is being used for this purpose. In order to heighten awareness regarding the fraud hotline, the group has communicated it widely through posters and letters to employees. During the year under review, the hotline recorded 44 cases of alleged unethical behaviour, whilst management discovered 22 cases of financial misconduct. The cases were investigated and, as a result 22 employees were dismissed. All the cases recorded were immaterial.

The Fraud Prevention Plan and Employee Ethics Policy are also discussed in the *corporate governance report* (pages 60 to 61).

Bribery and corruption

In order to prevent bribery and/or corruption, through its employee ethics policy, Denel prevents its employees from receiving, or offering gifts that could unduly, directly or indirectly, influence their decision making. The group has processes in place to prevent and/or manage conflicts of interests. Directors and senior managers declare their interests before or at the time of commencement of any meeting and annually, or as and when they become aware of such interest.

The employee ethics policy requires that business gifts be declared and recorded. Employees are specifically reminded before the festive season about the employee ethics policy and to declare any gifts on the gift register. Gift registers are available at all times for inspection. Denel has a policy that regulates the conduct of representatives and contracted employees acting on behalf of the group.

Compliance

Denel is subject to laws and regulations that govern its activities locally, as well as in the international arms trade environment. The group has developed a comprehensive legal and regulatory compliance programme that takes cognisance of all these requirements. This programme constitutes part of the entire accountability framework of the group, and requires a balance between accountability, conformance, value creation and performance. This programme also ensures a consistent focus on the day-to-day governance requirements without losing sight of the long-term growth and sustainability of the group. With regard to internal processes, the group has identified acts that are critical to its business activities which entail:

- Explosives
- Hazardous substances
- Firearms control
- Aviation
- Security of information and physical assets
- Occupational health and safety
- Environmental management

Each business entity involved in the above-mentioned activities has developed controls along its business value chain to ensure sustainable governance and a culture of compliance throughout the business. Where applicable, specific permits are obtained and systems are implemented to meet permit conditions. Business entities conduct their own assessment of compliance with the requirements of the identified legislations, and report deviations and corrective actions to their audit and risk committees. Where applicable, business entities meet with relevant authorities to address issues of common interests. Specific policies and procedures have been developed to ensure compliance with legislative requirements. The internal auditors assess compliance with policies as part of their audit scope.

With regards to international trade, Denel's compliance programme ensures adherence with the regulatory requirements of foreign suppliers and customers.

All export equipment is subject to the approval of the NCACC and no permits are issued for exports if such a transaction does not meet the set stringent requirements.

In addition to the requirements of the Companies Act, No. 61 of 1973 (amended), Denel is governed by the PFMA No. 1 of 1999 which regulates SOEs. The Acts require that, amongst others, the group should prevent fruitless, wasteful and irregular expenditure. Denel has developed a system, which includes the prevention of fruitless and wasteful expenditure to ensure compliance with the PFMA. This act also prescribes that SOEs should have procurement policies. The group has incorporated a comprehensive and transparent procurement process.

As a SOE, Denel accounts to Government on both its finance and operational issues.

Denel is a member of the South African Aerospace, Maritime and Defence Industries Association (AMD) and the South African Chamber of Commerce and Industry, through which it participates in public policy development. During the year, the group participated in the draft amendment Bill of the NCACA through the AMD forum. Other areas of interest in the industry are also discussed by experts at this forum.

Denel also participates in public policy development through direct interactions with relevant government structures and professional bodies, as detailed in the general accountability and public policy participation section below.

Denel's public finance accountability, arms control and trade compliance requirements are listed below:

- *Public finance management accountability*

  - An efficient and transparent system of financial and risk management and internal controls
  - System of internal audit under the control of the audit and risk committees
  - An appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective
  - System of evaluating major capital projects
  - Prevention of fruitless, wasteful and irregular expenditure
  - Board delegation of powers to employees through the Denel Delegation of Authority Framework in writing, subject to limitations and conditions
  - Significance and Materiality Framework for transactions requiring Shareholder approval and notification
  - Report trasactions on financial misconduct and criminal offences

- *Arms control and trade compliance requirements*

The policy on conventional arms control and non-proliferation control in terms of the compliance programme covers all statutory requirements, and includes:

- Marketing permits: Permit must be issued before marketing activities
- End-user certificates: Certificate must be obtained prior to an export licence being granted
- Export permits: Permit must be obtained prior to the export of equipment or technology destined for military use
- Controlled items: Proper authorisation for controlled items

- *General accountability and public policy participation*

Denel's accountable to the Public Enterprises Portfolio Committee, Defence Portfolio Committee and participates in public policy development through direct government relations activities, industry forums, business chamber and professional bodies.

Stakeholder engagements

Denel recognises the value of regularly engaging with all its stakeholders as it implements its strategy and returns to long-term sustainability.

Stakeholders are identified as any group who may affect, or be affected by the operations of Denel. This takes into account the nature of each business entity, its operating environment, and the potential impact of the entity's activities on the stakeholders, the stakeholders' interests and expectations.

Denel is committed to regular, proactive and constructive engagements with key stakeholders, based on the principles of openness, accountability and fairness. These engagements foster increased transparency, build trust, stimulate appropriate dialogue, and ensure that stakeholders' interests and expectations are considered and taken into account.

Interaction with key government departments, namely the DoD and the DPE is ongoing, and addresses areas of mutual concern and engages in constructive dialogue.

Denel, which is in its third year of turnaround, is faced with the following critical hindrances which increase the need for more proactive and regular engagement with its key stakeholder, namely, Government:

- The effect of the delayed recapitalisation, agreed to as part of the approved 2006 turnaround strategy and the resulting going concern challenges as discussed in the *directors' report* (pages 136 to 137).

- Insufficient spend by the DoD and the delay in the finalisation of the DoD's commitment to increased orders of products and services from the group. This is despite the DoD having assigned sovereign and strategic relevance to most of Denel's business entities. This situation continues to affect the achievement of the group's turnaround strategy.

Steps have been taken to establish a closer working relationship between the DoD, Denel and the DPE to implement the strategy and to ensure the achievement of a viable Denel. Denel Corporate Office engages on a regular basis both formally and informally, with the business entities. The formal engagements take place at various forums which are represented by all business entities. All forums have targets and hold facilitated discussions on specific issues.

The key stakeholders identified and engaged with during the period under review, the frequency thereof, the material issues addressed and Denel's responses thereto are provided in the table below. Other engagements with key stakeholders which have taken place with an intention of positively contributing to the economic, social and natural environments in which the group operates, are disclosed as part of the *economic impact* and *socio-economic development sections* of the *sustainability report* (pages 89 and 97, respectively).

Key stakeholder	Engagement			
	Mechanism	**Frequency**	**Issues**	**Outcomes**
Employees (refer to the *sustainability report* (pages 101 to 110))	• CEO's address and road shows to all employees • Internal newsletters • Transformation committees • Group Restructuring and Transformation Committee • Written correspondence • Organised labour meetings with trade unions • Denel infograms to group employees • Denel CEO meetings with organised labour leaders • Climate surveys	• Bi-annual • Monthly • Monthly • Quarterly • Ongoing • Quarterly meetings • Ongoing • Every six weeks • Every two years	• General information sharing of key business developments • Business focus and strategy updates • Business performance • The Group Restructuring and Transformation Committee serves as a consultation body for transformation and restructuring matters • Performance management and recognition, including transformation, health and safety, and procurement from previously disadvantaged groups • Training and skills development • Employee-related issues • Climate improvement plans	• Continuous feedback • Policy updates, where necessary, including employee development, remuneration and benefits
Shareholder, DPE and Regulator (refer to the *shareholder's compact section* of the *corporate governance report* (page 62 to 67))	• Shareholder's compact • Reports from Denel • Business entity reviews/technical audits • Direct engagement of Denel's senior management with the DPE, Director-General and economic cluster • Various written correspondence	• Annually • Monthly and quarterly • Ongoing • Ongoing • Ongoing	• Denel's mandate, strategic objectives, target key performance areas and indicators • Technical and financial performance and risk reviews • Progress, deliberations and critical issues affecting strategy implementation including funding (namely, securing the final portion of the turnaround recapitalisation from its Shareholder, and renewing the expired government guarantees), equity partnerships and organisational restructuring • Technical audits to determine the minimum annual order requirements to ensure sustainability of Dynamics, PMP and Rooivalk • Turnaround interventions at the loss making DSA which is of the highest priority • Other material engagements with the DPE are disclosed under *strategic and industry engagements section* of this report (pages 81 to 83)	• Regulated feedback • Exposure to business entities • Proactive debates and negotiations on key issues • Stakeholder support for strategic interventions and contractual negotiations • Rapid feedback on critical challenges, as well as opportunities • Denel was not able to secure the final portion of the approved turnaround recapitalisation which resulted in a borrowing position that cannot be sustained

Key stakeholder	Engagement			
	Mechanism	Frequency	Issues	Outcomes
Strategic 'future state' engagements at group level				
• NT • DPE • DoD • SANDF • Armscor	• Interdepartmental work sessions with Denel's senior management • Denel's executive road shows • Meetings and interactions with business entity management • Written correspondence by Denel and business entity management • CEO of Armscor and Denel's CEO meetings • Project review meetings with Armscor • Denel's recapitalisation application	• October 2008 and ongoing • February 2009 and ongoing • Ongoing • Ongoing • Ongoing, at least quarterly • Ongoing, at least bi-annually • Ongoing	• Sustained implementation of the turnaround strategy to the satisfaction of all stakeholders, including cross cutting issues • Resolve matters relating to financial sustainability • Joint implementation plan • Reduced DoD spending on defence and budget pressure • Completion of Rooivalk to revised contract specifications • Progress and impediments as to strategic implementation	• Specific actions were agreed to • Agreement was reached on interventions that could financially impact the year's performance • Contractual opportunities across financial years to be identified • Processing of multi-year orders • Prioritisation of requirements within reduced budget allocations • Processing of critical new requirements through approval forums
	• NT Guarantee Certification Committee meetings	• As and when government guarantees are required to be renewed or issued	• Application for renewal/issue of government guarantees	• Government guarantees were renewed/issued as applicable

Key stakeholder	Engagement			
	Mechanism	**Frequency**	**Issues**	**Outcomes**
• Secretary for Defence	• Written correspondence and meetings	• Quarterly and ad hoc	• Deliberations of strategy implementation, including progress on privileged access, order cover, preferential local procurement, equity partnerships, Rooivalk CVO, progress on UAV industry consolidation • Role of Denel in the SADRI • Support to secure the release of key orders and Dynamics' equity transaction ruling • Marketing support via general engagements and Defence Committees	• Improved RSA order cover • Contractual opportunities across financial years to be identified • Processing of multi-year orders • Prioritisation of requirements within reduced budget allocations • Processing of critical new requirements through approval forums • Alignment of strategic planning focus areas • Creation of a coherent RSA defence industry strategy initiated
• Chief of Defence Matériel and acquisition directors	• Written correspondence and meetings • Technical contractual performance reviews • Contractual performance reviews	• Scheduled, ad hoc and ongoing • Bi-annually • Quarterly	• Strategy implementation issues including progress on Dynamics equity transaction, and service delivery to the DoD • Marketing support • Contracting and contracting models • Strategic sensor support to the DoD/ SANDF • Key drivers within each business entity, and options to consolidate local capabilities • Economic realties should the DoD not opt to initiate contractual commitments • Need to accelerate the Rooivalk project and life cycle support processes	• Agreement was reached on targeted interventions that would impact, in-year, as well as multi-year performance • Contractual opportunities across financial years being identified • Placement of key multi-year orders • Proactive scheduled engagements on contractual performance, as well as new requirements • Directed technology focus
• Armscor	• Contracting workshops for business entities' CEOs • Performance meetings • Programme management reviews	• December 2008, aligned with DoD meetings • Quarterly • Bi-annually	• Viable contracting, single source contracting, value systems and control mechanisms, transformation and B-BBEE/ SMME implications on Denel as being applied by Armscor • Share information on accredited B-BBEE/SMME supplier lists • AgustaWestland A109 LUH/Lynx/Gripen full life cycle support • Rooivalk contractual changes, SAAF to complete its technical analysis. Armscor committed to process contractual changes • Integrated SAAF/Aviation MRO • Technology management • DIP performance and opportunities • Denel international defence industrial participation management • Human capital development programme • Contractual performance • Optimisation of DoD benefit from international contracting/technology development	• Targeted performance measurement and reporting • Contractual alignment • Best value for money • Proactive project management • Accelerated service delivery

Key stakeholder	Engagement			
	Mechanism	**Frequency**	**Issues**	**Outcomes**
Industry engagements				
• DTI • DPE • Armscor	• Industrial participation/ countertrade	• Monthly with Armscor • Quarterly • Ad hoc	• Review legislative/contractual compliance • Review technical performance • Review industrial opportunities • Maximise industrial participation across defence and national manufacturing sector	• Approvals on claims and concepts • All agreements and contracts submitted were accepted and signed
• AMD • SADRI	• Various forums	• Quarterly strategy sessions • Ad hoc and ongoing meetings	• Strategy formulation, R&D focus, international collaboration, export/ import control, countertrade/industrial participation • Product development • Integrated marketing	• Active participation in AMD subcommittees (marketing, strategy and joint planning)
• DST • Council for Scientific and Industrial Research (CSIR)	• Direct engagement • Monthly reporting • Programme reviews	• Ongoing	• Skills development • Technology development and focus • Limited product development • Resource planning	• Sustainable, new market exploration through government bilaterals • Updates on Denel critical issues that require participation and support of DST and CSIR
Potential investors	• Meetings and written correspondence to equity partners and potential equity partners • Site visits	• Ongoing • Ongoing	• Access to new markets, skills transfer, due diligence reviews, efficiency audits, management and ownership of new companies, legal agreements	• Non-disclosure, IP protection, golden share, shareholders and sale of business agreements are entered into
	• Meetings with financial institutions	• Ongoing	• Financial institution facility requirements and reviews	• Financial and business information is shared with stakeholders on a continuous basis
	• Road shows to debt capital market investors • Meetings with Fitch Rating Agency	• Ongoing and annual formal credit reviews	• Credit risk, business viability and future prospects	

Key stakeholder	Engagement			
	Mechanism	**Frequency**	**Issues**	**Outcomes**
Local customers (refer to the *sustainability report* (page 94))	• The DoD/SANDF, Armscor Technical division, DTD, SAAF entity meetings and written correspondence	• Ongoing	• The DoD budget constraints and requirements • Minimum base load required from the DoD • Contracting issues, ie production programmes, costs and delivery	• Value for service delivery, negotiate long-term contracts, and focus on expanding customer and income base
	• Invitations to key decision makers and Armscor programme managers to Denel sites	• Ongoing	• Maintain support to position entity capabilities as 'Sovereign' status	• Relationship building and support for Denel's strategic drivers
	• Business entity forums for liaison, joint planning and decision making	• Ongoing	• Delivery of products in line with 'Sovereign'	• Operational problem solving matters related to contract delivery • Understanding customer needs and concerns
	• Steering committees with South African Army Council have been established	• Ongoing	• Creating primary responsibility for single user entry point (consolidate industry)	
	• Open and transparent communication with the Defence Matériel Division and SA Army on SCAMP	• Ongoing	• Loss of core skills within SAAF and Aviation to maintain critical defence • Merger of Aviation and SAAF MRO capabilities • Action plans for communication with allocation of responsibilities • Creating a company with all stakeholders who are actively involved • Promote a proudly South African company with a majority shareholding by Government due to strategic nature of the business entities' operational activities	• Seeking and secure agreements on MRO work and support the SAAF • Explore the consolidation of landward-based defence systems
	• Exposure visits and planning meetings with CSANDF/ Divisional and Service chiefs on small/ medium/large calibre munitions	• Ongoing		
	• DoD and Armscor contract performance review	• Quarterly	• Review technical contractual performance, engage on all aspects including recovery strategies, programme, execution, technical challenges, R&D focus, and efficiency improvements • Reviewed top 40 acquisition programmes • Marketing support • New sustainable/revised contractual opportunities	• Targeted performance • Contractual alignment • Best value for money • Proactive project management • Accelerated service delivery • Directed technology focus • Sustainability of strategic and sovereign capabilities

Key stakeholder	Engagement			
	Mechanism	**Frequency**	**Issues**	**Outcomes**
Local customers (refer to the *sustainability report* (page 94))	• Other engagements with local customers, the DoD/SANDF and the state procurement agency are reflected as part of strategic 'future state' engagements above			
	• Meetings with local security services	• Ongoing	• Deal with trends and customer requests	• Relationship building and support for Denel capabilities
	• Proactive approach namely, personal visits to customers, inviting customers to visit Denel's sites and direct liaison with customer procurement offices • React to customer enquiries	• Ongoing	• Demonstrate capabilities thereby ensuring continuous support from customers • Promote strategic and sovereign product ranges and product capabilities, customer requirements/ specification fulfilment, service delivery and value proposition (technology, price and customer doctrine), including long-term security	• Demonstrate Denel strategic and sovereign capabilities
	• Properties Joint Planning Committee	• Ongoing	• Tenant and property issues • Relationship and communication with external tenants to be improved • Tenant access to world-class properties and management facilities	• Tenants always request reduced rentals and increased services • There is a broader interest from international customers to rent space (two lease agreements signed by Italy and France)

Key stakeholder	Engagement			
	Mechanism	**Frequency**	**Issues**	**Outcomes**
International customers	• Business entity 'Show and Tell' events	• Annually	• Demonstrate capabilities thereby ensuring continuous support from customers	• Customers kept informed on technological developments in Denel
	• Proactive approach namely, inviting international customers to visit Denel's sites and direct liaison with customer procurement offices • React to customer enquiries	• Regular and ongoing • Ongoing	• Demonstrate capabilities thereby ensuring continuous support from customers • Promote product ranges and product capabilities, customer requirements / specification fulfilment, service delivery and value proposition (technology, price and customer doctrine), including long-term security of supply	• Demonstrate Denel capabilities that suit customer requirements
	• Scanning market intelligence journals • Introducing business entities' sites to senior foreign delegations • Local Denel offices in foreign countries • Independent technical advisors	• Ongoing • Ongoing • Ongoing • Ongoing	• Identify defence trends to better understand and initiate customer requirements and attend industry conferences/shows • Information on climate, culture, dynamics of international markets, logistical and administration support	• Better informed Denel marketers on defence market trends
	• International exhibitions participated in: - SA Expo - China 2008 - LIBDEX 2008 - IDEAS 2008 - LAAD 2009 - IDEX 2009	• Bi-annually	• Promote product ranges and product capabilities	• Customers kept informed on technological developments in Denel
	• Industrial participation/ countertrade	• Monthly and ad hoc	• Review legislative/contractual compliance • Review potential sustainable industrial opportunities • Maximise industrial participation across defence and national manufacturing sector	• Approval of claims and concepts • All contracts submitted were accepted and signed

Key stakeholder	Engagement: Mechanism	Frequency	Issues	Outcomes
Communities (refer to the *sustainability report* (pages 97 to 99))	• Meetings with Waenhuiskrans (Arnistan) fishing community • Invite prominent community leaders and relevant stakeholders to visit business entities • Support community upliftment projects • Host open days for public and local communities to visit business entities	• Quarterly • Ongoing • Ongoing • Ongoing	• Testing activities are conducted in a manner that minimises the potential negative impact it may have on the community • Supplier requirements of community upliftment projects	• Support credible upliftment projects and initiatives and provide employment opportunities
	• Demining training of local communities in foreign countries • RDM engagements with community to rehabilitate the Philippi site • Other engagements with communities take place as part of Denel's SED activities as provided on pages 97 to 99.	• Ongoing • Ongoing	• Educate locals in landmine risk aversion and victim assistance • Employment opportunities for local workforce • Rehabilitation of local site	• Denel seen as part of South African industry with social responsibility
Assurance providers	• Internal audits performed across the group, and attendance of internal auditors at CFO and audit and risk committee meetings • External auditors' attendance at CFO, audit and risk committee meetings and AGM	• Ongoing audits • Bi-monthly CFO forums • Monthly CEO forums • Quarterly audit and risk committee meetings	• Monitoring of systems of internal control • Updates on strategic, operational and financial issues • Advice and guidance on salient accounting and technical matters • Treasury audits when funds are raised • Update on risk issues	• Assurance providers are kept informed of Denel's state of affairs

Key stakeholder	Engagement			
	Mechanism	**Frequency**	**Issues**	**Outcomes**
Environment-alists (refer to the *sustainability report* (pages 110 to 118))	• Meetings with Overberg Review Committee (ORC) • Host environmentalists and relevant stakeholders visiting business entities • Submit articles on environmental issues to relevant publications • Department of Environmental Affairs	• Six-monthly • Ongoing • Ongoing • Ongoing	• Environmental management issues in the Greater De Hoop Conservation area	• Support local communities in environmental sustainability
	• WSP Consulting Engineers' Environmental Department performed an audit and land assessment for the Wellington site for land remediation	• Every three years	• Formal documented assessment of land condition and restoration requirements	• A land restoration provision is raised in the accounting records • Land remediation plans are put into place
Media	• Local and international media namely: - Mainstream - Specialist - Technical and trade media for editorial publicity - Press releases - Advertising - Advertorials	• Ongoing	• Media releases to announce newsworthy events/developments • Promote products and capabilities	• Expose and promote Denel's capabilities globally
	• Denel and business entity websites • Journalists and photo journalists • Media briefings with local journalists and Group CEO and executive management	• Ongoing updates and enhancements • Ongoing • Ongoing	• Promote new products and capabilities • Provide useful information to journalists and defence analysts for research • Site tours to experience high-tech environment, design and development of aerospace and defence systems • Release of financial/operational results and corporate plans • Updates of company strategies and successful milestones • New product developments	• Monitor the frequency of visits to website, provide Denel news, and promote the Denel brand • Promote the value creation of Denel in the provision of security to South Africa • Inform the public of the state of affairs and future prospects in Denel

Economic impact

Economic performance

Denel has a global economic footprint, and contributes to the economic, social, and natural environments in which it operates. The group continued to develop its presence globally, by responding to export opportunities and remains committed to be the preferred supplier of strategic defence capabilities and act as a catalyst for technology advancement in the broader defence economy.

Denel embarked on a turnaround strategy three years ago. The progress and status of which is described in detail in the *corporate strategy review section* of the *directors' report* (pages 137 to 138). As part of defining the group's 'future state', the DoD assigned strategic and sovereign relevance to most of the group's capabilities, in supporting the country's defence and economic needs.

Despite the continued losses made by certain business entities within Denel, the group has contributed positively to the economic environment. The highlights and challenges of the group's economic performance are reviewed as part of the *directors' report* (pages 131 to 138). The group's ability to continue making positive contributions to its social, economic and natural environments is dependent on its ability to continue as a going concern, which is also reviewed in the *directors' report* (pages 136 to 137).

Denel is a valuable earner of foreign currency. Revenue earned from exports amounted to R1 256.7m (2008: R1 215.9m). This is net of export sales in respect of the Munitions business which was sold to Rheinmetall Denel Munition (Pty) Ltd on 1 September 2008. Denel has sustained its global footprint, through foreign equity partnerships.

Denel has a workforce complement of 5 067 employees (2008: 7 276) (excluding associated companies). Only 21 expatriates have been drawn in, to affect the turnaround in the Denel business entities. The employee profiles by expertise, skills, age, race and gender are disclosed as part of the *sustainability report* (pages 101 to 103).

Denel employs 982 engineers, scientists and technicians. The impact of these highly skilled employees on the broader economy can be illustrated by a case study on Dynamics, which has a total employee number of 838 (2008: 841). The business subcontracts a major part of its non-critical technology development and manufacturing to other local engineering entities. In assessing the employee numbers of these service providers, a total of approximately 3 200 further technically skilled employees are tied into their

immediate supply chain. This 'Factor 6' multiplier is in fact applicable to most of Denel's business entities, thus making the impact on Denel significant in terms of its stable employee base, without discounting the impact of the general service industry, or the extended families of Denel's employees and direct subcontractor base.

During the year under review, approximately R1 024.1m (2008: R782.2m) was spent on applied research and development of new technology competitive products within the group. The majority of the resulting intellectual property is owned by Government, although some is shared with international clients. Only 10% of the investment was self funded. Due to the significant use of South African high-technology subcontractors, this investment does not only impact on Denel human capital development, but impacts directly on a support base of engineers, technologists, scientists, technicians and artisans as well as academia of our tertiary education institutions.

Denel has investments in three associated companies, namely, Turbomeca Africa, Carl Zeiss Optronics and Rheinmetall Denel Munition. These were entered into to turnaround the loss making engine assembly, optronics and munitions business units. Impressive turnaround results have been achieved which are provided as highlights in the *business entities' profiles report* (pages 50 to 53). The associated companies have 2 131 employees in total, of which only ten are expatriates. Other details of the investments are provided in notes 12 and 13 of the *group annual financial statements* (pages 190 to 192).

On a social level, Denel makes positive contributions to its business entities' surrounding communities as part of its SED. These are described in the *socio-economic development section* of the *sustainability report* (pages 97 to 99).

Denel acknowledges and embraces its responsibility of operating in a sustainable manner and the role it has to play in conserving the country's natural beauty and protecting its diverse flora and fauna for future generations to enjoy. Denel's commitment is demonstrated in the *sustainability report* (page 72 and pages 110 to 118).

Strategies, policies and control measures are in place at all levels throughout Denel. These reflect the group's attitude towards fraud eradication, control measures and ethics. The details are provided as part of the *sustainability report* (pages 76 to 77).

Direct economic impact

The direct economic value generated and distributed by Denel is reflected in the consolidated value added statement below. 'Value added' is a measure of the wealth that Denel 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.

Consolidated value added statement for the year ended 31 March 2009

	2009		2008	
	Rm	%	Rm	%
Turnover	3 923.7		3 818.1	
Less: Cost of materials and services purchased	(2 712.0)		(2 209.4)	
Value added	1 211.7		1 608.7	
Add:				
Finance income	77.1		76.1	
Other income	182.8		249.8	
Wealth created	1 471.6		1 934.6	
Distributed as follows:				
Employees: Salaries and relevant costs	1 795.0	122.0	2 020.9	104.6
Providers of capital	59.9	4.1	123.9	6.4
Interest on borrowings	150.4	10.2	136.6	7.1
Minority interests	(90.5)	(6.1)	(12.7)	(0.7)
Government				
Tax (refer note A)	49.2	3.3	28.0	1.4
Re-invested in the group for continuation and expansion	(432.5)	(29.4)	(238.2)	(12.3)
Depreciation (refer note 3)	111.4	7.6	108.1	5.6
Capitalised development costs amortised (refer note 3)	-	-	0.9	-
Accumulated loss	(543.9)	(37.0)	(347.2)	(17.9)
Wealth distributed	1 471.6	100	1 934.6	100
Note A				
Tax				
Tax paid and provided for:	49.2		28.0	
Current tax	42.0		14.4	
Total tax	39.2		5.0	
Deferred tax	2.8		9.4	
Rates and taxes paid to local authorities	7.2		13.6	
Customs and excise duties included in cost of materials and services purchased	-		4.6	
	49.2		32.6	
The total amount reflected above excludes the following amounts collected by the group on behalf of Government:				
Net VAT	(41.6)		90.5	
Charged on sales	195.1		401.9	
Levied on purchases	(236.7)		(311.4)	
Employees' tax	138.8		183.5	
UIF contributions	6.7		9.6	
	103.9		283.6	

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 past few years. The performance and challenges are discussed in the *directors' report* on pages 131 to 139.

	2009 [1] Rm	2008 [1] Rm	2007 [1] Rm (restated)
INCOME STATEMENT			
Turnover	3 923.7	3 818.1	3 268.1
(Loss)/profit before net finance cost and income from associated companies	(463.1)	(232.7)	(386.8)
Net finance cost (before capitalised interest)	73.3	60.5	143.0
Depreciation	111.4	108.1	131.7
(Loss)/profit before taxation	(504.7)	(316.3)	(500.9)
(Loss)/profit after taxation from continuing operations	(543.9)	(321.3)	(507.3)
Taxation expense	(39.2)	(5.0)	(6.4)
Minority interest in (loss)/profit	(90.5)	(12.7)	(0.6)
(Loss)/profit for the year	(543.9)	(347.2)	(549.1)
Cash outflow before financing activities	(1 164.3)	221.5	(945.5)
BALANCE SHEET			
Non-current assets	1 850.4	1 475.8	1 348.3
Current assets	3 106.8	3 606.8	2 615.5
Non-current assets held for sale	9.0	57.7	539.9
Total assets	4 966.2	5 140.3	4 503.7
Current liabilities	3 445.4	3 080.7	2 999.9
Total equity	849.0	1 327.5	632.7
Minority interests	31.4	102.3	6.0
Non-current interest-bearing borrowings	52.9	0.8	1.5
Current interest -bearing borrowings	1 074.5	234.2	832.5
STATISTICS			
Total number of shares in issue (million)			
Class A ordinary shares	1 000.0	1 000.0	976.1
Class B ordinary shares	225.1	225.1	40.3
Total shares	1 225.1	1 225.1	1 016.4
RETURNS (%)			
Operating (loss)/profit to turnover	(11.8)	(6.1)	(11.8)
Operating (loss)/profit to average total assets	(9.2)	(4.8)	(8.4)
Operating (loss)/profit to ordinary shareholders' interest [2]	(54.5)	(17.5)	(61.1)
RATIOS			
Debt/equity ratio [2]	1.3	0.2	1.3
Current asset ratio	0.9	1.2	0.9
Net finance cost cover	(6.9)	(5.2)	(3.5)
Revenue per employee (Rm)	0.8	0.5	0.4
Number of employees	5 067	7 276	7 634

[1] *The 2005, 2006, 2007, 2008 and 2009 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 debt/equity ratio and loss to average ordinary shareholders interest for 2005 are undefined.*

2006 [1] Rm (restated)	2005 [1] Rm	2004 Rm	2003 Rm	2002 Rm	2001 Rm	2000 Rm
2 773.2	3 572.1	4 442.2	4 372.4	3 904.3	3 621.1	3 445.9
(1 076.3)	(1 314.7)	62.2	203.2	(285.8)	41.6	(219.9)
187.8	104.0	120.0	109.0	55.0	8.4	30.8
150.1	156.6	121.0	107.2	95.9	97.6	108.9
(1 291.4)	(1 403.0)	(357.6)	(43.6)	(347.8)	38.9	(191.2)
(1 310.7)	(1 415.7)	(384.4)	(72.2)	(358.8)	26.7	(203.7)
(19.3)	(12.7)	26.8	28.6	11.0	12.2	12.5
(0.1)	4.7	(6.9)	0.4	4.4	2.6	2.4
(1 363.4)	(1 560.7)	(377.5)	(72.6)	(363.2)	24.1	(206.1)
(1 060.9)	(422.2)	(200.8)	(229.0)	(290.7)	(354.5)	(78.6)
1 601.4	2 173.2	1 349.6	1 414.8	1 243.9	1 167.1	1 095.5
2 724.1	2 410.0	2 742.3	2 839.2	2 756.7	2 686.8	2 731.5
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
1 937.7	2 887.6	2 346.8	1 960.0	2 543.4	1 958.3	1 896.5
614.8	(15.8)	843.7	1 388.3	1 415.7	1 773.9	1 747.3
6.6	6.7	9.2	20.0	18.1	13.1	10.6
832.1	847.9	832.1	840.9	26.9	4.4	1.2
14.1	520.2	75.7	8.7	351.5	150.6	95.4
849.2	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
889.5	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)
(23.1)	(30.1)	1.5	4.8	(7.3)	1.1	(5.7)
(175.1)	-	7.5	14.9	(20.4)	2.4	(11.1)
1.4	-	1.1	0.6	0.3	0.1	0.1
1.4	0.8	1.2	1.4	1.1	1.4	1.4
(6.9)	(13.5)	(3.0)	(0.4)	(6.3)	4.6	(6.2)
0.3	0.4	0.4	0.4	0.4	0.3	0.3
8 850	9 942	10 925	10 878	10 768	10 375	11 090

Customer relations and marketing

Caring for customers is of utmost importance to Denel, as is also reflected in the group's values. The group is passionate about supporting its global customer base and in providing solutions to their requirements. Business development and marketing takes place at group and business entity levels. At group level, business development focuses on the coordination and consolidation of marketing efforts including interfacing with customers. Product marketing is decentralised in order to allow business entities to accept accountability for their own order cover and sales. Denel's focus in the domestic market is to be the preferred system supplier and prime contractor of choice, and in international markets the focus is primarily to work with domestic suppliers and to be a subsystem supplier to those enterprises.

Innovation, in both products and business systems, is a key factor to succeed in the competitive environment in which Denel operates. Building a close long-term relationship with the group's customers ensures that Denel understands customer requirements and enables the group to create value for its customers. This not only ensures customer satisfaction, but also enhances the sustainability of the group through operational excellence.

Denel embraces its relationship with the SANDF, its major local customer. The turnaround strategy placed greater emphasis on Denel's relationship with the SANDF, South African Police Service (SAPS) and other local customers, which resulted in growing the group's domestic sales from 35.5% in 2008 to 61.9% in 2009, a foundation for sustainability. The DoD has classified Denel's business entities as of sovereign and strategic relevance in support of the country's defence needs. The DoD has also responded positively to requests to commit to a minimum level of local spend on key domestic industries. This strategy is in line with global trends, and once finalised will play a role in ensuring the sustainability of the group.

As a supplier of high-tech defence equipment in a highly competitive international market, Denel acknowledges the importance of its capabilities and productivity being on par with international standards. Service delivery in general, and successful delivery against contracts have been improved significantly, ensuring that Denel can compete on a sustainable basis, as compared with international competitors, by providing innovative solutions on a cost effective basis.

Denel's strategy of entering into equity partnerships with major international defence enterprises has resulted in making inroads in expanding its global presence, through access to international markets to which Denel previously had limited access. Further details of customer relations and marketing efforts at business entity level, and the results thereof are comprehensively described in the *business entities' profiles report* (pages 29 to 53).

Other engagements with local and international customers, by the group and business entities are provided as part of the *stakeholder engagements section* of the *sustainability report* (pages 78 to 88).

Supplier relations and economic impact of procurement on the local economy, including B-BBEE suppliers

Denel contributes positively to the local economic environment by supporting local suppliers, with an objective of establishing and developing designated exempt micro enterprise (EME) and B-BBEE suppliers as business partners in the defence industry.

Denel is committed to the support and development of local suppliers to improve the local economy. The group assists suppliers to grow and develop their organisations, ultimately benefiting the economy. As part of its transformation programme, which is comprehensively described in the *sustainability report* (pages 99 to 101), the group has set the following specific targets for the forthcoming year, to achieve full compliance to the B-BBEE Code of Good Practice (CoGP), through its business entities' transformation committees:

- All entities are to fully comply with the requirements of the CoGP, as set out in the B-BBEE Act of 2003.

- The minimum target set for entities to meet is level 6 (in accordance with the recognition levels of B-BBEE).
- B-BBEE compliance has been staggered over the forthcoming financial years with level 6 B-BBEE by 2010 and level 4 B-BBEE compliance targets to be achieved in the 2012 financial year.

The *transformation section* (pages 99 to 101), further details and describes the transformation programme.

Denel positively impacts global economies, by contributing to the sustainability of its suppliers. Only specific raw materials that are necessary for production, but cannot be sourced locally, are imported.

The table below illustrates Denel's level of contribution to B-BBEE suppliers.

Supplier	2009 Rm	2008 Rm
Total spend	2 618.4	2 379.7
B-BBEE spend	269.3	235.5
	%	%
% B-BBEE spend	10.3	9.9

A supply chain governance framework is in place that provides guidance on key focus areas. It also outlines Denel's strategy with regards to supply chain, and is based on integrated leading practice supply chain principles. A procurement guideline, based on the Denel supply chain governance framework is in place giving reference to existing legislation, including but not limited to the codes of B-BBEE. All business entities are in the process of assessing their procurement policies and procedures against these guidelines and the leading practice framework.

Key milestones and achievements

The following key milestones and achievements have been made towards achieving the targets set:

- Transformation committees have been formed on a business entity level, and are chaired by the business entity CEO, with a transformation champion appointed to drive transformation, including implementation of the B-BBEE CoGP. The committees are responsible for ensuring that set targets are achieved and monitor progress thereof.
- Specific high level B-BBEE strategies have been developed and include the following objectives:
  - Build capacity
  - Ensure skills transfer
  - Employment equity
  - Enterprise development
  - Socio-economic development
  - Preferential procurement
- Transformation targets have been contracted in individual performance contracts.
- Senior management within all business entities has been trained on the B-BBEE CoGP and have developed specific interventions related to B-BBEE.
- Formal transformation plans have been drawn up with action plans for implementation, these include supplier development plans. All business entities have performed a self-assessment of the B-BBEE scorecard to gain insight into the current contributor level of entities. An external rating agency will conduct an assessment before the end of the forthcoming financial year.
- Certain business entities pay B-BBEE suppliers on the date of invoicing, in order to improve the B-BBEE suppliers' cash flow and growth of their businesses.
- Local black contractors from the business entities' surrounding areas are contracted for maintenance of, and changes to buildings, and other related services as required. Materials are supplied where contractors are not able to lay out finances for acquiring materials.
- Supplier satisfaction is not formally measured, but Denel engages in regular meetings with all major suppliers.

Outlook

Denel will continue to focus on achieving compliance with the B-BBEE CoGP by achieving the set targets:

- Further implementation of action plans regarding B-BBEE to ensure that compliance levels are improved over the next few years. The group's targets for the forthcoming year will be to adjust procurement activities and suppliers to improve contribution to small and medium enterprises and achieve the required 10% level.
- Frame agreements are being implemented with key suppliers in order to help streamline the procurement processes. The intent is to shorten lead times by simplifying the procurement of goods and services. The advantages would be to reduce the workload of buyers in order to release capacity for more strategic procurement activities. The frame agreement opportunities identified are stationery, personal protective equipment, and information technology (IT) equipment, amongst others. These frame agreements will ensure that prices are stabilised for longer periods and the supplier can be more closely managed with respect to service level agreements which shall form an integral part of the Frame Agreement.
- The other opportunity has been to begin implementing supplier management. The intention is to generate a closer and more cooperative relationship with key suppliers to again improve lead times, and help reduce costs. Furthermore, a system to ensure that supplier information is updated with respect to contact details, B-BBEE status, addresses, quality related certificates and SARS clearance certificates on a regular basis, has being implemented.

Challenges

Whilst concerted efforts are being made to fully comply with the requirements of the B-BBEE CoGP, as set out in the B-BBEE Act of 2003, the following challenges exist which impact the ability of Denel to achieve these:

- Owing to the high-tech nature of the group, B-BBEE suppliers face challenges to enter the defence industry resulting in finding black suppliers who deal with technological equipment, being a challenge. This is partly a result of a lack of access to sufficient capital to pay for the accreditation and certification of B-BBEE suppliers, namely:

  – At Aviation, some of the original equipment manufacturing requirements dictate where parts are to be purchased. Although the business entity makes an earnest effort to identify and develop B-BBEE suppliers, the complexity of the products required together with the small quantities, makes it impossible to sustain a budding B-BBEE supplier base. 42% of its total spend is with international organisations, which do not comply with South African legislation regarding B-BBEE. As a result, even the small pool of skills that is created is easily attracted to industries that show consistent growth and offer relatively high job security and remuneration.
  – The year under review has shown that Dynamics has a long way to go as far as B-BBEE supplier development is concerned. The focus is to give EMEs opportunities to operate in the core areas of high technology defence related aerospace military business.
  – Preferential procurement on commercial suppliers forms the biggest part of Denel's B-BBEE target. The absence of economies of scale in this business entity with limited volumes, leaves little bargaining power for it to further its objectives of B-BBEE.
  – The availability of local suppliers in military high tech requirements is extremely limited. Very few suppliers are fully B-BBEE compliant in the core areas. Tenders or business opportunities for non-production materials and services are generally, if available, awarded to B-BBEE suppliers.

- Employment equity including gender and disability remains an ongoing challenge as the aviation industry is male dominated. The attraction and retention of skilled female employees remains complex. Specific initiatives to address this will only yield results over a long period of time.

In spite of the challenges, management remains committed to execute the approved transformation plan targets.

Socio-economic development

Denel's policy on SED is in its final stages of development. Denel and its business entities aim to empower and transform previously disadvantaged people and communities, who remain non-participants in the economic mainstream, by creating opportunities for their inclusion in the productive sector of the economy.

As the manufacturing base spans the breadth of the country, Denel has chosen a decentralised approach impacting on society. Thus the group will focus its efforts on communities situated around its facilities or specifically identify a deserving region to invest in an appropriate form of social upliftment. The group's SED programme, therefore, aims at maximising the impact on society by integrating the individual interventions of entities in order to project Denel as a caring employer and responsible corporate citizen.

As reflected in Denel's set of corporate values, it places a high priority on 'caring for people, customers, communities, nations and the environment'. Its business entities have measures in place to assist communities in which they operate or whose youth will comprise the future technical workforce, making the need for developing a sustainable skills base the primary focus. Despite its financial constraints, Denel managed to utilise its limited means to provide for a substantial SED across its business entities that was augmented by intrinsic potential of committed employees.

The popular 'take a girl child to work' programme is supported by the business entities, inspiring young girls to pursue careers in aviation and engineering. The girls get to experience the excitement of Denel's operations by participating in competitions, flight tests and other activities in the facilities and workshops.

Denel Aviation

Aviation also focuses on youth development, with a view to stimulate young learners to embark on careers in the aviation industry, as well as to have an interest in mathematics and science. Fifteen learners were selected for the Aviation Super Flyer programme. Over and above regular guided tours of Aviation's facilities, the learners receive mathematics and science kits, as well as bursaries to further their studies.

Aviation participates annually at Scifest Africa, which attracts more than 45 000 visitors and features over 600 events including lectures, interactive exhibits, workshops, educational theatre, field trips and a film festival. Denel's exhibition stand is complemented by talks by Aviation, aircraft design workshops and plane competitions. The aviation videos and model displays of Oryx and Rooivalk helicopters tend to attract thousands of learners.

Aviation also exhibits at Science Unlimited and at the Sci-bono Discovery Centre, a new edutainment attraction in Gauteng that allows learners, educators and other visitors to learn about mathematics, science and technology. In addition to this, Aviation is a sponsor of the Eskom Expo for Young Scientists, in which learners participate in experiments and school science projects.

Denel Centre for Learning and Development

The Denel Centre for Learning and Development (DCLD) supports aviation related technical training for apprentices in the areas of avionics, aircraft electrical and aircraft mechanical studies. It also hosts the Youth Foundation Bridging programme that has resulted in significant successes with linked Denel business entity bursary programmes.

Denel Corporate Office

Denel's Corporate Office supports the upgrading of classroom facilities in Hammanskraal, north of Pretoria. Denel opted for this Vastfontein project because of a dire need for education facilities for very young children. The parents/caregivers of these children have no means of paying for the education and the school is, therefore, heavily reliant on financial support for its ongoing success. The school is making a difference in the community. Its medium-term intention is to see the oldest children currently in Grade 2 to reach Grade 7. Thus, it needs to build at least one new classroom, fully equipped with a teacher, every year. Denel engaged Vyanzo Development as its enterprise development partner for this community project, but will undertake regular visits and involve the learners through visits to Denel's factory facilities.

Denel Dynamics

Dynamics is taking a long-term view by linking its SED programme with its business imperatives. It has embarked on a directed bursary programme that is coupled with the youth foundation initiative, with 55 students accommodated in the project to continually attract and qualify the youth as engineers. During the year under review, 15 students qualified in various engineering disciplines including mechanical, electro-mechanical, electronic, computer, aeronautical, software and industrial engineering. These students have now been absorbed into the business entities, and are being exposed to a mentorship programme that is accredited and being partially funded by the engineering SETA that will contribute directly to their Engineering Council of South Africa (ECSA) certification. This additional funding stream has allowed the business entities to draw in replacement students and to improve on its bursary allocation.

The group of students collectively obtained 98 distinctions. Focused in-year mentorship also ensured that the group average was raised by over 5% when compared with the previous academic year. In addition to this, the business entity has embarked on a Saturday school programme that has identified deserving students from three surrounding black communities for additional tuition. Presently 75 students are accommodated in a mathematics programme, with the company providing study material, transport, refreshments and individual tuition. This programme will be expanded in-year with a similar number of science students, with a teacher development programme on the cards for 2010. The group is also an active contributor to the sci-bono discovery centre and its annual science/career exhibition.

Denel Land Systems

DLS reached out to a rural community with a donation of computer equipment to under-resourced schools in the impoverished Eastern Cape Province. It also made a financial contribution to needy students to further their studies and supported a learner who excelled in mathematics and science to join an overseas tour.

This business entity contributed to a programme at the Tshwane University of Technology for learners to upgrade their mathematics and science subjects.

Mechem

Mechem focused its SED activities primarily in two areas. Its main focus is on alleviating the plight of poverty-stricken people in the areas where it conducts its business. Effort was also directed towards the families of the personnel working for Mechem. Virtually all Mechem operations are conducted outside the borders of South Africa, mostly in areas ravaged by war or internal conflicts. Mechem assists the poor population in the area with minor medical treatment and emergency assistance.

Mechem recruits local community members for these contracts. On completion of the contract, trained local capacity is retained within the community. In South Africa, Mechem often subsidises the training of close family members of employees in order for them to obtain future employment with the business entity or other similar organisations.

In light of the significant role that dogs play in Mechem's business, the business entity offers financial assistance to organisations that help abandoned and ill-treated dogs.

From December 2008, Mechem has become a supporter of the Jakaranda Children's Home for abused and destitute children. Mechem employees also made notable personal contributions in terms of blankets, clothes, electric equipment, as well as monthly food contributions such as milk.

OTB

OTB test range has committed itself to uplifting the youth in its region by sponsoring a mathematics teacher at the local primary school. This business entity also invests in social upliftment programmes, with a special focus on the adjacent fishing community of Arniston.

Pretoria Metal Pressings

Given its location close to Atteridgeville, west of Pretoria, PMP has contributed to the bursary fund of the Tshwane South College (Atteridgeville campus) for over a decade. The purpose of the fund is to financially assist underprivileged students at the college, to enable them to complete their studies in the mechanical and electrical disciplines. The project results in students being selected for the business entity's technical skills training outreach programme.

PMP also supports the Zodwa School for learners with special educational needs. The school provides education to mentally handicapped children from Atteridgeville and the surrounding communities. PMP provides constructive support to the children by funding improved teaching aids, training processes, technical equipment and facility improvements that are needed in this disadvantaged area.

Transformation and empowering of employees

Transformation programme

Denel embarked in earnest on its transformation programme during June 2007. The programme strives to:

- Create a new culture where performance and delivery are drivers for success
- Create a motivated, innovative and empowered workforce that is adaptable to change
- Value diversity in all its forms

A framework was developed to roll out transformation in Denel. This framework considered the results of a group-wide climate survey done in 2006, the legislative framework on B-BBEE CoGP and the objectives of Denel's turnaround strategy, underpinned by people and transformation. At the core of this framework, are the eight generic elements of transformation which allow for design of entity specific sub-elements. The generic elements are reviewed annually in terms of their relevance and are agreed within the group's transformation and CEO forums.

Eight generic elements

Element	Description
Representative workforce	The representative workforce element relates to the representation of designated groups in Denel's workforce in relation to the demographics of South Africa, including diversity at senior management, middle management and technical levels. Of particular relevance is the group's *Employment Equity Policy, Employment Equity Act of 1998 and the B-BBEE Act 53 of 2003.*
Skills development	In order to achieve business and social transformation, skills development in Denel emphasises and supports the accelerated training and development of previously disadvantaged employees. Skills development actions to be considered are: • Identification and assessment of potential, accelerated and concentrated development actions • Mentoring, on the job training and exposure • Job rotation • Career routing • Induction and integration programmes • External courses
Participative management	This element addresses the extent and effectiveness of employee participation, establishment, maintenance and effective utilisation of participatory structures (ie workplace forums departmental meetings, etc.).
Preferential procurement	This element seeks to increase procurement from organisations that meet the targets set by the group to promote compliance with requirements of the B-BBEE CoGP. It also aims to increase business, where practical, with black-owned and managed suppliers and SMMEs.
Enterprise development	This element seeks to assist black-owned[1] organisations to establish themselves and help them achieve sustainable growth, particularly the small and micro companies who are Denel's suppliers.
Socio-economic development	This element relates to initiatives and projects undertaken by Denel to contribute to the wellbeing of the South African society, and above all, to create conditions in the environment that will benefit Denel in the long run.
Organisational climate	To manage and utilise Denel's values to establish and maintain a climate conducive to constructive transformation
Succession planning	This is a process used to ensure that there is continuity in Denel in terms of critical skills and key competencies.

[1] *Black includes African, Coloured and Indian*

Highlights and achievements

This includes:

- Each business entity has established a transformation committee consisting of management representatives, human resources representatives, organised labour representatives and non-organised employee representatives. These committees are fully functional and meet on a monthly basis. Each committee has a constitution and terms of reference that guides the scope and reasons for the committee's existence. The relevant business entity CEO or general manager chairs transformation committee meetings.
- All business entities have met or exceeded their targets on the eight generic elements in comparison to 2008. Evaluation of performance is done by an external and impartial assessor using an approved monitoring and evaluation tool.
- The total B-BBEE spend for the year under review was R269.3m (2008: R235.5m).
- Denel is doing well in the area of skills development with more bursaries being awarded compared to 2008 (more details on this is providedin the *skills development section of the employee report*) (pages 103 to 104).
- Each business entity has performed a current state B-BBEE diagnostic assessment which gave an indication of their current compliance levels. This is a very important step in Denel's transformation programme because it allows for targets to be set based on findings and recommendations from the current state assessment report.

Employees

Workforce profile

Denel's workforce has a broad spectrum of skills and experience required to deliver a full range of advanced products and customer support services. The group had a total workforce of 5 067 (2008: 7 276), excluding associated companies, of which 4 121 (2008: 5 296) are employed on a permanent basis and 946 (2008: 1 980) on contract. Although the group is still experiencing high turnover in the critical technical categories, the overall turnover in the group is within the industry norm of 10%. Various strategies are being employed in the group to reduce turnover in the critical technical areas which are engineering, technical, trades and scientist categories.

During 2009, the disposal of the Munitions group to Rheinmetall Waffe Munition GmbH, explains the shift in workforce profile between the current and previous year.

Employment type	2009 Number	2009 %	2008 Number	2008 %
Permanent	4 121	81.3	5 296	72.8
Contract	946	18.7	1 980	27.2
Total	**5 067**	**100.0**	**7 276**	**100.0**
Associated companies	2 131		637	
Total strength	**7 198**		**7 913**	

Workforce split by business entity group	2009 Number	2009 %	2008 Number	2008 %
Core subsidiaries	889	17.5	1 003	13.8
Core divisions	3 710	73.2	5 858	80.5
Non-core business entities	468	9.3	415	5.7
Subtotal	**5 067**	**100.0**	**7 276**	**100.0**
Associated companies	2 131		637	
Total strength	**7 198**		**7 913**	

Employment equity

Denel operates within the aerospace, landward and maritime defence industries which are historically male dominated and also highly technical. With the ongoing skills shortages in South Africa, it is extremely challenging to attract and retain the requisite skills in technical management, engineering and artisan functions.

Added to this is the challenge that most high-tech organisations are struggling to attract women engineering graduates who have an interest in working in these environments. However, Denel is making inroads by partnering with organisations such as South Africa Women in Engineering (SAWomEng) and various SETAs to draw women engineers, artisans, technicians and scientists into the group. Regardless of these challenges, appointments of talented black managers who have demonstrated aptitude, commitment and ambition were made during the year under review.

Appointments per race and gender	March 2009 Number	March 2009 %	March 2008 Number	March 2008 %
Black[1] male	223	62	170	57,7
Black female	65		86	
White male	143	38	148	42,3
White female	33		40	
Total appointments	**464**	**100**	**444**	**100**

Permanent workforce per race and gender	2009		2008	
	Number	%	Number	%
African male	938	22.8	1 048	19.8
African female	253	6.1	245	4.6
Coloured male	170	4.1	575	10.9
Coloured female	104	2.5	274	5.2
Indian male	60	1.5	50	0.9
Indian female	16	0.4	13	0.3
Sub total black[1] male	**1 168**	**28.3**	**1 673**	**31.6**
Sub total black[1] female	**373**	**9.1**	**532**	**10.1**
White male	2 096	50.9	2 550	48.1
White female	484	11.7	541	10.2
Total permanent workforce	**4 121**	**100.0**	**5 296**	**100.0**

1 *Black refers to African, Coloured and Indian*

Total workforce per race and gender	2009		2008	
	Number	%	Number	%
White managers	330	78.4	396	79.8
Black managers	91	21.6	100	20.2
Managers	**421**	**100.0**	**496**	**100.0**
White employees	3 016	59.5	3 606	49.6
Black employees	2 051	40.5	3 670	50.4
Race	**5 067**	**100.0**	**7 276**	**100.0**
Male employees	4 002	79.0	5 612	77.1
Female employees	1 065	21.0	1 664	22.9
Gender	**5 067**	**100.0**	**7 276**	**100.0**

Challenges

Attracting and retaining the necessary skills to ensure the creation of sustainable, innovative solutions and products.

Communication

Denel has implemented numerous ways of communicating and consulting with employees, including providing them with information on the highlights, achievements and challenges the group faces. These include regular employee surveys, newsletters, electronic communication and a global intranet site. Denel engages with its workforce through various employee representative bodies and trade unions.

Skills development

Learning is ultimately about developing employees, resulting in portable skills and sustainability for the group. Denel is acutely aware of the general skills shortage that is posing a risk to business continuity and sustainability of most organisations in South Africa and the world. Key to the group's strategy is the creation of a skills pipeline in the critical technical fields. To this effect, the group has adopted a multi-pronged approach to skills acquisition and development that includes focused recruitment, subcontracting of services, bursaries, apprenticeships and bridging programmes to ensure a supply of talented and qualified people in the defence industry market.

Denel is linking individuals' goals with the wider goals of the group, enabling employees to understand how their own success contributes to the sustainability of the group.

Denel is currently in the process of developing a comprehensive skills attraction, development and retention strategy with the objective to ensure that all Denel employees are provided opportunities to grow and develop to improve the sustainability of the group. The implementation of the strategy will require the following:

- Identification of ideal skills and talent required
- Assessment of existing employees' skills to determine the gaps
- Development of interventions to close the gaps identified

Talent management

The primary objective of the talent management strategy of Denel is to ensure that employees are provided opportunities to grow and develop in order to maximise their talents, as well as giving better support to the group. Talent management is linked to performance management, in that each employee is given an opportunity to be made aware of their innate talents and preferences and how they fit job requirements.

Denel provides bursaries to employees in the areas complementary to their jobs. This is in addition to different courses that have been identified as part of their Personal Development Plans (PDPs) and job-required training. To illustrate the importance of learning and growth in Denel, the total training spend for current employees increased to R21.4m (2008: R16.2m).

Bursaries granted to employees

	African		Coloured		Indian		White		Total	
Study field	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**	**2009**	**2008**
BCom		2				1			**3**	5
BCompt							1		**1**	1
BEng	2							1	**3**	-
BSc									**-**	3
BTech	14	2							**16**	15
Chartered Accounting		2							**2**	4
Electrical Eng									**-**	4
Electrical Eng (Masters)	1						2		**3**	3
Fasia – France									**-**	1
MEng	5	1			2	1	3	5	**17**	16
MBA		1			3	1	3	1	**9**	4
Mechanical Eng	4								**4**	6
Project Management	3	1			1				**5**	6
Software Eng			1						**1**	2
Various	12	3	5	1	1		7	3	**32**	74
Total	**41**	**12**	**6**	**1**	**7**	**3**	**16**	**10**	**96**	**144**

Bursaries granted to pre-employment

Denel also provides bursaries for matriculants to study at tertiary institutions throughout South Africa in the following fields:

	African		Coloured		Indian		White		Total	
Study field	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**	**2009**	**2008**
Aeronautical	3	1			5		9		18	14
Chemical	1								1	7
Computer	2						3	2	7	6
Electronic/Electrical	16	2	2		1		8	3	32	22
Financial		1							1	-
Industrial		1				1		3	5	3
Mechanical	10	3			3		1		17	16
Total	32	8	2	-	9	1	21	8	81	68

Denel Centre for Learning and Development

Denel drives high performance through the Denel Centre for Learning and Development (DCLD).

DCLD offers training facilities and training venues to employees of Denel, other organisations and various governmental delegations from the rest of Africa.

- Artisan training

  DCLD has a facility that offers training in the artisan trade fields. This division of Denel (Pty) Ltd is based in Kempton Park and has training facilities for:

  - Avionicians
  - Artisans
  - Millwrights
  - Fitters and turners
  - Other related trades

There are 14 teaching employees and 22 instructors and approximately 37 courses that are accredited. These can all be viewed on DCLD's website www.dcld.co.za.

The facilities are used to develop future employees through classroom teaching and on-the-job practical training.

DCLD is committed to provide Denel, and the industry at large, with skills in the artisan and technical areas but also seeks to impact the strategic objectives of the Accelerated and Shared Growth Initiative for South Africa (ASGISA) and Joint Initiative on Prior Skills Acquisition (JIPSA) programmes.

Denel schools outreach programme

Denel runs various schools outreach programmes with objectives to:

- Increase participation of learners in mathematics and science
- Improve selected learners from previously disadvantaged communities' performance in mathematics, science, english, communication and life skills
- To prepare and encourage learners to embark on science engineering and technology based careers

Denel youth foundation training programme

The Denel Youth Foundation programme (DYFTP) currently has 40 learners and the gender split is 21 girls and 19 boys.

The programme is dedicated to increasing participation and improving the performance of learners in mathematics, physical science, biology and accounting. The programme is targeted at learners who are from previously disadvantaged and poor communities, especially from the rural parts of South Africa. Learners are also taught relevant life skills in order to prepare them for the world of work.

To be eligible to participate in the programme the learners must:

- Be between 18 and 21 years old
- Have already written grade 12 with mathematics, biology, accounting and physical science
- Have applied/expressed interest in a career within the science, engineering and technology (SET) fraternity
- Be medically fit
- Be single with no dependants

Leadership and management development

Key to Denel's growth, are leadership and role model behaviours at all managerial levels throughout the group. During the second half of the year under review, the group embarked on a number of initiatives, including climate and leadership surveys.

These surveys confirmed that employees do not perceive leadership and management positively. This led to the development of a framework for Denel to enhance leadership and people management capabilities through the definition and implementation of an operating model that includes the group's values and leadership competencies that have been identified by the senior leaders of the group as critical.

Denel will be launching a leadership and management programme that will provide leaders and managers with appropriate skills to effectively manage and develop its employees. A course will be designed to cater for entry, middle and senior management which will also be aligned to the full human resources value chain of recruitment, induction, training, performance management and progression.

Mentorship programmes

All Denel's business entities, as part of their transformation plans, have developed and implemented mentorship programmes to counter the ageing workforce profile, and to facilitate the transfer of knowledge and experience

from the elderly professionals and leaders to the younger emerging talents. Proper career development and mentorship contracts are entered into between mentors and mentees and are included in the performance management contracts of senior employees and their mentees.

Industrial relations

Denel adopts a consultative and participative management style at all levels of the organisation. Of particular noting are the participative structures formed at both management and shop floor levels in the form of employee advocacy forums. In addition to this, each business entity has a recognition agreement with the representative union and the scope of the issues to be dealt with is clearly laid out in these agreements. The Group CEO also meets regularly with the leaders of organised labour to share the group's successes and also discuss the group's challenges.

Membership of recognised South African trade unions

Union	Number	%[1]
NUMSA	902	17.8
SOLIDARITY	1 034	20.4
SAEWA	44	0.9
UASA	1 386	27.4
Total	3 366	66.4

1 % of total employee workforce of 5 067 employees

Strike action

During the year under review, no strikes took place and no workdays were lost due to industrial action. Even salary increase negotiations with implementation effective 1 April 2009 were completed without any disputes being declared or strike action taking place. Management is of the view that the relationship between Denel and relevant labour unions is positive.

Grievance and disciplinary procedures

In 2006, the group's grievance and disciplinary procedures were reviewed and revised. Employees were trained on the procedures and trade unions agreed with the policies and procedures governing the handling of grievance and disciplinary processes.

Denel acknowledges the rights of all employees for proper representation in the disciplinary or grievance process. A total of 120 disciplinary and grievance incidents were registered in this reporting period and were dealt with as follows:

Disciplinary and grievance cases	2009
Internally resolved	
Cases settled internally	4
Cases withdrawn by complainants/employees	3
Resolved through warnings	53
Resolved through counselling	9
Referred to CCMA/Bargaining Council	
Cases ruled in favour of Denel	7
Cases ruled against Denel	1
Other	
Cases pending (at CCMA/Bargaining Council and still following internal processes)	43
Total	120

Collective bargaining

Denel has a Group Restructuring and Transformation Committee that serves as a consultation body for matters regarding transformation and restructuring matters. Each business entity also has a recognition agreement with labour unions represented. Minimum notice periods are set, including consultation, during which alternatives have to be sought. In the case of restructuring and retrenchment the notice period is four months.

The group believes the process of collective bargaining helps to create a healthy employer-employee relationship.

Organisational culture and working environment

Climate survey

Denel undertook a follow-up climate survey to the one performed in 2006. This year, the group's climate survey was completed and the overall index in all areas that were assessed, was 50% compared to 43% of 2006 (a rating below 60% indicates a commitment to transform). Cross-cutting leading practice scores are between 60% and 70%. Findings that require significant improvement are:

- Leadership development
- Internal communication
- Values
- Culture
- Performance management

Each business entity has developed climate improvement plans to deal with its specific findings whilst the executive team is responsible for the overall group findings.

The climate survey is part of Denel's thrust of creating an environment where employees' and the organisation's cultural values are aligned. Survey results demonstrated excellent progress in improving and aligning employees to the objectives of the 5-driver strategy as compared to the one conducted in 2006.

Information gathered from the survey will be used to develop an employee value proposition which will impact the full employee life cycle:

- Recruitment
- Integration
- Development
- Reward and recognition

The climate survey was also instrumental in Denel's understanding of the level of employee morale and the feedback indicates that there has been some improvement although much remains to be done.

Employee wellbeing

Employee wellbeing is very important to Denel because employees are regarded as individuals, contributing positively to the sustainability of the group. Their psychological, physical, spiritual and financial wellbeing impacts positively/negatively on their performance and participation in their teams. Consequently, a consolidated wellness programme was developed in 2006 and covers:

- Trauma counselling
- On-site clinics
- Wellness days
- HIV/AIDS testing and counselling in partnership with the group's in-house medical aid, Umed

In the latter part of the year, the toll-free counselling helpline was revived which is contracted out. The facility offers confidential professional consultation on any personal problems at no cost to employees. The helpline is also provided to employees' immediate families.

Flexible work hours

Denel allows for flexible working hours to accommodate differing employee circumstances. Employees can start work at 07:30 and leave at 16:00 or at 08:00 and leave at 16:30 with a 30 minute lunch break.

Employee forums

Denel has various forums at the various entities that deal with specific issues. These are:

- Strategic leadership symposium for the Top 100 leaders in the group
- Youth forums for the young leaders in the entities in various fields of work
- Various entities have established women forums as issues affecting women have featured predominantly in the climate survey results

Collective bargaining

Refer to the *industrial relations section* of the *sustainability report* (page 107).

Recruitment and selection

Denel has an embedded recruitment and selection system that covers advertising internally and externally, thereby affording internal candidates opportunities for growth and development. External recruitment is done via various media, newspaper, internet and employee networks (employees are rewarded for introducing a candidate that is successfully placed within the group). Various checks are done to verify information and documentation, such as security clearance, identity checks, qualification and reference background checks. In addition, proper legal psychometric assessments are done, balanced by information gathered in focused interviews.

Performance management

Denel's vision and values form the basis of the culture that the group wishes to achieve, namely a culture of operational excellence, integrity, innovation, caring and accountability. Ethical business conduct is fundamental to expanding the group's global presence and increasing shareholder value. A performance management system was introduced during the previous financial year. All managers were trained and consultation took place with organised labour. Employees receive feedback on performance at least bi-annually and personal development plans are drawn to ensure that employees' career development objectives are met. The performance management system has been adequately embedded in the group to ensure a culture of performance and achievement of goals.

Denel enables all employees to take responsibility and ownership for their development, thus performance is not only recognised but is also rewarded. The scorecard per business entity entails finance, people and transformation, and strategy, as elements of the scorecard.

Reward and recognition

Denel has initiated and implemented a variable pay scheme which rewards better than expected performance. Thus, the group works within the ambit of total remuneration that includes both fixed and variable remuneration to allow for structuring of the packages according to the diversity of the workforce.

Denel's position is to pay at the median of the market especially for the critical skilled individuals but within affordability parameters. We are currently succeeding in reducing the turnover of highly skilled employees and those in high-impact roles.

Socio-economic development

Denel's SED programme forms part of Denel's transformation programme as one of the B-BBEE elements. It is predicated on three fundamental principles, which are an offshoot of the overarching Government's national and Denel's business strategies in pursuit of community development, empowerment, education and training of black people. These are participatory development, capacity building and sustainable development.

A separate socio-economic development report is provided as part of this annual report (pages 97 to 99).

Environmental responsibility

Policy

Denel has an environmental management policy (EMP) which establishes the minimum principles and guidelines for which each business entity within the group has to base its own standards, systems and procedures. Its policy, therefore, is to ensure the health and safety of its employees in the workplace on all related aspects in the environment.

The group's commitment to the environment extends beyond legislative compliance and is an integral part of the strategy and a core focus area of sustainability efforts. Caring for the country, and indeed the planet, is ingrained in its corporate culture.

Minimising the environmental impact

Owing to the nature of Denel's activities, in particular explosive and chemical-related activities, the risk of contamination and pollution of equipment, buildings, infrastructures and the natural environment is continuously evaluated.

Denel believes in sound management of the environment under its control and ensures that contamination and pollution with harmful substances is reduced to acceptable limits within legislative boundaries. The group ensures that in each business entity an integrated environmental management programme is implemented to ensure compliance with the relevant legislation. The group encourages formal ISO 14001 certification for all its business entities.

Denel manages and protects the ecological environment in which it has an influence, as well as the ergonomic environment in which its employees function to the advantage of the group as an employer, Shareholder and the greater community.

Denel ensures that water usage at each of its business entities is limited as far as possible. Each business entity monitors water utilisation through monthly utility bills to ensure economical use of water.

Some of the 2009 initiatives undertaken by Denel as part of its commitment to protect the environment, and addressing the environmental issues are listed below:

- Investigating biological control of gall fly and midgets on Rooikrans – Plant Protection Institute
- Monitoring of the endangered Cape Mountain Zebra – CapeNature
- Supporting the co-ordinated Avifaunal Road Counts (CAR)
- Supporting the mussel watch programme determining pollutants in the water – Department of Marine and Coastal Management
- Millennium Seed Bank Project – South African National Botanical Institute

Promoting environmental consciousness and considerations during product design

Denel conducts environmental management activities in such a way that it reconciles with the requirements of the environment and the group's mission. Environmental considerations are addressed during the design phase of the group's products.

Denel ensures, through rigorous quality inspections, that each product is safe and without risks to the health of the customer and/or for the environment, when properly used in accordance with prescriptions and when reasonable care is taken. Information will, in a reasonable manner, be made available to the customer of such products, regarding the use, safety, health and environmental risks, as well as the safety measures and procedures that must be followed in the event of an accident. The information includes details on the products or substances thereof and other information that may be necessary to promote the health and safety of the customer and the environment.

Organisational structure

Limiting the environmental impact of operations is controlled by each business entity. The control of environmental issues of the group's operations is, as a result, the responsibility of each business entity. Departmental managers at each business entity are tasked with ensuring that monitoring and controls are in place and results are made available to Safety, Health & Environmental (SHE) managers. SHE managers give feedback on the status of SHE-related training and results of emergency drills and evaluations.

As part of the environmental management system, business entities have appropriate environment organisational structures. Each line manager carries out work observations, assisted by the SHE managers and SHE representatives ensure that corrective measures are taken where necessary. SHE managers ensure that hygiene surveys are carried out and the results are communicated to the relevant departments. They ensure improvement and compliance with applicable legal obligations. Furthermore, they are tasked to implement the group's environmental policy.

Business entities monitor key risks relevant to Denel as a group, share leading practices, as well as new regulatory frameworks that are relevant.

Commitment to the environment

As a responsible custodian of South African manufacturing excellence, Denel has committed itself to execute its obligation with due care to the environment and the people of South Africa. In line with national legislation, as well as applicable international protocols on environmental management, every Denel entity is actively pursuing formal compliance and adherence to regulatory frameworks. Most entities either obtained or are pursing formal ISO 14001 accreditation and are exceeding minimum standards in conducting their business.

Environmental management system

Denel's EMP statement adheres to the requirements of ISO 14001. The group encourages environmental certification of its industrial sites. The EMS allows the setting of appropriate actions to efficiently minimise the environmental impacts where possible.

Denel is promoting its EMS throughout the group and its supply chain as a key means to systematically address and improve the environmental performance. Support to implement the EMS within various customers' organisations has also been provided.

Business entity	**EMS (ISO 14001)**	**Comment**
Aviation	Not certified	Aligned to ISO 14001 and plan to certify in 2012
Dynamics	ISO 14001 certified	-
DLS	Not certified	Implementing ISO 14001 during November 2009
DSA	Not certified	Implemented an EMS based on ISO 14001
Mechem	Not certified	Currently not on ISO 14001 standard
OTB	ISO 14001 certified	-
PMP	ISO 14001 certified	-

Climate change

Climate change is an increasingly significant global sustainability issue. In particular, the main impact on climate change is through greenhouse gas emissions from energy use, therefore, this is an important area for the group to focus on. Accumulating consistent and comparable data across an organisation presents some challenges, therefore, Denel is focusing on effective, internal data reporting and aggregation with regards to energy consumption to reach a robust understanding of the impact.

Denel also has a number of existing energy efficiency initiatives in place across its operations and is in the process of consolidating these efforts, and applying consistent measures across the group to quantify energy savings. There is also increasing pressure on the business entities from institutional investors, calling for greater clarity on how business entities are strategically and tactically managing their response to the implications of climate change. Business entities need to be able to analyse, manage and communicate their response to these challenges, to ensure both the short and long-term viability of their operations.

Denel has implemented a number of initiatives to reduce energy use by improving efficiency in engineering and manufacturing processes. Denel also encourages employees to reduce unnecessary energy use and to turn off all equipment and appliances where applicable.

Energy use

A potential risk from climate change to Denel's operations comes from the ever-increasing pressure on energy costs. The group has acknowledged, both from a cost and an operational efficiency viewpoint, that it has a responsibility to reduce energy usage where possible. The group views this as an opportunity to make continuous improvements in this area. Various improvement programmes are being implemented across the group to reduce the overall energy presence of the infrastructures.

The effects of load shedding in the factories and offices have negatively impacted operations. Denel, in an attempt to reduce the frequency of load shedding and reduce the impact of its consumption by 10%, has embarked on the following initiatives throughout the group:

- Reduce consumption by eliminating wasteful consumption (reduce kWh)
- Reduce the maximum demand charges by maintaining an even consumption throughout the group
- Improve the power factor of the network to utilise energy more efficiently

The current energy crisis creates a risk for Denel, and the challenges it could face include:

- Not achieving its business objectives and targets
- Incurring penalties that may be levied should savings not be achieved

To address the above concerns, Denel implemented the following energy saving initiatives:

- Awareness through training programmes at all business entities across all levels. This entails raising awareness and encouragement of office personnel to implement energy saving initiatives in the office environment.
- Scheduling equipment with high-energy usage to automatically switch off during off-peak periods, where possible installing electricity efficiency equipment.
- Geysers have been adjusted to 60°C and some geysers have been fitted with geyser heater blankets to become more energy efficient.
- Insulation of hot water pipes in ablution facilities.
- Lighting in buildings being switched off in areas not occupied during normal working hours or where natural light provides sufficient illumination.
- Improve efficiency of air conditioning units, when air conditioners are in use, doors and windows are kept closed, and certain units have been fitted with time-controlled switches.
- Removal of all lamps serving no purpose.
- All incandescent lamps have been replaced with energy efficient lamps.

The total energy usage for all business entities is detailed in the *key performance indicator table* (page 117).

Hazardous waste and general waste

Denel aims to manage the disposal of waste as effectively as possible. The group ensures that the disposal of hazardous waste by contractors complies with the relevant regulatory requirements set by the local environmental regulations through formalised agreements. The group takes full responsibility for the final disposal, which includes making use of reputable waste management companies as contractors to ensure that hazardous waste is disposed in an environmentally friendly manner.

Various initiatives have been implemented across Denel to reduce the level of total waste produced or eliminated. The focus is on the continual improvement of environmental management activities such as waste minimisation and pollution prevention. Other types of waste products that were produced in the manufacturing process are: cyanide, chromic acid, sand blast sand, ardrox, resin and chrome III.

For the year under review, the volume of general waste was 496 tons.

Materials

Denel's main aim is to reduce the volume of paper used, improve yields and other measures, reduce scrap metal, and zero landfill waste. The group also prescribes a recycling programme which ensures that all paper and cardboard used are recycled. Projects have been introduced to reduce and recycle the consumption of paper such as:

- The use of electronic media rather than paper
- Using both sides of a page
- Special collection drums are placed in strategic positions throughout the group and employees are encouraged to dispose of their paper into these drums

Denel is aware of the possible impact of chemicals used by cleaning companies and contractors. Therefore, the group ensures that such harmful chemicals are disposed in terms of legislative requirement. The group ensures that compliance to legislative requirements is audited. Any potentially dangerous materials, such as redundant building materials encountered in the facilities management processes, are systematically removed and disposed of in accordance with prescribed procedures. Consumable items such as fluorescent bulbs are disposed of in terms of a waste management programme.

Denel is proactive in its efforts to address significant impacts of materials used in the environment in that all materials are analysed to determine their impact on the environment and the employee. Due to certain chemicals being harmful to employees and the environment, material safety data sheets were prepared and employees received training on the use and storage of these chemicals. This is also performed as part of the implementation of the ISO 14001 standard. Further to this, monitoring takes place and includes:

- Hygiene surveys (performed by approved authorities)
- Monitoring of exhaust fumes of chimneys
- Biological monitoring of employees exposed to chemicals

In an effort to reduce the exposure of employees to chlorinated solvents, a substitute was identified. After tests and consultation with employees the substitute is being used.

Health and safety

Commitment

Denel cares for its employees, customers, consumers and environment. Its policy is to ensure the health and safety of its employees in the workplace on all related aspects in the environment. The group is committed to the fulfilment of all the requirements stipulated in the Occupational Health and Safety Act, No. 85 of 1993 (as amended) (SHE).

The objective of the policy is to establish the minimum principles and guidelines according to which each business entity establishes its own standards, systems and procedures.

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. 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 and maintained, and depending on the complexity of the product, customers are trained on safe operating procedures.

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.

Safety training

Occupational health and safety training provided in 2009, amounted to more than 2 984 man hours. The group ensures that safety risks currently identified are ranked according to impact on human life, environment and material damage. Denel further ensures that all employees attend at least a basic Occupational Health, Safety and Environmental Awareness training session.

Denel established formal policies and procedures to ensure that employees engaged in safety critical work have the necessary skills and competencies to perform work relating to the required safety standards as enforced by law. A development plan exists for operational employees who track the performance of the individual annually, and identifies areas of improvement especially regarding safety training needs. Denel ensures that only qualified employees are used for safety critical positions.

Contractors of Denel ensure full compliance with the necessary level of safety requirements and either undergo, or provide validating proof regarding the various safety training. All contractors are inspected onsite and are removed from site if any non-compliant safety behaviour is detected.

Denel has a process to ensure that a person who is assessed as being ‘not yet competent’ will receive further training and development to gain sufficient practical experience prior to another assessment. This process is evident in the group’s SHE induction programme provided at operational level.

Safety training at one of the business entities can be described as dividing training into two components:

- Direct training required for performing the task a person has been appointed for
- Secondary training required for maintaining systems of work

Training commences at induction, where a new employee is made aware of the aspects relating to the environment he/she is affected by. This includes aspects such as legal requirements.

Further examples of work-related safety training includes:

- The use of lifting equipment, including the use of overhead cranes and forklifts
- Task-specific training, which is concluded with a competency test of the individual
- Safety representative training
- Fire fighting techniques
- First aid training
- OSHAS 18001 systems training
- Hazardous chemical handling

Occupational health and safety management

It is the responsibility of the CEO of each business entity to ensure a safe working environment. Safety, health and environmental committees, which are constituted by management and employee representatives, meet regularly to address safety matters.

Employees are trained on hazards that they may be exposed to, as well as on equipment/machinery that they may be required to operate. Each business entity identifies health and safety hazards, and management action plans are developed for each significant risk identified. The business entities also ensure that these action plans are managed and monitored for successful implementation of corrective and preventative action.

Denel identifies and ranks SHE risks through the following mechanisms:

- Compulsory monthly SHE meetings are held at each business entity which highlights significant risks and incidents that have occurred.
- The property portfolio manager signs off the monthly SHE report of each department within each business entity.
- Risks are prioritised in accordance with the combined effect of the probability of occurrence and the potential impact, as mitigated by existing proactive and reactive measures.

To illustrate the commitment of senior management to not only articulate the safety culture of Denel, but also give effect to the principle of 'responsible employer', one business entity implemented the OSHAS 18001 standard, namely PMP. There has been a reduction in lost time injury frequency rate (LTIFR) to 0.5 during the year under review.

The OSHAS 18001 standard includes a policy statement that drives the implementation of various safety aspects, such as training, monitoring and legal compliance. These are audited by the SABS on a bi-annual basis, as well as during an annual management review meeting. Furthermore, a quarterly central SHE meeting with all appointed employees is held where different safety aspects are discussed with the business entity CEOs.

The performance of each business entity regarding SHE matters is monitored by their individual boards and internal audit and risk committees.

The following awards were given in recognition that safety is imperative to Denel's operations, in the following categories:

- Safety representative of the year
- Forklift driver for the year
- Best non-explosive area
- Best explosive area
- Best small section

Denel enforces and encourages safety behaviour by way of national SHE competitions. Senior management is committed to the following key principles:

- Providing a safe and healthy working environment for all its employees, customers and visitors
- Appointing a competent health and safety management team who will monitor and remove or reduce existing and potential hazards to health and safety as far as is reasonably practicable
- Providing equipment, training and information to all employees in order to ensure healthy, safe practices and attitudes in the workplace

The impact of Denel's robust occupational safety processes resulted in no disabling injuries occurring during the year.

Product safety

Denel applies considerable attention to the design, manufacture and maintenance of its products to ensure that customers have confidence in the group's product reliability and safety. Product safety for all business entities include:

- Ensuring that the products are safe to handle and to transport
- Developing weapons systems that are as accurate as possible when used
- Training employees on product safety

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 to the industry. Business entities have management functions that oversee the manufacturing process and have suitably qualified employees, whose main responsibility is to ensure quality and safety of all products. Safety is also ensured during production, storage, transportation, operation and disposal of products, including chemicals.

Injuries

LTIFR is the percentage of the workforce absent from work for at least one work day because of injuries (injuries per 200 000 hours worked). The LTIFR of all business entities are below 1.0. The LTIFR for each business entity is detailed in the key performance indicator table of this report (page 118).

In Denel, if an injury occurs, an investigation to identify the root cause and countermeasures are carried out. This information is shared throughout the group to prevent similar incidents from occurring at other business entities.

A number of site improvements were instituted, such as the demarcation of safe walking areas, and most busy areas had pedestrian crossings painted and stop signs erected.

Key performance indicators

Denel is committed to improving transparency on environmental performance. The group undertakes efforts to implement a consolidated reporting system at all sites. Monthly reports are compiled and include performance on health, safety and environmental aspects. SHE managers ensure that monthly statistics are compiled regarding injuries, occupational diseases and environmental incidents. The above-mentioned statistics are analysed and distributed to the relevant stakeholders.

Safety key performance indicators

		LTIFR performance			
Business entity	**EMS**	**Target 2009**	**Actual 2009**	**Actual 2008**	**Number [1]**
Aviation	The system is based on OHSAS 18001 Certification of the system is planned for 2012.	<1.0	0.7	-	264
Dynamics	The system meets the requirements of Occupational Health and Safety.	<1.0	0.2	0.1	470
DLS	The system is based on OHSAS 18001 Certification is scheduled for November 2009.	<0.8	0.5	0.5	298
DSA	The system meets the requirements of Occupational Health and Safety legislation.	<1.0	0.3	-	174
Mechem	The system is based on legal requirements.	Not measured	Not measured	Not measured	20
OTB	The system is based on OHSAS 18001 Certification is scheduled for June 2009.	<1.0	1.34	0.7	25
PMP	OHSAS 18001 certified	<1.0	0.5	0.3	978

1 *Number of employees receiving safety-related training*

GRI content index

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

Aspect	No.	GRI G3 indicator	2009 rating	2008 rating	Annual Report reference
Vision and strategy indicators					
Strategy and analysis	1.1	Statement from the Group CEO and Chairperson	◊	◊	GCEO's report and Chairman's statement
	1.2	Description of key impacts, risks and opportunities	◊	◊	Sustainability report: - Risk management - Economic impact - Business entity profiles
Organisational profile	2.1	Name of organisation	√	√	Profile
	2.2	Primary brands, products, and/or services	√	√	Profile Business entity profiles
	2.3	Operational structure of the organisation	√	√	Profile
	2.4	Location of organisation's headquarters	√	√	Profile
	2.5	Number of countries where the organisation operates	◊	X	Profile Business entity profiles
	2.6	Nature of ownership and legal form	√	√	Profile
	2.7	Markets served	◊	◊	Profile Business entity profiles
	2.8	Scale of reporting organisation	√	√	Sustainability report: - Ten-year review
	2.9	Significant changes during the reporting period	√	√	GCEO's report and Chairman statement
	2.10	Awards received in the reporting period	◊	X	GCEO's report Business entity profiles
Report profile	3.1	Reporting period for information provided	√	√	Profile Sustainability report - About this report
	3.2	Date of most recent previous report (if any)	√	n/a	Sustainability report - About this report
	3.3	Reporting cycle	√	√	Sustainability report - About this report
	3.4	Contact point for questions regarding the report or its contents	√	√	Information service - Contact details

Aspect	No.	GRI G3 indicator	2009 rating	2008 rating	Annual Report reference
Report scope and boundary	3.5	Process for defining report content	√	◊	Sustainability report - About this report
	3.6	Boundary of the report	√	√	Sustainability report - About this report
	3.7	State any specific limitations on the scope or boundary of the report	√	√	Sustainability report - About this report
	3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, etc.	√	√	Sustainability report - About this report
	3.9	Data measurement techniques and the bases of calculations	√	√	Sustainability report - About this report
	3.10	Explanation of the effect of any restatements of information provided in earlier reports	**n/a**	**n/a**	Sustainability report - About this report
	3.11	Specific changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report	**n/a**	**n/a**	Sustainability report - About this report
GRI content index	3.12	Table identifying the location of the standard disclosures in the report	√	√	GRI content index
Assurance	3.13	Policy and current practice with regard to seeking external assurance for the report	◊	**X**	Sustainability report: - About this report

Aspect	No.	GRI G3 indicator	2009 rating	2008 rating	Annual Report reference
Governance, commitments and engagement	4.1	Governance structure of the organisation	√	√	Profile Corporate governance report
	4.2	The Chairperson of the highest governance body is also an executive officer	√	√	Corporate governance report
	4.3	The number of members of the highest governance body that are independent and/or non executive members	√	√	Corporate governance report
	4.4	Provide recommendations or directions to the highest governance body	◊	◊	Stakeholder engagements
	4.5	Linkage between compensation for members of the board, senior managers, and executives, and the organisation's performance	√	√	Directors' report - Remuneration report
	4.6	Highest governance body to ensure conflicts of interest are avoided	◊	◊	Sustainability report: - Risk management report Directors' report Notes to the group annual financial statements - Related parties
	4.7	Process for determining the qualifications and expertise of the members of the board	√	X	Corporate governance report
	4.8	Statements of mission or values, codes of conduct and principles	√	√	Vision, mission and values statement Sustainability report - Risk management report
	4.9	Procedures of the board for overseeing the organisation's identification and management of economic, environmental and social performance	◊	◊	Corporate governance report
	4.10	Processes for evaluating the board's own performance	√	√	Corporate governance report
	4.12	Externally developed economic, environmental, social charters and principles	√	√	Sustainability report: - Suppliers relations - Environmental performance - Health and safety - Transformation
	4.13	Memberships in associations and/ or national/international advocacy organisations	√	√	Sustainability Report: - Compliance with laws and regulations

Aspect	No.	GRI G3 indicator	2009 rating	2008 rating	Annual Report reference
Stakeholder engagement	4.14	Lists of stakeholder groups engaged by the organisation	√	◊	Stakeholder engagements report
	4.15	Basis for identification and selection of stakeholders with whom to engage	√	◊	Stakeholder engagements report
	4.16	Approaches to stakeholder engagement	√	◊	Stakeholder engagements report
	4.17	Key topics and concerns that have been raised through stakeholder engagement	√	◊	Stakeholder engagements report
Economic indicators					
Economic performance	EC1	Direct economic value generated and distributed	√	◊	Profile sustainability report: - Economic impact - Value added statement
	EC3	Coverage of the organisation's defined benefit plan obligations	√	√	Notes to the annual financial statements
	EC4	Significant financial assistance received from the South African Government	√	√	Profile GCEO's report Directors' report
Market presence	EC6	Policy, practices, and proportion of spending on locally based suppliers	◊	◊	Sustainability report: - Supplier relations
	EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation	◊	X	Sustainability report: - Supplier relations
Indirect economic impacts	EC8	Development and impact of infrastructure investments and services for public benefit	√	X	Sustainability report: - Socio-economic development
		Significant indirect economic impacts.	√	◊	Sustainability report: - Economic impact - Value added statement
Environmental indicators					
Energy	EN3	Direct energy consumption by primary energy source	◊	X	Sustainability report: - Environmental responsibility
Water	EN8	Total water withdrawal by source	√	X	Sustainability report: - Environmental responsibility
Emissions, effluents and waste	EN22	Total weight of waste by type and disposal method	√	◊	Sustainability report: - Environmental responsibility
Products and services	EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	◊	◊	Sustainability report: - Environmental responsibility
Social indicators					
Employment	LA1	Total workforce by employment type, employment contract, and region	◊	◊	Sustainability report: - Transformation and employees
	LA2	Total number and rate of employee turnover by age group, gender and region	◊	X	Sustainability report: - Transformation and employees
Labour/ management relations	LA4	Percentage of employees covered by collective bargaining agreements	√	X	Sustainability report: - Transformation and employees

Aspect	No.	GRI G3 indicator	2009 rating	2008 rating	Annual Report reference
Occupational health and safety	LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region	◊	◊	Sustainability report: - Transformation and employees
	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: - Transformation and employees
Training and education	LA10	Total training spend by employee category	√	◊	Sustainability report: - Transformation and employees
Diversity and opportunity	LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity	√	◊	Sustainability report: - Transformation and employees
Freedom of association and collective bargaining	HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights	n/a	X	There are no operations at which the right to exercise freedom of association and collective bargaining may be at risk
Child labour	HR6	Operations identified as having significant risk for incidents of child labour	n/a	X	Denel does not use child labour
Forced and compulsory labour	HR7	Operations identified as having significant risk for incidents of forced or compulsory labour, and measures taken to contribute to the elimination of forced or compulsory labour	n/a	X	There are no incidents of forced or compulsory labour within the Denel group
Community	SO1	Nature, scope and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities	√	X	Sustainability report: - Stakeholder engagements - Socio-economic development
Corruption	SO2	Percentage and total number of business units analysed for risks related to corruption	◊	X	Sustainability report: - Risk management
	SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures	◊	X	Sustainability report: - Risk management
	SO4	Actions taken in response to incidents of corruption	◊	X	Sustainability report: - Risk management
Public policy	SO5	Public policy positions and participation in public policy development and lobbying	◊	◊	Sustainability report: - Health and safety - Compliance with laws and regulations
Customer health and safety	PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement	√	◊	Sustainability report: - Health and safety
Products and services	PR3	Type of product and service information required by procedures and percentage of significant products and services	◊	◊	Sustainability report:- - Health and safety - Compliance with laws and regulations

Turnover increased by 2.8% to R3.9bn

Gross profit improved to 16.3%

Research and development spend exceeds R1bn

Net loss for the year after losses posted by Denel Saab Aerostructures of R452.6m and Dynamics of 38.5m as well as interest on borrowings of R85.1m is R543.9m

Financial results before taking into account Denel Saab Aerostructures, Denel Missiles results and interest improves to a profit of R33m

Cash utilised during the year R1.16bn

Section five

Consolidated financial statements

Independent auditors' report

to the Minister of Public Enterprises

Report on the financial statements

We have audited the annual financial statements and group annual financial statements of Denel (Proprietary) Limited ('Group'), which comprise the directors' report, the balance sheets as at 31 March 2009, the income statements, the statements of changes in equity and cash flow statements for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 130 to 239.

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 and in the manner required by the Companies Act of South Africa and the Public Finance Management Act, No. 1 of 1999.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

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 auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 the directors, 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 2009, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa and the Public Finance Management Act, No. 1 of 1999.

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

Going concern

The group incurred a loss for the year of R543.9m (2008: R347.2m) which resulted in an accumulated loss of R4 708.5m at 31 March 2009 (2008: R4 263.1m). These conditions, along with other matters as set forth in the director's report (pages 130 to 144) 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 R280 million in respect of an estimate of costs to complete the Rooivalk programme. As detailed in the directors' report (pages 132 to 133), this programme has significant risks and other material uncertainties.

Ernst & Young Inc.

Ernst & Young Inc.
Director: Louis van Breda
Registered Auditor
Johannesburg
17 August 2009

SizweNtsaluba VSP

SizweNtsaluba VSP
Director: Rakesh Bhika
Registered Auditor
Johannesburg
17 August 2009

Report on the performance information

We have reviewed the performance information as set out on pages 62 to 67.

The directors' responsibility for the performance information

The company's directors has responsibilities as required by section 55(2)(a) of the Public Finance Management Act to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the public entity.

Auditors' responsibility

We conducted our engagement in accordance with section 13 of the Public Audit Act read with General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008. In terms of the foregoing our engagement included performing procedures to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for the findings reported below.

Findings

We have no significant findings to report.

Had we performed additional procedures or had we performed an audit or review of the financial statements in accordance with International Standards on Auditing or International Standards on Review Engagements (or relevant national standards or practices), other matters might have come to our attention that would have been reported to you.

Ernst & Young Inc.

Ernst & Young Inc.
Director: Louis van Breda
Registered Auditor
Johannesburg
17 August 2009

SizweNtsaluba VSP
Director: Rakesh Bhika
Registered Auditor
Johannesburg
17 August 2009

Report of the group audit
and risk committee in terms of regulation

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
- 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 2009 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 7 July 2009, 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

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 2009.

The directors are responsible for the preparation, integrity and fair presentation of the group annual financial statements of Denel (Pty) Ltd, its subsidiaries and associated companies. The group annual financial statements presented on pages 148 to 241 have been prepared in accordance with International Financial Reporting Standards, the South African Companies Act No. 61 of 1973 (as amended) 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.

At the time of approving the group annual financial statements, the directors are satisfied that it is appropriate to have used the going concern basis in preparing these group annual financial statements. In arriving at this assessment, the directors considered the cash position of the group at 31 March 2009, the cash requirements for at least twelve months from that date, incremental funding facilities available and funding commitments made by the Shareholder. The going concern is discussed in more detail in this report (pages 136 to 137).

The external auditors are responsible for independently auditing and reporting on the group annual financial statements. The report of the independent auditors is included as part of this annual report (pages 126 to 127).

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 audited 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 2009, and that the Code of Corporate Practices has been adhered to.

The group annual financial statements for the year ended 31 March 2009, set out on pages 146 to 239 were approved by the directors on 21 July 2009 in terms of the Public Finance Management Act, No. 1 of 1999 and the Companies Act, No. 61 of 1973 (amended), subject to securing the additional guarantee of R550m by the shareholder. As detailed in the *post balance sheet events section* on page 144, this guarantee was approved on 17 August 2009. The annual financial statements are hereby signed on behalf of the board of directors by:

Dr SP Sibisi
Chairman

MT Sadik
Group chief executive officer

The financial results of the group over the past years confirm that Denel has had significant successes in implementing its turnaround strategy since 2006, and continues to reduce its operating losses substantially. A graphical illustration of these improvements is included in the profile section of this annual report (pages 10 to 11).

This report includes discussions on key matters that we believe are pertinent to the appreciation of the current year financial results.

The nature of the group's business is described in the business entity profiles section of this annual report.

Financial and operational review

Turnover increased by 2.8% to R3.9bn from the previous year. The prior year balance includes turnover of R773m from the Munitions business that was disposed of during the year. The increase in turnover would be 18.6% when considered net of this disposal. The increase in turnover is as a result of additional Casspir vehicles; spare parts and small munitions sold, as well as higher revenue recognised from accelerated deliveries on various contracts.

The gross profit margins increased marginally from the previous year to 16.3%. This is largely attributable to the loss making legacy contracts that were completed, improved margins on a number of projects and the sale of items previously written down.

The net loss for the year increased to R543.9m (2008: R347.2m). The current year's financial results have been impacted significantly by the losses in DSA, Dynamics and interest expense on borrowings, which is illustrated in the table below:

	2009 Rm	**2008 Rm**
Net loss for the year (as reported)	(543.9)	(347.2)
Loss in DSA	452.6	143.9
Loss/(profit) in Dynamics	38.5	(65.2)
Interest expense on borrowings	85.8	67.5
Net profit/ (loss) before the above items	33.0	(201.0)

There has, however, been an improved performance by the majority of the Denel's business entities.

The net equity position is R849m after taking into account the current year net loss. This balance is substantially less than expected due to the anticipated recapitalisation which had not been concluded at year-end, refer funding section of this report for additional discussion.

Cash and short-term deposits were R489.5m, representing mainly advance payments received from customers.

DSA

DSA specialises in manufacturing aerostructures and assembling of military aircraft as detailed in the business entities' profiles section. This subsidiary has continued to post significant operating losses, and in the current year the losses were R452.6m (2008: R143.9m). There are historic operational challenges facing this business. These include legacy contracts, operational industrialisation challenges and the facility upgrade, which result in low throughput and delays in completing some of the programmes timeously.

The losses detailed above include an impairment charge to assets, of R171.5m, which is detailed in the impairment section of this report. These levels of losses place a huge funding burden on Denel, and approximately R989m has been invested in this subsidiary (in loans of R200m and investment of R789m). Owing to the precarious financial position of this subsidiary such loans were immediately subordinated in favour of other creditors trading with this business, so that should certain circumstances like liquidation arise, these loans would be paid last. At this stage, the assets of this subsidiary exceed its liabilities. The financial performance referred to above impacts the group's funding strategy and requirements, which are detailed in the funding section of this report.

There are turnaround interventions in place to return this entity to profitability. The interventions are detailed in the corporate strategy section of this report.

Dynamics Missiles

Denel Missiles is a business unit within Dynamics that specialises in the manufacture of missile-related components, design and the assembly of missiles as detailed in the business entity profile section. The losses referred to above, are due to the lack of sufficient orders, to enable the business to reach at least break-even. The business is considered strategic to the SANDF and discussions are taking place in order to increase the level of orders received. An operational efficiency review was performed recently by a reputable international and an independent firm of consultants, which confirmed that there are no operational issues, within Dynamics.

As detailed in the corporate strategy section of this report, the entity is in negotiations with a large international equity partner to conclude an equity partnership, which amongst others, is expected to address market access and return the entity to profitability.

Interest expense on borrowings

The group is funded mainly by interest-bearing borrowings, which are backed by the Government guarantees as opposed to share capital, also refer to funding section of this report. This funding arrangement has resulted in an interest expense of R85.8m (2008: R67.5m). There are initiatives underway to have the company recapitalised by the Shareholder. Should the funding application be successful, it will provide a relief to the group and positively impact the bottom line.

Contracts and provisions

Total provisions decreased by R295.7m from the previous year to R1 178.9m. The decrease is mainly attributable to the disposal of the Munitions business during the financial year under review, as well as the completion of some of the loss-making legacy contracts in Dynamics. Provisions are raised for expected losses on contracts, performance guarantees, product warranty and support, as well as employee-related payments. Provisions are reviewed and adjusted or reversed annually depending on the assessment of the risks and rewards, or if it is no longer probable that an outflow of economic benefits will be required to settle an obligation.

The contracts discussed below had a significant impact on the reported financial results, the provisions balance as at 31 March 2009, and continue to impact the group's performance:

Rooivalk

The Rooivalk contract was entered into during the 1980s with the intention to develop and manufacture an attack helicopter for the exclusive use by the SANDF. Twelve helicopters were delivered to the DoD over a period of time with the final delivery taking place 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.

Denel has faced various challenges in meeting its obligations on this contract. These are primarily linked to the extended period over which the contract has been executed and the technological advancements that have been made in the aviation industry during this time. In the 2005 financial year, Denel raised a provision of R680m relating to 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 charged against this provision and as at 31 March 2009, the balance amounted to R280m. As a standard procedure, management reviewed the estimated costs to completion, including the processes and assumption used to fulfil the obligations in accordance with the Cabinet memorandum of June 2008. Based on a legal opinion, a Cabinet memorandum is an executive decision similar, in effect, with law being passed and is binding to all who are affected by it.

In June 2008, Cabinet decided that the Rooivalk would need to meet revised functionality within the existing allocated financial resources. This would mean that the aircraft will have a scaled down weapons system in line with what would be required for an armed helicopter to support deployed operations, making it ideal for use in the SANDF peace support operations. Once achieved, this technical baseline should be maintained for a period of five years. In light of the assigned five-year life of the Rooivalk system, the existing contractual terms and conditions required revision. There has been no formal amendment to the contractual baseline, and the spares are not easily available. Four Rooivalk helicopters were released to the SAAF during the first week of October 2008, with certain flight restrictions due to unqualified software and excluded a modified main sight that was being worked on by a foreign contractor.

As with any integrated electro-mechanical system, latent defects could materialise which require remedial action by the original designer and manufacturer. In the recent past, Denel has rectified a number of these latent defects in the Rooivalk 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 revised baseline and the responsibility regarding these shortcomings. Submissions on the future required functionality of an armed helicopter, to meet expected operational challenges, are being compiled. A strategic planning session is being scheduled to formalise the remaining technical milestones and direct the expertise to critical areas.

Project 'Hoefyster'

During 2008, Denel contracted for the development and production of a new-generation infantry combat vehicle programme called 'Hoefyster' to the value of R8.3bn. To date, this is the single biggest and complex landward programme ever awarded to the South African industry. It includes five variants as part of a systems supply. As a first step, the development phase has been activated to date, to the value of approximately R1bn. The current development work involves establishing a product baseline on all the variants and support elements that will need to be available for industrialisation, this includes primarily the design specification and development models as outputs.

The production order is subject to the successful conclusion of selected milestones of the development phase as agreed with Armscor as well as the availability of funds. Owing to the nature and the size of the project, any failure to secure the second phase of this contract, approximate value of R7.3bn, may impact the ability to keep the artillery system capability within the group.

The group is confident that they will achieve the key milestones that will enable it to proceed to the second phase of the project. The development has progressed according to schedule. Certain risks have become evident that require management effort to ensure progress. These risks include:

- Complexity of the project and the ability to retain adequate technical skills to address the divergent project requirements
- Delays in the provision of customer furnished communications equipment and data to enable the system development and integration
- Taking a formal customer decision on the command and control capability to be integrated into this new combat capability

Denel has recognised revenue based on cost-to-total-cost, and the pro-rata warranty provision forms part of the actual cost. The group has, on a probability of occurrence in terms of possible hardware failure, calculated a value to cover this liability. Further detail is disclosed in note 24 of the group annual financial statements (pages 200 to 202).

Airbus A400M

Denel concluded contracts with Airbus SAS during 2005 as a subcontractor to Airbus Military SL to design and manufacture, through its subsidiary, DSA, over a 15 year period, the wing-to-fuselage-fairing, top shells and the ribs, swords and spars for the A400M military transport aircraft. The projects are valued at approximately R1.7bn, of which R198m has been recognised as revenue to date.

The business entity is a programme partner with Airbus for two of the components, and certain risks and rewards relating to these contracts are shared between Denel and Airbus. These projects require large, complex, subassembly and supply chain. The risks arise from the complexities brought about by the nature of the work and the multiple redesign requests that have been made by Airbus. In addition, on 25 September 2008 an undefined delay on the A400M programme was announced. This was largely due to the unavailability of the propulsion system, as well as issues related to the engine compatibility, load and operational capability of the aircraft. Furthermore, certain major suppliers of critical systems had been struggling with the challenging technical requirements of the aircraft.

A new programme approach was later proposed on 9 January 2009 to the launch nations. It included a need to initiate discussions around the programme schedule, as well as certain technical characteristics of this military aircraft. It was suggested that the serial production should only resume once the adequate maturity of the design has been reached based on flight test results.

There has been no formal communication of the duration of the programme delay. The launch nations are in the process of reviewing the proposals and a public announcement regarding their decision is expected in September 2009.

At year-end, the contract costs to completions were determined after taking into consideration the technical and industrial uncertainties attached to the programme. Denel has reduced the risk on the programme to the extent possible to ensure that the impact of the decision is minimised. However, significant project risks remain compounded by the significant level of judgment required in determining the key assumptions in calculating the cost to completion. These assumptions are detailed in note 1.2 of the group annual financial statements (pages 153 to 157).

The overall contract losses based on known risks are estimated to be in excess of R600m on contracted sales, and will exceed R1bn should the sales double.

Denel has provided performance guarantees in respect of its subsidiary, DSA, responsible for the delivery of this project, and details thereof are provided in note 26.4 of the group annual financial statements (page 204).

AgustaWestland A109 LUH

During 2000, Denel contracted to source raw materials, manufacture parts and perform final assembly of A109 light utility helicopters (LUH) through its subsidiary, DSA, to the value of approximately R251m, of which R228m has been recognised as revenue. The contract was part of an offset obligation due by AgustaWestland, following the acquisition by SAAF of the A109 LUH aircraft. There have been difficulties in meeting the commitments of the SAAF acquisition and the project is behind the original delivery schedule. The contract losses are estimated at R244m, and only R15m of these losses has not realised to date. Late delivery penalties of R11m have been imposed by the contractor and accounted for in the financial results to date.

A further contract was entered into to supply A109 LUHs to AgustaWestland for export to Nigeria. However, the delays in the delivery of the SAAF aircraft has resulted in the cancellation of the aspect of work relating to the final assembly. Parts manufacture for the export order, which is the major portion of the contract, is continuing. Other contracted parts, such as main rotor blades and main rotor heads are also being exported.

A number of challenges encountered in delivering the SAAF project included:

- The enormous learning curve in the delivery of the project
- Supply chain logistics for raw material and customer furnished parts
- Production difficulties impacting the assembling of helicopters

The business entity is beginning to gain control of the technical issues. The delivery of the final two aircrafts to the SAAF is expected to take place by September 2009. DSA has delivered the first export airframe to the Nigerian Air Force as contracted, with a follow-on production remaining on schedule.

Air-to-air missile

During 2007, Denel contracted to undertake the full scale engineering development of a fifth generation air-to-air missile, the A-Darter, in order to provide for the operational, as well as strategic missiles capability requirements of the Brazilian and the South African DoD. This is a joint project between South Africa and Brazil, contracted through Armscor. Successes have been noted in the recruitment of critical programme personnel, flight tests and financial performance, as well as the successful co-operation between South Africa and Brazil.

The group is confident that the project will be successful, and the focus remains on responding to technical risks, with the following three being considered priorities:

- Ensuring repeatable supply of full-specification imaging infrared detector elements. There are some design challenges that remain to be resolved in the 2010 financial year to ensure optimal performance.
- There are areas for potential optimisation in aerodynamics and flight controls. The integrated programme team is considering various trade-offs between performance enhancements and the programme schedule.
- The integration and certification of the missile on the SAAF's Gripen aircraft needs to be concluded without delay to enable closing of certain contractual issues.

The development project approximates R1.3bn, of which R520m has been recognised as revenue to date. A significant export opportunity in excess of R3bn has been identified, with management's latest target date for the contract conclusion being September 2009.

Platform assembly

Denel contracted during 2001 for the development of the gyrostabiliser platform assembly for a certain helicopter. The contract has a value of €6.5m and Denel was notified during 2008 of the customer's intention to cancel this contract. The reason for the termination was an alleged breach of the contract. The contractor pointed out that they intended to claim damages from the group following the termination of the contract. The contractor would provide full details of their claim for damages in due course, by no later than September 2009.

Management will defend Denel in any potential claim by the contractor. The costs of the alleged damages are not yet known. The contingent nature of this matter has been disclosed in note 26.2.2 of the group annual financial statements (page 203).

Impairment of assets

Impairment assessments were performed on entities within the group that demonstrated possible impairment indicators. Specific considerations that were made to areas where there was a marked decline in profitability and negative cash flows. As a result of this assessment, in the DSA and Dynamics Missiles entities, detailed impairment tests on their plant and equipment were performed. The impairment of assets testing involves making significant judgements and estimations, the relevant details are disclosed in note 1.2 of the annual financial statements.

The impairment of assets test in respect of Dynamics Missiles revealed that no impairment provision was necessary as at year-end.

An impairment of assets of R171.5m was raised as a provision in respect of DSA assets. The impairment expense is due to significant losses that are being posted by DSA, and the resulting negative cash flows.

Funding

As stated in the 2008 annual report, Denel made an application for the balance of the recapitalisation. As an interim measure, while the Shareholder was considering the request to recapitalise the company and the completion of the Denel 'future state' process, government guarantees of R420m and R880m were provided to enable the group to borrow from the open market. On the strength of these guarantees, the group raised borrowings of R1.3bn, under the R2bn Domestic Medium Term Note (DMTN) programme. This enabled the group to fund its operations during the financial year under review.

The group's borrowings at 31 March 2009 were R871.7m (2008: R148.6m) in respect of notes issued at an average interest rate of 12.3% (2008: 11.1%), that have a coupon value of R880m.

Owing to the delay in the renewal of the R420m guarantee that expired on 31 March 2009, notes worth R420m were repaid on 31 March 2009. Following Denel's presentation to the Guarantee Certification Committee (GCC), the guarantee of R420m was subsequently extended to 31 March 2010.

Denel successfully applied for a renewal of the R880m guarantee and this was extended to 31 March 2010. In addition, a new Government guarantee of R550m has been approved for issue refer to post balance sheet events on page 144. The current Government guarantees together with the new Government guarantee will bring the total guarantees to R1.85bn. These guarantees will enable the group to raise borrowings to address any liquidity concerns during the forthcoming financial year.

Denel will apply to the shareholder for the recapitalisation of the group during the 2010 financial year.

Going concern

At the time of embarking on the restructuring process in 2006, Denel stated that the cost to close the group down would amount to R13bn (in 2006 Rand terms). This was subsequently revised to R18bn when the impact of the Airbus contracts was revealed, whilst the successful implementation of the turnaround strategy would require the Shareholder to inject R5.2bn. As detailed in previous annual reports, the group received R3.5bn and has achieved significant successes in its restructuring process. This is evidenced by the group's improved financial performance, where its loss at 31 March 2009 amounted to R543.9m compared to a loss at 31 March 2005 of R1.6bn. The group is solvent with shareholders equity of R849m at 31 March 2009 with cash and short-term deposit balances of R489.5m. As detailed in the funding section of this report, Denel's debts are secured by Government guarantees. Denel exited its non-core businesses, settled its five year Corporate Bond, and concluded equity transactions with leading global defence companies, the benefits of which are demonstrated in the successful turnaround of the relevant entities (refer to the business entity profiles section).

Denel is a high working capital investment company due to the long term nature of the contracts it enters into that require ongoing funding. In addition, there are additional risks relating to meeting the 2010 financial year targets due to the emergence of the global financial crisis. The issues identified include:

- There is a risk that contracts with international customers may be deferred.
- Financial constraints and competing priorities at customer level that may affect certain contracts that the group is in the process of concluding.
- The strengthening of the Rand against major currencies is likely to negatively impact future revenues.
- It is becoming increasingly difficult to timeously secure bank guarantees. This is as a result of banks reducing credit limits on each other and corporates.

Therefore, the low shareholders' equity level poses a significant risk to the group's solvency. These developments highlight a need to have the company adequately recapitalised. As detailed under funding section of this report, there are initiatives to have the company recapitalised.

The directors reviewed the cash flow requirements of the group for the next 12 months, and are satisfied that the group will be adequately funded with no liquidity risk. The review is based on the assumption that the total Government guarantees referred to under the funding section are extended when they fall due. The directors have also considered the risk of access to funding should guarantees be rolled over. Denel has been able to raise money on the market based on the Government guarantees and, based on information available at this stage. This trend is assumed to continue.

In evaluating the appropriateness of the going concern assumptions used in preparing the group annual financial statements, the directors focused on funding commitments made by the Shareholder, cash requirements for 12 months from the balance sheet date, the solvency and cash position of the group at year-end, and available funding facilities.

In addition to the matters discussed above, the directors considered in particular the following:

- The solvency position of the group as at 31 March 2009, and the fact that the forecasted shareholder's equity for the 2010 financial year remains positive.
- 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.
- Government guarantees for R1.3bn to support the short-term borrowings were extended subsequent to year-end to meet the funding requirements of the group for the 2010 financial year. An additional Government guarantee of R550m has been approved to fund working capital requirements for the 2010 financial year.
- The cash flow forecast incorporating the cash on hand at year-end, the cash receivable from the short-term funding and the cash receivable from either the recapitalisation requested from the Shareholder or on rolling over of the existing guarantees plus the new guarantee discussed above, are expected to have a positive cash status as at 31 March 2010.

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 to 31 March 2010. The group annual financial statements were therefore prepared on this basis. The ability of the group to continue as a going concern in the long-term is dependent on:

- The successful implementation of the turnaround strategy, which is expected to restore the group to profitability on a sustainable basis.
- The implementation of the recommendations of the Cabinet appointed task team (referred to as the Denel 'future state').
- The ability of the Shareholder to support the group financially.
- Either receiving the balance of recapitalisation and interest costs or rolling over and issuing of guarantees as may be appropriate.

Should the interventions referred to above be unable to 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.

Corporate strategy review

Denel continued to aggressively implement its turnaround strategy using its five strategic drivers. The goals and targets of the five drivers, supported by people and transformation, have been entrenched in the group's operating procedures and processes to ensure that the turnaround is monitored on an ongoing basis.

Denel was restructured across all business entities, human capital development processes were embedded, risk and governance principles were implemented or improved, and key operational functions and productivity were stabilised.

In terms of equity partnerships:

- The transaction with Rheinmetall Waffe Munition GmbH, which acquired a 51% stake in the Denel's Munitions business, was successfully concluded during the course of the year. This business is projected to turn around in the forthcoming financial year.
- The equity partnership that entailed Carl Zeiss Optronics acquiring 70% of Denel Optronics, concluded during 2007, is showing positive results with a significantly reduced net loss of R21m for the year. The cash burn rate has been contained and the return to profitability of this business is expected by 30 September 2009.
- An earlier equity partnership with the SAFRAN Group (Turbomeca Africa) is continuing to yield good financial results.
- DSA has not turned around as this entity continues to post losses, and the delay of the Airbus A400M programme is a major concern. A turnaround drive and an exercise to minimise the risk is underway at DSA. In addition, interventions are being implemented to return the company to profitability. A reputable consultancy firm has been appointed to assist DSA management in implementing the turnaround.
- The other risk area is Denel's missiles business and discussions are at an advanced stage to conclude an equity partnership in this business. These discussions involve a large international equity partner, and it is anticipated that the transaction will bring about a turnaround in this entity, contain cash burn and improve profits. There are open issues that are being negotiated in order to finalise the equity transaction. These include:

    - Concluding the shareholding split, board and management control.
    - Finalising the purchase order commitments from both the acquirer and the seller to ensure sustainability of the entity
    - Agreeing on matters pertaining to warranties, indemnities and limitation of liabilities

Denel is moving towards a growth phase, with a growth strategy having been developed and submitted to the Shareholder subsequent to the year-end. The refinement of the strategy is to ensure increased vigour in terms of achieving efficiencies, growth and customer centricity as detailed in the group chief executive's report (pages 20 to 23). In light of the global financial crisis, the growth strategy is to ensure that there is a concerted effort placed on increasing revenues. In addition, it is to position the company as a prestigious South African entity over the next five years, serving the needs of its primary customer, the SANDF, as well as other key customers.

Other significant matters

Denel Medical Benefit Trust

Denel provides a post-retirement medical subsidy to current and former employees, who were appointed prior to April 2000. The beneficiaries of this subsidy include employees of companies that were separated from the group. The assets earmarked to meet the funding liability arising there from are housed in the Denel Medical Benefit Trust that was established in 2002. The assets and liabilities of the trust are held and accounted for in a separate set of records that are in the name of the Trust, and are not included in the group annual financial statements.

Denel has a financial exposure due to longevity and investment risk, as it is expected to fund actuarial losses that may arise.

Owing to these risks, the group is in the process of implementing a voluntary settlement that will ensure that the financial risk to the group terminates, whilst the qualifying employees continue to receive the benefit. In addition, general trends indicate that companies are moving away from offering defined benefits. The group plans to de-register the Trust once all beneficiaries have terminated their membership.

The actuarial value of the fund and other disclosures are provided in note 33.2 of the group annual financial statements.

Denel Pension Fund

The trustees of the Denel Pension Fund, a closed defined benefit pension fund of which, the group is a principal employer, approved a strategy for establishing a pensioner alone fund. They relinquished Denel from its current and any future pensioner and active member liability towards the fund.

Indications are that there is a surplus in this fund, which will be shared equally between the group and the members of the fund. This matter is expected to be finalised during the 2010 financial year, subject to certain approvals.

Medical aid scheme

Denel is one of the participating employers of a closed medical aid scheme. This medical aid scheme has been posting financial losses over the past three financial years. The board of trustees of the medical aid scheme have approved an amalgamation with another medical aid scheme in order to address the ongoing financial performance issues.

During the year under review, Denel was requested to fund the scheme to the extent of R180m to facilitate the said amalgamation. In responding to this request, the group advised that it has no obligation to fund the scheme. In addition, the group faces its own financial performance and cash flow challenges; therefore, it could not afford to appropriate such funds.

Directors

Mr S Liebenberg, the group chief executive officer did not renew his contract when it expired on 31 May 2008. Mr MT Sadik, the then group financial director was appointed as acting chief executive officer, and confirmed as the group chief executive officer in October 2008.

Ms N Nyembezi-Heita was a non-executive member of the board until 4 September 2008, whilst Dr GC Cruywagen, Mr E Godongwana, Ms N Maliza, Ms D Vallabh were appointed as non-executive members on the same day.

Mr F Mhlontlo was appointed group financial director and member of the board on 1 November 2008.

The board of directors and executive committee, together with their profiles are set out in the *corporate governance report* on page 56, and the *executive* section on pages 24 to 27.

Remuneration

The Personnel and Remuneration Committee's mandate is to review the design and management of Denel's remuneration and reward principles, policies and implementation strategies so as to:

- Ensure that the company's executive directors and senior executives are competitively rewarded for their individual contribution to the company's overall performance
- Demonstrate to all stakeholders of Denel that the remuneration for senior executives is not determined by the senior executives themselves
- Disclose to stakeholders that governance procedures are in place to appoint executive directors and senior executives of the company
- Ensure that performance of senior executives and executive directors is duly reviewed in accordance with the *shareholder's compact*

In doing this, the Personnel and Remuneration Committee ensures that there is:

- A group remuneration committee's and reward policy governing basic pay, benefits and variable pay
- Maintenance of a group performance management system and processes that allows for assessment of performance
- A formal process for the appointment of executive directors and senior executives.

The personnel and remuneration committee's scope of responsibilities is detailed in the committee's terms of reference, and are reviewed and approved annually by the board.

Executive remuneration reviews

The Personnel and Remuneration Committee reviews the remuneration of the group executive officer, the executive committee members and the chief executive officers of the business entities. In reviewing the remuneration of senior executives, the committee considers market benchmarks, internal pay parity, individual performance, as well as the guidelines on remuneration provided by the Department of Public Enterprises for SOEs.

Fixed pay

The fixed remuneration either paid or accrued to the executive directors and executive committee members are disclosed below:

Management and Executive Directors	Remuneration R'000	Allowances R'000	Other R'000	Loss of office R'000	Contributions made R'000	Total R'000
2009						
Mr MT Sadik[1]	2 562	347	2 475	-	290	5 674
Mr S Liebenberg[2]	771	77	-	-	61	909
Mr F Mhlontlo[3]	1 114	53	-	-	132	1 299
Ms AC Kinley[4]	642	32	-	-	49	723
Ms ML Lephadi[5]	856	113	-	-	99	1 068
Mr JV Morris[6]	629	40	-	-	76	745
Ms TP Mushungwa	829	146	-	-	120	1 095
Mr ZN Ntshepe	884	186	-	-	116	1 186
Mr OA Schür	908	96	-	-	91	1 095
Ms T Swiegelaar[7]	668	31	-	-	69	768
Total	9 863	1 121	2 475	-	1 103	14 562

Management and Executive Directors	Remuneration R'000	Allowances R'000	Other R'000	Loss of office R'000	Contributions made R'000	Total R'000
2008						
Mr MT Sadik	2 014	162	-	-	238	2 414
Mr S Liebenberg	3 415	462	-	-	380	4 257
Ms PC Baloyi	344	43	-	382	48	817
Mr HM Ivy	769	95	-	-	123	987
Ms AC Kinley	1 513	96	-	-	145	1 754
Ms TP Mushungwa	539	144	-	-	90	773
Mr ZN Ntshepe	665	184	-	-	98	947
Ms CVV Ramphele	230	50	-	-	40	320
Mr OA Schür	61	7	-	-	7	75
Mr JMS Sekhasimbe	99	28	-	1 755	14	1 896
Ms T Swiegelaar	986	54	-	-	113	1 153
Total	10 635	1 325	-	2 137	1 296	15 393

1 *Payment of R2.5m was made to effect a cancellation of a long-term incentive contract, and the amount is based on completed years in proportion to the contract term. This was cancelled due to a change in his employment conditions following his appointment as group chief executive officer.*

2 *Resigned as group chief executive officer, 1 June 2008*

3 *Appointed to the Executive Committee, 6 October 2008*

4 *Resigned from the Executive Committee, 1 August 2008*

5 *Resigned from the Executive Committee, 1 April 2009*

6 *Appointed to the Executive Committee, 1 November 2008*

7 *Resigned from the Executive Committee, 1 November 2008*

Variable pay

The committee also reviews and recommends to the board, for approval of the variable pay based on the policy. Variable pay is a portion of employees' salary packages that is at risk and is linked to the performance of Denel, and the employees only qualify once the entity has met certain performance targets.

During the year, the board approved that the HAY Job Grading System be used to evaluate the size and impact of positions, to determine the eligibility for the variable pay allocation. Prior to this decision, the criteria as to who was eligible for a portion of their salary which is based only on the reporting structure, ie executive committee members 40%, senior managers 20% and other employees 10%.

The key performance areas are based on the group's five strategic drivers forming part of the performance management system. Stretch performance targets were introduced for the new financial year for variable pay purposes.

The variable remuneration either paid or accrued to the executive directors and executive committee members are disclosed below:

Management and Executive Directors	2009 R'000	2008 R'000
Mr MT Sadik	1 653	1 236
Mr S Liebenberg	-	4 095
Ms PC Baloyi	-	184
Mr HM Ivy	-	390
Mr F Mhlontlo	639	-
Ms AC Kinley	238	715
Ms ML Lephadi	-	-
Mr JV Morris	298	-
Ms TP Mushungwa	480	264
Mr ZN Ntshepe	480	371
Mr OA Schür	480	-
Ms T Swiegelaar	-	457
Total	4 268	7 712

Long-term incentives

Denel is in the process of developing a long-term incentive scheme for executives and selected employees who have been identified in the critical skills matrix. The proposed long-term incentive will be presented to the Personnel and Remuneration Committee for recommendation to the board during the forthcoming financial year in accordance with the Department of Public Enterprises' Guidelines on Remuneration published in August 2007. Such a scheme would enhance the group's ability to attract, and most importantly, retain the right executive and critical technical skills, thereby enabling Denel to achieve its long-term business goals.

Non-executive directors' remuneration

The Personnel and Remuneration Committee reviews fees that the group pays to non-executive directors. Market benchmarks and DPE's remuneration guidelines are used to determine and make recommendations on non-executive directors' fees. These recommendations are presented at the annual general meeting of the company's Shareholder for approval.

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

Directors	2009 R'000	2008 R'000
Dr SP Sibisi (Chairman)	715	650
Ms CC Mulder	218	67
Ms S Chaba	194	63
Dr GC Cruywagen[1]	51	-
Mr E Godongwana[1, 4]	-	-
Dr BG Halse[5]	72	40
Mr LC Jones	227	39
Mr RN Kunene	283	56
Ms N Maliza[1]	36	-
Ms N Nyenbezi-Heita[2]	26	48
Mr MS Phalatse	260	71
Mr CML Savage	181	59
Ms T Seretse	143	56
Ms D Vallabh[1]	81	-
SUBTOTAL	2 487	1 149
Mr NR Boqo[3]	46	10
TOTAL	2 533	1 159

1 *New member appointed at AGM on 4 September 2008*

2 *Resigned at AGM on 4 September 2008*

3 *External independent member of the Group Audit and Risk Committee*

4 *Resigned on 11 May 2009*

5 *Has donated his director's emoluments to DCLD*

Subsidiary and associated companies

The interests in subsidiary and associated companies are set out as part of the group annual financial statements in note 35 (pages 238 to 239).

Subordination agreements

Denel has in addition to loans subordinated to DSA of R200m, subordinated loans to the value of R184.6m (2008: R182m) 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.

Capital expenditure

The board approved capital expenditure of R379.5m (2008: R328m), while R292.1m (2008: R270.4m) was utilised mainly to upgrade the business entities production facilities. A further R183m has been approved for the following year.

Share capital and share premium

The authority to issue shares vests with the Shareholder. Directors do not have the authority to issue shares of Denel (Pty) Ltd. There has been no change in the authorised share capital of the company for the financial year under review.

Dividends

No dividend was recommended for the 2009 financial year.

Auditors

The group annual financial statements are audited jointly by Ernst & Young and SizweNtsaluba VSP. The statutory auditors for the forthcoming years will be confirmed at the AGM scheduled for 18 August 2009.

Group company secretary

The Group Company Secretary for the period under review was Ms Mmathoto Lephadi and her business and postal addresses during the year were:

Denel	PO Box 8322
Nellmapius Drive	Centurion
Irene	0046

The roles and responsibilities of the Group Company Secretary are to ensure the board's compliance to legislation and provide guidance of best governance practices. Details are provided in the corporate governance report (page 68).

Compliance with laws and regulations

The group has complied in all material respects with the provisions of the PFMA, Companies Act and other applicable legislation.

Post-balance sheet events

In order to ensure completeness of post-balance sheet events, all material matters affecting the group, between the balance sheet date and the date of approval, were taken into account.

The following matters arose between 31 March 2009 and 21 July 2009:

- The government guarantees of R420m and R880m were renewed to 31 March 2010, on 1 April 2009 and 28 May 2009 respectively, to enable the group to issue notes of the same amount to be rolled over.
- Ms M Lephadi, a company secretary, resigned effective 1 April 2009.
- Written correspondence was received from the Shareholder on 4 June 2009 stating that the issuance of a new guarantee of R550m has been approved, and it is in the process of obtaining concurrent approval by National Treasury as required by PFMA.
- Mr E Godongwana, a non-executive director of Denel, resigned effective 11 May 2009.
- On 17 August 2009, the Shareholder confirmed that the Government guarantee of R550m has been approved.


100 000
1243

Consolidated balance sheet

as at 31 March 2009

		Group		Company	
	Notes	2009 Rm	2008 Rm	2009 Rm	2008 Rm
ASSETS					
Non-current assets		1 850.4	1 475.8	1 867.5	1 661.3
Property, plant and equipment	9	712.2	966.9	569.5	761.4
Investment properties	10	364.2	117.1	364.2	117.1
Intangible assets	11	63.2	31.5	63.2	31.5
Investments in subsidiaries	12			157.3	433.8
Investments in associated companies	13	465.7	91.3	476.9	81.2
Loans receivable	14	10.0	14.5	10.0	14.5
Deferred tax assets	15	235.1	254.5	226.4	221.8
Current assets		3 106.8	3 606.8	2 271.0	2 885.0
Inventories	16	878.8	1 072.2	499.7	684.3
Trade and other receivables	17	1 464.7	1 405.1	1 078.3	1 161.5
Reinsurance asset	18	18.7	17.2		
Other financial assets	19.1	52.7	148.7	52.7	135.8
Cash and short-term deposits	20.1	489.5	879.5	437.9	819.3
Treasury asset	20.2	202.4	84.1	202.4	84.1
Non-current assets held for sale	5.3	9.0	57.7	-	23.3
Total assets		4 966.2	5 140.3	4 138.5	4 569.6
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the parent					
Issued capital	21	1 225.1	1 225.1	1 225.1	1 225.1
Share premium	21	4 251.3	4 251.3	4 251.3	4 251.3
Other reserves		49.7	11.9	48.6	10.9
Accumulated loss		(4 708.5)	(4 263.1)	(4 976.8)	(4 223.1)
Total equity attributable to equity holders of the parent		817.6	1 225.2	548.2	1 264.2
Minority interests	22	31.4	102.3		
Total equity		849.0	1 327.5	548.2	1 264.2
Non-current liabilities		671.8	720.9	591.0	664.3
Interest-bearing loans and borrowings	23	52.9	0.8	0.1	0.8
Provisions	24.1	385.9	481.3	364.5	441.7
Deferred tax liabilities	15	233.0	238.8	226.4	221.8
Current liabilities		3 445.4	3 080.7	2 999.3	2 641.1
Trade and other payables	25	843.8	753.0	543.8	583.0
Other financial liabilities	19.2	57.1	184.7	43.9	182.0
Interest-bearing loans and borrowings	23	1 074.5	234.2	1 074.5	234.2
Advance payments received	26.1	675.0	902.3	644.8	861.9
Provisions	24.2	793.0	993.3	692.3	780.0
Income tax payables		2.0	13.2	-	-
Liabilities directly associated with the assets classified as held for sale	5.3	-	11.2	-	-
Total liabilities		4 117.2	3 812.8	3 590.3	3 305.4
Total equity and liabilities		4 966.2	5 140.3	4 138.5	4 569.6

Consolidated income statement

for the year ended 31 March 2009

	Notes	Group 2009 Rm	Group 2008 Rm	Company 2009 Rm	Company 2008 Rm
CONTINUING OPERATIONS					
Revenue	2.1	4 051.5	3 894.3	3 096.2	3 213.3
Turnover	2.2	3 923.7	3 818.1	2 915.0	3 050.9
Cost of sales	3	(3 285.2)	(3 218.6)	(2 249.6)	(2 481.9)
Gross profit		638.5	599.5	665.4	569.0
Other income	4	182.8	249.8	228.2	298.2
Other operating expenses	3	(1 284.4)	(1 082.0)	(1 558.8)	(912.4)
Operating loss		(463.1)	(232.7)	(665.2)	(45.2)
Finance costs	7.1	(150.4)	(136.6)	(177.9)	(181.6)
Finance income	7.2	77.1	76.1	81.4	73.7
Share of profit/(loss) of associated companies	13	31.7	(23.1)		
Loss before tax		(504.7)	(316.3)	(761.7)	(153.1)
Income tax expense	8	(39.2)	(5.0)	-	-
Loss for the year from continuing operations		(543.9)	(321.3)	(761.7)	(153.1)
Discontinued operations					
Loss after tax for the year from discontinued operations	5.1	-	(25.9)	-	(0.5)
Loss for the year		(543.9)	(347.2)	(761.7)	(153.6)
Loss for the year is attributable to:					
Equity holders of the parent		(453.4)	(334.5)		
Minority interest		(90.5)	(12.7)		
		(543.9)	(347.2)		

Consolidated statement of changes in equity

for the year ended 31 March 2009

	Notes	Attributable to equity holders of the parent Issued capital Rm	Share premium Rm	Revaluation reserves [1] Rm	Contingency reserves [2] Rm
GROUP					
Balance at 31 March 2007		1 016.4	3 527.0	43.3	0.7
Shares issued	21	208.7	724.3		
Shares issued by subsidiary to minority shareholders					
Transfer to accumulated loss	9			(32.4)	0.3
Loss for the year					
Balance at 31 March 2008		1 225.1	4 251.3	10.9	1.0
Shares issued by subsidiary to minority shareholders					
Revaluation of property, plant and equipment on transfer to investment properties	9			45.8	
Transfer (from)/to accumulated loss	9			(8.0)	-
Minority interest in subsidiary disposed	22				
Loss for the year					
Balance at 31 March 2009		1 225.1	4 251.3	48.7	1.0
COMPANY					
Balance at 31 March 2007		1 016.4	3 527.0	43.3	-
Shares issued	21	208.7	724.3		
Transfer (from)/to accumulated loss				(32.4)	
Loss for the year					
Balance at 31 March 2008		1 225.1	4 251.3	10.9	-
Revaluation of property, plant and equipment on transfer to investment properties	9			45.7	
Transfer (from)/to accumulated loss	9			(8.0)	-
Loss for the year					
Balance at 31 March 2009		1 225.1	4 251.3	48.6	-

[1] *The revaluation reserves relates to fair value adjustments made to property, plant and equipment on reclassification 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 equity holders of the parent			
Accumulated loss Rm	Total Rm	Minority interest Rm	Total equity/ (deficit) Rm
(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
	-	27.2	27.2
	45.8		45.8
8.0	-	-	-
	-	(7.6)	(7.6)
(453.4)	(453.4)	(90.5)	(543.9)
(4 708.5)	817.6	31.4	849.0
(4 101.9)	484.8		
	933.0		
32.4	-		
(153.6)	(153.6)		
(4 223.1)	1 264.2		
	45.7		
8.0	-		
(761.7)	(761.7)		
(4 976.8)	548.2		

Consolidated cash flow statement

for the year ended 31 March 2009

	Notes	Group 2009 Rm	Group 2008 Rm	Company 2009 Rm	Company 2008 Rm
OPERATING ACTIVITIES					
Net cash flows (used)/from operating activities		(807.1)	72.0	(419.2)	258.8
Cash receipts from customers		3 742.3	3 820.5	2 922.5	3 045.1
Cash paid to suppliers and employees		(4 408.8)	(4 145.0)	(3 270.5)	(3 268.2)
Cash utilised in operations	27.1	(666.5)	(324.5)	(348.0)	(223.1)
(Decrease)/increase in advance payments received		(134.1)	422.2	(123.8)	450.3
Finance expenses		(48.8)	(80.2)	(76.3)	(125.2)
Finance income		75.5	70.6	79.8	68.2
Dividend received	4	-	-	49.1	88.6
Income tax paid		(33.2)	(16.1)	-	-
INVESTING ACTIVITIES					
Net cash flows (used)/from investing activities		(357.2)	149.5	(683.7)	24.1
Purchase of property, plant and equipment	9	(292.1)	(270.4)	(142.5)	(107.4)
Proceeds from sale of property, plant and equipment		2.9	443.6	1.9	442.8
Purchases of investment properties	10	(5.0)	-	(4.9)	-
Proceeds from sale of investment properties		35.7	175.1	35.7	58.2
Purchase of intangible assets	11	(38.9)	(27.6)	(38.9)	(26.2)
Receipt of loans receivable		5.0	8.1	5.0	8.1
Proceeds on disposal of entities	27	5.0	27.8	5.0	44.7
Cash included in business entities disposed	27	(21.0)	(213.0)	(21.0)	(35.1)
Repayments of loan advance to associated companies		24.7	5.9	24.7	5.9
Acquisition of additional shares in an associated company		(73.5)	-	(73.5)	-
Acquisition of additional shares in a subsidiary				(136.0)	(459.5)
Proceeds from reduction in share investment in subsidiary				26.6	-
Advances to subsidiaries				(365.8)	92.6
Net cash flows before financing activities		(1 164.3)	221.5	(1 102.9)	282.9
FINANCING ACTIVITIES					
Net cash flows from financing activities		892.6	399.5	839.8	334.0
Repayments of interest-bearing borrowings		(570.2)	(832.2)	(570.2)	(831.7)
Proceeds from interest-bearing borrowings		1 344.5	148.6	1 291.7	148.6
Proceeds from share capital issued		-	933.0	-	933.0
Proceeds from minority shareholder		-	66.0	-	-
Increase in cash managed on behalf of associated companies		118.3	84.1	118.3	84.1
Net (decrease)/increase in cash and cash equivalents		(271.7)	621.0	(263.1)	616.9
Cash and cash equivalents:					
At the beginning of the year		963.6	338.4	903.4	286.5
Cash movement of business entities held for sale		-	4.2	-	-
At the end of the year	20	691.9	963.6	640.3	903.4

Notes to the group annual financial statements

for the year ended 31 March 2009

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 2009 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 a significant effect on the group annual financial statements and estimates with a significant risk of material adjustment in the following 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. The group has adopted the following new and amended IFRS and IFRIC interpretations during the year:

Standard/ interpretation	Title	Impact and application
IAS 39 & IFRS 7	*Reclassification of Financial Assets (Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures)*	The group does not reclassify financial assets as allowed by the standard, as there are no circumstances that warrant it
IFRIC 11	*IFRS 2 - Group and Treasury Share Transactions*	The group does not have any treasury share transaction, therefore the interpretation is not applicable
IFRIC 12	*Service Concession Arrangements*	The group does not have any service concession arrangements, therefore the interpretation is not applicable
IFRIC 14	*IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction*	The group does not recognise any defined benefit assets, therefore the adoption of the interpretation has no impact

The adoption of these standards and interpretations did not have any effect on the financial performance or position of the group or on any additional disclosure, as no events occurred that these standards and interpretations relate to.

The following changes have been made to the disclosure of the comparatives of cash and cash equivalents:

	Currently disclosed		Previously disclosed	
	Group Rm	Company Rm	Group Rm	Company Rm
Balance sheet				
Cash and short-term deposits	879.5	819.3	963.9	903.4
Treasury asset	84.1	84.1	-	-
Notes to the annual financial statements				
Refer to notes 20, 31.3 and 31.4				

The group reclassified the disclosure of the cash managed on behalf of associated companies as *Treasury assets* and disclosed it as a separate line item on the balance sheet. Previously, this amount was included in the amount disclosed as *cash and short-term deposits*. The cash is currently held in the group's name as the associated companies' banking facilities are not yet in place. The amount has been separated to ensure that there is no misinterpretation with respect to the group's cash position.

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's business 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 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, investment 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 resulting in gains and/or losses for the group, are recorded in the income statement.

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 manner 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 impact 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 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.
- Technical obsolescence on aircraft and missile contracts where rapidly changing technology may result in a re-engineering requirement on these systems.

Impairment of property, plant and equipment

The group's impairment tests for property, plant and equipment are based on both a value in use calculation that uses a discounted cash flow model, and fair value less cost to sell that uses the fair value of the assets less the estimated costs of disposal.

For the value in use calculation, the cash flows are derived from the budget for the next five years and do not include restructuring activities that the group is not yet committed to or significant future investments that will enhance the asset base of the cash generating unit being tested. The recoverable amount is most sensitive to the rate used for the discounted cash flow model, which includes the expected future cash inflows and growth rate used for extrapolation purposes. The rate used to discount the future cash flow was 13.0%, determined based on the current RSA 157 bond rate, long-term inflation rate of 5% and adjusted for entity and industrial specific risks.

The cash-generating units where indications of impairment exist are Dynamics Missiles and Denel Saab Aerostructures.

Dynamics Missiles

This Dynamics business unit posts losses and will continue to do so unless new business is secured. As at year-end, negotiations were at an advanced stage with a potential equity partner, a key global player in the missiles business, which is expected to give this business unit access to new markets. A five year business plan was drafted for the new entity, with input from both management and the potential equity partner. This business plan was used to assess impairment of the assets based on value in use and incorporates the following key assumptions:

- The envisaged transaction will be concluded during the 2009/10 financial year.
- The order cover required to return the business unit to profitability and sustainability will be secured following the equity transaction.

The value in use calculation indicates that the assets are not impaired and, therefore, no impairment of the assets of the business unit is necessary.

Refer to the directors' report for further information on this equity transaction.

Denel Saab Aerostructures

The property, plant and equipment in relation to the group's subsidiary were impaired by R171.5m following a test for impairment triggered by the significant decline in actual net cash flows and a significant increase in operating losses posted.

The recoverable amount of the subsidiary's assets was determined based on a fair value less cost to sell calculation, as this amount was higher than the value in use. The fair value less cost to sell model has been applied by adjusting the value of certain newly acquired items of plant and equipment by the estimated costs of disposal and a risk factor pertaining to the disposal. The recoverable amount is most sensitive to the following assumptions:

- Shipping costs
  In the event of disposal, management believes that it is more likely that any potential buyers of the property, plant and equipment would be foreign. Shipping costs have been determined based on the average transport costs incurred for newly acquired assets increased by a factor of 5%.
- Risk factor of disposal
  Management has considered the possibility that, should the need arise, there may be a degree of difficulty experienced in disposing the assets. There is no comparable market information and a risk factor of 25% has, therefore, been applied to reduce the fair value less cost to sell each item of property, plant and equipment. Where there is no likelihood of being able to dispose the asset or the likelihood that the disposal costs of the assets outweighs the net book value of such assets, the full carrying value of such assets was impaired.

Sensitivity to change in assumptions

Management has considered whether there are any reasonably possible changes in the key assumptions which could cause a significant movement in the amount of the impairment loss recognised. The implications of the key assumptions are discussed below:

- The shipping costs have remained fairly stable over the past few years and management are not expecting any reasonably possible change which would have an impact on the impairment loss recognised.
- Management recognises the fact that the specialised nature of the aerospace industry coupled with the current global crisis can have a significant impact on the buying power of any potential customers. This business entity is currently implementing its turnaround strategy. Should this strategy not be successful, a forced sale may take place. An increase of the risk factor to 50% would further increase the impairment loss by R63.0m.

Rooivalk contract

The provision for the contract loss of R280 million at year-end has been determined based on the obligations arising from the cabinet memorandum (decision) of June 2008, representing both the customer and the Shareholder. It is no longer based on the original contract. In terms of a legal opinion obtained, a cabinet memorandum is an executive decision similar in effect with law passed and is binding to all who are affected by it. Management made certain assumptions regarding scope in determining the provision as the cabinet memorandum did not provide for that level of detail. Discussions between the parties are in process and it is expected to be agreed in the near future and will result in either a CVO or a new contract.

Airbus A400M contract

The contract costs to completion on the A400M contract have been calculated based on management's best estimates taking into account the technical and industrial uncertainties attached to the programme. A delay of 3 years has been factored into the calculations.

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%, and is determined at the quotation phase and is reviewed on a regular basis.

Site restoration

Certain business entities 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.

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, based on CPI, 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.

Countertrade

The group endeavours to fulfil its countertrade obligations as indicated in note 26.7 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 countertrade 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 countertrade 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 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, rebates and discounts.

Revenue from the sale of goods is recognised in the income statement 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.

Long-term contracts

Contract revenue and costs relating to long-term construction contracts are recognised in the income statement 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 are probable of being recovered, while contract costs are recognised in the period in which they are incurred. Depending on the nature of the contract, the stage of completion is determined as follows:

- For 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 with 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 interrelated such that they are, in effect, part of a single project with an overall profit margin.

Contract revenue comprises:
- The initial amount of revenue agreed in the contract; and
- Variations in contract work and incentive payments:
  - To the extent that it is probable that they will result in revenue; and
  - They are capable of being reliably measured.
- 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:
  - Negotiations have reached an advanced stage such that it is probable that the customer will accept the claim; and
  - 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 the income statement.

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 the income statement as an integral part of the total rental income.

Finance income and expense

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 expense on borrowings, unwinding of the discount on provisions and impairment losses recognised on financial assets. All borrowing costs are recognised in the income statement using the effective interest method.

Other income

Other income is any income that accrues to the group from activities that are not part of the normal operations and is recognised as it is earned.

Dividends

Revenue is recognised in the income statement when the right to receive the 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 its subsequent disposal.

Assets are classified as non-current assets held for sale if the carrying amount would be recovered principally through sale and not continuing use. A business entity to be partially disposed, which remains to be consolidated, is not classified as held for sale.

Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is done in accordance with applicable IFRSs. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell to its subsequent disposal.

Impairment losses on initial classification as held for sale are included in the income statement. Gains, limited to previously recognised impairment losses and losses on subsequent measurement, are included in the income statement.

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 the income statement 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 the income statement, 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 the income statement 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 the income statement 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 a 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 the income statement 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.

Trade and other payables

Trade and other payables are stated at amortised cost. Gains and losses on the derecognition process are recognised in the income statement.

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 the income statement. 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. The group contracts in various currencies based on the preference and location of the client. 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 the income statement. 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 the income statement.

1.3.6 Foreign currencies

Functional and presentation currency

Items included in the financial statements of each of the group's business entities are measured using the currency of the primary economic environment in which the business entity operates (the functional currency). *The group annual financial statements* are presented in Rands, which is the group'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 the income statement. 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 values 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 value are recorded in the income statement. 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 properties is accounted for as described in the revenue policy for rentals. Compensation from third parties for investment property that has been impaired, lost or given up is recognised in the income statement when the compensation becomes receivable.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its cost for accounting purposes for subsequent recording. When the group begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property, which is measured based on the fair value model, and is not reclassified as property, plant and equipment during the development.

A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the group holds it to earn rentals 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. 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 properties are depreciated over the period of the lease or the expected useful life whichever is the shorter period.

The estimated useful lives are as follows:

- Buildings 20 - 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 the income statement 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 the income statement.

Transfer to investment property

When an item of property, plant and equipement is transferred to investment properties following a change in its use, it is transferred to investment properties at its fair value at date of transfer. Any differences arising at the date of transfer between the carrying amount of the item immediately prior to the transfer and its fair value is recognised directly in equity if it is a gain.

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 of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. 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 Determining whether an Arrangement contains a Lease*.

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 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 the income statement on a straight-line basis over the term of the lease. Lease incentives paid are recognised in the income statement as an integral part of the total lease expense.

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

The interest expense component of finance lease payments is recognised in the income statement using the effective interest 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 the income statement on the straight-line basis over the estimated useful lives of intangible assets. The amortisation period and the amortisation method are reviewed annually and any change is treated as a change in estimate.

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

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Research and development costs

Research costs are expensed in the year in which they are incurred. Development costs are capitalised only when the group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the ability of resources to complete and the availability to measure reliably the expenditure during the development. Development costs initially recognised as an expense are not recognised as an asset in a subsequent period. 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 the income statement.

Negative goodwill arising on acquisition is recognised directly in the income statement.

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 the income statement.

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 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 the income statement.

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 the income statement 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 the income statement. 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 is used where the results approximate the actual cost. Under a standard costing system the cost of a product is determined using predetermined rates for the material, labour and overhead expenses based on manufacturing specifications. Where inventory has been acquired on extended credit terms, the cost is adjusted with the interest expense and recognised over the payment period in the income statement. Where trade discounts, rebates and similar items are received, it is deducted in determining the cost of inventory.

The following specific methods are applied in determining cost price:

Raw materials and bought-out components

These are valued at direct cost of purchase plus the other costs incurred to bring it to 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 business 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 providing pensions is charged to the income statement to spread the regular cost over the service lives of employees, in 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 the income statement 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 Countertrade obligations

Countertrade obligations arise when the group has entered into export contracts where the buyer's country requires countertrade by the group. Countertrade 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; or
- Participation in a business venture or prescribes a form of investment in the buyer's country.

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

1.3.17 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 and 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 the income statement.

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 the income statement for the period.

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 Standards, Interpretations and Amendments issued that are not yet effective

At the date of authorisation of the group annual financial statements for the year ended 31 March 2009, 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)*	August 2008	1 January 2009
IFRS 2	*IFRS 2 - Share-based Payment: Vesting Conditions and Cancellations to be loaded*	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 1	*IAS 32 Amendments – Financial Instruments: Presentation IAS 1 Amendments - Presentation of Financial Statements: Puttable Financial Instruments and Obligations Arising on Liquidation*	February 2008	1 January 2009
IFRS 1 & IAS 27	*Amendments to IFRS 1 First-time Adoption of IFRS and IAS 27 Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*	August 2008	1 January 2009
IAS 39	*Eligible Hedged Items (Amendment to IAS 39 Financial Instruments: Recognition and Measurement)*	August 2008	1 July 2009
IFRIC 9	*Amended: Reassessing Embedded Derivatives*	January 2008	Periods ending on or after 1 July 2009
IFRIC 13	*Customer Loyalty Programmes*	June 2007	1 July 2008
IFRIC 15	*Agreements for the Construction of Real Estate*	July 2008	1 January 2009
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation*	July 2008	1 July 2009
IFRIC 17	*Distribution of Non-cash Assets to Owners*	November 2008	1 October 2008
IFRIC 18	*Transfers of Assets from Customers*	March 2009	1 July 2009

The amendments to IFRS 2, IFRS 1 & IAS 27, IAS 32 & IAS 1, IFRIC 15, IFRIC 16, IFRIC 17 and IFRIC 18 are not applicable to the business of the group and will, therefore, have no impact on the financial position or performance of the group. The group currently has no transaction or do not foresee any transactions that relate to the specific amendments or interpretations.

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 amendments to IAS 1 affects the presentation of comparative information upon retrospectively 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 amendment to 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 financial position or performance of the group.

IFRS 3 Business Combinations (Revised)

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 the income statement.

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
  – 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
  – 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 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 they are incurred.

The group plans to adopt IAS 23 in its 2010 financial year. The group's current accounting policy agrees to this amendment, therefore, the amendment will have no impact on the financial position or performance of the group.

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 the income statement. 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.

IAS 39 Eligible Hedged Items (Amendment to IAS 39 Financial Instruments: Recognition and Measurement)

The main amendments made were:

- The final amendment addresses only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.
- An entity can designate the changes in fair value or cash flows related to a one-sided risk as the hedged item in an effective hedge relationship. In most cases, the intrinsic value of a purchased option hedging instrument, but not its time value, reflects a one-sided risk in a hedge item.

- The designated risks and portions of fair values or cash flows in an effective hedge relationship must be separately identifiable components of the financial instrument. Additionally, the changes in fair values or cash flows of the entire financial instrument arising from changes in the designated risks and portions must be reliably measurable.
- The amendment indicates that inflation is not a separately identifiable risk and cannot be designated as the hedged risk unless it represents a contractually specified cash flow.

The group plans to adopt the amendment to IAS 39 in its 2011 financial year. As the results of future transactions cannot be anticipated, the impact of the changes cannot be determined.

IFRIC 9 Reassessment of Embedded Derivatives

An entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the 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.

As the group only reassessed embedded derivatives as being under the circumstances mentioned in this interpretation, the interpretation will have no impact on the financial position or performance of the group.

Improvements to IFRS (May 2008)

During May 2008, the International Accounting Standards Board (IASB) issued its first omnibus of amendments to its standards. The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to standards, primarily with a view to removing inconsistencies and clarifying wording. The document comprises two parts. Part I of this document contains amendments that result in accounting changes for presentation, recognition or measurement purposes, with the IASB's rationale included in related bases for conclusions. Part II contains amendments that are terminology or editorial changes only, which the IASB expects to have no or minimal effect on accounting.

The following table shows the topics addressed by these amendments:

Part 1

	Title	Amendment	Effective date
IFRS 5	*Non-current assets held for sale and discontinued operations*	• Plan to sell the controlling interest in a subsidiary	1 July 2009
IAS 1	*Presentation of financial statements*	• Current/non-current classification of derivatives	1 January 2009
IAS 16	*Property, plant and equipment*	• Recoverable amount • Sale of assets held for rental	1 January 2009
IAS 19	*Employee benefits*	• Curtailments and negative past service cost • Plan administration costs • Replacement of term 'fall due' • Guidance on contingent liabilities	1 January 2009
IAS 20	*Accounting for government grants and disclosure of government assistance*	• Government loans with a below-market rate of interest	1 January 2009
IAS 23	*Borrowing costs*	• Components of borrowing costs	1 January 2009
IAS 27	*Consolidated and separate financial statements*	• Measurement of subsidiary held for sale in separate financial statements	1 January 2009
IAS 28	*Investments in associates*	• Required disclosures when investments in associates are accounted for at fair value through profit or loss • Impairment of investment in associates	1 January 2009
IAS 31	*Interests in joint ventures*	• Required disclosures when interests in jointly controlled entities are accounted for at fair value through profit or loss	1 January 2009
IAS 29	*Financial reporting in hyperinflationary economies*	• Description of measurement basis in financial statements	1 January 2009
IAS 36	*Impairment of assets*	• Disclosure of estimates used to determine recoverable amount	1 January 2009
IAS 38	*Intangible assets*	• Advertising and promotional activities • Unit of production method of amortisation	1 January 2009
IAS 39	*Financial instruments: recognition and measurement*	• Reclassification of derivatives into or out of the classification of at fair value through profit or loss • Designating and documenting hedges at the segment level • Applicable effective interest rate on cessation of fair value hedge accounting	1 January 2009
IAS 40	*Investment property*	• Property under construction or development for future use as investment property	1 January 2009
IAS 41	*Agriculture*	• Discount rate for fair value calculations • Additional biological transformation	1 January 2009

Part 2

	Title	Amendment	Effective date
IFRS 7	*Financial instruments: disclosures*	• Presentation of finance costs	1 January 2009
IAS 8	*Accounting policies, changes in accounting estimates and errors*	• Status of implementation guidance	1 January 2009
IAS 10	*Events after the reporting period*	• Dividends declared after the end of the reporting period	1 January 2009
IAS 18	*Revenue*	• Costs of originating a loan	1 January 2009
IAS 20	*Accounting for government grants and disclosure of government assistance*	• Consistency of terminology with other IFRSs	1 January 2009
IAS 29	*Financial reporting in hyperinflationary economies*	• Consistency of terminology with other IFRSs	1 January 2009
IAS 34	*Interim financial reporting*	• Earnings per share disclosures in interim financial reports	1 January 2009
IAS 40	*Investment property*	• Consistency of terminology with IAS 8 Investment property held under lease	1 January 2009
IAS 41	*Agriculture*	• Examples of agricultural produce and products • Point-of-sale costs	1 January 2009

	Group		Company	
	2009 Rm	2008 Rm	2009 Rm	2008 Rm
2 Revenue				
2.1 Revenue comprises				
Turnover	3 923.7	3 818.1	2 915.0	3 050.9
Royalties income	50.7	0.1	50.7	0.1
Dividend received	-	-	49.1	88.6
Finance income	77.1	76.1	81.4	73.7
	4 051.5	3 894.3	3 096.2	3 213.3
2.2 Turnover comprises				
Sale of goods and services	3 876.9	3 834.3	2 850.1	2 994.6
Rental income	46.8	41.4	64.9	56.3
Total turnover	3 923.7	3 875.7	2 915.0	3 050.9
Less: Discontinued operations	-	(57.6)	-	-
	3 923.7	3 818.1	2 915.0	3 050.9
3 Cost of sales and operating expenses				
Total cost of sales from continuing operations	3 285.2	3 218.6	2 249.6	2 481.9
Cost of sales	3 285.2	3 260.2	2 249.6	2 481.9
Less: Discontinued operations	-	(41.6)	-	-
Total other operating expenses from continuing operations	1 284.4	1 082.0	1 558.8	912.4
Operating expenses	1 284.4	1 127.5	1 558.8	912.4
Less: Discontinued operations	-	(45.5)	-	-
	4 569.6	4 300.6	3 808.4	3 394.3
Cost of sales and operating expenses are arrived at after taking the following items into account:				
Amortisation of intangible assets (refer note 11)	2.8	3.5	2.8	2.5
Development costs	-	0.9	-	-
Software	2.8	2.6	2.8	2.5
Impairment raised/(reversed)	276.9	(8.1)	719.2	(53.7)
Property, plant and equipment (refer note 9)	168.1	4.5	(3.4)	4.5
Assets held for sale (Property, plant and equipment)	-	9.9	-	-
Intangible assets (refer note 11)	31.6	43.0	4.4	-
Investments in subsidiaries	-	-	726.5	44.5
Investments in associated companies	-	-	(49.4)	-
Inventories (refer note 16)	47.4	23.1	11.2	(13.9)
Trade and other receivables	29.8	(88.6)	29.9	(88.8)

	Group 2009 Rm	Group 2008 Rm	Company 2009 Rm	Company 2008 Rm
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):				
Auditors' remuneration	23.6	22.7	18.5	16.6
Current year	18.6	20.1	16.6	15.0
Previous year's under accrual	1.1	1.4	0.7	1.0
Other	3.9	1.2	1.2	0.6
Depreciation (refer note 9)	111.4	108.1	78.7	99.6
Buildings	13.0	17.1	13.0	17.0
Plant and machinery	69.5	55.7	44.8	52.0
Vehicles and office furniture	8.3	8.2	4.4	5.7
Computer equipment	20.6	27.1	16.5	24.9
Operating expenses for investment properties	83.4	66.8	79.7	64.0
Operating lease rentals	79.7	46.2	76.0	43.0
Buildings	67.6	35.2	67.2	33.6
Plant and machinery	4.0	3.8	3.9	3.0
Vehicles and office furniture	4.2	3.2	1.0	2.5
Computer equipment	3.9	4.0	3.9	3.9
Directors' remuneration [2]	12.5	12.6	12.5	12.5
Executive directors	10.0	11.4	10.0	11.3
Non-executive directors	2.5	1.2	2.5	1.2
Consultation fees	83.9	68.2	40.8	62.7
Inventory purchases	1 819.6	1 761.7	1 300.5	1 392.1
Loss on disposal of assets	8.2	133.8	5.0	133.4
Property, plant and equipment	2.2	2.0	2.1	1.6
Deemed disposal of subsidiary	-	131.8	-	131.8
Disposal of entities (refer note 5.2)	6.0	-	2.9	-
Research and development costs [1]	1 024.1	782.2	623.5	507.7
Staff costs	1 795.0	2 020.9	1 277.0	1 471.5
Services costs	1 463.7	1 577.1	1 007.0	1 124.0
Staff and related provisions	136.5	234.0	123.9	184.6
Medical fund contributions	87.3	102.3	64.1	77.6
Termination benefits paid	21.1	8.1	13.4	2.9
Pension costs: Defined contribution plan	84.1	95.8	67.6	81.0
Pension costs: Defined benefit plan	0.5	0.7	0.5	0.7
Other long-term benefit contributions	1.8	2.9	0.5	0.7

[1] *The research and development costs are mainly customer funded.*

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

	Group 2009 Rm	Group 2008 Rm	Company 2009 Rm	Company 2008 Rm
4 Other income				
Administration and management fees	1.2	0.4	13.4	12.9
Royalties received [1]	50.7	0.1	50.7	0.1
Fair value adjustment on investment properties	30.8	22.4	28.7	22.4
Profit on disposal of entities (refer note 5.2)	-	2.1	-	2.1
Net derivative gain (refer note 6)	63.3	45.1	45.5	35.4
Surplus on disposal of property, plant and equipment	0.8	90.3	0.5	89.5
Surplus on disposal of investment properties	12.4	46.2	12.4	-
Dividend received	-	-	49.1	88.6
Other [2]	23.6	48.4	27.9	47.2
	182.8	255.0	228.2	298.2
Less: Discontinued operations	-	(5.2)	-	-
	182.8	249.8	228.2	298.2

[1] *Royalties received as a result of the use of intellectual property developed by the group. There were more orders received by the user of the intellectual property than in the previous year.*

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

	Company 2009 Rm	Company 2008 Rm
Income from subsidiaries	76.4	64.3
Rent	18.5	15.7
Finance income	10.2	3.3
Administration fees	12.2	12.5
Other	35.5	32.8

5 Non-current assets held for sale, discontinued operations and business entities disposed

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 business entities.

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

- Cosource (Pty) Ltd: The group's shareholding was disposed effective 1 April 2008.
- The munition business was disposed to a new company, Rheinmetall Denel Munition (Pty) Ltd. The company holds 49.0% of the issued share capital of Rheinmetall Denel Munition (Pty) Ltd. The effective date of this transaction was 1 September 2008.

The following disposals and equity partnership arrangements were concluded during the prior 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 2007 (a wholly owned subsidiary), except for a small portion of the business which was disposed externally. On 20 July 2007, the company issued shares to Carl Zeiss AG 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 OR Tambo International Airport has been finalised.

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

- The property division of Denel has over the past four years been actively marketing the Houwteq property based in the Western Cape. The division is currently in discussion with the Department of Public Works regarding the disposal of the said property.
- The disposal of the property portfolio of Bonaero Park (Pty) Ltd was substantially concluded during the prior financial year, with the transfer of an investment property of R9m still to be finalised.

5 Non-current assets held for sale, discontinued operations and business entities disposed (continued)

5.1 The results are as follows:

	Disposal of the Munitions group Rm	Discontinued operations: Optronics[1] PCB and Machine Shop Rm	SPP (Pty) Ltd Rm	Cosource Group Rm	Total Rm
Group					
2009					
Revenue and other income	323.1	-	-	-	-
Expenses, exchange losses and interest	(339.4)	-	-	-	-
Pre-tax loss	(16.3)	-	-	-	-
Tax	-	-	-	-	-
Loss after tax	(16.3)	-	-	-	-
Net cash flows attributable					
Net cash flows used in operating activities	(68.8)	-	-	-	-
Net cash flows from investing activities	271.6	-	-	-	-
Net cash flows used in financing activities	(297.7)	-	-	-	-
Net decrease in cash and cash equivalents	(94.9)	-	-	-	-
2008					
Revenue and other income	862.5	-	19.6	43.2	62.8
Expenses, exchange losses and interest	(897.9)	(0.5)	(48.2)	(39.8)	(88.5)
Pre-tax (loss)/profit	(35.4)	(0.5)	(28.6)	3.4	(25.7)
Tax	(0.5)	-	-	(0.2)	(0.2)
(Loss)/profit after tax	(35.9)	(0.5)	(28.6)	3.2	(25.9)
Net cash flows attributable					
Net cash flows (used in)/from operating activities	(13.9)	-	(24.6)	6.2	(18.4)
Net cash flows used in investing activities	(42.5)	-	-	(2.0)	(2.0)
Net cash flows from financing activities	43.0	-	24.6	-	24.6
Net (decrease)/incease in cash and cash equivalents	(13.4)	-	-	4.2	4.2
Company					
2009					
Pre-tax loss	(14.5)	-	-	-	-
2008					
Pre-tax loss	(23.1)	(0.5)	-	-	(0.5)

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

	Group		Company	
	2009 Rm	2008 Rm	2009 Rm	2008 Rm
5 Non-current assets held for sale, discontinued operations and business entities disposed (continued)				
5.2 The proceeds on the disposal of discontinued operations and business entities disposed are as follows:				
Net asset value	308.5	25.7	297.5	4.6
Investment in subsidiaries			7.9	21.1
(Loss)/profit on disposal	(6.0)	2.1	(2.9)	2.1
Selling price	302.5	27.8	302.5	27.8
Shares received	(297.5)	-	(297.5)	-
Net cash flow on disposal	5.0	27.8	5.0	27.8
(Loss)/profit on discontinued operations	(6.0)	2.1	(2.9)	2.1
The assets and liabilities disposed of were as follows:				
Non-current assets	108.3	15.5	95.3	2.5
Current assets	502.5	12.6	485.7	2.7
Total assets	610.8	28.1	581.0	5.2
Total liabilities	(294.7)	(2.4)	(283.5)	(0.6)
Minority interest	(7.6)	-	-	-
Net assets	308.5	25.7	297.5	4.6
5.3 Non-current assets held for sale and associated liabilities				
Assets				
Property, plant and equipment	-	1.0	-	-
Investment properties	9.0	30.1	-	23.3
Intangible assets	-	11.9	-	-
Other non-current assets	-	0.2	-	-
Inventories	-	1.6	-	-
Trade and other receivables	-	7.1	-	-
Cash and short-term deposits	-	5.8	-	-
	9.0	57.7	-	23.3
Liabilities				
Interest-bearing borrowings	-	7.2	-	-
Trade payables and other payables	-	2.4	-	-
Advance payments received	-	0.7	-	-
Current provisions	-	0.7	-	-
Tax liabilities	-	0.2	-	-
	-	11.2	-	-

	Group		Company	
	2009 Rm	2008 Rm	2009 Rm	2008 Rm
6 Net derivative gains/(losses) on held-for-trading financial instruments				
6.1 Net foreign exchange gains/(losses)	120.5	(3.0)	102.7	(12.7)
Losses on settled transactions	(33.8)	(37.6)	(31.6)	(26.3)
Gains on settled transactions	55.5	67.5	12.2	64.1
Losses on revaluation	(67.2)	(69.1)	(43.9)	(66.5)
Gains on revaluation	166.0	36.2	166.0	16.0
6.2 Net (losses)/gains on commodity swaps	(57.2)	48.1	(57.2)	48.1
Losses on revaluation	(57.2)	-	(57.2)	-
Gains on revaluation	-	48.1	-	48.1
	63.3	45.1	45.5	35.4
7 Net finance cost				
The amounts below relate to financial instruments measured at amortised cost (financial liabilities, loans and receivables):				
7.1 Finance expense				
Current interest-bearing borrowings	85.1	26.7	84.3	26.4
Non-current interest-bearing borrowings	0.7	40.8	0.1	40.5
Finance leases	0.1	0.4	0.1	0.4
Unsecured	0.6	40.4	-	40.1
Inter-group finance expense			28.9	44.6
Less: Discontinued operations	-	(1.0)	-	-
Finance expense on financial liabilities	85.8	66.5	113.3	111.5
Unwinding of discount on provisions	64.6	70.1	64.6	70.1
Total finance expense	150.4	136.6	177.9	181.6
7.2 Finance income				
Gross interest received	77.1	76.4	71.2	70.4
Less: Discontinued operations	-	(0.3)	-	-
	77.1	76.1	71.2	70.4
Inter-group finance income			10.2	3.3
Total finance income	77.1	76.1	81.4	73.7
Net finance cost	73.3	60.5	96.5	107.9

	Group		Company	
	2009 Rm	2008 Rm	2009 Rm	2008 Rm
8 Taxation expense				
SA normal tax				
Current tax	22.0	14.6	-	-
Deferred tax (refer note 15)	13.6	(5.4)	-	-
Share of associated companies	3.6	(4.0)	-	-
Current tax	20.0	-	-	-
Deferred tax	(16.4)	(4.0)	-	-
	39.2	5.2	-	-
Less: Discontinued operations	-	(0.2)	-	-
	39.2	5.0	-	-

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

	%	%	%	%
Reconciliation of tax rate				
Effective tax rate	(7.3)	(0.7)	-	-
Adjustment in tax rate due to:	35.3	29.7	28.0	29.0
Exempt income	(2.3)	(16.4)	(5.8)	(51.3)
Deferred tax asset not recognised	33.2	51.6	31.2	63.9
Taxable capital gains	-	5.8	-	14.3
Share of associated companies	3.1	1.4	-	-
Other	1.3	(12.7)	2.6	2.1
SA normal tax rate	28.0	29.0	28.0	29.0

	Group		Company	
	2009 Estimated assessed losses Rm	2008 Assessed losses Rm	2009 Estimated assessed losses Rm	2008 Assessed losses Rm
The estimated assessed losses available for set-off against future taxable income are as follows:				
Assessed losses	5 010.8	4 390.0	4 336.0	4 073.3
Capital gains tax assessed losses	179.7	6.2	173.6	(47.2)
Computed assessed losses	5 190.5	4 396.2	4 509.6	4 026.1
Assessed losses utilised to create deferred tax asset	-	(2.2)	-	-
Net available assessed losses	5 190.5	4 394.0	4 509.6	4 026.1

	Land and buildings Rm	Plant and machinery Rm	Vehicles and office furniture Rm	Computer equipment Rm	Total Rm
9 Property, plant and equipment					
Group					
2009					
Carrying value at 1 April	439.2	452.8	30.9	44.0	966.9
Revaluation on transfer to investment properties	45.7	-	0.1	-	45.8
Additions	8.1	239.3	13.4	31.3	292.1
Business entities disposed	(0.8)	(85.0)	(4.3)	(5.2)	(95.3)
Disposals	-	(2.7)	(1.3)	(0.3)	(4.3)
Reclassification	(5.5)	3.3	2.0	0.2	-
Transfer to investment properties (refer note 10)	(213.5)	-	-	-	(213.5)
Impairment for the year (refer note 3)	-	(160.6)	(1.2)	(6.3)	(168.1)
Depreciation for the year (refer note 3)	(13.0)	(69.5)	(8.3)	(20.6)	(111.4)
Carrying value at 31 March	260.2	377.6	31.3	43.1	712.2
Cost	371.5	1 269.1	78.5	148.3	1 867.4
Accumulated depreciation and impairment	(111.3)	(891.5)	(47.2)	(105.2)	(1 155.2)
Carrying value at 31 March	260.2	377.6	31.3	43.1	712.2
Carrying value of encumbered assets at 31 March (refer note 23)	-	-	1.4	0.1	1.5
2008					
Carrying value 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 entities 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 10)	(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 value 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 value at 31 March	439.2	452.8	30.9	44.0	966.9
Carrying value of encumbered assets at 31 March (refer note 23)	-	1.9	0.1	1.1	3.1

	Land and buildings Rm	Plant and machinery Rm	Vehicles and office furniture Rm	Computer equipment Rm	Total Rm
9 Property, plant and equipment (continued)					
Company					
2009					
Carrying value at 1 April	434.2	273.1	17.1	37.0	761.4
Revaluation on transfer to investment properties	45.7	-	-	-	45.7
Additions	8.1	99.8	7.0	27.6	142.5
Acquired from subsidiaries	-	7.3	0.2	-	7.5
Disposals	-	(2.6)	(0.5)	(0.4)	(3.5)
Business entities disposed	(0.8)	(85.0)	(4.3)	(5.2)	(95.3)
Reclassification	(0.5)	(1.7)	2.0	0.2	-
Transfer to investment properties (refer note 10)	(213.5)	-	-	-	(213.5)
Impairment for the year (refer note 3)	-	3.4	-	-	3.4
Depreciation for the year (refer note 3)	(13.0)	(44.8)	(4.4)	(16.5)	(78.7)
Carrying value at 31 March	260.2	249.5	17.1	42.7	569.5
Cost	371.5	948.2	45.8	134.2	1 499.7
Accumulated depreciation and impairment	(111.3)	(698.7)	(28.7)	(91.5)	(930.2)
Carrying value at 31 March	260.2	249.5	17.1	42.7	569.5
Carrying value of encumbered assets at 31 March (refer note 23)	-	-	1.4	0.1	1.5
2008					
Carrying value 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)
Business entities disposed	-	(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 10)	(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 value 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 value at 31 March	434.2	273.1	17.1	37.0	761.4
Carrying value of encumbered assets at 31 March (refer note 23)	-	1.9	0.1	1.1	3.1

9 **Property, plant and equipment (continued)**

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 business entities within the group, the property, plant and equipment have been assessed for impairment. *IAS 36 Impairment of assets* provides that the recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. The impairment was based on the fair value less cost to sell for all property, plant and equipment items. Certain property, plant and equipment were impaired due to a lack of orders, and there is no new business foreseen in the near future that will utilise these assets.

Plant and machinery include assets under construction of R47.2m (2008: R103.6m) for the group and R17.3m (2008: R18.3m) for the company.

	Group		Company	
	2009 Rm	2008 Rm	2009 Rm	2008 Rm
10 Investment properties				
Fair value at 1 April	117.1	88.9	117.1	88.8
Additions	5.0	-	4.9	-
Transfer from property, plant and equipment (refer note 9)	213.5	5.9	213.5	5.9
Fair value adjustment	30.8	22.4	28.7	22.4
Transfer to non-current assets held for sale	(2.2)	(0.1)	-	-
Fair value at 31 March	364.2	117.1	364.2	117.1

Valuations of investment properties were carried out at the year-end by registered independent external appraisers, who have appropriately recognised professional qualifications and experience in the location and nature of the property being valued. 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	
	2009 Rm	2008 Rm	2009 Rm	2008 Rm
11 Intangible assets				
Development costs	-	-	-	-
At cost	104.8	107.1	104.8	106.6
Accumulated amortisation and impairment	(104.8)	(107.1)	(104.8)	(106.6)
Software	63.2	27.1	63.2	27.1
At cost	78.5	40.1	78.5	40.1
Accumulated amortisation	(15.3)	(13.0)	(15.3)	(13.0)
Goodwill	-	4.4	-	4.4
At cost	90.6	64.8	21.8	21.8
Accumulated impairment	(90.6)	(60.4)	(21.8)	(17.4)
Total carrying value at 31 March	63.2	31.5	63.2	31.5

	Group		Company	
	2009 Rm	2008 Rm	2009 Rm	2008 Rm
11 Intangible assets (continued)				
Reconciliation				
Development costs				
Carrying value at 1 April	-	-	-	-
Capitalised during the year	-	1.4	-	-
Amortisation for the year (refer note 3)	-	(0.9)	-	-
Transfer to non-current assets held for sale	-	(0.5)	-	-
Carrying value at 31 March	-	-	-	-
Software				
Carrying value at 1 April	27.1	4.3	27.1	4.3
Additions	38.9	26.2	38.9	26.2
Business disposed	-	(0.8)	-	(0.9)
Amortisation for the year (refer note 3)	(2.8)	(2.6)	(2.8)	(2.5)
Carrying value at 31 March	63.2	27.1	63.2	27.1
Goodwill				
Carrying value at 1 April	4.4	4.4	4.4	4.4
Additions	27.2	43.0	-	-
Impairment for the year (refer note 3)	(31.6)	(43.0)	(4.4)	-
Carrying value at 31 March	-	4.4	-	4.4
Total carrying value at 31 March	63.2	31.5	63.2	31.5
12 Investments in subsidiaries				
Unlisted shares			893.8	830.3
Net loans			172.3	(173.1)
Amounts due by subsidiaries			385.0	204.8
Amounts due to subsidiaries			(212.7)	(377.9)
Gross investments			1 066.1	657.2
Accumulated impairment			(908.8)	(223.4)
Carrying value at 31 March			157.3	433.8

Loans to subsidiaries of R184.6m (2008: R182.3m) 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 35.

	Group 2009 Rm	Group 2008 Rm	Company 2009 Rm	Company 2008 Rm
12 Investments in subsidiaries (continued)				
The accumulated impairment loss on investments in subsidiaries is as follows:				
Unlisted shares			723.2	41.1
Balance at 1 April			41.1	42.7
Impairment for the year			723.2	-
Impairment reversed for the year			-	(1.6)
Subsidiaries disposed			(41.1)	-
Loans			185.6	182.3
Balance at 1 April			182.3	561.1
Subsidiaries disposed			3.3	(424.9)
Impairment for the year			-	46.1
			908.8	223.4

13 Investment 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. The year-end of Carl Zeiss Optronics (Pty) Ltd is 30 September.

The group holds a 49.0% interest in Rheinmetall Denel Munition (Pty) Ltd. The year-end of Rheinmetall Denel Munition (Pty) Ltd is 31 December.

	Group 2009 Rm	Group 2008 Rm	Company 2009 Rm	Company 2008 Rm
Cost of investments in associated companies:				
Unlisted shares	475.8	104.8	476.9	105.9
Loans	-	24.7	-	24.7
Accumulated impairment	-	-	-	(49.4)
	475.8	129.5	476.9	81.2
Net share of results in associated companies	(10.1)	(38.2)		
Share of current year profit/(loss) before tax	31.7	(23.1)		
Share of current year tax	(3.6)	4.0		
Share of current year profit after tax	28.1	(19.1)		
Accumulated loss at 1 April	(38.2)	(19.1)		
Total net investments in associated companies	465.7	91.3	476.9	81.2
The accumulated impairment loss on investments in associated companies is as follows:				
Unlisted shares				
Balance at 1 April	-	-	49.4	49.4
Impairment for the year	-	-	(49.4)	-
	-	-	-	49.4

	Group		Company	
	2009 Rm	**2008 Rm**	**2009 Rm**	**2008 Rm**
13 Investment in associated companies (continued)				
The following represents the summarised financial information of the associated companies:				
Total assets	1 427.9	746.0		
Non-current assets	247.6	69.4		
Current assets	1 180.3	676.6		
Total liabilities	(760.7)	(574.4)		
Non-current liabilities	(16.1)	(92.5)		
Current liabilities	(744.6)	(481.9)		
Net assets	667.2	171.6		
Group share of associated companies' net assets	305.5	65.8		
Revenue	1 527.8	503.9		
Group share of revenue	674.2	216.7		
Group share of profit/(loss) before tax	31.7	(23.1)		
A detailed breakdown of the investments in the associated companies is contained in note 35.				
14 Loans receivable				
Loans at amortised cost	18.7	22.5	18.7	22.5
Less: Current portion of loans receivable included in trade and other receivables (refer note 17)	(8.7)	(8.0)	(8.7)	(8.0)
	10.0	14.5	10.0	14.5

The loan to SITA has a balance of R14.8m (2008: R18.8m) 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 R3.9m (2008: R3.7m) 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 April 2009. The loan is secured by a cession of the shares of the buyer.

		Group		Company	
		2009 Rm	2008 Rm	2009 Rm	2008 Rm
15	**Deferred tax**				
	Deferred tax assets	235.1	254.5	226.4	221.8
	Deferred tax liabilities	(233.0)	(238.8)	(226.4)	(221.8)
		2.1	15.7	-	-
	Movement of deferred tax assets and liabilities:				
	Balance at 1 April	15.7	10.3	-	-
	Per income statement	(13.6)	5.4	-	-
		2.1	15.7	-	-
	Net deferred tax asset comprises:				
	Provisions	340.0	382.1	331.6	358.9
	Intangible assets	-	11.3	-	-
	Prepayments received	180.8	241.8	180.5	241.3
	Amounts due to customers for work invoiced, not yet performed	1.4	7.7	1.4	7.7
	Embedded derivative liabilities	6.2	5.9	6.2	5.9
	Other tax deductible differences	114.5	0.1	114.5	-
	Limit deferred tax asset to liability	(407.8)	(394.6)	(407.8)	(392.0)
	Assessed loss	-	0.2	-	-
		235.1	254.5	226.4	221.8
	Net deferred tax liability comprises:				
	Capital allowances	(104.3)	(178.7)	(103.8)	(176.5)
	Doubtful debt allowance	(8.9)	(4.4)	(8.8)	(4.2)
	Embedded derivative assets	(2.1)	(20.9)	(2.1)	(17.3)
	Affected foreign exchange contracts	(0.4)	(8.3)	(0.4)	(8.3)
	Prepayments made	(0.7)	-	(0.7)	-
	Amount due from customers for contract work	(107.7)	(18.9)	(107.7)	(12.8)
	Reinsurance asset	(5.2)	(4.8)	-	-
	Other taxable differences	(3.7)	(2.8)	(2.9)	(2.7)
		(233.0)	(238.8)	(226.4)	(221.8)

For certain companies within 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 full deferred tax asset been recognised, the value of the deferred tax asset at year-end would have been R1 453.3m (2008: R1 274.9m) for the group and R1 262.7m (2008: R1 167.6m) for the company.

		Group		Company	
		2009 Rm	2008 Rm	2009 Rm	2008 Rm
16	**Inventories**				
	Inventories are valued at the lower of cost or net realisable value and is categorised as follows:				
	Raw materials and bought-out components	156.0	329.8	70.1	190.9
	Work in progress	443.8	464.4	187.4	230.8
	Finished products	230.9	223.7	195.0	208.7
	Consumable inventory	48.1	55.9	47.2	53.9
	Less: Disclosed as non-current assets held for sale	-	(1.6)	-	-
		878.8	1 072.2	499.7	684.3
	Accumulated impairment	421.2	445.5	293.1	350.8

Included in cost of sales is an amount of R1,601.8m (2008: R1,530.0m) for the group and R1,084.4m (2008: R1,219.8m) for the company relating to inventories which was recognised as an expense during the year.

The amount of write-down of inventories recognised as an expense is R47.4m (2008: R23.1m) for the group and R11.2m (2008: R13.9m write-back) for the company which is recognised in cost of sales.

		Group 2009 Rm	Group 2008 Rm	Company 2009 Rm	Company 2008 Rm
17	**Trade and other receivables**				
	Financial assets	790.7	755.1	604.7	649.4
	Trade receivables	688.6	708.1	519.1	604.1
	Trade receivables: Inter-group			24.3	7.7
	Interest accrued	6.4	5.9	6.4	5.9
	Other receivables	87.0	33.1	46.2	23.7
		782.0	747.1	596.0	641.4
	Current portion of loans receivable (refer note 14)	8.7	8.0	8.7	8.0
	Non-financial assets	674.0	657.0	473.6	512.1
	Amount due from customers for contract work	579.7	451.3	384.6	381.8
	Prepayments and advances made	90.4	190.2	85.1	115.2
	Other receivables	3.9	15.5	3.9	15.1
	Less: Disclosed as non-current assets held for sale	-	(7.0)	-	-
		1 464.7	1 405.1	1 078.3	1 161.5
	Accumulated impairment				
	Financial assets	130.8	95.7	127.7	92.4
	Non-financial assets	-	8.9	-	8.9
		130.8	104.6	127.7	101.3

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

		2009			2008		
		Trade receivables Rm	Other receivables Rm	Total Rm	Trade receivables Rm	Other receivables Rm	Total Rm
17	Trade and other receivables (continued)						
	Impairment account reconciliation						
	Individually impaired						
	Group						
	Balance at 1 April	95.7	-	95.7	74.5	1.9	76.4
	Impairment losses recognised	48.7	0.7	49.4	70.4	0.9	71.3
	Written off as uncollectible	(2.9)	-	(2.9)	(3.6)	-	(3.6)
	Recovered during the year	(7.8)	-	(7.8)	(24.7)	-	(24.7)
	Impairment losses reversed	-	-	-	(12.0)	-	(12.0)
	Business entities disposed	(3.6)	-	(3.6)	(8.9)	(2.8)	(11.7)
		130.1	0.7	130.8	95.7	-	95.7
	Company						
	Balance at 1 April	92.4	-	92.4	68.0	1.9	69.9
	Impairment losses recognised	47.2	0.7	47.9	69.1	-	69.1
	Written off as uncollectible	(2.8)	-	(2.8)	(3.6)	-	(3.6)
	Recovered during the year	(6.3)	-	(6.3)	(24.6)	-	(24.6)
	Impairment losses reversed	-	-	-	(9.2)	-	(9.2)
	Business entities disposed	(3.5)	-	(3.5)	(7.3)	(1.9)	(9.2)
		127.0	0.7	127.7	92.4	-	92.4

		Group		Company	
		2009 Rm	2008 Rm	2009 Rm	2008 Rm
18	Reinsurance asset				
	Balance at 1 April	17.2	16.0		
	Reinsurance income	1.5	1.2		
		18.7	17.2		

Densecure (Pty) Ltd, a subsidiary of the group, 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.

	Group		Company	
	2009 Rm	2008 Rm	2009 Rm	2008 Rm
19 Other financial assets and liabilities				
19.1 Other financial assets				
Derivatives	45.1	74.1	45.1	74.1
Foreign exchange contracts	45.1	26.2	45.1	26.2
Commodity swaps	-	47.9	-	47.9
Embedded derivatives				
Foreign exchange embedded derivatives	7.6	74.6	7.6	61.7
	52.7	148.7	52.7	135.8
19.2 Other financial liabilities				
Derivatives	32.9	163.8	21.7	161.1
Foreign exchange contracts	22.3	150.0	11.1	147.3
Foreign exchange options	-	12.5	-	12.5
Commodity swaps	10.6	1.3	10.6	1.3
Embedded derivatives				
Foreign exchange embedded derivatives	24.2	20.9	22.2	20.9
	57.1	184.7	43.9	182.0
20 Cash and cash equivalents				
20.1 Cash and short-term deposits				
Deposits				
Local call deposits	543.2	897.7	492.9	840.1
Cash in bank	148.2	71.3	147.2	63.1
Local banks	111.7	17.6	111.2	9.7
Foreign banks	36.5	53.7	36.0	53.4
Cash on hand	0.5	0.4	0.2	0.2
	691.9	969.4	640.3	903.4
Less: Disclosed as non-current assets held for sale	-	(5.8)	-	-
Cash and cash equivalents	691.9	963.6	640.3	903.4
Less: Amount managed on behalf of associated companies (refer note 20.2)	(202.4)	(84.1)	(202.4)	(84.1)
	489.5	879.5	437.9	819.3

Cash and cash equivalents are as per the cash flow statement. The weighted average effective interest rate on call deposits was 11.3% (2008: 9.8%). Interest on cash in bank is earned at market rates. The funds included in cash and short-term deposits are available on demand.

	Group		Company	
	2009 Rm	**2008 Rm**	**2009 Rm**	**2008 Rm**
20 Cash and cash and cash equivalents (continued)				
20.2 Treasury asset				
Amount managed on behalf of associated companies (refer note 20.1)	202.4	84.1	202.4	84.1

The amount disclosed as treasury asset, is cash managed on behalf of the associated companies under service level agreements. Currently, the cash is held in the group's name until bank facilities are secured for these associated companies and the cash, guarantees and derivative financial instruments can be transferred to their own bank facilities (refer note 23 and 26.1).

	Group 2009 Rm	Group 2008 Rm	Company 2009 Rm	Company 2008 Rm
21 Issued 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	1 000.0	1 000.0	1 000.0
Balance at 1 April	1 000.0	976.1	1 000.0	976.1
Shares issued during the year	-	23.9	-	23.9
Class B ordinary shares	225.1	225.1	225.1	225.1
Balance at 1 April	225.1	40.3	225.1	40.3
Shares issued during the year	-	184.8	-	184.8
	1 225.1	1 225.1	1 225.1	1 225.1
Share premium				
Balance at 1 April	4 251.3	3 527.0	4 251.3	3 527.0
Premium on shares issued	-	724.3	-	724.3
	4 251.3	4 251.3	4 251.3	4 251.3

At year-end, the number of issued Class A ordinary shares were 1 000 000 000 and the number of issued Class B ordinary shares were 225 049 663. During the prior year, 23 895 537 Class A ordinary shares were issued and 184 813 916 Class B ordinary shares were issued at a premium of R724.3m.

The unissued shares are under the control of the South African Government, which is the sole shareholder. The Class B ordinary shares are limited in that any reduction of share capital must first be written off against the Class B ordinary share plus any premium thereon, before any reduction of Class A ordinary shares may occur.

		Group		Company	
		2009 Rm	2008 Rm	2009 Rm	2008 Rm
22	Minority interests				
	Balance at 1 April	102.3	6.0		
	Additional minority interest due to shares issued by subsidiary	27.2	109.0		
	Share of net loss of subsidiaries	(90.5)	(12.7)		
	Subsidiary disposed	(7.6)	-		
		31.4	102.3		
23	Interest-bearing loans and borrowings				
	Finance leases	0.1	0.8	0.1	0.8
	Gross amount	0.5	2.3	0.5	2.3
	Less: Current portion included in current liabilities	(0.4)	(1.5)	(0.4)	(1.5)
	The Rand-denominated finance lease liabilities bear interest ranging between 14.5% (2008: 11.5%) and 16.6% (2008: 16.6%) linked to prime rate.				
	These leases are secured by certain property, plant and equipment to the value of R1.5m (2008: R3.1m) (refer note 9).				
	Unsecured loan	52.8	-	-	-
	Unsecured loan from minority shareholder	52.8	7.2	-	-
	Less: Disclosed as non-current liabilities held for sale	-	(7.2)	-	-
	The unsecured loan from the minority shareholder is repayable in February 2014, at an interest rate of prime lending rate minus 2.0%. At 31 March 2009, a subsidiary had available an additional R40.0m of undrawn committed borrowing facilities from its minority shareholder in respect of which all conditions precedent had been met.				
	Non-current portion of interest-bearing loans and borrowings	52.9	0.8	0.1	0.8
	Current portion of interest-bearing loans and borrowings	1 074.5	234.2	1 074.5	234.2
	Commercial paper	871.7	148.6	871.7	148.6
	Cash managed on behalf of associated companies	202.4	84.1	202.4	84.1
	Current portion of non-current borrowings included in current liabilities	0.4	1.5	0.4	1.5
	Total interest-bearing loans and borrowings	1 127.4	235.0	1 074.6	235.0

The commercial paper is a short-term loan issued as part of the DMTN programme and is secured by a government guarantee. The commercial paper has a coupon value of R880.0m and is repayable on 31 May 2009. The interest rate is linked to JIBAR.

The undrawn borrowing facilities available for future operating activities amount to R364.7m (2008: R668.0m). Refer to note 31.4 for fair value.

	Group		Company	
	2009 Rm	2008 Rm	2009 Rm	2008 Rm
23 Interest-bearing loans and borrowings (continued)				
Weighted average effective interest rates	%	%	%	%
Local unsecured loans (fixed rate)	12.3%	11.1%	12.3%	12.8%
Local finance leases (floating rate)	15.7%	13.2%	15.7%	11.1%
Unsecured loan of minority shareholders	11.5%	10.0%		
Short-term bank borrowings (floating rate)	13.5%	11.0%	13.5%	11.0%
Summary of maturity of borrowings	Rm	Rm	Rm	Rm
Maturing by 31 March 2009	-	234.2	-	1.5
Maturing by 31 March 2010	1 074.5	8.0	1 074.5	-
Maturing after 31 March 2010	52.9	-	0.1	-
	1 127.4	242.2	1 074.6	1.5

	Less than 3 months Rm	Between 3 and 12 months Rm	Between 1 and 5 years Rm	Later than 5 years Rm	Total Rm
Finance leases					
Group					
2009					
Minimum lease payments	0.1	0.3	0.1	-	0.5
Interest	-	-	-	-	-
Principal	0.1	0.3	0.1	-	0.5
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
Company					
2009					
Minimum lease payments	0.1	0.3	0.1	-	0.5
Interest	-	-	-	-	-
Principal	0.1	0.3	0.1	-	0.5
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

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 normally 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 2009 Rm	Group 2008 Rm	Company 2009 Rm	Company 2008 Rm
24 Provisions				
24.1 Non-current provisions	385.9	481.3	364.5	441.7
Contract risks and onerous contracts	116.4	245.0	95.0	205.4
Product warranty and recall	63.9	61.9	63.9	61.9
Site restoration	205.6	173.8	205.6	173.8
Other	-	0.6	-	0.6
24.2 Current provisions	793.0	993.3	692.3	780.0
Contract risks and onerous contracts	328.2	440.7	274.9	309.1
Performance guarantees	111.3	98.4	111.3	98.4
Product warranty and recall	69.6	63.6	67.9	63.3
Site restoration	41.8	27.4	41.8	27.4
Insurance	3.9	14.4	-	-
Other	238.2	349.6	196.4	281.8
Less: Disclosed as non-current liabilities held for sale	-	(0.8)	-	-
	1 178.9	1 474.6	1 056.8	1 221.7

	Contract risks and onerous contracts Rm	Performance guarantees Rm	Product warranty and recall Rm	Site restoration Rm	Insurance contract Rm	Other Rm	Disclosed as held for sale Rm	Total Rm
Reconciliation								
Group								
2009								
Balance at 1 April	685.7	98.4	125.5	201.2	14.4	350.2	(0.8)	1 474.6
Realised	(281.3)	(5.9)	(27.5)	(1.1)	-	(204.8)	-	(520.6)
Unused amounts reversed	(46.3)	-	(12.8)	-	(10.5)	(37.4)	-	(107.0)
Unwinding of discount on provisions	39.9	-	3.8	20.9	-	-	-	64.6
Charged to the income statement	57.0	15.3	53.9	26.4	-	175.2	-	327.8
Reclassified	-	3.5	(2.9)	-	-	(0.6)	-	-
Business entities disposed	(10.4)	-	(6.5)	-	-	(44.4)	0.8	(60.5)
	444.6	111.3	133.5	247.4	3.9	238.2	-	1 178.9
2008								
Balance at 1 April	749.5	128.7	108.5	157.1	13.0	194.9	(1.8)	1 349.9
Realised	(194.9)	-	(12.3)	(1.2)	-	(77.5)	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 the income statement	123.5	13.7	35.5	29.2	1.4	279.4	(0.4)	482.3
Business entities disposed	-	-	(7.2)	-	-	(9.5)	0.7	(16.0)
	685.7	98.4	125.5	201.2	14.4	350.2	(0.8)	1 474.6

	Contract risks and onerous contracts Rm	Performance guarantees Rm	Product warranty and recall Rm	Site restoration Rm	Insurance contract Rm	Other Rm	Disclosed as held for sale Rm	Total Rm
Company								
2009								
Balance at 1 April	514.5	98.4	125.2	201.2	-	282.4	-	1 221.7
Realised	(191.1)	(5.9)	(27.5)	(1.1)	-	(168.1)	-	(393.7)
Unused amounts reversed	(16.1)	-	(12.5)	-	-	(22.2)	-	(50.8)
Unwinding of discount on provisions	39.9	-	3.8	20.9	-	-	-	64.6
Charged to the income statement	33.1	15.3	52.2	26.4	-	147.4	-	274.4
Reclassified	-	3.5	(2.9)	-	-	(0.6)	-	-
Business entities acquired	-	-	-	-	-	1.2	-	1.2
Business entities disposed	(10.4)	-	(6.5)	-	-	(43.7)	-	(60.6)
	369.9	111.3	131.8	247.4	-	196.4	-	1 056.8
2008								
Balance at 1 April	559.8	128.7	108.5	157.1	-	157.4	-	1 111.5
Realised	(160.9)	-	(11.9)	(1.2)	-	(57.4)	-	(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 subsidiary	-	-	(7.9)	-	-	(10.8)	-	(18.7)
Charged to the income statement	78.2	13.7	35.1	29.2	-	226.3	-	382.5
	514.5	98.4	125.2	201.2	-	282.4	-	1 221.7

Contract risks and onerous contracts

The provision for onerous contracts comprises expected losses on contracts where the expected benefits to be derived from a contract are lower than the unavoidable costs of meeting the obligation. The provision for contract risk comprises potential risks on contracts that are in progress, based on the technical and financial risk profile of each contract.

Performance guarantees

Performance guarantees are issued by the group for contracts that are in progress. These performance guarantees are carried as contingent liabilities and are raised as provisions when the group has a present legal or constructive obligation to settle them.

Product warranty and recall

The provision for product warranty comprises legal and constructive obligations of the group in respect of products delivered that are still under warranty. The provision for product recall comprises the estimated cost that the group will incur in the event of a specific product recall.

Insurance contracts

The provision is in respect of claims that have been incurred but not reported to the insurance subsidiary.

Site restoration provision

The provision is for estimated costs for decontamination and site restoration. A provision for site restoration is recognised when the obligation arises as a result of the group's activities.

24 Provisions (continued)

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 affected persons as well as specific terms negotiated with individuals or their labour representatives. The carrying amount included in other provisions is R3.6m (2008: R22.8m) for the group and R0.9m (2008: R14.2m) for the company.

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 R83.2m (2008: R109.5m) for the group and R57.8m (2008: R79.6m) for the company.

Variable remuneration

Provision is made for all employees based on achieving certain performance targets. The amounts provided are based on an agreed percentage of employees' remuneration. The carrying amount included in other provisions is R117.0m (2008: R161.2m) for the group and R103.3m (2008: R132.5m) for the company.

Legal costs and disputes

The provision relates to legal costs for disputes, labour issues and damages resulting from alleged non-performances in which the group or entities within the group are involved. Also refer to provisions for performance guarantees which relate to legal action. The carrying amount included in other provisions is R32.0m (2008: R28.2m) for the group and the company.

Countertrade

The group has entered into several export sales contracts that give rise to certain countertrade obligations. The obligations vary and are calculated as a percentage of the export sales contract value. A provision for countertrade is raised once the group has a present legal or constructive obligation to settle them. The carrying amount included in other provisions is R2.2m (2008: R13.5m) for the group and for the company.

	Group		Company	
	2009 Rm	2008 Rm	2009 Rm	2008 Rm
25 Trade and other payables				
Financial liabilities	838.8	727.4	538.8	555.4
Trade payables	712.2	606.0	416.1	436.3
Trade payables: Inter-group			4.5	6.8
Interest accrued	52.6	15.6	52.6	15.6
Other accruals	74.0	105.8	65.6	96.7
Non-financial liabilities	5.0	28.0	5.0	27.6
Amounts due to customers for work invoiced, not yet performed	5.0	27.6	5.0	27.6
Other non-financial liabilities	-	0.4	-	-
Less: Disclosed as non-current liabilities held for sale	-	(2.4)	-	-
	843.8	753.0	543.8	583.0

Trade payables are non-interest bearing and are normally settled between 30 and 90 days. Other payables are also non-interest bearing, and are settled as they fall due in accordance with respective agreements. Interest payable is settled in accordance with terms (refer note 23).

	Group		Company	
	2009 Rm	2008 Rm	2009 Rm	2008 Rm
26 Contingent liabilities				
26.1 Guarantees				
The following guarantees were issued by the group:				
Advance payment guarantees	1 428.5	1 233.2	1 428.5	1 223.2
Performance guarantees	874.3	701.8	874.3	701.8
Participating guarantees	9.5	3.8	9.5	3.8
Guarantees to local authorities	4.0	4.6	4.0	4.6
Guarantees to banks for credit facilities of subsidiaries	20.1	20.1	20.1	20.1
Other guarantees	78.7	78.6	78.7	78.6
Total of guarantees issued	2 415.1	2 042.1	2 415.1	2 032.1
Guarantees issued on behalf of associated companies	(339.6)	(96.3)	(339.6)	(96.3)
Advance payment guarantees	(245.1)	(93.5)	(245.1)	(93.5)
Performance guarantees	(84.9)	-	(84.9)	-
Sundry guarantees	(9.6)	(2.8)	(9.6)	(2.8)
	2 075.5	1 945.8	2 075.5	1 935.8
Recognised in the annual financial statements	(786.3)	(1 000.7)	(756.1)	(960.3)
Advance payment received	(675.0)	(902.3)	(644.8)	(861.9)
Provision for performance guarantees	(111.3)	(98.4)	(111.3)	(98.4)
	1 289.2	945.1	1 319.4	975.5

26.2 Litigation

Litigation comprises legal claims lodged and claims that may be lodged against the group. Owing to the sensitivity of the claims and the measures that will be taken to limit the liabilities, specific disclosure of items may negatively influence the outcome and the group's actions.

The aggregate amount of significant claims lodged against the company not specifically provided for is R61.0m (2008: R44.5m). The directors are of the view that the success of most of the claims against the company is remote and no material losses are expected to materialise from these claims. Details of some of the key issues are provided below:

26.2.1 The group is in dispute with one of its key customers over contractually related matters. This has led to the cancellation of contracts that were in progress and the loss of potential contracts, as well as the call up of related performance guarantees. 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.

26.2.2 The group was involved in a system development. This contract was cancelled by the customer on allegation of non-performance. 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. It is envisaged that a legal process will ensue if the issue is not mutually resolved.

26.3 Supply contract for components

One of the group's subsidiary's is a programme partner in a design, manufacturing and supply contract for certain aircraft components. An estimated contract loss has not been raised as a provision following a written commitment received from the Shareholder stating its support, including financial, for the continuation of the contract despite it being loss making, as it has certain strategic advantages to the country.

26.4 Performance guarantee on behalf of a subsidiary

The company has provided a guarantee for the contract (refer to in note 26.3) to the prime contractor, a European-based company. The company guaranteed that the subsidiary will discharge, in full, its contractual obligations and liabilities, including without limitation, counterclaims or setoff. On 25 September 2008 the prime contractor announced an undefined delay on the overall programme mainly due to the technical design issues. From that date until the date of this report the revised technical timetable and the related financial implications of this delay could not be reliably assessed. The subsidiary continues to execute against its portion of the programme in accordance with the contract terms. As there are no amounts stipulated in the contract, any potential financial exposure cannot be determined and there has been no indication that the subsidiary is at fault.

26.5 Site restoration

Provision for site restoration has been calculated and raised, based on certain key assumptions, refer to note 1. A contingency of 15.0% of the estimated cost as recommended by the consultants was not included in determining the site restoration provision. The contingency would have been to cover risks arising from the unknown depth of contamination and the volume of the material to be cleaned up. After an initial clean up, the site will be tested for explosive ordinates to assess whether there should be any further clean up, which may impact the provision. Had the contingency been included, the provision would have been increased by R33.7m (2008: R30.2m) at the group and company.

26.6 Taxes

26.6.1 The group has a contract that is executed on behalf of a foreign-based customer but where delivery takes place locally. The transaction was zero rated for VAT purposes as the customer made representation that it did not have a local presence and, therefore, is not liable for VAT. Based on professional advice obtained after the project had begun, the group was informed that the customer may be required to register for VAT. This means that the group may be liable to pay the output VAT to the tax authorities together with potential penalties and interest. During the year, the customer and the representatives of the entity concerned met with the local tax authorities who confirmed that they are working on the issue, and that the current VAT treatment should be continued until the ruling is issued. The group is unable to quantify the potential liability. However, the group has contracted with the customer on the basis that the customer is liable for all taxes and subsequent penalties and interest.

26.6.2 The tax authorities are reviewing goods that were imported by the group over the years into a 'bonded facility' that is managed by a specific clearing agent, which is mainly used by the local defence industry. The results of the review may affect a number of defence companies and no official findings have been provided to date. Any financial exposures resulting from non-compliance with VAT legislation cannot be determined at this stage.

26.7 Countertrade

The group has entered into several export sales contracts that give rise to certain countertrade obligations. The obligations vary between 60% and 100% of the export sales contract value.

These countertrade obligations can be fulfilled in one or a combination of the following ways:

- production work share and technology transfer
- procurement of products and services from suppliers in the buyers' country
- participation in a business venture in the buyers' country
- exchange of countertrade obligations with companies from buyers' countries that have countertrade obligations in South Africa

The group is constantly in negotiations to conclude any outstanding portion of the countertrade obligation. The group issued guarantees to the value of R19.4m (2008: R11.4m) for penalties on non-fulfilment of countertrade obligations.

The group has entered into local defence contracts which requires the group to impose countertrade 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.

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 R0.9m (2008: R2.8m) was issued to the client to cover any liquidating penalties should the countertrade obligation not be met.

The group provides for the cost to settle countertrade obligations when revenue is recognised on the contracts that give rise to the countertrade obligations.

The table below summarises the group's countertrade position:

	2009			2008		
	Export contracts Rm	Local defence contracts	Total Rm	Export contracts Rm	Local defence Rm	Total Rm
Countertrade obligation						
Total countertrade obligation	415.1	914.2	1 329.3	598.1	820.8	1 418.9
Obligation discharged	-	(684.9)	(684.9)	(338.6)	(589.0)	(927.6)
Outstanding obligation	415.1	229.3	644.4	259.5	231.8	491.3
To be settled by third party	-	(227.5)	(227.5)	-	(218.1)	(218.1)
Net obligation of the group	415.1	1.8	416.9	259.5	13.7	273.2
Penalties						
Maximum penalty for non-compliance	35.3	12.0	47.3	19.3	11.6	30.9
Third party obligation	-	(11.9)	(11.9)	-	(10.9)	(10.9)
Net group exposure	35.3	0.1	35.4	19.3	0.7	20.0
Guarantees issued						
Group issued	19.4	0.9	20.3	11.4	2.8	14.2
Third party guarantees	-	11.9	11.9	-	10.9	10.9
	19.4	12.8	32.2	11.4	13.7	25.1
Provision to settle obligation (refer note 24)	2.2	-	2.2	14.8	-	14.8

	Group		Company	
	2009 Rm	2008 Rm	2009 Rm	2008 Rm
27 Notes to the cash flow statement				
27.1 Reconciliation of profit with cash retained from operations				
Net loss before tax	(504.7)	(316.3)	(761.7)	(153.1)
Adjusted for:	(6.3)	229.6	550.6	228.4
Loss from discontinued operations (refer note 5.1)	-	(25.9)	-	(0.5)
Profit on disposal of property, plant and equipment [1]	1.4	(88.3)	1.6	(87.9)
(Profit)/loss on disposal of investment property [1]	(12.4)	(46.2)	(12.4)	-
Profit on disposal of subsidiaries and divisions [1]	-	(2.1)	-	(2.1)
Loss on disposal of business entities [1]	6.0	131.8	2.9	131.8
Depreciation [1]	111.4	108.1	78.7	99.6
Amortisation of intangible assets [1]	2.8	3.5	2.8	2.5
Revaluation of derivatives	(96.6)	48.5	(105.1)	43.9
Revaluation of embedded derivatives	70.3	(79.0)	55.4	(63.7)
Net interest paid (refer note 7)	73.3	60.5	96.5	107.9
Dividend received	-	-	(49.1)	(88.6)
(Decrease)/increase in provisions	(299.7)	70.5	(170.1)	58.9
Impairment raised on property, plant and equipment [1]	168.1	4.5	(3.4)	4.5
Impairment raised on other intangible assets [1]	31.6	43.0	4.4	-
Impairment in subsidiaries [1]	-	-	726.5	44.5
Impairment in associated companies [1]	-	-	(49.4)	-
Share of (profit)/loss of associated companies (refer note 13)	(31.7)	23.1	-	-
Fair value adjustment of investment properties (refer note 4)	(30.8)	(22.4)	(28.7)	(22.4)
Operating loss before changes in net current assets	(511.0)	(86.7)	(211.1)	75.3
Changes in net current assets:	(155.5)	(237.8)	(136.9)	(298.4)
Increase in inventories	(103.8)	(113.9)	(97.7)	(64.3)
Increase in receivables	(202.6)	(324.3)	(56.9)	(360.0)
Increase in reinsurance asset	(1.5)	(1.2)	-	-
Increase in trade and other payables	152.4	206.3	17.7	125.9
Other movements: Assets held for sale	-	(2.8)	-	-
Other movements: Liabilities held for sale	-	(1.9)	-	-
Cash utilised in operations	(666.5)	(324.5)	(348.0)	(223.1)

[1] *Refer note 3*

	Group		Company	
	2009 Rm	2008 Rm	2009 Rm	2008 Rm
27 Notes to the cash flow statement (continued)				
27.2 Disposal of divisions to subsidiaries				
Property, plant and equipment			-	15.1
Intangible assets			-	0.9
Interests in subsidiary			-	0.4
Inventories			-	110.4
Trade and other receivables			-	128.5
Derivative financial assets			-	1.6
Trade and other payables			-	(57.7)
Derivative financial liabilities			-	(1.6)
Advance payments received			-	(135.0)
Provisions			-	(18.3)
Group share of net assets disposed			-	44.3
Cash and cash equivalents			-	35.1
Profit on disposal			-	-
Total sale consideration			-	79.4
Issue of shares			-	(62.5)
Cash flow on disposal			-	16.9
27.3 External disposal of business entities				
Property, plant and equipment	96.3	15.5	95.3	2.5
Intangible assets	11.8	-	-	-
Other non-current assets	0.2	-	-	-
Inventories	298.8	6.6	297.1	2.7
Trade and other receivables	151.3	6.0	142.1	-
Derivative financial assets	25.5	-	25.5	-
Trade and other payables	(101.0)	(1.2)	(98.6)	(0.1)
Interest-bearing borrowings	(7.4)	-	(0.2)	-
Advance payments received	(93.9)	-	(93.3)	-
Derivative financial liabilities	(30.8)	-	(30.8)	-
Provisions	(61.3)	(1.2)	(60.6)	(0.5)
Tax liability	(0.2)	-	-	-
Net investments in subsidiaries	-	-	7.9	21.1
Minority interests	(7.6)	-		
Group share of net assets disposed	281.7	25.7	284.4	25.7
Cash and cash equivalents	26.8	-	21.0	-
Cash of business entities disposed	21.0	-	21.0	-
Cash previously disclosed as held for sales (refer note 5.3)	5.8	-	-	-
(Loss)/profit on disposal	(6.0)	2.1	(2.9)	2.1
Total sale consideration	302.5	27.8	302.5	27.8
Issue of shares	(297.5)	-	(297.5)	-
Cash flow on disposal	5.0	27.8	5.0	27.8

	Group		Company	
	2009 Rm	2008 Rm	2009 Rm	2008 Rm
27 Notes to the cash flow statement (continued)				
27.4 Subsidiary disposed due to dilution of shareholding				
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)		
Group share of net assets disposed	-	(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	-	-		
28 Capital commitments				
Approved and contracted for	26.2	113.8	20.1	40.6
Land and buildings	6.6	2.2	6.6	2.2
Plant and machinery	16.4	107.8	10.3	34.6
Vehicles and office furniture	0.3	0.5	0.3	0.5
Computer equipment	2.9	3.3	2.9	3.3
Approved but not contracted for	-	0.3	-	0.3
Plant and machinery	-	0.2	-	0.2
Computer equipment	-	0.1	-	0.1
	26.2	114.1	20.1	40.9

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

	Buildings Rm	Plant and machinery Rm	Vehicles and office furniture Rm	Computer equipment Rm	Total Rm
29 Non-cancellable leases					
Operating leases					
The group and company have certain property, plant and equipment held under operating leases. Some of the lease agreements provide for minimum annual lease payments which are due as follows:					
Group					
2009					
Less than one year	67.8	0.7	3.2	-	71.7
Between one and five years	216.7	-	11.3	-	228.0
More than five years	-	-	3.1	-	3.1
	284.5	0.7	17.6	-	302.8
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
	314.9	4.3	1.6	3.9	324.7
Company					
2009					
Less than one year	67.8	0.7	1.0	-	69.5
Between one and five years	216.9	-	1.8	-	218.7
	284.7	0.7	2.8	-	288.2
2008					
Less than one year	62.5	1.3	0.8	1.3	65.9
Between one and five years	250.1	3.0	0.8	2.6	256.5
	312.6	4.3	1.6	3.9	322.4

30 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 R0.1m 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 Department of Public Enterprises.

The group operates in an economic environment currently dominated by business entities directly or indirectly owned by the Government. As a result of the constitutional independence of all three spheres of government in South Africa, 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 33).

Key management personnel

Key management is defined as individuals with the authority and responsibility for planning, directing and controlling the activities of the business entity. All individuals who are members of the Denel Executive Committee and the Board of Directors, as well as the business entity CEOs 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 financial years as part of the financing plan. Other transactions within the group were on commercial terms and conditions.

30 Related parties (continued)

The following transactions were carried out with related parties:

Group

	National Government Rm	Major national public entities Rm	Between the company and its subsidiaries Rm	Associated companies Rm	Other related parties Rm
2009					
Purchases of goods	19.4	4.1	-	103.5	111.2
Sales of goods	1 671.9	109.7	-	52.9	76.0
Services rendered	352.3	6.2	-	2.1	-
Services received	16.6	38.4	-	35.8	37.4
Lease payments	-	80.5	-	-	-
Provision of guarantees	537.9	-	-	349.5	-
Guarantees issued to third parties	880.0	-	-	-	-
Interest received	-	1.7	-	0.5	-
Interest paid	0.8	-	-	12.8	0.6
Outstanding balances payable	1.4	9.4	-	229.4	171.2
Outstanding balances receivable	342.3	19.5	-	10.3	94.1
Advance payments received	360.5	-	-	-	-
Allowance of doubtful debts	10.5	3.6	-	5.9	-
2008					
Purchases of goods	94.9	23.2	-	14.0	22.2
Sales 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
Lease payments	0.1	40.9	-	7.1	-
Sales 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 business 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	-	-	-	-
Allowance of doubtful debts	3.5	-	-	0.1	-

30 Related parties (continued)

Company

	National Government Rm	Major national public entities Rm	Between the company and its subsidiaries Rm	Associated companies Rm	Other related parties Rm
2009					
Purchases of goods	19.1	4.0	47.2	99.8	-
Sales of goods	1 291.8	109.7	61.1	52.9	-
Services rendered	132.2	6.2	6.0	1.8	-
Services received	4.0	37.4	40.5	35.8	-
Lease payments	-	80.5	-	-	-
Purchases of properties and other assets	-	-	-	0.1	-
Provision of guarantees	537.9	-	1.9	349.5	-
Guarantees issued to third parties	880.0	-	-	-	-
Interest received	-	1.7	10.2	0.5	-
Interest paid	-	-	28.9	12.8	-
Outstanding balances payable	0.2	0.5	2.6	229.1	-
Outstanding balances receivable	130.3	19.5	16.6	10.3	-
Advance payments received	359.4	-	-	5.9	-
Allowance of doubtful debts	10.5	3.6	1.2	-	-
2008					
Purchases of goods	86.9	22.7	157.9	14.0	2.3
Sales 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
Lease payments	0.1	40.9	15.7	-	-
Sales 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 business 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	-	-	-	-
Allowance of doubtful debts	3.5	-	-	-	-

Post-employment benefit plans (refer note 33)

		Group		Company	
		2009 Rm	**2008 Rm**	**2009 Rm**	**2008 Rm**
30	**Related parties (continued)**				
	Compensation paid to key management personnel (including information in the *directors' report*)				
	Short-term employee benefits	33.4	27.9	23.9	22.9
	Post-employee benefits	1.9	1.5	1.9	1.5
	Termination benefits	-	2.1	-	2.1
		35.3	31.5	25.8	26.5

31 Financial risk management

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

- Credit risk
- Liquidity risk
- 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, who is responsible for the development and monitoring of the group's risk management policies. The committee meets three times a year and regularly reports to the board on its activities. The group's risk management policies are established to identify and analyse the risks faced by the group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the group's activities.

The roles and responsibilities of the Group Audit and Risk Committee include:

- Approval of all counterparties;
- Approval of new instruments;
- Approval of foreign exchange transaction company policy;
- Approval of the investment policy;
- Approval of Corporate Treasury policy and procedure manual; and
- Approval of long-term funding requirements.

The Group Audit and Risk Committee is assisted in its oversight role by the Internal Audit Department, who 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.

31 Financial risk management (continued)

31.1 Credit risk

Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This risk arises principally from the group's receivables from customers (loans receivable, trade and sundry receivables) and its centralised treasury activities (derivative financial instruments and cash and cash equivalents).

Receivables from customers

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

- The potential client's compliance with statutory and regulatory conditions;
- The political risk of the potential client's country;
- The previous business record that the existing client had with business entities within the group (includes but is not limited to payment history);
- The most recent credit rating of the country that the potential customer operates in from the group's Treasury Department. Countries are graded by major international banks and these gradings are published on a regular basis. The group uses the international publication, 'Institutional Investor' as a basis for its country risk assessments; and
- Whether finance is available to the potential client.

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 prepayment basis.

Overdue amounts are individually assessed and if it is evident that an amount will not be recovered, it is impaired and legal action is instituted to recover the amounts.

Financial instruments managed by the group's treasury function

The 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. Counterparties are assessed based on their official FITCH Ratings rating. 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 F1 and F1+ short-term ratings, AA long-term ratings and a minimum of R1bn in capital. Treasury is allowed to invest 20.0% of its portfolio with a counterparty that is F1+ rated and 15% with a counterparty that is F1 rated. Annual counterparty limits per bank facility are negotiated with each bank and is approved by the Chief Executive Officer.

Credit exposure and concentration of credit risk

The carrying amount of financial assets represents the maximum credit exposure at the reporting date. The following table represents the group's concentration of risk for all non-derivative financial assets:

		2009			2008		
		Domestic Rm	Foreign Rm	Total Rm	Domestic Rm	Foreign Rm	Total Rm
31	**Financial risk management (continued)**						
	Group						
	Trade receivables	277.0	411.6	688.6	264.8	443.3	708.1
	Government and related entities	205.0	231.6	436.6	194.0	311.7	505.7
	Non-government entities	72.0	180.0	252.0	70.8	131.6	202.4
	Sundry receivables	71.5	15.5	87.0	32.9	0.2	33.1
	Government and related entities	54.3	15.4	69.7	18.7	-	18.7
	Non-government entities	17.2	0.1	17.3	14.2	0.2	14.4
	Interest receivable (non-government)	6.4	-	6.4	5.9	-	5.9
	Loans receivable (non-government)	18.7	-	18.7	22.5	-	22.5
	Non-current	10.0	-	10.0	14.5	-	14.5
	Current	8.7	-	8.7	8.0	-	8.0
		373.6	427.1	800.7	326.1	443.5	769.6
	Company						
	Trade receivables	253.4	265.7	519.1	250.9	353.2	604.1
	Government and related entities	184.9	217.3	402.2	190.2	286.4	476.6
	Non-government entities	68.5	48.4	116.9	60.7	66.8	127.5
	Sundry receivables	30.7	15.5	46.2	23.7	-	23.7
	Government and related entities	18.2	15.4	33.6	11.1	-	11.1
	Non-government entities	12.5	0.1	12.6	12.6	-	12.6
	Interest receivable (non-government)	6.5	-	6.5	5.9	-	5.9
	Loans receivable (non-government)	18.7	-	18.7	22.5	-	22.5
	Non-current	18.7	-	18.7	14.5	-	14.5
	Current	-	-	-	8.0	-	8.0
		309.3	281.2	590.5	303.0	353.2	656.2

31 Financial risk management (continued)

Credit exposure and concentration of credit risk (continued)

Ageing

The ageing of financial assets at the reporting date is included below. The ageing categories include:

Group

	2009 Receivables not impaired Rm	2009 Receivables impaired Rm	2009 Impairment amount Rm	2009 Carrying value Rm
Trade receivables	688.6	130.0	(130.0)	688.6
Not past due	480.6	-	-	480.6
Not past due, but impaired	-	1.1	(1.1)	-
Past due				
Less than 30 days	62.8	1.1	(1.1)	62.8
30 to 60 days	34.2	22.1	(22.1)	34.2
61 to 90 days	34.9	3.7	(3.7)	34.9
More than 90 days	76.1	102.0	(102.0)	76.1
Other receivables	87.0	0.7	(0.7)	87.0
Not past due, not impaired	54.9	-	-	54.9
Not past due, but impaired	-	-	-	-
Past due				
Less than 30 days	28.5	-	-	28.5
30 to 60 days	3.6	-	-	3.6
61 to 90 days	-	-	-	-
More than 90 days	-	0.7	(0.7)	-
Interest accrued	6.4	-	-	6.4
Not past due, not impaired				
Loans receivable	18.7	-	-	18.7
Not past due, not impaired				
Current portion	8.7	-	-	8.7
Non-current portion	10.0	-	-	10.0
	800.7	130.7	(130.7)	800.7
Less: Held for sale	-	-	-	-
	800.7	130.7	(130.7)	800.7

2008			
Receivables not impaired Rm	Receivables impaired Rm	Impairment amount Rm	Carrying value Rm
707.6	96.2	(95.7)	708.1
492.8	-	-	492.8
-	40.7	(40.7)	-
121.2	0.1	(0.1)	121.2
22.4	0.1	(0.1)	22.4
17.7	0.1	-	17.8
53.5	55.2	(54.8)	53.9
33.1	-	-	33.1
25.4	-	-	25.4
-	-	-	-
7.1	-	-	7.1
-	-	-	-
-	-	-	-
0.6	-	-	0.6
5.9	-	-	5.9
22.5	-	-	22.5
8.0	-	-	8.0
14.5	-	-	14.5
769.1	96.2	(95.7)	769.6
(7.0)	(0.1)	0.1	(7.0)
762.1	96.1	(95.6)	762.6

	2009			
	Receivables not impaired Rm	**Receivables impaired Rm**	**Impairment amount Rm**	**Carrying value Rm**
31 Financial risk management (continued)				
Credit exposure and concentration of credit risk (continued)				
Company				
Trade receivables	519.1	126.9	(126.9)	519.1
Not past due	410.5	-	-	410.5
Not past due, but impaired	-	1.1	(1.1)	-
Past due				
Less than 30 days	47.9	1.1	(1.1)	47.9
30 to 60 days	26.7	22.1	(22.1)	26.7
61 to 90 days	26.3	3.5	(3.5)	26.3
More than 90 days	7.7	99.1	(99.1)	7.7
Other receivables	46.2	0.7	(0.7)	46.2
Not past due, not impaired	42.7	-	-	42.7
Not past due, but impaired	-	-	-	-
Past due				
Less than 30 days	2.5	-	-	2.5
30 to 60 days	1.0	-	-	1.0
61 to 90 days	-	-	-	-
More than 90 days	-	0.7	(0.7)	-
Interest accrued	6.4	-	-	6.4
Not past due, not impaired				
Loans receivable	18.7	-	-	18.7
Not past due, not impaired				
Current portion	8.7	-	-	8.7
Non-current portion	10.0	-	-	10.0
	590.4	127.6	(127.6)	590.4

Security held over non-derivative financial assests:

	Group		Company	
	2009 Rm	**2008 Rm**	**2009 Rm**	**2008 Rm**
Irrevocable confirmed Letters of Credit				
- Confirmed by local banks	-	67.6	-	67.6
- Confirmed by foreign banks	-	12.2	-	12.2
Unconfirmed Letters of Credit	21.8	3.2	21.8	3.2
Credit insurance cover	-	1.3	-	1.3
	21.8	84.3	21.8	84.3

2008			
Receivables not impaired Rm	Receivables impaired Rm	Impairment amount Rm	Carrying value Rm
604.1	92.4	(92.4)	604.1
441.2	-	-	441.2
-	40.7	(40.7)	-
112.0	0.1	(0.1)	112.0
12.5	0.1	(0.1)	12.5
11.9	0.1	(0.1)	11.9
26.5	51.4	(51.4)	26.5
23.7	-	-	23.7
23.2	-	-	23.2
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
0.5	-	-	0.5
5.9	-	-	5.9
22.5	-	-	22.5
8.0	-	-	8.0
14.5	-	-	14.5
656.2	92.4	(92.4)	656.2

31.2 Liquidity risk

A centralised treasury manages the liquidity of the group taking into account assets, liabilities and commitments to ensure there is sufficient cash within the group as a whole. Updated cash flow information and projections of future cash flows are received from 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. The group received a government guarantee of R880.0m to raise borrowings. The guarantee expires on 31 May 2009. Subsequent to year-end, guarantees of R1.3bn were issued to replace the expired guarantees.

Surplus funds are deposited in liquid assets (ie negotiable certificates of deposit and call deposits) (refer note 20).

	Group		Company	
	2009 Rm	2008 Rm	2009 Rm	2008 Rm
Undrawn credit facilities				
General banking facilities	364.7	668.0	364.7	668.0

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

Exposure to liquidity risk

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

	Contractual undiscounted cash flows					
	Carrying amount Rm	Total cash flows Rm	Less than 3 months Rm	Between 3 and 12 months Rm	Between 1 and 5 years Rm	More than 5 years Rm
Group						
2009						
Interest-bearing borrowings [1]	977.6	1 003.5	926.1	0.2	77.2	-
Loans from associated companies	202.4	202.4	202.4	-	-	-
Trade and other payables	786.2	801.8	757.8	44.0	-	-
Derivative financial liabilities	32.9	33.0	20.3	12.3	0.4	-
	1 999.1	2 040.7	1 906.6	56.5	77.6	-
2008						
Interest-bearing borrowings [1]	166.5	168.0	166.2	0.9	0.9	-
Loans from associated companies	84.1	84.1	84.1	-	-	-
Trade and other payables	711.8	711.8	595.6	116.2	-	-
Derivative financial liabilities	163.8	163.7	29.7	112.3	21.7	-
	1 126.2	1 127.6	875.6	229.4	22.6	-

	Carrying amount Rm	Total cash flows Rm	Less than 3 months Rm	Between 3 and 12 months Rm	Between 1 and 5 years Rm	More than 5 years Rm
		Contractual undiscounted cash flows				
Company						
2009						
Interest-bearing borrowings [1]	924.8	926.4	926.1	0.2	0.1	-
Loans from associated companies	202.4	202.4	202.4	-	-	-
Trade and other payables	486.2	501.8	458.9	42.9	-	-
Derivative financial liabilities	21.7	21.7	15.4	5.9	0.4	-
	1 635.1	1 652.3	1 602.8	49.0	0.5	-
2008						
Interest-bearing borrowings [1]	166.5	168.0	166.2	0.9	0.9	-
Loans from associated companies	84.1	84.1	84.1	-	-	-
Trade and other payables	539.8	539.8	427.8	112.0	-	-
Derivative financial liabilities	161.1	161.0	46.7	92.6	21.7	-
	951.5	952.9	724.8	205.5	22.6	-

[1] *The interest accrued included in trade payable on note 25 is included in interest-bearing borrowings for the purpose of this disclosure.*

31.3 Market risk

Market risk is the risk that movements in market risk factors, including foreign exchange rates, interest rates and commodity prices will affect the group's revenue and operational costs, as well as the value of its holdings of financial instruments. The objective of the group's market risk management policy is to manage and control market risk exposures to minimise the impact of adverse market movements with respect to revenue protection and to optimise the funding of the business operations.

Divisions and subsidiaries

The divisions and subsidiaries are responsible for the preparation and presentation of market risk information as it affects the relevant business 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 a business 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 Group FD 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.

31 Financial risk management (continued)

31.3 Market risk (continued)

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 treasury procedures manual.

At the reporting date the interest rate profile of the group's interest-bearing financial instruments was as follows:

	Group		Company	
	2009 Rm	2008 Rm	2009 Rm	2008 Rm
Fixed rate instruments				
Commercial paper	871.7	148.6	871.7	148.6
Finance leases	0.5	2.3	0.5	2.3
Loans receivable	18.7	22.5	18.7	22.5
Variable rate instruments				
Cash and short-term deposits	489.5	885.3	437.9	819.3
Treasury asset	202.4	84.1	202.4	84.1

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 instrument

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 2009 Rm	Group 2008 Rm	Company 2009 Rm	Company 2008 Rm
Cash and cash equivalents	3.2	4.5	3.2	4.5

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

31.3 Market risk (continued)

Currency risk

Currency risk arises from the movement in foreign exchange rates. The group's currency exposures result primarily from the import of raw materials, foreign sales of goods and services, as well as foreign bank account holdings. Foreign exchange embedded derivatives are recognised when the group has entered into contracts denominated in foreign currencies, which are neither the measurement currencies of parties to the contract, nor the currencies in which those commodities are routinely traded in international commerce. No speculating in foreign currency is allowed within the group.

Treasury is responsible for the hedging of foreign currency exposure in terms of information received from the divisions/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 consist 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, ie there is an underlying contract in place. Currency exposures are reported to the Group FD on a weekly basis and to the Executive Committee on a monthly basis.

Bank accounts of foreign offices are not hedged. Proceeds received from export contracts that would be used to pay foreign suppliers on the same contract are 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:

	2009			2008		
	US Dollar (USD) million	Euro (EUR) million	Sterling (GBP) million	US Dollar (USD) million	Euro (EUR) million	Sterling (GBP) million
Group						
Assets	27.8	0.4	0.1	82.7	24.8	-
Trade receivables	4.6	0.3	0.1	17.3	13.4	-
Controlled foreign currency accounts (CFC)	0.3	-	-	0.2	-	-
Embedded derivatives (export sales)	22.9	0.1	-	65.2	11.4	-
Liabilities	(0.2)	-	-	(4.0)	(4.1)	(0.2)
Trade payables	(0.1)	-	-	-	-	-
Embedded derivatives (import)	(0.1)	-	-	(4.0)	(4.1)	(0.2)
Gross balance sheet exposure	27.6	0.4	0.1	78.7	20.7	(0.2)
Estimated forecast sales	10.2	11.2	11.9	27.8	6.4	32.1
Estimated forecast purchases	(0.1)	(1.6)	(0.1)	(1.7)	(6.1)	(0.6)
Gross exposure	37.7	10.0	11.9	104.8	21.0	31.3
Forward exchange contracts						
Export sales	(21.3)	(18.3)	(11.9)	(66.8)	(18.9)	(33.4)
Import	4.5	3.1	0.5	1.9	10.2	1.0
Foreign currency options (zero cost collars)						
Export sales	-	-	-	(7.4)	(1.9)	-
Net exposure	20.9	(5.2)	0.5	32.5	10.4	(1.1)

	2009			2008		
	US Dollar (USD) million	Euro (EUR) million	Sterling (GBP) million	US Dollar (USD) million	Euro (EUR) million	Sterling (GBP) million
31 **Financial risk management (continued)**						
Company						
Assets	27.8	0.4	0.1	79.0	24.8	-
Trade receivables	4.6	0.3	0.1	13.6	13.4	-
Controlled foreign currency accounts (CFC)	0.3	-	-	0.2	-	-
Embedded derivatives (export sales)	22.9	0.1	-	65.2	11.4	-
Liabilities	(0.2)	-	-	(4.0)	(4.1)	(0.2)
Trade payables	(0.1)	-	-	-	-	-
Embedded derivatives (import)	(0.1)	-	-	(4.0)	(4.1)	(0.2)
Gross balance sheet exposure	27.6	0.4	0.1	75.0	20.7	(0.2)
Estimated forecast sales	-	0.4	11.9	17.8	0.8	32.1
Estimated forecast purchases	-	(0.1)	(0.1)	0.7	0.5	0.3
Gross exposure	27.6	0.7	11.9	93.5	22.0	32.2
Forward exchange contracts						
Export sales	(11.1)	(7.5)	(11.9)	(56.8)	(13.3)	(33.4)
Import	4.4	1.6	0.5	(0.5)	3.6	-
Foreign currency options (zero cost collars)						
Export sales	-	-	-	(7.4)	(1.9)	-
Net exposure	20.9	(5.2)	0.5	28.8	10.4	(1.2)
A 5% strengthening of the Rand against the following currencies at 31 March would have increased/ (decreased) profit or loss by the following amounts:						
Group	20.8	(4.8)	0.4	9.8	(0.5)	(1.0)
Company	20.8	(4.8)	0.4	11.7	(0.5)	(1.0)

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.

	2009			2008		
	Foreign currency notional amount million	Local currency amount Rm	Fair value Rm	Foreign currency notional amount million	Local currency amount Rm	Fair value Rm
31 Financial risk management (continued)						
31.3 Market risk (continued)						
Foreign currency derivatives						
The following foreign exchange contracts existed at 31 March:						
The fair value of foreign currency derivatives is disclosed in note 19.1.						
Purchase contracts						
US Dollar (USD)	1.1	10.5	10.7	11.9	78.0	79.7
Euro (EUR)	5.0	58.9	64.4	5.0	53.0	53.7
Sterling (GBP)	0.7	10.6	9.8	0.7	11.6	11.9
Singapore Dollar (SGD)	-	-	-	0.1	0.7	0.9
Australian Dollar (AUD)	-	0.1	0.1	-	-	-
Other		6.3	5.8		7.6	9.9
		86.4	90.8		150.9	156.1
Sales contracts						
US Dollar (USD)	50.6	496.4	503.5	78.5	614.7	656.4
Euro (EUR)	28.1	375.1	369.5	15.3	155.7	161.8
Sterling (GBP)	11.9	182.4	167.8	33.4	500.8	561.1
Singapore Dollar (SGD)	2.9	19.1	18.7	5.1	29.4	30.7
Other		5.5	5.7		1.6	2.1
		1 078.5	1 065.2		1 302.2	1 412.1

31 Financial risk management (continued)

31.3 Market risk (continued)

Maturity table

Foreign exchange contracts

	Foreign currency notional amount			
	Million 1 year	Million 2 years	Million 3–5 years	Million Total
Purchase contracts				
2009				
US Dollar (USD)	1.1	-	-	1.1
Euro (EUR)	4.8	0.2	-	5.0
Sterling (GBP)	0.7	-	-	0.7
Singapore Dollar (SGD)	-	-	-	-
Sales contracts				
US Dollar (USD)	50.6	-	-	50.6
Euro (EUR)	17.4	10.8	-	28.2
Sterling (GBP)	11.9	-	-	11.9
Singapore Dollar (SGD)	2.9	-	-	2.9
2008				
US Dollar (USD)	6.7	2.6	2.6	11.9
Euro (EUR)	5.0	-	-	5.0
Sterling (GBP)	0.7	-	-	0.7
Singapore Dollar (SGD)	0.1	-	-	0.1
Sales contracts				
US Dollar (USD)	72.8	5.7	-	78.5
Euro (EUR)	15.3	-	-	15.3
Sterling (GBP)	33.4	-	-	33.4
Singapore Dollar (SGD)	5.1	-	-	5.1

Foreign exchange embedded derivatives

Contracts (sale or purchase) 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.

	2009			2008		
	Foreign currency notional amount million	Local currency amount Rm	Fair value Rm	Foreign currency notional amount million	Local currency amount Rm	Fair value Rm
31 Financial risk management (continued)						
Foreign currencies						
Export transactions						
US Dollar (USD)	47.7	484.7	472.6	45.5	271.4	279.5
Euro (EUR)	-	-	-	1.5	15.3	20.1
		484.7	472.6		286.7	299.6
Import transactions						
US Dollar (USD)	0.1	0.8	0.6	5.0	42.0	43.7

	Foreign currency notional amount			
	Million 1 year	Million 2 years	Million 3–5 years	Million Total
31 Financial risk management (continued)				
31.3 Market risk (continued)				
Foreign currency derivatives (continued)				
Maturity table				
2009				
Export transactions				
US Dollar (USD)	39.7	8.0	-	47.7
Euro (EUR)	-	-	-	-
Import transactions				
US Dollar (USD)	0.1	-	-	0.1
2008				
Export transactions				
US Dollar (USD)	38.1	6.1	1.3	45.5
Euro (EUR)	1.5	-	-	1.5
Import transactions				
US Dollar (USD)	4.3	0.7	-	5.0

	2009			2008		
	Units in ton	Local currency amount Rm	Fair value Rm	Units in ton	Local currency amount Rm	Fair value Rm
31 Financial risk management (continued)						
Commodity risk						
Commodity risk arises from the movement in commodity prices. The group purchases mainly two commodities as raw material (ie 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 commodity swap derivatives is disclosed in note 19.2.						
The following commodity swap contracts existed at 31 March:						
Copper swaps	1 177	53.7	45.8	2 488	123.9	171.5
Zinc swaps	496	9.1	6.3	1 051	22.2	21.2
		62.8	52.1		146.1	192.7

	Units in ton		
	1 year	2 years	Total
31 Financial risk management (continued)			
Maturity table			
2009			
Copper swaps	1 177	-	1 177
Zinc swaps	496	-	496
2008			
Copper swaps	1 749	739	2 488
Zinc swaps	765	286	1 051

31 Financial risk management (continued)

31.4 Fair value of financial assets and liabilities

The categorisation of each class of financial asset and liability, including their fair values, are included below:

Group

	Note	Loans and receivables Rm	Liabilities at amortised cost Rm	Held for trading Rm	Total carrying value Rm	Fair value Rm
2009						
Financial assets						
Loans receivable	14	18.7			18.7	20.5
Trade and other receivables	17	782.0			782.0	782.0
Derivative financial assets	19.1			52.7	52.7	52.7
Cash and cash equivalents	20.1	489.5			489.5	489.5
Treasury asset	20.2	202.4			202.4	202.4
Financial liabilities						
Interest-bearing borrowings	23		(925.0)		(925.0)	(977.9)
Associated companies: Borrowing	23		(202.4)		(202.4)	(202.4)
Trade and other payables	25		(838.8)		(838.8)	(838.8)
Derivative financial liabilities	19.2			(57.1)	(57.1)	(32.9)
		1 492.6	(1 966.2)	(4.4)	(478.0)	(504.9)
2008						
Financial assets						
Loans receivable	14	22.5			22.5	24.6
Associated companies: Loans receivable	13	24.7			24.7	24.7
Trade and other receivables	17	747.1			747.1	747.1
Derivative financial assets	19.1			148.7	148.7	148.7
Cash and cash equivalents	20.1	885.3			885.3	885.3
Treasury asset	20.2	84.1			84.1	84.1
Financial liabilities						
Interest-bearing borrowings	23		(158.1)		(158.1)	(158.1)
Associated companies: Borrowing	23		(84.1)		(84.1)	(84.1)
Trade and other payables	25		(727.4)		(727.4)	(727.4)
Derivative financial liabilities	19.2			(184.7)	(184.7)	(184.7)
		1 763.7	(969.6)	(36.0)	758.1	760.2
Less: Held for sale		(15.2)	12.4	-	(2.8)	(2.8)
		1 748.5	(957.2)	(36.0)	755.3	757.4

	Note	Loans and receivables Rm	Liabilities at amortised cost Rm	Held for trading Rm	Total carrying value Rm	Fair value Rm
Company						
2009						
Financial assets						
Loans receivable	14	18.7			18.7	20.5
Subsidiaries: Loans receivable		199.4			199.4	199.4
Trade and other receivables	17	596.0			596.0	596.0
Derivative financial assets	19.1			52.7	52.7	52.7
Cash and cash equivalents	20.1	437.9			437.9	437.9
Treasury asset	20.2	202.4			202.4	202.4
Financial liabilities						
Interest-bearing borrowings	23		(872.2)		(872.2)	(908.4)
Associated companies: Borrowing	23		(202.4)		(202.4)	(202.4)
Trade and other payables	25		(538.8)		(538.8)	(538.8)
Subsidiaries: Borrowings			(212.7)		(212.7)	(212.7)
Derivative financial liabilities	19.2			(43.9)	(43.9)	(43.9)
		1 454.4	(1 826.1)	8.8	(362.9)	(397.3)
2008						
Financial assets						
Loans receivable	14	22.5			22.5	24.6
Associated companies: Loans receivable	13	24.7			24.7	24.7
Subsidiaries: Loans receivable		22.5			22.5	22.5
Trade and other receivables	17	641.4			641.4	641.4
Derivative financial assets	19.1			135.8	135.8	135.8
Cash and cash equivalents	20.1	819.3			819.3	819.3
Treasury asset	20.2	84.1			84.1	84.1
Financial liabilities						
Interest-bearing borrowings	23		(150.9)		(150.9)	(150.9)
Associated companies: Borrowing	23		(84.1)		(84.1)	(84.1)
Trade and other payables	25		(555.4)		(555.4)	(555.4)
Subsidiaries: Borrowings			(377.9)		(377.9)	(377.9)
Derivative financial liabilities	19.2			(182.0)	(182.0)	(182.0)
		1 614.5	(1 168.3)	(46.2)	400.0	402.1

31 Financial risk management (continued)

31.4 Fair value of financial assets and liabilities (continued)

Determination of fair values

Non-derivative financial instruments

Quoted market prices at reporting date have been used to determine the fair value of loan and receivables and interest-bearing borrowings. Where there is no quoted market price a valuation technique, most commonly discounted cash flows, was used. For trade receivables and payables the fair value was determined using the discounted cash flow method at market-related interest rate. All other financial assets and liabilities carrying amounts approximates fair value.

Derivative financial instruments

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

32 Capital management

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

The capital resources of the group has been depleted during the past four years as a result of loss making contracts and inadequate orders to optimise the labour and capital intensive operations throughout the group. A turnaround strategy was developed during 2006 which was approved by the key stakeholders, including the Executives Authority and Cabinet. This required the Shareholder to inject R5.2bn for the successful implementation of the strategy.

Since the approval of the strategy, the group has been recapitalised by a total of R3.5bn. The board has since requested the final recapitalisation payment of at least R1.7bn from the Shareholder. The Shareholder has in the interim provided a government guarantee of R1.3bn to enable the group to raise borrowings.

The group further strives to negotiate advance payments from clients in business transactions that require high investment in working capital over a long delivery lead time.

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 maintained a solvency margin higher than the statutory requirement of 25.0%.

33 Pension and other post-retirement obligations

The group offers pension and post-retirement benefits through one defined contribution plan and two defined benefit plans.

33.1 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 2009. The result of the *IAS 19 Employee Benefits* valuation indicated an actuarial surplus of R1 215.4m (2008: R1 640.7m). The statutory valuation, which is performed using different assumptions to the *IAS 19* valuation, indicated a surplus of R777.0m at 31 December 2006.

The fund is in the process of being converted into a member alone fund, refer to the *directors' report* for details.

The group expects to contribute R0.5m to this defined benefit pension plan in 2010.

33.2 Denel Medical Benefit Trust

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

The fund is valued annually by independent actuaries using the projected unit credit method. The result of the valuation carried out at 31 March 2009 indicated a surplus of R445.0m (2008: R817.4m).

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 only contributes to the fund when a member goes on early retirement and it is, therefore, unable to determine the contribution for 2009.

The group is exploring the possibility of a voluntary settlement that will ensure that the financial risk to the group terminates, whilst the qualifying employees continue to receive the benefit, refer to the *directors' report* for details.

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

	Denel Pension Fund		Denel Medical Benefit Trust	
	2009 Rm	**2008 Rm**	**2009 Rm**	**2008 Rm**
33 Pension and other post-retirement obligations (continued)				
Change in defined benefit funded obligation				
Present value of funded obligations at 1 April	3 247.8	3 243.0	1 076.3	1 106.3
Service cost benefits earned during the year	2.2	2.3	25.8	23.0
Interest cost on projected benefit obligation	291.9	252.6	110.3	99.6
Actuarial losses/(gains)	27.9	339.2	147.6	(119.3)
Benefits paid	(292.8)	(589.8)	(37.1)	(33.3)
Member contributions	0.5	0.5	-	-
Present value of funded obligations at 31 March	3 277.5	3 247.8	1 322.9	1 076.3
Change in plan assets				
Fair value of plan assets at 1 April	4 888.5	5 335.8	1 893.7	1 880.9
Expected return on plan assets	467.6	459.2	194.1	169.3
Actuarial gains	(571.7)	(323.5)	(38.9)	(91.4)
Employer and member contributions	1.3	6.8	5.2	7.5
Benefits due	-	-	(249.1)	(39.3)
Benefits paid	(292.8)	(589.8)	(37.1)	(33.3)
Fair value of plan assets at 31 March	4 492.9	4 888.5	1 767.9	1 893.7
Fund excess	1 215.4	1 640.7	445.0	817.4
Excess not recognised	1 215.4	1 640.7	445.0	817.4
Unrecognised actuarial gains	599.6	662.6	-	-
Net benefit expenses				
Service cost	2.2	2.3	25.8	23.0
Interest cost	291.9	252.6	110.3	99.6
Expected return on plan assets	(467.6)	(459.2)	(194.1)	(169.3)
Net actuarial loss recognised during the year	-	-	147.6	(119.3)
Income	(173.5)	(204.3)	89.6	(166.0)

	Denel Pension Fund		Denel Medical Benefit Trust	
	2009	2008	2009	2008
33 Pension and other post-retirement obligations (continued)				
	%	%	%	%
The principal actuarial assumptions used for accounting purposes were:				
Expected return on plan assets	8.50	9.75	9.92	10.25
Future salary increase	6.75	7.25		
Future pension increase	6.90	7.50		
Discount rate	9.00	9.25		
Inflation rate	5.75	6.25		
Expected medical inflation				
From 1 April 2009 to 1 April 2012			9.92	8.25
After 1 April 2012			7.92	8.25
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	37	2 694	2 994
Retired members	3 019	3 198	2 915	2 853

	2009 Rm	2008 Rm	2007 Rm	2006 Rm	2005 Rm
33 Pension and other post-retirement obligations (continued)					
Amounts for the current and previous four periods are as follows:					
Denel Pension Fund					
Defined benefit obligation	(3 277.5)	(3 247.8)	(3 243.0)	(2 495.2)	(2 203.1)
Plan assets	4 492.9	4 888.5	5 335.8	4 519.4	3 621.8
Surplus	1 215.4	1 640.7	2 092.8	2 024.2	1 418.7
Experience adjustments on plan liabilities	109.6	278.0	18.9	64.8	130.2
Experience adjustments on plan assets	(571.7)	(323.5)	626.2	721.7	460.1
Denel Medical Benefit Trust					
Defined benefit obligation	(1 322.9)	(1 076.3)	(1 106.3)	(899.8)	(855.5)
Plan assets	1 767.9	1 893.7	1 880.9	1 505.3	1 145.5
Surplus	445.0	817.4	774.6	605.5	290.0
Experience adjustments on plan liabilities	9.9	(9.7)	17.8	(37.4)	(4.5)

	2009		2008	
	Increase Rm	Decrease Rm	Increase Rm	Decrease Rm
A 2.0% change in assumed healthcare cost trend rates would have the following effects:				
Effect on defined benefit obligation	(404.3)	280.6	(348.9)	238.6

33.3 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 the income statement as incurred.

34 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 prices 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		Land Systems	
	2009 Rm	**2008 Rm**	**2009 Rm**	**2008 Rm**
Segment revenue	2 493.8	2 239.2	1 608.0	1 885.7
Sales to external customers	2 313.3	2 025.8	1 495.1	1 722.1
Inter-group sales	180.5	213.4	112.9	163.6
Segment result	(449.8)	(219.9)	(14.6)	(76.9)
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	2 499.0	2 444.7	1 148.0	1 853.3
Deferred tax assets				
Total assets				
Segment liabilities	2 270.4	2 098.0	891.7	1 507.9
Deferred tax liabilities				
Total liabilities				
Cash flows from:				
Operating activities	(536.0)	(104.0)	(249.0)	266.5
Investing activities	(264.0)	(413.5)	237.7	(71.1)
Financing activities	647.7	963.8	(173.8)	55.6
Capital expenditure	240.1	189.3	39.6	65.9
Impairment losses	326.1	102.4	26.5	30.3
Impairment losses reversed	(95.6)	(147.0)	(13.6)	(44.1)
Depreciation/amortisation in respect of segment assets	58.6	36.1	36.4	49.3
Significant non-cash items:				
Fair value adjustment	-	-	-	-
(Profit)/loss on disposal of property, plant and equipment	(0.5)	(0.5)	(0.9)	0.7
Profit on disposal of investment property	-	-	-	-

Aerospace: This business segment focuses on airframe structural and system design, the development of systems, 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 caliber 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, eg Properties, SPP and Cosource.

Corporate Services: 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, eg Densecure.

Non-core		Corporate services and other		Elimination		Total	
2009 Rm	2008 Rm	2009 Rm	2008 Rm	2009 Rm	2008 Rm	2009 Rm	2008 Rm
232.6	239.1	61.4	43.2	(472.1)	(589.1)	3 923.7	3 818.1
73.5	45.1	41.8	25.1	-	-	3 923.7	3 818.1
159.1	194.0	19.6	18.1	(472.1)	(589.1)	-	-
17.7	155.8	58.6	(146.0)	(75.0)	54.3	(463.1)	(232.7)
						(73.3)	(60.5)
						31.7	(23.1)
						(39.2)	(5.0)
						(543.9)	(321.3)
						-	(25.9)
						(543.9)	(347.2)
1 082.4	1 108.3	5 156.8	4 647.0	(5 155.1)	(5 167.5)	4 731.1	4 885.8
						235.1	254.5
						4 966.2	5 140.3
293.7	309.6	3 042.5	3 092.7	(2 614.1)	(3 434.2)	3 884.2	3 574.0
						233.0	238.8
						4 117.2	3 812.8
(45.5)	(47.9)	26.0	(37.0)	1.9	(5.6)	(802.6)	72.0
17.4	602.7	(386.5)	86.0	33.7	(54.6)	(361.7)	149.5
(21.8)	(353.4)	423.5	66.2	17.0	(332.7)	892.6	399.5
15.8	14.0	1.5	1.2	-	-	297.0	270.4
8.3	11.2	1.8	30.8	24.7	11.0	387.4	185.7
-	(2.7)	(50.7)	-	49.4	-	(110.5)	(193.8)
17.5	24.3	1.7	1.9	-	-	114.2	111.6
30.8	22.4	-	-	-	-	30.8	22.4
-	(88.5)	-	-	-	-	(1.4)	(88.3)
(12.4)	(46.2)	-	-	-	-	(12.4)	(46.2)

The following unlisted companies are subsidiaries or associated companies of Denel (Pty) Ltd and its subsidiaries:	2009 Share capital issued [2] Rm	2009 Share investment by Denel (Pty) Ltd [2] Rm
35 Subsidiaries and associated companies		
SHAREHOLDING BY HOLDING COMPANY		
Bonaero Park (Pty) Ltd	27.0	99.6
Cosource (Pty) Ltd	-	-
Denel Informatics Marketing in Africa (Pty) Ltd	-	-
Denel International Ltèe (incorporated in Mauritius)	-	-
Denel Personnel Solutions (Pty) Ltd	-	-
Denel Properties (Pty) Ltd	-	-
Denel Saab Aerostructures (Pty) Ltd	789.1	723.1
Densecure (Pty) Ltd	8.0	8.0
Informatics Personnel Solutions (Pty) Ltd	-	-
La Forge Manufacturing (Pty) Ltd	-	-
Mechem (Pty) Ltd	63.1	63.1
Nomakhaya Property Services (Pty) Ltd	-	-
Denel Do Brasil Tecnologia Aplicada E Participacoes Limitada (incorporated in Brazil)	-	-
Mechem Countermining DOO (incorporated in Bosnia)	-	-
Community Pension Informatics (Pty) Ltd	-	-
Total investment		893.8
Aggregated amounts less than R0.1m [2]		-
Less: Accumulated impairment of investment		(723.2)
Net investment of Denel (Pty) Ltd		170.6
SHAREHOLDING BY SUBSIDIARIES		
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
Rheinmetal Denel Munition (Pty) Ltd		371.0
Total investment		476.9
Less: Accumulated impairment of investment		-
Net investment of Denel (Pty) Ltd		476.9

	2009 Rm	2008 Rm
Aggregated (loss)/profit of subsidiaries	(394.7)	(96.5)

[1] *Shares are not held by the group but effective management control is exercised in these entities*

[2] *Amounts smaller than R0.1m due to rounding are not reflected against the entities but in aggregate on this page*

	2009		2008			
	Amounts owing to/(by) Denel (Pty) Ltd [2]	Effective percentage shareholding	Share capital issued [2]	Share investment by Denel (Pty) Ltd [2]	Amounts owing to/(by) Denel (Pty) Ltd [2]	Effective percentage shareholding
	Rm	%	Rm	Rm	Rm	%
	(91.5)	100.0	27.0	126.1	(160.3)	100
	-	-	52.4	45.9	3.1	51.7
	-	-	-	-	(0.2)	100
	59.6	100.0	-	-	59.6	100
	(54.6)	100.0	-	-	(68.4)	100
	40.1	100.0	-	-	39.0	100
	200.0	80.0	653.1	587.1	(102.8)	80.0
	-	100.0	8.0	8.0	-	100
	-	100.0	-	-	-	100
	84.9	100.0	-	-	103.1	100
	(66.2)	100.0	63.1	63.1	(46.2)	100
	-	-	-	-	-	73.0
	-	[1]	-	-	-	[1]
	-	[1]	-	-	-	[1]
	-	100.0	-	-	-	100.0
	172.3			830.2	(173.1)	
	-			0.1	-	
	(185.6)			(41.1)	(182.3)	
	(13.3)			789.2	(355.4)	
	-	100.0	-	-	-	100
	-	-	-	-	-	45.3
	-	-	-	-	-	51.7
	-	-	-	-	-	41.4
	-	49.0	-	49.4	24.7	49.0
	-	30.0	-	56.5	-	30.0
	-	49.0		-	-	-
	-			105.9	24.7	
	-			(49.4)	-	
	-			56.5	24.7	

Section six

Information
service

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
Aviation	Denel Aviation
BAC	Battle Area Clearance
B-BBEE	Broad-Based Black Economic Empowerment
BEE	Black Economic Empowerment
Board	Board of Directors
CAR	Avifaunal Road Counts
Carl Zeiss	Carl Zeiss Optronics (Pty) Ltd
CCMA	Commission of Conciliation, Mediation and Arbitration
CCRs	Constant Current Regulators
CEO	Chief Executive Officer
CFC	Controlled Foreign Currency
CFO	Chief Financial Officer
CODM	Chief Operating Decision Maker
CoGP	Codes of Good Practice
Companies Act	South African Companies Act, No.61 of 1973
CRM	Customer Relationship Management
CSANDF	Chief of South African National Defence Force
CSDP	Competitive Supplier Development Policy
CSIR	Council for Scientific and Industrial Research
CVO	Contract Variation Order
DCLD	Denel Centre for Learning and Development
DCS	Department of Correctional Services
DENIPROP	Denel Property Group
DERI	Defence Evaluation and Research Institute
DIFR	Disabling Injury Frequency Rate
DIP	Defence Industrial Participation
DISS	Denel Integrated Systems Solutions
DLS	Denel Land Systems
DMTN	Domestic Medium Term Note
DoD	Department of Defence
DPE	Department of Public Enterprise
DPS	Denel Personnel Solutions (Pty) Ltd
DRC	Democratic Republic of the Congo
DSA	Denel Saab Aerostructures (Pty) Ltd
DST	Department of Science and Technology
DTD	Defence Technology Division
DTI	Department of Trade and Industry
DYFTP	Denel Youth Foundation Training Programme
Dynamics	Denel Dynamics
EADS	European Aeronautics and Defence Systems
EASA	European Aviation Safety Agency
EBIT	Earnings Before Interest and Taxation
ECSA	Engineering Council of South Africa
EE	Employment Equity
EME	Exempt Micro Enterprise
EMP	Environmental Management Policy
EMS	Environmental Management System
EOD	Explosive Ordnance Disposal
ERP	Enterprise Resource Planning
ERW	Explosive Remnants of War
EUR	Euro
EWP	Employee Wellness Programme
FD	Financial Director
FIFO	First in First Out
FSB	Financial Services Board
GBADS	Ground-Based Aerial Defence System
GBP	British Sterling Pound
GCC	Guarantee Certification Committee
Government	South African Government
GRI	Global Reporting Initiative
HG	Higher Grade
IAS	International Accounting Standards
ICT	Information and Communications Technology
ICV	Infantry Combat Vehicle
IDEAS	Pakistan Defence Exhibition
IDEX	UAE Defence Exhibition
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IGG	International Golden Group
Inc.	Incorporated
IP	Intellectual Property
ISO	International Standards Organisation
IT	Information Technology

IUCN	International Union for Conservation of Nature
JIBAR	Johannesburg Interbank Agreed Rate
JIPSA	Joint Initiative on Prior Skills Acquisition
KPI	Key Performance Indicator
LAAD	Latin American Aerospace Defence Exhibition
LIBDEN	Libyan Defence Exhibition
LRA	Labour Relations Act
LTIFR	Lost Time Injury Frequency Rate
MDS	Mechem Deflagration System
Mechem	Mechem (Pty) Ltd and Mechem Countermining (incorporated in Bosnia)
MEDDS	Mechem Explosives and Drug Detection System
MEIBC	Metal Engineering Industrial Bargaining Council
Missiles	Denel Missiles
MPV	Mine Protected Vehicle
MRO	Maintenance, Repair and Overhaul
NADCAP	International Manufacturing Industry Standard
NASA	National Aeronautics and Space Administration
NCACA	National Conventional Arms Control Act
NCACC	National Conventional Arms Control Committee
NERA	National Empowerment Rating Agency
No.	Number
NOx	Nitrogen Oxides Act
NT	National Treasury
NUMSA	National Union of Metal Workers of South Africa
OEM	Original Equipment Manufacturer
OHSAS	Occupational Health Safety Assessment Series
ORC	Overberg Review Committee
OTB	Overberg Toetsbaan
PAW	Personal Area Weapon
PDPs	Personal Development Plans
PFMA	Public Finance Management Act, No.1 of 1999
PMP	Pretoria Metal Pressings
PMS	Performance Management System
(Pty) Ltd	(Proprietary) Limited
PwC	PricewaterhouseCoopers
R&D	Research and Development
Rand	South African Rand
RDM	Rheinmetall Denel Munition (Pty) Ltd
RSA	Republic of South Africa
SA	South Africa
SAA	South African Airways

SAAF	South African Air Force
SABS	South African Bureau of Standards
SAC	Satellite Application Centre
SACAA	South African Civil Aviation Authority
SADRI	South African Defence Related Industries
SAEWA	South African Equity Workers Association
SANDF	South African National Defence Force
SAPS	South African Police Service
SARS	South African Revenue Service
SAWomEng	South Africa Women in Engineering
SCAMP	Strategic Capital Acquisition Master Plan
SED	Socio-Economic Development
SET	Science, Engineering and Technology
SETA's	Sector Education and Training Authorities
SFAS	Statement of Financial Accounting Standards
SGD	Singapore Dollar
SHE	Safety, Health and Environment
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 Protein Products (Pty) Ltd
STC	Secondary Tax on Companies
TETA	Transport Education Training Authority
TQM	Total Quality Management
TS	Top Shells
Turbomeca	Turbomeca Africa (Pty) Ltd
UAE	United Arab Emirates
UASA	United Association of South Africa
UAV	Unmanned Aerial Vehicle
UK MoD	United Kingdom Ministry of Defence
ULA	United Launch Alliance
UN	United Nations
US	United States
USA	United States of America
USD	United States Dollar
UXO	Unexploded Ordnance
VAT	Value Added Tax
WFF	Wing-to-Fuselage-Fairing
WMS	Weapons Management System

Notes

Contact details

DENEL (PROPRIETARY) LIMITED
Registration number 1992/001337/07

The registered office of Denel (Pty) Ltd is situated at:

Denel Building
Nellmapius Drive
Irene
Gauteng
Republic of South Africa

The postal address of Denel (Pty) Ltd is:

PO Box 8322
Centurion
0046
Republic of South Africa

Other contact details are:

Telephone	+27 12 671 2700
Fax	+27 12 671 2793
Fraud hotline	+27 800 204 880
Email	marketing@denel.co.za
Website	www.denel.co.za

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

• Ms Patience Mushungwa	Group Executive: Human Resources and Transformation
• Mr Themba Zwelibanzi	Group Risk Manager
• Ms Belinda Royston	Senior Management Accountant

Designed and Produced by:
Puisano Business Development Group (Pty) Ltd
a founding member of the Phamandla Consortium
Tel: +27 861 110 110   www.puisano.com
Chief Graphic Designer: Philip Jean Geel

DENEL