ANNUAL REPORT

2010

GLOBAL
SUPPLIER OF
WORLD-CLASS
PRODUCTS

DENEL

About this report

This annual report presents Denel's financial, economic, operating, social and sustainability performance for the year ended 31 March 2010. It aims to provide a transparent, comprehensive and comparable view of the group's performance and outlook to a broad range of stakeholders. The report addresses the significant challenges and issues faced by the group.

This annual report takes cognisance of the integrated reporting requirements of the King III Report on Corporate Governance, effective 1 March 2010, as is expected of a responsible organisation committed to good governance and accountability. The sustainability report is based on the requirements of the globally recognised best reporting practices' framework, the Global Reporting Initiative (GRI). The annual report is available on Denel's website (www.denel.co.za).

To further enhance readability, a list of abbreviations and acronyms is provided on pages 234 to 235. In line with Denel's inclusive approach, corporate contact details are provided on the inside back cover.

2010

GLOBAL SUPPLIER OF WORLD-CLASS PRODUCTS

Contents

Section one

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 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.

Group overview

Historical overview

1938 — Denel's roots are estab-lished

1948 — South African DoD establishes a defence advisory committee

1949-1951 — DoD establishes a defence production office and resources board

1961-1977 — DoD establishes a munitions production board

1968 — Armscor is established

1977-1990 — SA becomes a defence technology leader

1938
The South African Royal Mint is converted to an ammunitions factory. This is the start of the Pretoria Metal Pressings (PMP) division.

1948
The South African Department of Defence (DoD) establishes an advisory committee on the equipment requirements for the Union Defence Force.

1949 to 1951
The DoD establishes a defence production office and resources board to cater for its defence production and resource requirements.

1961 to 1977
There is a substantial effort in South Africa to set-up an indigenous state-owned and private defence industry. A munitions production board is established in terms of Act no. 37 of 1964, reporting to the Minister of Defence.

1968
Act no. 57 of 1968 establishes Armscor to act as the manufacturer and procurement agency of defence equipment for the DoD.

1977 to 1990
South Africa becomes a defence technology leader in many areas.

1990 to 1992
The position of Armscor as the manufacturer and procurement agency is reconsidered, with a decision to separate production and procurement functions.

1992
1 April 1992 – Denel (Pty) Ltd is established to take control of all previous Armscor production facilities. The company is incorporated in terms of the Companies Act, no. 61 of 1973 (amended). Its ownership profile is provided in the *nature of business section* on page 6.

The manufacturing business units within Armscor are transferred to Denel (Pty) Ltd.

- Denel Aviation (previously Atlas Aircraft Corporation, which included at its inception gearbox and engine activities, now assigned to the associated company, TMA, as well as the aerostructures manufacturing subsidiary, DSA)
- Denel Dynamics (previously Kentron, and later Denel Aerospace Systems, with ground-based air defence activities initially included and now split off into DISS)
- Denel Land Systems (previously Lyttelton Engineering Works, which separated into LIW and Vektor for some time before

1990-1992
Decision to separate Armscor's procurement and manufacturing

1992
Denel (Pty) Ltd is incorporated in terms of the Companies Act

1992-2000
Unsuccessful attempts to counter difficult trading conditions

2001-2004
Total centralisation strategy

2005-2009
Implementation of turnaround strategy, restructing and decentralisation

2010
Ongoing drive to improve operations

amalgamating again into DLS).
- PMP (a division of Denel)
- Mechem (Pty) Ltd (incorporated into Denel)
- OTB (a new test range facility was established in the early 1980s. With the demise of the-then space programme OTB was transferred to Denel)
- Denel Munitions (Pty) Ltd (previously comprising the individual Swartklip, Somchem, Wellington, Naschem and La Forge facilities)

The subsequent sale of certain businesses to associated companies is discussed in the *strategy, vision and values section* on page 8. Details of other entities which were transferred from Armscor and subsequently transferred into standalone entities, outside of the Denel group, or closed, have not been provided.

1992 to 2000
Certain facilities are closed. There are unsuccessful attempts to enter commercial markets with non-military products. The 1998 White Paper on Defence is promulgated with the aim of directing the restructuring and equipping of the South African National Defence Force (SANDF). In this era, approximately 70% of South Africa's defence acquisitions are imported. Loss-making contracts are entered into, resulting in legacy obligations that continued to impact Denel's business into the 2010 financial year. Research and development (R&D) spend is reduced.

2001 to 2004
A total centralisation strategy, intended to ensure improved financial performance, is implemented. Denel experiences the loss of critical markets, ongoing financial losses and encounters solvency problems.

2005 to 2009
A turnaround strategy is launched, which includes deep-rooted restructuring and managed decentralisation to drive entity performance and accountability. Selected equity partnerships are negotiated and entered into to access funding and technology, whilst securing new market access. Non-core assets and businesses are disposed of.

2010
Ongoing drive towards operational excellence, including restructuring and cost-cutting.

The group's organisational structure, reflecting its business entities, associated companies, reporting hierarchy and scale, is provided on page 13.

Ownership profile and nature of business

The Government of South Africa (Government) is Denel's sole shareholder. The group reports to the Minister of Public Enterprises, who appoints an independent board of directors which oversees the executive management team responsible for the day-to-day management of the company.

Denel is an aerospace, landward and maritime defence company. Over the years, it has developed innovative technologies in specific niche areas, such as artillery, munitions, missiles, aircraft sub-assembly manufacture, aircraft maintenance, unmanned aerial vehicles and optical payloads. Complementary to its specific production capabilities is a proven capability to act as an in-country main contractor, its businesses are positioned as specialist contractors to global defence suppliers. The group provides support to the local commercial market on non-defence technologies. Further details of the group's activities, products and services are provided in the *business entities' profiles report* on pages 34 to 47.

The company, its business entities and associated companies are strategic to South Africa because of the engineering, research, product development and advanced manufacturing and a spectrum of aircraft, as well as other military system maintenance capabilities that are provided to the South African National Defence Force (SANDF). The Government recognises the role that Denel plays in developing South Africa's advanced manufacturing and wider industrial base, as well as its contributions to technology and associated knowledge base, resulting in significant intellectual property (IP) and human capital development. The Denel group ensures strategic independence for the country by providing the SANDF with cost-effective, tailor-made solutions to prepare for and undertake its missions. Denel also contributes to the economy through its local subcontracting, stable workforce, exports and the resulting foreign exchange earnings. Comprehensive details of the group's key contributions to South Africa are provided in the *economic impacts section of the sustainability report* on pages 80 to 91.

The group's organisational structure, reflecting its business entities, associated companies, reporting hierarchy and scale, is provided on page 13.

The role of defence industries

Globally, governments are responsible for sovereign national security and protection of their citizens, in order to provide a stable base for sustainable economic and social development. Defence industries support governments in providing security and protection against the threat of war, violence and terrorism resulting from human conflict. Notwithstanding the need for and the benefits of the defence industry, there are inherent risks associated with the operations of defence industries, in particular the high financial investments required to execute long-term, complex programmes and the potential misuse of defence products in the illegal arms trade. Denel acknowledges its responsibility associated with these risks. Its responses thereto are addressed

Denel is an aerospace, landward and maritime defence company. Over the years, it has developed innovative technologies in specific niche areas, such as artillery, munitions, missiles, aircraft sub-assembly manufacture, aircraft maintenance, unmanned aerial vehicles and optical payloads.

throughout this annual report. Denel is an ethical defence company and strives to operate responsibly in accordance with applicable legislation. These attitudes are incorporated in the company's values of integrity, accountability, innovation, operational excellence and caring.

Substantial domestic defence industries are generally common in high-income countries. South Africa is one of only a few lower to middle-income countries having a competitive and agile domestic defence industry capability. Denel is a leading company in the South African Defence and Related Industry (SADI) cluster comprising local businesses, which offer a divergent range of defence capabilities to local and international clients. SADI is respected for providing the SANDF with a mix of products and services to minimise reliance on imports. SADI is subject to government regulations and oversight that have been implemented to prevent proliferation of defence material and ensure adequate arms control during the design, development, certification, manufacturing and maintenance phases for use or delivery to international clients and main equipment manufacturers. It contracts to supply niche systems or structural components on several international programmes.

The SADI plays an important role in contributing to the South African economy. Its contribution to employment has been approximately 30 000 highly-skilled technical jobs over the last 5 years, with a 10.4% reduction in employment now becoming evident, largely due to the turnaround efforts in the industry and the prevailing economic climate. Despite this, the defence industry is a fertile ground for nurturing engineers, technicians and artisans, with most of these technical professions subsequently contributing to key national projects in transportation, construction and power generation and wider general advanced manufacturing activities. By leveraging off the defence technology base, innovative applications have found good use in rail safety, crime prevention, surveillance, protection of assets, mine safety management, mining drill-bits, commercial brass strips, amongst others. Another key contribution is in the form of high value-added exports that improve not only the country's foreign reserves, but also its balance of payments. These exports have been secured despite the economic slow-down and the challenging strength of the rand. SADI has also played a significant role in the country's 'strategic defence package initiative' in terms of customisation, integration of local equipment, system qualification and in-service support to accelerate effective introduction into service. This exposure allowed the industry to be recognised as an important contributor, thus allowing it to be drawn into global supply chain networks. The global defence industry has undergone significant consolidation in the last two decades, whilst governments have engaged in collaborative projects.

Strategic objectives, vision and values

Denel has refocused its strategy to increase growth, efficiencies and client centricity. The successes achieved through the turnaround strategy and the refocused strategic drivers are provided in the table below and demonstrate Denel's confidence in its strategic direction.

2006 Turnaround strategy implemented through six strategic pillars

Successes achieved...

Privileged access to local defence spend
- DoD & MV orders have increased from 40% to 61% of Denel's revenues.

Partner with state agencies
- Good co-operation has been established with the DoD & MV, and state agencies.

Commercial viability
- Material reduction in losses has been achieved.
- Non-core assets and business entities were sold, generating approximately R1bn in cash.

Equity partnerships
- Strategic equity partnerships were concluded with Carl Zeiss Optronics, Rheinmetall Waffe Munition and Saab AB, which with the exception of Denel Saab Aerostructures (Pty) Ltd (DSA), resulted in significant improvements in profitability.
- The equity partners have enhanced access to markets and brought capital and technology to these businesses, reducing the Shareholder funding requirements and increasing the competitiveness.

Raise productivity and capabilities
- Denel was decentralised to drive accountability and performance at business entity level.
- Significant improvements have been achieved in governance and legislative compliance over the last three years, including appointing entity boards to drive performance.
- Improved programme management and a focused customer culture by most businesses.

People and transformation
- Considerable headway has been made in transformation, with improvements to the group's organisational climate survey. The group achieved an overall level 4 broad-based black economic empowerment (B-BBEE) rating at 31 March 2010. Details are provided in the *transformation report* on pages 102 to 104.

2010 Refocused strategy

Strategic drivers...

Improve access to sustainable markets
- Ensures increased focus on revenue, growth, new markets, leverage equity partnerships and home market support.

Achieve operational excellence
- Ensures that operational excellence is achieved in all areas through technical performance, people and skills development, effective outsourcing and supplier development, as well as sound programme management and contracting.

Deepen relationships with the DoD & MV and state agencies
- Forge closer relationships to ensure joint planning, export support, funding for technology and IP development, skills transfer and programme delivery.

Strengthen governance and financial management
- Ensures recommitment to operating as an ethical defence company and to complying with applicable legislation and business turnaround through risk management, compliance, cash flow management, improved financial performance, excellent reporting and sound governance.

Towards a respected SA company
- Aims to ensure a sustainable future, vital to build Denel's image as a respected SA company through transformation, B-BBEE, socio-economic development (SED) and branding, as well as enhance the public's awareness of the role played by Denel in the economy, peacekeeping on the continent and the country's security needs.

Denel is proud of the key successes achieved through focused implementation of its strategy during the year. The details are provided in the *group chief executive's report* on page 25, and throughout this annual report.

Vision and values

Vision

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

What Denel stands for

Denel is committed to operational excellence, openness and integrity as it engages with its stakeholders. Denel believes in its people who are skilled innovators and who take responsibility for their actions.

Values

Performance

We embrace operational excellence.

Integrity

We are honest, truthful and ethical.

Innovation

We create sustainable and innovative solutions.

Caring

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

Accountability

We take responsibility for our actions.

Key financial highlights

financial highlights

Revenue **R3 610m**

R&D spend **R835m**

Cash utilised **R416m**

Improved loss before interest and tax (LBIT) **R83m**

Net profit before DSA **R82m**

Improved net loss for the year **R246**

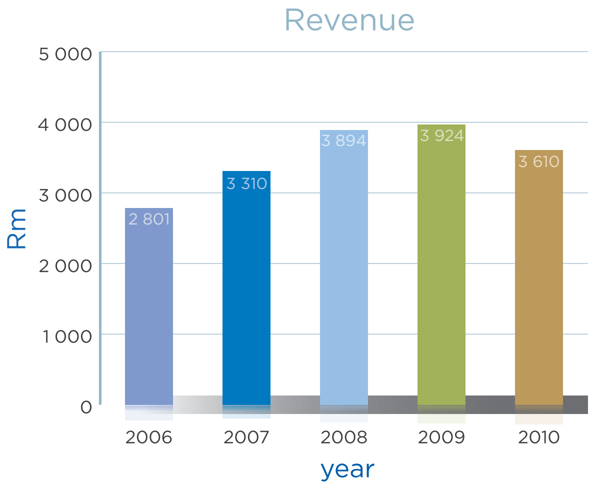
Denel's key financial indicators are illustrated below and a detailed explanation and commentary is included in the *directors' report* on pages 141 to 146. Other key business indicators for the year under review are provided in the *sustainability report* on page 49, with the shareholder's compact key performance indicators provided on page 55.

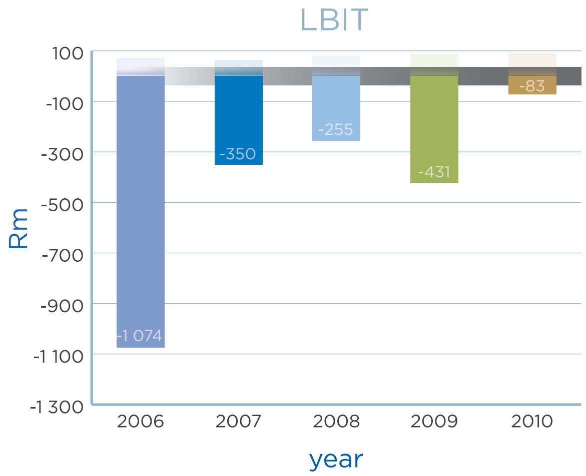
Key areas	2010 Rm	2009 Rm	Variance Rm
Income statement			
Revenue [1]	3 610	3 924	(314) ⇩
Gross profit	578	639	(61) ⇩
Net loss for the year	246	533	(287) ⇩
Balance sheet			
Equity	644	849	(205) ⇩
Cash and short-term deposits	1 038	490	548 ⇧
Interest-bearing borrowings	2 044	1 127	917 ⇧
Ratios	%	%	
Gross margin	16.1	16.3	(0.2) ⇩
Exports as a % of turnover	38.8	36.1	2.7 ⇧

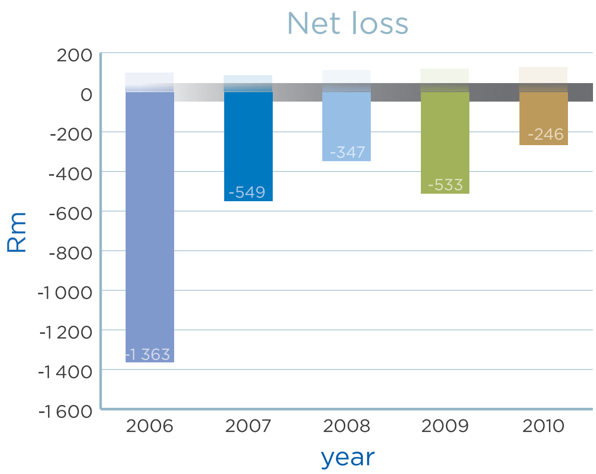
[1] *Revenue for 2009 includes an amount of R315m in respect of the Munitions business. Denel disposed of 51% of its munitions division, which became Rheinmetall Denel Munition (Pty) Ltd (RDM) on 1 September 2008.*

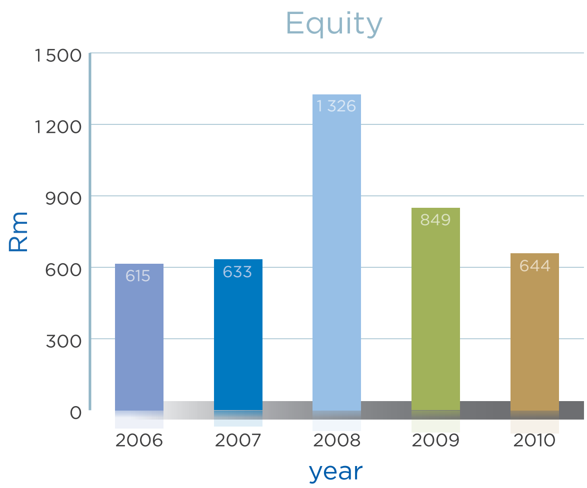
Trend analysis

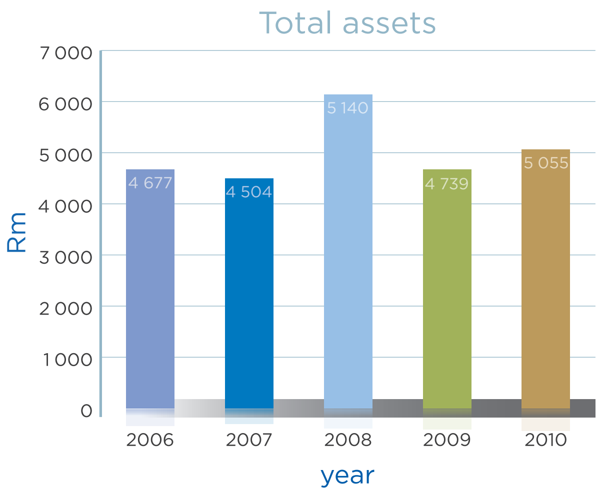
The trend analysis graphs reflect the group's performance at a high-level. Detailed explanations and commentary of the group's performance is included in the *directors' report* on pages 141 to 146.









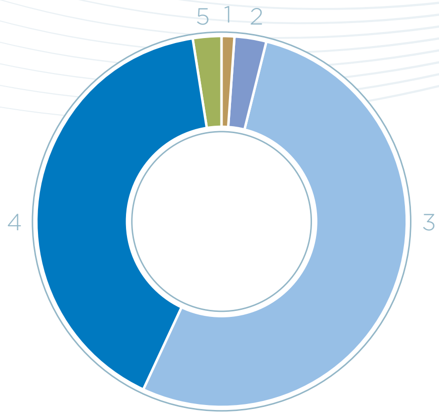


Other highlights are provided in the key successes and achievements section on page 14.

Key financial highlights continued...

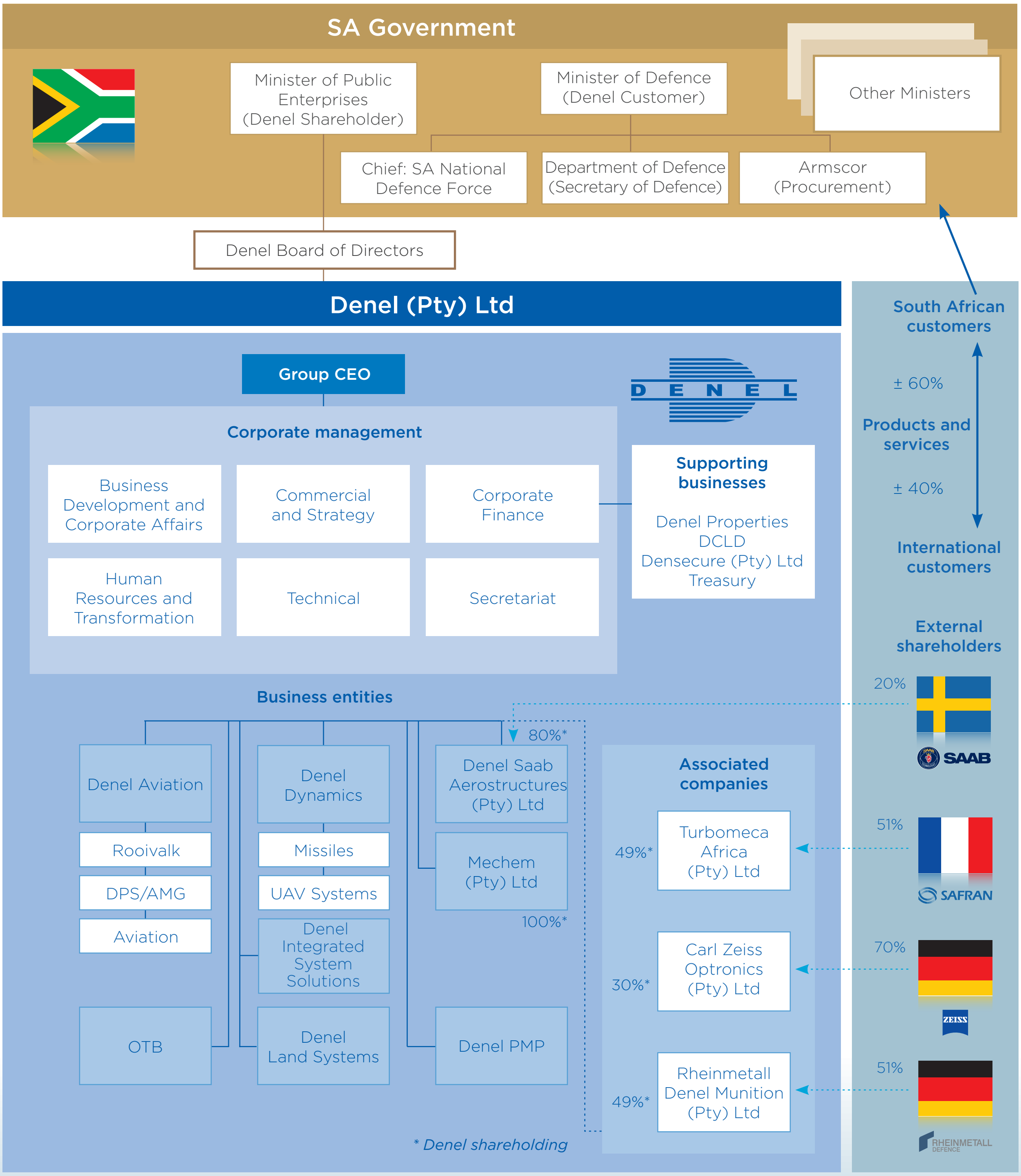
Economic value distribution

Denel's economic distribution is provided below. A comprehensive explanation of its drivers is provided in the *economic impacts section of the sustainability report* on pages 80 to 91.



Key:	
1	Government taxation: R46m (2009: R49m)
2	Providers of capital: R120m (2009: R60m)
3	Cost of materials and services purchased, including R&D: R2 121m (2009: R2 712m)
4	Salaries and related costs: R1 625m (2009: R1 795m)
5	Depreciation: R92m (2009: R112m)

Organisational structure



The group employs 7 294 (2009: 7 198) people, of whom 2 204 (2009: 2 131) are employed by associated companies.

Key successes and challenges

Developments in major programmes and new contracts awarded:
Delivery of **300th shipment** of brass cups to prime contractor in Europe
page 43

Mokopa missile system ready to go to market
page 36

A-Darter 5th-generation flagship development programme completed three flight test campaigns
page 36

Consolidated deeper-level logistical support capabilities for the South African Air Force (SAAF) C130, with **70% reduction** of aircraft down-time
page 34

New-generation infantry combat vehicle contract amendment successfully **approved** by Armscor
page 40

Follow-on order for long-range artillery equipment for **R217m** received
page 40

Celebrated **fifty years** of Mechem's existence and exemplary service **Mine detection** and **clearance work** completed at the Kisangani Airport
page 42

Supported the **fourth** Cape of Good Hope **bi-national exercise**, between Germany and South Africa - the largest-ever test programme conducted by OTB
page 44

The **second baseline design** of the Airbus A400M wing-to-fuselage-fairing **completed** and **delivery** to test-flight programme
page 41

Efficiency improvements, **reduced turnaround time** by approximately **40%** (Turbomeca Africa)
page 47

Rooivalk **type certification**
page 35

Accolades received from outside stakeholders in recognition for performance:
Ingwe missile programme under Project Adrift **nominated** for **2009 Armscor CEO Award**
page 36

Denel Land Systems was named a **finalist** for the Best Enterprise Award in the Department of Trade and Industries' (DTI) annual South African Awards, for **quality principles**
page 40

Denel Aviation selected as a **Best Employer** by Corporate Research Foundation
page 35

Sustainability achievements:
PMP achieved the incredible feat of **over 2 million** accident-free hours
page 43

Mechem **accredited** a security services provider, specialising in contraband detection
page 42

Consolidated **level 4 B-BBEE** rating achieved
page 102

Comprehensive details of the group's key successes are also provided in the *business entities profiles report* on pages 34 to 47 and the *sustainability report* on page 49.

Key challenges and focus areas

The business continues to face a number of significant challenges that pose a considerable risk to the successful turnaround of the group:

- The need to recapitalise the company impacts the financial solvency position, resulting in an interest expense of R131m in the year under review. The high gearing impedes the turnaround of the group, as insufficient cash is being generated to service this debt. The conversion of debt to equity is essential for the group's long-term financial viability.
- The continued trading losses in DSA. The solutions considered for the business include unbundling or a material downsizing, combined with strategic and financial support from key stakeholders.
- The continued trading losses in Dynamics Missiles largely due to insufficient orders. The strategic equity partnership (SEP)proposal currently being considered by the Shareholder is viewed an appropriate solution by Denel.
- The need to fully implement the contents of a Cabinet memorandum of June 2008, which incorporated the recommendations of a government task team on Denel's 'future state'. The recommendations recognised the need to:
    - Classify Denel's capabilities as either strategic or sovereign to the DoD & MV. This would be a basis for future group structure and for determining multi-year minimum orders required to ensure the sustainability of strategic entities, as well as the closure of non-strategic entities.
    - Scale down the Rooivalk programme to limit risks and costs. There are concerns regarding the availability of funding to support the capability post-delivery of the aircraft.
    - Merge the SAAF and the Aviation aircraft maintenance capability. Negotiations are under way regarding the consolidation of Aviation's and SAAF's maintenance, repair and overhaul (MRO) capabilities.
    - Finalisation of the SEPs in selected areas of Denel.
    - Placement of the Hoefyster production order with Denel Land Systems (DLS).
    - Award the ground-based air defence system (GBADS) II contract to Denel Integrated Systems Solutions (DISS). This entity was established to implement the GBADS programme and its ability to continue to operate is directly dependent on the awarding of this contract.
- The difficult trading conditions as a result of the global economic recession, discussed in detail on pages 16 to 17.

These challenges as well as the group's responses to these are also discussed in the *directors' report* on pages 140 to 148 and throughout this annual report.

Business environment, outlook and prospects

The current market conditions are challenging with the global economic recession having a significant impact on Denel's order intake. The challenges faced by businesses in general include a decline in business activities, reduced levels of recoveries, increased impairments and reduced profitability. Companies are responding to reduced levels of profitability by introducing measures targeted at cost-cutting and retrenchments. Denel is closely monitoring its costs base, and plans are being developed to radically reduce costs in the businesses that are most at risk, with the remaining niche businesses being focused on growth.

The key impacts to the group include the following:

- South Africa's socio-economic and infrastructure investments have been prioritised over defence funding, resulting in the reduction of the defence budget, in real terms, over the last two economic cycles, and impacting on the group's sustainability.
- Denel is seeing delays in the conclusion of major and support contracts, resulting in the group experiencing pressure to absorb the fixed costs associated with retaining core competencies and capabilities, which are deemed of strategic value to the DoD & MV.
- In order to sustain the current level of activity, there is a need to focus on increasing export revenues. However, the ability to export is negatively impacted by geo-political factors, economic constraints and the strong rand, making it difficult to win contracts in a highly competitive and often over-supplied market.
- Denel has noted an increase in competition in its traditional markets, as major global defence companies are exposed to similar pressures in their home markets, and are pursuing smaller contracts that were previously unattractive to them. These defence contractors have strong balance sheets and receive extensive support from their respective governments.
- Insufficient factory throughput in Denel due to a bias towards development funding as opposed to sufficient production orders for the business. This is driven by budgetary pressures on the local client. The orders that are secured are generally development-type projects characterised by technical complexities, rather than 'build-to-print' projects. Denel's trading environment is dominated by late contracting, which is not helping.
- Global defence industries are becoming concentrated through mergers and acquisitions, which impact competition and the group's ability to access global markets, with global defence spend being concentrated in larger countries.
- Denel's business is also impacted by the legislative environment, which imposes limitations and restrictions on the countries in which it operates. These are discussed in further detail in the *compliance report* on pages 66 to 67.

The business intelligence points out that recessions tend to impact on the defence industry a year or so after their mainstream effect, with defence spending lagging mainstream economical trends. Denel remains cautious about the level of future business activity, the availability of defence country budgets, competition in its traditional markets and the impact of government bailouts made to financial institutions. Consensus has emerged that the world economy is on a recovery path following last year's economic decline. It is anticipated that recovery will be modest, and predictions are that, considering domestic fiscal discipline and accountability, the South African economy will secure a sustainable economic position. However, the impact of the latest economic developments in certain European countries, for example Greece, involving concerns of the management of public debt is likely to impact global volatility over the short to medium-term, which may negatively affect defence budgets in Europe, in particular. South African defence spend is also likely to reduce, in real terms, as fiscal pressures continue to impact Government spend. In addition, the rand continues to strengthen against major currencies, negatively impacting Denel's revenues.

The latest business plans indicate that Denel will continue to post losses in the short to medium-term. However, senior leadership in the group is aware of the challenges lying ahead and is fully committed to working towards achieving profitability in accordance with Denel's mandate despite difficulties.

In order to address these developments and risks, the group is focusing on the fundamentals of turning the business around, such as growth initiatives, with focus on emerging markets, equity partnerships and alliances, operational improvements, cost savings and restructuring.

To respond to these developments and impacts, the following initiatives, amongst others, are under way:

- The business development operating model and strategy are being refined in order to significantly increase revenues to improve financial performance.
- Significant opportunities have been identified that are being pursued by relevant executives to improve order pipeline.
- There are two cost-cutting programmes under way, namely Project Survival (focused on operating costs) and Supply Chain Efficiency (focused on material procurement improvement).
- The business plan for DSA and relevant strategies are being formulated to turn the business around, including structural reform for example, a radical reduction in cost base.
- The proposed equity transaction in respect of the Dynamics Missiles business has been submitted to the Shareholder for approval. The alternative to the transaction is a funding model which includes increased local orders for the business to achieve breakeven revenue levels.
- Restructuring and rightsizing initiatives in some of the entities are under way.
- The Shareholder is being engaged regarding the need for Denel to be recapitilised to relieve the debt trap and interest burden.
- Targeted interventions to improve operational excellence, including pro-active risk management, reducing scrap rates and rework, improving gross profit margins, on-time delivery, minimising both direct and indirect costs and ensuring effective contracting to provide maximum value for money for client and company.

Section two

Directors' statements and profiles

Chairman's statement

'This financial year's results are considered an improvement that has exceeded anything seen in the past six years. These results have been achieved under difficult trading conditions, the complexity of our operating environment and continued losses posted by DSA and the Missiles business.'

Introduction

We are pleased to present an annual report which confirms that the financial performance of the group continues to improve year-on-year, providing assurance that the implementation of the turnaround strategy is yielding positive results. As we progressed on the turnaround, we have learned that Denel does not enjoy adequate order coverage and that this impacts negatively on the creation of a sustainable company. We have, therefore, focused our energies on expanding the customer base and securing suitable partners to assist in improving our marketing efforts and to contribute to research and development. The efforts to return the group to profitability remain ongoing.

Economic review

Considering Denel's historic financial performance, this financial year's results are considered an improvement that has exceeded anything seen in the past six years. These results have been achieved under difficult trading conditions, considering the state of the economy, the strengthening of the rand against major currencies, the complexity of our operating environment and continued losses posted by DSA and the Missiles business. This improved financial performance is in part attributed to the closing of certain legacy contractual issues and reductions in operating costs as we implement a 'better than budget' internal drive and stretch targeting.

Finding sustainable markets continues to be a major drive as the defence environment becomes more competitive, and even more so after the recent global financial crisis. Denel is pursuing a number of opportunities that are likely to impact positively on the long-term sustainability of the group. The company's single largest customer remains the Department of Defence and Military Veterans (DoD & MV). Approximately 60% of group sales originate within South Africa. We are executing long-term contracts for the DoD & MV, and are expecting the award of new contracts in the forthcoming months. Whilst we need to ensure adequate order coverage, a continued drive towards early order placement and multi-year orders, we are pleased with the ongoing cooperation between Armscor, DoD & MV, and Denel.

Denel is highly geared with a debt funding balance of approximately R1.85bn resulting in an interest charge on external borrowings of R131m. Despite the weak balance sheet, we are pleased that the Shareholder continues to support Denel through government guarantees to back the raising of debt. We are engaging the Shareholder on an ongoing basis, stressing the need for capital injection. We have not, in the short-term, secured the said funding, and have been appraised of Government's challenges in this regard. As detailed in the directors' report, the board evaluated the company's going concern status and despite the challenges disclosed, the board is satisfied that the company is a going concern.

Strategy

As mentioned in the previous annual reports, the Shareholder, in consultation with the board, revised the Denel strategy, thus putting the company on a recovery path. Denel is implementing the revised strategy, which incorporates entering into strategic equity partnerships with key global players to improve access to markets, critical skills and funding. The contributions of the SEPs are visible in the modernisation and recapitalisation of the affected businesses, increased intellectual property development and the transfer of advanced skills and technology, which will lead to the growth of the South African defence industry. These SEPs, with the exception of DSA, are a success story as they have enhanced access to markets and restructured the entities and equipped them to achieve profitability.

DSA's financial performance remains a major concern with this business posting losses of R328m (2009: R452m). Had DSA broken even or not formed part of the group, Denel would have posted a net profit of R82m. This business needs to work hard to build an order pipeline, complicated in light of the state of the economy and the limited offset opportunities available. In addition, there are also operational challenges linked to the complexity of the work that is undertaken by this business. We are embarking on restructuring initiatives including retrenchments and have explored the possibility of unbundling this entity out of Denel with the aim of its reporting directly to the Department of Public Enterprises (DPE). This reflects the fact that it is not strategically aligned to the rest of the Denel entities as the activity of this business is better aligned to aerospace rather than military. There is no formal position on the unbundling proposal at this stage.

The Missiles business is posting losses of R51m (2009: R36m) that require ongoing funding by the Denel group. The performance of a number of analyses indicates that there is limited scope to reduce the cost base. Therefore, a specific level of order volume is required to bring this company to a breakeven level and/or sustainability. Strategic options available were considered, and an equity partnership was proposed as an option that would address the low order coverage in this business. The transaction has been finalised with a global missiles company and we are awaiting a decision from the Shareholder in this regard.

Operational review

Denel has continued to meet regularly with its stakeholders to discuss business issues that are critical to achieving its turnaround objectives. Furthermore, Denel appeared before the Standing Committee on Public Accounts (SCOPA) to account for the company's financial performance during the 2009 financial year. The discussions focused on the two loss-making entities, DSA and the Missiles business. The discussions were concluded by giving an undertaking that the relevant Parliamentary committees will be updated on key interventions planned for these two entities.

The Denel '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. There has been an ongoing engagement with the various stakeholders since the initial Cabinet memorandum in June 2008. The key 'future state' interventions are detailed on page 71. Outstanding issues in this regard need to be closed out.

We are encouraged that the three-Ministerial team, comprising the DPE, DoD & MV, and the DTI have been established and tasked to oversee the finalisation of Denel's 'future state'. Denel also welcomes the SOE review that is at commencement stage looking at the role of SOEs. Denel will provide input as may be required.

In accordance with the Denel policy, during December 2009 and January 2010 the board was evaluated by an independent firm of governance experts. I am pleased to report that the Denel board was found to be working collectively, effectively and efficiently in executing its tasks, and strengthening the constructive relationship with the management team. The report further stated that there is high ranking in relation to accountability in finance and risk. The board evaluation report, together with action plans to address identified areas of development, was submitted to the Shareholder.

Appreciation

I would like to thank the board members for their commitment and valuable contribution towards the success of Denel. I would also like to take this opportunity to welcome the new board members as some of us pass on the baton. We wish the new members well as they discharge their responsibilities as members of the board of Denel.

The board would also like to extend its heartfelt thanks to the Minister and Deputy Minister of Public Enterprises and the acting Director-General for their unwavering support during the current financial year. We also wish to extend our appreciation to the Minister and Deputy Minister of Defence, as well as the Secretary of Defence for the continued support throughout the year. We appreciate all the work and continued engagements with Armscor and all our industry partners.

Denel's executive management team is congratulated on the progress made during the year under review. The executives in the business entities and all employees similarly deserve a big 'thank you' for their efforts, loyalty and commitment.

Dr SP Sibisi
Chairman

Group chief executive officer's report

'Denel has come out of an intense and challenging financial year characterised by difficult economic conditions and generally unfavourable trading conditions. Despite that, the group continues on a trajectory towards profitability, and will deliver positive returns for the Shareholder in the medium-term.'

Introduction

Denel has come out of an intense and challenging financial year characterised by difficult economic conditions and generally unfavourable trading conditions. Despite that, the group continues on a trajectory towards profitability, and will deliver positive returns for the Shareholder in the medium-term. To drive this goal is challenging and not for the faint hearted, in its pursuit, the group has identified and is implementing specific turnaround interventions to sustain ongoing improvements.

Financial highlights

Denel has once again posted an improved financial performance, recording a net loss of R246m. This is an improvement on the net loss of R533m posted in the prior year. The detailed financial analysis is contained in the *directors' report* on page 141. It is notable that the organisation has nearly halved its losses in the period under review given the extraordinarily adverse trading conditions. Despite this, the group has maintained nearly constant revenues from the prior year, whilst the costs of doing business are escalating due to inflation.

Denel Aviation, Rooivalk, Dynamics UAVS and DISS showed improved results, whilst PMP turned around from a loss of R25m in the prior year to an impressive R27m net profit. The Dynamics Missiles business posted a loss of R51m (2009: R36m). The increase is due to the impairment of assets charge of R15m.

The improved financial performance provides an assurance that the group is steadily moving in the right direction. That is particularly noteworthy considering the achievement of these results despite the losses from DSA, the strengthening rand against major currencies negatively impacting revenues, and interest expenses incurred on external borrowings. The key performance indicators detailed in page 55 show pleasing improvements from the target and the prior year performance. As detailed in the directors' report, the group would have achieved profitability of R82m, if it were not for DSA losses or even higher profits if there were no interest expenses.

As detailed in the *business environment, outlook and prospects section* in pages 16 to 17, ongoing interventions are being implemented including cost-cutting, reorganisation of the business and, in selected areas, entering into equity partnerships with reputable global companies which enjoy better access to markets. These equity partnerships have resulted in shareholding being held by Denel and the key global companies in business units now classified as associated companies. These relationships resulted in the turnaround of previously loss-making entities. For example, the current year's financial results include profits of R79m from associated companies compared to a profit of R32m in the prior year. These global companies continue to express an interest in acquiring stakes in Denel entities, specifically Missiles and Dynamics UAVS.

The group continues to invest in marketing initiatives, research and development and capital assets to maintain or improve operations. The level of spend in the said areas remains relatively low due to funding constraints, when compared to similar organisations within the defence industry. The low level of investment has unintended consequences as this negatively impacts the planned growth necessary to achieve a complete turnaround.

Highlights and challenges

The key group highlights and challenges are detailed in *key successes and challenges section* of the annual report in page 14. Other details are included in the *business entities' profiles report* in pages 34 to 47.

It would be remiss not to mention that Denel continues to experience particularly difficult trading conditions in terms of DSA. As a consequence, DSA is posting significant losses with a deleterious effect on the group results. The business is faced by a number of issues including an inadequate order pipeline due to the state of the economy and the lack of offset opportunities. The delay of the Airbus A400M programme, undertaken for Airbus Military of France, has a further negative impact. In addition, the business is experiencing operational challenges, which are being addressed through the implementation of operational turnaround interventions. There remains a continued focus on rightsizing, effective programme management, business development and efforts to broaden the Shareholder base.

I refer to the directors' report which points out that our key programmes are long-term, complex and have various challenges that impact year-on-year results. The programmes with material issues, like Rooivalk, GBADS and others, are discussed in detail.

Solvency and funding levels

Denel managed to rollover short-term debt of R1.3bn, which fell due on 31 March 2010, despite the harsh economic climate. The investors continue to have confidence in the group, in part, this is due to the Denel's loans are backed by government guarantees. The group balance sheet continues to be weak as loan debt at year-end stood at R1.85bn, with a significant interest expense on external borrowings of R131m per annum.

Throughout the year, Denel worked closely with the Shareholder on matters relating to access to funding, among others. In this period, a government guarantee of R550m was issued to fund working capital, interest expense, and losses in entities like DSA. The Shareholder has put measures in place to closely monitor Denel's cash position, and provided access to funds after Denel has satisfied certain requirements.

We are pleased that the Shareholder continues to support Denel. We have engaged the Shareholder on a number of issues, including the need for further capital injection. As indicated in the chairman's statement, we have not, in the short-term, secured such funding, and have been appraised of Government's challenges. The Denel executive team will continue to engage with the Shareholder regarding the need for funding.

Leadership development

The critical shortage of technical skills remains a countrywide, and possibly, worldwide problem. Denel is, however, making steady progress in various areas of human resources development as part of an ongoing aspiration towards becoming a world-class company. Denel recognises the need to operate in a manner consistent with its values, its strategy and the defined human resources' operating model.

The key focus areas during the year under review related to transformation initiatives, the development of leadership and management competencies, and the identification, recruitment, training, development and retention of a diverse, motivated workforce. Denel has continued its commitment to ensuring that employees reach their full potential, achieve job satisfaction and maximise their contribution. I am particularly pleased that the group continues to demonstrate its commitments to social and economic development as it has exceeded its plans and achieved an average B-BEEE level 4 rating during the year under review.

Sustainable development

Denel is committed to sustainable development and to ensuring a sustainable future. Our strategy includes key aspects of sustainability, namely, people, skills and supplier development, stakeholder relationships, strengthening governance, and participating in socio-economic development. Details of the strategy implementation and monitoring procedures are provided in the *sustainability report* on page 50. Denel recognises that group sustainability is dependent on its technical performance, quality standards, research and development, as well as the need to conduct its business with due regard for the socio-economic and natural environments. These are pivotal to Denel's competitiveness, its role as a catalyst for advanced manufacturing in the broader economy, as well as the sustainability of its social and natural environments.

The group has made sound progress in creating sustainable operations and standards, through embedding appropriate business practices, management systems, operating activities, risk management processes and policies that govern behaviour. Denel believes that there is always a room for improvement, and is steadily integrating all material sustainability concerns into its governance practices. Key sustainability successes are provided in the *group overview section* on page 14 and throughout the *sustainability report* on pages 49 to 128.

The sustainability report elaborates the group's approach to sustainability practices and the future plans in this regard. The future focus remains on enhancing and improving the sustainability management platform in line with the King III Report's philosophy that governance, strategy and sustainability are inseparable. The development of a group sustainability strategy and policy, as well as the sustainability oversight role of a board committee are planned to further embed the company's strategic objectives within the business processes and ensure enhanced alignment of business practices to the company's strategy. The group's key sustainability focus areas, risks and challenges are also described in the *sustainability report* on pages 49 to 128.

Strategy and direction

The group strategy is centred on improving customer focus, efficiency and global market access through alliances and partnerships, given the limitations of local domestic defence spend as well as inaccessible global markets due to increased global industry consolidation. The following provides an overview of progress against Denel's strategy:

- Revenue targets for the year were met, with local revenue amounting to R2.2bn, representing 61% of Denel's revenues.
- Denel associated companies have achieved revenues amounting to R1.7bn during the year, the bulk of which were export sales.
- Regular engagements were held with senior DoD & MV, Armed Services and Government Department representatives.
- Client marketing events including technology days held throughout the group.
- 90% of contractual milestones have been achieved, predominantly in terms of development programmes.
- A continued emphasis on programme performance and supply chain management, with regular programme management forums established with the DoD & MV, and Armscor. Successes were achieved on core programmes such as Rooivalk, Hoefyster, A-Darter, and flight tests were successfully completed for the Rooivalk programme, with the aircraft delivered to the SAAF for final type certification.
- Integrated human capital development initiatives were expanded to include recruitment, in-service training and dedicated mentorship programmes.
- Ongoing efforts to become King III compliant, including restructuring of entity boards and the establishment of an ethics committee.
- Average B-BBEE score of level 4 achieved by the group.
- Ongoing skills development, including training and development and bursaries granted.
- An investment of R835m in proprietary research and development, further developing South Africa's intellectual property.

Despite the progress made to date, the latest business plans indicate that Denel will continue to post losses in the short to medium-term. The strategic direction is discussed in detail in the *business environment, outlook and prospects section* on pages 16 to 17. I would like to point out that senior leadership is fully aware of the challenges lying ahead and is committed to working towards achieving profitability in accordance with Denel's mandate. The matters addressing the strategic direction include reviewing the business development operating model in order to increase sales, drive cost-cutting initiatives to improve profitability and continue the search for effective interventions to turnaround DSA and/or secure a separation of this business from the group.

Stakeholder relationship

We have ongoing engagements with the Minister and her officials via the group chief executive officer's and chairman's offices as well as other Denel officials. We regularly appear before Parliament, answer MP's queries and host site visits. We further meet the labour unions on an ongoing basis to share key developments within the company. These engagements are critical to ensure Denel's turnaround and that our strategy is understood. We naturally have different perspectives and have to work together to take the group forward.

The details of the *stakeholder engagements* are contained in pages 68 to 78.

Appreciation

I would like to thank my executive management team, entity chief executive officers and Denel employees at large for their positive contribution during the 2010 financial year. A special word of thanks goes to the chairman and members of the Denel board for their valued support. I also wish to take this opportunity to welcome the new board members replacing the board members who are retiring, as they take-up the challenge to steer the company to new heights.

Similarly, thanks to the Minister and Deputy Minister of Public Enterprises and the acting Director-General for their unwavering support during the current financial year. We would also like to extend our appreciation to the Minister and Deputy Minister of Defence, as well as the Secretary of Defence for the continued support throughout the year. We appreciate all the work and continued engagements with Armscor and other industry partners.

MT Sadik
Group chief executive officer

Board of directors

Non-executive Chairman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Executive directors


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Non-executive directors

Non-executive director and chairman

1. Dr SP Sibisi (55)

BSc (Hons) in Physics, Part III Mathematics: Quantum Field Theory and General Relativity, PhD
Independent non-executive director and chairman of the Denel board

Other directorships: President and CEO of CSIR, non-executive director of Liberty Life, Murray & Roberts, Roedean School (SA) and Termico.
Relevant skills, expertise and experience: Senior leadership experience gained as a deputy vice-chancellor of a university, director of companies and later as chief executive, relevant industry skills, researcher and academic, as well as business management, entrepreneurship and strategist.
Dr Sibisi has compiled a number of publications and research documents, as well as contributing to reports and newspaper articles. He holds the Silver Order of Mapungubwe in recognition of contribution to information technology, general scientific research and to associated national strategy and policy formulation.

Appointed to the Denel board on 1 June 1998 and as chairman on 1 August 2005.

Executive directors

2. Mr MT Sadik (45)

B Comm. Dip ACC, CA(SA), AMP
Executive director and group chief executive officer

Denel board and board committee memberships: Permanent invitee to the group audit and risk, the personnel and remuneration committees, as well as entity boards, non-executive director of Denel Saab Aerostructures
Other directorships: Former executive of SABC, NAIL and DeBeers, non-executive director of Tohoko Properties and Vaximax Investment.
Relevant skills, expertise and experience: Business management, corporate governance, corporate and financial management, strategy development and execution.

Appointed to the Denel board on 19 October 2006 as executive director and as chief executive officer on 1 October 2008.

3. Mr F Mhlontlo (41)

BCompt (Hons), CA (SA)
Executive director and group financial director

Denel board and board committee memberships: Permanent invitee of the group audit and risk, as well as the personnel and remuneration committees, non-executive director of Pretoria Metal Pressings, Denel Properties and Rheinmetall Denel Munition
Other directorships: Former audit partner and director of one of the big four audit firms.
Relevant skills, expertise and experience: Leadership in financial management, financial reporting and discipline, corporate governance, understanding of audit processes and strategy formulation.

Appointed to the Denel board on 1 November 2008.

Non-executive directors

4. Ms SH Chaba (52)

BA (Economics and Industrial Psychology), Postgraduate diploma in HR Management, Diploma in Diagnostic Radiography, Senior Executive Leadership Programme
Independent non-executive director

Denel board and board committee memberships: Chairman of the group personnel and remuneration committee, Mechem and Denel Centre of Learning and Development
Other directorships: Former Sasol HR executive, director of Akwaba Investments, Diabela Investments, Hitachi Power Africa, member of Johannesburg City Council, deputy chairman of Kgosi Foundation, director of Makotulo Investments and Services.
Relevant skills, expertise and experience: Senior leadership, business management and human resources management.

Appointed to the Denel board on 26 January 2007.

5. Dr GC Cruywagen (54)

PhD, MBSc, PMD, FIRM (SA), Risk Management Diploma, Certificate-Advanced Security Management
Independent non-executive director

Denel board and board committee memberships: Group audit and risk committee member, chairman of Pretoria Metal Pressings, non-executive director of Mechem
Other directorships: Director of Risk of Tsogo Sun Group, member of King Committee on Corporate Governance, chairman of the group risk management committee of City of Johannesburg, non-executive director of Dikhololo Aandeleblokmaatskappy, executive director of Tsogosure Insurance Company Limited (Isle of Man), convenor of King III risk workgroup, former executive of SAPPI Ltd, Mittal Steel NV and Iscor Ltd.
Relevant skills, expertise and experience: Senior leadership, corporate governance, risk governance, risk management and risk financing.
Dr Cruywagen won the 'Risk Manager of the Year' award for 2009, from the Institute of Risk Management of South Africa (IRMSA). He has written a number of books on management and risk management including the best-selling 'Jungle Risk Management - Risk lessons from the African bush'.

Appointed to the Denel board on 4 September 2008.

6. Dr BG Halse (67)

Degree in Business and Macro Economics, MSc Engineering Physics, Dr Eng: Applied Thermo and Fluid Dynamics, Dr Honoris Causa (Honorary Doctorate)
Independent non-executive director

Denel board membership: Chairman of Denel Integrated System Solutions
Other directorships: Former president and CEO of Saab group, non-executive director of ISD Technologies, Protaurius AB and chairman of Halse Consulting.
Relevant skills, expertise and experience: Senior leadership, engineer, relevant industry senior management experience, restructuring and strategy.
Dr BG Halse is an Honorary Member of The Royal Aeronautical Society (UK); and was awarded the King's Gold Medal of the 12th size for outstanding industrial achievement.

Appointed to the Denel board on 1 November 2004.

7. Mr A Hirsch (55)

Degree in Economics, Economic History and History, visiting scholar at the Harvard Business School from 1998 to 1999
Independent non-executive director

Denel board membership: Chairman of Aviation
Other directorships: Former chief director at the DTI, Deputy Director General: The Presidency, Economist, non-executive director of Jobco and chairman of Trade and Industrial Policy Strategies Association (Sect. 21).
Relevant skills, expertise and experience: Senior leadership, economic policy, government perspective and strategy.

Appointed to the board on 1 April 2005.

8. Mr LC Jones (62)

BSc Eng (Elec), MSc (Computer Science)
Independent non-executive director

Denel board and board committee memberships: Group audit and risk committee member, chairman of Denel Saab Aerostructures
Other directorships: Former CEO of SITA and previously held senior management positions in Tek Logic, ISIS and Altech.
Relevant skills, expertise and experience: Senior leadership, board and business experience, IT governance, experience of managing high-technology environments, negotiation skills, mergers/acquisitions and strategy.

Appointed to the board on 19 October 2006.

9. Mr NR Kunene (57)

Studies in law, Certificate in Industrial Relations
Independent non-executive director

Denel board memberships: Chairman of Dynamics and non-executive director of Denel Saab Aerostructures
Other directorships: CEO of Kunene Brothers Holdings, Kunene Industrial Holdings, Kunene Motor Holdings, Kunene Finance Company, director of 3C Telecommunications, Cell C, CellSAF, Grintek Ewation, OB Investments, Virgin Mobile, Honorary Colonel of 5 Signal Regiment and member of Corporate Forum SA.
Relevant skills, expertise and experience: Vast board and business experience having acted as president and chairman on various boards and institutions, legal, negotiation skills, strategy, business development and marketing.

Appointed to the Denel board on 19 October 2006.

10. Ms CC Mulder (50)

BCompt (Hons), CA (SA)
Independent non-executive director

Denel board and board committee memberships: Chairman of the group audit and risk committee, non-executive director of Turbomeca Africa
Other directorships: Member and director of AAT (SA), council member of Central University of Technology (Free State), non-executive director of the Hope Factory, council member of Government B-BBEE Advisory Council.
Relevant skills, expertise and experience: Senior leadership, financial management, understanding of audit processes and issues, strategy, corporate governance, training and development.

Appointed to the Denel board on 1 November 2004.

11. Mr MS Phalatse (66)

Diploma in labour relations, executive programme in marketing management
Independent non-executive director

Denel board and board committee memberships: Group personnel and remuneration committee member, chairman of Denel Land Systems
Other directorships: Former director of Armscor, chairman of African Access Holding, Global Eagle Medical Corporation, Global Eagle Minerals and Beneficiation, Institute for Global Dialogue, Global Eagle Strategic Empowerment Alliance systems, non-executive director of BMW SA, Cheswood Holdings 31, Emerson Network Power, and La-Bamba Holdings 17, Director of International Ferro Metals SA, Phakisawork Fleet Solutions, Ritz Pumps SA and Trustee of South African Democratic Education Trust.
Relevant skills, expertise and experience: Senior leadership, personnel and industrial relations, business development, as well as marketing.

Appointed to the Denel board on 14 April 2005.

12. Mr CML Savage (71)

BSc (Eng), MBA, Senior Management in Leadership Development Programme
Independent non-executive director

Denel board committee memberships: Group audit and risk, as well as personnel and remuneration committee member
Other directorships: Recently retired as non-executive chairman of Tongaat Hulett Ltd, former CEO of the Tongaat Hulett group, director of Harmony Gold Mining Company Ltd and avisory member to GM South Africa. Former non-executive director of Nedbank Group, Kumba Resources, Hulett Aluminium and Data, amongst other companies. Past President of SA Chamaber of Business
Relevant skills, expertise and experience: Senior leadership, vast board and business experience, human resources management and strategy.

Appointed to the Denel board on 26 January 2007

13. Ms T Seretse (54)

LLB, MA, BSc
Independent non-executive director

Denel board membership: Chairman of Denel Properties
Other directorships: Managing director of Diragke and chairman of FSG and RPC Data.
Relevant skills, expertise and experience: Vast board and business experience, legal, strategy and business development, as well as marketing.

Appointed to the Denel board on 26 January 2007.

Denel executives


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1. Mr MT Sadik (45)
B Comm. Dip ACC, CA(SA), AMP
Executive director and group chief executive officer
Denel board and board committee memberships: Permanent invitee to the group audit and risk, the personnel and remuneration committees, as well as entity boards, non-executive director of Denel Saab Aerostructures (Pty) Ltd
Other directorships: Former executive of SABC, NAIL and DeBeers, Tohoko Properties, Vaximax Investment.
Relevant skills, expertise and experience: Business management, corporate governance, corporate and financial management, strategy development and execution.
Appointed to the Denel board on 19 October 2006 as executive director and as chief executive officer on 1 October 2008.
Tenure at Denel: 3.5 years

2. Mr AS Burger (52)
BEng (Hons) Mechanical
Chief executive officer: Denel Land Systems
Denel board and board committees: Non-executive director of Denel Integrated Systems Solutions
Other directorships: None
Relevant skills, expertise and experience: Leadership experience in business management and engineering experience
Appointed as chief executive officer on 1 November 2004
Tenure at Denel: 29 years

3. Mr I Dockrat (40)
MBA, Certificate in Programme Management, NDip Electronics Engineering
Chief executive officer: Denel Saab Aerostructures (Pty) Ltd
Denel Board committee memberships: Former positions include chief executive officer of Denel Aviation, non-executive director of Denel Saab Aerostructures (Pty) Ltd and Turbomeca Africa (Pty) Ltd
Other directorships: Centurion Aerospace Village (Member of the Board).
Relevant skills, expertise and experience: Leadership experience in business management, technical skills and business expertise.
Appointed as chief executive officer on 1 March 2010
Tenure at Denel: 3.5 years

4. Mr BPE Garcia (48)
MSc (Mech) Eng, MBA
Chief executive officer: Turbomeca Africa (Pty) Ltd
Denel board and board committees: None
Other directorships: None
Relevant skills, expertise and experience: Executive and scientific engineering skills. Former Foreign Trade Advisor appointed by French Foreign Trade Minister
Appointed as chief executive officer on 1 July 2003
Tenure at Denel: 7 years

5. Mr M Kgobe (41)
Masters in Aeronautical Maintenance and Production Management, Executive Leadership Programme, Diploma Pressurised Airframes & Engines, Diploma Mechanical and Electrical Engineering
Chief executive officer: Denel Aviation
Denel board committee memberships: Chairman of Denel Personnel Solutions (Pty) Ltd and non-executive director of Turbomeca Africa (Pty) Ltd
Other directorships: none
Relevant skills, expertise and experience: Business management, engineering and project management
Appointed as chief executive officer on 1 March 2010
Tenure at Denel: 10 years

6. Dr E Khoza (44)
Diplomas in Personnel and Training Management, HR Management, Executive Leadership, MBA, Masters in Marketing Management, Dr of business Admin and Certificate in Aviation Management
General manager Denel Centre of Learning and Development
Denel board and board committees: None
Other directorships: Non-executive director: 43 Air School
Relevant skills, expertise and experience: Executive leadership and business management experience. President of the Boksburg Chamber of commerce and industry.
Appointed as general manager on 1 October 2008
Tenure at Denel: 12 years

7. Mr PWE Labuschagne (49)
BA (Hons) Police Science, Management Development Programme (Unisa), Studying Commercial Property Practice (University of Pretoria)
Acting general manager Denel Properties
Denel board committee memberships: None
Other directorships: None
Relevant skills, expertise and experience: Security and security management, specialised legal knowledge of international arms trade controls and compliance programmes, corporate real estate and facility management services
Appointed as Acting general manager on 1 April 2010
Tenure at Denel: 28 years

8. Mr F Mhlontlo (41)
BCompt (Hons), CA (SA)
Executive director and group financial director
Denel Board and board committee memberships: Permanent invitee of the group audit and risk, as well as the personnel and remuneration committees, non-executive director of Pretoria Metal Pressings, Denel Properties and Rheinmetall Denel Munition (Pty) Ltd
Other directorships: Former audit partner and director of one of the big four audit firms.
Relevant skills, expertise and experience: Leadership in financial management, financial reporting and discipline, corporate governance, understanding of audit processes and strategy formulation.
Appointed to the Denel board on 1 November 2008.
Tenure at Denel: 1.5 years

9. Mr R Mills (46)
BMil, MBL
Chief executive officer: Denel Integrated System Solutions
Denel board committee memberships: None
Other directorships: None
Relevant skills, expertise and experience: Military experience as an officer in the SANDF, and in the defence industry in various capacities
Appointed as chief executive officer on 1 April 2009
Tenure at Denel: 4 years

10. Mr JV Morris (41)
BSc (Hons) (Psychology and Sociology), MSc (Agricultural Economics)
Group executive: strategy and commercial
Denel board committee memberships: Non-executive director of Denel Saab Aerostructures (Pty) Ltd
Other directorships: Served in various positions in the Department of Trade and Industry, Trade and Investment South Africa, Decillion Capital and the Department of Public Enterprise, as deputy director-general: Manufacturing.
Relevant skills, expertise and experience: Strategy, transaction expertise, economic policy, and understanding of government perspective.
Appointed to the group executive committee on 1 November 2008.
Tenure at Denel: 1.5 years

11. Ms TP Mushungwa (40)
BAdmin (Hons) in Industrial Psychology, Programme in Business Leadership, currently final year MBL student
Group executive: human resources and transformation
Denel board and board committee memberships: Non-executive director of Rheinmetall Denel Munition (Pty) Ltd, Denel Centre Learning Development and Denel Properties
Other directorships: NOVO Energy
Relevant skills, expertise and experience: Business management and human resources
Appointed to the group executive committee on 1 June 2007.
Tenure at Denel: 13 years

12. Mr ZN Ntshepe (53)
Post Graduate Diploma in Management Studies, MBA
Group executive: business development and corporate affairs
Denel board and board committee memberships: Non-executive director of Denel Integrated Systems Solutions, Denel Land Systems, OTB and Carl Zeiss Optronics (Pty) Ltd. Formerly chief operating officer of Denel Personnel Solutions
Other directorships: Former positions as stockbroker in New York. Manager at the New York Hilton & Towers, programme director of Joint Enrichment Programme
Relevant skills, expertise and experience: Business management, negotiation skills, marketing and business development.
Appointed to the group executive committee on 1 September 2003.
Tenure at Denel: 12.5 years

13. Mr N Schulze (57)
BCom (Economics)
Chief executive officer: Rheinmetall Denel Munition (Pty) Ltd
Denel board and board committees: None
Other directorships: None
Relevant skills, expertise and experience: Vast leadership experience in business management and development, as well as marketing
Appointed as chief executive officer on 1 September 2009
Tenure at Denel: almost 1 year

14. Maj Gen (Ret) OA Schür (60)
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 & MV Headquarters
Group executive: technical
Denel board committee memberships: Non-executive director of Denel Dynamics, Denel Aviation, Turbomeca Africa (Pty) Ltd and Denel Centre of Learning and Development
Other directorships: Former positions include assistant director Fighter programme, director Air Force Acquisition (DAFA), director Combat Systems and chief director acquisition in the DoD & MV, military attaché in Switzerland from 1990 to 1994.
Relevant skills, expertise and experience: Project technical processes, negotiation skills, problem solving and business development
Appointed to the group executive committee on 1 February 2008.
Tenure at Denel: 2 years

15. Mr AJ van der Walt (52)
MSc (Computer Science), Executive Leadership Programme
Chief executive officer: OTB
Denel board and board committees: None
Other directorships: None
Relevant skills, expertise and experience: Business management and executive leadership experience
Appointed as chief executive officer on 1 December 2005
Tenure at Denel: 21 years

16. Mr K Viljoen (47)
BEng (Hons)
Managing director Carl Zeiss Optronics (Pty) Ltd
Denel board and board committees: None
Other directorships: None
Relevant skills, expertise and experience: Systems engineer and executive marketing experience.
Appointed as chief executive officer on 1 October 2001
Tenure at Denel: 21 years

17. Mr JM Wessels (51)
BEng (Hons) Electronics, Advanced Management Diploma
Chief executive officer: Denel Dynamics
Denel board committee memberships: Non-executive director of Denel Integrated System Solutions
Other directorships: None
Relevant skills, expertise and experience: Systems engineer, project management expertise and business management
Appointed as chief executive officer on 1 December 2006
Tenure at Denel: 24 years

18. Mr A Williams (53)
BMil and various related certificates
Chief executive officer: Mechem (Pty) Ltd
Denel board and board committees: None
Other directorships: Foundation for Military Engineering in Southern Africa and Gunners Engineers Memorial (GEM) Village
Relevant skills, expertise and experience: Business management, human resources and engineering experience
Appointed as chief executive officer on 1 June 2008
Tenure at Denel: 8 years

19. Mr CP Wolhuter (59)
BCom Accounting (Hons), CA (SA)
Chief executive officer: Pretoria Metal Pressings
Denel board and board committees: None
Other directorships: None
Relevant skills, expertise and experience: Senior leadership, financial management, including experience drawn from performing as financial director and general manager
Appointed as chief executive officer on 1 April 1996
Tenure at Denel: 15 years

Section three

Business entities' profiles

Core business entities

Denel Aviation

Denel Aviation (Aviation) delivers complete aviation solutions to the defence, aerospace and civil aviation industries through strategic worldwide partnerships with global players in the defence and aerospace industries. It focuses primarily on maintenance, repair and overhaul (MRO) of both rotary and fixed wing aircraft, associated components, ground support and test equipment.

	2010	2009	Variance
	Rm	Rm	Rm
Revenues	927	1 061	(134)
Export turnover	17	64	(47)
EBIT	78	51	27
Confirmed order book	517	1 369	(852)
Workforce complement	1 260	1 270	(10)

The main activities of Denel Aviation are the following:

- The rotary wing MRO is a Eurocopter-accredited service centre, performing maintenance, modifications, upgrades and conversions on military and civilian rotary wing aircraft, specialising in Oryx, Rooivalk, BO105, Puma SA330, Alouette SE3160 and Eurocopter Squirrel AS350.
- The engineering and flight test division acts as the Oryx and Rooivalk design authority. It further provides MRO engineering support, avionic hardware and software design, development and certification competence, mission planning and debriefing, specialist aerospace services, flight testing, information management and system qualification.
- Fixed wing MRO is a Lockheed Martin-accredited service centre and technical support facility with a sound, well-positioned infrastructure, offering a wide range of maintenance, repair and overhaul services for both transport and tactical aircraft, specialising in the C-130 and L100 platforms.
- Component MRO, an accredited Eurocopter overhaul centre offers depot-level maintenance, repair and overhaul of avionics, electrical, oxygen and hydro-mechanical components. This facility also repairs and calibrates ground support and test equipment for internal and external clients.
- OEM for the Rooivalk attack helicopter and Oryx medium transport helicopter fleet, both well-known aircraft in the service of the SAAF. This involves conducting programme and contract management, including system level engineering for the design, development, industrialisation, manufacture and integrated support of the helicopter systems.
- Denel Personnel Solutions (DPS) focuses on sourcing and securing technical skills for clients in the execution of their business objectives, and includes labour recruitment, selection, remuneration management, training, administration and labour interaction. The company also supports aviation-related artisan training initiatives and ongoing retention of certified competencies required for its aviation-related artisan pool.

The division's key highlights and achievements include the following:

- Completed six-year checks and 100-hour services of the South African Police Services' (SAPS) Squirrel helicopters.
- Completion of the Drummer 1 programme that executed the mechanical upgrade of the SAAF Oryx fleet.
- Completion of the annual maintenance inspection of a Ugandan L100-39 cargo aircraft.
- Ongoing execution of the Drummer 2 programme involving the upgrade of the Oryx helicopter's onboard communication and navigation systems.
- Successful consolidation of deeper-level logistic support capabilities for the SAAF C-130 fleet at the Waterkloof Air Force Base, with visible improvements in cost-effectiveness, aircraft turnaround and inherent fleet availability being made. Aircraft downtime was reduced by 70%, with Aviation exceeding the SAAF's servicing benchmark, and achieving a 60% improvement of aircraft availability at squadron level.
- Successful launch of its foreign object damage campaign to create awareness at the Kempton campus and Waterkloof Air Force Base.
- Awarded a contract to manufacture 63 constant current regulators (CCRs) for the new King Shaka International Airport to power all runway lights.
- Entered into negotiations with an international client on the sale of Cheetah C and D.
- Nominated as a Best Employer 2009/10 by the Corporate Research Foundation.
- Awarded Leadership Excellence 2009/10 by the Corporate Research Foundation.
- Successfully completed the Rooivalk 1F deployment baseline aircraft qualification work and issued a Denel certificate of design (COD) for the aircraft towards type certification, as directed by Cabinet in June 2008.

Denel Dynamics Missiles

Denel Dynamics Missiles (Dynamics Missiles) is in the domain of missiles and guided weapons. Dynamics Missiles is a designer, developer, system engineer, manufacturer, supplier and provider of services in all related aspects and the national custodian of related technologies.

	2010	2009	Variance
	Rm	Rm	Rm
Revenues	656	577	79
Export turnover	204	162	42
EBIT	(51)	(39)	(12)
Confirmed order book	979	1 010	(31)
Workforce complement	721	713	(8)

The main activities of Dynamics Missiles include the following:

- The business unit is a proud innovator of sophisticated missiles. Its involvement in the design, development, assembly and integration of world-class missiles spans more than three decades. It is the only missile specialist in the southern hemisphere, thus providing the SANDF with a strategic capability to develop state-of-the-art missile systems, as well as to modify, integrate, upgrade and support a spectrum of missiles and guided weapons.
- The business entity serves as a high-tech training institution for young engineers and technicians, developing human capital for both the defence and high-tech manufacturing sector in South Africa.

Dynamics Missiles' current range of products and systems include the A-Darter air-to-air missile system, the Umkhonto-IR air defence missile systems, the Ingwe and Mokopa anti-armour missile systems and the Raptor II stand-off weapons.

The following key successes and highlights were achieved:

- Dynamics Missiles has been able to improve its projected loss situation. This achievement was based on continued improvements in manufacturing, as well as process engineering and targeted savings that have the potential of leading the entity to a breakeven position during the coming financial year.
- Project Adrift, an Ingwe missile system for the SA Armour Corps was nominated for the Armscor CEO Award 2009.
- The Mokopa missile system is ready to go to market after successfully completing a rigorous qualification phase in which it exceeded its stipulated performance requirements.
- A four-year maintenance and support contract has been signed with an international navy after receiving the Umkhonto system into service. This contract has strengthened its international stature and is a significant milestone in the Umkhonto missile project.
- The first official milestone of the Land Electronic Defence System (LEDS) was met by a combined team from Dynamics Missiles and Saab Electronic Defence Systems (EDS). This system has placed South African systems design on the global map, with an international military force short-listing it for future land-based vehicle programmes.
- The A-Darter 5th generation flagship development programme successfully completed three flight test campaigns, with all specified aerodynamic, flight control and initial guidance requirements being met or exceeded.
- Excellent progress in a potential export order for several hundred missiles that is likely to strengthen joint South African and Brazilian participation.
- Introduction of the Engineering Academy of Learning with a pilot team of 7 engineering interns successfully managing a development project which provided 360 degree experience from conceptualisation,

designing, building, testing, qualifying, creating the documentation baseline, managing design, reviews, and contractual meetings to configuration management.

- Receiving an award for human capital development from the Institute of Electrical and Electronics Engineers, presented to the human resources manager for employee development, as well as leadership and contribution to the development of women in engineering.
- Improved the B-BBEE rating from a level 6 to a level 5 B-BBEE contributor.

Denel UAVS

	2010	2009	Variance
	Rm	Rm	Rm
Revenues	236	146	90
Export turnover	229	143	86
EBIT	18	12	6
Confirmed order book	280	38	242
Workforce complement	87	73	14

The UAVS' business unit is a proud innovator of competitive tactical unmanned aerial vehicles (UAVs) and guided target systems, involved in the design, development and manufacture of world-class UAVs.

Denel UAVS' range of products and systems include:

- The Seeker II and Skua high-speed target drone systems.
- The Seeker 400 tactical UAV which is currently under development.

The following key successes and highlights were achieved:

- Secured a large order for additional Seeker II aircraft and payloads from an existing customer. This contract was efficiently executed resulting in high-quality aircraft being delivered ahead of schedule and bolstering the targeted revenue contribution.
- Commencement of the development phase of the Seeker 400, with test flights provisionally scheduled for late-2010.
- In the final stage of negotiating a contract for the Seeker 400 from an export customer after securing a local order of the same system from the DoD & MV.
- Undergoing advanced negotiation with a new potential client for the delivery of a Seeker II system capability.
- Received an order for US$13m for spares to support and enable a client to enhance the potential for autonomous operational support.
- Finalised the negotiations for the Seeker II re-engine programme as a system mid-life upgrade programme.
- Secured a maintenance and support contract with a client after two years of intensive negotiations.

Denel Integrated Systems Solutions

Denel Integrated Systems Solutions (DISS) is responsible for system-level activities of the contracted Ground-Based Air Defence System (GBADS) development programme. These activities include both prime contractor-ship and system integration responsibilities.

	2010	2009	Variance
	Rm	Rm	Rm
Revenues	55	79	(24)
Export turnover	1	3	(2)
EBIT	(13)	(8)	(5)
Confirmed order book	64	157	(93)
Workforce complement	54	52	2

The division's main activities, products and services include the following:

- Designated as single-source supplier of the required long-term GBADS capability of the SANDF.
- Providing a service, independent of any product bias, to the SANDF in designing, developing, integrating and qualifying specified GBADS. Once delivered, the system will also be maintained and supported by DISS for its assigned life, with the ability to continuously improve system performance through contracted engineering support services.

The division's key highlights and successes include the following:

- Conducted its first mentorship programme to develop young system engineers, as well as commencing with the process of creating a certification capability for existing system engineers and programme managers.
- All the GBADS Phase 1 product system acceptances were completed successfully, with an operational evaluation of the system completed at OTB during October 2009.

Denel Land Systems

Denel Land Systems (DLS) is a landward defence systems business, and is positioning itself to participate in the vehicle business. It serves primarily the SANDF and international customers as a system designer and integrator, as well as subsystem supplier for artillery, rapid-fire medium-calibre weapons and combat vehicle systems.

	2010	2009	Variance
	Rm	Rm	Rm
Revenues	473	447	26
Export turnover	97	77	20
EBIT	9	(20)	29
Confirmed order book	713	974	(261)
Workforce complement	421	431	(10)

The division's main activities, including key products and services, are the following:

- Taking high-end technology and engineering capabilities in complex systems and/or products through their entire life-cycle, from conceptualisation to production.
- Providing product and logistic support, including qualification, maintenance, upgrades and eventual decommissioning, as required.
- The development of the 'Badger' family of new-generation infantry combat vehicles, under 'Project Hoefyster'. DLS is approaching the delivery of the 'Section' variant as a precondition for the allocation of the production order, with the other four variants following closely behind the lead prototype vehicle.

  The project is utilising DLS's five state-of-the-art modular combat turret variants, equipped with the home-grown GI-30 (30mm CamGun) and 60mm breech loading long-range mortar system, the Dynamic's Ingwe anti-tank missile system is integrated into the anti-tank variant of the Patria AMV 8x8 armoured modular vehicle platforms. The aim of this project is to replace the SANDF's ageing fleet of Ratel infantry combat vehicles in a phased approach and create specific export potential.
- Other products and systems include several artillery systems, combat turrets and rapid-fire small and medium-calibre weapons, for which a wide range of highly competitive, unparalleled world-class products are available.

The key highlights and achievements include the following:

- DLS was named as a finalist for the best enterprise quality award in the recently launched South African Quality Awards, for actively and effectively implementing quality principles.
- The Hoefyster contract variation order was successfully approved by the Armscor board in March 2010. The implication of this is that various technical and schedule issues were addressed, of which a significant point was that the product baseline issue, a milestone for the 'Section' variant was re-phased to end-September 2010. The milestone will initiate the final negotiations for production order activation.
- The follow-on Acrobat II extension order to the value of R217m was received on 30 April 2010 on the basis of client user requirements and the positive Acrobat 1 contract performance.
- Completion of an order for re-working a significant number of SANDF R4 rifles received just before year-end.
- Completion of key Hoefyster development milestones that have mitigated programme risks significantly.
- A very successful demonstration of the GI-30 CamGun was conducted for the Chief of the SA Army, his Command Cadre and Armscor senior management during March 2010. This event provided proof of the emerging maturity of this newly developed capability that has been selected as the main armament for the 'Badger' programme.
- DLS is currently involved in advanced negotiations with an overseas potential customer. The discussions relate to 8X8 infantry combat vehicle programme similar to the local Hoefyster programme, with a letter of intent already having been received.
- Achieved over one million accident-free working hours.
- Joint DLS/Rheinmetall artillery trials were successfully conducted.
- DLS received its ISO14001 certification during the year under review.
- Successful restructuring to streamline and position DLS for future growth.

Denel Saab Aerostructures (Pty) Ltd

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

	2010	2009	Variance
	Rm	Rm	Rm
Revenues	430	604	(174)
Export turnover	393	173	220
EBIT	(283)	(444)	161
Confirmed order book	1 770	1 449	321
Workforce complement	755	835	(80)

The subsidiary's main contracts include:

- The manufacture of components and fuselage assemblies, as well as main rotor heads and blades for the AgustaWestland A109 LUH helicopter.
- Major structures for the Saab Gripen programme, including NATO-specification pylons, as well as the main landing and rear fuselage sections.
- The design, qualification, detail manufacture and assembly of the A400M wing-to-fuselage fairing (WFF) and top shells.
- Providing engineering support and parts manufacture to Denel Aviation for the Rooivalk attack helicopter programme.

The following was achieved during the year:

- Completion and delivery of the first three Nigerian A109 LUH helicopters to Agusta, as well as completion of rotor-head and blade set orders, with additional orders for another 26 blades secured
- Delivery of all contracted Gripen components.
- Completion of the second baseline design of the Airbus A400M WFF and delivery of all five A400M prototype aircraft shipsets, as well as the Structural Fatique Test Set.
- Overall the delivery performance and quality has improved through various interventions within operations, for example, the number of late shipsets reduced from over 35 to below 5.
- Various customer audits were successfully concluded and major accreditations, such as, NADCAP for non-destructive testing, composites manufacturing and chemical processes were maintained.
- The European Aviation Safety Agency (EASA) conducted an audit on the Denel Seville Office (DSO) and zero findings were raised.

Mechem (Pty) Ltd

Mechem is a world leader in creating safer environments through providing mine action services and battle area clearance (BAC) solutions, canine services, related skills development, mine protected vehicle (MPV) manufacture and ancillary equipment to the UN, other international agencies, governments and commercial customers globally.

	2010	2009	Variance
	Rm	Rm	Rm
Revenues	165	275	(110)
Export turnover	133	263	(130)
EBIT	(4)	34	(38)
Confirmed order book	147	294	(147)
Workforce complement	56	54	2

Mechem's range of products, services and activities include the following:

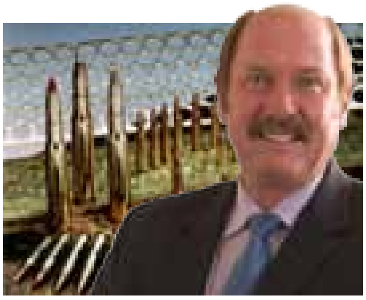
- Technologies employed to perform manual demining and explosive ordnance disposal, vehicle-mounted demining, mechanised demining, landmine surveys and quality assurance.
- MEDDS, a unique remote scent detection capability used to identify mines, explosives, drugs and other contraband.
- Specialist canine services, the breeding and sale of trained detection and patrol dogs, screening of cargo, as well as training of dogs and dog handlers.
- The Casspir mine protected vehicle (MPV), rated as the world standard for such vehicles.
- Operational support of commercial activities such as major events. This includes range clearance of military and other firing ranges contaminated by unexploded ordnance.
- Afrifoot, a programme launched to facilitate the manufacture and supply of low-cost leg prostheses to landmine survivors.
- Skills development in related fields, through an in-house fully equipped training centre, where demining, demining management, detection dog handling, explosive ordnance disposal (EOD) and other related courses are offered.

The key highlights and achievements include:

- Completion of the demining project at the Kisangani Airport in the Democratic Republic of Congo, and delivery of the newly demined area to local officials.
- A MEDDS system was officially donated to the SAPS Mpumalanga canine unit, with the system immediately recognised as a force multiplier in its protected species operations. This successful deployment created the opportunity for the first SAPS contract to be placed with Mechem, with the company also securing a support contract from Airports Company South Africa (ACSA) for the OR Tambo International Airport.
- A newly-built Casspir was completed and will be launched this year. To date, all of these vehicles supplied to international clients were bought on auction and remanufactured.
- Celebrated its fifty years of existence and exemplary service delivery. This landmark gives it credibility as a major contender in its industry.

Pretoria Metal Pressings

Pretoria Metal Pressings (PMP) is an integrated mass manufacturer of small and medium-calibre ammunition and technology-related products for military and commercial use.



	2010	2009	Variance
	Rm	Rm	Rm
Revenues	626	601	25
Export turnover	268	334	(66)
EBIT	25	(12)	37
Confirmed order book	261	410	(149)
Workforce complement	1 311	1 218	93

PMP produces products that are widely used across the spectrum of the SANDF, SAPS and other security agencies, locally and abroad. The division supplies handgun and rifle ammunition to the commercial sector, and also serves the mining industry and electrical manufacturing sector with commercial products that are derived from defence technology. The product range includes:

- Small-calibre ammunition ranging from 5.56mm to 12.7mm and medium-calibre ranges of ammunition from 20mm to 35mm that conform to military standards.
- Percussion caps of all types, as well as links for various small and medium-calibre rounds.
- Power cartridges, rocket motors and canopy fragilisation systems for the safe ejection of pilots from aircraft.
- Probit rock drill bits for the mining industry.
- Commercial explosives and explosive products.
- PMP's non-ferrous foundry and rolling plant produces up to 80 tons of brass strip daily. A major portion is used for the manufacture of ammunition by PMP itself or by international clients procuring brass cups and discs from South Africa, with the remainder of the brass strip sold 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.
- A new range, the African Elite series, aimed at the top end of the market, has been launched with immediate success.

The division's key highlights and achievements include the following:

- The turnaround to sustainable profitability and cash generation has passed the critical mark. The division has made substantial improvements in its manufacturing capability, resulting in significantly improved financial results for three consecutive years.
- PMP has acted as strategic supplier of brass cups to a European company since 2001. Negotiations are in progress for the mass requirement from this company up to 2017, which could total approximately R1.2bn. Due to the current strength of the rand an initial order of R117m was received for 2010.
- Accident-free hours stood at 2 461 339 on 31 March 2010, and a new record low lost time injury frequency ratio (LTIFR) of 0.06 was achieved.
- Significant progress was made on the development of the 30mm x 173 medium calibre round for 'Project Hoefyster', as well as the 20mm x 42 round for the NEOPUP weapon.
- The order value from the SANDF on PMP's products increased to R130m over the past year, with the target for the coming financial year increasing to R160m per annum.

OTB

OTB is a versatile missile and aircraft test range that specialises in performance measurement of in-flight systems, providing support for the qualification of airborne systems, as well as validating the operational effectiveness of military systems.

	2010	2009	Variance
	Rm	Rm	Rm
Revenues	87	67	20
Export turnover	41	21	20
EBIT	5	(7)	12
Confirmed order book	51	77	(26)
Workforce complement	175	169	6

Its primary business goal is to meet the strategic flight test and wider system qualification requirements of the SANDF/DoD & MV, South Africa's military-industrial users, as well as foreign defence forces.

The OTB facility provides a turnkey in-flight test, systems certification on and performance services that include:

- Flight tests on sophisticated missile, rocket, bomb and guided munitions systems.
- Evaluation and measurement of aircraft performance, avionic system evaluation, carriage and release clearance of ordnance and other payloads.
- Measurement of trajectories of all types of bombs, as well as other guided and unguided munitions.
- Managing the deployment of instrumentation and execution of tests, including anti-tank tests, helicopter-based tests, as well as electronic warfare tests.
- Mobile telemetry launch support services in remote locations during space missions, as well as maintaining and operating ground stations for the transfer of data to and from satellites.
- Providing flexibility to undertake integrated qualification and system validation for multiple clients simultaneously, with OTB proving its ability to manage and execute any combination of air, ground and sea trials independently or simultaneously.

The key highlights and achievements include the following:

- The third test campaign of the DoD & MV Starstreak air defence weapon system for the SA Army took place at OTB during November 2009. This was an operational test and evaluation exercise with more than 250 military personnel deployed.
- Three divergent phases of the A-Darter missile test programme were successfully supported, despite posing some of the most challenging scenarios to track highly agile missile manoeuvring.
- The fourth Cape of Good Hope bi-national exercise between Germany and South Africa in March 2010 was the largest operational test campaign ever supported by OTB.

Associated companies

Carl Zeiss Optronics (Pty) Ltd

Carl Zeiss Optronics (Pty) Ltd (Carl Zeiss) is a global supplier, involved in the development and production of optronics, optical and precision engineered products for military and civilian applications.

	2010	2009	Variance
	Rm	Rm	Rm
Revenues	529	392	137
EBIT	75	3	72
Workforce complement	294	283	11

The company's main activities include the international supply of sensors, helmets, trackers, laser range-finders, as well as targeting, surveillance, and sighting systems, to a spectrum of military and civilian clients. The company is also assigned single-source supplier status of Type 209 periscopes and it manufactures thermal imaging cameras for military and commercial applications.

The key highlights and achievements include:

- Major improvements in manufacturing efficiencies that have allowed a doubling of both the order book and output. These orders are being executed by a stable workforce.
- Significant improvements in sales and profitability, as well as elevated productivity of its highly-skilled employees.

Rheinmetall Denel Munition (Pty) Ltd

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

	2010	2009	Variance
	Rm	Rm	Rm
Revenues	816	977	(161)
EBIT	49	(98)	147
Workforce complement	1 686	1575	111

Its product portfolio includes large-caliber ammunition (76mm to 155mm), artillery projectiles, propellants charges and pyrotechnic carriers, mortar bombs, 40mm grenades and various sub-systems.

The key highlights and achievements include:

- The integration of Rheinmetall's business approach into RDM to achieve a turnaround from a loss of R80m in 2008 to a profit of R81m in 2009, within 15 months of taking management control of the entity.
- The implementation of a cost reduction programme that realised a direct saving of R40m during the previous financial year, with further aggressive savings targets set for future years.
- Securing new orders from international clients has resulted in a doubling of the order book, with further growth in sales in the offing.
- The start of a three-year investment project to upgrade and modernise all of RDM's facilities.

Turbomeca Africa (Pty) Ltd

The company is a world leader in the production and maintenance of helicopter turbine engines, as well as engine and gearbox components.

	2010	2009	Variance
	Rm	Rm	Rm
Revenues	386	474	(88)
EBIT	61	119	(58)
Workforce complement	224	273	(49)

Turbomeca is the world leader in the design, manufacture and sale of gas turbines for small and medium power helicopters, mainly to Eurocopter and AgustaWestland. The main activities include the following:

- In South Africa, Turbomeca engines are mainly in use on the SAAF Oryx, Rooivalk and Agusta A109.
- Turbomeca Africa manufactures spares for Turbomeca and Rolls Royce, and performs the repair and overhaul of Turmo, Makila and Arrius engines, supported by full repair facilities for parts and accessories.
- Turbomeca Africa's business includes the Turbo Support Centre for first and second-line maintenance on-site or in the field.
- The Turbomeca Africa 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 and other worldwide customers.

The key highlights and achievements include the following:

- Accelerated engine and component deliveries to the SAAF.
- Major efficiency improvements in scheduled maintenance and overhaul activities of assigned engines and gearboxes, resulting in an approximately 40% reduction in turnaround.
- Continued delivery of Rolls Royce gearboxes as single-source supplier.
- Further improvements in internal efficiencies to ensure continued profitability despite the impact of the global recession.

The business entity has had a successful turnaround and continued to post impressive results through good order cover and the transfer of world-class industrial systems and processes. To cope with the downturn for the 2010 to 2012 financial years, management has realigned its business to decrease the breakeven point, through a detailed assessment of costs and headcount.

Section four

Improved governance and risk management processes

83 pre-employment bursary beneficiaries

Employee training spend R112m

ISO9001 management systems in place at all entities

Level 4 B-BBEE achieved

Improved safety performance, LTIFR target of <1 was met at most entities

ISO14001 management systems in place at most entities

Operational excellence improvements in all entities

Sustainability report

Sustainability report

Sustainability vision, strategy and commitments

Denel cares about the sustainability of our planet. Its 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 capacity. Denel aims to conduct its business in a sustainable manner to preserve its future for all stakeholders, by making positive contributions to its economic, social and natural environments, and ensuring the responsible use of scarce natural resources for future generations. Denel strives to operate as a responsible manufacturer in South Africa, by implementing robust business processes that take into account all aspects of sustainability including safety, health, environment, quality and social issues. Denel acknowledges that sustainable business practices are a moral imperative that require innovation, fairness and collaboration, as well as an economic imperative. Its values and ethics policy influences and guides its business practices and behaviours in respect of sustainability objectives and performance.

The group's commitment to sustainable development extends beyond legislative compliance and is an integral part of the strategy. Denel's corporate strategy was refocused during the year under review to demonstrate its commitment to sustainable development and ensure a sustainable future through people, skills and supplier development, stakeholder relationships, strengthening governance and participate in socio-economic development. Details of the strategy implementation and monitoring procedures are provided in the material issues section on page 51.

Sustainable development practices are in place and integrated into business processes and management systems at entity level, with focused management of material sustainability impacts taking place through goal and target setting, performance monitoring and reporting. The group's management of material sustainability issues and its performance are provided throughout the sustainability report.

There are plans to formulate a sustainability strategy and group policy/framework to co-ordinate, optimise and drive sustainable development practices and exploit opportunities for synergy in a more integrated approach across the group. The strategy and policy will include all aspects of sustainability, as well as guide every level of the business in terms of expected behaviours and practices. Formalising sustainability within Denel will ensure that the company's strategic objectives are met and further realise the business benefits of implementing sustainable development best practices. These include reducing risks and creating opportunities through operational efficiencies, increasing productivity and quality, gaining competitive advantages, and enhancing brand image and reputation. As the sustainability management and reporting processes mature, key aspects will be identified for independent assurance.

Denel has implemented sustainability reporting as a core aspect of its governance processes, which is driven at group level. During the year steps were taken to enhance the management of sustainability practices, heighten awareness of the objectives and requirements, as well as formalise/standardise the reporting process to improve the quality and completeness of the annual sustainability report, which included meetings with business entity representatives.

The group experienced challenges which impeded the development of a group formalised strategy, policy and independent assurance of its sustainability processes during the year. These related to the group's focused efforts to address and respond to its burning issues, namely financial stability and going concern challenges. Whilst goals are set for various aspects at entity level, stringent targets based on innovative operating requirements have not been fully investigated, and are identified as a significant area for improvement. The group is proud of its financial performance during the year under review, and the successes it has achieved in creating the necessary and stable foundation for further sustainable economic and social development. Despite these challenges, Denel's management remains committed to implementing sound sustainability practices and enhancing its positive aspects, whilst eradicating possible negative impacts on the economic and social life of the communities in which it conducts its business. Further details are provided in the looking forward sections of the various aspects throughout the 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 under review. It includes the company's impacts and contributions to the economic, social and natural environments in which it conducts its business. The report demonstrates the company's attitude and commitment to sustainable development, and is a means of communicating that attitude and commitment to its Shareholder, partners, customers, employees, stakeholder communities and the general public. The sustainability report provides comprehensive commentary on the organisation's 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.

The report is based on global reporting initiative (GRI) guidelines and leading practice within the defence and aerospace industry. It includes Denel's material sustainability issues, as defined, and focuses on Denel's core entities. It also provides information on its associated companies where such information is available. The format is outlined in the contents page of this annual report, with each section providing information on how the company manages its sustainability activities and then its performance. This is the successor to the group's 2009 sustainability report, and to ensure consistency and comparability, it follows a similar structure to the 2009 report aligned to the GRI requirements. The GRI content index is provided on pages 129 to 133, and indicates reporting against Denel's core indicators. The report is a level C report, and it has not been independently assured.

Certain sections reported on may contain limitations as a consequence of the fact that not all data measurement techniques are in place, and may therefore not provide the full impact of Denel's sustainability activities. In such instances, detailed descriptions of the activities taking place at the relevant core business entities are provided. Denel aims to address and resolve this situation as it formalises its sustainability strategies and policies in the coming financial year.

The report is available as part of the annual report on our website www.denel.co.za.

Material issues

Denel has, for a number of years, experienced challenges relating to financial stability and going concern. These remain burning issues for the group's highest priority and focus during the year under review. These challenges were the group's most material sustainability issues. Denel recognises that its economic sustainability is linked to and dependent upon social and environmental sustainability. The main elements of, and reasons for, the financial stability and going concern challenges are discussed in the *directors' report* on pages 141 to 146, and throughout this annual report.

To address these significant issues and ensure a sustainable future, Denel refined its strategic drivers to incorporate aspects of sustainability to focus on customers, efficiency and growth. The group's key sustainability focus areas for the year under review are articulated in the refined strategic drivers on page 8. They relate to risk management, cash flow management, improved reporting, strengthened governance, development of people, skills and suppliers, as well as the development of stakeholder relationships. Due to the nature of Denel's business and operations, other material sustainability issues are provided on page 52. Comprehensive details, as well as the group's performance in these areas, are provided throughout the sustainability report.

Key performance indicators (KPIs) for each refined strategic driver were developed and implemented across the group, to measure and monitor performance towards achieving the key goals and targets. The KPIs are aligned to the key performance areas of the shareholder's compact, with additional KPIs being set across the group for implementation and regular monitoring by all levels of management. The group's performance against key performance areas are provided in the *shareholder's compact* on page 55. Denel aims to achieve financial sustainability by 2013. The group executives are assigned responsibility to implement the KPIs and drive performance, as well as to ensure that processes for sustainable improvements are embedded within the key focus areas. Other key strategic driver successes achieved are provided in the *directors' report* on page 146.

In addition to the key focus areas, sustainability practices are incorporated in Denel's conduct of its business. The group is proud of the positive contributions it continues to make, whilst managing its impacts on the social and natural environments in which it operates. Comprehensive details of the sustainability practices are presented throughout the sustainability report (pages 50 to 133).

Identified material issues are also managed and addressed as part of the group's risk management programme. The details are disclosed in the *risk management report* on pages 64 to 65. Other initiatives being undertaken to address the financial stability and going concern issues include restructuring and the introduction of new operating costs policies with more stringent budgetary control. This is to align costs to confined businesses, with the key focus areas of policy to reduce working capital management. These initiatives are discussed in the *group overview section* on page 17.

Due to the nature of Denel's operating activities, other key material sustainability issues include:

- Risk management processes, detailed on pages 64 to 66.
- Occupational health and safety of employees and products, detailed on pages 105 to 108.
- The critical shortage of scarce technical skills required in Denel's high technology core businesses, detailed on page 97.
- Compliance with legislation is provided as part of the *risk management report* on pages 66 to 67.
- Stakeholder engagements strategy was developed, detailed on pages 68 to 78.
- Understanding customer requirements and delivery of high-performance products, detailed in the *economic impact report* on pages 85 to 87.
- Details of ethical behaviour in the manner that Denel conducts its business is provided in the *risk management report* on page 65.

Corporate governance report

Overview

Corporate governance is the responsibility of the board as a whole and is guided by the company's memorandum and articles of association, the board charter, the Companies Act, no 61 of 1973 (amended), the Public Finance Management Act, no.1 of 1999 (PFMA), as well as various corporate governance guidelines provided by the King III Code and the global reporting initiative (GRI). Various other legislation and governance standards also guide the company's legal and disclosure obligations.

Denel subscribes to the principles of good corporate governance, including those advocated in King III, which essentially requires effective leadership that is able to integrate decision-making, strategy and sustainability. This also entails an inclusive and collaborative approach to stakeholder management. King III advocates an 'apply or explain' rather than 'comply' approach, with integrated sustainability being included as a core focus area of good corporate governance. The company has a mature corporate governance process that meets most of the King III requirements and fulfils the provisions of the new Companies Act, 2008. A review of the group's governance practices was carried out which resulted in the updating of the following documentation, in accordance with the requirements of King III and the new Companies Act, 2008:

- Board charter
- The terms of reference for board committees
- Board and committee agendas and documentation

The results of these reviews are provided in the gap analysis on page 63.

Corporate governance is standardised across the group to ensure consistent implementation and monitoring of the high governance standards set by Denel in all its operations.

The performance of the board and board committees, with respect to governance, was reviewed, and areas for improvement identified. These include stakeholder engagements, communications and formalised sustainability reporting processes. To address these, Denel has embarked on a number of initiatives which include the following:

- A communications strategy, which includes stakeholder engagement, has been developed and implemented. The stakeholder engagement model will be implemented during the coming financial year.
- Formal workshops were conducted for the group to enhance awareness and understanding of sustainability across the group, with interactive meetings being held with entities to provide guidance and drive the reporting process at group level. Sustainability reporting has been included in the board agenda going forward.

The gap analysis and achievements are provided on page 63, as well as in the *stakeholder engagements report* on pages 68 and 78.

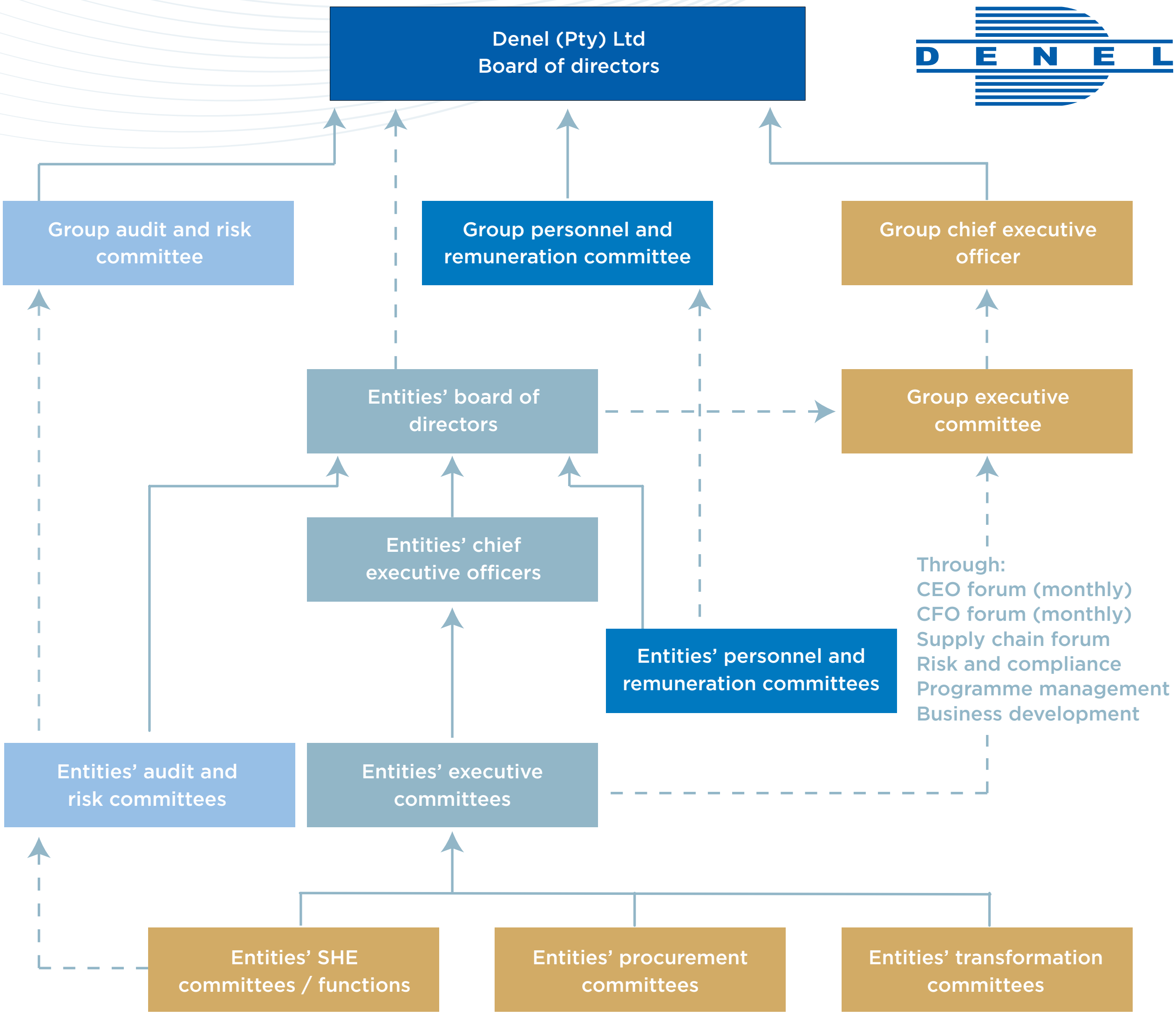
Denel views the board evaluation as a key tool to ensure continuous improvement regarding its performance and effectiveness. The board evaluation report, together with action plans to address identified areas of development, is submitted to the Shareholder representative, annually. The following are extracts from the board evaluation report of 2010:

'There is overwhelming confidence in the ability of the board to supervise or monitor management, the relationship between the board and management. The levels of accountability in finance and risk continue to be highly ranked.'

'The composition of the board is deemed appropriate and there is satisfaction with the mix of skills and experience with some of the board members being noted as having gained more confidence and maturity. All the board members continue to respond positively to the process of self-evaluation, and the company. While unique, it is viewed as comparing more favourably with other boards.'

Governance structure

The group's governance structure is depicted below. The non-executive directors on the group board and board committees exercise strategic governance oversight. The group's executive management is responsible for day-to-day operations and tactical governance matters, through the entities' boards, board committees and executive management committees, as well as the various forums which are in place across the group. Denel group board members and external experts are also represented on the entities' boards.



The shareholder and shareholder's compact

Denel has continued its practice of agreeing KPIs and measures with the Shareholder's representative (the Minister of Public Enterprises) each year. These form part of the shareholder's compact that is submitted to the Department of Public Enterprises (DPE). The group's progress against set targets is continuously reviewed by the board and reported to the Shareholder representative on a quarterly basis. The performance of the organisation against the performance objectives is provided in the table below.

The implementation of the group strategy is managed at business entity level.

Shareholder's compact key performance indicators

Strategic intent	Key performance area	Key performance indicator	Achieved	Contracted
Strategic role in the provision of defence capabilities	Retention of capabilities in areas required by the DoD & MV	Retained strategic capabilities in support of the DoD & MV's requirements	No core capabilities were discontinued or established during the year under review. Therefore, 100% of the core capabilities required by the DoD & MV were retained. This KPI is always limited by the DoD & MV's finalisation of its strategy.	Maintain all or 100% of key strategic capabilities required of Denel by the DoD & MV.
	Maximise access to local markets	Local sales as a % of turnover	61%	59%
	Contracted SANDF/DoD & MV programmes	Invoiced sales as a % of SANDF/DoD & MV orders placed (roll-over of funds)	89%	85%
Strategic economic role in promoting advanced manufacturing	Promote advanced manufacturing goals of the country	The value of the development type work as a % of turnover (customer-funded)	22%	10%
	Investment in R&D	Self-funded R&D as a % of turnover	0.9%	0.5%
Business sustainability	Profitability management	EBIT as a % of turnover	(2.3%)	(10%)
	Debt and gearing	Debt/equity ratio	2.9: 1	1:1 long-term
	Cash management	Cash flow from operations as a % of turnover	(9.5%)	(21%)
	Healthy sales pipeline	Orders concluded in respect of the coming year as a % of sales budget for that year (order cover)	52%	50%
Business efficiency	Productivity improvement	Revenue per employee	R687k	R774k
	Operating expenditure (OPEX)	Operating costs as a % of revenue	23%	30%
Developmental contribution	Contribution to economic transformation (including attainment of key supplier development)	B-BBEE contributor level	Level 4	Level 5

Board of directors

The board's main responsibility is to ensure the successful continuation of Denel's business activities. The appointment of non-executive directors to the board is reviewed annually at the company's annual general meeting (AGM). The chairman continuously engages the Shareholder on board succession plans and invites the Shareholder representative to discuss the strategic objectives considered prudent to the company's success. The board has found such interactions transparent and most valuable in providing strategic direction to the company. The board continued to work collectively, effectively and efficiently in executing the tasks at hand, and further strengthened the constructive relationship with the group chief executive and Denel's executive management team.

Board composition

The company's articles of association provide that there shall be not less than two and not more than sixteen directors, of which no less than two shall be executive directors. The board comprises of thirteen directors, two of whom serve in an executive capacity. Eleven of these directors, including the chairman, are independent, non-executive directors who are free from any business relationships that could impede their objectivity or independent judgment on the business and activities of the company. The non-executive directors are appointed by the Shareholder. In terms of the company's articles of association, a director is appointed for a specific term, which is normally three years, unless determined otherwise during the appointment and lapses at the AGM of the company. The duration of office is from the date of the most recent election or appointment. All directors have unrestricted access to information, documents, records and property of the company.

Most of the directors' terms were extended at the 2008 AGM of the company. The composition of the Denel board during the year under review had a 25% representation of women, which was reduced by the resignation of two board members.

The non-executive directors contribute different ranges of skills, business acumen, independent judgment and experience on various issues, including strategy, performance and general leadership, whilst the executive directors contribute valuable experience and understanding of the business of the company. The board therefore remains satisfied that there is an appropriate mix of knowledge, skills and attitude to deliver its mandate. The composition and profiles of the board members at year-end are provided on page 29. The changes in directorate during the year are provided in the *directors' report* on page 148.

Board induction and information

A board induction takes place when a new non-executive director is appointed, in order to familiarise such a director with the company's operations, risk management procedures, strategy, governing framework and fiduciary duties and responsibilities. In addition, the Denel board takes the view that all the directors must continuously learn about the company and new developments that are likely to enhance the exercise of their responsibilities. Such continuous training and development takes the form of board and board committee meetings being held at different sites of the company's operations to allow the directors an opportunity to interact with the different activities of business entities. Presentations take place at every board meeting on topics that are new and relevant to the director's duties and responsibilities. The company has maintained the practice of submitting management reports to the board as pre-reading material before all board meetings. Further, the practice of circulating monthly reports to the board to keep the directors abreast of developments in the company has continued with good effect.

Board evaluation

The board is of the view that board evaluation ensures the continuous improvement of its performance and effectiveness. The board evaluation process comprises the evaluation of the board as a whole, the board committees, the chairman, individual directors, the group chief executive, the group company secretary and the effectiveness of the company's risk management.

Extracts of the current findings of the Denel board evaluations are provided on page 53.

Board leadership

The chairman of Denel is highly regarded by both his fellow directors and the executive team. The directors unanimously agree, in their responses to the independent board evaluation process, that he has the ability to guide dialogue by allowing all viewpoints to be heard, whilst ensuring that critical issues are dealt with and decisions are reached.

The chairman and the group chief executive have worked effectively together, with the chairman providing appropriate direction and guidance to the group chief executive as and when required, whilst remaining independent and free from interfering in executive management. The Denel board is satisfied that the chairman provides appropriate feedback to the group chief executive in a balanced manner after the board's closed sessions and performance evaluation discussions. At the closed sessions, the board discusses any matters not appropriately raised in the presence of the executives.

The non-executive directors acknowledge the need for their independence and the importance of good communication and close cooperation between the executive management and the non-executive directors. The group executive directors and independent non-executive directors serve on the boards of business entities; to fully comply with the requirements of King III, the board approves that the independent non-executive directors chair the boards of the business entities.

Succession planning

As part of its corporate governance responsibilities, the personnel and remuneration committee ensures that succession planning policies are implemented in respect of the company's executive directors. The board, together with the Shareholder, ensures succession planning for the non-executive and independent members of the board of directors. This is to ensure that Denel continues to be led by the best available talent through the continued renewal of skills and expertise, as well as ensuring compliance with all the applicable corporate governance laws, regulations and conventions.

Company secretarial function

The group company secretary is responsible for developing systems and processes which enable the board to discharge specific functions efficiently and effectively. The group company secretary is responsible for advising the board on corporate governance issues, setting the annual plan for the board in conjunction with the chairman and monitoring compliance with the PFMA, the Companies Act and other relevant legislation, as well as keeping the board updated on new relevant legislation. All directors have access to the group company secretary's service and guidance. With effect from 16 November 2009, the board appointed Ms Elizabeth Africa, as the group company secretary.

Board meeting attendance

Board member	5 May 2009	21 Jul 2009	AGM meeting 18 Aug 2009	15 Sept 2009	17 Nov 2009	16 Feb 2010
Dr SP Sibisi (Chairman)	√	√	√	√	√	√
Mr MT Sadik	√	√	√	√	√	√
Ms SH Chaba	√	√	√	√	√	√
Dr GC Cruywagen	√	√	√	√	√	√
Mr E Godongwana†	A	R	R	R	R	R
Dr BG Halse	√	√	A	√	√	√
Mr A Hirsch	√	√	A	√	√	√
Mr LC Jones	√	√	√	√	√	√
Mr NR Kunene	√	√	√	√	√	√
Ms NH Maliza†	√	A	A	√	A	R
Mr F Mhlonto	√	√	√	√	√	√
Ms CC Mulder	√	√	√	√	√	√
Mr MS Phalatse	√	√	√	√	√	√
Mr CML Savage	√	√	√	√	√	√
Ms T Seretse	√	A	√	√	√	√
Ms D Vallabh†	√	√	A	R	R	R

† *Resigned during the year*
A *Apology*
R *Resigned*

Board committees

Consistent with the requirements of King III and general corporate governance best practice, the board has established committees to assist it in discharging its responsibilities. Each committee has a mandate outlining the authority delegated by the board. The mandate of each committee sets out, amongst others, its purpose, composition, reporting responsibilities, terms of reference and the right of any member to seek and be provided with independent advice at the company's expense, should the member consider it necessary for the effective execution of his/her fiduciary duties. The group company secretary provides secretarial services to all the board committees. All committee members are non-executive directors and the chairpersons are independent, non-executive directors. Minutes of the committee meetings are available to all directors and are included in the board meeting documents. The chairpersons of the committees table a report on the activities of their committees at each board meeting. Executive committee members who are considered relevant for the effective execution of the mandates of such committees attend the committee meetings by invitation of the respective chairperson.

The board's annual agenda includes themes that the board uses for an in-depth analysis of the business. The themes dealt with during the year under review included the review of Denel's turnaround strategy, proposals and recommendations to deal with economic regulation, the associated risks and human capital management.

Group audit and risk committee

The group audit and risk committee's mandate includes the review and approval of the group internal and external audit plans, audit scopes, the approach to group risk activities and audit fees. All members of the group audit and risk committee are non-executive directors and are financially literate. The committee convened three times during the year. The business entities have audit and risk committees. The entities' key issues are tabled in the group audit and risk committee report.

The external and internal auditors have unrestricted access to the committee, which ensures that their independence is not compromised. They are invited to all group audit and risk committee meetings. The group audit and risk committee holds closed sessions with the auditors, where the auditors can discuss any issues they consider appropriate to raise in the presence of management.

The board has delegated the responsibility to consider the integrity, quality and reliability of the group's risk management to the group audit and risk committee. Risk identification processes take place at group and entity level. The group's top 10 risks are identified and its responses thereto, are reviewed at each meeting of the group audit and risk committee.

Functions

The group audit and risk committee functions include, but are not limited to:

- Review of and report on the effectiveness of the company's internal control systems, including whether proper and adequate accounting records are kept, the safeguarding of company assets, the overall financial and operational reporting environment, and the implementation of new systems.
- Ensure that a risk appetite/tolerance has been determined and that senior management facilitates a risk assessment process to identify the material risks to which Denel may be exposed and evaluate the management strategy for managing those risks.
- Review and evaluate the annual financial statements, other sections of the annual report and any other announcements regarding Denel's results or other financial information made public for reasonability and accuracy, prior to submission and approval by the Denel board.
- Understand the scope of the internal and external auditors' review of internal controls over financial reporting, and obtain reports on significant findings and recommendations, together with management responses.
- Review the internal audit function's compliance with its mandate, including its annual work programme, co-ordination with the external auditors, the reports on significant investigations and the responses of management to specific recommendations.
- Review all approvals for non-audit services in terms of the Denel policy. This should include reviewing the objectives and scope of the work performed to ensure there are no conflicts of interest and that independence is not compromised.
- Recommend the appointment of the external auditors to the Denel board. Review and confirm the independence and objectivity of the external auditors.
- Review and approve the plan and scope of the external audit with regard to the critical risk areas and the sufficiency of audit coverage and procedures, including the coordination of the audit effort with internal audit.
- Review the reports of the external auditors with regard to the annual financial statements, as well as any performance related information furnished in respect of the requirements of the PFMA.
- Review compliance with legal and regulatory provisions, namely the PFMA and Treasury Regulations 27.1.8 (f), including the rules, codes and standards applicable to its business environment.
- Review with management, its philosophy with respect to business ethics and corporate conduct, its written code of conduct and the programme it has in place to monitor its implementation and compliance.
- Ensure that risk definitions and contributing factors, together with risk policies, are formally reviewed on an annual basis, taking into account that risk, in its widest sense, includes market risk, operational risk and commercial risk, which cover detailed combined risks.

The committee's terms of reference will be updated to include any new requirements of the King III code as identified in the *gap analysis* on page 63.

Evaluation results

The audit and risk committee is fulfilling its mandate and plays a crucial part in the effective working of the board. The committee's recommendations are taken seriously by the board and management, and are implemented.

Membership and meeting attendance

Committee members	7 Jul 2009	13 Oct 2009	9 Feb 2010
Ms CC Mulder (Chairman)	√	√	√
Dr GC Cruywagen	√	√	√
Mr LC Jones	√	√	√
Mr CML Savage	√	√	√
Mr R Boqo#	√	A	A
Mr MT Sadik[1]	√	√	√
Mr F Mhlontlo[1]	√	√	√

A apology
1 permanent invitees
 # external independent member of the group audit and risk committee

Personnel and remuneration committee

All the members of the remuneration committee are independent non-executive directors. The group remuneration committee considers and approves policy frameworks and best practice standards in respect of remuneration in the company. The committee also ensures that succession planning policies are implemented in respect of non-executive directors and members of the group executive committee.

The main functions of the committee include the following:

- Develop the company's general policy on remuneration and recommend it to the board for approval.
- Determine and approve specific remuneration for senior executives of the company, including but not limited to basic salary, benefits in kind, variable pay, interim remuneration adjustments, pensions and other benefits.
- Approve the creation of posts, appointments, promotions, transfers and dismissals at executive management level.
- Determine any criteria necessary to measure the performance of senior executives in discharging their functions and responsibilities.
- Encourage senior executives to enhance the company's performance and ensure that they are fairly, but responsibly rewarded for their individual contributions and performance.
- Review, at least annually, the terms and conditions of senior executives' service agreements, taking into account information from comparable companies, where relevant.
- Review the company's succession plan, transformation plan and training and development plan.

Evaluation results

The committee is performing well under difficult circumstances, and its terms of reference are clear and understood.

Membership and meeting attendance

Committee members	5 May 2009 (special)	25 Jun 2009	3 Nov 2009	27 Jan 2010
Ms SH Chaba (Chairman)	√	√	√	√
Mr MS Phalatse	√	√	√	√
Mr CML Savage	√	√	√	√
Mr MT Sadik [1]	√	√	√	√
Mr F Mhlontlo [1]	√	√	√	√
Ms TP Mushungwa [1]	√	√	√	√

1 permanent invitees

Group executive committee

This committee is chaired by Mr Sadik, the group chief executive, and comprises members of the group executive team as detailed in the table below. The committees' responsibilities include overseeing the day-to-day management of the company's affairs and executing the decisions of the board. The group executives also have oversight of the business entities' activities and senior management, through the delegation of authority. They oversee risk and compliance, programme management, business development and legal matters, amongst others. The *governance structures section* on page 54, illustrates the forums which are in place to facilitate executive management's oversight role and reporting lines. It meets at least monthly or as the need arises and is actively involved in the strategic review of the company's values, safety performance, operational and exploration profiles, financial status, as well as communicates, reviews and agrees on issues and actions of group-wide significance.

Evaluation results

The committee is viewed as a vital indicator of successful delivery of its mandate. The group executive committee held 14 meetings during the year, 3 of which were special meetings to address specific issues which arose.

Membership and meeting attendance

Committee members	Number of meetings attended
Mr MT Sadik (Chairman)	11
Mr F Mhlontlo	13
Mr JV Morris	14
Ms TP Mushungwa	13
Mr ZN Ntshepe	11
Maj Gen (Ret) OA Schür	12

Directors' remuneration

The remuneration of non-executive directors is determined in accordance with the DPE's guidelines and approved in advance by the Shareholder representative and confirmed at the AGM. The executives and directors remunerations are provided in the *directors' report* on page 149 and page 150.

Conflict of interests

The group company secretary administers the related party disclosures' registers for the board and the group executive committee. The directors and members of the group executive committee are required to sign a declaration of interest at all the meetings. The related party disclosures' registers of the board are circulated at each board meeting. Directors and executives who have a conflict of interest on any matter to be discussed at the meeting are required to inform the group company secretary before the meeting. Such a director or executive is then recused from the meeting when that item is being discussed, unless the directors or members of the group executive committee, having noted such declarations, are satisfied that no recusal is warranted.

Code of ethics

All employees of Denel are required to adhere to the code of ethics. The purpose of the Denel code of ethics (the code) is to set ethical standards for business practice, individual business conduct, and to assist all Denel stakeholders with their ethical considerations, choices, decisions and conduct when dealing with the company. The code stipulates that all business decisions and transactions must be made with uncompromised integrity, honesty and objectivity of judgment. To support this initiative, Denel has implemented a gifts policy which regulates and controls the acceptance and giving of gifts in the Denel business environment.

The company also has an independently-operated whistle-blowing mechanism. A fraud hotline is operated by an independent organisation. Matters that have been reported through this mechanism, and the progress of investigations, are reported to the group audit and risk committee by the internal auditors. On receipt of a call, investigations are conducted and, depending on the nature of allegations, some matters may be reported to the appropriate law enforcement agencies, such as the SAPS. Fraud and related issues that arose during the year under review are provided in the *risk management report* on page 65.

Risk management framework

Denel has recognised that managing risk is a business imperative, and if sustained, effective risk management will improve the control environment and enhance the company's operational performance and reputation. Denel has a risk management framework in place, which outlines the group's risk management processes, methodology, roles, responsibilities and governance structures.

Stakeholder engagements

Denel recognises the value of regularly engaging with its key stakeholders in its endeavours to achieve long-term sustainability. During the year under review, Denel developed a stakeholder engagement strategy to guide its interactions with its Shareholder and the public.
The group has continued to maintain sound communication with key stakeholders, which is evidenced in a closer relationship between the DoD & MV, 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 the group's engagements with key stakeholders are fully described in the *stakeholder engagement report* (pages 68 to 78).

Internal controls

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, and 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 of internal controls. 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.

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 continues to be an evolving discipline within the group, and actions are being taken to formalise the company's strategy, governance structures, policies and reporting processes. Those 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.

Public Finance Management Act (PFMA)

In terms of the PFMA, Denel is listed as a schedule 2 public entity, with the board as the accounting authority. The Act is also applicable to the business entities owned or controlled by Denel, which are also regarded as schedule 2 entities.

Companies Act

In accordance with the requirements of the South African Companies Act, No. 61 of 1973 (amended), the directors confirm that the company has lodged with the Registrar all returns as required by the Companies Act. Also refer to the *directors' report* on pages 140 to 151.

New statutory requirements

Companies Act

It is expected that the new Companies Act No 71 of 2008 will become effective within the next 12 months. The salient features of the amendments are summarised below:

- SOEs defined in terms of the PFMA will fall into a specific category of profit companies, namely SOEs. Provisions of the Companies Act that apply to public companies are applicable to SOEs, except where the Minister has granted an exemption, on request of the Cabinet member responsible for SOEs.
- Specific provisions of the Act extended to SOEs include the extended accountability requirements set out in Chapter 3 of the Act. These include arrangements regarding the mandatory appointment of a company secretary, the option of appointing a juristic person as company secretary, the appointment and rotation of auditors, as well as the requirement for audit committees.
- Establishment of an ethics and social committee.

Denel is developing controls for compliance with the Act, and reviewing its current structures and governance arrangements to ensure alignment with the Act. It is acknowledged that this Act is not yet in force.

King III report

The King III report on corporate governance became effective on 1 March 2010, and is aligned to both the Companies Act and the PFMA, and should be read within that context. This is based on the principle of 'apply or explain'. The philosophy of the report revolves around leadership, sustainability and corporate citizenship. Denel is committed to complying with the requirements of King III. The company's corporate governance practices were reviewed against King III to identify any areas where the company does not fully comply. These details, as well as the company's plans to address any shortcomings, are provided in the table below.

Areas identified for improvement	Action plans to address
The company has not fully formalised all its stakeholder management processes	A stakeholder strategy and model is being developed. It will be used to facilitate effective stakeholder engagement for the purpose of improving accountability systems within Denel and also for producing future sustainability reports
The board's responsibility for risk and IT governance has not been expressed and included in the board charter	The board's responsibility for risk governance and IT will be included in the board charter, with induction and ongoing training being provided to the board. There are also plans to ensure that there is adequate reporting and alignment of IT governance at entity level
Denel has not yet formalised its sustainability policies and strategies, which are necessary for it to be seen as a responsible corporate citizen	Towards complete formalisation of sustainability policies and strategies, there are a number of processes and practices that are in place and incorporated in the manner in which the group conducts its business. This ensures that the group addresses its sustainability requirements. The group has plans in place to have a formal sustainability policy and robust reporting framework. The details are provided in the *sustainability report* on page 50. The audit and risk committee charter will be updated to reflect its oversight role and responsibility to ensure the integrity of the company's integrated report and the board's responsibility

Risk governance

Overview

The credit crisis coupled with changing fiscal expenditure priorities have exerted greater pressure on an already declining defence spend. In certain cases this has led to delays in orders, with adverse implications on cash flows and revenues. Denel is exposed to currency risk which has implications on its operating costs and profitability. The sustained strengthening of the rand in particular, has increased the group's currency risk. Denel also faces project-related risks, resulting from complex long-term contracts with significant technical and delivery risks, as well as a stringent regulatory environment. These risks are inherent in the global defence supply chain environment. The management of occupational health and safety, product safety, environmental impacts, as well as other manufacturing-related risks is critical to Denel's sustainability.

Denel has a risk management process in place to enable the organisation to meet its objectives and protect the interests of its stakeholders. Denel has put in place a risk management framework, delegations of authority framework, treasury manual, audit and risk committees at entity and group level, as well as entity-specific health, safety and environmental policies and systems, as part of its risk management processes. The group has also, over time, invested significantly in product safety and quality systems for operational excellence and to meet customer and regulatory requirements. The group participates in various forums that discuss stakeholder-related risks to ensure that these risks are constructively managed.

Executive management is accountable to the board for developing responses and managing risks. Audit and risk committees oversee the risk management processes. Denel conducts a formal risk management assessment at least twice a year at strategic level, whilst programme risk assessments and responses are conducted and updated continuously at business entity level. The key strategic risks identified during the year under review, as well as key controls, are tabled below.

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

Areas identified for improvement	Action plans to address
DSA's revenue, operational and sustainability challenges	• Identification of initiatives to grow the revenue pipeline • Strategic turnaround initiatives to improve delivery and efficiencies • Restructuring and rightsizing of the organisation • Increased strategic implementation and performance oversight by the group and entities' board
Solvency and liquidity	• Continuous evaluation of the group's solvency position • Implementing a funding strategy, which includes application for recapitalisation, external funding and ongoing interaction with the Shareholder • Implementing cost-cutting measures and growth strategies • Continuous budget stress-testing and monitoring to mitigate the impact of the credit crunch • Implementing robust financial risk management processes. The details are provided in note 31 of the annual financial statements on pages 208 to 222
Low order cover due to declining budgets and other geo-political matters	• Leveraging equity partnerships to gain access to new sustainable markets • Continuous executive monitoring of local and foreign orders • Engaging with state agencies • Increased marketing activities to identify new opportunities • Regular customer interfaces. Details of these are provided in the *customer relations section* on page 85 and the *stakeholder enagement report* on pages 72 to 75.
Loss of critical skills	• Implementing succession planning and mentorship programmes at various levels of the group • Implementing skills development and talent management programmes • Implementing skills retention programmes • Leveraging equity partners for skills and knowledge transfer • Conducting and responding to climate surveys • Implementing diversity management and leadership training

Areas identified for improvement	Action plans to address
Positioning of Denel within a dynamic global defence supply chain	• Participation in local and international exhibitions • Brand promotion and communication • Engagement with relevant bodies to position the brand • Monitoring of customer satisfaction levels
Alignment of Denel's business model with strategic capabilities	• Consultation on Denel's strategy with relevant stakeholders • Monitoring of Denel's capabilities in liaison with key stakeholders
Relations with stakeholders	• Formal meetings with key stakeholders and Shareholder representatives • Scheduled meetings with organised labour and relevant employee representative structures • Communication strategy and media briefings • Comprehensive details of the engagements with the group's key stakeholders are provided in the *stakeholder engagement section* on pages 68 to 78
Competing stakeholder interests and priorities	• Regular interaction with portfolio committees • Scheduled meetings with the various government departments that directly impact on Denel's business • Direct interaction with relevant stakeholders, including the DPE, the DTI, the DoD & MV, and the NT, amongst others • Comprehensive details of the engagements which took place with the Shareholder are provided in the *stakeholder engagement section* of this report (pages 68 to 78)
Supply chain dependencies and cost drivers	• Implementation of supply chain governance framework • Evaluation and verification of suppliers • Embarked on a supply chain process optimisation to improve efficiencies

An update on occupational health and safety, product safety, environmental responsibility, fraud and corruption and compliance is provided below and on pages 105 and 113 respectively.

In line with the King III Report on Corporate Governance, Denel is reviewing its risk management framework, IT governance, and is also preparing a combined assurance matrix.

Fraud prevention and anti-corruption

Denel has a fraud prevention plan in place in terms of the PFMA, which requires entities to develop risk management processes and systems of internal control to prevent fraud and protect the assets of the organisation. The main objectives of Denel's plan are the following:

- Creating a culture which is intolerant of fraud
- Preventing and detecting fraud
- Investigating fraud
- Taking appropriate action to prevent recurrence

The fraud prevention plan also provides guidance on how to report cases of fraud. During the year under review the fraud prevention policy and response plan were updated to include fraud risks that are specific to business entities. Each entity reported to its audit and risk committee regarding the implementation of the plan.

Denel has a whistle-blowing system as part of the fraud prevention plan. Through this mechanism, fraudulent activities and other cases of unethical behaviour may be reported in a secure and confidential manner. The effectiveness of usage of the fraud hotline was also assessed and communication was increased to heighten awareness of this mechanism.

An independently operated, confidential fraud hotline number **0800 20 4880**, is used for whistle-blowing purposes. All stakeholders are encouraged to use it. A total of thirty one cases of alleged unethical behaviour were recorded. Two employees were dismissed after formal disciplinary hearings. Denel has reminded its employees about the fraud hotline through letters and the staff newsletter.

Ethics

Denel has an employee ethics policy which codifies principles of good governance contained in various policies of the organisation to create a climate conducive to ethical behaviour. The policy underpins Denel's value of integrity and requires that employee behaviour is beyond reproach when doing business for and on behalf of Denel. It commits the group to sound business practices and compliance with applicable laws and regulations. The policy also requires directors and senior managers to declare their interests. Denel prevents its employees from receiving or offering gifts that could unduly, directly or indirectly, influence their decision-making and requires them to declare any gifts received, in the gift register.

Directors and senior management declared their interests and these were reported at the audit and risk committees of the various entities. Denel has also reminded its employees to declare any gifts in terms of the policy. Denel ensures that the declaration of conflicts of interest is a standard agenda item for the board, board committees, executive and other meetings.

The fraud prevention plan and employee ethics policy are also discussed in the corporate governance report (page 61).

Compliance

Denel has a legal and regulatory compliance programme which includes laws and standards that regulate defence manufacturing and trade. These laws focus on public finance and arms control accountability, as well as general statutory, regulatory and product responsibility compliance.

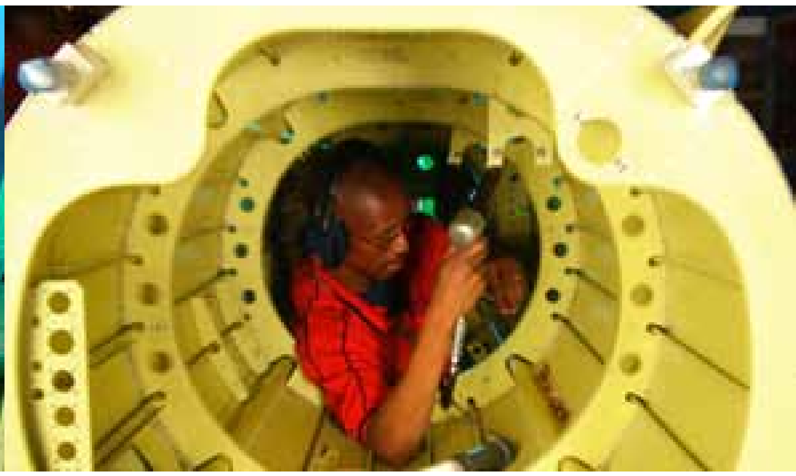
The following critical processes and systems were developed to ensure accountability and compliance:

- Public finance management accountability processes
  - Financial, risk management and internal controls
  - Internal audit processes
  - Procurement processes
  - Prevention of fruitless, wasteful and irregular expenditure
  - Delegation of authority
  - Significance and materiality framework
  - Shareholder's compact

- Arms control and trade accountability processes
  - Arms control programme including non-proliferation of weapons of mass destruction
  - Marketing permit: 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
  - Firearms control programme
  - Explosives' programme

- Other statutory, regulatory and business responsibility processes
  - Health, safety and environmental management systems
  - Quality management systems
  - OEM accreditation systems

Denel has identified acts that are critical to its business activities, with regular internal monitoring through management inspections and internal audits. The table below provides details of these, as well as the details of external assessments.



	Critical legislation	External assessors
1	Aviation Act	Civil Aviation Authority
2	National Key Points Act	South African Police Services
3	National Conventional Arms Control Act	Directorate for Conventional Arms Control
4	Non-proliferation of Weapons of Mass Destruction	Department of Trade and Industry, non-proliferation unit
5	Hazardous Substances Act	Independent entities appointed by management
6	National Environmental Management Act	Independent or certification bodies, as applicable
7	National Environmental Management Act - Protected Areas	Independent or certification bodies, as applicable
8	Protection of Information Act	Independent bodies and customers
9	National Buildings Regulations Act	Independent entities appointed by management
10	Public Finance Management Act	External auditors
11	Firearms Control Act	South African Police Services and other independent bodies, as applicable
12	Explosives Act	South African Police Services and other independent or certification bodies, as applicable
13	Occupational Health and Safety Act	Independent or certification bodies, as applicable

Denel has assigned responsibilities to specific individuals to coordinate compliance activities and has appointed champions for each act. Specific programmes, procedures and policies are in place to ensure compliance. Furthermore, various management systems including the quality management system, the environmental management system, the occupational health and safety management system, as well as the arms control system and accreditation system are in place to ensure that the group complies with applicable legal, regulatory and product specifications.

Exports and imports relating to specific components are subject to the approval of the National Conventional Arms Control Committee (NCACC) and no permits are issued for exports if the NCACC requirements have not been met. Inspections were conducted on arms control and findings addressed, where applicable. During the year under review, the Directorate for Conventional Arms Control identified certain exports and imports that lacked the requisite permits, as well as expired armament development manufacturing and service permit. The exports and imports related to approved contracts. Armament development manufacturing and service permit has since been renewed and the items are traceable. Denel has investigated the matter, taken corrective action and is co-operating with the authorities to conclude the matter.

Denel has also engaged with the Directorate for Conventional Arms Control, the non-proliferation unit of the DTI and the SAPS explosives unit to improve awareness and compliance with arms control legislation. The non-proliferation unit addressed the Denel risk and compliance forum on new developments relating to the non-proliferation of weapons of mass destruction. All entities have conducted an assessment of relevant operational licenses to ensure that they are still valid and to re-apply for expiring licenses proactively.

Denel is subject to the South African Companies Act, No. 61 of 1973 (amended), and the PFMA no. 1 of 1999 which regulates SOEs. The latter act requires 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.

Denel has evaluated all the key high-risk areas for fruitless, wasteful and irregular expenditure as part of the year-end process. No material cases were identified.

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

Stakeholders' engagements

Denel recognises that regular engagements with stakeholders add value as the company continues to implement its turnaround strategy and builds confidence. Denel's engagement with stakeholders is underpinned by its values of caring, integrity, accountability and the principles of open communication. It ensures support of the Shareholder, the DPE, and its key customer, the Department of Defence and Military Veterans (DoD & MV), as well as other stakeholders. Denel considers it critical that the stakeholders trust the company as it takes strategic decisions aimed at ensuring a return to profitability. Because its business directly relates to matters of national security, during the financial year under review, Denel embarked on engagements with its stakeholders, deliberating facts and information on the key issues.

In recognising that effective stakeholder engagements are vital for the successful implementation of the revised strategy, Denel focused its efforts on ensuring improved and meaningful engagements. A group stakeholder engagement strategy and plan is being developed to enhance Denel's relationship with key stakeholders, provide guidance across the group on why, how and when to engage with stakeholders in a more coordinated approach. This initiative also ensures that all stakeholders are included, whilst moving away from scheduled reactive discussions towards regular proactive engagements with key stakeholders to deliberate matters of interest and challenges experienced. To develop the plan, an inclusive approach was adopted, which includes meetings held with the group's executive management, entities' CEOs, the DPE, the DoD & MV, National Treasury and Armscor to further understand their perceptions and expectations of the relationship. The findings confirmed and highlighted Denel's need to:

- Engage more and improve communication with stakeholders
- Coordinate stakeholder engagement efforts within the group
- Identify stakeholder champions within the group
- Share information between the entities

A group communication forum was also established to ensure that the plan is implemented and that information is shared across the group.

Ongoing engagements continued to take place with identified key stakeholders. These engagements during the year under review, the frequency thereof, the material issues addressed and Denel's responses thereto are provided in the table on pages 70 to 78. The year was characterised by the following key stakeholder engagements which took place to drive the implementation of the strategy:

- The proposed Missiles equity transaction, which will provide key country benefits, including capital funding, investments in R&D, amongst others, involved two stakeholder roadshows to the DoD & MV, the Armed Services, Armscor, the DTI, DST and the National Treasury.
- Workshops and meetings were held with key stakeholders, including the DPE, the DoD & MV, and Armscor to obtain key inputs and recommendations, which were included in the revised business development model. Further details are provided in the customer relations section on pages 85 to 87.

The group's engagements with key stakeholders have not only fostered insight into company activities, its capacity and capabilities, but have also created the measure of transparency and trust that is required in a relationship of this nature.

Denel regards its relationships with customers and suppliers as a critical success factor, and is highly reliant on the local supplier and subcontractor base. Further details of customer relations and marketing efforts, as well as supplier relations are more comprehensively described in the *economic impacts section* on pages 85 and 88.

The past year has also seen the media become an increasingly important stakeholder for Denel due to increased public scrutiny of state-owned enterprises. Denel has made a priority of proactive contact with the media during the current financial year, facilitating a number of site visits and briefings, as well as generating and distributing press releases regarding group developments. Spokespeople have also been made available to the media as and when required. In this way, Denel's media engagement strategy has ensured that journalists are provided with key information.

Other engagements with key stakeholders have taken place with an intention of positively contributing to the economic, social and natural environments in which the group operates. These are disclosed as part of the *socio-economic development and economic impact sections* of the sustainability report (page 109 and 80 respectively).

Stakeholders' comments through the media

The table below provides some media reports and Denel's responses thereto:

<table>
<tr><th>Stakeholders' comments</th><th>Denel's responses</th></tr>
<tr><td>Denel has received a bailout from government running to billions of rands. (Source: Business Report on 20 April 2009)</td><td>The state's investment in the organisation's turnaround strategy has amounted to R3.5bn to date. Denel continues to consult with government regarding an amount of R1.7bn requested for the purposes of recapitalisation so that the total recapitalisation becomes R5.2bn. The group is funded mainly by external interest-bearing borrowings amounting to R1.85bn, that has attracted interest charges of R131m during the year under review. This amount is backed by a government guarantee. The stakeholders have, in error, included some of the guarantees issued in prior years that have expired and were duly cancelled, in calculating financial support extended to Denel.

The table below clarifies the amounts received from government to date:
<table>
<tr><th>Financial year</th><th>Instrument issued</th><th>Recapitalisation received</th><th>Government guarantee</th><th>Remarks</th></tr>
<tr><td>2006</td><td>Capital injection</td><td>R2.0bn</td><td>-</td><td>Recapitalisation received from the Shareholder following the application for a capital injection of R5.2bn made during the 2006 financial year.</td></tr>
<tr><td>2007</td><td>Capital injection</td><td>R567m</td><td>-</td><td>Recapitalisation received from the Shareholder following the application for a capital injection of R5.2bn made during the 2006 financial year.</td></tr>
<tr><td>2008</td><td>Capital injection</td><td>R933m</td><td>-</td><td>Recapitalisation received from the Shareholder following the application for a capital injection of R5.2bn made during the 2006 financial year.</td></tr>
<tr><td>2010</td><td>Government guarantee concluded</td><td>-</td><td>R1.85bn</td><td>The guarantee issued, that has remained in force backing loans raised from the capital market.</td></tr>
<tr><td>Total</td><td></td><td>R3.5bn</td><td>R1.85bn</td><td></td></tr>
</table>
</td></tr>
<tr><td>Denel executives received incentive bonuses despite the company's losses during the 2009 financial year. (Source: Cape Argus on 10 September 2009)</td><td>Denel does not pay incentive bonuses but allocates a portion of the remuneration package as a variable pay. This variable portion is performance-based and is contracted with employees at the commencement of their employment. By choosing to link executives' variable pay directly to their KPIs, Denel has ensured that these payments are withheld and only become available upon the achievement of specific contracted performance targets.</td></tr>
<tr><td>Many parastatals, including Denel, are without permanent leadership. (Source: Financial Mail on 19 February 2010)</td><td>Denel's group CEO, Talib Sadik, was officially appointed on 1 October 2008, for a fixed term of three years. All other executive leadership positions at group and entity level are filled by permanent appointees.</td></tr>
</table>

Stakeholders' comments	Denel's responses
Denel entity, Mechem, is incapable of providing sub-surface mine detection services. (Source: The Star on 19 November 2009)	Mechem has 50 years of industry experience, 18 of which relate specifically to humanitarian and commercial demining. Mechem has the best deep search demining capacity in the world today and is the only African company accredited by the UN for demining operations. Its vehicle-mounted system sets the gold standard, being able to detect TM 46/57 vehicle mines or 60mm mortars at a depth of 2m, whilst travelling at a speed of up to 20km per hour. Vehicles travel at a maximum speed of 5km per hour during demining operations, which also allows for the detection of 8g of metal (the standard for minimum metal mines) at a depth of 150mm below the surface.
A Denel entity, DSA, received a payment from government to cover penalties it incurred for failing to meet performance targets on the Airbus A400M contract. (Source: Mail&Guardian on 30 October 2009)	The A400M contract was awarded to DSA as part of a business exchange plan, set up with Airbus when the South African government signed a deal to purchase eight of these aircraft for the SAAF's renewal programme. DSA's main responsibility is the design and manufacture of certain components, including the wing-to-fuselage fairing, with a contract value of approximately R1.7bn. DSA had expected to be in a position where the production phase of the contract would have commenced in 2008, but there were delays experienced at Airbus level in the development of the aircraft. As a result, the design phase was extended. DSA received an amount from government which was an investment in the company's participation in the programme. DSA has met its targets in terms of its contracts and there were no significant performance issues. The work on this programme to date has raised South Africa's engineering skills base significantly. DSA has developed a composite facility, with the necessary accreditation which will allow South Africa to position itself as an advanced manufacturing facility, for future contracts in the aerostructures industry.

Stakeholder engagement activities

The table below provides a substantive overview of Denel's engagements with key stakeholders during the past financial year. Further engagements with environmentalists and socio-economic development activities are reported in more detail in relevant sections of the sustainability report on page 113 and 109 respectively.

	Engagements			
Key stakeholders	Mechanism	Frequency	Issues	Objectives and outcomes
Shareholder, the DPE and Regulator (refer to the *shareholder's compact section* of the corporate governance report on page 55)	• Shareholder's compact • Standard and ad hoc reports • Business entity reviews/ technical audits • Direct engagement of Denel's senior management with the DPE, Director General and economic cluster • Various written correspondences • Accompany the South African government on visits to other governments • Meetings and presidential delegations	• Annually • Monthly and quarterly • Ongoing • Ongoing • Ongoing • Ad hoc, as required • Ad hoc, as required	• 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 and Denel's borrowing position that cannot be sustained (namely renewing the expired government guarantee), equity partnerships and organisational restructuring • Turnaround interventions at the loss-making DSA which is of the highest priority • Other material engagements with the DPE are disclosed under *industry engagements section* of this report (page 75) • To establish, strengthen and smooth relationships with other governments and encourage collaboration	• Regulated feedback • Exposure to business entities • Proactive debate and negotiations on key issues • Stakeholder support for strategic interventions and contractual negotiations • Rapid feedback on critical challenges, as well as opportunities • Strengthened relationships with governments of key markets

	Engagements			
Key stakeholders	**Mechanism**	**Frequency**	**Issues**	**Objectives and outcomes**
Strategic 'future state' engagements at group level				
• DPE • National Treasury • DoD & MV • SANDF • Armscor • SAPS • DTI • Economic Development	• Written correspondence	• Ongoing	• To reach finality on Denel's 'future state' including decisions by the DoD & MV on which capabilities are to be retained, minimum order covered required and multi-year orders, as well as the future funding model for DSA	• The Shareholder to drive the finalisation of the Denel 'future-state' and to ensure stakeholder alignment on the macro-strategy
	• Presentations on Denel's strategy, key interventions and progress	• At least bi-annually	• Continued non-alignment amongst stakeholders on the Denel strategy and 'future-state'	
	• Input to Cabinet memoranda	• Completed in December 2009. Further input will be required	• Delays being experienced in finalising the Denel 'future-state'	
	• DSA's business and restructuring plan, as well as engagements with key line function departments	• Regular meetings currently under way	• Funding will be required for DSA	
	• Ongoing correspondence to Ministers on the Denel 'future-state'	• Monthly	• Keep the Ministers updated on the key issues facing Denel	
• Secretary for Defence	• Regular meetings and written correspondence, as required	• Meetings at least quarterly • Written communications, as required	• Deliberations of strategy implementation, including progress on order cover and equity partnerships • Role of Denel in the SADI • Support to secure the release of key orders • 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

	Engagements			
Key stakeholders	**Mechanism**	**Frequency**	**Issues**	**Objectives and outcomes**
• Chief of Defence Matériel and acquisition directors	• Written correspondence and regular meetings • Industry day of Chief Defence Matériel • Technical contractual performance reviews • Contractual performance reviews	• Scheduled, ad hoc and ongoing • Annually • Bi-annually • Quarterly	• Strategy implementation issues, including progress on Dynamics equity transaction, and service delivery to the DoD & MV • Marketing support • Contracting and contracting models • Strategic sensor support to the DoD & MV/SANDF • Key drivers within each business entity, and options to consolidate local capabilities • Economic realities should the DoD & MV not opt to initiate contractual commitments • Need to accelerate the Rooivalk project and life cycle support processes	• Agreements were reached on targeted interventions that would impact in-year, as well as multi-year contractual 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
Local customers (refer to the *sustainability report* on page 85)	• The DoD & MV/ SANDF, Armscor Technical division, DTD, SAAF entity meetings and written correspondence	• Ongoing	• The DoD & MV budget constraints and requirements • Minimum base load required from the DoD & MV	• Value for service delivery, negotiate long-term contracts, and focus on expanding customer and income base
• Armscor/ DoD & MV	• Contract performance meetings • Programme management reviews	• Quarterly • Bi-annually	• Contracting issues, for example, production schedules, specifications, certification, financial management, delivery schedules, contractual conditions, B-BBEE codes of good practice, single-source contracting and pricing agreements, value systems and control mechanisms	• Targeted performance, measurement and reporting, contractual alignment, best value for money, identification of alternative delivery milestones, proactive project and risk management, accelerated service delivery, directed technology focus, B-BBEE/SMME development, sustainability of strategic and sovereign capabilities and services
			• AgustaWestland A109 LUH/Lynx/Gripen full life cycle support	• Technical discussions with OEMs initiated
			• Rooivalk capability retention	• DoD & MV/Armscor/ SAAF review confirmed the need to retain Rooivalk within specific budget allocation. Revised contractual processes being reviewed for expedient implementation

	Engagements			
Key stakeholders	**Mechanism**	**Frequency**	**Issues**	**Objectives and outcomes**
Local customers (refer to the *sustainability report* on page 85) (continued)			• Integrated SAAF/ Aviation MRO	• Measured progress being made. SAAF/ Denel Aviation co-operation agreement imminent
			• Technology development and management	• Internal co-ordination and links to DoD/ Armscor, DST/ DTI initiatives and co-ordination of offset opportunities to maximise RSA benefit and guide own investments
			• Human capital development programme	• Integrated HR strategy implemented, including SED focus, recruitment, bursary, in-service training and separation initiatives to ensure attraction and retention of required skills
	• Business development and marketing support	• Integrated business development model implemented to ensure significantly increase of the order cover over three years		
	• Internal and external communications	• Co-ordinated communications strategy launched to present Denel as a competitive and reliable partner for defence needs and to address internal as well as external stakeholder expectations and needs		

	Engagements			
Key stakeholders	Mechanism	Frequency	Issues	Objectives and outcomes
Local customers (refer to the *sustainability report* on page 85) (continued)	• Host site visits by key decision makers and Armscor, DoD & MV, SANDF and SAPS executives to Denel facilities	• Ongoing	• Demonstrate capabilities and competence to meet RSA security requirements and client needs, deal with trends, perceptions and customer requests, security management	• Maximise potential order cover from local, as well as international client base
	• Participation in or support to international visits	• Ad hoc, as required	• Provide relevant information on and involvement of Denel	• Maximise exposure of Denel capabilities and services
	• Support with the launch of the new MV office at Denel's Irene campus	• Targeted initially, then ongoing	• Provide appropriate accommodation for new MV division	• Secure MV division as anchor tenant and link MV initiatives to wider Denel activities
	• Meetings with local security services	• Ongoing	• General security management, vetting of personnel, National Key Point administration	• Optimal security management and compliance to regulatory prescripts
	• Properties Joint Planning Committee	• Ongoing	• Provision of appropriate accommodation to client specifications and rendering of support services, management of tenant and property issues, relationship-management and tenant communication	• Secure tenant satisfaction, address new requirements in a timely manner, maximise income, facilities remain in required state of repair, expand satisfied client base
International customers	• Business entity 'show and tell' events	• Annually	• Demonstrate capabilities thereby ensuring continuous support from customers	• Customers kept informed of technology 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 - duplication	• 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 • Customers kept informed of technology developments in Denel

	Engagements			
Key stakeholders	**Mechanism**	**Frequency**	**Issues**	**Objectives and outcomes**
International customers (continued)	• International exhibitions participated in: - LAAD, Brazil - IDEF, Turkey - DSEi, UK - Lavex, Libya - Defence & Security, Thailand - LIMA, Malaysia - Fidae, Chile	• Bi-annually	• Promote product ranges and product capabilities	• Customers kept informed of technology 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
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 • Providing insight into Denel's international obligations and ways of leveraging off wider Government procurement opportunities	• Approvals on claims and concepts • All agreements and contracts submitted were accepted and signed • Developing an RSA incorporated industrial approach to offset/ industrial participation opportunities
• AMD • SADI	• Strategy sessions • Meeting and various other forums	• Quarterly • Ad hoc and ongoing	• 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 engagements • Reporting • Programme reviews	• Ongoing • Monthly • 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 the DST and CSIR

	Engagements			
Key stakeholders	Mechanism	Frequency	Issues	Objectives and outcomes
Equity partners	• Denel participation in associated companies' boards • Manage Golden Share commitments • Business development coordination • Facilitating strategic meetings between equity partners and Government	• Quarterly • Ongoing • Ongoing • Ongoing	• Access to new markets, skills transfer and technology from equity partners • It is critical that Golden Share commitments are honoured and that multi-year orders are placed with equity partnerships • All Denel associated companies need to be seen as South African.	• Full support form Government for equity partnerships
	• Meetings with financial institutions	• Ongoing	• Financial institution facility requirements and reviews	• Financial and business information is shared with stakeholders on a continuous basis
Employees (refer to the *sustainability report* on page 92)	• Group CEO's address and road shows to all entities • Internal newsletters • Group restructuring and transformation committee • Written correspondence • Organised labour meetings with trade unions • Denel infograms to group employees • Denel CEO's meetings with organised labour leaders • Strategic leadership forum • CEOs forum • Internal campaigns • Climate surveys	• Quarterly • Monthly • Quarterly • Ongoing • Quarterly • Ongoing • Every six weeks • Quarterly • Every two months • Monthly • 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 to ensure informed employees • Policy updates, where necessary, including employee development, remuneration and benefits

Key stakeholders	Engagements: Mechanism	Frequency	Issues	Objectives and outcomes
Communities (refer to the *sustainability report* (page 109))	• Meetings with Waenhuiskrans (Arniston) 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 • Demining training of local communities in foreign countries	• Quarterly • Ongoing • 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
	• 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 109 to 112.	• Ongoing • Ongoing	• Educate locals in landmine risk aversion and victim assistance • Employment opportunities of local workforce • Rehabilitation of local site	• Denel is seen as part of the South African industry with social responsibility • Good progress has been made. Details are provided in the *environmental report* on page 126
Environmentalists (refer to the *sustainability report* (page 113))	• Meetings with Overberg Review Committee (ORC) • Host environmentalists and relevant stakeholders' visits to business entities • Submit articles on environmental issues to relevant publications • Department of Environmental Affairs	• Six-monthly • Ongoing • Ongoing • Ongoing	• Participates in the monitoring and management of environmental issues in the Greater De Hoop Conservation area. Other committee members include external environmental specialists, Cape Nature, AFB Overberg, senior OTB representatives, academia from Cape universities and other community representatives	• 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	• Land restoration provisions are raised in the accounting records. Details are provided in the *environmental report* on page 125 • Land remediation plans are put in place and implemented

	Engagements			
Key stakeholders	Mechanism	Frequency	Issues	Objectives and outcomes
Assurance providers	• Internal audits performed across the group, and attendance of internal auditors at CFO, CEO and audit and risk committee meetings • External auditors' attendance at CFO, CEO and 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
	• Other assurance providers include ISO and NCACC certifications and accreditations	• Ongoing	• ISO audits, accreditations and renewals • NCACC reviews, exports permits and certifications	• ISO certifications were renewed. Details are provided in the relevant sections of the sustainability report
Media	• Engagements with local and international media namely: - Mainstream - Specialist - Technical and trade media for editorial publicity - Press releases - Advertising - Advertorials - Opinion pieces	• Ongoing	• Media releases to announce newsworthy events/developments • Promote products and capabilities	• Expose and promote Denel's capabilities globally • Position Denel as a respected company in the defence industry
	• Denel and business entity websites	• Ongoing updates and enhancements	• Promote new products and capabilities • Provides useful information to journalists and defence analysts for research	• Monitor the frequency of visits to website, provide Denel news, and promote the Denel brand
	• Journalists and photo journalists	• Ongoing	• Site tours to experience high-tech environment, design and development of aerospace and defence systems	• Promote the value creation of Denel in the provision of security to South Africa
	• Media briefings with local journalists and group CEO and executive management • Media lunch with the group CEO	• Ongoing • Quarterly	• Release of financial/ operational results and corporate plans • Updates of company strategies and successful milestones • New product developments	• Inform the public of the state of affairs and future prospects in Denel

Ongoing informal stakeholder engagements take place within Denel which also includes direct contacts, informal introductions, telephonic leads, and market research per invite or interest shown.

Economic impacts

Overview

Denel, as a global trading company with eleven entities and vested interests in three associated companies, plays a major role in contributing to the South African manufacturing and associated technology base, with sales recorded from both local and abroad. Through these activities the group has a direct impact on the country's economic, social, human capital development and natural environments.

Despite the financial stability and going concern challenges faced by the group, Denel is proud of the significant progress it has made in redressing its ailing financial situation by implementing stringent internal controls, as well as interventions that have led to substantial improvements in operational excellence. During the year under review, the group also embarked on a business development drive and strategy improvement as this is the most crucial element underpinning its continued turnaround. The strategy is focused on ensuring business growth to stabilise the local order book, whilst significantly expanding its regional and wider international presence. The business development strategy, its economic impact and performance is provided in the *customer relations section* on pages 85 to 88, whilst the status and progress of the group's financial turnaround is provided in the *directors' report* on page 141.

Comprehensive details of the group's economic impacts' are provided in the performance section below.

Whilst the group has made good progress towards its turnaround and increasing its market presence, evidenced by the growth in the order book provided on 87, a number of challenges were experienced which have impeded the rate of economic recovery. Details of the challenges experienced are provided in the *material issues section of the sustainability report* on page 51, as well as in the *business environment, outlook and prospects section* on page 16.

Managing economic impacts

The group's key economic impacts are managed through a set of strategic drivers that are being implemented in matrix format, as well as various policies which are in place to guide activities and performance. These policies include supplier management, supply chain, customer relations, operating and employment policies, amongst others. Further details are provided in the respective sections of the sustainability report.

As a typical holding company, corporate initiatives provide guidance and executive support, while individual entities use their skills base and unique market position to achieve aggressive growth targets. Integrated supply chain initiatives, however, have ensured that strategic sourcing and synchronisation initiatives bring benefit at group level. Customer focus and continued improvements in operational efficiency have been key to ensuring that contractual obligations can be met largely on-time, to specification and within originally targeted cost parameters. A strong focus on client satisfaction has secured a measured increase in order cover. The risk register also plays a key role in managing significant areas of impact proactively, for example the going concern challenge. For further details refer to page 145.

Economic impacts performance

Direct impacts

The highlights and lowlights of the group's economic performance are reviewed as part of the *group overview and the directors' report* on page 14 and 141. The company's ability to contribute positively to national objectives is highly dependent on its ability to achieve economic turnaround, and on it becoming a self-sustaining enterprise. These issues are discussed at length in the *directors' report* on page 141. The financial performance of Denel provides evidence that the group is on a measured path to profitability. Core financial information per business entity is provided in the *business entities' profiles report* (pages 34 to 44), with coverage of the organisation's defined benefit plan obligations being disclosed in the annual financial statements on page 224. The direct economic value distributed by Denel is reflected in the consolidated value added statement below.

Value added statement

The direct economic value generated and distributed by Denel is reflected in the consolidated value added statement and in the group overview section on page 12. '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.

	2010		2009	
	Rm	%	Rm	%
Revenue	3 610		3 924	
Less: Cost of materials and services purchased	(2 136)		(2 713)	
Value added	1 474		1 211	
Add:				
Finance income	46		77	
Other income	106		183	
Wealth created	1 626		1 471	
Distributed as follows:				
Employees: Salaries and relevant costs	1 614	99.3	1 795	122.1
Providers of capital	120	7.4	59	4.0
Interest on borrowings	185	11.4	150	10.2
Non-controling interests	(65)	(4.0)	(91)	(6.2)
Government				
Tax (refer note A)	46	2.8	38	2.6
Re-invested in the group for continuation and expansion	(154)	(9.5)	(421)	(28.6)
Depreciation (refer note 3)	92	5.7	112	7.6
Accumulated loss	(246)	(15.2)	(533)	(36.2)
Wealth distributed	1 626	100.0	1 471	100.0
Note A				
Tax				
Tax paid and provided for:	46		38	
Current tax	40		31	
Total tax	24		29	
Deferred tax	16		2	
Rates and taxes paid to local authorities	6		7	
	46		38	
The total amount reflected above excludes the following amounts collected by the group on behalf of Government:				
Net VAT	17		(42)	
Charged on sales	270		195	
Levied on purchases	(253)		(237)	
Employees' taxation	201		139	
UIF contributions	8		7	
	226		104	

Ten-year review

The following table illustrates the ten-year performance of the group. The group has experienced challenges that have impacted on its financial performance over the past few years. The performance and challenges are discussed in the *directors' report* on page 141.

	2010 [1]	2009 [1]	2008 [1]	2007 [1]	2006 [1]
	Rm	Rm	Rm	Rm	Rm
INCOME STATEMENT					
Revenue	3 610	3 924	3 818	3 268	2 773
(Loss)/profit before net finance cost and income from associated companies	(162)	(463)	(233)	(387)	(1 076)
Net finance cost (before capitalised interest)	139	73	61	143	188
Depreciation	92	112	108	132	150
(Loss)/profit before taxation	(222)	(504)	(316)	(501)	(1 291)
(Loss)/profit after taxation from continuing operations	(246)	(533)	(321)	(507)	(1 311)
Taxation expense	(24)	(29)	(5)	(6)	(19)
Minority interest in (loss)/profit	(65)	(91)	(13)	(1)	-
(Loss)/profit for the year	(246)	(533)	(347)	(549)	(1 363)
Cash outflow before financing activities	(416)	(1 163)	222	(946)	(1 061)
BALANCE SHEET					
Non-current assets	1 712	1 623	1 476	1 348	1 601
Current assets	3 343	3 107	3 607	2 616	2 724
Assets held for sale	-	9	58	540	352
Total assets	5 055	4 739	5 140	4 504	4 677
Current liabilities	3 954	3 446	3 081	3 000	1 938
Total equity	644	849	1 328	633	615
Minority interests	(34)	31	102	6	7
Non-current interest-bearing borrowings	101	53	1	2	832
Current interest-bearing borrowings	1 943	1 074	234	833	14
STATISTICS					
Total number of shares in issue (million)					
Class A ordinary shares	1 000	1 000	1 000	976	849
Class B ordinary shares	225	225	225	40	40
Total shares	1 225	1 225	1 225	1 016	890
RETURNS (%)					
Operating (loss)/profit to turnover	(4.5)	(11.8)	(6.1)	(11.8)	(38.8)
Operating (loss)/profit to average total assets	(3.3)	(9.9)	(4.8)	(8.4)	(23.1)
Operating (loss)/profit to ordinary shareholders' interest [2]	(25.2)	(54.5)	(17.5)	(61.1)	(175.1)
RATIOS					
Debt/ equity ratio [2]	3.2	1.3	0.2	1.3	1.4
Current asset ratio	0.8	0.9	1.2	0.9	1.4
Net finance cost cover	(1.6)	(6.9)	(5.2)	(3.5)	(6.9)
Revenue per employee (Rm)	0.7	0.8	0.5	0.4	0.3
Number of employees	5 090	5 067	7 276	7 634	8 850

[1] *The balances from 2005 onwards are compiled in accordance with IFRS.*
[2] *Due to the negative equity, the debt/equity ratio and loss to average ordinary shareholder interest for 2005 are undefined*

2005 [1]	2004	2003	2002	2001
Rm	Rm	Rm	Rm	Rm
3 572	4 442	4 372	3 904	3 621
(1 315)	62	203	(286)	42
104	120	109	55	8
157	121	107	96	98
(1 403)	(358)	(44)	(348)	39
(1 416)	(384)	(72)	(359)	27
(13)	27	29	11	12
5	(7)	-	4	3
(1 561)	(378)	(73)	(363)	24
(422)	(201)	(229)	(291)	(355)
2 173	1 350	1 415	1 244	1 167
2 410	2 742	2 839	2 757	2 687
68	-	-	-	-
4 651	4 092	4 254	4 001	3 854
2 888	2 347	1 960	2 543	1 958
(16)	844	1 388	1 416	1 774
7	9	20	18	13
848	832	841	27	4
520	76	9	352	151
402	402	402	402	402
40	40	40	40	40
442	442	442	442	442
(36.8)	1.4	4.6	(7.2)	1.1
(30.1)	1.5	4.8	(7.3)	1.1
-	7.5	14.9	(20.4)	2.4
-	1.1	0.6	0.3	0.1
0.8	1.2	1.4	1.1	1.4
(13.5)	(3.0)	(0.4)	(6.3)	4.6
0.4	0.4	0.4	0.4	0.3
9 942	10 925	10 878	10 768	10 375

Market presence and indirect impacts

The South African Government considers Denel business entities and associated companies as being of strategic relevance to national security objectives owing to the engineering and technological competencies that are engendered within these entities. It also recognises a number of defence products and services as strategic to equipping the DoD & MV, and the SANDF, with leading-edge combat capabilities. Denel fulfils an important role through advanced manufacturing competencies that contribute to a cross-cutting industrial base. Through targeted training programmes, Denel contributes extensively to the growth of the country's human capital potential.

The range of Denel products and services provide an appropriate measure of strategic independence for the SANDF, while ensuring cost-effectiveness throughout the assigned life of such systems. Denel offers niche products that have gained international acclaim. These include towed and self-propelled artillery systems, a spectrum of munitions, missiles, manufactured aircraft sub-assemblies, aircraft maintenance, unmanned aerial vehicles and optical payloads. Several business units also provide support to the local commercial sector by extracting benefits from defence technologies that can be converted to commercial products. Examples of these include brass strip, mining drill bits and detonics. The full range of the group's products and services are provided in the *business entities' profiles report* on pages 34 to 47.

During the year under review, just over R835m was spent on research and development (2009: R1 024m), ranging from research to refinement of new or upgraded products. As most of the investments were co-funded by orders from the DoD & MV, the resulting IP is owned by the South African Government. These targeted investments provide immeasurable exposure to engineers, scientists and technologists and contribute to the spirit of cohesion across the group, as most product development involves several areas of competence not usually located in a single entity. This interaction not only involves Denel entities but often crosses into supporting industries, as well as national research establishments and universities. Denel also selectively draws on international participation and supports targeted migration of honed skills to local industry.

Denel is a valued earner of foreign exchange and by maximising its reliance on local industry support ensures that a healthy trade balance is maintained. The foreign sales of R1 401m during the year under review are somewhat higher than the previous year's R1 257m. South African-registered associated companies also contribute to foreign earnings, through increased sales to international clients and improved access to global markets.

Denel has a workforce of 5 090 employees (2009: 5 067). This number is augmented by another 2 204 employees (2009: 2 131) who have found stable employment with the associated companies, where less than 10 foreign employees (2009: 21) have been drawn in to bolster business acumen and ensure continued business turnaround. The employee profiles by expertise, skills, age, race and gender are disclosed as part of the *empowering employees report of the sustainability report* (page 92).

The group employs 1 147 (2009: 1 131) engineers, scientists and technicians. These highly-skilled employees, augmented by a mix of artisans, have a significant impact on a wide sector of broader industry, through well-structured subcontracts and collaborative research and development projects. For each engineer, scientist and technician employed in Denel, a multiplier of at least 6 is evident in the wider South African industry and associated supply chains. Therefore, Denel contributes significantly to human capital development and job creation.

Denel's relationship with its associated companies, Turbomeca Africa (Pty) Ltd, Carl Zeiss Optronics (Pty) Ltd and Rheinmetall Denel Munition (Pty) Ltd, have continued to contribute positively to its financial turnaround, as well as the wider national economy, as these companies have all achieved profitability. In addition, the associated companies offer extensive skills development and technology injections, while significant capital investments are being made in South African infrastructure and facilities. Further highlights and achievements of the associated companies are provided in the *business entities' profile report* (pages 45 to 47). Other details of the investments are provided in note 33 of the group annual financial statements (page 231).

Denel is committed to specific social economic development initiatives to share its successes with the less-privileged. These initiatives include investments in school programmes, as well as drawing approximately 150 learners into the post-matric youth foundation programme. The details are provided on page 99 and the SED report on page 111. The company also embarked on several supplier development initiatives which will be accelerated going forward to ensure that B-BBEE and SMME enterprises can become sustainable partners in providing defence products and services to our growing local and international client-base. Comprehensive details are provided in the *socio-economic development and transformation sections* on pages 109 and 102, respectively.

The group embraces its responsibility of operating in a sustainable manner and adheres to all applicable regulatory protocols that impact on sound environmental management. Most entities are already ISO14001 certified, while the remaining entities are committed to achieving this international standard for environmental management. Denel's commitment is demonstrated in the environmental report on pages 113 to 128. Targeted strategies, policies and control measures have also been implemented to underpin fraud prevention and sound governance. The details are provided as part of the sustainability report (page 65).

Customer relations and marketing

Overview

Denel is client focused in accordance with its values. For Denel to achieve sustainability there needs to be a strong focus on operational excellence and improved market access. There have been significant improvements in contracted performance, with enhanced on-time delivery of products and services. This has led to improved client confidence and customer relations, and success in securing new orders. Denel operates in an environment where it is important to establish long-term relationships with customers. The group's operational improvements and performance is reviewed as part of the *directors' report* on page 141, whilst the business environment is described in the *group overview section* on page 16.

The SANDF is Denel's single largest customer. Denel fulfils its role as strategic supplier to the SANDF and providing support to ensure that its assigned security mandate is executed in an efficient and cost-effective manner. Due to budget constraints and reduced procurement spend, it is also important for Denel to establish a long-term sustainable export customer-base to ensure the retention of core competencies and defence capabilities in service of the country's security needs.

Managing customer impacts

Policies and procedures

During the year under review, a group business development strategy was devised, while the operating model was refined to underpin a revised growth strategy aimed at substantially increasing the present order book through targeted business development efforts and exploiting opportunities for synergy. This inherently requires securing new international clients, while nurturing existing client relationships to secure repeat orders. The strategy incorporates key inputs and recommendations of both internal and external stakeholders, including the DPE, the DTI and the DoD & MV, with improvements in business culture, stakeholder engagement and contractual performance.

Operating in a defence environment, Denel is compelled to comply with legislation and regulations that control the industry and business environment, for example, the National Conventional Armaments Control Act. Policies and procedures are in place to ensure proper governance and compliance with applicable legislation, rules and regulations, throughout the business development cycle. Details of the applicable legislation are provided in the compliance report on page 66.

Management structures, roles and responsibilities

Denel follows a centraliy co-ordinated approach, with entities empowered to maximise their targeted marketing efforts. Business development and customer care roles and responsibilities are defined, and take place at both group and entity level. Denel corporate structures are responsible for the management of local exhibitions, problem and conflict resolution with the expanding client-base, brand development, integrated advertising and business promotion, public relations and media liaison. In addition, the business development function at group level is responsible for internal group communications, co-ordination of best practices through inter-divisional forums, maintaining and deepening relationships with the DoD & MV (as the primary local client) and integrated reporting to the group board, board committees, executive committees, as well as the centralised marketing forum, on group performance. Corporate is further responsible for co-ordinating participation in international bilateral defence co-operation meetings, the management of technical advisor relationships, the management and attendance of key international exhibitions and conferences, the hosting of international delegations, the provision of market intelligence and the identification of international opportunities.

Entities are specifically focused on product marketing, product demonstrations, contracting and after-sales service, as well as customised research and development to address specific client needs. Entities also have a direct responsibility to nurture client relationships during the lifecycle of product systems and to effectively utilise the services of technical advisers during the span of assigned sales opportunities.

Goals, objectives, targets and monitoring

The group's high-level objectives are provided below:

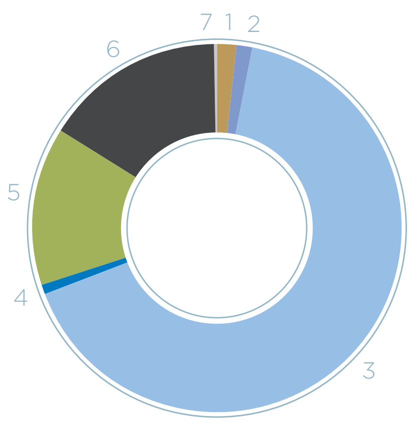
- Ensure the retention of and improved relations with existing local and global customers
- Communication of Denel business plans and strategies to key stakeholders
- Ensure constructive business relationships with the DoD & MV, and wider client-base, through proven operational excellence
- Capture Denel's targeted share of local defence spend to the best benefit of the client
- Timely order placement by key customers
- Secure stable orders and significantly increase the order book over the next three years
- Identify and grow sustainable markets
- Effective media relations
- Leverage the Denel brand
- Proactive countertrade engagements in support of the sales drive

Supporting key performance areas and measures, including hard targets have also been developed through the company's revised strategic drivers. These are monitored and reported to the group board, executive committees, as well as entity boards and executive committees.

Customer focus and performance

The group's sales performance by region is provided in the following graphs.

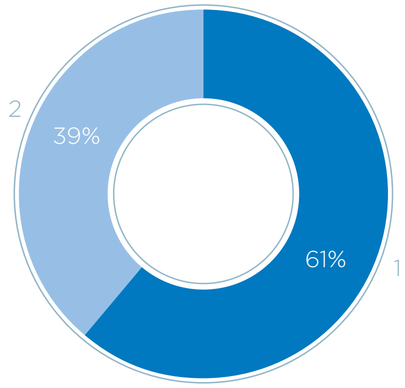
Revenue performance by region



Key:	
1	Asia Pacific: R70m
2	Africa, excl. N Africa R50m
3	Southern Africa: R2 381m
4	South America: R29m
5	Europe: R501m
6	Middle East and N Africa: R572m
7	North America: R7m

The turnover split by region is not available for the 2009 financial year.

Local and export revenue performance



Key:	
1	Local turnover: R2 209m (2009: R2 667m)
2	Export turnover: R1 401m (2009: R1 257m)

Denel's order book, defined as orders on hand that will become sales in future years, grew by R568m from R4 220m at the end of the previous financial year to R4 789m at the end of the 2010 financial year. This growth was achieved despite difficult conditions in the international market as a result of the global recession. The group's interventions to address this situation are discussed in the *business environment, outlook and prospects section* on page 16. There has also been a shift in business development culture from purely commercial proposals to value propositions for existing and new clients, while ensuring that local budget availability is optimised in serving the DoD & MV, as primary client. The group's order pipeline remains approximately R16bn (2009: R16bn).

It is global practice that international defence contracts include countertrade/offset obligations. Denel has a centralised countertrade department which drives performance and focuses on creating a competitive edge for the group through offset agreements, by offering attractive offset packages and ensuring that obligations are met.

Further information on local, as well as international customer engagements, including the key issues raised and outcomes of these engagements are provided in the *stakeholder engagements section* on pages 72 to 75.

Looking forward

The key to Denel's drive towards sustainability is exemplary service delivery linked to a stable order cover. Hence, business development and client care continue to be a primary focus area for implementation. It is, however, acknowledged that an integrated approach is fundamental to the success of these endeavours. The result is that a set of co-ordinated activities are introduced to ensure the achievement of set objectives and business targets. In this, the need for effective stakeholder engagements is deemed a second supporting pillar, while service delivery over the lifecycle of a product or integrated system is fundamental to not only retain, but also grow, our valued client base.

Each business entity has focused action plans in place to increase its market access and secure the company's turnaround to profitability. Denel will continue to include all stakeholders in its business development processes to help serve them better going forward, with business development being the theme for the group's October 2010 strategic leadership symposium.

Supplier management

Overview

Denel views its relationship with suppliers as critical in ensuring the reliability of supply which is imperative for continued business operations and service delivery to customers. Denel is committed to the support and development of local suppliers, thereby contributing to the country's national development and transformation goals. Denel's entities continue to optimise their key design, development, qualification, manufacturing and system integration capabilities, while engaging especially the local manufacturing sector for general manufacturing requirements. This has resulted in manufacturing and development work being subcontracted to a growing pool of local suppliers, with a growing emphasis on developing SMMEs and BEE companies within our recognised supplier base. These initiatives have ensured that Denel impacts on a far-reaching number of local industries. The overall objective of these preferential procurement and supplier development practices is to establish and develop designated exempt micro enterprises (EMEs) and B-BBEE suppliers as business partners in the defence industry and to ensure compliance with legislation. Further details of the *transformation programme* are provided on pages 102 to 104.

These activities contribute directly towards Denel's image of 'a respected South African company' and responsible corporate citizen, while underpinning our commitment to structured transformation. A specific focus on preferential procurement and supplier development under the B-BBEE codes of good practice has ensured measured progress.

Sound improvements and achievements have been made to the group's procurement activities through a process which it has embarked upon to improve the supply chain management and embed integrated leading practices. Supply chain management is a process-orientated integrated approach to procuring, producing and delivering products and services to end-users. It is seen as a critical enabler to support the group strategic objectives, unlock value and includes the scope of suppliers and sub-suppliers.

In recognising the impact of supply chain management on the end-to-end business process and the resulting operational efficiency of its business units, Denel has implemented a strategy to provide guidance and direction to manage, control and monitor the supply chain, in alignment with the overall business, regulatory and corporate objectives. The objective is to reduce the total cost of the group's ownership, thereby optimising the flow of raw materials, products and information, which impacts and provides for better management of the procurement process. The procurement function, and subsequently the logistics function, was identified as a priority and key focus area. Best practice supply chain principles have been implemented and embedded, which enables more informed decisions regarding procurement which has a direct impact on the ability to deliver services and improve overall customer satisfaction and the bottom line. Implementation of best practices is also planned for the other areas of the supply chain. An emerging reporting and governance framework was implemented to capture not only performance against plan, but also to provide valuable trends that can be used to structure targeted business improvements. These initiatives have led to significant savings at entity level.

Whilst significant progress has been made in promoting preferential procurement and supplier development, challenges have been experienced in setting and establishing more specific targets for further improvements. These challenges include:

- Financial constraints in developing and accrediting local suppliers.
- High technical requirements, driven by contracted client specifications, with associated lead times and aversion to risks often limiting opportunities to draw in new suppliers.
- High cost of entry into defence manufacturing due to stringent specifications and a need for certification of processes and manufacturing procedures to comply with international standards.
- The cost of implementing annual B-BBEE accreditations.
- The instability of the Denel order book and often late contracting that must be executed within the remainder of the financial year, thus not allowing the latitude to transfer manufacturing to new suppliers.
- Supply chain management implementation and its value to the organisation is not fully understood across the group.

However, Denel's management remains committed to implementing sound supply chain initiatives.

Managing suppliers

Policies and procedures

Denel's group procurement policy provides guidance on good procurement practices and the formulation of individual entity procurement policies. It is based on best practice principles of the group's supply chain governance framework and strategy, as well as legislative requirements including, amongst others, the Preferential Procurement Act, the B-BBEE Codes of Good Practice and the PFMA. The policy is aimed at improving performance and outlines the minimum requirements upon which each business entity can base its own policies and procedures, taking into account unique operating environments. The central focus is preferential procurement, supplier development and strategic sourcing and synchronisation to ensure compliance and create a sound value proposition across the supply chain.

Management structures, roles and responsibilities

Management's commitment and attitude to its suppliers is demonstrated through the implementation of its supply chain and procurement strategies and policies. There are various management and reporting structures in place at entity and group level, namely:

- Entity procurement and transformation committees to ensure compliance, minimum procurement obligations and legal prescripts
- A centre-led supply chain forum (by the corporate office) which is attended by the entities' supply chain managers. The forum provides a platform for collaboration and learning between the businesses in implementing supply chain strategic objectives for the group, as well as entities, to reduce the total cost of ownership across the supply chain and embed best practices.

Management roles, responsibilities and reporting structures are defined and included in appropriate policies, the supply chain governance framework, and the supply chain self-assessment tool. The responsibility of supplier management at each entity rests at executive management level. The entities' supply chain managers report to the chief operating officers (COOs), who are responsible for ensuring the implementation of policies and procedures.

Departmental managers at entity level are tasked with ensuring that control systems and monitoring procedures are in place, and that performance results are reported to the various committees detailed in the *monitoring section* on page 90. The entities' supply chain and other committees are presented as part of the *governance structures section* on page 54.

Goals, objectives and targets

Denel aims to foster a closer and more co-operative relationship with key suppliers to improve lead times and reduce costs, through effective supplier management, preferential procurement, supplier development and overall supply chain best practice and effective management. Denel also ascribes to the newly published Government policy on industry development as published under the IPAP2 initiative that will aim at maximising local manufacturing potential in identified industrial areas and the creation of stable jobs.

The group has set specific targets to achieve full compliance to the B-BBEE code of good practice (CoGP), through its transformation programme and business entity transformation committees. Complete B-BBEE compliance is being staggered over the forthcoming financial years. An overall level 5 B-BBEE rating was targeted for 31 March 2010, with an actual rating of level 4 being achieved. Further details are provided in the *transformation section* on page 104.

The following key high-level supplier management and supply chain goals were set within the group:

- Embed the supply chain governance framework and strategy to enhance and reduce the group's total cost of ownership, improve service delivery, overall customer satisfaction, the bottom line and to comply with legislation, in particular (but not limited to) the B-BBEE CoGP
- Establish supply chain boards at entities to develop an end-to-end strategy to manage, optimise and coordinate the flow of products and information across the extended enterprise
- Link the supply chain performance metrics and KPIs with individual performance and benchmark to entities' chief executive officers.

Employee training and awareness

Employees are trained regarding procurement policies and practices to understand their responsibilities to minimise liability that may arise from their conduct. Employees are made aware of the importance of conformity with applicable policies and procedures and the consequences of non-compliance. Where there are incidents of non-compliance, corrective action is taken. Knowledge-sharing also takes place through interaction at various forums and committees, described in the management structure, roles and responsibilities section on page 89.

Monitoring and follow-up procedures

The group's supplier management performance is monitored against the supply chain governance framework and self-assessment tool, policies and legal requirements, key financial and B-BBEE targets, thereby inculcating a culture of continuous improvement. The results of the self-assessments and the performance of key cost drivers are reported and monitored at entity boards to track performance and improvement, with the intended outcome of reducing total cost of ownership across the extended enterprise. Policies are reviewed annually in accordance with established best practice and legal requirements.

Entities' procurement committees evaluate procurement recommendations of departmental managers, where applicable, and approve proposed purchases, in accordance with procurement policies and delegations of authority. The results of monitoring procedures are recorded and corrective/preventative action is taken, where necessary.

A supplier database has been devised to facilitate and enhance the performance reporting of preferential procurement and supplier spend against applicable frameworks, policies and set targets, to entities' transformation committees, executive committees and boards, as well as the group supply chain forum, executive committees and board. Reports include the extent to which objectives and targets have been met, recommendations for improvement and any other significant matters. Procurement and supply chain managers are responsible for keeping abreast of best practices to ensure effective guidance and interaction with internal, as well as external stakeholders. The entities' committees are presented as part of the *governance structures section* on page 54.

Supplier management performance

The table below illustrates Denel's B-BBEE spend on suppliers.

	2010	2009
Supplier spend	**Rm**	**Rm**
Total spend [1]	2 020	2 618
B-BBEE recognised spend [2]	584	269
	%	%
% B-BBEE recognised spend [2]	28.9	10.3

[1] *Total spend for 2009 includes an amount of R11m in respect of the Munitions business. Denel disposed of 51% of its munitions division, which became Rheinmetall Denel Munition (Pty) Ltd on 1 September 2008.*

[2] *B-BBEE recognised spend disclosed for the year under review relates to the group's recognised spend calculated in accordance with the B-BBEE CoGP, where the recognised spend is calculated by applying a prescribed percentage to the spend of each supplier depending on the suppliers' B-BBEE compliance level.*

Only specific raw materials that are necessary for production, but cannot be sourced locally, are imported.

The following key initiatives have been undertaken and milestones achieved towards the goals and targets set:

- A supply chain governance framework, strategy and procurement policy was developed, and are being implemented across the group, with a centre-led supply chain forum being established to drive performance and promote knowledge sharing.
- Meaningful advances were made in certain supply chain areas. For example, strategic resourcing at Dynamics resulted in reduced costs of approximately R8m to R10m.
- Excellent progress was made in obtaining valid supplier certifications, with the group achieving an overall level 4 B-BBEE rating for the year under review. Further details are provided in the *transformation report* on page 102.
- Some entities have developed an enterprise development strategy and begun implementing an enterprise development- suppliers' spend monitoring system to ensure compliance. Supplier forums and open days are structured to aid the strategy.
- An independent external detailed assessment of the procurement and logistics functions were conducted for six entities. The results were reported and key focus areas were developed to improve supply chain performance and working capital management, amongst others.
- As the founding member of the state-owned entity procurement forum, Denel facilitated one of the forum meetings, formed part of the delegation that engaged with the Director-General of the DTI, and through ongoing engagements and participation, seeks to reduce the cost of procurement through synchronising its overall procurement with that of other state-owned entities.
- Through the Defence Industrial Participation (DIP) and National Industrial Participation (NIP) programmes, claims to the value of R103m were approved by Armscor and the DTI, on the Oryx, GBADS and Hoefyster programmes. These claims relate to contracts or services that were procured by foreign suppliers from various South African suppliers through a combination of, but not limited to, imports from South Africa, direct and indirect local participation on the three programmes listed, as well as technology transfers and investments.

Looking forward

Denel will continue to focus on the execution of the supply chain strategy to fully implement and embed the concept of the extended enterprise, with specific focus and targets being set in the following key areas to further unlock value in the supply chain:

- Implement the key focus areas of the supply chain strategy including, establishment of cross-entity strategic sourcing, synchronisation and collaboration to realise volumes and procurement price-savings across commodity groups, efficient stock management that includes more effective control over raw materials and components, as well as reducing typical work-in-progress elements to achieve cash returns from optimised stock management and warehousing, retaining the level 4 B-BBEE compliance rating, and optimising key contributors that will improve transformation objectives to support the drive towards level 3 accreditation in the 2013 financial year. The group's 5-year targets are provided in the *transformation report* on page 103.
- Centres of excellence are to be established to provide support, knowledge transfer and sharing, as well as embedding supply chain best practice to achieve economies of scale.
- Improve all types of contract management through contract performance and monitoring, and enhance IT systems functionality for visibility and to support automated, real-time reporting for enhanced decision-making.
- Further implementation of action plans to improve the group's performance on preferential procurement and supplier development, as well as overall B-BBEE, to ensure that targets are achieved for reliability and transformation. Emphasis will be placed on developing or supporting black businesses that are involved in Denel's core business.

Empowering employees

Overview

At the core of Denel's performance culture lies a human resource function that sets the tone and pace for the achievement of the group's aspirations and goals. Denel's workforce encompasses a broad spectrum of skills and experience required to deliver a full range of advanced products and customer support services. Denel has made steady progress in various areas of human resources as part of an ongoing aspiration to implement world-class best practices. To do this, Denel recognises the need to act in a manner consistent with its values, the strategic growth drivers and the defined human resources' operating model. The key focus areas during the year under review relate to the transformation initiatives, the development of leadership and management competencies, and the identification, recruitment, training, development and retention of a diverse, motivated workforce.

Denel is committed to ensuring that employees reach their full potential, achieve job satisfaction and maximise their contribution.

Challenges

The key challenges facing the group in the area of human resources relate to:

- The critical shortage of technical skills, such as, aeronautical engineers, power electronic engineers, project managers and draughtsmen which are required in Denel's high technology core businesses. Scarce engineering skills are in high demand both globally and in South Africa, and this situation poses a risk to business continuity and group sustainability. The group's responses to these challenges and risks are detailed in *addressing the skills shortage section* of this report on pages 97 to 100.

- The continued loss-making position of the group, as well as the declining defence activities of the global industry, negatively impacts its ability to attract, retain and sustain employment. To turn the group around to profitability, Denel has taken steps to decrease its operating costs, which include offering lower salary increases. In addition, restructuring has taken place which has resulted in the loss of jobs through retrenchments. The steps being undertaken to address these are provided in the performance section of this report on page 97. The group's performance, as well as the business environment affecting its performance, is discussed throughout this annual report.

Managing employees

Employee policies and involvement

Denel is committed to open, honest and productive relationships with employees based on its values and in alignment with the interests of the Shareholder. The company's approach is outlined in company policies, namely: the ethics policy, conditions of employment booklet and also in the transformation framework. Together, these documents define Denel's expectations and the standards expected from employees and managers. It is critical to maintain effective communication and consultation between employees and management. Consequently, employees are provided with regular briefings by senior management on important issues, such as the state of the business, growth strategy, performance and safety, health and environmental matters.

The release of information to employees across the group and to stakeholders is managed through regular production and communication of operational newsletters, staff news releases and infograms. Information is also transmitted through media such as the intranet, email and other relevant mechanisms.

Goals and targets

The following were the group's key focus areas for the year under review. These are based on the priorities for the group to mitigate some of the challenges discussed in this report:

- Attaining a group B-BBEE level 5 rating
- Year-on-year improvement in the organisational climate
- High performance culture
- Skills and talent development
- Succession planning and management

Employee performance

Employment

Workforce profile

Denel operates in the high-technology environment, requiring specific skills for the sustainability of its technologies and business. The ongoing challenges related to the acquisition and retention of these scarce skills has led Denel to adopt a 'cradle-to-grave' approach to skills attraction and retention within the group. Comprehensive details are provided in the *training, education and skills development section* on pages 95 to 100.

Employee turnover at the group level has declined from 9.3% to 4.5%. This decrease is partly attributable to the global economic downturn, which may have limited the movement of employees in the market, as well as the group's variable pay reward system. The employee turnover percentage of employees in the scarce, critical and key skills category, during the year under review, remains unacceptably high at 32.8%. Denel continuously applies its retention strategy to mitigate the effects caused by this trend. Details of the retention strategy are provided in the *performance section* on page 100.

The table below illustrates Denel's B-BBEE and local spend on suppliers.

	2010		2009	
Employment contract	**Number**	**%**	**Number**	**%**
Permanent	3 870	76	4 121	81
Contract	1 220	24	946	19
Total	**5 090**	**100**	**5 067**	**100**
Associated companies	2 204		2 131	
Total strength	**7 294**		**7 198**	

Job category	B [1]	W	March 2010	B [1]	W	March 2009
Executives	29	48	77	41	52	93
Management	66	273	339	63	265	328
Engineers	56	309	365	95	279	374
Scientists	4	21	25	5	23	28
Technicians	159	598	757	209	520	729
Artisans	1 265	1 070	2 335	1 271	868	2 139
Configuration	5	38	43	13	35	48
IT personnel	25	32	57	25	29	54
Financial	27	50	77	36	55	91
Marketing	5	10	15	5	9	14
Human resources	11	11	22	10	11	21
Trainers	10	31	41	25	19	44
Security	56	21	77	57	13	70
Administration	207	324	531	212	312	524
Secretary	17	58	75	22	56	78
Trainees	176	33	209	162	28	190
General workers	14	6	20	209	2	211
Other	17	8	25	27	4	31
Totals	**2 149**	**2 941**	**5 090**	**2 487**	**2 580**	**5 067**

[1] *Black refers to African, Coloured and Indian.*

Appointments by race and gender	2010		2009	
	Number	%	Number	%
Black male	185	52	223	48
Black female	96	27	65	14
White male	56	16	143	31
White female	19	5	33	7
Totals	**356**	**100**	**464**	**100**

Terminations by race and gender	2010		2009	
	Number	%	Number	%
Black male	220	65	145	28
Black female	19	6	45	9
White male	76	23	272	52
White female	21	6	58	11
Totals	**336**	**100**	**520**	**100**

Remuneration, rewards and recognition

Denel's remuneration is relatively competitive compared to the manufacturing sector and is bolstered by a variable pay component which rewards exemplary performance if individual, as well as corporate targets are met or exceeded. Employees receive remuneration that is based on a total reward model. Part of the remuneration represents a fixed or guaranteed pay and the other a 'pay-at-risk' portion referred to as variable pay. When combining the two, the remuneration is considered market-related. In terms of variable pay, employees can earn percentages ranging from 10% to 50% depending on the position they hold. Variable pay is payable to entities and individual employees who have reached or exceeded their targets.

Entities have varying types of recognition mechanisms ranging from, for example, 'a meal for two' to 'time-off in lieu of overtime' schemes. The company also has a 'recognition of long-term service' award. Over and above the normal provisions of the Basic Conditions of Employment Act, other benefits include a retirement fund, medical aid, disability and life cover, employee assistance programmes, financial aid, on-site canteens, bus transport for lower income employees, and educational assistance, which are offered to both full-time and part-time employees. Participation in benefits is generally compulsory for full-time employees, whilst part-time employees are provided the option to participate.

Organisational culture and working environment

Denel has implemented a caring environment that recognises the value of its employees, and expects its workforce to abide by the jointly-developed value system. The corporate values form the cornerstone of Denel's organisational culture. The intrinsic values are supported by an overriding commitment to employees' health, safety and environmental responsibility. Taking ownership and accountability of assigned responsibilities is central to successfully meeting contracted performance and improving business results. Innovation also plays a fundamental role, while ensuring that mutual respect is never compromised. Climate surveys are conducted through the group's transformation programme to gauge the climate in the work environment. Details of the climate surveys are provided in the *transformation report* on page 102.

Employee wellbeing

A consolidated wellness programme is in place and includes trauma counselling, on-site-clinics, wellness days and HIV/AIDS testing and counselling in partnership with the group's in-house medical aid, Umed. In addition, a toll-free helpline offers confidential, professional consultation on any personal problems to employees and their immediate families at no cost.

Grievance and disciplinary procedures

A group grievance and disciplinary policy is in place and has been communicated across the organisation. Employees have been trained on the procedures and trade unions have agreed with 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 168 (2009: 120) disciplinary and grievance incidents were registered during the reporting period and were dealt with as follows:

Disciplinary and grievance cases	2010	2009
Internally resolved		
Cases settled internally	11	4
Cases withdrawn by complainants/employees	4	3
Cases resolved through warnings being issued	94	53
Cases resolved through counselling	27	9
Referred to the CCMA or bargaining council		
Cases ruled in favour of Denel	12	7
Cases ruled against Denel	4	1
Other		
Cases pending (at the CCMA or bargaining council or still following internal processes)	16	43
Totals	**168**	**120**

Employee training and skills development

Employee training is provided to all levels of employment across the group, with individual training needs being identified through the performance and talent management processes. The training for groups of employees and entities may be identified through climate surveys or as required when policies are being implemented.

Denel views training spend as an investment to develop and retain its workforce. This is demonstrated by the high level of expenditure, despite the loss-making position of some of its entities. To illustrate the importance of learning and growth in Denel, the total training spend for the year under review increased to R112m (2009: R21m).

In response to the skills challenge, Denel focuses and relies mostly on developing its own skills base to support its needs. As such it plays a key role in the development of technical skills for its own supply, while contributing to broader industry needs. This is done through its involvement in school education programmes through SED initiatives, awarding of bursaries for studies at tertiary level, training courses offered at the DCLD, and Denel youth development training programme. These are discussed in detail in the *SED report* on page 109.

A skills development strategy is in place to address and deal with skills development of employees, as well as the acute shortage of critical and core skills. The skills strategy is intended to nurture and develop current employees, as well as ensure that Denel acquires and develops a pool of suitable future employees. The effective implementation of the skills development strategy is imperative in Denel's operating environment, due to the following internal and external factors:

- Highly engineered products and systems, which have long lead times from conception to delivery
- The current average age of Denel's workforce is 45.

Talent management

Denel has embarked on a talent management programme, which is aimed at both the development and retention of skills. Each business entity has identified its key talent requirements and available skills pool. Relevant skills plans have been developed to ensure that available talent is nurtured and tracked for recognition and accelerated development. A pilot project was launched during the year under review, where selected employees were tracked via an e-talent system. The interactive nature of the system allows employees to engage management with respect to the development of their careers, as well as share their views on any other issues regarding their careers in Denel. If employees are unhappy, discussions are held with line managers, facilitated by human resource practitioners. In most cases, solutions are proactively found. The system caters for all employees regardless of the level of employment. It has proven to be far more effective than the historic exit interview system, as it ensures proactive engagement between the line manager and the employee, before an exit from Denel is formalised.

Leadership

Denel has recognised that strong leadership is a cornerstone of success for any organisation, especially one which is faced with a multitude of challenges. A group-wide climate survey confirmed that the company had, over time, neglected leadership development. This led to the development of a leadership and management competency framework, designed to drive functional and behavioural competencies and to enhance Denel's goal of inculcating a culture of superior performance. A three-phase leadership development programme has been implemented across the group, which includes business school, team and personal mastery courses. All executives in the group have been assessed against the required competencies. Individuals have been provided with personal feedback, and development plans have been drawn up, indicating areas of and methods for development.

An annual senior leadership symposium is held by the group's top 100 leaders and managers. The symposium takes place over two and a half days to network and engage with thought leaders on various issues confronting the business and the economy. The forum is also a platform where young, up-and-coming future leaders receive exposure to Denel's executives and receive insight on what is taking place in the company. The next symposium takes place in October 2010 with the theme of 'business development'.

Succession planning

Formal succession plans have been devised and successors at the first three levels of the organisation identified. There is a process of identifying the candidates and appropriate training and development mechanisms. The successor list is transparent and dynamic.

Performance management

A performance management system is embedded across the group to ensure a culture of high performance and achievement of goals. Employees have agreed performance targets, which are supported by personal development plans. All permanent employees receive regular performance and career development reviews, with formal feedback taking place at least bi-annually and informal feedback on a regular basis encouraged and promoted. Training needs are identified as part of the performance management system, and linked to the workplace skills plan.

The performance management system applies a five-point scale, where a rating of one is poor and five is excellent. Employees who score below three are provided the necessary guidance and further development, whilst employees who achieve the desired targets are rewarded accordingly. Employees and managers discuss development plans and ensure that individuals attend the required training.

Employee study loans

Study loans are granted to employees who wish to further their studies in fields related to their careers. This ensures that employees are up-skilling and updating themselves in the latest technologies related to their fields.

Bursaries granted to employees

Denel provides bursaries to employees in the areas complementary to their jobs. This is in addition to the various courses that have been identified as part of their personal development plans (PDPs) and job-required training.

	African		Coloured		Indian		White		Total	
Study fields	Male	Female	Male	Female	Male	Female	Male	Female	2010	2009
Masters in engineering	2				3	1	5	3	14	17
Project management	4				1		4	1	10	5
Electrical engineering	8	1							9	3
Mechanical engineering										4
Software engineering										1
Chartered accounting		2							2	2
BCom		4				1			5	3
BEng	2							1	3	3
BCompt										1
BTech	10	1							11	16
MBA	1	1			2	1	1		6	9
Various	11	4	10	3	1		3	4	36	32
Totals	**38**	**13**	**10**	**3**	**7**	**3**	**13**	**9**	**96**	**96**

Addressing the skills shortage

The demand for people with scarce technical skills owing to the lack of supply of such skills in the open market has driven Denel to introduce a 'cradle-to-grave' approach to skills attraction, development, deployment, retention and planned exit from employment. Graduate recruitment, online searches and agencies are utilised to find skills which cannot be developed from within the organisation. The most sustainable mechanism of ensuring future skills availability is the bursary programmes that are implemented across the group. Some employees who were provided with bursaries and joined Denel as part of their work-back obligations as far back as in 1992, have remained in the organisation due to the impact of targeted career management. Of those who left for other industries, most are employed in the sub-contractor environment of Denel or in other defence or support organisations such as Armscor and the CSIR. Selection of bursars as well as already competent new employees is a process that has been well-established over time, supported by targeted programmes.

Often, Denel looks for top achievers in engineering and science namely, mechanical, electrical/electronic, aeronautical, and to a lesser degree, industrial engineers. The experience needed for proficiency and leading edge capability is built over a period of time. The company therefore recruits some of the best brains in industry (and potential leaders) from a limited number of engineering students. It adequately trains these people over a period of time, and seeks to retain them in an environment where there is fierce competition for such limited and scarce skills. In short, skills attraction, development and retention are crucial to the sustained operations and profitability of the business.

Skills attraction

The required skills are nurtured from within. As a result the primary source for such skills is the universities, with the general labour market considered secondary to fill gaps in the normal course of business. Denel therefore is adept at attracting skills at university level, as well as in the highly contested general market. Denel is in the process of implementing its branding to attract future employees. This is done through university career week, special tertiary newsletters and other mass media.

- *Bursaries granted pre-employment*
  Denel's bursary programmes are a prime source for bringing in talent to nurture. Some bursary beneficiaries are achieving excellent results and are recognised as top achievers. Denel has 83 bursary beneficiaries and some have achieved distinctions in the last academic year. The group aims for an equitable representivity of black (african, coloured and indian) and white candidates to improve its employment equity ratios.

In the year under review, Denel Dynamics placed advertisements in the national press and attracted some 2 600 bursary applications. This dramatically increased the pool from which Denel draws top students into the bursary programmes.

Bursaries granted to matriculants to study at tertiary institutions throughout South Africa in specific fields are provided in the table below.

	African		Coloured		Indian		White		Total	
Study fields	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**	**2010**	**2009**
Aeronautical engineering	2	1			2				5	18
Mechanical engineering	10	2	1	8	7		2	1	31	17
Bachelor of engineering	1	1						1	3	
Bachelor of commence	1								1	
Electrical engineering	8	2	2	7	5		2		26	32
Masters in engineering	1			3					4	
Software engineering	4			2	1		1		8	7
Various	1	1	1			1	1		5	7
Totals	**28**	**7**	**4**	**20**	**15**	**1**	**6**	**2**	**83**	**81**

- *Relationship with universities and students*
  Denel was ranked number 38 out of 60 employers in the Magnet Survey of 2008, which surveys the attractiveness of employers to university students. New initiatives involve more visits to universities and working closely with individual professors in order to improve rankings. Denel also participates in the Engineering Career Fair at the University of Pretoria, Sci-Bono and Aviation week.

  Through the Armscor Ledger Fund programme, Denel has a close relationship with almost all universities. Denel sponsor's students for post-graduate studies through this fund. Often the recipients of bursaries get opportunities to present papers overseas.

  Denel has recently commissioned a study by the University of South Africa on the supply and demand of engineers as well as our ability to attract top achieving students.

- *SAWOMENG*
  Denel Dynamics has a relationship with a student organisation called South African Women Engineers (SAWOMENG). This organisation promotes engineering as a career to female students. Denel has presented to pupils at universities of Witwatersrand and KwaZulu-Natal, as well as at the conference of Women Engineering Students held at the University of Cape Town.

Once in the employ of the group, continued training and development takes place as described in the *employee training section* on page 95.

- *Denel Centre for Learning and Development (DCLD)*

Denel drives high performance through DCLD which plays a crucial role in developing technical skills that are not readily available in the market, especially in previously disadvantaged communities.

The division is based in Kempton Park and offers training programmes for artisans and apprentices in the group, in other organisations, as well as to artisans and apprentices from various other countries, thus ensuring that young people are skilled and trained for the betterment of the country.

Artisan training

DCLD has training facilities for the following artisan fields:

- Avionics technicians
- Artisans
- Millwrights
- Fitters and turners
- Other related trades

The courses offered have increased to approximately 50 (2009: 37). Training capabilities have expanded to include advanced specialised type-training courses which qualify technicians to perform maintenance and other engineering services on several new aircraft.

All courses are accredited by relevant governing bodies. Further details of the courses offered, as well as other additional information, may 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 providing Denel and the industry at large, skills in the artisan and technical areas, and also seeks to impact the national development strategic objectives of the Government of South Africa.

Denel youth foundation training programme

The Denel youth foundation training programme (DYFTP) currently has 47 (2009: 40) learners. 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 from previously disadvantaged and poor communities, especially from the rural parts of South Africa, who did not pass matric maths and science subjects. The programme is designed to give these learners a 10-month non-stop tuition programme to help improve their results and enable them to gain access to an institution of higher learning. Learners are also taught relevant life and leadership skills in order to prepare them for employment.

A total of 12 bursaries were awarded by the CSIR to qualifying learners.

Denel schools outreach programmes

As education is a key focus area of Denel's SED initiatives, the group facilitates various schools outreach programmes to:

- Increase the participation of learners in mathematics and science
- Improve selected learners' performance in mathematics, science, english, communication and life-skills
- Prepare and encourage learners to embark on science, engineering and technology-based careers
- Increase the pool of science, engineers and technology (SET) based skills.

The details of the schools education programmes that are run for scholars from surrounding communities, namely Tembisa, Olievenhoutbosch and the North West, are provided in the *SED performance report* on pages 109 to 112. Denel also facilitates workshops for teachers to improve their teaching skills and provides funding for the programme.

There was an intake of 20 students for the 2009 academic year, with excellent results being achieved. 90% of the students obtained entrance to universities, with the remaining students gaining entrance to universities of technology. Denel's associated company, RDM, has awarded 7 bursaries to these students to continue their studies at tertiary institutions.

Skills retention

Denel recruits predominantly young engineers who identify as being members of 'generation Y'. This group is highly motivated by learning and development opportunities. More mature employees are also motivated by the opportunity to work with technology capabilities. Retention strategies are a key focus area of the group; Denel applies a variable pay system which rewards superior performance. Since its introduction in 2007, this system has ensured a marked improvement in company performance, productivity and has helped to stem the tide of exits of especially young technical employees. However, other non-financial factors have also allowed Denel to better leverage employee retention, as in some instances, career progression and job satisfaction are deemed more important than salary adjustments.

Employment equity and diversity

Denel operates in a highly technical environment that is dominated by white males. Efforts to ensure changes to the demographic profile in line with that of South Africa remain a challenge. This challenge is being addressed through the B-BBEE targets of the transformation programme and the business entities' skills development strategies. The number of black managers has increased from 21.6% to 22.8%, whilst the total number of managers reduced from 421 in the prior financial year to 417 in the year under review. Details of the group's appointments are provided on page 93. Employment equity in the industry is also addressed in the *skills shortage section* of this report on page 97.

Diversity

Business entities have held diversity workshops over the past two years to enhance transformation. The change management and diversity management competencies are compulsory for all managers to acquire. Entities are frequently encouraged to have social-inclusiveness and team-building sessions to enhance employees' understanding and accepting of differences.

Minority groups, as defined in terms of the B-BBEE CoGP, namely, females and black employees, are included in the governance bodies across the group. The composition of the group and entities' boards and board committees was reviewed during the year to enhance diversity and ensure the skills mix in accordance with the requirements of the King III report and the B-BBEE CoGP. The governance structures in place are illustrated on page 54, with details of composition provided in the *corporate governance report* on pages 58 to 61.

Industrial relations

Denel adopts a consultative and participative management style at all levels of the organisation. Participative structures are in place at both management and shop floor levels in the form of employee advocacy forums, through which organised labour engages with management. These formal structures include the following:

- Each entity has a labour forum where specific employee issues, for example salaries, benefits, organisational culture and working conditions, are discussed
- The group restructuring and transformation central committee, which is discussed in the collective bargaining section below
- The group CEO meets with organised labour leaders on a monthly basis to engage on matters that are important to both labour and Denel, including sharing the group's successes and discussing challenges.

Unions	2010 Number	2010 %	2009 Number	2009 %
Solidarity	973	19	1 034	20
NUMSA	845	17	902	18
SAEWA	34	1	44	1
UASA	1 345	26	1 386	27
Total membership	3 197	63	3 366	66
Total permanent workforce	5 090		5 067	

Collective bargaining and minimum notice periods

The group restructuring and transformation committee is a forum which serves as a consultative body for matters regarding the restructuring of business entities, and transformation matters within the group. Entity representatives from management and labour engage on matters pertaining to the restructuring and progress of the group's transformation. Each business entity also has a recognition agreement with represented labour unions. The process of collective bargaining helps in creating healthy employer-employee relationships. The percentage of employees covered by collective bargaining agreements is provided in the above table.

Minimum notice periods are set for operational changes in accordance with applicable labour relations legislation and Metal and Engineering Industries Bargaining Council, and are included in policies. Minimum notice periods set are specified in collective agreements. For retrenchments these range from 60 to 90 days across the group. For short-time, notice periods range from 5 to 30 calendar days. Some entities have implemented notice periods for lay-offs, as well as annual shutdown periods. Notice periods include consultation, during which alternatives have to be sought.

Strike action

During the year under review, no workdays were lost due to industrial action. Wage negotiations were concluded and salary increases implemented effective 1 April 2010. The state of industrial relations in the group is strained as a result of the lower-than-inflation increases. Details of the group's engagements during the year, including the issues raised and outcomes thereof, are provided in the *stakeholder engagements report* on pages 68 to 78.

Transformation

Overview of transformation programme

Denel views transformation as a business imperative to create and maintain a culture where performance and delivery are drivers of success in an operating environment that is diverse and representative of the demographics of the country. A group transformation framework is in place to ensure compliance with applicable legislation, contribution to the strategic objectives of the country, as well as the implementation of the revised strategic driver of being 'a respected South African company'. Denel's commitment to transformation is demonstrated through the effective implementation of its transformation programmes across the group, including its B-BBEE objectives. The objectives of the transformation programme include the following:

- 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.

The key drivers and focus areas of the programme relate to the requirements of the B-BBEE CoGP, as well as the organisational climate, which refers to pertinent issues that touch the hearts and minds of people, for example employee communication, development and engagements.

Denel is proud of the sound progress made and achievements of the transformation programme thus far. These are described in the transformation performance section on page 104. However, the group experienced challenges which hampered further progress. These include:

- The continuous loss-making status of the group stands in the way of attracting critical and key resources and skills as the image of the company may not be viewed positively
- There are financial constraints that negatively impact crucial transformation initiatives
- The lack of market supply of high-level skilled engineers impacts the achievement of organisational goals and diversity transformation targets
- Enterprise development relating to the core technical business of Denel remains a challenge given the historical legacies in the defence and aerospace industries

Managing transformation

Policies and systems

The transformation framework and group policy outlines Denel's approach and provides guidelines to the business entities in the implementation of their transformation initiatives.

Management structures, roles and responsibilities

Transformation committees consisting of management, human resources and organised labour representatives, as well as non-organised employee representatives, are in place at both entity and group level to track, monitor and report progress made with respect to the implementation of entity transformation plans. These committees are chaired by the CEOs or general managers of the entities. They meet on a monthly basis and have a constitution and terms of reference that guide the scope and purpose of the committee.

There is a group transformation forum, chaired by the group executive: human resources and transformation, and attended by the entity transformation champions. The forum facilitates discussion on cross-cutting transformation challenges and opportunities, and also discusses strategies to fast track transformation within the group. The forum has helped to explore synergies, as well as to share best practices.

Goals, objectives and targets

For each of the eight generic elements of the group's transformation framework, specific and stringent goals and targets are set annually, and approved by transformation committees across the group. The transformation goals, objectives and targets are reviewed annually in terms of their relevance, and agreed upon with the leadership of the business entities. The eight elements of the framework are as follows:

Element	Description
Representative workforce	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, and skills development, Denel places emphasis on and supports the accelerated training and development of previously disadvantaged employees. Skills development actions include: • Identification and assessment of potential, accelerated and concentrated development actions • Mentoring, on-the-job training and exposure • Job rotation • Career routing • Induction and integration programme • External courses
Participative management	Addresses the extent and effectiveness of employee participation, establishment, maintenance and effective utilisation of participatory structures (namely, workplace forums and departmental meetings, amongst others.)
Preferential procurement	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	Seeks to assist black-owned[1] organisations to establish themselves and help them achieve sustainable growth, particularly the small and micro companies which are Denel's suppliers.
Socio-economic development	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	Manage and utilise Denel's values to establish and maintain a climate conducive to constructive transformation.
Succession planning	Ensures continuity in Denel in terms of critical skills and key competencies.

[1] *'Black' includes Africans, Coloureds and Indians*

In addition to the targets set for each element, the group targeted the achievement of an average level 5 score in terms of the B-BBEE code of good practice, by the end of March 2010 and to improve by two levels up to level 3 by the end of 2013. The group's B-BBEE five-year targets are as follows:

B-BBEE targets	2010	2011	2012	2013	2014
Overall group contributor level	5	4	4	3	3

Monitoring and evaluation procedures

Transformation progress is monitored during the year and for the first time, a B-BBEE verification agency has been sourced to verify the status of B-BBEE in each business entity and to provide a scorecard. This verification provided input for an overall group score.

In an effort to continuously improve on B-BBEE compliance, a group reporting tool has been developed to:

- Assist business entities in developing scenarios when planning for B-BBEE scorecards
- Provide a scorecard on B-BBEE, as well as information on aspects such as employment equity, skills development and other reporting requirements
- To track progress on each business entities' performance towards a set target, as well as to provide current-state scorecards on B-BBEE compliance for the group and per entity to all stakeholders of Denel.

Transformation performance

Highlights

If posed the question: ''Is Denel contributing to the transformation of South Africa?" the answer is a definite "Yes". Denel's leadership constantly and robustly discusses progress and challenges itself to develop stretch targets that will ensure progressive transformation in the group. Often, external guest speakers are invited to give their perspective or share their experiences on transformation. This has led to an environment that allows for critical questions to be asked and also for open debate about the progress and status of the group's transformation.

The following key transformation milestones and high-level successes have been achieved:

- Transformation has become a business imperative and entities are contracted, evaluated and rewarded according to achievements against set targets, with transformation weighing 20% of an entity's total balance scorecard
- Effective and functional transformation committees have been established in each business entity
- Five-year B-BBEE targets have been developed, with buy-in from key stakeholders
- Good progress has been made by the entities' against their transformation plans
- Some of the entities have conducted ad-hoc climate surveys to evaluate their progress in relation to the past results from the group-wide survey of August 2008
- All Denel's entities have been rated by accredited verification agencies.

B-BBEE performance

A five-year B-BBEE plan was developed in agreement with the relevant role-players and the Shareholder representative. Denel is proud of the exceptional level 4 B-BBEE rating which was achieved at 31 March 2010.

Climate improvement performance

A group-wide organisational climate survey was conducted in 2008. Each business entity developed action plans to address negative findings and implement the recommendations of the survey. During the current year, an independent review was conducted to assess the progress made in respect of the agreed actionable elements. The results indicated that the organisational climates of four of Denel's core businesses have improved, with the remaining businesses achieving the same or slightly lower results. The reasons for these are being investigated and corrective actions implemented for directed focus in the coming financial year.

A third group-wide climate survey will be conducted in August 2011 to gauge the progress which has been made in the roll-out of the transformation programme.

Socio-economic development (SED)

Denel strives to fulfil its SED aims by focusing on areas that are aligned with the group's business strategies. To this end, Denel's corporate social and economic development responsibility extends beyond philanthropy and focuses on successful community engagements that will lead to meaningful development. Denel recognises that employee involvement is crucial to the success of its SED programmes. Therefore, Denel encourages all its employees to get involved in the various SED initiatives currently under way. More information on the SED programmes is covered under SED report on page 109.

Transformation has become a business imperative and entities are contracted, evaluated and rewarded according to achievements against set targets

Occupational health and safety

Managing occupational health and safety

Policies and management systems

Safety is an area of focus and as such safety measures have been embedded as part of Denel's culture. Denel has formal occupational health and safety systems which are designed to meet legal and other related requirements to ensure a safe workplace for employees and visitors on the premises. In addition to the basic legal requirements Denel requires its business entities to adopt relevant internationally recognised occupational health and safety management systems. Each business entity publishes its occupational health and safety policies, which regulate health and safety activities including the functioning of the occupational health and safety and environmental committees, conducting of safety inspections and audits, safety training, safety risk assessments and regular communication. Through committees and communication structures, business entities ensure optimal participation and involvement of all employees in the health and safety programme.

Denel's occupational health and safety systems are subjected to rigorous annual and bi-annual audits and inspections by both management and/or external bodies, where applicable. The systems record all accidents, incidents and/or deviations from safe work practices. These are investigated and corrective action taken.

Management structures, roles and responsibilities

The implementation of effective health and safety programmes to ensure a safe working environment is the responsibility of entities' CEOs and boards. This includes appointing relevant personnel in terms of the requirements of health and safety legislation.

Goals, objectives and targets

Denel is committed to operating its business in a manner that upholds the health and safety of employees and other stakeholders. Denel recognises and proactively mitigates any effect its activities, products and services may have on the health and safety of employees. To achieve this, the entities have set goals and objectives to improve their occupational health and safety programmes. During the year under review, specific health and safety risk assessments were conducted to identify occupational health and safety risks and to develop measures to mitigate the risks. Where applicable, mitigation includes education and awareness, reduction of exposures and provision of personal protective equipment. A high-level update per entity is tabulated below.

The group's occupational health and safety goals and objectives for the year under review were as follows:

Business entities	Goals and objectives	Comments
Denel Aviation	Ensure a healthy and safe work environment by preventing occupational accidents and incidents	A SHE hazard identification and risk assessment baseline was conducted and health and safety management plans are being developed for high risks activities
Denel Land Systems	Ensure a healthy and safe work environment by preventing occupational accidents and incidents	Occupational hygiene surveys, Hazard Identification Risk Assessment, Fire Risk Assessment, SHE Compliance Audit and Ergonomic Surveys have been conducted and plans are being implemented to address any deficiencies
Pretoria Metal Pressings (PMP)	Maintain a loss time injury frequency rate (LTIFR) of < 1. To retain OHSAS18001 certification.	The entity retained its OHSAS18001 certification during an audit conducted by SABS in September 2009. The entity achieved 2 553 069 accident free-worked-hours, and a LTIFR of 0.06.
Overberg Test Range (OTB)	Maintain a loss time injury frequency rate (LTIFR) of < 1. Maintain reportable and disabling injuries and incidents below 5. Maintain test-related incidents to a minimum, but not more than 3 per year. Certify all load hoisting equipment including all overhead, truck mounted and mobile cranes	OTB is implementing the OHSAS18001 system. A SABS stage 1 audit was conducted and management is in the process of addressing deficiencies
Denel Dynamics	Ensure a safe and healthy work environment by implementing and maintaining an effective safety, health and environmental management system	A hazard identification and risk analysis study was done in all departments and action plans to mitigate the risks are being implemented
Denel Saab Aerostructures	Provide and maintain a safe working environment with zero disabling incidents	A legal compliance audit was conducted in November 2009. A noise survey was conducted in July 2009. Achieved 552 510 accident free-worked-hours without disabling injury in September 2009
Denel Properties	Ensure that health and safety risks are identified and managed to ensure legal requirements are satisfied	Bi-annual audits performed, baseline risk assessments to be performed in future

The group's objective is to set challenging and measurable goals for the health and safety programme. It is encouraging to note that despite the hazardous nature of some of our operations, no major incidents or fatalities were reported during the year.

Employee training and awareness

Denel is committed to continuously raising the levels of safety awareness amongst its employees in order to ensure a healthy and safe working environment through formal and informal training programmes. During the year under review, Denel entities provided training and awareness sessions to employees in a number of areas, which included handling of hazardous chemicals, explosives, scaffolding, crane and forklift operation. The number of employees trained in the various categories is provided in the table below.

	Number of employees trained per business entity								
Training typed offered	Mechem	Aviation	DLS	PMP	OTB	Dynamics	DSA	Properties	**Total**
Health and safety induction	24	10	39	204	9	65	45	4	400
Hazardous chemical substances	5	73	42	754	3	15	10	-	902
Material safety data sheets	14	-	30	754	-	15	-	60	873
Spill kit	-	-	41		-	-	5	-	46
Scaffolding	-	-	-	23	-	-	-	-	23
Safety representatives	5	40	30	4	-	12	15	2	108
Hazard identification and risk assessments	1	-	17	12	-	16	1	-	47
Explosives areas	-	30	-	526	-	22	-	n/a	578
Legal training for supervisors	2	-	3	60	-	12	-	-	77
First aiders	5	26	35	38	-	16	27	1	148
Fire fighters	5	17	23	85	-	-	73	60	263
Emergency team members	5	-	18	123	6	32	-	-	184
Incident investigators	2	-	32	4	-	5	-	-	43
Crane and forklift operators	6	53	65	99	22	60	54	10	369
Lead training	-	-	-	100	-	-	-	-	100
Noise induced hearing loss	-	156	-	-	-	-	-	-	156
Totals	**74**	**405**	**375**	**2 786**	**40**	**270**	**230**	**137**	**4 317**

Occupational health and safety performance

Denel entities have set a target of maintaining a loss time injury frequency rate of < 1. All entities except OTB achieved the target. The high LTIFR at OTB is attributed to injuries arising from employee slips and falls, bee stings and improper equipment handling. However, it is pleasing to note that management has implemented corrective actions to prevent the recurrence of the situation. This action includes employees' awareness being heightened in these areas and the provision of protective equipment, where necessary. The performance of each entity, as well as the management systems in place, is tabulated below.

Business entities	Loss time injury rate performance		Occupational health and safety systems
	Actual 2010	Target 2010	
Mechem	0.00	<1	The system is based on legal requirements
Aviation	0.83	<1	The system is based on OHSAS18001. Certification is planned for 2012
DLS	0.00	<1	The system is based on OHSAS18001. Certification is planned for May 2010
PMP	0.06	<1	The system is OHSAS18001 certified
OTB	4.9	<1	The system is based on OHSAS18001. Certification is planned for May 2012
Dynamics	0.15	<1	The system is based on legal requirements
DSA	0.53	<1	The system is based on legal requirements
DenProp	0.62	<1	The system is based on legal requirements

During the year under review, a risk-based occupational health programme was implemented to address occupational diseases. The occupational health programme includes pre-employment and exit medical examinations, periodic medical examinations, biological monitoring, hygiene surveys and audiometric tests.

Denel has established occupational health clinics at the main campuses, which are manned by qualified staff to ensure that effective occupational health services are rendered. The number of employees who participated in the employees' occupational health programmes is provided in the table below.

Occupational health programme	Number of employees trained per business entity							
	Aviation	DLS	PMP	OTB	Dynamics	DSA	Properties	**Total**
Pre-employment and exit medical examinations	56	64	931	11	27	65	10	1 164
Periodic medical examinations	104	146	530	1	31	27	20	859
Biological monitoring	470	43	48	7	10	38	-	616
Audiometric (hearing) tests	232	219	1 202	-	-	165	4	1 822
Hygiene surveys	-	-	4	-	3	-	-	7

Other initiatives undertaken to identify employees' occupational health and safety risks were as follows:

- During the year under review lead, noise and illumination surveys were conducted at the small arms ammunition plants 1 and 2, while oil, mist and noise illumination assessments were conducted at medium-calibre plants 1, 2 and 3 at PMP. Organic dust, illumination and noise surveys were also conducted in the civil service area of the operations
- Surveys were conducted to determine employees' exposure to lead fumes, the efficiency of fume extraction at Dynamics' production, engineering and DETEK facilities, as well as employees' exposure to paint fumes at the spray paint shop. No deficiencies were found.

In addition, the clinics provide primary health care services for employees. Various sessions were given to enhance employees' health and safety awareness in respect of HIV/AIDS, back injuries and respiratory equipment. The details of other employee wellness programmes are provided in the empowering employees report on page 94.

Socio-economic development (SED)

Overview

Denel acknowledges the role it has to play in contributing to the economic development of the country and as such, embraces its responsibility towards the sustainability of the economic, environmental, and social conditions. Denel's overall aim is to empower, improve and transform the lives of people, who are non-participants in the economy, to be included into the economic mainstream in a sustainable manner.

The group focuses on SED activities that are aligned with its business strategies. The group's three primary focus areas relate to:

- Supporting education programmes to create an awareness of mathematics, science and engineering amongst learners. Such investments ultimately benefit Denel and other companies in South Africa
- Enterprise development through monetary and non-monetary contributions to identified SMME and qualifying small enterprise suppliers which demonstrate potential for growth and job creation, and which are aligned to Denel's required supplier base. Comprehensive details of the group's enterprise development practices, as well as its performance, is provided in the *transformation programme and economic impact* section of the sustainability report on pages 112 and 87 respectively
- Socio-economic development programmes through monetary and non-monetary contributions to:
  - Develop women, youth, people with disabilities and people living in rural areas
  - Support healthcare and HIV/AIDS programmes
  - Support community training and skills development for unemployed people, including adult basic education and training
  - Support arts, cultural or sporting development programmes

Denel's corporate social and economic development responsibilities extend beyond philanthropy and focus on successful community engagements, with a strong developmental theme.

Responding to the country's socio-economic conditions has provided Denel with opportunities to enhance its brand and promote the company as a caring and good corporate citizen. Denel is proud of the SED contributions it has made during the year under review, despite the financial constraints and challenges experienced. Details of the group's SED performance are provided on pages 111 to 112.

Managing socio-economic developments

SED policies and programmes

Denel has a group SED policy that outlines its approach to corporate socio-economic development and provides guidelines to its business entities in the implementation of their programmes. The group policy requires entities to:

- Develop their own SED programmes, taking into account their unique operating environments and surrounding communities
- Apply certain criteria in selecting projects, which includes the availability of budgets, alignment to the group's key focus areas, take into account transformation imperatives, geographic proximity to facilities, the high possibility of sustainability and there must be a business association to the event or activity.

Management structures, roles and responsibilities

SED roles and responsibilities are defined, and take place at both group and entity level. The overall SED responsibility at group rests at executive management level and includes the following:

- Review the group's SED strategic plan, policy and programmes
- Support the coordination and administration of projects undertaken within the group and to ensure that the Denel brand is effectively promoted through the authorised programmes.

The responsibility to implement the SED policy and execute programmes rests at business entity level. The key responsibilities include:

- Facilitating, planning, identifying and executing value-adding projects, in conjunction with group level
- Establishing business entity SED committees to evaluate projects and plans for recommendation to entities' executive management for approval
- Providing resources, specific to their regions, for the upliftment of communities
- Allocating sufficient resources towards the roll-out and sustainment of socio-economic development projects

SED owners are identified for each approved initiative and are responsible for identifying appropriate monitoring, evaluation and reporting mechanisms.

SED activities are managed as part of the group's transformation programme, with objectives to:

- Coordinate the efforts of the business entities to create synergy
- Ensure that the Denel brand is being promoted effectively through the integrated programme
- Act as a platform where best practices are shared and insights into potential risks and opportunities are discussed
- Provide direction and implementation options

Goals, objectives and targets

The group's high-level goals, objectives and targets are to:

- Improve the quality of life of identified beneficiaries and communities
- Improve Denel's relationships with identified communities, enterprises and stakeholders
- Increase community awareness and recognition of the role played by Denel in developing communities, and promote the company as a good corporate citizen

Employees training and awareness

Denel recognises that employee involvement is crucial to the success of the programme and encourages employees across the group to get involved in the various authorised SED initiatives, through submission of ideas, volunteering outside of and within normal working hours, making monetary and non-monetary donations and enhancing awareness of initiatives that are under way.

Monitoring and follow-up procedures

The group's SED performance is monitored against applicable policies and programmes. Monitoring procedures include formal surveys, through questionnaires or reports to establish the impact on beneficiaries. Such reports also gauge the level of beneficiary participation, the percentage of black beneficiaries, the amount of money/resources spent and the number of hours invested by Denel employees in the initiative.

Reporting takes place to ensure that initiatives are effective and outputs are measurable. The reporting includes the extent to which objectives and targets have been met, recommendations for improvement and any other significant matters.

Socio-economic development performance

Committed to partnering with Government and industry to meet South Africa's socio-economic and development needs, the group has embarked upon a number of socio-economic development initiatives during the past financial year. With a focus on education and skills development, Denel is confident that its contribution will inspire and empower South Africa's next generation of engineers and artisans.

Education initiatives and programmes

The group supports the following education programmes and initiatives:

- Denel Aviation grooms South Africa's future engineers and scientists by creating awareness of the career opportunities made possible by mathematics, science, engineering and technology. The programmes simultaneously stimulate the interest of learners in the aviation industry. The company's 'Super Flyer' programme selects fifteen learners each year to expose them to display material, information and brochures that encourage them to pursue careers in aviation. The division is also a platinum partner of the 'Eskom Expo for Young Scientists'. This annual expo gives learners the opportunity to demonstrate their inventions in the fields of science and technology. Aviation's commitment to promoting learner innovation is further demonstrated by the company serving on the steering committee of 'Scifest Africa', the largest science and technology exhibition on the continent. It also hosts an exhibition stand that showcases career opportunities in the aerospace and aviation industries. Aviation is also a regular exhibitor at 'Science Unlimited', a local exhibition with a mathematics, science and technology focus, geared to enhance learners' skills in these areas.
- Denel Dynamics has continued its bursary scheme for historically disadvantaged learners at tertiary institutions. Through this bursary scheme the Denel Corporate Office has, for the first time, sponsored students, during the year under review. Dynamics' education and skills development focus is, however, best demonstrated through its provision of mathematics classes to pupils from disadvantaged communities on Saturday mornings. Dynamics is confident that the classes, which are taught by the division's employees, will go a long way to develop both the country and the company's skills base, as well as increase the number of mathematics and science-related qualifications.
- To further enable the provision of quality education to disadvantaged learners in its local community, Denel Dynamics also sponsored support equipment including computers, laboratory equipment and sporting facilities for schools in the area. A focus on environmental management also saw Dynamics embark on various initiatives at schools to create a culture of responsible resource management and to encourage conservation and preservation of our environment.

- DLS donated computers to two schools in Mpumalanga and painted another two schools during the course of 2009. The company also provided educational bursaries to previously disadvantaged learners who had already started their studies.
- OTB supported a school in its local community by sponsoring the salary of an additional literacy and numeracy teacher.
- PMP provided much-needed support to learners in previously disadvantaged communities through its Tshwane South College Bursary Fund. The Zodwa School for learners with special needs also received financial assistance from PMP during 2009. This was used to assist in teaching disabled youths. To further enable the development of technical skills in the next generation of engineers and artisans, the company provided assistance to previously disadvantaged learners at tertiary level through its Technical School's Outreach Programme.
- DCLD's contribution to education and skills development is provided in the empowering employees report on page 99.
- Denel Properties has provided extensive office space on the Irene site to an Employment and Skills Development Agency (ESDA) of the Department of Labour, for use in training previously disadvantaged individuals. In addition, the external service providers on the site provide cleaning, catering and industrial health services free of charge.

Enterprise development

The group's performance is discussed in the supplier management section on page 87, as well as in the transformation programme on page 102.

Other socio-economic development initiatives

- As an enthusiastic supporter of the 'Take a Girl Child to Work' initiative, Aviation is helping to inspire young ladies to pursue rewarding careers in aviation and engineering. Aviation also hosted learners from disadvantaged communities at the Rand Air Show and Swartklips Air Show, who had the opportunity to experience the magic of the aviation industry and were informed about the academic requirements to enter the industry. At the Potchefstroom Air Show, sponsored by Aviation, a group of 60 previously disadvantaged learners had the opportunity to fly in an aircraft to assist in demonstrating the limitless prospects the aviation industry has to offer.
- Denel Integrated Systems Solutions established an internet café in Kimberley, a community in which DISS operates, to give community members internet access for study and recreational purposes, and improve general computer skills. The company also donated a computer prize for the best student on the Battery Commanders Course at the ADA School.
- Mechem continued to support the Jacaranda Children's Home, for neglected, abandoned and abused children. The company's assistance is geared to improving the lives of the children, specifically young girls, cared for by the organisation. In recognising the impact of HIV/Aids on its local communities, Mechem also supports the Mohau Children's Hospital which looks after HIV/Aids orphans. It also provides assistance to the Leratong Hospice which does work in the Atteridgeville community, caring for HIV/Aids sufferers and those in need of help. Mechem's specialist dog training additionally makes it ideally placed to continue to assist animal-focused organisations, including the SPCA, Wetnose and Border Collie Rescue.
- With employee wellbeing a group priority, Denel Land Systems initiated an internal wellness programme (Careways Wellness Programme) and started an in-house medical clinic for its employees.
- PMP made a donation to the Nelson Mandela Children's Fund on Nelson Mandela's birthday, whilst OTB donated 122 blankets to two pre-schools, as well as a local welfare organisation, for distribution to needy elderly and disabled persons. The blankets were purchased by funds raised by OTB personnel.

Environmental responsibility

Overview

Denel acknowledges its responsibility to protect, manage and rehabilitate the environment in which it operates and the role it has to play as a corporate citizen in achieving ecological sustainability.

The group is responding to the global environmental crisis in a number of ways. The strategy of the company was refined during the year to include environmental aspects of sustainability (details of the strategy are provided in the group overview section, the group chief executive's reports and the directors' report on pages 8, 26 and 146 respectively). Denel strives to be a good corporate citizen committed to responsible environmental practices. Identified environmental risks are managed as part of the group's risk management processes, with management systems implemented across the group to address and mitigate any risks and environmental priorities. A number of activities and initiatives are in place to conserve the environment and prevent pollution. The responsible use of energy and other natural resources are driven at executive level to minimise operating costs and carbon footprints, while promoting economic and social development. Responding to the global as well as the local environmental challenges has provided Denel with opportunities to more effectively manage its operations and reduce input costs, thereby increasing operational efficiencies.

The group's key environmental focus areas relate to waste management (including recycling), pollution prevention as well as energy and water conservation. Nature conservation and game management also play a key role at facilities entrusted with sizeable tracts of land. Comprehensive details of Denel's environmental management and current year's performance are provided in the managing environmental impacts and environmental performance sections below. The group's key environmental successes achieved are included in the group overview section on page 14.

Whilst the group has made significant progress in promoting environmentally sustainable operations and maintaining sound environmental standards, challenges have been experienced in setting and establishing more specific stringent targets for further improvements. Regulated reporting against set objectives and targets has, however, resulted in an emerging database of consumption, effluent control, waste reduction and other defined indicators that is presented to management for review. As historic data becomes more reliable, this information is being used to establish additional and more specific stringent targets for improvement. There are further opportunities for improvement, particularly in the areas of waste management, in some entities.

Challenges

Some of the environmental shortcomings and challenges experienced by the group, in addition to those provided in the overall challenges section on page 15, during the year include:

- Targets are not clearly set in all areas or entities
- Employee commitment to the importance of conserving our scarce resources and preserving our environment and to reduce waste as far as possible
- Integration of environmental management initiatives in the end-to-end business management model and link to overarching supply chain initiatives
- Clean-up initiatives sometimes lag set targets
- Induction training as well as on-the-job training initiatives to instil a growing culture of environmental awareness and personal ownership within the group.

Other environmental challenges are provided in the environmental performance section on page 120 and in the material issues section on page 51.

Managing environmental impacts

Environmental policies and management systems

Denel has a group Environmental Management Policy (EMP) which sets out the overall intentions and direction of its environmental activities. It is based on the principles of ISO14001 and provides guidelines which outline the minimum requirements for each business entity to base its own management standards, systems and procedures. These are aimed at improving environmental performance. The policy's central focus is on the continual improvement of environmental management activities and operations to minimise waste, prevent pollution and care for the environment at entity level. This requires entities to:

- Conduct business operations in a manner that reconciles the entity mission statements with the requirements of caring for the environment
- Consider impacts on the environment in all stages of the development and manufacturing process, including the elements of design, material selection, production, packaging, transportation and in-service maintenance over the product life-cycle
- Set environmental management objectives and targets relevant to its unique products and services portfolio
- Review environmental management objectives and targets, at least annually
- Contribute to the education and upliftment of communities
- Make the policy available to all stakeholders, when required.

The table below provides details of environmental management systems and ISO14001 certifications which are in place at Denel's core businesses, as well as the most recent audits conducted.

Core businesses	EMS (ISO14001 certified)	Most recent external audit conducted	Re-certified	Comments
PMP	ISO14001 certified (1993)	Sept 2009	for the next 3 years from Sept 2009	No major findings
OTB	ISO14001 certified (Oct 2000)	May 2009	for the next 3 years from May 2009	No major findings
Dynamics	ISO14001 certified (Feb 2009)	Surveillance audit Dec 2009	for the next 3 years from Jan 2009	No major findings
Aviation [1]	EMS is aligned to ISO14001 requirements*	Dec 2009	n/a	No ISO14001 accreditation planned -[1]
DLS	Implementing ISO14001	May 2010	May 2011	The ISO14001:2004 pre-certification audit was successfully conducted in Nov 2009
DISS [2]	Not certified	n/a	n/a	-[2]
Mechem	Not certified	n/a	n/a	Will be ISO14001 accredited by Oct 2010
DSA [3]	Not certified	n/a	n/a	-[3]

[1] *Due to the financial pressures and costs that would be involved as a result of the current factory layout.*

[2] *DISS commenced operating as a separate division in Denel on 1 April 2010 and is in the process of establishing policies and procedures for the ISO9001 registration, after which consideration will be given to the ISO14001 accreditation.*

[3] *Implementation of environmental management system commenced during 2008, but was put on hold due to financial constraints and a lack of resources. DSA's safe environmental practices are addressed through its SHE policy and there are plans to implement an environmental management system in the near future.*

The group's key environmental focus areas relate to waste management (including recycling), pollution prevention as well as energy and water conservation. Nature conservation and game management also play a key role at facilities entrusted with sizeable tracts of land.

The environmental management systems cover all activities, products and services of the core businesses and include processes to:

- Identify the entities' significant activities which impact the environment
- Identify the applicable legal prescripts and environmental protocols to which the entities must subscribe
- Define the roles and responsibilities relating to its environmental management approach
- Set environmental goals, objectives and targets
- Ensure that employees are aware of and properly trained on applicable policies, EMS and related activities that may impact on the environment
- Document and communicate its environmental policies and procedures
- Regularly monitor and measure compliance, performance, operational controls and conformity against plans to attain set objectives and targets.

Comprehensive details of the group's environmental roles and responsibilities, goals, objectives and targets, documentation and communication of its environmental policies and monitoring procedures are available on Denel's website (www.denel.co.za).

The table below provides details of the key related policies, plans and directives which are in place across the group, as well as the rationale/purpose of the policies. The policies, plans and directives form part of the entities' environmental management systems and may be accessed on Denel's website (www.denel.co.za). The group's performance against these plans is provided in the *environmental performance section* from pages 120 to 128.

Key environmental policies, plans and directives	Summary and rationale	Applicable entity
Waste and pollution management plans	Minimise or contain pollution and waste. Management plans identify the different types of waste generated and include procedures to handle, store and dispose of such waste in an environmentally friendly manner and to reduce or recycle the waste where possible	Group and all entities
Electricity management plans	To help conserve energy, create awareness and decrease the group's impact on climate change	Dynamics
Water management plans	To help conserve this valuable, yet scarce, natural resource and to ensure legal compliance, water management plans set out systematic frameworks that describe the relevant and applicable processes and programmes to monitor the management, consumption and conservation initiatives of water	Group and all entities (except Aviation)
Decontamination policies	Due 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 continually evaluated. The associated liabilities are included in risk assessment and reporting documentation. To promote responsible land management and ensure compliance with legislation, decontamination policies provide mandatory guidelines for the control and management of Denel's contaminated land, buildings and plant and equipment	Group and all entities
Hazardous substances directives	To prevent, minimise or contain pollution and ensure compliance with legislation, directives set out processes and procedures for the control of hazardous substances, covering the acquisition, use, storage, transport and disposal of hazardous substances, as well as the maintenance and update of HS inventory lists	Group and all entities
Veld management plans	To conserve the natural environment and ensure compliance with legislation, veld management plans aim to promote responsible natural resource management of indigenous flora and fauna through programmes to: • Ensure maximum natural species and habitat diversity • Control and eradicate alien invasive plant species • Implement and maintain a structured fire management programme • Identify, map and manage rare and endangered plant species • Stabilise disturbed areas • Evaluate and minimise all test impacts on the natural environment	OTB, PMP, RDM
Game management plans	To conserve and protect endangered animals from extinction, game management plans set out procedures for the management and monitoring of game, including capture, relocation and culling	OTB, PMP, RDM
Fire management plans	To conserve the natural environment and ensure legal compliance, fire management plans include procedures to: • Supply stand-by and fire fighting during test operations • Execute ecological block burns for alien invasive plant management and stimulating re-growth of fynbos species • Maintain fire breaks • Support fire fighting in some adjacent areas (Fire Protection Association)	OTB, PMP, RDM
Environmental risk assessments	Environmental risk assessments are conducted before all development, flight tests or major construction activity. The process includes: • Identifying of all the aspects applicable to the development of the product, flight test or construction • Determining the impacts of these activities • Assessing the risks involved • Mitigation measures to minimise the impacts	All entities

Management structures, roles and responsibilities

Management's commitment and attitude to the responsible interaction with the environment is demonstrated through the effective implementation of management systems across the group. Environmental management roles, responsibilities and reporting structures are defined and included in appropriate policies that are communicated in order to facilitate responsible environmental practices.

The responsibility of sound environmental management within each entity rests at executive management level. Committees and managers are appointed at entity level to ensure that an effective EMS is implemented and maintained in accordance with applicable policies and the requirements of ISO 14001, where applicable. Facilitating effective environmental management usually forms part of the function of the SHE committee. The details of the committees' health and safety responsibilities are provided in the *occupational health and safety section* on page 105. SHE committees ensure that each entity complies with its minimum environmental obligations, including legal prescripts by ensuring that:

- Potential environmental impacts are assessed and risks are mitigated and/ or eliminated where appropriate
- The entities' operations and supporting activities are aligned with applicable policies and best practice
- Environmental management targets are met
- Audits are regularly performed
- Environmental incidents are logged, investigated and remedial and/or preventative actions are implemented effectively
- Recommendations for improvements are continuously implemented.

Departmental managers at entity level are tasked with ensuring that monitoring and control systems are in place, and that results are made available to the SHE managers. This includes the results of environmental audits, incidents, corrective and preventative actions, the extent to which objectives and targets have been met, recommendations for improvement and any other significant matters. SHE managers are responsible for keeping abreast of best SHE practices to ensure effective guidance and interaction with internal as well as external stakeholders. The entities' SHE committees and/or role of the SHE managers are presented as part of the governance structures section on page 54.

Goals, objectives and targets

As a responsible corporate citizen, Denel fully commits itself to compliance with all promulgated environmental legislation and protocols to ensure that its business operations meet or surpass minimum standards. Due to the uniqueness of their operations, each entity has created specific goals, objectives and targets to underpin responsible business operations and improve environmental compliance. Due consideration is given to technological requirements, financial, operational, business requirements and the views of interested parties. At some entities, specific measurable performance and savings targets have been set as part of the business efficiency improvement strategy. These have in some cases yielded significant reductions in operating costs. This has been augmented by targeted clean-up initiatives that have resulted in the sale of scrap and waste material. The responsibility for setting and achieving objectives, goals and targets rests at executive level as described in the *management, roles and responsibilities section*. Monitoring, review and reporting of the goals, objectives and targets takes place in accordance with the details provided in this report.

The following key environmental goals and objectives have been set within the group:

- Environmentally safe disposal of hazardous substances and waste
- Environmentally safe storage and handling of chemicals, including bulk petrol and diesel
- Decreased consumption of scarce resources namely, electricity, water, paper and fuel
- Minimise and respond to impacts of scarce products and services
- Control of noise pollution
- Responsible land management and promotion of nature conservation
- Environmental awareness training regarding environmental hazards, policies and procedures on an ongoing basis and immediate action on deviations
- Conduct regular inspections and address shortcomings
- Measurement of carbon gas emissions.

In some entities the goals and objectives are defined and updated each year and form part of the environmental year planner. Although specific targets have not as yet been set for all goals and objectives, steps are being taken to include processes to monitor and accumulate information. Resource consumption is being monitored and recorded monthly and as historic data becomes more reliable, specific targets will be set for improvement. The group's performance is provided in the environmental performance section on page 122.

Employee training and awareness

Entities have implemented specific environmental orientation and training programmes. Employee training and environmental awareness programmes are conducted throughout the group to ensure that employees are trained regarding environmental liability, and understand their responsibilities to minimise liability that may arise from their conduct. Through these programmes, employees are made aware of the importance of conformity to applicable policies and procedures, the requirements of the EMS, its significant environmental aspects, the related impacts associated with their work, and the roles and responsibilities each one has in respect of the environment. Training includes raising awareness of the environmental benefits of improved personal performance and the consequences of non-compliance with specified procedures. Where there are incidents of non-compliance, corrective action is taken.

Core businesses	Training and awareness programmes
OTB	• Induction training is provided to all new employees on the ISO14001 EMS • Regular ongoing training is provided on the EMS and policies, including environmental impact studies for every test campaign, real-time monitoring and evaluation during test execution, multi-skilling of every employee, personal ownership and commitment to overarching environmental management plan • Regular awareness training sessions for clients and contractors • Environmental auditing training for internal health and safety representatives to assist in environmental auditing • Regular ongoing training on the EMS requirements and policies • Attendance of workshops on current and new environmental legislation • Articles are regularly published in an internal newsletter on various aspects of responsible environmental management
PMP	• All employees attended an environmental management awareness course • All key personnel completed training on system audits including legal compliance and incident investigation • Various other in-house training has also taken place, for example the safe use, handling and disposal of hazardous chemical substances including lead, noise, emergency preparedness and response
Denel Dynamics	• An 8-hour ISO14001 awareness course was presented to key role players during the course of the past 2 years • A one-hour environmental awareness course is presented to all employees on an ongoing basis • All new employees attend an orientation session which includes environmental matters • A SHE management awareness session was attended by 23 senior managers • Various articles were published in an internal newsletter that addressed the importance of preserving the environment, saving electricity, paper and water, and the reduction of waste
Denel Aviation	• Environmental awareness training forms part of the monthly SHE talks. The SHE department prepares and communicates awareness material, based on Aviation's significant environmental aspects which are discussed at each departmental green area meeting where employees sign-off their attendance • Environmental responsibilities were covered in a 4-hour SHE awareness training course which was held for the executive committee • Sustainability topics, including the importance of the ISO14001 initiatives, the entities' successes and shortcomings are included as a standard reporting item in Aviation's formal internal structures
DLS	• Ongoing awareness training sessions are held for all DLS employees, whilst SHE personnel received training on the ISO14001 system and legal requirements • All DLS hazardous chemical handlers received HAZMAT and have been trained on the safe utilisation of spill kits
Denel Properties	• Employees are trained on the Kempton site waste management directive, which includes procedures for the redundant yard. Employees are required to sign these annually as evidence of training and commitment.
DSA	• All new employees attend an orientation and induction session which includes environmental matters

Monitoring and follow-up procedures

The group's environmental performance is monitored against policies, management systems and legal requirements thereby inculcating a culture of continuous improvement. Environmental policies are reviewed annually in accordance with the ISO14001 system requirements. Environmental impacts are assessed and monitored throughout the development and service delivery process, through entities' environmental risk and impact assessments.

Departmental managers and environmental officers ensure that monitoring and controls are in place, conduct walk-throughs and execute regular inspections to measure progress, identify shortcomings and implement remedial action on an ongoing basis. Internal audits and ongoing inspections are conducted by SHE managers, and external audits are conducted by certified professionals annually or bi-annually, as may be appropriate. All cases and potential cases of non-compliance are logged, investigated and evaluated. The results of monitoring procedures and audits are recorded, and corrective/preventative action is taken through the corrective action systems which are part of the ISO14001 management system. Reporting procedures are described in the management structures, roles and responsibilities section above on page 117.

Environmental performance indicators relating to resource conservation are monitored and recorded monthly. The group's key impacts and performance indicators are provided in the environmental performance section on page 123.

Other management information

As part of the group's stakeholder engagement strategy, environmental groups and communities are engaged, on an ongoing basis, to establish relationships and promote an understanding of Denel's contribution towards sound environmental practice. These engagements also provide a platform for Denel to receive, document and respond to communications from external interested parties. Comprehensive details of engagements are provided in the stakeholder engagement report on pages 68 to78.

Environmental performance

Waste practices and recycling

The storage of hazardous materials and effluent management is fully compliant. Hazardous waste is accumulated in dedicated drums and sealed before being disposed of via registered, certified hazardous waste contractors. All waste removal contracts and formal agreements include contractual clauses to ensure that hazardous waste is disposed of at registered and certified hazardous waste landfill sites or recycling facilities, where the specified waste is treated in an environmentally friendly manner. Certificates of safe disposal are issued by waste contractors. To ensure that contracted companies' waste removal activities comply with legal requirements, PMP conducts site visits on a random basis, whilst Dynamics performs regular waste disposal audits. The group's significant hazardous wastes streams include: cyanide crystals, phosphate, chromic acid, heat treatment salts, sandblast sand, ardrox, resin, chrome III, medical waste, various chemicals and sediments, fluorescent light tubes, used spill absorbent materials and vehicle batteries.

General waste includes used lubricants, scrap metals, tubes, screws, shredded paper and ink cartridges and other materials.

Specific waste management initiatives are being executed to prevent any contamination of the environment and minimise industrial waste generation. Denel has implemented autonomous hazardous and general waste recycling initiatives that include:

- A waste permit authorising PMP to recycle its solid waste, for example brass strips, cutting oil and persolve. The recycled materials are then re-used in the entity's production process. Approximately 50% of PMP's input materials are recycled materials, and there are opportunities to improve on this percentage. PMP has also constructed a series of catchment dams to ensure that in the unlikely event that an effluent spillage should occur, the waste water will not contaminate the natural water run-off.
- General waste, including paper, ink and e-waste is collected and separated on-site before collection by recycling companies.
- Dynamics achieved remarkable recycling successes of paper, cardboard, cans, plastic and other common mixed waste. The results of these are included in the waste disposal table below. Dynamics also embarked on the following recycling initiatives during the year: old vehicle oil is sent to a recycling company, tyres are sent to suppliers for recycling/re-use and a process has been implemented to recycle

toner cartridges. Dynamics achieved a paper usage saving of 15.9% through raising employee awareness and other initiatives which were undertaken. These include: the introduction of more environmentally friendly printers and photocopy machines with energy saving, double-sided printing and booklet format functions, formal documents to the board and management packs are printed double-sided, upgrading the ERP system to print double-sided. Employees are encouraged to distribute minutes of meetings and other internal documentation electronically and impressed upon that printing of documents (especially e-mail) should only take place where absolutely necessary. In line with its efforts to reduce the amount of paper used and encourage a paperless environment, Dynamics' Exco members planted trees on the campus on Arbour day.

- OTB holds annual scrap auctions to clear the range of unwanted materials and equipment. It has also implemented innovative handling procedures to collect neon tubes for contracted disposal, while its general workshop executes internal manufacturing and refurbishing activities which not only limit material waste, but also significantly reduces its capital expenditure requirements.
- Mechem's Casspir, mine protection vehicles and other equipment, including heavy steel rollers and other steel equipment, are returned to South Africa, refurbished, re-used or re-deployed on new contracts to other countries. In this way the manufacture of new vehicles is limited. In cases where equipment is declared redundant, it is sold, sponsored or scrapped in accordance with that country's laws, whilst it is scrapped and sold to local recycling companies in South Africa.
- Waste water (effluent) from DLS is analysed by the City of Tshwane before granting permits authorising DLS to release it into the storm water and sewer systems.
- Monitoring of effluent waste discharge into municipality sewers takes place at DSA before permits are granted.
- Denel Properties manages the collection and removal of all domestic and recyclable general waste, including paper, at Kempton Park, Irene and Houwteq sites. Tenants are responsible for the collection and disposal of hazardous wastes, except for soluble cutting fluid which is collected and safely disposed of via a registered, certified hazardous waste contractor.
- As part of the group's ongoing monitoring processes, internal and external waste audits are conducted to ensure compliance with policies, permit conditions and legislation.

Details of the group's hazardous and general waste disposed and recycled are provided in the table below. Greater awareness and commitment to the reduction and safe disposal of waste across the group has resulted in improvements to the record keeping, monitoring and reporting processes during the year under review.

	Weight		
Type of waste	2010	2009	Disposal/recycling method and comments
Hazardous waste disposed (tons)	91	25	Disposed of at special landfills, where waste is treated in an environmentally friendly manner. Safe disposal certificates are received.
Hazardous waste disposed (kl)	947	829	Special landfills where the waste is treated in an environmentally friendly manner. Relates to soluble cutting oil and water only. Safe disposal certificates are received from waste contractors.
Hazardous waste recycled (tons)	206	-	
Hazardous waste recycled (kl)	75	2	
Non-hazardous waste disposed (tons)	2 810	2 771	Disposed of at normal landfills by waste removal companies or own transport (H).
Non-hazardous waste recycled (tons)	4 410	3 805	Includes paper, plastics, tins, metal shavings which are sold to recycling companies or dealers.

During the year, the group experienced challenges in the following areas which hindered further progress of waste management performance:

- PMP's boiler ash is made available free of charge for social projects to individuals in surrounding areas, or for community use. Finding methods to declassify PMP's boiler ash is challenging.
- Determining the companies' waste footprint through audits of the group's whole material cycle, as a result of financial pressures and focused efforts towards the group's financial sustainability goals.
- Setting stringent waste targets and monitoring actual performance against these, due to waste footprint not fully known.
- Developing a more efficient process to safe handle and dispose of accumulated test scrap at OTB.
- Setting product packaging standards for suppliers as a result of reduced supply chain management and effectiveness across the group. Refer to the supplier impacts section on page 88.

Climate change

Denel's main impact on climate change is through greenhouse gas emissions from energy usage. The group's effort to limit its footprint focuses mainly on energy efficient initiatives, which are provided in the energy use section below. Dynamics, PMP and OTB have taken leadership roles within the group in addressing climate change impacts by undertaking the following:

- Dynamics has started to calculate the direct greenhouse gas emissions (GHG) from its paint fumes operations, with the aim of becoming compliant with legislation.

	Weight/ volume of greenhouse gas		
Direct GHG emissions	2010	2009	Comments
Paint fumes (direct)	119.26 mg/m3	not measured	There are plans to install filters or scrubbers in the spray painting booth to reduce the GHG emissions, after which the emissions will again be measured.

- PMP is currently monitoring its emissions from the boilers and foundry to determine the characteristics thereof and will thereafter put plans in place to reduce and limit its footprint.
- OTB is participating in various processes to comply with the new National Environment Management Air Quality Act which deals with the regulation and control of air pollution.

Energy and water use

The group acknowledges its responsibility as a good corporate citizen to reduce its energy and water consumption, from both a cost and an operational viewpoint. Energy and water management plans are in place in several areas across the group to manage and promote the efficient use of these resources.

The current energy crisis creates a risk for Denel and the challenges it could face include failing to achieve its business objectives and targets, and incurring penalties that may be levied should energy savings not be achieved.

A strong focus on resource management has been implemented to reduce electricity, fossil fuel and water consumption. Various energy saving improvement programmes continued to be implemented throughout the group to reduce its overall footprint. These have resulted in energy savings being realised and include the following:

- Geysers have been adjusted to 55°C and some have been fitted with geyser blankets to improve efficiency
- All new fluorescent light installations are specified with electronic ballasts
- Energy sources are switched off in vacant buildings and in areas where natural lighting provides sufficient illumination

- Air leaks are repaired to reduce the energy usage of compressors
- Borehole water is used for gardens and backup fire protection systems
- All water leaks are reported and repaired
- The migration to LCD and flat screen computers has contributed to energy savings at Dynamics, and the use of electronic media has become standard practice during presentations
- On the Irene site an official has been appointed to drive the energy saving programme
- The installation of speed drives and timers to run daytime only have improved the efficiency of air-conditioning units
- Group-wide campaigns are conducted to raise awareness and encourage the conservation and responsible use of water and energy consumption
- External tenants' initiatives are in place to sensitise tenants and promote a reduction of energy and water usage, with the Denel Properties Division playing an oversight role. These include energy management meetings and the distribution of information briefs on energy savings and issues
- All light bulbs have been replaced with energy-saving bulbs. Standard notices are placed near light switches which serve as a reminder that all lights must be switched off once the room is vacated
- Energy planning takes place on ovens peak verse off peak hours
- Water quality monitoring and management takes place at OTB
- At the Kempton site, 'timeload' switching is used to manage the switching off of building lighting during the silent hours. With a change from tariff C to tariff D, this has resulted in a monthly saving of approximately R200k
- PMP water catchments
- Regular monitoring and control takes place, including night-time security patrols
- Scheduling equipment with high-energy usage to automatically switch off during low-usage periods, and where possible installing electricity-efficient equipment
- There are investigations to de-centralise the aging hot water generators and install smaller generators within the production processing environments, to reduce costs and improve efficiencies.

Denel's energy usage takes place mainly through the consumption of electricity and fuel. The group's consumption is provided in the table below:

	Water				Electricity			
	Consumed (Ml)		Amount spent (Rm)		Consumed (MwH)		Amount spent (Rm)	
Denel sites	2010	2009	2010	2009	2010	2009	2010	2009
Irene Campus [1]	82	79	1	0	19	18	8	4
Kempton Park [2]	529	338	3	3	35	37	20	13
Lyttelton [3]	59	71	1	1	9	8	4	-
Pretoria West [4]	360	466	3	2	40	42	22	16
Houwteq [5]	10	20	-	-	2	2	1	1
OTB [6]	89	77	-	-	6	6	3	2
Total water and electricity usage	**1 129**	**1 051**	**8**	**6**	**111**	**113**	**58**	**36**
Total fuel usage (kl) [7]	**403**	**384**	**-**	**-**				

[1] *includes Denel Dynamics, DISS, Denel Properties, DCO and Carl Zeiss Optronics*
[2] *includes Aviation, DSA, DCLD, TMA, RDM*
[3] *includes DLS, Mechem*
[4] *includes PMP*
[5] *Houwteq water is not supplied by the municipality. Raw water is drawn from an irrigation scheme*
[6] *The water costs at OTB relate to permit fees and fuel costs, as the water is drawn from boreholes*
[7] *The fuel spend for 2009 is not available*

During the year, the group experienced the following challenges which impeded further progress towards reduced electricity and water consumption:

- There are no direct metering systems at the Kempton and Irene sites. This makes it difficult to measure consumption per tenant and put more stringent accountability and responsibility measures in place for each tenant. The overall campus consumption is monitored and managed, with directives being issued to tenants. There are plans to install direct meters at the Kempton site, which will enable targets to be set and more effective monitoring to take place, requiring tenants to implement more energy savings
- Internal effluent controls, for example storm water system monitoring, on entry and exit to facility could be compromised by shared occupation with outside tenants
- The maintenance and upkeep of containment reservoirs is costly
- Determining the companies' energy and water footprint, as a result of financial pressures and focused efforts towards the group's financial sustainability goals
- Setting stringent consumption targets for energy consumption and water utilisation and monitoring actual performance against these targets
- Reducing energy consumption by 10% while retaining operational performance. Energy-efficient solutions (for example, load management systems) are available, but are capital intensive with long payback periods.

Environmental impacts of products and services

The group EMP adopts an integrated environmental management (IEM) approach, and environmental consideration is integrated into all stages of the development process.

The environmental impacts of Denel's products and services are addressed and mitigated through the following measures:

- Environmental impact assessments are carried out on all significant products and services provided. Mitigation actions are undertaken to limit or reduce these impacts. The 'cradle-to-grave responsibility' principle is applied, with environmental liabilities being addressed throughout the design, manufacture, packaging and transporting processes
- OTB has consistently exceeded its obligations towards the environmental oversight committee since its inception. This has only been possible by implementing controls for every test execution, with formal environmental impact studies and environmental risk assessments (ERAs) mandatory at the inception of every test request. ERAs are conducted before all flight tests to evaluate:
  - Target requirements
  - Weapons impact on land and sea targets
  - Client personnel deployment requirements
  - Controls required to contain the potential risk of secondary fires

  All potential impacts to the environment are identified and test campaigns are only performed in accordance with formalised test execution contracts, once the results have been considered and approved in conjunction with management and the client. These tests take into account any mitigation and rehabilitation measures. Monitoring takes place throughout the test preparation and execution phases, with formal reporting and record keeping also taking place. Lessons learnt are documented for improvements to be implemented to further mitigate environmental impacts
- A special test facility was built at Dynamics UAVS to ensure that noise levels are below prescribed levels during engine testing.
- The Dynamics' structures laboratory was redesigned to reduce the noise created during structural analysis and testing of components to acceptable levels
- Denel entities have permits from local authorities for the storage and handling of hazardous substances. As part of their operating procedures, the entities ensure that all hazardous substances, for example, oils, lubricants, paints, chemicals, petrol and diesel, are contained in environmentally-safe storage and handling facilities. Storage practices are reviewed on an ongoing basis.

Land stewardship and nature conservation

In instances where Denel entities have been entrusted with sizeable tracts of land, specific environmental management plans have been developed to improve the quality of flora and fauna, control invasive plant species, ensure that any impact of historic operations are mitigated responsibly, and where possible, return unused land for more efficient utilisation.

A group decontamination policy sets out Denel's attitude and responsibilities towards responsible land management, rehabilitation and remediation, and ensures compliance with the relevant environmental legislation. The following activities take place at entities in accordance with the policy requirements:

- Regular inspections are conducted by SHE managers or environmental officers to assess any contamination risks. These are reported in accordance with the details in the management structures, roles and responsibilities section on page 117.
- Preventative measures are undertaken to minimise and control potential areas and sources of contamination, whilst contaminated areas are remediated to comply with legislation and restore the area to provide for its future use. The details of remediation activities completed and in progress, as well as future remediation plans, are provided in the table below.
- Financial provisions are made for possible future decontamination and rehabilitation expenses.
- Pre-acquisition contamination audits are conducted prior to the sale or acquisition of land and buildings.

Independent site assessments were conducted by environmental specialists, WSP Environmental (Pty) Ltd and SRK, at Denel properties where a higher magnitude of environmental impacts were anticipated. This may be as a result of the nature of the facilities' current and historic operations, including that of previous site owners. These sites, as well as the details of the remediation activities completed and in progress are provided in the table below. The historic operations included a nitro-glycerine plant, the manufacture of fireworks, military products, including bullets, primary explosives and riot control agents. Presently, the sites are involved in the manufacture of propellants, secondary explosives, pyrotechnic compositions and associated products for military and commercial applications, a range of energetic raw materials, explosives and detonator caps, shells cases, small to medium calibre ammunition, brass and copper strips, mining drill bits, power cartridges, cutting charges and brass caps. The independent audits and site characterisation studies were conducted to determine the contamination liabilities of each site, and to assess the adequacy of the financial provisions raised for decommissioning. Whilst Denel has a legal obligation for the clean-up of these sites, legislation provides for recourse against previous land owners.

Financial provisions amounting to R241m have been raised based on the contamination liabilities identified, taking into account the requirements for remediation of industrial facilities within the context of best practice and applicable South African environmental legislation. The costing is based on the requirements to have the properties ready and fit for the anticipated future use. The details of plans and remediation work implemented at contaminated sites are provided in the table below.

Description of site	Actions taken to rehabilitate, including collaborations with Government and stakeholders, and expected dates of completion
DLS Western Cape (WC), Philippi [1]	• The old burning grounds have been fully remediated, with subsequent external site assessments confirming that the area may be used for housing purposes • The sites' new burning grounds are currently in the process of being remediated, with completion scheduled for July 2011. Twenty eight buildings have been demolished, with five enviro-test buildings being earmarked for the next phase of demolition by October 2011. At this time, the operating business and the current burning grounds area will be transferred to Somerset West. Soil tests were conducted by CSIR to determine the levels of contamination. Site inspections are conducted regularly by outside stakeholders (WSP, SRK) and a draft spatial development plan, including stakeholder comments, has been sent to the Department of Environmental Affairs for final comment.
DLS WC, Wellington [1]	• An independent site contamination study of the acid plant is currently being conducted by SRK to determine contamination levels. Remediation plans will be put in place and commenced once the extent of contamination is known.
DLS WC, Somerset West [1]	• Remedial work has commenced. The treated TNT contaminated soil has been removed for off-site safe disposal and the removal and treatment of associated waste has commenced. • Remediation of the 40mm test range commenced in January 2010, with visits from the DEAT explosives inspector to check the progress made. • Remediation of the acid/conductive explosives buildings is also under way, with buildings being earmarked for the relocation of the Philippi site operations.
Naschem, La Forge [1]	• An independent site audit and contamination assessment confirmed that there is no requirement for decontamination in the context of the Explosives Act, as well as for demolition of the buildings. Provision has been made for more detailed site characterisation work to determine soil and waste contamination liabilities still to be conducted.
Naschem, Boskop [1]	• An independent site contamination study is currently being conducted by SRK to determine contamination levels. Remediation of the area will commence once the extent of contamination is known.
PMP, Pretoria West	• An independent site audit and contamination assessment confirmed that that there is no requirement for decontamination in the context of the Explosives Act, as well as for demolition of the buildings. Provision has been made for more detailed site characterisation work to determine soil and waste contamination liabilities still to be conducted.
PMP, Elandsfontein	• Provision has been made for remediation of the site including building decontamination and demolition. No remedial work has commenced or is planned for.

[1] *Part of Denel's associated company, RDM since 1 September 2008.*

The biological decontamination of aircraft flying from outside SA borders is also conducted on Aviation's site by the Port Health Authority. Projects are in place to prevent the minor contamination at PMP's munitions burning grounds. PMP is in possession of a valid permit to burn explosives' waste and adheres to all permit conditions. PMP also has a good relationship with the Department of Environmental Affairs and Tourism as we regularly communicate and keep it informed of the status of the burning grounds.

As an international demining company, Mechem plays a role contributing to responsible land management through its mine action and battle area clearance activities. Through these activities, the company helps to build infrastructure, enable agriculture and ensure other types of development in war-torn countries in Africa and further afield. In continuing to partner with the UN, Mechem is committed to creating safer environments, globally. Further details of Mechem's services are provided in the *business entities' profiles section* on page 42.

Denel also plays a role in conserving and promoting the natural environment through the following nature conservation programmes:

- OTB, PMP and RDM have controlled and runaway fire management programmes in place for the large areas of natural vegetation which are part of or surround these entities, and which are prone to fires. These entities also control and clear invasive alien plants through eradication programmes. To date almost 14 000ha of the total 26 000ha occupied by OTB, has been cleared and are regularly monitored.

DLS also has fire fighting and prevention plans to ensure the effective management of controlled and runaway fires

- Independent assessments are being conducted by a botanist to identify, clear and continuously monitor DLS's premises for invasive alien plants, whilst two employees will be trained on pest and weed control
- Extensive game management plans are also in place at OTB, PMP and RDM, which include the capture, relocation, monitoring and culling of game. The numbers, health and sex ratios of the game is also constantly evaluated and controlled, where necessary, with inspections of fences and watering points
- OTB, PMP and RDM are involved in rare and endangered species monitoring including the location, identification and mapping of rare and endangered species to preserve and conserve these from extinction
- OTB has a 25km coastline which is ecologically pristine. Access to the coast is restricted and controlled by OTB Security, and monitoring patrols are conducted in co-operation with Cape Nature which is responsible for managing the marine reserve along the coastline
- Dynamics is involved in a Luton Valley community project to develop a small environmental conservation area just east of the Irene Campus terrain. The project aims to involve and educate schoolchildren on environmental matters.

Pressing economic conditions have, however, impeded the company's ability to expand its programme of clearing invasive species in association with national and provincial initiatives. The clearing of invasive alien vegetation is a challenging and overwhelming task which is labour- and capital-intensive. Regular follow-ups for a period of at least several years are essential.

Significant spills

With the exception of the following incidents at OTB, no significant spills took place within the group:

Description and cause of incident	Number of significant spills		Volume		Corrective action taken Consumed (MWh)
	2010	2009	2010	2009	
An aircraft crash occurred on OTB's site. The aircraft owner and cause of the crash were externally related.	1	none	unknown	none	Initial containment of the area was conducted by OTB until the SAAF accident crew and subsequent SAPS/SACAA investigating teams took control of the crash site. The clean-up was executed under OTB's supervision by an assigned team contracted by the aircraft owner. All scrap and debris was removed and the crash site cleaned up.
Veld fires	4	none	6ha	none	OTB's on-site firefighting equipment and teams contained the impact with minimal damage to protected fauna and flora. Maintenance was carried out on the fire-breaks.

Compliance with laws and legislation

There were no fines levied and non-monetary sanctions imposed on Denel for non-compliance with environmental laws and regulations during the 2010, as well as the 2009 financial years. Comprehensive details of the group's compliance with legislation are provided in the *compliance report* pages 66 to 67.

Environmental protection expenditures

Environmental protection expenditures for the year under review are as follows:

	Amount spent (R'000)		
Entity name	2010	2009	Environmental activities that funds were used for
Dynamics [1]	133	100	• ISO 14001 implementation (including audits and legal compliance audits among others) • Disposal of chemicals • Luton Valley project • Hygiene tests (spray booth)
OTB	460	340	• ISO 14001 certification and implementation (including auditing) • Disposal of waste • Purchasing of products for waste management • Monitoring, analysis and management of water, game, vegetation and waste
Aviation [2]	-	-	-
PMP	568	651	• Audit costs, nature conservation, hygiene surveys and waste disposal
DLS	449	378	• Environmental assessment including awareness training, aspects, impacts, objectives and target setting • Implementation of ISO systems and pre-audit • Implementation, monitoring and control of fire prevention and protection processes • License and update of legal register
Mechem	235	15	• ISO 14001 accreditation costs • Due to the nature of Mechem's business described in the *land restoration and nature conservation section* on page 126
DSA [3]	-	-	-
Denel Properties	3 135	1 188	• Rehabilitation of land namely, DLS WC Philippi, DLS WC Welington and DLS WC Sommerset West
Total	4 980	2 672	

[1] *includes DISS*
[2] *includes Rooivalk and DPS. Environmental expenditures incurred are not available.*
[3] *Environmental expenditures are not available.*

Other environmental activities

The group's involvement and engagements on environmental issues within the communities in which it operates is provided in the *stakeholder engagement's report* on page 77.

Looking forward

Denel, its subsidiaries and associate companies have all committed to enhancing their stature as respectable South African corporate citizens. Hence, every entity will not only comply to minimum standards, but will strive to exceed those targets consistently. In the respective sustainability initiatives, every entity will also ensure that consumption of energy and water will be minimised, while specific controls and interventions will be strengthened to reduce any potential risk to the environment during the lifecycle of any product or service rendered.

The successful achievement of these initiatives is presently being captured in entity objectives and targets. These will be drawn into appropriate KPIs to be contained in executive management contracts to ensure ongoing monitoring and control towards improving performance against plan. KPIs are being recorded monthly and once sufficient historical information is captured, targets will be set.

GRI content index

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

Aspect	No.	GRI G3 indicator	2010 rating	2009 rating	2008 rating	Annual report reference	Page
Sustainability profile							
Strategy and analysis	1.1	Statement from the group chief executive officer and chairperson	√	√	◊	Group chief executive officer's statement	25
	1.2	Description of key impacts, risks and opportunities	√	√	◊	Sustainability report - Risk management - Economic impact - Business entities' profiles	 64 80 34
Organisational profile	2.1	Name of organisation	√	√	√	Group overview - Ownership profile	 06
	2.2	Primary brands, products, and/or services	√	√	√	Group overview - Nature of business Business entities' profiles	 06 34
	2.3	Operational structure of the organisation	√	√	√	Group overview - Organisational structure	 13
	2.4	Location of organisation's headquarters	√	√	√	Information service - Contact information	 236
	2.5	Number of countries where the organisation operates	◊	◊	x	Group overview - Nature of business - Economic impact Business entities' profiles	 06 80 34
	2.6	Nature of ownership and legal form	√	√	√	Group overview - Ownership profile	 06
	2.7	Markets served	◊	◊	◊	Group overview - Nature of business Economic impact Business entities' profiles	 06 80 34
	2.8	Scale of reporting organisation	√	√	√	Group overview - Organisational structure Business entities' profiles	 13 34
	2.9	Significant changes during the reporting period, regarding size, structure and ownership	√	√	√	Group chief executive officer's statement	24
	2.10	Awards received in the reporting period	√	◊	x	Group overview - Key successes Business entities' profiles	 14 34
Report profile	3.1	Reporting period for information provided	√	√	√	Group overview - Inside cover Sustainability report - About this report	 02 51
	3.2	Date of most recent previous report (if any)	√	√	n/a	Sustainability report - About this report	 51
	3.3	Reporting cycle	√	√	√	Sustainability report - About this report	 51
	3.4	Contact point for questions regarding the report or its contents	√	√	√	Information service - Contact information	 236
Report scope and boundary	3.5	Process for defining report content	√	√	◊	Sustainability report - Material issues	 51
	3.6	Boundary of the report	√	√	√	Sustainability report - About this report	 51

Aspect	No.	GRI G3 indicator	2010 rating	2009 rating	2008 rating	Annual report reference	Page
Report scope and boundary (continued)	3.7	Limitations on the scope or boundary of the report	√	√	√	Sustainability report - About this report	51
	3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, etc.	√	√	√	Sustainability report - About this report	51
	3.9	Data measurement techniques and the bases of calculations	√	√	√	Sustainability report - About this report	51
	3.10	Explanation of the effect of any restatements of information provided in earlier reports	n/a	n/a	n/a	Sustainability report - About this report	51
	3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods	n/a	n/a	n/a	Sustainability report - About this report	51
GRI content index	3.12	Table identifying the location of the standard disclosures in the report	√	√	√	GRI content index	129
Assurance	3.13	Policy and current practice with regard to seeking external assurance for the report	◊	◊	x	Sustainability report - Sustainability strategy - About this report	50 51
Governance, commitments and engagement	4.1	Governance structure of the organisation	√	√	√	Sustainability report - Corporate governance report	54
	4.2	Whether the chairperson of the highest governance body is also an executive officer	√	√	√	Sustainability report - Corporate governance report	53
	4.3	The number of members of the highest governance body that are independent and/or non-executive members	√	√	√	Sustainability report - Corporate governance report	53
	4.4	Shareholder and employee recommendations or direction to the highest governance body	◊	◊	◊	Sustainability report - Corporate governance report - Stakeholder engagements	53 68
	4.5	Linkage between compensation for members of the board, senior managers, and executives, and the organisation's triple-bottom line performance	√	√	√	Directors' report - Remuneration report	148
	4.6	Processes and highest governance body to ensure conflicts of interest are avoided	√	◊	◊	Sustainability report - Corporate governance report	53
	4.7	Process for determining the qualifications and expertise of the members of the board	√	√	x	Sustainability report - Corporate governance report	53
	4.8	Statements of mission or values, codes of conduct and principles	√	√	√	Group overview - Strategic objectives, vision and values	08
	4.9	Procedures of the board for overseeing the organisation's identification and management of economic, environmental, and social performance	√	√	◊	Sustainability report - Sustainability vision, strategy and commitments - Corporate governance report	08 53
	4.10	Processes for evaluating the board's own performance	√	√	x	Sustainability report - Corporate governance report	53

Aspect	No.	GRI G3 indicator	2010 rating	2009 rating	2008 rating	Annual report reference	Page
Commitments to external initiatives	4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	√	√	x	Sustainability report - Risk management report	 64
	4.12	Externally developed economic, environmental, and social charters and principles to which the organisation subscribes or endorses	√	√	√	Sustainability report - Supplier management - Empowering employees - Occupational health and safety - Socio-economic development - Environmental performance	 87 92 105 109 113
	4.13	Memberships in associations and/or national/international advocacy organisations	√	√	√	Sustainability report - Compliance with laws and legislation	 66
Stakeholder engagement	4.14	Lists of stakeholder groups engaged by the organisation	√	√	◊	Stakeholder engagements report	68
	4.15	Basis for identification and selection of stakeholders with whom to engage	√	√	◊	Stakeholder engagements report	68
	4.16	Approaches to stakeholder engagement	√	√	◊	Stakeholder engagements report	68
	4.17	Key topics and concerns that have been raised through stakeholder engagement	√	√	◊	Stakeholder engagements report	68
Economic indicators							
Economic performance	EC1	Direct economic value generated and distributed	√	√	◊	Sustainability report - Economic impact - Value added statement	 80 81
	EC3	Coverage of the organisation's defined benefit plan obligations	√	√	√	Note 33 to the annual financial statements	224
	EC4	Significant financial assistance received from the South African Government	√	√	√	Group CEO's report Sustainability report - Stakeholder engagements Directors' report	25 68 145
Market presence	EC6	Policy, practices, and proportion of spending on locally-based suppliers	√	◊	◊	Sustainability report - Supplier management - Transformation	 87 102
	EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation	√	◊	x	Sustainability report - Empowering employees	 92
Indirect economic impacts	EC8	Development and impact of infrastructure investments and services for public benefit	√	√	x	Sustainability report - Socio-economic development	 109
	EC9	Significant indirect economic impacts	√	√	◊	Sustainability report - Economic impacts	 80
Social indicators							
Employment	LA1	Total workforce by employment type, employment contract, and region	◊	◊	◊	Sustainability report - Empowering employees	 92
	LA2	Total number and rate of employee turnover by age group, gender and region	◊	◊	x	Sustainability report - Empowering employees	 92

Aspect	No.	GRI G3 indicator	2010 rating	2009 rating	2008 rating	Annual report reference	Page
Employment (continued)	LA3	Benefits provided to full-time employees that are not provided to part time or temporary employees	√	x	x	Sustainability report - Empowering employees	94
Labour/ management relations	LA4	Percentage of employees covered by collective bargaining agreements	√	√	x	Sustainability report - Empowering employees	101
	LA5	Minimum notice periods regarding operational changes	√	◊	x	Sustainability report - Empowering employees	101
Occupational health and safety	LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region	√	◊	◊	Sustainability report - Occupational health and safety	105
	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 - Empowering employees - Occupational health and safety	95 105
Training and education	LA10	Total training spend by employee category	◊	√	◊	Sustainability report - Empowering employees	95
	LA11	Programmes for skills management and lifelong learning	◊	x	x	Sustainability report - Empowering employees	95
	LA12	Percentage of employees receiving regular performance and career development reviews	√	x	x	Sustainability report - Empowering employees	96
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 - Empowering employees	100
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	n/a	n/a	There are no operations within the Denel group in which the right to exercise freedom of association and collective bargaining may be at risk.	n/a
Child labour	HR6	Operations identified as having significant risk for incidents of child labour	n/a	n/a	n/a	Denel does not use child labour.	n/a
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	n/a	n/a	There are no incidents of forced or compulsory labour within the Denel group.	n/a
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	77 109
Corruption	SO2	Percentage and total number of business units analysed for risks related to corruption	◊	◊	x	Sustainability report - Risk management	64
	SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures	√	◊	x	Sustainability report - Risk management	64
	SO4	Actions taken in response to incidents of corruption	◊	◊	x	Sustainability report - Risk management	64

Aspect	No.	GRI G3 indicator	2010 rating	2009 rating	2008 rating	Annual report reference	Page
Public policy	SO5	Public policy positions and participation in public policy development and lobbying	◊	◊	◊	Sustainability report - Compliance with laws and regulations	66
Compliance	SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	√	x	x	Sustainability report - Compliance with laws and regulations	66
Customer health and safety	PR1	Life-cycle stages in which health and safety impacts of products and services are assessed for improvement	◊	√	◊	Sustainability report - Environmental responsibility	124
Products and services	PR3	Type of product and service information required by procedures and percentage of significant products and services subject to information requirements	◊	◊	◊	Sustainability report - Compliance with laws and legislation	66
	PR5	Practices related to customer satisfaction	◊	◊	◊	Sustainability report - Economic impacts	85
Environmental indicators							
Materials	EN2	Percentage of materials used that are recycled input materials	◊	x	x	Sustainability report - Environmental responsibility	120
Energy	EN3	Direct energy consumption	√	◊	x	Sustainability report - Environmental responsibility	123
	EN6	Initiatives to provide energy-efficient based products and services and reductions in energy requirements	◊	x	x	Sustainability report - Environmental responsibility	122
Water	EN8	Total water consumption	√	x	x	Sustainability report - Environmental responsibility	123
Biodiversity	EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	◊	◊	x	Sustainability report - Environmental responsibility	125
	EN12	Description of significant impacts of activities, products and services on biodiversity in protected areas	◊	◊	x	Sustainability report - Environmental responsibility	124
Emissions, effluents and waste	EN22	Total weight of waste by type and disposal method	√	√	◊	Sustainability report - Environmental responsibility	121
Products and services	EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	√	◊	◊	Sustainability report - Environmental responsibility	124
Compliance	EN28	Monetary value of significant fines and the number of non-monetary sanctions for non-compliance with environmental laws and regulations	√	x	x	Sustainability report - Environmental responsibility	127
Overall	EN30	Total environmental protection expenditures, by type	√	x	x	Sustainability report - Environmental responsibility	128

Section five

Consolidated financial statements

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 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. This opinion is based on the information and explanations given by management regarding various processes and initiatives aimed at improving the internal control environment and the integrity of information, discussions with internal audit, as well as the independent external auditors on the results of their audits.

Other than that which 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 2010 and based on the information provided to it, considers that they comply in all material respects, with the requirements of the South African Companies Act, 61 of 1973, as amended, and the Public Finance Management Act, as amended, as well as 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 6 July 2010, the committee recommended the adoption of the group annual financial statements by the board of directors.

CC Mulder
Chairman of the group audit and risk committee

Independent auditor's 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, which comprise the directors' report, the statements of financial position as at 31 March 2010, the income statements, the statements of comprehensive income, changes in equity and cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 140 to 231.

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.

Auditor's 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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 at 31 March 2010, 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.

Emphasis of matters

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

Going concern

The group incurred a total comprehensive loss for the year of R205m (2009: R498m) which resulted in an accumulated loss of R4 878m at 31 March 2010 (2009: R4 697m). These conditions, along with other matters as set forth in the directors' report (pages 140 to 151) indicate the existence of material uncertainties, which may cause significant doubt about the group's ability to continue as a going concern.

Rooivalk programme

The contract risk and onerous contracts provision includes an amount of R155m in respect of an estimate of cost to complete the Rooivalk programme. As detailed in the directors' report (pages 142 to 143), this programme has significant risks and other material uncertainties.

Report on other legal and regulatory requirements

In terms of the Public Audit Act of South Africa and General Notice 1570 of 2009, issued in Government Gazette No. 32758 of 27 November 2009, we include below our findings on the report on performance against predetermined objectives, compliance with laws and regulations and internal control.

Report on performance against predetermined objectives

We are required by the Auditor-General to undertake a limited assurance engagement on the 'performance against the Shareholder's Compact', as set out on page 55 of the annual report in the section headed 'corporate governance report', in which the actual performance of the group for the year ended 31 March 2010 is compared with target key performance indicators (predetermined objectives), and report thereon to those charged with governance. In this report, we are required to report our findings from our engagement relating to non-compliance with regulatory requirements, where the reported information was inadequately presented or not received timeously, and where we have evaluated reported information to be not useful or reliable. We report that we have no significant findings.

Compliance with laws and regulations

As part of our audit of the financial statements, we complied with the requirements of ISA 250: *Consideration of Laws and Regulations in an Audit of Financial Statements*. Our audit did not reveal any material non-compliance with laws and regulations relating to financial matters, financial management and related matters, as required by the Public Finance Management Act of South Africa (which includes the relevant National Treasury Regulations) and the Companies Act of South Africa.

Internal control

We considered internal control relevant to our audit of the financial statements and the report against predetermined objectives and compliance with the Public Finance Management Act, No.1 of 1999, but not for the purposes of expressing an opinion on the effectiveness of internal control. The matters reported are limited to the deficiencies identified during the audit. No matters to report.

Ernst & Young Inc.

Ernst & Young Inc.
Registered Auditor
Johannesburg
30 July 2010

Directors' report

Statement of responsibility

The board of directors hereby presents its report and the audited group annual financial statements for the year ended 31 March 2010.

The directors are responsible for the preparation, integrity and fair presentation of the annual financial statements of Denel (Pty) Ltd and its subsidiaries. The annual financial statements presented on pages 152 to 231 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 annual financial statements have been prepared in accordance with appropriate accounting policies and include amounts based on judgments and estimates made by management. The directors have supervised the preparation of information included in the annual report and are responsible for both its accuracy and consistency.

The directors are satisfied that, at the time of approving the annual financial statements, it is appropriate to use the going concern basis in preparing them. In arriving at this conclusion, the directors considered the cash position as at 31 March 2010, the cash requirements for at least twelve months from that date, and the borrowing facilities available. The going concern is discussed in more detail in page 145 of this report.

The external auditors are responsible for independently auditing and reporting on the annual financial statements. The report of the independent auditors appears on page 137.

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 that the 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 2010.

The annual financial statements for the year ended 31 March 2010, set out on pages 152 to 231, were approved by the directors on 30 July 2010 in terms of the Companies Act and the Public Finance Management Act and is signed on their behalf by:

Dr SP Sibisi
Chairman of the board

MT Sadik
Group chief executive officer

The financial results of the group over the past years confirm that Denel has had successes in implementing its turnaround strategy, and has continued to reduce financial losses during the year. A graphical illustration of these improvements is included in the *group overview section* on page 11 of this report.

In the context of the financial statements, the term 'group' refers to the company, its subsidiaries and associated companies. The financial statements represent the results of the group. Key matters that we believe are pertinent to the appreciation of the current year financial results are discussed in this report.

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

Financial and operations review

The prior year's turnover included R315m relating to Denel Munition, a business entity that was sold during the second quarter of the 2009 financial year and which is now accounted for as an associated company. Therefore, the turnover for the year at R3.6bn has remained somewhat consistent with that of the prior year. With the exception of increased export orders in PMP and Dynamics UAVS, the Denel entities did not have any revenue growth, in part due to the state of the economy, and general delays in the placement of orders. Gross profit margins decreased by 1%, mainly due to a gross loss of R167m posted by DSA.

The group has posted a net loss for the year of R246m or a profit of R82m, when excluding DSA's net loss. This is a significant improvement on the prior year's results. This is due to improved operational performance, the closing of certain legacy contractual issues, cost-cutting and better financial performance by associated companies. Similar to 2009, the net loss for the year is mainly ascribed to DSA (which posted a net loss of R328m), Dynamics Missiles (which posted a net loss of R36m or R51m after impairment charge of R15m), and interest expense of R131m on external loans. These losses are offset by profits posted by other Denel entities. Dynamics Missiles has made notable progress over the years to contain its losses, whilst the turnaround at DSA has not yielded positive results to date. The financial results for the group, excluding DSA, are depicted in the table below:

	2010			2009		
	Group	Group excluding DSA	DSA	Group	Group excluding DSA	DSA
Key areas	Rm	Rm	Rm	Rm	Rm	Rm
Revenue	3 610	3 196	413	3 924	3 352	571
Gross profit	578	745	(167)	639	744	(105)
Other income	106	85	21	183	166	17
Operating expenditure	(846)	(744)	(102)	(1 285)	(957)	(328)
Share in results of associated companies	79	79	0	32	32	0
Profit/(loss) before interest and tax (EBIT)	(83)	200	(283)	(431)	13	(444)
Interest expense on external borrowings	(131)	(86)	(45)	(86)	(77)	(9)
Net (loss)/profit for the year	**(246)**	**82**	**(328)**	**(533)**	**(80)**	**(453)**

Total equity reduced from R849m in the prior year to R644m, after taking into account the net loss for the year. Net cash on hand increased from R490m in the prior year to R1 025m due to increased borrowings, better financial performance and improved cash collections.

DSA

This subsidiary has continued to post significant losses. In the current year, the losses were R328m (2009: R453m). There are historic operational challenges facing this business. These include delivering on legacy loss-making contracts and industrialisation challenges, which have resulted in low throughput and delays in completing some of the programmes. This is compounded by an inadequate order pipeline including a delay in the Airbus A400M programme.

These financial losses place a substantial funding burden on Denel, especially since approximately R1 155m has been invested in this subsidiary (loans of R432m and investments of R723m). The funding requirement of this business per annum is approximately R250m and its liabilities exceed its assets by R171m. Owing to the precarious financial position of this business, the loans advanced have been subordinated in favour of other creditors of the company. In order to address any going concern issues, Denel as a shareholder has signed a letter of guarantee confirming that it will support the business until the solvency situation is addressed. The financial position referred to above impacts the group's funding strategy and requirements, which are detailed in the funding section of this report.

The subsidiary is under new management following the resignation of both the CEO and the CFO during the last quarter of the financial year under review. The DSA board has appointed replacements, and tasked them with continuing the turnaround of the subsidiary. The turnaround interventions include restructuring, which comprises the retrenchment of staff, cost-cutting and seeking new business opportunities.

During the financial year under review, Denel also applied to have this business unit unbundled out of the Denel group with the intention that it reports directly to the DPE or another relevant Government department. This proposal is based on the aerostructures business not being strategically aligned to the defence, but rather to the aerospace industry.

Dynamics Missiles

This business entity has posted a net loss of R36m or R51m after impairment of assests charge of R15m (2009: R36m). The Missiles losses are mainly due to insufficient orders. Denel has, therefore, concluded discussions with a potential equity partner, which intends to acquire 51% of the business, subject to approval by the Shareholder. Denel is awaiting consideration by the Shareholder, and understands that consultation with the Cabinet will need to take place prior to responding to this proposal. The group expects the potential equity partner to address market access issues, amongst others.

This business is also considered of sovereign importance to the DoD & MV. As a result, any strategic direction that is taken has to, in principle, be supported by the DoD & MV. Consequently, there are ongoing discussions with the DoD & MV aimed at improving orders and/or finding a lasting solution, including accessing ongoing funding, as may be appropriate.

Interest expense on borrowings

The group is funded mainly by interest-bearing borrowings, which are backed by Government guarantees. Refer to the funding section of this report.

Significant contracts

The contracts discussed below had significant impact on the reported financial results, or will continue to impact the group's performance.

Rooivalk

The programme accounted for revenues of R40m and a profit of R5m during the year under review. A provision has been raised representing contractual obligations in accordance with the June 2008 Cabinet memorandum that better defined the final product. Expenditure is charged against this provision and as at 31 March 2010, the balance amounted to R155m, which represents estimated costs to complete the work.

The Cabinet decided in June 2008 that the Rooivalk would need to be certified to meet a scaled-down baseline. 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 and the reduced baseline, the existing contractual terms and conditions required revision. Agreement on reduced functionality for the 1F baseline and limited post 1F work to underpin operational efficiency was reached. Six interim type certificates for Rooivalk aircraft have been delivered, and a contract variation order to fully implement the Cabinet decision submitted. The contract variation order has not yet been accepted or approved by the client.

Following a number of technical delays, Denel succeeded in completing flight tests in February 2010. During November 2009, Denel was, however, advised by the client to stop the Rooivalk in-service support work as there would be no order coverage for in-service support for the rest of the financial year. Denel then stopped all new commitments to suppliers for repair work and redeployed available personnel to fulfil Denel's residual contractual obligations, namely certificate of design, completion of first fully modified aircraft and execution of active orders.

Denel has engaged the Shareholder regarding the future of the programme in the light of these developments. The Shareholder has advised the board to view the future of the programme as part of the broader process to define the future state of Denel. Therefore, the guidance of the Cabinet should be sought in this regard. The client has, subsequent to these engagements, confirmed its intention to continue with the programme and have the platform scaled down to 1F baseline. The future direction of the programme and the adequacy of the provision referred to above depend on the final outcome of these engagements.

Hoefyster

Denel is involved in the development and production of the new-generation infantry combat vehicle programme called Hoefyster, to the value of R8.3bn. The development phase has been activated to date with a value of approximately R1bn. The production order will follow on successful conclusion of the development phase as agreed and based on the availability of funds. Denel has successfully renegotiated the delivery of milestones to the last quarter of 2010, where necessary. The client relationship is considered excellent, which is critical in facilitating and resolving complex programme issues.

The programme accounted for revenues of R257m and gross profit of R47m during the year under review. The current development work is mainly documentation and design specification outputs. The critical milestone on project Hoefyster, the allocated baseline for the section variant infantry combat vehicle equipped with the 30mm rapid fire gun, was reached and approved during February 2010.

Denel is confident that all the development phase milestones will be met within the contracted timelines. Owing to the nature and the size of the project, failure to secure the second phase of this project may negatively impact the ability to keep the total system capability in part or in full within the group. Denel has, on a probability of occurrence in terms of possible hardware failure, calculated a liability and raised a provision of R21m.

A109 helicopter

Denel is involved in a project that requires it to source raw materials, part manufacture and assemble twenty five A109 helicopters as a subcontractor to Agusta. Over the years, A109 helicopter-related work was secured and delivered to outside clients. There were, however, ongoing challenges encountered.

The ultimate client of these aircraft imposed a penalty to Agusta of approximately R90m for delivery slippages. During the year under review, Agusta proposed that such penalty be waived by the client in favour of work for approximately R400m over a five year period being placed on the South African industry, including DSA. The client expressed concerns regarding the proposal and discussions are ongoing.

The Agusta business is significant to DSA, as such work is winding down. It accounted for R47m revenue and a gross loss of R76m during the year. The fact that the bulk of the Agusta work has either been delivered or is scheduled for delivery within the next financial year is a major concern. There is a significant order pipeline shortage for the coming year at DSA.

A400M

Denel is involved in an Airbus project to design and manufacture over a 14-year period the wing-to-fuselage fairing, top shells and the ribs, swords and spars components of the A400M military transport aircraft. This is a design-to-build project requiring a large, complex sub-assembly and supply chain. As a result, it poses risks to the business resulting from the complexities brought about by the nature of the work required and the multiple re-design requests by Airbus from time to time. The business entity is a programme partner with Airbus and this means that certain risks and rewards relating to these contracts are shared between Denel and Airbus.

The A400M undertook its maiden flight on 11 December 2009. Problems were experienced with the engine and the aircraft weight which Airbus undertook to rectify. The programme has been delayed for a period of approximately four years. Current development and production contracts to DSA stand at 180 shipsets, but remains uncertain with mixed signals from client countries, with some countries willing to wait and others contemplating exiting the programme should delays persist; for example South Africa has cancelled its order of the aircraft. There are ongoing discussions between the consortium of countries that have ordered the aircraft and Airbus regarding the future of the A400M project. Airbus remains committed to the programme with deliveries scheduled to take place from the end of 2012 to conclude in 2025.

The non-recurring Airbus design and industrialisation work is close to completion with total sales of R230m for 2009/10. The recurring production element of the work will, however, only be in full production with a value of R200m by 2015, with only R10m scheduled for 2010/11. This reduction in Airbus work together with other work packages also coming to an end, resulting in lower projected revenue for the short to medium-term, places a tremendous financial strain on DSA, with capability that needs to be maintained to enable production of current recurring work and to enable ramp up when required.

DSA has consistently met all technical milestones for the past months. Notwithstanding this achievement, Airbus has recently notified DSA that it intends to withdraw the ribs, spars and sword contract. During these interactions, Airbus confirmed that it is committed to retaining the remaining work in the country. These developments, together with the delay in the programme, impact the assumptions that are taken into account in calculating the cost-to-completion as well as business strategic planning. These delays negatively impact the order pipeline at DSA.

Air-to-air missile

Denel is involved in the full scale engineering development of a fifth generation air-to-air missile, in order to provide for the operational, as well as strategic, missiles capability requirements of the Brazilian and the South African DoD & MV. This is a joint project between South Africa and Brazil.

The programme accounted for revenue of R279m and gross profit of R66m during the year under review. The programme is firmly on track as all major milestones were met. Certain integration work was completed ahead of schedule. 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, paving the way to initiate negotiations regarding a production order. Significant export opportunities in excess of R3bn have been identified, with management's latest target date for concluding an initial contract being 31 March 2011.

Ground-based air defence programme

Denel is involved in a project to design, develop, integrate and qualify specific ground based systems. The programme accounted for revenue of R55m and a loss of R12m during the year under review. The programme is in progress, and accordingly the delivery timelines have been reconsidered or adjusted over the years.

The programme was scheduled for completion by July 2010. As all parties were working towards this date, it was established that some of the contracted specifications were technically not possible to achieve. In the light of this development, the client is evaluating the completed phase of the programme against the minimum functional requirements acceptable to it. In addition, there are ongoing discussions regarding options available to the client to close the programme. Such options were tabled to the client, cost implications per each option and all the parties were alerted that some of the options may result in additional costs.

The client is also starting processes to award phase 2 of this programme. Denel is awaiting the final outcome of these ongoing engagements.

Impairment of assets

Impairment assessments were performed on entities that demonstrated possible impairment indicators. Specific considerations 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 use of an independent valuer, as well as making significant judgements and estimations, the relevant details are disclosed in note 1.2 of the annual financial statements.

Funding

Denel engages with its Shareholder on an ongoing basis regarding the need for a recapitalisation due to the company's financial position. Denel understands that due to the current pressure on the fiscus, the Shareholder is supporting it with guarantees and may consider a capital injection in the future.

Denel has interest-bearing borrowings with a balance of R1.8bn, raised through a Domestic Medium-Term Note programme. These borrowings are backed by Government guarantees of R420m, R880m and R550m (with expiry dates 31 March 2011 for the first two and 31 July 2010 respectively). The guarantees of R1.3bn were renewed on 31 March 2010 for a further year to 31 March 2011. Denel has subsequent to year-end applied successfully for an extension of R550m guarantee for another year to 31 July 2011. The group's borrowings are at an average interest rate of 8.04% with a total interest cost of R131m.

Denel has maintained its Fitch Ratings rating during the year at AA(zaf) long-term and F1+(zaf) short-term, outlook stable, with the ratings agency relying strongly on the Shareholder's support.

Denel will work with the Shareholder during the 2010/11 financial year monitoring on a monthly basis the cash position. Denel will during the third quarter apply for a new Government guarantee of R250m. The current Government guarantees together with the new Government guarantee of R250m will bring the total guarantees to R2 100m. The cash from the new guarantee plus the cash on hand will enable the group to address any liquidity concerns during the forthcoming year.

Going concern

As detailed in previous annual reports, Denel received R3.5bn recapitalisation over a three year period to 2008 and has achieved significant successes in its restructuring process. This is evidenced in the group's improved financial performance. The group is solvent with shareholders equity of R644m at 31 March 2010 with cash and short-term deposit balances of R1 025m. Denel is a high working capital investment company due to the long-term nature of the contracts that require ongoing funding. Therefore, the low shareholders' equity level continues to pose a risk to the group's solvency. In addition, the financial losses that are posted by entities like DSA impact the solvency, especially if the turnaround is not achieved in the short-term. The group has to further cope with the strengthening of the Rand against major currencies.

The directors, in evaluating the appropriateness of the going concern assumptions used in the preparation of the annual financial statements, took the above stated risks into account, the cash requirements for twelve months from balance sheet date, the solvency and cash position at year-end and borrowing facilities. In summary, the directors considered in particular the following:

- The solvency and liquidity position of the group as at 31 March 2010. The Shareholder provided financial support to Denel by means of a recapitalisation of R3.5bn over the past 4 years and issued guarantees for funding of R1.8bn.
- The forecast shareholder's equity for the 2011 financial year remains positive.
- The Shareholder continues to view Denel as a strategic asset and has in the past made a written undertaking that it will endeavour to assist the directors in maintaining its going concern status.
- The cash flow forecast incorporating the cash on hand at year-end is expected to have a positive cash position at 31 March 2011.
- Government guarantees for R1.8bn were issued in 2009/10 to support the short-term borrowings which were extended on 31 March 2010, and subsequent to year-end, to meet the funding requirements of the group for the 2010/11 financial year. An additional guarantee of R250m will be issued to increase cash on hand to be utilised to fund working capital

requirements for the 2010/11 financial year and beyond.

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 twelve month period to 31 March 2011. 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 upon:

- The successful implementation of the business strategy and the recommendations of the Cabinet appointed task team, which is expected to restore the group to profitability on a sustainable basis.
- The ability of the Shareholder to support the group financially.
- Either receiving the balance of recapitalisation of R1.7bn plus interest costs or rolling over and issuing guarantees as 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

The strategic direction that has been taken since 2006 has proven to be correct, as evidenced by the turnaround of eight of Denel's entities and the improved results that have been posted by the group. This approach incorporates a commercial mindset, which results in the requirements of customers (including the strategic needs of the SANDF) being met. This will result in the long-term sustainability of the group. In 2009, revised strategic drivers for the group were launched, focusing on growth, efficiencies and customers. A process was implemented to drive the strategy across the group, with performance assessed through key performance indicators.

The sustained implementation of Denel's strategy has led to the following key highlights during 2010:

- The ongoing reduction in net losses, for example from R533m in 2009 to R246m in 2010.
- Profitability achieved by Denel Aviation, PMP, OTB and UAVS. Mechem, which has been profitable for many years, realised a loss of R2m due to the delayed execution of an export contract.
- All three of Denel's associated companies (Turbomeca Africa, Carl Zeiss Optronics and Rheinmetall Denel Munition) exceeded expectations in terms of revenue earnings and profits.

DSA is the biggest loss-maker within the group. This company has been negatively impacted by the global downturn in the aerospace industry and the delay of the A400M programme. An operational turnaround intervention was launched in 2009 which has yielded efficiency improvements at shop floor level. As discussed above, the entity is being restructured to significantly reduce the cost structure in the business.

Dynamics Missiles is loss-making, with the business facing a revenue challenge. Refer to a discussion on Denel Missiles above regarding the proposed equity transaction and other measures in place to address this challenge.

Denel Aviation has revenue pressures due to budgetary constraints within the local client. Denel Aviation will undergo a major cost reduction during the 2010/11 financial year and the entity has embarked on a drive to improve exports.

An overview of specific progress under the strategy is provided in the group chief executive officer's report in page 26. The 2010/11 year will focus on sustained implementation of the strategy across the group.

Other significant matters

Medical benefit trust

The group provides a post-retirement medical subsidy to current and former employees, who were appointed before 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 thereon 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 annual financial statements of the group.

The group has a financial exposure due to longevity and investment risk as it is expected to fund actuarial losses that may arise. The unbundling of the group, which includes forming equity partnerships with key global defence companies, results in the group remaining with an increased liability.

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. To date, 52% of the qualifying beneficiaries have accepted the settlement offer made by Denel in lieu of the post-employment medical subsidy. Denel will finalise the settlement process during 2010/11 financial year and continue its efforts to persuade the remaining beneficiaries to terminate this subsidy and deregister 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 annual financial statements.

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. The trustees 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. Those funds will be accessed through a pension fund contribution holiday over a period of 4 years. This matter is expected to be finalised during the 2010/11 financial year, upon certain approvals.

Medical aid scheme

The group is one of the participating employers of a closed medical aid scheme. This medical aid scheme has been posting financial losses over the last four years. The board of trustees of the medical aid scheme has approved an amalgamation with another scheme effective 1 August 2010, subject to approval by relevant governance structures.

During the year under review, the group received a revised request to fund to the extent of R44m to facilitate the said amalgamation. Denel has maintained its position that it has no obligation to fund the scheme. The board has however, resolved to support the scheme in its endeavours to source such funding from the employee post-retirement medical benefit trust.

Compliance with laws and regulations

Denel views compliance with legislation as an imperative for doing business and has implemented a compliance programme throughout the group. Denel has put oversight processes in place to detect deficiencies in the system and prevent noncompliance. The board is satisfied that the group has in all material respects complied with the provisions of the PFMA, Companies Act and other applicable legislation, except as discussed below.

Instances of deviation from the arms control legislation were identified during the year under review. Denel has investigated these matters and found that they occurred in the past. Denel is satisfied that the internal control processes have since been improved. It has also further reinforced its policy by reminding business entities to ensure that they fully comply with legislation. Business entities have conducted audits of their internal control systems and no deviations were found during the year under review. All exports and imports that did not have the requisite permits according to the Directorate for Arms Control report, are traceable and the entities concerned can account for them. Denel is engaging with the Directorate for Conventional Arms Control and is cooperating fully regarding this issue.

Litigation and claims

Commercial dispute

Denel is involved in an ongoing dispute with the Government of India, following the cancellation and the suspension of all Denel contracts, as well as the institution of a criminal investigation, after allegations of criminal conduct by Denel in India, appeared in newspapers in 2005. This has been a long outstanding matter, whereby the Government of India has requested assistance in their criminal investigation relating to the defence acquisition by the Government of India from Denel.

Denel denies all the charges made against it by the Government of India. Denel, in consultation with the Shareholder has, however, resolved to cooperate with the Government of India on this matter. Once the legal processes by the Indian authorities have been finalised, Denel is optimistic that the trading relationship between the Government of India and Denel will be normalised.

Platform assembly

Denel was contracted during 2001 for development of the gyrostabiliser platform assembly for a certain helicopter. The contract had 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 it intended to claim damages from the group following the termination of the contract. The contractor would provide full details of its claim for damages in due course, by no later than September 2009. There has been no such claim made during the year under review.

Management will defend Denel in any potential claim by the contractor. The costs of the alleged damages continue to be unknown. The contingent nature of this matter has been disclosed in note 26.2 of the group annual financial statements.

Directors

The following board changes took place during the year under review:

- Mr E Godongwana was a non executive member of the board until 11 May 2009
- Ms D Vallabh was a non executive member of the board until 4 September 2009
- Ms N Maliza was a non executive member of the board until 15 January 2010

The board of directors and executive committee, together with their profiles, are set out on pages 28 to 31 and in the corporate governance report on page 56.

Remuneration

The personnel and remuneration (P&R) 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 contributions to the company's overall performance.
- Demonstrate to all stakeholders in Denel that the remuneration for senior executives is not determined by the executives.
- Demonstrate to stakeholders that governance procedures are employed in the appointment of 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 P&R committee ensures that there is:

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

The P&R scope of responsibilities is detailed in the terms of reference of the committee and are reviewed and approved annually by the board. These terms of reference are available from the group company secretary.

The group chief executive officer, the group financial director, and the group executive: human resources and transformation attend the meetings as invitees to assist the committee execute its mandate. No member of management is allowed to take part in discussions regarding their own remuneration nor are they present in the meetings when such decisions are taken. External advisers are used to provide expert advice on market information as and when required.

Executive remuneration reviews

The P&R committee reviews the remuneration of the group chief executive officer, the executive committee members and the chief executive officers of the operating 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 state-owned enterprises. The company works on a total cost of employment approach, where there is a guaranteed fixed pay (which includes contribution to retirement fund, medical aid, etc) and a variable pay portion, which is at risk, as well as based on performance. Annual increases take place on 1 April of each year.

The following fixed pay amounts were either paid or accrued to the executive directors and executive committee members during the year:

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	Contributions made R'000	2010 Total R'000	2009 Total R'000
Mr MT Sadik	3 074	420	347	3 841	5 674
Mr S Liebenberg [6]	-	-	-	-	909
Mr F Mhlontlo [2]	2 479	109	279	2 867	1 299
Mr JV Morris [3]	1 631	96	205	1 932	745
Maj Gen (Ret) OA Schür	1 156	96	112	1 364	1 095
Mr ZN Ntshepe	1 018	186	137	1 341	1 186
Ms TP Mushungwa	1 036	146	144	1 326	1 095
Mr T Swiegelaar [4]	-	-	-	-	768
Ms AC Kinley [1]	-	-	-	-	723
Ms ML Lephadi [5]	-	-	-	-	1 068
TOTAL	**10 394**	**1 053**	**1 224**	**12 671**	**14 562**

1 *Ms A C Kinley: resigned from Executive Committee, 1 August 2008*
2 *Mr F Mhlontlo: appointed to Executive Committee, 6 October 2008*
3 *Mr J Morris: appointed to Executive Committee, 1 November 2008*
4 *Ms T Swiegelaar: resigned from Executive Committee, 1 November 2008*
5 *Ms Lephadi: resigned from Executive Committee, 1 April 2009*
6 *Mr S Liebenberg: resigned as group chief executive officer, 1 June 2008*

Variable pay

The committee also reviews and recommends to the board for approval of the variable pay based on policy. Variable pay is a portion of employees' salary package that is at risk, linked to the performance of Denel, in that only those who meet or exceed stretched performance targets qualify for variable pay.

During the year, the board approved the Hay Job Grading System to evaluate the size of jobs to determine the eligibility for the variable pay allocation. Prior to this decision, the criteria as to who is eligible for the percentage of salary was based only on the reporting structure i.e. executive committee members 40%, senior managers 20% and other employees 10%.

The key performance areas are based on the group's five-pillar strategy forming part of performance management system. Stretch performance targets continued to be used to evaluate performance.

The variable pay of executive directors and executive committee members paid or accrued are disclosed below:

	2010	2009
Management and executive directors	**R'000**	**R'000**
Mr MT Sadik	1 785	1 653
Mr F Mhlontlo [2]	1 431	639
Maj Gen (Ret) OA Schür	542	480
Ms AC Kinley [1]	-	238
Mr ZN Ntshepe	528	480
Ms TP Mushungwa	528	480
Mr JV Morris [3]	773	298
TOTAL	**5 587**	**4 268**

[1] *Ms A C Kinley: resigned from Executive Committee, 1 August 2008*
[2] *Mr F Mhlontlo: appointed to Executive Committee, 6 October 2008*
[3] *Mr J Morris: appointed to Executive Committee, 1 November 2008*

Non-executive directors' remuneration

The P&R committee reviews fees that the company pays to non-executive directors. Market benchmarks and the 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 shareholders for approval.

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

	2010	2009
Directors	**R'000**	**R'000**
Dr SP Sibisi (chairman)	715	715
Ms CC Mulder	227	218
Ms N Nyembezi-Heita [3]	-	26
Dr BG Halse [1]	125	72
Mr MS Phalatse	211	260
Mr CML Savage	216	181
Ms SH Chaba	256	194
Ms T Seretse	113	143
Mr LC Jones	328	227
Mr NR Kunene	215	283
Dr GC Cruywagen	264	51
Ms NH Maliza	36	36
Ms D Vallabh	36	81
SUB-TOTAL	2 742	2 487
Mr NR Boqo [2]	15	46
TOTAL	**2 757**	**2 533**

[1] *Donated his director's emoluments to DCLD*
[2] *External independent member of the group audit and risk committee*
[3] *Resigned on 4 September 2008*

Sustainability report

Denel's response to climate change and limiting the impact of its processes on the environment is discussed in the sustainability report on page 113.

Subsidiaries and associated companies

The interests in subsidiaries and associated companies are set out in notes 12, 13 and 35 of the annual financial statements.

Subordination agreements

The group has subordinated loans of R648m advanced to four 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 R195 whereas R91m was utilised, mainly in upgrading business entity production facilities.

Share capital and share premium

The authority to issue shares vests in the Shareholder. Directors do not have the authority to issue shares in the company. 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 2010 year.

Compliance with accounting standards

The group annual financial statements comply with International Financial Reporting Standards (IFRS).

Auditors

The group annual financial statements are audited by Ernst & Young Inc with SizweNtsaluba VSP as subcontracted auditors. The statutory auditors for the forthcoming year will be confirmed at the annual general meeting scheduled for 27 August 2010.

Group company secretary

The group company secretary for the period under review was Ms Elizabeth Africa and her business and postal addresses during the year were:

Denel	P O Box 8322
Nellmapius Drive	Centurion
Irene	0046

Post-balance sheet events

In order to identify post-balance sheet events, all material matters affecting the Denel group between the balance sheet date and the approval of the group annual financial statements are considered.

The material matters that arose between 31 March 2010 and 30 July 2010 are the following:

- The National Treasury in its meeting of 30 June 2010 considered and recommended the approval of an application to rollover the R550m Government guarantee expiring on 31 July 2010 for another 12 months to 31 July 2011.
- Amidst concerns, a written confirmation was received on 24 June 2010 stating the client's intention to continue with the Rooivalk programme as is currently contracted, further confirming its commitment to supporting and funding the programme.

Consolidated statements of financial position

		Group		Company	
		2010	2009	2010	2009
	Notes	Rm	Rm	Rm	Rm
ASSETS					
Non-current assets		1 712	1 623	1 492	1 642
Property, plant and equipment	9	683	712	543	570
Investment properties	10	406	364	406	364
Intangible assets	11	57	63	57	63
Investments in subsidiaries	12	-	-	4	158
Investments in associates	13	553	466	477	477
Loans receivable	14	5	10	5	10
Deferred tax assets	15	8	8	-	-
Current assets		3 343	3 107	2 684	2 271
Inventories	16	713	879	463	500
Trade and other receivables	17	1 332	1 456	1 022	1 069
Reinsurance asset	18	19	18	-	-
Loans receivable	14	5	9	5	9
Other financial assets	19.1	77	53	63	53
Income tax receivables		4	-	-	-
Cash and short-term deposits	20.1	1 038	490	976	438
Treasury asset	20.2	155	202	155	202
Assets classified as held for sale	5.3	-	9	-	-
Total assets		5 055	4 739	4 176	3 913

as at 31 March 2010

		Group		Company	
		2010	2009	2010	2009
	Notes	Rm	Rm	Rm	Rm
EQUITY AND LIABILITIES					
Equity					
Issued capital	21	1 225	1 225	1 225	1 225
Share premium	21	4 251	4 251	4 251	4 251
Other reserves		80	39	44	38
Accumulated loss		(4 878)	(4 697)	(5 327)	(4 965)
Total equity attributable to equity holders of the parent		678	818	193	549
Non-controlling interest	22	(34)	31		
Total equity		644	849	193	549
Non-current liabilities		457	444	340	365
Interest-bearing loans and borrowings	23	101	53	-	-
Provisions	24.1	350	385	340	365
Deferred tax liabilities	15	6	6	-	-
Current liabilities		3 954	3 446	3 643	2 999
Trade and other payables	25	633	844	500	544
Interest-bearing loans and borrowings	23	1 943	1 074	1 943	1 074
Other financial liabilities	19.2	97	57	48	44
Advance payments received	26.1	602	675	561	645
Income tax payables		1	2	-	-
Provisions	24.2	678	794	591	692
Total liabilities		4 411	3 890	3 983	3 364
Total equity and liabilities		5 055	4 739	4 176	3 913

Consolidated income statements
for the year ended 31 March 2010

		Group		Company	
		2010	2009	2010	2009
	Notes	Rm	Rm	Rm	Rm
Revenue	2	3 610	3 924	2 844	2 915
Cost of sales	3	(3 032)	(3 285)	(2 142)	(2 249)
Gross profit		578	639	702	666
Other income	4	106	183	172	228
Other operating expenses	3	(846)	(1 285)	(1 123)	(1 559)
Operating loss		(162)	(463)	(249)	(665)
Finance costs	7.1	(185)	(150)	(189)	(178)
Finance income	7.2	46	77	81	81
Share of profit of associates	13	79	32		
Loss before tax		(222)	(504)	(357)	(762)
Income tax expense	8	(24)	(29)	(5)	11
Loss for the year		(246)	(533)	(362)	(751)
Loss for the year is attributable to:					
Equity holders of the parent		(181)	(442)		
Non-controlling interest		(65)	(91)		
		(246)	(533)		

Consolidated statements of comprehensive income
for the year ended 31 March 2010

		Group		Company	
		2010	2009	2010	2009
	Notes	Rm	Rm	Rm	Rm
Loss for the year		(246)	(533)	(362)	(751)
Other comprehensive income					
Net gain revaluation	9	6	35	6	35
Revaluation of property, plant and equipment on transfer to investment properties		8	46	8	46
Income tax effect		(2)	(11)	(2)	(11)
Net gain on hedges *		35	-	-	-
Net gain on hedge instruments		48	-	-	-
Income tax effect		(13)	-	-	-
Other comprehensive income for the the year, net of tax		41	35	6	35
Total comprehensive loss for the year net of tax		(205)	(498)	(356)	(716)
Attributable to:					
Equity holders of the parent		(140)	(407)		
Non-controlling interest		(65)	(91)		
		(205)	(498)		

** Relates to associated companies refer to note 13*

Consolidated statements of changes in equity
for the year ended 31 March 2010

		Attributable to equity holders of the parent			
		Issued capital	Share premium	Revaluation reserves[1]	Contingency reserves[2]
	Notes	Rm	Rm	Rm	Rm
GROUP					
Balance at 1 April 2008		1 225	4 251	11	1
Total comprehensive income				35	-
Loss for the year				-	-
Other comprehensive income				35	-
Issue of share capital to non-controlling interests					
Transfer (from)/to accumulated loss	9			(8)	-
Non-controlling interest in subsidiary disposed	22				
Balance at 31 March 2009		1 225	4 251	38	1
Total comprehensive income				6	-
Loss for the year				-	-
Other comprehensive income				6	-
Balance at 31 March 2010		1 225	4 251	44	1
COMPANY					
Balance at 1 April 2008		1 225	4 251	11	-
Total comprehensive income				35	-
Loss for the year				-	-
Other comprehensive income				35	-
Transfer (from)/to accumulated loss				(8)	
Balance at 31 March 2009		1 225	4 251	38	-
Total comprehensive income				6	-
Loss for the year				-	-
Other comprehensive income				6	-
Balance at 31 March 2010		1 225	4 251	44	-

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, a subsidiary raises 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 permission of the Registrar of Insurance.*

Attributable to equity holders of the parent				
Cash flow hedge reserve	Accumulated loss	Total	Non-controlling interest	Total equity
Rm	Rm	Rm	Rm	Rm
-	(4 263)	1 225	102	1 327
-	(442)	(407)	(91)	(498)
-	(442)	(442)	(91)	(533)
-	-	35	-	35
			27	27
-	8	-	-	-
			(7)	(7)
-	(4 697)	818	31	849
35	(181)	(140)	(65)	(205)
-	(181)	(181)	(65)	(246)
35	-	41	-	41
35	(4 878)	678	(34)	644
-	(4 222)	1 265		
-	(751)	(716)		
-	(751)	(751)		
-	-	35		
	8	-		
-	(4 965)	549		
-	(362)	(356)		
-	(362)	(362)		
-	-	6		
-	(5 327)	193		

Consolidated statements of cash flows
for the year ended 31 March 2010

		Group		Company	
		2010	2009	2010	2009
	Notes	Rm	Rm	Rm	Rm
OPERATING ACTIVITIES					
Net cash flows used in operating activities		(344)	(806)	(34)	(418)
Receipts from customers		3 809	3 742	3 047	2 923
Payments to suppliers and employees		(3 943)	(4 408)	(2 960)	(3 270)
Cash utilised in operations	27.1	(134)	(666)	87	(347)
Decrease in advance payments received		(73)	(134)	(84)	(124)
Interest paid		(183)	(49)	(187)	(76)
Interest received		50	76	85	80
Dividend received	4	13	-	72	49
Income tax paid		(17)	(33)	(7)	-
INVESTING ACTIVITIES					
Net cash flows used in investing activities		(72)	(357)	(344)	(684)
Purchase of property, plant and equipment	9	(87)	(292)	(70)	(143)
Proceeds from sale of property, plant and equipment		3	3	3	2
Purchases of investment properties	10	-	(5)	-	(5)
Proceeds from sale of investment properties		9	36	-	36
Purchase of intangible assets	11	(6)	(39)	(6)	(39)
Receipt of loans receivable		9	5	9	5
Proceeds on disposal of entities	27	-	5	-	5
Cash included in entities disposed	27	-	(21)	-	(21)
Repayments of loan advance to associated companies		-	25	-	25
Acquisition of additional shares in an associated company		-	(74)	-	(74)
Acquisition of additional shares in a subsidiary				-	(136)
Proceeds from reduction in share investment in subsidiary				-	27
Advances to subsidiaries				(280)	(366)
Net cash flows before financing activities		(416)	(1 163)	(378)	(1 102)
FINANCING ACTIVITIES					
Net cash flows from financing activities		904	892	856	839
Repayments of interest-bearing borrowings		(2 078)	(571)	(2 078)	(571)
Proceeds from interest-bearing borrowings		3 029	1 345	2 981	1 292
(Decrease)/increase in cash managed on behalf of associated companies		(47)	118	(47)	118
Net increase/(decrease) in cash and cash equivalents		488	(271)	478	(263)
Cash and cash equivalents:					
At the beginning of the year		692	963	640	903
At the end of the year	20	1 180	692	1 118	640

Notes to the group annual financial statements
for the year ended 31 March 2010

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 2010 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 however the comparative amounts for deferred tax assets, deferred tax liabilities, income tax expense, other reserves and accumulated loss have been adjusted:

The deferred tax assets and liabilities are now disclosed on a net basis for each tax entity, previously it was disclosed on a gross basis (refer to note 15). The revaluation of property, plant and equipment was not recognised in the previous financial year net of tax, resulting in the tax impact of R11m recognised in the income tax expense in the income statement. The following amounts were affected as a result of this adjustment: the income tax expense, accumulated reserves and other reserves (refer to note 8). The table below reflects the amounts as previously reported against the restated amounts:

	Restated		Previously reported	
	Group	Company	Group	Company
	2009	2009	2009	2009
	Rm	Rm	Rm	Rm
Deferred tax assets	8	-	235	226
Deferred tax liabilities	(6)	-	(233)	(226)
	2	-	2	-
Income tax expense (note 8)	29	(11)	39	-
Deferred tax (note 8)	3	(11)	14	-
Loss for the year	(533)	(751)	(544)	(762)
Accumulated loss	(4 697)	(4 965)	(4 708)	(4 976)
Other reserves	39	38	50	49
Revaluation reserves	38	38	49	49

The following new and amended IFRS, and International Financial Reporting Interpretations Committee interpretations became effective during the year:

Standard/ interpretation	Title	Effective date	Impact and application
IAS 1	Presentation of Financial Statements (Revised)	1 January 2009	No financial impact, however the changes impact on disclosure
IFRS 1	Amendment to IFRS 1 Limited Exemption from Comparitive IFRS 7 Disclosures for First-time Adopters	1 July 2010 (early adopted)	Not relevant to the group
IFRS 2	Amendments to IFRS 2 Share-based Payment: Vesting Conditions and Cancellations	1 January 2010 (early adopted)	Not relevant to the group
IFRS 3	Business Combinations (revised)	1 July 2009 (early adopted)	Not relevant to the group
IFRS 7	Financial Instruments: Disclosures	1 January 2009	No financial impact, however the changes impact on disclosure
IFRS 8	Operating Segments	1 January 2009	No financial impact, however the changes impact on disclosure
IAS 23	Borrowing Costs (Revised)	1 January 2009	No financial or disclosure impact as there were no transactions relating to the changes
IAS 24	Related Party Disclosures (Revised)	1 January 2011 (early adopted)	No financial impact, however the changes impact on disclosure
IAS 27	Consolidated and Separate Financial Statements (Revised)	1 July 2009 (early adopted)	No financial impact, however the changes impact on disclosure
IAS 32 & IAS 1	IAS 32 Amendments – Financial Instruments: Presentation and IAS 1 Amendments - Presentation of Financial Statements: Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009	No financial or disclosure impact as there were no transactions relating to the changes
IAS 32	Amendments to IAS 32 - Classification of rights issues denominated in a foreign currency	1 February 2010 (early adopted)	Not relevant to the group

Standard/ interpretation	Title	Effective date	Impact and application
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	1 January 2009	Not relevant to the group
IAS 39	Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items	1 July 2009 (early adopted)	Not relevant to the group
IFRIC 9	Remeasurement Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement	Periods ending on or after 30 June 2009	No financial impact, however the changes impact on disclosure
IFRIC 13	Customer Loyalty Programmes	1 July 2008	Not relevant to the group
IFRIC 14	Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement	1 January 2011 (early adopted)	No financial impact or additional disclosure required
IFRIC 15	Agreements for the Construction of Real Estate	1 January 2009	Not relevant to the group
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 October 2008	Not relevant to the group
IFRIC 17	Distribution of Non-cash Assets to Owners	1 July 2009 (early adopted)	Not relevant to the group
IFRIC 18	Transfers of Assets from Customers	1 July 2009 (early adopted)	Not relevant to the group
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2009 (early adopted)	Not relevant to the group
	Improvements to IFRS (May 2008)	Mostly 1 January 2009	No financial impact, however the changes impact on disclosure
	Improvements to IFRS (April 2009)	Mostly 1 January 2010 (early adopted)	No financial impact, however the changes impact on disclosure

The adoption of these standards and interpretations did not have any effect on the financial performance or position of the group.

IAS 1 Presentation of Financial Statements (Revised)

The amendments to IAS 1 affects the presentation of comparative information upon retrospective application of an accounting policy or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements, as well as affects the reporting of owner changes and non-owner changes in equity. The amendment to IAS 1 also introduces a statement of comprehensive income with two optional formats. The revised standard requires that changes in equity resulting from transactions with owners be presented separately from non-owner changes in equity (also known as other comprehensive income). In addition, specific disclosures for components of other comprehensive income have been introduced.

As a result, the group presents in the consolidated changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of other comprehensive income. As the change in accounting policy only impacts presentation aspects, there is no impact on the reported results.

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.

As there were no business combinations during the year the statement had no impact on the group.

IFRS 7 Financial Instruments: Disclosure (Amendment)

The amended standard requires additional disclosure about fair value measurement and liquidity risk. The fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management.

IFRS 8 Operating Segments (New)

This new standard replaces IAS 14 Segment Reporting and adopts a management approach to segment reporting. 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 additional disclosure had no financial impact on the group.

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 amendment had no impact on the financial position or performance of the group.

IAS 24 Related party disclosures (Amendment)

The revised standard contains a partial exemption for government-related entities under which these entities are only required to disclose information about related party transactions that are individually and collectively significant, and a simplified definition of "related party".

The amendment had no impact on the financial position or performance of the group. The group elected not to use the exemption in the standard.

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 revision had no impact on the financial position or performance of the group.

IAS 32 Classification of Rights Issues (Amendment)

The amendment requires rights issues to be classified as equity regardless of whether the currencies are in the reporting entity's functional currency, provided that the rights issues are offered pro rata to all of an entity's existing shareholders, and on the exercise of which the entity will receive a fixed amount of cash for a fixed number of its equity instruments.

IAS 39 Financial Instruments: Recognition and Measurement (Amendment: Eligible Hedged Items)

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 amendment had no impact on the financial position or performance of the group.

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.

The interpretation had no impact on the financial position or performance of the group.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

The interpretation concluded that the issue of equity instruments to extinguish all or part of a financial liability can be seen as consisting of two transactions: first, the issue of equity instruments for cash; and second, acceptance by the creditor of that amount of cash to extinguish the financial liability. It concluded, inter alia, that the reporting entity should measure the equity instruments issued as extinguishment of financial liability at their fair value.

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, less any impairments.

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. Where the financial year-end of an associated company is different from that of the group, the share of recognised gains and losses of that associated company is adjusted to account for the difference in year-end. When the group's share of losses exceeds its interest in an associated company, the group's carrying amount is reduced to 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 non-controlling interests

The group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the group. Disposals to non-controlling 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.

1.2 Significant judgements and estimates

In the process of applying the group's accounting policies, the following judgements and estimates have been made, which are considered to have the most significant effect on the amounts recognised in the group annual financial statements:

Revenue, contract risks and onerous contracts

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

The group uses the percentage of completion method in accounting for its contract revenue. The stage of completion is determined based on the costs incurred to date as a percentage of total estimated cost of each contract.

Contract revenue comprises of the initial amount of revenue agreed in the contract, contract variation orders (CVOs) 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

Impairment assessments are performed on entities within the group that demonstrate impairment indicators. The group's impairment tests for property, plant and equipment are based on fair value less cost to sell using the estimated fair value of the assets less the estimated costs of disposal.

Denel Saab Aerostructures and Dynamics Missiles

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.

During the year ended 31 March 2010 following a test for impairment triggered by the decline in actual net cash flows and operating loss, a valuation was performed by an independent valuer. The recoverable amount of the assets has been determined based on a fair value less cost to sell calculation as the value in use calculation reflected a lower amount. The fair value less cost to sell model has been determined based on high value items representing between 85% and 100% of the net asset value of property, plant and equipment at 31 March 2010.

The cost to sell the asset has been based on commission ranging from 2 to 10%, which is the normal commission charged at auction.

The details of the impairment charge are disclosed in note 3. The recoverable amount is most sensitive to the following assumptions to changes in the cost to sell.

Sensitivity to change in assumptions

Management has considered whether there are any reasonably possible changes in the key assumption which could cause a significant movement in the amount of the impairment loss recognised. The implication of this change is that a 5% increase in the cost to sell would have an impact of R7m.

Rooivalk contract

The provision for the contract loss of R155m (2009: R280m) at year-end has been determined based on the obligations arising from the cabinet memorandum (decision) of June 2008. 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 progress 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 4 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), decommissioning of plant and equipment, and demolition of buildings.

The amount raised as a provision was based on the detail study performed, taking into account the expected timing of decontamination ranging between 3 and 30 years. The anticipated future cash flows determined, based on a long-term inflation rate of 6.9% (2009: 8.5%) have been discounted at an interest rate of 8.7% (2009: 10.35%), 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 26.8 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 is 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 inter-related such that they are, in effect, part of a single project with an overall profit margin.

Contract revenue comprises:

a) The initial amount of revenue agreed in the contract; and
b) Variations in contract work and incentive payments:
   i) To the extent that it is probable that they will result in revenue; and
   ii) They are capable of being reliably measured.
c) A claim is an amount that the group seeks to collect from the customer or another party as reimbursement for costs not included in the contract price. The measurement of the amounts of revenue arising from claims is subject to a high level of uncertainty and often depends on the outcome of negotiations. Therefore, claims are included in contract revenue only when:
   i) Negotiations have reached an advanced stage such that it is probable that the customer will accept the claim; and
   ii) The amount that is probable will be accepted by the customer and can be measured reliably.

An expected loss on a contract is recognised immediately in 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
Dividends are 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 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 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.

Deferred tax assets and liabilities are recognised on a net basis for each tax entity.

Revenue, expenses and assets are recognised net of the amount of value added tax (VAT) except:

- Where the VAT incurred on the purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item applicable
- Receivables and payables that are stated with the amount of VAT included

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

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 another financial asset to another entity.

Financial liabilities are initially measured at fair value less transaction costs that are directly attributable to the raising of the funds, and are subsequently carried at amortised cost. Any difference between the proceeds, net of transaction costs and the redemption value is recognised in 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 rate 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, then the embedded derivative is recognised separately. The embedded derivative is measured at fair value through profit or loss.

Foreign exchange embedded derivatives are brought into account when the group has entered into contracts denominated in foreign currencies, which are neither the measurement currencies of parties to the contract, nor the currencies in which those commodities are routinely traded in international commerce.

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.

On 1 July 2009, Denel voluntarily changed its accounting policy to view the USD and EURO as common currencies as it will make its results more comparable to other companies in the industry. The changed accounting policy will be applied prospectively from the said date in line with the requirements of IFRIC 9 and IAS 8 and therefore did not effect the group’s financial position, financial performance or cash flows for the current and preceding reporting periods.

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 value was determined.

1.3.7 Investment properties

Investment properties comprise property held to earn rentals, for long-term capital appreciation or both, and are not occupied by the group. Investment properties are treated as long-term investments and are initially measured at cost. Subsequent to initial recognition, investment properties are carried at fair value, determined annually by independent external registered appraisers. Changes in fair 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 rentals 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 rental 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 was 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 and for capital appreciation or both. Any such property interest under an operating lease is classified as an investment property and 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.

Depreciation

Depreciation is provided on the straight-line basis which, it is estimated, will reduce the carrying amount of the assets to their residual values at the end of their useful lives. Lease improvements on leasehold properties are depreciated over the period of the lease or the expected useful life whichever is the shorter period.

The estimated useful lives are as follows:

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

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

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 rate method to determine the lease finance cost, which is expensed over the lease period, and the capital repayment, which reduces the liability to the lessor.

Leases, where the lessor retains the risks and rewards of ownership of the underlying asset, are classified as operating leases. Payments made under operating leases are recognised in 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 rate method.

1.3.10 Intangible assets

Intangible assets that are acquired separately by the group are measured on initial recognition at cost. Subsequently, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets with a finite useful life are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation is charged to 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. Capatilised development 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 costs) of the acquired business at fair value.

Goodwill acquired in a business combination is initially measured at cost being, the excess of the cost of the business combination over the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- Represents the lowest level within the group at which the goodwill is monitored for internal management purposes; and
- Is not larger than a segment based on the group's reporting format determined in accordance with *IFRS 8 Segment Reporting*.

Where goodwill forms part of a cash-generating unit (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 qualifying assets under construction are capitalised up to the date the assets are substantially complete. Capitalisation is suspended during extended periods in which active development is interrupted. All other borrowing costs are recognised as 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

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (which includes a measure of segments' assets). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive committee of Denel (Pty) Ltd.

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 2010, the following standards and interpretations were in issue but not yet effective:

Standard/ interpretation	Title	Issue date	Effective date
IFRS 9	Financial Instruments	November 2009	1 January 2013
	Improvements to IFRS (May 2010)	May 2010	
	IFRS 1 First time Adoption of International Reporting Standards		1 January 2011
	IFRS 3 Business Combinations		1 July 2010
	IFRS 7 Financial Instruments: Disclosures		1 July 2010
	IAS 1 Presentation of Financial Statements Transition requirements for amendments arising as a result of IAS 27 Consolidated and Separate Financial Statements		1 July 2010
	IAS 34 Interim Financial Reporting		1 January 2011
	IFRIC 13 Customer Loyalty Programmes		1 January 2011

IFRS 9 Financial Instruments

The new standard introduces new requirements for classifying and measuring financial assets. The new standard forms part of a three-part project to replace *IAS 39 Financial Instruments: Recognition and Measurement.* The group is in the process of evaluating the impact on the financial statements. The following are the main features of the standard:

At initial recognition, all financial assets (including hybrid contracts with a financial asset host) are measured at fair value.

Debt instruments

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

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

Debt instruments may be subsequently measured at amortised cost if:

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

All other debt instruments are subsequently measured at fair value.

Equity investments

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

Improvements to IFRS (May 2010)

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

	Group		Company	
	2010	2009	2010	2009
	Rm	Rm	Rm	Rm
2 Revenue				
Revenue comprises				
Sale of goods and services	3 546	3 877	2 765	2 850
Rental income	64	47	79	65
	3 610	3 924	2 844	2 915
3 Cost of sales and other operating expenses				
Cost of sales and other operating expenses are arrived at after taking the following items into account:				
Amortisation of intangible assets (refer note 11)	9	3	9	3
Software	9	3	9	3
Impairment raised/(reversed)	1	277	437	720
Property, plant and equipment (refer note 9)	12	168	12	(4)
Intangible assets (refer note 11)	3	32	3	5
Investments in subsidiaries (refer note 12)	-	-	434	727
Investments in associated companies	-	-	-	(49)
Inventories (refer note 16)	24	47	24	11
Trade and other receivables	(38)	30	(36)	30
Auditors' remuneration	16	24	12	19
Current year	14	19	11	17
Previous year's under accrual	1	1	-	1
Other	1	4	1	1
Depreciation (refer note 9)	92	112	76	79
Buildings	13	13	13	13
Plant and machinery	53	70	41	45
Vehicles and office furniture	9	8	5	4
Computer equipment	17	21	17	17
Operating expenses for investment properties	100	83	100	80
Operating lease payments	78	80	76	76
Buildings	67	68	67	67
Plant and machinery	3	4	3	4
Vehicles and office furniture	6	4	4	1
Computer equipment	2	4	2	4
Directors' remuneration [1]	13	13	13	13
Executive directors	10	10	10	10
Non-executive directors	3	3	3	3
Consultation fees	104	84	98	41
Costs of inventories recognised as an expense	1 255	1 602	1 062	1 084
Loss on disposal of assets	4	8	1	5
Property, plant and equipment	4	2	1	2
Disposal of entities (refer to note 5.2)	-	6	-	3

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

	Group		Company	
	2010	2009	2010	2009
	Rm	Rm	Rm	Rm
Net loss on financial instruments (refer note 6)	7	-	3	-
Research and development costs [2]	835	1,024	634	624
Staff costs	1,614	1,795	1,067	1,277
Services costs	1,419	1,464	948	1,007
Staff and related provisions	(11)	137	(17)	124
Medical fund contributions	88	87	63	64
Termination benefits paid	26	21	1	13
Pension costs: Defined contribution plan	90	84	70	68
Other long-term benefit contributions	2	2	2	1

[2] *The research and development costs are mainly customer funded, excluding an amount of R132m charge against provisions.*

4 Other operating income

	Group 2010 Rm	Group 2009 Rm	Company 2010 Rm	Company 2009 Rm
Administration and management fees	2	1	13	13
Royalties income	11	51	11	51
Fair value adjustment on investment properties (refer note 10)	27	31	27	29
Net gains on financial instruments (refer note 6)	-	63	-	45
Profit on disposal of property, plant and equipment	2	1	2	1
Profit on disposal of investment properties	-	12	-	12
Dividend received	-	-	72	49
Other [3]	64	24	47	28
	106	183	172	228

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

5 Non-current assets held for sale 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 the prior financial year:

- The transfer of an investment property of R9 million was finalised this year to complete the disposal of the property portfolio of Bonaero Park (Pty) Ltd.
- 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 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 Publics Works regarding the disposal of the said property.

	Group		Company	
	2010	2009	2010	2009
	Rm	Rm	Rm	Rm
5.1 The results are as follows:				
Disposal of the Munitions group				
Revenue and other income	-	323	-	323
Expenses, exchange losses and interest	-	(339)	-	(338)
Pre-tax loss	-	(16)	-	(15)
Tax	-	-	-	-
Loss after tax	-	(16)	-	(15)
Net cash flows attributable				
Net cash flows used in operating activities	-	(69)	-	(69)
Net cash flows from investing activities	-	272	-	272
Net cash flows used in financing activities	-	(298)	-	(298)
Net decrease in cash and cash equivalents	-	(95)	-	(95)
No tax is applicable as the business entities were in a loss-making position.				
5.2 The proceeds on the disposal of business entities disposed are as follows:				
Net asset value	-	309	-	298
Investment in subsidiaries			-	8
Loss on disposal	-	(6)	-	(3)
Selling price	-	303	-	303
Shares received	-	(298)	-	(298)
Net cash flow on disposal	-	5	-	5
Loss on discontinued operations		(6)		(3)
The assets and liabilities disposed of were as follows:				
Non-current assets	-	108	-	95
Current assets	-	503	-	486
Total assets	-	611	-	581
Total liabilities	-	(295)	-	(283)
Non-controlling interest	-	(7)	-	-
Net assets	-	309	-	298
5.3 Assets held for sale and associated liabilities				
Assets				
Investment properties	-	9	-	-
	-	9	-	-
Liabilities	-	-	-	-

		Group		Company	
		2010	2009	2010	2009
		Rm	Rm	Rm	Rm
6	**Net gains/(losses) on financial instruments**				
6.1	Net foreign exchange differences	(18)	120	(14)	102
	Losses on settled transactions	(239)	(34)	(13)	(32)
	Gains on settled transactions	262	55	42	12
	Losses on fair value adjustments	(198)	(67)	(151)	(44)
	Gains on fair value adjustments	157	166	108	166
6.2	Net differences on commodity derivatives	11	(57)	11	(57)
	Losses on fair value adjustments	-	(57)	-	(57)
	Gains on fair value adjustments	11	-	11	-
		(7)	63	(3)	45
7	**Net finance cost**				
	The amounts below relate to financial instruments measured at amortised cost (financial liabilities, loans and receivables):				
7.1	Finance costs				
	Current interest-bearing borrowings	123	85	123	84
	Non-current interest-bearing borrowings	8	1	-	-
	Inter-group finance costs			12	29
	Finance costs on financial liabilities	131	86	135	113
	Unwinding of discount on provisions	54	64	54	65
	Total finance costs	185	150	189	178
7.2	Finance income				
	Gross interest received	46	77	42	71
	Inter-group finance income			39	10
	Total finance income	46	77	81	81
	Net finance costs	139	73	108	97
8	**Taxation expense**				
	SA Normal tax				
	Current tax	5	22	-	-
	Deferred tax (refer note 15)	(2)	3	(2)	(11)
	STC	7	-	7	-
	Share of associated companies	14	4		
	Current tax	27	20		
	STC	1	-		
	Deferred tax	(14)	(16)		
		24	29	5	(11)

No provision for SA Normal tax has been made for all companies within the group that are in a calculated tax loss position.

	Group		Company	
	2010	2009	2010	2009
	Rm	Rm	Rm	Rm
8 Taxation expense (continued)				
	%	%	%	%
Reconciliation of tax rate				
Effective tax rate	(10.8)	(5.8)	(1.4)	1.4
Adjustment in tax rate due to:	38.8	33.8	29.4	26.6
Exempt income	(3.7)	(2.3)	(8.1)	(5.8)
Secondary tax on companies	3.2	-	1.9	-
Deferred tax asset not recognised	34.9	31.7	1.8	29.8
Impairment of investments	-	-	35.5	-
Taxable capital gains	0.2	-	-	-
Share of associated companies	7.0	3.1		
Other	(2.8)	1.3	(1.7)	2.6
SA Normal tax rate	28.0	28.0	28.0	28.0
	Rm	Rm	Rm	Rm
The calculated tax losses available for offset against future taxable income are as follows:				
Calculated tax losses	5 476	5 011	4 588	4 336
Capital gains tax assessed losses	175	180	175	174
Net calculated tax losses	5 651	5 191	4 763	4 510

9 Property, plant and equipment

	Land and buildings	Plant and machinery	Vehicles and office furniture	Computer equipment	Total
	Rm	Rm	Rm	Rm	Rm
Group					
2010					
Carrying value at 1 April	260	378	31	43	712
Revaluation on transfer to investment properties	8	-	-	-	8
Additions	8	48	13	18	87
Disposals	-	(4)	-	(1)	(5)
Transfer to investment properties (refer note 10)	(15)	-	-	-	(15)
Impairment for the year (refer note 3)	-	(10)	(1)	(1)	(12)
Depreciation for the year (refer note 3)	(13)	(53)	(9)	(17)	(92)
Carrying value at 31 March	248	359	34	42	683
Cost	371	1,297	89	151	1 908
Accumulated depreciation and impairment	(123)	(938)	(55)	(109)	(1 225)
Carrying value at 31 March	248	359	34	42	683
2009					
Carrying value at 1 April	439	453	31	44	967
Revaluation on transfer to investment properties	46	-	-	-	46
Additions	8	240	13	31	292
Business entities disposed	(1)	(85)	(4)	(5)	(95)
Disposals	-	(3)	(2)	-	(5)
Reclassification	(6)	4	2	-	-
Transfer to investment properties (refer note 10)	(213)	-	-	-	(213)
Impairment for the year (refer note 3)	-	(161)	(1)	(6)	(168)
Depreciation for the year (refer note 3)	(13)	(70)	(8)	(21)	(112)
Carrying value at 31 March	260	378	31	43	712
Cost	371	1,270	78	148	1 867
Accumulated depreciation and impairment	(111)	(892)	(47)	(105)	(1 155)
Carrying value at 31 March	260	378	31	43	712

9 Property, plant and equipment (continued)

Company

	Land and buildings	Plant and machinery	Vehicles and office furniture	Computer equipment	Total
	Rm	Rm	Rm	Rm	Rm
2010					
Carrying value at 1 April	260	250	17	43	570
Revaluation on transfer to investment properties	8	-	-	-	8
Additions	8	38	7	17	70
Disposals	-	(1)	-	(1)	(2)
Transfer to investment properties (refer note 10)	(15)	-	-	-	(15)
Impairment for the year (refer note 3)	-	(10)	(1)	(1)	(12)
Depreciation for the year (refer note 3)	(13)	(41)	(5)	(17)	(76)
Carrying value at 31 March	248	236	18	41	543
Cost	371	971	50	135	1,527
Accumulated depreciation and impairment	(123)	(735)	(32)	(94)	(984)
Carrying value at 31 March	248	236	18	41	543
2009					
Carrying value at 1 April	434	273	17	37	761
Revaluation on transfer to investment properties	46	-	-	-	46
Additions	8	100	7	28	143
Acquired from subsidiaries	-	7	-	-	7
Disposals	-	(3)	(1)	-	(4)
Business entities disposed	(1)	(85)	(4)	(5)	(95)
Reclassification	(1)	(1)	2	-	-
Transfer to investment properties (refer note 10)	(213)	-	-	-	(213)
Impairment for the year (refer note 3)	-	4	-	-	4
Depreciation for the year (refer note 3)	(13)	(45)	(4)	(17)	(79)
Carrying value at 31 March	260	250	17	43	570
Cost	371	949	46	134	1,500
Accumulated depreciation and impairment	(111)	(699)	(29)	(91)	(930)
Carrying value at 31 March	260	250	17	43	570

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 has 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 was 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 includes assets under construction of R37m (2009: R47m) for the group and R21m (2009: R17m) for the company.

	Group		Company	
	2010	2009	2010	2009
	Rm	Rm	Rm	Rm
10 Investment properties				
Fair value at 1 April	364	117	364	117
Additions	-	5	-	5
Transfer from property, plant and equipment (refer note 9)	15	213	15	213
Fair value adjustment	27	31	27	29
Transfer to non-current assets held for sale	-	(2)	-	-
Fair value at 31 March	406	364	406	364

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	
	2010	2009	2010	2009
	Rm	Rm	Rm	Rm
11 Intangible assets				
Development costs	-	-	-	-
At cost	88	105	88	105
Accumulated amortisation and impairment	(88)	(105)	(88)	(105)
Software	57	63	57	63
At cost	83	78	83	78
Accumulated amortisation and impairment	(26)	(15)	(26)	(15)
Goodwill	-	-	-	-
At cost	69	91	-	22
Accumulated impairment	(69)	(91)	-	(22)
Total carrying value at 31 March	57	63	57	63
Reconciliation				
Development costs				
Carrying value at 1 April	-	-	-	-
Capitalised during the year	-	-	-	-
Carrying value at 31 March	-	-	-	-
Software				
Carrying value at 1 April	63	27	63	27
Additions	6	39	6	39
Impairment for the year (refer note 3)	(3)	-	(3)	-
Amortisation for the year (refer note 3)	(9)	(3)	(9)	(3)
Carrying value at 31 March	57	63	57	63
Goodwill				
Carrying value at 1 April	-	5	-	5
Additions	-	27	-	-
Impairment for the year (refer note 3)	-	(32)	-	(5)
Carrying value at 31 March	-	-	-	-
Total carrying value at 31 March	57	63	57	63

	Group		Company	
	2010	2009	2010	2009
	Rm	Rm	Rm	Rm
12 Investments in subsidiaries				
Unlisted shares			894	894
Net loans			452	172
Amounts due by subsidiaries			648	385
Amounts due to subsidiaries			(196)	(213)
Gross investments			1 346	1 066
Accumulated impairment			(1 342)	(908)
Carrying value at 31 March			4	158

Loans to subsidiaries of R618m (2009: R185m) have been subordinated in favour of other creditors of the subsidiaries. The subordination agreements will remain effective until such time that the subsidiaries involved return to solvency. In addition, the company has undertaken to provide financial support to DSA.

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

The accumulated impairment loss on investments in subsidiaries is as follows:

	Group 2010 Rm	Group 2009 Rm	Company 2010 Rm	Company 2009 Rm
Unlisted shares			723	723
Balance at 1 April			723	41
Impairment for the year			-	723
Subsidiaries disposed			-	(41)
Loans			619	185
Balance at 1 April			185	182
Subsidiaries disposed			-	3
Impairment for the year			434	-
			1 342	908

	Group		Company	
	2010	2009	2010	2009
	Rm	Rm	Rm	Rm
13 Investment in associates				
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.				
Cost of investments in associated companies:				
Unlisted shares	476	476	477	477
Net share of results in associated companies	77	(10)		
Share of current year profit before tax	79	32		
Share of current year tax	(14)	(4)		
Share of current year profit after tax	65	28		
Other comprehensive income, net of tax	35	-		
Dividend paid by associated companies	(13)	-		
Accumulated loss at 1 April	(10)	(38)		
Total net investments in associated companies	553	466	477	477
The accumulated impairment loss on investments in associated companies is as follows:				
Unlisted shares				
Balance at 1 April	-	-	-	49
Impairment for the year	-	-	-	(49)
	-	-	-	-
The following represents the summarised financial information of the associated companies:				
Total assets	1 764	1 428		
Non-current assets	315	248		
Current assets	1 449	1 180		
Total liabilities	(855)	(761)		
Non-current liabilities	(105)	(16)		
Current liabilities	(750)	(745)		
Net assets	909	667		
Group share of associated companies' net assets	407	306		
Revenue	1 730	1 528		
Group share of revenue	747	674		
Group share of profit/(loss) before tax	79	32		

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

	Group		Company	
	2010	2009	2010	2009
	Rm	Rm	Rm	Rm
14 Loans receivable				
Loans at amortised cost	10	19	10	19
Less: Current portion of loans receivable	(5)	(9)	(5)	(9)
	5	10	5	10

The loan to SITA has a balance of R10m (2009: R15m) and earns interest at a fixed rate of 9.0% per annum. The loan is repayable in fixed monthly installments with the last installment 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 R0 (2009: R4m) and earned interest at a fixed rate of 9.5% per annum. The loan was repayable in annual installments with the final installment paid on 1 April 2009. The loan was secured by a cession of the shares of the buyer.

	Group 2010 Rm	Group 2009 Rm	Company 2010 Rm	Company 2009 Rm
15 Deferred tax				
Deferred tax assets	8	8	-	-
Deferred tax liabilities	(6)	(6)	-	-
	2	2	-	-
Movement of deferred tax assets and liabilities:				
Balance at 1 April	2	16	-	-
Per income statement	2	(3)	2	11
Other comprehensive income	(2)	(11)	(2)	(11)
	2	2	-	-
Net deferred tax asset comprises:				
Provisions	310	340	284	332
Property, plant and equipment allowance	38	-	-	-
Prepayments received	168	181	157	181
Amounts due to customers for work invoiced, not yet performed	5	1	5	1
Embedded derivative liabilities	26	6	12	6
Other tax deductible differences	187	115	132	114
Limit deferred tax asset to liability	(438)	(408)	(355)	(408)
Assessed loss	2	-	-	-
	298	235	235	226

	Group		Company	
	2010	2009	2010	2009
	Rm	Rm	Rm	Rm
15 Deferred tax (continued)				
Net deferred tax liability comprises:				
Capital allowances	(103)	(104)	(102)	(104)
Doubtful debt allowance	(6)	(9)	(6)	(9)
Embedded derivative assets	-	(2)	-	(2)
Prepayments made	(10)	(1)	(10)	(1)
Amount due from customers for contract work	(170)	(108)	(116)	(108)
Reinsurance asset	(6)	(5)	-	-
Other taxable differences	(1)	(4)	(1)	(2)
	(296)	(233)	(235)	(226)

For certain companies in the group, the deferred tax asset on the calculated tax loss is limited to the amount of the deferred tax liability. For the other companies, depending on future taxable profits, the entire deferred tax asset is recognised.

Had a full deferred tax asset been recognised on the calculated loss, the value of the deferred tax asset at year-end would have been R1 555m (2009: R1 453m) for the group and R1 306m (2009: R1 263m) for the company.

16 Inventories

	Group 2010 Rm	Group 2009 Rm	Company 2010 Rm	Company 2009 Rm
Inventories are valued at the lower of cost or net realisable value and is categorised as follows:				
Raw materials and bought-out components	131	156	59	70
Work in progress	310	444	163	188
Finished products	207	231	193	195
Consumable inventory	65	48	48	47
	713	879	463	500
Accumulated impairment	444	421	303	293

	Group		Company	
	2010	2009	2010	2009
	Rm	Rm	Rm	Rm

The amount of write-down of inventories recognised as an expense is R24m (2009: R47m) for the group and R24m (2009: R11m) for the company which is recognised in cost of sales.

17 Trade and other receivables

	2010 Group Rm	2009 Group Rm	2010 Company Rm	2009 Company Rm
Financial assets	614	782	504	595
Trade receivables	579	689	469	519
Trade receivables: Inter-group			11	24
Interest accrued	2	6	2	6
Other receivables	33	87	22	46
Non-financial assets	718	674	518	474
Amount due from customers for contract work	609	580	413	385
Prepayments and advances made	102	90	99	85
Other receivables	7	4	6	4
	1 332	1 456	1 022	1 069
Accumulated impairment				
Financial assets	92	131	90	128

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

	2010			2009		
	Trade receivables	Other receivables	Total	Trade receivables	Other receivables	Total
	Rm	Rm	Rm	Rm	Rm	Rm
Impairment account reconciliation						
Individually impaired						
Group						
Balance at 1 April	130	1	131	96	-	96
Impairment losses recognised	6	-	6	49	1	50
Written off as uncollectible	(1)	(1)	(2)	(3)	-	(3)
Recovered during the year	(5)	-	(5)	(8)	-	(8)
Impairment losses reversed	(38)	-	(38)	-	-	-
Business entities disposed	-	-	-	(4)	-	(4)
	92	-	92	130	1	131
Company						
Balance at 1 April	127	1	128	93	-	93
Impairment losses recognised	6	-	6	47	1	48
Written off as uncollectible	(1)	(1)	(2)	(3)	-	(3)
Recovered during the year	(4)	-	(4)	(6)	-	(6)
Impairment losses reversed	(38)	-	(38)	-	-	-
Business entities disposed	-	-	-	(4)	-	(4)
	90	-	90	127	1	128

	Group		Company	
	2010	2009	2010	2009
	Rm	Rm	Rm	Rm
18 Reinsurance asset				
Balance at 1 April	18	17		
Reinsurance income	1	1		
	19	18		

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.

19 Other financial assets and liabilities

19.1 Other financial assets

	Group 2010 Rm	Group 2009 Rm	Company 2010 Rm	Company 2009 Rm
Derivatives	75	45	61	45
Foreign exchange contracts	36	45	22	45
Foreign exchange options	39	-	39	-
Embedded derivatives				
Foreign exchange embedded derivatives	2	8	2	8
	77	53	63	53

19.2 Other financial liabilities

	Group 2010 Rm	Group 2009 Rm	Company 2010 Rm	Company 2009 Rm
Derivatives	4	33	4	22
Foreign exchange contracts	4	22	4	11
Commodity swaps	-	11	-	11
Embedded derivatives				
Foreign exchange embedded derivatives	93	24	44	22
	97	57	48	44

20 Cash and cash equivalents

	Group 2010 Rm	Group 2009 Rm	Company 2010 Rm	Company 2009 Rm
Cash and short-term deposits (refer note 20.1)	1 038	490	976	438
Treasury asset (refer note 20.2)	155	202	155	202
Bank overdraft (refer note 23)	(13)	-	(13)	-
	1 180	692	1 118	640

	Group		Company	
	2010	2009	**2010**	2009
	Rm	Rm	**Rm**	Rm
20.1 Cash and short-term deposits				
Deposits				
Local call deposits	1 101	543	1 048	493
Cash in bank	92	148	83	147
Local banks	9	112	-	111
Foreign banks	83	36	83	36
Cash on hand	-	1	-	-
	1 193	692	1 131	640
Less: Amount managed on behalf of associated companies (refer note 20.2)	(155)	(202)	(155)	(202)
	1 038	490	976	438

Cash and cash equivalents are as per the cash flow statement. The weighted average effective interest rate on call deposits was 7.1% (2009: 11.3%). Interest on cash in bank is earned at market rates. The funds included in cash and short-term deposits are available on demand.

20.2 Treasury asset

	Group 2010 Rm	Group 2009 Rm	Company 2010 Rm	Company 2009 Rm
Amount managed on behalf of associated companies (refer note 20.1)	155	202	155	202

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 to note 23 and 26.1).

21 Issued capital

	Group 2010 Rm	Group 2009 Rm	Company 2010 Rm	Company 2009 Rm
Authorised				
1 000 000 000 Class A ordinary shares of R1 each	1 000	1 000	1 000	1 000
232 455 747 Class B ordinary shares of R1 each	232	232	232	232
	1 232	1 232	1 232	1 232
Issued				
Shares at par value				
Class A ordinary shares	1 000	1 000	1 000	1 000
Class B ordinary shares	225	225	225	225
	1 225	1 225	1 225	1 225
Share premium	4 251	4 251	4 251	4 251

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.

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	
		2010	2009	2010	2009
		Rm	Rm	Rm	Rm
22	**Non-controlling interests**				
	Balance at 1 April	31	102		
	Additional non-controlling interest due to shares issued by subsidiary	-	27		
	Share of net loss of subsidiaries	(65)	(91)		
	Subsidiary disposed	-	(7)		
		(34)	31		
23	**Interest-bearing loans and borrowings**				
	Unsecured loan	101	53	-	-
	Unsecured loan from non-controlling interest shareholders				
	The unsecured loan from non-controlling interest shareholder is repayable in February 2014, at an interest rate of prime lending rate minus 2.0%. At 31 March 2010, a subsidiary had available an additional R0 (2009: R40m) of undrawn committed borrowing facilities from its non-controlling interest shareholder in respect of which all conditions precedent had been met.				
	Non-current portion of interest-bearing loans and borrowings	101	53	-	-
	Current portion of interest-bearing loans and borrowings	1 943	1 074	1 943	1 074
	Bank overdraft	13	-	13	-
	Commercial paper	1 775	872	1 775	872
	Cash managed on behalf of associated companies	155	202	155	202
	Total interest-bearing loans and borrowings	2 044	1 127	1 943	1 074

The borrowings have been raised through the commercial paper programme and has a coupon value of R1 850m repayable at various stages during the next financial year of which the last is on 31 March 2011. The interest rate is linked to JIBAR.

The commercial paper is a short-term loan issued as part of the Domestic Medium-Term Note programme and is secured by a government guarantee. Denel registered a R2bn DMTN programme with the JSE. Under the programme Denel could raise senior and/or subordinated notes up to the facility limit of R2bn with no limitation on the maturity date. The programme contains cross-default (indebtedness of outstanding amount equals or exceeds 1% of total asset of issuer) and negative pledge clause (which precludes the Company from encumbering any assets or revenue of the Company or any subsidiary in favour of any borrowing, without making effective provision whereby all notes shall be directly secured equally and rateable with such relevant borrowings).

The government guarantees, guarantee irrevocably and unconditionally the due and punctual performance by the issuer of payment of principal and/or interest. In terms of the guarantee, the guarantor waives all rights of subrogation, indemnity; and subordinates any claims which it may have in favour of the noteholders. Therefore, in the event that the issuer cannot honour payment the guarantor will repay the debt.

The undrawn borrowing facilities available for future operating activities amount to R200m (2009: R365m). Refer to note 31.4 for fair value.

	Group		Company	
	2010	2009	2010	2009
	Rm	Rm	Rm	Rm
23 Interest-bearing borrowings (continued)				
Weighted average effective interest rates	%	%	%	%
Local unsecured loans (fixed rate)	8.0%	12.3%	8.0%	12.3%
Unsecured loan of non-controlling interest shareholders	8.4%	11.5%		
Short-term bank borrowings (floating rate)	8.7%	13.5%	8.7%	13.5%
Summary of maturity of borrowings				
Maturing within 12 months	1 943	1 074	1 943	1 074
Maturing within 12 to 60 months	101	53	-	-
	2 044	1 127	1 943	1 074
24 Provisions				
24.1 Non-current provisions	350	385	340	365
Contract risks and onerous contracts	76	116	66	96
Product warranty and recall	61	64	61	64
Site restoration	213	205	213	205
24.2 Current provisions	678	794	591	692
Contract risks and onerous contracts	237	329	202	275
Performance guarantees	65	111	65	111
Product warranty and recall	58	70	57	68
Site restoration	52	42	52	42
Insurance	6	4	-	-
Other	260	238	215	196
	1 028	1 179	931	1 057

24 Provisions (continued)

Reconciliation

	Contract risks and onerous contracts Rm	Performance guarantees Rm	Product warranty and recall Rm	Site restoration Rm	Insurance provision Rm	Other Rm	Disclosed as held for sale Rm	Total Rm
Group								
2010								
Balance at 1 April	445	111	134	247	4	238	-	1 179
Realised	(214)	-	(44)	(3)	-	(165)	-	(426)
Unused amounts reversed	(16)	(46)	(10)	(2)	-	(29)	-	(103)
Unwinding of discount on provisions	27	-	4	23	-	-	-	54
Charged to the income statement	71	-	35	-	2	216	-	324
	313	65	119	265	6	260	-	1 028
2009								
Balance at 1 April	686	98	126	201	15	350	(1)	1 475
Realised	(281)	(6)	(28)	(1)	-	(204)	-	(520)
Unused amounts reversed	(46)	-	(13)	-	(11)	(37)	-	(107)
Unwinding of discount on provisions	39	-	4	21	-	-	-	64
Charged to the income statement	57	15	54	26	-	175	-	327
Reclassified	-	4	(3)	-	-	(1)	-	-
Business entities disposed	(10)	-	(6)	-	-	(45)	1	(60)
	445	111	134	247	4	238	-	1 179
Company								
2010								
Balance at 1 April	371	111	132	247	-	196	-	1 057
Realised	(168)	-	(44)	(3)	-	(125)	-	(340)
Unused amounts reversed	(15)	(46)	(9)	(2)	-	(29)	-	(101)
Unwinding of discount on provisions	27	-	4	23	-	-	-	54
Charged to the income statement	53	-	35	-	-	173	-	261
	268	65	118	265	-	215	-	931
2009								
Balance at 1 April	515	98	125	201	-	283	-	1 222
Realised	(191)	(6)	(27)	(1)	-	(168)	-	(393)
Unused amounts reversed	(16)	-	(13)	-	-	(22)	-	(51)
Unwinding of discount on provisions	40	-	4	21	-	-	-	65
Charged to the income statement	33	15	52	26	-	147	-	273
Reclassified	-	4	(3)	-	-	(1)	-	-
Business entities acquired	-	-	-	-	-	1	-	1
Business entities disposed	(10)	-	(6)	-	-	(44)	-	(60)
	371	111	132	247	-	196	-	1 057

Contract risks and onerous contracts

The provision for onerous contracts comprises expected losses on contracts where the expected benefits to be derived from a contract are lower than the unavoidable costs of meeting the obligation. The provision for contract risk comprises potential risks on contracts that are in progress, based on the technical and financial risk profile of each contract.

Performance guarantees

Performance guarantees are issued by the group for contracts that are in progress. These performance guarantees are carried as contingent liabilities and are raised as provisions when the group has a present legal or constructive obligation to settle them.

Product warranty and recall

The provision for product warranty comprises legal and constructive obligations of the group in respect of products delivered that are still under warranty. The provision for product recall comprises the estimated cost that the group will incur in the event of a specific product recall.

Provisions relating to insurance contracts

The provision is in respect of claims that have been incurred but not reported to the insurance subsidiary.

Site restoration provision

The provision is for estimated costs for decontamination and site restoration. A provision for site restoration is recognised when the obligation arises as a result of the group's activities.

Other provisions

Other provisions comprise the following:

Retrenchment costs

As a result of the restructuring within the group, certain employees have been identified for retrenchment and will be awarded retrenchment packages. The retrenchment provision has been calculated based on the remuneration and the number of years of service of the effected persons as well as specific terms negotiated with individuals or their labour representatives. The carrying amount included in other provisions is R18m (2009: R4m) for the group and R2m (2009: R1m) 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 R83m (2009: R83m) for the group and R62m (2009: R5m) 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 R122m (2009: R117m) for the group and R113m (2009: R103m) 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 relates to legal action. The carrying amount included in other provisions is R14m (2009: R32m) 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 R22m (2009: R2m) for the group and for the company.

Subsidiary losses

The investments in technically insolvent subsidiaries are impaired in the company and where the net equity deficit of such subsidiaries is greater than the investments in such subsidiaries, a provision is raised for the difference. The carrying amount of such provision is R1m (2009: R0).

	Group		Company	
	2010	2009	2010	2009
	Rm	Rm	Rm	Rm
25 Trade and other payables				
Financial liabilities	616	839	483	539
Trade payables	494	712	367	416
Trade payables: Inter-group			4	4
Interest accrued	1	53	1	53
Other accruals	121	74	111	66
Non-financial liabilities	17	5	17	5
Amounts due to customers for work invoiced, not yet performed	17	5	17	5
	633	844	500	544

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).

26 Contingent liabilities

26.1 Guarantees

	Group 2010 Rm	Group 2009 Rm	Company 2010 Rm	Company 2009 Rm
The following guarantees were issued by the group:				
Advance payments guarantees	1 055	1 429	1 055	1 429
Performance guarantees	493	874	491	874
Participating guarantees	-	9	-	9
Guarantees to local authorities	4	4	4	4
Guarantees to banks for credit facilities of subsidiaries	45	20	45	20
Other guarantees	90	79	90	79
Total of guarantees issued	1 687	2 415	1 685	2 415
Guarantees issued on behalf of associated companies	(253)	(340)	(253)	(340)
Advance payments guarantees	(165)	(245)	(165)	(245)
Performance guarantees	(82)	(85)	(82)	(85)
Sundry guarantees	(6)	(10)	(6)	(10)
	1 434	2 075	1 432	2 075
Recognised in the annual financial statements	(667)	(786)	(626)	(756)
Advance payments received	(602)	(675)	(561)	(645)
Provision for performance guarantees	(65)	(111)	(65)	(111)
	767	1 289	806	1 319

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 R41m (2009: R61m). 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. Subsequent to year-end, the company has agreed to co-operate with this customer, which is likely to lead to a settlement of the matter.

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 Contract losses

One of the group's subsidiary's is a programme partner in a design, manufacturing and supply contract for certain aircraft components. The contract has a value of approximately R1.7bn and an estimated contract loss of approximately R1bn. This loss has not been raised as a provision following a written commitment received from the Shareholder stating its support including financial for the continuation of the contract despite it being loss-making, as it has certain strategic advantages to the country.

26.4 Performance guarantee on behalf of a subsidiary

The company has provided a guarantee for the contract referred to in note 26.3 and the directors report 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, counter claims 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 reliable 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 R37m (2009: R34m) at the group and company.

26.6 Put option

A non-controlling interest shareholder in one of the subsidiaries has a right to transfer its shareholding back to Denel (put option) effective from 1 April 2010. Should this shareholder put these shares back to Denel, capital contributions at the date of notice and the nominal value of shares will be payable by Denel. The capital contribution by the shareholder was R66m at year-end. The loans advanced of approximately R100m will, however, be repayable within five years from loan date or when the business is in a position to make such payments. There are negotiations underway regarding a possible extension of the period of the share put option.

26.7 Command and control programme

Different options are being considered to close this programme. These options have different cost implications. At this stage it's not clear whether addisional costs will be incurred that are not coverred by revenue.

26.8 Countertrade

The group has entered into several export sales contracts that give rise to certain countertrade obligations. The obligations vary between 60.0% and 100% 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 R32m (2009: R19m) for penalties on non-fulfillment 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.

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 summarise the group's countertrade position:

	2010			2009		
	Export contracts	Local defence contracts	Total	Export contracts	Local defence contracts	Total
	Rm	Rm	Rm	Rm	Rm	Rm
Countertrade obligation						
Total countertrade obligation	375	715	1 090	415	914	1 329
Obligation discharged	(13)	(631)	(644)	-	(685)	(685)
Outstanding obligation	362	84	446	415	229	644
To be settled by third party	-	(84)	(84)	-	(227)	(227)
Net obligation of the group	362	-	362	415	2	417
Penalties						
Maximum penalty for non-compliance	32	4	36	35	12	47
Third party obligation	-	(4)	(4)	-	(12)	(12)
Net group exposure	32	-	32	35	-	35
Guarantees issued						
Group issued	32	-	32	19	1	20
Third party guarantees	-	6	6	-	12	12
	32	6	38	19	13	32
Provision to settle obligation (refer note 24)	22	-	22	2	-	2

27 Notes to the cash flow statement

27.1 Reconciliation of profit with cash retained from operations

	Group 2010 Rm	Group 2009 Rm	Company 2010 Rm	Company 2009 Rm
Net loss before tax	(222)	(504)	(357)	(762)
Adjusted for:	(38)	(7)	357	551
Loss/(profit) on disposal of property, plant and equipment [1]	2	1	(1)	1
Profit on disposal of investment property [1]	-	(12)	-	(12)
Loss on disposal of business entities [1]	-	6	-	3
Depreciation [1]	92	112	76	79
Amortisation of intangible assets [1]	9	3	9	3
Revaluation of derivatives	(59)	(97)	(33)	(105)
Revaluation of embedded derivatives	75	70	28	54
Interest paid (refer note 7)	185	150	189	178
Interest received (refer note 7)	(46)	(77)	(81)	(81)
Dividend received	-	-	(72)	(49)
Decrease in provisions	(205)	(300)	(180)	(170)
Impairment raised on property, plant and equipment [1]	12	168	12	(4)
Impairment raised on other intangible assets [1]	3	32	3	5
Impairment in subsidiaries [1]	-	-	434	727
Impairment in associated companies [1]	-	-	-	(49)
Share of profit of associated companies (refer note 13)	(79)	(32)	-	-
Fair value adjustment of investment properties (refer note 4)	(27)	(31)	(27)	(29)
Operating loss before changes in net current assets	(260)	(511)	-	(211)
Changes in net current assets:	126	(156)	88	(137)
Decrease/(increase) in inventories	166	(104)	37	(98)
Decrease/(increase) in receivables	120	(203)	43	(57)
Increase in reinsurance asset	(1)	(1)	-	-
(Decrease)/Increase in trade and other payables	(159)	152	8	18
Cash utilised in operations	(134)	(667)	88	(348)

[1] *Refer note 3*

	Group		Company	
	2010	2009	2010	2009
	Rm	Rm	Rm	Rm

27 Notes to the cash flow statement (continued)

27.2 External disposal of business entities

	2010 Group Rm	2009 Group Rm	2010 Company Rm	2009 Company Rm
Property, plant and equipment	-	96	-	95
Intangible assets	-	12	-	-
Inventories	-	299	-	297
Trade and other receivables	-	151	-	142
Derivative financial assets	-	26	-	26
Trade and other payables	-	(101)	-	(99)
Interest-bearing borrowings	-	(7)	-	-
Advance payments received	-	(94)	-	(93)
Derivative financial liabilities	-	(31)	-	(31)
Provisions	-	(61)	-	(60)
Net investments in subsidiaries	-	-	-	8
Non-controling interests	-	(8)		
Group share of net assets disposed	-	282	-	285
Cash and cash equivalents	-	27	-	21
Cash of business entities disposed	-	21	-	21
Cash previously disclosed as held for sales (refer note 5.3)	-	6	-	-
Loss on disposal	-	(6)	-	(3)
Total sale consideration	-	303	-	303
Issue of shares	-	(298)	-	(298)
Cash flow on disposal	-	5	-	5

28 Capital commitments

	2010 Group Rm	2009 Group Rm	2010 Company Rm	2009 Company Rm
Approved and contracted for	18	26	18	20
Land and buildings	5	7	5	7
Plant and machinery	10	16	10	10
Computer equipment	3	3	3	3
Approved but not contracted for	22	-	16	-
Plant and machinery	12	-	6	-
Computer equipment	10	-	10	-
	40	26	34	20

There will be no specific financing arrangement made as these will be financed from available funds and interest-bearing borrowings. All expenditure will be incurred in the following financial year.

29 Non-cancellable leases

Operating leases

The group and company has certain property, plant and equipment held under operating leases. Some of the lease agreements provide for minimum annual lease payments which are due as follows:

	Buildings Rm	Plant and machinery Rm	Vehicles and office furniture Rm	Computer equipment Rm	Total Rm
Group					
2010					
Less than one year	66	1	3	2	72
Between one and five years	138	1	4	4	147
More than five years	-	-	1	-	1
	204	2	8	6	220
2009					
Less than one year	68	1	3	-	72
Between one and five years	217	-	11	-	228
More than five years	-	-	3	-	3
	285	1	17	-	303
Company					
2010					
Less than one year	66	-	2	2	70
Between one and five years	138	-	3	4	145
	204	-	5	6	215
2009					
Less than one year	68	1	1	-	70
Between one and five years	217	-	2	-	219
	285	1	3	-	289

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 R1 million have not been included in the table below.

National Government and state controlled entities

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

The following transactions were carried out with related parties:

30 Related parties (continued)

	National government	Major national public entities	Between the Company and its Subsidiaries	Associated companies	Other related parties
	Rm	Rm	Rm	Rm	Rm
Group					
2010					
Purchases of goods	-	-	-	27	43
Sales of goods	1 519	1	-	31	133
Services rendered	305	1	-	21	22
Services received	9	25	-	30	48
Lease payments	-	63	-	-	-
Lease received	16	1	-	59	-
Guarantees issued to related parties	482	-	-	-	-
Guarantees issued to third parties on behalf of related parties	-	-	-	243	-
Guarantees issued to third parties by related parties	1 850	-	-	-	-
Interest received	-	1	-	8	-
Interest paid	-	-	-	-	8
Dividend received	-	-	-	13	-
Outstanding balances payable	-	-	-	178	107
Outstanding balances receivable	327	11	-	19	1
Advance payments received	317	-	-	2	-
Advance payments made	-	-	-	14	-
Allowance of doubtful debts	8	-	-	-	-
2009					
Purchases of goods	19	4	-	104	111
Sales of goods	1 672	110	-	53	76
Services rendered	352	6	-	2	-
Services received	17	38	-	36	37
Lease payments	-	81	-	-	-
Guarantees issued to related parties	538	-	-	-	-
Guarantees issued to third parties on behalf of related parties	-	-	-	350	-
Guarantees issued to third parties by related parties	880	-	-	-	-
Interest received	-	2	-	1	-
Interest paid	1	-	-	13	1
Outstanding balances payable	1	9	-	229	171
Outstanding balances receivable	342	20	-	10	94
Advance payments received	361	-	-	-	-
Allowance of doubtful debts	11	4	-	6	-

30 Related parties (continued)

	National government Rm	Major national public entities Rm	Between the Company and its Subsidiaries Rm	Associated companies Rm	Other related parties Rm
Company					
2010					
Purchases of goods	-	-	17	27	-
Sales of goods	1 331	1	6	31	-
Services rendered	69	1	43	9	-
Services received	9	25	16	30	-
Lease payments	-	63	-	-	-
Lease received	16	1	16	59	-
Guarantees issued to related parties	482	-	-	-	-
Guarantees issued to third parties on behalf of related parties	-	-	-	243	-
Guarantees issued to third parties by related parties	1 850	-	-	-	-
Interest received	-	1	39	-	-
Interest paid	-	-	12	8	-
Dividend received	-	-	59	13	-
Outstanding balances payable	-	-	4	176	-
Outstanding balances receivable	108	11	11	19	-
Advance payments received	317	-	-	2	-
Allowance of doubtful debts	8	-	-	14	-
2009					
Purchases of goods	19	4	47	100	-
Sales of goods	1 292	110	61	53	-
Services rendered	132	6	6	2	-
Services received	4	37	41	36	-
Lease payments	-	81	-	-	-
Guarantees issued to related parties	538	-	2	-	-
Guarantees issued to third parties on behalf of related parties	-	-	-	350	-
Guarantees issued to third parties by related parties	880	-	-	-	-
Interest received	-	2	10	1	-
Interest paid	-	-	29	13	-
Dividend received	-	-	49	-	-
Outstanding balances payable	-	1	3	229	-
Outstanding balances receivable	130	20	17	10	-
Advance payments received	359	-	-	6	-
Allowance of doubtful debts	11	4	1	-	-

Post-employment benefit plans (refer note 33)

	Group		Company	
	2010	2009	2010	2009
	Rm	Rm	Rm	Rm
30 Related parties (continued)				
Compensation paid to key management personnel (including information in the directors' report)				
Short-term employee benefits	30	33	25	24
Post-employee benefits	2	2	2	2
	32	35	27	26

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 counter parties;
- Approval of new instruments;
- Approval of foreign exchange transaction company policy;
- Approval of the investment policy;
- Approval of Corporate Treasury policy and procedure manual; and
- Approval of long-term funding requirements.

The Group Audit and Risk Committee is assisted in its oversight role by 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 grading are published on a regular basis. The group uses the international publication, 'Institutional Investor' as a basis for its country risk assessments; and
- Whether finance is available to the potential client.

The policy further requires that for specifically identified contracts, the contractual terms must provide for the retention of ownership over goods until full and final payment has been received. Additionally, security for payment must also be contractually stipulated. Security usually takes the form of irrevocable letters of credit, bank guarantees (from first class international banks in acceptable countries)/bonds, promissory notes and credit insurance. In the case of high risk clients who are unable to provide security over future payments, the group may transact with them only on a pre-payment basis.

Overdue amounts are individually assessed and if it is evident that an amount will not be recovered, it is impaired and legal action is instituted to recover the amounts.

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 R1 billion in capital. Treasury is allowed to invest 20.0% of its portfolio with a counterparty that is F1+ rated and 15.0% with a counterparty that is F1 rated. Annual counterparty limits per bank facility are negotiated with each bank and is approved by the Group 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:

	2010			2009		
	Domestic	Foreign	Total	Domestic	Foreign	Total
	Rm	Rm	Rm	Rm	Rm	Rm
31 Financial risk management (continued)						
Credit exposure and concentrations of credit risk (continued)						
Group						
Trade receivables	259	320	579	277	412	689
Government and related entitles	100	195	295	205	232	437
Non-government entities	159	125	284	72	180	252
Sundry receivables	33	-	33	72	15	87
Government and related entitles	22	-	22	55	15	70
Non-government entities	11	-	11	17	-	17
Interest receivable (non-government)	2	-	2	6	-	6
Loans receivable (Government and related entitles)	10	-	10	19	-	19
Non-current	5	-	5	10	-	10
Current	5	-	5	9	-	9
	304	320	624	374	427	801
Company						
Trade receivables	228	241	469	254	265	519
Government and related entitles	100	182	282	185	217	402
Non-government entities	128	59	187	69	48	117
Sundry receivables	22	-	22	31	15	46
Government and related entitles	12	-	12	18	15	33
Non-government entities	10	-	10	13	-	13
Interest receivable (non-government)	2	-	2	6	-	6
Loans receivable (Government and related entitles)	10	-	10	19	-	19
Non-current	5	-	5	10	-	10
Current	5	-	5	9	-	9
	262	241	503	310	280	590

31 Financial risk management (continued)

Credit exposure and concentrations of credit risk (continued)

Ageing

The ageing of financial assets at the reporting date is included below. The ageing categories include:

	2010				2009			
	Receivables not impaired Rm	Receivables impaired Rm	Impairment amount Rm	Carrying value Rm	Receivables not impaired Rm	Receivables impaired Rm	Impairment amount Rm	Carrying value Rm
Group								
Trade receivables	572	99	(92)	579	689	130	(130)	689
Not past due	381	-	-	381	481	-	-	481
Not past due, but impaired	-	1	(1)	-	-	1	(1)	-
Past due								
Less than 30 days	59	2	(2)	59	63	1	(1)	63
30 to 60 days	29	-	-	29	34	22	(22)	34
61 to 90 days	63	12	(12)	63	35	4	(4)	35
More than 90 days	40	84	(77)	47	76	102	(102)	76
Other receivables	33	-	-	33	87	1	(1)	87
Not past due, not impaired	19	-	-	19	55	-	-	55
Not past due, but impaired	-	-	-	-	-	-	-	-
Past due								
Less than 30 days	10	-	-	10	28	-	-	28
30 to 60 days	-	-	-	-	4	-	-	4
More than 90 days	4	-	-	4	-	1	(1)	-
Interest accrued	2	-	-	2	6	-	-	6
Not past due, not impaired								
Loans receivable	10	-	-	10	19	-	-	19
Not past due, not impaired								
Current portion	5	-	-	5	9	-	-	9
Non-current portion	5	-	-	5	10	-	-	10
	617	99	(92)	624	801	131	(131)	801

31 Financial risk management (continued)

Credit exposure and concentrations of credit risk (continued)

	2010				2009			
	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value	Receivables not impaired	Receivables impaired	Impairment amount	Carrying value
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Company								
Trade receivables	461	98	(90)	469	519	127	(127)	519
Not past due	328	-	-	328	410	-	-	410
Not past due, but impaired	-	1	(1)	-	-	1	(1)	-
Past due								
Less than 30 days	45	1	(1)	45	48	1	(1)	48
30 to 60 days	17	-	-	17	27	22	(22)	27
61 to 90 days	54	12	(12)	54	26	4	(4)	26
More than 90 days	17	84	(76)	25	8	99	(99)	8
Other receivables	22	-	-	22	46	1	(1)	46
Not past due, not impaired	18	-	-	18	43	-	-	43
Past due								
Less than 30 days	1	-	-	1	2	-	-	2
30 to 60 days	-	-	-	-	1	-	-	1
More than 90 days	3	-	-	3	-	1	(1)	-
Interest accrued	2	-	-	2	6	-	-	6
Not past due, not impaired								
Loans receivable	10	-	-	10	19	-	-	19
Not past due, not impaired								
Current portion	5	-	-	5	9	-	-	9
Non-current portion	5	-	-	5	10	-	-	10
	495	98	(90)	503	590	128	(128)	590

	Group		Company	
	2010	2009	2010	2009
	Rm	Rm	Rm	Rm
Security held over non-derivative financial assets				
Unconfirmed Letters of Credit	21	22	21	22

31 Financial risk management (continued)

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 government guarantees of R1.85bn to raise borrowings. These guarantees expire on 31 July 2010 (R550m) and 31 March 2011 (R1.3bn).

Surplus funds are deposited in liquid assets (i.e. negotiable certificates of deposits and call deposits) (refer note 20).

	Group		Company	
	2010	2009	2010	2009
	Rm	Rm	Rm	Rm
Undrawn credit facilities				
General banking facilities	200	365	200	365

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	Total cash flows	Less than 3 months	Between 3 and 12 months	Between 1 and 5 years
	Rm	Rm	Rm	Rm	Rm
Group					
2010					
Interest-bearing borrowings [1]	1 889	1 964	313	1 550	101
Loans from associated companies	155	155	155	-	-
Trade and other payables	616	616	493	123	-
Derivative financial liabilities	4	4	1	2	1
	2 664	2 739	962	1 675	102
2009					
Interest-bearing borrowings [1]	978	1 003	926	-	77
Loans from associated companies	202	202	202	-	-
Trade and other payables [1]	786	802	758	44	-
Derivative financial liabilities	33	33	20	12	1
	1 999	2 040	1 906	56	78

31 Financial risk management (continued)

31.2 Liquidity risk (continued)

	Contractual undiscounted cash flows				
	Carrying amount	Total cash flows	Less than 3 months	Between 3 and 12 months	Between 1 and 5 years
	Rm	Rm	Rm	Rm	Rm
Company					
2010					
Interest-bearing borrowings [1]	1 788	1 863	313	1 550	-
Loans from associated companies	155	155	155	-	-
Trade and other payables	483	483	389	94	-
Derivative financial liabilities	4	4	1	2	1
	2 430	2 505	858	1 646	1
2009					
Interest-bearing borrowings [1]	925	926	926	-	-
Loans from associated companies	202	202	202	-	-
Trade and other payables	486	502	459	43	-
Derivative financial liabilities	22	22	15	6	1
	1 635	1 652	1 602	49	1

[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 financial director 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.

31 Financial risk management (continued)

31.3 Market risk (continued)

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 reprising forward exchange contracts. There is no other exposure to fair value interest rate risk as all fixed rate financial instruments are measured at amortised cost.

The Group Audit and Risk Committee determines the interest rate risk strategy based on economic expectations and reports received from Treasury. Treasury monitors interest rates on a daily basis and the policy is to maintain short-term cash surpluses at floating rates of interest. Interest rate and funding transactions are governed by the authorised treasury procedures manual.

At the reporting date the interest rate profile of the group's interest-bearing financial instruments was as follows:

	Group		Company	
	2010	2009	**2010**	2009
	Rm	Rm	**Rm**	Rm
Fixed rate instruments				
Commercial paper	1 775	872	1 775	872
Loans receivable	10	19	10	19
Variable rate instruments				
Cash and short-term deposits	1 038	490	976	438
Treasury asset	155	202	155	202
Unsecured loan from non-controlling interest shareholders	101	53		
Bank overdraft	13	-	13	-
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, therefor, a change in interest rate at the reporting date would not affect profit or loss				
Cash flow sensitivity analysis for variable rate instruments				
A change of 50 basis points in interest rates at the reporting date would have increased/ decreased profit or loss by the amounts shown below. This assumes that all other variables remain constant. The impact on the group's equity is equal to the impact on the profit or loss.				
Cash and cash equivalents	5	3	6	3

31 Financial risk management (continued)

31.3 Market risk (continued)

Currency risk
Currency risk arises from the movement in foreign exchange rates. The group's currency exposures result primarily from the import of raw materials, foreign sales of goods and services, as well as foreign bank account holdings. Foreign exchange embedded derivatives are recognised when the group has entered into contracts denominated in foreign currencies, which are neither the measurement currencies of parties to the contract, nor the currencies in which those commodities are routinely traded in international commerce. 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 consists of forward exchange contracts and, to a limited extent, currency options. Revaluations of hedged positions are performed on a daily basis to check that these are in line with the underlying Foreign Exchange Policy. The hedging instrument is entered into once the exposure is firm and ascertainable, i.e. there is an underlying contract in place. Currency exposures are reported to the 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:

	2010			2009		
	US Dollar (USD)	Euro (EUR)	Sterling (GBP)	US Dollar (USD)	Euro (EUR)	Sterling (GBP)
	Million	Million	Million	Million	Million	Million
Group						
Assets	85	6	1	28	-	-
Trade receivables	35	6	1	5	-	-
Controlled Foreign Currency accounts (CFC)	4	-	-	-	-	-
Embedded derivatives (export sales)	46	-	-	23	-	-
Liabilities	(1)	(1)	-	-	-	-
Trade payables	(1)	(1)	-	-	-	-
Embedded derivatives (import)	-	-	-	-	-	-
Gross balance sheet exposure	84	5	1	28	-	-
Forecast transactions: sales	17	1	1	10	11	12
Forecast transactions: purchases	-	(1)	-	-	(2)	-
Gross exposure	101	5	2	38	9	12
Forward Exchange Contracts						
Export sales	(29)	(7)	(1)	(21)	(18)	(12)
Import	1	5	-	4	3	1
Foreign Currency Options (Zero Cost Collars)						
Export sales	(13)	(9)	-	-	-	-
Net exposure	60	(6)	1	21	(6)	1

	2010			2009		
	US Dollar (USD)	Euro (EUR)	Sterling (GBP)	US Dollar (USD)	Euro (EUR)	Sterling (GBP)
	Million	Million	Million	Million	Million	Million
31 Financial risk management (continued)						
31.3 Market risk (continued)						
Company						
Assets	56	1	1	28	-	-
Trade receivables	30	1	1	5	-	-
Controlled Foreign Currency accounts (CFC)	2	-	-	-	-	-
Embedded derivatives (export sales)	24	-	-	23	-	-
Liabilities	(1)	-	-	-	-	-
Trade payables	(1)	-	-	-	-	-
Embedded derivatives (import)	-	-	-	-	-	-
Balance sheet exposure	55	1	1	28	-	-
Forecast transactions: sales	17	1	1	-	-	12
Forecast transactions: purchases	-	(1)	-	-	-	-
Gross exposure	72	1	2	28	-	12
Forward Exchange Contracts						
Export sales	(27)	(2)	(1)	(11)	(8)	(12)
Import	1	4	-	4	2	1
Foreign Currency Options (Zero Cost Collars)						
Export sales	(13)	(9)	-	-	-	-
Net exposure	33	(6)	1	21	(6)	1

A 5.0% strengthening of the Rand against the following currencies at 31 March would have increased/(decreased) profit or loss by the following amounts:

	2010			2009		
	US Dollar (USD)	Euro (EUR)	Sterling (GBP)	US Dollar (USD)	Euro (EUR)	Sterling (GBP)
	Rm	Rm	Rm	Rm	Rm	Rm
Group	22	(3)	1	21	(5)	-
Company	12	(3)	1	21	(5)	-

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.

31 Financial risk management (continued)

31.3 Market risk (continued)

Foreign currency derivatives

The fair value of foreign currency derivatives are disclosed in note 19.1.

	2010			2009		
	Foreign currency notional amount	Local currency amount	Fair value	Foreign currency notional amount	Local currency amount	Fair value
	Million	Rm	Rm	Million	Rm	Rm
The following foreign exchange contracts existed at 31 March:						
Purchase contracts						
US Dollar (USD)	1	10	9	1	11	11
Euro (EUR)	5	56	50	5	59	64
Sterling (GBP)	-	3	3	1	11	10
Other		1	1		6	6
		70	63		87	91
Sales contracts						
US Dollar (USD)	29	228	216	51	496	504
Euro (EUR)	7	85	65	28	375	370
Sterling (GBP)	1	13	10	12	182	168
Singapore Dollar (SGD)	-	-	-	3	19	19
Other		6	5		6	6
		332	296		1 078	1 067
The following foreign exchange options existed at 31 March:						
Sales contracts						
US Dollar (USD)	13	111	121	-	-	-
Euro (EUR)	9	116	145	-	-	-
		227	266		-	-

All currency options mature within one year

31 Financial risk management (continued)

31.3 Market risk (continued)

Maturity table
Foreign exchange contracts

	2010				2009			
	Foreign currency notional amount				Foreign currency notional amount			
	Million	Million	Million	Million	Million	Million	Million	Million
	1 Year	2 Years	3-5 Years	Total	1 Year	2 Years	3-5 Years	Total
Purchase contracts								
US Dollar (USD)	1	-	-	1	1	-	-	1
Euro (EUR)	4	1	-	5	5	-	-	5
Sterling (GBP)	-	-	-	-	1	-	-	1
Sales contracts								
US Dollar (USD)	28	1	-	29	51	-	-	51
Euro (EUR)	7	-	-	7	17	11	-	28
Sterling (GBP)	1	-	-	1	12	-	-	12
Singapore Dollar (SGD)	-	-	-	-	3	-	-	3

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.

	2010			2009		
	Foreign currency notional amount	Local currency amount	Fair value	Foreign currency notional amount	Local currency amount	Fair value
	Million	Rm	Rm	Million	Rm	Rm
Foreign currencies						
Export transactions						
US Dollar (USD)	46	344	253	48	485	473
Import transactions						
US Dollar (USD)	-	-	-	-	1	1

	2010				2009			
	Foreign currency notional amount				Foreign currency notional amount			
	Million	Million	Million	Million	Million	Million	Million	Million
	1 Year	2 Years	3-5 Years	Total	1 Year	2 Years	3-5 Years	Total
31 Financial risk management (continued)								
31.3 Market risk (continued)								
Maturity table								
Export transactions								
US Dollar (USD)	40	5	1	46	40	8	-	48

Commodity risk

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

Commodity swap derivatives

The fair value of the commodity swap derivatives are disclosed in note 19.2.

	2010			2009		
		Local currency amount	Fair value		Local currency amount	Fair value
	Units in ton	Rm	Rm	Units in ton	Rm	Rm
31 Financial risk management (continued)						
31.3 Market risk (continued)						
The following commodity swap contracts existed at 31 March:						
Copper swaps	-	-	-	1 177	54	46
Zinc swaps	-	-	-	496	9	6
		-	-		63	52

	2010				2009			
	Units in ton				Units in ton			
	1 Year	2 Years	3-5 Years	Total	1 Year	2 Years	3-5 Years	Total
Maturity table								
Copper swaps	-	-	-	-	1 177	-	-	1 177
Zinc swaps	-	-	-	-	496	-	-	496

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:

	Notes	Loans and receivables Rm	Liabilities amortised cost Rm	Held for trading Rm	Total carrying value Rm	Fair value Rm
Group						
2010						
Financial assets						
Loans receivable	14	10			10	11
Trade and other receivables	17	614			614	614
Derivative financial assets	19.1			77	77	77
Cash and cash equivalents	20.1	1 038			1 038	1,038
Treasury asset	20.2	155			155	155
Financial liabilities						
Interest-bearing borrowings	23		(1 889)		(1 889)	(1 878)
Associated companies: Borrowing	23		(155)		(155)	(155)
Trade and other payables	25		(616)		(616)	(616)
Derivative financial liabilities	19.2			(97)	(97)	(97)
		1,817	(2 660)	(20)	(863)	(851)
2009						
Financial assets						
Loans receivable	14	19			19	21
Trade and other receivables	17	782			782	782
Derivative financial assets	19.1			53	53	53
Cash and cash equivalents	20.1	490			490	490
Treasury asset	20.2	202			202	202
Financial liabilities						
Interest-bearing borrowings	23		(925)		(925)	(978)
Associated companies: Borrowing	23		(202)		(202)	(202)
Trade and other payables	25		(839)		(839)	(839)
Derivative financial liabilities	19.2			(57)	(57)	(57)
		1 493	(1 966)	(4)	(477)	(528)

31 Financial risk management (continued)

31.4 Fair value of financial assets and liabilities

	Notes	Loans and receivables Rm	Liabilities amortised cost Rm	Held for trading Rm	Total carrying value Rm	Fair value Rm
Company						
2010						
Financial assets						
Loans receivable	14	10			10	11
Subsidiaries: Loans receivable		29			29	29
Trade and other receivables	17	504			504	504
Derivative financial assets	19.1			63	63	63
Cash and cash equivalents	20.1	976			976	976
Treasury asset	20.2	155			155	155
Financial liabilities						
Interest-bearing borrowings	23		(1 788)		(1 788)	(1 777)
Associated companies: Borrowing	23		(155)		(155)	(155)
Trade and other payables	25		(483)		(483)	(483)
Subsidiaries: Borrowings			(196)		(196)	(196)
Derivative financial liabilities	19.2			(48)	(48)	(48)
		1 674	(2 622)	15	(933)	(921)
2009						
Financial assets						
Loans receivable	14	19			19	21
Subsidiaries: Loans receivable		200			200	200
Trade and other receivables	17	595			595	595
Derivative financial assets	19.1			53	53	53
Cash and cash equivalents	20.1	438			438	438
Treasury asset	20.2	202			202	202
Financial liabilities						
Interest-bearing borrowings	23		(872)		(872)	(908)
Associated companies: Borrowing	23		(202)		(202)	(202)
Trade and other payables	25		(539)		(539)	(539)
Subsidiaries: Borrowings			(213)		(213)	(213)
Derivative financial liabilities	19.2			(44)	(44)	(44)
		1 454	(1 826)	9	(363)	(397)

Determination of fair values

Non-derivative financial instruments

Quoted market prices at reporting date have been used to determine the fair value of loan and receivables and interest-bearing borrowings. Where there is no quoted market price a valuation technique, most commonly discounted cash flows, was used. For trade receivables and payables the fair value was determined using discounted cash flow method at market related interest rate. All other financial assets and liabilities carrying amount approximates fair value.

Derivative financial instruments

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

Fair value hierarchy

The groups uses the following hierrachy for determining and disclosing the fair value of financial intruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

Currently the only financial assets and liabilities that are measured at fair value are the financial assets and liabilities disclosed in note 19 and falls within level 2 of the hierarcy.

During the year there were no transfers between any of the levels of fair value measurements.

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 years as a result of losses posted and inadequate orders to optimise the labour and capital intensive operations throughout the group. A turnaround strategy was developed during 2006 which was approved by the key stakeholders, including the Executive Authority and the Cabinet. This required the Shareholder to inject R5.2bn for the successful implementation of the strategy.

Since the approval of the strategy, the group has been recapitalised by a total of 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 R1.85bn to enable the group to raise borrowings.

The group further strives to negotiate advance payments from clients in business transactions that require high investment in working capital over a long delivery lead times.

There were no changes in the group's approach to capital management during the year. The company is not subject to externally imposed capital requirements. However, one of the company's subsidiaries, Densecure (Pty) Ltd, is a wholly owned captive insurer and therefore, has certain externally imposed capital requirements.

The minimum capital requirements applicable to Densecure (Pty) Ltd were maintained at all times during the year. The company 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 2010. The result of the IAS19 Employee benefits valuation indicated an actuarial surplus of R1 000m (2009: R1 215m). The statutory valuation, which is performed using different assumptions to the IAS19 valuation, indicated a surplus of R777m 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 2011.

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 2010 indicated a surplus of R567m (2009: R445m). 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 fund when a member goes on early retirement and it is, therefore, unable to determine the contribution for 2011.

During the year a buy-out offer was made to all members and 53% accepted the offer. Settlement will commence after year-end. The group is exploring futher options for the remaining members to limit the financial risk to the group. Refer to the directors' report for details.

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.

	Denel Pension Fund		Denel Medical Benefit Trust	
	2010	2009	2010	2009
	Rm	Rm	Rm	Rm
33 Pension and other post-retirement obligations (continued)				
The actuarially calculated liability compared to assets is as follows for the defined benefit plans:				
Change in defined benefit funded obligation				
Present value of funded obligations at 1 April	3 278	3 248	1 323	1 076
Service cost benefits earned during the year	2	2	26	26
Interest cost on projected benefit obligation	286	292	99	110
Actuarial losses	798	28	14	148
Benefits paid	(235)	(293)	(37)	(37)
Member contributions	-	1	-	-
Liability buy-out			(744)	-
Present value of funded obligations at 31 March	4,129	3,278	681	1 323
Change in plan assets				
Fair value of plan assets at 1 April	4 493	4 889	1 768	1 894
Expected return on plan assets	374	468	175	194
Actuarial losses/(gains)	496	(572)	352	(39)
Employer and member contributions	1	1	5	5
Benefits due	-	-	-	(249)
Benefits paid	(235)	(293)	(37)	(37)
Liability buy-out			(1 015)	-
Fair value of plan assets at 31 March	5 129	4 493	1 248	1 768
Fund excess	1 000	1 215	567	445
Excess not recognised	1 000	1 215	567	445
Unrecognised actuarial gains	-	600	-	-
Net benefit expenses				
Service cost	2	2	26	26
Interest cost	286	292	99	110
Expected return on plan assets	(374)	(468)	(175)	(194)
Net actuarial loss recognised during the year	-	-	14	148
Income	(86)	(174)	(36)	90

33 Pension and other post-retirement obligations (continued)

	Denel Pension Fund		Denel Medical Benefit Trust	
	2010	2009	2010	2009
	Rm	Rm	Rm	Rm
	%	%	%	%
The principal actuarial assumptions used for accounting purposes were:				
Expected return on plan assets	9.75	8.75	10.06	9.92
Future salary increase	6.50	6.50		
Future pension increase	6.60	6.60		
Discount rate	9.25	9.25		
Inflation rate	5.50	5.50		
Expected medical inflation				
From 1 April 2010 to 1April 2012			10.06	9.92
After 1 April 2012			8.06	7.92
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	29	37	1 161	2 694
Retired members	2 890	3 019	1 382	2 915
The beneficiary members who accepted the buy-out offer are as follows:				
Active members			1 527	
Retired members			1 351	

	2010	2009	2008	2007	2006
	Rm	Rm	Rm	Rm	Rm
33 Pension and other post-retirement obligations (continued)					
Change in defined benefit funded obligations					
Amounts for the current and previous four periods are as follows:					
Denel Pension Fund					
Defined benefit obligation	(4,129)	(3,278)	(3,248)	(3,243)	(2,495)
Plan assets	5,129	4,493	4,889	5,336	4,519
Surplus	1,000	1,215	1,641	2,093	2,024
Experience adjustments on plan liabilities	971	110	278	19	65
Experience adjustments on plan assets	(496)	(572)	(324)	626	722
Denel Medical Benefit Trust					
Defined benefit obligation	(681)	(1,323)	(1,076)	(1,106)	(900)
Plan assets	1,248	1,768	1,894	1,881	1,505
Surplus	567	445	818	775	605
Experience adjustments on plan liabilities	(33)	10	(10)	18	(37)

	2010		2009	
	Increase	Decrease	Increase	Decrease
	Rm	Rm	Rm	Rm
Denel Medical Benefit Trust (continued)				
A 2.0% change in assumed healthcare cost trend rates would have the following effects:				
Effect on defined benefit obligation	(177)	651	(404)	281

34 Segment reporting

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

Business segments

The group comprises the following main operating segments:

Aerostructures:	Denel Saab Aerostructures (Pty) Ltd
Aerospace systems:	Denel Dynamics, OTB and Denel Intergrated System Support
Aviation:	Denel Aviation, Rooivalk and Denel Personnel Solutions (Pty) Ltd
Land systems:	Denel Land Systems and Mechem (Pty) Ltd
Munitions:	PMP (the comparatives includes DLS Western Cape, Nachem and La Forge Manufacturing (Pty) Ltd)
Non-core:	Property divisions and property subsidiaries
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, e.g. Densecure and DCLD.

The results of business entities with revenue less than 10% of the group revenue are aggregate within an operating segment which products and services closes relates to that of the spesific business entity.

More detail on the business entities is stated in Section 3: Business entity profiles on pages 34 to 47.

	Aero-structures	Aero-space systems	Aviation	Land Systems	Munitions	Non-core and Corporate Services	Con-solidation entries	TOTAL
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
2010								
Segment revenue	430	1 024	912	629	624	327	(336)	3 610
Sales to external customers	413	987	806	624	617	163	-	3 610
Inter-group sales	17	37	106	5	7	164	(336)	-
Segment result	(283)	(41)	78	4	25	(306)	361	(162)
Finance charges								(139)
Share of results of associated companies								79
Taxation								(24)
Loss for the year								(246)
Segment assets	667	1 022	448	509	606	4 867	(3 072)	5 047
Deferred tax assets								8
Total assets								5 055
Segment liabilities	838	864	401	408	126	3 464	(1 696)	4 405
Deferred tax liabilities								6
Total liabilities								4 411
Cash flows from:								
Operating activities	(263)	127	(122)	(109)	92	(61)	(8)	(344)
Investing activities	(9)	(21)	(12)	(17)	(13)	(11)	11	(72)
Financing activities	301	42	(20)	-	-	850	(269)	904
Capital expenditure	9	23	13	17	12	13	-	87
Impairment losses	1	22	16	1	4	3	-	47
Impairment losses reversed	(1)	(3)	(33)	(1)	(3)	(5)	-	(46)
Depreciation/amortisation in respect of segment assets	12	30	10	12	20	17	-	101
Revenue from major customers								
SA National Government	188	439	766	278	154	15	-	1 840
Significant non-cash items:								
Fair value adjustment	-	-	-	-	-	27	-	27
(Profit)/loss on disposal of property, plant and equipment	(3)	1	-	-	-	-	-	(2)

	Aero-structures	Aero-space systems	Aviation	Land Systems	Munitions	Non-core and Corporate Services	Con-solidation entries	TOTAL
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
2009								
Segment revenue	599	860	1 021	692	916	309	(473)	3 924
Sales to external customers	571	795	933	691	804	130	-	3 924
Inter-group sales	28	65	88	1	112	179	(473)	-
Segment result	(444)	(42)	39	16	(31)	74	(75)	(463)
Finance charges								(73)
Share of results of associated companies								32
Taxation								(29)
Loss for the year								(533)
Segment assets	855	951	693	579	564	5 483	(4 394)	4 731
Deferred tax assets								8
Total assets								4 739
Segment liabilities	697	937	636	455	371	3 414	(2 626)	3 884
Deferred tax liabilities								6
Total liabilities								3 890
Cash flows from:								
Operating activities	(350)	29	(203)	(55)	(194)	(31)	(2)	(806)
Investing activities	(142)	(114)	(12)	(22)	260	(393)	66	(357)
Financing activities	389	88	170	(2)	(172)	429	(10)	892
Capital expenditure	142	86	13	23	16	17	-	297
Impairment losses	286	2	42	2	24	7	26	389
Impairment losses reversed	(79)	(7)	(1)	(1)	(13)	(60)	49	(112)
Depreciation/amortisation in respect of segment assets	28	20	10	10	27	20	-	115
Revenue from major customers								
SA National Government	380	413	809	290	115	17	-	2 024
Significant non-cash items:								
Fair value adjustment	-	-	-	-	-	31	-	31
(Profit)/loss on disposal of property, plant and equipment	-	-	-	-	1	-	-	1
Profit on disposal of investment property	-	-	-	-	-	(12)	-	(12)

35 Subsidiaries and associated companies

The following unlisted companies are subsidiaries or associated companies of Denel (Pty) Ltd and its subsidiaries:	2010 Share capital issued [2]	2010 Share investment by Denel (Pty) Ltd [2]	2010 Amounts owing to/(by) Denel (Pty) Ltd [2]	2010 Effective percentage shareholding	2009 Share capital issued [2]	2009 Share investment by Denel (Pty) Ltd [2]	2009 Amounts owing to/(by) Denel (Pty) Ltd [2]	2009 Effective percentage shareholding
	Rm	Rm	Rm	%	Rm	Rm	Rm	%
Shareholding by holding company								
Bonaero Park (Pty) Ltd	27	100	(104)	100	27	100	(92)	100
Denel International Ltèe (incorporated in Mauritius)	-	-	60	100	-	-	60	100
Denel Personnel Solutions (Pty) Ltd	-	-	(42)	100	-	-	(55)	100
Denel Properties (Pty) Ltd	-	-	41	100	-	-	40	100
Denel Saab Aerostructures (Pty) Ltd	789	723	432	80	789	723	200	80
Densecure (Pty) Ltd	8	8	-	100	8	8	-	100
Informatics Personnel Solutions (Pty) Ltd	-	-	-	-	-	-	-	100
La Forge Manufacturing (Pty) Ltd	-	-	85	100	-	-	85	100
Mechem (Pty) Ltd	63	63	(20)	100	63	63	(66)	100
Denel Do Brasil Tecnologia Aplicada E Participacoes Limitada (incorporated in Brazil)	-	-	-	[1]	-	-	-	[1]
Mechem Countermining DOO (incorporated in Bosnia)	-	-	-	[1]	-	-	-	1
Community Pension Informatics (Pty) Ltd	-	-	-	100	-	-	-	100
Total investment		894	452			894	172	
Aggregated amounts less than R0.5m [2]		-	-			-	-	
Less: Accumulated impairment of investment		(723)	(619)			(723)	(185)	
Net investment of Denel (Pty) Ltd		171	(167)			171	(13)	
Shareholding by subsidiaries								
Nisec (Pty) Ltd	-	-	-	100	-	-	-	100
Associated companies								
Turbomeca Africa (Pty) Ltd		49	-	49	-	49	-	49
Carl Zeiss Optronics (Pty) Ltd		57	-	30	-	57	-	30
Rheinmetal Denel Munition (Pty) Ltd		371	-	49		371	-	49
Total investment		477	-			477	-	
Less: Accumulated impairment of investment		-	-			-	-	
Net investment of Denel (Pty) Ltd		477	-			477	-	

	2010	2009
	Rm	Rm
Aggregated (loss)/ profit of subsidiaries	(311)	(395)

[1] *Shares are not held by the group but effective management control is exercised in these entities*

[2] *Amounts smaller than R1m due to rounding are not reflected gainst the entities but in aggregate on this page*

Section six

Information services

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
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 Concillation, 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	Code 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
DFIR	Disabling injury frequency rate
DIP	Defence industrial participation
DISS	Denel Integrated Systems Solutions
DLS	Denel Land Systems
DMTN	Domestic Medium-Term Note
DoD & MV	Department of Defence and Military Veterans
DPE	Department of Public Enterprises
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
GHG	Greenhouse gas
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
IEM	Integrated environmental management
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
LEDS	Land Electronic Defence System
LIBDEN	Libyan Defence Exhibition
LRA	Labour Relations Act
LTIFR	Loss time injury frequency rate
MDS	Mechem Deflagration System
Mechem	Mechem (Pty) Ltd
MEDDS	Mechem Explosives and Drug Detection System
MEIBC	Metal Engineering Industrial Bargaining Council
Missiles	Denel Missiles
DoD & MV	Ministry of Defence and Military Veterans
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
SADI	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

Supplementary information

	Number	R'000
World soccer match tickets		
DSA	5	32
DLS	28	4
Corporate Office	15	220
	48	256
Fan park and hospitality events		
Aviation		99
DCLD		10
DLS		8
DPS		4
		121
Memorabilia		
Aviation		112
DSA*		55
DCLD		25
DLS		4
Corporate Office *		5
DPS		139
Dynamics		14
		354
		731

	Clients/ stakeholders	Staff	Total
	R'000	R'000	R'000
Match tickets	229	27	256
Fan park and hospitality events	57	64	121
Memorabilia	59	295	354
	345	386	731
Number of match tickets**	36	12	48
Spending per financial year			
2009/10			425
2010/11			306
			731

* *Staff contributed 50% of the cost of soccer shirts*
** *The staff accompanied clients/stakeholders to the matches as hosts*

Contact information

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Registration number 1992/001337/07

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